

## Q1: Steady As It Goes

### Key Takeaways

- Greater Phoenix industrial market had an overall strong first quarter led by continued job growth with industrial using employment increasing nearly 7 percent over-the-year, the highest in nearly a decade. During the 12-month period ending in February, preliminary estimates show that employers added nearly 64,300 net new jobs, an increase of 3.1 percent which places Greater Phoenix #2 in overall job growth for the country.
- Net absorption, which was 2.3 million in the fourth quarter 2018, decreased to approximately 550,000. While absorption lagged, under construction projects spiked to 7.3 million and rents increased 1.8 percent over-the-quarter, 3.4 percent over-the-year, to \$0.57 per square foot.
- Development of new industrial space remains quite active particularly in the Southeast and Southwest portions of the Valley. As a result, new construction is putting upward pressure on vacancy which has witnessed minor 10 to 40 basis point increases over-the-quarter, specifically in warehouse and manufacturing subtypes.
- In the first quarter, industrial property sales volume surged 44 percent over-the-quarter to \$356 million with only a minor increase in overall transactions. The median price settled at \$104 per square foot which is the second highest over the last several years but below third quarter 2017's \$106 high. Cap rates continued to compress decreasing 40 basis points (bps) over the year to 6.72 percent.

### Greater Phoenix Industrial Market

Despite a modest slowdown in net absorption, the vacancy rate in the first quarter decreased to its previous cyclical low of 7.2 percent, which was first hit in second quarter 2018. Vacancy has been trending in the low- to mid-7 percent range since the end of 2017 and is a significant improvement from double-digit rates as recently as 2015.

Market Indicators Relative to prior period	Market 1Q 2019	Market 1Q 2018
Vacancy	↓	↑
Net Absorption	↓	↓
Construction	↑	↓
Rental Rate	↑	↑
First Quarter Economic Trends*		
Phoenix Metro Employment	↓	↓
Phoenix Industrial Uses Employment	↑	↑
U.S. Employment	↓	↑
U.S. Industrial Uses Employment	↓	↓

\*Source: Bureau of Labor Statistics

Summary Statistics	Phoenix Industrial Market
Vacancy Rate	<b>7.2%</b>
Change from 1Q 2018 (bps)	<b>10</b>
Net Absorption (thousands SF)	<b>549</b>
New Construction (thousands SF)	<b>305</b>
Under Construction (millions SF)	<b>7.268</b>
Asking Rents Per Square Foot Per Month	<b>\$0.57</b>
Change from 1Q 2018	<b>3.6%</b>

## Greater Phoenix Industrial Market (continued)

Development activity ramped up to 7.3 million square feet to meet persistent demand in the market. Approximately 1.4 million square feet of new space was delivered in the first quarter and over 7 million square feet has come online during the past year. As previously noted, despite consistently high deliveries vacancy rates continue to contract.

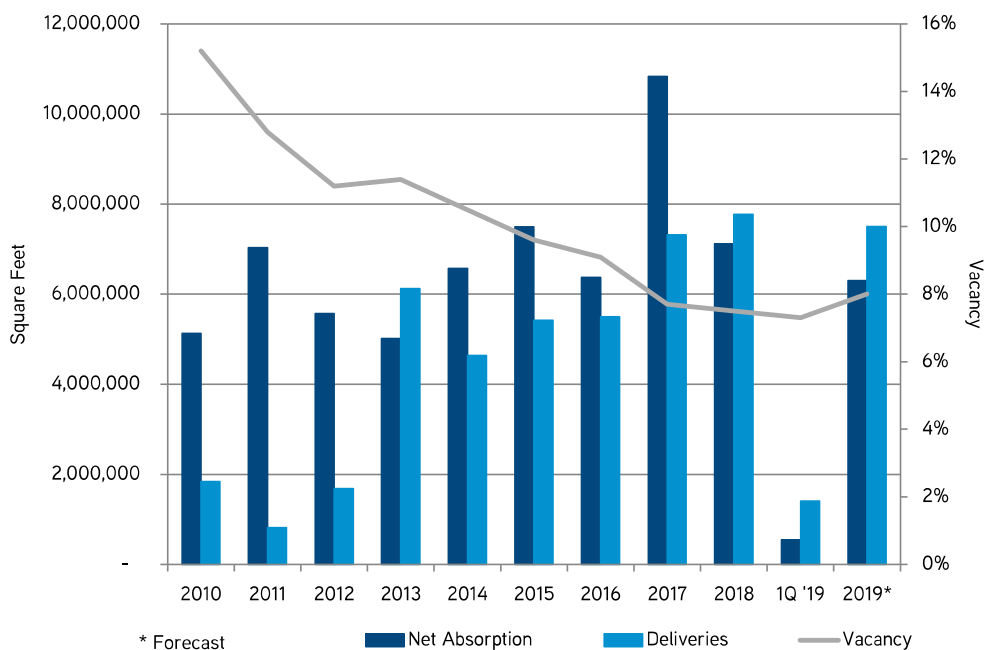
Investment conditions improved in both over-the-quarter and year numbers. While many of the trends were still positive, they did lag the fast-paced levels from early 2018. Industrial building sales volume decreased over-the-year, however median price continued its upward trajectory hitting \$104 per square foot amount with cap rates below 7 percent.

## Recent Transactions in the Market

SALE ACTIVITY						
Property Address	Submarket	Sale Date	Sale Price	Size SF	Sale Price SF	Class
2950 S Litchfield Rd, Southwest Logistics Center - Bldg 1	Goodyear	2/11	\$28,437,600	418,200	\$68	A
2200 S 43rd Ave, Riverside 43	SW S of Buckeye Rd.	1/29	\$24,679,244	250,043	\$99	A
12000 N 132nd Ave, West Valley Logistics Center	Glendale	2/4	\$24,100,000	418,651	\$58	A

LEASE ACTIVITY			
Property Address	Submarket	Tenant	Size SF
6205 S Arizona Ave., Chandler	Chandler Airport	Z Modular	222,000
1755 S 75th Ave., Phoenix	Tolleson	States Logistics	211,185
9494 W Buckeye Rd., Tolleson	Tolleson	n/a	186,336

## Historical Absorption, Deliveries and Vacancy Rates



## Vacancy:

- > The Greater Phoenix industrial vacancy rate decreased 10 basis points over the first quarter to 7.2 percent. This marked the same cyclical low first hit in the second quarter of 2018. During the past 24 months the vacancy rate retreated by 260 bps. Vacancy in both the Southwest and Southeast Valley rose during the first quarter as new spec space delivered. Vacancy in the Southwest Valley ended the first quarter at 8.8 percent up 150 bps over-the-year, while the Southeast Valley rose 20 bps to 7.3 percent. The Airport Area and Northeast Valley witnessed the most dramatic change in vacancy, decreasing approximately 300 basis points to 6.2 and 3.8 percent respectively, the lowest in the Phoenix region.
- > **Forecast:** With a handful of large space projects slated to come online in the following quarters, vacancy is expected to creep higher by the end of the year and is forecast to end 2019 at 8 percent.

## Absorption and Leasing Activity:

- > Net absorption in Greater Phoenix weakened during the first quarter to approximately 550,000 square feet across all industrial types. Despite weakened absorption overall, Valley-area distribution space saw the greatest increase in net absorption with just under 1 million square feet absorbed with most of the absorption occurring in the Southwest Valley.
- > New lease activity was lead by Z Modular's 222,000 square foot lease of 6205 S Arizona Ave in Chandler and States Logistics' 211,185 square foot lease of Logistics 75 building in the Tolleson Ind submarket.
- > **Forecast:** Net absorption is forecast to reach approximately 6.3 million square feet in 2019, lagging the amount of new construction in the market.

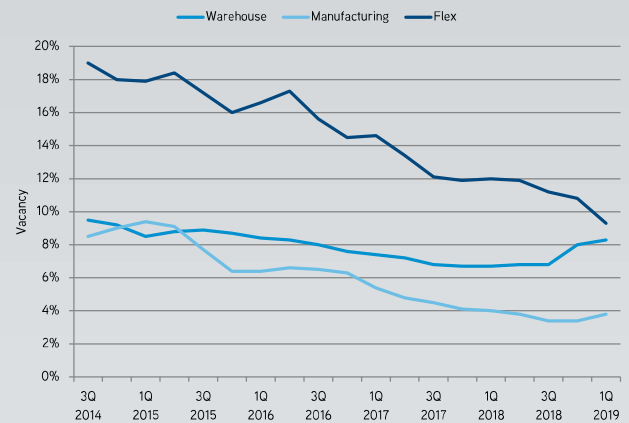
## Rental Rates:

- > Asking rents were up 3.6 percent over-the-year, and 1.8 percent over-the-quarter, reaching \$0.57 per square foot. Rents in big-box distribution buildings continue to rise at a faster clip than the market-as-a-whole. Asking rents in big-box distribution spaces have risen by 4.1 percent in the past 12 months, reaching \$0.40 per square foot in the first quarter.
- > Following years of robust absorption levels, the Southwest Valley is recording strong rent growth. Average asking rents in the Southwest Valley ended the first quarter at \$0.40 per square foot, up 6.6 percent from one year ago.
- > **Forecast:** Rents should continue to push higher with tenant demand for space strong and newer, more expensive product coming to market. Asking rents are forecast to rise by approximately 3.0-3.5 percent in 2019.

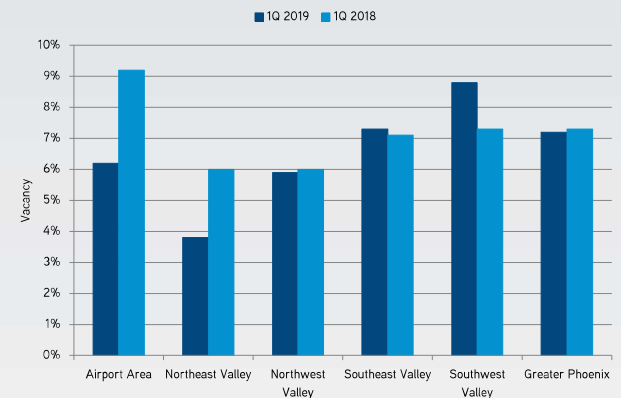
## Construction:

- > Approximately 7.3 million square feet of industrial space is currently under construction, up from first quarter 2018's 6.8 million square feet. The continued high levels of tenant demand will continue to fuel new construction projects in the coming quarters. Deliveries for Greater Phoenix totaled a little over 7.7 million square feet for the year and have averaged nearly 5.8 million square feet per year since 2013.

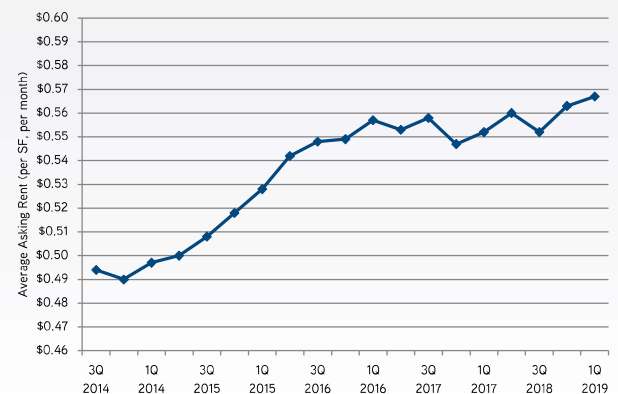
## Vacancy by Building Type



## Vacancy Among Major Submarkets



## Asking Rent Trends



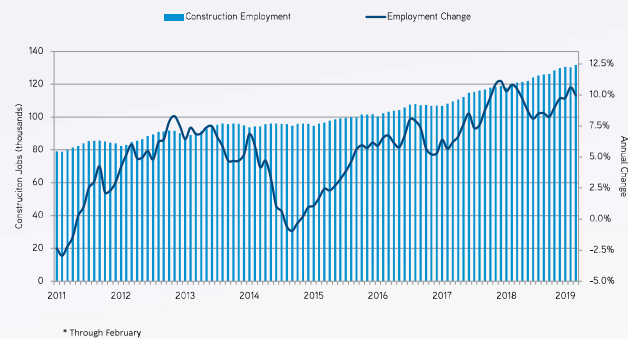
## Construction (continued):

- **Forecast:** Completions of industrial space will continue to accelerate in the first half of 2019, with estimated delivery of 7.5 million square feet by the end of 2019. As more spec development comes on line over the next several quarters, vacancy is expected to increase to 8 percent by the end of the year.

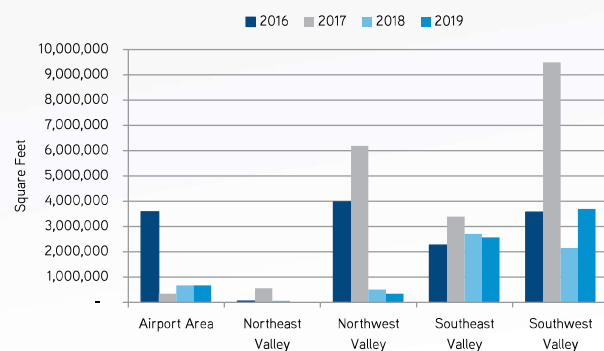
## Investment Trends:

- After a general slowdown in sales activity toward the end of the fourth quarter, sale volume of industrial buildings increased 4.4 percent over-the-quarter to \$356 million but off first quarter 2018's \$484 million. Despite the decrease in sales volume, number of transactions remained the same over-the-year at 60.
- The median price settled at \$104 per square foot which is the second highest over the last several years but below third quarter 2017's \$106 high. Cap rates continued to compress decreasing 40 bps over the year to 6.72 percent, which is lower than 2018's 6.88 percent and 2017's 7 percent medians.

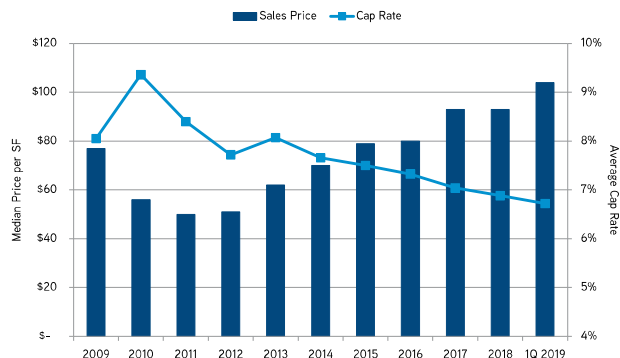
### Construction Employment Overview



### Construction Trends by Submarket



### Investment Trends



# Industrial Market

EXISTING PROPERTIES		DIRECT VACANCY		SUBLEASE VACANCY		TOTAL VACANCY			NET ABSORPTION - SF		NEW SUPPLY - SF		UNDER CONSTR AVG. RENT	
BUILDING TYPE	TOTAL INVENTORY SF	SF	RATE	SF	RATE	SF	RATE 1Q-19	RATE 1Q-18	CURRENT PERIOD	YTD	CURRENT PERIOD	YTD	SF	RATE (NNN)
INDUSTRIAL MARKET														
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														
General Industrial	995,113	41,671	4.2%	-	0.0%	41,671	4.2%	5.3%	9,632	9,632	-	-	-	\$0.79
Distribution	6,147,608	816,813	13.3%	-	0.0%	816,813	13.3%	19.7%	57,256	57,256	-	-	558,712	\$0.55
Warehouse	25,296,214	1,169,318	4.6%	21,812	0.1%	1,191,130	4.7%	6.3%	(65,777)	(65,777)	-	-	115,354	\$0.55
Manufacturing	7,939,489	262,278	3.3%	-	0.0%	262,278	3.3%	6.1%	52,977	52,977	-	-	-	\$0.58
Service Center/Showroom	1,357,273	104,836	7.7%	-	0.0%	104,836	7.7%	4.4%	(57,100)	(57,100)	-	-	-	\$1.18
Flex	2,940,966	410,110	13.9%	-	0.0%	410,110	13.9%	18.7%	125,767	125,767	-	-	-	\$1.17
Total	44,676,663	2,805,026	6.3%	21,812	0.0%	2,826,838	6.3%	9.2%	122,755	122,755	-	-	674,066	\$0.68
Northeast Market Cluster: Central Phoenix, Scottsdale Airpark, Scottsdale/Salt River														
General Industrial	434,527	34,521	7.9%	-	0.0%	34,521	7.9%	4.1%	(7,372)	(7,372)	-	-	-	\$1.03
Distribution	620,709	33,835	5.5%	-	0.0%	33,835	5.5%	5.4%	(12,501)	(12,501)	-	-	-	\$1.05
Warehouse	5,339,183	174,252	3.3%	19,085	0.4%	193,337	3.6%	8.1%	22,025	22,025	-	-	-	\$0.86
Manufacturing	3,770,407	56,076	1.5%	3,945	0.1%	60,021	1.6%	2.9%	631	631	-	-	-	\$0.90
Service Center/Showroom	1,939,664	117,136	6.0%	-	0.0%	117,136	6.0%	8.4%	6,283	6,283	-	-	-	\$1.23
Flex	1,921,577	100,662	5.2%	0	0.0%	100,662	5.2%	7.1%	(8,009)	(8,009)	-	-	-	\$1.08
Total	14,026,067	516,482	3.7%	23,030	0.2%	539,512	3.8%	6.0%	1,057	1,057	-	-	-	\$1.02
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														
General Industrial	1,482,254	37,525	2.5%	2,348	0.2%	39,873	2.7%	6.5%	17,238	17,238	-	-	14,190	\$0.92
Distribution	8,762,092	425,978	4.9%	-	0.0%	425,978	4.9%	6.3%	105,288	105,288	273,357	273,357	-	\$0.45
Warehouse	29,992,915	1,989,382	6.6%	9,669	0.0%	1,999,051	6.7%	7.7%	(139,149)	(139,149)	-	-	106,985	\$0.60
Manufacturing	13,312,287	809,624	6.1%	-	0.0%	809,624	6.1%	4.2%	(146,362)	(146,362)	-	-	218,200	\$0.56
Service Center/Showroom	2,403,456	33,065	1.4%	36,016	1.5%	69,081	2.9%	2.8%	1,014	1,014	-	-	-	\$0.75
Flex	1,746,411	74,101	4.2%	-	0.0%	74,101	4.2%	5.7%	17,989	17,989	-	-	-	\$0.76
Total	57,699,415	3,369,675	5.8%	48,033	0.1%	3,417,708	5.9%	6.0%	(143,982)	(143,982)	273,357	273,357	339,375	\$0.59
Southeast Market Cluster: Chandler Airport, Chandler, Chandler N/Gilbert, Falcon Field/Apache Junction, Mesa, Tempe East, Tempe Northwest, Tempe Southwest														
General Industrial	2,547,764	223,112	8.8%	2,500	0.1%	225,612	8.9%	11.4%	2,530	2,530	-	-	511,529	\$0.88
Distribution	8,782,871	660,373	7.5%	55,455	0.6%	715,828	8.2%	9.3%	120,919	120,919	-	-	496,900	\$0.60
Warehouse	38,517,976	3,221,944	8.4%	190,937	0.5%	3,412,881	8.9%	7.1%	8,885	8,885	22,000	22,000	466,392	\$0.62
Manufacturing	27,016,319	993,706	3.7%	108,443	0.4%	1,102,149	4.1%	4.7%	(226,373)	(226,373)	-	-	1,090,516	\$0.76
Service Center/Showroom	3,985,457	384,142	9.6%	5,384	0.1%	389,526	9.8%	10.3%	(28,365)	(28,365)	10,000	10,000	-	\$1.19
Flex	5,108,983	463,494	9.1%	5,958	0.1%	469,452	9.2%	11.0%	54,703	54,703	-	-	-	\$1.29
Total	85,959,370	5,946,771	6.9%	368,677	0.4%	6,315,448	7.3%	7.1%	(67,701)	(67,701)	32,000	32,000	2,565,337	\$0.73
Southwest Market Cluster: Goodyear, SW N of Buckeye Road, SW S Buckeye Road, Tolleson, Southwest Outlying														
General Industrial	3,355,589	10,800	0.3%	0	0.0%	10,800	0.3%	0.3%	3,998	3,998	-	-	82,578	\$0.75
Distribution	47,748,034	3,857,489	8.1%	70,595	0.1%	3,928,084	8.2%	10.3%	707,246	707,246	1,100,000	1,100,000	2,515,341	\$0.39
Warehouse	35,572,822	4,404,883	12.4%	30,797	0.1%	4,435,680	12.5%	5.4%	(132,508)	(132,508)	-	-	150,000	\$0.42
Manufacturing	10,600,855	216,110	2.0%	68,847	0.6%	284,957	2.7%	3.2%	51,621	51,621	-	-	941,268	\$0.39
Service Center/Showroom	2,610,386	69,198	2.7%	-	0.0%	69,198	2.7%	2.0%	6,867	6,867	-	-	-	\$0.72
Flex	497,433	79,578	16.0%	-	0.0%	79,578	16.0%	17.2%	0	0	-	-	-	\$0.65
Total	100,385,119	8,638,058	8.6%	170,239	0.2%	8,808,297	8.8%	7.3%	637,224	637,224	1,100,000	1,100,000	3,689,187	\$0.40
GRAND TOTAL														
General Industrial	8,815,247	347,629	3.9%	4,848	0.1%	352,477	4.0%	7.2%	26,026	26,026	-	-	608,297	\$0.91
Distribution	72,061,314	5,794,488	8.0%	126,050	0.2%	5,920,538	8.2%	10.3%	978,208	978,208	1,373,357	1,373,357	3,570,953	\$0.44
Warehouse	134,719,110	10,959,779	8.1%	272,300	0.2%	11,232,079	8.3%	6.7%	(306,524)	(306,524)	22,000	22,000	838,731	\$0.54
Manufacturing	62,639,357	2,337,794	3.7%	181,235	0.3%	2,519,029	4.0%	4.0%	(267,506)	(267,506)	-	-	2,249,984	\$0.63
Service Center/Showroom	12,296,236	708,377	5.8%	41,400	0.3%	749,777	6.1%	5.9%	(71,301)	(71,301)	10,000	10,000	-	\$1.11
Flex	12,215,370	1,127,945	9.2%	5,958	0.0%	1,133,903	9.3%	12.0%	190,450	190,450	-	-	-	\$1.19
Total	302,746,634	21,276,012	7.0%	631,791	0.2%	21,907,803	7.2%	7.3%	549,353	549,353	1,405,357	1,405,357	7,267,965	\$0.57
QUARTERLY COMPARISON AND TOTALS														
Q1-19 Total	302,746,634	21,471,510	7.0%	631,791	0.2%	21,907,803	7.2%	7.3%	549,353	549,353	1,405,357	1,405,357	7,267,965	\$0.57
Q4-18 Total	304,434,922	21,471,510	7.3%	500,375	0.2%	22,695,769	7.5%		2,346,519		3,516,911		5,406,439	\$0.56
Q3-18 Total	298,182,945	21,471,510	7.2%	499,698	0.2%	21,971,208	7.4%		879,675		1,508,834		5,063,472	\$0.55
Q2-18 Total	296,674,111	20,625,030	7.0%	576,877	2.0%	21,201,907	7.2%		2,535,022		2,121,015		5,960,775	\$0.56
Q1-18 Total	294,553,096	20,935,585	7.1%	682,909	2.0%	21,615,914	7.3%		1,361,364		682,965		6,809,245	\$0.55

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.



## Outlook:

The outlook for the Greater Phoenix industrial market became more bullish after 2018's less than stellar end. Although first quarter saw reduced absorption, vacancy rate continued its march downward to 7.2 percent with tenant demand continuing to remain very healthy. The Greater Phoenix area continues to attract industrial businesses, and the infrastructure investment of the Loop 202 extension to connect the Southeast Valley to the West Valley will make transporting goods into and through the Greater Phoenix area far less time consuming.

On a macro level, in January, as a result of substantial market volatility at the end of 2018, not only did Chairman Powell reverse course on Fed balance sheet reductions, he, as well as other Fed

governors, decided to stop ongoing interest rate increases leaving rates at their current 2.5 percent. In a sign of a more dovish Federal Reserve moving forward, Stephen Moore, President Trump's recent pick to serve on the Fed, called for an immediate 50 bps decrease in interest rates to counter both tariffs and growing financial instability, particularly from slowing growth in China and Europe.

The net result, markets remained robust for most of the first quarter and the drag on real estate prices many were expecting, as a result of rising rates, has not materialized. With a more dovish Fed, and more talk of QE 4 (Quantitative Easing), expect elevated demand for commercial real estate assets to continue.

### FOR MORE INFORMATION

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