



NAI Horizon

1st Quarter
2021
Industrial
Market Report

Economic Overview

The Recovery is Well Underway

The economic recovery underway in the U.S. can be summarized in three words: pent up demand. With the exception of jumping on a Zoom call, there is pent up demand for everything. Going to restaurants, a ballgame, on a vacation (and one that requires air travel), going back to the office. You name it. Look at Phoenix traffic during commute hours. To use a non-technical phrase, it sucks. Again.

Here are just three headlines in one newspaper on one day in mid-April:

“Oil Demand Recovers Amid Vaccine Hiccups”
“Logjam of Cargo Ships Ease at California Ports”
“Oil Demand Recovers Amid Vaccine Hiccups”

West Texas Intermediate Futures, the U.S. gauge for oil demand (vs. Brent Crude, globally), jumped 4.6 percent in a day when this report was being written, to close at \$63.15 a barrel. A year ago that barrel of oil was trading at its lowest point in 10 years, at \$16.52. See the retail and industrial reports for details from those other two headlines.

With stock markets still breaking records and banks reporting very strong earnings, it's beginning to look like Alan Greenspan's “Goldilocks Economy,” which the former Federal Reserve Chairman popularized in the late 1990s, though he was not the first banker to use the phrase to describe a sustainable economy that is not too hot or too cold, and features low inflation.

With nearly 200 million Americans inoculated, doctors doom and gloom appear wobbly and on the ropes, while Captain Confidence is taking control of the narrative.

The Recovery is Well Underway

At the close of 2020, jobs in Arizona were 3 percent below their February 2020 peak and represented a substantial 90,100 job gap, over half of which were in leisure and hospital sectors of the state's economy, as the travel and tourism industry remained hard hit by the pandemic. Further, in December, all major employment sectors, with the exception of transportation and warehousing, were below their peak. Income growth in the state surged in the second and third quarters of 2020, driven upward by a gigantic flow of federal relief funds into the state that helped to stabilize the economy in general and spurred gains in retail sales of tangible goods and trade, transportation, and warehousing jobs in particular.

Ongoing population growth and demand for housing remained high throughout the pandemic

Arizona total housing permits rose 23.0% in 2020 to 57,281. That was up from the revised 2019 annual total of 46,580. Most of the increase was driven by single-family activity, which rose to 41,465. That was an increase of 22.0%. Multi-family permits rose 25.5% to 15,816 in 2020.

Phoenix MSA housing permits increased 27.4% to 45,694 in 2020. Single-family permits increased to 31,475 (up 25.8%) and multi-family permits rose to 14,219 (up 31.1%).

Tucson MSA housing permits also increased last year, but at a slower pace. Total permits rose 14.9% to hit 4,956. Single-family permits accounted for all of the increase, rising 21.6%. Multi-family permits dropped 13.3% in 2020.

Economic Overview continued

The house prices indexes from the Federal Housing Finance Agency (FHFA) measure repeat sales on single-family homes, and thus are not impacted by composition effects that can distort trends in median house prices. Data for the third quarter of 2020 also indicate strong house price appreciation in Arizona, with prices up 7.9% over the year statewide, 8.3% in Phoenix, and 7.2% in Tucson. By comparison, nationally, house prices were up 4.7% over the year in the third quarter.

We'll report on travel and tourism data in a future market report this year, but suffice it to say late winter and early spring travelers returned to Arizona in droves in recent months, and with it came a nice bounce in that sector of the state's economy – both in terms of hiring and spending.

(Sources: Saudi Aramco, The Wall Street Journal, Economic and Business Research Center, The University of Arizona's Eller College of Management).

Phoenix Market Snapshot

DEMAND FOR INDUSTRIAL REAL ESTATE KEEPS GROWING

The ports of Los Angeles and Long Beach, which together handle more than one-third of all seaborne imports in the U.S., saw their busiest March on record, handling a combined 898,287 loaded container imports, measured in 20-foot equivalent units, or TEUs. That was up 97.1 percent from the same month last year, when the Covid-19 shutdown in China depressed shipping volume. Trade data group Panjiva filed a report in mid-April that U.S. seaborne imports of containerized freight surpassed 3 million TEUs in March, which was not only 50.5 percent more than the same month a year earlier.....but a whopping 36.9 percent ahead of the more normal March 2019 level. Taken together, recent shipping trends bode extremely well for the industrial real estate sector across the country.

First quarter leasing activity on Phoenix-area industrial buildings stayed at the high levels of the past year, with more than 5.8 million square feet of gross leasing transactions recorded in the quarter. Gross leasing activity for the previous four quarters averaged 6.39 million square feet per quarter. That led to first quarter net absorption of nearly 4.1 million square feet, meaning this year is starting where it left off in 2020, which established records on net absorption and new deliveries.

Landlords and tenants consummated 509 lease transactions in the first quarter, similar to the 515 deals that got done in the first quarter 2020, and on par with the levels of leasing activity we saw throughout 2020, when 475, 562 and 447 leases were signed in the second, third and fourth quarters, respectively.

Developers introduced 2.9 million square feet of new inventory to the market in the quarter, compared with 1.64 million square feet during the same period a year ago, yet nowhere near the 6.4 million square feet delivered in the fourth quarter last year.

The overall vacancy rate declined in the first quarter, to 7.3 percent, from 7.7 percent in last year's fourth quarter. The vacancy rate the first quarter one year ago ended at 7.8 percent. The industrial vacancy rate has floated in the 7s for every quarter since 4Q2018 except the third quarter last year, when it briefly climbed to 8.2 percent.

Average asking rents increased to \$0.65 per month, triple net, or \$7.81 per foot annually, NNN. One year ago, rents were at \$0.61 a foot and \$7.30-per-square-foot on a yearly basis.

Far, Flat But Connected

Developers remain bullish on Phoenix's industrial market, as they had 65 new buildings under construction at the close of the first quarter totaling more than 15 million square feet. Total inventory for the region stood at 337 million square feet at the end of March, compared with 276 million square feet of industrial product 10 years ago.

Proximity to Los Angeles is one determinant in terms of submarket location for developers, meaning the West Valley. One of NAI Horizon's industrial specialists, for example, is working with an LA-based company that operates two warehouses in Southern California and is planning to move one of them to the West Valley of Phoenix.

With land prices cheaper the further afield from downtown Phoenix, industrial developers are using the oldest playbook for growth in the region, which is to buy and build well beyond city limits. The cheaper land is also suitably flat, but the difference between now and in years' past is the land is connected by our new highway loops, and freeway access is quick and easy.

Phoenix Market Snapshot

In fact, the greatest concentration of planned and under construction industrial projects are in close proximity to the Loop 303 where it connects with I-10 in Goodyear and Litchfield Park in the West Valley, where 43 properties are in various stages of development, and where the Santan Freeway (Loop 202) connects with State Route 24, also known as Gateway Freeway, toward Queen Creek in the Southeast Valley. In all, there are 39 industrial properties either planned or under construction in the Southeast and close to the 202.

In addition to lower cost and flat land, developers know that occupiers have ready access to a large, qualified and educated workforce near the perimeter loops.

Further, there are external forces in play that should continue to drive Phoenix's industrial market, such as the growth of the SkyBridge facility at Phoenix-Mesa Gateway Airport. SkyBridge Arizona is the nation's first international inland air cargo hub to house both Mexican and U.S. customs. The joint U.S.-Mexico customs inspection facility will streamline shipments to Mexico through the Unified Cargo Processing (UCP) Program by bypassing the international customs center in Mexico City. Shipments sent from SkyBridge Arizona go directly to their final destinations in Mexico. SkyBridge Arizona is set to become a driving force in the Greater Phoenix metropolitan area economy, contributing a projected total of \$3.8 billion to the gross regional product. The \$230 million project is expected to add 6,400 direct jobs and 8,400 indirect jobs to the regional economy.

The competition for good freeway sites is driving up land costs. On the west side, developers can expect to pay \$8-\$9 per foot for dirt. Pricing in the areas that are not as close to freeway access is increasing as well. Land that traded last year for \$4 or \$4.50 per foot is now priced in the \$5 - \$6 per square foot range. Two NAI Horizon agents sold a prime 10-acre site at 143rd Street and University Drive near the center of the city and opposite the airport a year ago for \$10.50 a foot. That same parcel would trade for \$1-\$2 more now.

More than half of all the deals signed for industrial space last year were on buildings before they were completed, and demand remains comparable through the first few months of 2021. If tenants don't make commitments on newly available space quickly, it's gone in 30 days.

Nearly all of the new construction is big-box space ranging from over 100,000 square feet per building to 1 million square feet at a project in Mesa. Valley-wide there is less than 350,000 square feet of sub-50,000-square-foot buildings under construction, despite high demand for the product type. That's understandable in the sense that larger buildings are more profitable for developers, yet it leaves the competition for available smaller buildings quite keen and is also driving up pricing. This also partially due to rental rates not being high enough to justify the higher land and construction costs for smaller buildings.

Locals and out-of-state occupiers are both driving demand for smaller industrial buildings, largely for every-day needs of Valley residents. The users reflect Arizona's diversified economy, too, such as food processing, automotive, sign manufacturing and general industrial businesses. Many of these smaller buildings are older – Class C product, and there is hardly anything available for lease. At the close of the first quarter, the vacancy rate for Class C industrial was a miniscule 1.7 percent. It wasn't much better for Class B buildings, at 4 percent, compared with Class A industrial product, which had a vacancy rate of 11.8 percent at the end of March.

In terms of sales, it's a sellers' market for this product type (B & C industrial). Buildings in good condition that were selling at \$100-per-square-foot two-three years ago are trading at \$135 a foot, \$145 a foot and higher. Two of our agents recently made a full-priced offer on behalf of a client and the sale went to a buyer that offered a premium above the asking price.

Q1 2021

INDUSTRIAL MARKET
METRO PHOENIX

Phoenix Market Snapshot

Investors have strong appetites for industrial buildings of all classes and new projects are selling at certificates of occupancy, largely driven by escalating rents. Rental rates climbed \$0.41 on average, annually, last year and already through the first quarter this year they are up \$0.16 from the fourth quarter. You know the increases are real when California investors tell you that Arizona prices and yields are getting comparable to the Golden, Pricey State. We know of an out-of-state, institutional developer and investor with an active local presence that recently sold four 1990s vintage, fully occupied infill buildings that traded at a 3.7 percent capitalization rate.

Largest Leases

Gatorade, the maker of the best-branded electrolyte replacement beverage, inked the largest lease of the first quarter, taking 750,000 at NWC Buckeye and S. 75th Avenue in the Tolleson submarket. Asking rent was \$5.04 NNN. Spencer's TV and Appliances LLC took down a 319,000-square-foot building to supply its electronics stores, at SWC Loop 202 at 40th Street in the Chandler submarket. Asking rent was \$7.20 NNN. Amazon, meanwhile, which was reported to be involved with about 50 percent of all industrial leasing activity in the U.S. last year, committed to 278,670 square feet of space at 6395 N. Sarival Avenue in the Glendale submarket. Asking rent for the building was \$5.16 NNN.

Biggest Sales

The biggest sale of the first quarter was the \$79 million sale of a 682,290-square-foot building at 1755 S. 7th Avenue in Phoenix. LBA Realty, based in Irvine, CA, recapitalized a large portion of its portfolio involving 71 of its industrial buildings that slightly exceed 9.5 million square. BREIT, or Blackstone Real Estate Income Trust, reportedly acquired a 60 percent interest in the portfolio for \$1.535 billion, with LBA retaining the remaining balance. The assets are located predominantly in last mile locations in West Coast markets. The local Class A asset and distribution facility, named Logistics 75, is located at 1755 S. 75th Avenue in Phoenix.

Kohlberg, Kravis, Roberts & Co. L.P. paid a little over \$43 million, or \$163.72 per foot, for a 263,606-square-foot building at 17017 W. Indian School Road in Goodyear. The seller of the recently completed asset was Sunbelt Holdings and Merit Development of Scottsdale. In Tolleson, CT Realty Investors, based in Newport Beach, CA, sold a 417,600-square-foot distribution building located at 670 S. 91st Avenue to Walnut Creek, CA-based Nearon Enterprises for \$35.5 million, or \$85 per foot.

Landing 202 a two building 604,000 SF property was sold by Marwest Enterprises to Cohen Asset Management for \$81.7 M or \$135.26/SF

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Phoenix Market Snapshot

Market Overview	Total RBA	Vacant SF	Vacant %	Net Absorption	RBA Delivered	RBA Under Construction	Average Rental Rate
Distribution	83,481,263 SF	9,390,219 SF	11.2%	1,827,569 SF	1,899,519 SF	7,523,330 SF	\$0.52/SF
Manufacturing	62,779,565 SF	2,071,531 SF	3.3%	615,304 SF	531,066 SF	162,184 SF	\$0.65/SF
Warehouse	157,058,120 SF	10,075,220 SF	6.4%	1,500,070 SF	487,944 SF	7,025,285 SF	\$0.63/SF
Flex	33,835,822 SF	3,146,953 SF	9.3%	148,406 SF	- SF	- SF	\$1.10/SF
TOTAL	337,154,770 SF	24,683,923 SF	7.3%	4,091,353 SF	2,918,529 SF	14,710,799 SF	\$0.65/SF

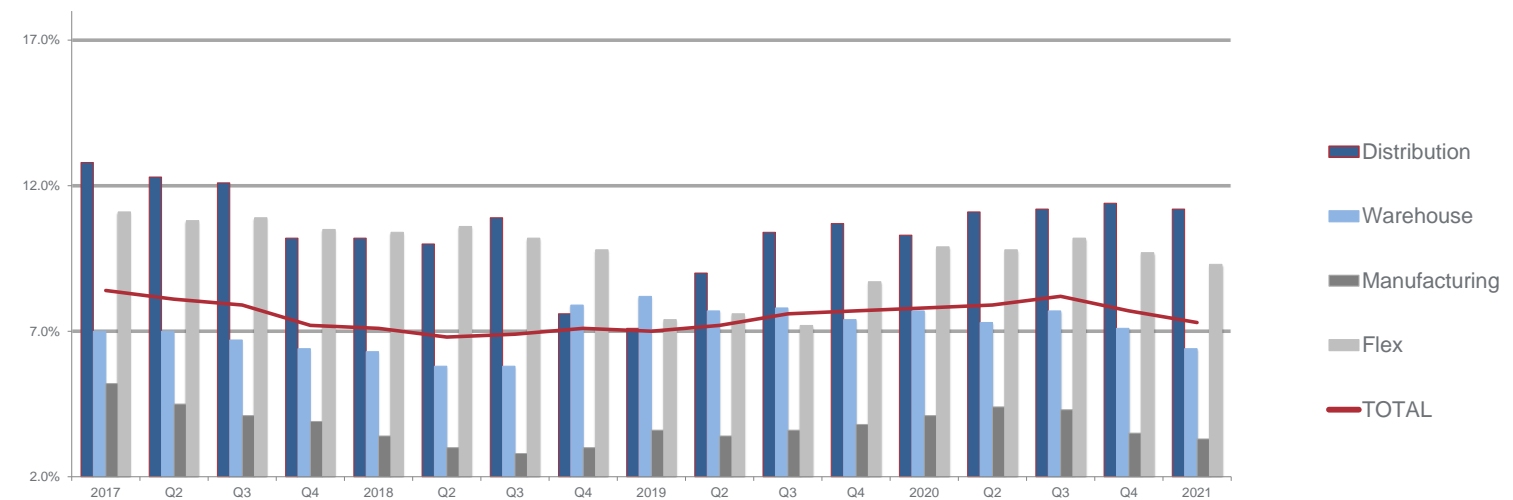
Significant Lease Transactions

Address	Tenant	Size	Building Type	Type
NWC Buckeye & 75th Ave	Gatorade	750,000 SF	Distribution	Move In
SWC Loop 202 & 40th St	Spencer's	391,000 SF	Warehouse	Move In
6395 N Sarival Ave	Amazon	278,670 SF	Distribution	Move In
7811 N Glen Harbor Blvd	Dynarex Corp.	250,000 SF	Warehouse	Move In

Significant Sale Transactions

Address	Date	Size	Buyer	Price
1755 S 75th Ave (part of portfolio)	1/22/2021	682,290 SF	LBA Realty	\$79,718,049
17017 W Indian School Rd	1/5/2021	263,606 SF	Kohlberg Kravis Roberts	\$43,157,811
6677 W Frye Rd	2/23/2021	118,383 SF	Jones Land Lasalle Income Property Trust	\$26,000,000

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.

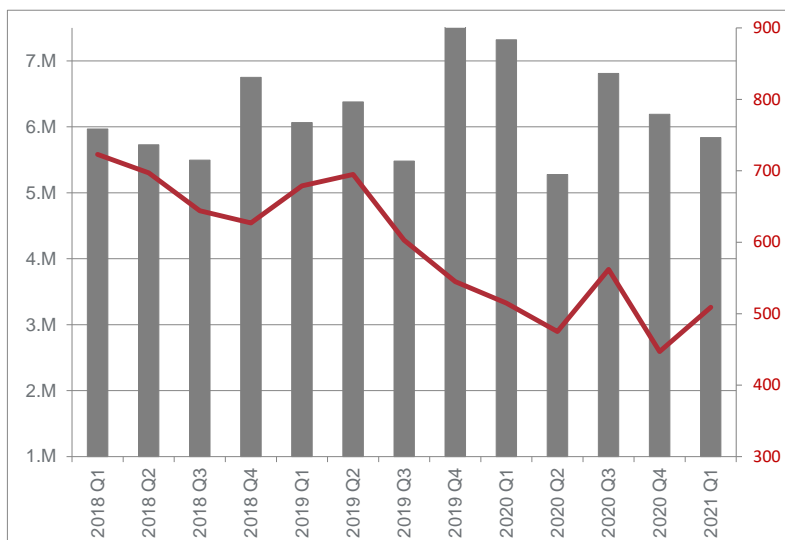
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INDUSTRIAL MARKET METRO PHOENIX

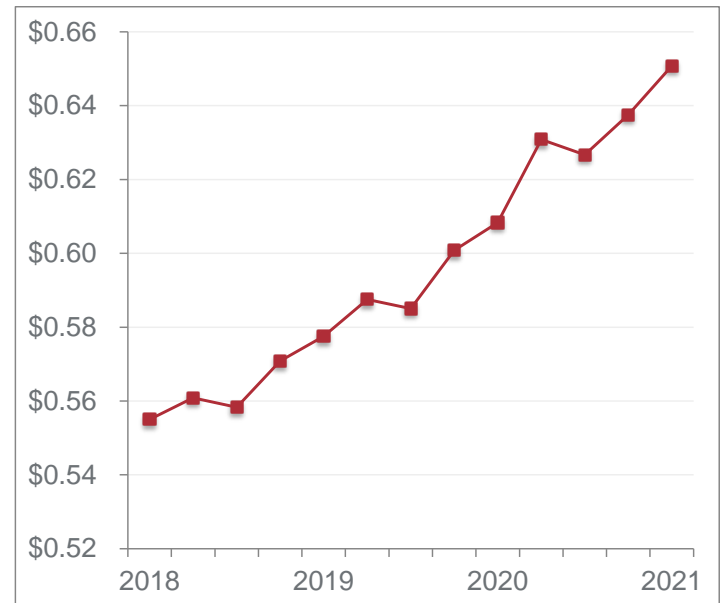
Submarket Snapshot

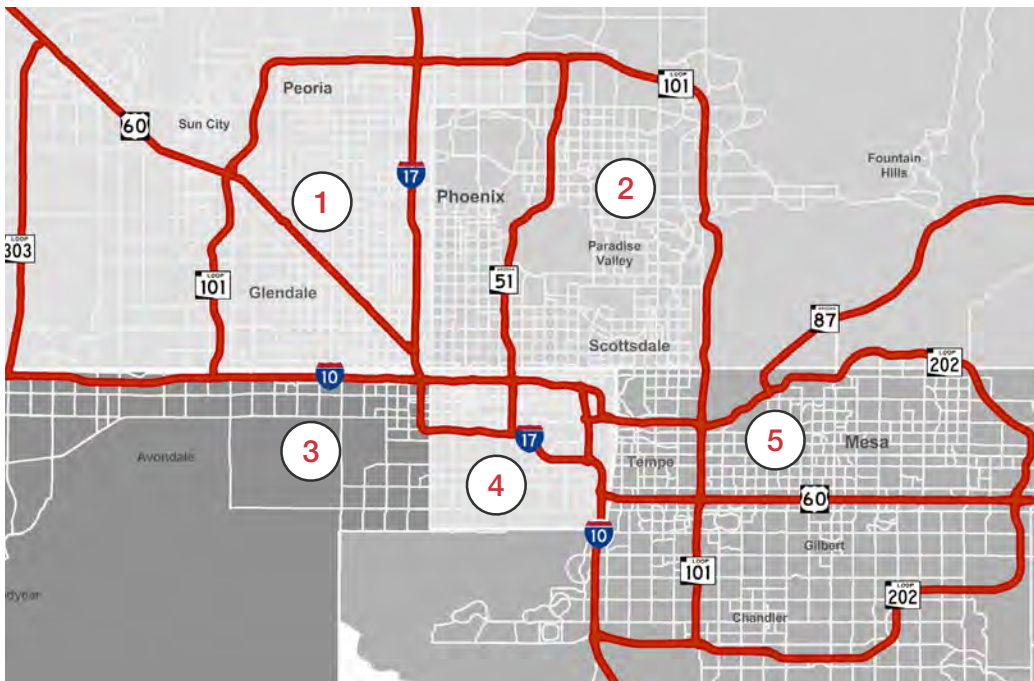
	RBA		Vacant SF	Vacant %		Net Absorption		Deliveries		Under Construction		Avg NNN Rate		Yearly NNN Rate	
Sky Harbor	50,050,189	—	2,283,895	▼ 4.6%	▼	392,409	▼	-	▼	182,801	▲	\$0.82	▲	\$9.83	▲
Northeast Valley	14,942,987	—	609,227	▼ 4.1%	▼	114,685	▲	-	—	-	—	\$1.02	▲	\$12.23	▲
Northwest Valley	68,608,192	▲	5,026,079	▲ 7.3%	▲	525,919	▼	2,042,239	▲	5,630,225	▲	\$0.67	—	\$7.98	—
Southeast Valley	95,819,278	▲	5,634,262	▼ 5.9%	▼	2,178,522	▲	333,354	▲	1,954,143	▲	\$0.72	▼	\$8.68	▼
Southwest Valley	107,734,124	▲	11,130,460	▼ 10.3%	▼	879,818	▼	542,936	▼	6,943,630	▲	\$0.49	▲	\$5.82	▲
All Submarkets	337,154,770	▲	24,683,923	▼ 7.3%	▼	4,091,353	▼	2,918,529	▼	14,710,799	▲	\$0.65	—	\$7.81	—
Overall Total 4Q20	334,229,710	▲	25,856,747	▲ 7.7%	▲	7,392,206	▲	6,425,672	▲	9,957,225	▼	\$0.64	▲	\$7.65	▲
Overall Total 3Q20	327,808,538	▲	26,827,781	▲ 8.2%	▲	2,905,075	▼	4,078,491	▲	12,526,458	▼	\$0.63	▼	\$7.52	▼
Overall Total 2Q20	323,740,747	▲	25,665,065	▲ 7.9%	▲	3,205,352	▲	3,844,524	▲	13,092,592	▼	\$0.63	▲	\$7.57	▲
Overall Total 1Q20	319,950,551	▲	25,080,221	▲ 7.8%	▲	706,057	▼	1,635,869	▼	16,320,808	▲	\$0.61	▲	\$7.30	▲
Overall Total 4Q19	318,556,031	▲	24,391,758	▲ 7.7%	▲	1,404,917	▲	1,884,396	▼	10,274,448	▲	\$0.60	▲	\$7.21	▲

Industrial Lease Deals



Industrial Lease Rates





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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About NAI Horizon

Exceptional global commercial real estate solutions begin with local market leadership and expertise. Established in 1992, NAI Horizon is a full-service commercial real estate company serving Arizona with offices located in Phoenix and Tucson. NAI Horizon is passionate about the commercial real estate business, providing Brokerage and Property Management Services for local, national and international clients. NAI Horizon is a member of the NAI Global commercial real estate network providing real estate solutions to more than 300 offices worldwide.

About NAI Global

Advisory Services, Leasing, Property Management, Property & Note Sales and Tenant Representation

NAI Global is a leading global commercial real estate brokerage firm. NAI Global offices are leaders in their local markets and work in unison to provide clients with exceptional solutions to their commercial real estate needs. NAI Global has more than 300 offices in 43 countries strategically located throughout North America, Latin America and the Caribbean, Europe, Africa and Asia Pacific, with 5,100 local market professionals, managing in excess of 1.1 billion square feet of property and facilities. Annually, NAI Global completes in excess of \$20 billion in commercial real estate transactions and a gross revenue of \$1.5 billion.

NAI Global professionals achieve extraordinary results for clients locally and globally through creativity, collaboration and the consistent delivery of exceptional knowledge and service that only market-leading firms can provide. NAI

Global provides a full range of corporate real estate services, including brokerage and leasing, property and facilities management, real estate investment and capital market services, due diligence, global supply chain and logistics consulting and related advisory services.

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