

Los Angeles

Orange County

Ventura

Inland Empire

Phoenix

Q3 | 2019

Market Report

Phoenix Industrial



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MARKET ACTIVITY

KEY TAKE AWAYS

ECONOMIC OUTLOOK

MARKET

- **Vacancy Rate:** Fell by 20 BPS to 6.8%.
- **Net Absorption:** Q3 was the strongest reading so far in 2019 with 2.5M SF, representing 0.75% of inventory.
- **Sales:** In Q3, sales volume achieved a record high at nearly \$640M. Median price PSF increased by 11.6% to \$110.08 PSF.
- **Industrial Supply:** Over 2.2M SF was delivered in Q3. Bringing the YTD total to over 4.7M SF. Under construction activity continues to increase with greater than 10 million SF, emphasizing the future growth of this market.

ECONOMIC OUTLOOK

- **Interest Rates:** The yield curve remained inverted in Q3. In Q3, the 10-2 Spread inverted as well for the 1st time since 2007. The Fed cut rates twice in Q3, both by 25 BPS. An additional rate cut could transpire in Q4, if economy weakens.
- **Trade:** The trade dispute with China continues with no end in sight. Talks between the two most powerful economies are set to resume in Oct.
- **Stock Market:** The Dow and S&P posted minimal gains of 1.2% in Q3. NASDAQ finished negative.
- **Oil:** Crude Oil was down 6.7% in Q3.


Direct Vacancy
✓ 6.3%


Net Absorption
▲ 2,501,921 SF


Overall Vacancy
✓ 6.8%


Gross Absorption
▲ 6,958,730 SF


Under Construction
▲ 10,314,053 SF


Rental Rates (NNN)
↔ \$0.61


Sale Price Change
▲ 11.6%


Deal Volume
▲ 125.1%


U.S. Employment
▲ 3.7%



U6 Rate
▲ 7.2%


Interest Rate
✓ 3.6%
(30 year fixed)


Changing GDP
▲ 2.1%


Port Traffic Y/Y Δ
✓ 1.1%


NYSE Performance
▲ 0.9%


Inflation Change
✓ 1.7%


10 Yr. - 2 Yr. Spread
✓ 6 BPS

EXPERIENCE IN A CHANGING MARKET

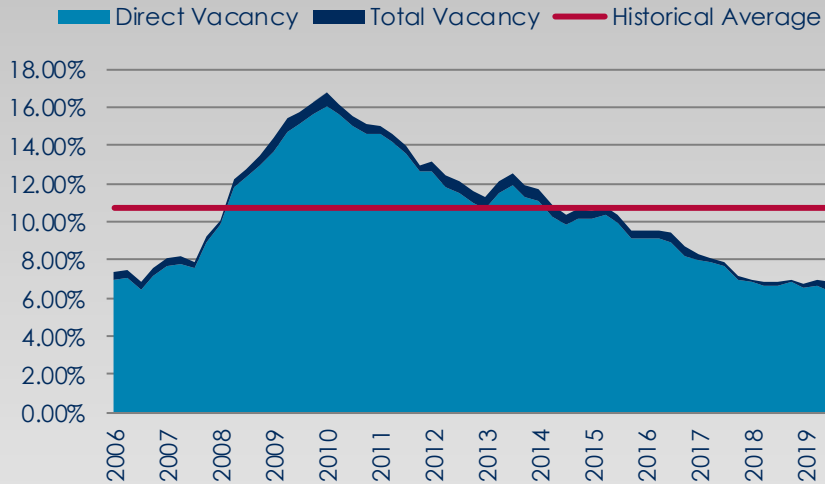
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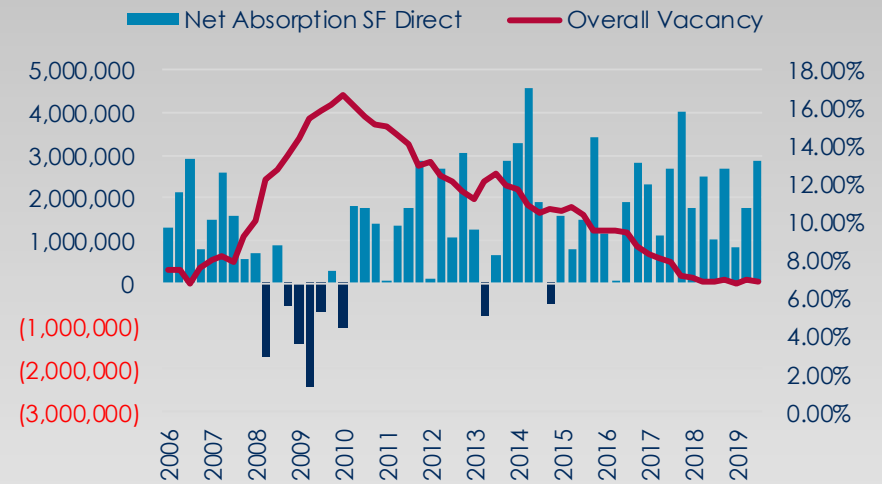
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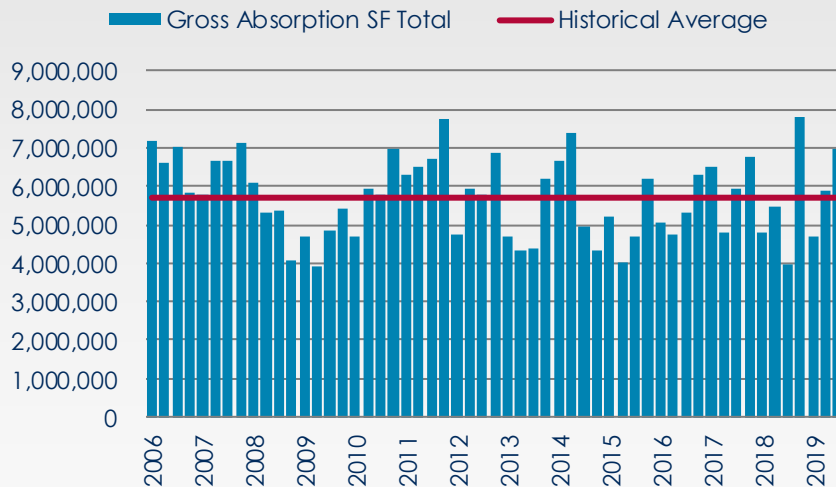
OVERALL VACANCY FELL BY 20 BPS TO 6.8%



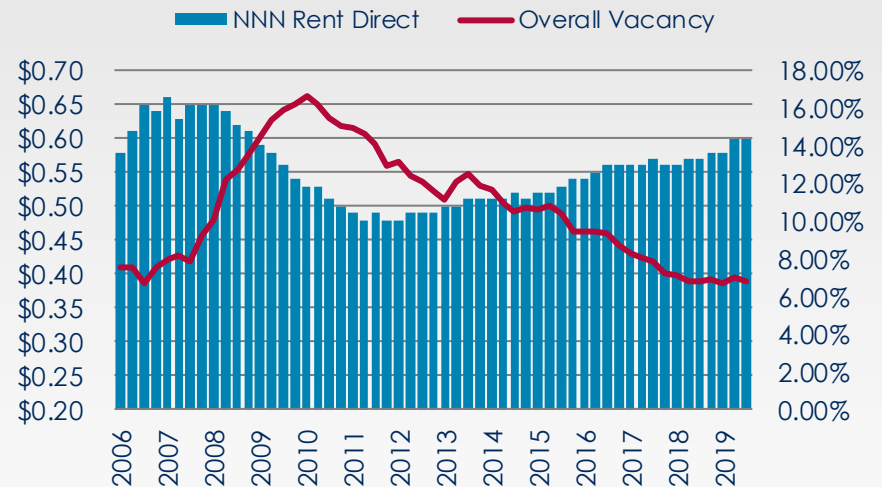
NET ABSORPTION STRONGEST QUARTER OF 2019 WITH OVER 2.5M SF



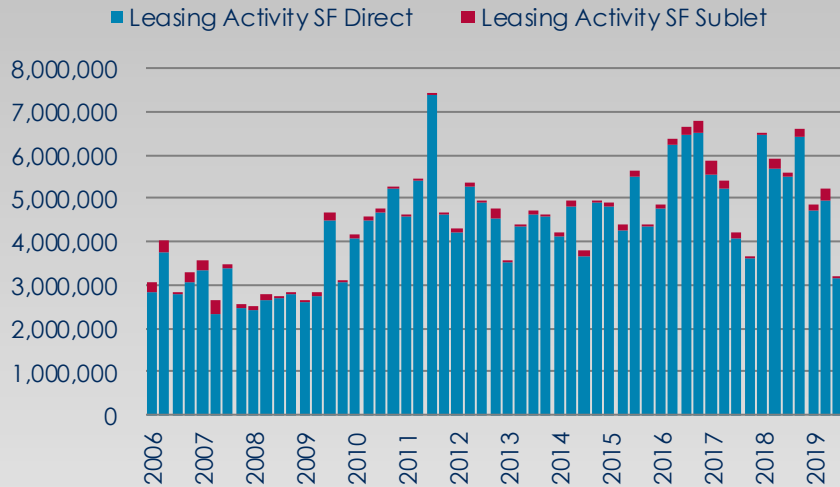
GROSS ABSORPTION INCREASED BY OVER 1M SF FROM Q2 TO JUST UNDER 7M SF



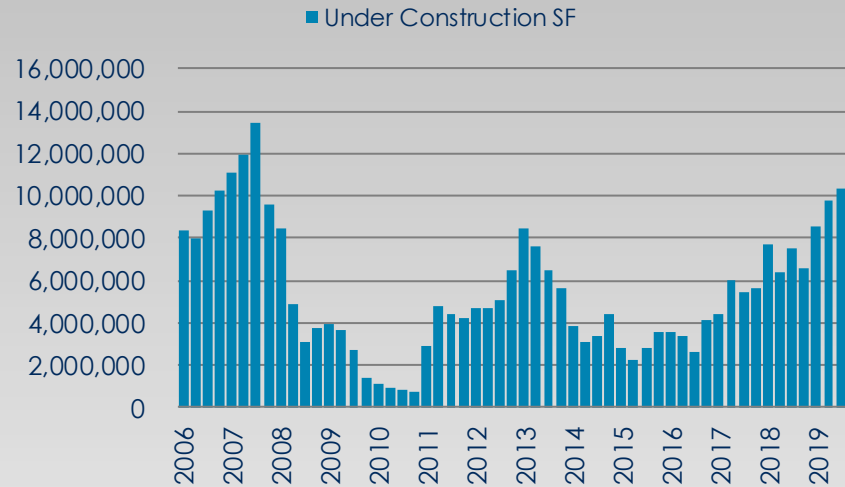
ASKING RENTS REMAINED THE SAME FROM Q2



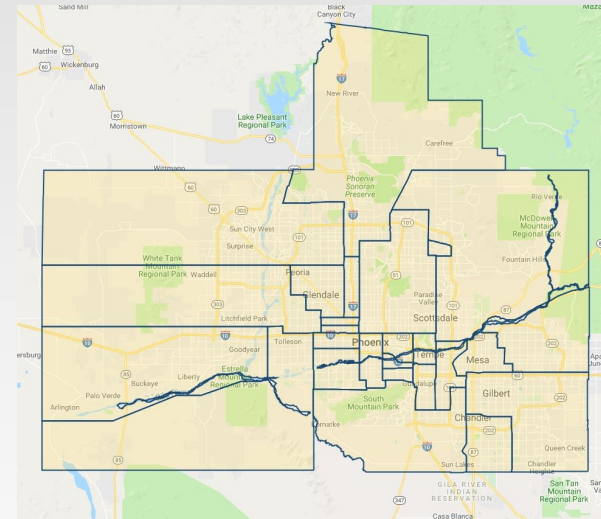
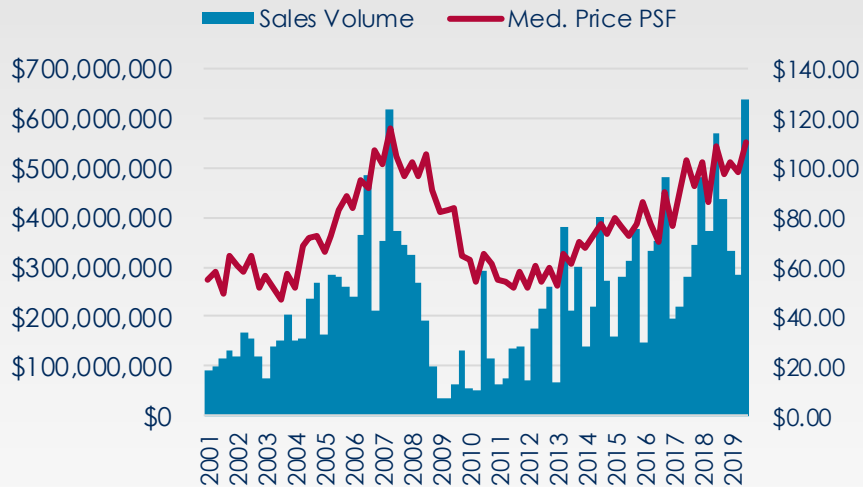
LEASING ACTIVITY DECLINED TO SLIGHTLY OVER 3.2M SF



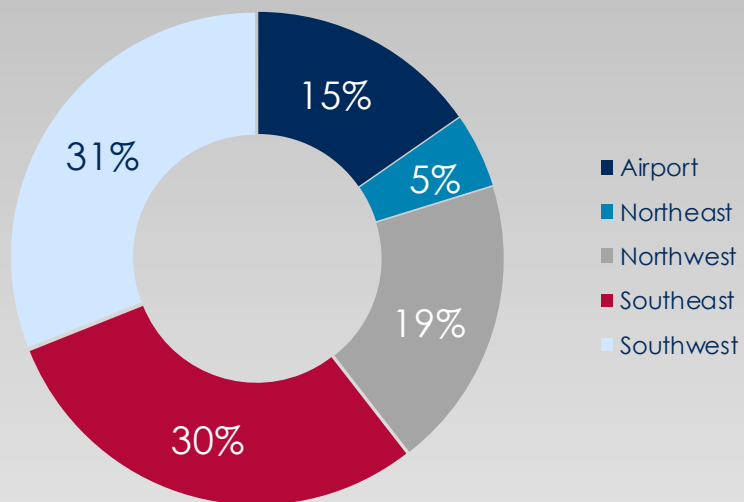
CONSTRUCTION ACTIVITY OVER 2.2M SF WAS DELIVERED IN Q3 WITH ANOTHER 10M+ SF UC



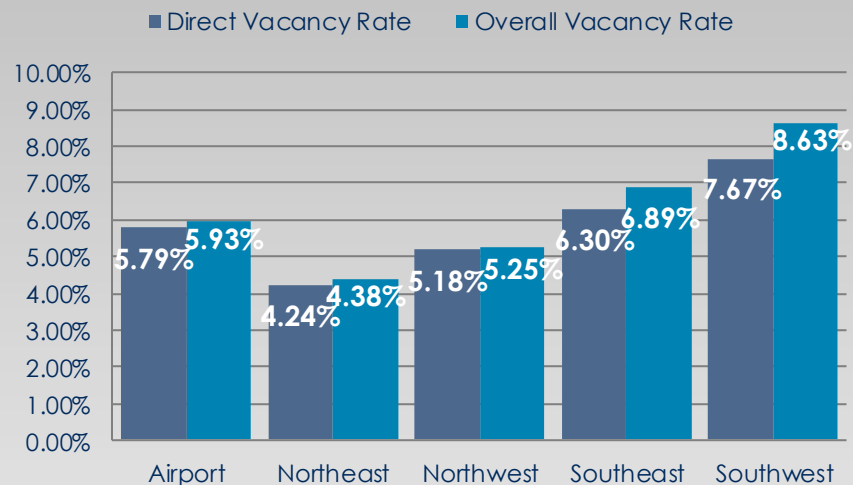
SALES PRICES ROSE TO A MEDIAN OF \$110.08 PSF. VOLUME AT HISTORIC HIGH



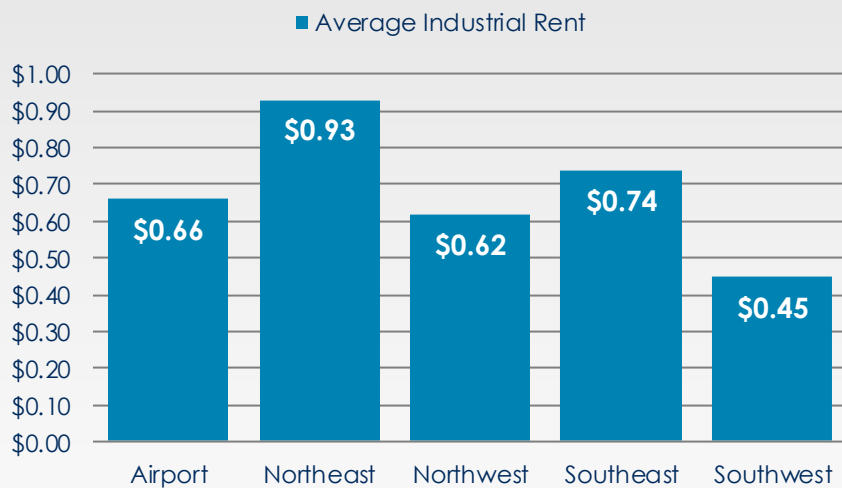
SQUARE FOOT BREAKDOWN- 332,998,246 SF MARKET SIZE



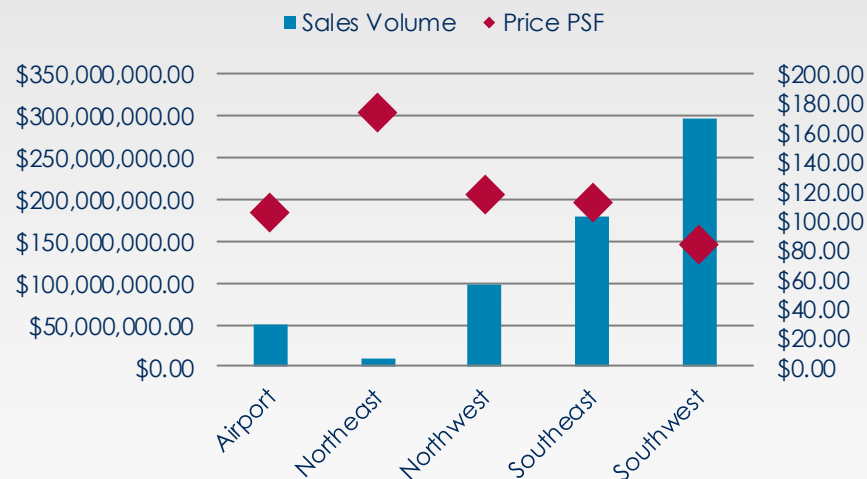
VACANCY BREAKDOWN



AVERAGE RENT PSF



VOLUME BREAKDOWN



Los Angeles

Orange County

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Phoenix

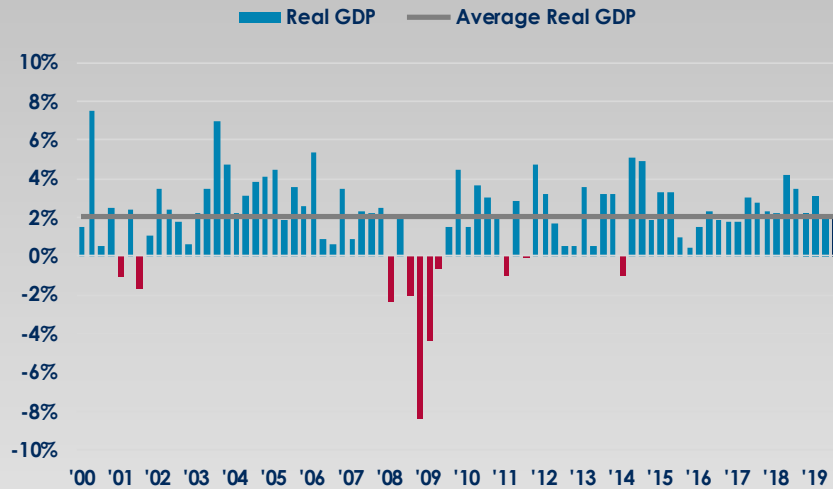
Economic Overview

Q3 2019



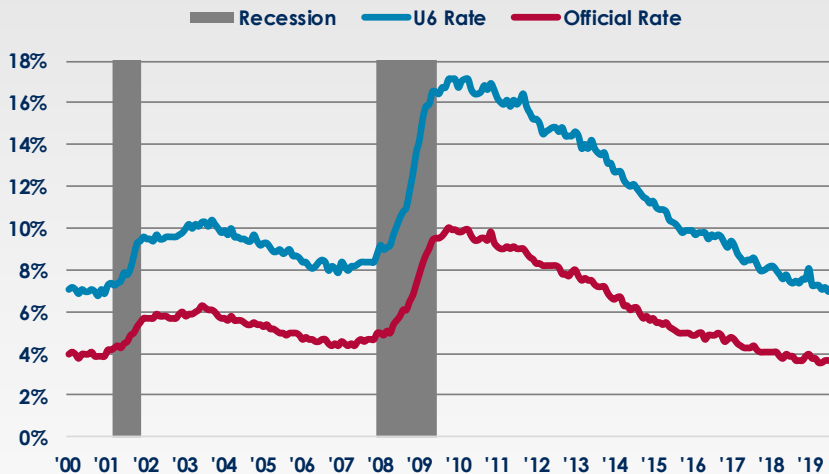
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GDP IN Q2 FINISHED AT 2.0%. Q3 ESTIMATE IS 2.1%

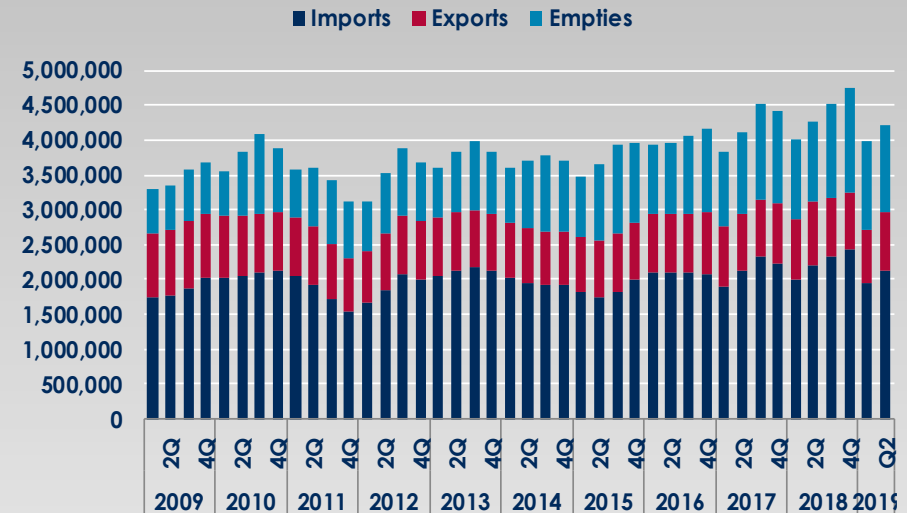


*2.1% for 3Q19 based on Fed Reserve Bank of Atlanta "GDP Now" Forecast

20 BPS INCREASE IN U6 RATE SHOWS PEOPLE ARE COMING BACK TO WORK

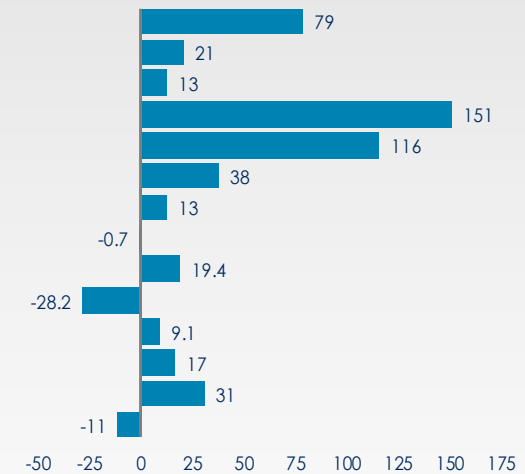


PORT ACTIVITY INCREASED IN Q2 BY 5.6% FROM Q1

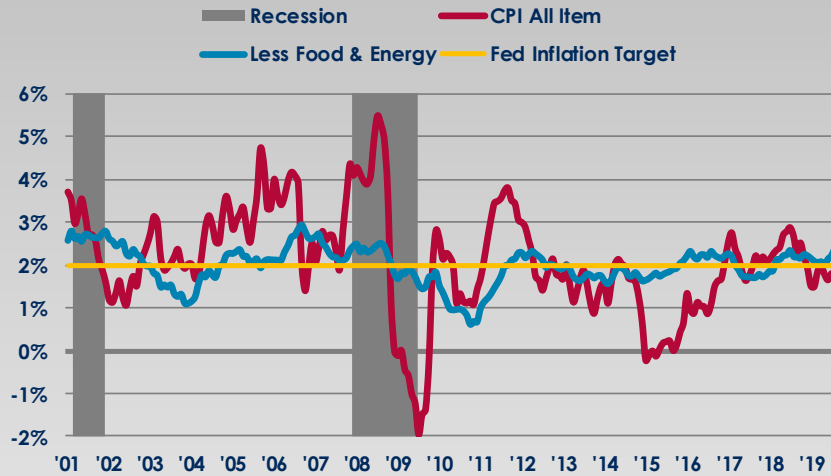


MOST INDUSTRY SECTORS CONTINUE TO SEE GROWTH

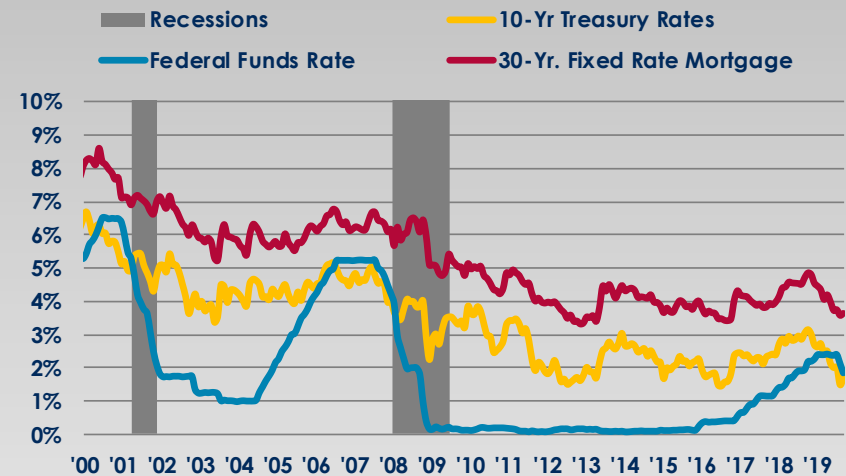
- Government
- Other Services
- Leisure and Hospitality
- Education and Health Services
- Professional and Business Services
- Financial Activities
- Information
- Utilities
- Transportation and Warehousing
- Retail Trade
- Wholesale Trade
- Manufacturing
- Construction
- Mining and Logging



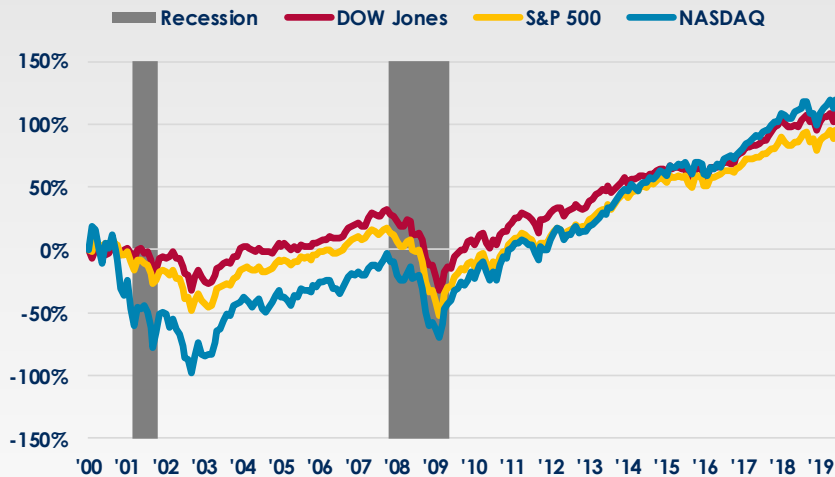
CPI JUST BELOW 2% TARGET



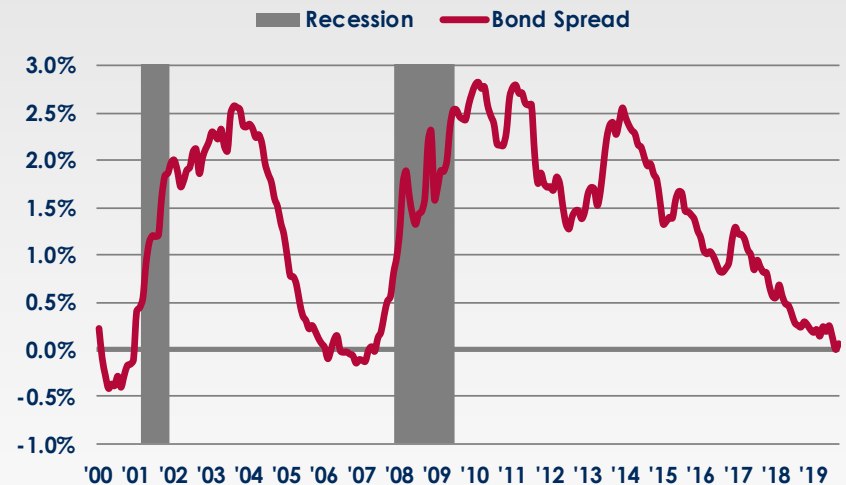
THE YIELD CURVE REMAINS INVERTED



VOLATILE Q3 FOR INDEXES. DOW & S&P UP 1.2%. NASDAQ DOWN



10-2 YEAR BOND SPREAD INVERTED IN Q3



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

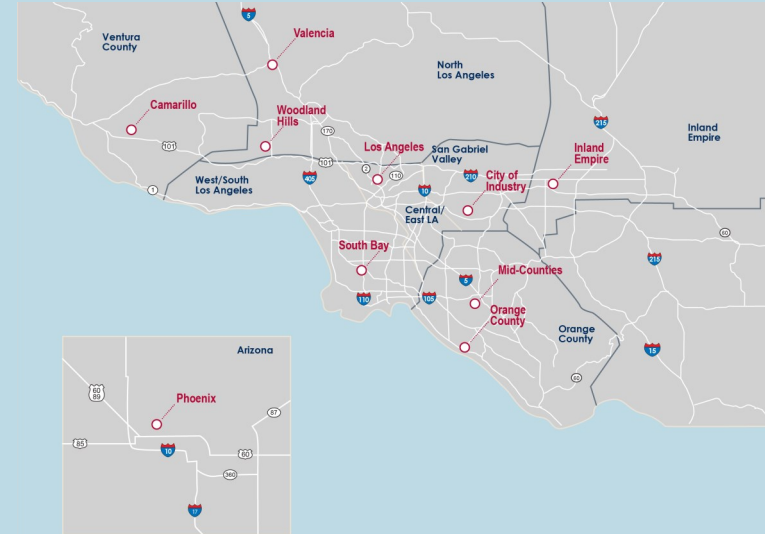
The net change in occupied space over a given period of time, calculated by summing all the positive changes in occupancy (move ins) and subtracting all the negative changes in occupancy (move outs).

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 2019

New buildings with original construction completed in the year 2019 and granted a Certificate of Occupancy. Renovated buildings are not included.



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