

MARKETBEAT PHOENIX



Industrial Q1 2022

	YoY Chg	12-Mo. Forecast
4.6% Overall Vacancy	▼	▼
5.8M YTD Net Absorption, SF	▲	▼
33.3M Under Construction, SF	▲	▼
\$0.74 Overall Asking Rent, PSF	▲	▲

ECONOMIC INDICATORS Q1 2022

	YoY Chg	12-Mo. Forecast
2.3M Phoenix Employment	▲	▲
3.1% Phoenix Unemployment Rate	▼	▼
3.6% U.S. Unemployment Rate	▼	▼

Source: BLS

*Q1 data is based on the U.S. Bureau of Labor Statistics, All Employees: Total Nonfarm in Phoenix-Mesa-Scottsdale, AZ (MSA) – seasonally adjusted.

ECONOMY

In Q1 2022, the Phoenix market recorded an employment level of 2.3 million jobs and the unemployment rate decreased from 6.3% in Q1 2021 to 3.1% in Q1 2022. The metro area continues to have tremendous growth, as the number of households increased by 2.5% year-over-year (YOY) to 1.9 million.

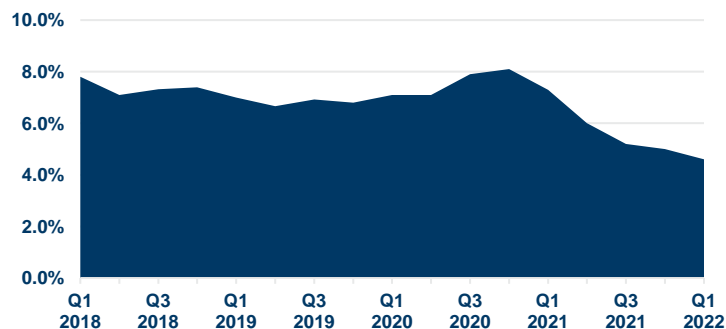
MARKET OVERVIEW

The Phoenix metro industrial market absorbed approximately 5.8 million square feet (msf) in Q1 2022 with three of the four property product types having recorded positive absorption. In the quarter, warehouse space experienced the greatest gain of approximately 5.5 msf followed by the manufacturing property type with 327,232 sf of absorption. In Q1 2022, 10 of the 16 industrial submarkets saw positive absorption. The Far Southwest Phoenix submarket saw the largest positive absorption with approximately 3.2 msf followed by Chandler with approximately 866,825 sf and Southwest Phoenix with 731,442 sf.

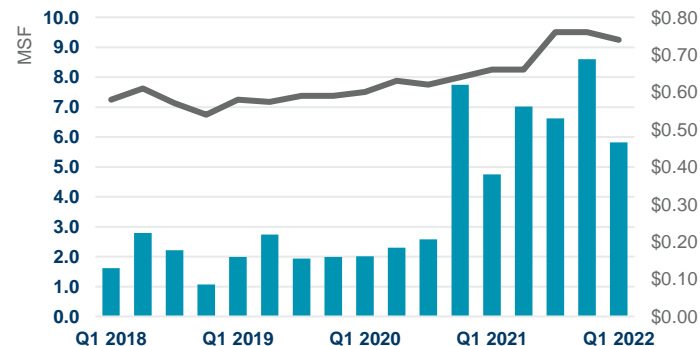
In the first quarter of 2022, the Phoenix metro industrial market direct vacancy rate was 4.5% from 4.8% in Q4 2021. As a comparison, the vacancy was 7.1% in Q1 2021 and 6.7% in Q1 2020. Vacancy decreased by 6.3% quarter-over-quarter and by 36.6% year-over-year due to the continued strong occupier demand in the e-commerce and supply chain sectors.

The Phoenix industrial market construction level in Q1 2022 continues to set new records for square footage under construction with approximately 33.3 msf underway across metro Phoenix. This total ranks Phoenix fifth in the U.S. industrial markets for construction activity. The activity is led by the Dallas/Ft. Worth with approximately 64.5 msf, Atlanta with 48 msf, Inland Empire with approximately 39 msf, PA I-81/I-78 Distribution Corridor with approximately 35.7 msf currently underway. The warehouse sector in metro Phoenix dominates the new inventory with approximately 30 msf or 99.6% of all product

OVERALL VACANCY



OVERALL NET ABSORPTION/OVERALL ASKING RENT



under construction. The growth in the warehouse inventory is needed to meet the demand seen in the sector for occupiers actively looking to locate or expand operations within metro Phoenix. At end of the first quarter there was pre-leasing of approximately 30% or 8.9 msf for all space under construction. In Q1 2022, the Phoenix metro industrial market delivered approximately 7.7 msf of space of which 34.8% or 4.5 msf was occupied upon completion.

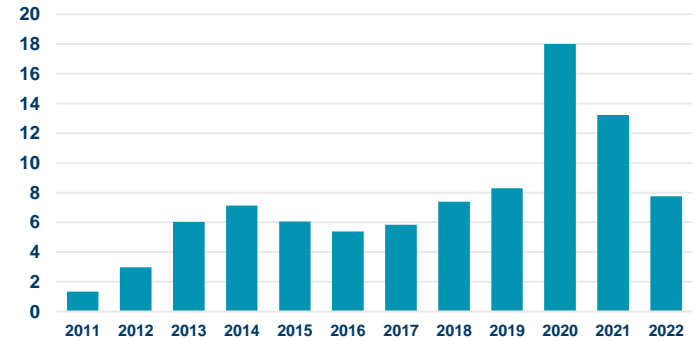
The direct average asking rate in the Phoenix metro industrial market in the first quarter was \$0.73 per square foot (psf) per month on a triple net (NNN) basis across all property product types, an increase of \$0.09 psf per month on the year. The current direct average asking rate represents a two-year growth rate of 21.2% when the average direct asking rate was \$0.60 psf per month NNN in Q1 2020.

The sustained strength of warehouse space in Phoenix has been joined by large manufacturing projects in several Phoenix submarkets continues to be the major storylines of the industrial market in 2022. The Phoenix metro industrial market will continue to be one of the most resilient real estate sectors amid the COVID-19 crisis as activity remains strong particularly with the rise in e-commerce demand.

Outlook

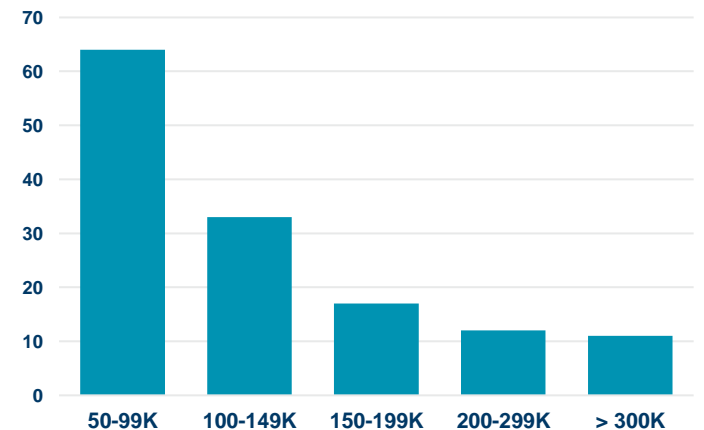
- With high tenant demand and positive absorption, Phoenix’s record construction pipeline of 33.3 msf will continue to stay on pace.
- While many retailers have returned to pre-pandemic levels, e-commerce will continue to have a long runway into 2022 as consumers continue the shift and momentum to online shopping.
- Warehouse and distribution centers will remain highly sought after as they continue to offer a closer foothold to customers, allowing for lower costs while increasing customer satisfaction
- New supply will place upward pressure on overall vacancy by year-end. However, it will remain below the ten-year average of 9.0%.

NEW SUPPLY (MSF)



LARGE BLOCK SPACE

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



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MARKET STATISTICS

SUBMARKET	TOTAL BLDGS	INVENTORY	DIRECT VACANT	SUBLET VACANT	DIRECT VACANCY RATE	Q1 OVERALL NET ABSORPTION	2022 YTD OVERALL NET ABSORPTION	UNDER CONSTRUCTION	OVERALL ASKING RATE	DIRECT ASKING RATE
Black Canyon	270	7,309,238	173,550	8,800	2.4%	-83,257	-83,257	0	\$0.77	\$0.79
Chandler	461	30,680,427	827,221	25,239	2.7%	866,825	866,825	1,143,493	\$0.82	\$0.82
Deer Valley	487	17,192,233	489,582	15,000	2.8%	-65,116	-65,116	366,728	\$0.96	\$0.96
Far Southwest Phoenix	118	24,181,561	3,649,342	0	15.1%	3,189,501	3,189,501	2,370,128	\$0.55	\$0.55
Gilbert	225	8,625,001	176,500	0	2.0%	74,092	74,092	921,356	\$0.75	\$0.75
Mesa	489	21,778,175	751,129	31,525	3.4%	722,085	722,085	4,384,693	\$0.78	\$0.78
North Tempe	721	26,646,422	861,217	47,247	3.2%	-171,656	-171,656	348,000	\$0.80	\$0.80
Northeast Phoenix	145	4,897,369	391,750	0	8.0%	9,829	9,829	23,460	\$0.96	\$0.96
Northwest Phoenix	224	14,632,771	277,775	0	1.9%	126,030	126,030	8,848,473	\$0.83	\$0.83
Scottsdale Airpark	357	8,136,032	89,609	12,109	1.1%	6,932	6,932	0	\$1.07	\$1.07
Sky Harbor Airport	296	11,909,528	269,510	0	2.3%	-46,700	-46,700	146,500	\$0.99	\$0.99
South Central Phoenix	456	19,695,666	276,839	28,716	1.4%	-7,100	-7,100	136,146	\$0.73	\$0.73
South Mountain	572	22,998,383	1,475,364	80,587	6.4%	506,031	506,031	510,832	\$0.94	\$0.94
South Tempe	248	12,544,480	441,706	57,672	3.5%	-55,393	-55,393	0	\$0.99	\$0.98
Southwest Phoenix	727	87,667,951	2,463,053	35,598	2.8%	731,442	731,442	6,047,168	\$0.53	\$0.53
West Phoenix	668	35,359,872	3,281,630	0	9.3%	16,430	16,430	8,030,421	\$0.56	\$0.56
Grand Total	6,464	354,255,109	15,895,777	342,493	4.5%	5,819,975	5,819,975	33,277,398	\$0.74	\$0.73

PROPERTY TYPES	TOTAL BLDGS	INVENTORY	DIRECT VACANT	SUBLET VACANT	DIRECT VACANCY RATE	Q1 NET ABSORPTION	2022 YTD OVERALL NET ABSORPTION	UNDER CONSTRUCTION	OVERALL ASKING RATE	DIRECT ASKING RATE
Office Service (OS)	352	14,280,098	1,611,092	173,906	11.3%	-76,398	-76,398	0	\$1.34	\$1.38
Warehouse Distribution (WD)	2,691	199,847,069	10,231,186	134,184	5.1%	5,514,317	5,514,317	29,935,536	\$0.66	\$0.66
High Technology (HT)	262	19,893,739	1,888,641	28,547	9.5%	54,824	54,824	1,236,000	\$0.93	\$0.92
Manufacturing (MF)	3,159	120,234,203	2,164,858	5,856	1.8%	327,232	327,232	2,105,862	\$0.87	\$0.88
Grand Total	6,464	354,255,109	15,895,777	342,493	4.5%	5,819,975	5,819,975	33,277,398	\$0.74	\$0.73

Industrial Q1 2022

KEY LEASE TRANSACTIONS Q1 2022

PROPERTY	SF	TENANT	TRANSACTION TYPE	CITY	SUBMARKET
The Cubes at Mesa Gateway	1,200,340	Lowes	Direct	Mesa	Mesa
Elliot 202	1,194,923	Amazon	Direct	Mesa	Mesa
Lakin Park	730,339	Cornerstone Brands	Direct	Goodyear	Far Southwest Phoenix
Capital Commerce Center	552,330	Tempur-Sealy	Direct	Phoenix	Southwest Phoenix
303 Logistics	349,663	Sweetwater Audio	Direct	Glendale	West Phoenix

KEY SALES TRANSACTIONS Q1 2022

PROPERTY	SF	BUYER	PRICE	PRICE/\$ PSF	CITY	SUBMARKET
Landing Phase 3	525,342	Cohen Asset Management	\$130,000,000	\$247.46	Mesa	Mesa
Cabot303	542,975	Cabot Properties	\$70,500,000	\$129.84	Litchfield Park	West Phoenix
Power 202 Business Park	330,496	GID Investment Advisors	\$70,000,000	\$211.80	Mesa	Mesa
Park Aldea	237,782	James Campbell Company	\$53,500,000	\$225.00	Glendale	West Phoenix
101 Distribution Center	620,000	ScanlanKemberBard Companies	\$52,000,000	\$83.87	Glendale	Northwest Phoenix

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