

# MARKETBEAT

## Industrial Snapshot Q4 2015

### Metropolitan Phoenix



#### PHOENIX INDUSTRIAL

##### Economic Indicators

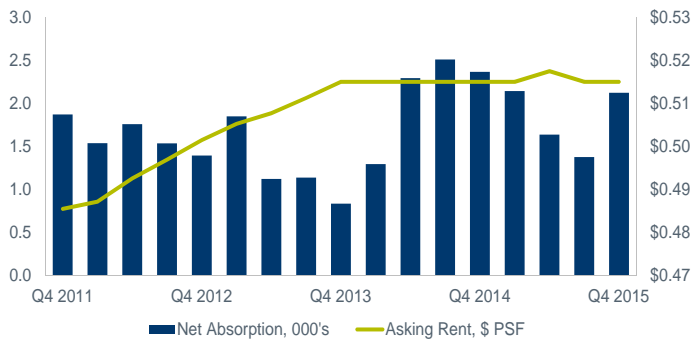
	2014	2015	12-Month Forecast
Phoenix Employment	1,906K	1,956K	▲
Phoenix Unemployment	5.9%	5.0%	▼
U.S. Unemployment	5.8%	5.0%	▼

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

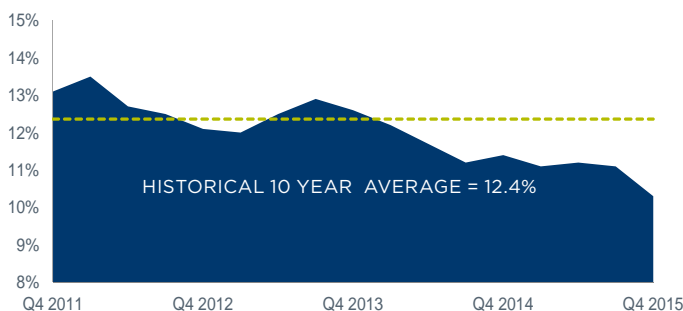
	2014	2015	12-Month Forecast
Vacancy	11.4%	10.3%	—
Net Absorption (sf)	9,493,000	8,492,000	▲
Under Construction (sf)	3,310,000	2,763,000	—
Average Asking Rent*	\$0.52	\$0.52	—

\*Rental rates reflect gross asking \$psf/year

##### Overall Net Absorption/Overall Asking Rent 4Q TRAILING AVERAGE (IN THOUSANDS)



##### Overall Vacancy



### Economy

The Metro Phoenix job market continued to show signs of economic prosperity, adding 49,600 new or relocated jobs annually by November 2015. Within the same course of time, the unemployment rate decreased 60 basis points (bps) to 5.0%. The total included 13,400 industrial sector jobs within the Manufacturing, Construction, Natural Resources & Mining, Transportation, Warehousing & Utilities and Wholesale Trade sectors. Construction, with 7,900 jobs, topped the list with 59% of the new industrial positions this year, the largest yearly gain since October 2006, when this sector gained 8,600 jobs. As a whole, the industrial employment sectors make up 19% of the 1.96 million total employments within the Metro Phoenix region.

### Market Overview

As Q4 2015 came to a close, industrial vacancy in Metro Phoenix dropped to 10.3%. This is a notable decrease over last quarter (11.1%) and one year prior (11.4%), especially when you consider that the vacancy rate held between 11% and 12% for the past six consecutive quarters. This improvement marks the first time since 2007 the vacancy rate has dipped below 11%. Of Metro Phoenix's 17 submarkets, 14 experienced declines in vacancy this quarter. The Deer Valley submarket (12.3%) recorded the largest decline, with its metric falling 480 bps from the previous quarter. A large portion of the improvement was attributed to Aligned Energy occupying its freshly renovated 545,000 square foot (sf) data center. Conversely, the West Mesa submarket experienced the largest increase (280 bps) with vacancy reaching 8.4% to close out the year. Two new buildings in the Broadway 101 Commerce Park added nearly 213,000 sf of speculative warehouse/distribution space to the West Mesa submarket, significantly increasing inventory.

Remarkably, an estimated 56.4% of the approximately 6.0 million square feet (msf) in new deliveries for 2015 were brought to market preleased. The largest facility completed this quarter was the Tractor Supply West Coast Distribution Facility in Casa Grande, adding 650,000 sf of preleased space to the Pinal submarket. The largest speculative project delivered was 9310 W Buckeye Rd, a 386,000 sf distribution center, which was 44% preleased at the time of completion. Currently there is 2.9 msf of new construction underway for Metro Phoenix, with 2.3 msf slated to deliver

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in Q1 2016. An estimated 48% of this square footage is preleased or build-to-suit (bts).

**THE ABRUPT DROP IN VACANCY THIS QUARTER BRINGS THE RATE TO 10.3%, WHICH IS THE FIRST TIME WE HAVE SEEN OCCUPANCY LEVELS THIS HIGH SINCE 2007. WITH NEARLY 1.5 MSF OF SPECULATIVE CONSTRUCTION IN THE PIPELINE, METRO PHOENIX MUST CONTINUE RECRUITING NEW BUSINESSES TO RETAIN THIS HEALTHY MARKET POSITION.**

Metro Phoenix's industrial market closed out the year with nearly 8.5 msf in occupancy growth, with more than 4.0 msf of net absorption occurring in Q4, alone. In seven of the past eight quarters, absorption in Metro Phoenix has exceeded 1.0 msf. While move-ins exceeded move-outs in nearly all submarkets at the close of 2015, the Southwest Phoenix submarket dominated with nearly 2.2 msf of occupancy growth for the year and 1.2 msf for the quarter. Menlo Logistics was the second largest single occupancy for the quarter, behind the bts distribution facility for Tractor Supply, occupying over 552,000 sf of warehouse/distribution space in the Southwest Phoenix submarket.

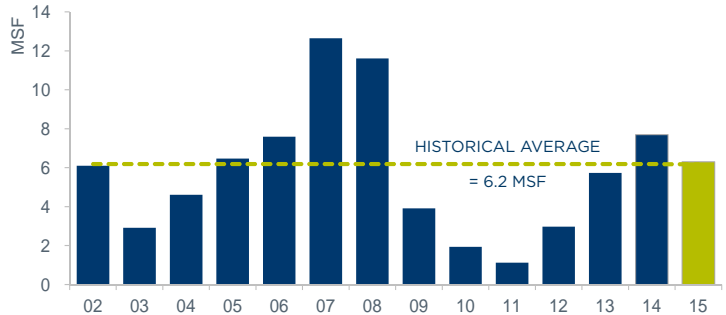
The average asking rate in Metro Phoenix crept up a penny to \$0.52 per square foot (psf) on a monthly triple net basis. Asking rates in the Black Canyon (\$0.77) and Central Phoenix (\$0.81) submarkets increased by \$0.16 and \$0.17 respectively over the past twelve months. Simultaneously, Scottsdale (\$0.84) and Tempe (\$0.58) rental rates fell \$0.14 and \$0.09, respectively since the end of 2014. The asking rate is expected to stabilize in 2016, with the delivery of 1.5 msf of speculative space next quarter.

### Outlook

- There is currently 2.9 msf of new construction in the pipeline for Metro Phoenix's entire industrial market, with 2.3 msf set to deliver next quarter. An estimated 48% of that space is preleased or build-to-suit.
- The Metro Phoenix average asking rate currently stands at \$0.52 psf.
- The Southwest Phoenix submarket dominated 2015 by increasing its occupancy nearly 2.2 msf.

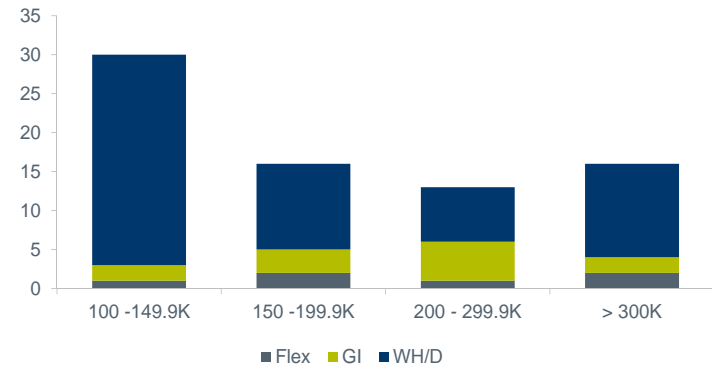
### New Supply

CURRENT NEW SUPPLY NEARLY MATCHES THE HISTORICAL AVERAGE



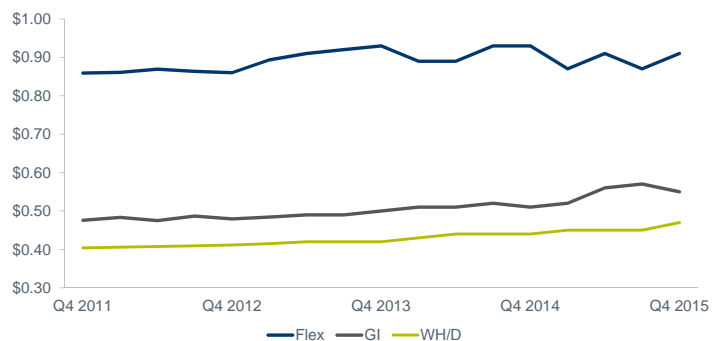
### Large Block Space

CONTIGUOUS BLOCKS OF AVAILABLE SPACE



### Asking Rents

FLEX RENTS HAVE DECREASED 6% AND GI RENTS HAVE INCREASED 10% OVER THE PAST YEAR



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SUBMARKET	TOTAL BLDGS	INVENTORY	SUBLET VACANT	DIRECT VACANT	VACANCY RATE	Q4 NET ABSORPTION	YTD NET ABSORPTION	UNDER CONSTRUCTION	AVG ASKING RENT (All Classes)
Black Canyon	149	4,009,472	3,050	396,853	10.0%	5,763	(21,188)	-	\$0.77
Central Phoenix	111	3,033,819	-	95,563	3.1%	9,613	49,346	-	\$0.81
Chandler	358	23,519,822	225,512	2,194,675	10.3%	9,182	569,471	364,326	\$0.67
Deer Valley	494	15,910,537	18,379	1,167,687	7.5%	774,445	922,782	220,279	\$0.77
East Mesa	121	4,456,323	-	262,812	5.9%	35,830	99,894	-	\$0.67
Gilbert/Gateway	509	16,894,101	82,017	1,510,790	9.4%	230,528	519,565	349,049	\$0.73
Glendale	98	6,445,809	-	726,074	11.3%	11,333	96,829	784,377	\$0.44
Grand Ave	554	18,905,925	24,600	795,079	4.3%	172,227	474,051	-	\$0.42
North Glendale	93	3,049,946	-	224,303	7.4%	130,441	122,780	-	\$0.65
Pinal	127	7,530,549	-	615,552	8.2%	647,120	543,433	-	\$0.33
Scottsdale	140	5,529,767	4,242	468,051	8.5%	92,413	73,759	-	\$0.84
Scottsdale Airpark	333	7,517,873	43,664	698,876	9.9%	71,118	53,793	-	\$1.01
Sky Harbor Airport	1,254	46,714,545	231,632	4,807,380	10.8%	318,281	1,005,092	286,557	\$0.60
Southwest Phoenix	293	42,390,846	626,609	5,423,501	14.3%	1,169,669	2,213,160	448,442	\$0.39
Tempe	976	37,547,584	157,548	3,111,467	8.7%	(5,787)	625,287	255,000	\$0.58
West Central Phoenix	965	54,690,354	-	6,802,788	12.4%	327,103	979,573	54,200	\$0.38
West Mesa	192	6,282,162	26,299	498,299	8.4%	27,970	163,905	-	\$0.64
<b>Grand Total</b>	<b>6,767</b>	<b>304,429,434</b>	<b>1,443,552</b>	<b>29,799,750</b>	<b>10.3%</b>	<b>4,027,249</b>	<b>8,491,532</b>	<b>2,762,230</b>	<b>\$0.52</b>

General Industrial	1,646	80,903,182	761,776	5,335,979	7.5%	428,960	1,315,726	1,009,476	\$0.55
Flex	807	31,270,918	193,228	4,220,183	14.1%	1,020,909	1,363,301	153,400	\$0.91
Warehouse/Distribution	4,314	192,255,334	488,548	20,243,588	10.8%	2,577,380	5,812,505	1,599,354	\$0.47
<b>Grand Total</b>	<b>6,767</b>	<b>304,429,434</b>	<b>1,443,552</b>	<b>29,799,750</b>	<b>10.3%</b>	<b>4,027,249</b>	<b>8,491,532</b>	<b>2,762,230</b>	<b>\$0.52</b>

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

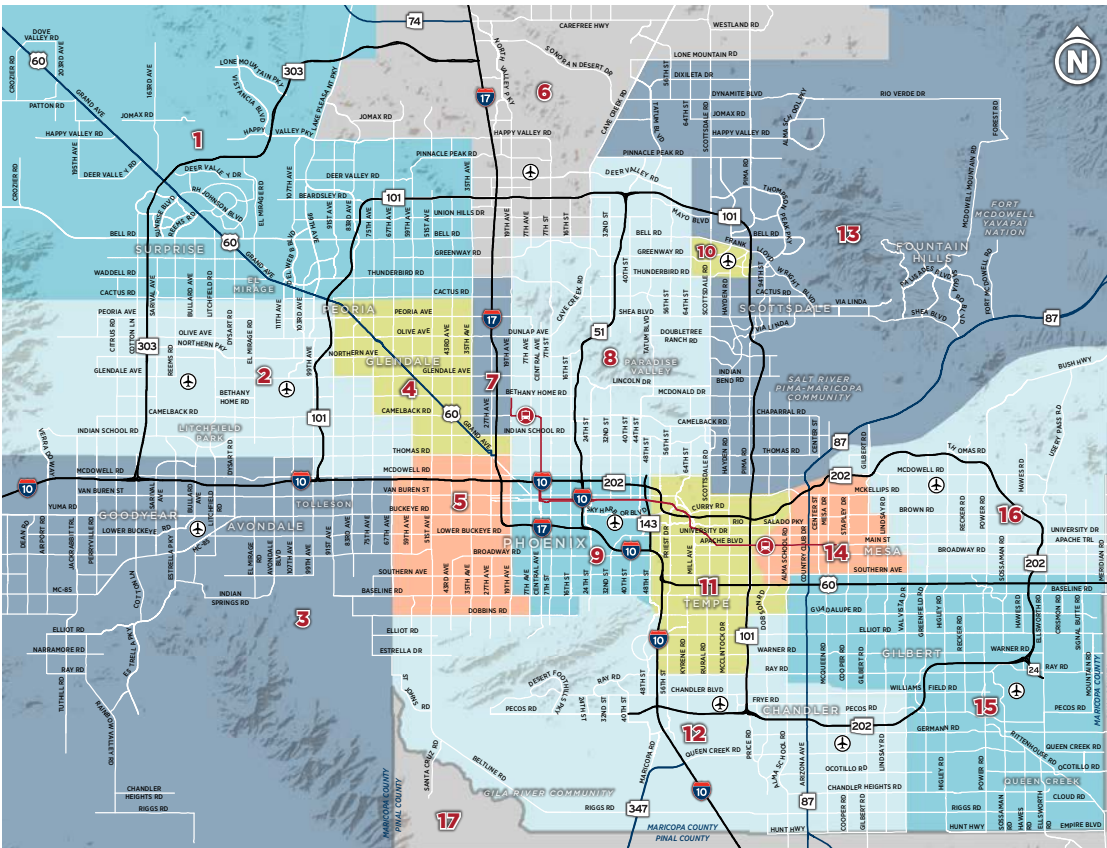
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#### INDUSTRIAL SUBMARKETS



- 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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