



1Q 2020 / Research Report

# Phoenix Industrial Market

Typically, industrial space has not been a real estate type that the general public notices. It is often at the urban margins, not photogenic, almost anonymous. But even before the Coronavirus pandemic, the sector was going through massive changes to meet business and consumer needs in the 21st Century. The rise of e-commerce and online grocery shopping has been changing the way developers site industrial properties. It also requires them to factor how technology is deployed to automate storage and retrieval within an industrial structure as well as coordinating increasingly complex logistics.

Now that much of the nation is homebound, the industrial sector is having its moment. Not since WWII has there been such pressure on this sector to perform at such capacity for most of the sector. Cold storage within proximity to urban cores is in high demand, and the biggest players like Amazon are hard-pressed to keep up with the spike in demand. However, optimism in the industrial sector may be tempered by a crash in consumer confidence leading to retail sector bankruptcies and

permanent closures that will reduce demand for industrial space overall. The current burst of activity may be short-lived or a fundamental change, however it is far too early to tell.

## Employment

The sudden economic halt in the wake of the Coronavirus pandemic has caused a spike in unemployment claims. One of the few employers on a hiring spree is Amazon, looking to add at least 100,000 workers to its distribution centers. Online grocery fulfillment is also a sub-sector seeking to add workers. Of course, this is not nearly enough to cover for job losses across other industries but, in the current scenario, it counts as a bright spot.

## Absorption & Vacancy

Net absorption for the quarter finished below the last two quarters' figures. Total for the year is 6.1 msf. This is within a normal 12-month average range. Vacancy had reached historic lows in recent quarters and only risen slightly in the past two years, much of it attributed to new construction.

Market  
Inventory



281,594,661 SF

Overall  
Vacancy Rate



8.2%

Net  
Absorption



1,556,250 SF

Construction  
Pipeline



16,101,134 SF

Average  
Asking Rate



\$8.08 SF

# \$250 Million

In February, construction began in Glendale on the 916,000 sf manufacturing plant for Mark Anthony Brewing, makers of White Claw and Mike's Hard Seltzer. \$250 million was invested to build the manufacturing facility.



## Rental Rates

Rent growth in the past decade had been slowing, but nominal asking rent overall has continued to rise, hitting \$8.08 psf. Some sub-sectors are faring better than others. Warehouse, logistics and cold storage are booming. Even pre-pandemic, industrial was set to outperform other property types. Whether this moment is a very temporary episode or not is impossible to tell, but the sector overall is performing well under stress.

## New Construction

After years of fairly conservative industrial development in Metro Phoenix, developer confidence in the market was high at the end of 2019 and some developers had begun speculative projects. Currently 16.1 msf is under construction, in a market with strong demand and quickly-changing occupier requirements.

Major projects under way include the Elwood Logistics Center in Goodyear, a speculative development that will bring

1.3 msf to a busy industrial submarket. It will feature 40-foot high ceilings and 235 dock-high loading bays. Project delivery is scheduled in 4Q 2020.

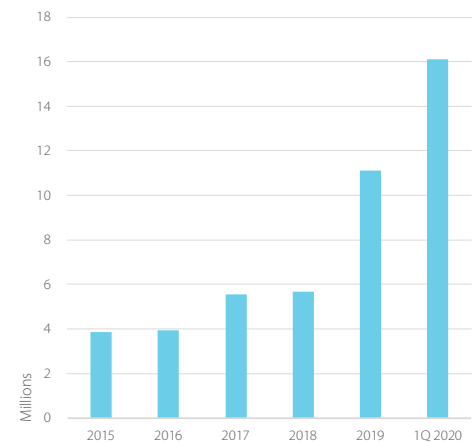
Logistics and distribution centers dominate new industrial construction with Amazon's growing position at the top, which requires more specialization in facilities as it moves further into home grocery delivery. Its distribution centers are nearing maximum operating capacity.

Another notable new project is the 820,000 sf built-to-suit facility in Casa Grande for Lucid Motors' electric vehicle production; a sign of the future.

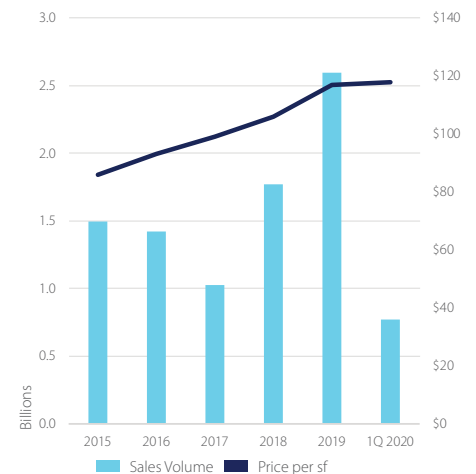
## Investment Sales

Investors generally became cautious early in the crisis. Transaction activity hit a record in 3Q 2019 of \$1.2 billion, but began a downward trend thereafter. This quarter's biggest deal was 202 West Logistics Center for \$61 million in February, where Amazon has signed a 10-year lease.

## Under Construction



## Investment Sales

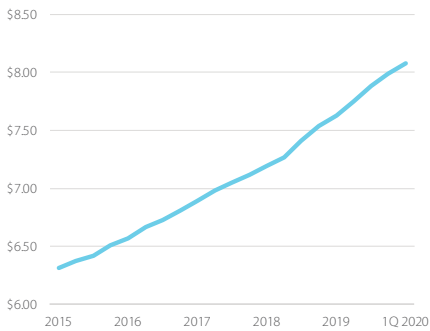




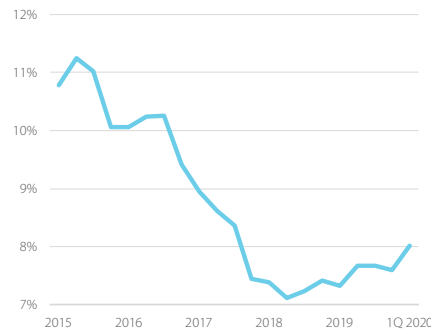
## Industrial Market Snapshot

While the industrial sector is having a moment in the spotlight, consumer demand will determine how long the surge lasts. For now, it is a rare bright spot in a difficult period.

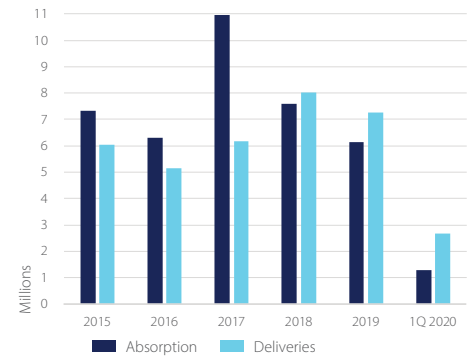
### Rental Rates



### Overall Vacancy Rates



### Absorption & Deliveries



### Top Leases

Tenant	Building	Submarket	Square Feet	Type
Amazon	TEN	Tolleson	1,100,000	Direct
ABB Electrification	West 80 Industrial	Tolleson	379,828	Direct
ThyssenKrupp	101 Distribution Center	Glendale	370,000	Direct
Amazon	Park 79	Tolleson	347,645	Direct
Amazon	Park 79	Tolleson	222,147	Direct

### Top Sales

Buyer	Building	Submarket	Square Feet	Sale Price	Price/SF
Cohen Asset Management	202 West Logistics Center	SW S of Buckeye Rd	554,000	\$61,000,000	\$110
RMR Group	Goodyear Crossing II	Goodyear	513,407	\$43,536,356	\$85
CBRE Global Investments	Amazon FLEX DPX6	Goodyear	115,500	\$35,700,000	\$309
RMR Group	Goodyear Crossing II	Goodyear	306,977	\$26,031,316	\$85
Colony Capital	Park 79 - Building 2	Tolleson	347,645	\$22,189,145	\$64

### Under Construction

Property	Building	Submarket	Square Feet	% Preleased/Owned
Elwood Logistics Center	Goodyear	4Q 2020	1,310,258	0%
Reems Rd	Glendale	3Q 2020	916,000	100%
Prologis Commerce Park at Goodyear	Goodyear	4Q 2020	855,000	100%
Lucid Motors	Pinal County	4Q 2020	820,000	100%
Park 303	Glendale	4Q 2020	705,304	0%

## Market By The Numbers\*

Submarket	Total RBA (SF)	Vacant Space Sublease	Vacancy Total Space	Vacancy Rate Flex	Vacancy Rate Warehouse	1Q Net Absorption	Avg. Ask Flex (NNN)	Avg. Ask Warehouse (NNN)	Overall Avg. Ask Total (NNN)
Tolleson Ind	39,452,658	20,000	4,418,552	11.2%	12.5%	271,986	\$11.24	\$5.59	\$5.37
Chandler Ind	20,402,542	8,532	1,461,115	7.2%	2.4%	(164,940)	\$9.25	\$8.63	\$9.25
Chandler N/Gilbert Ind	16,283,619	291,609	1,149,946	7.1%	10.2%	(61,319)	\$8.09	\$8.03	\$7.92
Tempe Southwest Ind	17,767,545	82,515	1,604,660	9.0%	10.7%	65,726	\$7.92	\$6.10	\$7.92
Tempe Northwest Ind	8,831,615	0	310,823	3.5%	5.6%	(103,019)	\$10.71	\$8.15	\$10.71
Scottsdale Airpark Ind	3,744,027	0	221,897	5.9%	5.7%	6,756	\$12.66	\$12.87	\$12.66
Scottsdale/Salt River	4,208,311	12,846	82,619	2.0%	0.9%	(13,384)	\$12.69	\$14.13	\$12.69
SW S of Buckeye Road	17,318,969	0	929,698	5.4%	12.6%	370,010	\$7.25	\$10.43	\$7.25
North Airport Ind	10,143,260	21,812	465,353	4.6%	6.3%	336	\$8.67	\$8.22	\$8.67
Deer Vly/Pinnacle Peak	12,803,011	19,615	815,554	6.4%	10.0%	168,039	\$11.31	\$8.81	\$9.00
SW N of Buckeye Road	30,661,801	54,528	1,186,827	3.9%	4.9%	57,066	\$5.23	\$5.49	\$5.23
SC N of Salt River Ind	12,535,327	0	710,244	5.7%	2.2%	(161,557)	\$7.84	\$7.63	\$7.84
S Airport N of Roeser	3,558,667	0	123,204	6.7%	1.3%	(11,841)	\$7.18	\$7.44	\$7.18
Grand Avenue Ind	10,040,140	0	281,484	4.3%	3.0%	(58,334)	\$5.53	\$5.53	\$4.95
Goodyear Ind	14,204,030	68,847	1,220,161	16.1%	1.9%	183,799	\$5.11	\$5.01	\$5.11
Glendale Ind	10,901,516	93,896	598,935	5.5%	1.1%	713,731	\$5.39	\$5.14	\$5.39
Pinal County Ind	7,819,552	0	171,477	2.2%	30.0%	0	\$7.20	\$7.20	\$7.20
W Phx N of Thomas Road	5,015,825	0	124,571	2.5%	0.9%	9,890	\$5.53	\$0.00	\$5.53
Mesa Ind	5,028,213		339,941	3.1%	0.9%	339,941	\$0.00	\$0.00	\$7.17
W Phx S of Thomas Road	4,847,752	0	153,469	3.2%	3.2%	(7,922)	\$0.00	\$4.68	\$7.60
Tempe East Ind	4,014,448	0	117,332	3.6%	3.9%	(17,926)	\$7.83	\$7.41	\$7.83
Falcon Fld/Apache Jc.	4,111,368	37,612	499,563	12.2%	17.1%	18,940	\$8.40	\$8.74	\$8.40
Central Phoenix Ind	2,634,998	0	13,992	0.5%	0.8%	2,208	\$8.76	\$8.71	\$8.76
S Airport S of Roeser	3,558,667	0	123,204	3.5%	1.3%	(11,841)	\$7.18	\$0.00	\$7.18
North Black Canyon Ind	2,948,516	3,360	162,888	5.5%	5.6%	59,277	\$12.83	\$8.93	\$12.83
Surprise	3,204,482	0	227,672	7.1%	0.0%	(101,446)	\$7.83	\$0.00	\$7.83
Chandler Airport Ind	3,643,154	0	499,919	13.7%	18.0%	2,074	\$9.21	\$8.23	\$9.21
SC S of Salt River Ind	1,726,233	0	194,010	11.2%	0.0%	0	\$7.24	\$0.00	\$7.24
North Outlying Ind	59,436	0	0	0.0%	0.0%	0	\$0.00	\$0.00	\$0.00
Southwest Outlying Ind	91,857	0	0	0.0%	0.0%	0	\$0.00	\$0.00	\$0.00
Northwest Outlying Ind	33,122	0	0	0.0%	0.0%	0	\$0.00	\$0.00	\$0.00
<b>Total</b>	<b>281,594,661</b>	<b>715,172</b>	<b>18,209,110</b>	<b>6.4%</b>	<b>6.3%</b>	<b>1,556,250</b>	<b>\$7.79</b>	<b>\$7.87</b>	<b>\$8.08</b>

\*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 20,000 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.


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