

MARKET TRENDS | PHOENIX INDUSTRIAL

MARKET DRIVERS

THE CONSTRUCTION PIPELINE posted a staggering, record high of 38.5M SF in Q1, more than 20M SF from two years ago pre-pandemic. The Phoenix metro now ranks second in the nation for industrial construction activity, breaking past Inland Empire, the nearby industrial market giant in California. The largest project currently underway is CapRock West 202 Logistics, the first large-scale industrial complex to be built along the recently completed Loop 202, a welcomed new infrastructure improvement that contributed to increased population growth in the market.

AVERAGE ASKING RENTAL RATES SOARED to a record high of \$0.73/SF on a triple-net basis, the first time it has reached past the \$0.70/SF mark. Rent growth in Phoenix has recently outpaced the national average but despite the steady increase, the market maintains its position as an affordable market when compared to the 30-40% markup of nearby major regions in California.

INVESTORS REMAIN BULLISH on the Phoenix industrial market. Local buyers are competing against many out-of-state and institutional investors, who are behind some of the largest deals in Phoenix. In recent trends, real estate firms who's focus have been in investments for other types of real estate are shifting into industrial. As such, the strong buyer competition has put an upward pressure on pricing as sales prices averaged an all-time high of \$164/SF in the first quarter.

ECONOMIC OVERVIEW

THE PHOENIX LOCAL ECONOMY remains among the best-performing markets for job growth. The Milken Institute's 2022 Best-Performing Cities list, which ranks cities on a variety of metrics including job creation and wage growth, recently ranked the Phoenix metro 4th in the nation. This is up three spots from 2021 and up from 12th in the nation in 2020.

ACCORDING TO the Arizona Office of Economic Opportunity, Phoenix metro's unemployment rate in February decreased 360 basis points YOY to a low 3.1%. This is compared to the state's rate of 3.6% and national rate of 3.8%.

continued on page 3

Market Summary

	1Q22	4Q21	1Q21	Annual % Change
Vacancy Rate	4.6%	5.1%	6.8%	-32.35%
Availability Rate	9.1%	9.4%	8.4%	8.33%
Direct Asking Lease Rate	\$0.73	\$0.69	\$0.64	14.06%
Lease Transactions	8,445,233	11,399,273	7,718,526	9.42%
Sale Transactions	5,301,136	17,551,896	5,951,804	-10.93%
Direct Net Absorption	6,168,775	5,494,707	4,462,245	N/A

▲ **6.2M**
NET ABSORPTION (SF)

▼ **4.6%**
VACANCY RATE

▲ **\$0.73**
RENTAL RATE

▲ **4.9M**
NEW DELIVERIES (SF)

YEAR-OVER-YEAR CHANGE

Market Highlights

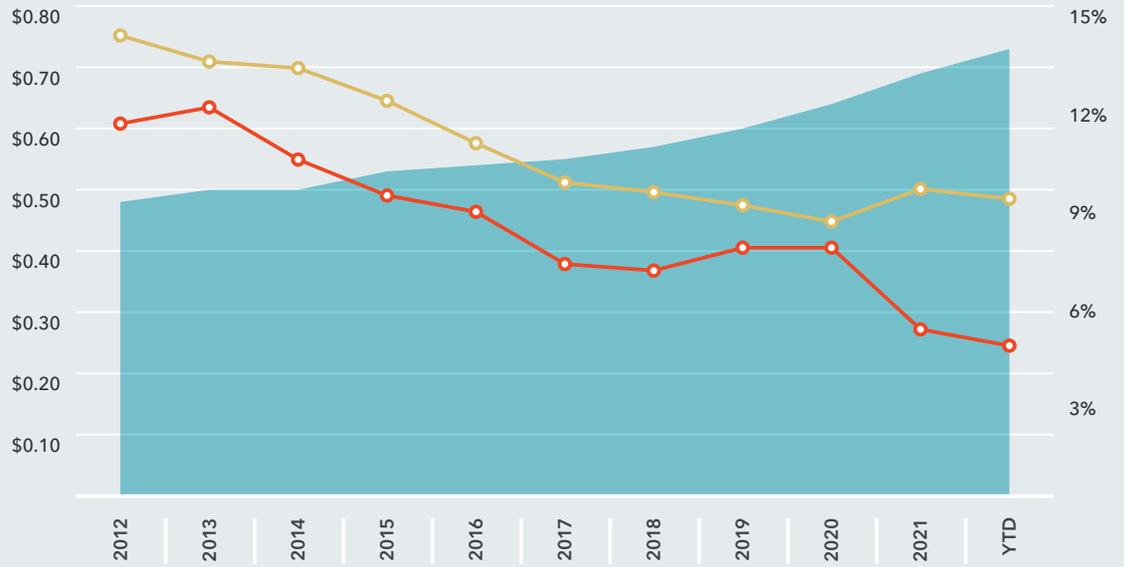
CONSTRUCTION ACTIVITY skyrocketed to an all-time high of approx. 38.5M SF

AVG SALE PRICES climbed to a historical high of \$164/SF

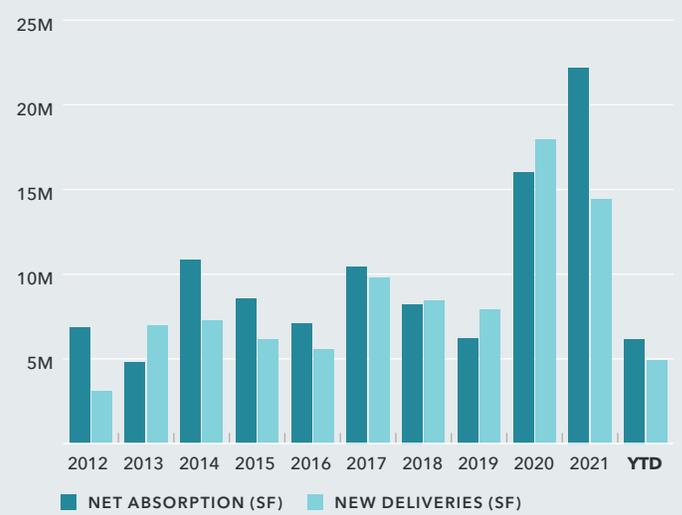
RENTAL RATES hit a new record at \$0.73 PSF NNN

Lease Rate, Vacancy & Availability

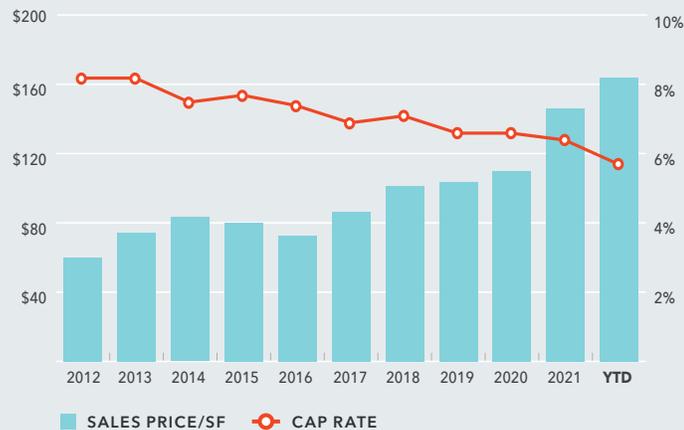
■ DIRECT LEASE RATE (NNN)
○ TOTAL VACANCY
○ TOTAL AVAILABILITY



Net Absorption & New Deliveries



Average Sales Price/SF & Cap Rate



Sale Volume & Leasing Activity



SUBMARKET STATISTICS

Submarket	Total Inventory	Total Vacancy Rate	1Q Direct Net Absorption	2021 Direct Net Absorption	SF Under Construction	YTD Construction Completions	1Q Leasing Activity	2021 Total Leasing Activity	Avg Direct Rental Rate (NNN)
North Airport	12,512,076	3.5%	24,189	349,174	-	-	50,137	582,331	\$1.04
South Airport North of Roeser	14,268,913	3.1%	76,673	95,890	-	-	281,190	774,137	\$1.07
South Airport South of Roeser	4,288,687	0.6%	(27,046)	206,804	-	-	12,000	322,582	\$0.93
SC North of Salt River	14,640,564	3.2%	326,013	268,286	113,555	94,146	129,803	1,270,885	\$0.74
SC South of Salt River	2,275,835	3.2%	(12,056)	174,840	-	-	35,753	188,034	\$0.84
Airport Area	47,986,075	3.0%	387,773	1,094,994	113,555	94,146	508,883	3,137,969	\$0.94
Central Phoenix	3,505,398	2.5%	1,714	37,914	0	0	26,571	92,078	\$0.79
Scottsdale Airpark	6,290,254	1.8%	144,325	143,018	0	0	56,486	287,041	\$1.05
Scottsdale/Salt River	5,365,917	3.5%	(19,759)	145,899	0	0	15,375	113,479	\$1.17
Northeast	15,161,569	2.5%	126,280	326,831	-	-	98,432	492,598	\$1.02
Deer Valley/Pinnacle Park	17,277,620	2.6%	(76,223)	822,350	1,284,386	57,508	82,211	1,099,035	\$1.00
Glendale	23,436,110	11.7%	298,015	6,015,065	14,689,348	1,203,331	780,801	4,194,473	\$0.52
Grand Avenue	11,878,856	2.3%	(105,541)	25,472	736,843	0	67,076	535,905	\$0.35
North Black Canyon	4,028,801	4.0%	(111,269)	132,975	0	0	26,946	451,425	\$0.85
Surprise	3,993,109	3.5%	(15,722)	248,814	20,000	0	24,866	182,015	\$0.87
West Phoenix North of Thomas Road	7,063,597	3.9%	(194,643)	276,331	0	0	180,738	224,242	\$1.17
West Phoenix South of Thomas Road	6,488,434	2.3%	76,246	(49,325)	0	0	42,788	100,157	\$0.69
Northwest	74,166,527	5.6%	(129,137)	7,471,682	16,730,577	1,260,839	1,205,426	6,787,252	\$0.65
Pinal County	10,139,743	0.9%	-	172,245	1,000,000	0	15,953	65,886	\$0.75
Pinal County	10,139,743	0.9%	-	172,245	1,000,000	-	15,953	65,886	\$0.75
Chandler Airport	5,854,979	3.7%	323,957	1,116,383	1,595,548	217,671	344,932	1,241,496	\$0.78
Chandler	24,834,000	6.3%	62,589	456,939	893,112	611,098	1,012,113	839,776	\$0.82
Chandler North/Gilbert	23,882,078	4.3%	768,169	2,362,532	6,201,583	705,023	1,678,953	2,916,433	\$0.81
Falcon Fld/Apache Junction	5,239,317	1.1%	49,051	519,534	181,445	0	116,017	406,031	\$0.81
Mesa	6,470,073	2.1%	431	66,191	0	0	98,076	196,920	\$0.71
Tempe East	5,802,275	0.8%	26,147	164,581	0	0	36,956	224,377	\$1.10
Tempe Northwest	10,580,135	3.1%	73,150	116,128	437,087	0	106,014	620,950	\$0.81
Tempe Southwest	21,136,499	4.5%	(7,278)	745,840	0	0	595,822	1,906,913	\$0.89
Southeast	103,799,356	4.1%	1,296,216	5,548,128	9,308,775	1,533,792	3,988,883	8,352,896	\$0.83
Goodyear	23,612,371	13.2%	2,787,340	2,309,580	4,413,666	954,744	833,194	2,366,038	\$0.55
Southwest North of Buckeye Road	33,650,445	1.5%	169,885	1,936,858	4,504,518	98,408	284,813	2,689,448	\$0.62
Southwest South of Buckeye Road	19,301,807	4.3%	451,204	118,757	0	489,284	265,998	580,841	\$0.58
Tolleson	44,044,299	4.8%	1,079,214	2,806,495	2,475,333	487,500	1,243,651	4,060,233	\$0.52
Southwest	120,608,922	5.5%	4,487,643	7,171,690	11,393,517	2,029,936	2,627,656	9,696,560	\$0.55
Phoenix Total	371,862,192	4.6%	6,168,775	21,785,570	38,546,424	4,918,713	8,445,233	28,533,161	\$0.73
Manufacturing & Warehouse	220,547,114	3.7%	2,823,415	9,402,782	26,267,051	3,010,694	4,223,572	14,351,678	\$0.73
General Industrial	114,773,255	4.7%	3,100,219	10,818,707	12,279,373	1,908,019	2,272,131	7,039,305	\$0.60
Flex	30,947,957	8.3%	98,655	451,437	0	0	435,461	1,453,595	\$1.09

NEAR-TERM OUTLOOK

THE PHOENIX INDUSTRIAL market's record level performance in 2021 carried into the first quarter of 2022 and will continue to fire on all cylinders over the next year. The recent demand for industrial space is unapparelled and the market will remain one of the top in the nation for last-mile and e-commerce users, data center operators, and manufacturers. • **THE**

MARKET'S INVENTORY will expand by slightly over 10% by year's end, when a majority of the projects are set to deliver. As much of the development is speculative and being delivered without a tenant in place, the market may be vulnerable to a temporary spike in vacancies but the strong demand drivers in Phoenix will work

to support the industrial fundamentals in the long term.

DATA SOURCE: COSTAR, AZ OFFICE OF ECONOMIC OPPORTUNITY, AZ CENTRAL

TOP SALE TRANSACTIONS FOR 1Q 2022

Property	Submarket	Square Feet	Sale Price	Price/ SF	Buyer	Seller
Landing 3	Chandler N/Gilbert	525,342	\$130,000,000	\$247.46	Cohen Asset Management, Inc.	Marwest Enterprises
Power 202 Business Park	Chandler N/Gilbert	330,496	\$70,000,000	\$211.80	GID Industrial	Fireside Financial, LLC & Bird Dog Ind.
Park Aldea	Glendale	237,782	\$53,500,000	\$225.00	James Campbell Company, LLC	Trammell Crow Company
Warner Crossing	Tempe Southwest	276,540	\$49,500,000	\$179.00	Carlyle Investment Mgmt, LLC	iStar, Inc.
Metro Business Park	North Black Canyon	188,820	\$33,510,000	\$177.47	Schnitzer Properties	EastGroup Properties, Inc.

TOP LEASE TRANSACTIONS FOR 1Q 2022

Property	Submarket	Square Feet	Transaction Date	Landlord	Tenant
The Cubes at Mesa Gateway	Chandler N/Gilbert	1,200,000	January 2022	CRG	Lowe's
Elliot 202	Gateway Airport/Loop 202	1,194,923	March 2022	Marwest Enterprises	Amazon
7037 W Van Buren St	Tolleson	552,330	February 2022	Stockbridge Capital Group, LLC	Undisclosed
101 Logistics Park	Tolleson	409,254	January 2022	PGIM, Inc.	Undisclosed
303 Logistics	Glendale	349,663	January 2022	Overton Moore Properties	Sweet Water

TOP UNDER CONSTRUCTION

Property	Address	Submarket	Square Feet	Owner	Delivery Date
CapRock West 202 Logistics Park - Phase I	59th Ave & W Van Buren St	SW N of Buckeye Rd	2,500,000	CapRock Partners	April 2023
The Cubes Glendale - Bldg A	7723 N Reems Rd	Glendale	1,200,140	CRG	April 2022
The Cubes at Mesa Gateway	SE Crismon Rd & Pecos Rd	Chandler N/Gilbert	1,200,000	CRG	June 2022
Sarival Logistics Center - Bldg A	Sarival and Bethany Home Rd	Glendale	1,153,000	WPT Industrial REIT	December 2022
303 Crossroads - Bldg A	W Olive Ave & Sarival Ave	Glendale	1,023,610	Cresset	November 2022

DATA SOURCE: COSTAR

Kidder Mathews is the largest, independent commercial real estate firm on the West Coast, with 900 real estate professionals and staff in 21 offices in Washington, Oregon, California, Nevada, and Arizona. We offer a complete range of brokerage, appraisal, asset services, consulting, project and construction management, and debt equity finance services for all property types.

The information in this report was composed by the Kidder Mathews Research Group.

GARY BARAGONA
 Director of Research
 415.229.8925
gary.baragona@kidder.com

ERIC PAULSEN
 Regional President, Brokerage
 Southern California & Arizona
eric.paulsen@kidder.com
 LIC N° 01001040

602.513.5200

**Commercial
 Brokerage**

\$10.9B
 TRANSACTION
 VOLUME (ANNUAL)

49.7M **43.7M**
 SALES SF (ANNUAL) LEASING SF (ANNUAL)

**Valuation
 Advisory**

2,600+
 ASSIGNMENTS
 ANNUALLY

51/24
 TOTAL NO.

**Asset
 Services**

62M
 MANAGEMENT

\$11B
 IN ASSETS UNDER

KIDDER.COM

km Kidder
 Mathews

This information supplied herein is from sources we deem reliable. It is provided without any representation, warranty or guarantee, expressed or implied as to its accuracy. Prospective Buyer or Tenant should conduct an independent investigation and verification of all matters deemed to be material, including, but not limited to, statements of income and expenses. CONSULT YOUR ATTORNEY, ACCOUNTANT, OR OTHER PROFESSIONAL ADVISOR.