



NAI Horizon

3rd Quarter  
**2020**  
Industrial  
Market Report

# Q3 2020

## INDUSTRIAL MARKET METRO PHOENIX

# Phoenix Market Snapshot

## **DEMAND FOR INDUSTRIAL REAL ESTATE REMAINS CERTAIN DESPITE ALL THE UNCERTAINTY**

Industrial, led by manufacturing, continues to power the real estate industry. In the third quarter this year more than 1.3 million square feet of manufacturing space was positively net absorbed in the Phoenix market, while distribution was second with 771,452 square feet. Warehouse and flex space had positive absorption as well.

At NAI Global's annual (virtual) convention in September, CoStar Managing Director Robert Calhoun, CFA, gave a data-rich presentation and overview of the primary property verticals that was a mix of the expected and unexpected.

For industrial, it was the expected.

- Amazon is far and away the biggest driver of industrial occupancy
- Industrial developers are building more, and bigger, boxes
- There has been a meaningful bump in the movement of goods, principally the global supply chain
- Records are set weekly for industrial leasing activity
- Industrial rent growth will be about 12% this year

These trends are as true in Phoenix as they are nationally.

In what is believed its first purely distribution space lease in Arizona, Lowe's Home Improvement leased 117,000 square feet at Gilbert Gateway Commerce Park on E. Nunneley Road. It is the first lease signed at the Trammell Crow Company speculative project in Gilbert, which is 416,377 square feet in total. According to the Lowe's store directory, there are 32 stores in Arizona, 21 of which are within the Phoenix metro area. Lowes operates over 30 distribution centers in the U.S. and are broken out by regional, specialty and flatbed facilities, with the western states served by centers in Texas, Colorado, California, Wyoming, Washington and now, Arizona.

Big box continues to dominant industrial demand, yet smaller occupiers remain in the hunt for new or expansion facilities. Among NAI Horizon clients, several are looking for industrial buildings ranging from 15,000 square feet to 25,000 square feet, while some of the firm's land listings are attracting calls from brokers with 25,000-square-foot to 150,000-square-foot tenant requirements. While CoStar's Calhoun cited national industrial rent growth at 12 percent this year, rents grew year-over-year in Phoenix between 4 percent and 6 percent – not an indication that industrial is growing slower in Phoenix; rather, rental rate growth tends to increase slower in Phoenix than in larger MSAs, in large part because the region has so much land. By any measure, that sort of rent growth for Phoenix industrial is phenomenal.

Even though Calhoun cautioned that he is seeing millions of square feet of spec industrial product coming to market without preleasing – something that CoStar is watching closely as a potential trend-changing development – in Phoenix we are seeing much of the speculative product pre-leased or, as was the case with Lowe's Trammell Crow's project, the lease was signed near completion of the development.

Demand from California-based industrial occupiers is a constant for the Phoenix industrial market, and it has only increased since the start of the pandemic.

## **ECOMMERCE TRENDS: THE BEAT GOES ON**

Last quarter we reported that U.S. e-commerce sales are expected to jump 18 percent this year due to the impact of the coronavirus pandemic that forced more shoppers online (source eMarketer). Ecommerce sales accounted for 16.1 percent of retail sales in the second quarter this year, up from 11.8 percent in the first quarter, according to the U.S. Department of Commerce. And a newly released survey by Pitney Bowes' Shipping Index and published in the Journal of Commerce reveals global parcel volumes are expected to double on e-commerce shipping by 2026.

China is by far the largest small parcel market with 63.5 billion parcels shipped in 2019, a 26 percent year-over-year increase, according to Pitney Bowes. That is followed by the U.S. with 14.7 billion parcels, up 11 percent year over year, and India, the third-largest with 2.8 billion parcels, a 19 percent gain. While the U.S. small parcel market is dominated by FedEx and UPS, Amazon has emerged as a major last-mile player due to its rapidly increasing delivery capacity.



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## ECOMMERCE TRENDS: THE BEAT GOES ON CONT.

Amazon has more than 75 fulfillment facilities in the U.S. and is opening more than 1,000 delivery hubs located closer to customers for faster delivery times. In an August 10 tweet, Dave Clark, senior vice president of Amazon operations, noted that the company had over 400,000 drivers within its dedicated last-mile delivery network.

According to Pitney Bowes, Amazon delivered 1.9 billion packages in the U.S. through its in-house delivery network, a 155 percent year-over-year increase in 2019. Furthermore, Pitney Bowes forecasts that Amazon's small parcel volumes will grow at a 30 percent compounded annual growth rate from 2020-24.

## 3RD QUARTER DATA - DEVELOPMENT & ABSORPTION

On supply, 3,269,032 square feet was delivered in the third quarter with 9,243,134 square feet under construction. One year ago, 2,686,635 square feet of industrial product was delivered and 7,356,558 square feet was under construction.

Third quarter net absorption came in positive at 2.6 million square feet, continuing a positive net absorption streak going back to the fourth quarter of 2013. Year-to-date, the Phoenix market has positively absorbed a little more than 5.9 million square feet of industrial product, or already more than the 4.42 million square feet of positive net absorption for all four quarters of 2019.

## VACANCY & RENTAL RATES

Industrial rental rates remain steady, coming in at an average of \$7.41 per-square-foot, compared with \$7.45 per foot in the second quarter and \$7.01 a year ago. The northeast valley continues to demand the highest rents, with average asking rents at \$12.11 per foot in the recent quarter. 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.

The vacancy rate for industrial real estate settled at 8.3 percent in the third quarter, up slightly from the second quarter. A year ago it was 7.5 percent, so vacancy is trending upward with all the supply that is being built and delivered.

## LARGEST LEASE & SALE TRANSACTIONS

Last quarter we reported that 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. What a difference a quarter makes. Make that 4 million square feet of new space this year, which will bring its Phoenix-area totals to approximately 10 million square feet. The largest lease in the third quarter was a 10-year deal with Amazon taking 278,161 square feet on E. Riverview Drive in Phoenix. The asking rent was \$6.72NNN. Wentworth Property Company owns the facility.

(Note: Amazon is not only leasing new industrial space at a rapid clip, it is leasing Phoenix-area office space too. See the office report from this quarter for more details.)

Other large leases in the second quarter included a 259,200-square-foot renewal for eight years by MiTek USA Inc. in a property on W. Lincoln Street in Tolleson owned by CalSTRS, while Kuehne + Nagle Inc. executed the third largest lease in the quarter on W. Van Buren Street in Tolleson, committing to 237,176 square feet. The asking rent for that deal was \$4.57 per foot and Wentworth Property Company owns the 575,685-square-foot building.

Two of the largest sales during the quarter were both large distribution properties.

New York-based Kohlberg Kravis Roberts & Co. LP acquired a Class A, 380,000 square foot building from Dallas-based Crow Holdings for \$43,250,000, or \$113.82 per foot. The asset is located at 8001 W. Buckeye Road in Tolleson.

Another New York investor, HFZ Capital Group, purchased a 620,000-square-foot, Class B building at 101 Distribution Center in Glendale from Conair Corporation, which is based in Stamford, CT. The sale price in that transaction was \$19 million, or \$30.65 per foot.

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#### Market Overview

	Total RBA	Vacant SF	Vacant %	Net Absorption	RBA Delivered	RBA Under Construction	Average Rental Rate
Distribution	81,582,420 SF	9,473,793 SF	11.6%	771,452 SF	623,358 SF	3,731,953 SF	\$0.51/SF
Manufacturing	61,575,932 SF	2,617,149 SF	4.3%	1,137,881 SF	1,159,360 SF	1,231,066 SF	\$0.58/SF
Warehouse	152,695,435 SF	12,115,100 SF	7.9%	491,163 SF	1,330,829 SF	4,172,115 SF	\$0.60/SF
Flex	33,267,275 SF	3,141,284 SF	9.4%	207,743 SF	155,485 SF	108,000 SF	\$1.09/SF
<b>TOTAL</b>	<b>329,121,062 SF</b>	<b>27,347,326 SF</b>	<b>8.3%</b>	<b>2,608,239 SF</b>	<b>3,113,547 SF</b>	<b>9,243,134 SF</b>	<b>\$0.69/SF</b>

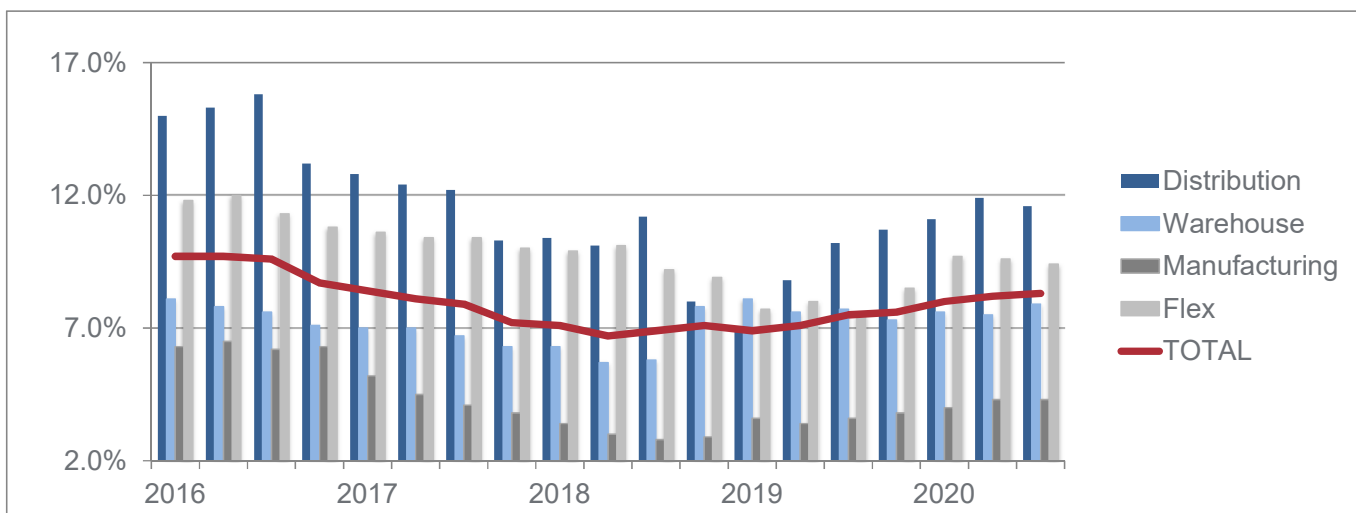
#### Significant Lease Transactions

	Address	Tenant	Size	Building Type	Type
Airport I-10 Business Center	2050 E Riverview Dr, PHX	N/A	278,161 SF	Distribution	Move In
Tolleson Corporate Park	7890 W Lincoln St, Tolleson	MITek USA, Inc.	259,200 SF	Manufacturing	Renewal
Interstate Logistics Center	7210 W Van Buren St, PHX	Nuehne + Nagle Inc.	237,176 SF	Distribution	Move In
Prologis Riverside Center	2200 S 48th Ave, PHX	N/A	223,917 SF	Warehouse	Move In

#### Significant Sale Transactions

	Address	Date	Size	Building Type	Price
PV 303 - Bldg A	16601 W Sells St, Goodyear	8/20/2020	970,000 SF	Distribution	\$54,690,200
101 Distribution Center	7811 N Glen Harbor Blvd, Glendale	7/8/2020	620,000 SF	Distribution	\$19,000,000
101 Logistics Park	10209 W Roosevelt St, Avondale	7/29/2020	409,254 SF	Distribution	\$32,500,000

#### 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.

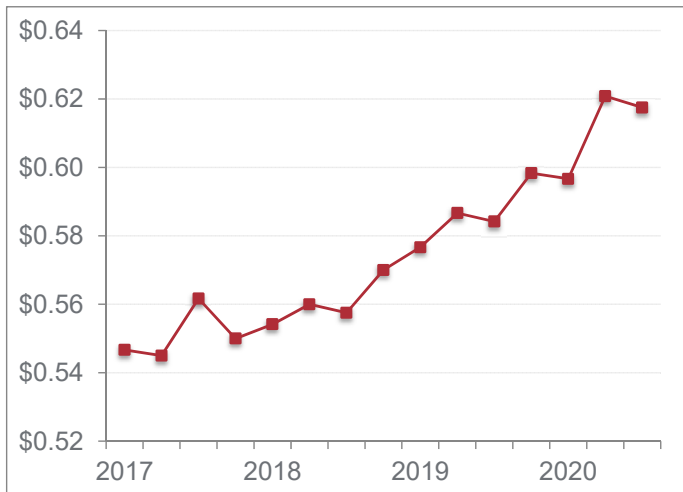
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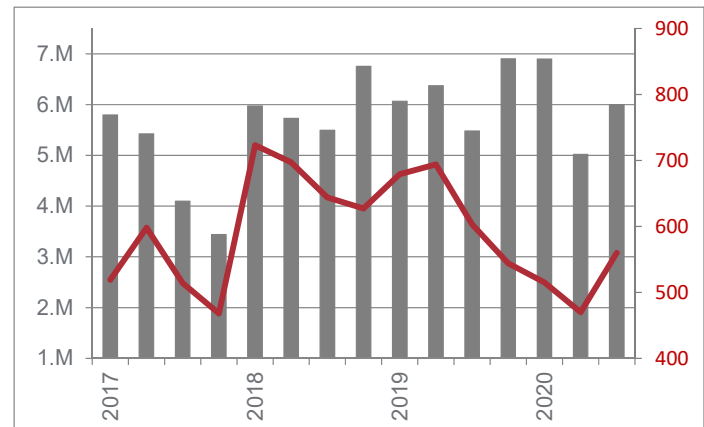
Submarket Snapshot

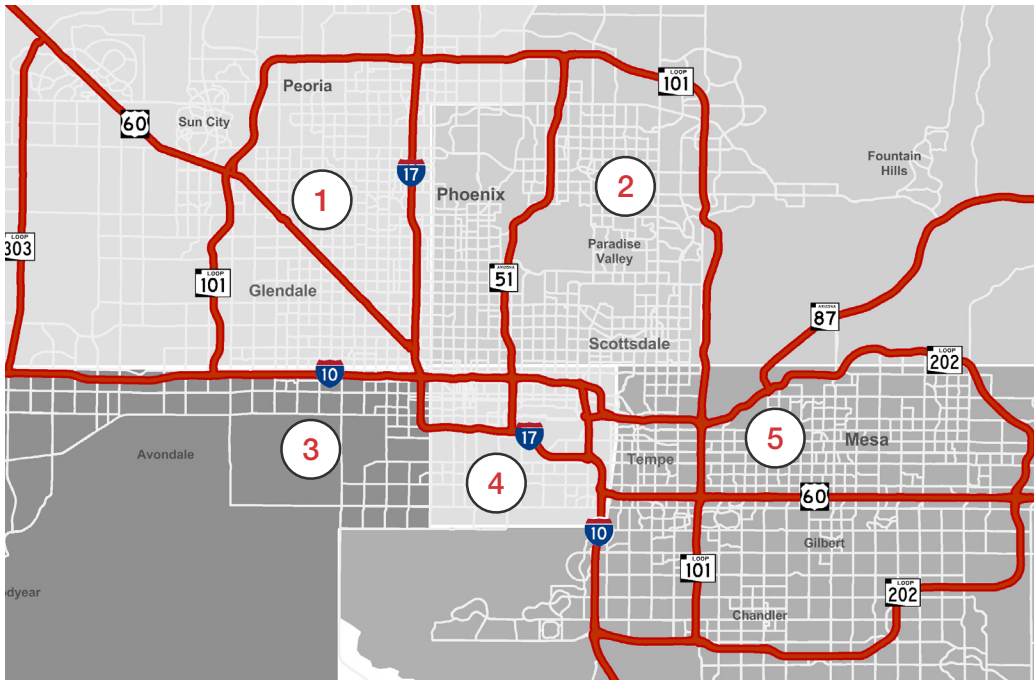
	RBA		Vacant SF		Vacant %		Net Absorption		Deliveries	
Sky Harbor	49,831,956	▲	3,216,330	▲	6.5%	▲	270,588	▲	320,700	▼
Northeast Valley	14,953,183	▼	805,927	▲	5.4%	▲	(84,313)	▼	37,812	▲
Northwest Valley	64,558,581	▲	3,585,929	▼	5.6%	▼	1,640,368	▲	1,515,585	▲
Southeast Valley	95,101,067	▲	8,054,527	▼	8.5%	▼	372,839	▼	223,673	▼
Southwest Valley	104,676,275	▲	11,684,613	▲	11.2%	▲	408,757	▼	1,171,262	▼
<b>All Submarkets</b>	<b>329,121,062</b>	<b>▲</b>	<b>27,347,326</b>	<b>▲</b>	<b>8.3%</b>	<b>▲</b>	<b>2,608,239</b>	<b>▼</b>	<b>3,269,032</b>	<b>▲</b>
Overall Total 2Q20	325,862,730	▲	26,697,233	▲	8.2%	▲	3,293,322	▲	4,250,183	▲
Overall Total 1Q20	321,666,875	▲	25,794,700	▲	8.0%	▲	722,687	▼	2,443,949	▲
Overall Total 4Q19	319,410,316	▲	24,260,828	▲	7.6%	▲	1,454,870	▲	1,872,769	▼
Overall Total 3Q19	317,545,972	▲	23,851,354	▲	7.5%	▲	1,223,099	▲	2,686,635	▲

### Industrial Lease Rates



### Industrial Lease Deals





## 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

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