



Q1
2016

MARKET
REPORT

PHOENIX
INDUSTRIAL

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ASSOCIATES®**
COMMERCIAL REAL ESTATE SERVICES

25
YEARS

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1991 - 2016
IN ARIZONA

Strong Absorption, Construction Bodes Well for Industrial Sector

The Phoenix Industrial sector started 2016 with a solid market performance, fueled by a robust finish to 2015. Net absorption is historically modest at the start of a new year and could indicate a strong year ahead. The construction pipeline remains steady with a mix of spec and built-to-suit projects even with nearly 2 million SF delivered in this quarter alone. Vacancy rates have not been this low since Q1 2008, right when the economy was beginning to cool and nearly a year before the great recession began. Rental rates, however, remained flat overall this past quarter with modest increases primarily in the Sky Harbor Airport and Southeast Valley submarkets.

Leasing activity remains steady across most submarket clusters. The most important indicator in activity over the past year is the movement in smaller, multi-tenant properties. Tenants in the market are mostly looking in the 5,000-15,000 SF range. With such strong demand, many spec development projects under construction Valleywide are these types of buildings. As an example, the home-building industry is gearing up again and many home-related businesses are leasing space in that size demographic. Conversely, activity remains much slower for medium and large tenants seeking

100,000 SF or more. There is a glut of available space, mostly distribution, with even more under construction. The Southwest Valley distribution market bears most of the brunt of this market trend with stagnant rental rates. Owners are looking for new ways to position these buildings by dividing spaces and creating other leasing incentives to draw foot traffic.

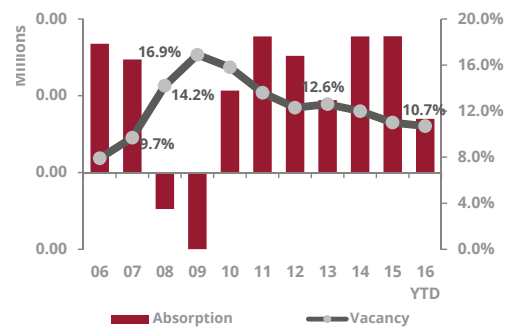
The Phoenix Industrial sector finished the quarter with an eight-year low vacancy rate of 10.7%. The Northwest and Northeast submarket clusters enjoyed the lowest vacancies in the Valley at 7.1% and 7.8%, respectively. The Southwest Valley has the highest vacancy with 13.2%. Net absorption for the quarter was solid and settled at 1,633,655 SF.

Construction activity remains strong at 2,821,652 SF. There were many projects delivered to inventory in the first quarter totaling 1,929,733 SF. Overall rental rates remained flat at \$0.54 per SF, per year. The Southeast Valley, however, saw a 4.6% increase while the Southwest Valley saw a (-2.5%) decrease.

The largest lease transaction in the first quarter was for Sherwood Bedding who leased 142,146 SF at 9310 W. Buckeye Rd., Tolleson. In

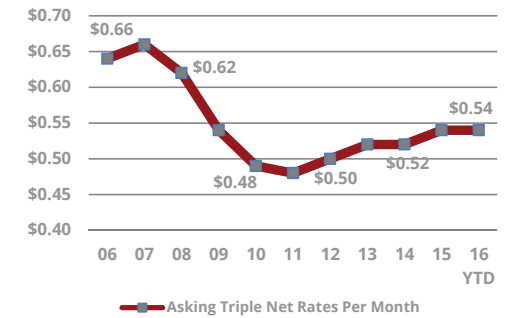
Absorption/Vacancy

in SF, 2006-2016



Rental Rates

Per month, 2006-2016



the largest sales transaction, Kootenay Holdings, Ltd. purchased three flex buildings totaling 108,067 SF at 15475 N. Greenway-Hayden Loop, Scottsdale for \$19,804,000 or \$183.26 per SF.

Sales by the Numbers: Q1 2016

119

Transactions
Q1 15: 92

\$185M

in Total Sales
Q1 15: \$171M

\$82.14

Average PSF
Q1 15: \$171M

7.00%

Average Cap Rate
Q1 15: 6.75%

Phoenix Industrial Submarket Map

1. Airport Area Submarket

- N. Airport
- S. Airport N. of Roeser
- S. Airport S. of Roeser
- SC. N. of Salt River
- SC. S. of Salt River

2. Northeast Submarket

- Central Phoenix
- Scottsdale Airpark
- Scottsdale/Salt River

3. Northwest Submarket

- Deer Valley/Pinnacle Peak
- Glendale
- Grand Ave.
- N. Black Canyon
- N. Glendale/Sun City

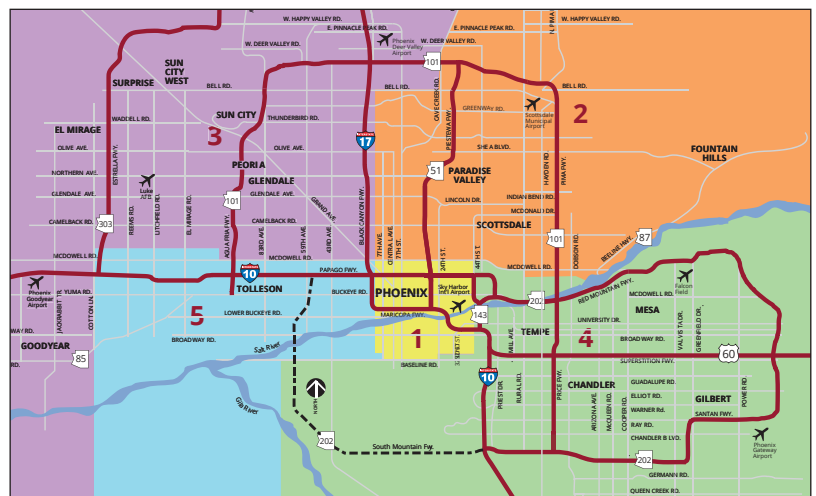
- W. Phx N. of Thomas Rd.
- W. Phx S. of Thomas Rd.

4. Southeast Submarket

- Chandler
- Chandler Airport
- Chandler N./Gilbert
- Falcon Field/Apache Jct
- Mesa
- Tempe East
- Tempe Northwest
- Tempe Southwest

5. Southwest Submarket

- Goodyear
- SW. N. of Buckeye Rd.
- SW. S. of Buckeye Rd.
- Tolleson



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The Lee & Associates Phoenix Industrial Market report compiles relevant market data by using a

third-party database for the proprietary analysis of specific warehouse, distribution, manufacturing and Flex properties in the Phoenix Metropolitan Area.

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Q1 2016 | Phoenix Industrial Market Stats

Industrial Submarkets	Total Inventory	Vacancy Total SF	Q1 16	Net Absorption Q1 16	YTD Total	Under Construction	Building Completions Q1 16	YTD Total	Asking NNN Rate	Change from Q4 15
Sky Harbor Airport North Airport, S Airport N of Roeser, S Airport S of Roeser, SC N of Salt River, SC S of Salt River										
Distribution/Warehouse	33,936,243	2,981,556	8.8%	335,203	335,203	694,845	675,955	675,955	\$0.59	1.7%
Manufacturing	8,759,283	789,927	9.0%	(31,092)	(31,092)	41,252	-	-	\$0.52	4.0%
Flex	5,184,698	955,368	18.4%	7,071	7,071	-	-	-	\$1.07	4.9%
Total	47,880,224	4,726,851	9.9%	311,182	311,182	736,097	675,955	675,955	\$0.70	2.9%
Northeast Valley Central Phoenix, Scottsdale Airpark, Scottsdale/Salt River										
Distribution/Warehouse	6,837,727	519,894	7.6%	(35,504)	(35,504)	-	-	-	\$0.84	1.2%
Manufacturing	2,960,299	56,481	1.9%	45,186	45,186	-	-	-	\$0.86	-6.5%
Flex	5,348,059	598,774	11.2%	24,110	24,110	-	-	-	\$0.93	1.1%
Total	15,146,085	1,175,149	7.8%	33,792	33,792	-	-	-	\$0.89	1.1%
Northwest Valley Deer Valley/Pinnacle Peak, Glendale, Grand Ave., N Glendale/Sun City, North Black Canyon, W PHX N of Thomas, W PHX S of Thomas										
Distribution/Warehouse	38,067,246	2,768,220	7.3%	393,503	393,503	367,963	579,478	579,478	\$0.57	0.0%
Manufacturing	10,905,834	504,102	4.6%	(13,484)	(13,484)	384,377	-	-	\$0.51	0.0%
Flex	6,373,067	664,999	10.4%	(16,994)	(16,994)	-	-	-	\$1.03	0.0%
Total	55,346,147	3,937,321	7.1%	363,025	363,025	752,340	579,478	579,478	\$0.70	0.0%
Southeast Valley Chandler Airport, Chandler, Chandler N Gilbert, Falcon Field/Apache Jct, Mesa, Tempe East, Tempe Northwest, Tempe Southwest										
Distribution/Warehouse	49,059,509	4,554,153	9.3%	237,319	237,319	574,709	210,926	210,926	\$0.55	0.0%
Manufacturing	24,581,966	3,416,511	13.9%	59,162	59,162	64,000	-	-	\$0.58	3.6%
Flex	14,935,224	2,075,858	13.9%	129,456	129,456	344,506	57,150	57,150	\$1.09	6.9%
Total	88,576,699	10,046,522	11.3%	425,937	425,937	983,215	268,076	268,076	\$0.68	4.6%
Southwest Valley Goodyear, SW N of Buckeye Rd, SW S of Buckeye Rd, Tolleson										
Distribution/Warehouse	75,235,229	8,982,896	11.9%	512,753	512,753	350,000	349,224	349,224	\$0.37	-2.6%
Manufacturing	11,350,138	2,323,937	20.5%	(18,355)	(18,355)	-	57,000	57,000	\$0.31	0.0%
Flex	1,387,704	264,660	19.1%	5,321	5,321	-	-	-	\$0.56	0.0%
Total	87,973,071	11,571,493	13.2%	499,719	499,719	350,000	406,224	406,224	\$0.36	-2.5%
Total Submarkets										
Distribution/Warehouse	203,135,954	19,806,719	9.8%	1,443,274	1,443,274	1,987,517	1,815,583	1,815,583	\$0.47	0.0%
Manufacturing	58,557,520	7,090,958	12.1%	41,417	41,417	489,629	57,000	57,000	\$0.47	2.2%
Flex	33,228,752	4,559,659	13.7%	148,964	148,964	344,506	57,150	57,150	\$1.00	0.0%
Phoenix Metro Total	294,922,226	31,457,336	10.7%	1,633,655	1,633,655	2,821,652	1,929,733	1,929,733	\$0.54	0.0%

When inaccurate or newly updated information is discovered, it is incorporated into current reporting which may negate comparison to previously published market reports.

Q1 2016 Top Industrial Leases

Tenant Name	Property Name	Address	Submarket	Type	SF	Type
Sherwood Bedding	9310 W. Buckeye Rd.	9310 W. Buckeye Rd., Tolleson	Southwest Valley	Distribution	142,146	New
Hensley Beverage Co.	Santa Fe Industrial Ctr.	4450 N. 45th Ave., Phoenix*	Northwest Valley	Distribution	112,669	New
Dircks Moving & Logistics	Transpacific Distribution Ctr.	860 S. 83rd Ave., Tolleson	Southwest Valley	Distribution	62,000	New
Shurjoint Piping USA	West 10 Business Center	4703 W. Brill St., Phoenix	Southwest Valley	Distribution	39,728	New
Snyder's Lance	Tiger Industrial Center-A	4929 W. Van Buren St., Phoenix	Southwest Valley	Warehouse	37,422	New

* Building currently under construction.

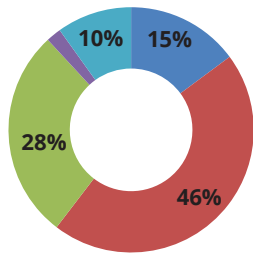
Q1 2016 Top Industrial Sales

Property Address	Buyer	Seller	Type	Sales Price	SF	PSF
15475 N. Greenway-Hayden, Scottsdale (3)	Kootenay Holdings, Ltd.	R.F. Donovan & Assoc.	Flex	\$19,804,000	108,067	\$183.26
2600 W. Germann Rd., Chandler	H5 Capital	Nextfort Ventures	Flex	\$14,845,992	130,000	\$114.20
1630-1720 E. Grant St., Phoenix (4)	Prologis	Miller-Valentine Group	Distribution	\$14,500,000	336,369	\$43.11
4707 E. Baseline Rd., Phoenix	Industrial Property Trust	Dalfen America Corp.	Warehouse	\$14,000,000	128,305	\$109.11
8350 E. Evans Rd., Scottsdale (6)	Greenwood & McKenzie	Warmington Group	Warehouse	\$7,850,000	71,473	\$109.83

() No. of buildings in transaction.

Buyer Type

Q1 16 Sales



■ User
■ Institutional
■ REIT/Public
■ Private
■ Private Equity

Economic Indicators

as of Q1 2016

Unemployment

U.S.	Down to 5.0%
Arizona	Steady at 6.0%
Phoenix Metro	Down to 5.0%

U.S. Consumer Price Index	Down 0.2%
Gross Domestic Product (GDP)	Up to 1.4%

Source: Bureau of Labor Statistics, Bureau of Economic Analysis of the U.S. Dept. of Commerce.



Q1 2016

About Lee & Associates

Now in its 25th year, Lee & Associates Arizona specializes in providing exceptional commercial brokerage services to the industrial, office, land and investment sectors of the Phoenix commercial real estate market. The Phoenix office was established in 1991 and is now recognized as one of the most successful brokerage firms in the state. Each of our nationwide Lee & Associates offices has a strong local ownership combined with a powerful platform from the national Lee & Associates network. www.leeazona.com



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