

Phoenix Industrial Market

Market Fundamentals Strong as Construction Pipeline Ticks Higher

Phoenix's industrial market continued to perform strongly even as consumer spending slows amidst stubbornly high inflation. Asking rents increased, vacancy remains near market lows, net absorption is robust, and new supply is delivering to the market, albeit with delays due to supply chain and labor force issues. One potential concern for the market is the large construction pipeline – now 12.9% relative to current inventory – expected to deliver to the market in 2023, just as inflationary and interest pressures reshape consumer spending.

The summer peak shipping season began earlier this year as U.S. retailers front-loaded their imports to get ahead of potential labor disputes at West Coast ports and factory closures in China. Against this backdrop, cargo totals at the Ports of Los Angeles and Long Beach were still close to a record high in the first eight months of 2022 relative to the same period last year. The holiday shopping season is imminent, and retailers are now beleaguered with excess inventory as consumers cut back on discretionary purchases as 40-year-high inflation erodes household incomes. For now, Southern California markets are at very low vacancy levels, while markets within a one-day truck drive, like Phoenix, will continue to benefit. Phoenix's lower real estate and labor costs relative to Southern California markets, in addition to

Current Conditions

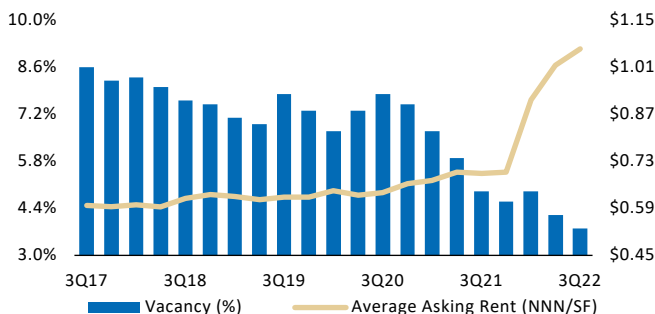
- Under-construction activity represents 12.9% of existing inventory, substantially higher than last cycle's peak of 4.6% in the third quarter of 2007.
- Asking rents continue to see strong upward lift, growing 4.8% quarter over quarter and 53.3% year over year.
- Net absorption eclipsed 3.0 million square feet for the eighth consecutive quarter, and vacancy ticked down 40 basis points to 3.8%.

Market Summary

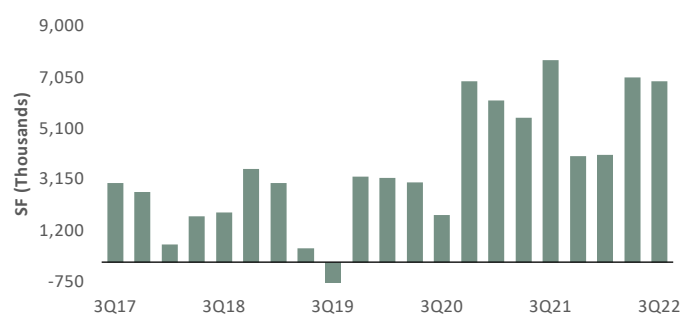
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	345.2 M	340.5 M	327.4 M	↑
Vacancy Rate	3.8%	4.2%	4.9%	↑
Quarterly Net Absorption (SF)	6.9 M	7.0 M	7.7 M	→
Average Asking Rent/SF	\$1.06	\$1.02	\$0.69	→
Under Construction (SF)	44.6 M	41.0 M	28.8 M	→
Deliveries (SF)	5.7 M	4.6 M	2.5 M	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



start of the [WAIRE program](#) fee collection in 2023, will compel more occupiers to consider Phoenix as an alternative even with the higher logistics and transportation costs to reach Southern California.

Although near-term difficulties are on the horizon, the long-term outlook for the Phoenix market is strong as it continues to experience dynamic population growth, a burgeoning advanced manufacturing ecosystem with strong interest from international companies, a low number of severe weather events, abundant sunshine for solar power and a lower-cost, less regulated alternative to the Southern California markets, while still being within a one-day truck drive to said markets and ports, as well as several emerging Mexican border markets.

Net absorption measured 6.9 million square feet in the third quarter of 2022, marking the eighth consecutive quarter of 3.0 million square feet or higher of positive net absorption. Developers remain bullish on the market as the construction pipeline grew to a record 44.6 million square feet in the third quarter of 2022. This is one of the largest construction pipelines in the country and could be an issue if recessionary pressures gain steam or inflation stays high. With vacancy at historic lows, if the 60.0% of construction square footage currently available

delivered vacant, which is rather unlikely, the vacancy rate would

approach 10.0%. Developers are now faced with rising interest rates for construction and softening consumer spending. Moving forward, developers are likely to pursue build-to-suit development, delay construction or exit land positions entirely.

Fulfillment and logistics providers and consumer goods companies were among the top leases of the quarter. All the top leases represented company expansions within the market. Fulfillment and logistics company Unis signed leases for 611,868 square feet and 289,823 square feet in the Goodyear Logistics Center. Consumer goods companies SiteOne Landscape Supply and Lennox inked leases in the Glendale submarket, and Corning signed a lease in the Chandler submarket.

Phoenix investment activity was down slightly in the third quarter of 2022 from the second quarter of 2022 and is likely to be muted moving forward as buyers and sellers diverge on pricing in the new interest rate environment. Two of the notable transactions included: CRG selling the 1.2-million-square-foot The Cubes at Glendale Building A occupied by Williams Sonoma; and the California State Teachers' Retirement System acquired the 1.2-million-square-foot, Amazon-occupied Elliot 202 in an all-cash transaction.

Select Lease Transactions

Tenant	Submarket	Building	Type	Square Feet
Unis	Southwest Phoenix	Goodyear Logistics Center	New	611,868
SiteOne Landscape Supply	Glendale	Lexington South at PV 303	New	392,000
Lennox	Glendale	Latitude 303 Logistics	New	340,031
Corning	Chandler	450 S. Mustang Dr.	New	317,058
Unis	Southwest Phoenix	Goodyear Logistics Center	New	289,832

Select Sale Transactions

Address	Submarket	Sale Price	Price/SF	Square Feet
7723 N. Reems Rd.	Glendale	\$135,000,000	\$112.49	1,200,140
8560 E. Elliot Rd.	East Mesa	\$177,000,000	\$148.13	1,194,923
4890 S. Cotton Ave.	Southwest Phoenix	\$109,200,000	\$149.43	730,760
10206-10210 W. Van Buren St.	Southwest Phoenix	\$91,800,000	\$144.95	633,321
1110 N. 52 nd St.	Tempe	\$65,000,000	\$242.10	268,482

Top Deliveries

Building Name	Address	Submarket	Type	Square Feet
Nikola Motor Company	10480 S. Vail Rd.	Pinal	Owner-Occupied	1,000,000
5301 W. Bethany Home Rd.	5301 W. Bethany Home Rd.	Grand Avenue	Speculative	648,165
101 at Van Buren 3	101 st Ave. & Van Buren St.	Southwest Phoenix	Speculative	408,581
Buckeye85	Buckeye Rd. & 103 rd Ave.	Southwest Phoenix	Speculative	321,873
The Confluence at Mesa Gateway 1	8928 E. Ray Rd.	East Mesa	Speculative	176,975

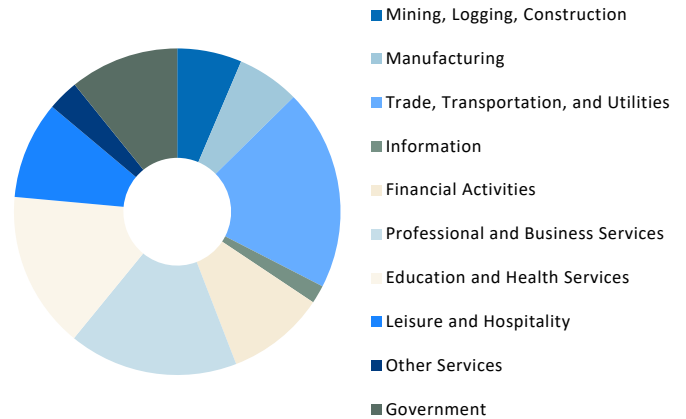
Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy	Qtr Absorption (SF)	YTD Absorption (SF)	WH/Dist Asking Rent (Price/SF)	R&D/Flex Asking Rent (Price/SF)	Average Asking Rent (Price/SF)
Black Canyon	6,103,357	998,451	2.3%	228,385	329,874	\$-	\$1.00	\$0.92
Central Phoenix	2,442,505	-	4.0%	-29,542	-14,810	\$-	\$1.29	\$0.91
Chandler	25,062,559	1,489,417	4.4%	479,403	1,229,201	\$1.07	\$2.41	\$1.61
Deer Valley	14,837,349	982,207	5.0%	-8,196	-111,919	\$0.74	\$1.33	\$1.09
East Mesa	12,244,888	4,361,047	6.8%	266,069	1,909,412	\$1.34	\$1.25	\$1.23
Gilbert	8,182,526	1,171,405	6.8%	613,281	818,064	\$-	\$1.99	\$0.85
Glendale	17,552,663	17,458,649	8.2%	702,117	1,366,135	\$-	\$2.21	\$1.28
Grand Ave	19,334,661	20,000	1.5%	753,063	545,918	\$0.61	\$-	\$0.66
N Glendale	4,538,552	705,526	2.8%	610,693	608,366	\$-	\$1.33	\$0.83
Pinal	4,154,414	-	1.1%	979,855	966,786	\$0.72	\$-	\$0.72
Scottsdale	3,694,370	-	3.1%	-22,756	-41,038	\$1.75	\$1.36	\$1.39
Scottsdale Airpark	6,790,435	-	2.3%	108,578	23,210	\$1.69	\$1.21	\$1.42
Sky Harbor Airport	43,679,738	483,860	4.5%	376,421	924,097	\$0.86	\$1.24	\$1.07
Southwest Phoenix	102,068,564	15,501,347	3.7%	1,565,644	8,618,111	\$0.65	\$-	\$0.68
Tempe	36,763,346	48,000	2.5%	201,376	359,982	\$0.87	\$1.29	\$1.14
West Central Phoenix	28,856,287	1,419,613	1.5%	78,669	202,502	\$0.77	\$-	\$0.84
West Mesa	8,855,809	-	2.6%	-12,295	298,561	\$1.02	\$-	\$0.97
Market	345,162,023	44,639,522	3.8%	6,890,765	18,032,452	\$0.89	\$1.37	\$1.06

Economic Overview

Like many other metro areas in the Sun Belt, Phoenix continues to benefit from demographic shifts in the U.S. Phoenix is an attractive option for those leaving coastal gateway markets for economic opportunities and a lower cost of living. Phoenix’s diversified economy, young talent pool, numerous universities and community colleges, lower cost of doing business relative to gateway markets and strong population growth are major draws for employers and employees alike. Almost every industry experienced strong job growth over the last 12 months, with only the financial activities sector seeing job growth contract in the wake of rising interest rates and inflation. While the next several quarters appear economically murky, the Phoenix Metro is well-poised for a vibrant future.

Employment by Industry

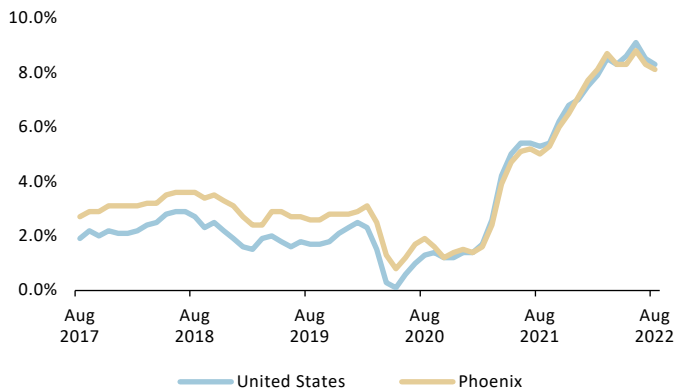
PHOENIX, 2021 ANNUAL AVERAGE



Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)

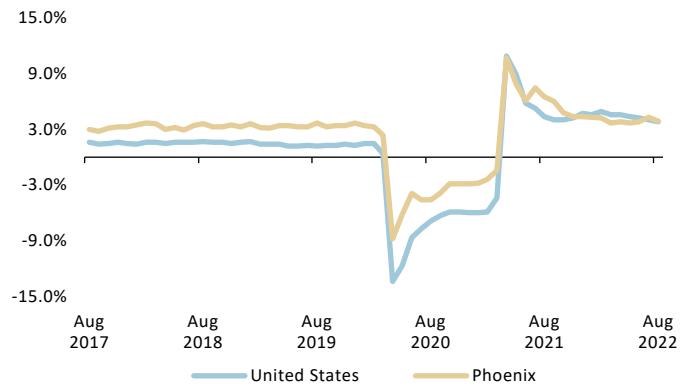
ALL ITEMS, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Payroll Employment

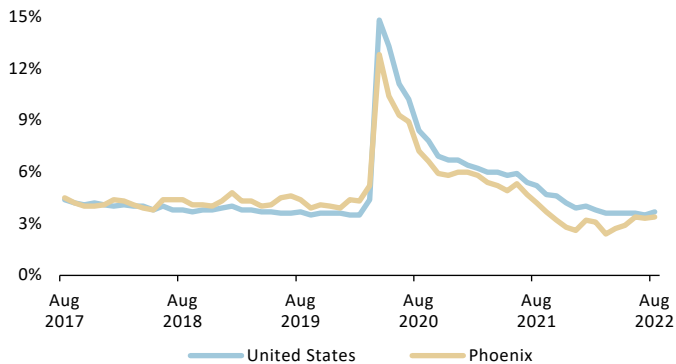
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Unemployment Rate

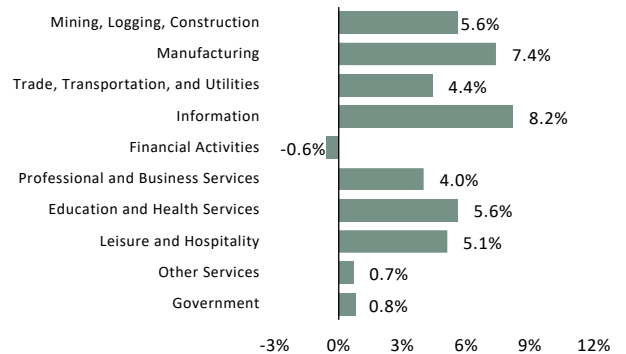
NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry

PHOENIX, MAY 2022, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

For more information:

Arizona Office

2555 E. Camelback Rd.,
Suite 600
Phoenix, AZ 85016
t 602-952-3800

Rich Lachowsky

*Director, SLC Research and
National Industrial*
rich.lachowsky@nrmk.com

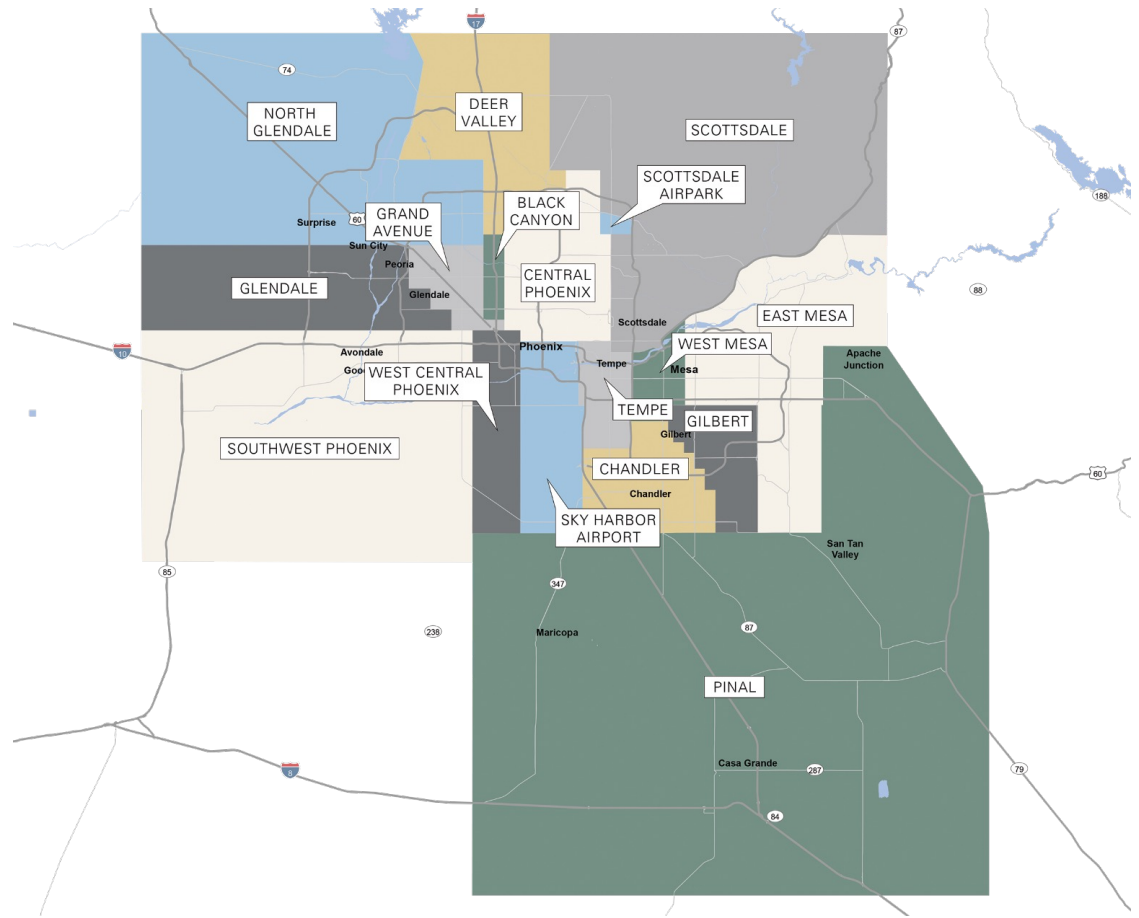
Amelia Yates

Research Manager
amelia.yates@nrmk.com

Garner Blake

Research Coordinator
garner.blake@nrmk.com

nrmk.com



Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nrmk.com/research.

All information contained in this publication is derived from sources that are deemed to be reliable. However, Newmark has not verified any such information, and the same constitutes the statements and representations only of the source thereof and not of Newmark. Any recipient of this publication should independently verify such information and all other information that may be material to any decision the recipient may make in response to this publication and should consult with professionals of the recipient's choice with regard to all aspects of that decision, including its legal, financial and tax aspects and implications. Any recipient of this publication may not, without the prior written approval of Newmark, distribute, disseminate, publish, transmit, copy, broadcast, upload, download or in any other way reproduce this publication or any of the information it contains. This document is intended for informational purposes only, and none of the content is intended to advise or otherwise recommend a specific strategy. It is not to be relied upon in any way to predict market movement, investment in securities, transactions, investment strategies or any other matter.