



NAI Horizon

2nd Quarter
2020
Industrial
Market Report

Q2 2020

INDUSTRIAL MARKET METRO PHOENIX

Phoenix Market Snapshot

INDUSTRIAL SECTOR RIDING HIGH WHILE OTHER ASSET CLASSES MUDDLE THROUGH

Well now, one quarter ago the headline for this industrial report was ‘industrial real estate expected to outperform other asset classes.’ That turns out to have been an understatement. Arizona’s industrial real estate activity, especially in and around metropolitan Phoenix, is booming.

During the first six months of the year, the Phoenix industrial market experienced 4.2 million square feet of positive net absorption – that is a stunning 85 percent of all the absorption for 2019 in its entirety, which like the lyrics in a Sinatra song, it was a very good year.

Last quarter we also reported that warehouses were not full in large part because truckers and railroad operators were idled by the virus, due to substantially reduced West Coast port traffic and ships not sailing out of Asia for western shores. That situation has been remedied and we believe that much of the industrial demand is being driven by resurgent supply chain activity.

To wit, and according to a late June article published in The Maritime Executive, both the Port of Long Beach and Port of Los Angeles set recent records in their container handling operations. The MSC Steva established a new North American record at the Port of Long Beach for the most cargo moved in a single call, when workers transferred 17,080 containers, the equivalent of 30,744 TEUs, during the call. Seven ship-to-shore cranes handled at times more than 250 containers per hour to reach the record. At the Port of Los Angeles, 18,465 containers were moved from the MSC Isabella during a single ship call at APM Terminals’ Pier 400. According to the port, this is a new all-time world record equal to 34,263 TEUs. This exceeds the previous record by 1,385 TEUs and nearly 4,000 more TEUs than the Port of Long Beach’s achievement.

Much of the content in those containers is shipped north toward the Oregon border and east to the Rocky Mountain States and beyond, including to Phoenix and Tucson warehouse and distribution facilities.

While demand for big box warehouses remains high and led by Amazon’s voracious appetite for industrial real estate, much of the second quarter activity can be attributed to small occupiers (deals less than 50,000 square feet and even closer to 10,000 square feet) and not just traditional homebuilding companies. While the industrial market used to rely on construction and tourism to drive demand, Arizona’s economy has been greatly diversified in recent years. Two industrial leases in the quarter, for example, were from a mattress company and an equipment manufacturing firm. 3PLs and retailers are also taking industrial space.

Further, Phoenix has “become one of the most active data center markets in the country, not only because of the vast consumer base but also due to Arizona’s tax incentive for data center development, a robust and growing power grid, and limited occurrence of natural disasters,” Jessica Morin, director of market analytics for CoStar in Phoenix, writes in her most recent report on the city’s industrial market.”

COLD STORAGE AND SAFETY STOCK DRIVE DEMAND

Last quarter we mentioned that these two demand drivers were beginning to emerge and they picked up momentum in the recent quarter.

In a clear sign that the pandemic is spurring demand for cold-storage, a division of Brookhollow Group paid \$42 million for a large cold-storage facility near Phoenix. Brookhollow’s Condor Cold Storage teamed up with AEW Capital to acquire the 285,000-square-foot property located at 7000 W. Buckeye Road in Tolleson that is leased and occupied by Café Valley Bakery, which sells baked goods and related products to in-store bakeries, club stores, food and convenience stores around the world. The seller was Glendale-based private investor Cornerstone Arizona LLC.

“Safety stock” is the new phrase that has emerged to replace ‘just-in-time’ manufacturing and warehouse management to supply the manufacturing process. It means maker companies are opting to warehouse more inventory than they had previously with the notion being that the cost of maintaining higher levels of inventory is cheaper than lost sales caused by disrupted supply chains.

ECOMMERCE AND ONLINE SALES DRIVE DEMAND FOR INDUSTRIAL SPACE YET WILL IT BE ENOUGH?

U.S. e-commerce sales will jump 18 percent this year due to the impact of the coronavirus pandemic that forced more shoppers online, according to a new forecast released in early June by eMarketer. However, the surge in new online orders won’t make up for the overall hit that the U.S. retail sector will take this year, the firm noted. The analysts estimate that total U.S. retail sales, which also includes auto and fuel, will drop by 10.5 percent in 2020 to \$4.894 trillion — a level not seen since 2016.

Q2 2020

INDUSTRIAL MARKET METRO PHOENIX

Phoenix Market Snapshot

ECOMMERCE AND ONLINE SALES DRIVE DEMAND FOR INDUSTRIAL SPACE YET WILL IT BE ENOUGH? CONT.

This is also steeper than the 8.2 percent drop last seen in 2009, amid the recession.

“This is the sharpest consumer spending freeze in decades in the U.S.,” said eMarketer senior forecasting analyst Cindy Liu, in a report. “In just a couple weeks, as Americans sheltered in place, retail sales fell dramatically in March. With sales hitting their lowest point of the year in Q2, it will take years before consumer activity returns to normal levels,” she predicted.

The slump in retail activity typically impacts industrial real estate demand. In the current environment it remains to be seen if the rise of ecommerce will offset lackluster shopping habits in terms of industrial net absorption, though we believe it will.

2ND QUARTER DATA - DEVELOPMENT & ABSORPTION

Over 4.2 million square feet of industrial property was delivered to the market in the second quarter with another, nearly 11 million square feet of product right behind it. At mid-year, Phoenix industrial inventory had risen to 325 million square feet. More industrial space was delivered in the second quarter than all previous quarters going back to 2010. The nearest quarter to that level of production was the fourth quarter of 2018 when 3.5 million square feet came online.

Second quarter net absorption came in positive 3.49 million square feet, continuing a positive net absorption streak going back to the fourth quarter of 2013.

VACANCY & RENTAL RATES

The vacancy rate for industrial real estate settled at 7.7 percent in the second quarter, up slightly from a year ago when it was 7.1 percent, yet that is only because of the considerable volume of inventory that is hitting the market. The vacancy rate has remained below 8.0 percent since the third quarter of 2017 and still favors landlords.

Rents (average asking) bumped to \$0.62 a foot, NNN, or \$7.41 annualized, up from \$0.59 per a year earlier, or \$7.04 annualized. Lease concessions are all but non-existent and we expect industrial rents to continue to climb yet with all that inventory coming, rents could rise and fall in coming quarters.

LARGEST LEASE & SALE TRANSACTIONS

Amazon is planning to occupy as much as 3 million square feet of additional space than the company’s current footprint in the Phoenix area. Recent deals included:

- In April Amazon occupied 1.1 million square feet at 8181 W. Roseville – across the street from 1.2 million square feet the company already occupies.
- Took occupancy of two buildings totaling 569,000 square feet at Park 79, a Hines project at 79th Avenue and Buckeye Road in Phoenix.
- In May, Amazon bought a 106,000-square-foot building in Tempe.
- In June, Amazon leased a 164,486-square-foot building from Walton Street Capital LLC on N. Nevada Street in Chandler.
- In mid-July, the Seattle-based juggernaut invested \$20 million in a land deal to acquire 91.5 acres in Gilbert.

Other large leases in the second quarter included a 479,207-square-foot lease by Lucid Motors in a 780,320-square-foot Class B building owned by Harrison Properties on W. Alameda Drive in Tempe. The effective rent on that lease was \$6.00 per foot with a 7-year term. Nellis Auction took a 100,800-square-foot building off the market from Prologis in another 7-year deal. Located on S. 40th Avenue in Phoenix, the asking rent was \$5.76-per-square-foot.

Two of the largest sales during the quarter were both north of \$30 million. A San Diego-based LLC operated by Westcore Properties paid \$231 per foot, or \$38 million, for a 164,486-square-foot Class A industrial/manufacturing building on N. Nevada Street in Chandler. The seller was an LLC out of Chicago affiliated with Greenlaw Partners. The other big transaction featured Kansas City Life Insurance Company trading an industrial/distribution asset on W. Buckeye Road in Phoenix for \$94.23 a foot, or a little more than \$30 million, for the 325,000-square-foot asset. The buyer was a Los Angeles-based LLC affiliated with Cohen Asset Management Inc.

Q2 2020

INDUSTRIAL MARKET METRO PHOENIX

Phoenix Market Snapshot

Market Overview

	Total RBA	Vacant SF	Vacant %	Net Absorption	RBA Delivered	RBA Under Construction	Average Rental Rate
Distribution	80,175,817 SF	9,561,935 SF	11.9%	1,419,820 SF	2,321,997 SF	3,957,328 SF	\$0.51/SF
Manufacturing	60,476,127 SF	2,612,556 SF	4.3%	(257,020) SF	-	2,139,360 SF	\$0.57/SF
Warehouse	151,272,106 SF	10,000,276 SF	6.6%	2,046,317 SF	249,516 SF	4,672,052 SF	\$0.60/SF
Flex	33,054,709 SF	3,170,225 SF	9.6%	35,285 SF	-	145,812 SF	\$1.07/SF
TOTAL	324,978,759 SF	25,344,992 SF	7.8%	3,244,402 SF	2,571,513 SF	10,914,552 SF	\$0.59/SF

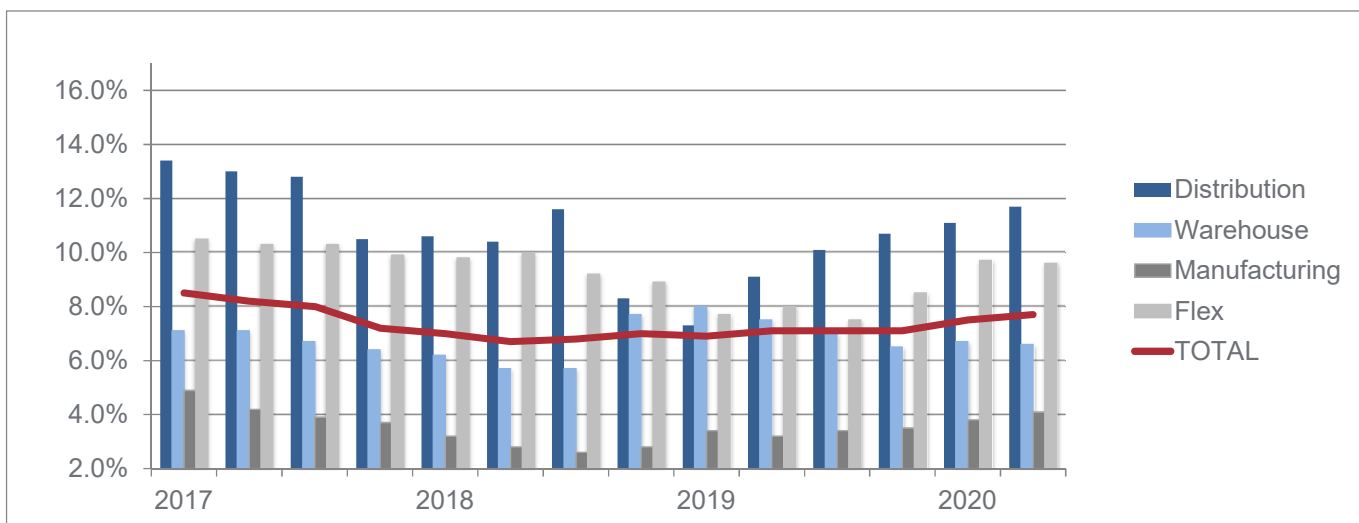
Significant Lease Transactions

	Address	Tenant	Size	Building Type	Type
1115 W Alameda Dr	Tempe	Lucid Motors	479,207 SF	Warehouse	Move In
2550 N Nevada St	Chandler	Amazon	164,486 SF	Manufacturing	Move In
1402 S 40th Ave	Phoenix	Nellis Auction	100,800 SF	Warehouse	Move In
10205 W Roosevelt St	Avondale	N/A	97,049 SF	Distribution	Move In

Significant Sale Transactions

	Address	Date	Size	Building Type	Price
2550 N Nevada St	Chandler	6/19/2020	164,486 SF	Manufacturing	\$38,000,000
7400 W Buckeye	Phoenix	6/25/2020	325,800 SF	Distribution	\$30,700,000
4455 W Camelback Rd	Phoenix	4/14/2020	148,689 SF	Manufacturing	\$12,400,000

Industrial Vacancy Rates



The Industrial Market is a compilation that includes distribution, warehouse, manufacturing and flex buildings. Some information contained herein has been obtained from third party sources deemed reliable but has not been independently verified by NAI Horizon. NAI Horizon makes no warranties or representations as to the completeness or accuracy thereof. NAI Horizon makes no guarantee about projections, opinions, assumptions or estimates. Occasionally corrected or updated information becomes available for both current and historical data thereby invalidating specific comparison to previously issued reports.

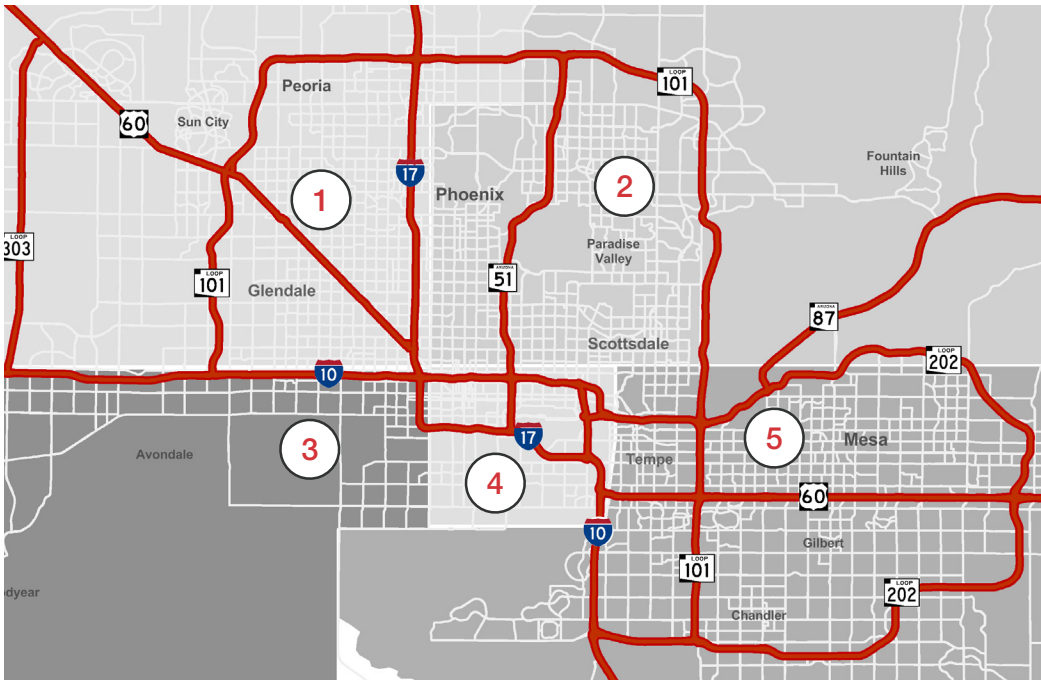
Q2 2020

INDUSTRIAL MARKET METRO PHOENIX

Submarket Snapshot

Submarket Clusters	Total RBA	Vacancy		Net Absorption	Deliveries		Under Construction	Avg Rental Rate
	SF	Total	Total %	Total	Q2	YTD	SF	Per SF
Sky Harbor								
Distribution	6,903,787	1,126,090	16.3%	45,212			0	\$0.64
Warehouse	28,551,303	1,094,211	3.8%	50,113			565,546	\$0.68
Manufacturing	8,914,427	169,616	1.9%	(8,988)	-	-	-	\$0.59
Flex	5,098,014	556,568	10.9%	(6,831)	-	-	-	\$1.08
Total	49,467,531	2,946,485	6.0%	79,506	670,228	-	565,546	\$0.74
Northeast Valley								
Distribution	653,716	17,227	2.6%	21,859	-	-	-	\$1.11
Warehouse	6,183,931	271,450	4.4%	(71,828)	-	-	-	\$0.90
Manufacturing	2,902,857	48,137	1.7%	34,500	-	-	-	\$0.85
Flex	5,227,726	346,988	6.6%	(41,288)	-	-	37,812	\$1.15
Total	14,968,230	683,802	4.6%	(56,757)	-	-	37,812	\$1.01
Northwest Valley								
Distribution	10,439,106	877,799	8.4%	152,122	156,000	799,798	2,248,742	\$0.49
Warehouse	33,240,857	1,785,480	5.4%	23,672	23,250	193,399	1,637,535	\$0.58
Manufacturing	12,736,336	705,052	5.5%	(91,077)	-	-	1,896,000	\$0.60
Flex	6,246,176	296,817	4.8%	(16,125)	-	36,000	108,000	\$1.22
Total	62,662,475	3,665,148	5.8%	68,592	179,250	1,029,197	5,890,277	\$0.63
Southeast Valley								
Distribution	9,930,476	1,474,658	14.8%	(98,110)	823,880	823,880		\$0.66
Warehouse	45,427,793	3,629,397	8.0%	704,347	734,965	1,235,074	504,941	\$0.65
Manufacturing	24,315,452	1,162,441	4.8%	(121,358)	-	32,700	-	\$0.66
Flex	15,135,899	1,915,911	12.7%	93,279	-	-		\$0.72
Total	94,809,620	8,182,407	8.6%	578,158	1,558,845	2,091,654	504,941	\$0.71
Southwest Valley								
Distribution	52,248,732	6,066,161	11.6%	1,298,737	1,342,117	2,349,977	1,708,586	\$0.44
Warehouse	37,868,222	3,219,738	8.5%	1,340,013	1,155,236	1,191,469	1,964,030	\$0.52
Manufacturing	11,607,055	527,310	4.5%	(70,097)	-	-	243,360	\$0.43
Flex	1,346,894	53,941	4.0%	6,250	-	-	-	\$0.98
Total	103,070,903	9,867,150	9.6%	2,574,903	2,497,353	3,541,446	3,915,976	\$0.47
Building Type								
Distribution	80,175,817	9,561,935	11.9%	1,419,820	2,321,997	3,973,655	3,957,328	\$0.51
Warehouse	151,272,106	10,000,276	6.6%	2,046,317	249,516	2,619,942	4,672,052	\$0.60
Manufacturing	60,476,127	2,612,556	4.3%	(257,020)	0	32,700	2,139,360	\$0.57
Flex	33,054,709	3,170,225	9.6%	35,285	-	36,000	145,812	\$1.07
Overall Total 2Q20	324,978,759	25,344,992	7.8%	3,244,402	2,571,513	6,662,297	10,914,552	\$0.59

Industrial Submarkets



- 1 Northwest Valley**
Deer Vly/Pinnacle Pk, Glendale, Grand Avenue, N Glendale/Sun City, North Black Canyon, W Phx N of Thomas Rd, W Phx S of Thomas Rd
- 2 Northeast Valley**
Central Phoenix, Scottsdale Airpark, Scottsdale/Salt River
- 3 Southwest Valley**
Goodyear, SW N of Buckeye Rd, SW S of Buckeye Rd, Tolleson
- 4 Sky Harbor**
North Airport, S Airport N of Roeser, S Airport S of Roeser, SC N of Salt River, SC S of Salt River
- 5 Southeast Valley**
Chandler Airport, Chandler, Chandler N/ Gilbert, Falcon Field/Apache Junction, Mesa, Tempe E, Tempe NW, Tempe SW

We are here. Phoenix

- @naihorizon
- naihorizonblog.com
- facebook.com/NAIHorizon

NAI Horizon knows commercial real estate. With over 27 years in the Valley, NAI Horizon's extensive market insight allows us to match client needs with the right solutions. NAI Global member firms span the U.S. and 36 other countries, with more than 375 offices and more than 6,000 local market experts on the ground. Supported by the central resources of the NAI Global organization, member firms deliver market-leading services locally, and combine their in-market strengths to form a powerful bond of insights and execution for clients with multi-market challenges.

www.naihorizon.com
Industrial & Land Specialists



Jeff Adams
Senior Vice President
jeff.adams@naihorizon.com



John Filli, SIOR
Senior Vice President
john.filli@naihorizon.com



Rick Foss
Senior Vice President
rick.foss@naihorizon.com



Michael Gaida
Associate
michael.gaida@naihorizon.com



Christopher Lewis
Vice President
chris.lewis@naihorizon.com



Don Morrow
Senior Vice President
don.morrow@naihorizon.com



Jay Olson
Associate
jay.olson@naihorizon.com



Isy Sonabend
Senior Vice President
isy.sonabend@naihorizon.com



Mark Wilcke
Senior Vice President
mark.wilcke@naihorizon.com

2nd Quarter
2020
Industrial
Market Report

NAIHorizon

2944 N 44th Street, Suite 200
Phoenix, Arizona 85018
tel +1 602 955 4000
www.naihorizon.com