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# Phoenix industrial insight report

Q3 2021

**AVANT**  
by AVISON YOUNG





# Contents

U.S. industrial drivers	page 3
Phoenix market fundamentals	page 8
Phoenix industrial overview	page 15
Get in touch	page 24

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# U.S. industrial drivers

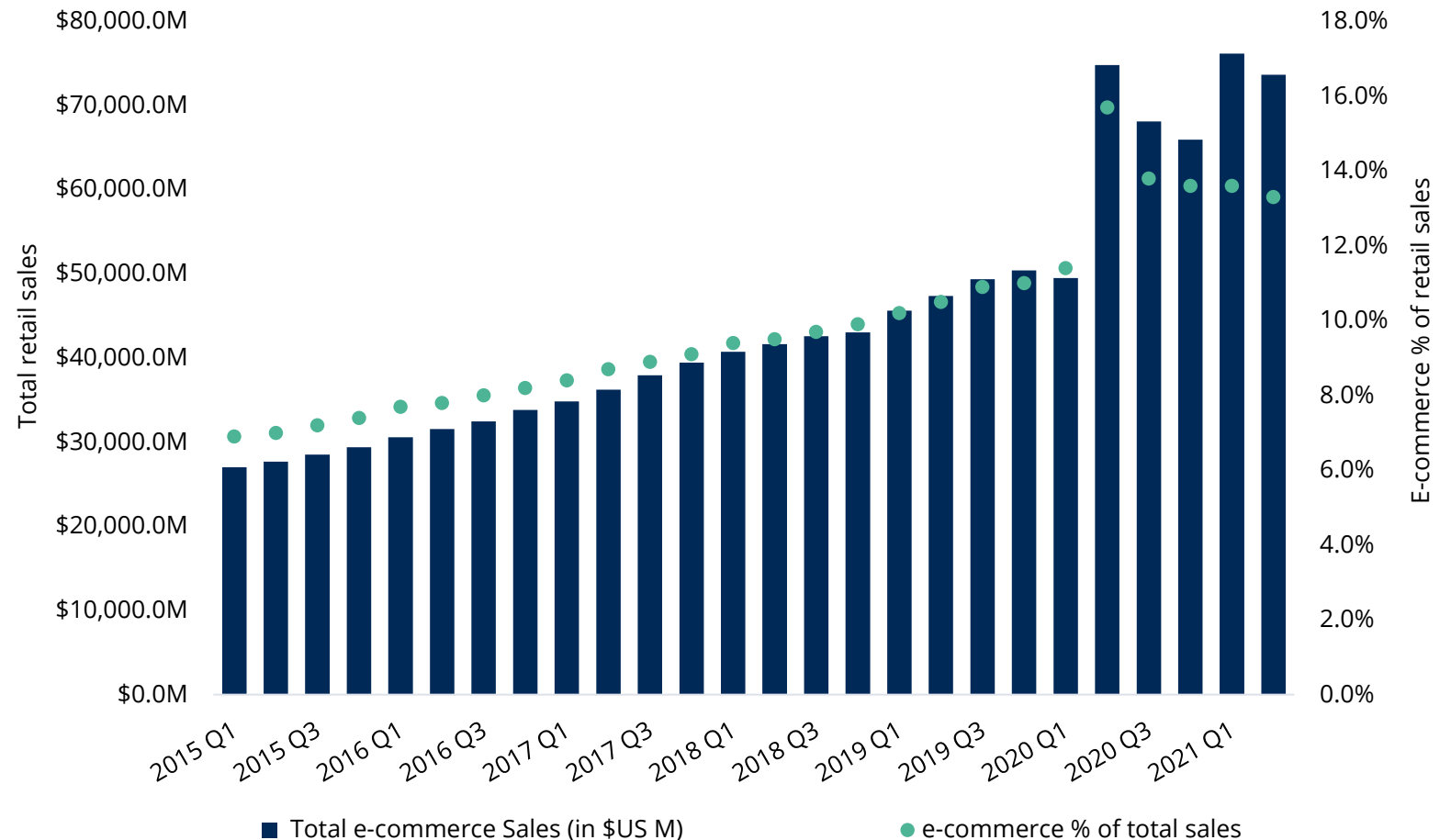
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Q3 2021

# U.S. total retail and e-commerce sales

# 13.3%

## E-commerce share of overall retail sales in Q2 2021

Demand for e-commerce surged during the initial shock of lockdowns, driving industrial demand to record levels. As the economy begins to reopen, the rate of e-commerce growth is nearly double pre-COVID levels, suggesting accelerated e-commerce demand is sustainable.



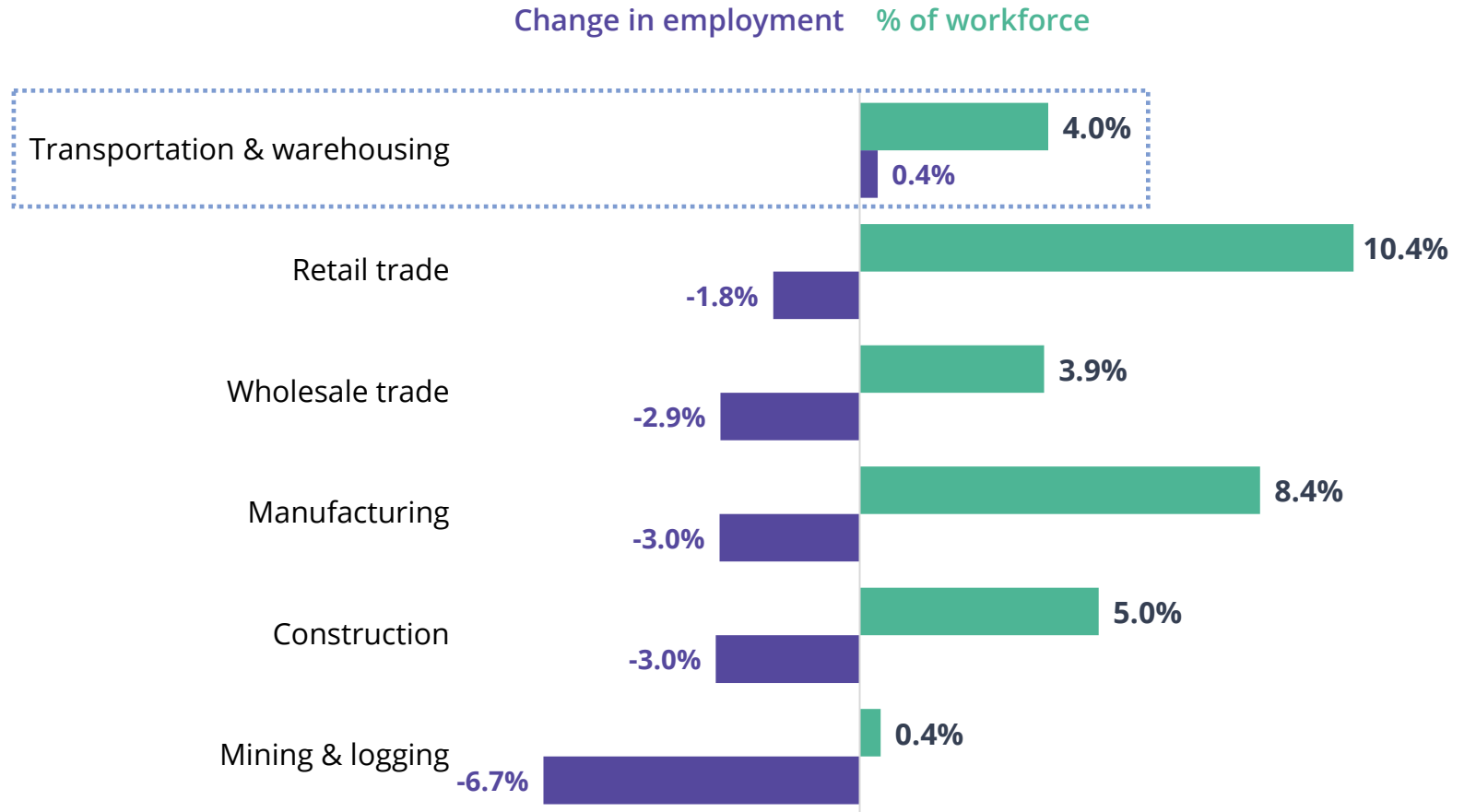
Source: Federal Reserve Bank of St. Louis  
\*Most recent update August 17, 2021

# Industrial sector job gains and losses

# +0.4%

Change in transportation and warehousing employment, February 2020 to July 2021

The transportation and warehousing employment sector has been resilient throughout the pandemic. Manufacturing, construction and wholesale trade comprise similar proportions of total U.S. employment but have contracted since February 2020.



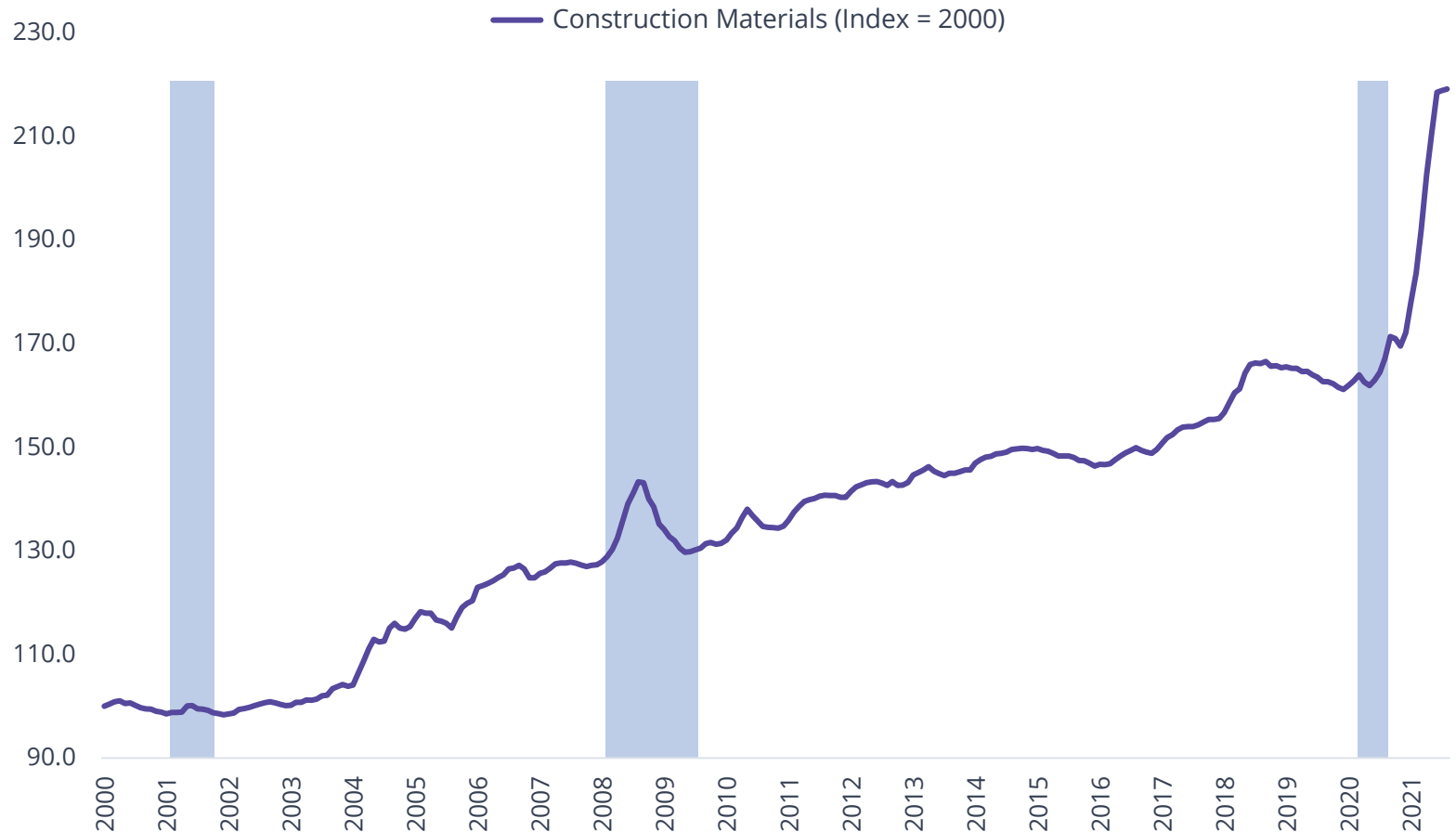
Note: Seasonally adjusted data.  
Source: Bureau of Labor Statistics

# Cost of construction materials

**+35.3%**

**Construction Material  
Index cost from year-end  
2020 to August 2021**

Construction material costs have surged to start 2021, applying upward pressure on industrial pro forma rents. However, recent activity in August and September suggest that pricing is poised to moderate to 2020 levels in the coming months.



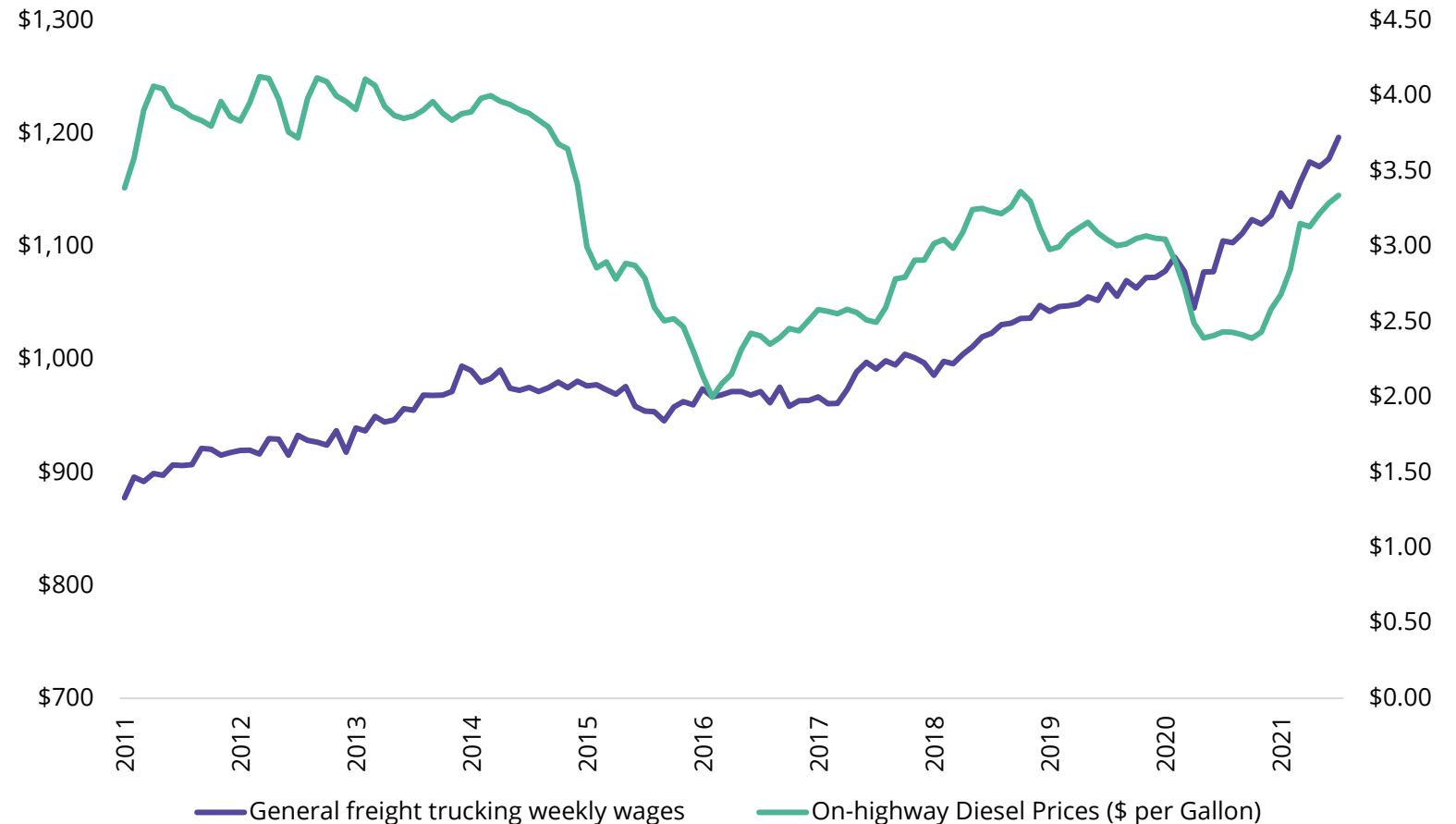
Source: Bureau of Labor Statistics

# Fuel costs and freight trucking driver wages

**+39.8%**

**Diesel prices since  
May 2020**

Rising diesel fuel prices and wage rates, for short- and long-haul trucking, are exacerbating pressures on shipping costs for companies that may have also faced international supply chain disruptions.



Source: Bureau of Labor Statistics, U.S. Energy Information Administration, AVANT by Avison Young





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# Phoenix market fundamentals

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Q3 2021



# Key industrial takeaways



## Economic conditions

- The unemployment rate in the Phoenix MSA fell to **4.8 percent** in August 2021, 90 basis points higher than the unemployment rate in February 2020.
- The Phoenix consumer price index increased by **5.1 percent** year-over-year as of August, nearly equating the U.S. city average increase of 5.3 percent in the same timeframe.
- Industrial jobs have increased by **4.5 percent** since the start of 2021, representing a net gain of 14,600 jobs.



## Recovery rate

- The national price of construction materials has increased by **35.3 percent** from January to August 2021. This headwind has played a factor in the increased rents and asset prices for Phoenix industrial properties.



## Industrial demand

- Leasing activity has remained strong during the pandemic, with a **65.1 percent** increase in annualized activity relative to the prior 10-year average.
- Annual leasing activity is on pace for **19.9 msf**. Barring a weak Q4, leasing activity should reach a new high-water mark in 2021.
- Net absorption since 2020 is much higher than any other period in the last two decades. There has been **30.2 msf** of positive net absorption from 2020 to Q3 2021; in the previous 20 years there was only **76.1 msf** of total net absorption.

# Key industrial takeaways



## Industrial supply

- Approximately **47.7 percent** of the industrial sf currently under construction is concentrated in buildings that are 500,000 sf or larger. This is a result of an influx of industrial demand from large corporations setting up or expanding operations in the Phoenix MSA.
- The vacancy rate has been declining for most of the past decade and is currently at a post-2000 low of **6.4 percent**.



## Pricing trends

- Asking rents have grown by **16.8 percent** since the start of the pandemic. From Q1 2015 to Q4 2019, asking rents rose by 24.7 percent.
- Asking rents have increased by **\$0.18 psf** per quarter on average since the start of the pandemic. From Q1 2015 to Q4 2019, asking rents increased by approximately **\$0.07 psf** per quarter on average.



## Capital markets

- Q3 activity in industrial investment was at an all-time high in the Phoenix MSA, with more than **\$1.3B** in total sales volume.
- Park 303 Phase 1, a 1.3 msf park located in Glendale, sold for **\$186M** in Q3. This transaction is the largest single-building industrial sale in Arizona's history. The building was sold by Lincoln Property to BentallGreenOak, who is leasing the building to Walmart.
- The other 9-figure deal that closed in Q3 was American Realty Advisor's **\$103M** purchase of Lincoln Logistics 40 in Goodyear. Nike paid \$70M for the building at 143<sup>rd</sup> Avenue and Van Buren Street in 2019, later scrapping plans for a factory due to the pandemic.

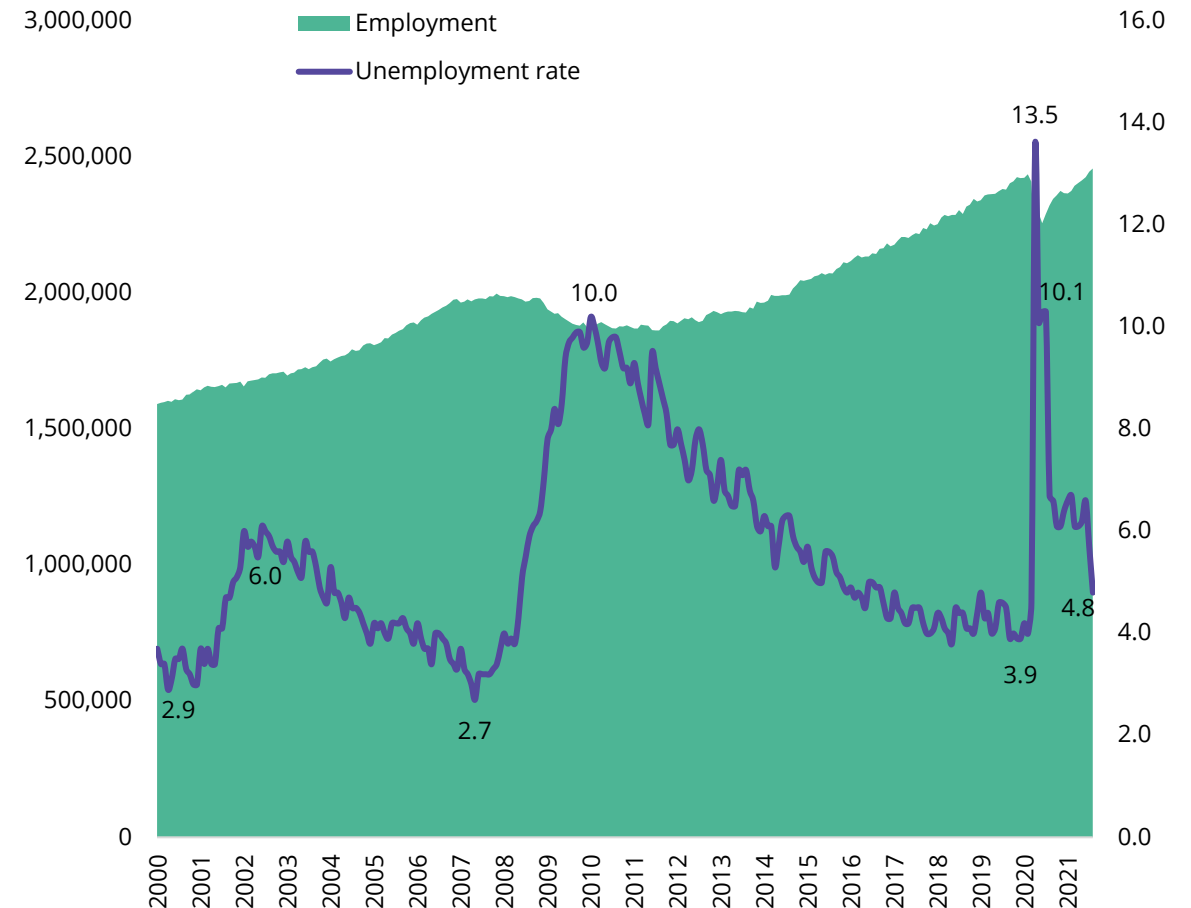


# Employment and unemployment rate

# 4.8%

Phoenix unemployment rate  
as of August 2021

Regional unemployment dipped below 4.0% at the end of 2019, before seeing a drastic spike in March 2020 due to the start of the pandemic. As of August 2021, the unemployment rate is back down to 4.8%. The total number of residents employed in the Phoenix MSA is back to an all time high, however, with more than 2.4 million jobs filled.



Note: Not seasonally adjusted data. Metropolitan statistical area.  
Source: Bureau of Labor Statistics

# Industrial job gains and losses

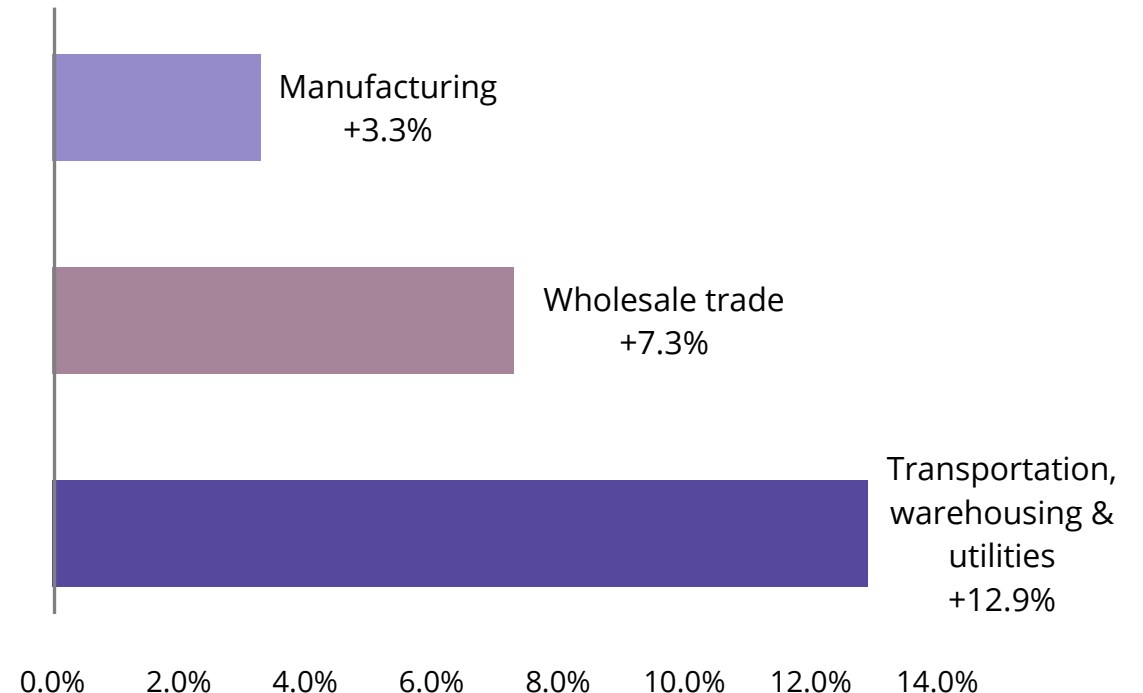
# +4.5%

## Change in industrial employment from January 2021 to August 2021

The Phoenix metro area experienced a 4.5% growth in industrial jobs year-to-date, adding 14,600 employees. Historically, Q4 has been a strong quarter for seasonal employment, so employment numbers are anticipated to strengthen to end the year. Industrial jobs in Transportation, warehousing, & utilities had the highest year-over-year growth with a 12.9% increase in employment.

### Total change in Phoenix MSA\* job gains/(losses)

August 2020 to August 2021



Note: Not seasonally adjusted data. Metropolitan statistical area.  
Source: Bureau of Labor Statistics

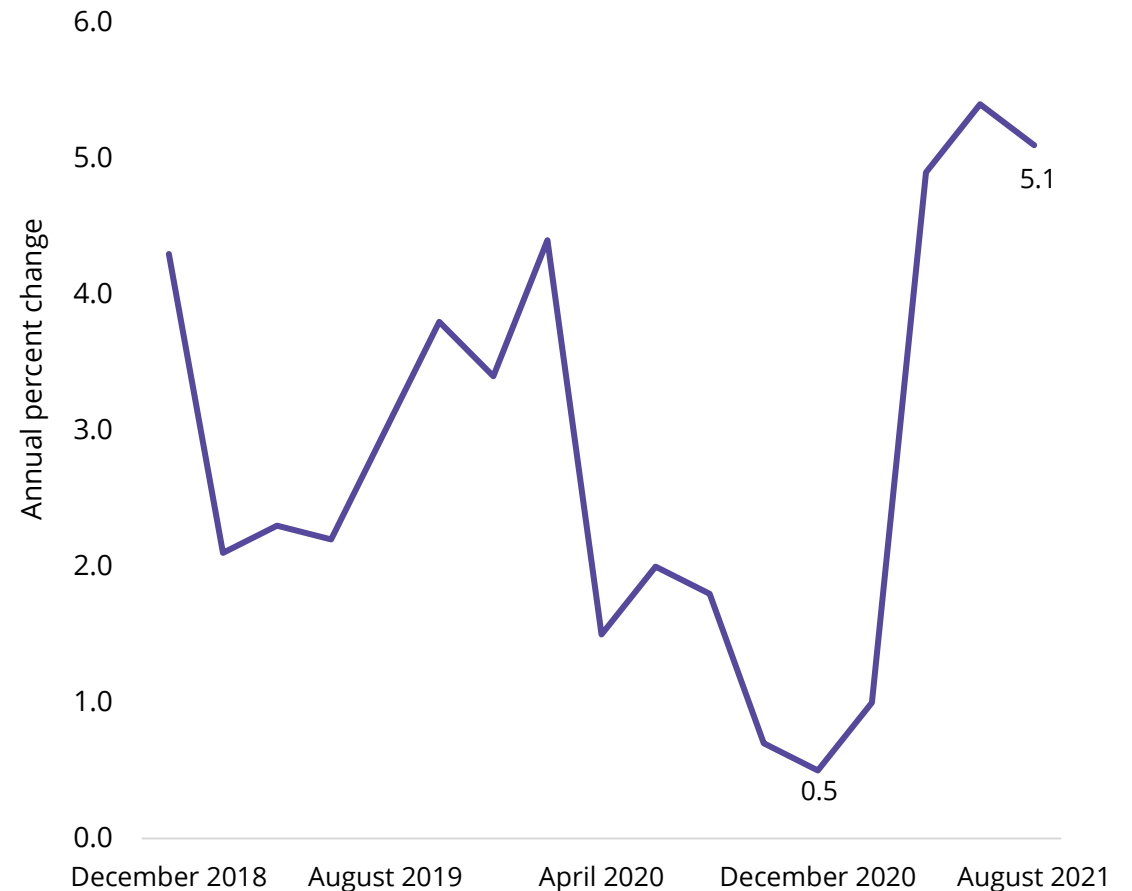


# Inflation rates

# +5.1%

## Year-over-year change in Consumer Price Index for Phoenix, all items

Consumer prices in the Phoenix MSA have seen a notable jump in 2021 as inflation has persisted both nationally and locally. The local consumer price index is down from 5.4% in June of 2021 but remains elevated at 5.1% as of August. Energy prices rose 16.0% year-over-year, partly due to returning consumer demand for gasoline that had been suppressed in 2020. Excluding food and energy, the index for all other items increased by 4.7%.



Note: Not seasonally adjusted data. Metropolitan statistical area.  
Source: Bureau of Labor Statistics





# Phoenix industrial overview

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Q3 2021

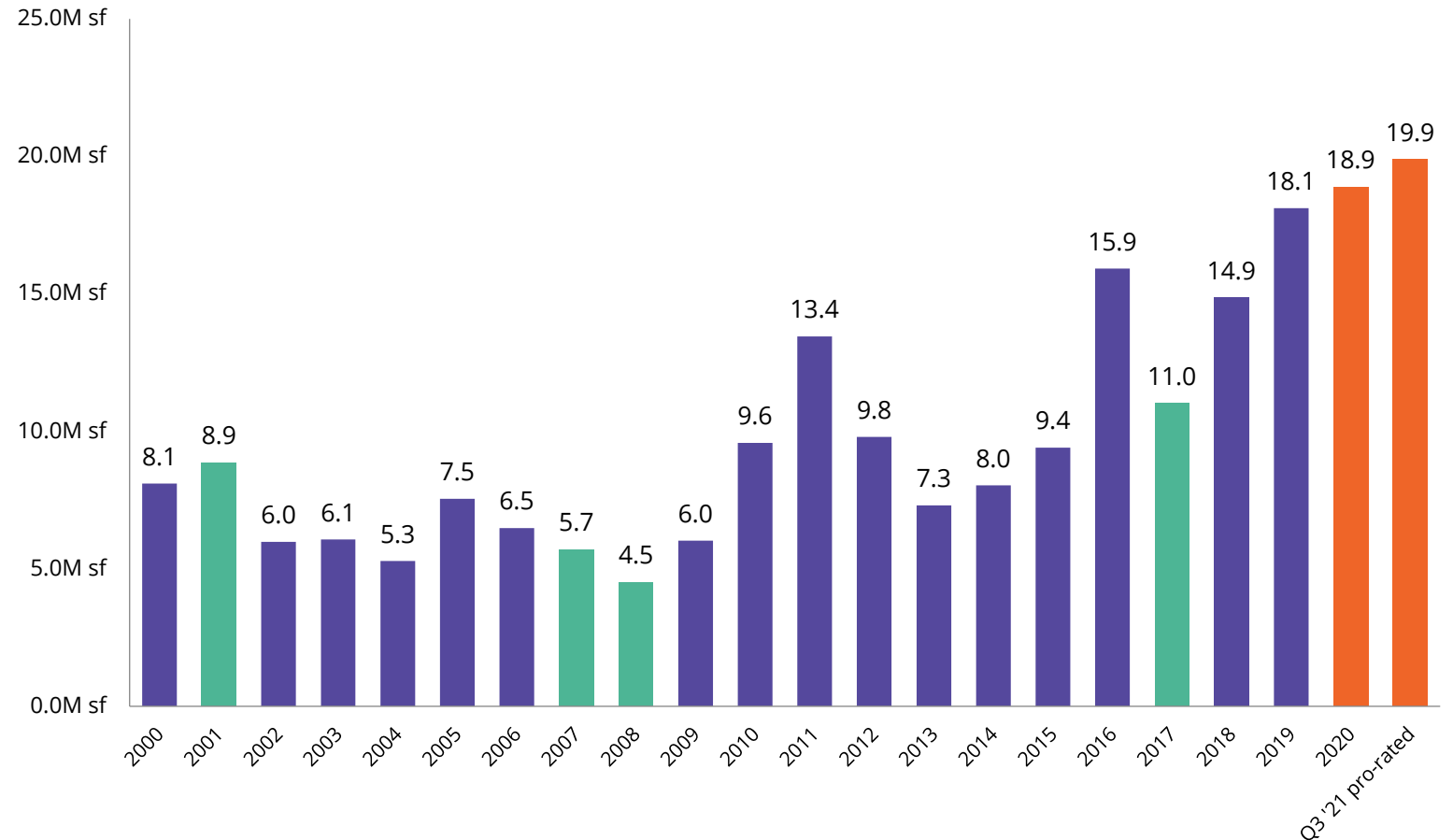


# Industrial leasing activity

**+65.1%**

**2020 to 2021 pro-rated vs.  
prior 10-year annual  
average leasing activity**

Leasing activity has continued to surge higher, with 2021 on pace to achieve a new 20-year high in leasing activity.



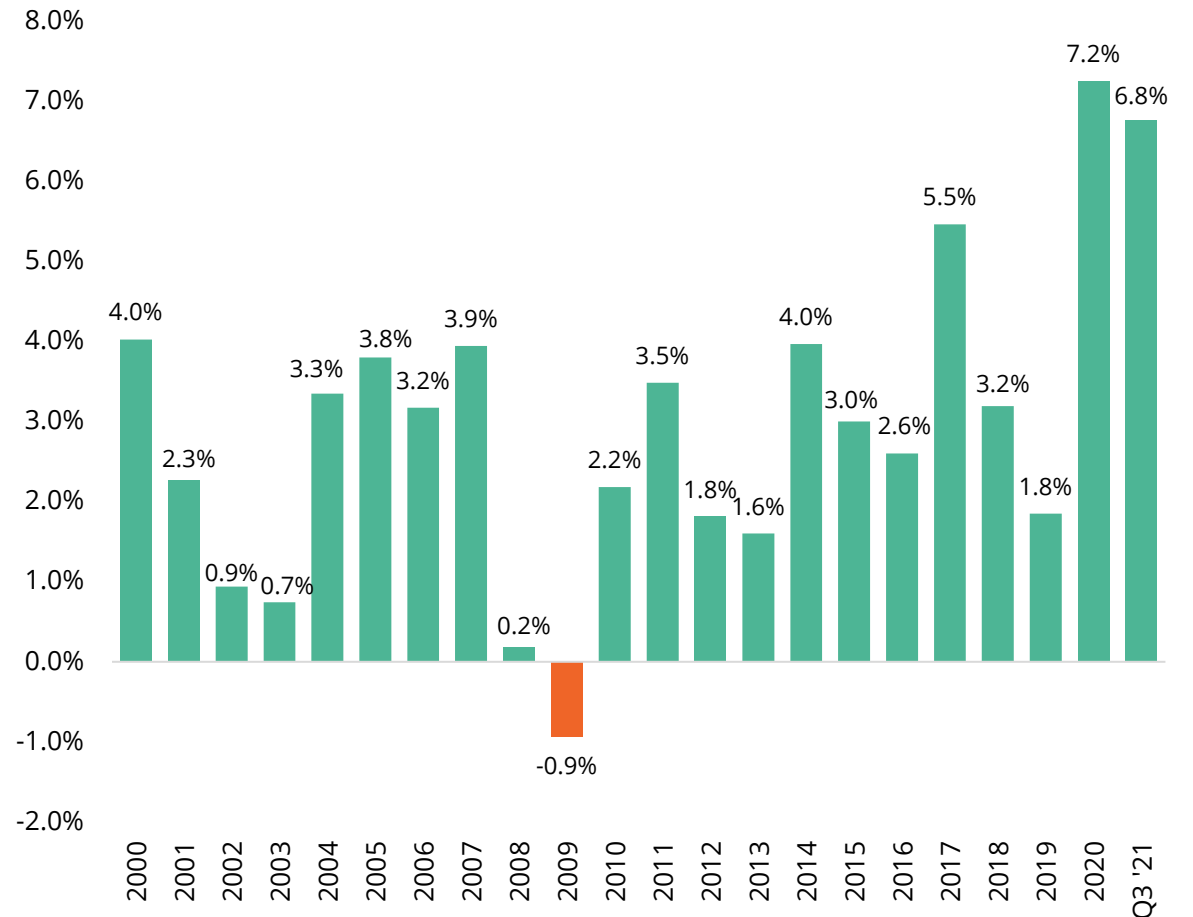
Source: CoStar

# Industrial net absorption

# 14.0%

Net absorption as a percentage of inventory, 2020 through Q3 2021

Absorption is at an all-time high for the Phoenix industrial market, reaching a total of 14.0% since 2020. Positive net absorption has been the norm in Phoenix over the last couple of decades, with 2009 being the only year where absorption was negative.



Note: Absorption is measured as the year-over-year change in occupied square feet.  
Source: CoStar

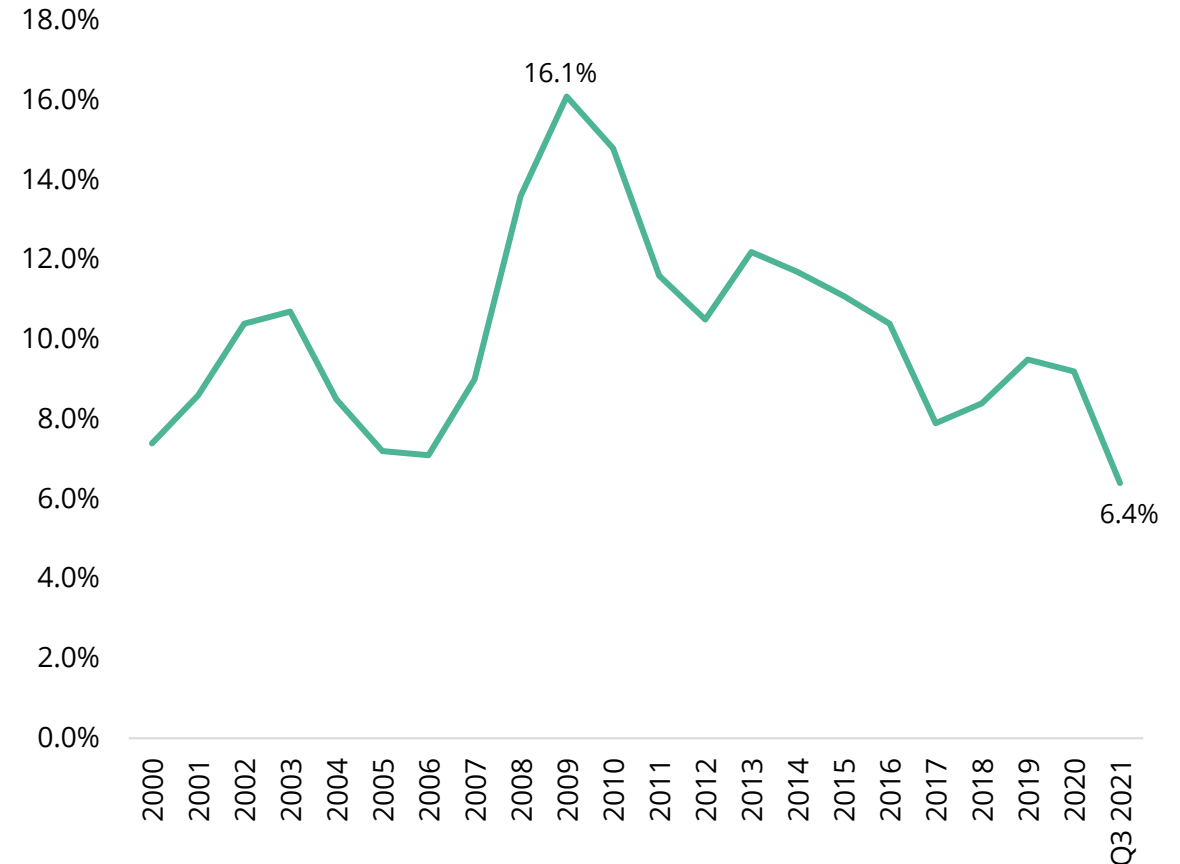


# Industrial vacancy rate

# 6.4%

**20-year record low  
vacancy as of Q3 2021**

The Q3 2021 total vacancy rate reached a post-2000 low, or 9.7 percentage points lower than the peak in 2009. Demand has consistently outstripped supply, enabling vacancies to trend lower and rents to accelerate upward.



Source: CoStar

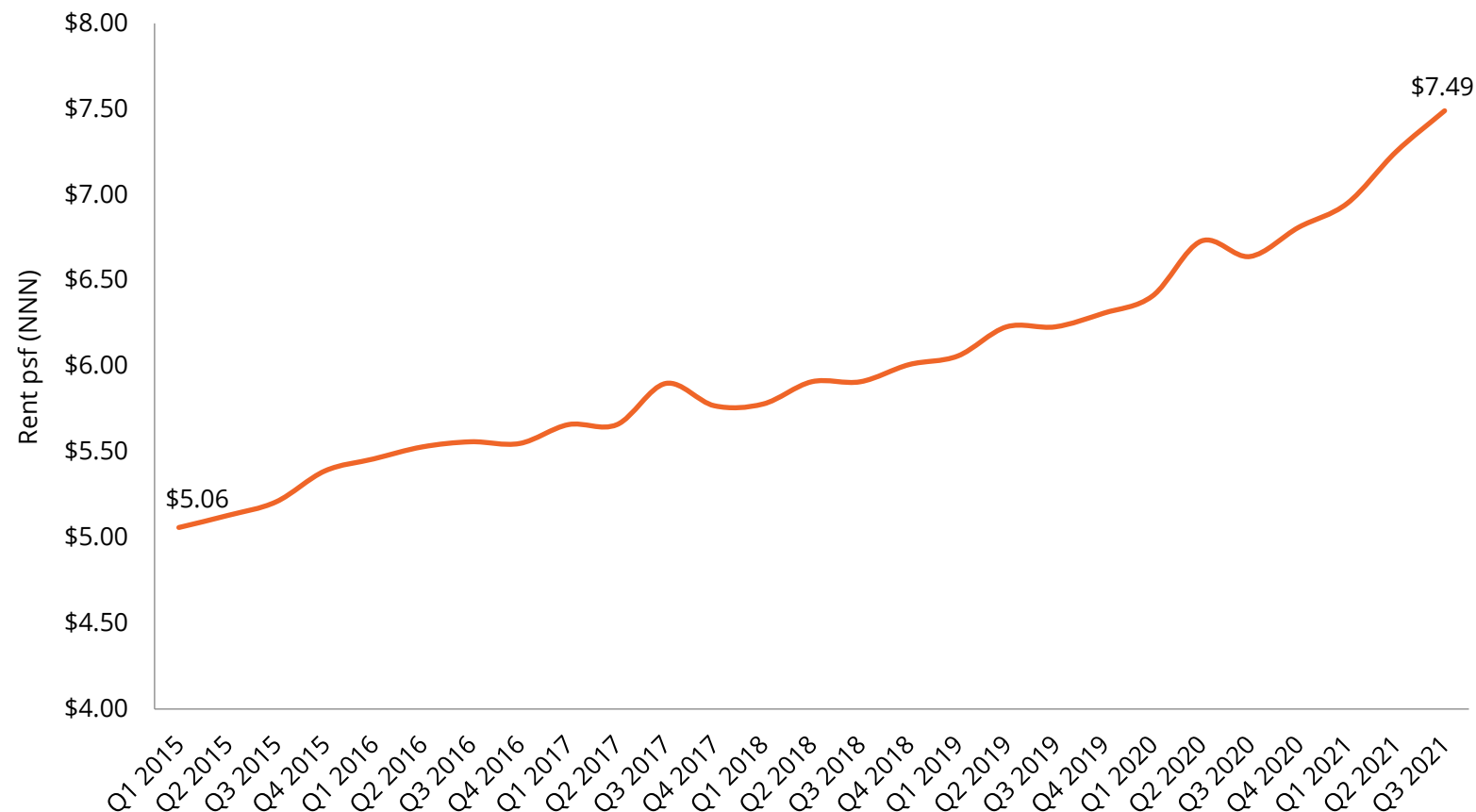
# Asking rents

# +16.8%

## Asking rents since the onset of the pandemic

The growth rate of asking rents has accelerated since the start of the pandemic. From Q1 2015 to Q4 2019, asking rents increased by 24.7%.

Average asking rents have increased by 9.4% year-to-date, the largest year-over-year increase since 2006 when rents increased by 12.9%.



Source: AVANT by Avison Young  
Costar

# Industrial development pipeline

**91 properties**

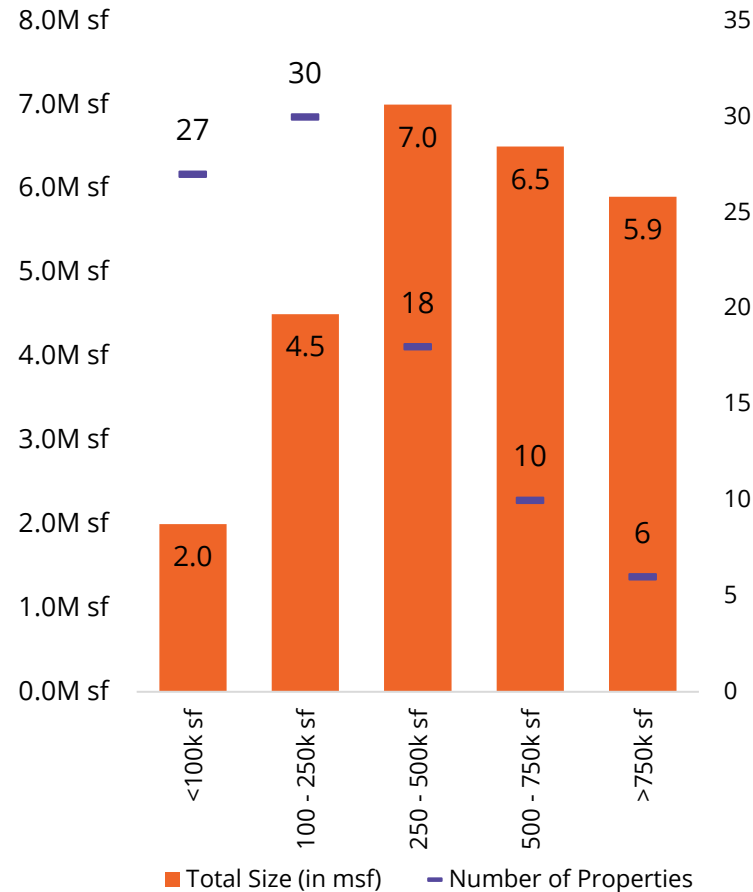
Proposed, under construction  
or under renovation

**26.0 msf**

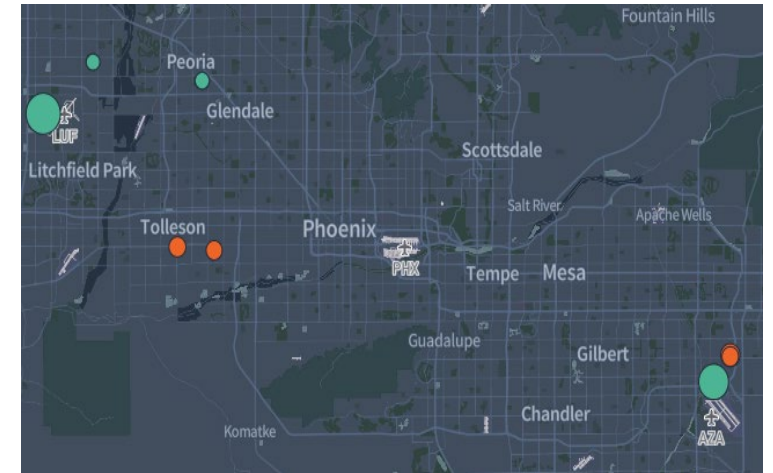
proposed or under  
construction

**10.6%**

share of industrial  
inventory



Source: AVANT by Avison Young



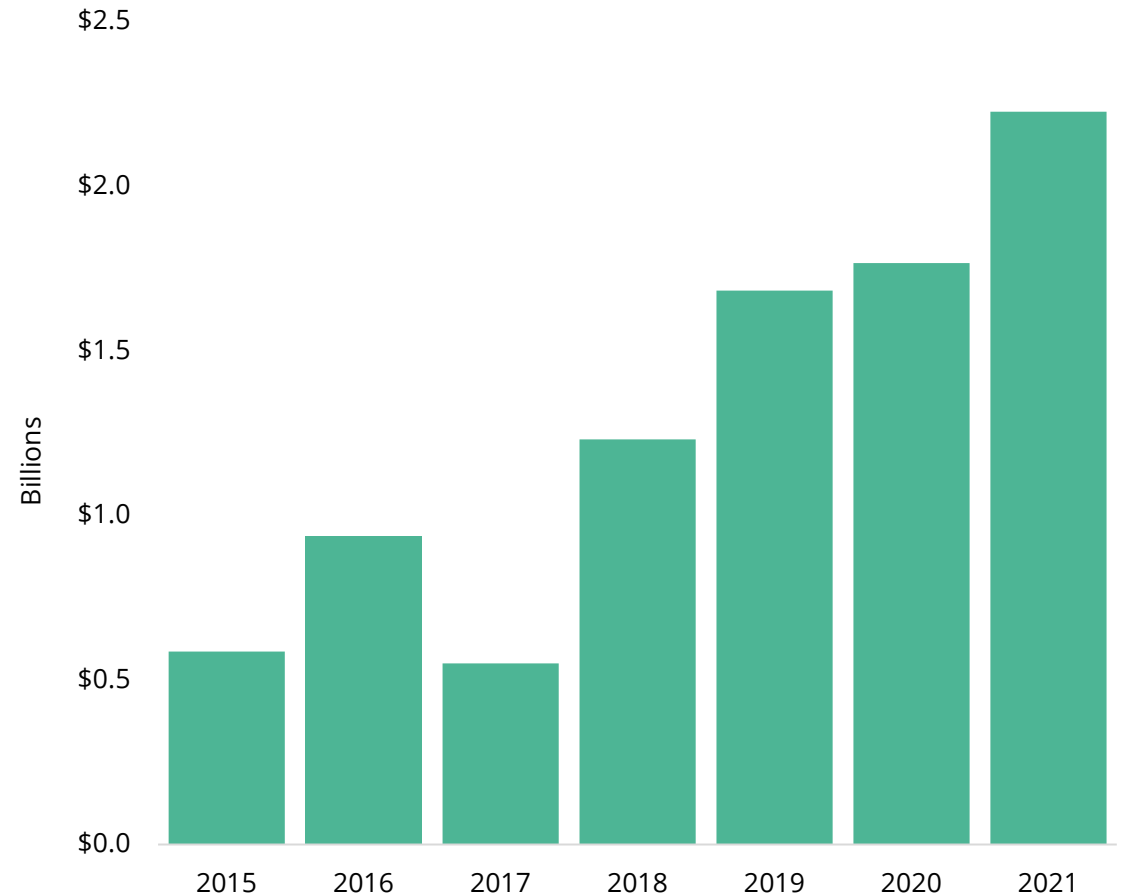


# Investment dollar volume

# \$2.2B

**Industrial dollar volume,  
year-to-date 2021**

Q3 was a massive quarter for industrial investment deals as sales volume totaled more than \$1.3B. The quarter was characterized by record-breaking sales such as the \$186M Park 303 building, which was the highest amount paid for a single industrial property in Arizona's history. Dollar volumes could continue to rise to close out 2021 – the fourth quarter was the most active quarter in six of the last seven years.



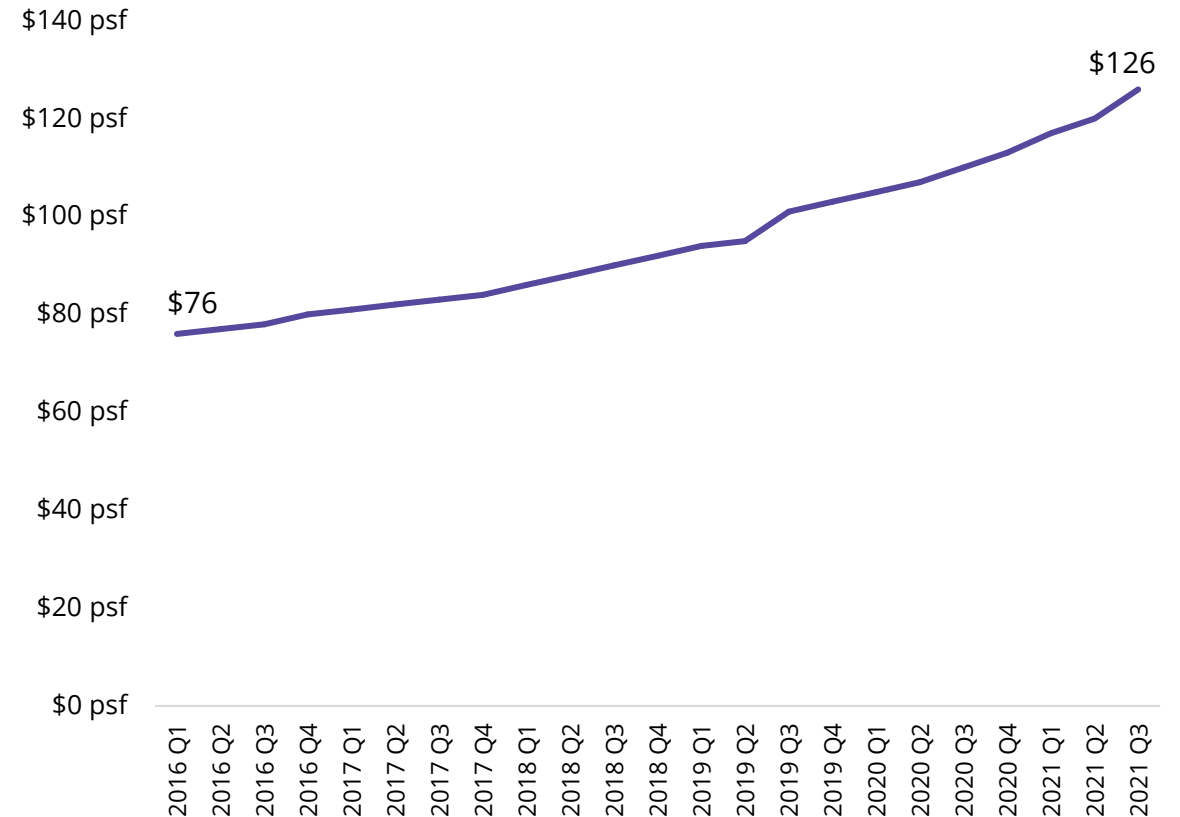
Source: AVANT by Avison Young  
RCA

# Industrial asset pricing

# +20.0%

Phoenix industrial pricing,  
Q1 2020 to Q3 2021

Pricing for Phoenix MSA industrial assets has been steadily trending upwards since 2016. As available industrial space has declined in saturated areas such as Southern California, demand has been shifting towards the Phoenix MSA. The market is flush with uncommitted capital, helping to drive Phoenix industrial asset pricing higher as competition for industrial assets intensifies.



Source: AVANT by Avison Young  
RCA

# Contacts

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Q3 2021





## David Genovese

Principal, Managing Director  
+1 480 423 7900  
david.genovese@avisonyoung.com



## Reid Elliott

Insight Analyst  
+1 480 423 7925  
reid.elliott@avisonyoung.com



## Mark Seale

Principal, Director of Brokerage Services  
+1 480 423 7909  
mark.seale@avisonyoung.com



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# Let's talk

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