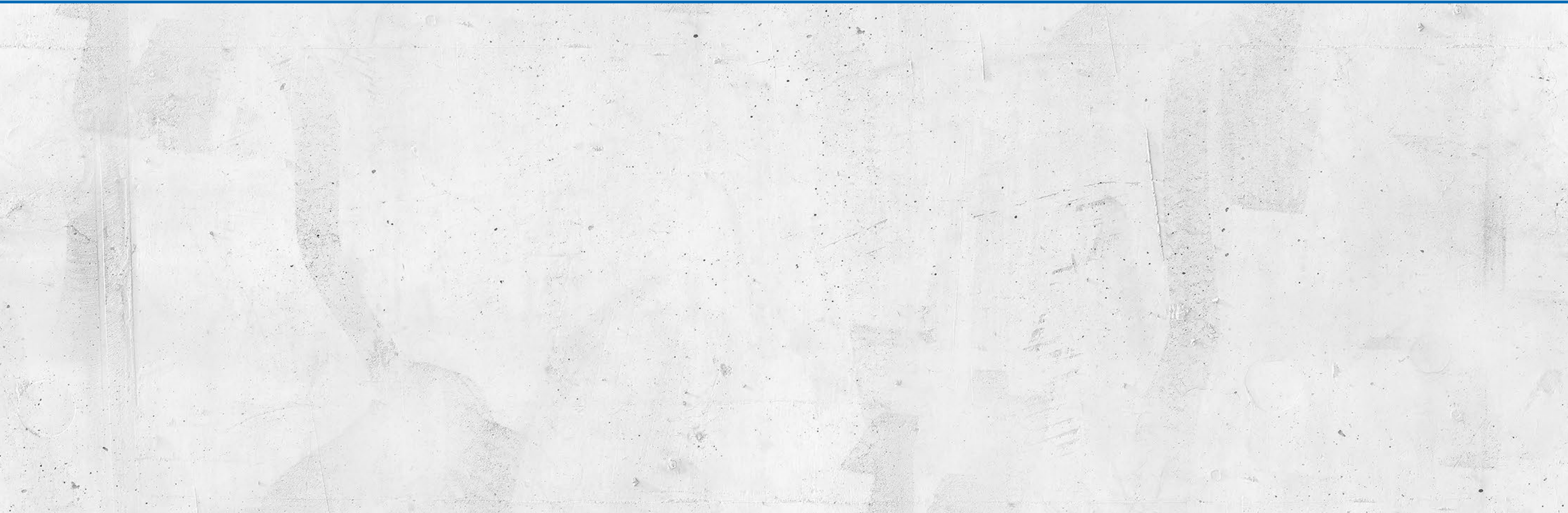

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Phoenix Industrial Market Overview



Market Observations

Economy

- Phoenix’s labor market remains strong, with a 3.3% unemployment rate in February, 90 basis points lower than the national average.
- Education and health services led local job gains over the past 12 months, with information and manufacturing seeing the biggest losses.
- Job growth was mixed across the region’s industrial-using employment sectors.
- Loaded import volume at the Ports of Los Angeles and Long Beach collectively totaled 1.5 million containers in the first two months of 2024. This figure is on par with the same period in 2018, which ended up being a healthy year.
- There is a strong correlation between historical import traffic and demand for warehouse space across Southwest markets.

Major Transactions

- Glendale welcomed tenants entering or expanding within the market such as Amazon, Steelcase and Dansons in the first quarter of 2024.
- Class A leasing activity picked up as tenants committed to new buildings that delivered in recent quarters.
- Sales activity for industrial product totaled \$527 million for the quarter, illustrating investor confidence in the Metro as a good location to place capital.

Leasing Market Fundamentals

- Net absorption in the first quarter of 2024 was 4.2 MSF versus 9.6 MSF in construction deliveries as numerous speculative buildings delivered partially vacant.
- Unleased speculative construction deliveries, coupled with 847,234 SF of new sublet vacant space, pushed the market’s total vacancy rate to 9.9%.
- Under-construction activity decreased for the fourth consecutive quarter, while 32.2 MSF is presently underway.
- Available sublease space totals 3.5 MSF, up 57.9% from year-end 2023.
- The average asking rent dropped by 13.8% quarter-over-quarter as the market readjusts to the influx of new construction and sublease space coming online.

Outlook

- As a designated workforce hub for advanced manufacturing by the White House, the Phoenix industrial market stands to be more resilient than other metros as users in the sector look to enter or expand.
- Union Pacific opened an intermodal facility that offers direct connectivity to Southern California’s ports. Shipping by rail is far cheaper than by truck, and this will favor Phoenix’s distributors and manufacturers.
- Sublease availability will likely increase as distributors continue to pivot from just-in-case to a just-in-time inventory models amid slower demand for consumer goods.

1. Economy
2. Market Fundamentals
3. Appendix

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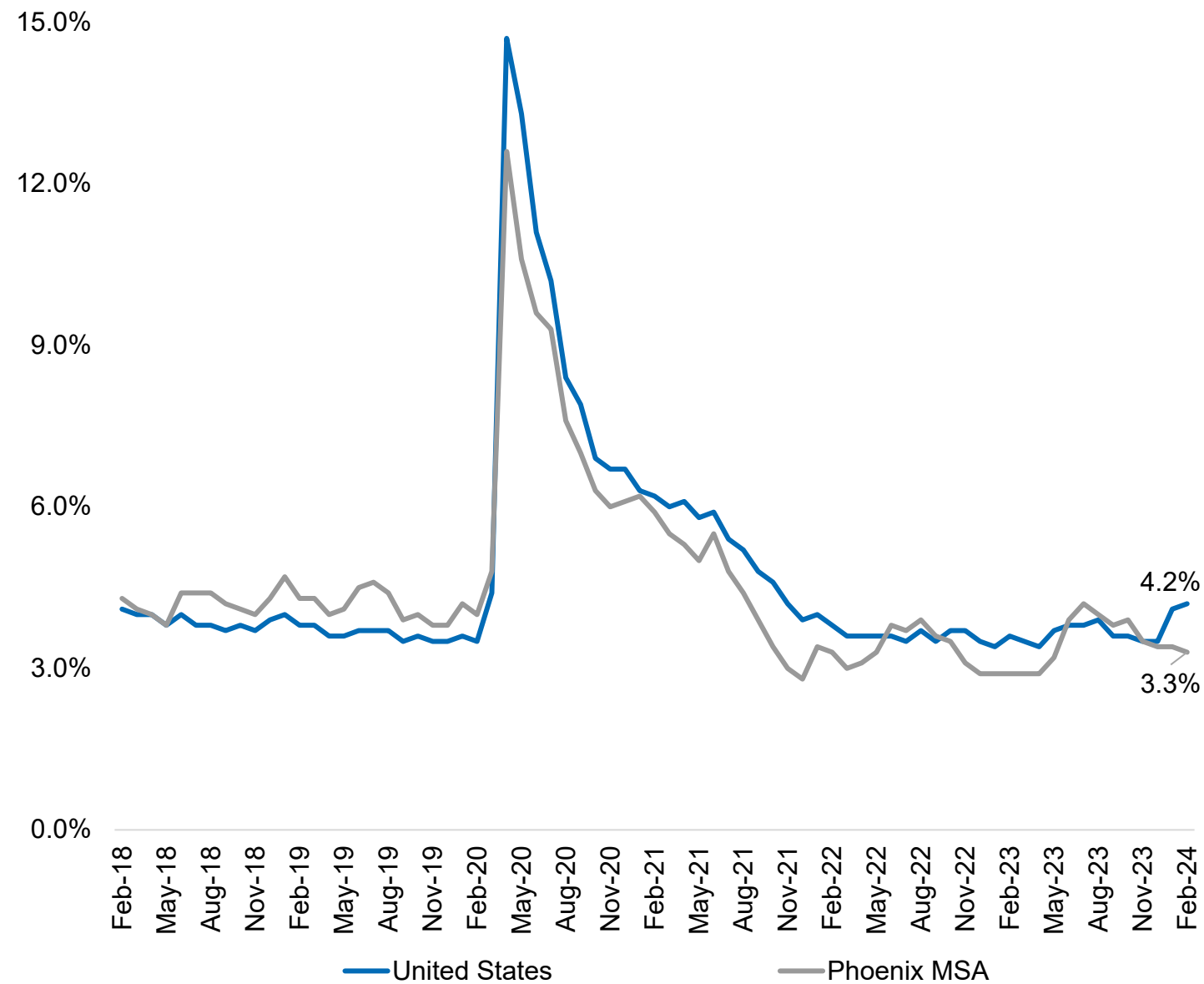
Economy



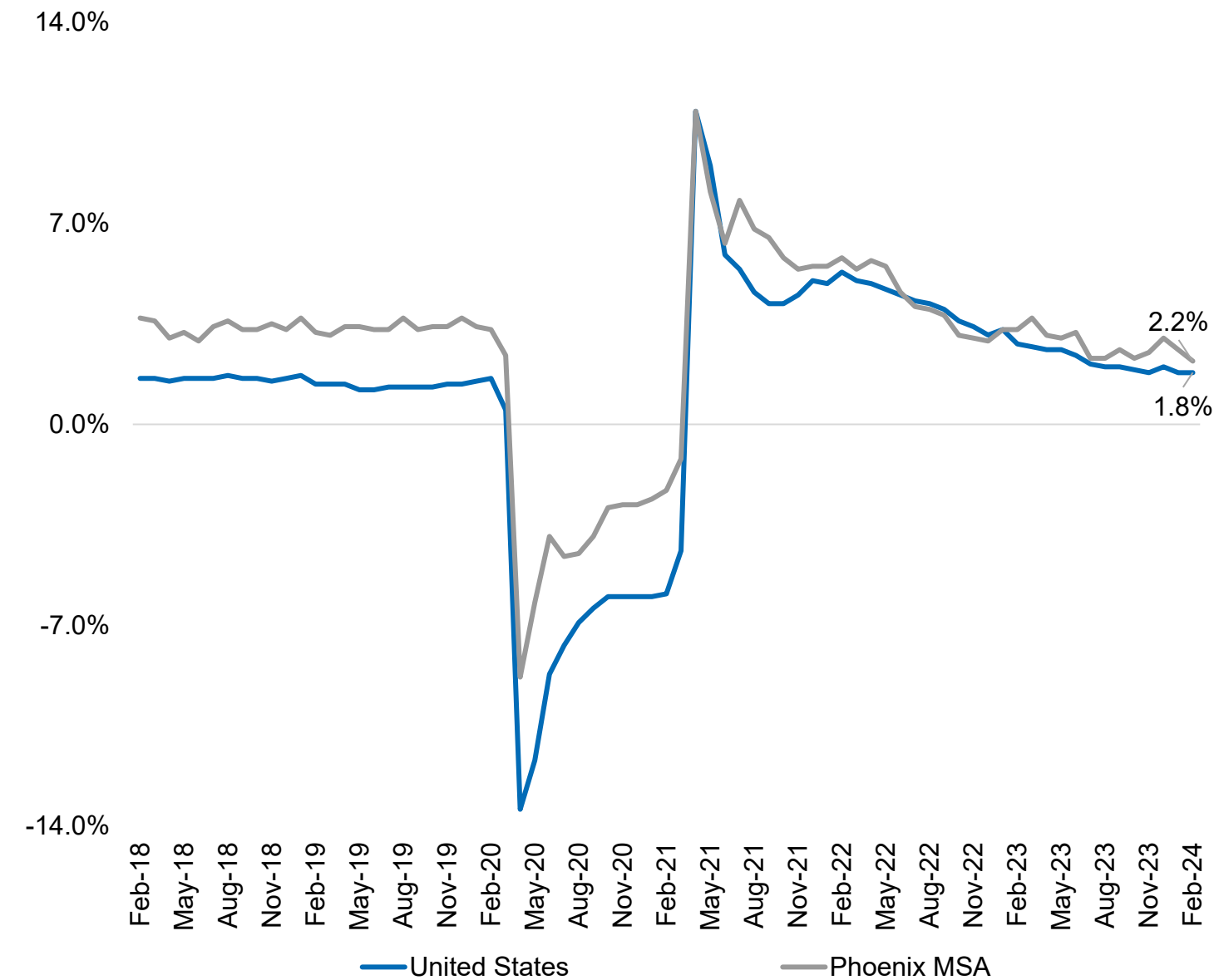
Phoenix's Labor Market Sees Promising Growth and Employment Gains

Local unemployment continued to tighten and was 90 basis points under the national average in February. Overall local job growth has slowed but remains in the positive for now as companies adapt to softening economic conditions.

Unemployment Rate, Not Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

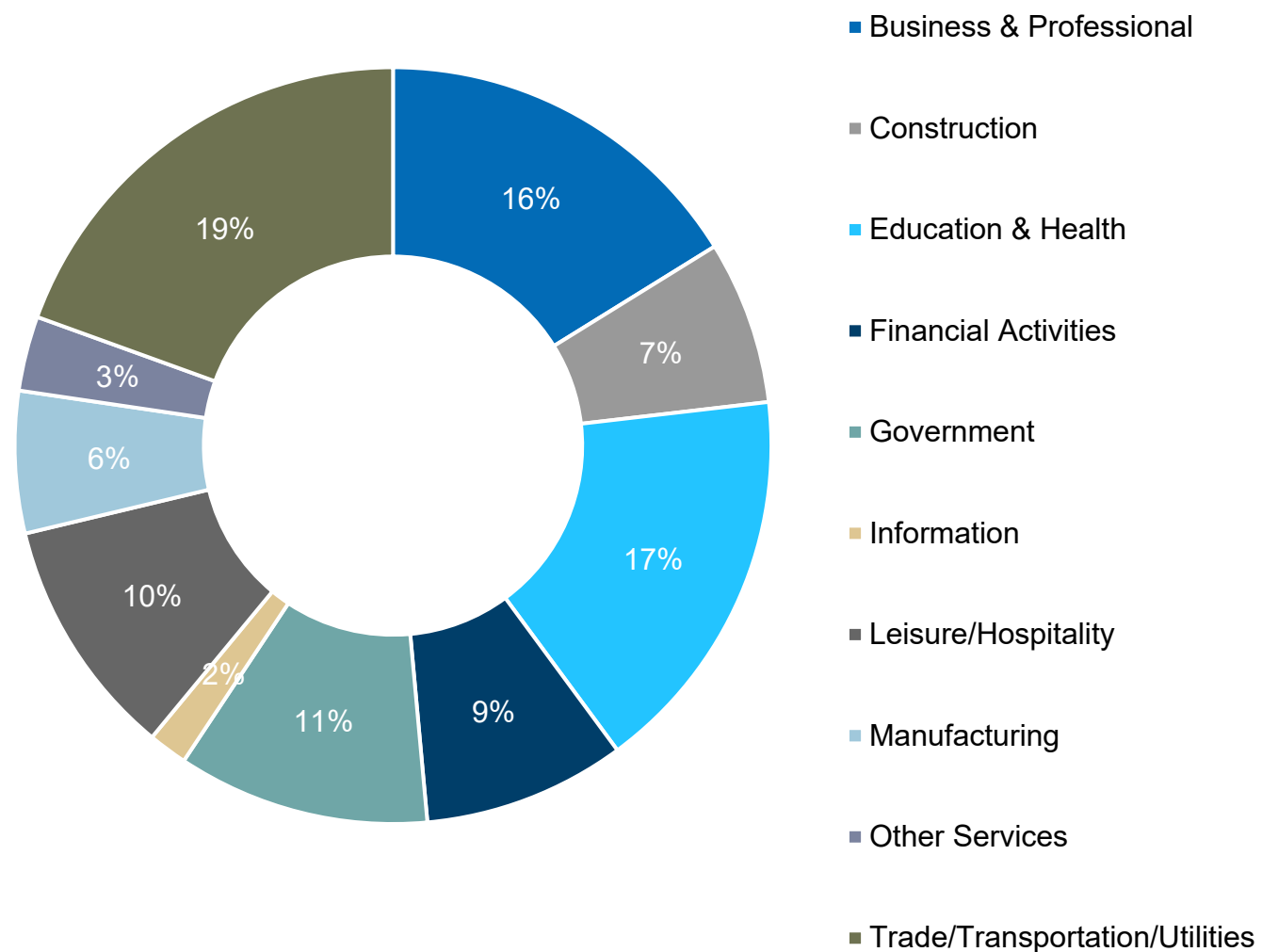


Source: U.S. Bureau of Labor Statistics, Phoenix MSA
 Note: February 2024 data is preliminary.

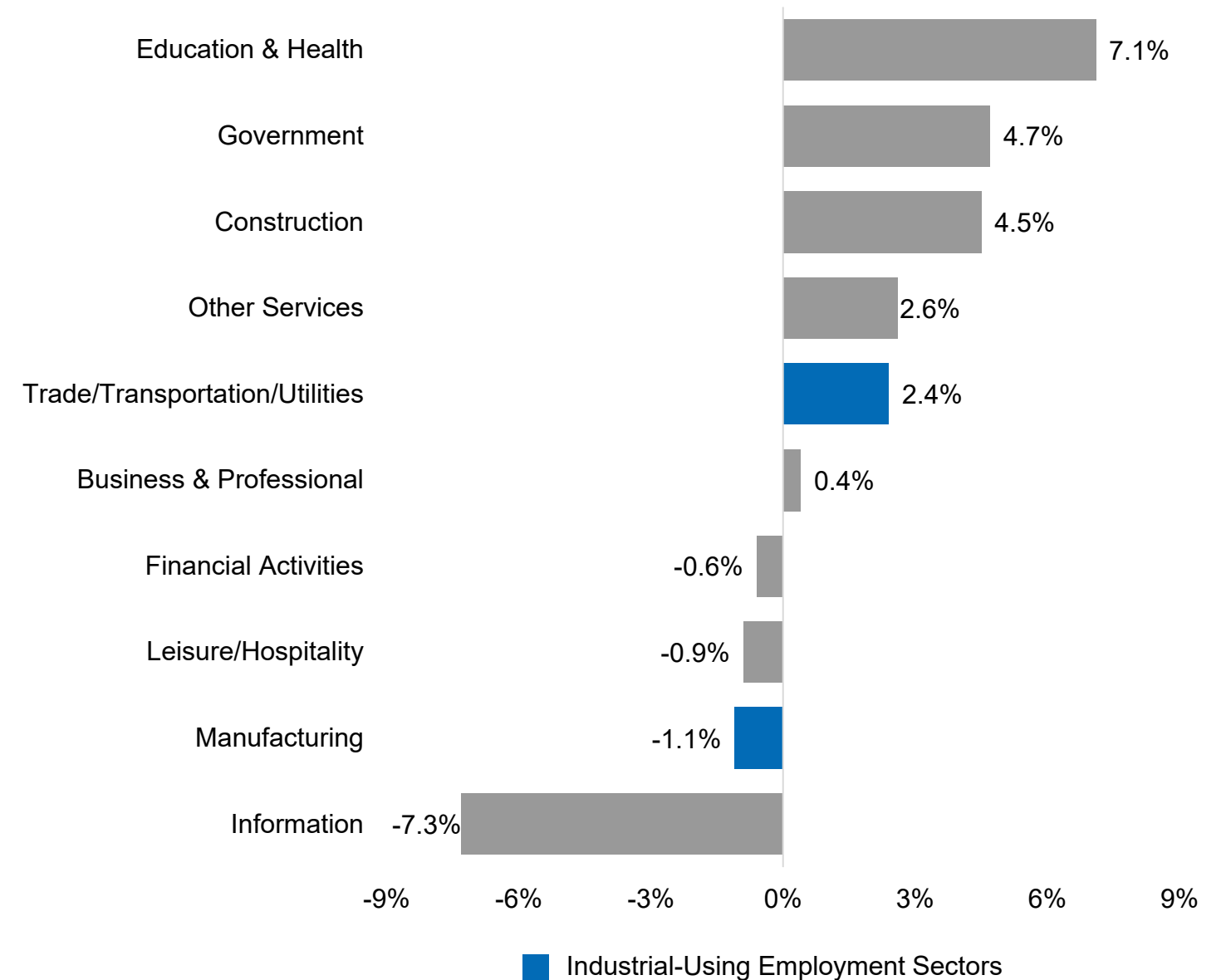
Job Growth Was Pronounced in Already Strong Employment Sectors

Education and health led all industries in annual job growth, followed closely by government and construction. Sizeable population gains in recent years supports the first two segments, while construction remains elevated on account of record high industrial development in the region. For industrial-occupying sectors: manufacturing contracted by 1.1% with trade/transportation/utilities seeing gains of 2.4%.

Employment by Industry, February 2024



Employment Growth by Industry, 12-Month % Change, February 2024

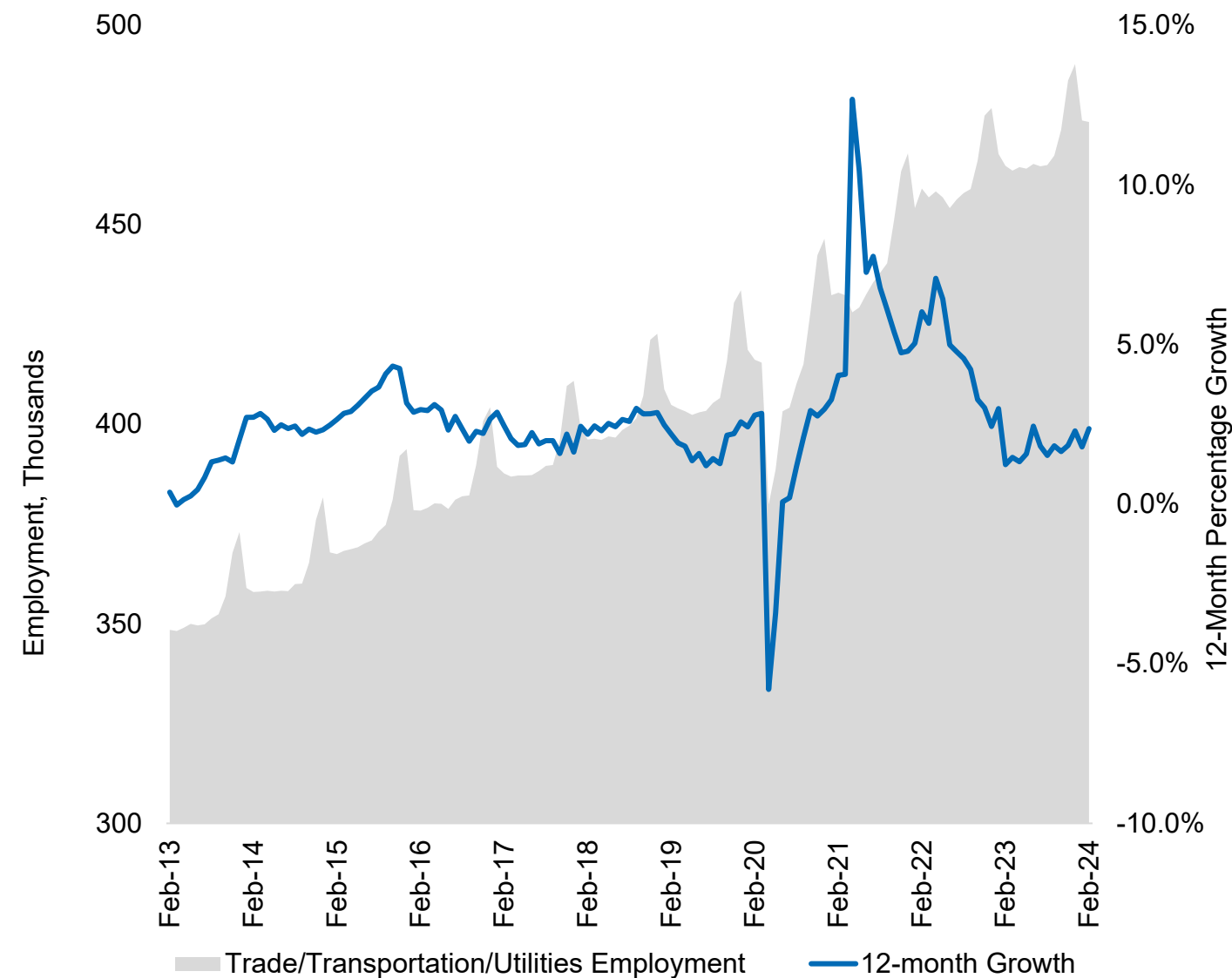


Source: U.S. Bureau of Labor Statistics, Phoenix MSA
 Note: February 2024 data is preliminary.

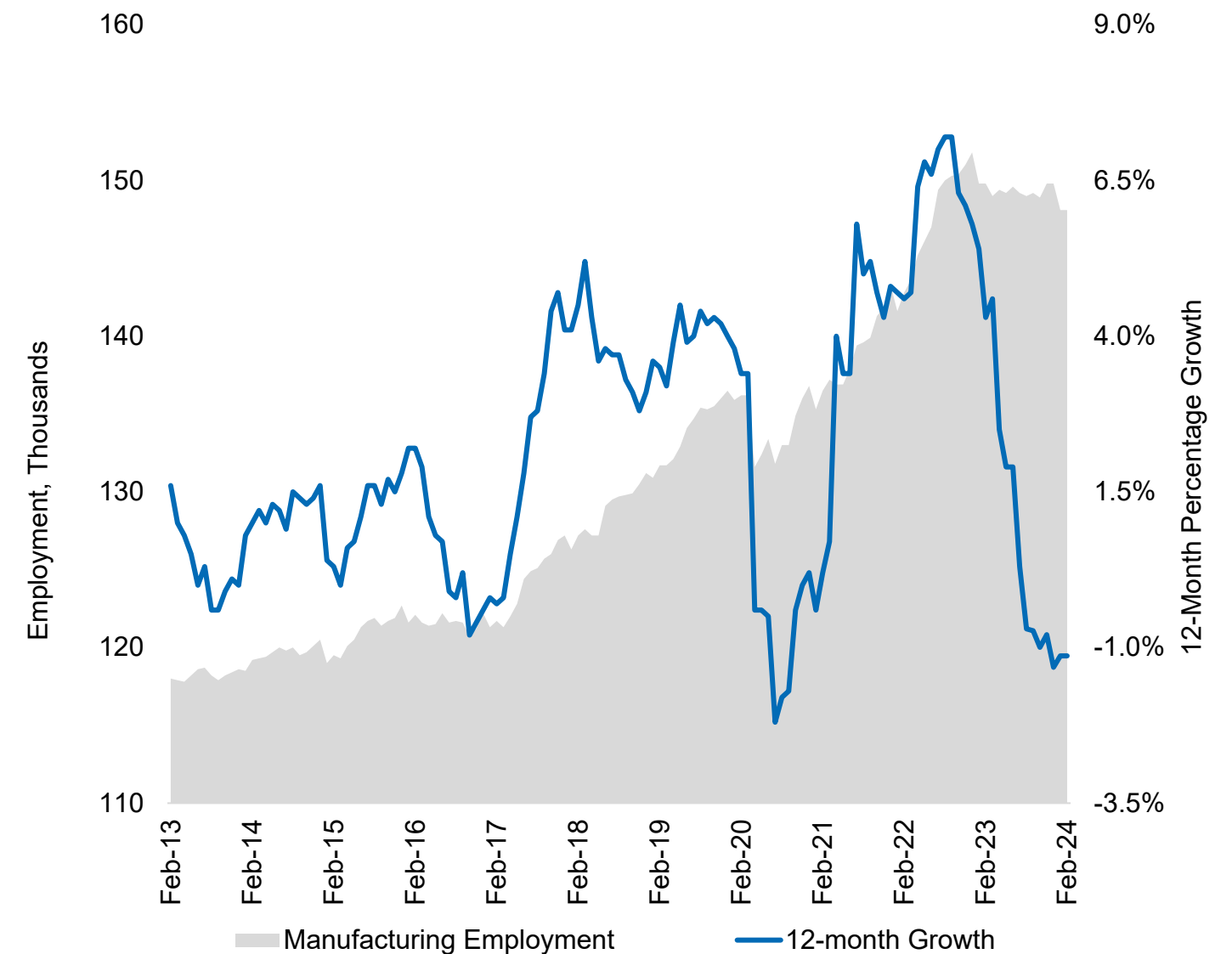
Industrial Employment Slowed but Recent Announcements Portend Growth

After a robust three years of job growth, the trade/transportation/utilities sector is adjusting amid less pronounced demand for consumer goods. Manufacturing annual job growth contracted slightly for the time being; this will change in the future since the White House designated the Metro as a workforce hub for advanced manufacturing. Upcoming construction deliveries with leases in place will lead to increased employment.

Trade/Transportation/Utilities Employment and 12-Month Growth Rate



Manufacturing Employment and 12-Month Growth Rate



Source: U.S. Bureau of Labor Statistics, Phoenix MSA

Loaded Imports in the First Two Months of 2024 Were Higher Than the Same Period in 2018

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Union Pacific Opened a New Intermodal Terminal Near Downtown Phoenix This Quarter

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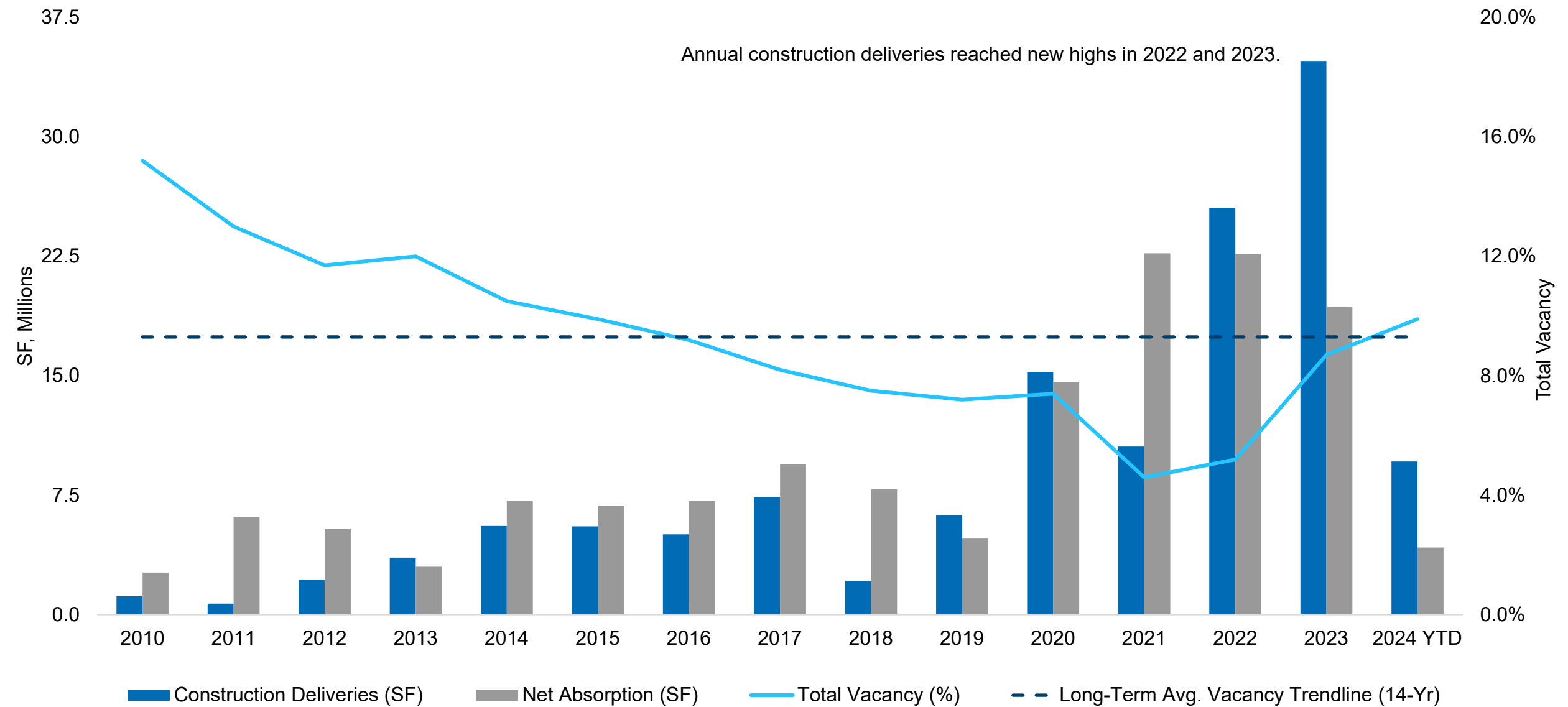
Market Fundamentals



Vacancy Surpasses Historical Average at Beginning of 2024

Vacancy increased to 9.9% after 9.6 MSF delivered in the first quarter. With tenants set to occupy for nearly half of all deliveries over the next two quarters coupled with lowered construction starts, vacancy gains will slow into 2024 and 2025.

Historical Construction Deliveries, Net Absorption, and Vacancy

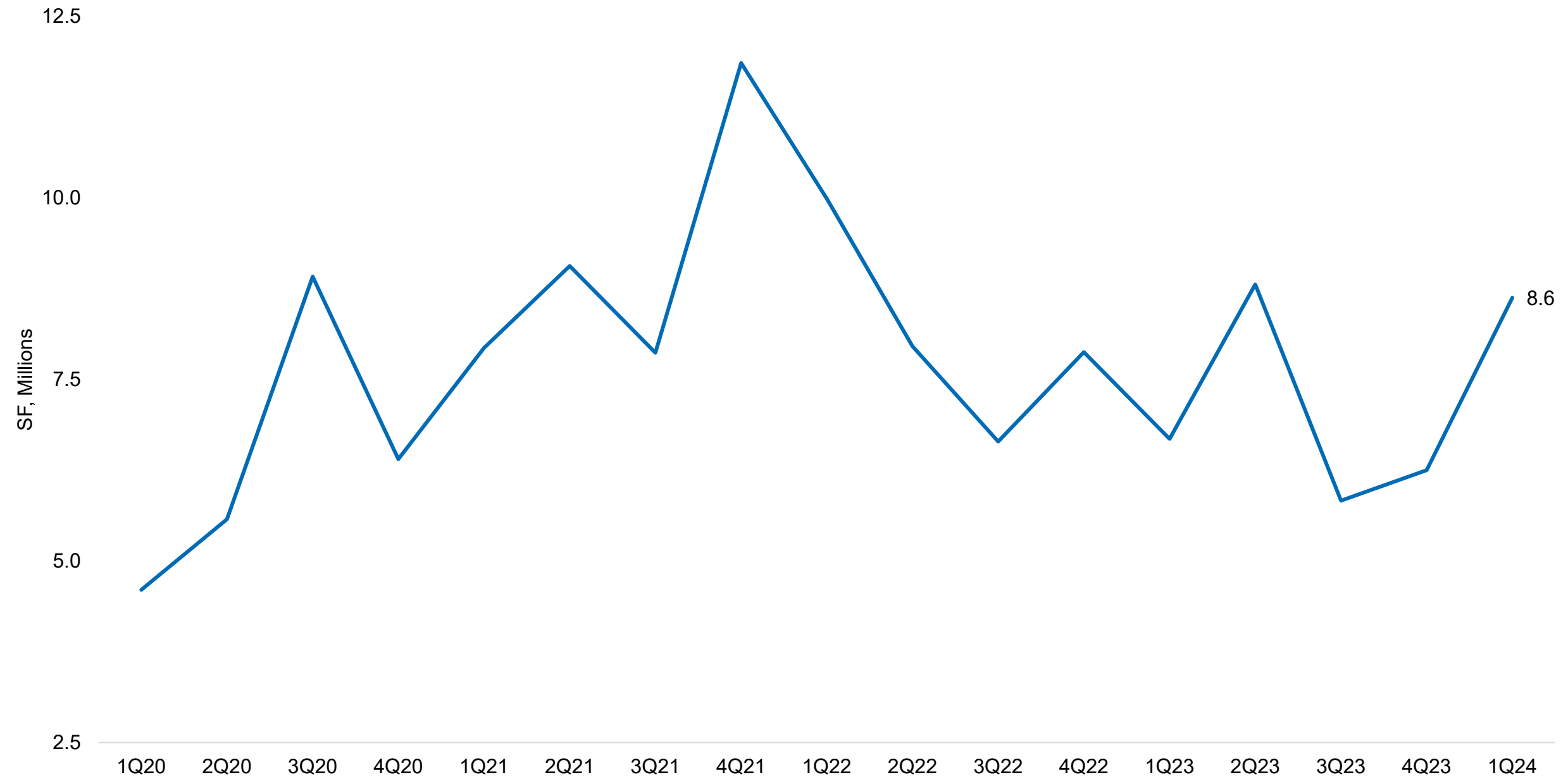


Source: Newmark Research

Industrial Leasing Activity Sees Promising Gains

This quarter's leasing activity totaled 8.6 MSF, 12% higher than the five-year average of 7.7 MSF, a welcome change from the dampened activity that occurred in the second half of 2023. Manufacturers and 3PLs were especially active due to expansion in the advanced manufacturing segment and Phoenix's ever-growing status in national supply chains. With a plethora of recently delivered space entering the market partially occupied, tenants will be able to quickly move or expand within the region in the coming quarters.

Total Leasing Activity (SF)

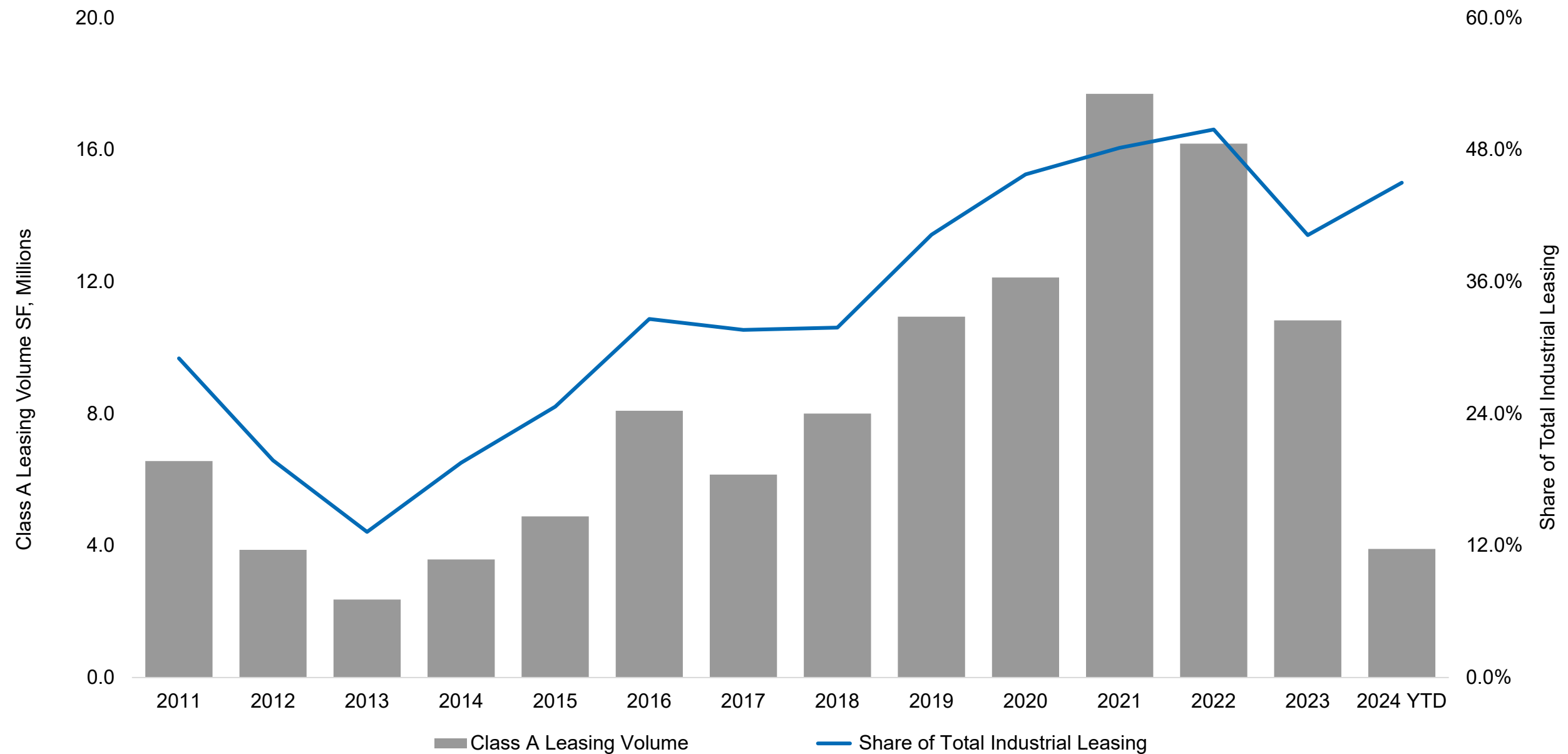


Source: Newmark Research

A Cooling Industrial Market Sees Lowered Class A Warehouse Leasing

Class A leasing has noticeably decreased since 2021; however, Class A leasing's share of total leasing activity increased in the first quarter of 2024 as tenants move into recently delivered buildings. Demand for Class A space remains strong, but some tenants are waiting for rents to soften first before committing.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume

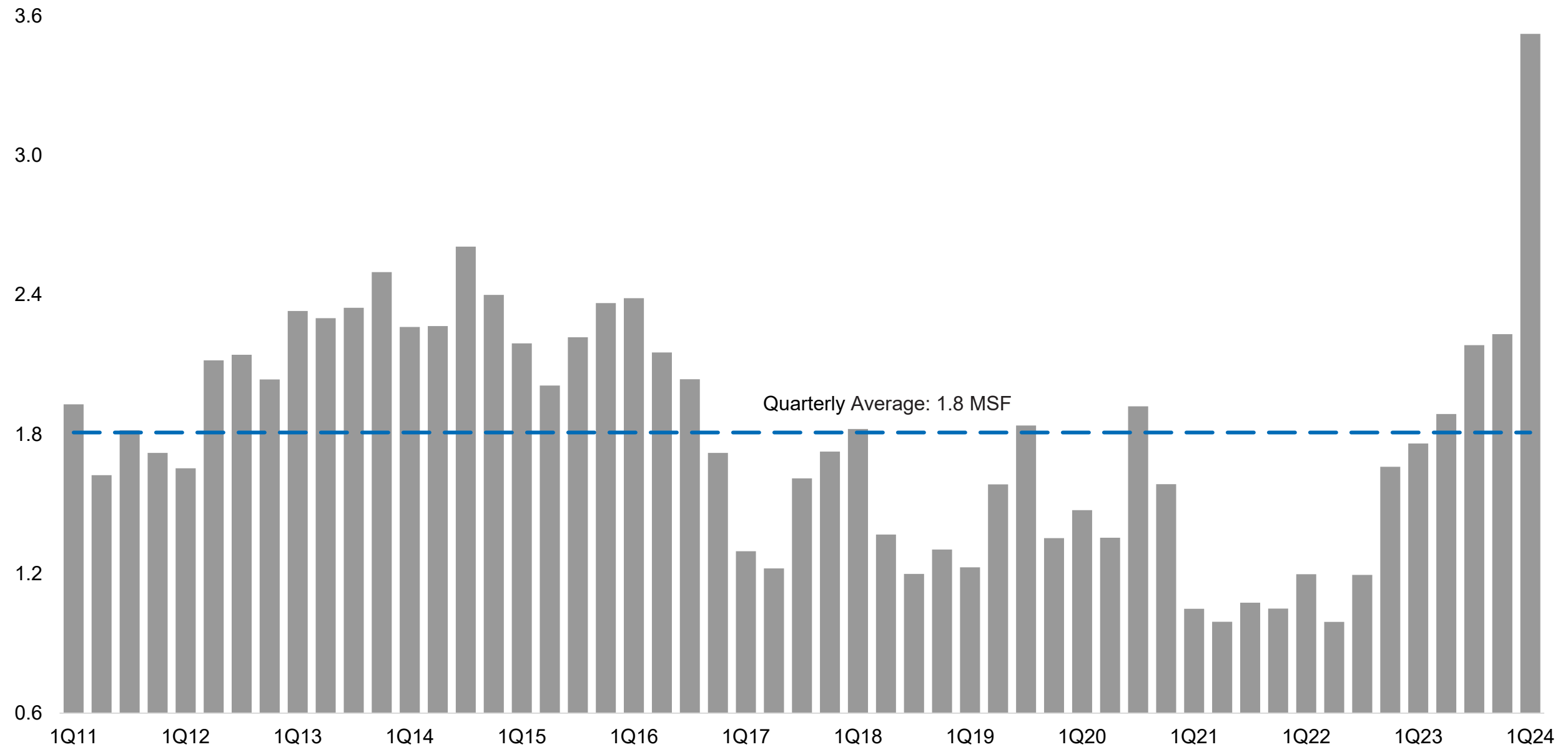


Source: Newmark Research

Industrial Sublease Availability Increased Substantially in 1Q24

After hitting a record low in the second quarter of 2022, sublease availability continues to rise, reaching a record high of 3.5 MSF in the first quarter of 2024. Large subleases like Metso (337,897 SF), Allen Distribution (204,290 SF) and McCormick Trading (157,992 SF) all pushed sublease availability up and illustrate how some occupiers are trying to reduce costs amid an uneven retail sales environment.

Available Industrial Sublease Volume (MSF)

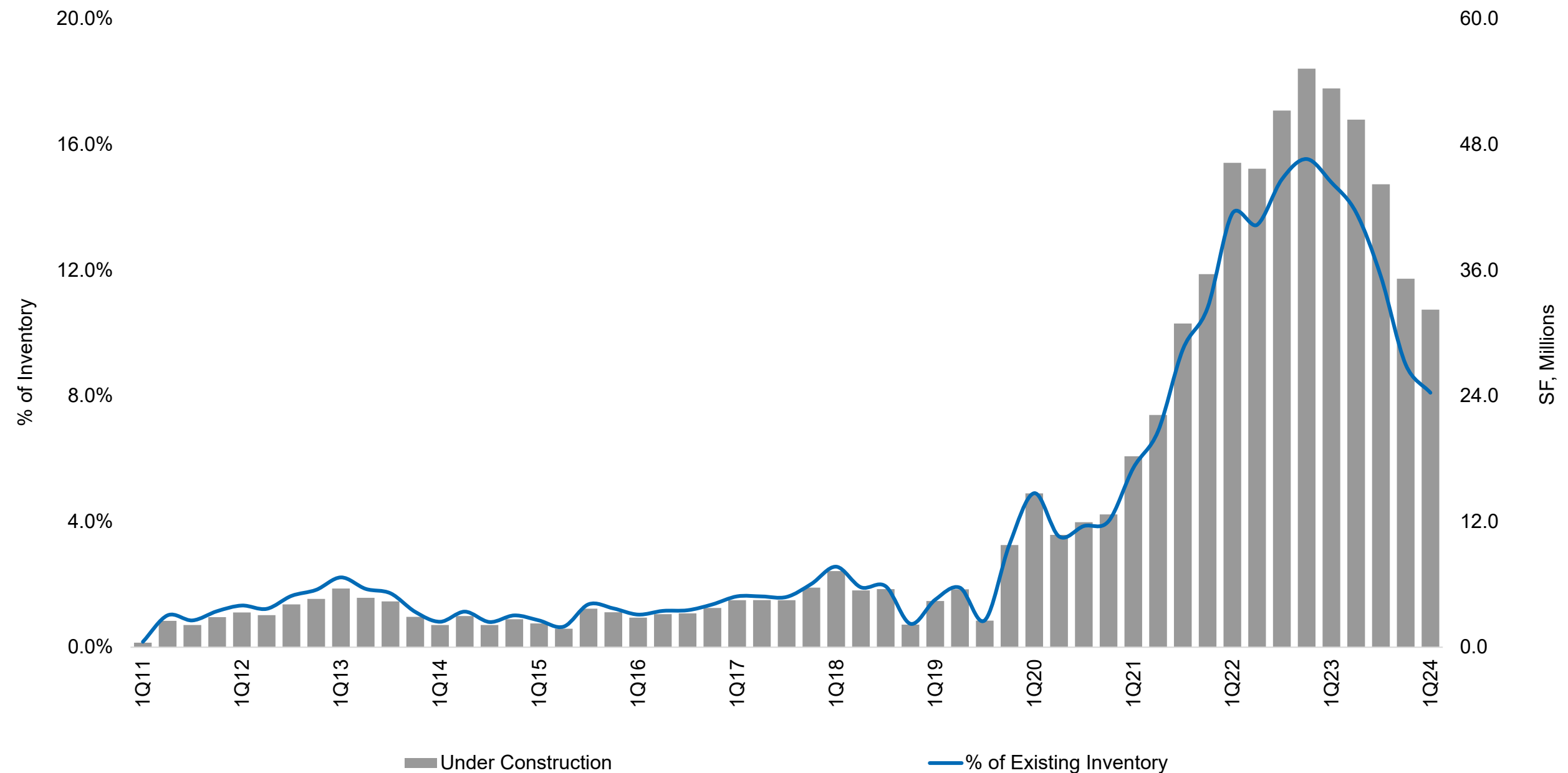


Source: Newmark Research

Industrial Supply Pipeline Eases as Construction Starts to Dwindle

The construction pipeline, after reaching a high of 55.2 MSF in the fourth quarter of 2022, continued to decline. Phoenix has the most underway product compared to other Southwest markets: a testament to the Metro's ability to attract new businesses and investors alike before inflation took hold and construction debt financing became more difficult.

Industrial Under Construction and % of Existing Inventory

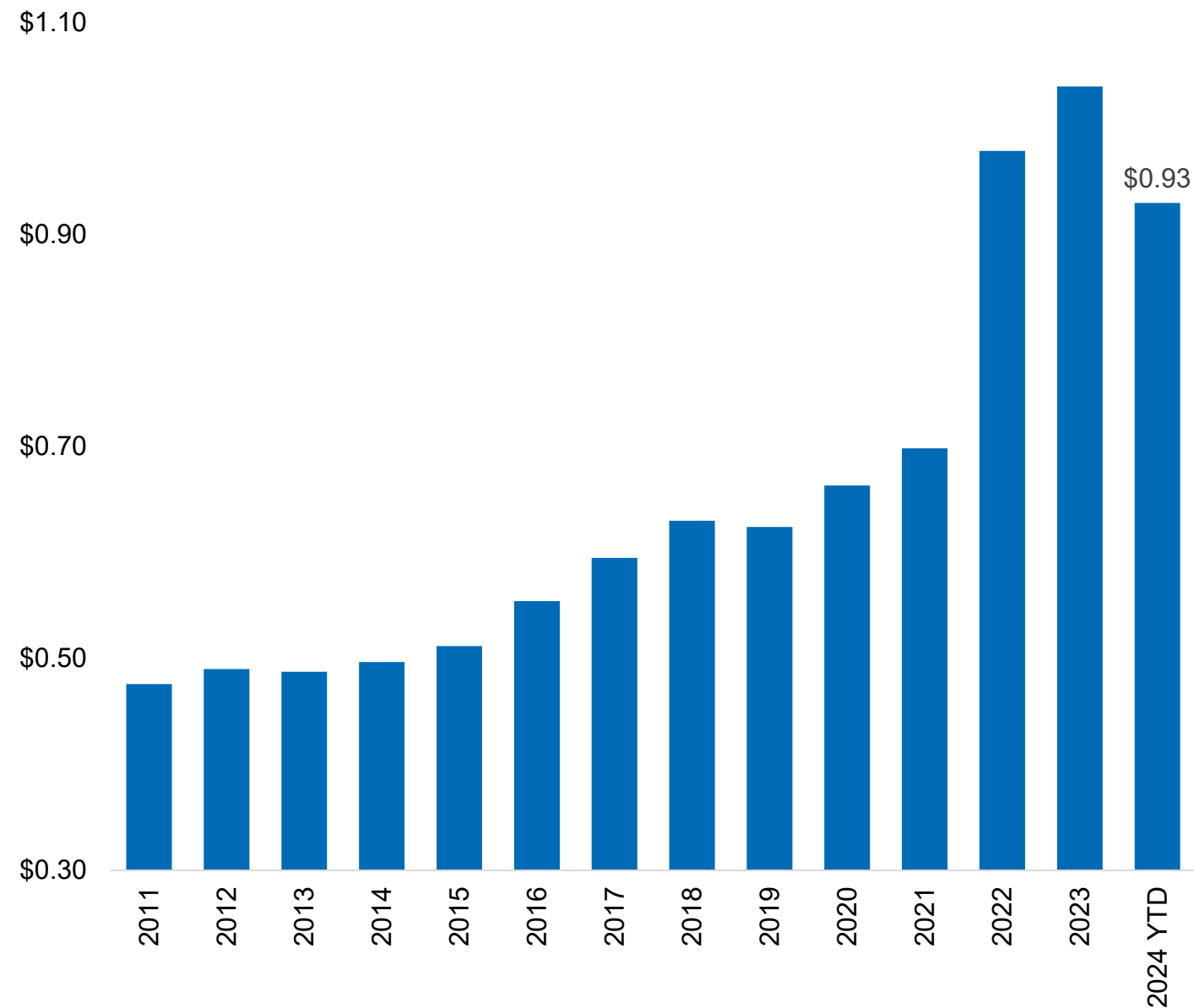


Source: Newmark Research

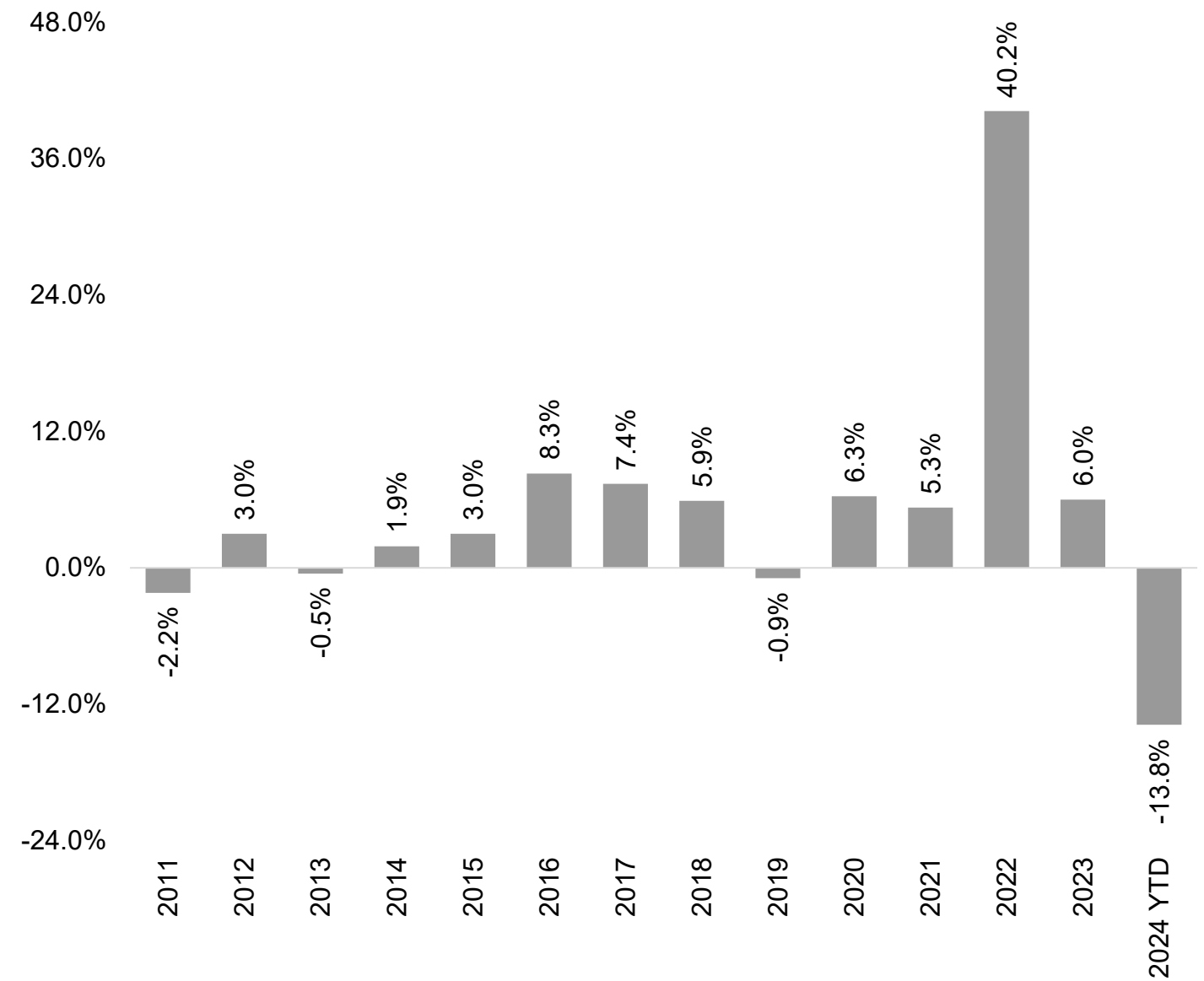
High Construction Levels and Increased Sublease Availability Drop Asking Rents

Continued high levels of speculative construction deliveries alongside record high sublease availability has pushed asking rents down as landlords work to attract tenants. As construction deliveries decline in the coming quarters and right-sizing efforts slow down, asking rents are expected to come back up but at lowered growth than the metro has experienced in recent years.

Industrial Average Asking Rent, \$/SF/Month, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research

Exceptional Effective Rent Growth in Recent Years is Moderating

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Notable 1Q24 Lease Transactions

Key lease agreements played a major role in securing the credibility of Phoenix as a central hub for manufacturing and 3PL users. Glendale welcomed multiple users in the first quarter from notable companies such as Amazon, Steelcase and Thyssenkrupp Materials.

Select Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Amazon	Prologis 303	Glendale	Direct Lease	1,222,480
<i>Major tech-giant, Amazon, continues to expand its Valley footprint, signing a new lease at Prologis 303 for over 1.2 MSF.</i>				
Steelcase	C 303	Glendale	Direct Lease	210,660
<i>Steelcase, a leading furniture manufacturer, signed a lease at C 303 in Litchfield Park.</i>				
SOLogistics	Fairway 10	Southwest Phoenix	Sublease	194,598
<i>Signed in early Q1, SOLogistics signed a sublease to occupy 194,598 SF of industrial space at Avondale's Fairway 10 building park.</i>				
Thyssenkrupp Materials	Glendale 101	Glendale	Direct Lease	186,777
<i>Global medical and defense material manufacturer, Thyssenkrupp, signed for 186,777 SF at Glendale's 101 Distribution Center.</i>				
Dansons	C 303	Glendale	Direct Lease	165,000
<i>Dansons, headquartered in Scottsdale, AZ, acquires new distribution space in the Glendale submarket.</i>				

Notable 1Q24 Sale Transactions

Although overall sales volume is down compared to prior years, the industrial sector still saw notable deals from private investors in the first quarter of 2024.

Select Sale Transactions

Building Address	Submarket	Sales Price	Price/SF	Square Feet
2075 W. Obispo Ave. (Portfolio)	Chandler	\$71,050,000	\$166	428,453
<i>ViaWest acquired the six-building industrial portfolio totaling 428,453 SF for \$71.5 million.</i>				
202 Business Park – 560-620 E. Germann Rd. (Portfolio)	Chandler	\$51,600,000	\$192	268,698
<i>Sold in mid-February by Brookfield Corporation, the nine-building portfolio was purchased by Two Sigma for \$51.6 million.</i>				
Riverside @ 51 st – 2300 S. 51 st Ave.	West Central Phoenix	\$42,200,000	\$126	335,459
<i>Part of a joint venture between Bixby Land Company and AXA Investment Managers, this 335,459-SF industrial property was sold to Link Logistics.</i>				
2632 E. Chambers Dr.	Sky Harbor Airport	\$24,300,000	\$211	114,907
<i>Purchased by MDC Realty Advisors, this 114,907 SF, 100% occupied industrial building was sold by American Refrigeration Supplies; The seller signed a long-term lease in conjunction with the transaction.</i>				
Elwood Rising – 3750 S. 156 th Ave.	Southwest Phoenix	\$21,800,000	\$182	120,000
<i>ATLAS sold the 120,000 SF industrial building to Cohen Asset Management for \$21.8 million in the Southwest Phoenix submarket.</i>				

Total Sales Volume Down Dramatically at Beginning of 2024

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Private, Opportunistic Buyers Are Active



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Appendix



Phoenix Metro Industrial Submarket Map and High-Level Statistics | 1Q24



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Population Has Quadrupled Over the Past Five Decades



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Access to Large Populations and Lower Costs of Doing Business Favor Phoenix

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West Coast Dockworkers Signed a New Contract in 2023; Their Eastern Counterparts are Next Up...

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Import Traffic Has Jumped in Recent Months at Los Angeles-Long Beach

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