Industrial market demand outpacing construction

BY MIKE PADGETT
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Industrial real estate in metro Phoenix, generally in the shadows of reports about office and retail properties, is in the spotlight because a growth in demand is outpacing new construction.

Compounding the situation is the 40 percent to 60 percent increase in costs of steel, cement and other materials over the past two years; increases in land costs; and a backlog of construction plans awaiting approval from city building departments.

All of which are delaying companies' plans to expand their existing facilities or open new ones, said Tony Lydon at Grubb & Ellis/BRE Commercial in Phoenix.

"The demand has been relatively high, and the new supply (of space) to the market has been lagging," he said.

Tony Lydon

His competitors agree.

"Phoenix's industrial market is booming," said Rob Stephens, senior director with Cushman & Wakefield of Arizona Inc. "Leasing is taking place in all product types and construction is taking place in a widespread variety of submarkets."

Grubb & Ellis' third-quarter report on industrial space shows a net absorption for the year of more than 6.4 million square feet of space. "Net absorption" refers to the difference between the total amount of space leased, minus the amount of space vacated during the same time frame.

That total is about double the net absorption total for 2004, which was 3.2 million square feet. The third-quarter analysis from Grubb & Ellis/BRE Commercial concludes that the Valley's vacancy rates "have declined steadily for the past 12 months and now are approaching rates not seen in Phoenix since early 2001."

VACANCY RATES

Other Valley areas that in the past 12 months have experienced large drops in vacancy include:

- The submarket that includes **Phoenix Sky Harbor International Airport**, which has almost 43 million square feet. Its current vacancy rate is about 9 percent, down from 12.6 percent at this time in 2004.
- **Chandler**, which has 16.7 million square feet of industrial space. It has a vacancy rate of 6.7 percent, down from 11 percent a year ago.
- **Northeast Phoenix/Scottsdale**, which has more than 14.8 million square feet. It has a 6.4 percent vacancy rate, down from 9 percent a year ago.
- The **West Central** submarket has 26.3 million square feet of space and a current vacancy rate of 5.5 percent, down from 9.5 percent a year ago.

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Other companies, although they use different submarket boundaries, have similar analyses and projections of industrial space.

"The demand for industrial space is expected to remain strong through the end of the year, although there will be fewer options for tenants to occupy space," according to CB Richard Ellis' Phoenix office.

Major users of industrial space include distribution companies shipping supplies to the medical industry, retailers and others. One of the largest new companies that arrived in the Valley this summer is Amazon .com, which about two months ago leased a 323,000-square-foot building at 75th Avenue and Interstate 10 for a regional distribution facility.

Another major tenant new to the Valley is an east Indian company that makes pillows and cushions for major retailers, including Wal-Mart and Kohl's. The company, Sabare USA, has a plant in Atlanta to serve retailers on the East Coast.

Tolleson was chosen for the company's western U.S. facility at 101st Avenue and Van Buren Street because that site is much closer to West Coast clients than its Atlanta plant.

"Shipping then becomes a matter of hours or days, not weeks," Lydon said.

Another major tenant in the West Valley is Home Depot, which early this year leased a 550,000-square-foot building at the southeast corner of 71st Avenue and Van Buren Street. At the northwest corner, Buzz Oates Enterprises Arizona plans to begin work soon on a speculative building with 550,000 square feet, Lydon said.

In addition, a 505,000-square-foot speculative building was constructed recently at 43rd Avenue and Buckeye Road.

One of the metro region's leading submarkets for large industrial buildings and tenants is the southwest Valley, which has about 40.6 million square feet of space. Its current vacancy rate is 10 percent, down from 16.3 percent at the end of the third quarter in 2004, according to Grubb & Ellis' newest report.

With the exception of Southern California cities, metro Phoenix has become the Southwest's leading market for industrial space.

"It's been quite a ride, year to date," Lydon said. "It's clear that Phoenix will lead the Pacific Southwest this year."

GET CONNECTED

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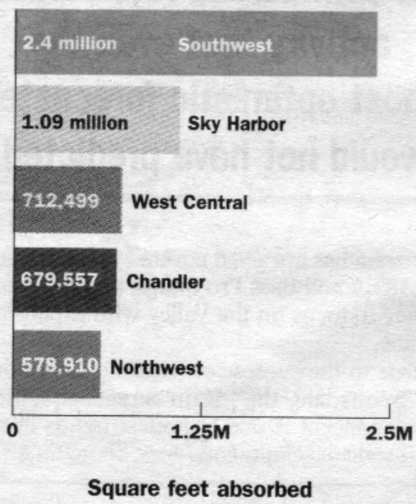
TOP FIVE MARKETS

Top five Valley submarkets for year-to-date absorption, January to September:



Source: Grubb & Ellis

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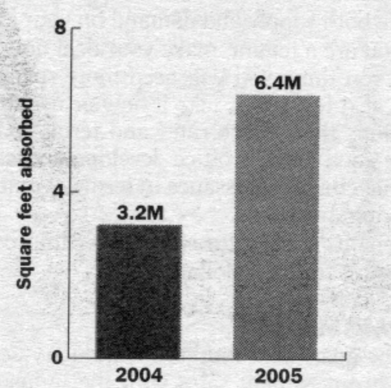
NET ABSORPTION

Industrial space absorbed January through September:



Source: Grubb & Ellis

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