MARKET REPORT

Industrial

Phoenix Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

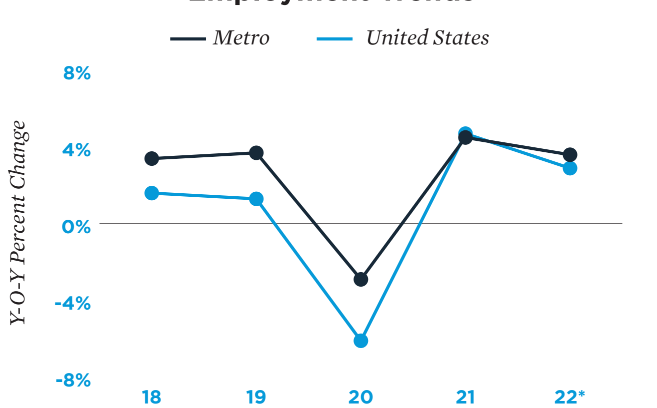
Midyear 2022

West Coast Businesses Flock In as Trio of Submarkets Obtain National Recognition

Metro basks in standout demand. One of the nation's fastest-growing metros by population and an emerging regional distribution hub, Phoenix is attracting a host of logistics firms, suppliers and online retailers. Recent leasing activity reflects this, as from January through March of this year, the metro registered the most rapid net absorption of any major market west of the Mississippi. This activity added on to the metro's record year for demand, with tenants absorbing a net of 24 million square feet of industrial space through the 12-month period ending in March. The influx of industrial tenants from nearby metros is bolstering demand for state-of-the-art facilities, with California-based firms expected to move into a considerable amount of newer space during 2022.

Zoning directs industrial development. Three Phoenix locales ranked among the top 15 major U.S. submarkets for completions during the first quarter of 2022. Together, this trio of areas accounted for a combined 5.5 million square feet of supply additions. In Northwest and Southwest Phoenix, low residential density is permitting sizable industrial developments to break ground. Across both locales, at least 10 projects that each comprise more than 300,000 square feet of space are slated for 2022 completion. Elsewhere, mixed commercial zoning in the Southeast submarket will equate to developers finalizing a large batch of smaller, downstream projects. These properties are likely to appeal to the metro's growing collection of logistics providers, suppliers and manufacturing firms.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.

Industrial 2022 Outlook

80,000 JOBS
will be created

EMPLOYMENT:

Staffing grows by 3.6 percent, as the metro is expected to add 50,000 jobs during the final seven months of 2022. A record-low 2.6 percent unemployment rate in May suggests firms will recruit from outside the area more frequently when filling positions.

21,000,000 SQ. FT.
will be completed

CONSTRUCTION:

Phoenix posts a record year for construction, as developers increase inventory by a historically high 6.4 percent. A collection of large-scale projects are slated for completion, making up nearly 70 percent of supply additions during the year.

50 BASIS POINT
increase in vacancy

VACANCY:

Substantial construction pulls vacancy up to 5.6 percent, following a 260-basis-point decrease during 2021. As of June, 35 percent of the space slated for year-end delivery was unaccounted for, placing upward pressure on availability.

7.3% INCREASE
in asking rent

RENT:

The average asking rent lifts to $8.93 per square foot, amid historically high levels of construction and robust demand. The metro's mean marketed rate has already improved by 5.3 percent during just the first quarter of this year.

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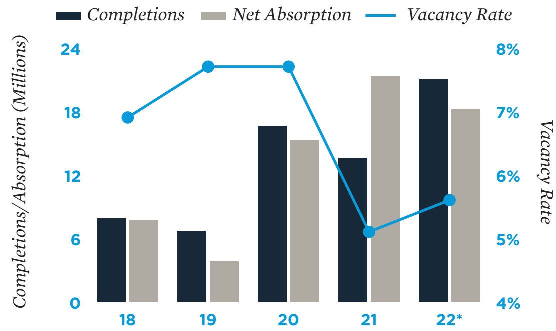
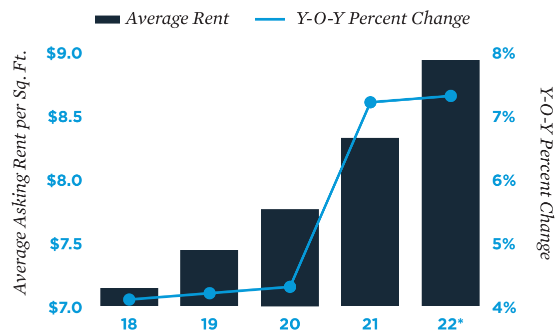
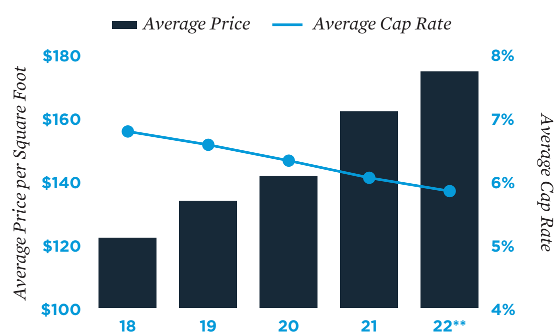
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 1Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Industrial

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Price: $250

1Q 2022 - 12-Month Period

CONSTRUCTION

17,526,000 sq. ft. completed

- Phoenix recorded a historic level of completions during the past 12 months ending in March that expanded the metro's inventory by 5.5 percent.
- Builders appear extremely confident in future tenant demand for industrial space in the Northwest submarket, as 26 million square feet of space was proposed there as of June.

VACANCY

230 basis point decrease in vacancy Y-O-Y

- Vacancy compressed to a record low of 4.6 percent in March, as net absorption exceeded supply additions by over 6 million square feet during the past 12 months.
- Over the past year, the Southwest submarket recorded its steepest drop in vacancy since 2011, contracting 480 basis points to 5.4 percent in March.

RENT

13.5% increase in the average asking rent Y-O-Y

- The metro's average asking rent climbed to $8.76 per square foot in March, establishing a new high for the fourth consecutive quarter.
- Tightening vacancy in the Southeast and Southwest submarkets drove local rents to historically high rates, with both locales registering above 10 percent annual increases to $6.48 and $10.04 per square foot, respectively.

Investment Highlights

- Transaction velocity more than tripled in the Northwest submarket, as California-based buyers purchased smaller warehouses well-suited for last-mile operations. The locale is attracting more investors, as a surge in tenant demand for downstream space is anticipated, following the recent delivery of 6 million square feet of distribution facilities. As a result, prices within the submarket improved by more than 30 percent during the past 12 months to $153 per square foot on average.
- Trades within the $10 million to $20 million price tranche doubled over the past year, with Miami and New York-based investors accounting for over 35 percent of transactions that took place. These buyers are targeting post-2000-built, midsize warehouses in the Southwest submarket, as tightening local conditions suggest opportunities to re-tenant properties at higher rents once in-place leases expire.
- A record level of tenant demand and a nearly 20 percent gain in average pricing lowered the metro's average cap rate 50 basis points over the past year to 5.8 percent. Recent price hikes were driven by a deepened pool of out-of-state, institutional buyers. These investors are largely targeting warehouses, lifting prices in the subsector by more than 30 percent.