

Industrial market primed for growth

BY PATRICK O'GRADY

Phoenix Business Journal

The Phoenix industrial building market is gearing up for a spate of speculative construction of large warehouses as the region grapples with a dearth of large blocks of space in that sector.

Trammell Crow Co. and the Alter Group are planning to build a combined 1.2 million square feet in the West Valley that have no tenants signed. Economic development officials and real estate specialists said they likely will have no problem finding occupants.

Patrick Gallagher, senior vice president of the Alter Group, said market conditions, interest from businesses and increasing lease rates for buildings of 250,000 square feet or more are



Gallagher

making the business case for the large spec buildings.

“It’s something you see every cycle,” he said. “When the cycle turns, there’s some big chunks of space that don’t exist for the large projects.”

The Alter Group is aiming to help fill the warehouse void with a \$36 million building at its Buckeye Logistics Center, at Buckeye Road and 67th Avenue in Phoenix. The 605,700-square-foot structure will be added to the center where Amazon.com already occupies 1 million square feet.

The activity in large spaces is a drastic change from last year, when Phoenix was one of two major U.S. markets in which real estate developers did not foresee much industrial construction through 2013.

In the past six months, that has changed. The Greater Phoenix Economic Council has 27 projects it’s working

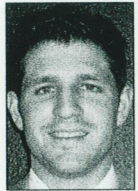
SPEC: Major industrial facilities set to open in SW Valley in coming months

FROM PAGE 1

on, with 15 needing more than 250,000 square feet and six needing between 500,000 and 1 million square feet. Three more projects require more than 1 million square feet, said Chris Camacho, executive vice president of GPEC.

"There's a lot of pent-up demand, and not having a turnkey solution is a problem," he said.

Some companies, such as Dick's Sporting Goods, decided to build their own facilities rather than wait for space to become available.



Camacho

Pat Feeney, senior vice president of CBRE in Phoenix, said lease rates have dropped to between 34 and 36 cents per square foot — a key level for those interested in building on spec. Around that mark, it becomes easier to get financing, and that's been the trend over the past few months.

"That's what a lot of people are doing: shopping around for financing," he said.

While the metro Phoenix vacancy rate for industrial space is about 12 percent, large space has a much lower vacancy rate — most likely in the single digits, Feeney said.

One building larger than 500,000 square feet is available now in the Valley. A few others in that size range likely will be coming to market before long, but it won't be enough, said Gary Anderson, senior vice president for Cassidy Turley BRE Commercial in Phoenix.

"We do have other users that want to come to Phoenix, so we feel those buildings

POTENTIAL SPEC BUILDINGS

Several developers are looking at building new large warehouse space in the Southwest Valley. The Phoenix region is running a shortage of warehouse and distribution space in buildings above 500,000 square feet.

Building	Location	Square footage	Developer	Completion
Buckeye Logistics Center	67th Avenue and Buckeye Road	606K	Alter Group	2013
Coldwater Depot	127th Avenue and Van Buren Street	600K-1M	Trammell Crow	December
Tolleson Corporate Park	75th Avenue and Buckeye Road	200K	Merit Partners	May
ProLogis Park	55th Avenue and Buckeye Road	2.5M	ProLogis	TBD
Lower Buckeye Logistics Park	59th Avenue and Lower Buckeye Road	450K	Bekcnell Industrial	TBD
Santa Fe Industrial Center	4330 N. 45th Avenue	388K	Tratt	TBD
Estrella Logistics Center	745 S. 63rd Avenue	592K	Seefried	TBD

will backfill pretty quickly," he said.

Several large spaces likely will open in the next few months. One is about 460,000 square feet that Tower Automotive leased in the former Rubbermaid facility in Good-year. The company had planned operations to support Stirling Energy Systems' solar push, but Stirling filed Chapter 7 bankruptcy.

Warehouses run by California-based UTI Worldwide that once were distribution centers for Home Depot also may become available.

Trammell Crow is further along in its spec building with plans for Coldwater Depot, a phased warehouse along 127th Avenue south of Interstate 10 in Avondale. It will start at about 604,000 square feet and could be expanded to 1 million.

Trammell Crow has partnered with New York-based Clarion Partners LLC on the project, which already has worked

through permitting and is ready to start construction.

Coldwater Depot has received interest from e-commerce companies and retail shops looking for a fulfillment center, said Jim Mahoney, senior managing director of Trammell Crow in Phoenix.

Having space available is paramount to drawing companies to the area. One of the reasons the Phoenix region was blocked from landing Apple Inc.'s latest expansion was that the city of Austin had a building ready to go. Feeney said the majority of companies want to find existing space rather than take the time to build their own.

"Out of 10 inquiries on large square footage coming to the market, probably seven ... would prefer to have an existing build or one under construction," he said.

The Alter Group is attempting to get ahead of the curve. Gallagher said he believes the first two or three spec buildings will have an advantage in landing some

high-profile tenants before others open and drive lease rates lower.

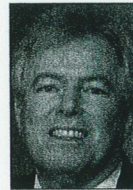
Keith Watkins, senior vice president of business attraction for the Arizona Commerce Authority, said large industrial space is key to attracting business to the area.

"Build-to-suit is nice, but these days companies are looking for existing buildings," he said.

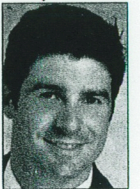
At the same time, if some of the spec buildings are launched, it could provide enough lead time to companies that are looking at making a Valley facility part of their plans, Watkins said.

"A lot of projects, especially the larger ones, have a large lead time with them," he said.

Connect with **Patrick O'Grady** at pogrady@bizjournals.com or on Twitter at [@pogrady](https://twitter.com/pogrady).



Feeney



Anderson