



Forecasting the future



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

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INDUSTRIAL PROPERTIES | SOUTHWEST VALLEY

Micro-Area-Partnerships (MAPS)

Our Knowledge is your Property



FAST FACTS

► SOUTHWEST INDUSTRIAL CORRIDOR

Boundaries:

- East: 19th Avenue
- West: SR 85 & I-10
- North: Loop 303 & Camelback Road
- South: Lower Buckeye Road

► ZONING

- Light Industrial: A-1 & I-1
- Heavy Industrial: A-2 & I-2
- Commerce Park: CP
- Business Park: BP

► INDUSTRIAL BASE

- Current vacancy: 4.9%
- Total industrial base: 59 million sf
- Planned new construction 2007–2008: 12 million sf
- Annual net absorption: 2.4 million sf
- 2010 industrial base: 80 million sf
- 2020 industrial base: 94 million sf

LOOP 303 BETWEEN CAMELBACK ROAD & I-10



LAND MARKET FUELS RENT GROWTH LAND PRICES TRIPLE SINCE 2001

From the mid to late 1980s into 2001, land in the Southwest Valley was a sleeper as it related to industrial development throughout Metro Phoenix. The abundance of land in this corridor kept prices flat as development moved west into Tolleson, Avondale, Goodyear and Buckeye. Prices stayed in the \$1.75 - \$2.00 psf range from the late 1980s into the new century (2001).

This flat land price and relatively constant construction cost allowed developers to take the same project further west and capture the same rents. In this scenario a no growth period in distribution rents left industrial developers looking elsewhere for rental growth and price appreciation.

LAND PRICES VS. RENT GROWTH

| Year | Land Prices (Improved Lots) | Rent Growth (50,000-80,000 SF) |
|------|-----------------------------|--------------------------------|
| 1986 | \$1.95 PSF | \$.23 PSF/NNN |
| 1991 | \$1.75 PSF | \$.21 PSF/NNN |
| 1996 | \$2.00 PSF | \$.24 PSF/NNN |
| 2001 | \$2.10 PSF | \$.25 PSF/NNN |
| 2004 | \$2.75 PSF | \$.27 PSF/NNN |
| 2005 | \$3.25 PSF | \$.29 PSF/NNN |
| 2006 | \$4.50 PSF | \$.34 PSF/NNN |
| 2007 | \$7.00 PSF | \$.42 PSF/NNN |
| 2010 | \$10.50 PSF | \$.45 PSF/NNN |
| 2020 | \$14.00 PSF | \$.48 PSF/NNN |

LAND PRICES SKYROCKET...RENTS FOLLOW

The above chart outlines how land prices have affected the growth of rents in the Southwest Valley. In early 2002, the City of Phoenix began to view the Southwest Valley as one of the last areas of significant growth, after completing the revitalization of the downtown area and developing the Deer Valley market. Homebuilders flocked to the West Valley to take advantage of inexpensive land to fuel the housing boom. Land originally slated for industrial development turned residential, effectively reducing the amount of industrial land supply by 30-35 percent.

This squeeze in supply resulted in land prices rising from \$3.25 in 2005 to the current pricing of \$7.00 psf. During that same timeframe, rents jumped from \$.29 NNN to their current levels of \$.42 NNN and are going higher.

PRICES STILL AFFORDABLE

Although this recent spike in land prices and rental rates has come in just two years, the Southwest Valley was due to follow suit with the rest of Metropolitan Phoenix. Land (\$7.00 psf) and rental rates (\$.42 NNN) are still the most affordable in all of Phoenix. While we begin to absorb all the new projects planned or under construction, land will continue to appreciate. Rental rates will remain at current levels and edge higher until the next wave of developers enters the market and fuel the next spike in rates.

BIG BOX GAMBLE NATIONAL PLAYERS ENTER MARKET

The Southwest Valley came of age in 1992 with the completion of "The Stack" interchange at I-10 and I-17. This was the last link connecting I-10 from Los Angeles, Calif. to Jacksonville, Fla. Vacancy prior to completion was over 27 percent, and three years after completion it was under 7 percent. Tenant velocity continued at a very constant pace through the end of the nineties. The majority of the transactions ranged from 40,000 sf to 80,000 sf.

In early July 2000 to 2001, the status of Phoenix's distribution market changed. Phoenix became known as a regional distribution hub with several large distribution deals completed. Fry's Food leased 332,000 sf, Alliance Beverage took 270,000 sf, the United States Post Office leased 350,000 sf and PetSmart leased 550,000 sf.

Today, the perception of the distribution Phoenix market is transforming once again. Phoenix is receiving national attention from many large-scale distribution developers. The Southwest Valley all the way into Buckeye has attracted developers, such as Duke, KTR Capital, USAA, Majestic, Panattoni, Lauth, First Industrial and McShane. The Loop 303 North is gaining attention from developers like Mountain West, Liberty Property Trust and SunCor. All three have significant land positions enabling them to compete with price and location south of Interstate 10. All are betting that if we have the product, the users will follow. Not a bad bet as we move toward 2020.

2020 VISION

- ▶ The population increase of Metropolitan Phoenix will generate consistent jobs and industrial growth with a large labor pool in the Southwest Valley.
- ▶ Distribution hubs will be created in the town of Buckeye producing a one-day turnaround from the Inland Empire in Southern California to the Southwest Valley and back to California.
- ▶ The I-10 reliever will be created to defer traffic off the I-10, attaching to the Loop 202.
- ▶ The Loop 303 North will attract "Big Box" developers with the ability to begin construction in advance of some areas south of Interstate 10.



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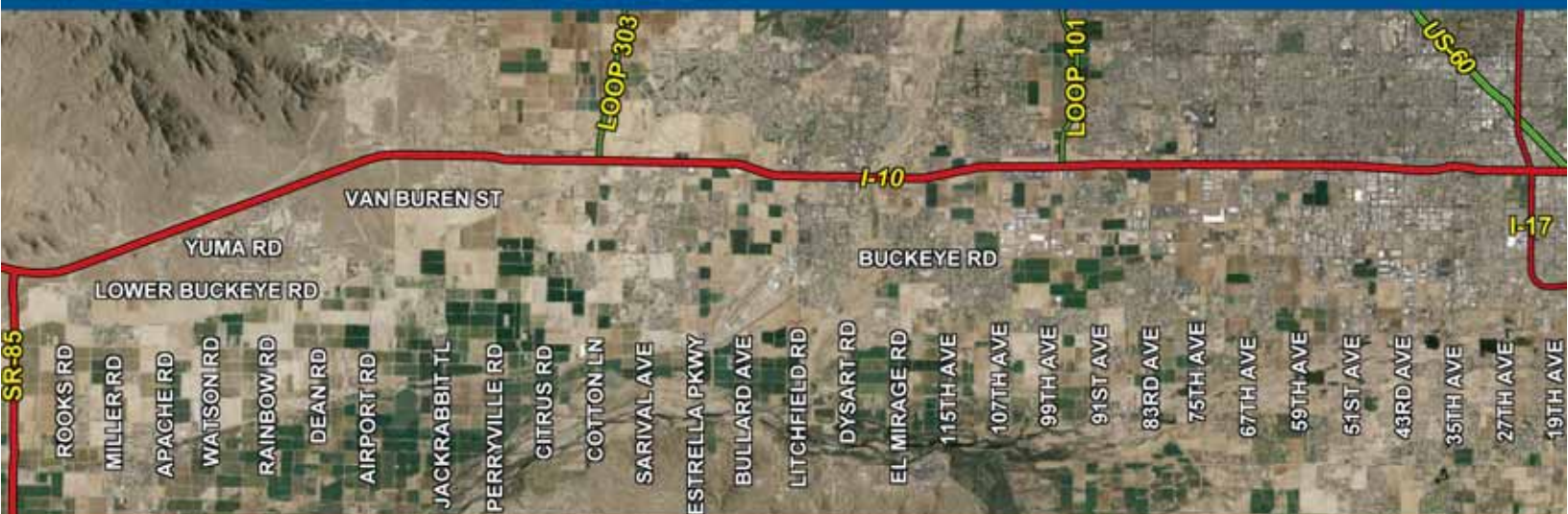


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NEW DEVELOPMENTS – NATIONAL ATTENTION

| | |
|------------------|--------------|
| Duke Realty | 605,000 sf |
| KTR Capital | 1,500,000 sf |
| USAA/Wentworth | 1,600,000 sf |
| Majestic | 550,000 sf |
| Panattoni | 560,000 sf |
| Lauth | 606,000 sf |
| First Industrial | 1,300,000 sf |
| McShane | 1,100,000 sf |
| Buzz Oates | 1,700,000 sf |
| SunCor | 1,000,000 sf |

I-10 FREEWAY BETWEEN 19TH AVENUE AND SR 85



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