



Q4: And So It Goes

Key Takeaways

- › Three valley cities landed in the top ten “Best Cities for Jobs,” according to research by WalletHub, which compares 180 cities across key indicators of job-market strength. Scottsdale, Chandler, and Tempe came in first, sixth, and eighth respectively, while Greater Phoenix ranked fourth for the highest employment growth in 2019. These rankings highlight and signify the economic health of the Valley and prove that the economy is the driving factor for a healthy market.
- › Greater Phoenix continues to remain in the top five metros for job creation in the country, albeit with moderate growth. During the 12-month period ending in November, preliminary estimates show that employers added 56,500 net new jobs, an increase of 2.6 percent, but below the 62,500-average increase over the first half of 2019. According to the BLS (Bureau of Labor Statistics), over the year, nonfarm employment rose in 36 of the 51 metropolitan areas with a 2010 Census population of one million or more, while employment was essentially unchanged in 15 areas.
- › From November 2009 to November 2019, all 51 metropolitan areas with a 2010 Census population of one million or more had nonfarm employment gains, ranging from 5.7 percent in Hartford-West Hartford-East Hartford, Connecticut, to 43.1 percent in Austin-Round Rock, Texas. Over these ten years, the Phoenix Metro ranked tenth for total employment growth, rising 29.7 percent, ahead of Salt Lake City (29.5%), San Antonio (29.4%), Denver (29%), Las Vegas (27.5%), Seattle (26.9%), Atlanta (26.3%) and Houston (26.3%). In the last five years, Phoenix was fourth in overall job growth rising 16.7 percent, ahead of such notable metros as Nashville (16.3%), Las Vegas (16.2%), Dallas (15.2%), San Francisco (14.7%), and Denver (12.4%).
- › Net absorption was 1.64 million in Q4 and over five million for all of 2019. Projects under construction increased to 10.5 million square feet, from Q2’s high of 8.9 million, with rents up

Market Indicators Relative to prior period	Market Q4 2019	Market Q4 2018
Vacancy	↑	↑
Net Absorption	↑	↓
Construction	↑	↑
Rental Rate	↑	↑

Fourth 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	7.1%
Change from Q4 2018 (bps)	-40
Net Absorption (thousands SF)	1,647
New Construction (thousands SF)	1,647
Under Construction (millions SF)	10,503
Asking Rents Per Square Foot Per Month	\$0.59
Change from Q4 2018	5.1%

Key Takeaways (continued)

- 5.1 percent over-the-quarter to \$0.59 per square foot.
- > The development of new industrial space remains quite active, particularly in the Southeast (2.13 million square feet) and Southwest (5.9 million square feet) portions of the Valley. As a result, new construction is putting upward pressure on vacancy, which has witnessed a minor ten to 40 basis point increase over-the-quarter, specifically in warehouse and manufacturing subtypes. Nonetheless, vacancy across all submarket clusters remains well below ten percent, with slight variations by type.
- > In Q4, sales volume decreased 43 percent over-the-quarter, but increased 57 percent over-the-year, ending at 795 million. The median price increased to \$105 per square foot, which was higher than last quarter, to become the second-highest over the last several years, just slightly below Q3 2018's \$107 high. Cap rates continued to remain low at 6.54 percent.

Greater Phoenix Industrial Market

Net absorption witnessed a mild slowdown in Q1. Q2, Q3, and Q4 each increased 1.4, 1.2, and 1.6 million square feet, respectively, but fell below Q4 2017's 3.8 million square feet mark. The vacancy rate in Q4 remains low at 7.1 percent, with manufacturing hitting 3.3 percent, it's second-lowest recording since Q4 2017's 2.7 percent. Industrial vacancy, overall, has been trending in the low- to mid-seven percent range since the end of 2017 and is a significant improvement from double-digit rates as recently as 2015.

Under Construction activity elevated to 10.5 million square feet to meet persistent demand in the market. 2019 delivered 6.4 million square feet of new space, down 20 percent from 2018, which delivered 7.7 million square feet. Since Q1 2018, over 14 million square feet has come online. With construction delivering at an increasing rate, vacancy remains low, illustrating the strong demand in the Phoenix market.

Recent Transactions in the Market

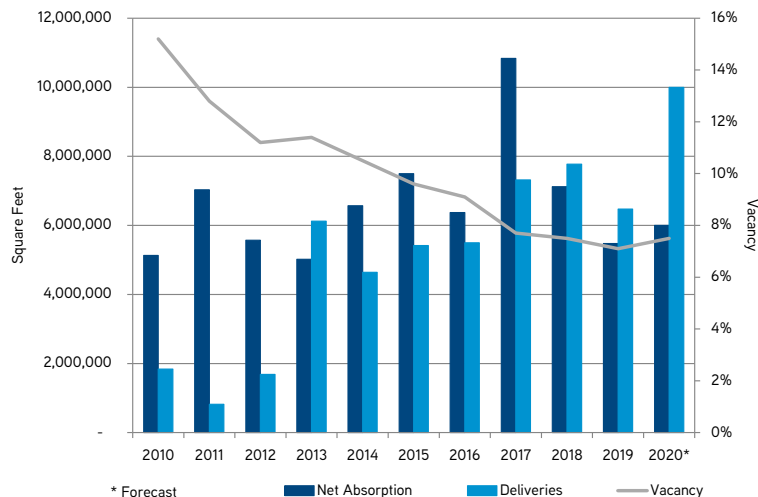
SALE ACTIVITY

Property Address	Submarket	Sale Date	Sale Price	Size SF	Sale Price SF	Class
4750-5050 W Mohave st/Riverside Ind Center II & III	Buckeye Ind	10/4	\$136,040,593	1,207,021	\$113	A
255 S 143rd Ave/ Chewy Distribution	Goodyear Ind	11/26	\$67,002,500	800,000	\$84	A
3333 S 7th St / Airport Logistics Center	Salt River Ind	11/26	\$38,750,000	393,484	\$98	A

LEASE ACTIVITY

Property Address	Submarket	Tenant	Size SF
4747 W Buckeye Rd	SW N of Buckeye Road Ind	Vital Pharmaceuticals	376,760
8175 W Buckeye Rd	Tolleson Ind	Hayward Industries	359,040
7775 W Buckeye Rd	Tolleson Ind	Delta Apparel	214,205

Historical Absorption, Deliveries and Vacancy Rates



Vacancy:

- > The Greater Phoenix industrial vacancy rate slightly increased over-the-quarter by 30 bps, over-the-year, vacancy increased only ten bps to 7.1 percent. Nearly all submarket clusters witnessed decreases in vacancy aside from the Southwest Valley, which rose 160 bps, over-the-year, to 9.0 percent with over 2.5 million square feet coming online. The Northeast and Northwest Valley saw the lowest vacancy readings at 3.5 percent and 5.6 percent, respectively. The Airport area also witnessed a significant decrease in vacancy, dropping 170 bps to 5.7 percent, over-the-year. Southeast Valley, which has seen nearly 2.2 million square feet of deliveries in 2019, saw a minor over-the-year vacancy increase of 80 bps to 7.0 percent.
- > **Forecast:** With a handful of large space projects slated to come online in the following quarters, vacancy is expected to increase near 7.5 percent in 2020.

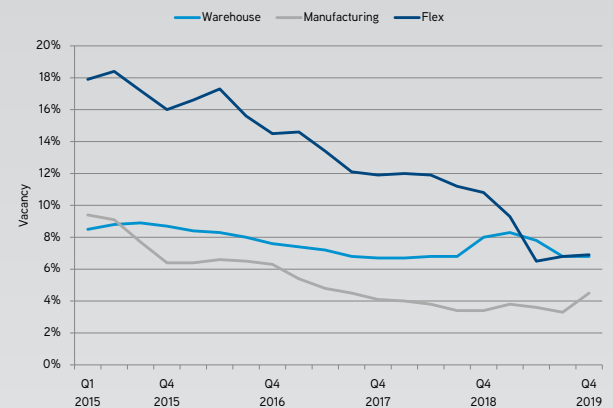
Absorption and Leasing Activity:

- > Net absorption remained above one million square feet during Q4, with total absorption across all industrial types above five million for the year. Valley-area warehouse and distribution space saw the highest net absorption in 2019 at 3.8 million and 735,000, respectively.
- > Lease activity in the Southwest submarket cluster represented 68.7% of leases over 50,000 square feet in Q4. In December, energy drink maker, Vital Pharmaceuticals, signed a 376,760 square feet deal at 4747 W Buckeye Rd. In November, pool equipment manufacture, Hayward Industries signed 359,040 square feet at 8175 W Buckeye Rd. Near the end of the year, clothing distributor Delta Apparel agreed to fill the remaining 214,205 square feet available at 7775 W Buckeye Rd.
- > Phoenix ranks as one of the fastest-growing data center markets in the nation. State tax incentives, along with the low threat of natural disasters, are quickly bringing in large tech companies like Microsoft, Apple, PayPal, and Verizon to the area. Microsoft began construction on two data centers in Goodyear, which will total almost one million square feet.
- > **Forecast:** Vacancies will remain low in 2020, but deliveries will slightly outpace net absorption; even with the healthy demand, vacancy is on target to increase to a high seven percent range.

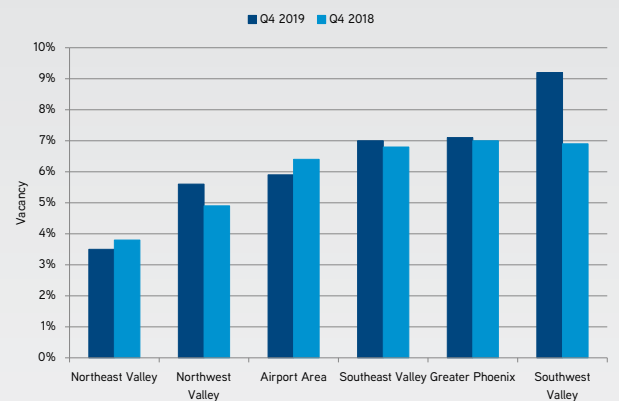
Rental Rates:

- > Asking rents were up nearly 5.1 percent over-the-year and up 3.3 percent over-the-quarter, reaching \$0.59 per square foot. The Airport area submarket cluster witnessed the largest change, increasing 5.5% over-the-quarter to \$0.72.
- > **Forecast:** Rents will continue to increase with tight demand for space and with newer, more expensive product coming to market. Asking rents are forecasted to rise in 2020, projecting an overall average in the low-to-mid \$0.60 per square foot per month.

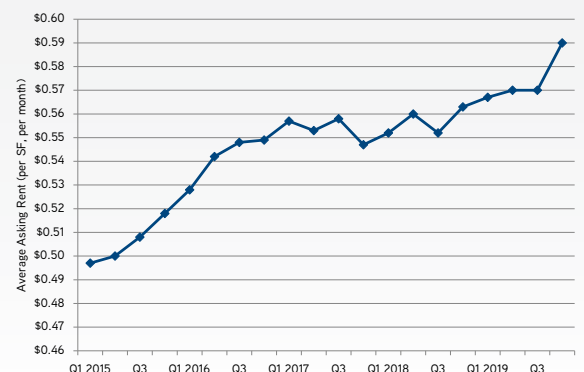
Vacancy by Building Type



Vacancy Among Major Submarkets



Asking Rent Trends



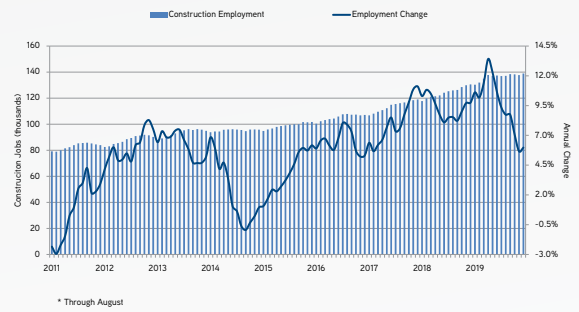
Construction:

- > 10.5 million square feet of industrial space is currently under construction, which set a record for the most inventory under construction since pre-2010. The strong Phoenix talent and economy will continue to fuel new construction projects in the coming quarters. Three new projects, slated to begin construction in early 2020, will drive inventory up another two million square feet. Deliveries for Greater Phoenix totaled over 14 million square feet since Q1 2018 and have averaged a little over 5.6 million square feet per year since 2012.
- > **Forecast:** Q4 had more projects break ground than any quarter in the past five years. As more spec-development comes online over the next several quarters, vacancy is expected to increase to at, or near, 7.5 percent.

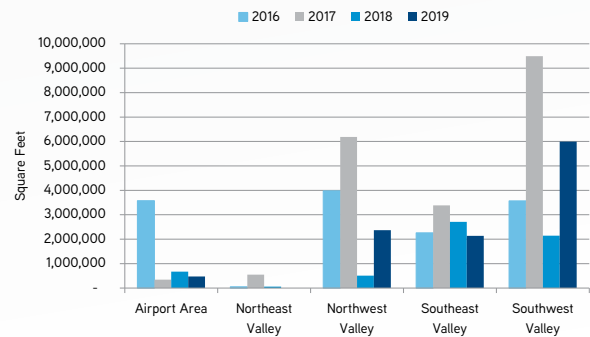
Investment Trends:

- > 2019 sales volume for the year hit another five-year high point reaching \$2.4 billion, up 40.70% from 2018 when sales volume peaked at \$1.4 billion. The number of transactions also outpaced 2018 levels, with a total of 387 transactions completed in 2019.
- > The median price settled at \$105 per square foot, a slight increase over-the-quarter \$104, but still below Q3 2018's \$107 high. Cap rates continue to compress, decreasing 34 bps over-the-year to 6.54 percent, and 36 bps over-the-quarter.

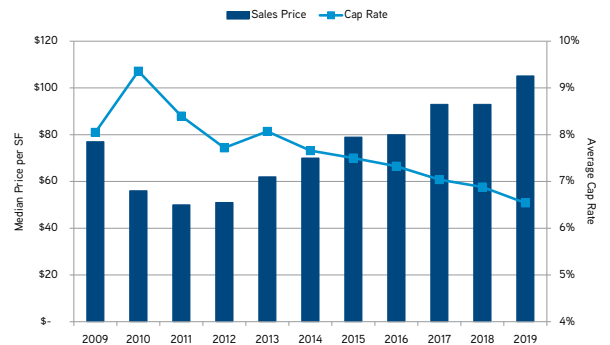
Construction Employment Overview



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 4Q-19	RATE 4Q-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	1,029,739	93,865	9.1%	-	0.0%	93,865	9.1%	6.1%	(31,200)	(30,866)	-	-	-	\$1.13
Distribution	6,804,419	1,074,482	15.8%	-	0.0%	1,074,482	15.8%	14.0%	56,068	354,461	-	554,874	-	\$0.60
Warehouse	25,339,241	928,929	3.7%	43,976	0.2%	972,905	3.8%	4.7%	123,143	329,097	-	115,354	-	\$0.65
Manufacturing	8,482,099	186,879	2.2%	-	0.0%	186,879	2.2%	1.9%	(44,481)	(24,303)	-	-	-	\$0.52
Service Center/Showroom	1,944,837	3,767	0.2%	-	0.0%	3,767	0.2%	2.1%	0	25,798	-	-	-	\$0.72
Flex	2,505,290	327,981	13.1%	3,813	0.2%	331,794	13.2%	17.6%	(14,098)	107,989	-	-	-	\$1.16
Total	46,105,625	2,615,903	5.7%	47,789	0.1%	2,663,692	5.8%	7.5%	89,432	762,176	-	670,228	-	\$0.72
Northeast Market Cluster: Central Phoenix, Scottsdale Airpark, Scottsdale/Salt River														
General Industrial	472,814	23,262	4.9%	-	0.0%	23,262	4.9%	5.7%	8,593	3,887	-	-	-	\$1.00
Distribution	631,655	20,527	3.2%	12,388	2.0%	32,915	5.2%	3.4%	(11,789)	(11,581)	-	-	-	\$0.94
Warehouse	5,374,913	157,962	2.9%	4,393	0.1%	162,355	3.0%	4.0%	30,481	111,391	-	58,984	-	\$0.80
Manufacturing	3,674,906	81,205	2.2%	3,945	0.1%	85,150	2.3%	1.6%	(25,928)	(25,498)	-	-	-	\$0.84
Service Center/Showroom	1,977,708	131,401	6.6%	-	0.0%	131,401	6.6%	5.7%	(6,599)	(17,958)	-	-	-	\$1.28
Flex	1,838,709	48,573	2.6%	0	0.0%	48,573	2.6%	4.8%	(1,474)	40,580	-	-	-	\$1.11
Total	13,970,705	462,930	3.3%	20,726	0.1%	483,656	3.5%	4.7%	(6,716)	100,821	-	-	-	\$1.00
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	1,460,589	59,726	4.1%	-	0.0%	59,726	4.1%	3.9%	2,924	(2,615)	-	-	-	\$0.84
Distribution	9,461,638	911,362	9.6%	-	0.0%	911,362	9.6%	2.8%	7,535	(380,096)	-	273,357	999,821	\$0.45
Warehouse	29,722,251	1,415,796	4.8%	-	0.0%	1,415,796	4.8%	6.4%	453,390	874,143	263,606	421,781	389,262	\$0.68
Manufacturing	13,468,229	638,417	4.7%	-	0.0%	638,417	4.7%	3.6%	(145,503)	57,390	58,200	218,200	980,000	\$0.69
Service Center/Showroom	2,382,863	104,609	4.4%	34,751	1.5%	139,360	5.8%	2.9%	(235)	(69,265)	-	-	-	\$0.68
Flex	1,710,877	76,243	4.5%	2,800	0.2%	79,043	4.6%	5.4%	(4,960)	13,047	-	-	-	\$0.94
Total	58,206,447	3,206,153	5.5%	37,551	0.1%	3,243,704	5.6%	6.7%	313,151	492,604	321,806	913,338	2,369,083	\$0.62
Southeast Market Cluster: Chandler Airport, Chandler, Chandler N/Gilbert, Falcon Field/Apache Junction, Mesa, Tempe East, Tempe Northwest, Tempe Southwest														
General Industrial	2,520,582	237,336	9.4%	1,894	0.1%	239,230	9.5%	8.5%	12,095	2,938	30,963	-	-	\$0.97
Distribution	8,716,666	567,662	6.5%	40,000	0.5%	607,662	7.0%	9.6%	(31,465)	229,085	-	-	823,880	\$0.62
Warehouse	39,963,933	2,966,920	7.4%	133,407	0.3%	3,100,327	7.8%	8.7%	934,672	1,477,271	83,611	1,370,729	1,258,344	\$0.66
Manufacturing	27,718,836	1,492,857	5.4%	233,160	0.8%	1,726,017	6.2%	2.6%	153,803	(155,436)	630,000	866,750	35,764	\$0.74
Service Center/Showroom	3,720,120	143,562	3.9%	12,976	0.3%	156,538	4.2%	4.8%	26,090	240,277	-	10,000	20,000	\$0.94
Flex	5,039,698	332,839	6.6%	3,750	0.1%	336,589	6.7%	10.7%	8,715	204,639	-	-	-	\$1.25
Total	87,679,835	5,741,176	6.5%	425,187	0.5%	6,166,363	7.0%	6.2%	1,103,910	1,998,774	744,574	2,247,479	2,137,988	\$0.71
Southwest Market Cluster: Goodyear, SW N of Buckeye Road, SW S Buckeye Road, Tolleson, Southwest Outlying														
General Industrial	3,204,083	16,674	0.5%	0	0.0%	16,674	0.5%	6.0%	(16,674)	92,681	-	94,557	-	\$0.75
Distribution	50,188,321	4,617,654	9.2%	490,532	1.0%	5,108,186	10.2%	8.4%	264,123	543,861	224,874	1,858,925	2,706,769	\$0.42
Warehouse	35,348,748	3,618,948	10.2%	44,785	0.1%	3,663,733	10.4%	13.0%	(291,723)	1,085,042	103,157	185,735	2,546,141	\$0.48
Manufacturing	11,181,252	343,731	3.1%	123,375	1.1%	467,106	4.2%	3.1%	192,628	310,740	253,348	441,268	743,360	\$0.41
Service Center/Showroom	2,609,108	25,268	1.0%	-	0.0%	25,268	1.0%	2.0%	(147)	27,047	-	-	-	\$0.85
Flex	486,433	0	0.0%	-	0.0%	-	0.0%	12.3%	0	60,000	-	-	-	\$0.65
Total	103,017,945	8,622,275	8.4%	658,692	0.6%	9,280,967	9.0%	7.4%	148,207	2,119,371	581,379	2,580,485	5,996,270	\$0.45
GRAND TOTAL														
General Industrial	8,687,807	430,863	5.0%	1,894	0.0%	432,757	5.0%	5.8%	(24,262)	66,025	30,963	94,557	-	\$0.90
Distribution	75,802,699	7,191,687	9.5%	542,920	0.7%	7,734,607	10.2%	11.3%	284,472	735,730	224,874	2,687,156	4,530,470	\$0.46
Warehouse	135,749,086	9,088,555	6.7%	226,561	0.2%	9,315,116	6.9%	5.9%	1,249,963	3,876,944	450,374	2,152,583	4,193,747	\$0.56
Manufacturing	64,525,322	2,743,089	4.3%	360,480	0.6%	3,103,569	4.8%	3.0%	130,519	162,893	941,548	1,526,218	1,759,124	\$0.63
Service Center/Showroom	12,634,636	408,607	3.2%	47,727	0.4%	456,334	3.6%	4.1%	19,109	205,899	-	10,000	20,000	\$0.93
Flex	11,581,007	785,636	6.8%	10,363	0.1%	795,999	6.9%	12.0%	(11,817)	426,255	-	-	-	\$1.16
Total	308,980,557	20,648,437	6.7%	1,189,945	0.4%	21,838,382	7.1%	7.0%	1,647,984	5,473,746	1,647,759	6,470,514	10,503,341	\$0.59
QUARTERLY COMPARISON AND TOTALS														
Q4-19 Total	308,980,557	20,648,437	6.7%	1,189,945	0.4%	21,838,382	7.1%	7.0%	1,647,984	5,473,746	1,647,759	6,470,514	10,503,341	\$0.59
Q3-19 Total	304,799,781	13,205,917	6.3%	1,602,949	0.5%	20,808,866	6.8%	7.4%	1,232,241	3,017,848	2,266,710	4,853,511	7,933,776	\$0.57
Q2-19 Total	303,827,409	19,535,449	6.4%	1,260,284	0.4%	20,795,733	6.8%		1,420,288		1,654,960		8,954,510	\$0.57
Q1-19 Total	302,746,634	21,276,012	7.0%	631,791	0.2%	21,907,803	7.2%		549,353		1,405,357		7,267,965	\$0.57
Q4-18 Total	301,699,856	22,195,394	7.4%	500,375	0.2%	22,695,769	7.5%		2,346,519		3,516,911		5,406,439	\$0.56

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.

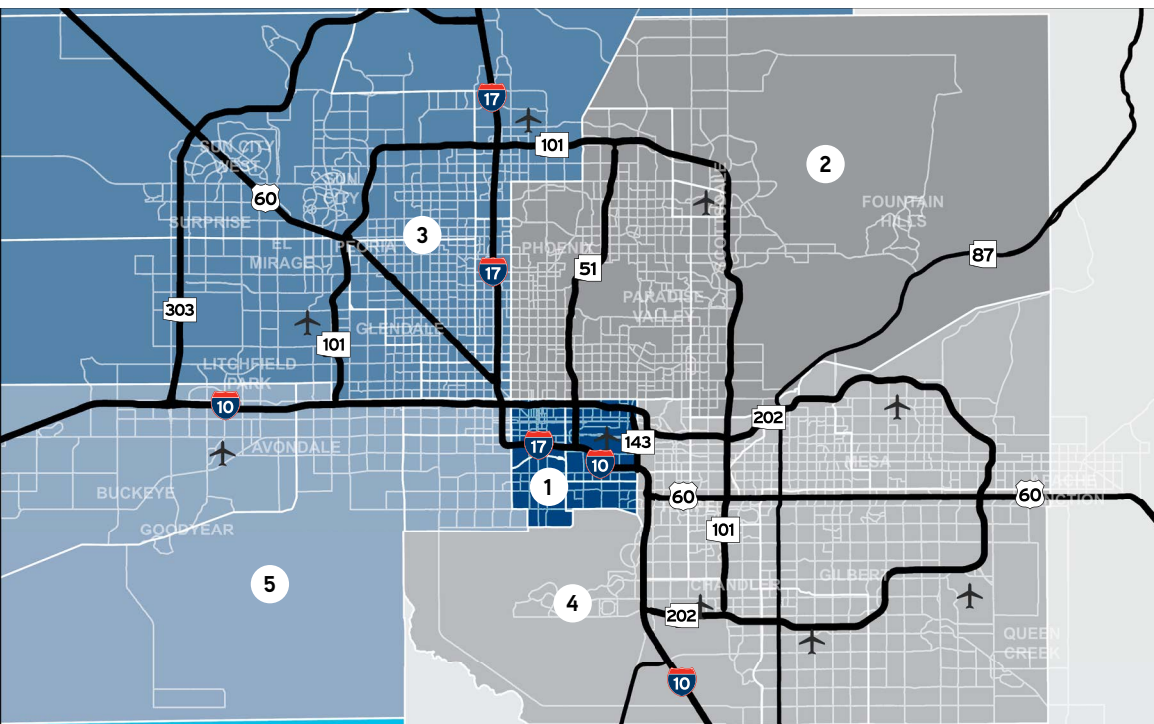
Outlook:

The outlook for the Greater Phoenix industrial market continues to remain bullish in both the near-to-medium terms. Absorption climbed higher, and the vacancy rate at 7.1 percent remains well below ten percent, first achieved in Q4 2015. Tenant demand continues to remain robust and indicates continued healthy absorption rates and rent growth. The Greater Phoenix area continues to attract industrial businesses. The infrastructure investment of the Loop 202 extension that connects the Southeast Valley to the West Valley will make the transportation of goods into and throughout the Greater Phoenix area more efficient.

Since January 2019, the Federal Reserve and, for that matter, central banks across the developed world turned decidedly more dovish. From reducing interest rates to the resumption of QE (Quantitative Easing), central banks have, once again, fully reinserted themselves back into

market operations. When combined with the on-going trade war (nearing a resolution), rising global tensions and mixed-signal indicators all point to a weakening economic outlook, but as of now, no recession. With continued market uncertainty, all roads point to sub-two percent interest rates at the Federal Reserve level and deeper negative abroad, particularly in Europe.

The net result, real estate markets remained robust for 2019, and the drag on real estate prices many were expecting, as a result of rising rates which has since reversed, never materialized. With a more dovish Fed, deepening negative rates in Europe, demand for commercial real estate assets should continue to increase, especially as yields plummet and as investor need for cash flow vehicles, due in large part to changing demographics, continues to rise.



1. Airport Market
2. Northeast Market
3. Northwest Market
4. Southeast Market
5. Southwest Market

FOR MORE INFORMATION

Bob Mulhern
Senior Managing Director | Arizona
+1 602 222 5038
Bob.Mulhern@colliers.com

Jim Keeley SIOR
Founding Partner | Scottsdale Office
+1 480 655 3300
Jim.Keeley@colliers.com

Phillip Hernandez
Research Manager | Arizona
+1 602 222 5066
Phillip.Hernandez@colliers.com