



Industrial Market Report

METRO PHOENIX 2022

NAIHorizon

Q1

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Q1 AT A GLANCE

- ▼ Q1 **Vacancy: 4.6%**
- ▲ Q1 **SF Construction: 20.15M SF**
- ▲ Q1 **Avg NNN Rate: \$0.75**

The Phoenix industrial market's hot streak continued in the first quarter after a robust 2021 and very strong 2020, so why are articles popping up that suggest the national industrial market boom may be winding down? To be sure, there are some warning signs, and opinions that have been floated around that industrial's long run is approaching the end of its runway. Or it could be that Amazon's recent announcement that it has too much warehouse space in its portfolio spooked the market? In any event and while most would agree that nothing is sustainable in perpetuity, for the time being there seems to be too much strength in the industrial market to be overly concerned that it's about to decline.

What's Trending?

Here's what we know about some of the latest industrial trends.

Prologis' effort to buy rival Duke Realty, based in Indianapolis, was clearly the biggest news about industrial real estate as the second quarter began, yet it is clear that the world's biggest Industrial REIT is trying to grow by acquisition. The Denver/San Francisco-based company bought DCT Industrial Trust in August 2019 and then gobbled up Liberty Property Trust in February 2020.

Duke's coverage in 19 markets are markets inhabited by Prologis, so the fit makes sense for Prologis - which has also forecast that rents would increase this year 22%, yet commentator Joseph J. Ori, Executive Managing Director of Paramount Capital Corp., recently opined that the latest buy price and offering, at \$61.68/share was a 29% premium above Duke's recent trading price.

That in and of itself doesn't seem out of proportion as friendly or hostile takeovers usually go for hefty premiums above share prices, yet Ori called the 3.5% cap rate "mind blowing," adding "this type of outlandish pricing was last seen for CRE assets during the frothy period from 2004 to 2007 and right before the Great Recession in mid-2007." Those are fair points.

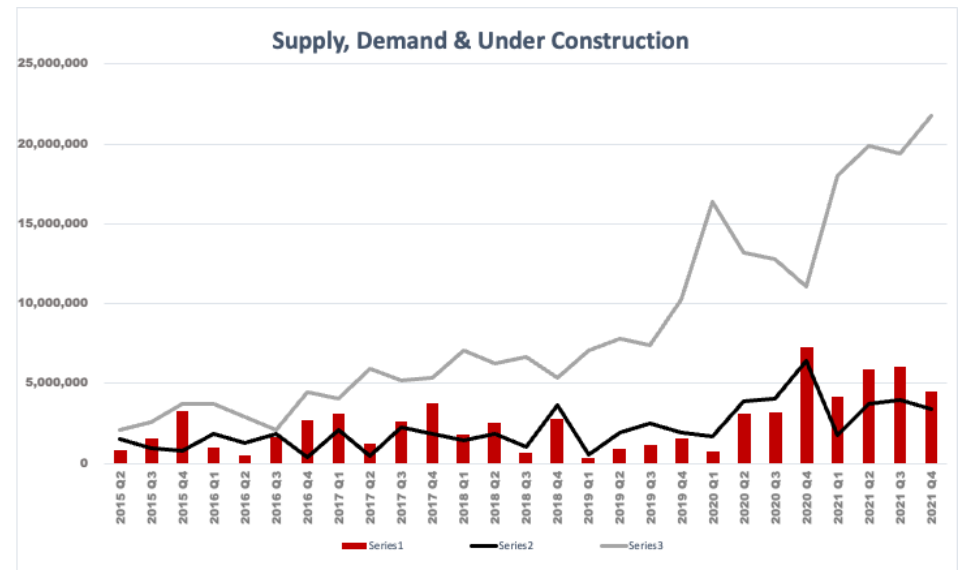
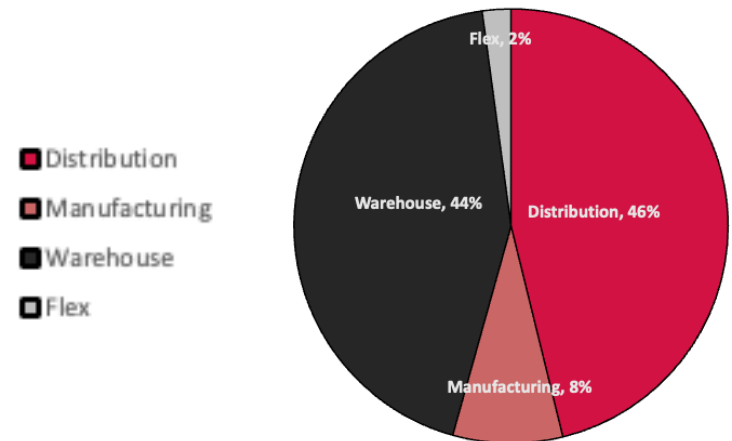
By the time you are reading this, however, that saga and acquisition may have been completed, or abandoned.

SMALL INDUSTRIAL SPACE USERS ARE FINDING IT HARDER AND HARDER TO FIND SUITABLE FACILITIES, NOT ONLY UNDER 100,000 SQUARE FEET BUT PARTICULARLY IN SPACE LESS THAN 50,000 SQUARE FEET.

In the recent run up, developers have opted to build large, 350,000-square-foot and greater industrial buildings that they knew the Class A marketplace was hungry for. If there is a slowdown, we could see a return of more multi-tenant buildings in the development pipeline.

SIOR's latest survey of industrial brokers nationwide found, for the first time since the Society has been asking its members about market conditions, that sentiment declined from quarter-to-quarter. Sentiment was 8.2% in the 4th quarter and slid a bit to 7.7% in the first quarter this year. The Sentiment Report, as SIOR calls its survey, asks brokers to rank the market for certain conditions based on a scale of 10. The report cited minimal availability, rising construction costs and of course, supply chain disruptions as the main cause of angst in the marketplace. Yet it is not to say that the brokers expect a downturn. Rather, they are just calling out the difficult circumstances impacting their business. For example, 95% of the brokers surveyed said that industrial vacancy rates were with "somewhat lower" or "much lower" than they were a year ago.

TYPES OF SPACE BEING CONSTRUCTED BY SF



1st Quarter Data

For the 32nd consecutive quarter, net absorption of industrial space was positive in the first quarter coming in at 7,018,575 square feet. You have to go back to Q12012 to find a negative net, 90-day period when it was negative 256,560 square feet. There were 385 lease deals completed during the first quarter involving gross absorption of over 7.0 million square feet.

Builders delivered 27 new industrial facilities in the quarter, totaling 5.59 million square feet, and had another 87 projects underway, with just over 20 million square feet under construction.

THE GREATEST AMOUNT OF ACTIVITY WAS IN THE SOUTHWEST VALLEY SUBMARKET, WHERE BUILDERS ADDED 2.86 MILLION SQUARE FEET OF NEW INVENTORY,

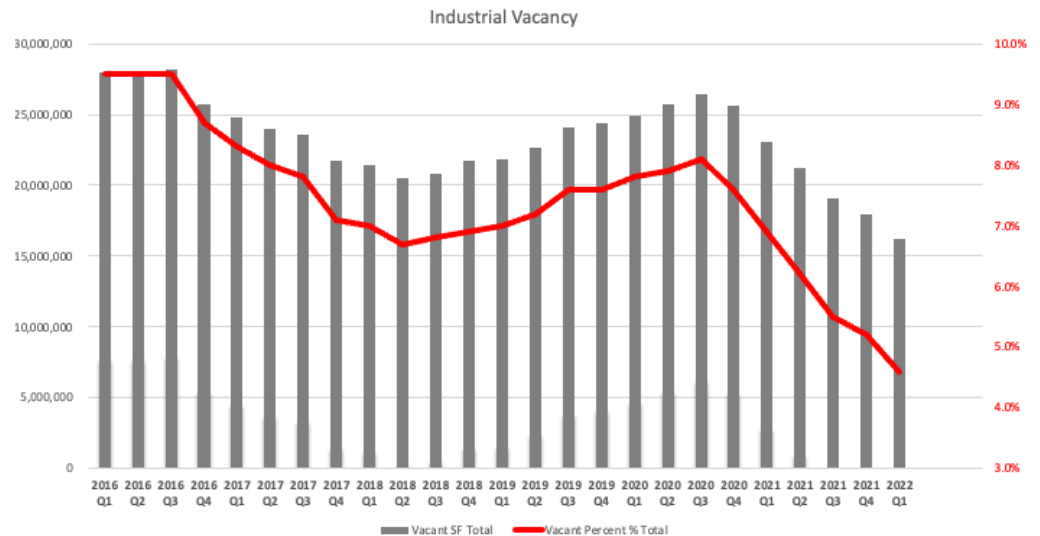
followed by the Southeast Valley (1.37 msf) and the Northwest Valley (1.265 msf).

With occupancy levels running at 95.4% and vacancy for industrial space a miniscule 4.6%, this doesn't sound like a downturn, does it?

Rents for industrial facilities nationwide increased 15.2% year-over-year, according to one of the national brokerage firms. In Phoenix, rents increased in the past year by nearly 18%, going from \$7.63 at the end of the first quarter 2021 to \$8.99-per-square-foot in the recent quarter. The Northeast Valley commanded the highest rents on a yearly, NNN basis, at \$13.60 per foot.

Largest Leases

The largest industrial leases in the first quarter involved some of the heavyweights in the industry. Lowe's completed the largest transaction in the period, with a 1.2-million-square-foot facility, Amazon closed on two properties - 1.19 million square feet and 409,000 square feet while XPO Logistics took down 552,330 square feet in the period.



Biggest Sales


The top sales for the quarter by dollar amount were \$70.5 million, \$64.24 million, \$53.5 million and \$51.285 million. Three of those investment transactions involved assets in Glendale. See below for more details.

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Photos & Information provided by CoStar


Leased in Q1

1 


SE Crimson Rd & Pecos Rd	
Submarket	Chandler N/Gilbert
Tenant	Lowe's
Size	1,200,000 SF
Class	B

2 

8560 E Elliot Rd	
Submarket	Chandler N/Gilbert
Tenant	Amazon
Size	1,194,923 SF
Class	A

3 

7037 W Van Buren St	
Submarket	Tolleson
Tenant	XPO Logistics
Size	552,330 SF
Class	A

4 

10209 W Roosevelt St, Bldg 2	
Submarket	Tolleson
Tenant	Amazon
Size	409,254 SF
Class	A


Sold in Q1

1 


6390 N Alsup Ave	
Sale Price	\$70.5M
Submarket	Southwest Valley
Size	1,526,660 SF
Price/SF:	\$129.84

2 

8009 E Ray Rd	
Sale Price	\$64.24M
Submarket	Southeast Valley
Size	835,973 SF
Price/SF:	\$247.46

3 

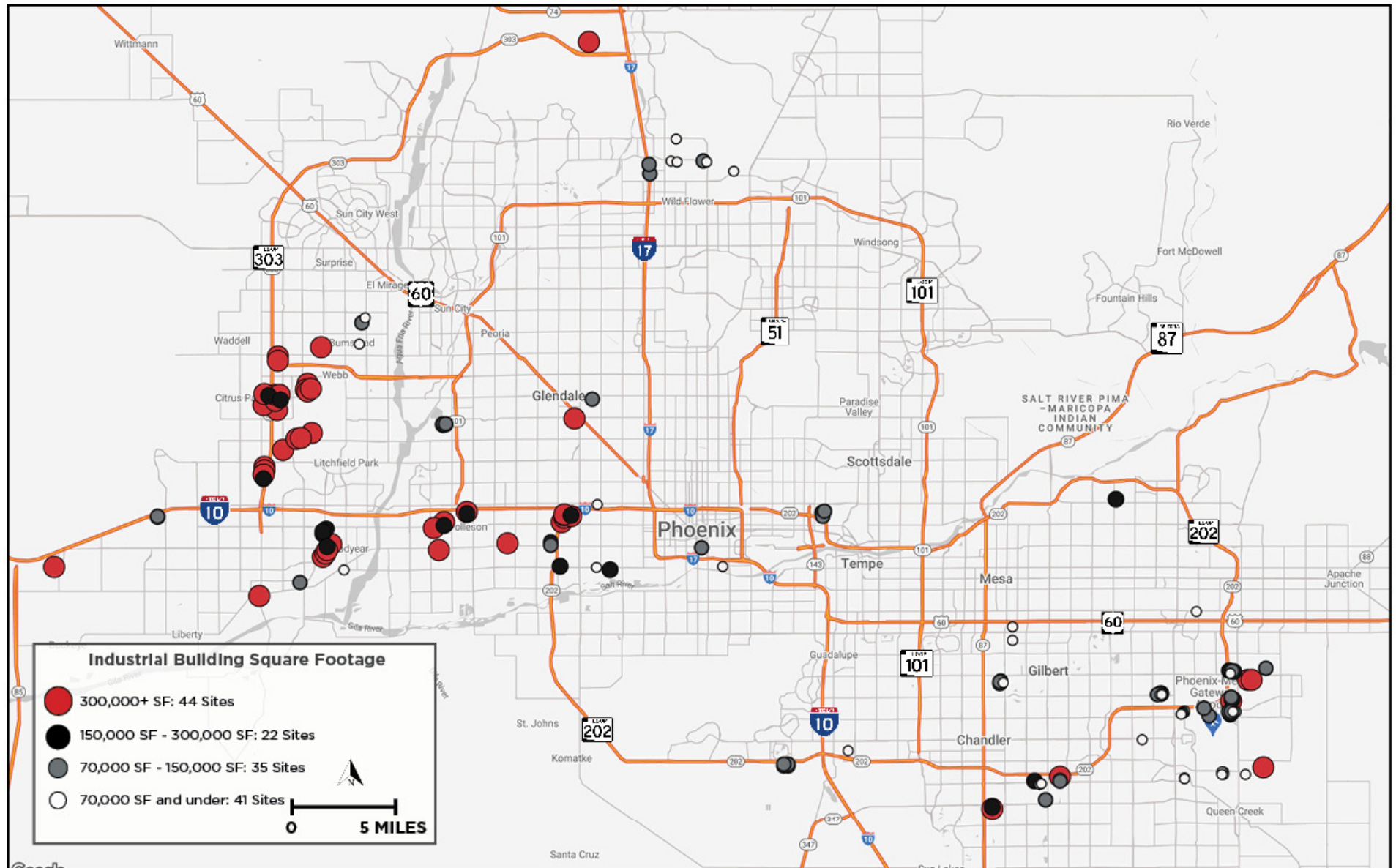
7811 N Glen Harbor Blvd	
Sale Price	\$51.3M
Submarket	Northwest Valley
Size	1,253,670 SF
Price/SF:	\$82.72

4 

10300 W Buckeye Rd	
Sale Price	\$27.5M
Submarket	Southwest Valley
Size	694,272 SF
Price/SF:	\$121.06



Industrial Space by Square Footage



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Industrial Numbers Chart and Data Q1

Submarket	RBA	Vacant SF	Vacant %	Net Absorption	Deliveries	Under Construction	Avg NNN Rate
Sky Harbor	49,363,556	1,409,519	2.9%	299,268	94,146	113,555	\$0.92
Northeast Valley	15,058,296	380,633	2.5%	75,002	-	-	\$1.13
Northwest Valley	74,986,594	4,430,775	5.9%	63,908	1,264,556	11,371,325	\$0.73
Southeast Valley	100,024,083	3,920,130	3.9%	1,246,783	1,370,590	4,601,804	\$0.83
Southwest Valley	113,879,046	6,103,128	5.4%	5,333,614	2,859,978	4,059,589	\$0.54
All Submarkets	353,487,730	16,244,185	4.6%	7,018,575	5,589,270	20,146,273	\$0.75
2021 Q4	348,187,078	17,962,108	5.2%	5,005,956	3,911,062	20,123,507	\$0.70
2021 Q3	344,276,016	19,057,002	5.5%	6,059,028	3,956,566	18,412,385	\$0.69
2021 Q2	340,348,434	21,188,448	6.2%	5,832,630	3,945,171	19,361,649	\$0.66
2021 Q1	336,403,263	23,075,907	6.9%	4,180,497	1,738,389	17,583,245	\$0.64
2020 Q4	334,730,346	25,583,487	7.6%	7,305,853	6,415,535	10,940,790	\$0.64



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.

About NAI Global

Advisory Services | Leasing | Property Management
Property & Note Sales | 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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