



NAI Horizon

3rd Quarter
2019
Industrial
Market Report



Q3 2019

INDUSTRIAL MARKET METRO PHOENIX

Phoenix Market Snapshot

OVERVIEW

For the Phoenix area industrial market at this time, and with a nod toward Yogi Berra, there is no consistent theme other than consistency. In other words, third quarter market activity looked a lot like the previous two quarters this year, led by upbeat construction and deliveries, with the space being absorbed almost as quickly as it is delivered.

The reason is simple: a booming local economy and steady population growth is maintaining high demand for industrial product of all types – warehouse, distribution and manufacturing. Here are a few trends we are observing in the marketplace:

- There is a dearth of 50,000-150,000-square-foot industrial buildings. Many of them are older- generation warehouse product – 28-foot clear heights and lower – generally not usable for e-commerce tenants. Some of these buildings, however, and especially if they are closer to population-dense areas, may become targets for last-mile distribution, despite building ages. This is a trend that bodes well for Class B building owners.
- Further, there is very little manufacturing space available to lease. The vacancy rate for manufacturing product is only 2.5 percent.
- Steady rent increases are redirecting some Class A occupiers to consider Class B product, especially if the latter can be improved upon. New product that is being delivered is commanding 10-cent rent increases over market averages.
- The Phoenix-area industrial market – as well as the U.S. economy as a whole, has plenty of runway left to grow – unless the economy is disrupted by some unforeseen event.

LEASING, ABSORPTION & DELIVERIES

Some of the largest leases signed during the quarter were Sendoso (a San Francisco-based software company) taking 181,325 square feet at Prologis Loop 202@I-10I on 61st Avenue in Phoenix, Integrated CBD leasing 154,813 square feet at Hub 31 on 48th Street in Phoenix, and a Fortune 1000 Retail committing to 107,922 square feet at Southwest Industrial Center on Buckeye Road, also in Phoenix. A total of 449 leases were signed in the third quarter, compared with 554, 576 and 633 signed leases in the previous three quarters, respectively.

There were a few large sales as well during the period, including Nike Inc.'s acquisition of a 901,000-square-foot warehouse in Goodyear on 143rd Avenue, for nearly \$70 million. It's unusual for publicly traded companies to own buildings versus lease them – normally out of shareholder concerns, yet the sporting company must have had its reasons. Vital Pharmaceuticals paid over \$47 million for a 394,775-square-foot distribution building on 43rd Avenue in Phoenix, while Cohen Asset Management Inc. bought a Tolleson warehouse building fully occupied by Serta Mattress, measuring approximately 330,000 square feet for \$34.65 million.

Net absorption was positive for the quarter at 1,660,438 square feet. During the recent four quarters (from 4Q2018 to the present), over 6.1 million square feet of industrial inventory was positively net absorbed in the Phoenix industrial market. Absorption is in line with the previous four quarters when a phenomenal 8.85 million square feet of industrial inventory was positively net absorbed from the fourth quarter of 2017 through the third quarter of 2018.

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LEASING, ABSORPTION & DELIVERIES CONTINUED

During the quarter, 1,135,332 square feet of industrial product was delivered to the market, which is similar to the 993,694 square feet delivered a year earlier in the same quarter. At the close of the quarter September 30 this year, 38 industrial buildings with nearly 6.5 million square feet of space were under construction. Total industrial inventory stands at 313 million square feet, compared with 273,270,216 square feet at the close of the third quarter in 2009 during the depths of recession. Phoenix has enjoyed an incredible building boom for a decade, yet checks and balances seem in place.

VACANCY RATES & RENTAL RATES

The vacancy rate at the end of the quarter was 6.8 percent, down 20 basis points from mid-year when it was 7 percent. The vacancy rate has fluctuated between 7.1 percent and 6.8 percent since the first quarter of 2018. Vacancy was a little higher in the Southwest Valley submarket, at 8.9 percent, yet that is more or less a function of product delivery and a lag in absorption. The Southwest Valley is clearly the most active submarket in three key metrics – under construction (4,233,970 square feet), deliveries (933,828 square feet) and net absorption for the quarter (1,220,599 square feet).

NNN overall asking rental rates were unchanged from mid-year and finished the quarter at \$0.58 per-square-foot. Rents have remained constant and relatively flat during this cycle, surging past 50 cents a foot for the first time in 1Q2013 and since then have inched upward to current rates. If anything, effective rents have increased over this time as landlords have fewer reasons to offer rent concessions.

NATIONAL INDUSTRIAL NEWS

Nuveen Real Estate has added to this year’s string of logistics mega-deals by acquiring a 29 million-square-foot portfolio of industrial properties across the U.S. from Blackstone. The portfolio, valued at \$3 billion, consists of more than 100 bulk logistics, light industrial and urban infill properties, according to a statement by Nuveen, the investment management arm of TIAA.

Cap rate compression is driving industrial real estate investors increasingly to secondary and tertiary markets. According to a recent report in National Real Estate Investor, overall U.S. cap rates fell to 6.27 percent at mid-year. Cap rates for Class A product dropped even lower, to 5 percent nationally. This trend has motivated investors to look more closely at supply chains and logistics associated with smaller markets. The report cited cities such as Indianapolis and Columbus, Ohio for serving as distribution centers for Chicago and East Coast markets, while the industrial boom in Phoenix can partially be attributed to serving e-commerce logistics for products moving into California.

Competition for data centers is becoming more apparent. Illinois Governor J. B. Pritzker recently joined with state legislators, business and labor leaders to promote Illinois’ new tax incentives for data center construction. As we noted in our second quarter report, Phoenix ranked second in the U.S. in 2018 for data center development activity.

INDUSTRIAL TRENDS



ECONOMIC TRENDS



Phoenix Market Snapshot

Market Overview

	Total RBA	Vacant SF	Vacant %	Net Absorption	RBA Delivered	RBA Under Construction	Average Rental Rate
Distribution	75,950,880 SF	8,063,773 SF	10.6%	(318,403)	933,828 SF	4,069,147 SF	\$0.46/SF
Manufacturing	59,037,574 SF	1,452,761 SF	2.5%	275,895 SF	-	1,315,232 SF	\$0.55/SF
Warehouse	145,718,798 SF	9,314,603 SF	6.4%	1,538,919 SF	201,504 SF	607,417 SF	\$0.57/SF
Flex	33,265,831 SF	2,468,892 SF	7.4%	164,027 SF	-	499,079 SF	\$1.14/SF
TOTAL	313,973,083 SF	21,300,029 SF	6.8%	1,660,438 SF	1,135,332 SF	6,490,875 SF	\$0.58/SF

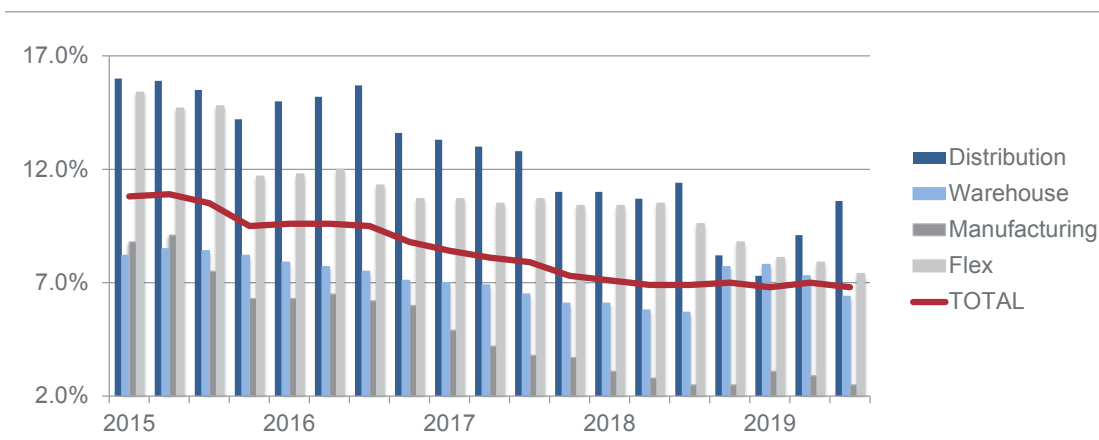
Significant Lease Transactions

Address	Address	Tenant	Size	Building Type	Type
100 N 61st Ave.	Phoenix	Sendeso	181,325 SF	Distribution	Move In
317 S 48th St.	Phoenix	Integrated CBD	154,813 SF	Warehouse	Move In
7775 W Buckeye Rd.	Phoenix	Fortune 1 Retailer	107,922 SF	Distribution	Move In
2401 W Grandview Rd.	Phoenix	Caverta	99,915 SF	Warehouse	Move In
9230 S Farmer Ave.	Tempe	AZPACK	99,017 SF	Distribution	Move In

Significant Sale Transactions

Address	Address	Date	Size	Building Type	Price
575 S 143rd Ave.	Goodyear	08/19/2019	901,700 SF	Warehouse	\$69,832,600
7037 W Van Buren St.	Phoenix	08/09/2019	552,330 SF	Distribution	NA
1635 S 43rd Ave.	Phoenix	09/24/2019	394,775 SF	Distribution	\$47,400,000
8001 W Buckeye Rd.	Tolleson	08/06/2019	379,828 SF	Distribution	\$26,675,000
200 N 99th Ave.	Tolleson	07/29/2019	329,400 SF	Warehouse	\$34,650,000

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.

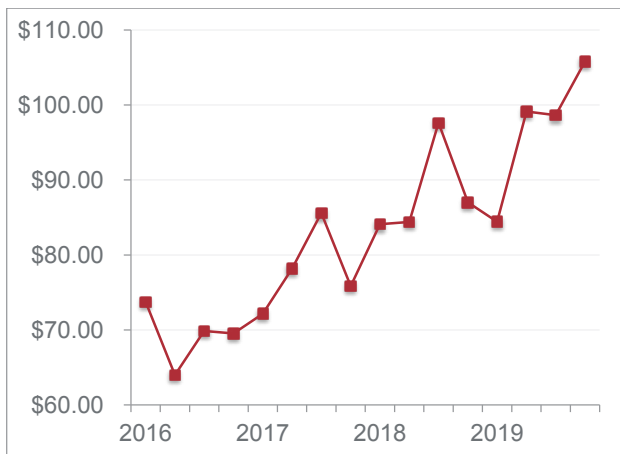
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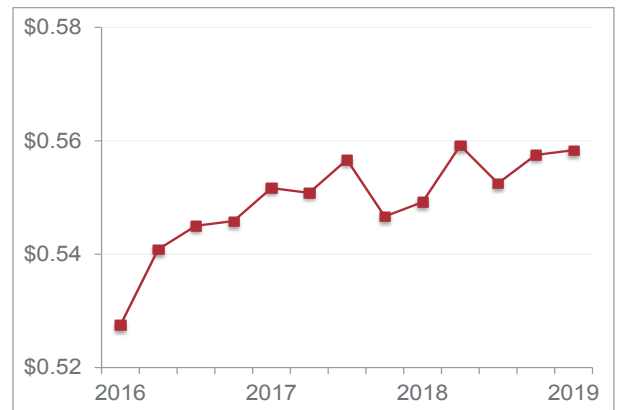
Submarket Snapshot

	RBA	Vacant SF	Vacant %	Net Absorption	Deliveries	Under Construction	Avg NNN Rate	Yearly NNN Rate
Sky Harbor	49,362,088	2,939,363	6.0%	378,798	-	-	\$0.69	\$8.33
Northeast Valley	14,924,300	604,655	4.1%	(21,995)	-	38,079	\$0.93	\$11.12
Northwest Valley	61,079,333	3,175,614	5.2%	(90,302)	10,195	1,444,918	\$0.62	\$7.41
Southeast Valley	90,987,708	5,927,338	6.5%	173,338	191,309	773,908	\$0.73	\$8.80
Southwest Valley	97,619,654	8,653,059	8.9%	1,220,599	933,828	4,233,970	\$0.41	\$4.97
All Submarkets	313,973,083	21,300,029	6.8%	1,660,438	1,135,332	6,490,875	\$0.58	\$6.93
Overall Total 2Q19	312,855,896	21,843,280	7.0%	947,991	1,662,613	6,310,699	\$0.58	\$6.90
Overall Total 1Q19	311,081,824	21,181,748	6.8%	673,799	305,357	5,775,575	\$0.56	\$6.70
Overall Total 4Q18	310,878,768	21,652,491	7.0%	2,845,089	3,413,951	4,333,751	\$0.56	\$6.69
Overall Total 3Q18	307,551,133	21,158,945	6.9%	886,583	993,694	6,218,190	\$0.55	\$6.63

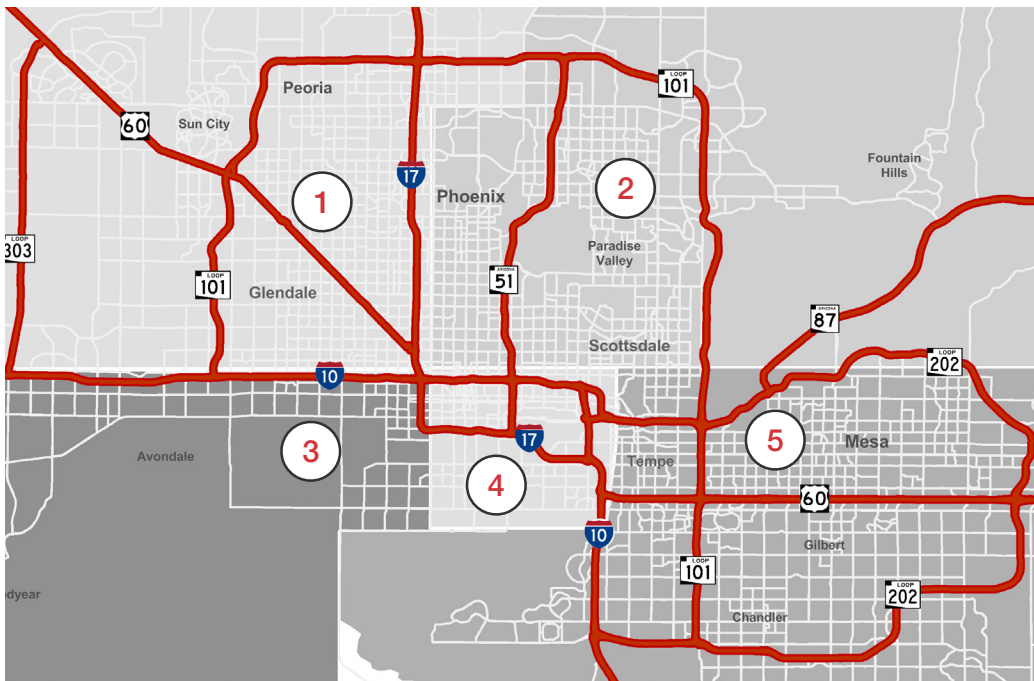
Sale Prices Average/SF



Rental Rates Average Ask/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

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