

MARKETBEAT PHOENIX



Industrial Q2 2020

YoY
Chg

12-Mo.
Forecast

7.0%
Overall Vacancy Rate



2.3M
Net Absorption, SF



5.9M
Under Construction, SF



\$0.60
Overall Rate



ECONOMIC INDICATORS Q2 2020

YoY
Chg

12-Mo.
Forecast

2,025K
Phoenix
Employment



10.5%
Phoenix
Unemployment Rate



13.0%
U.S.
Unemployment Rate



Source: BLS

ECONOMY

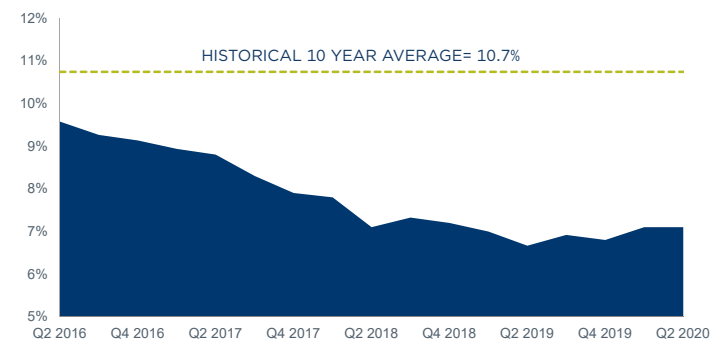
From Q2 2019 to Q2 2020, the Phoenix market recorded a loss of 138,600 jobs as the Covid-19 pandemic closed many businesses, both temporarily and permanently. The unemployment rate increased from 4.2% to 10.5%.

MARKET OVERVIEW

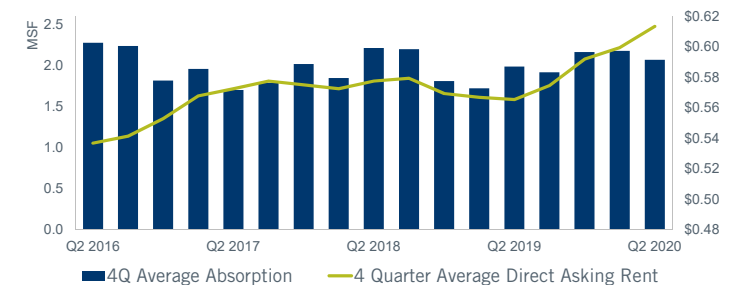
In the second quarter of 2020, the Metro Phoenix industrial market direct vacancy rate was 6.8%, up 10 basis points (bps) from the first quarter of 2020 and up 10 bps from the second quarter of 2019. The overall vacancy rate, which includes sublease space, was 7.1%. Vacancy increased slightly both quarterly and year-over-year due to the highest inventory growth in a decade matched by strong absorption of large new buildings

In the second quarter of 2020, Metro Phoenix industrial developers delivered 2.5 million square feet (msf) of new inventory against 2.3 msf of positive absorption. This quarter was an aberration for deliveries, as only 1.5% of space was announced as preleased. The recent pattern has been for warehouses to deliver without an announced tenant and lease up within four quarters, while manufacturing and data center space projects are build-to-suit (BTS) and deliver with a tenant or as owner/user. The development pipeline is now 8.7 msf in 30 buildings, and 47.1% of the space has been announced as preleased, indicating more BTS projects. While still dominated by warehouse, the pipeline has seen new large manufacturing projects for automobiles, which is novel for this market. The other large manufacturing projects are for beverage firms, clustered in the west valley near a Ball Corporation canning facility that opened in the fourth quarter of 2019.

OVERALL VACANCY



OVERALL NET ABSORPTION/OVERALL ASKING RENT Q2 TRAILING TRENDS



The Metro Phoenix industrial market absorbed 2.3 msf in the first quarter of 2020. Distribution space experienced the greatest gain, 3.5 msf. Freestanding and back office space recorded negative absorption of -204,000 sf and -178,000 sf respectively. The major user sector recorded no movement, which is standard for the Phoenix market. General Industrial Multi-Tenant space recorded -855,000 sf as smaller tenants suffered in the pandemic. The strong positive absorption came from mostly large-scale moves, which has been the pattern in this cycle. The Southwest Phoenix submarket saw the most positive absorption in the first quarter of 2020 with 1.8 msf and 3.0 msf through the first two quarters of 2020, while Grand Avenue recorded -181,000 sf of negative absorption. 8 of 17 industrial submarkets saw positive absorption in the second quarter of 2020. Southwest Phoenix Distribution space recorded 1.8 msf of positive absorption, an impressive amount for a single subtype in a submarket.

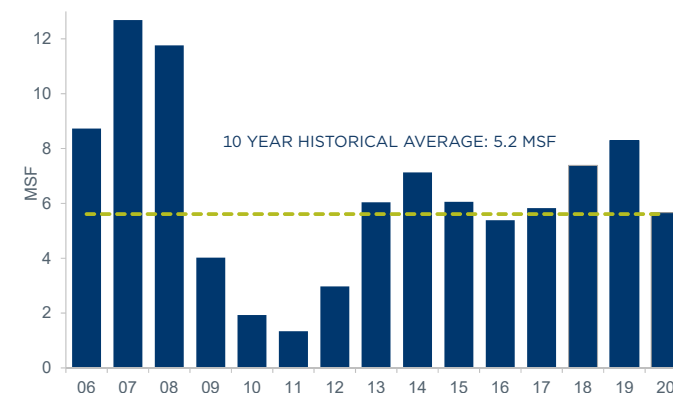
The direct average asking rate in the Metro Phoenix industrial market was \$0.63 per square foot per month across all industrial sectors, the same as the first quarter of 2020, and up 10.5% from the second quarter of 2019. The sustained strength of large-format warehouse space in Phoenix has been joined by large manufacturing projects in several Phoenix submarkets to become the major storylines of the industrial market in 2020

Outlook

- Covid-19 has strengthened eCommerce firms, and demand for large format distribution buildings will extend through 2020. Second generation grocery store storage space has also leased quickly.
- Refrigeration and freezer spaces remain difficult to find. Small bay space for the firms that service large eCommerce firms is in high need as well.
- Beverage manufacturers will continue to build new bts factories in the west valley. They will be joined by large data centers seeking Arizona's abundant renewable energy.
- The largest story in Phoenix industrial during this new decade could be the rise of auto manufacturing, if the Nikola and Lucid manufacturing projects are successful.

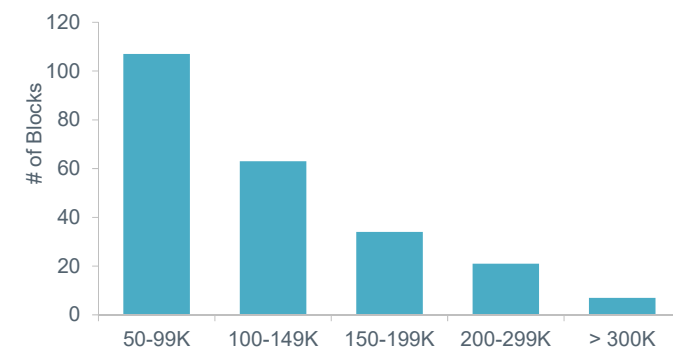
NEW SUPPLY

2020 SUPPLY ALREADY AT 10 YEAR HISTORICAL AVERAGE



LARGE BLOCK SPACE

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



MARKETBEAT PHOENIX

Industrial Q2 2020



MARKET STATISTICS

SUBMARKET	TOTAL BLDGS	INVENTORY	DIRECT VACANT	SUBLET VACANT	DIRECT VACANCY RATE	Q2 OVERALL NET ABSORPTION	2020 YTD OVERALL NET ABSORPTION	UNDER CONSTRUCTION	OVERALL ASKING RENT	DIRECT ASKING RENT
Black Canyon	149	3,940,884	272,680	1,440	6.9%	41,238	64,636		\$0.72	\$0.72
Central Phoenix	113	3,647,111	309,529	13,860	8.5%	(51,010)	(57,361)		\$0.65	\$0.65
Chandler	373	25,662,056	2,591,749	7,007	10.1%	(157,966)	(194,934)	820,000	\$0.74	\$0.75
Deer Valley	510	16,275,649	1,057,059	30,855	6.5%	(49,881)	41,520	174,000	\$0.74	\$0.73
East Mesa	124	4,689,408	407,538	37,612	8.7%	132,545	157,001		\$0.69	\$0.70
Gilbert/Gateway	538	19,797,066	1,250,543	309,565	6.3%	(3,750)	(79,413)	840,470	\$0.69	\$0.75
Glendale	96	10,186,084	1,021,690	170,252	10.0%	(123,761)	(74,686)		\$0.50	\$0.46
Grand Ave	548	17,952,595	723,567	-	4.0%	(180,893)	(152,877)		\$0.46	\$0.46
North Glendale	94	3,495,617	226,503	18,919	6.5%	(91,513)	(81,268)	518,098	\$0.68	\$0.68
Pinal	136	8,314,063	208,633	-	2.5%	137,652	155,982		\$0.60	\$0.60
Scottsdale	139	5,315,978	127,826	12,846	2.4%	(392)	(23,086)		\$1.10	\$1.06
Scottsdale Airpark	306	6,569,255	398,866	435	6.1%	13,539	(20,026)		\$1.04	\$1.04
Sky Harbor Airport	1,239	47,910,478	2,885,245	106,127	6.0%	8,336	(86,234)	370,417	\$0.76	\$0.77
Southwest Phoenix	339	57,916,147	4,951,017	170,002	8.5%	1,843,231	3,085,481	2,284,835	\$0.45	\$0.46
Tempe	976	37,822,137	2,488,596	70,949	6.6%	359,565	350,024		\$0.72	\$0.71
West Central Phoenix	955	56,746,525	3,434,390	58,614	6.1%	487,998	1,216,698	916,000	\$0.54	\$0.54
West Mesa	188	6,062,884	231,163	-	3.8%	(62,907)	17,088		\$0.53	\$0.53
Grand Total	6,823	332,303,937	22,586,594	1,008,483	6.8%	2,302,031	4,318,545	5,923,820	\$0.63	\$0.63

SUBMARKET	TOTAL BLDGS	INVENTORY	DIRECT VACANT	SUBLET VACANT	DIRECT VACANCY RATE	Q2 OVERALL NET ABSORPTION	2020 YTD OVERALL NET ABSORPTION	UNDER CONSTRUCTION	OVERALL ASKING RENT	DIRECT ASKING RENT
Back Office (OS)	81	7,149,362	688,616	-	9.6%	110,083	(68,036)		\$1.20	\$1.20
Distribution (WHSE)	528	106,202,749	9,227,671	223,646	8.7%	3,463,961	5,047,841	2,938,981	\$0.51	\$0.50
Freestanding (WHSE)	3,131	75,192,827	2,506,215	237,064	3.3%	(282,058)	(486,147)		\$0.68	\$0.69
General Industrial - Manufacturing (MFG)	349	30,114,618	1,973,118	-	6.6%	(220,650)	(206,553)	1,155,185	\$0.70	\$0.70
General Industrial - Multi-Tenant (MFG)	2,159	67,525,978	5,771,651	379,895	8.5%	(854,866)	(854,657)	1,439,487	\$0.64	\$0.65
Major User (MFG)	64	27,255,457	429,143	-	1.6%	-	888,464	121,295	\$1.05	\$1.05
Multi-Tenant Flex (HT)	511	18,862,946	1,990,180	167,878	10.6%	85,561	(2,367)	268,872	\$0.94	\$0.93
Grand Total	6,823	332,303,937	22,586,594	1,008,483	6.8%	2,302,031	4,318,545	5,923,820	\$0.63	\$0.63

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Industrial Q2 2020



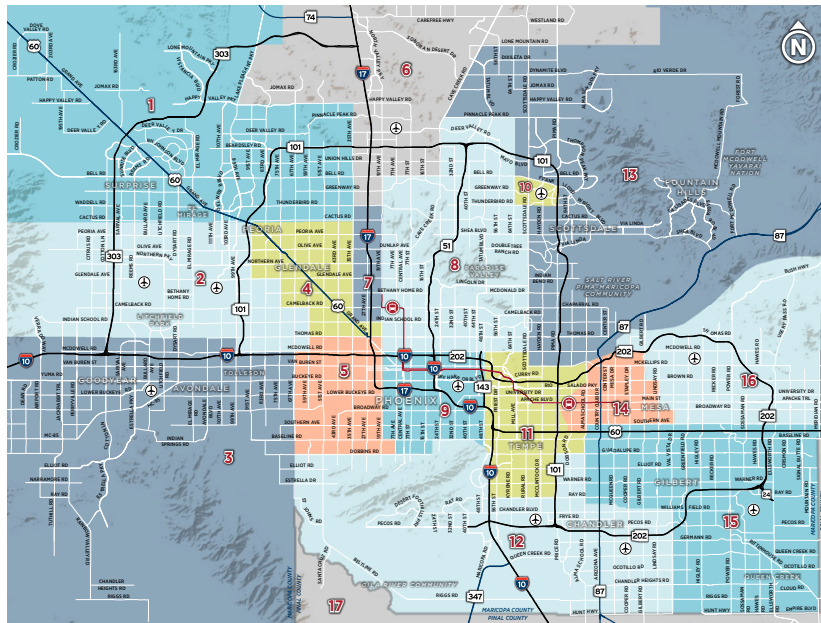
KEY LEASE TRANSACTIONS Q2 2020

PROPERTY	SF	TENANT NAME	TRANSACTION TYPE	LEASE RATE	CITY	SUBMARKET
1115 W Alameda Dr	479,207	Lucid Motors	Direct	\$0.50	Tempe	Tempe
2550 N Nevada St	164,486	Amazon	Direct		Chandler	Chandler
4455 W Camelback Rd	142,782	Brooklyn Bedding	Direct		Phoenix	Grand Avenue
1402 S 40th Avenue	100,800	Nellis Auctions	Direct	\$0.43	Phoenix	West Central Phoenix

KEY SALES TRANSACTIONS Q2 2020

PROPERTY	SF	BUYER	PRICE	PRICE/PSF	CITY	SUBMARKET
7400 W Buckeye Rd	325,800	Cohen Asset Management, Inc.	\$30,700,000	\$94.23	Phoenix	Southwest Phoenix
2550 N Nevada St	164,486	Westcore Properties	\$38,000,000	\$231.02	Chandler	Chandler
4455 W Camelback Rd	148,689	Westcore Properties	\$12,400,000	\$83.40	Phoenix	Glendale
4615 W McDowell Rd	146,500		\$10,208,791	\$69.68	Phoenix	West Central Phoenix
1516 W 17th St	106,747	Amazon.com Services, Inc.	\$14,150,000	\$132.56	Tempe	Tempe
3930 E Watkins St	101,932	Pat Simone Charitable Foundation	\$10,552,500	\$103.52	Phoenix	Sky Harbor Airport

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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