

Industrial Q2 2022

	YoY Chg	12-Mo. Forecast
3.6% Overall Vacancy	▼	▼
13.2M YTD Net Absorption, SF	▲	▼
39.9M Under Construction, SF	▲	▼
\$1.12 Overall Asking Rent, PSF	▲	▲

ECONOMIC INDICATORS Q2 2022

	YoY Chg	12-Mo. Forecast
2.3M Phoenix Employment	▲	▲
2.7% Phoenix Unemployment Rate	▼	▲
3.6% U.S. Unemployment Rate	▼	▼

Source: BLS

*Q2 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 Q2 2022, the Phoenix market recorded an employment level of 2.3 million jobs. The unemployment rate decreased from 6.2% in Q2 2021 to 2.7% in Q2 2022. The Phoenix metro area continues to grow, as the number of households increased by 2.6% year-over-year (YOY) to 1.9 million.

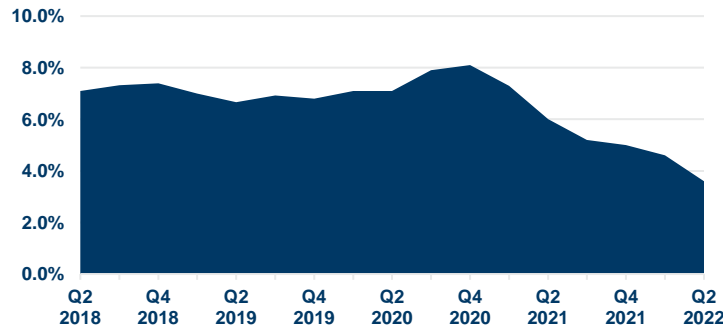
MARKET OVERVIEW

The Phoenix metro industrial market absorbed approximately 6.9 million square feet (msf) in Q2 2022 with two of the four property markets having positive absorption. In the quarter, warehouse space experienced the greatest gain of approximately 7 msf followed by the manufacturing property type with 323,208 sf of absorption. In Q2 2022, 11 of the 16 industrial submarkets saw positive absorption. The West Phoenix submarket saw the largest positive absorption with approximately 2.2 msf followed by Southwest Phoenix with approximately 1.8 msf.

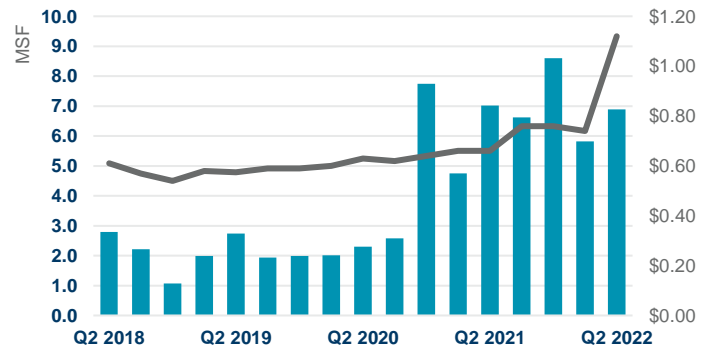
In the second quarter of 2022, the Phoenix metro industrial market direct vacancy rate was 3.3%, down from 4.5% in Q1 2022. As a comparison, the direct vacancy rate was 5.8% in Q2 2021 and 6.8% in Q2 2020.

The Phoenix industrial market construction level in Q2 2022 rose another 6.6 msf from Q1, raising the total square footage under construction to approximately 39.9 msf in the second quarter. Phoenix continues to be one of the nation's top markets for construction activity, now ranking fourth in the U.S. industrial market behind only Dallas (70 msf), Atlanta (50.1 msf), and the Inland Empire (40.1 msf). The warehouse sector in Phoenix dominates the inventory with approximately 35 msf or 88% of all product types under construction.

OVERALL VACANCY



OVERALL NET ABSORPTION/OVERALL ASKING RENT



Strong population growth, consumer spending, and minimal geographic constraints contributed to historic demand for industrial space despite ongoing labor shortages and supply chain constraints. Pre-leasing surged to 30% or 11.3 msf for all space under construction, as occupiers actively look to locate or expand operations within metro Phoenix. In Q2 2022, the Phoenix metro industrial market delivered approximately 5 msf, bringing the total completions to 11,901,356 msf YTD.

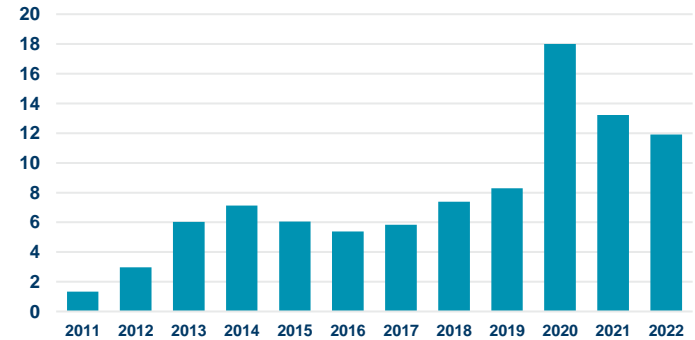
The direct average asking rate in the Phoenix metro industrial market in the second quarter was \$1.13 per square foot (psf) per month on a triple net (NNN) basis across all property product types, an increase of \$0.47 psf from this time last year.

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 Northwest Phoenix submarket and West Phoenix submarket lead the way in terms of under construction growth and industrial development in Q2. 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

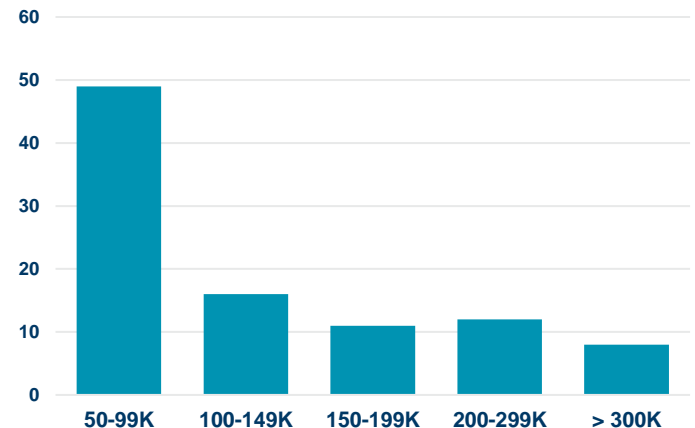
- With high tenant demand and positive absorption, Phoenix’s record construction pipeline of 39.9 msf will continue to stay on pace.
- While many retailers have returned to pre-pandemic levels, e-commerce will continue to have a long runway into 2022 as consumers continue the shift and momentum to online 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)



MARKETBEAT PHOENIX



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MARKET STATISTICS

SUBMARKET	TOTAL BLDGS	INVENTORY	DIRECT VACANT	SUBLET VACANT	DIRECT VACANCY RATE	Q2 OVERALL NET ABSORPTION	2022 YTD OVERALL NET ABSORPTION	UNDER CONSTRUCTION	OVERALL ASKING RATE	DIRECT ASKING RATE
Black Canyon	267	7,210,269	115,965	0	1.6%	29,711	-16,872	0	\$1.01	\$1.01
Chandler	461	30,781,201	845,773	57,719	2.7%	-9,943	852,475	981,941	\$1.34	\$1.32
Deer Valley	487	17,224,692	615,512	15,000	3.6%	-229,226	-293,996	761,504	\$1.27	\$1.28
Far Southwest Phoenix	119	24,196,132	2,652,138	250,000	11.0%	1,299,277	3,951,276	6,270,999	N/A	N/A
Gilbert	226	8,661,644	163,741	0	1.9%	36,944	111,136	1,698,652	\$1.03	\$1.03
Mesa	493	23,410,726	832,986	20,328	3.6%	1,541,331	2,312,500	4,627,889	\$0.86	\$0.87
North Tempe	720	26,631,507	475,305	91,587	1.8%	266,190	165,337	0	\$1.27	\$1.28
Northeast Phoenix	147	4,758,706	396,400	0	8.3%	28,964	27,593	13,000	\$1.01	\$1.01
Northwest Phoenix	226	14,758,887	211,989	0	1.4%	175,826	318,816	10,124,349	\$1.12	\$1.12
Scottsdale Airpark	356	8,156,299	133,157	34,751	1.6%	-73,588	-62,850	0	\$1.29	\$1.35
Sky Harbor Airport	296	11,925,617	285,646	0	2.4%	-90,262	-72,569	507,834	\$1.19	\$1.19
South Central Phoenix	454	19,586,114	366,763	92,316	1.9%	4,439	10,856	0	\$0.82	\$1.09
South Mountain	573	22,970,920	1,104,055	257,495	4.8%	71,818	575,049	510,832	\$1.16	\$1.20
South Tempe	247	12,565,184	430,986	94,045	3.4%	-137,175	-192,568	197,000	\$1.19	\$1.24
Southwest Phoenix	724	88,804,736	1,098,717	65,735	1.2%	1,848,808	3,216,598	6,944,166	\$0.69	\$0.69
West Phoenix	669	36,526,322	2,178,367	31,500	6.0%	2,126,508	2,279,320	7,219,733	\$0.95	\$0.95
Grand Total	6,465	358,168,956	11,907,500	1,010,476	3.3%	6,889,622	13,182,101	39,857,899	\$1.12	\$1.13

PROPERTY TYPES	TOTAL BLDGS	INVENTORY	DIRECT VACANT	SUBLET VACANT	DIRECT VACANCY RATE	Q2 OVERALL NET ABSORPTION	2022 YTD OVERALL NET ABSORPTION	UNDER CONSTRUCTION	OVERALL ASKING RATE	DIRECT ASKING RATE
Office Service (OS)	359	14,647,869	1,796,358	311,531	12.3%	-317,634	-406,524	39,491	\$1.30	\$1.32
Warehouse Distribution (WD)	2,505	199,212,436	6,300,784	485,255	3.2%	7,065,697	12,966,793	35,258,413	\$0.81	\$0.82
High Technology (HT)	325	21,987,074	1,754,305	133,380	8.0%	-181,649	-203,633	1,605,734	\$1.07	\$1.12
Manufacturing (MF)	3,276	122,321,577	2,056,053	80,340	1.7%	323,208	825,465	2,954,261	\$1.06	\$1.06
Grand Total	6,465	358,168,956	11,907,500	1,010,476	3.3%	6,889,622	13,182,101	39,857,899	\$1.12	\$1.13

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KEY LEASE TRANSACTIONS Q2 2022

PROPERTY	SF	TENANT	TRANSACTION TYPE	CITY	SUBMARKET
303 Crossroads	1,023,610	Puma	Direct	Glendale	Northwest Phoenix
Cabot303	542,975	Logistics Plus	Direct	Glendale	West Phoenix
Goodyear Airport Industrial	450,619	NPSG Global	Direct	Goodyear	Far Southwest Phoenix
101 Logistics Park	409,254	Wesco	Direct	Avondale	Southwest Phoenix
Lexington South @ PV 303	392,000	SiteOne Landscape Supply	Direct	Goodyear	West Phoenix

KEY SALES TRANSACTIONS Q2 2022

PROPERTY	SF	BUYER	PRICE	PRICE PSF	CITY	SUBMARKET
10 West Commerce Park	862,622	Cohen Asset Management	\$128,650,000	\$149.14	Buckeye	Far Southwest Phoenix
Merit PLC One	268,872	LXP Industrial Trust	\$59,360,000	\$220.77	Phoenix	Southwest Phoenix
8043 E Ray Road	100,000	ASB Capital Management	\$56,500,000	\$565.00	Mesa	Mesa
Papago West	454,368	Cohen Asset Management	\$50,750,000	\$111.69	Phoenix	Southwest Phoenix
Longbow Gateway One	147,435	Stockbridge Capital Group	\$48,000,000	\$325.57	Mesa	Mesa

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