

BREAKING GROUND- THE WEST VALLEY INDUSTRIAL MARKET

While the U.S. industrial market hit some “bumps” in the road during the first quarter of 2007, the metropolitan Phoenix market remained on-track for another strong year. Overall net absorption in the U.S. industrial market fell to 30.4 million, a drop of nearly one-third from year end numbers in 2006 and the lowest level in three years. Experts blamed the housing market and manufacturing sector as factors for the decline in absorption. Even though Arizona saw similar drops in these two sectors, the market was able to weather these slowdowns and stay on-course recording overall net absorption of 853,157 square feet of industrial space during the first four months of 2007. Noteworthy population and job growth in the metro Phoenix continue to be catalysts for a positive industrial market. Overall rental rates in the Valley continued their upward march from 2006, with the weighted average rent reaching \$0.68 at the end of the first quarter. And while there was an increase in overall vacancy to 7.4 percent at the end of the first four months of 2007, that jump can be attributed to the delivery of new space that the market has been anxiously awaiting. Through the first quarter, the metro Phoenix marketplace ranks 5th in overall under construction space in North America with 6.5 million square feet. While this does not come close to the US leader, the Inland Empire where 24.16 million square feet of space is currently under construction, it does put Phoenix near the top of the list and competing with perennial industrial powerhouses Chicago, Dallas and Philadelphia. New industrial developments are planned or under construction in nearly all 17 submarkets, however it is the West Valley, from the northwest to the southwest that continues to draw specific attention from national, regional and local developers and users. At the end of the first quarter four submarkets in the West Valley; Deer Valley, Glendale, Surprise/Sun City and Southwest Phoenix had nearly 4.5 million SF of the Valley’s total 6.5 million SF of space under construction.

DEER VALLEY

Industrial developers and users realize the advantages of the Deer Valley submarket; its location just north of the intersection of I-17 and Loop 101 and surrounding the Deer Valley Airport, the 17th busiest airport in the U.S. Available land has become a scarce commodity as buyers continue to pay more than \$13 per foot for property in this market. Deer Valley has benefited from the lack of available land and the aggressive rental rates for industrial space in Scottsdale. Companies believe the move to Deer Valley will not be a hard sell to employees who are already commuting on the 101 Freeway. Freestanding industrial developments, primarily in the 7,000 to 20,000 SF range, continue to be the primary product in this submarket. Developers are going vertical with their projects and are achieving prices of \$140 or more for shell construction. Key projects in the Deer Valley submarket include:

- Salter Business Condos-Developed by Ridgeway Partners at 26th Avenue and Salter. The 30,000 SF fully furnished industrial condominiums are being marketed at \$170 psf for the fully finished units, as opposed to other shell condition condos in the same area currently selling for \$145 to \$160 psf.
- Alameda Business Park - Panattoni Development is building ± 10 buildings ranging in size from 10,000 to 30,000 SF at Alameda and 19th Avenue. The free standing buildings with yards will be for sale properties ranging in price from \$145 to \$165 psf.
- Whispering Wind Business Park –Saddleback & Associates is building 4,000 to 6,300 SF buildings with yards at 23rd Avenue and Whispering Wind Drive.

GLENDALE

The Glendale industrial marketplace offers great opportunities for tenants and buyers looking for 10,000 to 20,000 SF buildings. Developers are filling the need by buying parcels to develop freestanding buildings for sale or lease. New projects, including several in-fill locations and lots east of the Glendale Airport are currently being developed to address demand.

- Glen Harbor Commerce Park- Phase 1 of Cannonball Express' business park offers freestanding buildings with yards totaling over 88,000 SF at the southwest corner of Northern and North Glen Harbor Boulevard, one-half mile from the Loop 101 Freeway.
- Northern Gateway Commerce Park- Viawest has eleven fully improved industrial lots on ± 12.75 acres at 71st Avenue and Northern
- Missouri Business Park – LTI Development is building 5,000 to 6,000 SF buildings on ½ acre and one acre parcels at 58th Avenue and Missouri. The for sale or lease project is expected to come online during the second quarter of 2008
- Rose Garden Business Center- LaPour Partners is developing 221,900 SF of Class A, multi-tenant industrial in phase 1 of their 80-acre state land lease site

SURPRISE/SUN CITY

Developers continue to move northwest looking for land for industrial developments. The availability of land is scarce as land speculators have helped drive prices upward, although dirt can still be found for \$3 to \$7.50 psf. Challenges for developers in these markets include the lack of utilities and land that is not yet zoned for industrial uses. Paying \$3 to \$5 per foot for land without zoning/utilities and waiting for entitlements for eighteen months to over two years are challenges that developers are facing.

- Summit- Cyburt Hall Partners purchased ± 140 acres at Dysart Road between Cactus and Sweetwater. Approximately 76-acres of the parcel have access to the BNSF Railway. Cyburt Hall is planning a premier business park with light and heavy industrial zoning. They are selling lots now and developing flex office/industrial and general industrial buildings

that they expect to come online during the second and third quarters of 2008.

- Skyway Business Park-A 300-acre industrial park by developer J.R. McDowell Real Estate, Inc. near Peoria Avenue and Dysart Road. Nearly all 150-acres in phase I of the project are sold out. The project included a lot sales program ranging from 2 to 30 acres. Milgard Windows plans to build a manufacturing facility on 45-acres that will utilize the BNSF Railway access. Other buyers include Stock Building Company and Phoenix Wholesale Supply. Phase II, the remaining ±150 acres will be held for speculative development and build-to-suit opportunities.

SOUTHWEST VALLEY

In the Southwest Valley big box is “king.” This submarket has capitalized on it’s location, primarily it’s proximity to Southern California and the Ports of Los Angeles and Long Beach, and found it’s niche in warehouse and distribution space developments.

- Riverside Industrial Center- KT Riverside, a joint partnership between Tratt Properties and KTR Capital Partners, broke ground in March on Phases 2 and 3 of the industrial development. The 1.2 million SF building at 51st Avenue and Buckeye Road is the largest speculative industrial property ever built in Arizona. Home Depot leased Phase 1 of the project, a 377,000 SF building.
- Five Star Distribution Center- A 500,000 SF distribution center at 67th Avenue south of I-10 developed by Five Star Development. CVS/pharmacy has leased ± 130,000 SF in one of the projects two buildings.
- Loop 303 Business Center – Suncor is developing a 435,000 SF speculative cross dock facility at Loop 303 and Indian School
- Alter Group- Is developing a 607,000SF speculative project at 67th Ave & Buckeye Rd
- Federated Stores- Construction has begun on a build-to-suit 600,000SF internet fulfillment center at MC 85 & Loop 303.

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