



Phoenix Industrial Market

Distribution/Logistics and Advanced Manufacturing Activity Bolster Sound Market Fundamentals

Industrial fundamentals remain strong in the Valley of the Sun with high net absorption, lowering vacancy rates and rising asking rents continuing to be the norm. Due in part to a talented labor force, strong population and 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 continues to see a surge in leasing by logistics, distribution and ecommerce tenants.

Amidst strong leasing activity and several owner-user built buildings delivering, the Phoenix industrial market experienced another high positive net absorption quarter in the second quarter of 2021, with just over 5 million square feet absorbed. This is the third straight quarter of net absorption exceeding 5 million square feet, and the strong start to the year portends a historical high for net absorption in 2021. Vacancy dropped below 7.0% to 6.8% for the quarter, a 70-bps drop from the previous quarter. Asking rents rose 4.5% from the previous quarter and are up 9.4% year over year.

Growing the manufacturing sector, particularly advanced manufacturing, continues to be a point of emphasis for the state. Several electric vehicle manufacturers are either beginning operations in the Phoenix metro area or expanding. This includes

Current Conditions

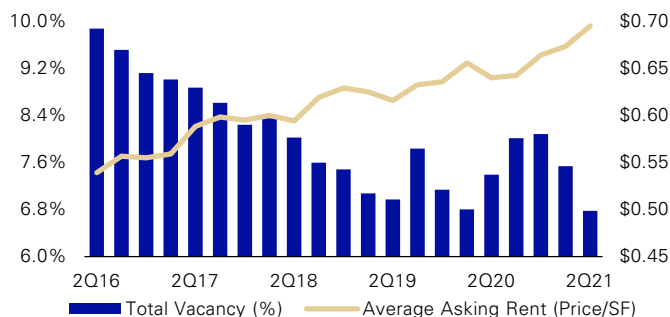
- Net absorption crossed the 5.0-million-square-foot threshold for the third consecutive quarter.
- The total square footage under construction increased from 15.8 million square feet in first-quarter 2021 to 16.1 million square feet.
- Out-of-state investors remain bullish on the fundamentals of Phoenix industrial real estate, albeit with declining transaction levels.

Market Summary

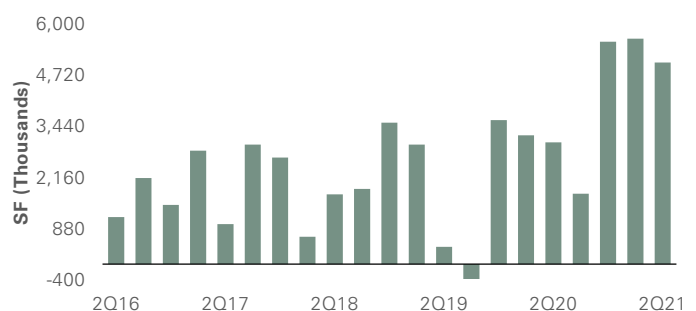
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory	324.5 MSF	321.7 MSF	306.3 MSF	↑
Vacancy Rate	6.8%	7.5%	7.4%	→
Quarterly Net Absorption (SF)	5.0 MSF	5.6 MSF	3.0 MSF	→
Average Asking Rent PSF	\$0.70	\$0.67	\$0.64	↑
Under Construction (SF)	16.1 MSF	15.8 MSF	11.0 MSF	↑
Deliveries (SF)	2.4 MSF	3.4 MSF	4.3 MSF	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



Lucid Motors, Nikola Motor and one of the latest entrants to the market, ElectraMeccanica Vehicles. Against the backdrop of a global chip shortage and a U.S.-government-led push to produce more chips, both Intel and Taiwan-based TSMC have announced plans to build new fabrication facilities in the Phoenix metro area. Earlier this year, Intel announced they were making a \$20.0-billion investment to increase manufacturing, which includes construction of two new semiconductor fabrication facilities. TSMC announced its \$12.0-billion project last year and construction is imminent on its first Arizona fabrication facility. 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.

The 438,687-square-foot HelloFresh lease at the currently under-construction Prologis Logistics Center IV was the largest of the quarter and will be HelloFresh's biggest global manufacturing and distribution facility to date. Two other 200,000-square-foot-plus leases were signed at the newer vintage Majestic Tolleson Center Building 2 and the 1980s-built, rail-served 107 South 41st Avenue building.

Even with steady rent growth of 9.4% 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 most 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. Expect rents to continue to increase over the next year, with higher construction costs being incorporated into asking rents.

Investor demand continues to be strong for industrial product. The second quarter was one of the highest second quarters historically in terms of transaction dollar volume, albeit the second consecutive quarter with a decline in volume. The largest transactions of the quarter were acquired by out-of-state investors, with California investors making up a significant portion of the out-of-state buyers.

Select Lease Transactions

Tenant	Submarket	Building	Type	Square Feet
HelloFresh	Southwest Phoenix	Prologis Logistics Center IV	New	438,687
Undisclosed	Southwest Phoenix	Majestic Tolleson Center Bldg. 2	New	224,874
Undisclosed	West Central Phoenix	107 S. 41 st Ave.	New	220,162
OMCO Solar	West Central Phoenix	4550 W. Watkins St.	Renewal	181,760
Undisclosed	West Central Phoenix	4141 W. Van Buren St.	New	175,891

Select Sale Transactions

Address	Submarket	Sale Price	Price/SF	Square Feet
Various (Portfolio)	Various	\$56,800,000	\$135.43	419,418
670 S. 91 st Ave.	Southwest Phoenix	\$35,500,000	\$85.01	417,600
317 S. 48 th St.	Tempe	\$33,000,000	\$145.06	227,491
2550 S. 51 st Ave.	West Central Phoenix	\$12,023,898	\$71.44	225,653
1345 S. 52 nd St.	Tempe	\$9,100,000	\$54.49	167,000

Top Deliveries

Building Name	Address	Submarket	Type	Square Feet
Quetico Logistics	975 S. 143 rd Ave.	Southwest Phoenix	Owner-Built	719,520
Amazon Goodyear #2 IXD	17341 W. Minnezona Ave.	Glendale	Owner-Built	650,000
RRB Beverage Bldg. 2	15501 W. Peoria Ave.	Glendale	Owner-Built	530,000
Landing 3 Bldg. 7	8009 E. Ray Rd.	East Mesa	Speculative	249,988
2550 S. 51 st Ave.	2550 S. 51 st Ave.	Southwest Phoenix	Speculative	168,312

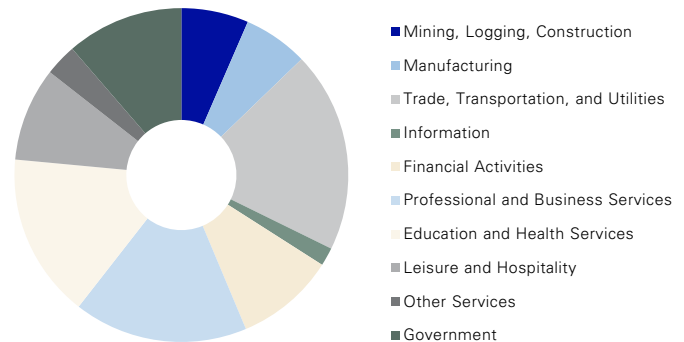
Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy	Qtr Absorption (SF)	YTD Absorption (SF)	WH/Dist Asking Rent (Price/SF)	R&D/Flex Asking Rent (Price/SF)	Average Asking Rent (Price/SF)
Black Canyon	5,870,666	-	5.0 %	68,097	54,699	\$0.68	\$1.26	\$0.90
Central Phoenix	2,442,505	-	3.2 %	15,698	11,399	-	-	\$0.84
Chandler	23,807,047	550,882	6.7 %	237,430	752,735	\$0.73	\$1.45	\$0.80
Deer Valley	14,463,621	367,260	5.3 %	-9,408	132,900	\$0.81	\$1.14	\$0.86
East Mesa	9,100,572	888,010	9.7 %	69,146	380,901	\$0.77	\$0.78	\$0.72
Gilbert	6,873,799	216,530	8.9 %	165,455	593,809	\$0.65	\$1.79	\$0.71
Glendale	13,955,988	4,932,582	12.6 %	2,401,757	3,338,315	\$0.57	\$0.80	\$0.60
Grand Ave	18,686,496	-	2.7 %	34,051	123,540	\$0.44	-	\$0.53
N Glendale	3,858,575	145,491	6.4 %	-28,899	200,413	\$0.50	\$1.50	\$1.15
Pinal	3,154,414	1,000,000	0.6 %	3,234	5,000	\$0.16	-	\$0.28
Scottsdale	3,694,370	-	0.6 %	48,277	79,005	\$0.92	\$1.36	\$1.19
Scottsdale Airpark	6,790,435	-	3.8 %	58,394	65,282	\$0.97	\$1.16	\$1.11
Sky Harbor Airport	42,618,962	1,013,801	5.9 %	30,606	312,455	\$0.92	\$1.17	\$0.86
Southwest Phoenix	94,714,343	6,987,759	9.3 %	1,757,880	3,317,457	\$0.42	\$0.52	\$0.48
Tempe	37,054,991	-	5.0 %	137,011	721,820	\$0.71	\$1.27	\$0.88
West Central Phoenix	28,856,287	-	4.2 %	71,426	138,612	\$0.43	\$0.58	\$0.53
West Mesa	8,507,588	-	6.6 %	-12,550	464,283	\$0.67	\$0.81	\$0.62
Market	324,450,659	16,102,315	6.8 %	5,047,605	10,692,625	\$0.55	\$1.17	\$0.70

Economic Overview

After the record unemployment high of 12.5% in April 2020, Phoenix's unemployment rate has lowered to May 2021's 6.2%. 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 national average, but since October 2020, it has stayed slightly higher than the national unemployment rate. Since April 2020, there has been a net total of 181,500 jobs added, with the top sector being leisure and hospitality, followed by trade, transportation and utilities. Industrial-occupying industry sectors posted job growth throughout 2020 and early 2021, due in large part to shifting consumer spending patterns. With the overall economy recovering as COVID-19 vaccines are now readily available, industrial-occupying sectors continue to build on the job growth experienced throughout the pandemic.

Employment by Industry

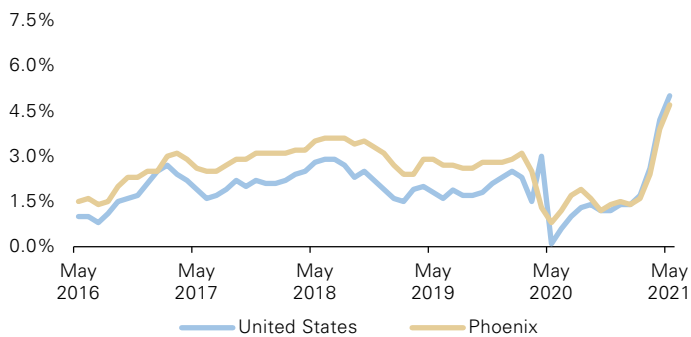
PHOENIX, 2020 ANNUAL AVERAGE



Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)

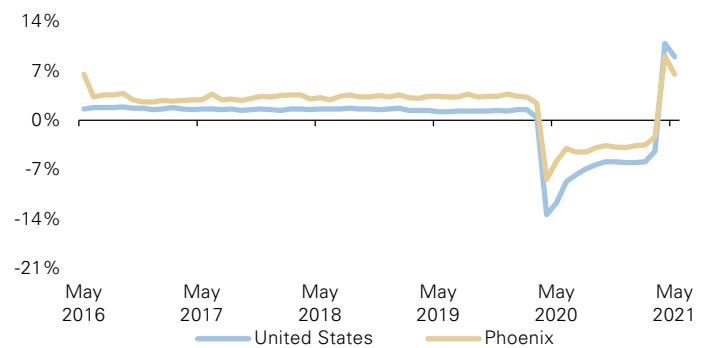
ALL ITEMS, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Payroll Employment

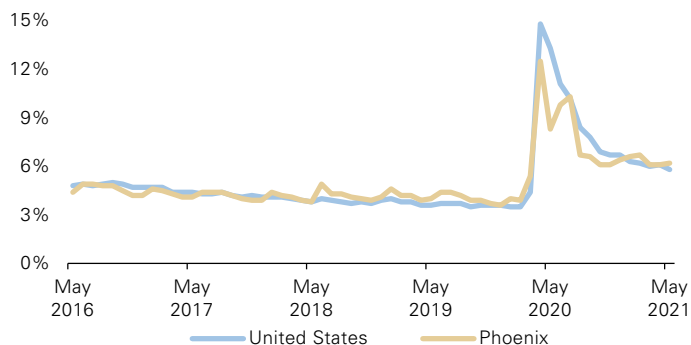
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Unemployment Rate

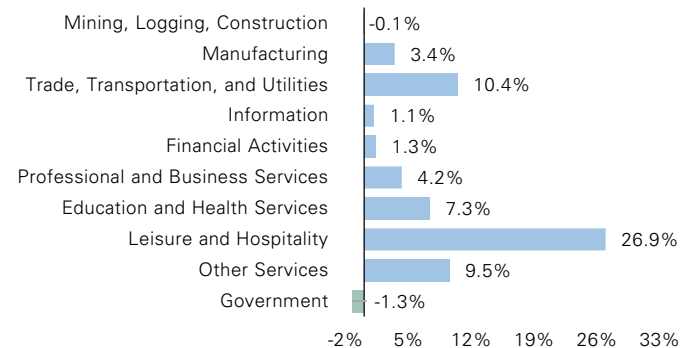
NOT SEASONALLY ADJUSTED



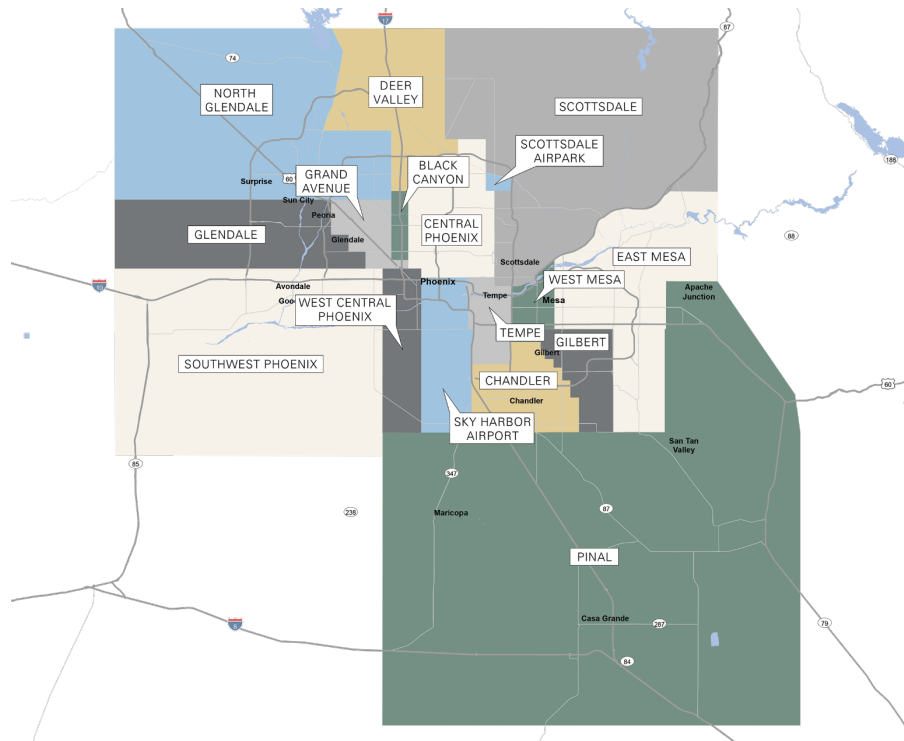
Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry

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



Source: U.S. Bureau of Labor Statistics



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