

MARKETBEAT

Phoenix

Industrial Q4 2018



PHOENIX INDUSTRIAL

Economic Indicators

	Q4 2017	Q4 2018	12-Month Forecast
Phoenix Employment	2,054k	2,137k	▲
Phoenix Unemployment	4.0%	3.9%	■
U.S. Unemployment	4.1%	3.7%	▼

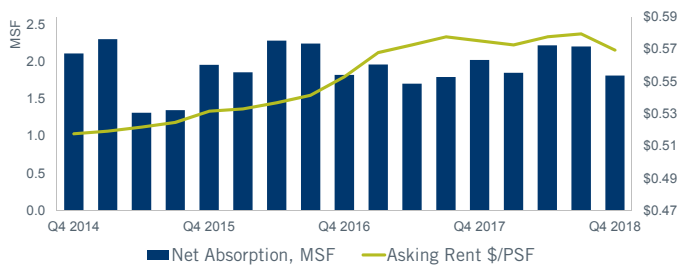
*Q4 data is based on the U.S. Bureau of Labor Statistics, All Employees: Total Nonfarm in Phoenix-Mesa-Scottsdale, AZ (MSA).

Market Indicators (Direct, All Classes)

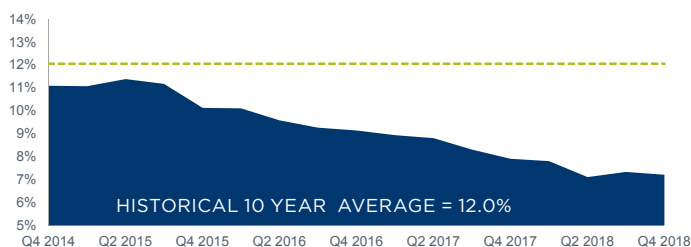
	Q4 2017	Q4 2018	12-Month Forecast
Vacancy	7.9%	7.2%	▼
Net Absorption (sf)	2.6M	1.0M	▲
Under Construction (sf)	5.1M	6.6M	■
Average Asking Rent*	\$0.57	\$0.57	■

*Rental rates reflect direct 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 82,400 jobs year-over-year through the fourth quarter of 2018. During the same time period, the unemployment rate remained at 3.9%.

Market Overview

In the fourth quarter of 2018 the Metro Phoenix industrial market overall vacancy rate was 7.4%, up 30 basis-points (bps) from the third quarter of 2018. This marked a 50 bps reduction from fourth quarter 2017 (7.9%), and a 170 bps reduction from fourth quarter 2016 (9.1%). The direct vacancy rate was 7.2%. 12 of the 17 submarkets showed positive absorption in the fourth quarter of 2018. Six submarkets had positive absorption in excess of 100,000 square feet (sf).

The Metro Phoenix industrial market absorbed +1.0 million square feet (msf) in the fourth quarter of 2018. General Industrial-Multi-Tenant space experienced the greatest gain, +683,000 sf. The Sky Harbor Airport submarket showed the most positive absorption, +616,000 sf for the quarter. The Safeway distribution space, in Tempe, at -687,000 sf, was the largest move-out. The Tempe submarket had the most negative absorption, -565,000 sf. On the year, the Phoenix market recorded absorption of +7.6 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 fourth quarter of 2018, developers in the Phoenix industrial market delivered 1.7 msf of new product in eight buildings. Distribution space was the majority, 1.5 msf or 87.6%. Multi-tenant flex (195,000 sf) and freestanding (19,000 sf) made up the rest of new construction. The Southwest Phoenix (1.26 msf) submarket received the most deliveries in the fourth quarter of 2018. The Chandler (317,000 sf), Deer Valley (122,000 sf), and East Mesa (19,000 sf) submarkets also had notable deliveries. Cushman & Wakefield is tracking 41 industrial properties that are currently under construction, 6.6 msf. All 41 of these properties are currently projected to deliver in 2019, though some will likely be finished in 2020. Of that space, 21.4% is disclosed as pre-leased.

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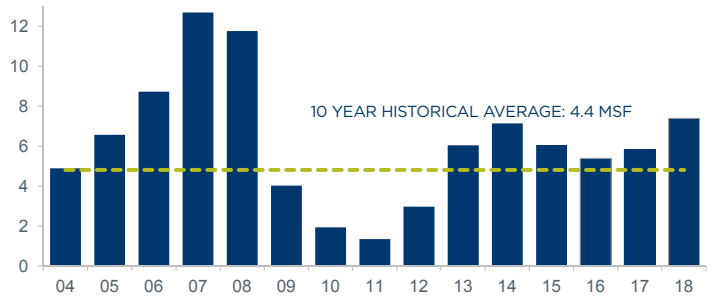
The direct average asking rate in the Metro Phoenix industrial market was \$0.57 per square foot (psf), on a monthly triple net basis. This is the same as the first quarter of 2018. Scottsdale, which is mostly flex space, was the most expensive at \$1.03 psf. Southwest Phoenix, a market dominated by warehouse and distribution space, remained the least expensive at \$0.39 psf.

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 202 South Mountain Freeway project is now two-thirds complete, and has already spurred investment and development in western valley submarkets. Of all industrial construction in the market, 51.8% is distribution facilities in the Southwest Phoenix & Glendale submarkets.
- Speculative construction near Mesa Gateway Airport in the Gilbert/Gateway submarket could spur a flight to quality in multi-tenant industrial space.
- Additional interest rate hikes and trade war developments could cause slower growth in 2019. Decreased Pacific trade or increased shipping prices would diminish Arizona's cost advantages over southern California. The Phoenix labor force expanded by 4% in 2018 without adding to the unemployment rate, indicating extremely strong job and population growth.

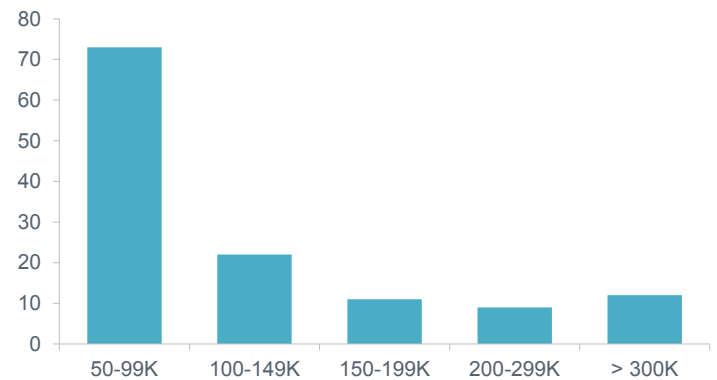
New Supply

2018 NEW SUPPLY EXCEEDED HISTORIC AVERAGE

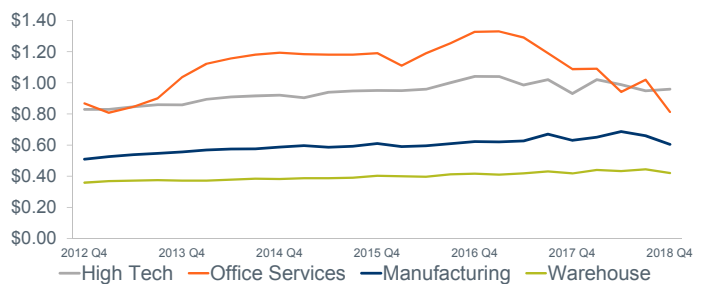


Large Block Space

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)	DIRECT VACANCY RATE	Q4 DIRECT NET ABSORPTION (sf)	2018 YTD DIRECT NET ABSORPTION (sf)	UNDER CONSTRUCTION (sf)	OVERALL ASKING RENT	DIRECT ASKING RENT
Black Canyon	149	3,940,884	-	393,074	10.0%	-8,834	-15,962		\$0.63	\$0.68
Central Phoenix	112	3,587,711	-	494,645	13.8%	-361	135,718	59,400	\$0.49	\$0.50
Chandler	362	24,234,484	130,986	1,708,935	7.1%	8,459	602,316	261,000	\$0.66	\$0.75
Deer Valley	509	16,056,254	62,104	1,305,818	8.1%	143,861	400,506	200,000	\$0.66	\$0.76
East Mesa	115	4,316,142	45,612	339,188	7.9%	36,901	90,698	174,689	\$0.57	\$0.72
Gilbert/Gateway	522	18,553,416	64,000	834,894	4.5%	75,321	897,770	985,351	\$0.66	\$0.71
Glendale	96	9,721,485	-	1,218,155	12.5%	102,805	402,842	1,154,170	\$0.46	\$0.49
Grand Ave	550	18,117,119	4,500	695,743	3.8%	53,037	-40,457		\$0.43	\$0.44
North Glendale	91	3,004,917	-	28,422	0.9%	71,245	158,323	220,000	\$0.35	\$0.56
Pinal	136	8,314,063	33,000	246,054	3.0%	-589	499,210		\$0.33	\$0.38
Scottsdale	138	5,289,978	-	162,626	3.1%	11,510	183,026		\$1.03	\$1.05
Scottsdale Airpark	306	6,569,255	3,300	433,472	6.6%	114,168	166,924		\$1.02	\$1.07
Sky Harbor Airport	1,245	47,145,763	42,370	2,688,429	5.7%	616,136	1,651,636	946,575	\$0.63	\$0.71
Southwest Phoenix	313	50,472,032	51,998	6,127,725	12.1%	482,656	1,683,941	2,288,478	\$0.39	\$0.40
Tempe	982	38,136,844	111,480	3,328,074	8.7%	-565,160	76,923		\$0.65	\$0.69
West Central Phoenix	952	55,506,142	53,392	2,774,114	5.0%	-240,486	667,130	319,803	\$0.49	\$0.50
West Mesa	188	6,062,884	5,364	307,958	5.1%	106,622	31,998		\$0.59	\$0.61
Grand Total	6,766	319,029,373	608,106	23,087,326	7.2%	1,007,291	7,592,542	6,609,466	\$0.54	\$0.57

CLASSIFICATION	TOTAL BLDGS	INVENTORY	SUBLET VACANT (sf)	DIRECT VACANT (sf)	VACANCY RATE	Q4 NET ABSORPTION (sf)	2018 YTD NET ABSORPTION (sf)	UNDER CONSTRUCTION (sf)	OVERALL ASKING RENT	DIRECT ASKING RENT
Back Office	82	7,285,520	-	800,974	11.0%	121,712	321,799		\$1.01	\$1.04
Distribution	496	98,161,927	150,892	11,773,360	12.0%	-565,537	2,770,482	4,362,110	\$0.41	\$0.43
Freestanding	3,140	74,970,309	100,313	1,802,427	2.4%	454,800	1,075,904	267,994	\$0.58	\$0.65
General Industrial - Manufacturing	346	29,702,203	30,600	1,044,627	3.5%	63,350	171,667		\$0.60	\$0.63
General Industrial - Multi-Tenant	2,148	66,246,103	273,084	4,822,062	7.3%	682,754	2,310,272	668,138	\$0.58	\$0.65
Major User	56	24,583,033	-	376,505	1.5%	216,495	666,495	988,000	\$1.14	\$1.14
Multi-Tenant Flex	498	18,080,278	53,217	2,467,371	13.6%	33,717	275,923	323,224	\$0.92	\$0.99
Grand Total	6,766	319,029,373	608,106	23,087,326	7.2%	1,007,291	7,592,542	6,609,466	\$0.54	\$0.57

* 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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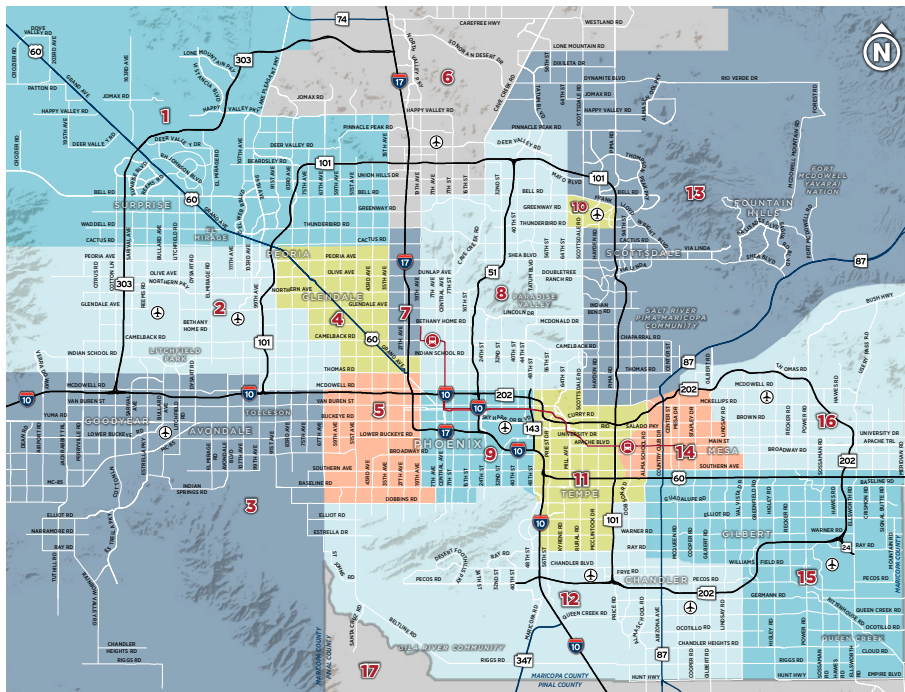
Key Lease Transactions Q4 2018

PROPERTY	SF	TENANT NAME	TRANSACTION TYPE	CITY	SUBMARKET
16560 W Sells	643,798	XPO Logistics	New	Goodyear	Southwest Phoenix
4450 N 45th Ave	117,048	Freeport Logistics	New	Phoenix	Grand Avenue
300 E Germann Rd	94,794	Silent-Aire	New	Chandler	Chandler
6116 S Ash Ave	85,752	Erickson	New	Tolleson	Southwest Phoenix
121 S 39th Street	75,712	Quality Leisure Products Inc.	New	Phoenix	West Central Phoenix

Key Sale Transactions Q4 2018

PROPERTY	SF	BUYER	PRICE	PSF	CITY	SUBMARKET
16811 W Commerce Dr	540,349	Lexington Realty Trust	\$42,700,000	\$79	Goodyear	Southwest Phoenix
8602 W Buckeye Rd (Portfolio)	535,213	Prologis Group	\$44,780,791	\$84	Tolleson	Southwest Phoenix
430 N 47th Ave	192,158	Dial Manufacturing, Inc.	\$10,625,000	\$55	Phoenix	West Central Phoenix
8590 W Buckeye Rd (Part of Multi-Property Sale)	164,210	Prologis Group	\$13,739,303	\$84	Tolleson	Southwest Phoenix
145 S 79th St	129,187	Held Properties	\$22,750,000	\$176	Chandler	Chandler
4025 E Cotton Center Blvd	114,484	Property Income Advisors, Inc.	\$16,909,400	\$148	Phoenix	Sky Harbor Airport

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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