



NAI Horizon

4th Quarter  
**2020**  
Industrial  
Market Report

# Q4 2020

## INDUSTRIAL MARKET METRO PHOENIX

# Phoenix Market Snapshot

## PHOENIX INDUSTRIAL MARKET POSTS RECORD YEAR

A third quarter earnings call with Prologis' CEO and analysts' provides a good snapshot of what the industrial market looked like in 2020. New lease proposals were up 12 percent for the REIT, e-commerce represented 37 percent of new proposals compared to 21 percent on average, 13% of Prologis' leases went to Amazon and third-party logistics providers (3PLs) represented one-third of its leases that quarter, which was a record for the San Francisco-based developer. The balance of its activity was in food and beverage, health care and consumer products verticals.

Those kinds of occupiers and more took up Phoenix industrial real estate in record numbers for the year, and astoundingly so.

2020's net absorption was 14,098,852 square feet, compared with 4.38 million square feet in 2019, 7.5 million square feet in 2018, 10.7 million square feet in 2017 (the first record since the beginning of the millennial) and 5.4 million square feet in 2016. There was more absorption in the fourth quarter alone last year, at 7.27 million square feet, than in all but three years since 2010; those years were 2017, 2015 and 2014, and the latter two years did not exceed last year's fourth quarter by much.

And there does not seem to be an end in sight for this run.

Here's a glimpse of the robust activity in the marketplace just a few weeks into the New Year:

- We know of three large building users chasing a single, 140,000+ square-foot building while one of our sales professionals has a couple of large parcels of land for sale that will not be available after this quarter – one of which had been previously difficult to move.
- Amazon accounted for over 20 percent of all leases in 2020 and now occupies more than 11.6 million square feet of industrial property in the region and nearly a million square feet of office space.
- Rent prices have risen dramatically, particularly in the fourth quarter last year, and especially for buildings smaller than 50,000 square feet. Rents are up 10 percent or more on the west side of the Valley.
- Sales prices have escalated too. Buildings between 10,000 square feet to 30,000 square could formerly be acquired for less than \$100 per-square-foot. Now, they are commanding \$130 a foot, even north of \$140 per-square foot, and still rising
- Land prices have gone through the roof. Dirt that was three bucks a foot is now trading at \$5, \$6—even \$10+ per-square-foot in some submarkets.
- Demand is greatest near freeways, whether it is the Loop 202 South Mountain Freeway or the Loop 303 at N. Reems Road and W. Northern Avenue in Glendale, where there has been more activity than in the last 19 years. One of the recently delivered projects in the Glendale submarket, for example, features a 1.2 million-square-foot building in Litchfield Park that is divisible to 400,000 square feet.
- Capitalization rates are getting compressed to new lows. Allstate Investments LLC sold a 201,784-square-foot building occupied by Amazon on S. McQueen Road in Chandler to Lexington Realty Trust for \$435 per foot, or nearly \$88 million, and a 4.56 cap rate.
- Anything languishing in the market late last year started flying off the shelf, even buildings with deferred maintenance or functional issues are selling. It's like the voice-over guy in a tacky TV commercial barking, "Everything Must GO!" And it's going.

The primary reason behind the booming industrial market – not just in Phoenix but across the U.S., is of course the pandemic. More precisely, the pandemic accelerated trends that have been in the works for a decade or longer and mainly, the explosive growth of e-commerce. Yet it goes beyond the shift in consumer shopping habits.

For the Phoenix area, it continues to be population growth and household expansion. Demand for new homes and residential communities is so strong there are reports that some residential developers are contemplating a return to selling houses by lottery – put a pool of interested buyers together for a single home sale and pull a number from a hat.

After Proposition 208 passed last November, raising the personal income tax rate for high earners in Arizona from 4.5 percent to 8 percent, the CEO of the Greater Phoenix Economic Council (GPEC), Chris Camacho, told a reporter with the San Francisco Business



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### PHOENIX INDUSTRIAL MARKET POSTS RECORD YEAR CONT.

Times: “One ballot measure doesn’t define our region’s value proposition. GPEC’s pipeline remains incredibly strong and 28 percent of active prospects are from the Golden State, with several headquarters and manufacturing operations nearing announcement. The region is a magnet for California companies and people,” said Camacho.

Speaking of California, part of the increased demand for Arizona’s industrial real estate is the ultra-low availability of industrial space in Southern California, which has low single-digit vacancy rates. As for the local spike in rents and sales prices – in addition to high demand throughout the region, construction costs continued to rise in 2020, with some developers saying were 10 percent or greater.

### BY THE NUMBERS

Developers anticipated the demand for the year, delivering 6.12 million square feet of industrial inventory during the fourth quarter, and for the year, 15.7 million square feet – or almost as much as the three previous years combine. Builders brought 6.9 million square feet to market in 2019, 4.34 million square feet in 2018 and 6.69 million square feet in 2017, or 17.93 million square feet in that 36-month span.

As the sun set on 2020, industrial developers had 6.55 million square feet of new product under construction, compared with 10.5 million square feet at the close of 2019.

There were 418 completed leases in the fourth quarter – a relatively low number, and in fact the fewest leases for any quarter in the last 10 years. Leasing activity was robust though not exceptional, with 4.54 million square feet of space leased in the quarter. That compares with 8.46 million square feet of industrial leases in the fourth quarter 2019. That figure was exceptional and represented the most quarterly activity for industrial leasing on a square-footage basis in the last decade. During 2020, tenants leased a whopping 22.85 (gross) million square feet of industrial property in the Phoenix metro market.

Average asking rents finished the fourth quarter at \$7.67 per-square-foot, up from \$7.51 at the end of the third quarter 2020. The 16 cents-jump was a big quarter-to-quarter spike in rents, but not the biggest in the last decade. That distinction happened earlier in the year, when rents increased 30 cents per foot from the first quarter of 2020 to the second quarter last year.

Looking back at 10 years of quarterly rent data, a pattern emerges; we have these quarterly spikes of 16 cents, 17 cents, 20 cents, with a one quarter-to-quarter increase of 12 cents. For example, rents increased from \$17.01 per foot in the third quarter 2019 to \$17.18 per foot in the fourth quarter 2019. Rents jumped even more – 20 cents, from the second quarter of 2017 to the third quarter that year, moving from \$6.54 a foot to \$6.74. Yet for most of the decade the rental rate changes have been incremental, quarter-to-quarter, of 5 cents, 8 cents, four cents, even flat.

The top lease in the fourth quarter featured a 593,600-square-foot deal for a little more than 10 years by The RealReal, which operates used merchandise stores. Located at 563 S. 63rd Avenue in Phoenix, it was a direct lease. The rental rate was not reported by CoStar, however, we know from the previous tenant that the starting rate back in 2016 was \$4.80 per-square-foot.

The second-largest lease in the quarter was a 552,330-square-foot commitment at 1755 S. 75th Avenue in Tolleson – another direct deal, by States Logistics Services Inc. The professional, scientific and technical consulting services company took the majority of a 683,000-square-foot Class A building that was constructed in 2010. The asking rate was \$5.52/NNN per foot.

The biggest industrial building sale in the fourth quarter – ranked by gross selling price, was the aforementioned asset on S. McQueen Road and the building occupied by Amazon. The asset traded for \$87,725,000, or \$435 per-square-foot.

BlackRock Realty Advisors acquired a 684,420-square-foot building from CBRE Global Investors Ltd at 7775 W. Buckeye Road in Phoenix for \$72.5 million, or \$106 per foot, while L.A.-based Cohen Asset Management Inc. paid \$61.23 million to Scottsdale-based Marwest Enterprises for The Landing 202, which is part of a multi-property commerce center at 8046 E. Ray Road in Mesa. That sale worked out to \$126 per foot.

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#### Market Overview

	Total RBA	Vacant SF	Vacant %	Net Absorption	RBA Delivered	RBA Under Construction	Average Rental Rate
Distribution	81,492,619 SF	9,443,269 SF	11.6%	1,056,209 SF	1,504,218 SF	2,917,019 SF	\$0.52/SF
Manufacturing	62,342,618 SF	2,140,335 SF	3.4%	1,223,719 SF	710,900 SF	606,014 SF	\$0.61/SF
Warehouse	155,929,619 SF	10,698,775 SF	6.9%	4,736,316 SF	3,793,009 SF	3,032,713 SF	\$0.61/SF
Flex	33,876,198 SF	3,282,842 SF	9.7%	1,223,719 SF	108,000 SF	-	\$1.11/SF
<b>TOTAL</b>	<b>333,641,353 SF</b>	<b>25,565,221 SF</b>	<b>7.7%</b>	<b>7,272,539 SF</b>	<b>6,116,127 SF</b>	<b>6,555,746 SF</b>	<b>\$0.64/SF</b>

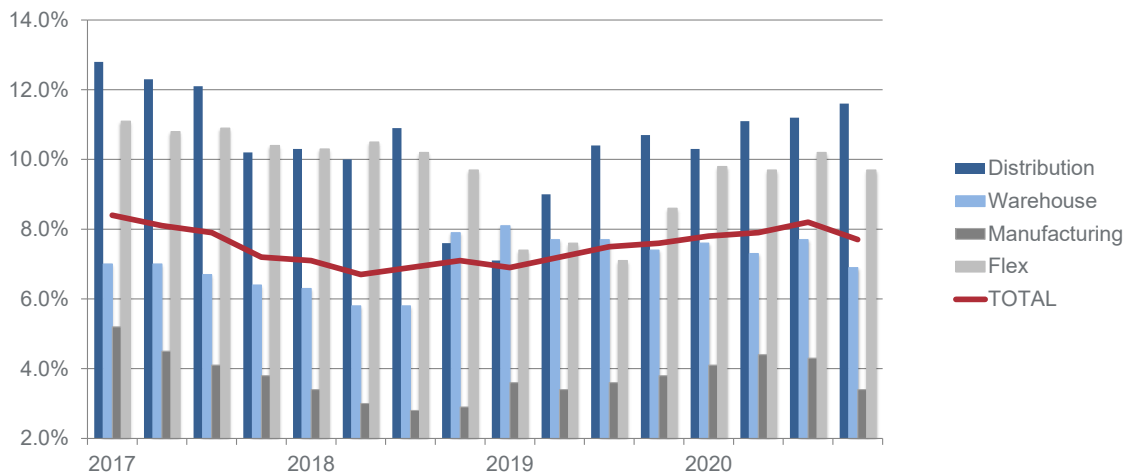
#### Significant Lease Transactions

	Address	Tenant	Size	Building Type	Type
Liberty Logistics Center	563 S 63rd Ave, Phoenix	The RealReal	593,600 SF	Distribution	Move In
Logistics 75	1755 S 75th Ave, Phoenix	States Logistics Services	552,330 SF	Distribution	Renewal
Riverside Business Center	4570 W Lower Buckeye, Phoenix	Honeywell	301,954 SF	Distribution	Move In
101 Distribution Center	7811 N Glen Harbor Blvd, Glendale	Dynarex Corporation	250,000 SF	Distribution	Move In

#### Significant Sale Transactions

	Address	Date	Size	Building Type	Price
Amazon	3405 S McQueen Rd, Chandler	11/10/2020	201,784 SF	Distribution	\$87,725,000
Bldg 1	7775 W Buckeye Rd, Phoenix	10/9/2020	684,420 SF	Distribution	\$72,500,000
The Landing 202	8046 E Ray Rd, Mesa	12/3/2020	486,000 SF	Distribution	61,230,440

#### Industrial Vacancy Rates



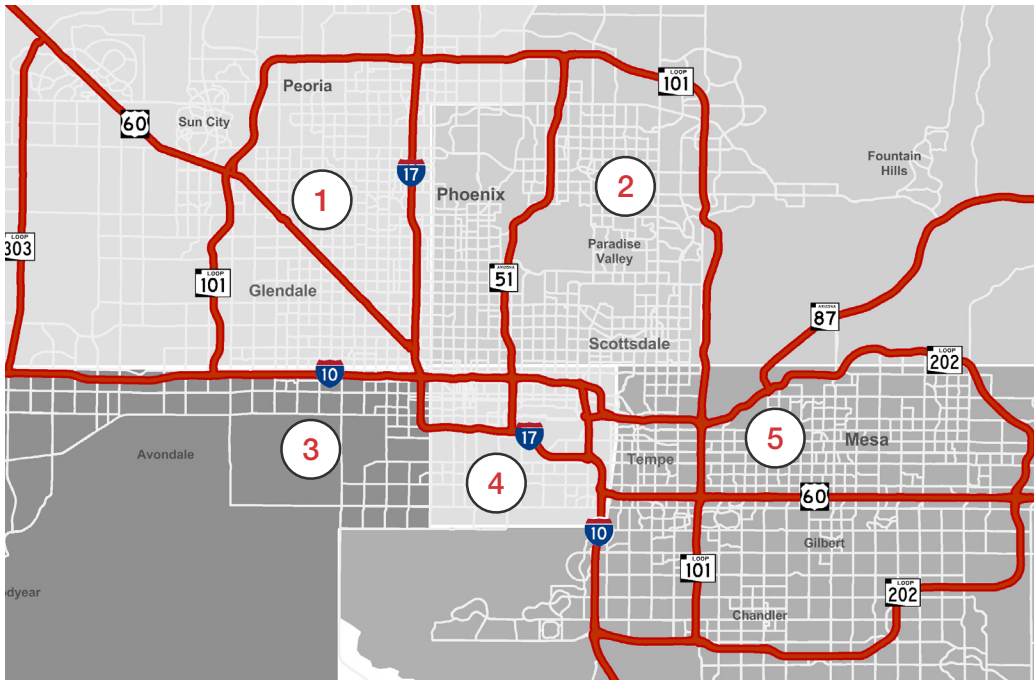
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### Submarket Snapshot

Submarket Clusters	Total RBA	Vacancy		Net Absorption		Deliveries		Under Construction	Avg Rental Rate
	SF	Total	Total %	Q4	YTD	Q4	YTD	SF	Per SF
<b>Sky Harbor</b>									
Distribution	6,999,518	620,391	8.9%	317,983	454,113	0	0	-	\$0.64
Warehouse	29,008,926	1,196,046	4.1%	490,454	540,017	150,700	488,500	94,146	\$0.72
Manufacturing	8,879,064	137,649	1.6%	3,422	21,575	-	-	-	\$0.65
Flex	5,086,462	685,718	13.5%	(100,671)	(195,823)	-	0	-	\$1.22
<b>Total</b>	<b>49,973,970</b>	<b>2,639,804</b>	<b>5.3%</b>	<b>711,188</b>	<b>819,882</b>	<b>150,700</b>	<b>488,500</b>	<b>94,146</b>	<b>\$0.81</b>
<b>Northeast Valley</b>									
Distribution	697,428	33,511	4.8%	(12,677)	(12,984)	-	-	-	\$1.18
Warehouse	6,121,440	357,454	5.8%	(15,055)	(164,724)	-	-	-	\$0.93
Manufacturing	2,902,857	27,081	0.9%	20,355	39,500	-	-	-	\$0.85
Flex	5,209,872	305,910	5.9%	77,381	38,389	-	-	-	\$1.11
<b>Total</b>	<b>14,931,597</b>	<b>723,956</b>	<b>4.8%</b>	<b>70,004</b>	<b>(99,819)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$1.00</b>
<b>Northwest Valley</b>									
Distribution	11,145,692	874,737	7.8%	25,253	1,208,909	-	1,154,284	2,292,239	\$0.48
Warehouse	34,202,322	1,449,310	4.2%	1,046,605	1,269,986	706,198	1,158,756	897,484	\$0.63
Manufacturing	14,374,576	520,412	3.6%	788,063	1,629,816	710,900	1,626,900	280,000	\$0.61
Flex	6,370,606	267,217	4.2%	135,525	211,395	108,000	144,000	-	\$1.20
<b>Total</b>	<b>66,093,196</b>	<b>3,111,676</b>	<b>4.7%</b>	<b>1,995,446</b>	<b>4,320,106</b>	<b>1,525,098</b>	<b>4,083,940</b>	<b>3,469,723</b>	<b>\$0.67</b>
<b>Southeast Valley</b>									
Distribution	10,164,096	1,663,332	16.4%	81,192	(49,735)	201,784	1,025,664	-	\$0.67
Warehouse	45,560,362	3,389,422	7.4%	401,301	1,271,956	82,288	1,415,343	743,297	\$0.67
Manufacturing	24,312,861	1,026,990	4.2%	138,459	53,692	-	32,700	326,014	\$0.67
Flex	15,444,790	1,576,197	10.2%	111,561	110,360	-	117,673	-	\$1.04
<b>Total</b>	<b>95,482,109</b>	<b>7,655,941</b>	<b>8.0%</b>	<b>732,513</b>	<b>1,386,273</b>	<b>284,072</b>	<b>2,591,380</b>	<b>1,069,311</b>	<b>\$0.73</b>
<b>Southwest Valley</b>									
Distribution	52,485,885	6,251,298	11.9%	644,458	3,106,310	1,302,434	3,924,391	624,780	\$0.44
Warehouse	41,036,868	4,306,543	10.5%	2,813,011	2,853,823	4,321,191	4,631,036	1,297,786	\$0.50
Manufacturing	11,873,260	428,203	3.6%	273,420	197,676	0	243,360	-	\$0.46
Flex	1,764,468	447,800	25.4%	32,499	(262,612)	-	-	-	\$0.72
<b>Total</b>	<b>107,160,481</b>	<b>11,433,844</b>	<b>10.7%</b>	<b>3,763,388</b>	<b>5,895,197</b>	<b>5,623,625</b>	<b>8,798,787</b>	<b>1,922,566</b>	<b>\$0.48</b>
<b>Building Type</b>									
Distribution	81,492,619	9,443,269	11.6%	1,056,209	4,706,613	1,504,218	6,104,339	2,917,019	\$0.52
Warehouse	155,929,918	10,698,775	6.9%	4,736,316	5,771,058	3,793,009	7,693,635	3,032,713	\$0.61
Manufacturing	62,342,618	2,140,335	3.4%	1,223,719	1,942,259	710,900	1,902,960	606,014	\$0.61
Flex	33,876,198	3,282,842	9.7%	256,295	(98,291)	108,000	261,673	0	\$1.11
<b>Overall Total 4Q20</b>	<b>333,641,353</b>	<b>25,565,221</b>	<b>7.7%</b>	<b>7,272,539</b>	<b>12,321,639</b>	<b>6,116,127</b>	<b>15,962,607</b>	<b>6,555,746</b>	<b>\$0.64</b>
Overall Total 3Q20	327,529,726	26,726,133	8.2%	709,421		4,076,954		11,134,309	\$0.63
Overall Total 2Q20	323,463,472	25,563,917	7.9%	2,605,147		3,861,624		13,068,426	\$0.63
Overall Total 1Q20	319,656,176	24,969,139	7.8%	1,398,148		1,635,869		16,414,800	\$0.61
Overall Total 4Q19	318,261,656	24,284,376	7.6%	3,696,632		1,884,396		10,502,514	\$0.60



## 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



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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.

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