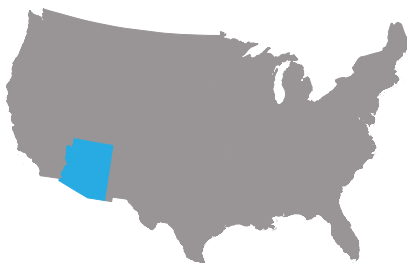


RESEARCH & FORECAST REPORT



Vacancy Improves, Even as New Projects Come Online

THE BROADER VIEW

The Greater Phoenix industrial market began 2015 on a bit of a high note, with healthy tenant demand driving the market. Net absorption topped 1.5 million square feet in the first quarter, and vacancy dipped below 12 percent for the first time since early 2008. The vacancy improvement is the key metric highlighting the improving supply-demand conditions in the marketplace. In the early stages of the market recovery, several large leases were signed by national tenants, sending a premature signal that the market had fully recovered even as the economy stagnated. These transactions prompted a surge in new development, which ultimately drove vacancy higher when there was not sufficient tenant demand to match the new supply. At this point in the cycle, in contrast, the economy is bouncing back and the market is moving closer to equilibrium, with additional improvement likely going forward.

CURRENT CONDITIONS

Net absorption in the Greater Phoenix industrial market totaled more than 1.5 million square feet in the first quarter, marking the fourth consecutive period where tenants moved into

Continued on page 2

MARKET INDICATORS

	2015 Q1	2014 Q1
VACANCY	↓	↑
NET ABSORPTION	↑	↓
CONSTRUCTION	↑	↑
RENTAL RATE	↑	↑

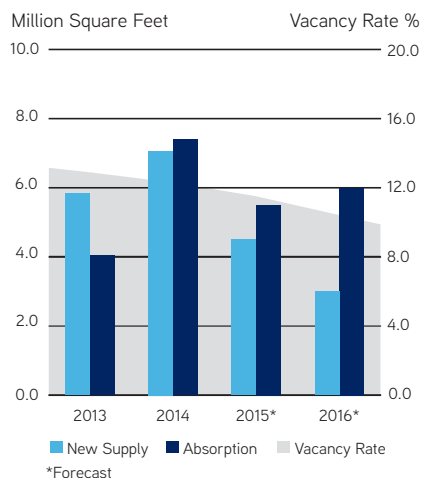
KEY MARKET INDICATORS

1Q ECONOMIC TRENDS*

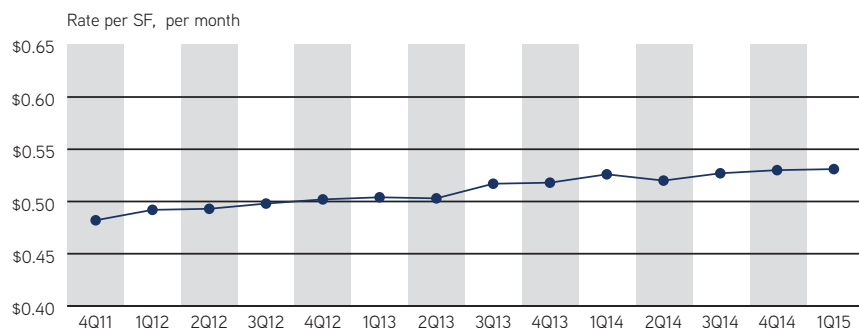
PHOENIX METRO EMPLOYMENT	↓	↓
U.S. EMPLOYMENT	↓	↓

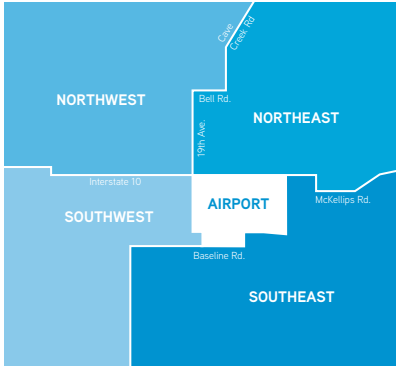
* Source: Bureau of Labor Statistics

NEW SUPPLY, ABSORPTION & VACANCY RATES



OVERALL RENTAL RATES





One drag on the local industrial market to this point in the cycle has been the slow pace of new home permitting and construction. Thus far in 2015, there has been a bit of a rally, with single-family permitting increasing more than 10 percent from year-earlier levels. The Southeast Valley cities of Gilbert and Mesa have led the way to this point, accounting for more than 40 percent of the year-to-date total. New home starts will be worth monitoring going forward, particularly if forecast rises in interest rates drive mortgage rates higher and stifle home sales.

more than 1 million square feet. During the past year, net absorption has reached nearly 8.2 million square feet, although some of this can be attributable to deliveries of more than 5.4 million square feet. Much of the recent construction has consisted of build-to-suit projects, highlighted by the recent delivery of a 565,000-square foot project for Pepsi in the Southwest Valley.

There are also a handful of spec projects moving through the development pipeline. In 2014, spec construction totaled more than 2 million square feet, and approximately 2.4 million square feet of spec space is slated for delivery this year. Spec projects are located throughout much of the Valley, including the first phase of a 924,000-square foot project in the Airport Area, a few big-box developments in the Southwest Valley and several smaller developments surrounding the Chandler Airport in the Southeast Valley.

Vacancy dipped below 12 percent for the first time in seven years in the first quarter, ending the period at 11.8 percent. This reflects a decline of 180 basis points over the past 12 months. Year over year, vacancy has dropped across each of the five submarket clusters in Greater Phoenix, with the most significant improvement having been recorded in the Southeast Valley, where the rate has fallen by more than 300 basis points to 12.2 percent. The rate has been driven lower by several tenant moves in the 50,000-85,000 square foot range.

Average asking rents in Greater Phoenix continued to creep higher at a modest pace during the first quarter. Asking rents reached \$0.53 per square foot, per month, 1 percent higher than one year ago. Average asking rents have increased in each of the past eight quarters, with most segments of the market showing some growth. Continued vacancy declines should ultimately prompt more rapid rent growth, although the rate

Continued on back page

SALE & LEASE ACTIVITY

SALE ACTIVITY

PROPERTY ADDRESS	SUBMARKET	SALE DATE	SALE PRICE	SIZE SF.	SALE PRICE/SF.	CLASS
2650 E Queen Creek Rd., Chandler	Chandler Airport	3/18	\$50,179,000	316,034	\$159	A
651 N 101st Ave., Avondale	Tolleson	2/3	\$10,200,000	73,050	\$140	A
3167 W Armstrong Pl., Chandler	Chandler	1/2	\$8,080,000	62,533	\$129	B

LEASE ACTIVITY

PROPERTY ADDRESS	SUBMARKET	SIGN DATE	TENANT	SIZE SF.
3000 S 24th St., Phoenix	S Airport N of Roeser	February	DLS Worldwide	78,843
101 N 104th Ave., Tolleson	Tolleson	February	Inventure Foods	67,380
121 S 39th Ave., Phoenix	SW N of Buckeye Road	January	Western Warehouse & Logistics	62,972

INDUSTRIAL MARKET

BLDG TYPE	EXISTING PROPERTIES		DIRECT VACANCY		SUBLEASE VACANCY		TOTAL VACANCY		NET ABSORPTION - SF		NEW SUPPLY - SF		UNDER CONSTR	AVG.RENT
	TOTAL INVENTORY SF	SF	RATE	SF	RATE	SF	Q1-15	Q1-14	CURRENT PERIOD	YTD	CURRENT PERIOD	YTD	SF	RATE
AIRPORT MARKET CLUSTER: North Airport, S Airport N of Roeser, S Airport S of Roeser, SC N of Salt River, SC S of Salt River														
GI	5,583,475	1,021,374	18.3%	-	0.0%	1,021,374	18.3%	10.7%	34,153	34,153	-	-	396,001	\$0.61
WH	24,533,091	1,872,102	7.6%	149,529	0.6%	2,021,631	8.2%	9.7%	110,846	110,846	-	-	62,880	\$0.46
MF	8,593,002	1,082,267	12.6%	20,432	0.2%	1,102,699	12.8%	15.1%	-9,688	-9,688	-	-	-	\$0.48
SC/S	1,841,293	68,161	3.7%	77,155	4.2%	145,316	7.9%	10.2%	39,360	39,360	-	-	-	\$0.40
FX	4,048,370	693,792	17.1%	9,280	0.2%	703,072	17.4%	18.1%	-16,143	-16,143	-	-	-	\$1.05
Total	44,599,231	4,737,696	10.6%	256,396	0.6%	4,994,092	11.2%	11.7%	158,528	158,528	-	-	458,881	\$0.60

NORTHEAST MARKET CLUSTER: Central Phoenix, Scottsdale Airpark, Scottsdale/Salt River														
GI	816,327	169,408	20.8%	-	0.0%	169,409	20.8%	19.4%	8,269	8,269	-	-	-	\$0.93
WH	5,473,684	543,030	9.9%	25,298	0.5%	568,328	10.4%	10.9%	-45,196	-45,196	-	-	-	\$0.82
MF	2,907,755	36,006	1.2%	2,350	0.1%	38,356	1.3%	1.1%	-7,198	-7,198	-	-	-	\$0.90
SC/S	987,353	55,156	5.6%	-	0.0%	55,156	5.6%	8.0%	1,665	1,665	-	-	-	\$0.89
FX	4,351,898	608,709	14.0%	9,951	0.2%	618,660	14.2%	17.6%	-20,730	-20,730	-	-	-	\$0.92
Total	14,537,017	1,412,309	9.7%	37,599	0.3%	1,449,909	10.0%	11.2%	-63,190	-63,190	-	-	-	\$0.89

NORTHWEST MARKET CLUSTER: Deer Valley/Pinnacle Peak, Glendale, Grand Avenue, N Glendale/Sun City, North Black Canyon, North Outlying, W Phx N of Thomas, W Phx S of Thomas														
GI	6,440,641	679,543	10.6%	-	0.0%	679,543	10.6%	11.3%	-3,065	-3,065	-	-	-	\$0.44
WH	28,096,991	2,118,070	7.5%	58,122	0.2%	2,176,192	7.7%	8.2%	54,194	54,194	-	-	-	\$0.56
MF	10,515,536	592,806	5.6%	10,608	0.1%	603,414	5.7%	4.6%	60,297	60,297	173,000	173,000	146,000	\$0.52
SC/S	1,843,545	20,065	1.1%	-	0.0%	20,065	1.1%	4.8%	-4,846	-4,846	-	-	14,940	\$0.67
FX	5,471,120	1,185,038	21.7%	-	0.0%	1,185,038	21.7%	22.8%	12,257	12,257	-	-	-	\$1.03
Total	52,367,833	4,595,522	8.8%	68,730	0.1%	4,664,252	8.9%	9.2%	118,837	118,837	173,000	173,000	160,940	\$0.67

SOUTHEAST MARKET CLUSTER: Chandler Airport, Chandler, Chandler N/Gilbert, Falcon Field/Apache Junction, Mesa, Tempe East, Tempe Northwest, Tempe Southwest														
GI	10,034,623	865,480	8.6%	11,757	0.1%	877,237	8.7%	12.7%	462,292	462,292	232,500	232,500	122,823	\$0.54
WH	35,075,554	3,091,863	8.8%	19,825	0.1%	3,111,688	8.9%	11.4%	290,502	290,502	164,555	164,555	147,234	\$0.53
MF	24,063,513	3,531,947	14.7%	217,000	0.9%	3,748,947	15.6%	21.0%	24,553	24,553	-	-	-	\$0.61
SC/S	3,145,459	125,524	4.0%	-	0.0%	125,524	4.0%	6.6%	-33,582	-33,582	-	-	-	\$0.63
FX	12,830,678	2,242,656	17.5%	251,765	1.9%	2,494,421	19.4%	21.3%	-366	-366	-	-	237,000	\$0.99
Total	85,149,827	9,857,470	11.6%	500,347	0.6%	10,357,817	12.2%	15.6%	743,399	743,399	397,055	397,055	507,057	\$0.68

SOUTHWEST MARKET CLUSTER: Goodyear, SW N of Buckeye Road, SW S Buckeye Road, Tolleson, Southwest Outlying														
GI	42,353,047	6,713,824	15.9%	32,000	0.1%	6,745,824	15.9%	16.4%	540,883	540,883	565,908	565,908	187,000	\$0.36
WH	31,552,409	3,266,926	10.4%	146,242	0.5%	3,413,168	10.8%	11.0%	-113,429	-113,429	-	-	659,618	\$0.38
MF	10,367,246	1,116,064	10.8%	464,063	4.5%	1,580,127	15.2%	18.8%	144,045	144,045	-	-	54,200	\$0.30
SC/S	2,459,696	90,083	3.7%	0	0.0%	90,083	3.7%	5.0%	8,602	8,602	-	-	-	\$0.46
FX	1,354,650	266,325	19.7%	-	0.0%	266,325	19.7%	24.4%	1,801	1,801	-	-	-	\$0.57
Total	88,087,048	11,453,222	13.0%	642,305	0.7%	12,095,527	13.7%	14.6%	581,902	581,902	565,908	565,908	900,818	\$0.36

GRAND TOTAL														
GI	65,228,113	9,449,629	14.5%	43,757	0.1%	9,493,387	14.6%	14.9%	1,042,532	1,042,532	798,408	798,408	705,824	\$0.39
WH	124,731,729	10,891,991	8.7%	399,016	0.3%	11,291,007	9.1%	10.6%	296,917	296,917	164,555	164,555	869,732	\$0.47
MF	56,447,052	6,359,090	11.3%	714,453	1.3%	7,073,543	12.5%	12.3%	212,009	212,009	173,000	173,000	200,200	\$0.46
SC/S	10,277,346	358,989	3.5%	77,155	0.8%	436,144	4.2%	7.7%	11,199	11,199	-	-	14,940	\$0.55
FX	28,056,716	4,996,520	17.8%	270,996	1.0%	5,267,516	18.8%	20.6%	(23,181)	(23,181)	-	-	237,000	\$0.96
Total	284,740,956	32,056,219	11.3%	1,505,377	0.5%	33,561,597	11.8%	13.6%	1,539,476	1,539,476	1,135,963	1,135,963	2,027,696	\$0.53

QUARTERLY COMPARISON AND TOTALS														
2015 Q1	284,740,956	32,056,219	11.3%	1,505,377	0.5%	33,561,597	11.8%	13.6%	1,539,476	1,539,476	1,135,963	1,135,963	2,027,696	\$0.53
2014 Q4	283,978,809	33,055,233	11.6%	1,896,427	0.7%	34,951,660	12.3%	-	1,111,251	-	1,829,221	-	3,762,684	\$0.53
2014 Q3	281,266,461	32,505,702	11.6%	1,953,230	0.7%	34,458,932	12.3%	-	1,096,526	-	90,225	-	2,463,321	\$0.53
2014 Q2	281,222,327	34,153,414	12.1%	1,916,438	0.7%	36,069,852	12.8%	-	4,431,677	-	2,351,731	-	2,359,493	\$0.52
2014 Q1	278,907,537	35,917,136	12.9%	2,017,622	0.7%	37,934,758	13.6%	-	750,716	-	2,790,757	-	2,834,060	\$0.52

As new, corrected or updated information is obtained, it is incorporated in both current and historical data, which may invalidate comparison to previously issued reports.

GI = General Industrial WH = Warehouse MF = Manufacturing SC/S = Service Center/Showroom FX = Flex

would likely need to dip below 10 percent before rent growth truly accelerates.

Investment activity slowed by approximately 30 percent in the first quarter, following healthy activity levels in the final nine months of last year. While some of the dip in activity was due to the typical slowing that occurs in the first quarter, another factor influencing transaction activity is the drop in owner/user transactions, which peaked in 2012 and have declined in both 2013 and 2014. This is largely a function of supply; as the market has strengthened, there have been fewer vacant and distressed properties available for purchase by users.

PHOENIX INDUSTRIAL MARKET SUMMARY ≥ 10,000 SF FIRST QUARTER 2015

Transaction Velocity:	-30%
Total Dollar Volume:	\$159.3 M
Total Building SF:	1,992,744
Median Price per SF:	\$73
Average Cap Rate:	7.7%

Property values ticked higher in the first quarter, with the median price reaching \$73 per square foot, up 7 percent from the 2014 median. After bottoming at approximately \$50 per square foot in 2011 and 2012, the median price has generally trended higher. Even after accounting for the recent gains, prices are still down more than 25 percent from the pre-recession peak. After averaging approximately 7.5 percent in 2014, cap rates ticked higher to 7.7 percent during the first quarter.



IN THE MONTHS AHEAD

The Greater Phoenix industrial outlook is favorable for the remainder of 2015, with leasing activity for spec projects picking up and a few larger deals expected to land in the coming months. New supply growth will continue, as 2015 will mark the third consecutive year of fairly active construction following a dip in completions from 2009-2011. Despite the additions to inventory, net tenant move-ins are forecast to outpace the delivery of new space by at least 1 million square feet this year, driving the vacancy rate down into the mid-11 percent range. With vacancy continuing to improve, landlords should be able to achieve modest rent increases and sales prices will likely record modest gains.

485 offices in 63 countries on 6 continents

United States: 146
Canada: 44
Latin America: 25
Asia Pacific: 186
EMEA: 84

- \$2.1 billion USD in annual revenue
- 1.46 billion square feet under management
- 15,800 professionals worldwide

(Based on 2013 results)

COLLIERS INTERNATIONAL

PHOENIX
2390 E. Camelback Road
Suite 100
Phoenix, AZ 85016

TEL: 602 222 5000
FAX: 602 222 5001

SCOTTSDALE
14080 N. Northsight Blvd.
Scottsdale, AZ 85260

TEL: 480 596 9000
FAX: 480 948 0502

Bob Mulhern
Managing Director | Greater Phoenix
bob.mulhern@colliers.com

Jim Keeley
Founding Partner | Scottsdale
jim.keeley@colliers.com

Pete O'Neil
Research Manager |
Greater Phoenix
pete.oneil@colliers.com

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