

MARKETBEAT PHOENIX



Industrial Q4 2022

	YoY Chg	12-Mo. Forecast
4.6% Overall Vacancy	▼	▲
21.7M YTD Net Absorption, SF	▼	▼
47.4M Under Construction, SF	▲	▼
\$1.05 Overall Asking Rent, PSF	▲	▼

ECONOMIC INDICATORS Q4 2022

	YoY Chg	12-Mo. Forecast
2.3M Phoenix Employment	▲	▲
3.3% Phoenix Unemployment Rate	▼	▲
3.7% U.S. Unemployment Rate	▼	▲

Source: BLS

*Q4 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 Q4 2022, the Phoenix market recorded an employment level of 2.3 million jobs and the unemployment rate decreased slightly from 3.5% in Q4 2021 to 3.3% in Q4 2022. The metro area continues to have tremendous growth, as the number of households increased by 2.3% year-over-year (YOY) to 1.9 million.

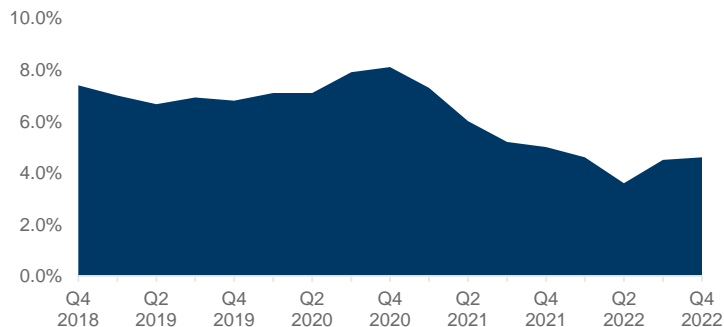
MARKET OVERVIEW

By year-end, new leasing totaled 32.6 million square feet (msf), down slightly from 32.8 msf YOY. This was the second highest annual new leasing figure on record. Demand remained strong in the warehouse/distribution sector, accounting for 81.3% (26.5 msf) of new leasing in 2022. The Southwest Valley submarket posted the highest amount of new leasing activity, accounting for 52.2% of total new leasing due to the proximity to the Ports of Los Angeles and Long Beach and large population base in Southern California.

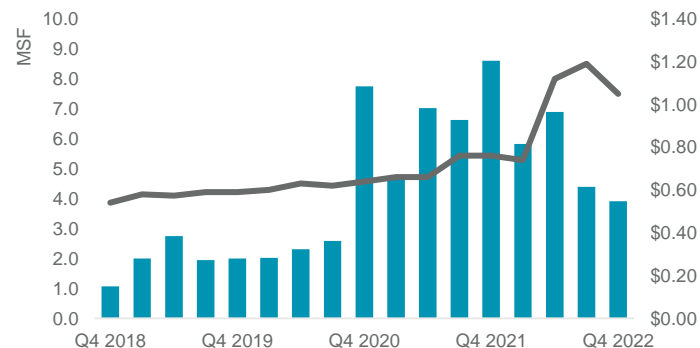
Phoenix reached 3.9 msf of net absorption during the fourth quarter, bringing the YTD total to 21.7 msf. This marked the second consecutive year in which net absorption exceeded 20 msf with the previous record being 26.9 msf in 2021. Occupancy gains were bolstered by 22 tenants moving into spaces 100,000 sf and larger in the fourth quarter bringing the total to 78 for the year. The Southwest Valley led the metro in absorption gains with Logistics Plus and NPS Global occupying 542,975 sf and 450,619 sf, respectively during the fourth quarter.

The construction pipeline for Phoenix ranks second in the U.S. behind only Dallas (81.5 msf) with 47.4 msf underway. The warehouse/distribution sector in Phoenix dominates the development pipeline with approximately 43.4 msf or 92% of all product types under construction. Construction starts slowed dramatically in the fourth quarter with 4.5 msf of new starts. This pushed the total square footage breaking ground during the year to 41.3 msf as some developers opted to delay ground breakings due in part to the changes in the financing market in the last nine months.

OVERALL VACANCY



OVERALL NET ABSORPTION/OVERALL ASKING RENT



In the fourth quarter, developers added 4.9 msf of new product to the market bringing completions for the year to 24.8 msf, an annual record high for Phoenix. The Southwest Valley and Southeast Valley submarkets recorded the highest number of completions in 2022, with 16.3 msf and 7.4 msf completed, respectively. Speculative projects accounted for 86% of new projects or 20.9 msf of which 51.2% or 10.8 msf was delivered occupied. Due to the velocity and depth of occupiers in the market, owners and developers continue to be optimistic that their space will be occupied in the near term.

Asking rents remained at or near historically high levels at the close of 2022 across all sizes and product types. The direct average asking rate increased 40.0% YOY to \$1.05 per in the fourth quarter on a triple net (NNN) basis. In 2022, warehouse sector asking rents increased 17.7% to \$0.73 psf while manufacturing sector asking rents climbed 23.0% to \$1.02 psf.

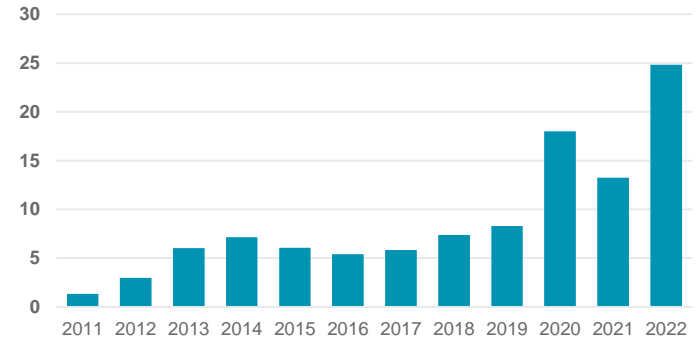
In addition to demand of warehouse space, the Phoenix market has seen an uptick in manufacturing due in large part to the announcements by both Taiwan Semiconductor Manufacturing Co. to locate their first manufacturing facility in the U.S. in north Phoenix and the continued Intel expansion of their Ocotillo campus in Chandler.

As the Phoenix metro industrial market continues to diversify it will continue to be one of the most resilient real estate sectors as activity remains strong particularly with the rise in e-commerce demand and the commitment by the state of Arizona to the semiconductor industry.

Outlook

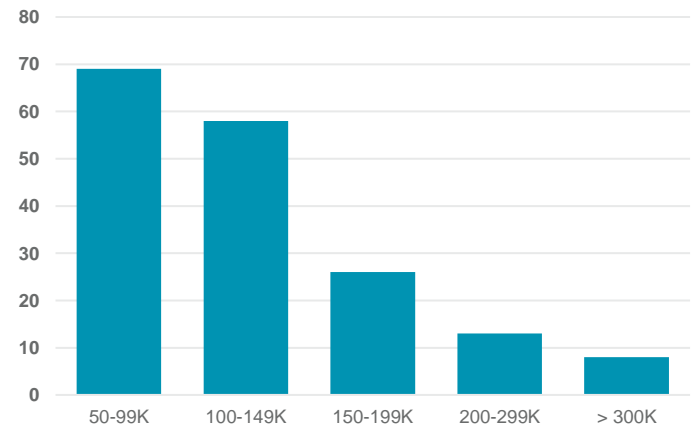
- While deal volume and construction activity were historically high, land pricing has moderated. Phoenix should continue to benefit from extremely tight market conditions in Southern California as tenants opt for opportunities further inland where options are not as scarce.
- The investment sales market for industrial facilities has seen increased uncertainty due to rapidly rising inflation and interest rates.
- Concern of overbuilding has risen in Phoenix amid the rapidly shifting macroeconomic dynamics and potential negative impact on consumer demand.
- Tenant demand will continue to be fueled by 3PL's, 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)



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MARKET STATISTICS

SUBMARKET	TOTAL BLDGS	INVENTORY	DIRECT VACANT	SUBLET VACANT	DIRECT VACANCY RATE	Q4 OVERALL NET ABSORPTION	2022 YTD OVERALL NET ABSORPTION	UNDER CONSTRUCTION	OVERALL NNN ASKING RATE	DIRECT NNN ASKING RATE
Airport	1,755	69,569,182	2,131,709	206,343	3.1%	-119,313	-217,165	782,549	\$1.20	\$1.21
Northeast Valley	505	14,232,334	394,617	70,159	2.8%	104,695	54,995	160,019	\$1.27	\$1.24
Northwest Valley	1,474	49,926,820	1,168,252	224,438	2.3%	163,139	472,960	3,296,660	\$1.17	\$1.22
Southeast Valley	1,607	88,387,990	3,837,172	113,871	4.6%	1,612,218	5,618,280	13,714,651	\$1.22	\$1.22
Southwest Valley	1,179	153,862,806	8,696,580	320,000	5.7%	2,144,604	15,797,695	29,475,606	\$0.58	\$0.57
Grand Total	6,520	370,979,132	16,228,330	935,111	4.4%	3,905,343	21,726,765	47,429,485	\$1.05	\$1.05

PROPERTY TYPES	TOTAL BLDGS	INVENTORY	DIRECT VACANT	SUBLET VACANT	DIRECT VACANCY RATE	Q4 OVERALL NET ABSORPTION	2022 YTD OVERALL NET ABSORPTION	UNDER CONSTRUCTION	OVERALL NNN ASKING RATE	DIRECT NNN ASKING RATE
Office Service (OS)	360	14,694,628	2,062,069	241,971	14.0%	86,010	-663,160	39,491	\$1.30	\$1.31
Warehouse Distribution (WD)	2,552	210,580,952	11,039,144	443,449	5.2%	3,484,865	19,725,237	43,457,239	\$0.73	\$0.71
High Technology (HT)	326	22,211,990	1,721,036	109,647	7.7%	-74,674	126,951	1,329,734	\$1.22	\$1.24
Manufacturing (MF)	3,282	123,491,562	1,406,081	140,044	1.1%	409,142	2,537,737	2,603,021	\$1.02	\$1.05
Grand Total	6,520	370,979,132	16,228,330	935,111	4.4%	3,905,343	21,726,765	47,429,485	\$1.05	\$1.05

KEY CONSTRUCTION COMPLETIONS Q4 2022

PROPERTY	SUBMARKET	MAJOR TENANT	SF	CONSTRUCTION TYPE	OWNER/DEVELOPER
Sarival Logistics Center	North Goodyear	Logistics Plus	1,156,860	Speculative	WPT Capital Advisors
Cotton 303 Logistics Center	North Goodyear	Vacant	915,160	Speculative	Pizzuti
Commerce @ 303	North Goodyear	Vacant	663,367	Speculative	SteelWave

KEY PROJECTS UNDER CONSTRUCTION Q4 2022

PROPERTY	SUBMARKET	MAJOR TENANT	SF	CONSTRUCTION TYPE	OWNER/DEVELOPER
Ross Stores	Buckeye	Ross Stores	1,600,000	Built-To-Suit	Ryan Companies
Park 303	North Goodyear	Vacant	1,259,666	Speculative	Lincoln Property Company
Southern Industrial Center	Buckeye	Vacant	1,207,360	Speculative	Contour Real Estate

Industrial Q4 2022

KEY LEASE TRANSACTIONS

PROPERTY	SF	TENANT	TRANSACTION TYPE	CITY	SUBMARKET
Sarival Logistics Center	1,156,860	Logistics Plus	Direct	Glendale	North Goodyear
GO 99 South	763,410	JA Solar	Direct	Tolleson	Tolleson
Falcon Park 303	599,486	Unical Aviation	Direct	Glendale	North Goodyear
101 at Van Buren	408,581	Allen Distribution	Direct	Avondale	Tolleson
I-10 Innovation Center	402015	HD Supply	Direct	Tolleson	Tolleson

KEY SALES TRANSACTIONS

PROPERTY	SF	BUYER	PRICE	PRICE PSF	CITY	SUBMARKET
Central Logistics Center	407,408	Westcore Properties	\$93,500,000	\$229.50	Phoenix	South Central Phoenix
Becknell Industrial Portfolio	237,527	Sterling Investors	\$34,000,000	\$143.14	Phoenix/Tolleson	Southwest Phoenix/Tolleson
Banner Health	196,791	Bowers Bam, LLC/Marmon Properties, LLC	\$51,500,000	\$261.70	Chandler	Chandler
Bird Dog Industrial Portfolio	156,112	Berkeley Partners	\$25,500,000	\$163.34	Chandler/Phoenix	Chandler/Southwest Phoenix
5620 W Lower Buckeye Road	55,640	ArcBest Corporation	\$37,500,000	\$637.98	Phoenix	Southwest Phoenix

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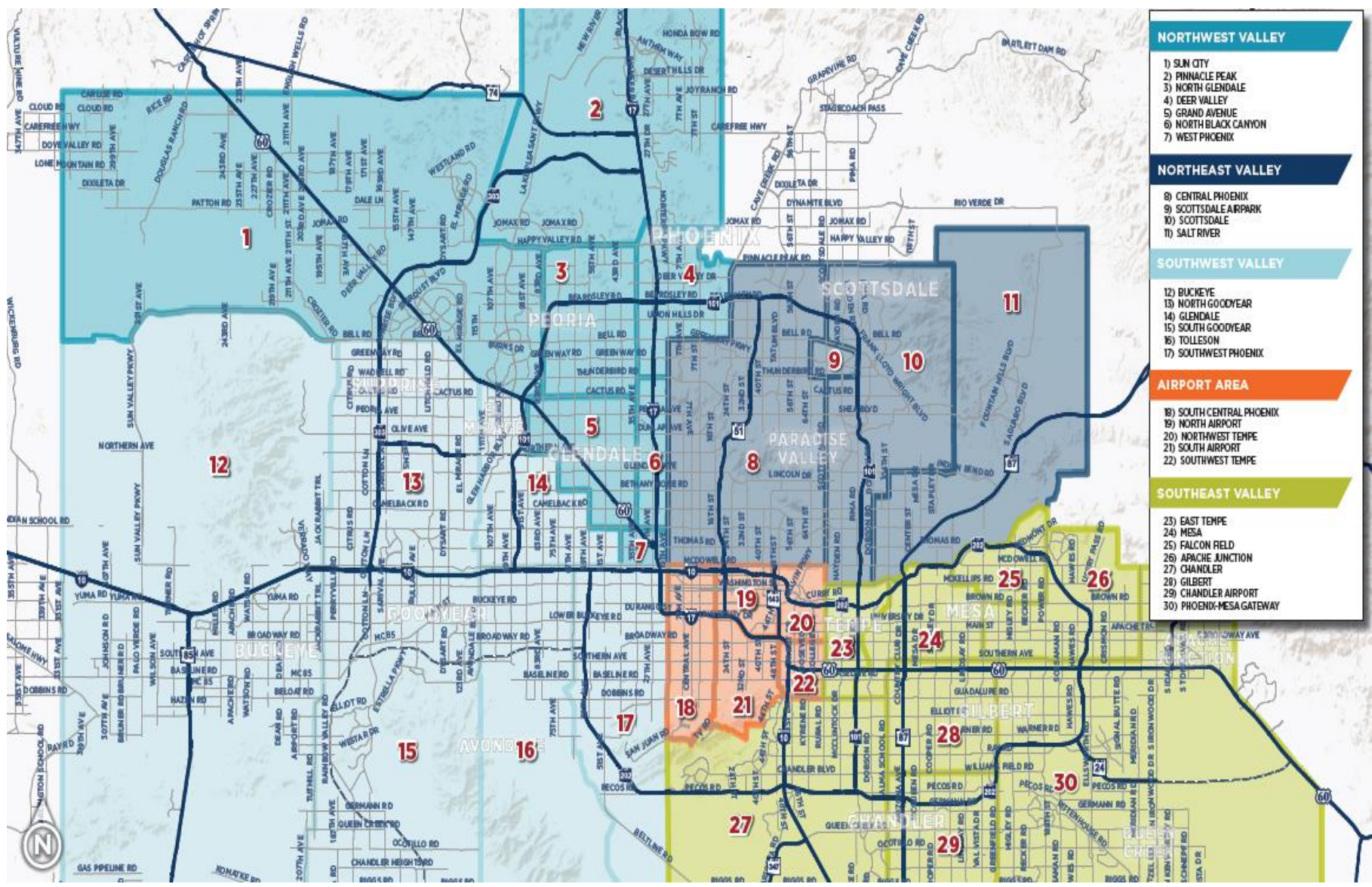
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Industrial Q4 2022



- NORTHWEST VALLEY**
- SUN CITY
 - PINNACLE PEAK
 - NORTH GLENDALE
 - DEER VALLEY
 - GRAND AVENUE
 - NORTH BLACK CANYON
 - WEST PHOENIX
- NORTHEAST VALLEY**
- CENTRAL PHOENIX
 - SCOTTSDALE AIRPARK
 - SCOTTSDALE
 - SALT RIVER
- SOUTHWEST VALLEY**
- BUCKEYE
 - NORTH GOODYEAR
 - GLENDALE
 - SOUTH GOODYEAR
 - TOLLESON
 - SOUTHWEST PHOENIX
- AIRPORT AREA**
- SOUTH CENTRAL PHOENIX
 - NORTH AIRPORT
 - NORTHWEST TEMPE
 - SOUTH AIRPORT
 - SOUTHWEST TEMPE
- SOUTHEAST VALLEY**
- EAST TEMPE
 - MESA
 - FALCON FIELD
 - APACHE JUNCTION
 - CHANDLER
 - GILBERT
 - CHANDLER AIRPORT
 - PHOENIX-MESA GATEWAY