



RESEARCH Q1 2021



Phoenix Industrial Market

Robust Positive Net Absorption and Low Vacancy Fuels Construction Activity

The trends present at year-end 2020 in the Phoenix industrial market continued into the first quarter of 2021, with strong tenant demand for new space and high levels of construction. Net absorption measured 5.1 million square feet for the quarter, which is the second consecutive quarter of 5.0-million-plus square feet of positive net absorption. Vacancy ticked down 50 bps, given the strong demand for space, even with just over 3.0 million square feet delivering to the market in the quarter. The average asking rent rose 3.0% year over year, driven in part by new, Class A space commanding higher asking rents.

Thanks in part to a talented labor force, strong population, job growth, lower relative cost of development to California markets and access to 35 million consumers within a one-day truck drive, the Phoenix industrial market has seen a surge in leasing by logistics, distribution and certain ecommerce tenants. Growing the manufacturing sector, particularly advanced manufacturing, continues to be a point of emphasis for the state. Lucid Motors moved into its 820,000-square-foot electrical vehicle manufacturing facility in Casa Grande at the end of 2020 and received approval to expand the facility for phase two of the project, which is expected to break ground in 2021. Nikola Motor continued to move forward on the first phase of a \$600.0-million manufacturing plant in Coolidge. ElectraMeccanica Vehicles is

Current Conditions

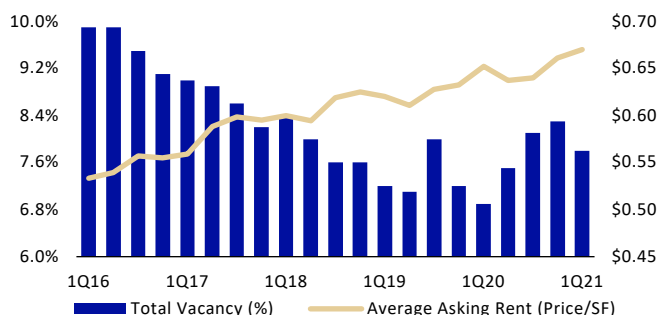
- Net absorption crossed the 5.0-million-square-foot threshold for the second consecutive quarter.
- The total square footage under construction increased from 10.1 million square feet in fourth-quarter 2020 to 13.2 million square feet, a 30.7% increase.
- Investors remain bullish on the fundamentals of Phoenix industrial real estate, with several large portfolio sales occurring in the quarter.

Market Summary

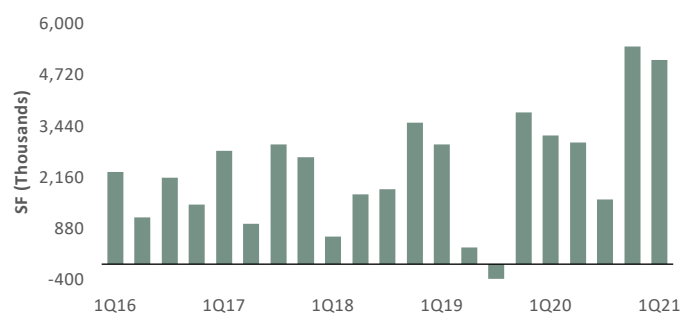
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory	321.8 MSF	318.5 MSF	301.9 MSF	↑
Vacancy Rate	7.8%	8.3%	6.9%	→
Quarterly Net Absorption (SF)	5.1 MSF	5.4 MSF	3.2 MSF	→
Average Asking Rent PSF	\$0.67	\$0.66	\$0.65	↑
Under Construction (SF)	13.2 MSF	10.1 MSF	14.7 MSF	↑
Deliveries (SF)	3.1 MSF	6.6 MSF	2.2 MSF	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



the latest electric vehicle manufacturer to enter the metro. The ElectraMeccanica Vehicles 235,000-square-foot building in Mesa is scheduled to open in 2022 and will produce up to 20,000 three-wheeled, single-seat SOLOs a year. Additionally, Phoenix has become an increasingly attractive market for data centers, thanks in part to a state data center tax incentive and a relatively low number of natural disasters.

Many of the largest leases signed in first-quarter 2021 were pre-leases in under-construction buildings and demonstrated tenant preference for newer vintage buildings. Some of the larger leases in under-construction buildings included beverage manufacturer PepsiCo Gatorade signing a 750,000-square-foot lease at Tolleson Corporate Park, local retailer Spencer's TV & Appliance inking a 319,000-square-foot lease at South Mountain 202 Commerce Center and Amazon expanding its presence in the market by signing a 278,670-square-foot lease at VT303.

Even with steady rent growth of 3.0% year-over-year across the Metro area, Phoenix continues to be an affordable market and a substantial discount compared to the Los Angeles, Orange County and San Diego, California markets. Rents are rising more quickly in the Glendale and Southwest Phoenix submarkets. These two submarkets account for 58.3% of the total square footage under construction and still offer lower-priced rents relative to the rest of the Valley, thanks to large amounts of lower-priced, developable land.

Investor demand remained strong in first-quarter 2021, although the sales volume dropped from fourth-quarter 2020. The fifth highest sales volume was recorded in first-quarter 2021. Out-of-state institutional investors were involved in the largest transactions of the quarter. JLL Income Property Trust purchased a four-building portfolio in the Chandler submarket, Investcorp acquired a five-building portfolio in the Tempe submarket and KKR bought a four-building portfolio spanning various submarkets.

Select Lease Transactions

Tenant	Submarket	Building	Type	Square Feet
Gatorade	Southwest Phoenix	Tolleson Corporate Park	New	750,000
Spencer's TV and Appliance	Sky Harbor Airport	South Mountain 202 Commerce Center	New	301,954
Amazon	Glendale	VT303	New	278,670
Dynarex Corporation	Glendale	7811 N. Glen Harbor Blvd.	New	250,000
Republic National Distributing Co.	Southwest Phoenix	Hopewell 91	New	174,000

Select Sale Transactions

Address	Submarket	Sale Price	Price/SF	Square Feet
Various (Lincoln Portfolio)	Various	\$68,000,000	\$126.33	538,253
7333 S. Hardy Dr. (Portfolio)	Tempe	\$85,350,000	\$159.24	535,979
6565 W. Frye Rd. (Portfolio)	Chandler	\$91,000,000	\$192.18	473,516
4050 E. Cotton Center Blvd. (Portfolio)	Sky Harbor Airport	\$30,879,875	\$136.85	225,653
17017 W. Indian School Rd.	Glendale	\$43,157,811	\$163.72	263,606

Top Deliveries

Building Name	Address	Submarket	Type	Square Feet
Park 303 Bldg. A	6514 N. Sarival Ave.	Glendale	Speculative	705,304
G303 Bldg. 1	6605 N. Sarival Ave.	Glendale	Speculative	569,520
Park 303 Bldg. B	6512 N. Sarival Ave.	Glendale	Speculative	487,415
Fairlife	3100 Cotton Ln.	Southwest Phoenix	Owner-Built	280,000
Hamilton Commerce Center Bldg. 3	1195 N. Eliseo Felix Jr. Wy.	Southwest Phoenix	Speculative	137,280

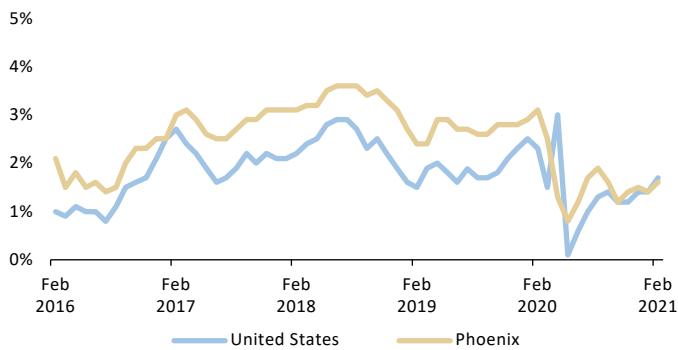
Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy	Qtr Absorption (SF)	YTD Absorption (SF)	WH/Dist Asking Rent (Price/SF)	R&D/Flex Asking Rent (Price/SF)	Average Asking Rent (Price/SF)
Black Canyon	5,832,666	854,282	5.5 %	-13,398	-13,398	\$0.62	\$1.26	\$0.84
Central Phoenix	2,442,505	-	3.8 %	-4,299	-4,299	\$0.75	\$0.94	\$0.83
Chandler	23,487,139	507,990	8.1 %	264,239	264,239	\$0.74	\$1.32	\$0.80
Deer Valley	14,463,059	309,200	5.1 %	142,308	142,308	\$0.74	\$0.87	\$0.85
East Mesa	8,635,230	962,561	5.6 %	311,755	311,755	\$0.73	\$0.75	\$0.74
Gilbert	6,873,799	194,530	11.3 %	428,354	428,354	\$0.66	\$0.98	\$0.68
Glendale	12,775,988	3,099,398	23.3 %	936,558	936,558	\$0.56	\$0.80	\$0.60
Grand Ave	18,686,496	648,165	2.8 %	89,489	89,489	\$0.41	\$-	\$0.52
N Glendale	3,858,575	145,491	5.6 %	229,312	229,312	\$0.45	\$1.50	\$1.12
Pinal	3,154,414	1,000,000	0.7 %	1,766	1,766	\$0.20	\$-	\$0.32
Scottsdale	3,694,370	-	1.9 %	30,728	30,728	\$1.25	\$1.08	\$1.10
Scottsdale Airpark	6,790,435	-	4.6 %	6,888	6,888	\$0.95	\$1.20	\$1.09
Sky Harbor Airport	42,542,111	873,801	6.0 %	303,086	303,086	\$0.91	\$1.18	\$0.83
Southwest Phoenix	94,386,851	4,619,247	10.9 %	1,257,623	1,257,623	\$0.42	\$0.52	\$0.47
Tempe	36,802,159	-	5.4 %	584,809	584,809	\$0.66	\$1.23	\$0.83
West Central Phoenix	28,846,619	-	4.4 %	67,186	67,186	\$0.43	\$-	\$0.51
West Mesa	8,507,588	-	6.5 %	476,833	476,833	\$0.64	\$0.80	\$0.63
Market	321,780,004	13,214,665	7.8 %	5,113,237	5,113,237	\$0.53	\$1.14	\$0.67

Economic Overview

After the record unemployment high of 12.5% in April 2020, Phoenix's unemployment rate has lowered to February 2021's 6.7%. Unemployment numbers have gone up and down since the onset of the pandemic, closely tied to the number of COVID-19 cases within the Metro. For some time, Phoenix was recovering faster than the nation, but since October 2020, it has stayed slightly higher than the national unemployment rate. Since April 2020, there has been a net total of 196,406 jobs added, with the top two sectors being leisure and hospitality, along with trade, transportation and utilities. The trade, transportation, and utilities industry, a sector that largely occupies industrial real estate, experienced strong employment growth year over year, thanks in part to consumer spending patterns shifting to ecommerce. Over 25% of the Metro had received the first dose of two for the COVID-19 vaccine by the end of March 2021. Economic recovery and job growth will accelerate as more and more people are fully immunized.

Consumer Price Index (CPI)

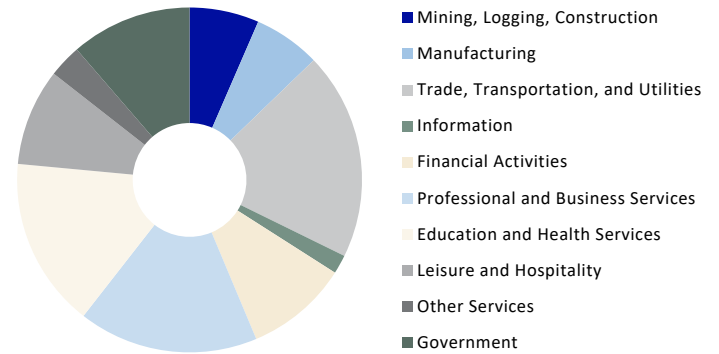
ALL ITEMS, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Employment by Industry

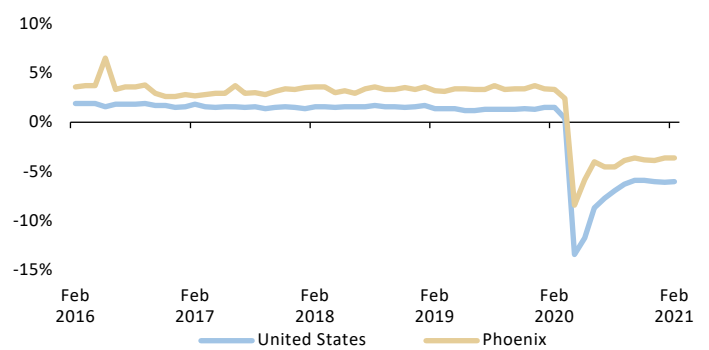
PHOENIX, 2020 ANNUAL AVERAGE



Source: U.S. Bureau of Labor Statistics

Payroll Employment

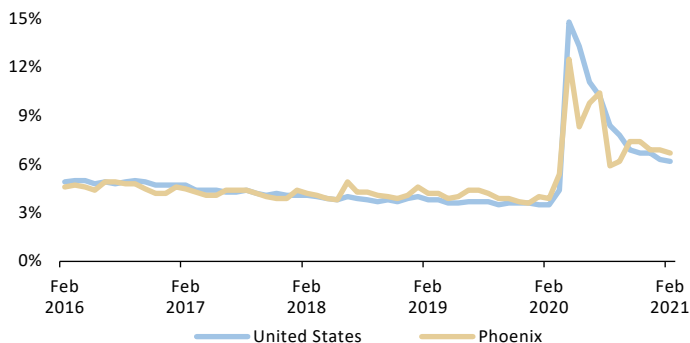
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Unemployment Rate

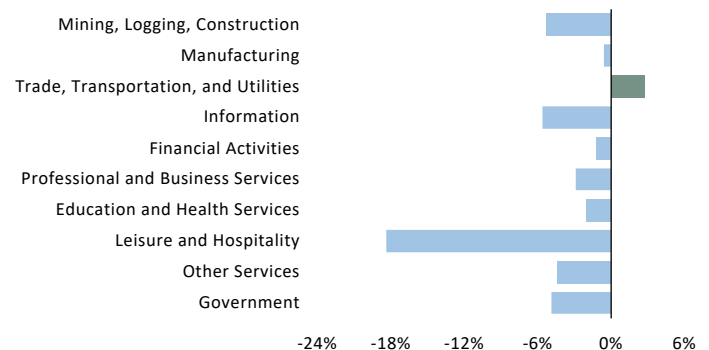
NOT SEASONALLY ADJUSTED



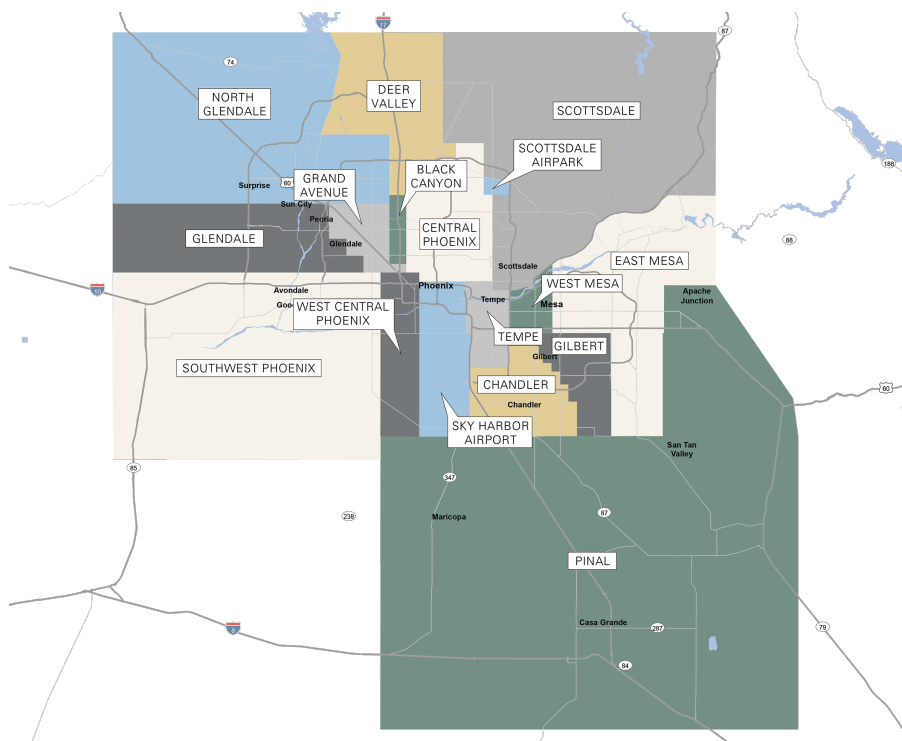
Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry

PHOENIX, FEBRUARY 2021, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics



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