

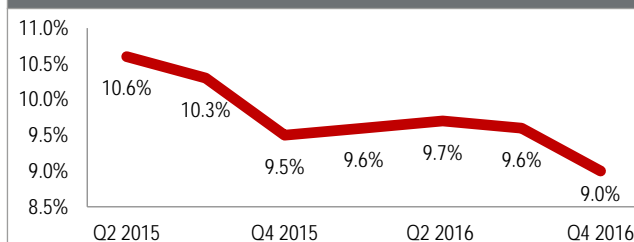


Vacancy dips to 9.0 percent, reaches nine-year low

Vacancy falls significantly with impressive year-end absorption gains

Overall vacancy in the Phoenix industrial market has finally fallen after hovering around 9.6 percent for four consecutive quarters, marking the lowest vacancy rate since the fourth quarter of 2007. After recording over 2.0 million square feet of positive net absorption in the fourth quarter of 2016, the largest single-quarter gain of the year, vacancy fell 60 basis points to 9.0 percent. Unlike the first nine months of 2016, this 2.0 million square feet of positive absorption was enough to overcome the nearly 600,000 square feet of vacant space added to the market in the fourth quarter as a result of new speculative development.

Market-wide quarterly vacancy



Source: JLL Research

Strong leasing activity signaling continued growth in 2017

With ample land available for development and relatively low construction costs, users in the Phoenix industrial market often decide to build their own facility instead of leasing space in existing properties. Even with 2.2 million square feet of build-to-suit completions in 2016 and another 1.0 million square feet of build-to-suit under construction, leasing activity in existing properties still surpassed 13.6 million square feet. Although the volume of leases signed in existing properties declined from previous years due to increased build-to-suit activity, the average lease size continues to increase year-over-year, a sign of renewed interest in the Phoenix market from large, corporate users.

Largest build-to-suit completions

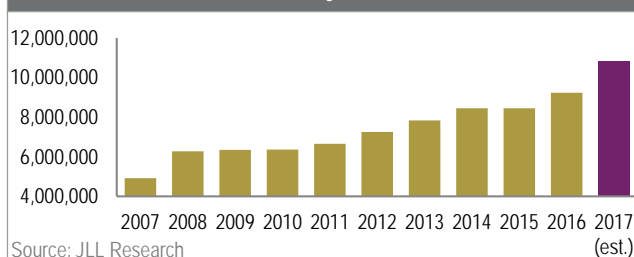
Tenant name	Submarket	Size (s.f.)
Medline Industries	Southwest	650,000
REI	Northwest	400,000
IRIS USA	Northwest	384,377
McLane Foods Company	Southwest	349,224
Michael Lewis Company	Southwest	300,000

Source: JLL Research

Northwest submarket poised for record expansion

The Northwest submarket is the third-smallest industrial submarket in the Phoenix market, and the smallest in the West Valley. Even so, the submarket recorded over 830,000 square feet of positive net absorption in 2016, including two of the five largest owner-built facilities delivered to date. Skilled labor, access to the Loop 303 highway, and available land in the submarket has encouraged development, with new groundbreakings expected to increase the size of the submarket a full 17.5 percent in 2017 alone. In addition to a 1.0 million-square-foot owner-user facility, the largest speculative development since 1994 is expected to add over 600,000 square feet to the limited supply of big-box space.

Northwest submarket inventory (s.f.)



Source: JLL Research

9.0%

Total vacancy

2,095,564

Q4 2016 total absorption (s.f.)

4,860,718

Total industrial completions (s.f.)

3,863,280

Industrial under construction (s.f.)

11.0%

Total availability

5,703,806

YTD 2016 total absorption (s.f.)

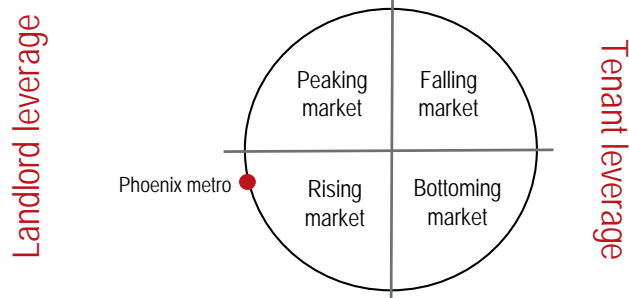
61.1%

Pre-leased completions

99,337

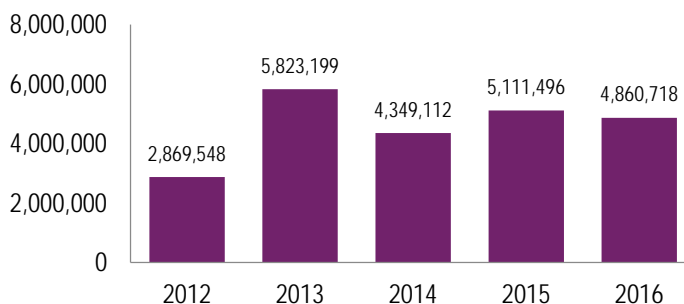
Flex under construction (s.f.)

Current conditions



Source: JLL Research

New construction deliveries



Source: JLL Research

Overview of absorption

Tempe and Gilbert attract large and small users alike

Within the Southeast Valley, large tenants usually gravitate toward the Airport submarket, while smaller tenants take advantage of smaller availabilities in Tempe, Mesa, Gilbert and Chandler. Tempe and Gilbert significantly outperformed the rest of the Southeast Valley in 2016, recording a combined 1.0 million square feet of absorption and 1.1 million square feet of construction completions. Interestingly, these gains originated from a combination of both large and small user activity, with Tempe and Gilbert landing several of the Southeast Valley leases over 100,000 square feet that would normally sign in the Airport submarket.

Top Southeast Valley transactions (excluding Airport submarket)

Tenant name	Submarket	Size (s.f.)
Dexcom	Mesa	148,797
Silent-Aire USA	Gilbert	146,832
Express Scripts	Tempe	125,675
Trane	Gilbert	110,588
Kovach	Tempe	101,024
21 st Century Healthcare	Tempe	100,723

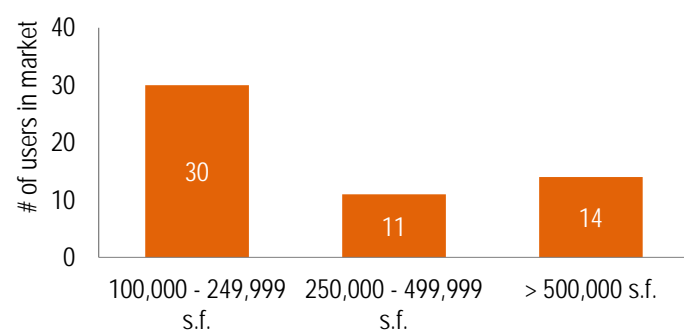
Source: JLL Research

Overview of demand

Large tenants in the market expected to lease big boxes

As the Phoenix industrial market continues to expand, developers have moved quickly to meet the increased demand from large tenants in the market. There are currently 55 requirements of at least 100,000 square feet throughout the Valley, and large spaces that can accommodate these tenants are beginning to dwindle after sitting vacant during the economic downturn. Large industrial users who need modern, functional space have pre-leased 61.1 percent of new product delivered in 2016. Submarkets like the Northwest and Grand Avenue, where speculative construction has been limited over the past few years, are finally seeing their first speculative projects.

Demand: Industrial tenant requirements



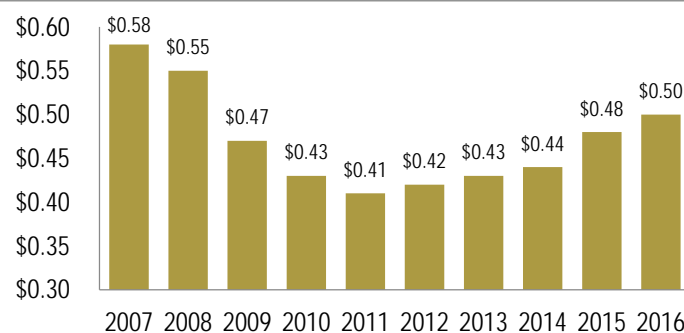
Source: JLL Research

Overview of rents

Above-average asking rental rate growth closes out 2016

After recording the largest year-over-year increase in 2015 since the recession, asking rental rate growth in the Phoenix industrial market returned to more modest, albeit above-average growth in 2016. Average asking rates in the Phoenix industrial market have reached \$0.50 per square foot on a triple net basis, marking a 4.5 percent increase from the fourth quarter of 2015. The Deer Valley and Tempe submarkets saw the largest rate increases at 4.8 percent and 4.6 percent, respectively. The two largest submarkets in the Valley, Southwest and Airport, saw almost no change in rates despite adding new speculative space to the market.

Average industrial asking rent (\$ p.s.f.)



Source: JLL Research