



NAI Horizon

1st Quarter
2018
Industrial
Market Report

Q1 2018

INDUSTRIAL MARKET METRO PHOENIX

Phoenix Economy & Industrial Market Demand

In spite of the unpredictability of the stock market throughout the 1st Quarter of 2018, the Federal Reserve’s plans to increase interest rates and the massive global trade negotiation dynamics, the U.S. and Greater Phoenix economies continue to hum along smoothly with the US GDP bumping up near 3% entering 2018, and the Metro Phoenix continuing to rank as one of the country’s fastest growing economies.

This continuing economic strength has translated into stronger consumer and business confidence, resulting in a vibrancy in Phoenix’s industrial real estate market.

The average Metro Phoenix Industrial vacancy rates are still dropping, hitting a 10 year low of just 7.5% in the 1st Quarter 2018, a full 1% improvement from 1st Quarter 2017.

Demand for all industrial product types continues to remain strong but the supply is not fulfilling that need. This supply v. demand trend has remained consistent for the last 18 months. Deliveries in the 1st Quarter 2018 fell to 746,000 square feet, the lowest level since the 4th Quarter of 2016 results of 812,000 square feet. Currently the majority of the 6.3 million square feet under construction is primarily development of large bay multi-tenant distribution facilities which meets one very important demand but does not serve smaller owner/users.

One area of concern is the Valleywide lack of supply of manufacturing and general industrial freestanding facilities for

INDUSTRIAL TRENDS



In the 4th Quarter 2016 over 75% of asking sale prices were below \$100/SF. In the 1st Quarter 2018 asking sale prices routinely exceeded \$100/SF. Asking sale prices even exceeded \$140/SF in several of the NE and SE Valley submarkets.

As average asking rates steadily climb, and are expected to continue to do so, buyers and tenants that might have previously sought Class A buildings are more comfortable with rates in the B & C categories. These rate increases, in addition to reduced tenant incentives, are creating a stronger Landlord outlook.

Data suggests positive initial results from the enactment of the recent Tax Reform Bill along with strong consumer confidence and economic optimism providing the potential to drive continued growth in the industrial sector. The evolution of Artificial Intelligence (AI) and technology in the workplace is a factor that is developing. Its impact on the industrial market in relation to labor pool, property size, etc. is evolving.

Regardless, the path forward appears to be full of opportunity and growth across the Valley.

lease or sale. The current vacancy rate for these product types are below 6.8% and 3.7%, respectively. Inventory is currently unbalanced relative to demand, and this situation is already effecting our ability to accommodate new and existing business’ needs to expand their manufacturing and warehousing capabilities.

Additionally this lack of supply amid strong demand, is pushing lease rates and sale prices higher.

ECONOMIC TRENDS



Q1 2018

INDUSTRIAL MARKET METRO PHOENIX

Phoenix Market Snapshot

Market Overview

	Total RBA	Vacant SF	Vacant %	Net Absorption	RBA Delivered	RBA Under Construction	Average Rental Rate
Distribution	71,133,029 SF	7,547,828 SF	10.6%	376,181 SF	-	1,516,012 SF	\$0.43/SF
Manufacturing	57,680,938 SF	2,162,193 SF	3.7%	81,729 SF	-	572,505 SF	\$0.58/SF
Warehouse	141,721,445 SF	9,525,596 SF	6.7%	638,712 SF	798,877 SF	3,974,942 SF	\$0.55/SF
Flex	33,681,049 SF	3,842,186 SF	11.4%	121,527 SF	37,000 SF	206,650 SF	\$1.09/SF
TOTAL	304,216,461 SF	23,077,803 SF	7.6%	1,218,149 SF	835,877 SF	6,270,109 SF	\$0.58/SF

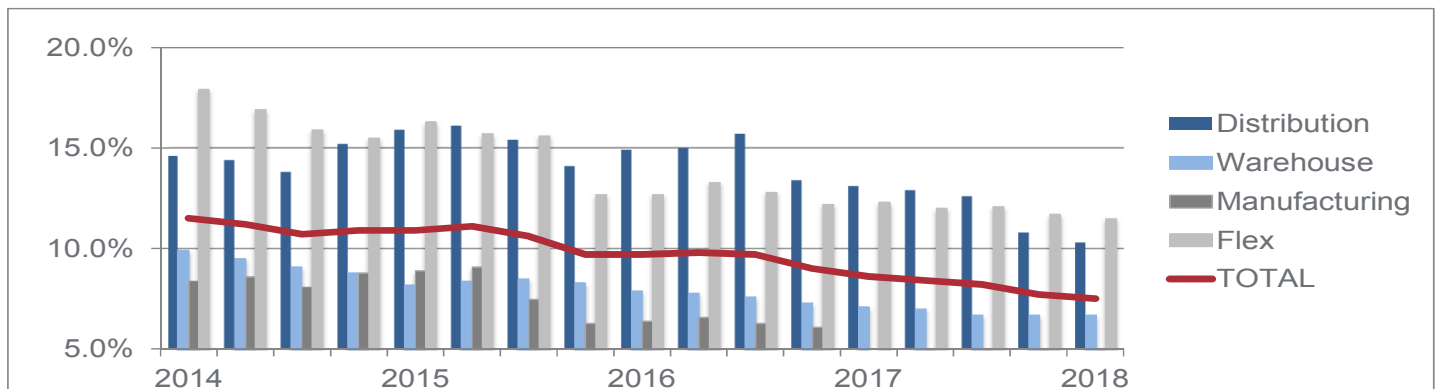
Significant Lease Transactions

	Address	Tenant	Size	Building Type	Type
143rd Ave & Van Buren St	Goodyear	Chewy.com	800,000 SF	Manufacturing	New Lease
6600 W Latham St	Phoenix	Living Spaces Furniture	437,234 SF	Showroom	New Lease
5701 W McDowell Rd	Phoenix		170,000 SF	Warehouse	New Lease

Significant Sale Transactions

	Address	Date	Size	Building Type	Price
6600 W Latham St	Phoenix	02/26/2018	437,234 SF	Showroom	\$36.3M
5 S 84th Ave	Tolleson	01/23/2018	217,422 SF	Distribution	\$13.4M
125 N 67th Ave	Phoenix	01/12/2018	170,625 SF	Distribution	\$12.55M

Industrial Vacancy Rates



The Industrial Market is a compilation that includes distribution, warehouse, manufacturing and flex buildings. Some information contained herein has been obtained from third party sources deemed reliable but has not been independently verified by NAI Horizon. NAI Horizon makes no warranties or representations as to the completeness or accuracy thereof. NAI Horizon makes no guarantee about projections, opinions, assumptions or estimates. Occasionally corrected or updated information becomes available for both current and historical data thereby invalidating specific comparison to previously issued reports.

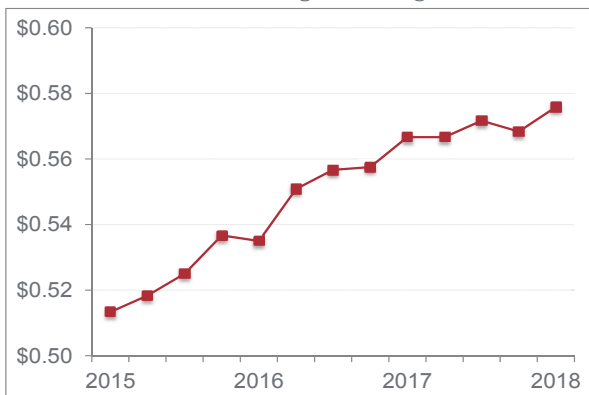
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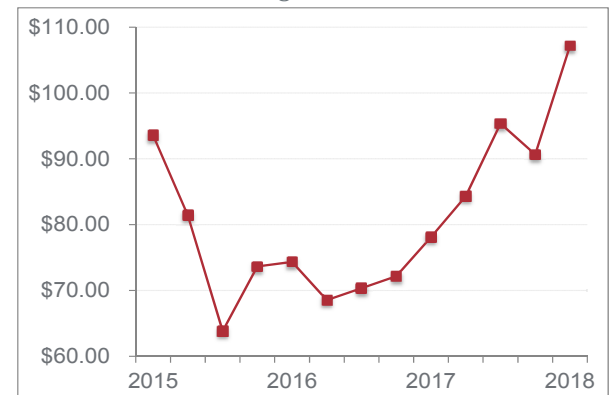
Submarket Snapshot

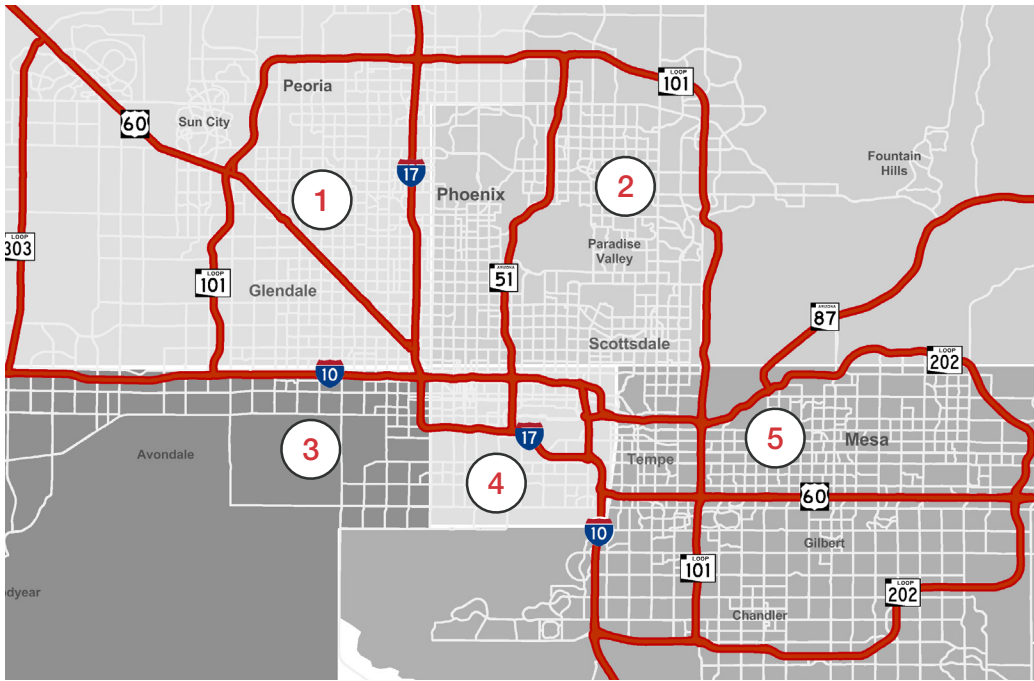
	RBA	Vacant SF	Vacant %	Net Absorption	Deliveries	Under Construction	Avg NNN Rate	Yearly NNN Rate
Sky Harbor	49,124,020	4,390,891	8.9%	173,811			\$0.71	\$8.50
Northeast Valley	15,374,111	1,018,586	6.6%	135,468			\$0.98	\$11.70
Northwest Valley	58,988,090	3,836,610	6.5%	48,264	535,920	1,173,953	\$0.55	\$6.57
Southeast Valley	89,216,293	6,608,993	7.4%	321,083	210,280	974,758	\$0.74	\$8.92
Southwest Valley	91,832,826	7,058,576	7.7%	513,489		4,166,056	\$0.38	\$4.55
All Submarkets	304,535,340	22,913,656	7.5%	1,192,115	746,200	6,314,767	\$0.58	\$6.91
Overall Total 4Q17	303,789,140	23,359,571	7.7%	3,128,040	1,890,759	4,429,605	\$0.57	\$6.82
Overall Total 3Q17	302,027,176	24,645,966	8.2%	2,746,561	2,321,749	3,962,519	\$0.57	\$6.86
Overall Total 2Q17	299,742,644	25,199,573	8.4%	1,504,170	935,212	4,705,049	\$0.57	\$6.79
Overall Total 1Q17	298,803,076	25,805,748	8.6%	2,816,606	1,802,551	3,877,553	\$0.57	\$6.79
Overall Total 4Q16	297,142,158	26,838,803	9.0%	2,695,569	812,234	4,173,418	\$0.56	\$6.69

Rental Rates Average Asking/SF



Sale Prices Average/SF





Industrial Submarkets

- 1 Northwest Valley**
 Deer Vly/Pinnacle Pk, Glendale, Grand Avenue, N Glendale/Sun City, North Black Canyon, W Phx N of Thomas Rd, W Phx S of Thomas Rd
- 2 Northeast Valley**
 Central Phoenix, Scottsdale Airpark, Scottsdale/Salt River
- 3 Southwest Valley**
 Goodyear, SW N of Buckeye Rd, SW S of Buckeye Rd, Tolleson
- 4 Sky Harbor**
 North Airport, S Airport N of Roeser, S Airport S of Roeser, SC N of Salt River, SC S of Salt River
- 5 Southeast Valley**
 Chandler Airport, Chandler, Chandler N/ Gilbert, Falcon Field/Apache Junction, Mesa, Tempe E, Tempe NW, Tempe SW

We are here.

Phoenix



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NAI Horizon knows commercial real estate. With over 25 years in the Valley, NAI Horizon's extensive market insight allows us to match client needs with the right solutions. NAI Global member firms span the U.S. and 55 other countries, with more than 400 offices and more than 7,000 local market experts on the ground. Supported by the central resources of the NAI Global organization, member firms deliver market-leading services locally, and combine their in-market strengths to form a powerful bond of insights and execution for clients with multi-market challenges.

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