

Mid-Year  
**2015**  
Industrial  
Market Report

In the last 10 quarters, over 15 million SF has been delivered to the market, compared to just 4 million SF delivered the previous 10 quarters.

Across the U.S., industrial markets continue to see positive improvements as they continue to return to pre-recession norms. Dr. Peter Linneman, NAI Global chief economist, studied 30 of the top industrial markets for insight on the status of recovery. Of these 30 markets, 22 saw decreases in vacancy in the first quarter of 2015, and estimates show that 11 of these markets will be in “balance”, using a 6% benchmark vacancy rate to proxy supply-demand balance for industrial markets, by the end of 2015. While Phoenix remains one of these 30 markets with the highest vacancy rates, this is mainly due to our relatively small inventory compared to metro size, where a single tenant move or new construction can move the needle significantly.

Historically, increases in employment have a significant effect on the industrial markets in the U.S. The Linneman Associates estimates that for every 100 bps of growth in U.S. employment, the industrial vacancy rate declines by 72 bps. Assuming that 11.2 million new jobs (8%) are created from the first quarter of 2015 through 2018, Linneman Associates estimates that the industrial vacancy rate will decline by 570 bps over the next four years or about 150 bps per year. Locally, Metro Phoenix has seen dramatic improvements in unemployment since the highs seen in 2010; as of May the unemployment rate has dropped to 4.6%, down from 5.8% in January of this year, and has continued to fall since the dramatic highs seen in 2010.

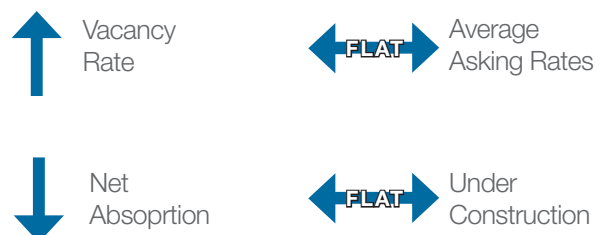
According to Real Capital Analytics, the national average value per square foot for industrial properties was \$79 in the early second quarter of 2015, above the historical mean of \$70 per square foot. For comparison, 2001 recorded the historical high of \$86, while 2010 marked

the historical low of \$50. The Phoenix market mimics this national trend, with current average sale price per SF hovering around \$82, and has been increasing each year since the lows in 2010 and 2011 when the average sale price per SF was just over \$50.

In March 2015, real U.S. industrial construction spending stood at \$85.0 billion, above both the historical (1993-2003) low of \$38.1 billion and the long-term average of \$61.4 billion. Construction today is just barely below the historical high of \$87.7 billion (2009), with rapidly expanding real industrial construction spending underway. Most of this activity is driven by the internet retail industry and the supporting shipping and distribution needed to meet this ever growing sector. This has been the main driving force of new industrial construction in Phoenix as well; as the Valley becomes a viable choice for big retailers to open distribution centers, construction is catering to their needs with excess clear heights and accommodating square footage to entice those looking to make the move. In the last 10 quarters, since the beginning of 2013, over 15 million SF has been delivered to the market, compared to just 4 million SF delivered the previous 10 quarters. As Phoenix continues to meet the demand for the changing shift in online retail, the industrial sector will continue to thrive.

Sources: Bureau of Labor Statistics, CoStar, Linneman Associates

## Q2 Industrial Market Trends



# Phoenix 2Q15 Industrial Snapshot

2Q15  
Industrial

## Market Overview

	Total RBA	Vacant SF	Vacant %	Net Absorption	RBA Delivered	RBA Under Construction	Average Rental Rate
Distribution	62,451,795 SF	9,083,275 SF	14.7%	833,729 SF	462,075 SF	631,663 SF	\$0.40
Warehouse	136,906,918 SF	12,105,078 SF	9.1%	-418,864 SF	388,095 SF	944,630 SF	\$0.50
Manufacturing	59,107,689 SF	7,265,770 SF	13.5%	-172,913 SF	-	54,200 SF	\$0.43
Flex	33,408,945 SF	65,815,727 SF	19.1%	153,451 SF	237,000 SF	83,200 SF	\$0.99
<b>Q2 TOTAL</b>	<b>291,875,347 SF</b>	<b>34,269,850 SF</b>	<b>12.2%</b>	<b>395,403 SF</b>	<b>1,087,170 SF</b>	<b>1,713,693 SF</b>	<b>\$0.53</b>
Q1 2015	290,981,177 SF	33,804,055 SF	12.1%	1,166,424 SF	1,762,370 SF	1,713,693 SF	\$0.53
Q4 2014	2879,260,610 SF	33,056,128 SF	12.0%	602,201 SF	1,119,221 SF	2,455,543 SF	\$0.53

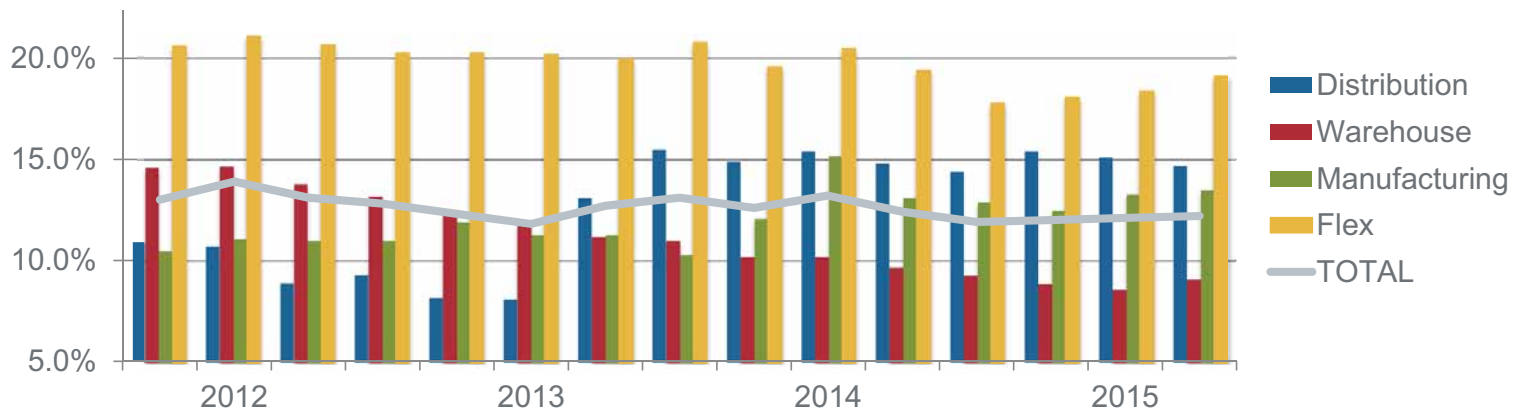
## Significant Lease Transactions

Address	City	Tenant	Size	Class	Type
W Buckeye Rd & 94th Ave	Tolleson, 85353	Mattress Firm	170,000 SF	A	Move-In
1616 W 17th St	Tempe, 85281	Home Depot	111,349 SF	B	Move-In
2021 E Jones Ave	Phoenix, 85040	Michael Lewis Company	94,885 SF	B	Move-In

## Significant Sale Transactions

Property	Address	Buyer	Sale Date	Size	Class	Price
Canal Crossing Logistics Center	5670 S 32nd St	Bixby Land Company	4/24/2015	155,114 SF	A	\$14.7M
Phoenix Star Commerce Park	2140 S 7th Ave Phase I Bldg B	TA Realty	5/1/2015	67,600 SF	C	\$6.8M
8700 E Thomas Rd	Scottsdale	Wentworth Property Company	5/20/2015	128,795 SF	B	\$6.7M

## 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  
2015

## Vacancy

- Decreased to 12.1% from 12.4% in Q2 2014
- Warehouse properties continued to report the lowest vacancy rate in the Valley at 9.1%
- Flex properties reported the highest vacancy rate in the Valley at 19.1%

## Rental Rates (NNN)

- Rates remained steady in the first half of 2015 at \$0.53 for the Phoenix Metro Industrial Market
- The Southwest Valley had the lowest average rental rates at \$0.36
- The Northeast Valley held the highset average rental rate at \$0.91

## New Construction

- Ending Q2 2015, there were 1,716,693 SF of new industrial buildings under construction.
- Over 1 million SF was delivered in Q2 2015

## Net Absorption

- In Q2 2015, 395,403 SF were absorbed in the Phoenix Metro Industrial Market

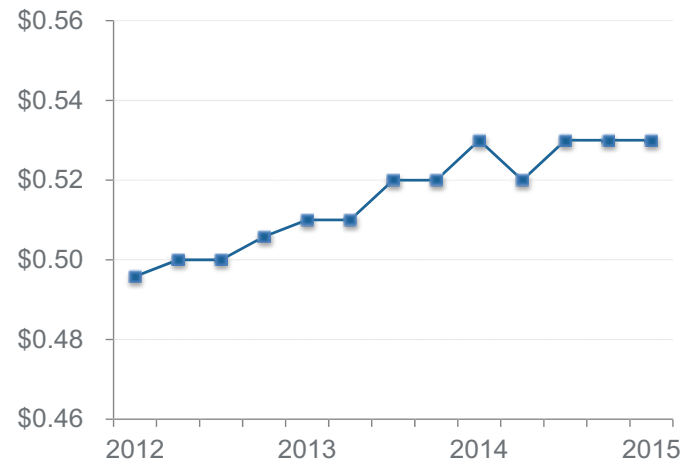
## Economic Trends

**↑** Consumer Price Index  
Up .5% in May, no change since 05/14

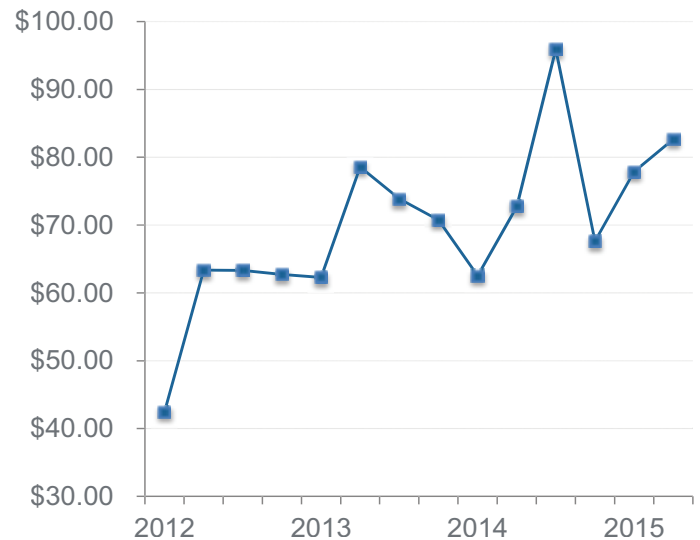
**↑** 30-Year Fixed Mortgage  
4.2% National Average, down from 3.98% 01/15

**↓** Phoenix Metro Unemployment  
MSA, 05/15- 4.6% down from 5.8% 01/15

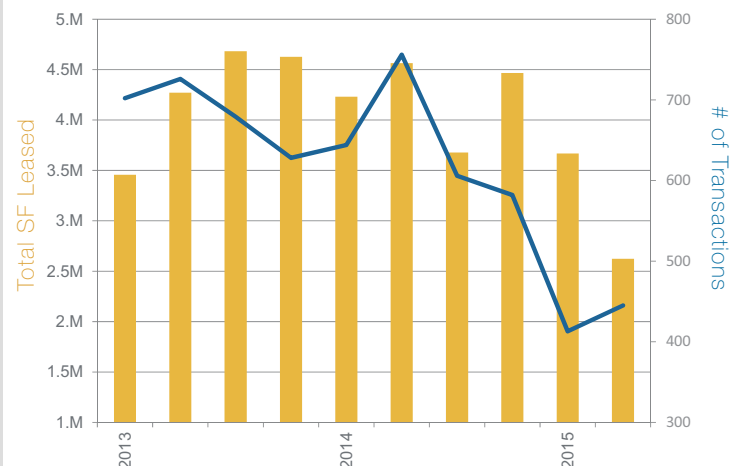
Average NNN Rental Rates



Average Sale Price/SF



Leasing Activity





## 2501 N Arizona Ave

Phoenix, AZ 85260

Sale Price: **\$2,525,000**

May 2015

Size: 20,000 SF

Buyer Rep: Primavera Technical Learning Center



## 15982 N 78th St

Scottsdale, AZ 85260

Sale Price: **\$1,450,000**

May 2015

Size: 11,700 SF

Buyer Rep: Creative Designs In Lighting, Inc



## 5238 S 31st Place

Phoenix, AZ 85040

Sale Price: **\$1,336,798**

Size: 21,098 SF

Sold: April 2015



## 74 N 45th Ave

Phoenix, AZ 85043

Size: 31,145 SF

Leased: February 2015



## 201 S McKemy

Chandler, AZ 85226

Sale Price: **\$1,249,000**

Size: 16,969 SF

Sold: April 2015



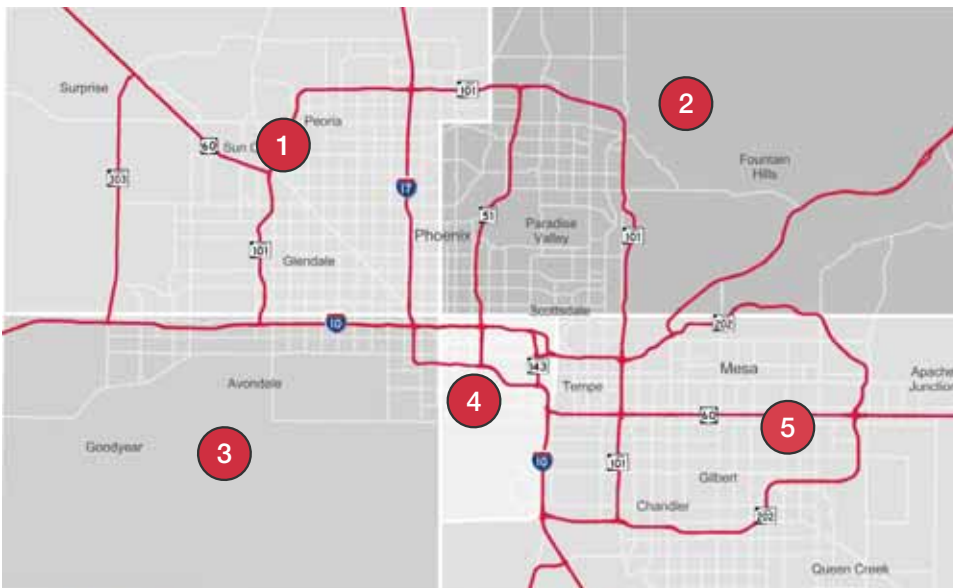
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# Phoenix Submarkets

# Q2 2015

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
<b>Sky Harbor</b>											
Distribution	5,727,544	792,784	-	792,784	13.8%	0.0%	13.8%	307,091	217,994	496,840	\$0.58
Warehouse	27,642,758	2,256,765	143,247	2,400,012	8.2%	0.5%	8.7%	(223,480)	31,488	14,250	\$0.51
Manufacturing	9,017,712	1,132,379	20,432	1,152,811	12.6%	20.0%	12.8%	(29,812)	-	-	\$0.48
Flex	5,173,601	889,748	50,267	940,015	17.2%	1.0%	18.2%	(50,833)	-	-	\$1.05
<b>Total</b>	<b>47,561,615</b>	<b>5,091,676</b>	<b>213,946</b>	<b>5,305,622</b>	<b>10.7%</b>	<b>0.4%</b>	<b>11.2%</b>	<b>2,966</b>	<b>249,482</b>	<b>511,090</b>	<b>\$0.65</b>
<b>Northeast Valley</b>											
Distribution	774,976	130,788	41,789	172,577	16.9%	5.4%	22.3%	(46,061)	-	-	\$0.94
Warehouse	6,232,414	556,911	4,242	561,153	8.9%	0.1%	9.0%	29,413	-	-	\$0.78
Manufacturing	2,962,131	46,806	2,350	36,158	1.6%	0.1%	1.3%	(6,303)	-	-	\$0.92
Flex	5,245,019	679,125	9,951	689,076	12.9%	0.2%	13.1%	(5,800)	-	23,200	\$0.90
<b>Total</b>	<b>15,214,540</b>	<b>1,413,630</b>	<b>58,332</b>	<b>1,471,962</b>	<b>9.3%</b>	<b>0.4%</b>	<b>9.7%</b>	<b>(65,938)</b>	-	-	<b>\$0.91</b>
<b>Northwest Valley</b>											
Distribution	6,249,936	688,945	-	688,945	11.0%	0.0%	11.0%	20,223	-	12,000	\$0.43
Warehouse	31,466,478	2,323,949	35,606	2,359,555	7.4%	0.1%	7.5%	41,677	137,069	83,762	\$0.60
Manufacturing	11,310,383	791,535	-	791,535	7.0%	0.0%	7.0%	(183,702)	-	-	\$0.48
Flex	6,608,238	1,284,834	-	1,284,834	19.4%	0.0%	19.4%	55,864	-	-	\$1.02
<b>Total</b>	<b>55,635,035</b>	<b>5,089,263</b>	<b>35,606</b>	<b>5,124,869</b>	<b>9.1%</b>	<b>0.1%</b>	<b>9.2%</b>	<b>(4,410)</b>	<b>137,069</b>	<b>95,762</b>	<b>\$0.69</b>
<b>Southeast Valley</b>											
Distribution	8,983,423	832,085	11,757	843,842	9.3%	0.1%	9.4%	208,014	162,500	122,823	\$0.52
Warehouse	39,147,311	3,482,067	37,968	3,520,035	8.9%	0.1%	9.0%	43,478	219,538	-	\$0.56
Manufacturing	24,575,584	3,506,652	217,000	3,723,652	14.3%	0.9%	15.2%	27,973	-	-	\$0.55
Flex	14,996,833	2,694,929	226,575	2,921,504	18.0%	0.2%	19.5%	150,507	237,000	60,000	\$1.00
<b>Total</b>	<b>87,703,151</b>	<b>10,515,733</b>	<b>493,300</b>	<b>11,009,033</b>	<b>12.0%</b>	<b>0.6%</b>	<b>12.6%</b>	<b>429,972</b>	<b>619,038</b>	<b>182,823</b>	<b>\$0.67</b>
<b>Southwest Valley</b>											
Distribution	40,715,916	6,618,673	32,000	6,650,673	16.3%	0.1%	16.3%	(74,681)	81,581	-	\$0.35
Warehouse	32,417,702	3,485,386	128,597	3,613,983	10.8%	0.4%	11.1%	(310,431)	-	846,618	\$0.40
Manufacturing	11,241,879	1,788,398	458,839	2,247,237	15.9%	4.1%	20.0%	18,428	-	54,200	\$0.31
Flex	1,385,254	267,091	-	267,091	19.3%	-	19.3%	(766)	-	-	\$0.57
<b>Total</b>	<b>85,760,751</b>	<b>12,159,548</b>	<b>619,436</b>	<b>12,778,984</b>	<b>14.2%</b>	<b>0.7%</b>	<b>14.9%</b>	<b>51,693</b>	<b>81,581</b>	<b>900,818</b>	<b>\$0.36</b>
<b>Total Submarket Clusters</b>											
Distribution	62,451,795	9,083,275	85,546	9,168,821	14.5%	0.1%	14.7%	833,729	462,075	631,663	\$0.40
Warehouse	136,906,918	12,105,078	349,660	12,454,738	8.8%	0.3%	9.1%	(418,864)	388,095	944,630	\$0.50
Manufacturing	59,107,689	7,265,770	698,621	7,964,391	12.3%	1.2%	13.5%	(172,913)	-	54,200	\$0.43
Flex	33,408,945	5,815,727	286,793	6,102,520	18.1%	1.0%	19.1%	153,451	237,000	83,200	\$0.99
<b>Overall Total 2Q15</b>	<b>291,875,347</b>	<b>34,269,850</b>	<b>1,420,620</b>	<b>35,690,470</b>	<b>11.7%</b>	<b>0.5%</b>	<b>12.2%</b>	<b>395,403</b>	<b>1,087,170</b>	<b>1,713,693</b>	<b>\$0.53</b>
Overall Total 1Q15	290,981,177	33,804,055	1,387,648	34,191,703	11.6%	0.5%	12.1%	1,166,424	1,762,370	1,713,693	\$0.53
Overall Total 4Q14	289,260,610	33,056,128	1,581,432	34,637,560	11.4%	0.5%	12.0%	602,201	1,119,221	2,455,543	\$0.53
Overall Total 3Q14	288,385,650	32,501,860	1,862,941	34,364,801	11.3%	0.6%	11.9%	1,978,004	687,163	3,894,120	\$0.53
Overall Total 2Q14	287,721,040	33,872,776	1,805,419	35,678,195	11.8%	0.6%	12.4%	3,784,664	1,847,736	3,259,751	\$0.52



## 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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# Mid-Year 2015 Industrial Market Report

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