

Q4 2018

Industrial Insight

2018 finishes with high sales volume, strong fundamentals, and large developments

- Logistics and distribution along with e-commerce users continue to fuel positive absorption all throughout the valley
- Favorable big-box activity in the West Valley continues to flourish, offsetting the largest move-out of 2018
- Year-end sales volume for flex and industrial product nearly doubles numbers recorded in 2017

As 2018 comes to a close, both demographic and economic fundamentals bode well for the Phoenix industrial market with thriving investor and leasing activity. Absorption finished just under seven million square feet, a strong end considering large Q4 move-outs, with Safeway vacating almost 700,000 square feet of cold storage in the Southeast Valley. The West Valley alone saw over 2.3 million square feet of net absorption in Q4, led by XPO Logistics.

A brief of 2018 isn't complete without mentioning e-commerce activity, as new to market users within the sector brought the biggest leases throughout the year. The largest new footprints in the Valley such as Chewy.com, Gwynnie Bee, and Serta Simmons (Tuft & Needle) are setting new market standards with contemporary marketing and business modeling.

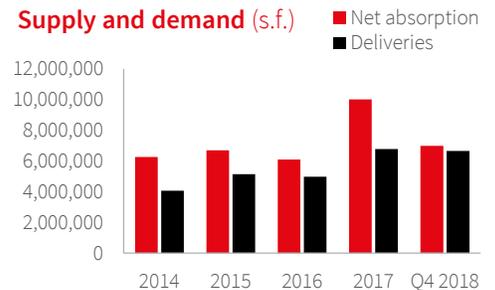
Despite rising construction costs and issues with labor shortages, notable construction activity has taken place all throughout 2018, with the two largest developments since 2013 breaking ground (TEN Warehouse) or delivering (Lincoln 40 Logistics). In the wake of 6.6 million square feet of new product delivered and 5.8 million under construction, demand continues to outpace availability with numerous tenants in the market and a falling vacancy rate that is on pace to reach pre-recessionary levels.

Outlook

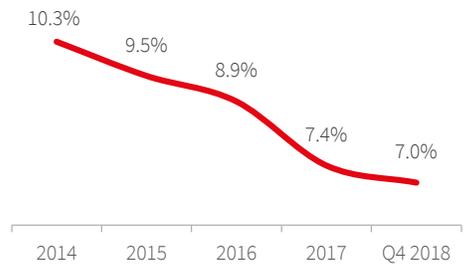
The West Valley continues to produce promising market fundamentals that bolster landlord favorability and investor interest. Industrial and flex sales also saw a record year, recording over \$1.8 billion in sales; a trend that will continue to be directly proportionate to Phoenix's tightening vacancy rates and growing demographics.

2019's first half holds a few large retail warehousing move-outs; however, 2.4 million square feet of positive absorption is in the pipeline for 2019. Overall demand shows no signs of slowing, with a 9% increase in industrial prospects looking throughout the Valley for all building sizes.

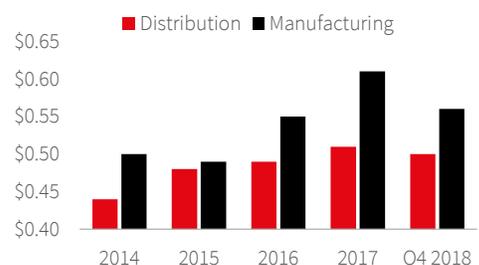
Fundamentals	Forecast
YTD net absorption: 6,990,071 SF	▲
QTD net absorption: 1,751,714 SF	▶
Under construction: 5,887,290 SF	▶
Total vacancy: 7.0%	▼
Average asking rent (NNN): \$0.51	▶
Tenant improvements: Rising	▲



Total vacancy



Average asking rents (\$/s.f.)



For more information, contact:

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