MARKET REPORT

INDUSTRIAL

Phoenix Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

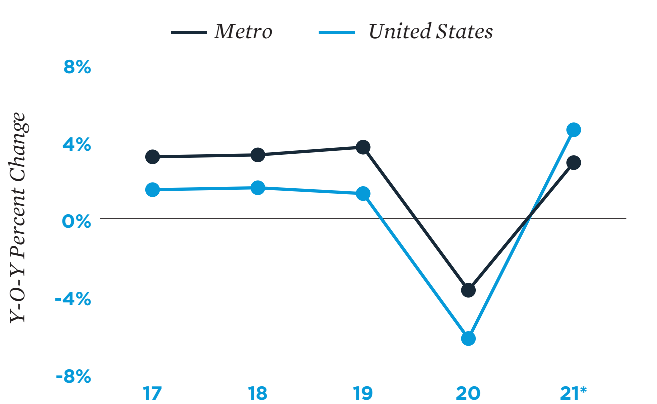
2Q/21

Firms Prioritize Cost-Friendly Areas for Larger Facilities; Barrage of Speculative Projects Incoming

Relative affordability of Southwest Phoenix luring tenants. The metro's largest submarket, Southwest Phoenix, garnered a handful of sizable lease signings in the past six months, helping to ease vacancy pressure in the area with the highest availability in the metro. Demand is particularly strong in the corridor just south of Interstate 10 and surrounding Loop 202. Gatorade, The RealReal, HelloFresh and Honeywell are each occupying 300,000 square-foot-plus facilities here in 2021. Contributing to firms' decisions to lease space in Southwest Phoenix is the well-below market average asking rent of $5.88 per square foot. Lower rent can be partially attributed to the locale's elevated vacancy, which has exceeded 10 percent for most of the past two years. The rate fell 30 basis points in 2020, however, and momentum should be sustained in 2021.

Northwest Phoenix pressured by speculative additions. Marketwide, only 40 percent of the space set to finalize in 2021 had secured lease with a tenant as of May. Northwest Phoenix, particularly the area proximate to Loop 303 near Luke Air Force Base, has been a hotbed for speculative development. The Sarival Logistics Center will supply 1.2 million square feet of unleased space later this year. Nine other speculative properties in the area will deliver a combined 3.9 million square feet in 2021 as well. This influx of available space may intensify headwinds in Northwest Phoenix after vacancy jumped 170 basis points year over year to 7.8 percent in March. Nevertheless, new available space underpinned a double-digit yearly hike in the average marketed rent here.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.; U.S. Census Bureau

Industrial 2021 Outlook

62,000 JOBS
will be created

EMPLOYMENT:

The addition of 20,100 jobs from January through March will spearhead a 2.9 percent employment spike in 2021. At the end of April the metro had an unemployment rate of 6.2 percent, which was slightly above the national rate of 6.1 percent.

16,100,000 SQ. FT.
will be completed

CONSTRUCTION:

Completion volume will fall just shy of the decade-high 16.6 million square feet that finalized last year but remain historically elevated in 2021. Market inventory will increase by 5.1 percent, the third largest stock expansion among major U.S. industrial metros.

10 BASIS POINT
decrease in vacancy

VACANCY:

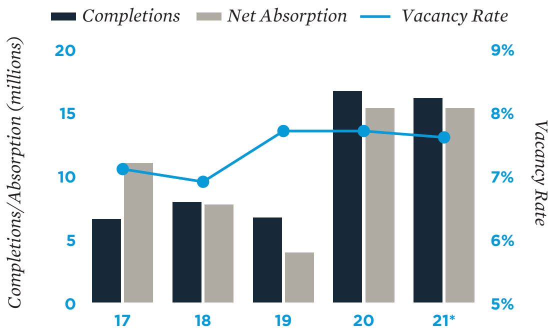
Net absorption will exceed 15 million square feet for the second straight year, dropping the vacancy rate to 7.6 percent. Availability held firm in 2020 and a slight contraction in supply pressure should allow for occupancy improvement in 2021.

4.5% INCREASE
in asking rent

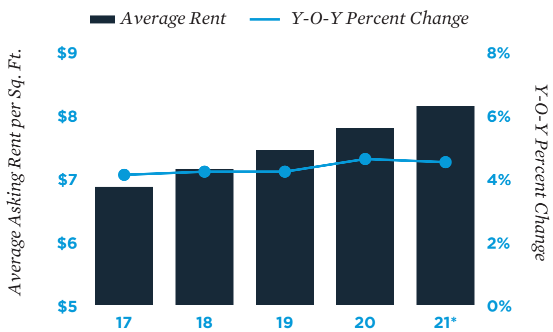
RENT:

Rates in Phoenix soared by an annual average of 4.2 percent during the past five years. An even larger gain is anticipated in 2021, with many new Class A buildings entering lease-up. The average asking rent will reach $8.14 per square foot by year end.

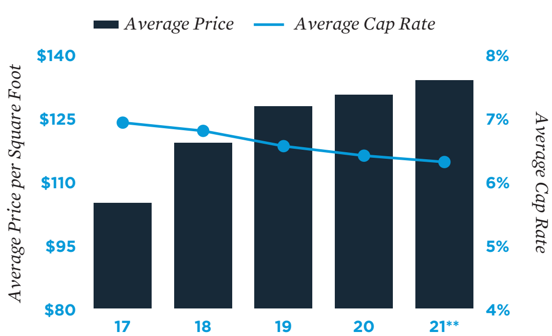
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 1Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

1Q21 — 12-Month Period

CONSTRUCTION

17,837,000 square feet completed

- Annual deliveries ending in the first quarter surpassed the previous yearlong total by 10 million square feet. This was the largest 12-month addition in more than 20 years, boosting metro stock by 6.0 percent.
- Southwest and Northwest Phoenix added a combined 14.3 million square feet in the past year, roughly 80 percent of all metro completions.

VACANCY

60 basis point decrease in vacancy Y-O-Y

- Absorption of 18.4 million square feet during the past four quarters produced a vacancy rate of 7.3 percent in March. The decline in availability amid record-level additions is an indication of market strength.
- Southeast Phoenix was able to notch a 170-basis-point annual reduction in vacancy, aided by development being focused elsewhere in the metro.

RENT

4.0% increase in the average asking rent Y-O-Y

- Rent momentum was sustained by newly built Class A space and robust demand for metro facilities. The average asking rent increased to $7.86 per square foot, building off the prior year's 4.4 percent hike.
- Northwest Phoenix led all submarkets with a 10.7 percent annual gain, influenced by the locale's 9.9 percent year-over-year stock expansion.

Investment Highlights

- More trades were completed between October and March than in any six-month stretch dating back to the beginning of this century. A rapidly growing consumer base fueled by in-migration, the acceleration of e-commerce and efforts to bolster U.S. manufacturing supported investor appetite for Phoenix industrial assets. Even with the slowdown in trading at the onset of the pandemic, annual deal velocity was up 9 percent from the prior 12-month period.
- Assets that changed hands during the yearlong period ending in the first quarter carried an average sale price of $134 per square foot, a 4 percent boost from the previous year. At the same time, the average initial return dipped 20 basis points to 6.3 percent, the lowest in two decades.
- Out-of-state investors seeking Class A/B assets are favoring Southeast Phoenix locations like Chandler and Gilbert. In this area, upper-tier warehouses and manufacturing facilities trade near $155 per square foot on average, enticing buyers from higher entry-cost markets.
- Class C properties change hands most frequently in North Phoenix proximate to Loop 101. Warehouse and manufacturing assets smaller than 30,000 square feet attract buyers to the area.

IPA Industrial

Alan L. Pontius

Senior Vice President, National Director

Tel: (415) 963-3000 | apontius@ipausa.com

For information on national industrial trends, contact:

John Chang

Senior Vice President, National Director | Research Services

Tel: (602) 707-9700 | jchang@ipausa.com