



Industrial Market Report

METRO PHOENIX 2021

NAIHorizon

Q3

Industrial Market Report

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The health and recovery of Arizona's commercial real estate market have been topics of interest since pandemic closures and vaccine-enabled reopening. In Q3, it is safe to say that the Industrial market has not only recovered, but it is thriving into Q4, with predictions to prosper into 2022. Vacancy rates are at an all-time low, resting at 5.7%. Large companies continue to move into Phoenix Submarkets from out of state, increasing demand for more space. Simultaneously, Arizona based businesses are thriving, further driving up the demand.

Q3 AT A GLANCE

▲ Q3 **Vacancy: 5.7%**

▼ Q3 **SF Construction: 18.3M SF**

▲ Q3 **Avg NNN Rate: \$0.68**

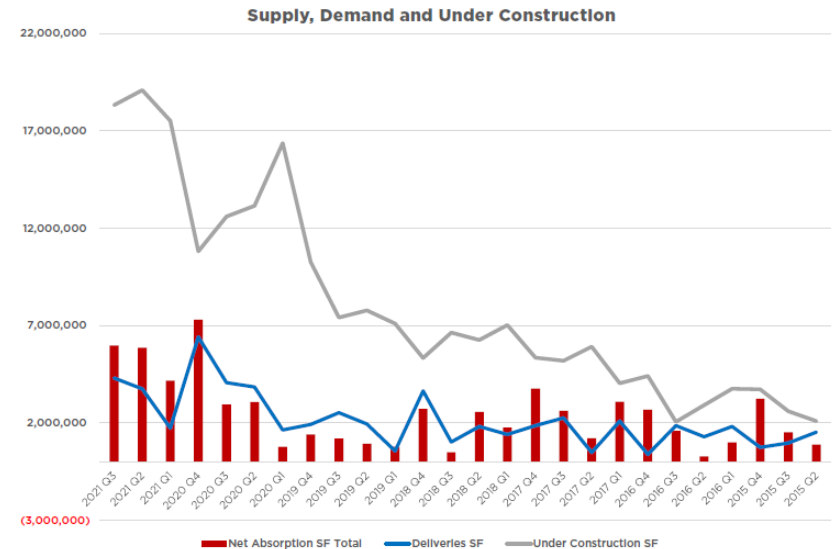
Supply & Demand

Arizona's rapid rate of expansion has put stress on supply and demand. Space is sparse for those looking to expand within Arizona and for those relocating from elsewhere. Businesses seeking smaller and mid-sized warehouses have a particularly hard time, as most industrial construction is focused on supply for larger enterprises.

Finding existing space is challenging, leaving companies with either under-construction space or proposed construction as alternatives and little option for those seeking mid-sized buildings. The majority of new builds are sizeable industrial space, spanning 120,000-650,000 SF, are highly profitable, highly sought after, and are pre-leased long before even being delivered. Concurrently, industrial landlords are factoring in close to 4% annual bumps on rental schedules to 'Price In' the rising inflation.

Sprawling warehouses are not the only notable trend in the industrial market. Spec fully air-conditioned spaces are now cropping up regularly in new builds, which may be a result of the current labor shortages. Better working conditions result in happy, loyal employees.

As mentioned previously, the current industrial market is dynamic. Landlords have more negotiating power due to limited availability on the market. Tenants are scrambling to locate available warehouses in a thinning market are also facing significantly higher and rising rent.



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Supply & Demand Cont.

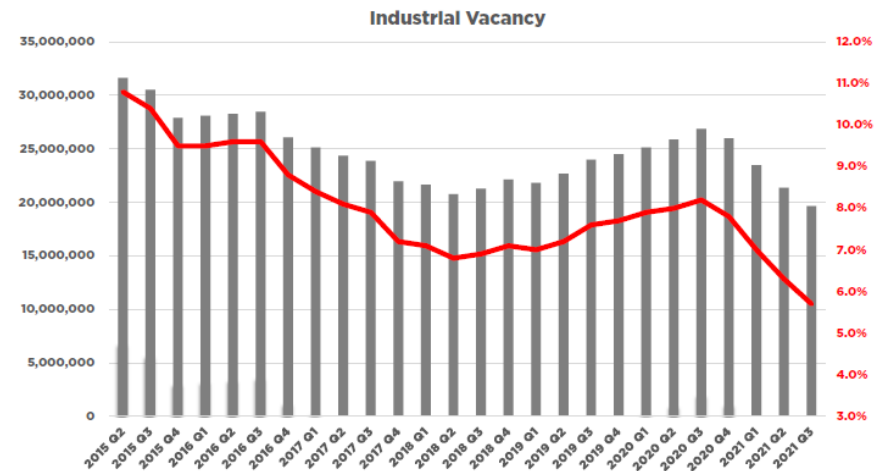
Current tenants are weighing renewing their leases at a much higher rate or locating new space that matches their space, location, and price requirements, both of which hold significant risk.

It is also well known that the supply chain for building materials is forcing inflation in construction costs. California ports' backlog, which accounts for 40% of all shipping containers entering the U.S., seems to be the primary cause. Currently, the Port of Los Angeles is working out an agreement to become a 24-hour a day operation to relieve the supply chain crisis and alleviate the associated inflation.

Simply put, the supply of Arizona industrial space and construction cannot keep up with the current demand.

Diversity & Opportunity in the Market

The Arizona Industrial market continues to expand its business diversity. In early 2022, we will see the Taiwan Semiconductor Manufacturing Company deliver the \$12 billion chip plant on 1,129 acres purchased from the former State Trust Land. During Q3, Intel's Ocotillo campus broke ground. The technology giant intends to spend \$20 billion on semiconductor chips and create more than 3,000 high-tech jobs, making Arizona history as the largest private-sector investment. Facebook also announced plans to build a 960,000 SF data center in the east valley, joining Google and Apple. Based on recent progress and diversity, Arizona may be on track to become the new harbor and national leader in data center locations and large tech companies.



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Diversity & Opportunity in the Market Cont.

High-tech industrial businesses, such as semiconductors, aerospace, electric vehicles, and defense companies, have also expanded throughout the state.

Both the east and west valley markets are experiencing significant growth. On the west side of the valley, the Loop 303 highway has become the

center for development and hosts a large volume of last-minute industrial delivery. Developer Bird Dog Industrial plans to build a 5.5 million SF industrial park, The Cubes at Glendale. Both the east and west valley markets are experiencing significant growth. On the west side of the valley, the Loop 303 highway has become the global center for development and hosts a large volume of last-minute industrial delivery. Developer Bird Dog Industrial plans to build a 5.5 million SF industrial park, The Cubes at Glendale.

Merit is also constructing two or more buildings totaling more than 1.3 million SF, with five additional proposed facilities totaling approximately 1.8 million SF.

TOP SALE OF Q3



Submarket: Glendale
Price: \$186,000,000
SF Sold: 1,257,838 SF
Date Sold: 9/13/2021

**660 N Sarival Ave
Litchfield Park, AZ 85340**

TOP LEASE OF Q3



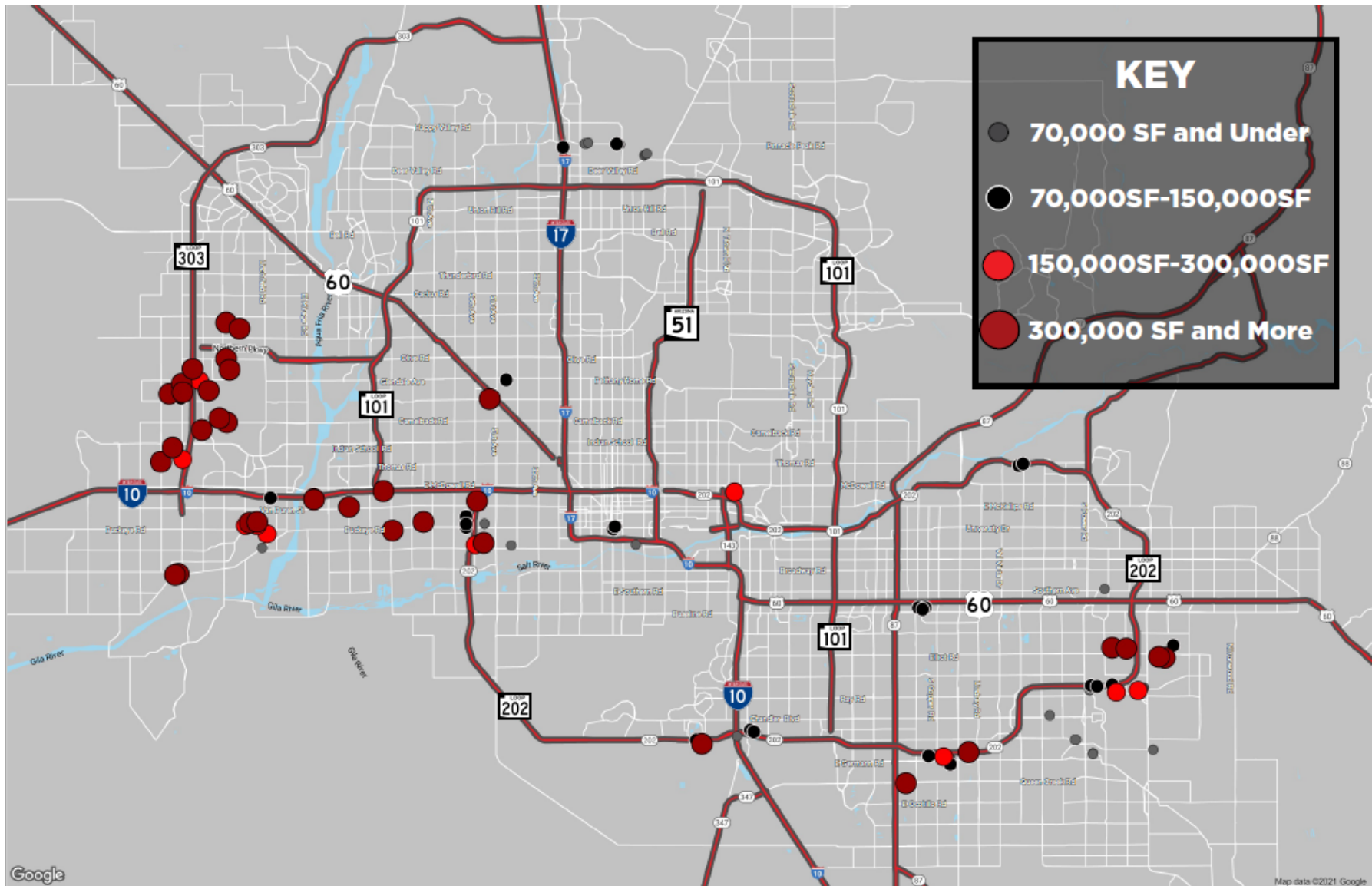
Submarket: Glendale
SF Leased: 139,060 SF
Time on Market: 104 mos

**12000 N 132nd Ave
Surprise, AZ 85379**

One of the most notable submarkets is the Casa Grande opportunity zone, home to Lucid Motors Factory. Lucid reported selecting Casa Grande for its business climate, infrastructure, talent, geographic location, and automotive supply chain in the Arizona-Sonora region. Lucid is expanding its current 999,000 SF factory to 3.7 million SF. A short 6-hour drive from the ports of Southern California and 3.5 hours to the border of Nogales, the southwest valley is becoming a distribution hot zone.



Industrial Space Under Construction



Industrial Numbers Chart and Data Q3

	RBA		Vacant SF		Vacant %		Net Absorption		Deliveries		Under Construction		Avg NNN Rate
Sky Harbor	49,882,057	–	1,816,452	▼	3.6%	▼	639,362	▼	17,100	▼	207,701	▲	\$0.86
Northeast Valley	15,019,278	–	457,474	▼	3.0%	▼	10,902	▲	-	–	-	–	\$1.03
Northwest Valley	72,020,442	▲	4,490,938	▲	6.2%	▲	2,233,110	▼	2,276,059	▲	7,280,704	▲	\$0.62
Southeast Valley	97,199,660	▲	4,679,245	▼	4.8%	▼	1,211,629	▲	629,901	▲	4,007,806	▲	\$0.78
Southwest Valley	109,644,620	▲	8,214,101	▼	7.5%	▼	1,883,536	▼	1,378,776	▼	6,818,689	▲	\$0.51
All Submarkets	343,690,226	▲	19,658,210	▼	5.7%	▼	5,978,539	▲	4,301,836	▲	18,314,900	▲	\$0.68
2021 Q2	339,417,374	▲	21,363,897	▼	6.3%	▼	5,864,453	▼	3,748,901	▼	19,086,324	▲	\$0.66
2021 Q1	335,668,473	▲	23,479,449	▼	7.0%	▼	4,172,783	▲	1,738,389	▲	17,508,989	▼	\$0.64
2020 Q4	333,995,556	▲	25,979,315	▼	7.8%	▼	7,303,086	▼	6,414,916	▲	10,809,255	▼	\$0.63
2020 Q3	327,585,140	▲	26,871,985	▲	8.2%	▲	2,943,469	▲	4,064,431	▲	12,596,260	▼	\$0.63
2020 Q2	323,631,006	▲	25,861,320	▲	8.0%	▲	3,063,609	▲	3,844,543	▲	13,148,334	▲	\$0.63



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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Property & Note Sales | Tenant Representation

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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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