

	YoY Chg	12-Mo. Forecast
4.5% Overall Vacancy	▼	▲
17.7M YTD Net Absorption, SF	▲	▼
47.5M Under Construction, SF	▲	▼
\$1.19 Overall Asking Rent, PSF	▲	▲

ECONOMIC INDICATORS Q3 2022

	YoY Chg	12-Mo. Forecast
2.3M Phoenix Employment	▲	▲
2.8% Phoenix Unemployment Rate	▼	▲
3.5% U.S. Unemployment Rate	▼	▲

Source: BLS

*Q3 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 Q3 2022, the Phoenix market recorded an employment level of 2.3 million jobs and the unemployment rate decreased from 4.1% in Q3 2021 to 2.8% in Q3 2022. The metro area continues to have tremendous growth, as the number of households increased by 2.6% year-over-year (YOY) to 1.9 million.

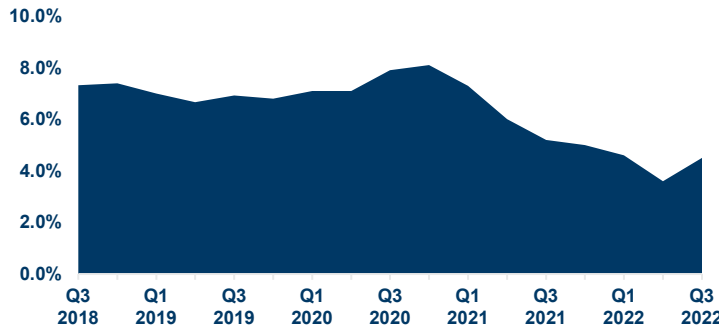
MARKET OVERVIEW

The Phoenix metro industrial market absorbed approximately 4.4 million square feet (msf) in Q3 2022 with three of the four product types having positive absorption. In the third quarter, warehouse space experienced the greatest absorption of approximately 2.9 msf followed by the manufacturing property type with 1.4 msf of absorption. In Q3 2022, 10 of the 16 industrial submarkets saw positive absorption. The Northwest Phoenix submarket yielded the largest positive absorption with approximately 2.0 msf followed by Far Southwest Phoenix with approximately 1.6 msf.

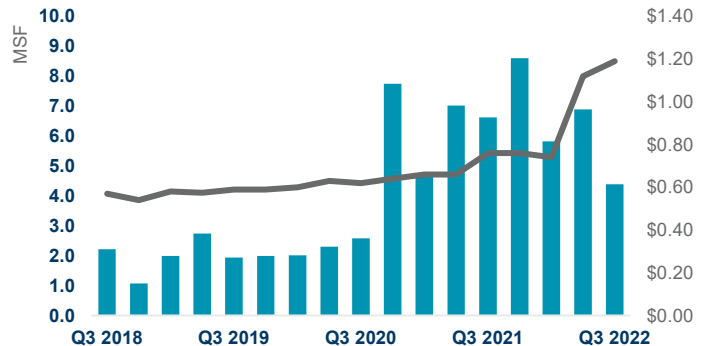
In the third quarter of 2022, the Phoenix industrial market direct vacancy rate was 4.2%, up from 3.3% in Q2 2022. As a comparison, the direct vacancy rate was 5.1% in Q3 2021 and 7.6% in Q3 2020. Although the vacancy rate increased in Q3, Phoenix still experienced positive absorption, largely due to the fact that many new buildings were delivered in Q3 yet lacked in pre-leasing.

The Phoenix construction pipeline remains at highest levels in Phoenix history, close to leading the nation. The Phoenix industrial market construction level in Q3 2022 rose another 7.6 msf from Q2, raising the total square footage under construction to approximately 47.5 msf in the third quarter, 10.6 msf of which is pre-leased. Phoenix construction ranks third in the U.S. industrial market behind only Dallas (76.2 msf), Atlanta (48.1 msf). The warehouse sector in Phoenix dominates the inventory with approximately 43.3 msf or 91% of all product types under construction.

OVERALL VACANCY



OVERALL NET ABSORPTION/OVERALL ASKING RENT



Strong population growth and consumer spending contributed to the historic demand for industrial space despite ongoing labor shortages and supply chain constraints. Pre-leasing was 10.6 msf for all space under construction, as occupiers actively look to locate or expand operations within metro Phoenix. In Q3 2022, the Phoenix metro industrial market delivered approximately 8.1 msf, bringing total completions to just under 20 msf YTD.

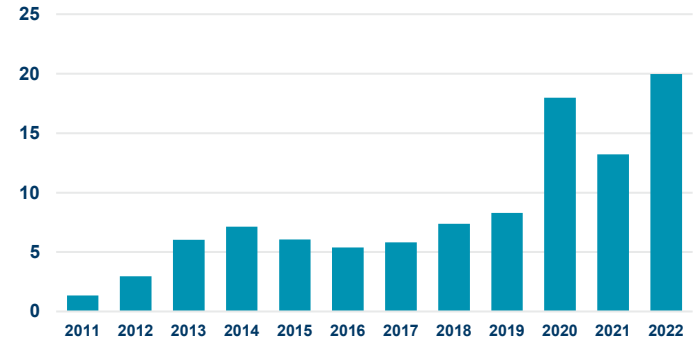
Rents continued to escalate across all sizes and product types. The direct average asking rate in the Phoenix metro industrial market in the third quarter was \$1.19 per square foot (psf) per month on a triple net (NNN) basis. Annual rent escalations are consistently seeing 4% plus bumps on smaller deals and larger ones in excess of 3%.

The sustained strength of warehouse space in Phoenix has been joined by large manufacturing projects in several Phoenix submarkets continues to be the major storyline 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 Q3. 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

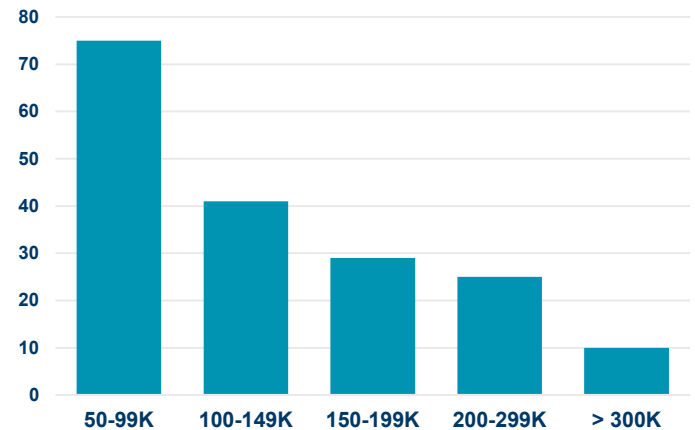
- The Phoenix market continues at a record setting pace with increases in deal velocity & size but moderating with land pricing. Phoenix is directly benefitting from the historically tight Social Southern California market and its lack of product availability.
- Tenant demand stayed strong in historically slower summer months but capital markets are expressing increased uncertainty due to rapidly rising inflation and interest rates.
- With history of overbuilding happening in Phoenix, sentiment feels less strong than last quarter with rapidly shifting macroeconomic dynamics and potential negative impact on consumer demand.
- The most active customer segments are 3PLs, retail/apparel, food & beverage, e-commerce, and semi-conductor chip related manufacturers.

NEW SUPPLY (MSF)



LARGE BLOCK SPACE

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



MARKETBEAT PHOENIX



Industrial Q3 2022

MARKET STATISTICS

SUBMARKET	TOTAL BLDGS	INVENTORY	DIRECT VACANT	SUBLET VACANT	DIRECT VACANCY RATE	OVERALL NET ABSORPTION	2022 YTD OVERALL NET ABSORPTION	UNDER CONSTRUCTION	OVERALL ASKING RATE	DIRECT ASKING RATE
Black Canyon	267	7,204,291	142,829	8,016	2.0%	-34,784	-51,752	0	\$1.07	\$1.07
Chandler	463	31,359,782	1,398,030	63,731	4.5%	110,449	856,495	1,605,334	\$1.39	\$1.39
Deer Valley	491	17,430,208	778,581	137,397	4.5%	43,563	-273,140	1,829,696	\$1.27	\$1.27
Far Southwest Phoenix	120	24,542,753	1,572,672	256,500	6.4%	1,592,298	5,300,242	6,407,474	\$0.76	\$0.61
Gilbert	232	9,533,539	777,449	0	8.2%	187,467	322,888	834,311	\$1.11	\$1.11
Mesa	508	24,217,099	1,577,936	20,328	6.5%	86,318	2,398,426	9,704,273	\$0.98	\$1.01
North Tempe	720	26,638,125	588,252	93,987	2.2%	-143,183	-19,833	0	\$1.24	\$1.23
Northeast Phoenix	147	4,753,835	313,035	0	6.6%	53,705	110,958	13,000	\$1.01	\$1.01
Northwest Phoenix	230	17,515,119	990,410	0	5.7%	1,986,189	2,305,005	11,361,840	\$1.12	\$1.12
Scottsdale Airpark	356	8,156,935	176,061	25,322	2.2%	-106,775	-98,743	0	\$1.39	\$1.38
Sky Harbor Airport	296	11,887,718	339,341	7,846	2.9%	-64,843	-134,110	507,834	\$1.19	\$1.19
South Central Phoenix	453	19,510,407	347,894	10,153	1.8%	38,404	111,888	0	\$1.11	\$1.12
South Mountain	573	22,968,214	1,316,212	120,191	5.7%	-63,950	498,706	510,832	\$1.21	\$1.23
South Tempe	247	12,564,122	502,250	37,729	4.0%	-14,948	-207,516	553,904	\$1.23	\$1.28
Southwest Phoenix	726	89,923,708	1,945,599	65,000	2.2%	446,914	3,643,406	6,101,817	\$0.78	\$0.80
West Phoenix	671	37,629,272	2,712,880	20,260	7.2%	271,294	2,984,776	8,053,143	\$0.98	\$0.98
Grand Total	6,500	365,835,127	15,479,431	866,460	4.2%	4,388,118	17,741,696	47,483,458	\$1.19	\$1.19

PROPERTY TYPES	TOTAL BLDGS	INVENTORY	DIRECT VACANT	SUBLET VACANT	DIRECT VACANCY RATE	OVERALL NET ABSORPTION	2022 YTD OVERALL NET ABSORPTION	UNDER CONSTRUCTION	OVERALL ASKING RATE	DIRECT ASKING RATE
Office Service (OS)	359	14,652,097	2,250,356	236,429	15.4%	-316,021	-758,405	39,491	\$1.31	\$1.31
Warehouse Distribution (WD)	2536	206,222,043	10,203,619	444,378	4.9%	2,949,116	16,195,838	43,328,078	\$0.98	\$0.98
High Technology (HT)	326	22,211,990	1,633,807	126,126	7.4%	376,281	263,742	1,329,734	\$1.15	\$1.20
Manufacturing (MF)	3279	122,748,997	1,391,649	59,527	1.1%	1,378,742	2,108,125	2,050,934	\$1.06	\$1.06
Grand Total	6,500	365,835,127	15,479,431	866,460	4.2%	4,388,118	17,747,696	47,483,458	\$1.19	\$1.19

Industrial Q3 2022

KEY LEASE TRANSACTIONS

PROPERTY	SF	TENANT	TRANSACTION TYPE	CITY	SUBMARKET
Goodyear Logistics Center	901,700	Unis	Direct	Goodyear	Far Southwest Phoenix
Latitude 303 Logistics	340,031	Lennox	Direct	Glendale	West Phoenix
Park Lucero East	317,058	Corning Inc.	Direct	Gilbert	Gilbert
Queen Creek Commerce Center	195,520	Intel	Direct	Chandler	Chandler
Park Lucero East	143,537	DB Schenker	Direct	Gilbert	Gilbert

KEY SALES TRANSACTIONS

PROPERTY	SF	BUYER	PRICE	PRICE PSF	CITY	SUBMARKET
8560 E Elliot Road	1,194,923	CalSTRS	\$187,000,000	\$156.50	Mesa	Mesa
6620 N Sarival Avenue	1,257,838	BentallGreenOak	\$186,000,000	\$147.87	Litchfield Park	West Phoenix
575 S 143rd Avenue	901,700	American Realty Advisors	\$103,214,650	\$114.47	Goodyear	Far Southwest Phoenix
4890 S Cotton Avenue	730,760	BentallGreenOak	\$109,200,000	\$149.43	Goodyear	Far Southwest Phoenix
3405 S McQueen Road	201,784	LXP Industrial Trust	\$87,725,000	\$434.75	Chandler	Chandler

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