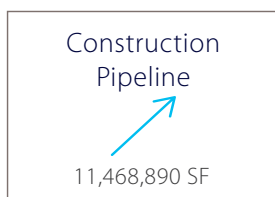
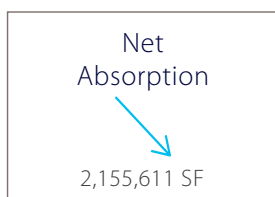
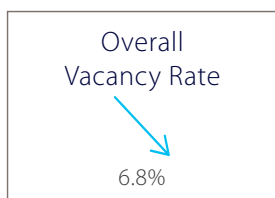




3Q 2020 / Research Report

Phoenix Industrial Market



High transaction volume and a dynamic market made for year-over-year gains and positive headlines for the Phoenix Industrial Market. The number of speculative projects started before the 2Q also helped accommodate spikes in demand from both local and out-of-state occupiers. Regional impact on job growth from economic disruptions, with the exception of the hospitality sector, is relatively low compared to other cities. Industrial employers are hiring.

Amazon continues to drive transaction and development. The company purchased 91.5 acres in Goodyear for \$19.85 million near Loop 303. Another last mile logistics facility on a 35-acre North Phoenix site is scheduled for completion in 4Q 2021. The company is also in negotiations with Simon Property Group to add fulfillment centers to vacant anchor store space in malls.

Chip maker Intel added space in Chandler and Taiwan's Semiconductor Manufacturing Company (TSMC) announced intentions to invest up to \$12 billion through the decade

in Arizona. Phoenix ranks 5th by megawatt (MW) available with 229.9 MW, up 3.2 MW in the past year. Microsoft, Google, Oracle, and Back Blaze are building, expanding, or seeking space, making Phoenix the 2nd fastest growing data center in the nation after Northern Virginia.

Arizona is also emerging as an electric and autonomous vehicle manufacturing and testing leader. Nikola broke ground in July on a \$600 million, 1 msf build-to-suit facility near Florence. Lucid Motors, located in nearby Casa Grande, began production on a \$700 million, 820,000 sf facility. The company also committed to 479,207 sf in Tempe.

Employment

The unemployment rate in Maricopa County is down considerably to 5.9%, after spiking to 13.3% in May. Amazon continues its hiring spree in anticipation of the holidays and more consumers shopping from home. Increasing interest from chip makers and data center operators in relocating to the state promises more industrial employment into 2021.

\$7 Billion

Intel's Fab 42 expansion, a next-generation chip facility in Chandler, is the largest industrial project underway. The \$7 billion investment increases its footprint to 2.2 msf.



Absorption & Vacancy

Changes brought by COVID-19 are forcing industrial users to reposition portfolios. The sector must balance rising consumer demands with concurrent retail market stress causing fluctuations in inventories. Major big box retailers are picking up much of the slack from small retailer closures. Absorption is up 20% year-over-year, but down 50% from 2Q, an unusually active quarter. Vacancy rates are up in part due to a spike in industrial flex space on the market.

Rental Rates

Rent growth, while stable for the past six quarters at between 6.2% and 6.8%, is forecast to decline in the near term. The overall rent for 3Q 2020 of \$8.18 psf is the highest within a decade. Flex space average rate of \$13.19 psf is down 2.4% from its peak in 3Q 2019. Rent growth for warehouse space is strong at 6.7%, although not expected to be as robust looking into 2021. Currently, such space commands a record \$7.85 psf on average.

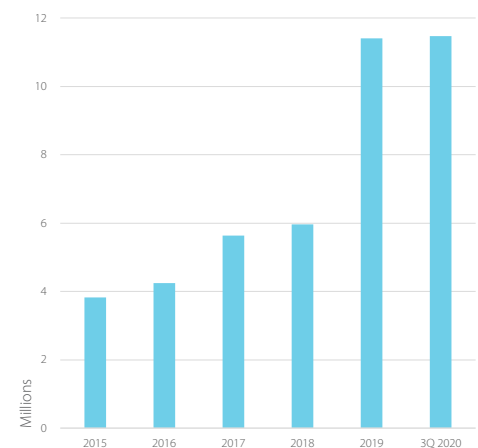
New Construction

Bullish developers broke ground early in the year on a number of speculative projects. That gamble has paid off as healthy absorption and high demand in the sector continues. Each of the past four quarters saw construction levels over 4 msf, with deliveries expected to peak in 4Q 2020. Intel's Fab 42 facility expansion is the largest construction project this quarter, followed by Elwood Logistics Center, a 1.3 msf distribution facility in Goodyear. The Glendale Submarket had the most inventory under construction at 4.7 msf, followed by Goodyear at 3.2 msf.

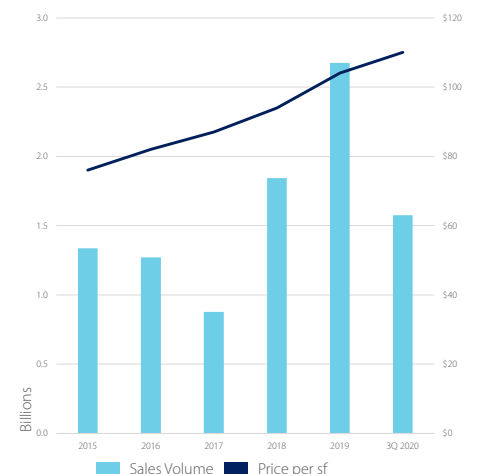
Investment Sales

After a strong first half of 2020, sales volume and pricing is projected to have difficulty maintaining similar numbers over the next 12 to 18 months. The August sale to UPS of PV 303 in Glendale was the quarter's top transaction at \$54.69 million, or \$56 psf. In Tolleson, the \$50 million sale of a 190,000 sf site, occupied by Carvana, was the second largest deal, at \$263 psf.

Under Construction



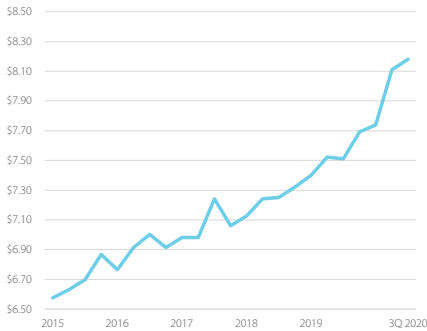
Investment Sales



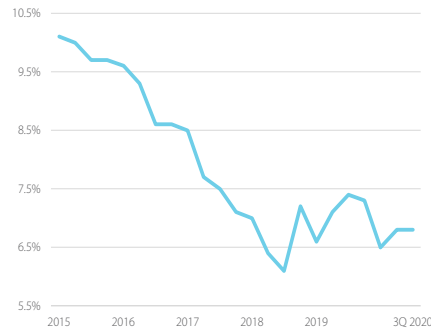
Industrial Market Snapshot

The Phoenix industrial sector drew national attention as an affordable, highly-connected market that continues to rise in ranks of top tier cities for industrial tenants, owners, and developers.

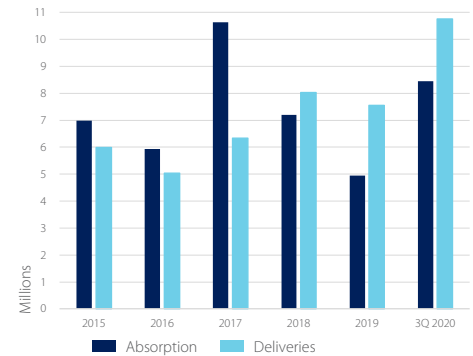
Rental Rates



Overall Vacancy Rates



Absorption & Deliveries



Top Leases

Tenant	Building	Submarket	Square Feet	Type
MLILY	PV 303	Glendale	643,798	Direct
Amazon	Airport I-10 Building	SW Phoenix	278,161	Direct
MiTek USA	Tolleson Corporate Park	Tolleson	259,200	Direct
Kuehne & Nagle	Interstate Logistics Center	Tolleson	237,176	Direct
Undisclosed	Prologis Riverside Center -2200 S 48th Ave, 1st Fl	SW Phoenix	223,917	Direct

Top Sales

Buyer	Building	Submarket	Square Feet	Sale Price	Price/SF
UPS	PV 303	Glendale	970,000	\$54,690,200	\$56
SRS National Net Leasing Group	600 S 94th Ave	Tolleson	190,000	\$50,000,000	\$263
Kohlberg Kravis Roberts & Co	West 80 Industrial	Tolleson	380,000	\$43,250,000	\$114
AEW Capital Management	Café Valley Bakery	Tolleson	285,022	\$42,000,000	\$147
PGIM	101 Logistics Park	Tolleson	409,254	\$32,500,000	\$79

Under Construction

Property	Submarket	Completion	Square Feet	% Preleased/Owned
Intel Fab 42	Chandler	4Q 2020	2,200,000	100%
Elwood Logistics Center	Goodyear	4Q 2020	1,302,434	0%
Park 303 Buildings A & B	Glendale	4Q 2020	1,250,000	0%
Prologis Commerce Park at Goodyear	Goodyear	4Q 2020	855,000	100%
Lucid Motors	Pinal County	4Q 2020	820,000	100%

Market By The Numbers*

Submarket	Total RBA (SF)	Vacant Space Sublease	Vacancy Total Space	Vacancy Rate Flex	Vacancy Rate Warehouse	3Q Net Absorption	Avg. Ask Flex (NNN)	Avg. Ask Warehouse (NNN)	Overall Avg. Ask Total (NNN)
Tolleson	41,565,751	20,000	4,163,666	0.0%	14.0%	45,632	\$0.00	\$5.66	\$5.42
Chandler	19,467,892	102,040	1,482,453	25.4%	5.2%	75,196	\$9.99	\$8.41	\$9.28
Chandler N/Gilbert	15,279,274	284,200	1,367,027	9.9%	26.7%	115,895	\$8.71	\$8.04	\$8.01
Tempe Southwest	15,588,773	67,943	1,057,249	8.7%	3.9%	(30,951)	\$13.36	\$7.10	\$8.81
Tempe Northwest	7,714,963	13,481	321,491	8.0%	6.6%	(93,334)	\$15.80	\$8.25	\$11.90
Scottsdale Airpark	2,146,901	0	205,458	6.2%	21.7%	(53,304)	\$13.53	\$11.56	\$11.19
Scottsdale/Salt River	3,555,672	0	30,957	2.9%	2.1%	(11,283)	\$13.21	\$0.00	\$13.60
SW S of Buckeye Rd	16,994,694	0	1,064,952	0.0%	16.1%	1,024,576	\$0.00	\$8.76	\$6.34
North Airport	9,129,341	0	306,848	10.9%	3.0%	24,039	\$13.26	\$8.48	\$8.74
Deer Valley/Piestewa Peak	10,226,302	28,921	634,306	1.7%	10.7%	87,329	\$16.05	\$8.25	\$9.93
SW N of Buckeye Rd	28,896,215	54,528	1,781,153	11.7%	10.8%	(603,571)	\$0.00	\$5.22	\$5.14
SC N of Salt River	10,799,826	0	500,514	4.9%	3.2%	236,545	\$0.00	\$7.46	\$7.77
S Airport N of Roeser	10,950,588	18,297	407,686	13.5%	3.5%	41,606	\$14.73	\$8.50	\$10.31
Grand Avenue	8,727,441	0	281,657	0.0%	3.7%	29,131	\$0.00	\$4.58	\$4.29
Goodyear	14,659,016	0	1,651,156	24.2%	15.2%	(91,669)	\$7.80	\$5.58	\$5.12
Glendale	13,207,019	170,252	1,187,941	1.5%	15.0%	1,290,345	\$9.00	\$5.79	\$6.03
Pinal County	7,421,707	0	207,027	2.8%	6.8%	0	\$0.00	\$0.00	\$0.00
W Phx N of Thomas Rd	3,375,159	0	260,749	4.8%	3.4%	(15,233)	\$5.80	\$6.60	\$5.80
Mesa	4,153,451	0	139,043	2.7%	7.1%	119,130	\$4.68	\$5.98	\$4.68
W Phx S of Thomas Rd	3,343,505	0	119,152	3.8%	0.2%	(15,233)	\$5.80	\$4.79	\$7.24
Tempe East	3,025,692	0	67,300	2.2%	0.8%	(93,334)	\$7.44	\$7.44	\$7.44
Falcon Field/Apache Junction	3,080,410	37,612	139,502	10.5%	14.2%	(15,500)	\$7.93	\$8.10	\$7.96
Central Phoenix	1,871,193	11,592	21,329	1.2%	3.7%	(2,031)	\$9.64	\$9.74	\$9.64
S Airport S of Roeser	2,634,818	0	103,247	4.3%	2.0%	6,102	\$6.57	\$7.44	\$7.24
North Black Canyon	2,035,354	0	84,282	4.1%	2.6%	(5,878)	\$14.97	\$7.59	\$14.97
Surprise	2,959,780	0	95,743	3.2%	4.8%	60,402	\$9.05	\$8.09	\$9.05
Chandler Airport	3,925,413	0	779,456	19.9%	17.8%	28,004	\$8.43	\$8.90	\$8.43
SC S of Salt River	1,626,078	0	195,357	12.0%	0.6%	3,000	\$0.00	\$0.00	\$7.24
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	268,552,978	808,866	18,656,701	8.0%	6.3%	2,155,611	\$13.19	\$7.85	\$8.18

*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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