

# MARKETBEAT

## Phoenix

### Industrial Q3 2018



#### PHOENIX INDUSTRIAL

##### Economic Indicators

	Q3 17	Q3 18	12-Month Forecast
Phoenix Employment	2,044k	2,109k	▲
Phoenix Unemployment	4.0%	3.9%	■
U.S. Unemployment	4.4%	3.9%	▼

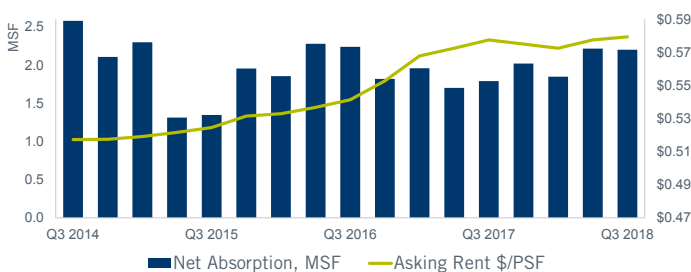
\*Q3 data is based on the U.S. Bureau of Labor Statistics, All Employees: Total Nonfarm in Phoenix-Mesa-Scottsdale, AZ (MSA).

##### Market Indicators (Overall, All Classes)

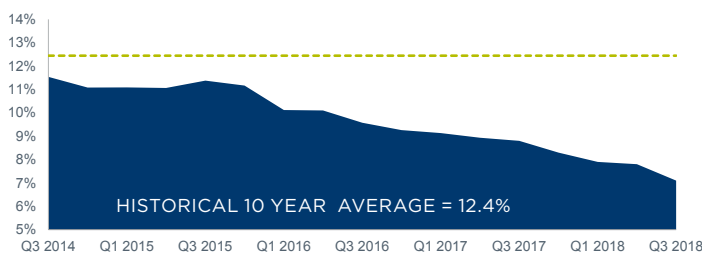
	Q3 17	Q3 18	12-Month Forecast
Vacancy	8.3%	7.3%	▼
Net Absorption (sf)	2.6M	2.2M	▲
Under Construction (sf)	2.0M	4.5M	■
Average Asking Rent*	\$0.57	\$0.58	■

\*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 65,000 jobs year-over-year through the third quarter of 2018. During the same time period, the unemployment rate decreased 10 basis-points (bps), dropping to 3.9%.

##### Market Overview

In the third quarter of 2018 the Metro Phoenix industrial market vacancy rate was 7.3%, up 10 bps from the second quarter of 2018. This also marked a 110-bps reduction from fourth quarter 2017 (8.3%), and a 190-bps reduction from fourth quarter 2016 (9.1%). 12 of the 17 submarkets showed positive absorption in the third quarter of 2018. Five submarkets had positive absorption in excess of 100,000 square feet (sf). No submarket had more than 60,000 sf of negative absorption.

The Metro Phoenix industrial market absorbed +2.2 million square feet (msf) in third quarter of 2018. Distribution space experienced the greatest gain, +1.4 msf. The Southwest Phoenix submarket showed the most positive absorption, +694,000 sf for the quarter. The Chewy.com distribution space, at 800,000 sf, was the largest move-in. The Pinal submarket had the most negative absorption, -45,000 sf. In the first three quarters of 2018, net absorption was +6.2 msf.

Together, the five largest industrial submarkets make up two-thirds (66.7%) of the total market inventory. All five submarkets had positive occupancy growth. 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 throughout 2018.

In the third quarter of 2018, developers in the Phoenix industrial market delivered 2.4 msf of new product in 10 buildings, 51.8% preleased. Distribution space was the majority, 2.1 msf or 87.7%. Multi-tenant flex (160,000 sf) and freestanding (130,000 sf) made up the rest of new construction. The Southwest Phoenix (2.0 msf) submarket received the most deliveries in the third quarter of 2018. The Sky Harbor (119,000 sf), Tempe (110,000 sf), and East Mesa (97,000 sf) submarkets also had notable deliveries. Cushman & Wakefield is tracking 24 industrial properties that are currently under construction, 4.5 msf. 11 of these properties are projected to deliver in 2018 and 13 in 2019. Of that space, 28.9% is disclosed as pre-leased.

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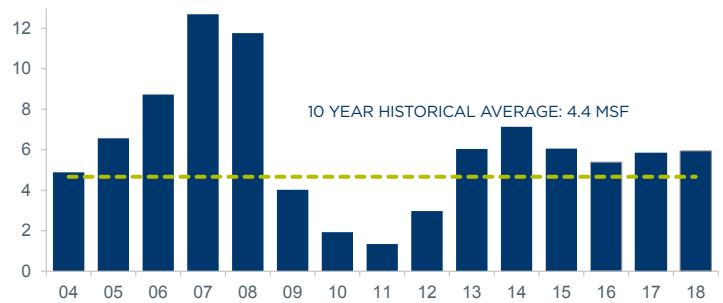
### Industrial Q3 2018



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 is the same as the first and second quarters of 2018. Scottsdale, which is mostly flex space, was the most expensive at \$1.03 psf. Southwest Phoenix, a market dominated by warehouse and distribution space, remained the least expensive at \$0.39 psf.

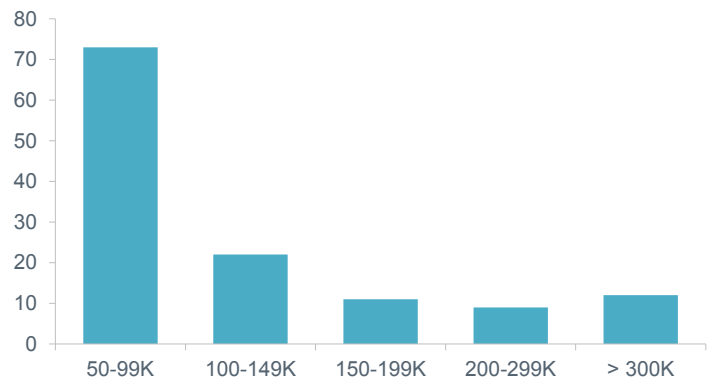
### New Supply

2018 NEW SUPPLY WILL EXCEED HISTORIC AVERAGE

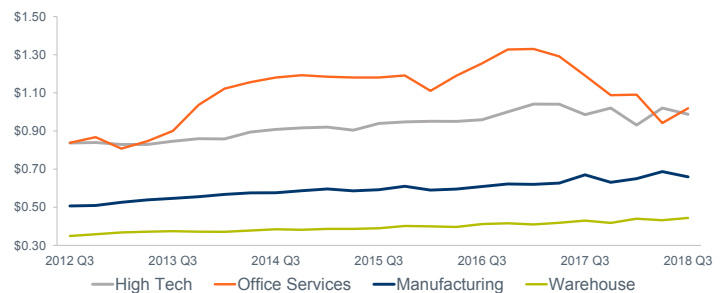


### Large Block Space

BLOCKS OF CONTIGUOUS SPACE (BUILDINGS ARE ONLY COUNTED ONCE)



### Asking Rents



### Outlook

- Space competition, previously uncommon, is increasingly frequent for tenants. The low vacancy rates in Phoenix have sustained in the face of heavy building.
- 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, 52.7% is distribution facilities in the Southwest Phoenix submarket.
- 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.

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SUBMARKET	TOTAL BLDGS	INVENTORY	SUBLET VACANT (sf)	DIRECT VACANT (sf)	DIRECT VACANCY RATE	Q3 DIRECT NET ABSORPTION (sf)	2018 YTD DIRECT NET ABSORPTION (sf)	UNDER CONSTRUCTION (sf)	OVERALL ASKING RENT	DIRECT ASKING RENT
Black Canyon	149	3,960,975	0	384,240	9.7%	-21,307	-7,128	0	\$0.75	\$0.78
Central Phoenix	112	3,611,453	0	488,770	13.5%	69,896	136,079	59,400	\$0.51	\$0.51
Chandler	359	23,747,892	6,047	1,374,475	5.8%	-4,015	593,857	578,317	\$0.73	\$0.75
Deer Valley	507	15,864,082	41,845	1,422,579	9.0%	6,501	256,645	321,563	\$0.72	\$0.76
East Mesa	114	4,289,948	47,166	361,589	8.4%	8,813	53,797	200,689	\$0.70	\$0.72
Gilbert/Gateway	522	18,705,255	113,678	910,215	4.9%	15,307	822,449	189,052	\$0.70	\$0.71
Glendale	96	9,607,121	0	1,320,960	13.7%	114,153	300,037	160,000	\$0.41	\$0.44
Grand Ave	550	18,132,022	29,500	748,780	4.1%	-30,607	-93,494	0	\$0.43	\$0.43
North Glendale	91	2,998,782	2,442	99,667	3.3%	8,593	87,078	220,000	\$0.67	\$0.65
Pinal	136	8,249,814	33,000	245,465	3.0%	-45,461	499,799	0	\$0.49	\$0.45
Scottsdale	138	5,299,155	0	174,136	3.3%	14,157	171,516	0	\$1.03	\$1.03
Scottsdale Airpark	306	6,586,915	3,300	547,640	8.3%	34,405	52,756	0	\$1.01	\$1.01
Sky Harbor Airport	1,244	46,938,377	100,651	3,304,565	7.0%	585,692	1,035,500	387,863	\$0.67	\$0.69
Southwest Phoenix	311	48,396,398	107,677	5,349,641	11.1%	694,082	1,201,285	2,360,740	\$0.39	\$0.39
Tempe	982	37,922,240	155,237	2,762,337	7.3%	238,053	642,083	0	\$0.60	\$0.62
West Central Phoenix	952	55,264,638	24,495	2,533,628	4.6%	518,351	907,616	0	\$0.51	\$0.51
West Mesa	188	6,078,037	5,364	414,580	6.8%	28,013	-74,624	0	\$0.61	\$0.61
<b>Grand Total</b>	<b>6,757</b>	<b>315,653,104</b>	<b>670,402</b>	<b>22,443,267</b>	<b>7.1%</b>	<b>2,234,626</b>	<b>6,585,251</b>	<b>4,477,624</b>	<b>\$0.57</b>	<b>\$0.58</b>

CLASSIFICATION	TOTAL BLDGS	INVENTORY	SUBLET VACANT (sf)	DIRECT VACANT (sf)	VACANCY RATE	Q3 NET ABSORPTION (sf)	2018 YTD NET ABSORPTION (sf)	UNDER CONSTRUCTION (sf)	OVERALL ASKING RENT	DIRECT ASKING RENT
Back Office	82	7,195,488	0	922,686	12.8%	220,733	200,087	0	\$1.11	\$1.11
Distribution	490	95,705,617	261,373	9,782,401	10.2%	1,449,499	3,336,019	2,847,322	\$0.43	\$0.44
Freestanding	3,139	74,689,325	109,374	2,231,625	3.0%	166,877	621,104	252,427	\$0.62	\$0.62
General Industrial - Manufacturing	346	29,451,228	30,200	1,107,977	3.8%	-80,861	108,317	0	\$0.62	\$0.63
General Industrial - Multi-Tenant	2,148	66,332,908	177,316	5,499,302	8.3%	396,908	1,627,518	10,800	\$0.63	\$0.64
Major User	56	24,368,905	0	593,000	2.4%	0	450,000	988,000	\$1.25	\$1.45
Multi-Tenant Flex	496	17,909,633	92,139	2,306,276	12.9%	81,470	242,206	379,075	\$0.90	\$0.94
<b>Grand Total</b>	<b>6,757</b>	<b>315,653,104</b>	<b>670,402</b>	<b>22,443,267</b>	<b>7.1%</b>	<b>2,234,626</b>	<b>6,585,251</b>	<b>4,477,624</b>	<b>\$0.57</b>	<b>\$0.58</b>

\* Entries not reflective of U.S. MarketBeat table

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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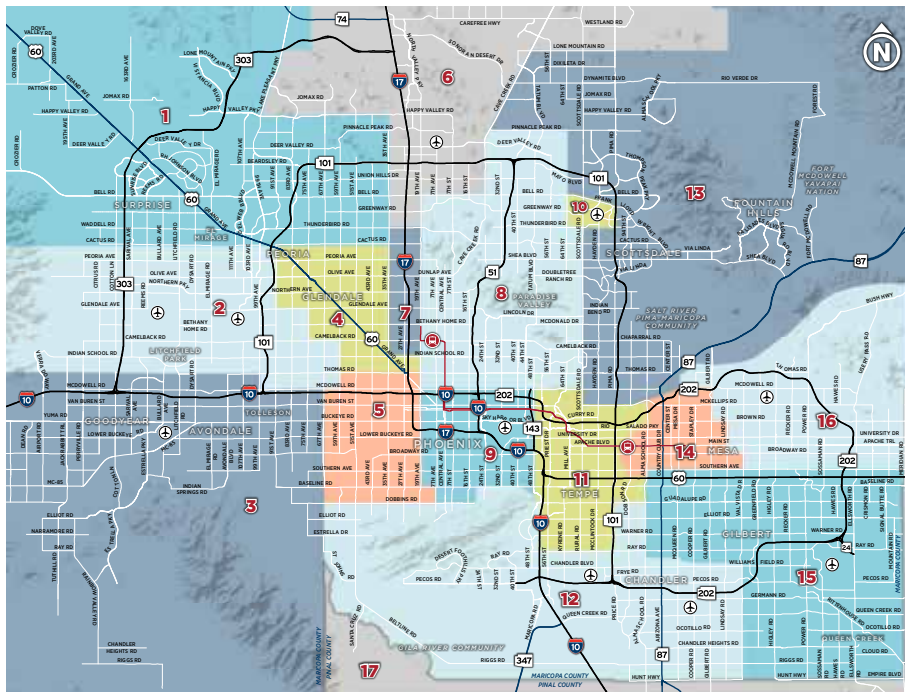
#### Key Lease Transactions Q3 2018

PROPERTY	SF	TENANT NAME	TRANSACTION TYPE	CITY	SUBMARKET
400 S 99th Ave	910,250	Albertsons	Sale Leaseback	Tolleson	Southwest Phoenix
1250 & 1300 N Fiesta Blvd	243,000	Keter	New	Gilbert	Gilbert/Gateway
200 N 99th Ave	216,495	Serta Simmons	New	Tolleson	Southwest Phoenix
2225 S 75th Ave	155,794	Cascade Windows	Expansion	Phoenix	Sky Harbor Airport
6913 W Buckeye Rd	86,650	Educational Furnishings of AZ	New	Phoenix	Southwest Phoenix
901 S 86th Ave	81,477	Dealer Tire	New	Tolleson	Southwest Phoenix

#### Key Sale Transactions Q3 2018

PROPERTY	SF	BUYER	PRICE	PSF	CITY	SUBMARKET
6835 W Buckeye Rd	1,009,351	CrossHarbor Capital Partners LLC	\$98,325,000	\$97	Phoenix	Southwest Phoenix
400 S 99th Ave (Portfolio)	910,250	Colony Capital, Inc.	\$73,403,126	\$81	Tolleson	Southwest Phoenix
7775 W Buckeye Rd	684,420	CBRE Global Investors Ltd	\$48,500,000	\$71	Phoenix	Southwest Phoenix
2300 S 51st Ave	335,459	Bixby Land Company	\$27,233,000	\$81	Phoenix	West Central Phoenix
4625 N 45th Ave (Portfolio)	245,166	Prologis	\$30,323,606	\$124	Phoenix	Grand Avenue
1402 S 40th Ave (Portfolio)	201,600	Prologis	\$24,026,067	\$119	Phoenix	West Central 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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