

4Q 2020 / Research Report

Phoenix Industrial Market

For all the tumult of 2020, one real estate sector did spectacularly well: industrial. Record setting transaction volumes, spiking demand for space, and rising rent growth were driven by rapid changes in industrial space use. New opportunities opened as industrial space users shifted priorities, reconsidered site selection criteria, and examined conversion options in tight markets. Whether changes in consumer shopping habits are permanent remains to be seen, but the real estate impacts are profound and ongoing. Manufacturers and retailers look to add warehouse space to offset supply chain shocks, blurring the line between retail and industrial real estate. A number of brick and mortar stores quickly accommodated on-site order fulfillment that may move offsite or integrate further as a hybrid of retail and distribution. Additionally, the explosive rise in delivery services has developers eyeing obsolete but centrally-located retail space for industrial conversion. By any measure, the industrial real estate sector had an extraordinary year.

Economy

Phoenix is located within a day's drive to other markets that serve an estimated 35 million consumers. As a major Southwest distribution hub, Phoenix is very competitive on pricing compared to its nearest rivals.

According to Yardi Matrix, Maricopa County year-over-year employment is down 4.2% through September, which is better than all but four metros and in line with comparative cities like Dallas (-4.0%), Denver (-5.2%) and Atlanta (-4.5%). Overall unemployment as of November stands at 6.9%, down from a 14.7% peak in April 2020. Amazon has been most active in the Valley with 10 leases signed in 2020 and hiring workers at a furious pace.

Absorption & Vacancy

Net absorption is up from 4.9 million square feet (msf) in 3Q 2020 to 7.9 msf in 4Q 2020. Deliveries by square footage nearly doubled to 7.8 msf, an all-time high. Even with additional supply, demand will keep absorption up and vacancies low.

Market
Inventory

276,514,526 SF

Vacancy
Rate

8.4%

Net
Absorption

7,868,359 SF

Construction
Pipeline

7,908,203 SF

Average
Asking Rate

\$8.31 SF

22%

Glendale is experiencing an industrial boom. With Loop 303 nearing its completion, the city moved to establish an industrial corridor, adding 22% more inventory to current stock.



Vacancies remain low at 8.4% with a 24 month lease renewal rate of 70.3%. Properties are vacant for 5.1 months on average, down from previous quarters.

Rental Rates

Overall rental rates are up over previous quarters, hitting \$8.31 psf, or 6% year over year. Rates for properties under 200 ksf are rising faster than those over that threshold, hitting \$9.50 psf in 4Q 2020. Rent growth has been fairly stable for the past two years but the percentage of growth is expected to taper.

New Construction

New construction averaged between 11 and 18 msf in each of the past four quarters, but fell to 7.9 msf in 4Q 2020. The quarter marked a record for deliveries of 7.4 msf. The largest project under construction is a build-to-suit manufacturing facility for Nikola Motors in Pinal County totaling 1 msf. It will join another electric vehicle manufacturer in Pinal County, Lucid Motors, with their newly-delivered 820 ksf facility.

Other major construction projects in the West Valley include the teen-focused retailer, Five Below, building a distribution center in Buckeye. Also, the emerging industrial hub along Loop 303 in Glendale is the site of Park 303, a 705 ksf spec building.

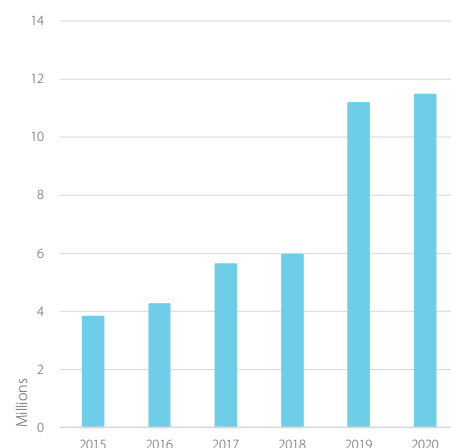
The region's data center presence is attracting national attention. Microsoft is adding sites through the year, and in December, Stream Data Centers broke ground on a 418 ksf facility in Goodyear.

Investment Sales

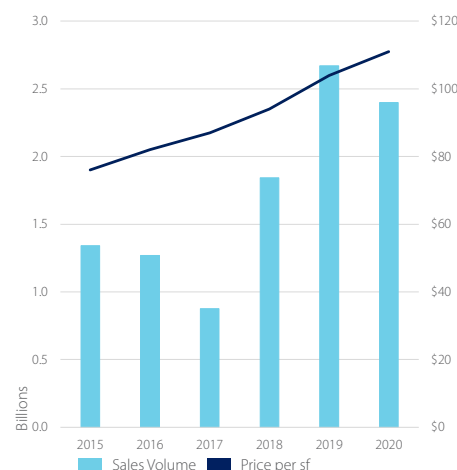
Sales volume in 4Q 2020 was up from a 3Q 2020 low of \$241.6 million reaching \$419.5 million. Total 2020 volume is just below the 2019 record peak, with \$2.4 billion in industrial transactions. Price per square foot rose 7% YoY to \$113 psf.

The quarter's biggest sale occurred in November when Lexington Realty Trust acquired the Chandler Airport Commerce Park, lot 4, for \$87.7 million or \$487 psf. Nearby, the Landing 202, a 601 ksf industrial park, sold for \$81 million, or \$135 psf.

Under Construction



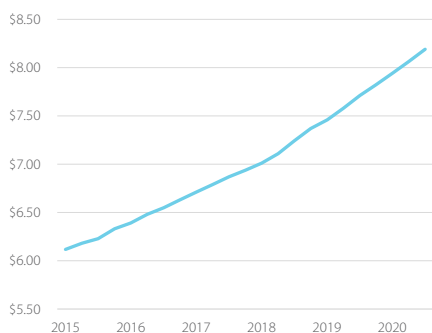
Investment Sales



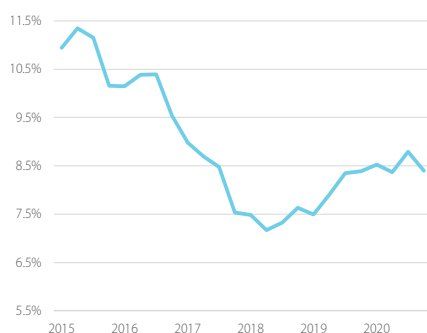
Industrial Market Snapshot

The Phoenix Industrial Market had a remarkable year, creatively adapting to unprecedented events and an accelerated move further into e-commerce fulfillment and distribution.

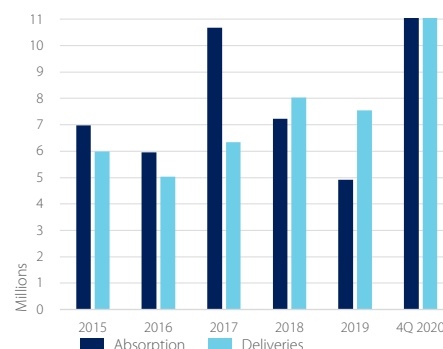
Rental Rates



Vacancy Rates



Absorption & Deliveries



Top Leases

Tenant	Building	Submarket	Square Feet	Type
The RealReal	Liberty Logistics Center I	SW N of Buckeye Rd	593,600	New / Direct
Honeywell	Riverside Business Center	SW S of Buckeye Rd	301,954	New / Direct
GES	Logic Park 91 - Building 1	Tolleson	189,000	New / Direct
Comtech EF Data Corp.	Chandler Technology Center	Chandler	147,000	New / Direct
DB Schenker	Lotus Project - Bldg 2	Chandler	135,217	New / Direct

Top Sales

Buyer	Building	Submarket	Square Feet	Sale Price	Price/SF
Lexington Realty Trust	Chandler Airport Commerce Park - Lot 4	Chandler Airport	180,294	\$87,725,490	\$487
Cohen Asset Management	The Landing 202	Chandler/N Gilbert	601,162	\$81,074,020	\$135
BlackRock Realty Advisors	Southwest Industrial Center I	Tolleson	684,420	\$72,500,000	\$106
Mack Real Estate Group	The HUB at Goodyear	Goodyear	790,980	\$59,087,185	\$75
Starwood Capital Group	Kyrene CommercePlex	Tempe Southwest	312,403	\$54,927,472	\$176

Under Construction

Property	Submarket	Completion	Square Feet	% Preleased/Owned
Nikola	Pinal County	4Q 2021	1,000,000	100%
Five Below Distribution Center	Buckeye	3Q 2021	858,000	100%
Fairway 10 (3 buildings)	Avondale	2Q 2021	720,000	0%
Park 303	Glendale	1Q 2021	705,304	0%
NW Cotton Ln & Indian School Rd	Glendale	2Q 2021	650,000	100%

Market By The Numbers*

Submarket	Total RBA (SF)	Vacant Space Sublease	Vacancy Total Space	Vacancy Rate Flex	Vacancy Rate Warehouse	Q4 Net Absorption	Avg. Ask Flex (NNN)	Avg. Ask Warehouse (NNN)	Avg. Ask Overall (NNN)
Tolleson	41,159,449	20,000	3,224,138	0.0%	10.5%	1,062,683	\$7.80	\$5.80	\$5.52
Chandler	19,585,962	102,040	914,732	25.8%	7.4%	118,149	\$8.09	\$8.53	\$9.19
Chandler N/Gilbert	15,362,014	271,500	1,267,099	7.0%	18.9%	152,030	\$14.49	\$8.05	\$8.09
Tempe Southwest	15,687,611	16,770	922,074	7.5%	5.5%	(46,963)	\$13.23	\$7.06	\$8.50
Tempe Northwest	7,714,963	0	344,772	16.1%	7.2%	(30,319)	\$15.80	\$8.22	\$11.67
Scottsdale Airpark	2,149,703	0	195,055	1.8%	21.2%	9,561	\$12.94	\$11.17	\$10.61
Scottsdale/Salt River	3,586,272	0	35,602	3.2%	0.8%	(30,624)	\$12.43	\$0.00	\$13.09
SW S of Buckeye Rd	16,994,694	0	403,780	0.0%	8.5%	389,218	\$9.60	\$8.84	\$6.78
North Airport	9,237,567	0	521,574	12.6%	9.1%	291,366	\$14.24	\$8.36	\$9.39
Deer Valley/Piestewa Peak	10,429,702	37,021	551,475	3.4%	9.5%	359,018	\$13.98	\$8.25	\$10.01
SW N of Buckeye Rd	28,987,730	52,632	1,332,144	11.7%	7.8%	(162,273)	\$0.00	\$5.16	\$5.19
SC N of Salt River	10,799,826	0	576,123	10.4%	3.3%	225,024	\$18.00	\$7.52	\$7.86
S Airport N of Roeser	8,897,569	27,008	403,722	14.8%	4.1%	167,720	\$15.29	\$8.81	\$11.65
Grand Avenue	5,683,009	0	107,060	-	2.5%	155,564	-	\$4.39	\$4.15
Goodyear	11,508,318	0	3,279,842	26.8%	27.1%	2,364,076	\$0.00	\$5.59	\$5.31
Glendale	14,561,717	76,356	1,080,944	3.6%	9.9%	1,759,943	\$7.20	\$7.80	\$6.56
Pinal County	8,361,046	0	207,027	-	3.0%	830,900	-	\$0.00	\$3.84
W Phx N of Thomas Rd	3,375,159	0	132,471	0.0%	4.9%	(20,488)	\$4.68	\$6.60	\$5.95
Mesa	4,153,451	0	125,092	0.0%	5.3%	20,101	\$14.11	\$5.98	\$4.68
W Phx S of Thomas Rd	3,349,096	0	90,705	-	2.6%	(4,373)	-	\$4.79	\$6.94
Tempe East	2,481,847	0	77,100	1.6%	2.7%	(7,697)	\$11.62	\$7.44	\$7.44
Falcon Field/Apache Junction	3,080,410	37,612	105,864	0.0%	14.2%	36,584	-	\$8.14	\$8.18
Central Phoenix	1,931,349	11,592	52,358	0.0%	10.3%	(28,029)	\$21.17	\$10.03	\$9.95
S Airport S of Roeser	2,634,818	0	41,162	-	2.0%	6,989	-	\$7.44	\$6.41
North Black Canyon	2,035,354	0	65,362	5.2%	1.7%	31,298	\$16.26	\$8.15	\$14.25
Surprise	2,965,776	0	111,373	12.8%	5.9%	(16,430)	\$12.64	\$8.26	\$9.06
Chandler Airport	4,127,197	0	784,498	7.6%	17.9%	230,984	\$17.98	\$8.32	\$8.47
SC S of Salt River	1,626,078	0	191,010	-	2.8%	4,347	-	\$2.40	\$7.16
North Outlying	91,628	0	0	-	0.0%	0	-	\$0.00	-
Southwest Outlying	66,000	0	0	-	0.0%	-	-	\$2.64	\$2.64
Northwest Outlying	33,122	0	0	-	0.0%	-	-	\$0.00	-
Total	276,514,526	652,531	17,144,158	11.0%	9.4%	7,868,359	\$13.81	\$7.99	\$8.31

*The data contained in this market report is obtained from The CoStar Group, Inc., and is used under licensed permission. The report is based on all Metro-Phoenix markets for industrial and flex buildings greater than 30,000 square feet.. It includes sublease space only upon the date of availability. Both current and historical data has been adjusted with corrected or updated information, after it was obtained. This may prevent comparison to previously released reports.


avisonyoung.com
