

Lower Vacancy, Rising Rental Rates, & Continued Development to Start 2017

Key Takeaways

- > The Greater Phoenix self-storage market started out 2017 overall on an upswing, vacancies crept down lower than Q1 2016, asking rents on both non-climate controlled and climate-controlled units grew year over year and transaction volume picked up compared to this time last year.
- > The vacancy rate for self-storage in the Phoenix Market at the end of the first quarter was 12.4%, a 230 basis point drop from this point last year. Despite some development headwinds on the horizon, the overall market continued to show positive absorption.
- > The average asking rent for a 10x10 non-climate controlled unit for the Greater Phoenix Market came in at \$109.05 and climate controlled 10x10 came in at \$131.37, a 4.5% and 3.8% year over year growth respectively.
- > The number of investment transactions ticked up compared to this time last year: nine self-storage properties that traded hands totaling \$34,047,000 in consideration, 4,905 total units, and 411,708 net rentable square feet during the first quarter.
- > Over-supply concerns and the current storage development pipeline in the Greater Phoenix area are headwinds that are making lenders as well as operators cautious on the Phoenix storage market. During the first quarter, there were new construction completions of three storage properties, totaling 245,000 SF and another five currently under construction totaling 606,151 SF expected to be completed in Q2 2017.
- > Cap rates ticked up slightly than this point last year, mainly due to higher interest rates, age, occupancies, and one property that sold was a non-traditional mixed-use storage/industrial property, which impacted the average cap rate of 6.93% compared to 6% in Q1 2016. The demand for high quality, well-maintained storage properties in the Phoenix market is still extremely strong; cap rates for those type of assets are expected remain low.

Market Indicators Relative to prior period	Market 1Q 2017	Market 1Q 2016
Vacancy	↓	↓
Construction	↑	↑
Rental Rate	↑	↑
Cap Rate	↑	↓

First Quarter Economic Trends*

Phoenix Metro Employment	↑	↓
U.S. Employment	↑	↓

*Source: Bureau of Labor Statistics

Summary Statistics*

Phoenix Self-Storage Market

Vacancy Rate	12.4%
Change from 1Q 2016 (bps)	-230
New Q1 Storage Deliveries (thousands SF)	245
Expected Q2 Deliveries (thousands SF)	616
Avg. 10x10 Climate Controlled Change from 1Q 2016	\$1.31 3.8%
Avg. 10x10 Non-Climate Controlled Change from 1Q 2016	\$1.09 4.5%

*Source: REIS

Greater Phoenix Self-Storage Market

The Greater Phoenix Self-Storage market continued to remain strong during the first quarter with vacancies dropping, asking rents increasing and transaction volume picked up compared to this same time last year. Development activity remained strong, with three new properties coming online totaling 245,000 SF, two of which are conversion projects. There are five storage properties currently under construction totaling 606,151 SF with expected delivery in the second quarter. There are some headwinds in development here in the Valley, with some submarkets seeing a huge amount of supply coming online and some municipalities changing their appetite for more storage development. This has some construction lenders being much more cautious and diligent about the submarkets and sponsors they choose to lend on for new storage product

The amount of investment transactions picked up during the first quarter compared to this time last year with nine properties trading hands, totaling \$34,047,000 in total consideration, 4,903 total units and 411,708 net rentable SF. There were two separate portfolio transactions that occurred, both of which were B- or C class properties built in the late 70's to early 80's. Higher interest rates, the vintage of

the properties, occupancies, as well as one property (which is a mixed-use storage and industrial building) played a role in the overall average cap rate of 6.93% for the quarter compared to an average cap rate of 6% during the first quarter of 2016. Although, the demand for stabilized, high quality storage properties in the Phoenix market remains extremely strong and cap rates for those assets are expected to remain low, as long as the supply of available investment product remains scarce and overall fundamentals of the Phoenix economy remain strong.

In 2016, Maricopa County was the fastest growing county in the nation, adding 81,360 people between July 1, 2015 and July 1, 2016 or 222 people per day. This is not news for Phoenix to have strong population growth, but we are starting to see much more growth in high paying jobs/industry, (particularly in technology) choosing to expand or relocate their businesses from California due to the affordability, business-friendly environment, and the massive highly skilled labor pool that Arizona State University fosters. All of these trends in population and employment growth continue to strengthen the case for self-storage in the Greater Phoenix Market.

SALE ACTIVITY

Property Address	Property City	Sale Date	Sale Price	Year Built	Rentable SF	Price/SF	Number of Units	Occupancy	Actual Cap Rate
5801 W. San Miguel Ave.	Glendale	2/9/2017	\$7,875,000	1974	81,477	\$97	1,001	86.6%	6.15%
13331 W. Bell Rd.	Surprise	2/13/2017	\$7,700,000	1985	83,100	\$93	789	N/A	N/A
1940-1950 W. Indian School Rd., 2563 W. Indian School Rd., 4817 N. 7th Ave	Phoenix	1/13/2017	\$7,127,000	1976-1979	75,905	\$94	1,507	83%	6.80%
816 N. Scottsdale Rd., 1700 E. Curry Rd.	Tempe	3/10/2017	\$4,075,000	1972-1983	49,925	\$82	380	90%	7.27%
1964 E. University Dr.	Tempe	3/8/2017	\$4,500,000	1977	61,900	\$73	722	86%	N/A
17630-17638 N. 25th Ave.	Phoenix	1/17/2017	\$2,770,000	1980	59,401	\$47	504	50%	7.50%
TOTAL			\$34,047,000		411,708		4,903		

Q1 NEW DELIVERIES

Property Name	Property Address	Property City	Delivery Date	Rentable SF
US Storage Centers	7310 S. Preist Dr.	Tempe	Mar-17	70,000
US Storage Centers	2805 W. Frye Rd.	Chandler	Mar-17	90,000
Garfield Storage	1616 E. Portland St.	Phoenix	Mar-17	85,000
TOTAL				245,000

Featured Self-Storage Offerings:

IN ESCROW



Store Safe Self-Storage

11860 N. Tower Dr.
Fountain Hills, AZ 85268

- > ±48,580 SF
- > 446 Units
- > 96% Occupancy
- > Purchase Price: \$6,200,000

AVAILABLE



Wildcat Storage

657 W. Saint Mary's Rd.
Tucson, AZ 85701

- > ±56,129 SF
- > 290 Units
- > 92.2% Occupancy
- > Purchase Price: \$3,500,000

For more information, sales comparables, rent comparables, or to receive a complementary Broker Opinion of Value of your storage property please contact:

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