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West Valley continues to lead pack as distribution hub

The Business Journal of Phoenix - by [Jan Buchholz](#) Phoenix Business Journal

The commercial industrial market is firing on all cylinders, with leasing, development and investment sales activity still going strong despite the retracting residential market and concerns about the U.S. economy overall.

Some of the biggest deals of 2007 have involved huge leases for distribution facilities, mostly in the West Valley, because of the area's proximity to the Port of Long Beach in Southern California.

"It's a pretty exciting time as Phoenix matures as a regional distribution center," said Tony Lydon, senior vice president of Grubb & Ellis/BRE Commercial LLC in Phoenix.

Vacancy rates for distribution facilities are hovering around 5 percent in the greater Los Angeles market, so many manufacturers and product distributors are turning to Phoenix as a regional hub.

"It demonstrates Phoenix's role in the global supply chain," Lydon said.

Many of the year's biggest deals have involved companies that did not have a presence in the Valley previously. Federated Macy's, for example, contracted for a 700,000-square-foot shipping facility in the West Valley.

Ulta beauty products and Pilkington Glass signed on for 330,000 and 200,000 square feet, respectively.

Other major brand names added on to their distribution and warehouse space, including Amazon, which doubled its space in the West Valley to 600,000 square feet, and Home Depot, which added 377,000 square feet to its current capacity in greater Phoenix.

Jonathan Keyser, a principal with Cresa Partners, said two of his most recent new clients are based in California and a third is coming from the Midwest. All three are looking for space in excess of 100,000 square feet, and none of them has an existing presence in Phoenix.



Jim Poulin/Phoenix Business Journal

Patrick Harlan, left, Katy Boyd and Steve Sayre of Cushman & Wakefield of Arizona Inc., recently negotiated the \$20 million sale of the Pinnacle Park Business Center II, one of many large industrial deals in the Valley this year. The Deer Valley property has three buildings and 159,714 square feet.

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"Phoenix is now recognized as a strong, quality player for industrial clients," Keyser said. "There's a natural flow of users from California. Arizona is a cheaper market."

Historically, industrial clients have accounted for 25 percent of the business at Cresa Partners' Phoenix branch, with the rest looking for more traditional office space. That's changing now in favor of industrial.

In response to the demand, new industrial development is on the uptick. Nearly 5 million square feet of space has been delivered to the market so far this year, with about 2 million of that coming on line in the third quarter.

The Mack Arrowhead Commerce Park, at the northwest corner of Thunderbird Road and Loop 101 in Peoria, was the largest new space delivered in the third quarter. The developer, Mack Arizona, opened up 228,000 square feet in two buildings.

Several million more square feet of planned warehouse and distribution space will come online in 2008 and 2009.

Although the West Valley is the hottest region, Paul Sleczkowski, senior vice president of industrial properties with **Colliers International Inc.** in Phoenix, is turning around land deals near Chandler Municipal Airport.

"There's some major players out there," he said. "Around the Chandler Airport, it's going to be more office-flex-industrial users."

Two of the big players are the Rockefeller Group Development Corp., which purchased almost 77 acres in January to develop an office park; and Covance, a global biotech company, which bought 50 acres to build a large industrial complex to replace an older facility.

When some of the complexes are completed, Sleczkowski said, most tenants will be looking for 5,000 to 20,000 square feet.

Joe Porter, senior vice president of **CB Richard Ellis** in Phoenix, said flex space is a desired product, but hard to find in some places.

"Multitenant industrial is so incredibly expensive to build out," Porter said.

Although the area around the Chandler Airport has provided some major land opportunities, raw ground zoned for industrial development is in relatively short supply in the Valley.

"We ran a study about a year ago about the Southwest marketplace, and there's about 2,000 acres of available industrial" in the Phoenix market, Lydon said.

There are some limitations to looking farther west along the Interstate 10 corridor, Lydon said.

"In Buckeye, there's a lack of water and sewer service to the sites, so that's a barrier to entry," he said.

Still, Lydon said, investors from around the globe want in on the action.

"Phoenix and Houston are two markets nationally that the capital markets are focused on," he said.

Investors generally come from one of five sources, he added: life insurance companies, real estate investment trusts, pension funds, 1031 exchanges and private equity firms.

Wealthy individuals are getting into the game locally, Porter said.

Phoenix has seen more existing industrial buildings sold this year than in previous years.

"Usually there are 10 to 12 in play. We've got between 16 and 20 with the REITS coming into town," Porter said.

Industrial strength

A snapshot of some of the largest industrial deals completed in the Valley this year for existing structures:

Pinnacle Park Business Center II

Pinnacle Peak Road and 11th Avenue, Phoenix

159,714 square feet

Price: \$20.03 million

Seller: LaPour Deer Valley North LLC

Buyer: COP-Pinnacle Peak LLC

Honeywell facility

2500 W. Union Hills Drive, Phoenix

545,329 square feet

Price: \$49.3 million

Seller: Honeywell, Arlington Heights, Ill.

Buyer: LBA Realty, Irvine, Calif.

Allred Cotton Center

4410 E. Cotton Center Blvd., Phoenix

181,215 square feet

Price: \$35.5 million

Seller: Dared 84 LLC, San Diego

Buyer: Liberty Property LP, Malvern, Penn.