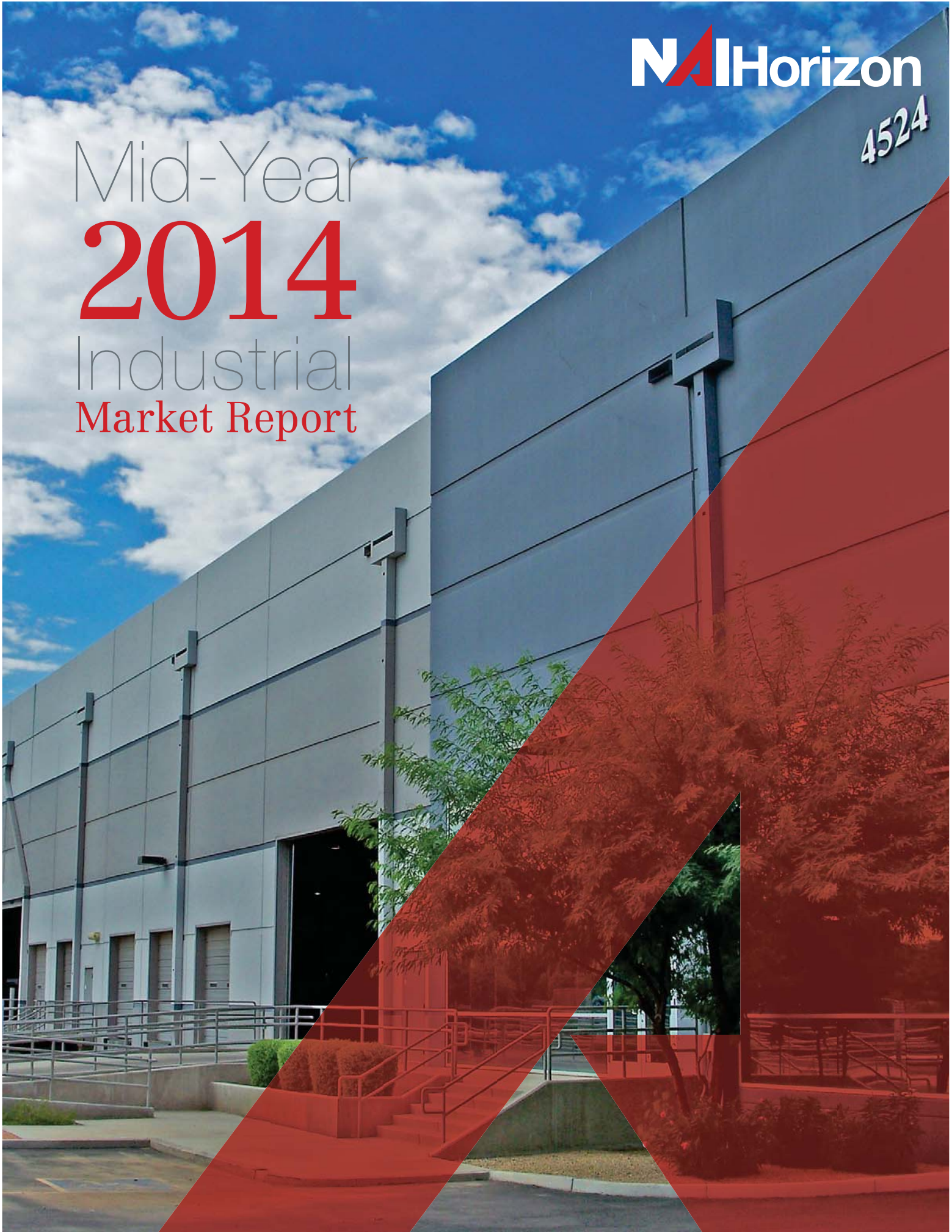


Mid-Year
2014
Industrial
Market Report



PHOENIX, ARIZONA The Market

“The Phoenix commercial real estate market is continuing to recover quarter over quarter albeit slowly but surely.

This increase in activity is touching every product sector; Office, Retail, Industrial and Investment. While vacancy rates continue to decline, some pricing has increased, and absorption has been positive, with submarkets in the valley in all products showing increased activity. The Phoenix market seems to be more confident than the actual economy might dictate, but Phoenix is drawing positive attention nationally in many areas and consumer confidence is following.

Most agree that 2014 is a good foundation for 2015, which will be the year when RECOVERY will be spelled with capital letters.”

-Thad Seligman
President/CEO
NAI Horizon

Pictured on cover:
FOR LEASE
4524 N 44th Ave
Phoenix, AZ 85031
Contact Isy Sonabend

While the industrial recovery in the Phoenix area has been slow, **market indicators show signs of steady improvement.**



Contributing Author:

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Vice President

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While the industrial recovery in the Phoenix area has been slow, market indicators show signs of steady improvement. Average NNN rental rates for the Phoenix Metro Industrial Market have remained consistent, hovering around \$0.52 per square foot for the last year. However, in the Southwest Valley, which constitutes almost one third of the entire Valley's industrial space, average NNN rental rates are much lower at \$0.36 per square foot. Leases remain steady compared to the first quarter of 2014, but is on pace to fall short of 2013, when 16.7 million square feet were leased.

Vacancy rates continue to fall after the spike seen last year; the second quarter of 2014 reported a 12.6% vacancy, down from the high of 13.3% in the third quarter of 2013. Last year, with the addition of large amounts of big box speculative space in the west valley, vacancy rates rose significantly and net absorption suffered. However, this quarter, net absorption posted an impressive 3,644,634 square feet, marking the fifth straight quarter of positive net absorption and the highest since 2005.

Sales volume increased in the second quarter of the year, totaling \$254 million, up from \$176 million from the first quarter. While still below the averages seen in the industrial sector peak of 2005-2007, it continues to make a steady increase back to a “new normal”. With the housing industry struggling to return as quickly as many predicted, the affects continue to linger throughout commercial real estate, particularly in the industrial sector that is directly hit by the slowing of housing production. Agents in the market are optimistic that as housing continues its slow recovery in the second half of this year, coupled with employment gains, that the industrial sector will take a well-deserved break from the roller coaster ride of the last few years and begin to create a solid foundation for the future.

Q2 Industrial Market Trends



Vacancy
Rate



Net
Absorption



Average
Asking Rates

Phoenix 2Q14 Industrial Snapshot

2Q14
Industrial

Market Overview

	Total RBA	Vacant SF	Vacant %	Net Absorption	RBA Delivered	RBA Under Construction	Average Rental Rate
Distribution	59,065,252 SF	8,747,043 SF	14.8%	752,500 SF	697,049 SF	1,393,589 SF	\$0.38
Warehouse	136,371,510 SF	13,290,394 SF	9.7%	1,315,625 SF	1,048,641 SF	205,190 SF	\$0.47
Manufacturing	57,891,289 SF	7,565,542 SF	13.1%	1,305,789 SF	109,540 SF	15,428 SF	\$0.46
Flex	33,558,833 SF	6,512,360 SF	19.4%	321,349 SF	-	153,768 SF	\$0.95
Q2 TOTAL	286,886,884 SF	36,115,339 SF	12.6%	3,695,263 SF	1,855,230 SF	1,767,975 SF	\$0.52
Q1 2014	285,031,654 SF	37,955,372 SF	13.3%	642,149 SF	2,790,757 SF	1,975,848 SF	\$0.53
Q4 2013	282,262,097 SF	35,827,964 SF	12.7%	2,583,282 SF	1,265,477 SF	4,584,754 SF	\$0.52

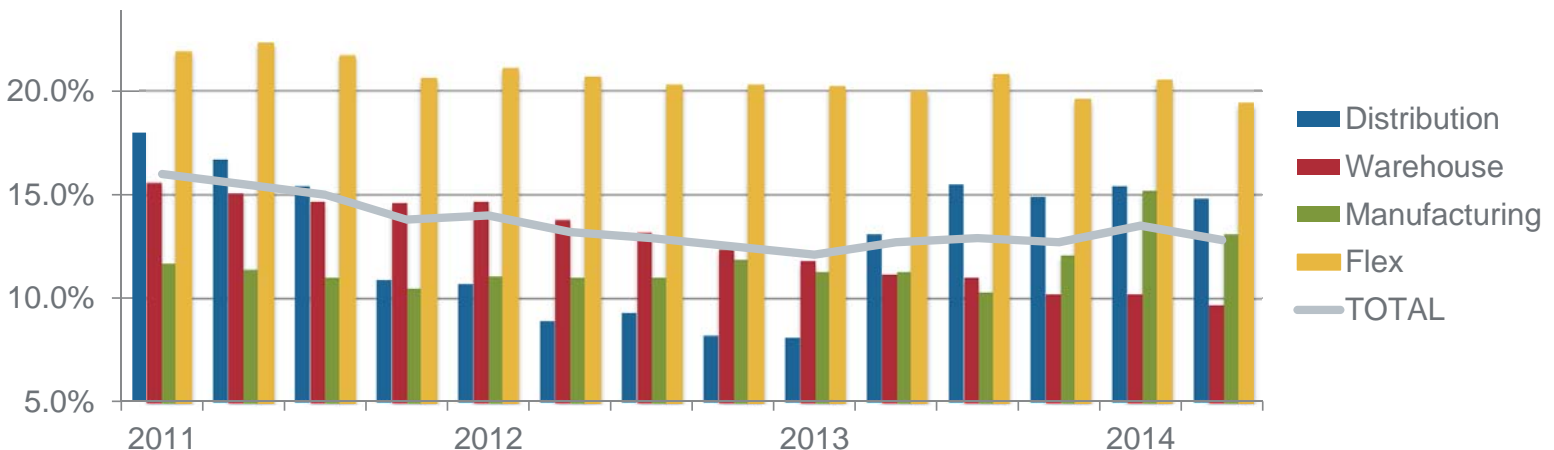
Significant Lease Transactions

Property	Address	Tenant	Size	Class	Type
Rio West Business Park	1821 W Rio Salado Pkwy, Phoenix	US Airways	99,607 SF	B	Renewal
Durango Commerce Center	2225 S 75th Ave, Ste 150, Phoenix	Benson Industries	93,489 SF	A	Move In
Buckeye Industrial Center	3401 W Papago St, Phoenix	HBI International	88,488 SF	C	Move-In

Significant Sale Transactions

Property	Address	Buyer	Sale Date	Size	Class	Price
Logistics 75	1755 S 75th Ave, Phoenix	LBA RV	06/13/2014	682,291 SF	A	\$28M
1666 N McClintock Dr	1666 N McClintock Dr, Tempe	ARCP FE Tempe	06/26/2014	146,142 SF	B	\$16M
Reywest Commerce Center	109 N 37th Ave, Phoenix	Ashley Furniture	05/23/2014	208,835 SF	B	\$13.8M

Industrial Vacancy Rates



The Office Market is a compilation that includes Class A, Class B, and Class C buildings with at least 10,000 SF of space. Medical office buildings are included. Some information contained herein has been obtained from third party sources deemed reliable but has not been independently verified by NAI Horizon. NAI Horizon makes no warranties or representations as to the completeness or accuracy thereof. NAI Horizon makes no guarantee about projections, opinions, assumptions or estimates. Occasionally corrected or updated information becomes available for both current and historical data thereby invalidating specific comparison to previously issued reports.

Market Numbers

Mid-Year
2014

Vacancy

- Decreased to 12.6% from 13.3% in Q1 2014
- Distribution properties reported a vacancy rate of 14.6%
- Warehouse properties reported the lowest vacancy rate in the Valley at 9.7%
- Flex properties reported the highest vacancy rate in the Valley at 19.4%

Rental Rates (NNN)

- Rates remained steady in the second quarter of 2014 at \$0.52 for the Phoenix Metro Industrial Market
- The Southwest Valley had the lowest average rental rates at \$0.36
- The Northeast Valley held the highest average rental rate at \$0.85

New Construction

- Ending Q2 2014, there were 1,767,975 SF of new industrial buildings under construction.
- Over 1.8 million SF was delivered in Q2 2014

Net Absorption

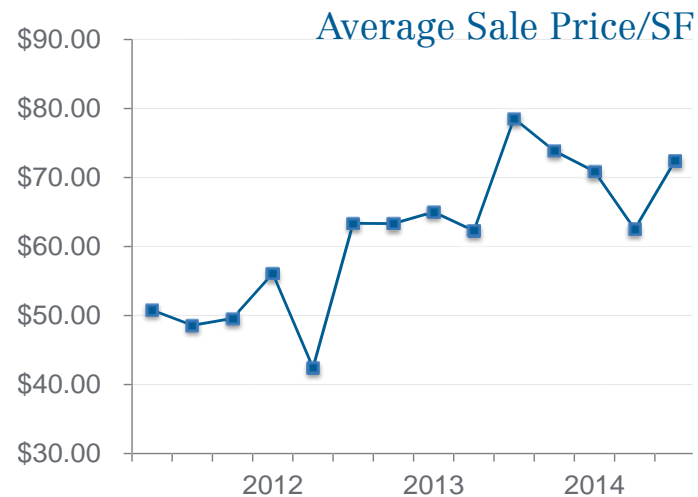
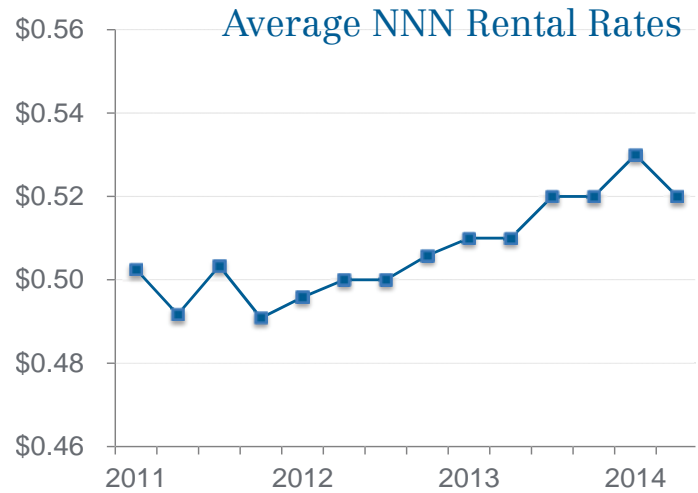
- In Q2 2014, 3,695,263 SF were absorbed in the Phoenix Metro Industrial Market

Economic Trends

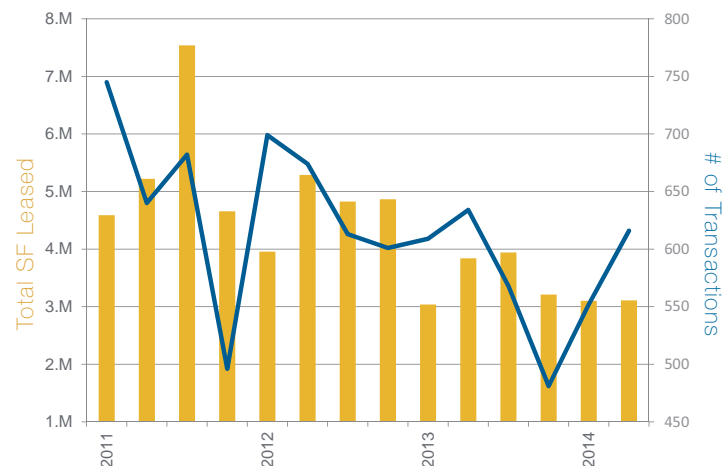
↑ Consumer Price Index
Up 2.1% over last 12 months

↓ 30-Year Fixed Mortgage
4.00% National Average, down from 4.23% 1Q14

↓ Phoenix Metro Unemployment
Arizona, 05/14- 6.8% down from 7.3% 1Q14



Leasing Activity





5120 & 5142 W Glendale Ave

Glendale, AZ 85301

Property Type: Leased Automotive Facility
Size: 25,681 SF on 3.26 Acres of Land
Sold: February 2014



4110 W Washington Suite 200

Phoenix, AZ 85009

Landlord Rep
Size: ±40,000 SF
Leased: May 2014



2225 S 75th Ave Suite 150

Phoenix, AZ 85043

Tenant Rep
Size: 93,489 SF
Leased: April 2014



2525 W Broadway Rd

Phoenix, AZ 85041

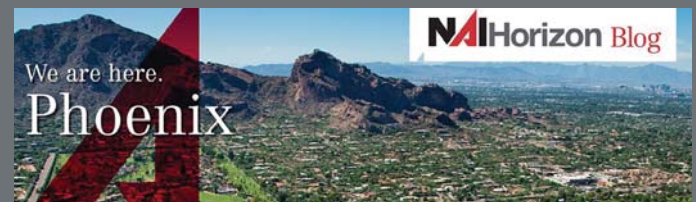
Sale Price: **\$950,000**
Size: 28,000 SF on 2.27 Acres
Sold: January 2014



12 E Hidalgo

Phoenix, AZ 85040

Sale Price: **\$454,000**
Size: ±4.47 acres
Sold: March 2014



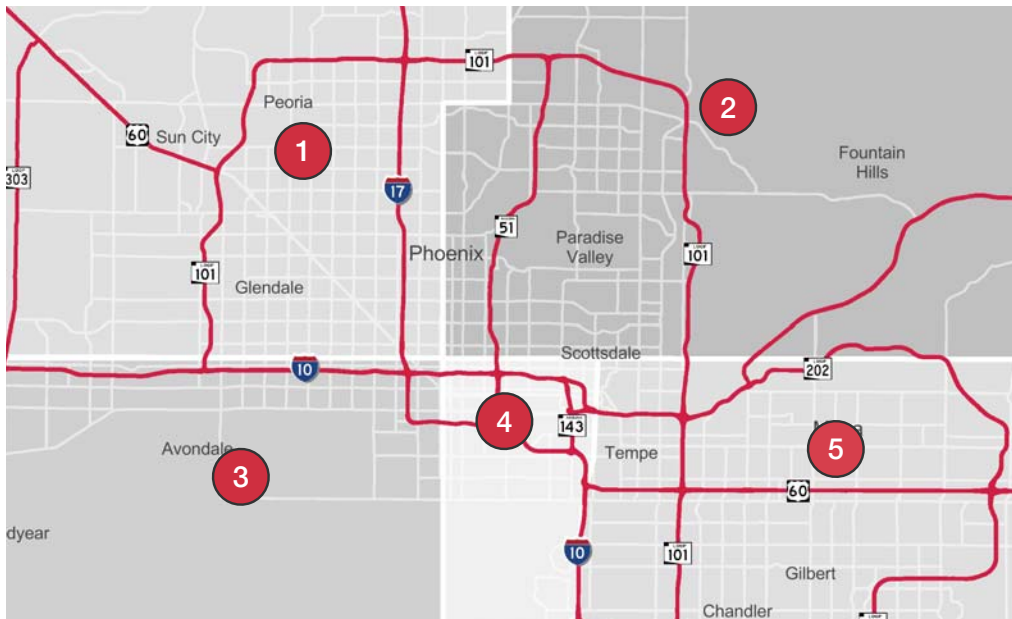
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PHOENIX SUBMARKETS

Q2 2014

Submarket Clusters	Total RBA	Direct Vacant SF	Sublet Vacant SF	Total Vacant SF	Direct Vacant %	Sublet Vacant %	Total Vacant %	Total Net Absorption	RBA Delivered	RBA Under Const.	Average Rental Rate
Sky Harbor											
Distribution	4,621,240	398,056	-	398,056	8.6%	0.0%	8.6%	-	-	603,656	\$0.39
Warehouse	27,506,350	2,482,539	75,499	2,558,038	9.0%	0.3%	9.3%	77,849	-	-	\$0.45
Manufacturing	8,857,554	1,214,844	-	1,214,844	13.7%	0.0%	13.7%	35,708	-	-	\$0.49
Flex	5,251,317	888,956	44,280	933,236	16.9%	0.8%	17.8%	13,774	-	-	\$1.06
Total	46,236,449	4,984,395	119,779	5,104,174	10.8%	0.3%	11.0%	173,364	-	603,656	\$0.59
Northeast Valley											
Distribution	818,430	151,232	-	151,232	18.5%	0.0%	18.5%	7,509	-	-	\$0.94
Warehouse	6,383,702	523,319	28,997	552,316	8.2%	0.5%	8.7%	59,774	-	-	\$0.72
Manufacturing	3,048,945	47,549	-	47,549	1.6%	0.0%	1.6%	5,689	-	-	\$0.84
Flex	5,254,134	875,667	9,951	885,618	16.7%	0.2%	16.9%	(374)	-	-	\$0.89
Total	15,505,211	1,597,767	38,948	1,636,715	10.3%	0.3%	10.6%	72,598	-	-	\$0.85
Northwest Valley											
Distribution	5,447,454	561,730	-	561,730	10.3%	0.0%	10.3%	53,330	-	600,000	\$0.39
Warehouse	31,023,136	2,532,545	29,478	2,562,023	8.2%	0.1%	8.3%	73,291	234,718	105,190	\$0.57
Manufacturing	11,155,602	642,249	10,608	652,857	5.8%	0.1%	5.9%	(126,479)	-	15,428	\$0.50
Flex	6,767,465	1,382,278	0	1,382,278	20.4%	0.0%	20.4%	73,821	-	-	\$0.97
Total	54,393,657	5,118,802	40,086	5,158,888	9.4%	0.1%	9.5%	73,963	234,718	720,618	\$0.67
Southeast Valley											
Distribution	8,609,348	809,497	11,757	821,254	9.4%	0.1%	9.5%	108,523	-	189,933	\$0.52
Warehouse	38,845,254	4,149,939	57,025	4,206,964	10.7%	0.1%	10.8%	134,447	13,923	100,000	\$0.53
Manufacturing	24,498,924	3,467,089	385,750	3,852,839	14.2%	1.6%	15.7%	1,319,456	109,540	-	\$0.60
Flex	15,044,440	2,806,250	208,094	3,014,344	18.7%	1.4%	20.0%	197,906	-	153,768	\$0.97
Total	86,997,966	11,232,775	662,626	11,895,401	12.9%	0.8%	13.7%	1,760,332	123,463	443,701	\$0.66
Southwest Valley											
Distribution	39,568,780	6,589,735	243,640	6,833,375	16.7%	0.6%	17.3%	537,105	697,049	-	\$0.35
Warehouse	32,683,861	3,271,191	224,455	3,495,646	10.0%	0.7%	10.7%	914,776	800,000	-	\$0.37
Manufacturing	10,321,119	1,311,255	481,339	1,792,594	12.7%	4.7%	17.4%	76,274	-	-	\$0.30
Flex	1,234,516	296,884	-	296,884	24.0%	0.0%	24.0%	36,222	-	-	\$0.73
Total	83,808,276	11,469,065	949,434	12,418,499	13.7%	1.1%	14.8%	1,564,377	1,497,049	-	\$0.36
Total Submarket Clusters											
Distribution	59,065,252	8,510,250	255,397	8,765,647	14.4%	0.4%	14.8%	752,500	697,049	1,393,589	\$0.38
Warehouse	136,442,303	12,959,533	415,454	13,374,987	9.5%	0.3%	9.8%	1,260,137	1,048,641	205,190	\$0.47
Manufacturing	57,882,132	6,682,986	877,697	7,560,683	11.5%	1.5%	13.1%	1,310,648	109,540	15,428	\$0.46
Flex	33,551,872	6,250,035	262,325	6,512,360	18.6%	0.8%	19.4%	321,349	-	153,768	\$0.95
Overall Total 2Q14	286,941,559	34,402,804	1,810,873	36,213,677	12.0%	0.6%	12.6%	3,644,634	1,855,230	1,767,975	\$0.52
Overall Total 1Q14	284,962,957	36,125,776	1,883,601	38,009,377	12.7%	0.7%	13.3%	614,827	2,790,757	2,047,848	\$0.53
Overall Total 4Q13	282,193,400	33,976,002	1,878,645	35,854,647	12.0%	0.7%	12.7%	2,593,315	1,265,477	4,591,204	\$0.52
Overall Total 3Q13	280,923,123	35,384,297	1,793,388	37,177,685	12.6%	0.6%	13.2%	313,489	2,228,725	5,572,006	\$0.52
Overall Total 2Q12	279,223,188	34,055,577	1,735,662	35,791,239	12.2%	0.6%	12.8%	(928,220)	2,027,304	7,094,759	\$0.51



INDUSTRIAL SUBMARKETS

- 1 Northwest Valley**
 Deer Vly/Pinnacle Pk, Glendale, Grand Avenue, N Glendale/Sun City, North Black Canyon, W Phx N of Thomas Rd, W Phx S of Thomas Rd
- 2 Northeast Valley**
 Central Phoenix, Scottsdale Airpark, Scottsdale/Salt River
- 3 Southwest Valley**
 Goodyear, SW N of Buckeye Rd, SW S of Buckeye Rd, Tolleson
- 4 Sky Harbor**
 North Airport, S Airport N of Roeser, S Airport S of Roeser, SC N of Salt River, SC S of Salt River
- 5 Southeast Valley**
 Chandler Airport, Chandler, Chandler N/ Gilbert, Falcon Field/Apache Junction, Mesa, Tempe E, Tempe NW, Tempe SW

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NAI Horizon knows commercial real estate. With over 25 years in the Valley, NAI Horizon's extensive market insight allows us to match client needs with the right solutions. NAI Global member firms span the U.S. and 54 other countries, with more than 375 offices and more than 6,700 local market experts on the ground. Supported by the central resources of the NAI Global organization, member firms deliver market-leading services locally, and combine their in-market strengths to form a powerful bond of insights and execution for clients with multi-market challenges.

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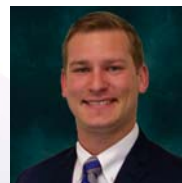
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Mid-Year 2014 Industrial Market Report

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