

A photograph of an industrial factory floor. In the foreground, a worker wearing a yellow hard hat and a grey long-sleeved shirt is walking away from the camera. The floor is made of concrete and has several parallel metal tracks or rails running across it. To the right, there is a large green industrial machine with a vertical column and a horizontal arm. In the background, there are more industrial structures, including a large white cylindrical tank and a yellow overhead crane. The lighting is bright, suggesting an indoor industrial environment.

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Phoenix industrial insight report

Q2 2021

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U.S. industrial drivers

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U.S. total retail and e-commerce sales

15.7%

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

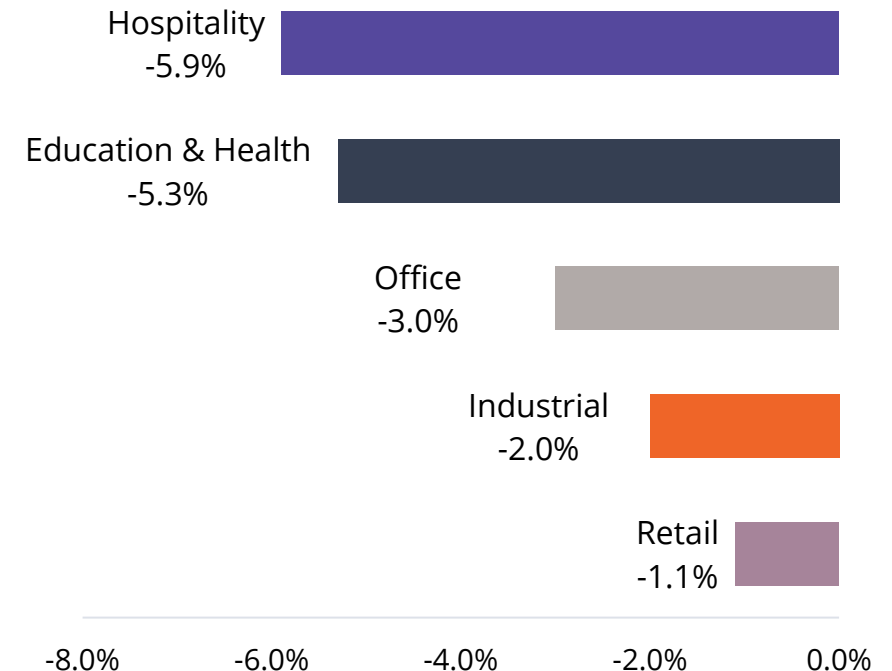
Property type job gains and losses

-2.9%

Change in total industrial employment during the pandemic

Post-COVID industrial job losses have been mild compared with other segments of the labor market, underscoring the industry's comparative strength as cities and economies reopen.

Total change in U.S. job gains/(losses) February 2020 to May 2021



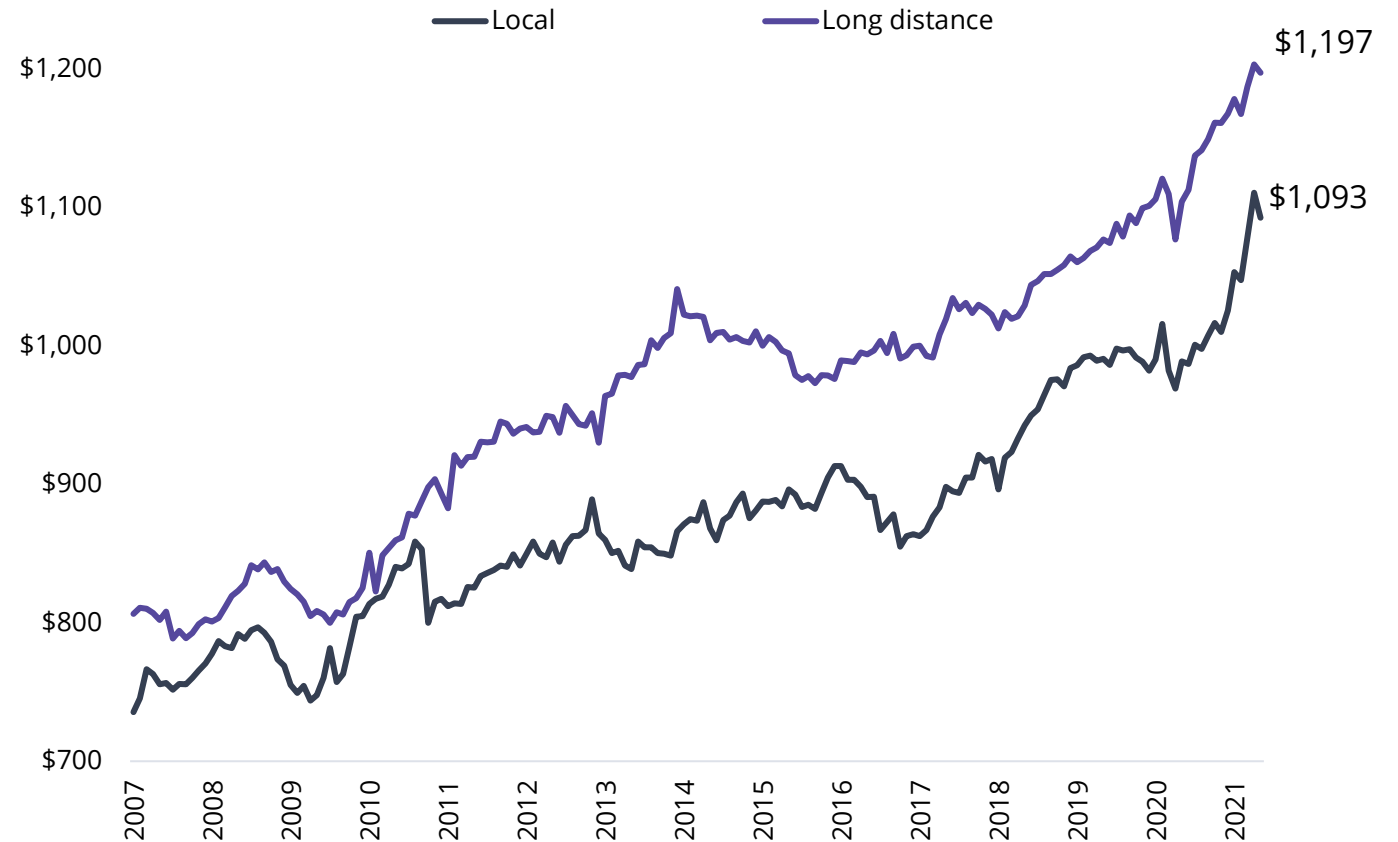
Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Weekly earnings for U.S. trucking employees

+10.5%

Annual change in local trucking weekly earnings, 2007 to 2021

As employers compete to fill vacant positions, wage pressure for trucking has accelerated sharply over the past 15 months. Initially focused on long-distance truckers in the early stages of the pandemic, the trend has increasingly spread to local trucking.



Source: Bureau of Labor Statistics



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Phoenix market fundamentals

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Key industrial takeaways



Economic conditions

- Essential workers, a logistics hub and a sharp but entrenched rise in e-commerce spending have helped bring Phoenix unemployment figures down to **6.1 percent**.
- Local employment in transportation, warehousing, and utilities rose by **13.5 percent** between February 2020 and May 2021. Phoenix has also added 2,000 wholesale trade jobs since February 2020 and ranks #2 among major U.S. metros for percent growth since February 2020.



Industrial demand

- Leasing activity has remained robust during the pandemic; through Q2 2021, the industrial market has seen **9.9 msf** of leasing activity and is on pace to hit record levels by the end of 2021.
- Absorption through mid-year remains extremely healthy at 11.0 msf and above levels seen throughout the prior decade. The market is not overbuilding and creating opportunities to avoid market inertia and movement to high-quality new development.



Industrial supply

- Industrial vacancy has reached record lows and now stands at **6.4 percent** as demand continues to grow.
- Development activity has reached record highs at over **20 msf** as demand heats up and developers look to take advantage.
- Over half the region's large block availabilities >100,000 sf are for buildings that are currently under construction as landlords are working to keep pace with new demand.

Key industrial takeaways



Pricing trends

- Base rents have increased by **12.5 percent** since 2019 and have continued a steady upward trajectory since 2015.
- Increased demand and low vacancy are expected to drive future gains in rents as well as land pricing.



Capital markets

- Phoenix industrial investment pricing has grown by **34.0 percent** since 2019 as investors are attracted to the sector fundamentals largely benefited from the COVID environment.
- Pricing for Phoenix industrial assets has nearly doubled since 2016, particularly since the pandemic, as an influx of investors seek exposure to properties that can accommodate the rise of e-commerce distribution.





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Economic and demographic trends

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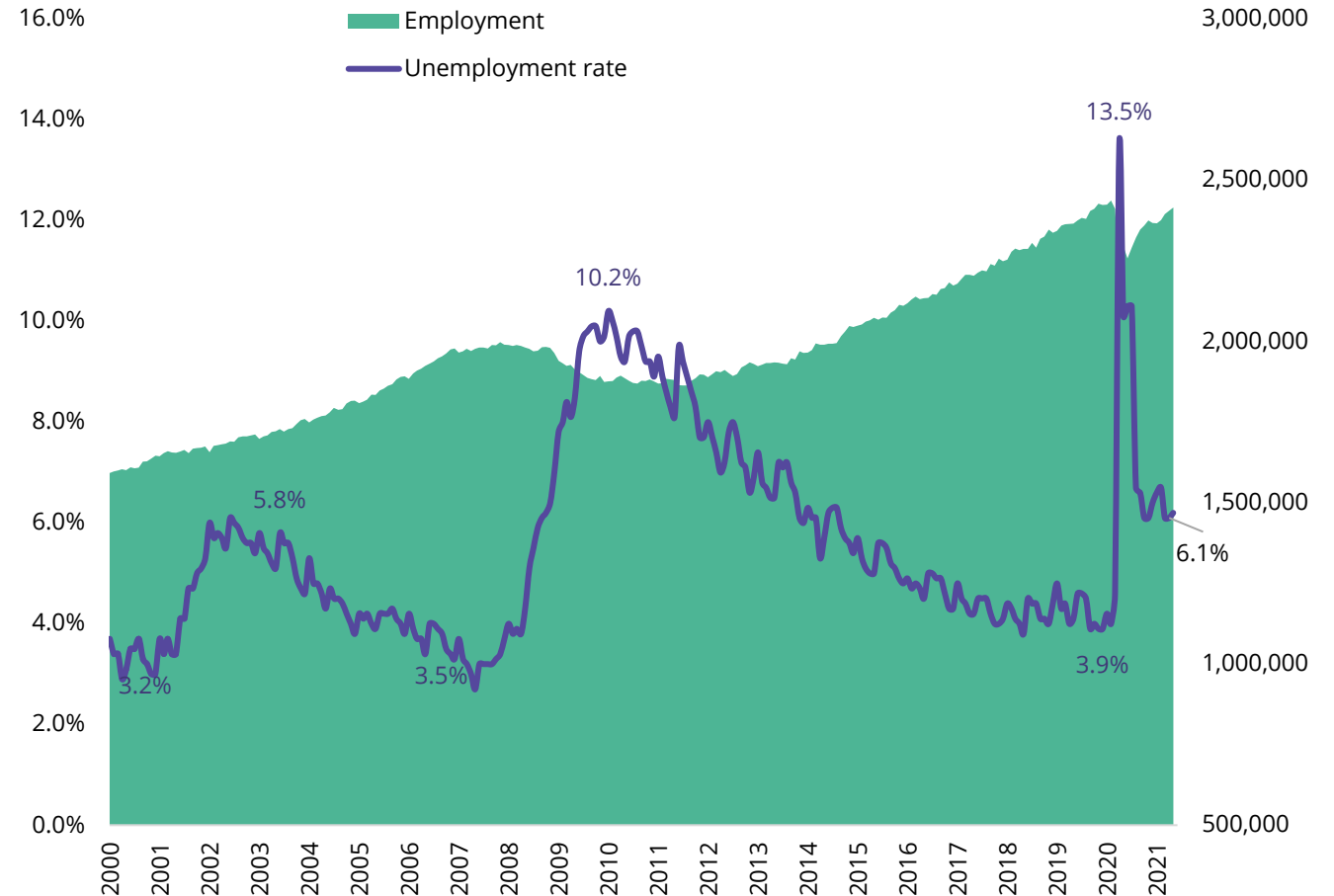
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Employment and unemployment

6.1%

Phoenix unemployment rate as of May 2021, nearing levels last experienced in 2014

Before the pandemic, unemployment was at historical lows; however, between February 2020 and April 2020, Phoenix lost 288,000 jobs. The Phoenix area has since added 282,000 jobs, a 98.0% recovery between April 2020 and May 2021.



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

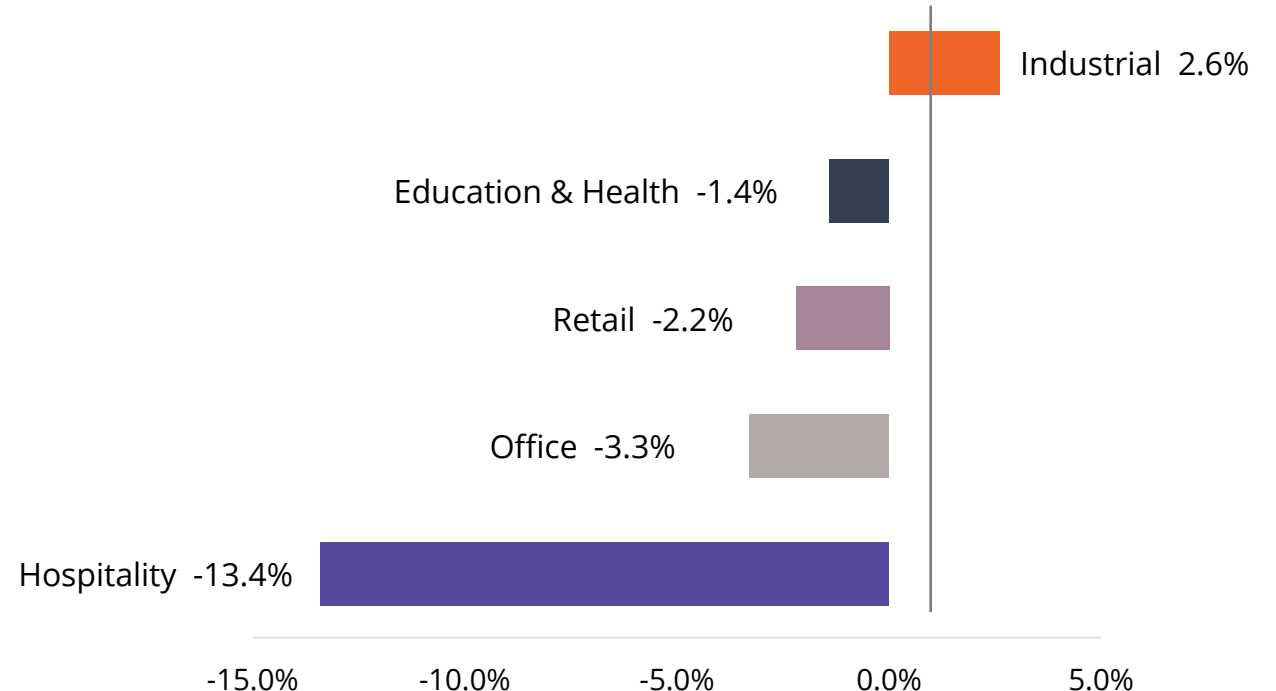
Property type job gains and losses

+2.6%

Change in industrial-centric employment during the pandemic

The Phoenix metro area added 11,700 industrial-centric jobs between February 2020 and May 2021. Phoenix ranks #8 of all major MSA's for industrial-centric employment growth since February 2020.

Total change in Phoenix MSA* job gains/(losses)
February 2020 to May 2021



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

Industrial job gains and losses

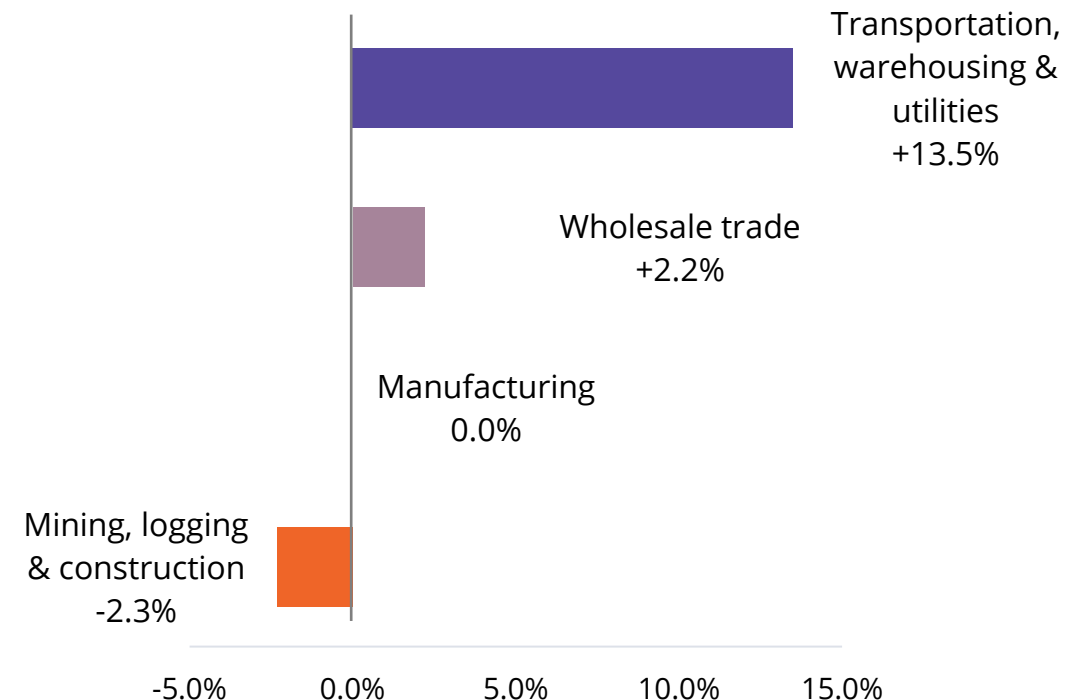
13.5%

Change in transportation, warehousing, and utilities employment since February 2020

Phoenix has seen substantial employment growth within the transportation, warehousing, and utilities industries after adding 13,100 jobs between February 2020 and May 2021. Phoenix has also added almost 2,000 wholesale trade jobs since February 2020 and ranks #2 for percent growth since February 2020 among major U.S. metros.

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

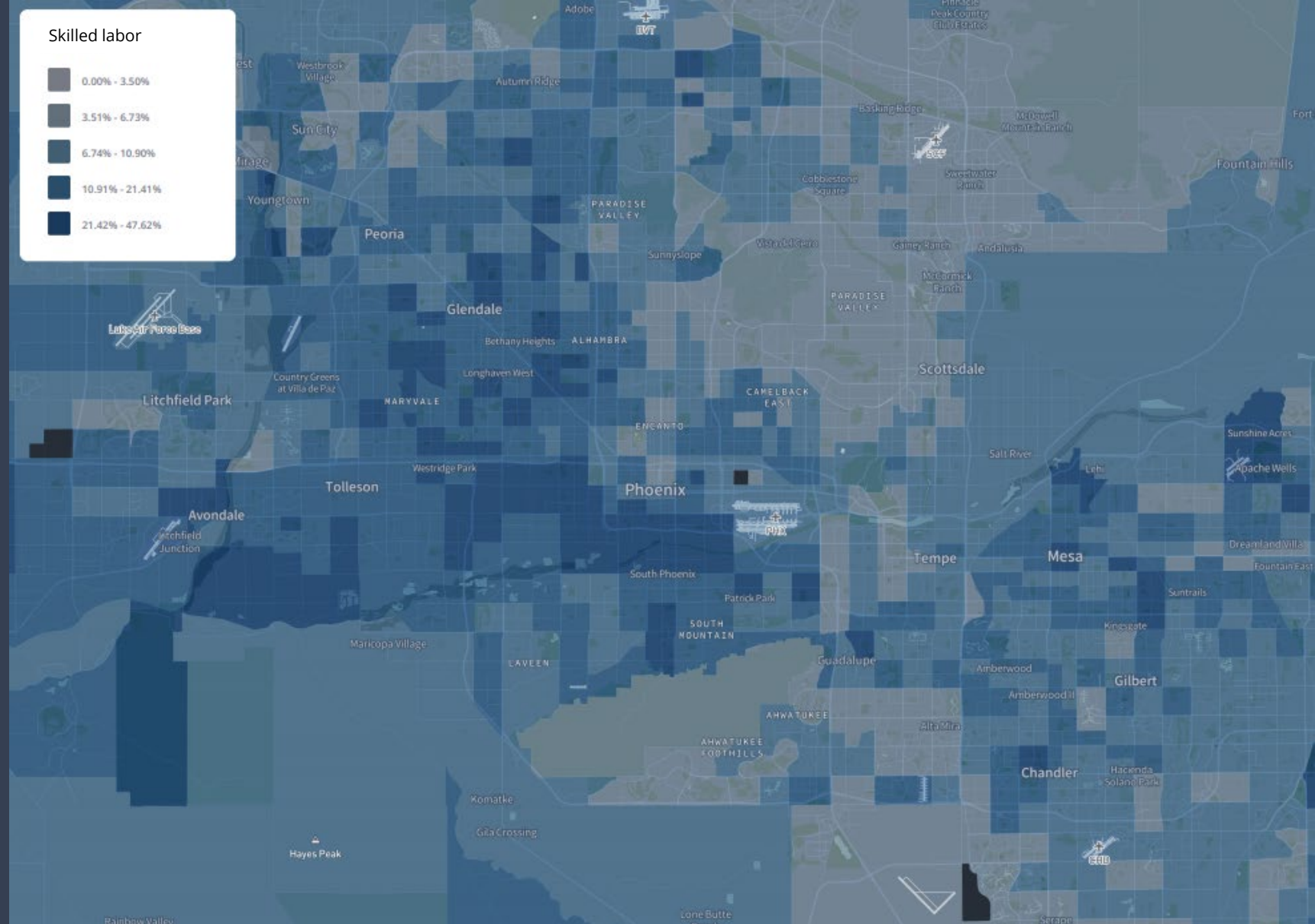
February 2020 to May 2021



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

Skilled labor workforce concentration

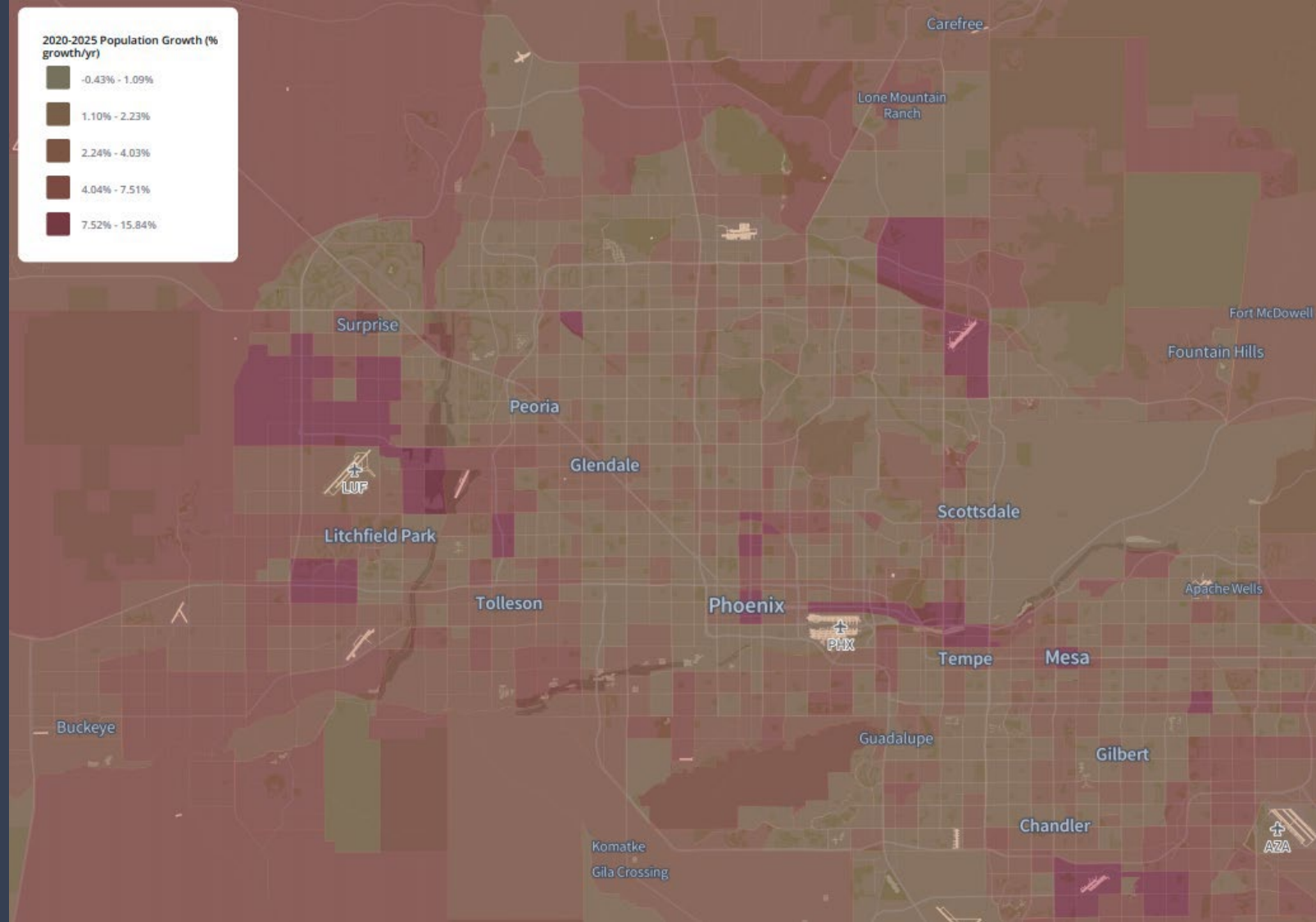
Source: AVANT by Avison Young, ESRI
Large pockets of skilled labor workforce are found
throughout Phoenix's largest Industrial submarkets



15.8%

Population growth rate, 2020-2025 in certain areas of Phoenix

According to the U.S. Census Bureau of 2020, Phoenix adds more residents than any other major city. Downtown Phoenix, Surprise, Scottsdale, Tempe and Mesa are a few districts where population growth is projected to remain very strong as people move from costlier markets such as California.

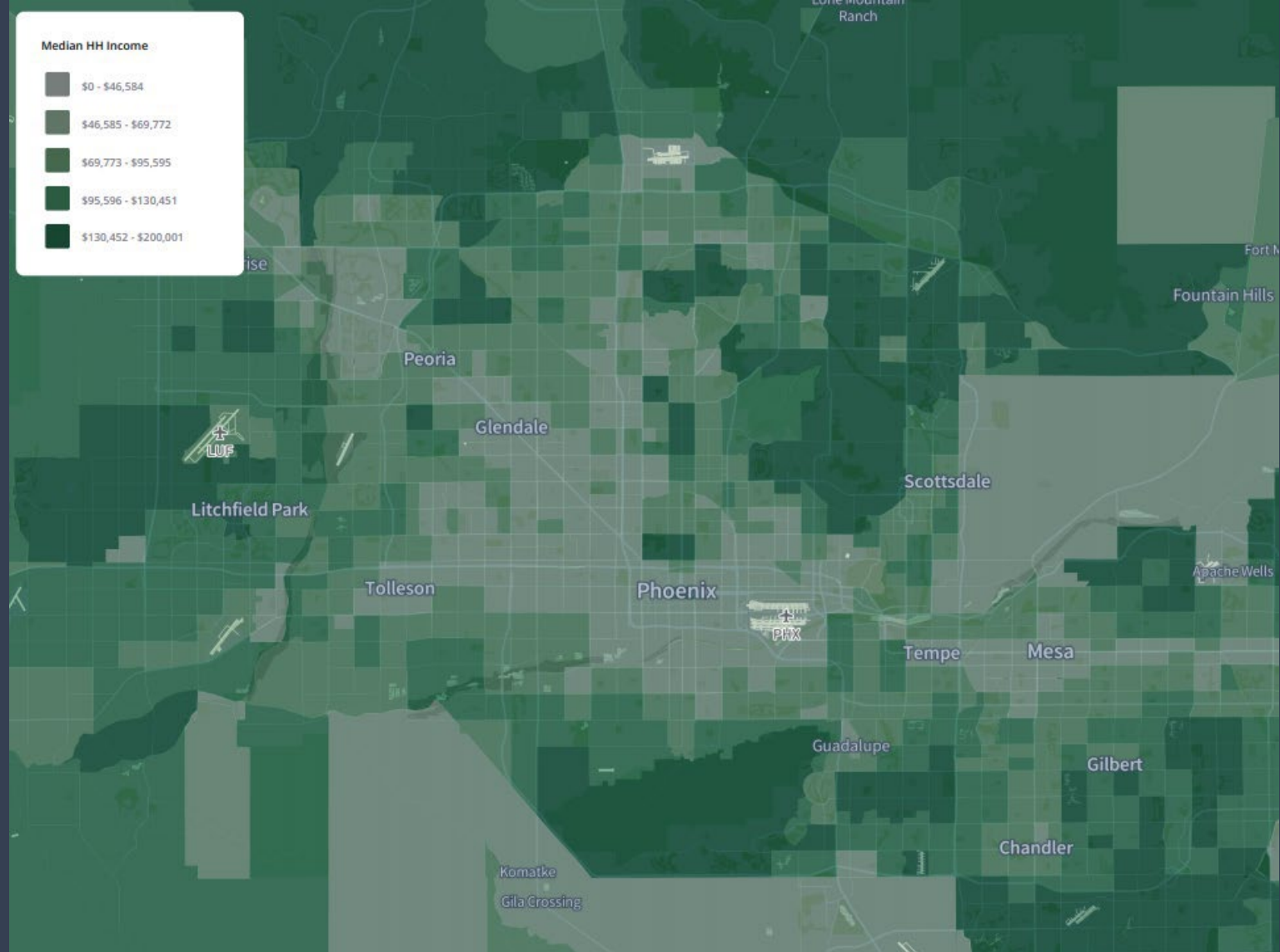


Source: AVANT by Avison Young, ESRI

\$68K

Phoenix median household income level

Phoenix leads West in income growth, according to the U.S. Census Bureau. Cities in the Phoenix metropolitan area with the highest annual salaries are Goodyer, Peoria, Chandler, Avondale, Glendale, Surprise, Scottsdale, Tempe, and Phoenix.



Source: AVANT by Avison Young

A photograph of a warehouse interior. In the foreground, there are blue metal shelving units with yellow horizontal beams. A worker in a dark shirt and jeans is standing behind a small blue table, looking at a clipboard. The background shows more shelving units and a staircase on the left. The floor is concrete with yellow safety lines.

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Industrial occupier conditions

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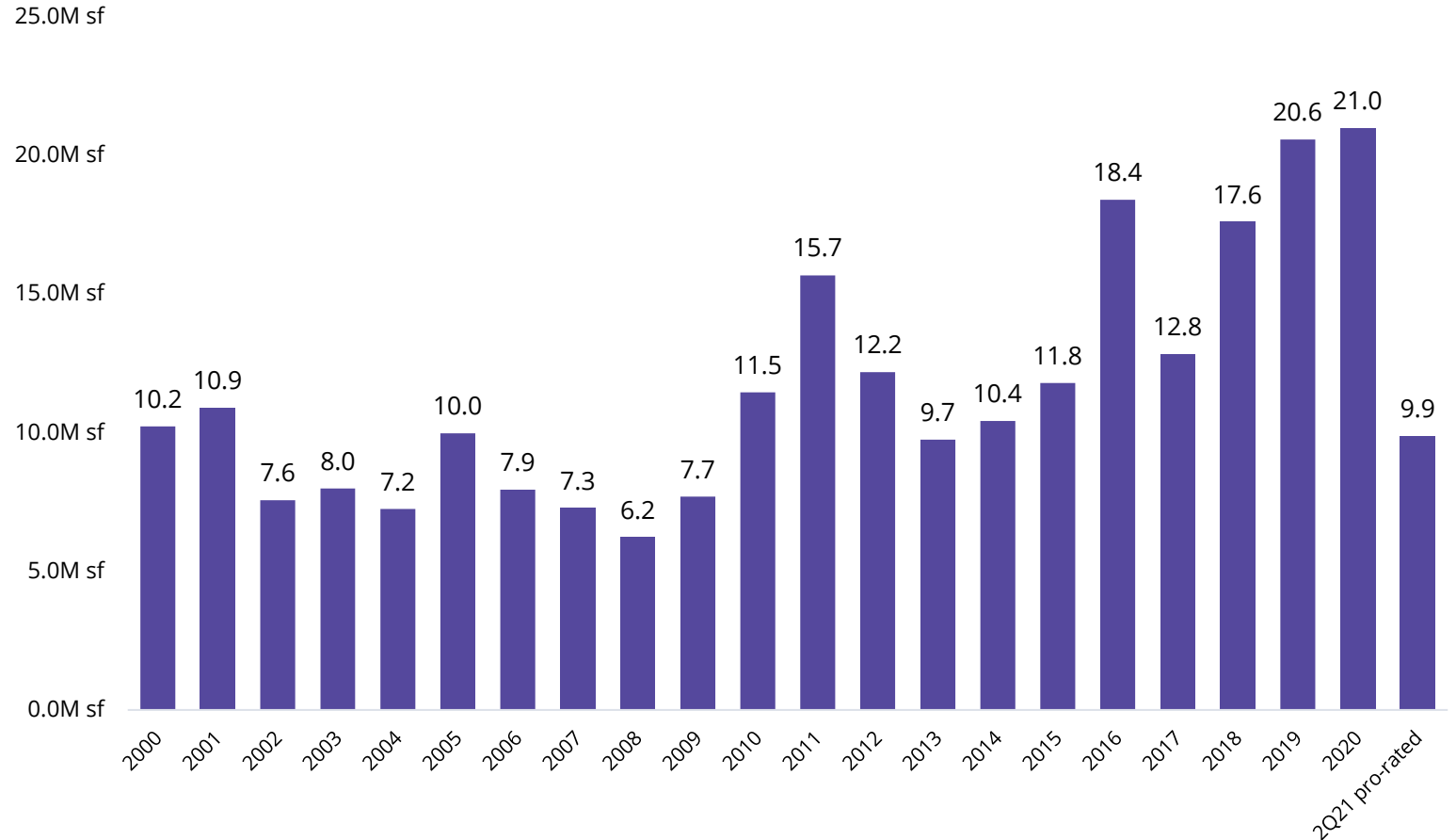
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Industrial leasing activity

9.9 msf

2021 leasing activity

Leasing activity has remained robust during the pandemic; through Q2 2021, the industrial market has seen 9.9 msf of leasing activity and is on pace to hit record levels by the end of 2021.



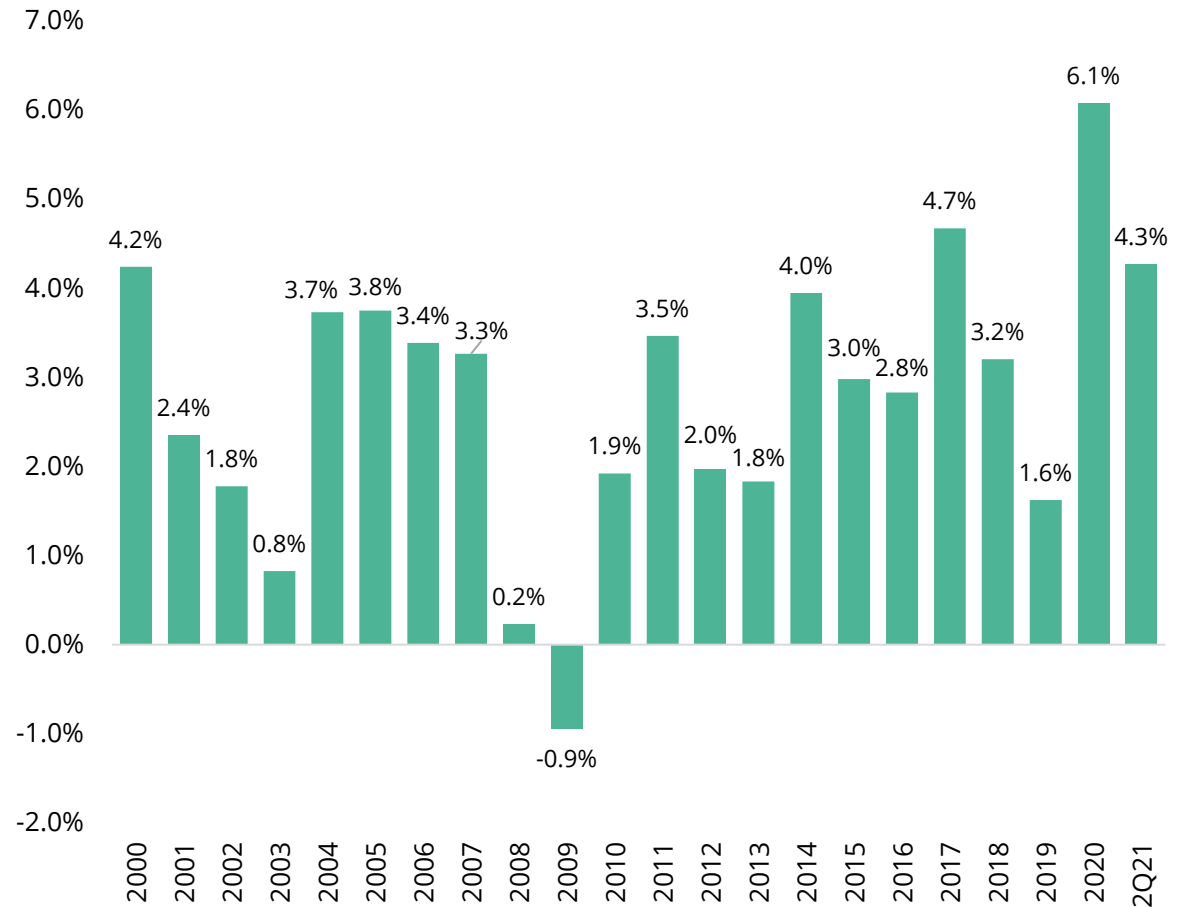
Source: CoStar

Industrial net absorption

4.3%

Net absorption as a percentage of inventory YTD 2021

Absorption through mid-year remains quite healthy and above levels seen throughout the prior decade. The market is not overbuilding and creating opportunities to avoid market inertia and movement to high-quality new development. At 11.0 msf through the first half of the year, aggregate 2021 net absorption rates are expected to reach record levels.



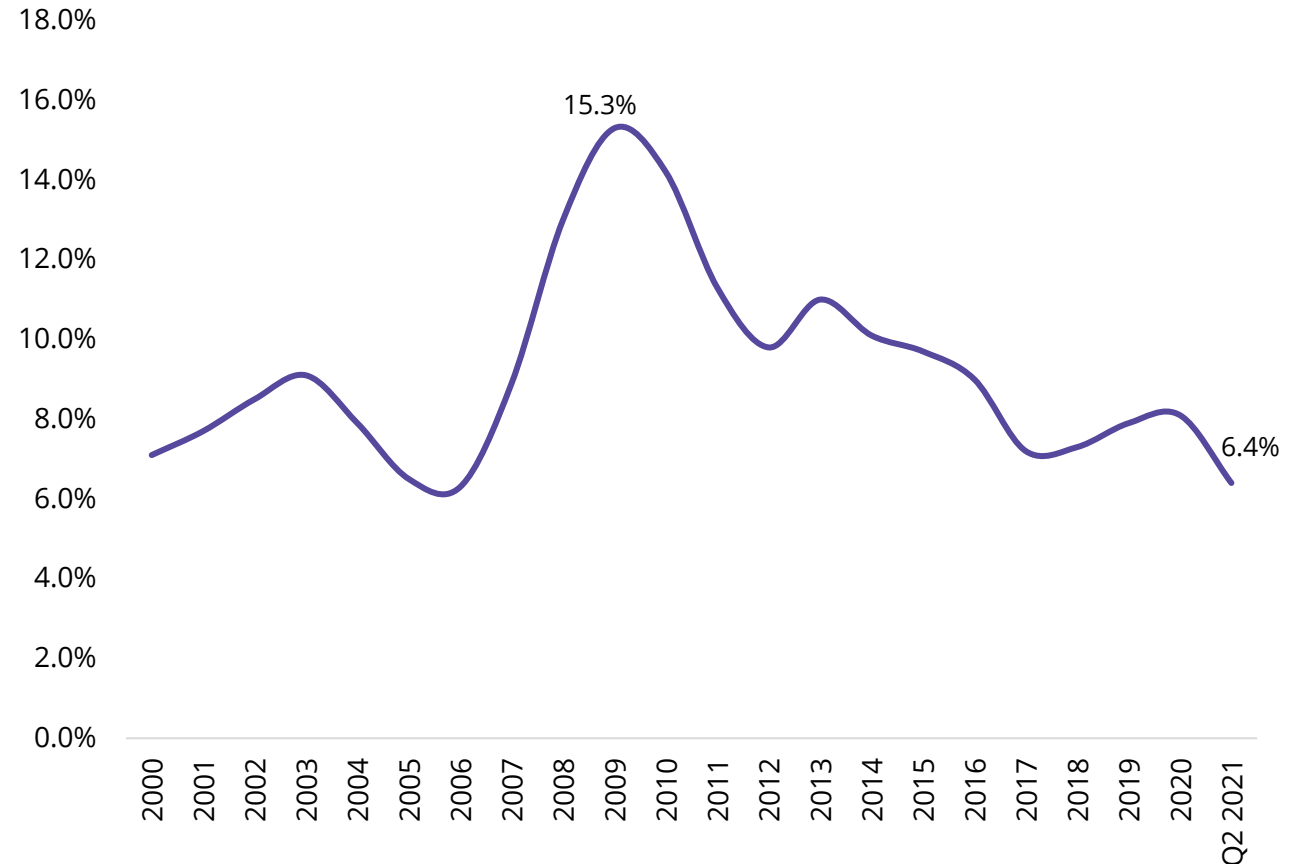
Note: Absorption is measured as the year-over-year change in occupied square feet.
Source: CoStar

Industrial vacancy rate

6.4%

Industrial direct vacancy as of Q2 2021

Industrial vacancy continues to face downward pressure as demand continues to grow at record levels. As the market continues to tighten, land pricing has surged as investors work to meet demand.



Source: CoStar

Big-box demand drives construction

85 properties

under construction
or under renovation

21.97 msf

under construction

8.5%

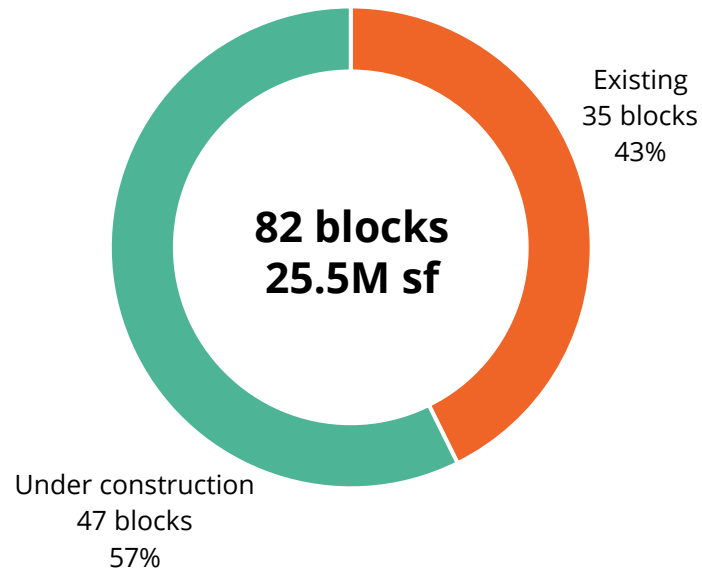
share of industrial
inventory



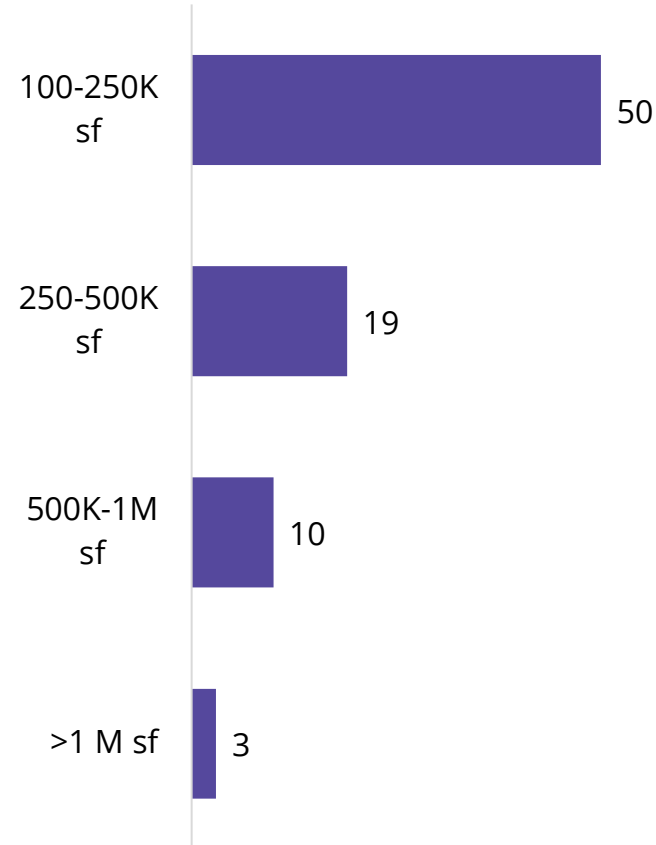
Source: AVANT by Avison Young

Industrial large-block availabilities > 100,000 sf

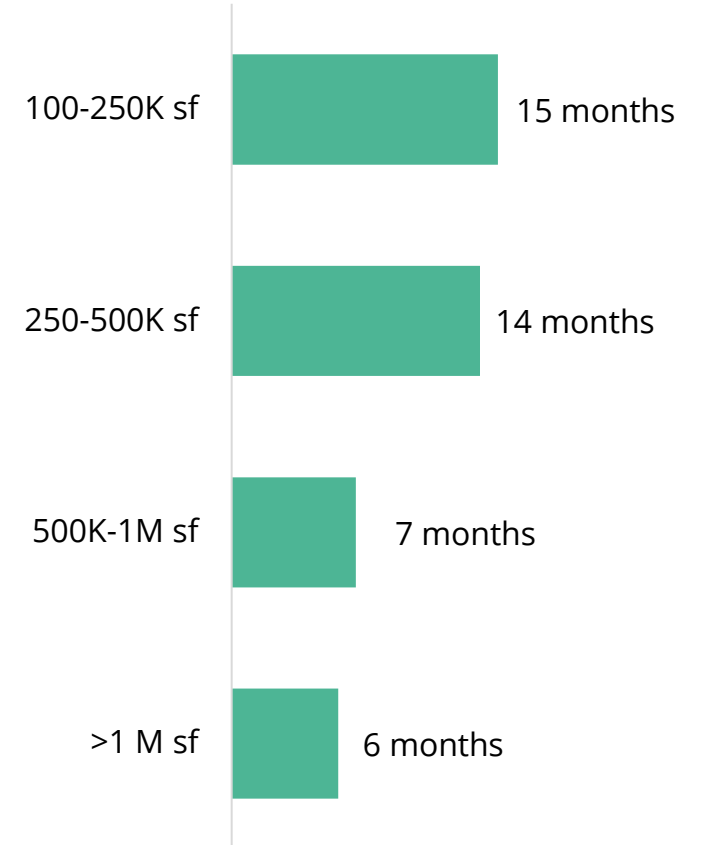
Availability by building status



Availability by size tranche



Average time on market by size tranche



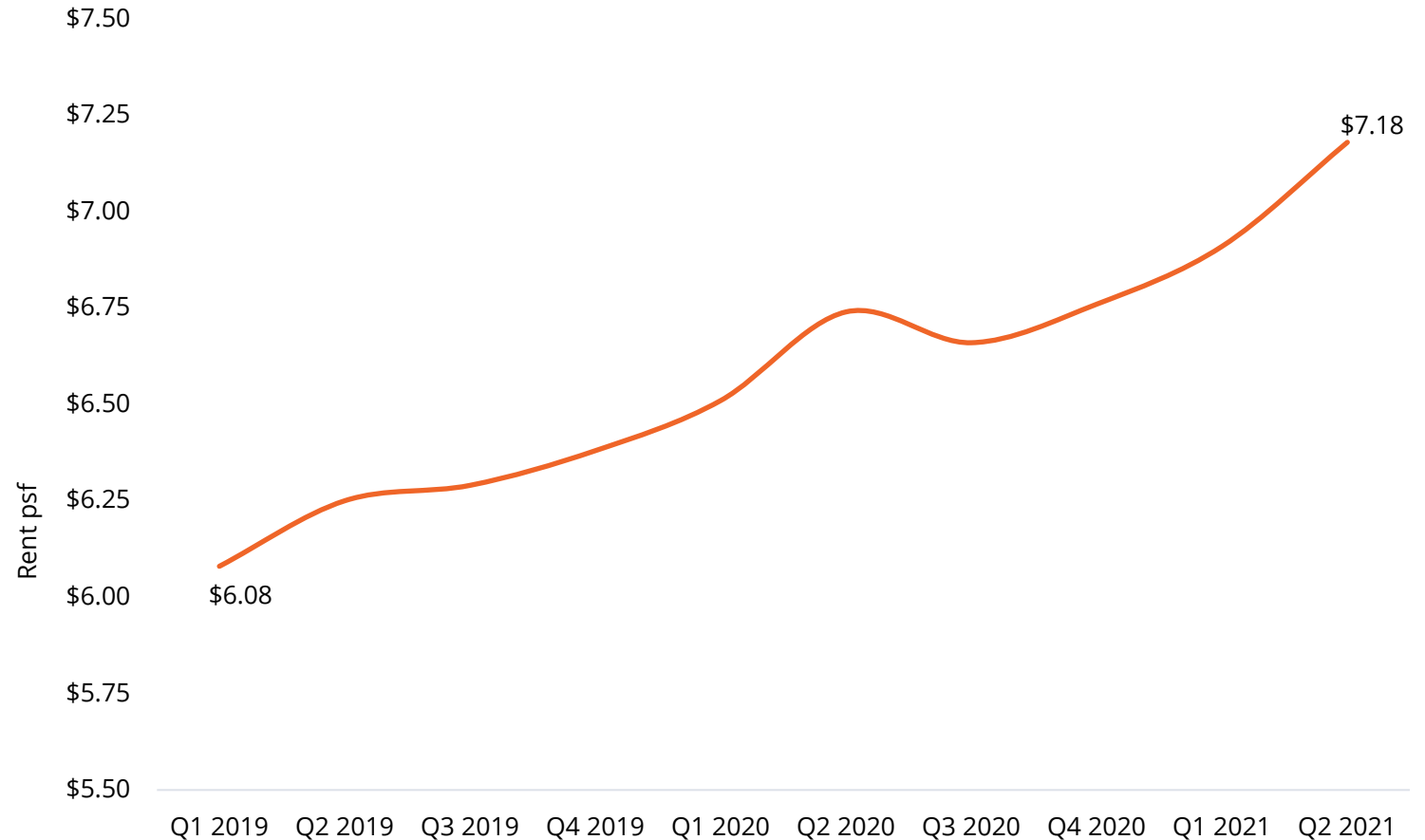
Source: CoStar

Base rents

+12.5%

Growth among Industrial rents since 2019

Asking rents continue to climb within the industrial space as demand grows and vacancy remains in the single digits.



Source: AVANT by Avison Young



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Capital markets conditions

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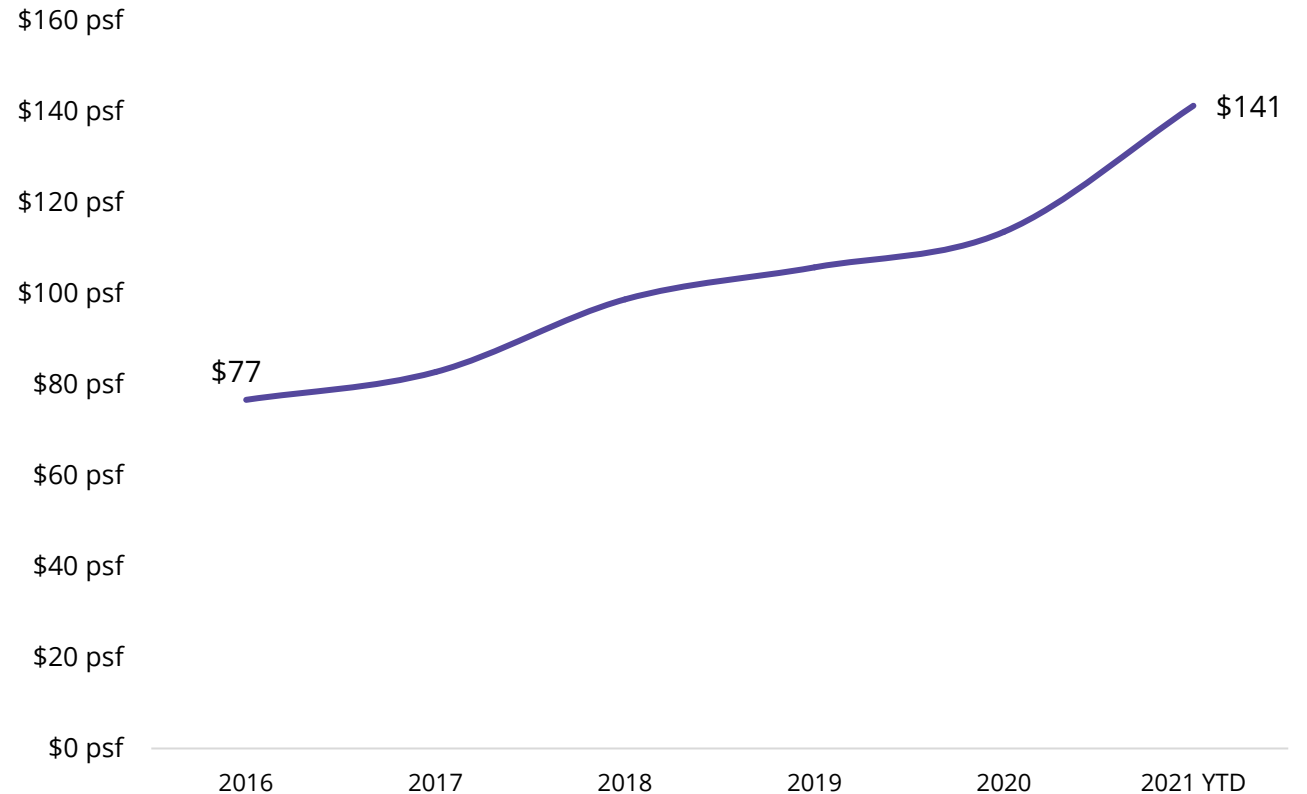
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Industrial asset pricing

+34.0%

Phoenix industrial pricing growth since 2019

Pricing for Phoenix industrial assets has nearly doubled since 2016, particularly since the pandemic, as an influx of investors seek exposure to properties that can accommodate the rise of e-commerce distribution.



Source: AVANT by Avison Young
RCA

Looking forward



Here's what we can expect

- **Industrial leasing demand has been consistent** as pre- and post-COVID transaction volumes are nearly identical. More speculative construction will provide outlets for tenants and are unlikely to shift leverage towards tenants.
- **Land pricing and asking rent growth is expected to accelerate** as demand will continue to grow and drive development activity and owners remain bullish on the market.
- Solid leasing fundamentals have driven investment interest to the industrial market. **E-commerce penetration** has only reinforced the need for new and different types of last-mile facilities near Phoenix consumers.



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Let's talk

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