

2020  
VISION

## Forecasting the future

Let us point you in the right direction -  
There are signs everywhere if you know where to look.



## INDUSTRIAL PROPERTIES | SOUTHEAST VALLEY

Micro-Area-Partnerships (MAPS)

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## FAST FACTS

### ► POPULATION

	2007	2020	Percentage Growth
Tempe	165,000	196,096	18.8%
Chandler	249,532	285,048	14.2%
Gilbert	203,262	280,048	37.8%
Mesa	460,155	617,800	34.3%
Queen Creek	22,264	92,538	315.6%
<b>TOTAL</b>	<b>1,100,213</b>	<b>1,471,530</b>	

### ► SOUTHEAST VALLEY INDUSTRIAL BUILDING INVENTORY

2007: 77 million sf      2020: 108 million sf

### ► CHANDLER MUNICIPAL AIRPORT

297 acres owned by airport

Runway length: 4,840 ft. maximum	Take offs and landings: 2006: 269,000 2020: 400,000 (est)
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Private land for industrial development: ±1,600 acres

### ► CHANDLER AIRPARK INDUSTRIAL BUILDING INVENTORY

2007: 1,155,200 sf      2020: 9.3 million sf

### ► PHOENIX-MESA GATEWAY AIRPORT

4,052 acres owned by airport

Runway length: 10,041 ft. maximum	Take offs and landings: 2006: 280,719 2020: 400,000 (est)
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Private land for industrial development: ±12,500 acres

### ► PHOENIX-MESA GATEWAY INDUSTRIAL BUILDING INVENTORY

2007: 1.35 million sf      2020: 9 million sf

## INDUSTRIAL MARKET LATE IN CATCHING RESIDENTIAL COLD

The Southeast Valley industrial market is beginning to cool due to the protracted slowing in residential construction. Metro Phoenix single family home permits are coming off all-time highs of ±61,000 permits in 2004 and ±63,500 permits in 2005. Single family permits are projected to slow to 22,000 to 24,000 in 2008 (R.L. Brown Housing Reports). The resulting impact is that residential construction contractors, sub-trades and related industries have all reduced their workforce by one-quarter to one-third.

The effect of this precipitous reduction in residential construction is starting to trickle into the industrial market with decreasing land and building sales and increasing direct vacancy and subleases for residential construction-related businesses. However, the current relatively low industrial vacancy rate combined with a tight supply of freestanding buildings for sale has resulted in swift absorption of this product type by the marketplace.

### ► FIGURE 1: HOT PRODUCT TYPES

For the foreseeable future, the three hottest product types in the Southeast Valley will be:

1. One-half to five-acre fully-serviced industrial zoned lots
2. 5,000–20,000 square foot free-standing buildings with fenced yards
3. General industrial for lease buildings in the 5,000–7,500 square foot bay size, with grade and truckwell loading.

The combination of land speculators and an approximate 50 percent increase in construction costs over the past few years has pushed these high-demand product types to precedent-setting rental rates and sale prices. The deepening residential construction crisis affecting both national and local economies means many residential-related and discretionary income businesses will face tough decisions from revising distribution/service models through consolidation to economic viability.

Metro Phoenix's current population of four million and its protruding growth pattern towards the Northwest and Southeast Valleys result in most businesses creating a two or more point distribution/service model. Most businesses have moved away from a single, centralized location (eg., Sky Harbor Airport area) to a two- or three-point distribution/service model with Northwest and Southeast Valley locations and an optional central Sky Harbor area facility. The vast geographic distance created by urban sprawl, despite a relatively efficient freeway system, has created a necessity for most users to adopt a multi-point distribution/service model to reduce fuel and labor costs.

This short-term economic contraction is causing many businesses to consider consolidation strategies in the Northwest or Southeast Valley or, alternatively, reverting to a single, central location in the Sky Harbor Airport area. It is unfortunate for those users having to weigh short-term economic issues when long-term population growth indicates that the current economic conditions are strictly temporary and the strategic, multiple location distribution/service model is necessary for maximum market coverage. In the short term, in-fill Southeast Valley and Sky Harbor Airport area warehouses will benefit with higher occupancy than outlying locations in the Chandler Airport and Phoenix-Mesa Gateway Airport markets.

### CHANDLER AIRPORT... BYPASSED BY TRADITIONAL INDUSTRIAL?

The Chandler Airport area was poised to be the next logical large industrial base in the expansion of the Southeast Valley industrial market. The rapid surge in both land prices and construction costs from 2004 to 2007 has made this traditional evolutionary process next to impossible for the Chandler Airport area. Industrial developers that did not secure their position at a reasonable land cost had to adjust their projects to back office or flex industrial in order to derive rents or sale prices that justified expected returns.

Typically, new industrial park growth is seeded by small fully-serviced industrial lots for both users and speculative developers to purchase for construction of small, free-standing buildings and a few large corporate build-to-suits. Evidence of this is the 265,000-square-foot Cardinal Health distribution center and the new 288,000-square-foot Covance Campus now under construction. Once the area reaches a critical mass, then multi-tenant for lease industrial projects become more viable as suppliers attempt to locate in proximity to their client base.

The amazing success of the fully-serviced, small lot, industrial-zoned First Chandler Business Park, which sold out prior to completion of infrastructure, is not expected to be duplicated anytime soon. Infrastructure costs and land pricing have made small lot development unfeasible at current large land tract prices.

We anticipate the relatively large land tracts that comprise the majority of the Chandler Airport area will gravitate towards back office/flex industrial, and multi-tenant for lease industrial projects. These projects will attract developers that purchase land at economically viable prices, and large corporate users wanting the advantageous geographical location with proximity to the I-10 and Loop 101.

#### RECENTLY COMPLETED PROJECTS:

- Hewson Chandler Airport Center, with two general industrial buildings totaling 134,000 square feet and a 50,000 square foot back office/flex building
- Panattoni's ±92,000 square foot flex industrial project
- Opus' two-story, 108,000 square foot back office building
- Mark IV's ±133,000 square foot incubator industrial
- Orsett's ±105,000 square foot, three-story office and 51,000 square foot flex industrial

## PHOENIX-MESA GATEWAY AIRPORT SUPPORTING TRADITIONAL INDUSTRIAL USERS

The Phoenix-Mesa Gateway Airport area is expected to capture the majority of the Southeast Valley's three hot product types (Figure 1), due to relatively lower land costs that make them more economically feasible. The tightening supply of these product types at in-fill Southeast Valley locations will allow the Gateway area to flourish, providing land and building developers secure positions at viable prices and taking projects through the city's planning process over the next couple of years.

Projects currently under construction in the Gateway area include the ones listed below. Many other developers are taking a "wait and see" approach for these pioneers to prove a market.

- RDB Construction's 222,000 square foot, six building multi-tenant project
- Pecos Gateway's 126,000 square foot, three building multi-tenant project
- Reliance's 60,000 square foot project
- LGE's 75,000 square foot industrial condo project

## POSITIONING FOR THE FUTURE

Developers should be actively acquiring land positions in the Chandler Airpark and Phoenix-Mesa Gateway area in 2008 and 2009, taking their projects through the lengthy planning process and positioning developments for the next economic expansion that, in our opinion, will begin to occur in 2010 and 2011. Timeframes for absorption of the recently completed and under-construction projects in these areas will be protracted due to the economic downturn and the short-term consolidation strategy of users toward the geographic center of Metro Phoenix.

Landlords in these peripheral areas may accelerate absorption by providing rental incentives or concessions. Pro-forma pricing may need to be adjusted and projects filled to capture revenue in today's softening marketplace with an eye towards rental rate adjustments in the next three to five years.

Developers need to be mindful of the lengthy planning and construction process for delivery of projects. The "wait and see" approach to development will secure their position on the bench while their competitors are in the batter's box during the next economic expansion.

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## MAJOR DEVELOPERS IN THE SOUTHEAST VALLEY

First Industrial Realty Trust, Inc.  
Harsch Investment Properties  
The Hewson Company  
LGE Design Build  
Lincoln Properties  
Mark IV Capital  
Orsett Properties  
Panattoni Development Company  
RDB Construction  
The Rockefeller Group  
RREEF  
Sun State Builders  
ViaWest Properties

## ► PHOENIX-MESA GATEWAY SQUARE FEET PROPOSED & UNDER CONSTRUCTION

BUILDING CLASS	UNDER CONSTRUCTION	PROPOSED
General Industrial	160,607 sf	183,902 sf
Multi-Tenant	414,578 sf	154,000 sf
Flex/Office	108,000 sf	36,500 sf
Industrial Condo	74,842 sf	60,000 sf
<b>Total</b>	<b>758,027 sf</b>	<b>434,402 sf</b>

Source: CoStar

## ► CHANDLER AIRPORT SQUARE FEET PROPOSED & UNDER CONSTRUCTION

BUILDING CLASS	UNDER CONSTRUCTION	PROPOSED
General Industrial	209,271 sf	264,755 sf
Multi-Tenant	—	1,200,688 sf
Flex/Office	322,600 sf	1,064,500 sf
Industrial Condo	19,800 sf	—
<b>Total</b>	<b>551,671 sf</b>	<b>2,529,943 sf</b>

Source: CoStar

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