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INDUSTRY RESEARCH

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## Phoenix Industrial Absorption Delights Locals

By Jennifer Duell Popovec

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Andy Markham

PHOENIX-The Valley's office and retail markets may still be struggling, but the industrial sector is well on its way to recovery. In fact, first quarter industrial absorption as reported by Cassidy Turley's just-released market report has local brokers and owners smiling.

"The Phoenix industrial market is doing better than anyone could have anticipated," says Andy Markham, an industrial broker with Cassidy Turley BRE Commercial's local office. "For 2011, we initially forecast annual absorption of 3 million square feet, but we've had to revise that number upwards since the market posted nearly 2.5 million square feet of absorption during the first quarter alone."

Markham tells GlobeSt.com that Cassidy Turley BRE Commercial now estimates that 2011 industrial absorption will eclipse 5 million square feet. "There is definitely pent up demand," he says. "We're tracking about 10 million square feet of active users in the market looking for space."

If the firm's absorption estimates are correct, the Valley-wide vacancy rate will likely fall 80 to 100 basis points, Markham notes. At the end of the first quarter, the industrial vacancy rate was 13.9%.

Markham notes that tenant demand is split between existing companies that are searching for expansion space and businesses that are new to the Phoenix metro area. Most of the leasing momentum is comprised of 100,000-square-foot plus users in a range of industries including defense, green technology, food service and healthcare/medical.

"Eighteen months ago, if you were a tenant with a 300,000-square-foot requirement, you had 12 to 15 options," Markham points out. "Today, you'd maybe have two options, and they're likely to be absorbed by the third or fourth quarter. Big user space is very limited."

In fact, large blocks of industrial space are so scarce that Markham anticipates industrial developers will start moving dirt for speculative projects in the near future. "We have a glut of space for 50,000 to 80,000-square-foot users, but we're getting to the point where both developers and lenders will be able to justify big-box distribution development."

If and when that speculative development occurs, it will likely happen in the southwest Valley, where first quarter absorption was a whopping 1.3 million square feet. Several industrial developers already have land banked in the submarket including Duke Realty, EJM, First Industrial, Alter Group, Liberty Property Trust and ProLogis.

While Markham is delighted by the strong absorption numbers, he reminds GlobeSt.com that rental rate growth is still elusive. "We need a lot of leases to happen to create upward pressure on rents," he says.

Yet, the positive absorption has helped rents to stabilize and given owners a bit of flexibility when it comes to tenants. "We're starting to see some selectiveness among some landlords," Markham notes. "We're no longer in a situation where every offer that is made on a building is accepted. That's an indicator that landlord desperation is dwindling."

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