



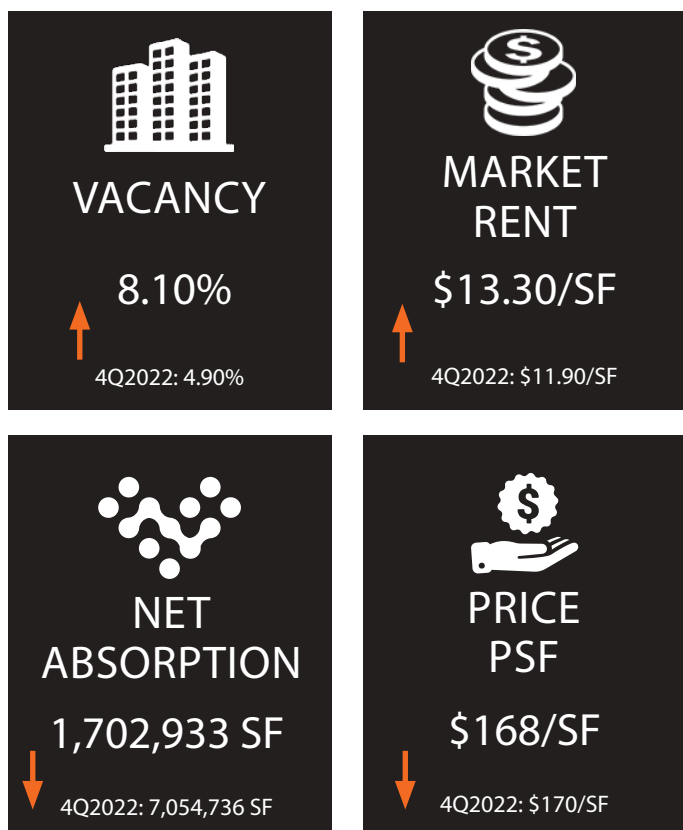
4Q2023 METRO PHOENIX INDUSTRIAL NEWSLETTER

CONTACT INFORMATION

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METRO PHOENIX INDUSTRIAL OVERVIEW

QUARTERLY INDUSTRIAL STATS



The Phoenix industrial market is navigating a period of dislocation as record supply waves overwhelm tenant demand. Builders delivered more than 23 million SF in the second half of 2023, outpacing the cumulative completion total from 2017 to 2019. The substantial supply injection, much of which was built on spec, caused vacancy to spike from the low 4% range in 23Q2 to 8.1% today.

Though underlying space demand has undoubtedly eased from the fervent pace seen in 2021 and 2022, industrial users remain attracted to the Valley's strong labor force, strategic location and positive long-term outlook. About 13.7 million SF was absorbed in 2023, the fourth most in the country and more than 50% above the pre-pandemic five-year average. Tenants in the logistics, manufacturing, food and beverage, and construction industries drove leasing activity, headlined by Cubework's 915,200-SF lease in Glendale.

While leasing activity has downshifted from the breakneck pace seen in 2021 and 2022, it remains elevated by pre-COVID standards. Meanwhile, builders completed a record 31.2 million SF over the past year, contributing to an increase in the metro-wide vacancy rate. These conditions are expected to persist over the near term, with unprecedented supply additions outpacing net absorption, causing property fundamentals to moderate.

The normalization of leasing activity is most acute for the metro's largest blocks of space. Several large spaces have been added to the sublease market. ElectraMeccanica made 235,100-SF available for sublease at a recently built manufacturing facility near the Phoenix-Mesa Gateway Airport in December. Additionally, Puma put 246,000 SF on the sublease market in December at 303 Crossroads. The apparel giant preleased the entire 1 million SF building in 2022. Overall, available sublet space still represents less than 1% of the total inventory.

The area's broad range of demand drivers provides a powerful long-term tailwind for the industrial sector. Not only has Phoenix established itself as a prominent link in national supply chains, but it also has tremendous momentum in terms of advanced manufacturing. TSMC and Intel are underway on several multibillion-dollar semiconductor fabrication plants, helping transform Phoenix into a nation-leading hub for chipmaking. Estimates from government officials indicate that up to 45 other companies that supply or support these projects could relocate to the Valley as a result.

ECONOMIC HIGHLIGHTS

Employment Data (YOY)

- ▶ 3.70% Unemployment Rate (USA) -0.10%
- ▶ 3.50% Unemployment Rate (Metro PHX) -0.30%
- ▶ 2.596MM Employed Residents (Metro PHX)

Metro PHX Housing Trends (YOY)

- ▶ \$430,000 Median Home Price +4.40%
- ▶ 4,820 Closed Transactions -3.30%
- ▶ 62 Days on Market -9 Days
- ▶ 3.54 Months of Supply -0.27 Months

10-Year Treasury

- ▶ 3.88% as of 12/29/2023
- ▶ +0.00% YOY | -0.49% MOM |

Rapidly growing west-side suburbs have generally outperformed the broader market. Strong tenant demand for logistics space in places like Tolleson, Glendale, and Goodyear supports annual rates of rent growth above 12%. Additionally, the delivery of large, modern industrial parks over the past few years has added high-quality space, which commands higher rents than their older vintage counterparts. Even among Phoenix's lower-ranked submarkets, annual rent growth exceeds 10%. If occupiers sign on for larger blocks of space, they can generally achieve a discount on a per-SF basis. Big box space will lease in the \$8/SF to \$11/SF range depending on location, building quality, and tenant credit. For example, Tilson Technology Management, a telecommunications company, signed a 103,900-SF lease to fully occupy a Chandler warehouse paying \$9/SF NNN in December.

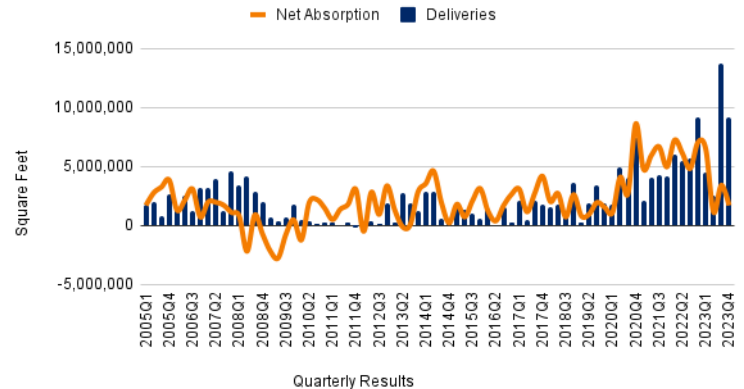
Despite posting some of the strongest rent growth figures in the nation, Phoenix industrial properties remain affordable compared to many other markets, helping attract users looking to build out their distribution networks in the Southwest. Rents average \$13.30/SF, which is in line with the national average and well below levels seen in most California markets.

The West Valley has been a major construction hotspot as developers look to capitalize on the area's emergence as a distribution and logistics hub. About half of the metro's construction pipeline is taking place in the Glendale, Goodyear, and Surprise submarkets. The modernization of the Loop 303 freeway and easy access to Southern California ports of entry via the I-10 prompted a surge in construction for large, modern industrial parks. One of the largest projects in the construction pipeline is the first phase of Camelback 303. The three-building industrial park by Merit Partners totals 1.75 million SF and is located on the northwest corner of the Loop 303 and Camelback Road. Parts Town, a restaurant equipment distributor, recently signed on to fully occupy 420,500 SF at Building B upon delivery in early 2024.

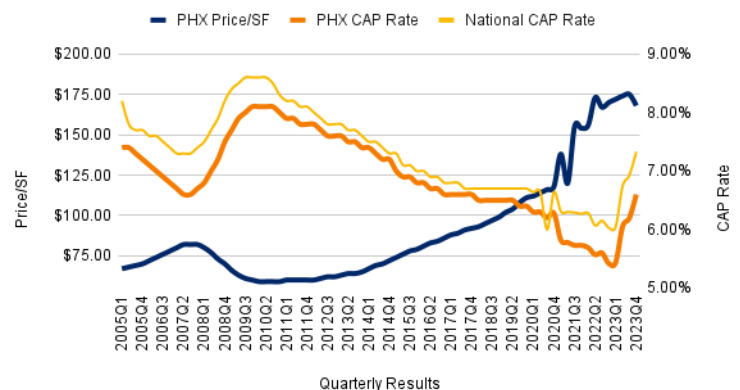
The rapid rise in interest rates over the past 20 months has begun to reshape buyer strategies. In 2021 and 2022, when rates were lower, the market saw more newly delivered and fully leased core asset trading. As borrowing costs have increased, however, properties with a more predictable income stream and limited ability to create value have become less active. Investor demand is now strongest for value-add deals, particularly those in which in-place leases are 20% below the market rate and the new owner can increase rents and boost returns as leases roll.

Sources: CoStar Realty Information, Inc; U.S. Department of the Treasury; AZ Commerce Authority; ARMLS; U.S. Census Bureau, U.S. Bureau of Labor Statistics; Elliott D. Pollack and Company

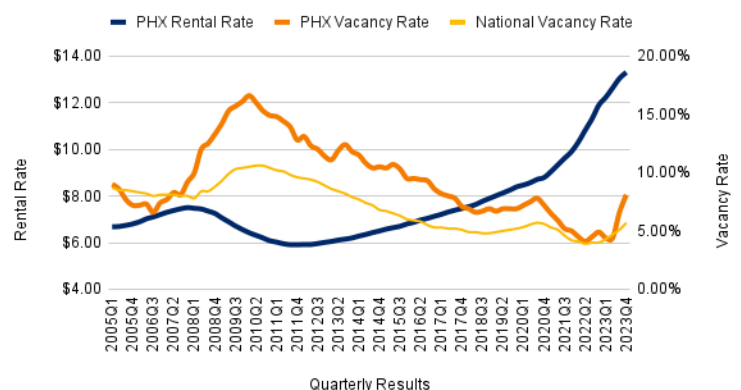
METRO PHOENIX DELIVERIES AND ABSORPTION



PRICE AND CAP RATE TRENDS



RENTAL AND VACANCY RATES



SUBMARKET ANALYTICS - 4Q2023 INDUSTRIAL

	Inventory (Millions)	Under Construction (SF)	Total Vacancy Rate	12 Mo. Absorption	Market Rent/SF	Market Sale Price/SF	Market CAP Rate	12 Mo. Sales Volume
Central Phoenix	4,533,681	10,000	3.1%	54,206	\$18.42	\$204.35	7.0%	\$4,585,000
Chandler	23,914,224	1,105,526	6.5%	-74,884	\$15.72	\$212.56	6.5%	\$8,537,680
Chandler Airport	7,946,428	1,056,047	5.2%	657,260	\$15.80	\$307.75	6.1%	\$8,705,000
ChandlerN/Gilbert	36,752,752	11,485,907	16.4%	3,016,308	\$15.32	\$200.16	6.5%	\$45,760,000
Deervly/Pinnacle Pk	19,772,347	2,935,330	5.1%	480,492	\$17.18	\$197.12	6.7%	\$15,100,000
FalconFld/ApacheJct	6,231,805	244,286	1.6%	24,434	\$17.10	\$202.57	6.7%	\$7,281,500
Glendale	41,221,346	13,519,524	19.7%	5,784,856	\$11.54	\$132.02	6.6%	\$10,905,000
Goodyear	31,731,095	8,637,414	17.9%	950,366	\$10.40	\$141.05	6.4%	\$140,646,880
Grand Avenue	14,810,175	432,910	2.9%	186,430	\$11.80	\$148.07	6.7%	\$5,980,000
Mesa	7,860,032	0	3.7%	-67,146	\$14.43	\$161.56	6.8%	\$10,885,000
North Airport	15,109,111	0	4.0%	366,185	\$15.48	\$175.49	7.0%	\$7,475,000
North Black Canyon	5,646,599	0	7.7%	573,753	\$15.88	\$171.44	6.9%	\$4,735,000
North Outlying	231,013	0	1.3%	10,803	\$13.98	\$151.62	6.8%	\$0
Northwest Outlying	40,024	0	0.0%	0	\$14.58	\$159.12	7.2%	\$0
Pinal County	11,918,990	2,301,188	2.0%	268,482	\$12.52	\$115.32	6.7%	\$3,703,000
S Airport N of Roeser	16,254,705	0	4.2%	-36,730	\$14.75	\$177.33	6.9%	\$33,475,000
S Airport S of Roeser	4,706,533	24,800	2.3%	110,407	\$14.83	\$184.07	6.7%	\$10,450,000
SC N of Salt River	16,469,296	301,063	6.0%	-393,204	\$13.45	\$153.30	6.8%	\$23,850,000
SC S of Salt River	2,747,464	0	3.1%	-64,727	\$13.10	\$159.74	7.0%	\$2,900,000
Scottsdale Airpark	6,989,774	8,789	3.5%	-4,193	\$21.45	\$307.25	6.4%	\$17,825,000
Scottsdale/SaltRiver	5,708,965	0	2.7%	113,140	\$21.31	\$208.86	6.7%	\$14,270,000
Southwest Outlying	99,833	0	0.0%	0	\$10.23	\$91.85	7.7%	\$0
Surprise	4,818,775	2,388,666	8.9%	55,984	\$15.07	\$166.60	6.9%	\$7,651,106
SW N of Buckeye Road	37,455,039	0	9.6%	-12,059	\$10.10	\$137.12	6.4%	\$10,400,000
SW S of Buckeye Road	20,865,257	253,460	3.0%	778,138	\$11.33	\$162.83	6.3%	\$45,554,668
Tempe East	6,993,939	0	3.7%	-166,235	\$15.92	\$204.95	6.9%	\$8,770,000
Tempe Northwest	10,912,951	0	6.3%	-440,683	\$15.45	\$177.18	7.0%	\$51,000,000
Tempe Southwest	22,147,565	356,904	6.0%	-314,051	\$14.13	\$184.11	6.8%	\$27,025,000
Tolleson	49,065,654	408,980	2.7%	1,934,973	\$10.53	\$151.75	6.2%	\$16,207,948
W Phoenix N of Thomas Road	8,355,328	0	3.9%	98,277	\$10.96	\$120.27	7.3%	\$2,900,000
W Phoenix S of Thomas Road	7,220,261	0	4.6%	-222,619	\$11.21	\$133.38	6.8%	\$2,595,000
Total/Averages	448,530,961	45,470,794	8.10%	13,667,963	\$13.30	\$168	6.8%	\$549,172,782

NOTABLE SALES | LEASES | LAND TRANSACTIONS

NOTABLE SALES

DISTRIBUTION CENTER

125 N 67th Ave., Phoenix, AZ 85043

Sale Date : 08/11/2023 Bldg Type : Class B
 Sale Price : \$29,570,000 Year Built : 2002
 Price/SF : \$173.32 RBA : 170,625 SF



INDUSTRIAL WAREHOUSE BUILDING

9100 S McKemy St., Tempe, AZ 85284

Sale Date : 09/06/2023 Bldg Type : Class B
 Sale Price : \$9,500,000 Year Built : 1996
 Price/SF : \$220.42 RBA : 43,100 SF



FLEX MANUFACTURING CONDO

6150 W Gila Springs Pl., Chandler, AZ 85226

Sale Date : 09/29/2023 Bldg Type : Class A
 Sale Price : \$1,700,000 Year Built : 2007
 Price/SF : \$326.92 RBA : 53,262 SF



LEASES

INDUSTRIAL WAREHOUSE BUILDING

601 N 44th Ave., Phoenix, AZ 85043

Sign Date : 07/05/2023 Bldg Type : Class B
 Lease Rate : \$9.48/NNN Year Built : 2001
 Tenant : Day & Zimmermann SF Leased : 84,721 SF



DESERT GATEWAY INDUSTRIAL PARK

1000 W Vista Bonita Dr., Phoenix, AZ 85027

Sign Date : 09/18/2023 Bldg Type : Class A
 Lease Rate : \$8.64/NNN Year Built : 2017
 Tenant : Dream Home Design, LLC SF Leased : 18,220 SF



INDUSTRIAL WAREHOUSE

5150 S 48th St., Phoenix, AZ 85040

Sign Date : 09/18/2023 Bldg Type : Class B
 Lease Rate : \$15.60/IG Year Built : 1986
 Tenant : Swiftly, LLC SF Leased : 42,488 SF



LAND TRANSACTIONS

LONGBOW BUSINESS CENTER

E NEC McDowell & Higley, Mesa, AZ 85215

Sale Date : 09/28/2023 Property Type : Land
 Sale Price : \$ 3,000,000 Property Subtype : Industrial
 Buyer : J&R Repair Service of Arizona AC : 6.64 Acres



DEVELOPMENT SITE

SE 7th St & Beloit Rd., Buckeye, AZ 85326

Sale Date : 09/29/2023 Property Type : Land
 Sale Price : \$4,500,000 Property Subtype : Industrial
 Buyer : RMLM, LLC AC : 16.11 Acres



GLENDALE PROMENADE

Loop 303 & Peoria., Surprise, AZ 85388

Sale Date : 09/21/2023 Property Type : Land
 Sale Price : \$14,980,000 Property Subtype : Industrial
 Buyer : SMT Investors LP AC : 76.49 Acres



