

Year End
2015
Industrial
Market Report

4Q15 Industrial

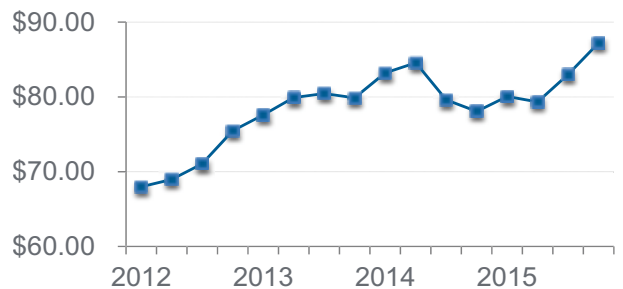
The Phoenix Metro industrial sector ended 2015 strongly with all market indicators pointing in the right direction. The overall vacancy rate is the lowest it has been since the beginning of 2008, before the recession wilted the commercial market. Starting 2015 at 12.1% valley wide, the overall vacancy rate ended the year at 11%. The final quarter of 2015 represented the second largest net absorption figure in the last four years, almost doubling the yearly total. With demand increasing steadily, and in many areas outpacing construction, market conditions should continue to recover and improve into 2016.

The massive hit that the Phoenix housing market took during the recession has finally begun to recoup, bringing welcome news to the commercial market. As home prices begin to increase and consumer confidence elevates, the lure to the Valley for employment and business will continue to expand as well. In anticipation for this resurgence, construction continues its steady growth this year with over 3.4 million square feet under construction entering 2016. While deliveries to the market were lower in the fourth quarter than previous quarters this year, 2016 anticipates an increase in deliveries over 2015, providing more options for prospective tenants and buyers than were available in 2015. The increasing demand provides the impetus for further development.

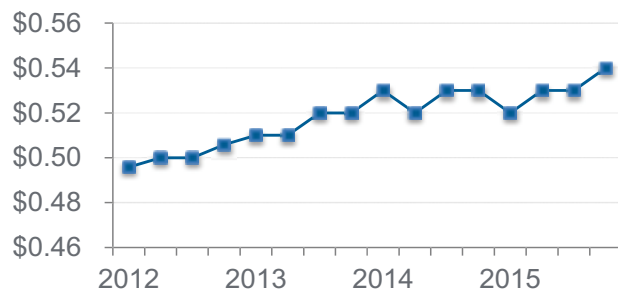
While rental rate growth has been sluggish in the industrial market, it is finally beginning to edge upwards. In the final quarter of 2015 the average rental rate

rose to \$0.54 per SF, up from \$0.52 per SF at the beginning of the year. This, combined with diminishing concessions, should continue into 2016 and keep rates rising overall. The highest rental rates in Q4 were seen in the Northeast Valley at \$0.88, while the lowest rates were recorded in the Southwest Valley which averaged \$0.37 per SF.

Average Industrial Asking Sale Price/SF



Average Industrial NNN Rental Rates



Q4 Industrial Market Trends

- ↓
 Vacancy Rate
- ↑
 Average Asking Rates
- ↑
 Net Absorption
- ↑
 Under Construction

Sustained job growth combined with an expanding economy has proved 2015 to be a favorable year for the commercial real estate market, indicating that the US Economy is gaining traction and continuing its recovery. Nationally, property prices are positioned to advance as inventory continues to shrink. National vacancy rates in all sectors besides multi-family have seen a continuous decline this year. The industrial sector has led this trend with vacancy decreasing by 1.4 percent, commercial and retail followed posting reductions of .8 and 1.3 percent respectfully, while multifamily rates saw an increase of 1.2 percent. Economically speaking, 2016 should be another productive year with US markets remaining healthy. Confidence in GDP growth is expected to hold steadfast though 2017, albeit increasing capital market volatility extending from global economic uncertainty.

2015 saw an increase in the Fed's key interest rate, signaling the end of Quantitative Easing. Low interest rates of the past few years have been aimed to increase the federal government's ability to borrow money cheaply, enticing it from raising taxes or reducing spending to cover expenses, actions that would lead to economic contraction. Without these rock bottom interest rates one of the biggest uncertainties facing the US and abroad has been how the market will evolve without them. Luckily, according to Dr. Peter Linneman, Chief Economist of NAI Global, "there is no believable economic transmission mechanism from QE to economic growth". Further he explains that "Interest rates must rise to market levels for the economy to boom".

The Phoenix metro economy has out preformed the national average for the fourth straight year, expanding at a growth rate of 2.7 percent, above the national rate of 2.0 percent. This growth has translated into higher gains in personal income and retail sales, a trend that will continue at least through next year. Gains have not been spread out evenly though, Sectors in mining, manufacturing, construction and government have all seen negative job growth. But, these losses have been offset by the robust employment gains in the financial, healthcare and service sectors.

During 2015, the Phoenix industrial and office sectors- saw positive movement in net absorption, vacancy and rental rates. While the retail sector did not see much change in the way of absorption, it did witness much forward looking action in vacancy and rental rates. The most significant activity this quarter has been the upsurge of absorption, where the office sector posted over 2,000,000/SF in Q4, the biggest single quarter gain in more than a decade. Industrial also had a solid showing in the same category, coming in at over 3,000,000/SF in Q4. Further, rental rates have risen across the board this year, with the office sector leading the market seeing rates rise from \$19.91/SF in Q4 2014 to \$20.79/SF in Q4 2015. Retail rates have taken a nice hike as well, going from \$13.88/SF to \$14.34/SF.

While showing improvement in every other indicator mentioned, the industrial sector showed the least amount of change in rates, seeing numbers go from \$6.19/SF to \$6.52/SF. If all factors remain steady, and the market maintains pace, 2016 should be another strong year for the Phoenix commercial market.

Economic Trends



Phoenix 4Q15 Industrial Snapshot

4Q15
Industrial

Sector Overview

	Total RBA	Total Vacant SF	Total Vacant %	Total Net Absorption (SF)	RBA Delivered (SF)	RBA Under Const. (SF)	Average Rental Rate
Distribution	63,314,853	8,018,702	15.4%	1,272,122	567,397	1,248,609	\$0.40
Warehouse	137,610,082	12,228,008	8.9%	400,912	90,437	914,596	\$0.48
Manufacturing	58,460,195	7,343,172	12.5%	280,584	-	785,843	\$0.46
Flex	33,203,296	4,710,815	18.1%	1,134,131	-	479,140	\$0.98
Overall Total 4Q15	292,588,426	32,300,697	11.0%	3,087,749	657,834	3,428,188	\$0.54
Overall Total 3Q15	292,130,570	34,863,857	11.9%	1,511,045	972,151	2,750,358	\$0.53
Overall Total 2Q15	291,699,539	35,943,871	12.1%	547,395	1,609,719	2,311,745	\$0.53
Overall Total 1Q15	290,332,652	35,124,379	12.1%	1,729,840	2,078,404	2,776,370	\$0.52

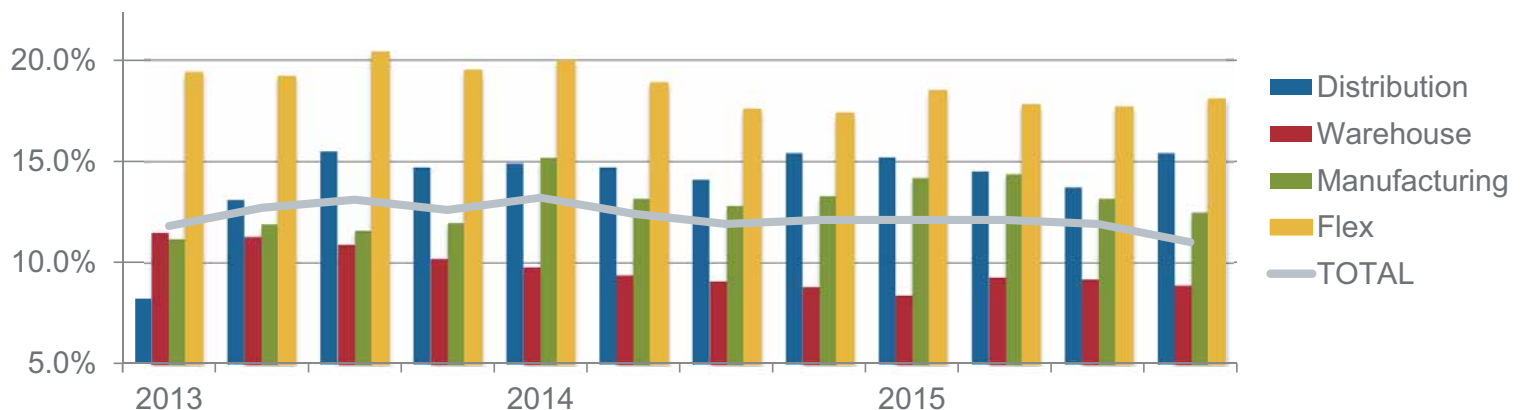
Significant Lease Transactions

Address	City	Tenant	Size	Class	Type
2225 S 75th Ave	Tolleson, 85353	Benson Industres	3,489 SF	A	Renewal
515 E Grant St	Phoenix, 85004	Galvanize	62,220 SF	C	Move-In
515 E Grant St	Phoenix, 85004	WebPT	60,000 SF	C	Move-In

Significant Sale Transactions

Property	Address	Buyer	Sale Date	Size	Class	Price
5 Star Distribution Center	125 S 67th Ave	Abu Dhabi Investment Authority	12/17/2015	251,668 SF	A	\$21.8M
Mission Business Park	4 S 84th Ave	Colony Capital	12/16/2015	236,007 SF	B	\$18M
Granite Commerce Center	405 N 75th Ave	Colony Capital	11/05/2015	152,562 SF	B	\$11.5M

Industrial Vacancy Rates

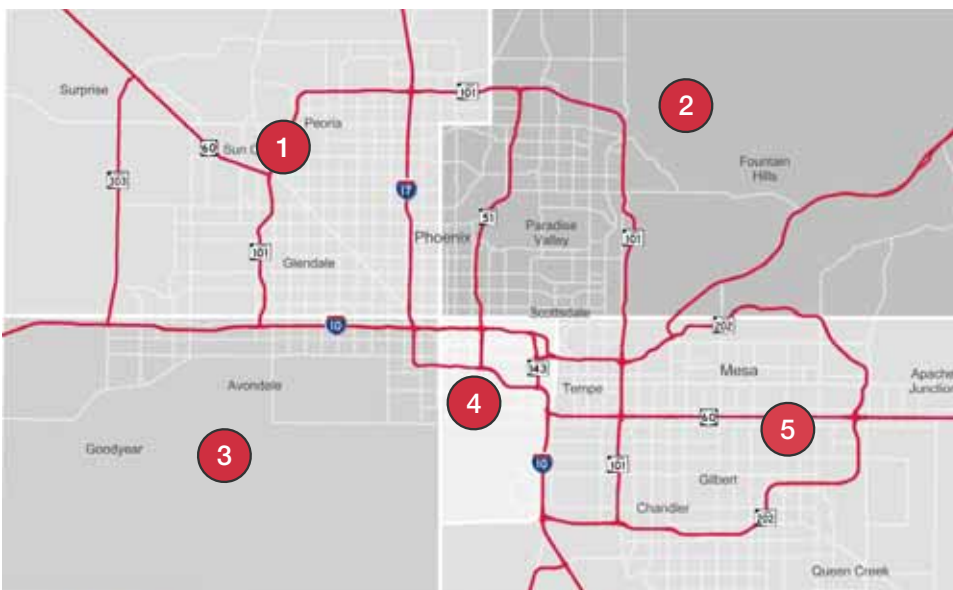


The Office Market is a compilation that includes Class A, Class B, and Class C buildings with at least 10,000 SF of space. Medical office buildings are included. Some information contained herein has been obtained from third party sources deemed reliable but has not been independently verified by NAI 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.

Phoenix Submarkets

4Q15

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	5,882,138	738,936	-	738,936	12.6%	0.0%	12.6%	187,203	32,500	149,385	\$0.61
Warehouse	27,593,870	1,981,352	151,662	2,133,014	7.2%	0.5%	7.7%	67,028	14,250	182,496	\$0.54
Manufacturing	8,909,747	947,214	-	947,214	10.6%	0.0%	10.6%	(2,051)	-	41,252	\$0.49
Flex	5,216,369	963,352	20,653	984,005	18.3%	0.4%	18.6%	31,286	-	245,000	\$1.04
Total	47,602,124	4,630,854	172,315	4,803,169	9.7%	0.4%	10.1%	283,466	46,750	618,133	\$0.65
Northeast Valley											
Distribution	774,973	116,821	41,789	158,620	15.1%	5.4%	20.5%	3,168	-	-	\$0.84
Warehouse	6,208,427	451,408	6,117	457,525	7.3%	0.1%	7.4%	64,224	-	-	\$0.75
Manufacturing	2,991,411	101,667	-	101,667	3.4%	0.0%	3.4%	(21,477)	-	-	\$0.91
Flex	5,229,854	619,224	-	619,224	11.7%	0.0%	11.7%	90,314	-	-	\$1.08
Total	15,204,665	1,289,120	47,906	1,337,036	8.4%	0.3%	8.8%	136,229	-	-	\$0.88
Northwest Valley											
Distribution	5,953,950	591,215	-	591,215	9.9%	0.0%	9.9%	12,329	-	400,000	\$0.48
Warehouse	31,439,240	1,916,191	29,234	1,945,425	6.1%	0.1%	6.2%	267,995	12,000	220,279	\$0.56
Manufacturing	10,876,115	516,168	3,050	519,218	4.7%	0.0%	4.8%	227,605	-	384,377	\$0.51
Flex	6,416,560	652,405	-	652,405	10.2%	0.0%	10.2%	607,938	-	-	\$0.99
Total	54,685,865	3,675,979	32,284	3,708,263	6.7%	0.1%	6.8%	1,115,867	12,000	1,004,656	\$0.70
Southeast Valley											
Distribution	9,350,524	1,108,081	-	1,104,811	11.8%	0.0%	11.8%	(113,316)	148,797	-	\$0.52
Warehouse	39,186,704	3,392,573	80,259	3,472,832	8.7%	0.2%	8.9%	102,110	64,187	511,821	\$0.58
Manufacturing	24,446,279	3,369,159	222,732	3,591,891	13.8%	0.9%	14.7%	54,976	-	303,214	\$0.52
Flex	14,952,809	2,009,572	175,628	2,185,200	13.4%	1.2%	14.6%	406,936	-	234,140	\$0.99
Total	87,936,316	9,879,385	478,619	10,354,734	11.2%	0.5%	11.8%	450,706	212,984	1,049,175	\$0.65
Southwest Valley											
Distribution	41,353,268	5,425,120	-	5,425,120	12.5%	0.0%	12.5%	1,182,738	386,100	699,224	\$0.36
Warehouse	33,181,841	4,099,442	119,770	4,219,212	12.4%	0.4%	12.7%	(100,445)	-	-	\$0.42
Manufacturing	11,236,643	1,724,343	458,839	2,183,182	15.3%	4.1%	19.4%	21,531	-	57,000	\$0.31
Flex	1,387,704	269,981	-	269,981	19.5%	0.0%	19.5%	(2,343)	-	-	\$0.65
Total	87,159,456	11,518,886	578,609	12,097,495	13.2%	0.7%	13.9%	1,101,481	386,100	756,224	\$0.37
Total Submarket Clusters											
Distribution	63,314,853	7,980,173	41,789	8,018,702	15.1%	0.3%	15.4%	1,272,122	567,397	1,248,609	\$0.40
Warehouse	137,610,082	11,840,966	387,042	12,228,008	8.6%	0.4%	8.9%	400,912	90,437	914,596	\$0.48
Manufacturing	58,460,195	6,658,551	684,621	7,343,172	11.3%	1.2%	12.5%	280,584	0	785,843	\$0.46
Flex	33,203,296	4,514,534	196,281	4,710,815	17.3%	0.7%	18.1%	1,134,131	0	479,140	\$0.98
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Overall Total 3Q15	292,130,570	33,574,117	1,289,740	34,863,857	11.5%	0.4%	11.9%	1,511,045	972,151	2,750,358	\$0.53
Overall Total 2Q15	291,699,539	34,608,413	1,335,458	35,943,871	11.9%	0.5%	12.1%	547,395	1,609,719	2,311,745	\$0.53
Overall Total 1Q15	290,332,652	33,803,659	1,320,720	35,124,379	11.6%	0.5%	12.1%	1,729,840	2,078,404	2,776,370	\$0.52
Overall Total 4Q14	288,280,530	33,243,922	1,558,175	34,802,097	11.5%	0.5%	12.1%	102,713	1,119,221	4,430,189	\$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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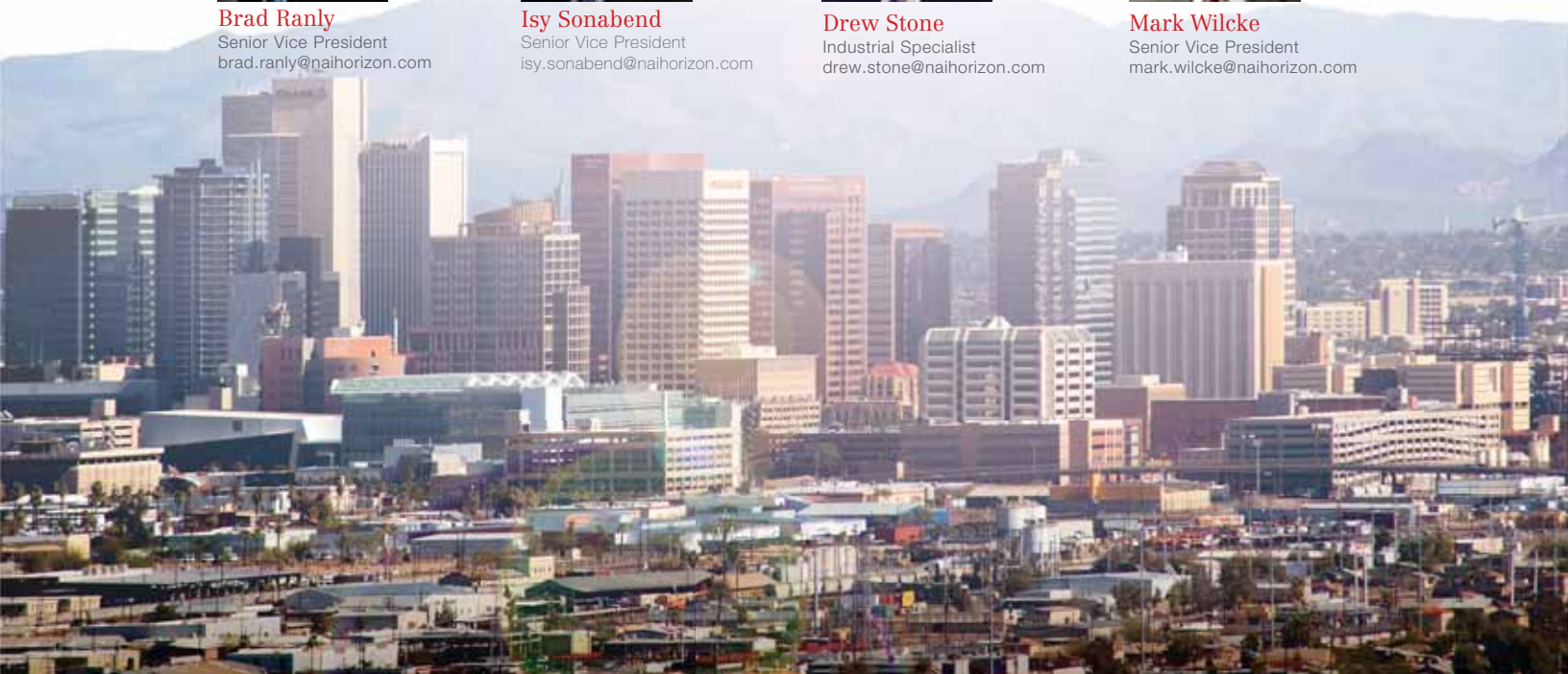
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