

Industrial Outlook

Quick look

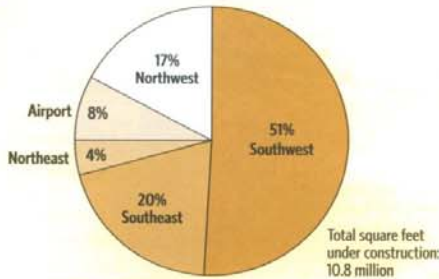
Phoenix-area industrial properties at year-end 2007:

- **TOTAL INVENTORY:** 219 million square feet
- **OVERALL VACANCY RATE:** 10.1 percent
- **DIRECT VACANCY RATE:** 9.6 percent
- **SUBLEASE VACANCY RATE:** 0.5 percent
- **NET ABSORPTION:** 4.73 million square feet
- **SPACE UNDER CONSTRUCTION:** 7.91 million square feet
- **AVERAGE MONTHLY LEASE RATE:** 75 cents a square foot

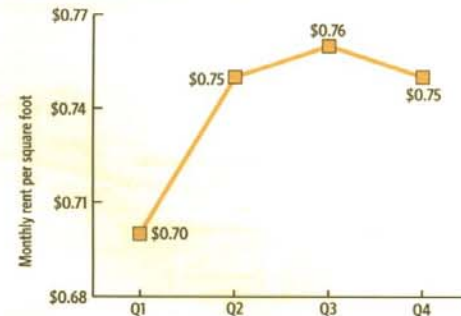
Source for all: Colliers International-Greater Phoenix

Under construction

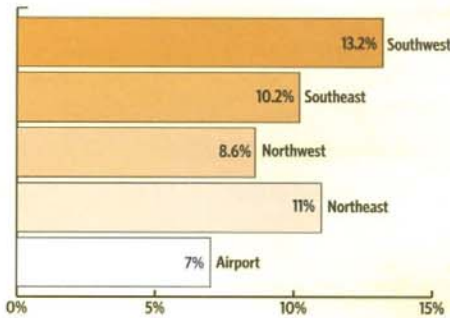
Total industrial space under construction:



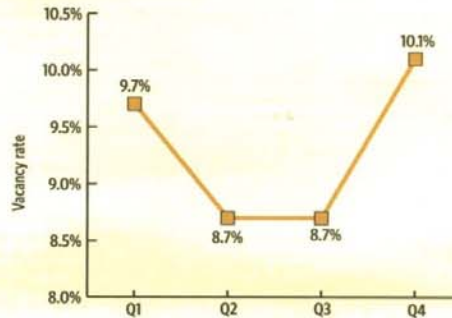
Overall asking rent 2007



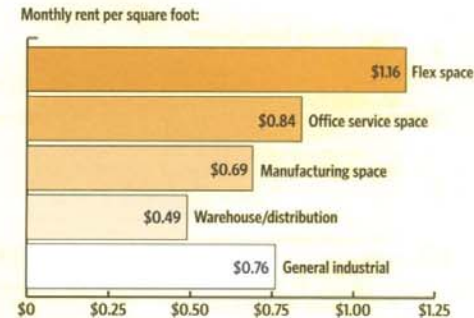
Year-end vacancies by area



Overall vacancies 2007



Year-end asking rent



Growth continues at opposite ends of Valley

Investors paying record prices to gain foothold in the Southwest

The Southwest Valley industrial market experienced many changes in 2007. Historically, a large lease transaction would be 100,000 square feet and a large distribution facility would be 300,000. In 2007, four speculative developments totaling almost 2 million square feet and ranging in size from 377,000 to 604,000 square feet were delivered:

1. Tratt Properties' Riverside Industrial Center, 4747 W. Buckeye Road, Phoenix.
2. The Alter Group's Buckeye Logistics Center, 6835 W. Buckeye Road, Phoenix.
3. Lauth Property Group's Riverside Business Center, 4600 W. Lower Buckeye Road, Phoenix.
4. EJM Development's Loop 101 & Interstate 10 Commerceplex II, southeast corner 107th Avenue and Van Buren Street, Tolleson.

Due to the pent-up demand, these developments were very welcomed. The vacancy rate had been low and users were relocating to other cities for their distribution and manufacturing needs. Developers built these big boxes on the theory "build it and they will come," and so far it has proven successful.

Many tenants absorbed all or a portion of these facilities prior to completion — Amazon, Home Depot and Ulta. These lease transactions were consummated at or above the developer's proforma lease rates and have fueled nearly 6 million square feet to be delivered in 2008.

The first half of 2007 also saw developers



Payson MacWilliam

continuing to purchase large parcels of land for the future. Improved infill prices increased substantially, with sites selling close to \$7.50 per square foot.

Institutional investors paid top dollar for investment properties. Construction costs increased nearly 50 percent and buildings sold for close to \$100 per square foot.

The second half of 2007 saw leases cool and a correction beginning on raw land prices in the outlying areas of Buckeye and Goodyear.

This year will open with institutional investors purchasing nearly 2.5 million square feet of speculative product at record prices to gain a presence in the Southwest Valley.

LBA Realty Advisors will pay about \$66 per foot for the 1.2 million square foot McShane Westside Business Park at 83rd Avenue and Buckeye Road. ING Real Estate Investors will pay \$64 per foot for the Panattoni Development Co. project at 75th Avenue and Durango.

Payson MacWilliam is a senior vice president with Colliers International, specializing in industrial properties in the Southwest Valley. He can be reached at 602-222-5060 or payson.macwilliam@colliers.com.

Will prices be met as space comes online in SE Valley?

The moment of truth is upon us in the Southeast Valley industrial market. Look no further than the Chandler Municipal Airport area to find the answers.

After a frenetic pace of land purchases in 2006, new product is now available for lease and sale in the airport. The question is: Are the \$1.00 to \$1.50 lease rates and \$15 to \$35 tenant improvement allowances for flex and multi-tenant buildings being realized?

We will find out in the first half of 2008 as requests for proposals and letters of intent are out for the new space.

With direct vacancy rates hovering around 9 percent at year end in the Southeast Valley and about 4 million square feet planned for the Chandler Airport area alone, all the players (Hewson, Panattoni, Opus, LGE, Rockefeller Group, Harsch, Orsett, Carlson, Meridian West, Via West, Mark IV, Mountain-West, DWO and others) are poised for new product to come on line in 2008 and beyond.

Twelve miles to the east in the Phoenix-Mesa Gateway Airport area, developers are lining up land sites and building or waiting to see what leases



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and sells in the Chandler area.

With industrial activity six months behind the residential curve, we did not experience much of a slowdown in 2007, although fourth-quarter

leasing activity lagged.

Some developers are looking for good land deals and anticipating a 2 to 5-year hold for construction.

Long term, the outlook is bright for industrial developers and users in the Southeast Valley. Land values remain a bargain compared to the Scottsdale and North Phoenix markets and even comparable to some West Valley sites. Freeway access is a plus with the completion of the Loop 202 targeted for 2008.

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