

Q1

2018 PHOENIX | INDUSTRIAL REPORT



LINCOLN
PROPERTY
COMPANY

We are pleased to present our First Quarter Phoenix Industrial Report. This report will analyze the events that have occurred over the last three months and discuss what the market outlook is as we move into the second quarter.

The Phoenix Industrial Market has had an impressive start to 2018 with market fundamentals moving in a positive direction. Asking rents have continued to trend upwards and concessions have continued to tighten. As more out of state users look to the Phoenix Market as a cost saving option we can continue to expect market fundamentals to improve as we move further into 2018.

- Vacancy rates have fallen to 7.5%, representing a 165 basis point decrease from the historical 2-year average.
- Rental rates now at \$0.59 have increased 3.5% from a year ago.
- The largest lease signing this quarter was Chewy.com for 800,000 SF.
- There was 1.2 M SF of positive space absorption this quarter with Distribution Space accounting for nearly 750,000 SF.
- Cap rates have continued to compress now averaging 6.8%.

The demand for big box distribution space has led to an increase in construction activity. As more users turn to Phoenix for its affordability and logistical efficiencies compared to other south western markets, speculative construction will need to increase in order to meet these new requirements.

Several major projects are currently under construction including LPC's Lincoln Logistics 40. Lincoln Logistics 40 will be completed this August and will bring over 900,000 SF of product to the Goodyear market. As the demand for new product grows we look forward to continuing to operate in this expanding industry.

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EXECUTIVE VICE PRESIDENT

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ASSOCIATE

MARKET FUNDAMENTALS

ANNUAL COMPARISON

Q¹
2018

VACANCY

7.50%



RENTAL RATES

\$0.59



SF UNDER CONSTRUCTION

6.6 M



NET ABSORPTION

1.2 M



Q¹
2017

VACANCY

9.36%

RENTAL RATES

\$0.57

SF UNDER CONSTRUCTION

4.5 M

NET ABSORPTION

1.9 M

LEASING & SALES ACTIVITY

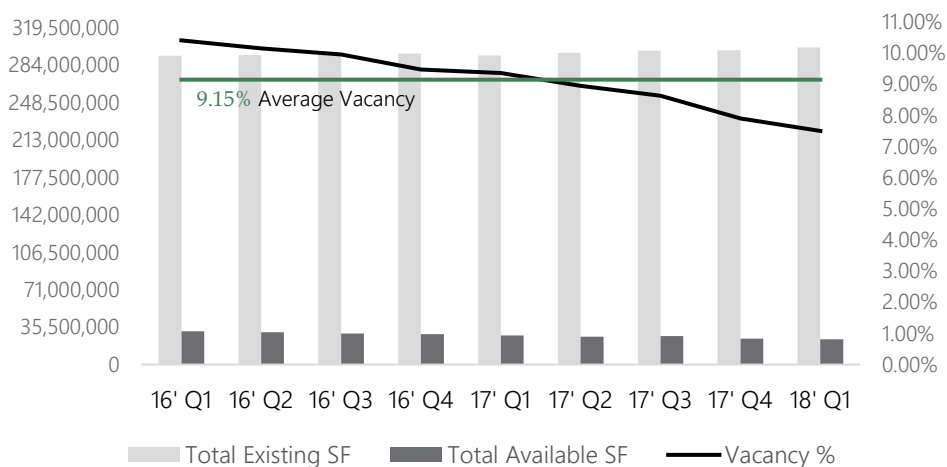


LPC's Deer Valley

Leasing activity has continued to ramp up over the course of the first quarter as more and more large tenants look to set up operations in Phoenix. The largest lease signing of the quarter was the Chewy.com BTS for 800,000 SF.

With existing users renewing and new users flooding the Phoenix Market, nearly 25% of the product delivered this quarter was preleased. The steady stream of users has put downward pressure on overall vacancy rates now reaching historic lows of 7.5%. Rental rates remained flat this quarter primarily due to the fact that the majority of leasing was completed in older distribution space versus flex or multi-tenant buildings.

PHOENIX VACANCY



9 quarter trend

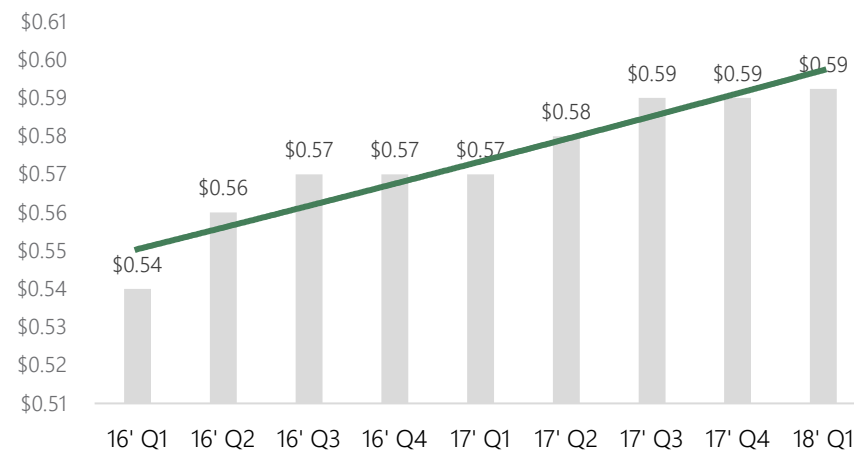
LARGEST LEASES

- Chewy.com (800,000 SF) Goodyear – 143rd Ave & Van Buren
- QEP Company (122,622 SF) Tolleson – 10397 W Van Buren St
- ThredUP (122,125 SF) Tolleson – 7775 W Buckeye Rd
- Intuitive Surgical (131,480 SF) Phoenix – 4550 W Watkins St

LARGEST SALES

- 10 Chandler (Chandler) 552,370 SF / \$109 SF / \$60,000,000
Buyer: ViaWest Properties / Seller: EverWest Real Estate Partners
- Scottsdale Colocation Data Center (Scottsdale) 652,856 SF / \$218 SF / \$58,500,000
Buyer: i/o Data Centers, LLC / Seller: Carter Validus
- Living Spaces (Phoenix) 437,234 SF / \$80 / \$35,000,000
Buyer: Cohen Asset Management / Seller: Irwin G. Pasternack

PHOENIX ASKING RATES



9 quarter trend

CONSTRUCTION ACTIVITY



The demand for big box space has continued to increase, driving the need for speculative development. There are currently over 100 tenants across the Phoenix Market with requirements of 100,000 SF or greater. Despite having 6.6 M SF of product in the pipeline, developers are still struggling to keep pace with demand. LPC's Lincoln Logistics 40 is set to deliver this summer and will bring over 900,000 SF of big box product to the Phoenix Industrial Market. With features such as 40' clear height, moment framing, increased parking availability and clear story windows Lincoln Logistics 40 has set a new standard for industrial product in the Phoenix Market.

Net absorption continues to trend in a positive direction with nearly 1.2 M SF of occupancy gains this quarter. As tenant demand for larger blocks of space continue to spike we can expect to see positive absorption numbers in the future.

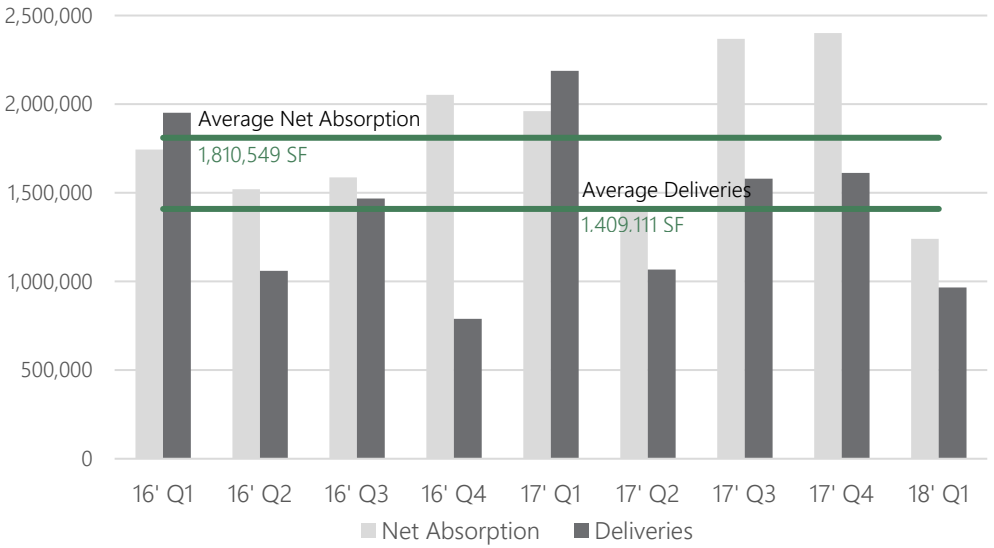
UNDER CONSTRUCTION

- LPC's Lincoln Logistics 40 (901,700 SF) Goodyear
- PV/303 (640,000 SF) Goodyear
- TEN (1,100,000 SF) Phoenix
- Trimaco (275,000 SF) Goodyear

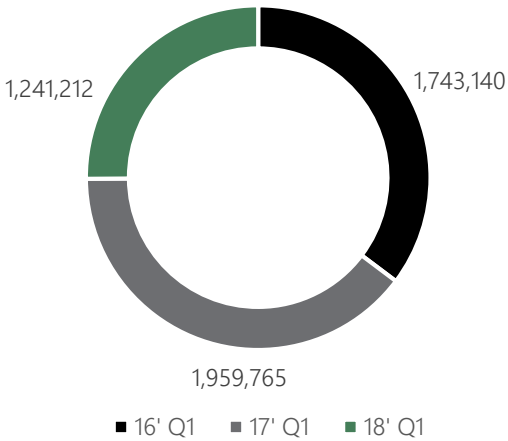
DELIVERIES

- Parc Pinnacle Bldg 1-3 - (311,840 SF) Phoenix
- Turbo Resources Phase I - (253,116 SF) Chandler
- Kyrene 202 Business Park Bldg III-IV - (166,280 SF) Tempe

NET ABSORPTION VS DELIVERIES



Q1 NET ABSORPTION



FIRST QUARTER DATA

DATA SOURCE	TOTAL EXISTING SF	TOTAL AVAILABLE SF	VACANCY %	NET ABSORPTION Q1
CBRE	310,232,057	20,831,514	6.71%	1,452,261
Colliers	294,821,081	22,323,546	7.60%	1,158,037
Costar	335,043,221	24,250,549	7.20%	1,323,625
Cushman & Wakefield	312,048,160	24,289,987	7.80%	1,394,165
JLL	266,410,209	29,038,713	7.30%	1,330,964
Lee & Associates	303,015,540	22,726,166	7.50%	1,359,837
NGKF	284,821,150	23,924,977	8.40%	669,598
LPC Averages	300,913,060	23,912,207	7.50%	1,241,212

DATA SOURCE	UNDER CONSTRUCTION	COMPLETED Q1	COMPLETED YTD	ASKING RATES
CBRE	7,890,451	1,140,370	1,140,370	\$0.64
Colliers	6,224,085	709,200	709,200	\$0.58
Costar	6,630,926	746,200	746,200	\$0.61
Cushman & Wakefield	4,943,167	1,500,000	1,500,000	\$0.58
JLL	5,944,433	817,712	817,712	\$0.52
Lee & Associates	7,498,082	917,028	917,028	\$0.60
NGKF	7,314,039	932,144	932,144	\$0.62
LPC Averages	6,635,026	966,093	966,093	\$0.59

Lincoln Property Company reflects market data averaged from across the market's major brokerage houses.

Lincoln Property Company's Desert West Region provides a full spectrum of real estate services in Arizona, Nevada, Utah and New Mexico. Based in Phoenix, Arizona, the Desert West office specializes in office, industrial, and retail investment, development, and property management. Together, our team of experts manage nearly 6 million square feet, has acquired approximately 4 million square feet and developed nearly 3 million square feet of commercial product.



LET'S TALK

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