

Phoenix, AZ



Quick stats

266.7 msf

Total industrial market inventory

8.7%

Overall vacancy rate

4.0 msf

Net absorption

\$670M

Total investment sales

\$8.54 psf

Overall average asking rate

Arizona's industrial market is emerging in better shape relative to competitive markets than it was prior to the crisis. Industrial real estate boomed during the pandemic, as it proved itself to be key critical infrastructure in an economy under stress. The Phoenix market shined as the spotlight fell on its strategic location and quality of available, newly-built buildings.

Phoenix is also attracting global attention as a semiconductor manufacturing hub just as a chip shortage squeezes markets. Late last year, Taiwan Semiconductor Manufacturing Company (TSMC) announced a proposal to build a multi-billion dollar foundry in the state. Then, in February, plans for rezoning land west of I-17 at Dove Valley Road were revealed, showing that TSMC has even bigger ambitions to invest \$100 million over the next three years to grow its capacity in Arizona. Samsung Electronics recently narrowed its search for a site to build a \$17 billion manufacturing facility to include Phoenix. In anticipation, Goodyear recently rezoned 1,600 acres, and Queen Creek 915 acres ahead of April land auctions. Related suppliers are also scouting sites to support this rising semiconductor

ecosystem, that also includes the recently expanded presence of Intel in Chandler.

Electric vehicle manufacturing in the state got another boost in the first quarter. Canadian electric vehicle (EV) maker, ElectriMeccanica, chose a site just north of Mesa-Gateway Airport to produce its 3-wheel SOLO EV as early as 2022. The company joins other EV players like Nikola and Lucid Motors in Pinal County, establishing Arizona as a center of the emerging industry.

Economy

Housing permits and residential sales boomed in the pandemic, as people spent more time at home and working from the home office. While consumer spending slowed overall, purchases that also drive activity in the industrial sector rose. Amazon leased 2.7 msf across Phoenix in 2020. It is the most obvious beneficiary of the massive shift to online shopping and home delivery. Industrial space users also sped up initiatives to improve last-mile logistics, which in turn creates opportunities closer to consumers, as well as further automating systems within such structures.



Absorption & vacancy

Low vacancies and record absorption make quality industrial space in key hubs very competitive. Flex industrial space vacancies are down to 9.5% from 11% last quarter. Warehouse space vacancy rates stand at 6.7% across all submarkets, down 270 bps from the fourth quarter. Highest overall vacancy is in Goodyear.

PepsiCo signed a 4.5 year lease for 750 ksf in February for a Gatorade bottling plant at Tolleson Corporate Park. The facility will begin operations early next year. In the West Valley, Amazon's lease at VT303 absorbed an additional 278,670 sf along the popular Loop 303 corridor. Dynarex, a manufacturer of disposable medical products, took a quarter million square feet between Loops 303 and 101.

Rental rates

The rise in rental rates for industrial properties did not skip a beat during the pandemic. In fact, market rent growth hit a record clip of 7.5% in the first quarter of 2021. That pace is expected to slow, but rents are strong and quality space near transportation hubs is in very high demand.

Construction

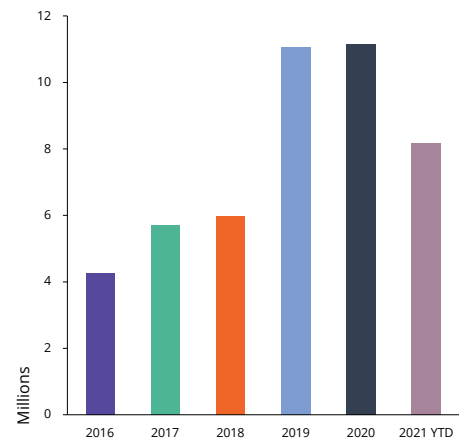
With 8.2 msf of space under construction, the Phoenix industrial market is in igh gear. The largest industrial project currently under construction is the Sarival Logistics Center, Building A, a 1.2 msf building with 40' ceiling clearance at a site along Loop 303 north of the 1-10 junction. The distribution facility will deliver in the third quarter. In the same area, Red Bull is expected to open a distribution facility next September. The energy drink maker joins hard seltzer producer, White Claw, in the West Valley.

Investment sales

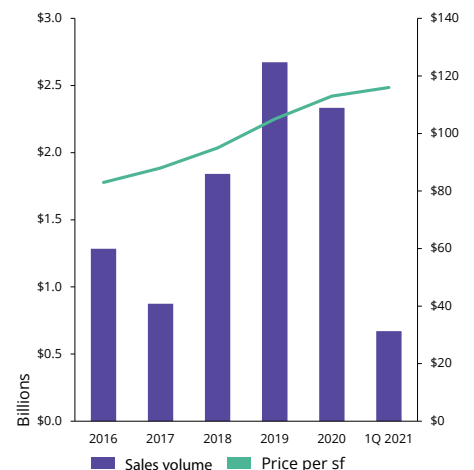
The German luxury auto maker, Daimler, started the year's industrial sales with the quarter's biggest transaction, taking 263,606 sf near Loop 303 for \$43.2 M, or \$164 psf.

Of 147 recorded transactions this quarter for properties over 30 ksf, 89.9% of space was leased at sale. Properties remained on the market an average of 14 months with cap rates averaging 7.1%. Foreign buyers made up 8% of all first quarter sales, while only comprising 2% of buyers during the same period last year.

Under construction



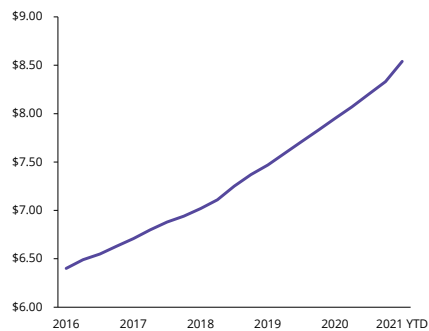
Investment sales



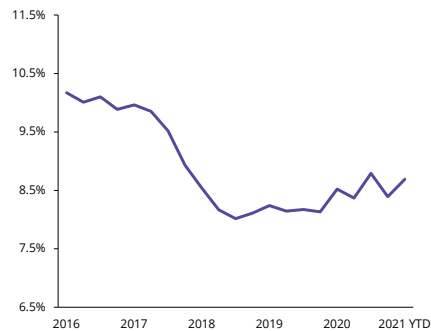
Industrial market snapshot

Well-positioned, highly-integrated transportation corridors are proving to be drivers of industrial real estate development in the Valley, as the economy emerges from the pandemic. The corridors span from Loop 303 on the far western edges of Glendale to Akimel Gateway on the Gila River Indian Community beside the recently-opened SW Loop 202.

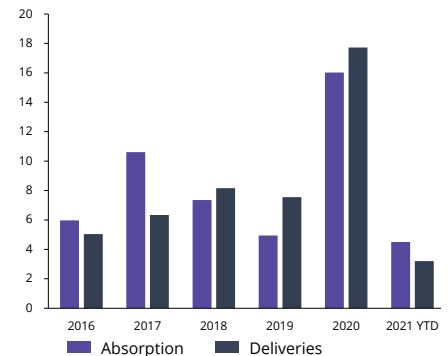
Rental rates



Vacancy rates



Absorption & deliveries



Top leases

	Tenant	Building	Submarket	Square feet	Type
1	Gatorade	Tolleson Corporate Park	Tolleson	750,000	New / Direct
2	Spencer's TV & Appliance	Akimel Gateway Phase 2	Chandler	319,000	New / Direct
3	Amazon	VT303	Glendale	278,670	New / Direct
4	Dynarex	7811 N Glen Harbor Blvd	Glendale	250,000	New / Direct
5	United Healthcare	Metro East Valley Commerce Center	Chandler/ N Gilbert	208,135	New / Direct

Top sales

	Tenant	Building	Submarket	Square feet	Sale price	Price/sf
1	KKR	Daimler - 17017 W Indian School Rd	Glendale	263,606	\$43,157,811	\$164
2	JLL	Southeast Phoenix Distribution Center	Chandler	118,383	\$27,762,630	\$235
3	Exeter Property Group	Central Freight Lines - 3450 S 59th Ave	SW S of Buckeye Rd	99,470	\$27,000,000	\$271
4	RLIF West	FedEx Ground - 1666 N McClintock Dr	Tempe East	145,883	\$27,000,000	\$185
5	Harvest Partners	Tempe Commerce Park	Tempe Southwest	175,405	\$24,086,385	\$137

Market by the numbers

Submarket	Total RBA (SF)	Vacant space sublease	Vacant total space	Vacancy rate flex	Vacancy rate warehouse	Q1 net absorption	Avg. ask flex (NNN)	Avg. ask warehouse (NNN)	Avg. ask overall (NNN)
Tolleson	41,741,940	20,000	2,807,222	0.0%	9.8%	2,783	\$6.13	\$5.90	\$5.52
Chandler	19,592,200	102,040	686,236	11.8%	3.3%	377,596	\$14.65	\$8.25	\$8.84
Chandler N/Gilbert	15,514,983	38,975	872,786	7.9%	11.5%	899,193	\$14.71	\$8.24	\$8.29
Tempe Southwest	15,756,998	16,770	715,651	6.7%	3.3%	394,877	\$13.34	\$7.11	\$8.48
Tempe Northwest	7,714,963	0	489,619	10.1%	6.0%	(145,238)	\$13.85	\$8.27	\$11.13
Scottsdale Airpark	2,157,150	0	189,494	1.5%	20.0%	(534)	\$15.53	\$11.43	\$10.86
Scottsdale/Salt River	3,586,272	0	17,025	1.5%	0.0%	46,723	\$18.32	\$0.00	\$13.98
SW S of Buckeye Rd	17,006,907	0	525,540	38.7%	8.5%	(121,760)	\$12.25	\$8.83	\$6.92
North Airport	9,202,027	0	490,984	10.5%	6.1%	10,816	\$14.01	\$8.46	\$9.48
Deer Valley/Pinnacle Peak	10,452,712	25,447	514,166	1.9%	6.4%	38,158	\$15.10	\$8.37	\$10.04
SW N of Buckeye Rd	28,987,730	15,581	1,161,325	11.7%	5.2%	892,113	\$9.83	\$5.33	\$5.34
SC N of Salt River	10,899,824	12,036	512,161	5.6%	2.1%	72,665	\$18.96	\$7.90	\$8.08
S Airport N of Roeser	8,908,061	8,375	239,971	14.7%	0.8%	134,779	\$13.83	\$8.67	\$11.72
Grand Avenue	5,854,034	0	196,454	0.0%	5.8%	(88,488)	\$0.00	\$4.39	\$4.39
Goodyear	11,558,364	0	3,176,217	26.8%	15.3%	122,475	\$13.09	\$5.86	\$5.76
Glendale	16,994,114	76,356	2,707,493	0.0%	22.3%	545,970	\$11.31	\$8.33	\$6.67
Pinal County	8,640,627	0	0	0.0%	0.0%	177,027	\$0.00	\$0.00	\$4.20
W Phx N of Thomas Rd	3,367,194	0	80,707	0.0%	3.0%	58,758	\$8.34	\$8.40	\$6.78
Mesa	4,153,451	0	117,592	0.0%	5.5%	5,874	\$12.03	\$5.69	\$4.53
W Phx S of Thomas Rd	3,349,096	0	74,505	0.0%	0.0%	16,200	\$0.00	\$4.79	\$6.94
Tempe East	2,481,847	0	45,908	1.5%	1.6%	20,182	\$13.85	\$7.44	\$8.12
Falcon Field/Apache Junction	3,206,154	37,612	88,641	0.0%	12.8%	281,206	\$11.18	\$8.24	\$8.28
Central Phoenix	1,931,349	0	40,766	0.0%	8.0%	10,792	\$16.33	\$10.04	\$9.94
S Airport S of Roeser	2,634,818	0	49,058	0.0%	2.3%	30,011	\$0.00	\$9.28	\$9.28
North Black Canyon	2,035,354	0	62,516	4.6%	0.3%	2,616	\$12.14	\$8.66	\$12.07
Surprise	2,965,776	1,500	77,079	0.0%	0.9%	65,737	\$12.11	\$7.62	\$9.35
Chandler Airport	4,196,293	0	459,387	6.8%	14.0%	154,731	\$18.48	\$8.47	\$8.55
SC S of Salt River	1,601,346	0	191,010	0.0%	2.8%	0	\$0.00	\$12.00	\$7.66
North Outlying	91,628	0	0	0.0%	0.0%	0	\$0.00	\$0.00	\$0.00
Southwest Outlying	66,000	0	0	0.0%	0.0%	0	\$0.00	\$0.00	\$0.00
Northwest Outlying	33,122	0	0	0.0%	0.0%	0	\$0.00	\$0.00	\$0.00
Total	266,682,334	334,692	13,782,291	9.5%	6.7%	4,002,479	\$14.37	\$8.17	\$8.54

*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.

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