

MARKETBEAT PHOENIX

Industrial Q4 2019



YoY
Chg

12-Mo.
Forecast

6.8%
Overall Vacancy Rate



2.0M
Net Absorption, SF



9.3M
Under Construction, SF



\$0.59
Overall Rate



ECONOMIC INDICATORS Q4 2019

YoY
Chg

12-Mo.
Forecast

2,189K
Phoenix
Employment



4.3%
Phoenix
Unemployment Rate



3.6%
U.S.
Unemployment Rate



Source: BLS

ECONOMY

The Metro Phoenix job market had a strong 2019, adding 55,000 jobs year-over-year through the fourth quarter of 2019. During the same time period, the unemployment rate remained at 4.3% as both the labor force and total employment grew by similar amounts.

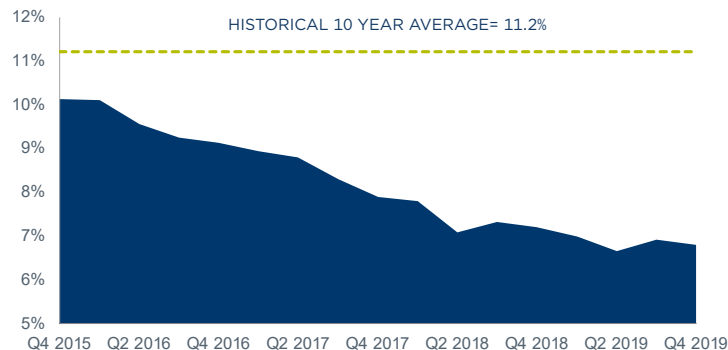
MARKET OVERVIEW

In the fourth quarter of 2019, the Metro Phoenix industrial market overall vacancy rate was 6.8%, down 10 basis points (bps) from the third quarter of 2019 and down 60 bps from the fourth quarter of 2018. The direct vacancy rate, which excludes sublease space, was 6.4%. Vacancy decreased in 2019 despite the highest inventory growth in a decade.

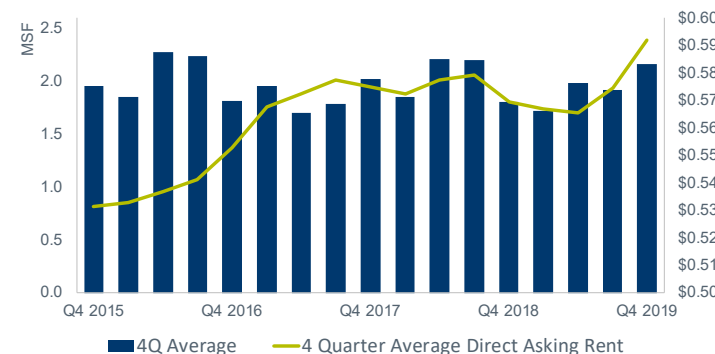
In the fourth quarter of 2019, Metro Phoenix industrial developers delivered 2.3 million square feet (msf) of new inventory. Year-to-date (YTD), 8.3 msf of new inventory has been delivered, 300,000 sf less than what was absorbed. That inventory is the largest amount added in Phoenix in any year since 2008, and 58% above the 20-year average for deliveries. Additionally, 40.6% of deliveries in the fourth quarter of 2019 were build-to-suit and 59.4% were speculative, indicating higher levels of preleasing especially in distribution space when compared to previous quarters. The development pipeline is now 9.3 msf in 51 buildings, the most since the first quarter of 2013 and nearly double the 20-year historical average of 4.9 msf under construction. Included in this amount, Cushman & Wakefield is tracking 8.2 msf scheduled to deliver before the end of 2020 and the balance, 954,000 sf, slated to deliver in 2021.

The Metro Phoenix industrial market absorbed +2.0 msf in the fourth quarter of 2019 and 8.7 msf ytd. Distribution space experienced the greatest gain, 1.2 msf. Freestanding and manufacturing space recorded negative absorption

OVERALL VACANCY



OVERALL NET ABSORPTION/OVERALL ASKING RENT 4Q TRAILING TRENDS



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of -273,000 sf and -233,000 sf in the fourth quarter of 2019, respectively. Through 2019, distribution has recorded +5.3 msf to lead all sectors. The only sector with negative absorption is freestanding at -519,000 sf but it has a direct vacancy rate of 2.8% so no price elasticity was observed. The fourth quarter of 2019 didn't see any positive absorptions close to +1.0 msf across these sectors, as has been normal in this cycle. The strong positive absorption came from a combination of mid-size moves and weakly positive sublease absorption. Similarly, there were no major moveouts to cause negative absorption in the fourth quarter of 2019, just midsize vacancies. The Southwest Phoenix submarket saw the most positive absorption in the fourth quarter of 2019 with 1.3 msf, while West Central Phoenix recorded -88,000 sf of negative absorption. Through 2019, 15 of 17 industrial submarkets saw positive absorption with only the remote submarkets of Pinal and North Glendale recording negative absorption. Southwest Phoenix leads all submarkets with net absorption of 4.8 msf and North Glendale had the most negative absorption at -23,000 sf through 2019.

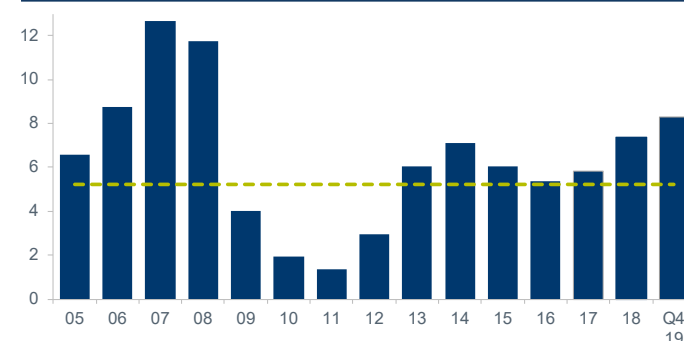
The direct average asking rate in the Metro Phoenix industrial market was \$0.61 per month across all industrial sectors, flat from the third quarter of 2019 and up 7% from the first quarter of 2019. An 8% vacancy rate has historically been the inflection point for faster rent growth in Phoenix industrial space, and this cycle is no different. The rarity of large warehouse space has raised distribution asking rates 9.3% ytd, from \$0.43 psf in the fourth quarter of 2018 to \$0.47 psf this quarter.

OUTLOOK

- The South Mountain Freeway opened at the end of 2019, bypassing the downtown and bringing the Southeast Valley an hour closer to Southern Californian ports.
- Only two of the 51 buildings under construction are smaller than 30,000 sf, as high land and labor prices make smaller buildings difficult to construct. Small bay industrial space has similar price barriers in construction.
- Inexpensive, reliable electricity and ample water remains an important driver for Phoenix industrial. Ball Corp, an aluminum can manufacturer, moved to the West Valley in 2018 and more than 2 msf of beverage manufacturing space is planned or under construction. Data centers, also reliant on electricity and water, will also expand in 2020.
- Cushman & Wakefield Industrial Research is forecasting that in 2020-2021 Phoenix will deliver double the inventory (12.2 MSF) as Los Angeles (6.1 MSF), and will continue to attract manufacturing and distribution from Californian markets.
- A tight labor market is causing high tenant improvement costs and pushing new industrial space to add amenities like better air conditioning and more bathrooms.

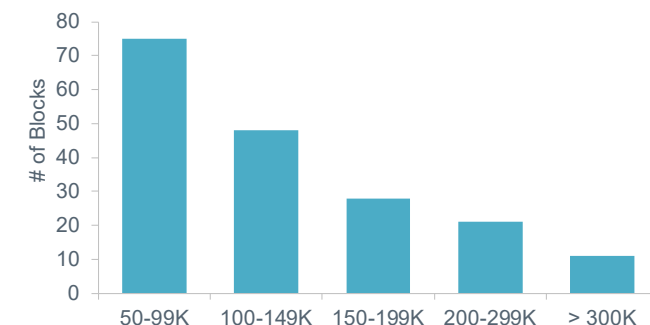
NEW SUPPLY

2019 SUPPLY IS HIGHEST IN A DECADE



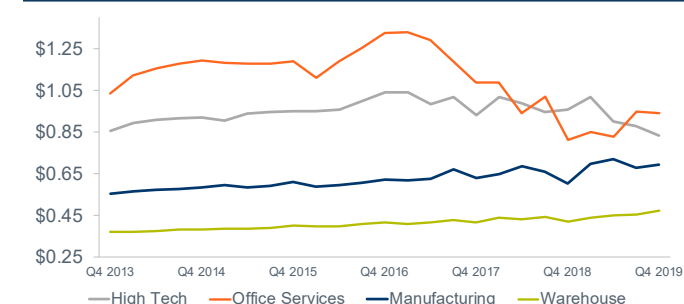
LARGE BLOCK SPACE

BLOCKS OF CONTIGUOUS SPACE, EXISTING BUILDINGS (BUILDINGS ARE ONLY COUNTED ONCE)



ASKING RENTS

WAREHOUSE RENT GROWTH UP 13% SINCE Q4 2018



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MARKET STATISTICS

SUBMARKET	TOTAL BLDGS	INVENTORY	DIRECT VACANT	SUBLET VACANT	DIRECT VACANCY RATE	Q4 NET ABSORPTION	2019 YTD NET ABSORPTION	UNDER CONSTRUCTION	OVERALL ASKING RENT	DIRECT ASKING RENT
Black Canyon	149	3,940,884	335,956	2,800	8.5%	1,582	49,622	0	\$0.89	\$0.91
Central Phoenix	113	3,647,111	266,028	0	7.3%	48,829	279,713	0	\$0.69	\$0.84
Chandler	368	25,073,193	1,749,708	25,532	7.0%	44,898	725,573	718,080	\$0.74	\$0.77
Deer Valley	510	16,187,161	993,981	34,751	6.1%	76,680	322,852	111,952	\$0.69	\$0.72
East Mesa	123	4,603,854	470,985	45,612	10.2%	-15,349	-10,780	85,554	\$0.72	\$0.72
Gilbert/Gateway	536	19,674,480	1,107,409	283,000	5.6%	244,817	786,886	1,008,326	\$0.64	\$0.69
Glendale	99	10,643,369	1,169,756	0	11.0%	42,639	208,399	990,000	\$0.41	\$0.50
Grand Ave	550	18,117,119	570,690	0	3.2%	26,014	184,254	0	\$0.45	\$0.45
North Glendale	93	3,437,417	105,954	0	3.1%	24	-23,032	396,053	\$0.61	\$0.62
Pinal	136	8,314,063	364,615	0	4.4%	-11,688	-11,943	0	\$0.36	\$0.36
Scottsdale	139	5,315,978	106,089	11,497	2.0%	-4,796	37,150	0	\$1.02	\$1.07
Scottsdale Airpark	306	6,569,255	359,182	20,093	5.5%	24,230	77,025	0	\$0.98	\$0.98
Sky Harbor Airport	1,251	48,128,323	2,765,054	72,889	5.7%	110,915	818,860	320,700	\$0.72	\$0.73
Southwest Phoenix	323	53,927,914	4,233,987	412,192	7.9%	1,252,423	4,839,551	4,613,638	\$0.39	\$0.43
Tempe	979	37,912,349	2,783,809	125,760	7.3%	154,727	273,598	0	\$0.63	\$0.66
West Central Phoenix	952	55,906,844	3,218,622	449,303	5.8%	-87,989	41,103	1,041,777	\$0.49	\$0.49
West Mesa	188	6,062,884	233,489	14,762	3.9%	86,344	65,071	0	\$0.65	\$0.65
Grand Total	6,815	327,462,198	20,835,314	1,498,191	6.4%	1,994,300	8,663,902	9,286,080	\$0.59	\$0.61

SUBMARKET	TOTAL BLDGS	INVENTORY	DIRECT VACANT	SUBLET VACANT	DIRECT VACANCY RATE	Q4 NET ABSORPTION	2019 YTD NET ABSORPTION	UNDER CONSTRUCTION	OVERALL ASKING RENT	DIRECT ASKING RENT
Back Office (OS)	81	7,149,362	620,580	0	8.7%	41,132	184,914	0	\$1.19	\$1.19
Distribution (WHSE)	510	102,406,561	9,900,645	821,933	9.7%	1,161,745	5,272,635	5,928,041	\$0.44	\$0.47
Freestanding (WHSE)	3,143	75,415,268	2,143,256	113,876	2.8%	-273,150	-518,790	0	\$0.71	\$0.71
General Industrial - Manufacturing (MFG)	349	30,223,698	1,646,501	29,164	5.4%	-232,950	94,176	279,200	\$0.67	\$0.68
General Industrial - Multi-Tenant (MFG)	2,163	67,355,766	4,361,419	429,693	6.5%	654,064	1,462,987	1,535,832	\$0.64	\$0.66
Major User (MFG)	62	26,366,993	429,143	0	1.6%	554,000	1,252,322	1,142,464	\$0.85	\$0.94
Multi-Tenant Flex (HT)	507	18,544,550	1,733,770	103,525	9.3%	89,459	915,658	400,543	\$0.81	\$0.87
Grand Total	6,815	327,462,198	20,835,314	1,498,191	6.4%	1,994,300	8,663,902	9,286,080	\$0.59	\$0.61

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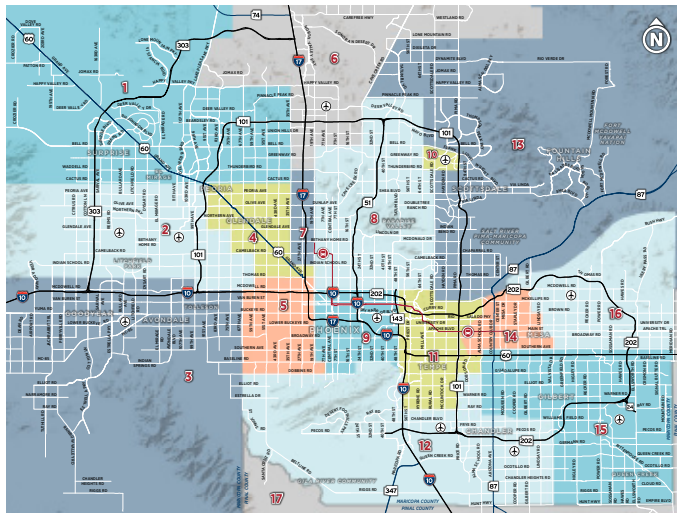
KEY LEASE TRANSACTIONS Q4 2019

PROPERTY	SF	TENANT NAME	TRANSACTION TYPE	LEASE RATE	CITY	SUBMARKET
3333 S 59th Ave	554,331	Amazon.com	Direct	\$0.46	Phoenix	Southwest Phoenix
8175 W Buckeye Rd	359,040	Hayward Industries Inc.	Direct	\$0.45	Phoenix	Southwest Phoenix
7775 W Buckeye Rd	214,205	Delta Apparel	Direct	\$0.43	Phoenix	Southwest Phoenix
670 S 91st Ave	185,047	Summit Shipping	Direct	Undisclosed	Tolleson	Southwest Phoenix
6200 W Van Buren St	136,808	Toyota	Direct	\$0.39	Phoenix	Southwest Phoenix
6677 W Frye Rd	69,440	ArmorWorks Enterprises	Direct	\$0.72	Phoenix	Southwest Phoenix

KEY SALES TRANSACTIONS Q4 2019

PROPERTY	SF	BUYER	PRICE	PRICE/PSF	CITY	SUBMARKET
4750-5050 W Mohave St (Part of Portfolio)	1,207,021	Nuveen Real Estate	\$136,040,593	\$112.71	Phoenix	Southwest Phoenix
255 S 143rd Ave	800,000	Lexington Realty Trust	\$67,002,500	\$83.75	Goodyear	Southwest Phoenix
3333 S 7th St	393,484	CBRE Global Investors Ltd	\$38,750,000	\$98.48	Phoenix	Sky Harbor Airport
3809 E Watkins St	174,801	Kohlberg Kravis Roberts	\$28,400,000	162.47	Phoenix	Sky Harbor Airport
9494 W Buckeye Rd	186,336	Lexington Realty Trust	\$20,991,321	112.65	Tolleson	Southwest Phoenix
4901 & 4929 W Van Buren St	103,511	Kohlberg Kravis Roberts	\$8,315,000	\$80.33	Phoenix	Southwest Phoenix

INDUSTRIAL SUBMARKETS



- 1 North Glendale
- 2 Glendale
- 3 Southwest Phoenix
- 4 Grand Avenue
- 5 West Central Phoenix
- 6 Deer Valley
- 7 Black Canyon
- 8 Central Phoenix
- 9 Sky Harbor Airport
- 10 Scottsdale Airpark
- 11 Tempe
- 12 Chandler
- 13 Scottsdale
- 14 West Mesa
- 15 Gilbert/Gateway
- 16 East Mesa
- 17 Pinal

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