

Q4 2020

Key Takeaways

- > The year that seemed to never end has finally concluded. COVID-19 cases spiked again as the colder winter months arrived in Arizona, but with the help of a business-minded governor, the state did not enter a second lockdown like many neighboring states had to unfortunately bare. The vaccine distribution provides a path to normalization, which should lead to an economic catch up and optimism for the year ahead. From the peak of unemployment in April hitting an all-time high of 12.5 percent, metro Phoenix has gradually and diligently been moving in a positive direction. The metro area has recovered nearly 79 percent of the initial jobs lost. In the months from June through November the Construction and Transportation Utilities supersector increased jobs by an average of 5.10 and 1.99 percent respectively, compared to the same six-month span from last year.
- > Maricopa County rank #1 in Talent Attraction, according to EMSI's 2020 Talent attraction scorecard that was released in December of 2020. Key highlights from the score showed that larger metro areas like Los Angeles (finished at the bottom of the list) are struggling to retain talent, and mid-sized markets made up more than half of the top 100 (601 total).

Greater Phoenix Industrial Market

Unlike other asset types in Phoenix the industrial market benefited immensely from COVID-19, ending the year with the highest year-to-date net absorption ever witnessed at 13.9 million square feet, with net absorption exceeding 7.0 million square feet in the fourth quarter. Under construction figures decreased 2.2 million square feet from the third quarter to 7.0 million square feet. Staggeringly we delivered 6.5 million square feet of new product in the fourth quarter, which marks the most new space delivered in a single quarter in the Phoenix market history. Continued growth in the West Valley led Tratt Properties to complete the first spec project over 1 million square feet. Development is not only focused in the West Valley. Southeast Valley delivered another project over

Market Indicators Relative to prior period	Market 4Q 2020	Market 4Q 2019
Vacancy	↑	↑
Net Absorption	↑	↑
Construction	↓	↑
Rental Rate	↑	↑

Fourth Quarter Economic Trends*

Phoenix Metro Employment	↑	↓
Phoenix Industrial Uses Employment	↑	↑
U.S. Employment	↑	↓
U.S. Industrial Uses Employment	↑	↓

*Source: Bureau of Labor Statistics

Summary Statistics	Phoenix Industrial Market
Vacancy Rate	7.4%
Change from 4Q 2019 (bps)	20
Net Absorption (thousands SF)	7,085
New Construction (thousands SF)	6,537
Under Construction (millions SF)	7,009
Asking Rents Per Square Foot Per Month	\$0.63
Change from 4Q 2019	6.8%

Greater Phoenix Industrial Market (continued)

200,000 square feet, within a submarket that historically favors industrial buildings under 125,000 square feet. Market rents increased 6.7% over-the-year and 1.61% over-the-quarter to \$0.63. For the second consecutive quarter, distribution buildings experienced the largest rental rate gain year-over-year, increasing 9.05 percent to \$0.52.

This marked the seventh consecutive quarter of more than 1 million square feet of net absorption in the industrial market. We ended the fourth quarter with 7.0 million square feet of positive absorption for a total of 13.7 million square feet during 2020. Direct vacancy rate during fourth quarter dropped 50 bps to 7.4 percent while delivering

6.5 million square feet, illustrating the strong demand for new space.

Under Construction activity declined down to 7.0 million square feet. However, fourth quarter brought the third largest volume of industrial land sales over 10 acres since 2015. Focused primarily along the west Loop 303 corridor, this area comprised more than 75 percent of the transaction volume.

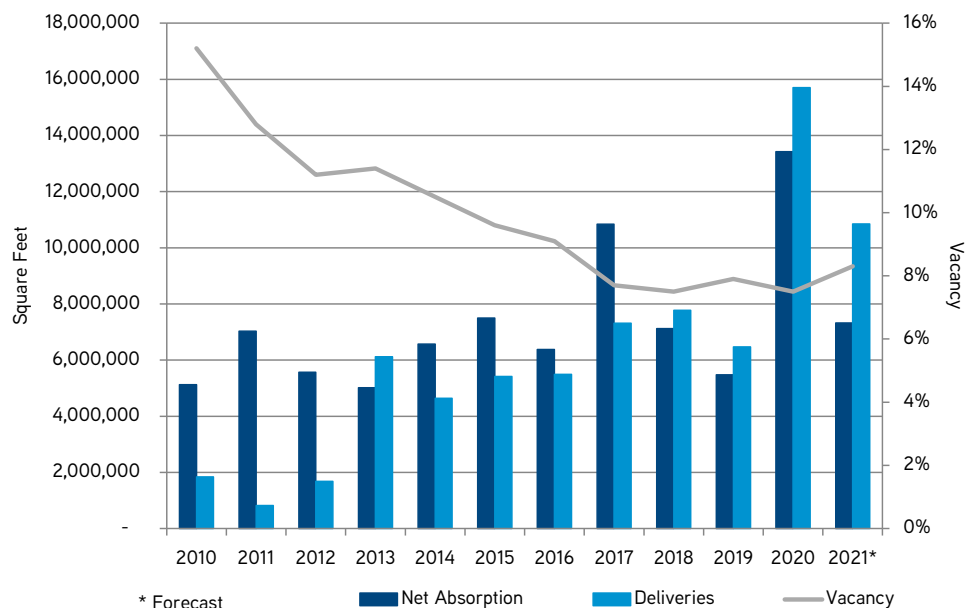
The new South Mountain Freeway 202 expansion has captured developer attention. Two new projects broke ground this quarter, both larger than 400,000 square feet and 100 percent available. These will more than likely be absorbed before completion or shortly after.

Recent Transactions in the Market

SALE ACTIVITY						
Property Address	Submarket	Sale Date	Sale Price	Size SF	Sale Price SF	Class
Chandler Airport Commerce Park/3405 S McQueen Rd	Chandler Airport	11/10	\$87,725,000	201,784	\$435	A
The Landing 202/8046 E Ray Rd	Chandler N/Gilbert	12/3	\$61,230,440	486,000	\$126	A
Daimler/17017 W Indian School Rd	Goodyear	12/8	\$43,157,811	263,606	\$164	A

LEASE ACTIVITY			
Property Address	Submarket	Tenant	Size SF
563 S 63rd Ave	SW N of Buckeye Rd	The ReaReal	593,600
4570 W Lower Buckeye Rd	SW S of Buckeye Rd	Honeywell	301,954
9393 W Buckeye Rd	Tolleson	Thrift Books	189,000

Historical Absorption, Deliveries and Vacancy Rates



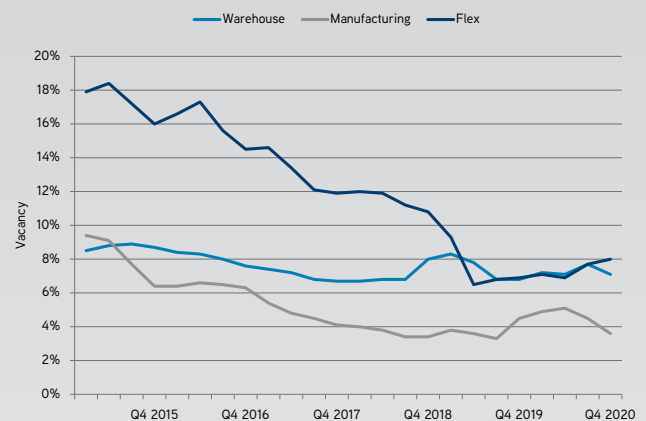
Vacancy:

- › Metro Phoenix industrial vacancy decreased over-the-quarter by 50 bps, and year-over-year vacancy increased by only 20 bps to 7.4 percent.
- › Northeast submarket cluster ended the year with the lowest vacancy rate of 3.7 percent, decreasing 40 bps over-the-quarter, and matching year end vacancy of 2019.
- › The Northwest submarket cluster delivered the second highest amount of new inventory this year, delivering 4.5 million square feet. That submarket posted the largest decrease in vacancy of 100 bps year-over-year. The submarket cluster ended the year with the second lowest vacancy in the valley, dropping 70 bps over-the-quarter to 4.7 percent.
- › Large blocks of inventory remain very limited within Airport Area, Northeast, and Southeast Valley submarket clusters, with only 17 options to accommodate a tenant looking for 100,000 square feet (3 of the options are currently under construction) and only 1 option over 200,000 square feet.
- › **Forecast:** Companies that were previously looking to expand within top tier markets are now exploring up-and-coming secondary markets such as Phoenix. Space is being absorbed at a faster pace than previous years, forcing tenants to negotiate renewals or relocation options sooner than expected in order to ensure they have a variety of options in the process.
- › Buildings over 250,000 square feet that are currently under construction are already 44 percent pre-leased. Space is being absorbed before developers even break ground, which has spurred the demand for spec buildings in the valley.
- › Wal-mart, the nation's largest food retailer, is focusing on their online business and testing out a temperature-controlled "HomeValet" containers for contactless grocery delivery. If this trend gains traction and is copied by other national grocery chains, we will see a higher demand for space needed to execute this business model.

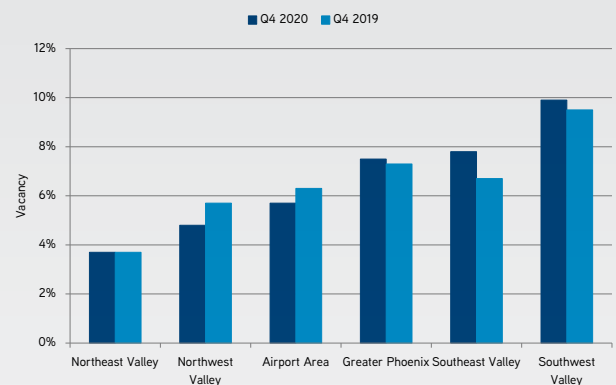
Absorption and Leasing Activity:

- › Net absorption climbed over 7.0 million square feet during the fourth quarter, marking the seventh consecutive quarter of above 1 million square feet of absorption and the third consecutive quarter of net absorption over 2 million square feet. Fourth quarter and 2020 posted the highest amount of net absorption in a single quarter and in a year ever experienced in the Phoenix industrial market. Warehouse and distribution space led the quarter in net absorption, primarily in the Southwest and Northwest submarket clusters. During the fourth quarter none of the five submarket clusters witnessed negative net absorption.
- › Leasing activity this quarter was as strong as the three previous, reaching 23 percent of all new deals signed (over 10,000 SF), and 17 percent of all deals signed over 100,000 square feet in 2020. Amazon made up 23 percent of all deals 100,000+ square feet signed in 2020, committing to 2.7 million square feet of new space during the year.
- › In November, the luxury online consignment retailer, The ReaReal, signed the largest lease of the quarter. This 593,600-square-foot deal at Liberty Logistics Center in Phoenix involved a building that was previously leased by Tuesday Morning. Honeywell, which has a large presence and calls Phoenix home to their Aerospace Headquarters, expanded its distribution presence by committing to 301,954 square feet at Riverside Business Park.
- › The Phoenix market is seeing more tenant in migration, not just seeking warehouse space, but also manufacturing companies entering Phoenix because of the lower cost of doing business and connectivity to nearby markets. Some tenants that have not even moved into their new space yet are already looking for expansion space in the market.
- › **Forecast:** Leasing activity is going to remain strong in 2021, first triggered from the affect of COVID-19, and second the rapid population growth of the Metro area. Companies continue to look at Arizona as a top market for business success. Even with the rapid sprawl both west and east, infill activity will remain extremely

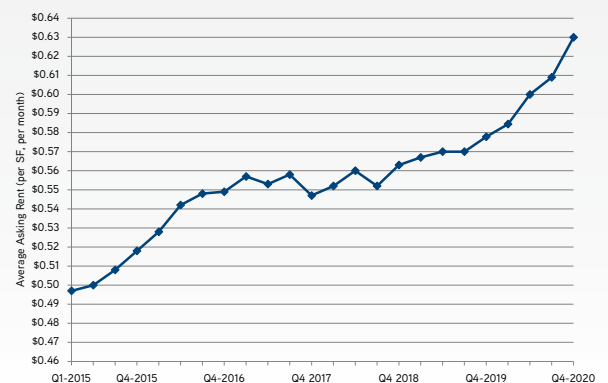
Vacancy by Building Type



Vacancy Among Major Submarkets



Asking Rent Trends



Absorption and Leasing Activity (continued)

tight because of the demand to be in the city center.

Rental Rates:

- Asking rates continued to increase nearly 6.78 percent year-over-year and up 1.61 percent over-the-quarter, reaching \$0.63 per square foot. The Airport Area submarket cluster, which is land constrained to further grow, once again led the market in rental rate increases with year-over-year improvement of 11.2 percent to \$0.80. Airport Area is followed by the Northwest submarket cluster, increasing 7.9 percent to \$0.67. The largest increase over-the-quarter was captured by the Airport Area cluster, increasing 3.1 percent to \$0.71. Availability constraints in this area motivated rents continue climbing in this submarket cluster. If a landlord has a distressed tenant struggling to pay rent, they will more than likely take the space back, confident they can back fill the space and get market rents.
- Forecast:** In the beginning of the year rent growth and underwriting took a quick pause because of uncertainty, but within a couple of months the growth caught up to our 2019 trajectory. As new product becomes available prices will continue increasing. To compete with new inventory, capital is starting to flow into lower quality space as value-add opportunities to improve property appeal and drive-up rates.

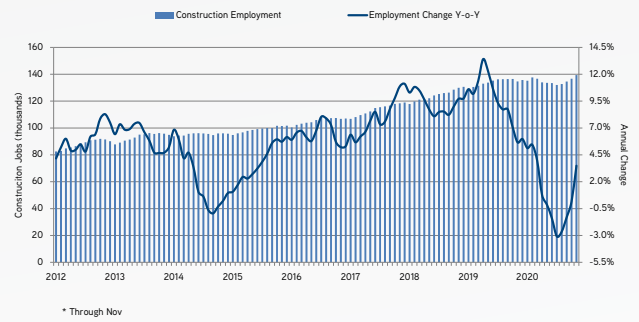
Construction:

- During 2020 the market delivered the most amount of inventory ever witnessed within a single year, adding 16.0 million square feet of industrial space. There are currently 7.0 million square feet under construction, a decrease from the past four quarters. The West Valley continues to have the largest amount of inventory under construction, with 5.9 million square feet currently being developed. For the second consecutive quarter Northwest submarket cluster captured the top position with 3.7 million square feet being developed. Park 303 near Loop 303 and Glendale Avenue accounts for 1.1 million square feet of distribution space underway in the Northwest submarket cluster, all of which is currently 100 percent vacant.
- Forecast:** Construction will continue in full force within the market. Every area of the market has either product under construction or plans to kick off construction relatively soon. Developers are becoming very creative, configuring ways to re-purpose old buildings and parks in landlocked cities, buying the obsolete properties primarily for the use of the land to build new industrial parks.
- Besides built-to-suit opportunities, new tenants entering the market want to see a physical building, which has driven the demand for spec development in various building sizes.

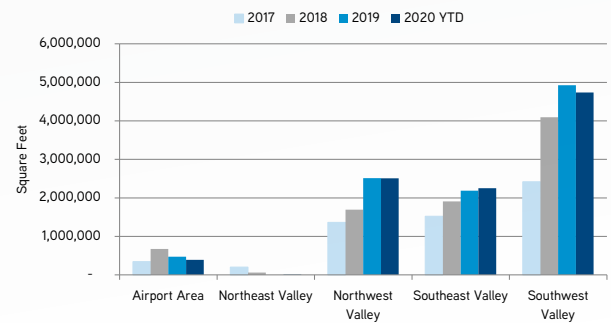
Investment Trends:

- Investment sales volume in the fourth quarter outperformed third quarter by 124 percent, but decreased 0.18 percent compared to fourth quarter 2019. Fourth quarter closed with \$1.09 billion in sales volume and \$2.5 billion in the year. The median price per square foot increased 9.7 percent over-the-quarter, and 21.1 percent year-over-year to \$122 per square foot. Cap rates compressed to 6.2 percent.
- The largest single transaction of the quarter was the newly completed 201,784-square-foot Chandler Airport Commerce Park distribution building selling for \$87,725,000 (\$435/sf), which is fully leased to Amazon on a 12-year lease.
- There were two bulk sales that changed hands this quarter. EJM sold 15 properties to Starwood Capital Group, 1.3 million square feet for \$181 million (\$135/sf). The properties ranged in size from 33,638 to 331,398 square feet and the entire portfolio was 100 percent leased. In October, Harris Properties acquired 14 properties totaling 593,000 square feet from D.F. Properties for \$18.3 million (\$30.94/sf).

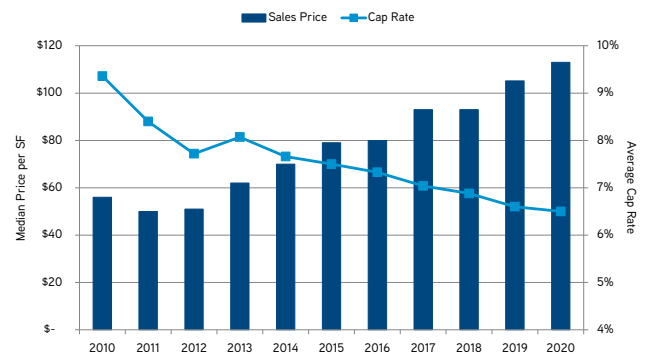
Construction Employment Overview



Construction Trends by Submarket



Investment Trends



Industrial Market

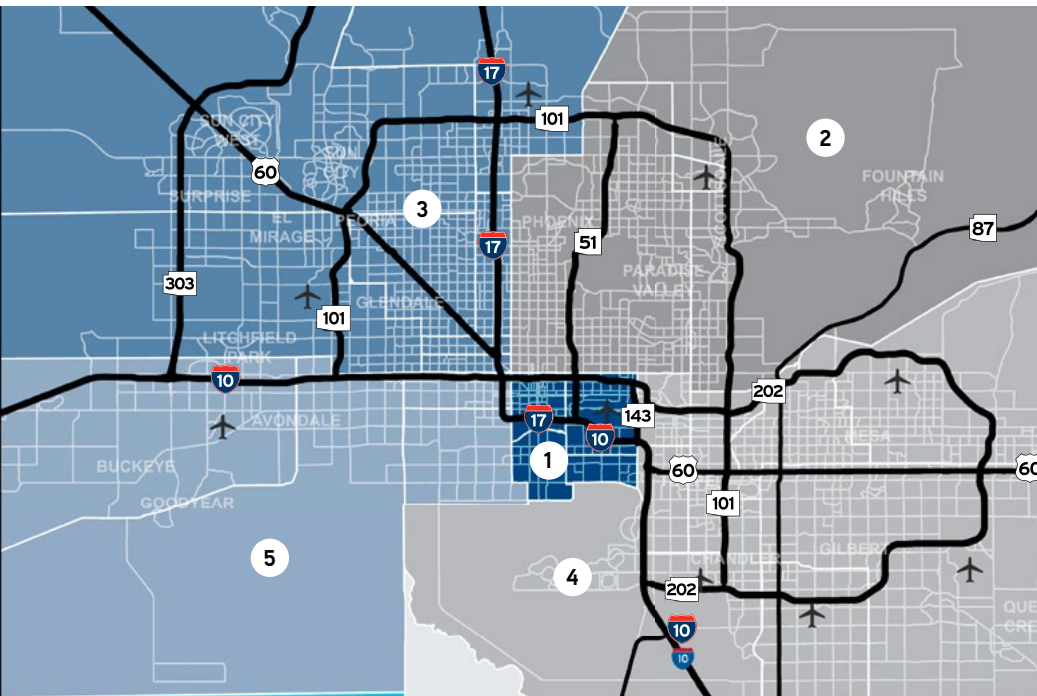
EXISTING PROPERTIES		DIRECT VACANCT		SUBLEASE AVAILABLE		TOTAL AVAILABLE %	DIRECT VACANT %	NET ABSORPTION - SF		NEW SUPPLY - SF		UNDER CONSTR	AVG. RENT
BUILDING TYPE	TOTAL INVENTORY SF	SF	RATE	SF	RATE	VACANCY RATE Q4-20	VACANCY RATE Q4-19	CURRENT PERIOD	YTD	CURRENT PERIOD	YTD	SF	RATE (NNN)
INDUSTRIAL 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													
General Industrial	1,053,117	86,723	8.2%	-	0.0%	8.2%	8.1%	9,922	(1,200)	-	-	-	\$1.34
Distribution	6,900,365	898,552	13.0%	154,155	2.2%	15.3%	15.6%	39,822	175,952	-	-	-	\$0.64
Warehouse	25,918,624	1,068,384	4.1%	81,211	0.3%	4.4%	4.8%	524,295	582,982	150,700	471,400	-	\$0.71
Manufacturing	8,469,136	140,761	1.7%	-	0.0%	1.7%	1.8%	310	13,463	-	-	-	\$0.64
Service Center/Showroom	1,853,679	71,527	3.9%	4,676	0.3%	4.1%	0.6%	(23,220)	(59,607)	-	-	-	\$0.62
Flex	2,475,356	398,697	16.1%	57,376	2.3%	18.4%	13.0%	(76,761)	(81,878)	-	-	-	\$1.24
Total	46,670,277	2,664,644	5.7%	297,418	0.6%	6.3%	5.7%	474,368	629,712	150,700	471,400	-	\$0.80
Northeast Market Cluster: Central Phoenix, Scottsdale Airpark, Scottsdale/Salt River													
General Industrial	506,846	32,600	6.4%	-	0.0%	6.4%	4.7%	(11,020)	(8,838)	-	-	-	\$1.08
Distribution	675,367	33,511	5.0%	-	0.0%	5.0%	3.0%	(12,677)	(12,984)	-	-	-	\$1.18
Warehouse	5,311,385	305,492	5.8%	11,592	0.2%	6.0%	3.8%	(4,128)	(161,147)	-	-	-	\$0.93
Manufacturing	3,690,555	52,712	1.4%	-	0.0%	1.4%	2.3%	21,263	39,169	-	10,676	-	\$0.87
Service Center/Showroom	1,979,985	40,414	2.0%	-	0.0%	2.0%	6.7%	17,294	91,345	-	-	-	\$1.09
Flex	1,733,796	56,150	3.2%	0	0.0%	3.2%	3.4%	28,121	2,621	-	-	-	\$1.09
Total	13,897,934	520,879	3.7%	11,592	0.1%	3.8%	3.3%	38,853	(49,834)	-	10,676	-	\$0.99
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													
General Industrial	1,703,910	88,321	5.2%	-	0.0%	5.2%	3.9%	94,195	117,285	108,000	144,000	-	\$1.29
Distribution	10,957,275	867,681	7.9%	-	0.0%	7.9%	9.5%	19,653	1,215,965	-	1,154,284	2,292,239	\$0.48
Warehouse	31,198,295	1,356,587	4.3%	64,797	0.2%	4.6%	5.1%	1,401,732	1,697,100	1,094,819	1,547,377	1,158,863	\$0.55
Manufacturing	15,033,674	403,574	2.7%	76,356	0.5%	3.2%	4.9%	780,675	1,831,467	710,900	1,626,900	280,000	\$0.71
Service Center/Showroom	2,497,597	159,639	6.4%	8,100	0.3%	6.7%	4.7%	35,685	(44,435)	33,000	33,000	-	\$0.92
Flex	1,526,398	50,409	3.3%	-	0.0%	3.3%	5.2%	10,932	25,834	-	-	-	\$0.94
Total	62,917,149	2,926,211	4.7%	149,253	0.2%	4.9%	5.7%	2,342,872	4,843,216	1,946,719	4,505,561	3,731,102	\$0.67
Southeast Market Cluster: Chandler Airport, Chandler, Chandler N/Gilbert, Falcon Field/Apache Junction, Mesa, Tempe East, Tempe Northwest, Tempe Southwest													
General Industrial	2,589,734	352,131	13.6%	-	0.0%	13.6%	12.6%	20,604	(26,913)	-	-	-	\$1.05
Distribution	9,976,914	1,640,140	16.4%	117,840	1.2%	17.6%	6.6%	57,428	(66,543)	201,784	1,025,664	-	\$0.67
Warehouse	41,630,737	3,115,332	7.5%	349,726	0.8%	8.3%	8.0%	275,165	1,316,074	82,288	1,415,343	1,030,071	\$0.66
Manufacturing	27,281,623	1,371,804	5.0%	221,478	0.8%	5.8%	6.1%	114,598	84,776	-	32,700	326,014	\$0.72
Service Center/Showroom	4,034,478	165,926	4.1%	14,489	0.4%	4.5%	4.3%	52,963	130,761	-	142,873	-	\$1.12
Flex	4,995,790	392,945	7.9%	0	0.0%	7.9%	6.5%	1,820	(74,188)	-	-	-	\$1.24
Total	90,509,276	7,038,278	7.8%	703,533	0.8%	8.6%	7.0%	522,578	1,363,967	284,072	2,616,580	1,356,085	\$0.71
Southwest Market Cluster: Goodyear, SW N of Buckeye Road, SW S Buckeye Road, Tolleson, Southwest Outlying													
General Industrial	5,483,779	193,686	3.5%	0	0.0%	3.5%	5.2%	16,399	91,642	-	-	-	\$0.31
Distribution	52,450,781	6,262,919	11.9%	455,489	0.9%	12.8%	11.2%	612,837	2,356,569	1,302,434	3,924,391	624,780	\$0.44
Warehouse	39,920,654	4,267,632	10.7%	70,236	0.2%	10.9%	13.0%	2,811,622	4,606,634	2,853,823	4,321,191	1,297,786	\$0.51
Manufacturing	11,818,014	427,535	3.6%	-	0.0%	3.6%	3.5%	264,848	59,929	-	243,360	-	\$0.46
Service Center/Showroom	2,568,238	19,100	0.7%	16,152	0.6%	1.4%	1.0%	1,168	6,168	-	-	-	\$0.91
Flex	468,933	0	0.0%	-	0.0%	0.0%	0.0%	0	0	-	-	-	\$0.45
Total	112,710,399	11,170,872	9.9%	541,877	0.5%	10.4%	9.2%	3,706,874	7,120,942	4,156,257	8,488,942	1,922,566	\$0.47
GRAND TOTAL													
General Industrial	11,337,386	753,461	6.6%	-	0.0%	7.9%	6.9%	130,100	171,976	108,000	144,000	-	\$0.97
Distribution	80,960,702	9,702,803	12.0%	727,484	0.9%	11.4%	9.7%	717,063	3,668,959	1,504,218	6,104,339	2,917,019	\$0.52
Warehouse	143,979,695	10,113,427	7.0%	577,562	0.4%	8.7%	7.8%	5,008,686	8,041,643	4,181,630	7,755,311	3,486,720	\$0.60
Manufacturing	66,293,002	2,396,386	3.6%	297,834	0.4%	5.1%	4.1%	1,181,694	2,028,804	710,900	1,913,636	606,014	\$0.68
Service Center/Showroom	12,933,977	456,606	3.5%	43,417	0.3%	4.3%	3.2%	83,890	124,232	33,000	175,873	-	\$1.03
Flex	11,200,273	898,201	8.0%	57,376	0.5%	7.9%	6.9%	(35,888)	(127,611)	-	-	-	\$1.20
Total	326,705,035	24,320,884	7.4%	1,703,673	0.5%	8.4%	7.2%	7,085,545	13,908,003	6,537,748	16,093,159	7,009,753	\$0.63
QUARTERLY COMPARISON AND TOTALS													
Q4-20 Total	326,705,035	24,320,884	7.4%	1,703,673	0.5%	8.4%	7.2%	7,085,545	13,908,003	6,537,748	16,093,159	7,009,753	\$0.63
Q3-20 Total	320,842,177	25,435,452	7.9%	1,599,539	0.5%	8.4%	7.1%	2,579,685	6,632,601	3,232,596	9,896,928	9,274,288	\$0.61
Q2-20 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
Q1-20 Total	313,600,362	24,048,621	7.7%	1,417,707	0.5%	8.1%	6.8%	1,070,689	1,070,689	2,239,616	2,239,616	14,302,944	\$0.58
Q4-19 Total	311,335,803	22,596,343	7.2%	1,576,262	0.5%	7.8%	7.0%	1,348,458	5,201,616	1,872,769	6,791,682	10,503,341	\$0.59

As new, corrected or updated information is obtained, it is incorporated in both current and historical data, which may invalidate comparison to previously issued reports.

Outlook:

The outlook for the Greater Phoenix industrial market remains extremely healthy and active. Phoenix is moving up to become a top tier market, competing with larger markets for new opportunities. 2020 laid out every positive ingredient for a healthy and sustainable industrial market. It will be difficult to outperform this past year, but the same sentiment was felt after closing out 2019. The growth of the market will continue in a positive direction as more out-of-state companies gain enthusiasm for Phoenix and the demand for space remains competitive.

In the midst of the COVID-19 outbreak, information and data are emerging at a quick and uneven rate. The information contained herein has been obtained from sources deemed reliable at the time the report was written. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.



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

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