

INVESTMENT FORECAST

Industrial
Phoenix

IPA

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ADVISORS

2022

Expanding Population and Incomes Entice Tenants; Developers and Investors Ramp up Activity in The Valley

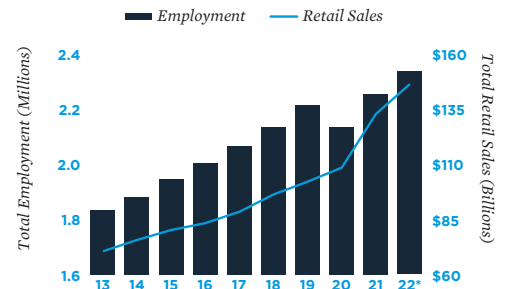
Growing consumer base, tenant spillover incite demand boom. The Phoenix metro has seen a surge in industrial leasing entering this year, as more than 70 leases of at least 100,000 square feet each were signed in 2021 — more than 10 of these being for spaces exceeding 500,000 square feet. Major commitments from firms like Best Buy, Lowe's and UPS helped net absorption surpass 20 million square feet last year. This lift in demand is supported by the expanding consumer base in Phoenix. The local population is growing nearly three times faster than the national rate, and median household incomes are advancing at the fifth quickest pace of major U.S. metros. Phoenix has also benefited from low availability and rising asking rents in Southern California, as The Valley provides a cost-efficient alternative and access to a larger stock of available facilities. Developers and tenants have favored the Southwest Valley along Interstate 10 recently, as this area offers airport and rail access, while also being the closest Phoenix submarket to California.

Deal flow reaches historic levels. Investors are increasingly targeting industrial assets in the Phoenix metro, causing several of the market's submarkets to record significantly more trades than they have in prior years. This elevation has been strongest in the Northwest, Southwest and Airport submarkets, which has compressed the average cap rate to around 6 percent amid growing entry costs. Near the airport, assets at or below 50,000 square feet drive much of the volume, a reflection of the stock in the locale, and usually change hands with sale prices close to the market average of \$148 per square foot. Tenant demand for larger floor plans has fueled activity in Southwest Phoenix, where investors regularly target assets over 100,000 square feet. In the Northwest, buyers have pursued a mixture of building sizes, but often in areas proximate to Interstate 17 and Loop 101.

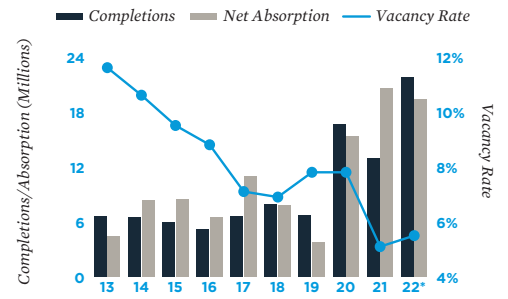
2022 Market Forecast

- Employment**
up 3.7%
Metro employment surpassed its pre-pandemic high before the end of last year, but Phoenix will still add 83,000 jobs in 2022.
- Construction**
22 million sq. ft.
Development of industrial space has escalated in recent years, and the space set for completion in 2022 is more than double the five-year trailing average of 10.1 million square feet.
- Vacancy**
up 40 bps
The sizable construction slate is set to raise vacancy to 5.5 percent in 2022, but the net absorption of nearly 20 million square feet will keep this the second-lowest year-end figure on record.
- Rent**
up 6.4%
Asking rents continue their steady growth trajectory in 2022, rising to an average of \$8.95 per square foot. Since 2011, asking rates have increased by at least 2 percent every year.
- Investment**
The Southeast submarket could see a growing number of trades while work continues on the SkyBridge in Mesa — a facility that will act as an inland port for both the U.S. and Mexico.

Economic Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of February 2022. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Forecasts for employment and retail data are made during the first quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.