



Phoenix, AZ

Industrial 21Q1

Key Takeaways

- Record level of product under construction
- First quarter net absorption equaled 38 percent of all of 2020
- Rental rate continued to increase, up 8.4 percent Y-o-Y



Q1 2021

Rental rates continue to climb, increasing over 8 percent year-over-year. Vacancy decreased 80 bps over-the-quarter while delivering 2.9 million square feet, illustrating very strong tenant activity. Product under construction has reach an all-time high in the Phoenix industrial market and more is in the pipeline expecting to break ground later this year.

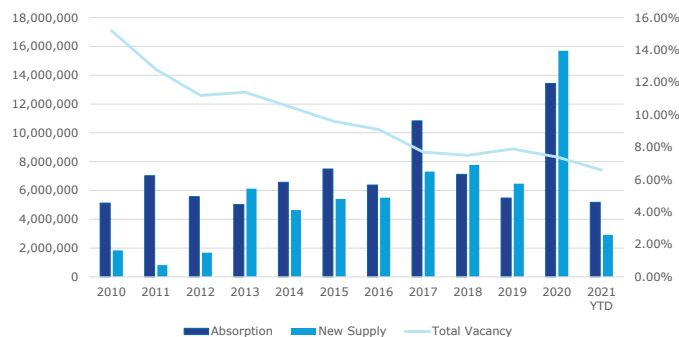
Market Indicators



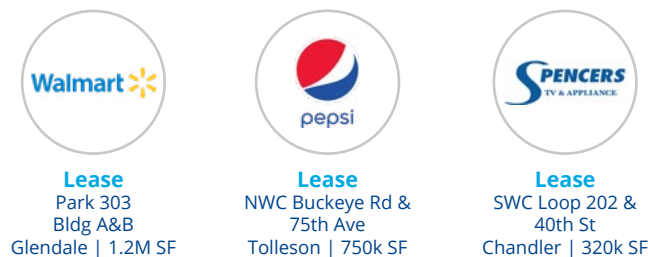
Historic Comparison

	20Q1	20Q4	21Q1
Total Inventory (in Thousands of SF)	317,798	326,705	329,686
New Supply (in Thousands of SF)	1,635	6,537	2,918
Net Absorption (in Thousands of SF)	802	7,058	5,176
Direct Vacancy	7.7%	7.4%	6.6%
Under Construction (in Thousands of SF)	14,302	7,009	17,789
Overall Asking Lease Rates (NNN)	\$0.59	\$0.63	\$0.64

Historical Absorption, Deliveries and Vacancy Rates



Lease Transactions



Sale Transactions

Property Name/Property Address	Submarket	Sale Date	Sale Price	Size SF	Sale Price SF	Class
6677 W Frye Rd (Part of portfolio Sale)/ Southern Phoenix Distribution Center	Chandler	2/23	\$27,762,630	118,383	\$235	A
4720 W Van Buren (Part of portfolio Sale)	SW N of Buckeye Rd	3/31	\$19,578,602	135,674	\$144	B
7343 S Hardy Dr (Part of portfolio sale)	Tempe SW	2/24	\$24,086,385	175,405	\$137	A



Executive Summary

Q1 2021

After national, state and metro Phoenix COVID-19 cases spiked to their highest point during the first two weeks of the new year, Phoenix has witnessed a drastic 97 percent decrease at the end of March compared to the peak day of January 4, 2021.

The mass exodus from large metropolitan cities was expedited by COVID-19 in 2020, but has been a trend for the past five years. According to a recent report released from North American Moving Services, Arizona was ranked second behind Idaho for top inbound migration state in 2020, and metro Phoenix ranked #1 for top MSA destination cities to which people are moving. Three California cities landed on the top five of areas people are leaving; #2 Anaheim, #3 San Diego, #5 Riverside, while New York city landed in the #1 spot. Phoenix witnessed its largest inbound migration from San Diego and Chicago.

The Milken Institute Best-Performing Cities 2021 report ranked Phoenix MSA #7 in the Tier 1 Large Cities category, moving up five spots from 2020. Phoenix' primary drivers are strong population, employment growth and the continuing expansion of its high-tech industrial base.

After losing 227,300 jobs in the month of April 2020, Phoenix recovered 163,200 jobs in February 2021. Manufacturing jobs increased 1.35 percent over-the-month but were down -0.59 percent year-over-year in February. It was no surprise because of the strong ecommerce push that the Transportation, Warehousing, and Utilities industry have experienced tremendous growth, increasing 14.3 percent growth year-over-year.

The Greater Phoenix Industrial market continued the same trajectory as 2020, ending Q1 2021 posting 5.1 million square feet of positive net absorption. This marks the eighth consecutive quarter of more than 1,000,000 square feet of positive net absorption. Direct vacancy has decreased 80 bps quarter-over-quarter and 110 bps year-over-year to finish first quarter at 6.6 percent. The market reached the lowest vacancy rate in over two years.

2.9 million square feet of new product were delivered this quarter with a low vacancy of 39 percent. This showcases the rapid drive for speculative development and how quickly large blocks are getting leased. Another 17.7 million square feet are currently underway, marking the highest level of construction activity ever witnessed in the Phoenix market.

Rental rates are continuing to push higher, increasing 1.59 percent over-the-quarter and 8.47 percent year-over-year, settling at \$0.64 per square foot. The combined increase in rental rates and the decrease in vacancy has propelled sales volume and increased median price per square foot 5.83 percent to \$127.

Outlook

New businesses and investors are racing to Phoenix to enter the market. Vacancy is expected to increase with the amount of construction underway, but rental rates will continue to rise for the next few quarters.

Vacancy

Metro Phoenix industrial vacancy decreased over-the-quarter by 80 bps, and year-over-year vacancy increased by 110 bps to 6.6 percent. Northeast submarket cluster continues to have the lowest vacancy rate, ending the first quarter down 70 bps over-the-quarter and 30 bps year-over-year at 3.0 percent.

The Southeast cluster and Airport Area had the largest decreases in vacancy year-over-year, both decreasing 170 bps settling at 5.5 and 4.6 percent, respectively. The Northwest submarket cluster delivered the highest amount of new inventory this quarter, completing 2.0 million square feet. Vacancy only increased slightly by 20 bps over-the-quarter, but decreased 30 bps year-over-year. During the past 12 months, Northwest cluster has delivered over 5.7 million square feet.

Large blocks of inventory remain very limited within Airport Area, Northeast, and Southeast Valley submarket clusters, with only 15 options to accommodate a tenant looking for 125,000 square feet and only 3 options over 200,000 square feet (two of the options are currently under construction).

Absorption and Leasing

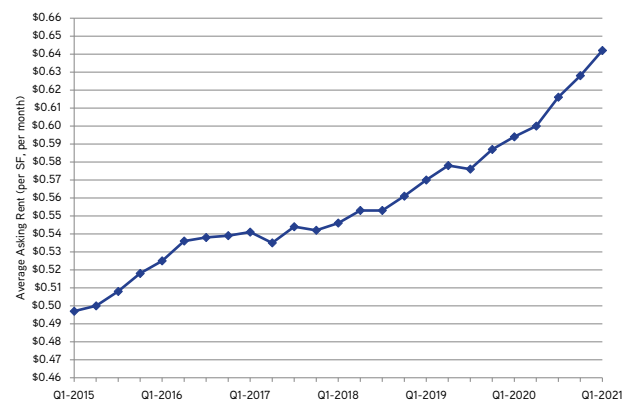
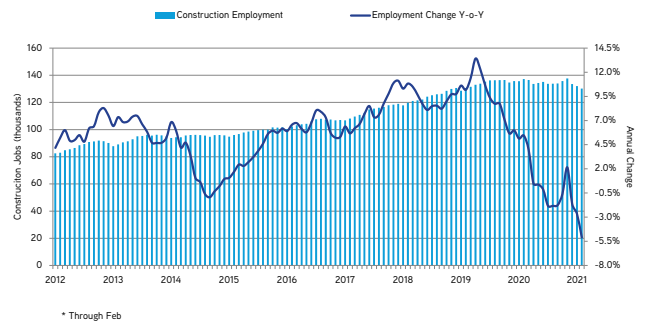
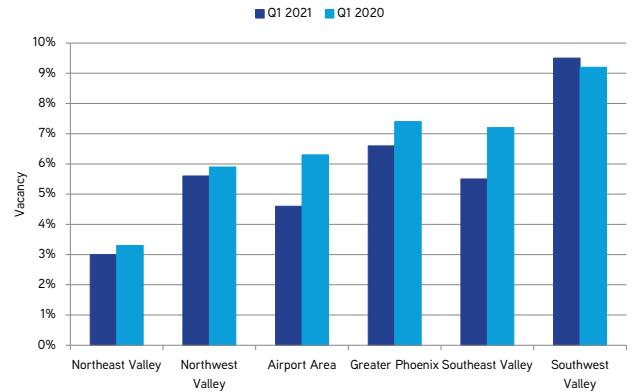
After ending an impressive 2020, the momentum continued rolling into 2021 with net absorption hitting 5.1 million square feet during first quarter. This figure is approximately 38 percent of total net absorption of 2020 in just the first quarter. For the second consecutive quarter none of the five submarket clusters posted negative net absorption. Leasing activity outpaced deliveries this quarter, helping to drive down vacancy.

Walmart committed to 1.2 million square feet at Lincoln Property Company's recently completed speculative project Park 303 near Loop 303 and Glendale Avenue. Pepsi, the parent company of Gatorade, committed to expand by 750,000 square feet near their current facility at Tolleson Corporate Park. The project has not yet started construction. In January, Spencers TV and Appliances committed to 319,000 square feet at Aikmel Gateway, a Trammel Crow project near the new 202 and I-10. The project is still under construction and expected to deliver later this year.

Rental Rates

Asking rates continued to rise, increasing 8.4 percent year-over-year and up 1.59 percent over-the-quarter, reaching \$0.64 per square foot.

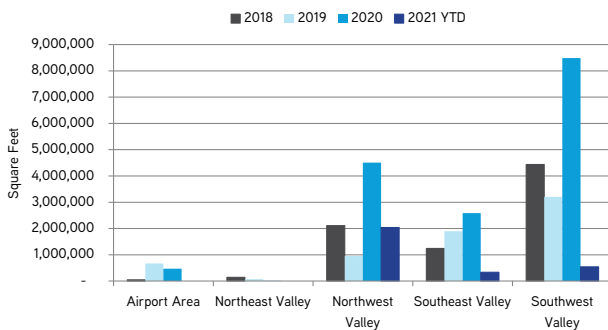
The Airport Area submarket cluster once again led the market in rental rate increases with year-over-year improvement of 14.2 percent to \$0.81. Airport Area is followed by the Northwest submarket, which is experiencing rapid growth and increased rates 9.2 percent to \$0.67 per square foot. The largest increase over-the-quarter was captured by the Southwest cluster, increasing 3.0 percent to \$0.48. Manufacturing properties had the largest increase year-over-year, increasing 11.5 percent. However, manufacturing properties in the Northwest Valley had the greatest increase of all product types throughout the metro area, increasing more than 18 percent year-over-year. Rental rates are expected to continue rising through the end of the year.



Construction

First quarter marked an all time high for most amount of inventory currently under construction, 17.7 million square feet, increasing 10.7 million square feet in the first three months. Of that space under construction, 85 percent is being developed in the Northwest and Southwest submarket clusters and is 35.9 percent pre-leased. Two of the largest projects that broke ground this quarter are speculative developments, Sarival Logistics Center, a 1.15 million square foot distribution center at Loop 303 and Bethany Home Road, and 10 West Commerce Park, a 862,000 square foot distribution facility in Buckeye south of I-10. After the Southeast Valley experienced the success of the 400,000-square-foot new building at The Landing, two new big box projects broke ground this quarter totaling 549,000 square feet. This exemplifies the movement of larger tenant footprints in the Southeast Valley.

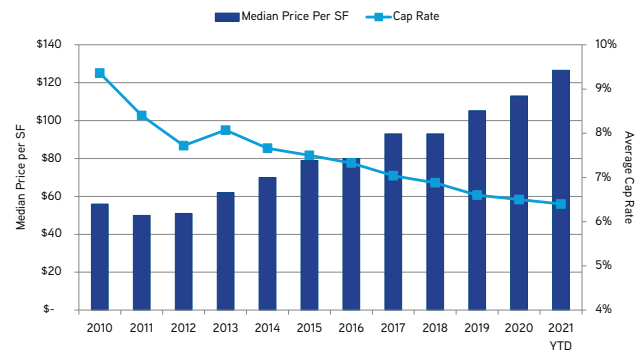
Thirteen buildings were completed this quarter totaling 2.9 million square feet and only 39 percent of the space was not pre-leased. Over 85 percent of the total square footage delivered is located along the I-10 west of Loop 101 and in the Loop 303 corridor.



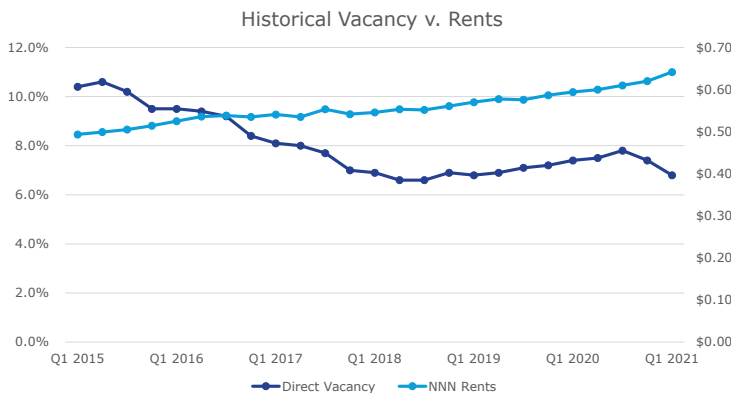
Investment Trends

Investment sales volume in the first quarter outperformed first quarter 2020 by 1.3 percent, but decreased 26.1 percent compared to fourth quarter 2020. First quarter closed with \$831 million in sales volume. The median price per square foot increased 5.8 percent over-the-quarter and 14.8 percent year-over-year to \$127 per square foot. Cap rates continued compressing to 6.2 percent.

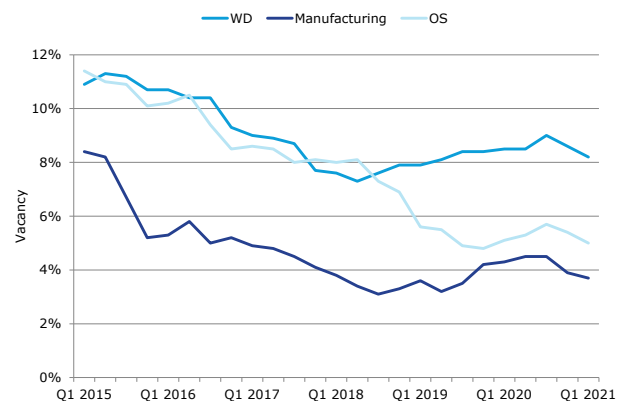
The largest sale of the quarter was a recapitalization with LBA Realty and BREIT to become joint partners in a national bulk portfolio, which involved a 682,290 square foot distribution center here in Phoenix that is leased to States Logistics Services for \$79 million (\$116/SF). Formerly known as The Lotus Project, a four-building multi-tenant industrial complex totaling 473,516 square feet, traded in February for \$91 million, was 96 percent leased had a weight average lease term of 8 plus years.



Vacancy vs. Rental Rate



Vacancy by Type



LEGEND	
WD	= Warehouse-Distribution
MF	= Manufacturing
OS	= Office Services = Flex/R&D

Existing Properties Building Type	Direct Vacancy		Sublease Availability		Total Vacancy		Net Absorption - SF		New Supply - SF		Under Constr.	Avg Rent		
	Total Inventory SF	SF	Rate	SF	Rate	Total Available SF	Rate	Current Period	YTD	Current Period	YTD	SF	Rate (fs)	
INDUSTRIAL MARKET														
Airport Market Cluster: North Airport, S Airport N of Roeser, S Airport S of Roeser, SC N of Salt River, SC S of Salt River														
WD	33,935,418	1,448,953	4.3%	216,845	0.6%	1,665,798	4.9%	7.8%	333,871	333,871	-	-	182,801	\$0.71
MF	8,278,894	174,386	2.1%	-	0.0%	174,386	2.1%	1.8%	(36,737)	(36,737)	-	-	-	\$0.69
OS	4,283,101	516,374	12.1%	7,626	0.2%	524,000	12.2%	8.9%	(28,777)	(28,777)	-	-	-	\$1.22
TOTAL	46,497,413	2,139,713	4.6%	224,471	0.5%	2,364,184	5.1%	6.6%	268,357	268,357	-	-	182,801	\$0.81
Northeast Market Cluster: Central Phoenix, Scottsdale Airpark, Scottsdale/Salt River														
WD	6,581,714	299,954	4.6%	11,220	0.2%	311,174	4.7%	3.2%	71,649	71,649	-	-	-	\$0.98
MF	3,692,356	44,586	1.2%	-	0.0%	44,586	1.2%	2.7%	8,126	8,126	-	-	-	\$0.88
OS	3,713,781	78,850	2.1%	-	0.0%	78,850	2.1%	3.9%	14,680	14,680	-	-	-	\$1.11
TOTAL	13,987,851	423,390	3.0%	11,220	0.1%	434,610	3.1%	3.3%	94,455	94,455	-	-	-	\$1.03
Northwest Market Cluster: Deer Valley/Pinnacle Peak, Glendale, Grand Avenue, N Glendale/Sun City, North Black Canyon, North Outlying, W Phx N of Thomas, W Phx S of Thomas														
WD	45,563,809	3,040,751	6.7%	54,323	0.1%	3,095,074	6.8%	6.4%	1,402,175	1,402,175	1,762,239	1,762,239	8,298,040	\$0.59
MF	15,392,767	419,246	2.7%	85,356	0.6%	504,602	3.3%	4.8%	348,086	348,086	280,000	280,000	-	\$0.82
OS	4,110,551	155,696	3.8%	15,000	0.4%	170,696	4.2%	3.9%	58,452	58,452	-	-	-	\$0.94
TOTAL	65,067,127	3,615,693	5.6%	154,679	0.2%	3,770,372	5.8%	5.9%	1,808,713	1,808,713	2,042,239	2,042,239	8,298,040	\$0.67
Southeast Market Cluster: Chandler Airport, Chandler, Chandler N/Gilbert, Falcon Field/Apache Junction, Mesa, Tempe East, Tempe Northwest, Tempe Southwest														
WD	54,075,590	3,213,149	5.9%	383,700	0.7%	3,596,849	6.7%	8.2%	1,622,493	1,622,493	82,288	82,288	2,202,750	\$0.68
MF	27,587,058	1,436,502	5.2%	10,055	0.0%	1,446,557	5.2%	5.7%	275,376	275,376	251,066	251,066	162,184	\$0.75
OS	8,988,743	342,078	3.8%	14,489	0.2%	356,567	4.0%	5.8%	163,201	163,201	-	-	-	\$1.21
TOTAL	90,651,391	4,991,729	5.5%	408,244	0.5%	5,399,973	6.0%	7.2%	2,061,070	2,061,070	333,354	333,354	2,364,934	\$0.72
Southwest Market Cluster: Goodyear, SW N of Buckeye Road, SW S Buckeye Road, Tolleson, Southwest Outlying														
WD	98,352,930	10,179,731	10.4%	164,137	0.2%	10,343,868	10.5%	10.4%	1,051,098	1,051,098	542,936	542,936	6,943,630	\$0.48
MF	11,844,336	422,383	3.6%	0	0.0%	422,383	3.6%	2.8%	6,480	6,480	-	-	-	\$0.48
OS	3,285,172	133,214	4.1%	0	0.0%	133,214	4.1%	0.6%	(114,114)	(114,114)	-	-	-	\$0.94
TOTAL	113,482,438	10,735,328	9.5%	164,137	0.1%	10,899,465	9.6%	9.2%	943,464	943,464	542,936	542,936	6,943,630	\$0.48

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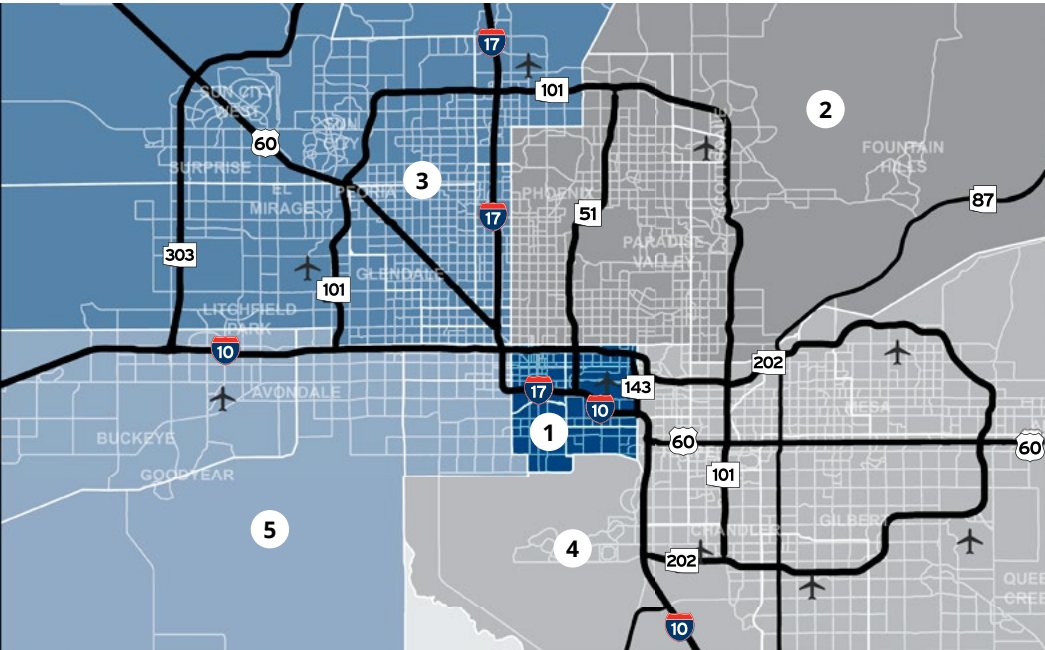
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LEGEND	
WD	Warehouse-Distribution
MF	Manufacturing
OS	Office Services = Flex/R&D

Existing Properties Building Type	Direct Vacancy		Sublease Availability		Total Vacancy		Net Absorption - SF		New Supply - SF		Under Constr.	Avg Rent		
	Total Inventory SF	SF	Rate	SF	Rate	SF	Total Available Q1-21	Vacant Rate Q1-20	Current Period	YTD	Current Period	YTD	SF	Rate (fs)
Grand Total														
WD	238,509,461	18,182,538	7.6%	830,225	0.3%	19,012,763	8.0%	8.5%	4,481,286	4,481,286	2,387,463	2,387,463	17,627,221	\$0.59
MF	66,795,411	2,497,103	3.7%	95,411	0.1%	2,592,514	3.9%	9.7%	601,331	601,331	531,066	531,066	162,184	\$0.72
OS	24,381,348	1,226,212	5.0%	37,115	0.2%	1,263,327	5.2%	5.1%	93,442	93,442	-	-	-	\$1.14
TOTAL	329,686,220	21,905,853	6.6%	962,751	0.3%	22,868,604	6.9%	7.7%	5,176,059	5,176,059	2,918,529	2,918,529	17,789,405	\$0.64

Quarterly Comparisons and Totals														
21Q1 Total	329,686,220	21,905,853	6.6%	962,751	0.29%	22,868,604	6.94%	7.70%	5,176,059	5,176,059	2,918,529	2,918,529	17,789,405	\$0.64
20Q4 Total	326,705,035	24,320,884	7.4%	1,703,673	0.5%	26,024,557	8.0%	7.2%	7,085,545	13,908,003	6,537,748	16,093,159	7,009,753	\$0.63
20Q3 Total	320,842,177	25,435,452	7.9%	1,599,539	0.5%	27,034,991	8.4%	7.1%	2,579,685	6,632,601	3,232,596	9,896,928	9,274,288	\$0.61
20Q2 Total	317,798,737	24,828,602	7.8%	1,648,437	0.5%		8.3%	6.8%	2,982,227	4,052,916	3,464,198	5,822,293	11,603,690	\$0.61
20Q1 Total	313,600,362	24,048,621	7.7%	1,417,707	0.5%	23,834,209	8.1%	6.8%	1,070,689	1,070,689	2,239,616	2,239,616	14,302,944	\$0.58



1. Airport Market
2. Northeast Market
3. Northwest Market
4. Southeast Market
5. Southwest Market

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\$3.3B

in revenue



2B

square feet under management



18,000 +

professionals and staff

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