

MARKETBEAT

Phoenix

Industrial Q2 2018



PHOENIX INDUSTRIAL

Economic Indicators

	Q2 17	Q2 18	12-Month Forecast
Phoenix Employment	2,029k	2,086k	▲
Phoenix Unemployment	4.2%	4.2%	▬
U.S. Unemployment	4.3%	3.8%	▼

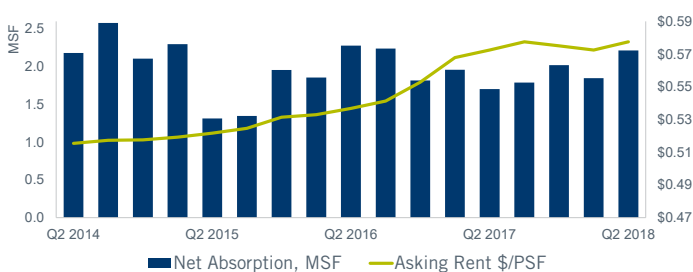
*Q2 data is based on the U.S. Bureau of Labor Statistics, All Employees: Total Nonfarm in Phoenix-Mesa-Scottsdale, AZ (MSA).

Market Indicators (Overall, All Classes)

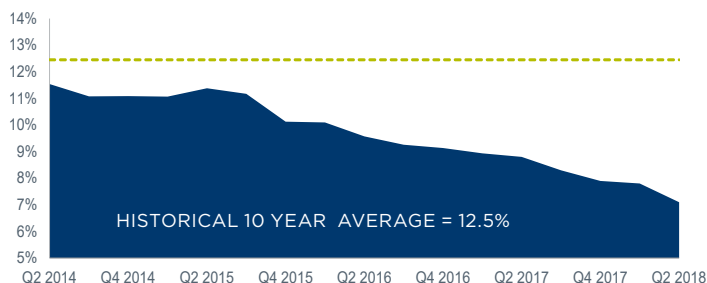
	Q2 17	Q2 18	12-Month Forecast
Vacancy	8.6%	7.1%	▼
Net Absorption (sf)	1.1M	2.6M	▲
Under Construction (sf)	3.5M	5.2M	▬
Average Asking Rent*	\$0.57	\$0.58	▼

*Rental rates reflect overall net asking \$psf/month

Overall Net Absorption/Overall Asking Rent 4-QTR TRAILING AVERAGE (IN MILLIONS)



Overall Vacancy



Economy

The Metro Phoenix job market continued to improve, adding 56,700 jobs year-over-year through the second quarter of 2018. During the same time period, the unemployment rate remained at 4.2%.

Market Overview

In the second quarter of 2018 the Metro Phoenix industrial market vacancy rate was 7.1%, down 70 basis points (bps) from the first quarter of 2018. This also marked a 120 bps reduction from fourth quarter 2017 (8.3%), and a 200 bps decline from fourth quarter 2016 (9.1%). Fourteen of the 17 submarkets showed positive absorption in the second quarter of 2018. Nine submarkets had positive absorption in excess of 100,000 square feet (sf). No submarket had more than 100,000 sf of negative absorption.

The Metro Phoenix industrial market absorbed 2.6 million square feet (msf) in second quarter 2018. In the first two quarters of 2018, net absorption was +4.2 msf. Distribution space experienced the greatest gain, +1.05 msf. The Gilbert/Gateway submarket showed the most positive absorption, with an occupancy growth of 585,000 sf for the quarter. The Niagara Bottling manufacturing lease, at 450,000 sf, was the largest move-in. The Scottsdale Airpark had the most negative absorption, 41,300 sf.

Together, the five largest industrial submarkets make up two-thirds (67%) of the total market inventory. All five submarkets had positive net absorption figures. Southwest Phoenix saw its vacancy rate tick up 30 bps in the face of new inventory deliveries, and should continue to see both large positive absorption and slight vacancy rate increases through the balance of 2018.

In the second quarter of 2018, developers in the Metro Phoenix industrial market delivered 1.8 msf of new product in 10 buildings, 40% of which was preleased. Distribution space was the majority, 1.1 msf or 58%. Multi-Tenant Flex (130,000 sf), General Industrial-Multi-Tenant (161,000 sf) and Major User (450,000 sf) made up the rest of new construction. The Glendale (750,000 sf) Mesa (598,000 sf) and Southwest Phoenix (313,000 sf) submarkets received the most deliveries in the second quarter of 2018. Cushman & Wakefield is tracking 21 industrial properties that are currently under construction, totaling 5.2 msf. Eighteen of these properties are projected to deliver in 2018 and three in 2019. Of that space, 27.8% was disclosed as pre-leased.

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The direct average asking rate in the Metro Phoenix industrial market was \$0.58 per square foot (psf), on a monthly triple net basis. This was unmoved from the first quarter of 2018, when the average price was \$0.58 psf. Scottsdale Airpark, which was mostly flex space, remained the most expensive at \$1.14 psf. Southwest Phoenix, a market dominated by warehouse and distribution space, remained the lease expensive at \$0.39 psf.

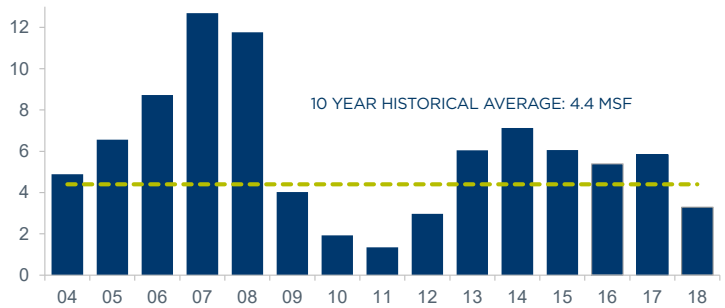
The major themes of the second quarter of 2018 were growth and the constraints to that growth. The market saw strong tenant activity, focused in Sky Harbor Airport and Southwest Phoenix submarkets. Two of the largest new deals were Californian companies replacing facilities due to lower prices for land, labor and facilities in Phoenix. Finally, there continued to be a lack of multi-tenant spec construction in the desirable submarkets because the land prices are too high to pencil out in pro-formas. The largest users often rely on smaller contractors for goods and services so the existing buildings were in high demand.

Outlook

- The southwestern Phoenix industrial submarkets (see map) will see heavy construction and absorption in 2018, as agricultural lands are turned into warehouses and the 303 highway project continues construction. Of all industrial construction in the market, 84% is distribution facilities in the Southwest Phoenix submarket.
- Labor prices are rising quickly, reflected in higher construction prices and fewer bids by contractors for projects. Phoenix anticipates high population growth, which should act to mitigate labor wage growth.
- The Inland Empire industrial market of California, five hours to the west, continues to lead the country in positive absorption. The strength of that market and cost advantages of Arizona make Phoenix appealing to new industrial tenants across building types.
- Additional interest rate hikes and trade war developments could cause slower growth in 2018. Decreased Pacific trade or increased shipping prices would diminish Arizona's cost advantages over southern California.
- Copper commodity prices are at a four year high and Arizona produces more than half of the nation's copper. Manufacturing, warehouse and freestanding buildings in southern and eastern Phoenix submarkets will see increased demand.

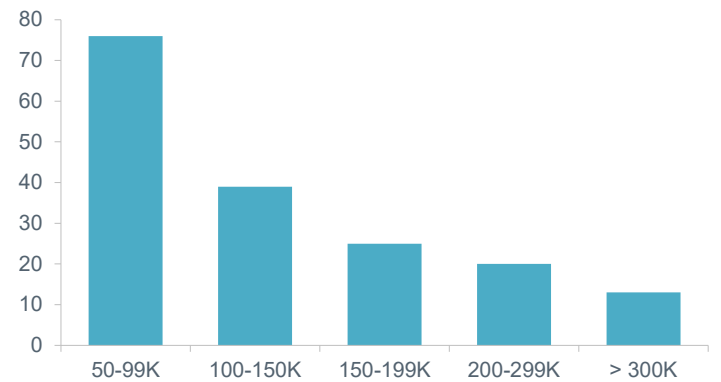
New Supply

2018 NEW SUPPLY ON TRACK TO EXCEED HISTORIC AVERAGE

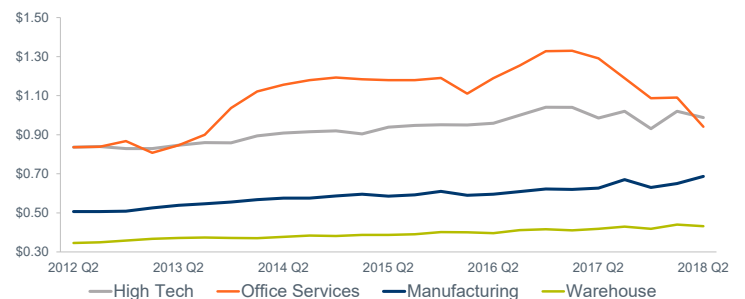


Large Block Space

BLOCKS OF CONTIGUOUS SPACE
(BUILDINGS ARE ONLY COUNTED ONCE)



Asking Rents



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SUBMARKET	TOTAL BLDGS	INVENTORY	SUBLET VACANT (sf)	DIRECT VACANT (sf)	VACANCY RATE	Q2 NET ABSORPTION (sf)	2018 YTD NET ABSORPTION (sf)	UNDER CONSTRUCTION (sf)	OVERALL ASKING RENT	DIRECT ASKING RENT
Black Canyon	149	3,960,975	2,285	322,933	8.2%	14,173	11,808	0	\$0.79	\$0.81
Central Phoenix	111	3,549,461	0	496,674	14.0%	18,409	66,183	61,992	\$0.59	\$0.59
Chandler	359	23,747,892	23,097	1,370,460	5.9%	250,722	620,475	100,018	\$0.75	\$0.77
Deer Valley	507	15,864,082	31,548	1,429,080	9.2%	197,272	256,471	321,563	\$0.73	\$0.73
East Mesa	113	4,192,486	45,612	272,940	7.6%	-5,786	52,984	167,462	\$0.69	\$0.67
Gilbert/Gateway	522	18,705,255	93,084	925,522	5.4%	584,749	799,594	10,800	\$0.67	\$0.68
Glendale	96	9,607,121	0	795,113	7.2%	238,869	184,884	0	\$0.43	\$0.43
Grand Ave	550	18,132,022	29,500	718,173	4.1%	-34,560	-62,887	0	\$0.44	\$0.45
North Glendale	91	2,998,782	2,442	108,260	3.7%	43,127	80,927	0	\$0.74	\$0.74
Pinal	135	8,238,414	33,000	188,604	2.7%	222,330	512,260	11,400	\$0.50	\$0.48
Scottsdale	138	5,299,155	0	188,293	3.6%	91,033	155,450	0	\$1.02	\$1.02
Scottsdale Airpark	306	6,586,915	48,781	582,045	9.6%	-41,346	2,708	0	\$1.12	\$1.14
Sky Harbor Airport	1,243	46,871,377	119,806	3,771,257	8.3%	336,511	474,343	76,500	\$0.68	\$0.69
Southwest Phoenix	307	46,423,318	102,577	4,065,703	9.0%	219,619	527,097	4,333,820	\$0.38	\$0.38
Tempe	982	37,822,634	123,480	2,890,784	8.0%	169,448	309,248	109,606	\$0.60	\$0.63
West Central Phoenix	952	55,264,638	42,037	3,051,979	5.6%	317,829	360,328	0	\$0.49	\$0.50
West Mesa	188	6,078,037	5,364	442,593	7.4%	6,096	-108,001	0	\$0.64	\$0.64
Grand Total	6,749	313,342,564	702,613	21,620,413	7.1%	2,628,495	4,243,872	5,193,161	\$0.58	\$0.57

CLASSIFICATION	TOTAL BLDGS	INVENTORY	SUBLET VACANT (sf)	DIRECT VACANT (sf)	VACANCY RATE	Q2 NET ABSORPTION (sf)	2018 YTD NET ABSORPTION (sf)	UNDER CONSTRUCTION (sf)	OVERALL ASKING RENT	DIRECT ASKING RENT
Back Office	82	7,195,488	0	1,143,419	15.9%	34,413	-20,646	0	\$1.09	\$1.09
Distribution	487	94,004,331	251,420	8,833,674	9.6%	1,054,427	1,926,248	4,343,004	\$0.43	\$0.43
Freestanding	3,137	74,568,925	87,985	2,268,102	3.2%	262,502	375,818	106,503	\$0.64	\$0.63
General Industrial - Manufacturing	346	29,451,228	30,200	1,027,116	3.6%	63,036	158,678	0	\$0.76	\$0.82
General Industrial - Multi-Tenant	2,148	66,332,908	248,986	5,856,210	9.2%	852,789	1,213,767	0	\$0.63	\$0.64
Major User	55	24,039,505	0	263,600	1.1%	450,000	450,000	529,400	\$1.45	\$1.45
Multi-Tenant Flex	494	17,750,179	84,022	2,228,292	13.0%	-88,672	140,007	214,254	\$0.91	\$0.98
Grand Total	6,749	313,342,564	702,613	21,620,413	7.1%	2,628,495	4,243,872	5,193,161	\$0.58	\$0.57

*Numbers are separate from national due to a price mistake that has been corrected for local numbers.

CUSHMAN & WAKEFIELD HAS RE-CLASSIFIED THE COMPETITIVE BUILDING INVENTORY TO REFLECT DEMOLITIONS

ASKING RENTS ARE LISTED AS TRIPLE NET

NET ABSORPTION IS THE NET CHANGE IN PHYSICALLY OCCUPIED SPACE BETWEEN THE CURRENT PERIOD AND THE PREVIOUS PERIOD

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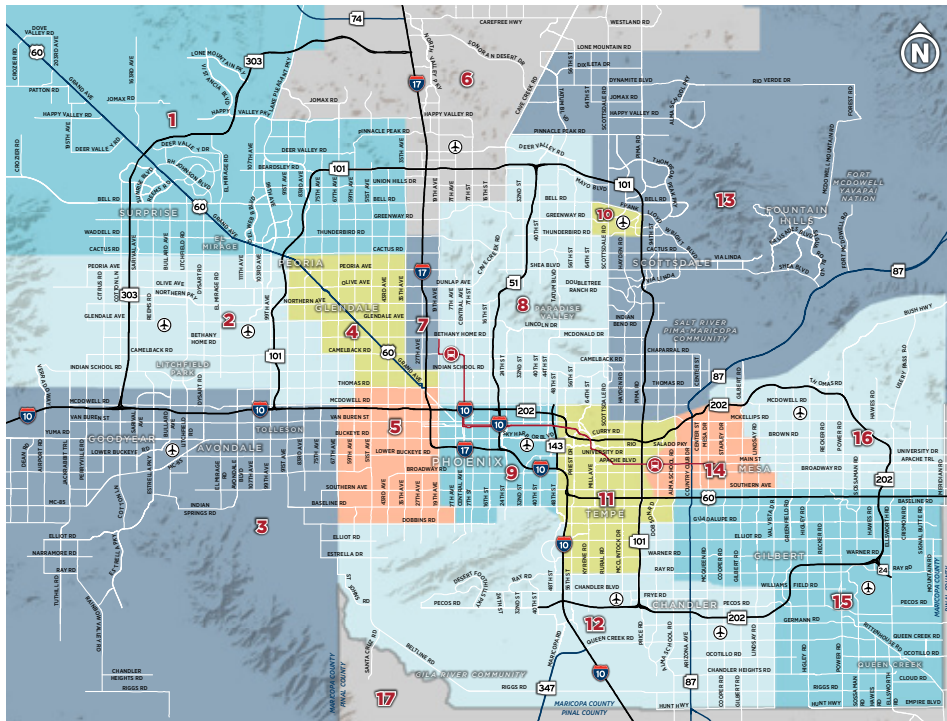
Key Lease Transactions Q2 2018

PROPERTY	SF	TENANT NAME	TRANSACTION TYPE	CITY	SUBMARKET
16811 W Commerce Dr	540,349	Blue Buffalo Pet Products	New	Goodyear	Southwest Phoenix
2592 E Hanna Rd	277,000	Kuehne + Nagel	Expansion & Renewal	Casa Grande	Pinal
3809 E Watkins St	174,801	PillPack	New	Phoenix	Sky Harbor Airport
10397 W Van Buren St	160,000	Ball Manufacturing	New	Goodyear	Southwest Phoenix
7775 W Buckeye Rd	110,088	Kitchell Kapture	New	Tempe	Tempe
1500 S 71st St	99,017	Kovach Inc.	New	Tempe	Tempe

Key Sale Transactions Q2 2018

PROPERTY	SF	BUYER	PRICE	PSF	CITY	SUBMARKET
11690 N 132nd Ave	167,291	Bond Filipenko Commercial Properties	\$15,035,000	\$90	Surprise	North Glendale
2500 W Frye Rd	160,000	Lincoln Property Company	\$39,700,000	\$248	Chandler	Chandler
5670 S 32nd St	155,114	AXA Investment Managers - Real Assets	\$16,837,000	\$109	Phoenix	Sky Harbor Airport
140 W Pinnacle Peak Rd	155,025	Exeter Property Group	\$15,063,762	\$97	Phoenix	Deer Valley
7102 W Roosevelt St	153,600	Forms + Surfaces, Inc.	\$11,025,000	\$72	Phoenix	Southwest Phoenix

Industrial Submarkets



- 1 North Glendale
- 2 Glendale
- 3 Southwest Phoenix
- 4 Grand Avenue
- 5 West Central Phoenix
- 6 Deer Valley
- 7 Black Canyon
- 8 Central Phoenix
- 9 Sky Harbor Airport
- 10 Scottsdale Airpark
- 11 Tempe
- 12 Chandler
- 13 Scottsdale
- 14 West Mesa
- 15 Gilbert/Gateway
- 16 East Mesa
- 17 Pinal

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