

Los Angeles

Orange County

Ventura

Inland Empire

Phoenix

Q1 | 2019

# Market Report

Phoenix Industrial



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### MARKET ACTIVITY



Direct Vacancy  
▽ 6.9%



Net Absorption  
▽ 497,464 SF



Overall Vacancy  
▽ 7.1%



Gross Absorption  
▽ 4,473,756 SF



Under Construction  
△ 7,971,195 SF



Rental Rates (NNN)  
△ \$0.66



Sale Price Change  
△ 6.2%



Deal Volume  
▽ -28.0%

### KEY TAKE AWAYS

#### MARKET

- **Vacancy Rate:** Dipped slightly in Q1. Stabilized around 7%.
- **Net Absorption:** Nearly 500K SF of positive net absorption, but sharp decline from Q4.
- **Gross Absorption:** After a strong Q4, gross absorption drops to below historic average.
- **Industrial Supply:** Over 360K SF was delivered in Q1. Under construction activity increases to nearly 8 million SF, emphasizing the future growth of this market.

#### ECONOMIC OUTLOOK

- **Interest Rates:** The Fed is cutting its previously forecasted two (2) rate hikes in 2019 to zero (0) hikes amid fears of a slowing economy.
- **Trade:** U.S. talks with China are gaining optimism that a deal will be agreed to, boosting global trade.
- **Stock Market:** Indexes performed the best to start a year since 2013. Led by the NASDAQ gaining 16.5%.
- **Oil:** Crude Oil increased 26% in Q1 after a significant drop in Q4 2018.

### ECONOMIC OUTLOOK



U.S. Employment  
▽ 3.8%



U6 Rate  
▽ 7.3%



Interest Rate  
▽ 4.1%  
(30 year fixed)



Changing GDP  
▽ 2.1%



Port Traffic Y/Y Δ  
△ 7.4%



NYSE Performance  
△ 13.6%



Inflation Change  
▽ +1.5%



10 Yr. - 2 Yr. Spread  
▽ 14 BPS

EXPERIENCE IN A CHANGING MARKET

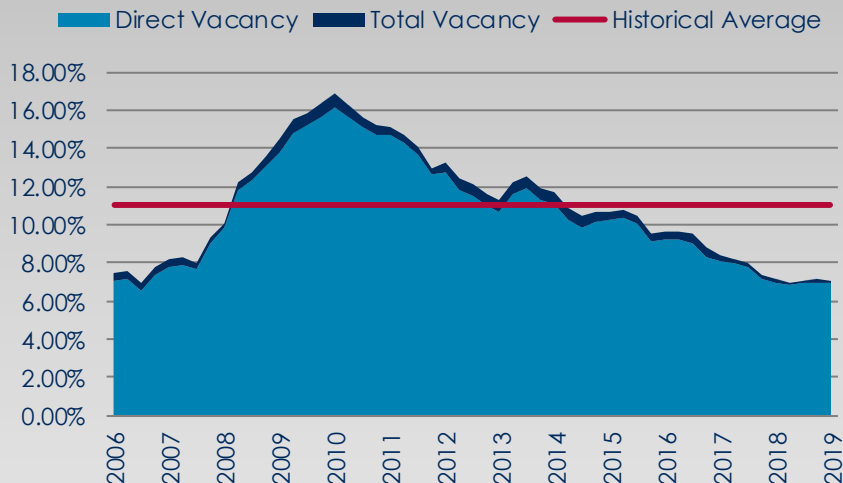
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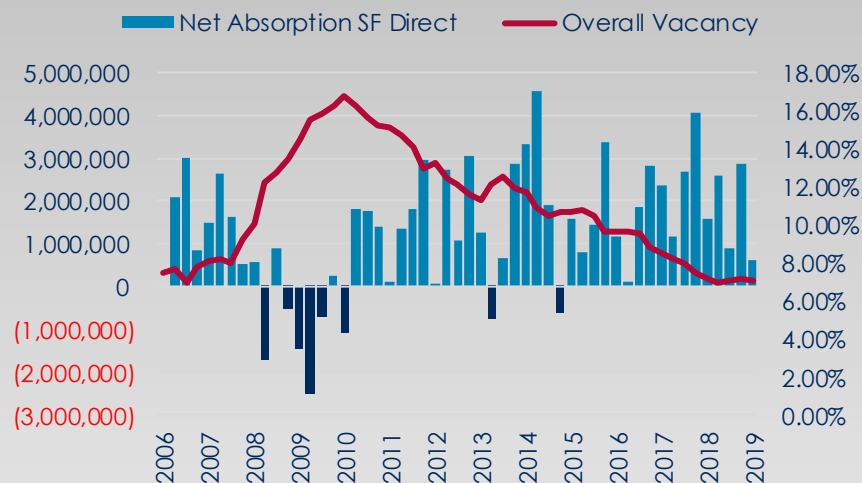
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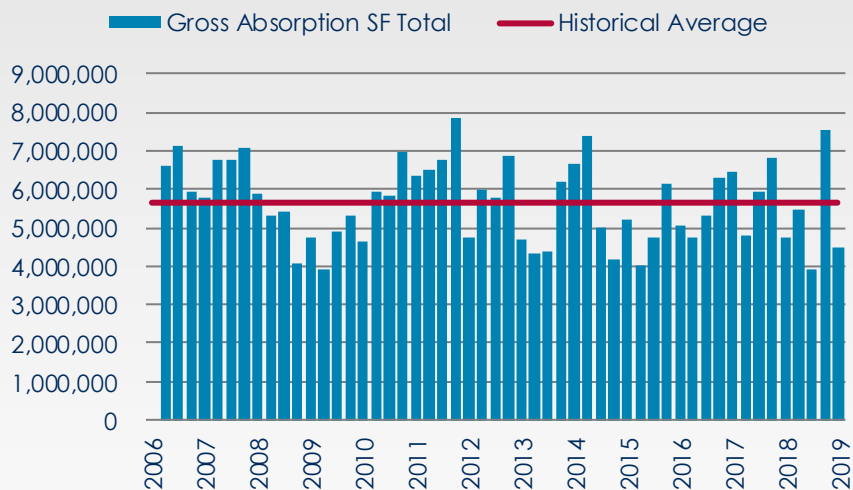
## OVERALL VACANCY Overall vacancy decreased slightly



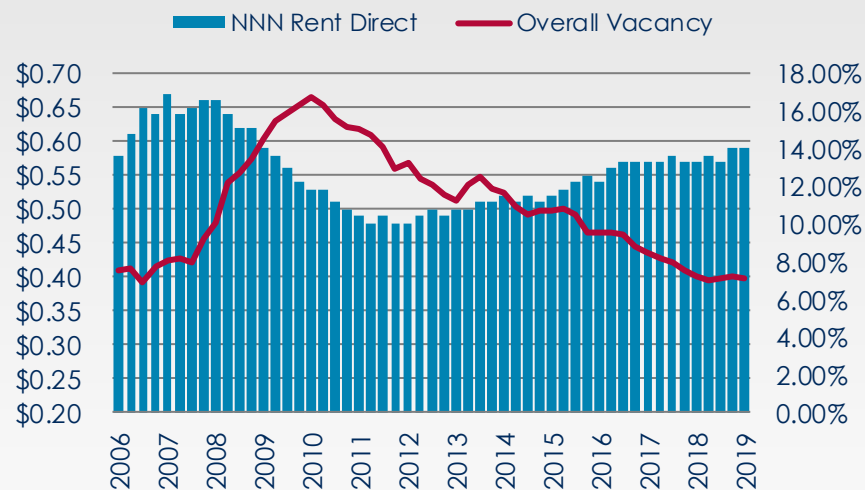
## NET ABSORPTION DROPS SIGNIFICANTLY FROM Q4 2018



## GROSS ABSORPTION REVERTS TO BELOW HISTORIC AVERAGE

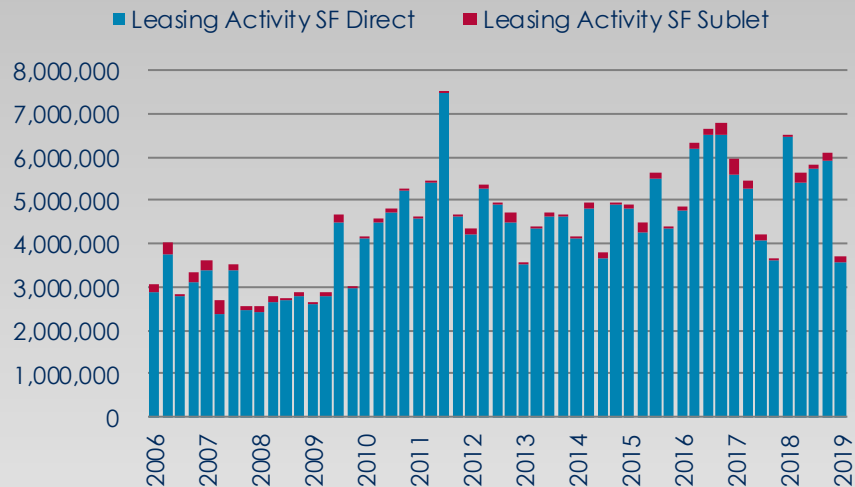


## ASKING RENTS LEVELING OFF

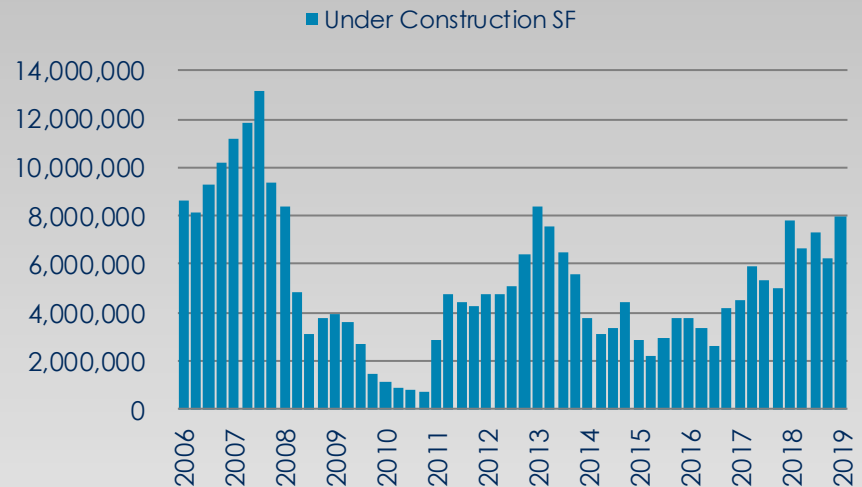




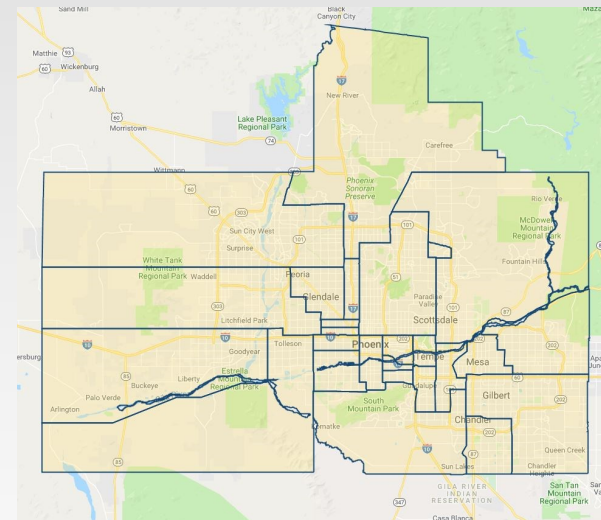
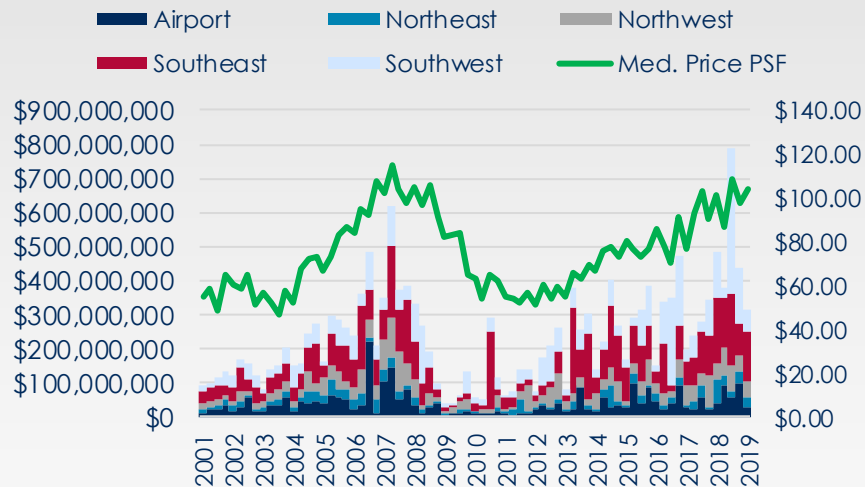
## LEASING ACTIVITY DECLINES TO LOWEST LEVEL SINCE Q4 2017



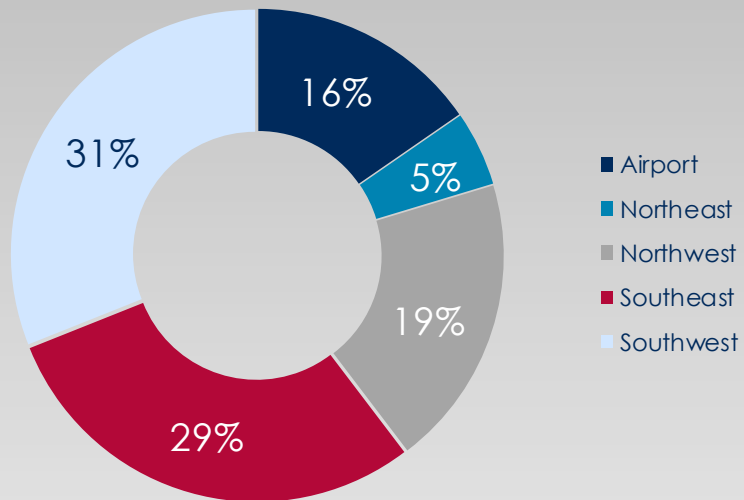
## CONSTRUCTION ACTIVITY PICKED UP IN Q1 WITH CLOSE TO 8M UC



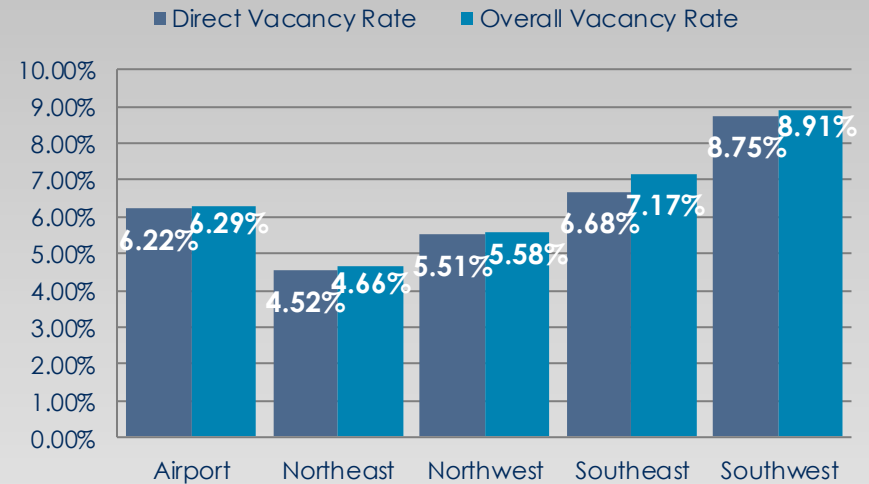
## SALE PRICES INCREASED & VOLUME FELL IN Q1



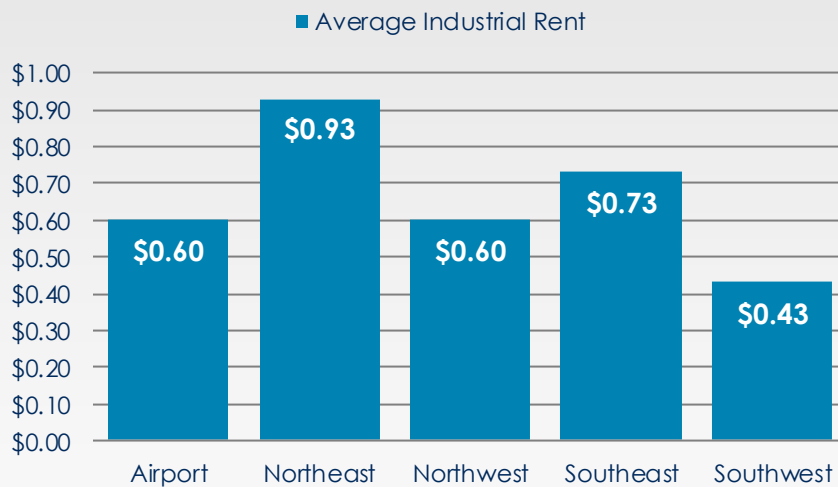
## SQUARE FOOT BREAKDOWN- 329,301,128 SF MARKET SIZE



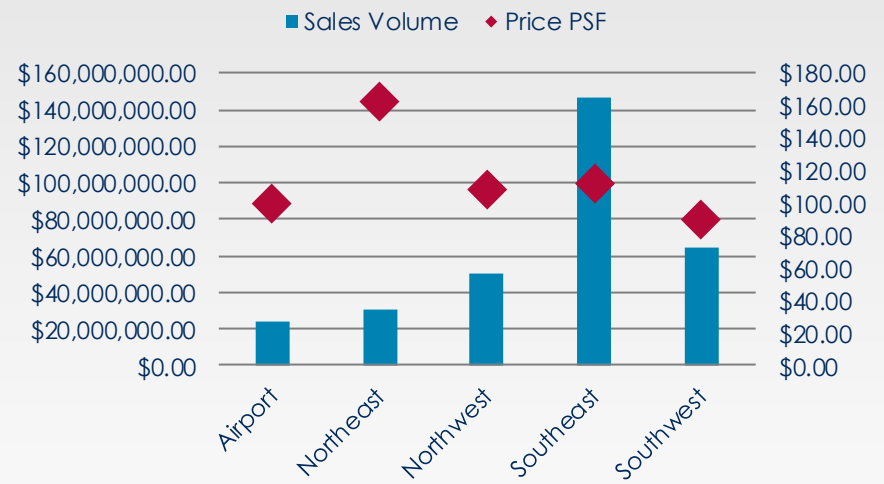
## VACANCY BREAKDOWN



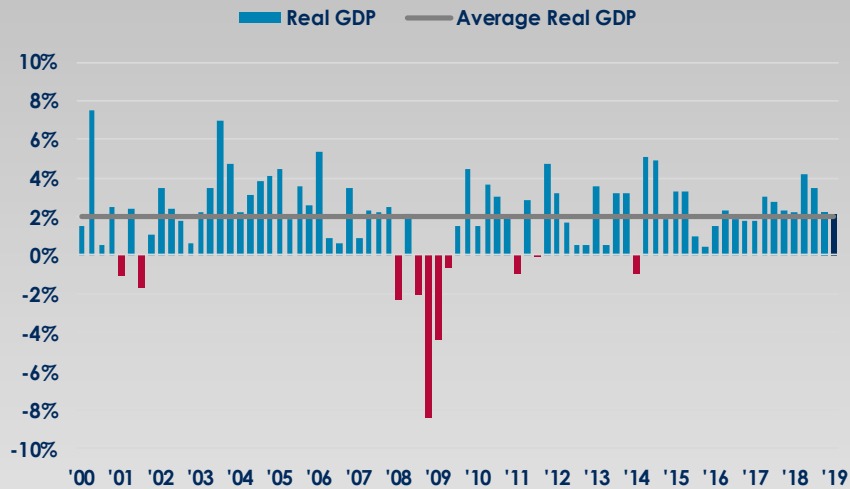
## AVERAGE RENT PSF



## VOLUME BREAKDOWN

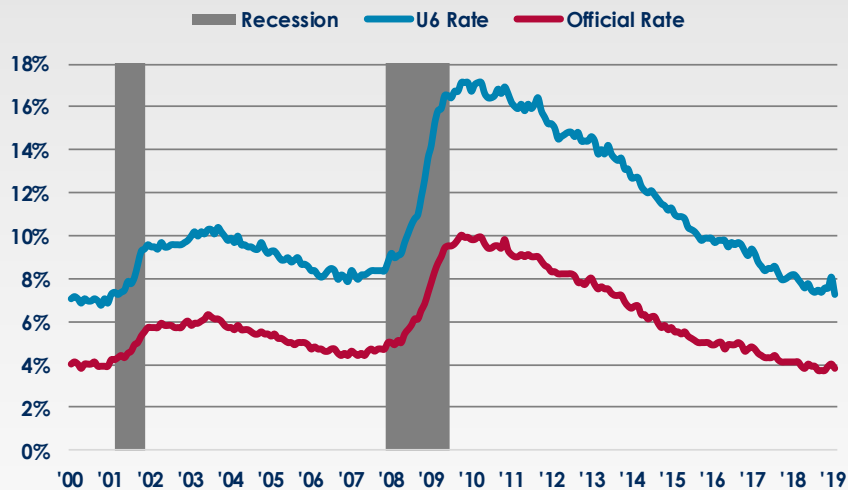


## GDP REVISED DOWN IN Q4 TO 2.2%. Q1 ESTIMATE IS 2.1%

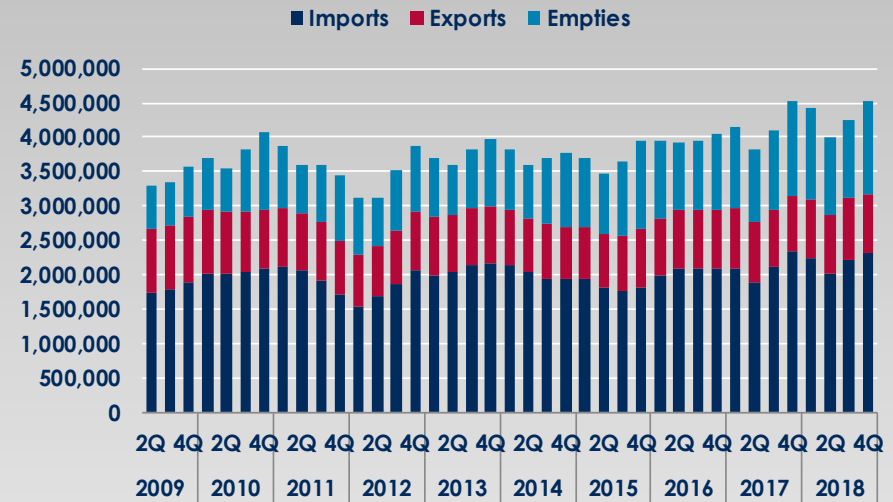


\*2.1% for 1Q19 based on Fed Reserve Bank of Atlanta "GDP Now" Forecast

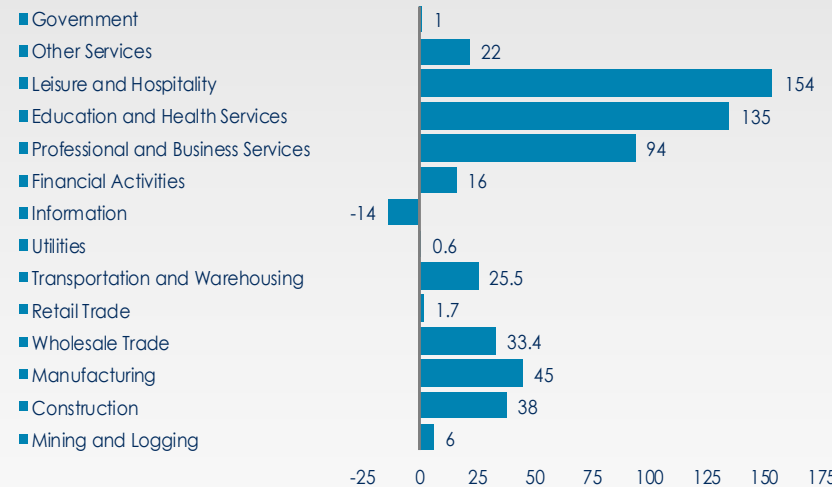
## UNEMPLOYMENT CONTINUES DOWNWARD TREND



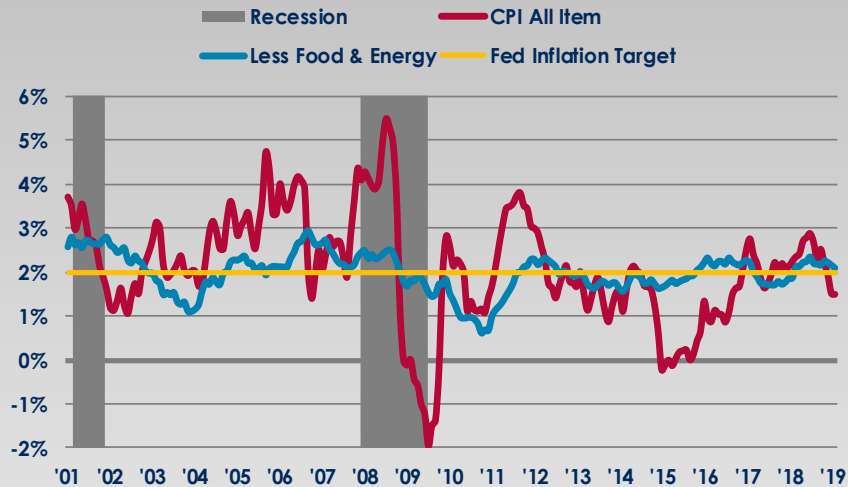
## PORT ACTIVITY IS AT AN ALL-TIME HIGH



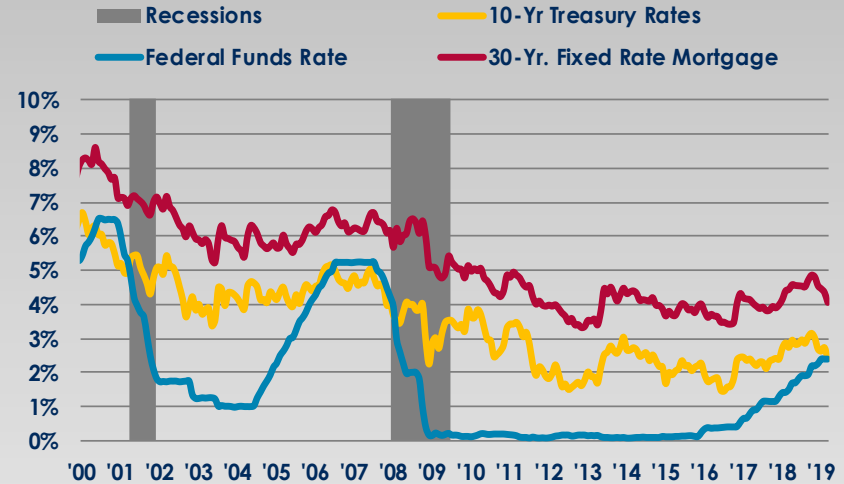
## MOST INDUSTRY SECTORS CONTINUE TO SEE GROWTH



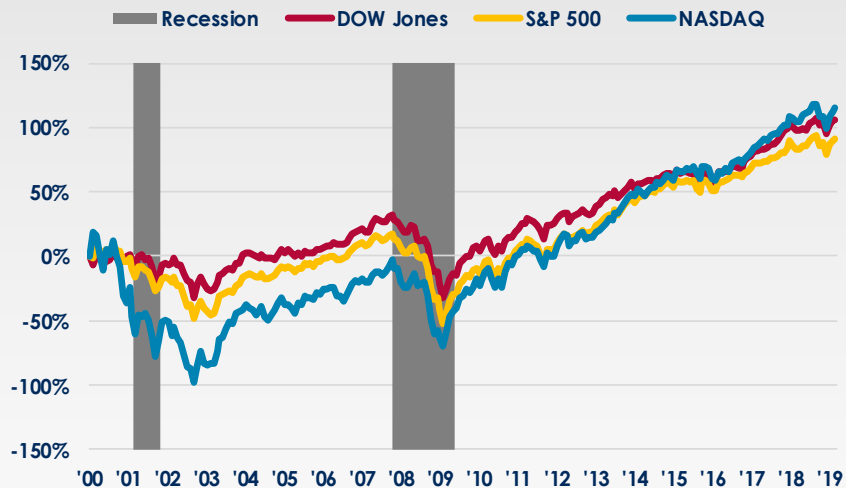
## CPI DROPS BELOW 2% TARGET



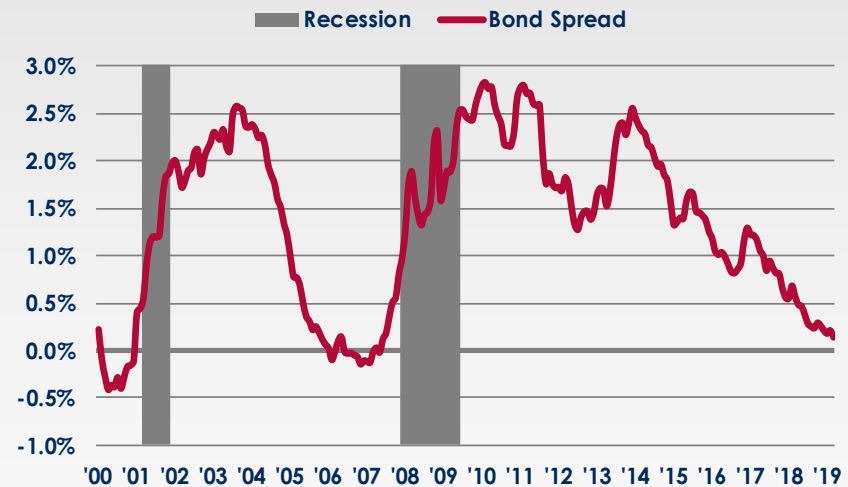
## RATES ARE STARTING TO COMPRESS



## NYSE INDEXES SEE STRONGEST GAINS TO START YEAR SINCE 2013



## BOND SPREAD CONTINUES TO NARROW TO 14 BASIS POINTS



## METHODOLOGY & TERMINOLOGY

### Methodology

Industrial and flex (R & D) buildings that are 5,000 square feet and greater.

### Direct Vacant SF

Space that is vacant and ready for occupancy by a user. The space is being offered for lease or sale directly from the landlord.

### Total Vacant W/ Sublet SF

Space that is vacant and ready for occupancy by a user. The space is being offered for lease or sale by the landlord or for sublease by the current tenant.

### Direct Vacancy Rate

Total vacant direct space (vacant space for lease or sale from the landlord or owner) divided by the total rentable square footage for existing buildings only.

### Vacancy W/ Sublet Rate

Total vacant direct space and sublease space divided by the total rentable square footage for existing buildings only.

### Gross Absorption

The total change in occupied space over a given period of time, counting space that is occupied but not space that is vacated by tenants. Gross absorption differs from leasing activity, which is the sum of all space leased over a certain period of time.

### Net Absorption

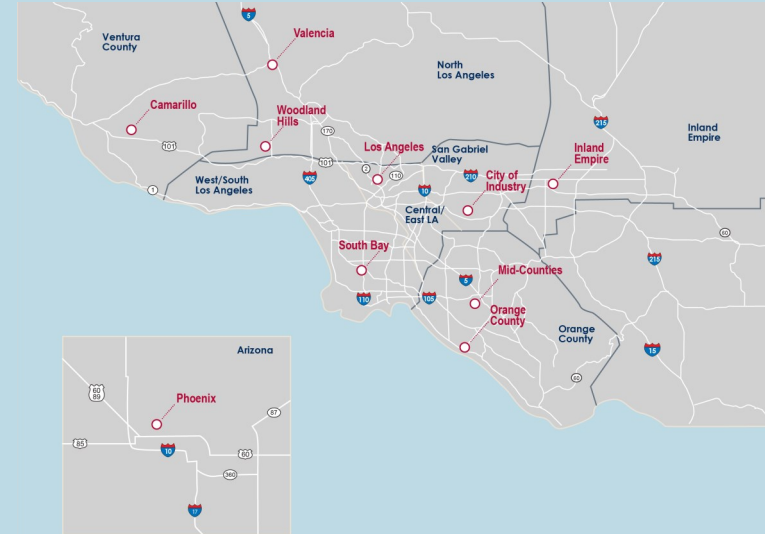
The net change in occupied space over a given period of time, calculated by summing all the positive changes in occupancy (move ins) and subtracting all the negative changes in occupancy (move outs).

### Under Construction

Planned buildings for which construction has started but have not yet been granted a Certificate of Occupancy. Planned buildings are not included.

### Completed in 2018

New buildings with original construction completed in the year 2018 and granted a Certificate of Occupancy. Renovated buildings are not included.



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