

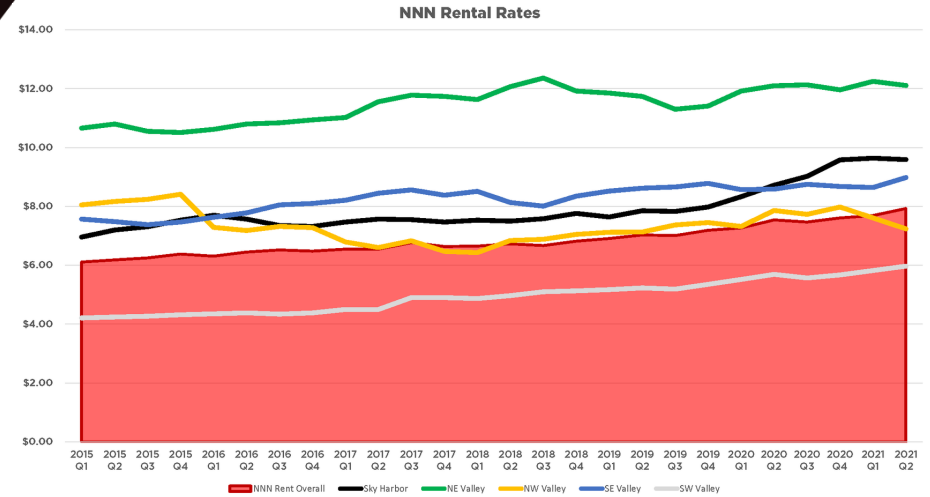
AT A GLANCE

- Q2 Vacancy: 6.2%**
- Q2 SF Construction: 19.2 M SF**
- Q2 SF Leased: 6.2 M SF**

The Cold Storage Boom of 2021

The Industrial Q2 market concluded with a few significant records and firsts; we are undergoing a record low in vacancies, currently resting at 6.2%, with demand and fervor threatening to drive that number even lower. The Phoenix market is also experiencing a record high in space under construction, with nearly 19.2 M SF in varying stages of construction, most of which is quickly finding suitors. According to Costar, the average existing industrial listing leased within 3.6 months, with new builds staying on the market only slightly longer. Mattress maker MLILY, for example, quickly absorbed 596k SF at the recently built G303 Distribution Center in June, and The reported on-market time for new builds may be under-representing the actual demand for new space, as much of the product is either built-to-suit (either implicitly or explicitly) with a tenant in place before delivery. One of NAI's Industrial teams has an under-development assignment for 146,526 square feet in the Sky Harbor area, which they expect to lease before construction is complete, in that submarket, available inventory is even tighter than the rest of the market at only 4.7%.

The fervent demand for industrial space throughout the Valley has also shifted towards more niche industrial categories previously overlooked. We



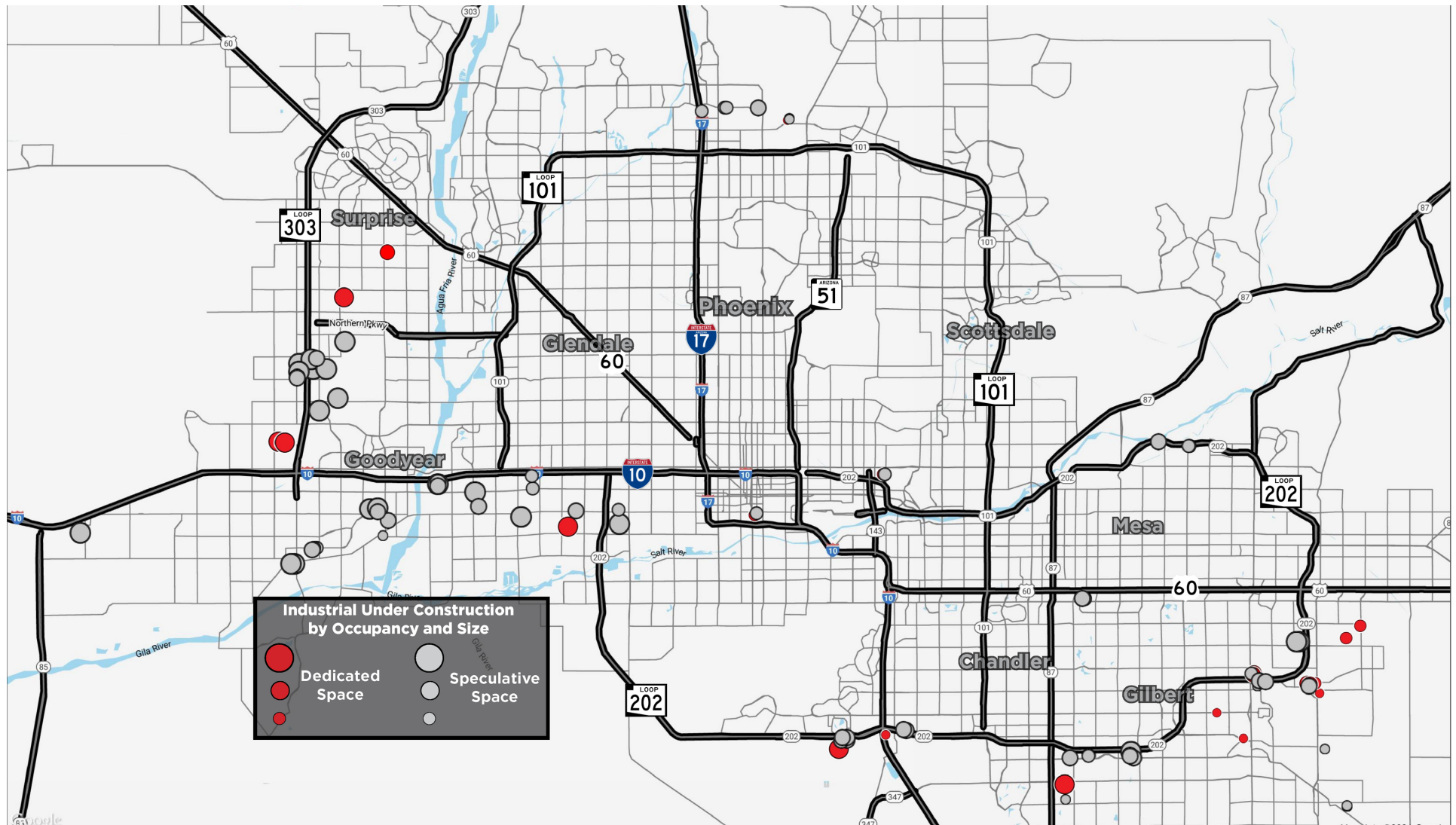
now see a record level of interest in cold storage, with rents up a staggering 51% since before the Pandemic (Q4 19), and vacancy has crashed from 9.2% to 1.7% since then. With figures like these, we see a trend that we had never expected to see pre-pandemic: spec cold storage space being built.

Florida-based developer, TI Cold Development, plans to build 320,160 SF (177M cubic feet) of speculative cold storage and frozen food distribution facility in El Mirage, which boasts space for 45k pallets of food and a 51-trailer-stall. This cold storage component, included in phase one, is only one part of the final 1,400-acre industrial park which will house Copperwing Logistics Center. Just a stone's throw away in Waddell, Cold Summit Phoenix – a 357k SF cold storage speculative build, expected to deliver in 2022, is in the planning stages in the Woolf Logistics Industrial Campus.

Several factors have led to a strong interest and demand for cold storage; among them is its role in pharmaceutical companies' development and distribution of new medicines. The Pfizer-BioNTech COVID-19 Vaccine, for example, must be refrigerated at 2-8 Degrees Celsius. In addition to



Industrial Space Under Construction



Q2 Industrial Market Report

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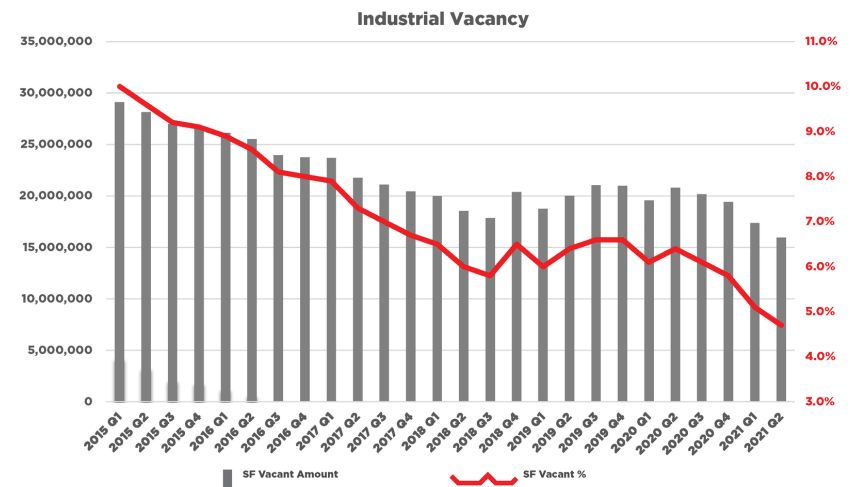
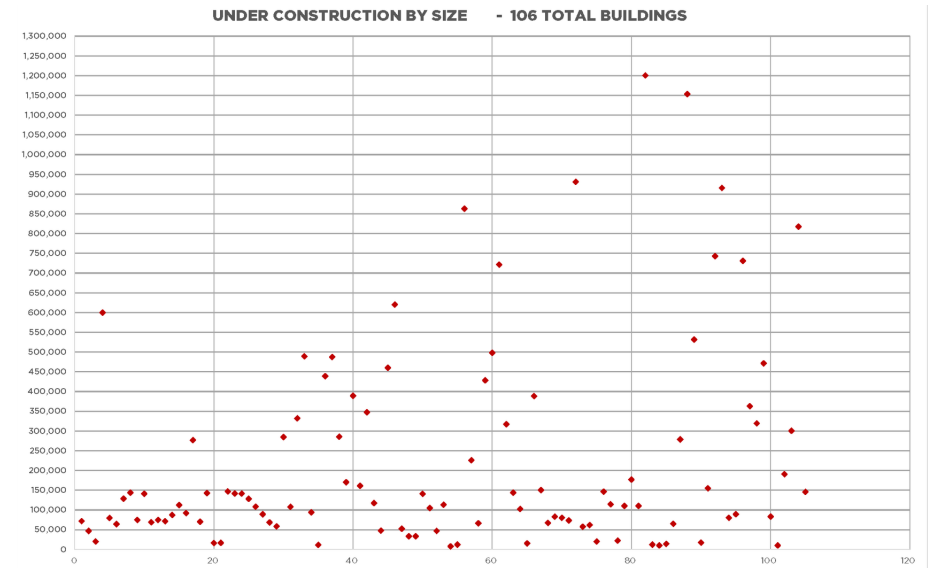
pharmaceuticals, grocers, meal delivery services, and even legacy players in fast food are driving this surge in demand. The pandemic acted as a catalyst in mainstreaming food and grocery delivery -- a convenience that is here to stay.

This quarter, Berlin-based tech-enabled food delivery company HelloFresh, signed on for a ten-year, 438k SF lease at the Prologis Logistics Center IV in Tolleson. Alongside HelloFresh, Amazon Fresh, Fresh Direct (in addition to legacy grocers) will require more space to be on the "cold chain." Changes in consumer preferences prompted by the pandemic and the growing importance of medical storage have caused a renewed interest in cold storage, which we can expect to last well into the future.

Sales Volume continued to maintain momentum this quarter. We registered just under \$700M in sales volume (\$695M), marking the 4th quarter in a row that we've been above \$550M - well above the 10-year quarterly average of \$441M. The most significant sales of the quarter include:

- 670 S 91st Avenue - 91st Avenue Logistics Hub, a 417k SF distribution facility in Tolleson, was sold for \$35M in April by CT Realty Investors. The buyer was California-based Nearon Enterprises, which also owns Fiesta Tech Center in Gilbert.
- 317 S 48th Street - Hub 317, a 227k SF, Class A warehouse in Phoenix, sold in June for \$33M to Deutsche Bank. Selling the space was Confluent Development, a company out of Denver.
- 320 S 91st Avenue - Sold by The Hopewell Group, a 174k SF, class A warehouse in Tolleson was purchased in May by Kohlberg Kravis Roberts & Co.

As stated previously, this quarter marked the highest ever amount of square footage under construction with 19.2M SF. We attribute roughly 300K SF to manufacturing, 18M SF to distribution or warehouse, and the remainder to other subtypes. On average, under-construction buildings are roughly 224k SF.



Q2 Industrial Market Report

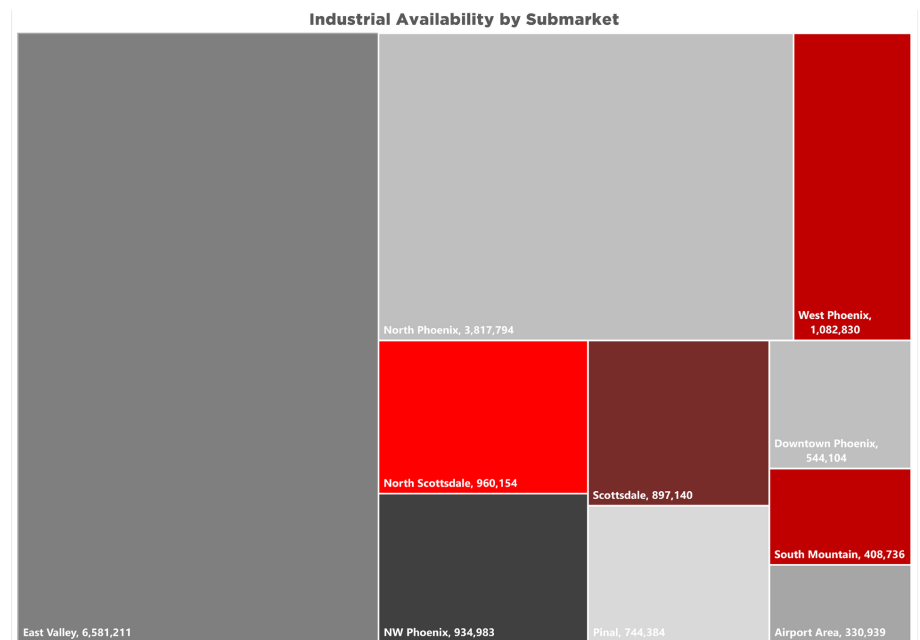
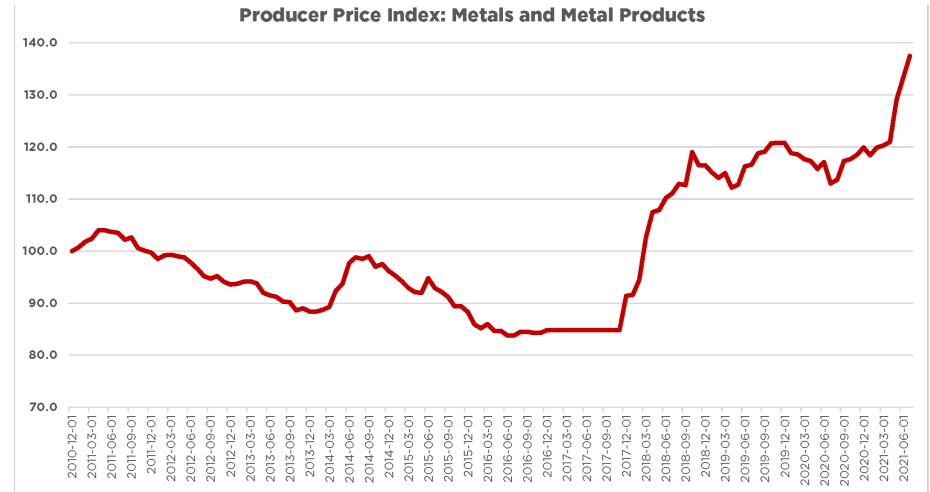
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This average Rentable Building Area size favors larger-sized buildings and is driven by the economies of scale that builders can capture by building large-scale product, combined with the high demand for ample warehouse space driven by e-commerce. Cost-saving is critical now, given the labor and materials shortages and a slight uptick in inflation that builders face. In the housing sector, more than 90% of home builders have reported shortages framing lumber and plywood, and the commercial real estate community is grappling with labor and material shortages. Construction unemployment is down from 16% to 7.7%, wages are up 3% from a year ago, and materials like copper and steel are up 50% from Q2 2020. [Source: GlobeSt.com].

Top industrial projects under construction:

- The Cubes at Glendale Building A is a 5.5M SF project with 1.2M SF of spec warehouse on Northern Avenue and Reems Road in Glendale. Named on this build are CRG and Bird Dog Industrial. If constructed as planned, this project will be one of the largest new builds with build-to-suit, speculative logistics/distribution, and manufacturing space.
- Sarival Logistics Center Building A is 1.15M SF of spec distribution space in a building totaling 2.6M SF. This project is located on loop 303 and Bethany Homes Road in Litchfield Park.
- 4580 N Pebble Creek Parkway at PV 303, developed by First Industrial Realty Trust, is 930k SF of spec distribution within a total of 4.5M SF.


The heightened demand for space has introduced problems for tenants looking to lease or purchase smaller (under 50K SF) industrial spaces, and those that are available have multiple offers and lengthy waitlists. The low inventory is legitimate with little to no inventory in the pipeline. Of the +19M space under construction, less than 350k SF is under 50k SF. Hangar space is also in high demand, with as long as 10-year waitlists quoted in the Buckeye area, and there has been intense competition for industrial service buildings. We anticipate these trends to continue in subsequent quarters as demand increases and space becomes even more limited.




Q2 Industrial Market Report

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Q2 Top Leases

1  **1850 S 71st Ave - Bldg 4**


Submarket	Tolleson
Tenant	HelloFresh
Size	438,687 SF
Class	A

2  **SWC E Queen Creek Rd - Ferguson Phase I**

Submarket	Chandler Airport
Tenant	Ferguson Enterprises
Size	362,800 SF
Class	A


3  **107 S 41st Ave - Bldg 18**

Submarket	Buckeye Road
Tenant	Ferguson Enterprises
Size	362,800 SF
Class	B


4  **4617 S Power Rd - Bldg B**

Submarket	Gilbert
Tenant	Rosendin Electric
Size	145,999 SF
Class	A


Q2 Top Sales

1  **670 S 91st Ave**

Sale Price	\$35,500,000
Submarket	Tolleson
Size	417,600 SF
Class	A

2  **NEC Germann Rd & Mustang**

Sale Price	\$34,378,428
Submarket	Chandler Airport
Size	317,058 SF
Class	B

3  **317 S 48th St**

Sale Price	\$33,000,000
Submarket	Tempe
Size	227,491 SF
Class	A

4  **4617 S Power Rd - Bldg B**

Sale Price	\$22,260,089
Submarket	Tolleson
Size	174,000 SF
Class	A

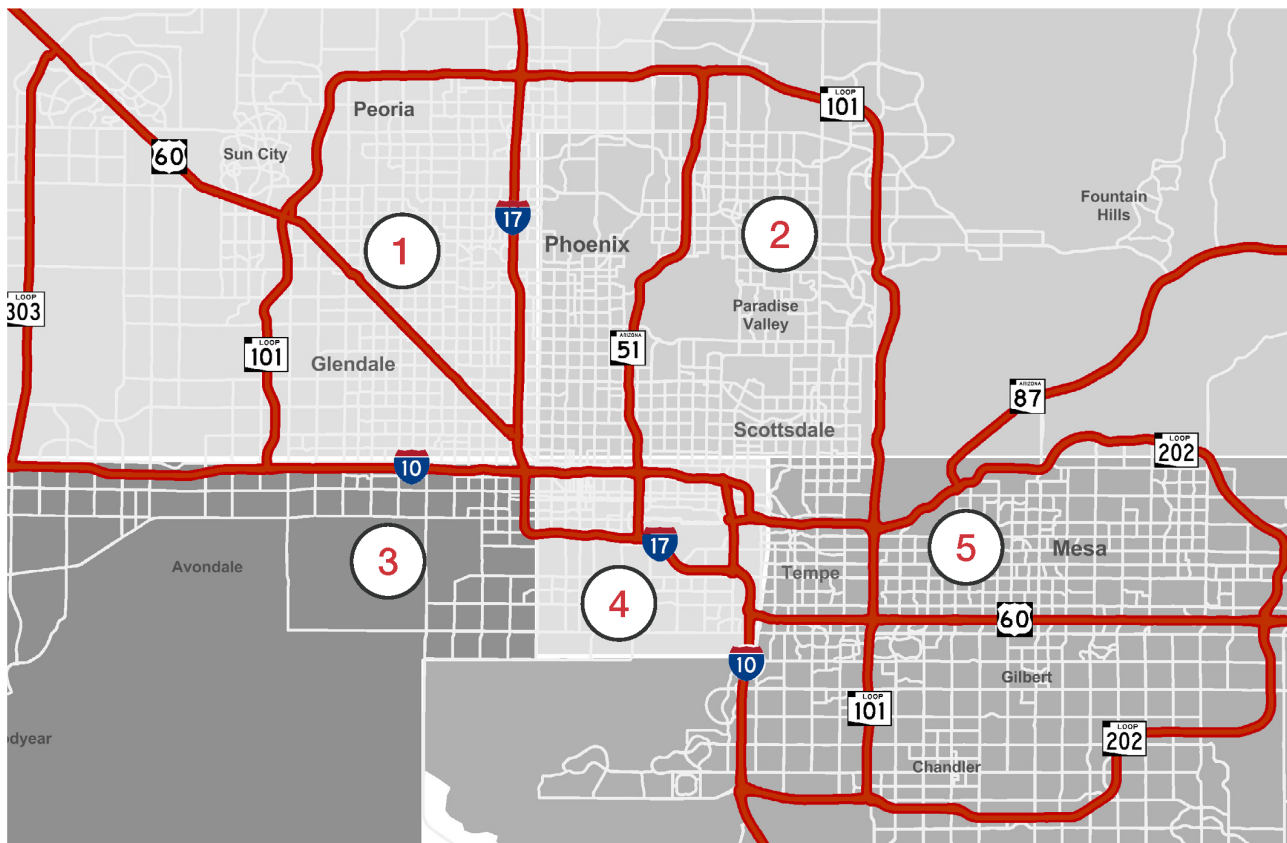
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Q2 Industrial Market Report

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Phoenix Submarkets



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



Submarket Performance

Submarket	RBA	Vacant SF	Vacant %	Net Absorption	Deliveries	Under Construction	Avg NNN Rate	Yearly NNN Rate
Sky Harbor	49,859,798	2,362,864	4.7%	(90,745)	-	182,801	\$0.80	\$9.59
Northeast Valley	15,063,088	472,748	3.1%	136,479	-	-	\$1.01	\$12.11
Northwest Valley	70,762,210	4,447,989	6.3%	1,508,347	2,123,385	7,355,461	\$0.60	\$7.24
Southeast Valley	96,584,221	5,260,973	5.4%	984,559	623,342	4,810,868	\$0.75	\$8.98
Southwest Valley	108,613,074	8,729,288	8.0%	3,289,004	887,832	6,827,961	\$0.50	\$5.97
All Submarkets	340,882,391	21,273,862	6.2%	5,827,644	3,634,559	19,177,091	\$0.66	\$7.93
2021 Q1	337,247,832	23,466,947	7.0%	5,362,620	2,983,648	17,283,395	\$0.64	\$7.69
2020 Q4	334,264,184	25,845,919	7.7%	7,386,920	6,414,916	10,693,534	\$0.63	\$7.61
2020 Q3	327,853,768	26,822,423	8.2%	2,956,180	4,064,431	12,594,881	\$0.62	\$7.47
2020 Q2	323,800,037	25,724,872	7.9%	3,164,546	3,844,524	13,146,955	\$0.63	\$7.54
2020 Q1	320,009,841	25,099,222	7.8%	720,522	1,635,869	16,375,171	\$0.61	\$7.27

Submarket	Total RBA	Vacant SF	Vacant %	Net Absorption	Deliveries	Under Construction	Avg NNN Rate	Yearly NNN Rate
Distribution	85,477,134	7,078,294	8.3%	2,938,246	1,819,040	9,181,156	\$0.52	\$6.29
Manufacturing	62,813,285	1,613,227	2.6%	458,304	-	162,184	\$0.66	\$7.95
Warehouse	158,842,590	9,441,533	5.9%	2,450,007	1,815,519	9,815,624	\$0.66	\$7.89
Flex	33,749,382	3,140,808	9.3%	(18,913)	-	18,127	\$1.07	\$12.83
Total	340,882,391	21,273,862	6.2%	5,827,644	3,634,559	19,177,091	\$0.66	\$7.93



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. For more information visit www.naihorizon.com.

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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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