



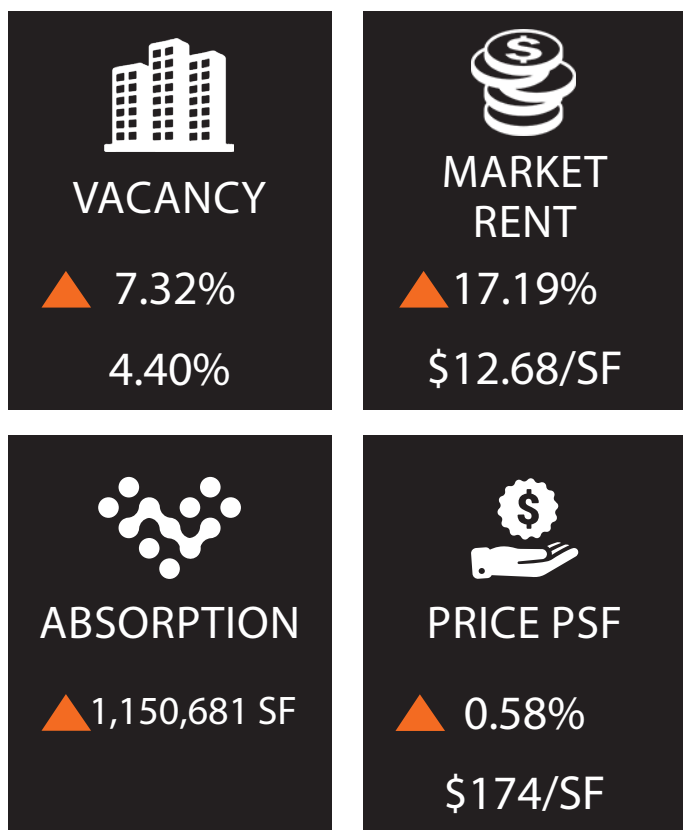
# 2Q2023 METRO PHOENIX INDUSTRIAL NEWSLETTER

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# METRO PHOENIX INDUSTRIAL OVERVIEW

## YOY INDUSTRIAL



The Phoenix industrial market is beginning to normalize as the sector transitions from the boom seen in the years following the onset of the pandemic to a more typical trajectory. Vacancy has drifted up from an all-time low of 4.1% in mid-2022 to 4.4% in 23Q2 and further increases are expected in the back half of the year. Though leasing activity has shown some signs of moderating since 22Q1's peak, the primary factor driving the recent uptick in vacancy is the metro's substantial construction pipeline, which is starting to outpace demand.

The Phoenix industrial market started the year off strong, as robust leasing activity caused the metro-wide vacancy rate to compress from 4.7% at the end of 2022 but as many market participants were expecting, the unprecedentedly strong rent growth seen in 2022 is beginning to decelerate. Quarterly gains have eased from the 4%+ range in the first half of last year to 3.1% in 23Q2. That figure leaves the market at one of the tightest levels seen in several decades, sustaining healthy property performance. Nevertheless, at 17.2% year-over-year, the current rent growth figure remains well above the pre-COVID five-year average of about 5.2% and outpaces the national level by over five percentage points. The deceleration is expected to continue through 2024 as the full impact of the construction pipeline is felt.

Moving forward, however, there are several indications that rent growth has peaked as the market enters a period of normalization. The pace of rent growth has decelerated in two consecutive quarters as base effects begin to play a role. Additionally, the quarter-over-quarter change has eased from more than 4% during 2022 to the low 3% range today.

## ECONOMIC HIGHLIGHTS

### Employment Data (YOY)

- ▶ 3.60% Unemployment Rate (USA) +0.02%
- ▶ 3.30% Unemployment Rate (Metro PHX) + 0.12%
- ▶ 2.552MM Employed Residents (Metro PHX)

### Metro PHX Housing Trends (YOY)

- ▶ \$443,000 Median Home Price -6.70%
- ▶ 7,257 Closed Transactions -6.00%
- ▶ 66 Days on Market +36 Days
- ▶ 1.99 Months of Supply -0.34 Months

### 10-Year Treasury

- ▶ 3.81% as of 06/30/2023
- ▶ +0.83% YOY | +0.12% MOM

Phoenix maintains its position as a relatively affordable market for its size. Rents average \$12.68/SF, which is near the national level and 30%-40% below asking rents in California markets. As with any economies of scale, industrial users can typically achieve a discount on a price-per-square-foot basis if they sign on for larger blocks. These big box spaces will typically lease for \$8-\$11/SF NNN depending on location, building quality, and lease term.

The Valley's rapidly growing consumer base, along with its critical role in national supply chains, has prompted a surge in construction activity for large, modern industrial parks that support users' distribution efforts.

Phoenix's fast-growing west-side suburbs are the primary recipient of the record 50.2 million SF currently under construction. Representing just 11.5% of the existing inventory, this share ranks Phoenix as one of the most aggressively built industrial markets in the nation along with Savannah, GA, and Austin. Cheap and available land coupled with the area's proximity to West Coast ports spawned a boom of construction activity for large, modern industrial parks that have been a favorite of logistics users.

The East and North Valley have also been a target of construction, particularly in the area surrounding the Phoenix-Mesa Gateway Airport. In addition to logistics growth, advanced manufacturing has driven demand here as the area's deep pool of skilled labor sustains growth in the aerospace, chipmaking, and renewable energy industries.

The surge in development activity is being met by record space demand, keeping market conditions in relative balance. In the first two quarters of the year, builders completed roughly 6.9 million SF at the same time 6.7 million SF was absorbed, causing vacancy to remain flat to start the year in aggregate. The sizable volume of construction scheduled for the rest of 2023, much of which is being built without a tenant in place, is anticipated to moderately outstrip demand, normalizing property fundamentals. Looking past the near term, the pipeline is expected to thin in 2024-25 as new construction starts begin to ease amid higher interest rates and more stringent lending standards for new development financing.

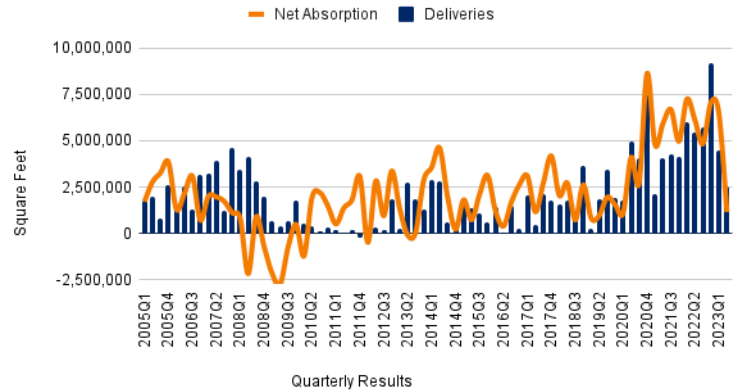
In the second quarter, about \$647 million worth of industrial assets traded hands in Phoenix, outpacing the three-year average leading up to the pandemic of about \$500 billion per quarter. While elevated interest rates and tighter lending standards are undoubtedly weighing on transaction activity, deals are still progressing with newly built, well-located assets receiving considerable interest from investors.

Higher commercial mortgage rates have had a noticeable drag on sales volume as the market navigates a period of price discovery. About \$1.2 billion worth of industrial assets traded hands in the first half of 2023, a 55% decline from the same period a year earlier. Along with higher debt costs, tighter lending standards and macroeconomic uncertainty are expected to keep transaction activity soft over the near term, negatively impacting cap rates and prices. Newly built assets are trading in the low- to mid-5% range with some best-in-class assets leaking into the high-4% band. About 12 to 18 months ago, when debt was readily available, new product with strong credit tenants were trading in the mid-3% range.

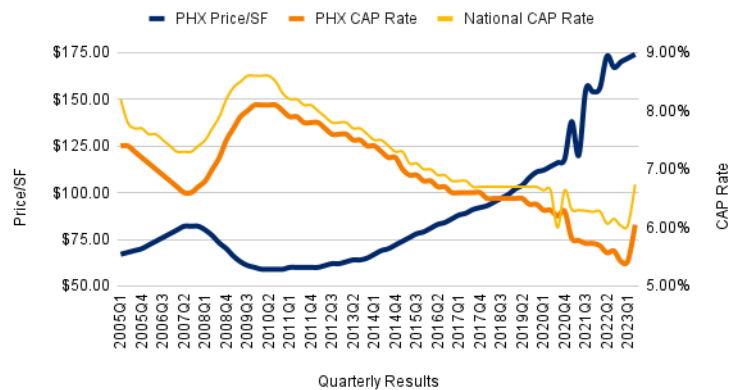
Phoenix remains one of the nation's better-performing markets for employment growth recording more than 48,700 job additions in the trailing 12-month period ending June 2023. The labor market now has 158,000 more jobs than before the pandemic, the fourth-largest gain in the nation. While labor is the primary driver behind the market's business attraction success, relative affordability and a more accommodating regulatory environment help tip the scale in favor of Phoenix when companies make their site selection decision.

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

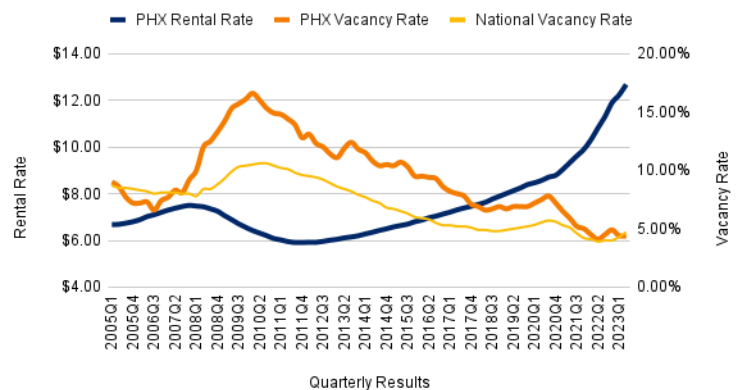
## METRO PHOENIX DELIVERIES AND ABSORPTION



## PRICE AND CAP RATE TRENDS



## RENTAL AND VACANCY RATES



# SUBMARKET ANALYTICS - 2Q2023 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            | 4,458,228            | 10,000                  | 3.2%               | 30,665            | \$17.79        | \$211                | 6.7%            | \$2,036,065          |
| Chandler                   | 25,273,270           | 1,401,869               | 7.0%               | 175,641           | \$14.96        | \$215                | 6.1%            | \$1,950,000          |
| Chandler Airport           | 7,818,922            | 1,226,164               | 4.5%               | 1,495,004         | \$15.26        | \$301                | 5.9%            | \$5,640,000          |
| ChandlerN/Gilbert          | 29,795,830           | 16,175,358              | 5.6%               | 2,150,017         | \$14.67        | \$204                | 6.2%            | \$15,724,500         |
| Deervly/Pinnacle Pk        | 19,574,707           | 2,955,329               | 5.3%               | 270,644           | \$16.47        | \$203                | 6.3%            | \$32,823,128         |
| FalconFld/ApacheJct        | 6,220,401            | 244,286                 | 2.2%               | -53,739           | \$16.49        | \$204                | 6.4%            | \$3,761,960          |
| Glendale                   | 33,024,675           | 15,056,779              | 8.8%               | 9,371,201         | \$11.01        | \$137                | 6.2%            | \$186,176,240        |
| Goodyear                   | 27,346,271           | 10,118,003              | 5.9%               | 1,966,282         | \$9.75         | \$144                | 6.0%            | \$6,043,442          |
| Grand Avenue               | 14,675,419           | 20,991                  | 2.2%               | 844,375           | \$11.18        | \$150                | 6.3%            | \$8,680,000          |
| Mesa                       | 7,859,032            | 0                       | 3.6%               | -154,426          | \$13.87        | \$162                | 6.5%            | \$2,755,000          |
| North Airport              | 14,742,273           | 0                       | 3.4%               | 452,368           | \$14.85        | \$178                | 6.7%            | \$7,930,000          |
| North Black Canyon         | 4,623,372            | 0                       | 2.3%               | -6,085            | \$14.63        | \$166                | 6.5%            | \$2,490,000          |
| North Outlying             | 213,242              | 13,803                  | 0.9%               | -2,000            | \$13.30        | \$152                | 6.5%            | \$0                  |
| Northwest Outlying         | 38,738               | 0                       | 0.0%               | 0                 | \$14.00        | \$161                | 6.8%            | \$0                  |
| Pinal County               | 11,864,638           | 2,344,688               | 0.7%               | 429,741           | \$12.07        | \$117                | 6.4%            | \$0                  |
| S Airport N of Roeser      | 16,145,841           | 40,000                  | 4.1%               | -55,326           | \$14.07        | \$180                | 6.5%            | \$34,295,828         |
| S Airport S of Roeser      | 4,707,029            | 24,800                  | 1.5%               | 102,479           | \$14.31        | \$187                | 6.4%            | \$8,330,000          |
| SC N of Salt River         | 16,409,603           | 276,063                 | 3.3%               | -92,514           | \$12.78        | \$156                | 6.4%            | \$39,992,000         |
| SC S of Salt River         | 2,683,508            | 0                       | 3.4%               | -83,467           | \$12.65        | \$163                | 6.6%            | \$0                  |
| Scottsdale Airpark         | 7,010,774            | 0                       | 3.3%               | -3,833            | \$20.48        | \$307                | 6.0%            | \$7,870,000          |
| Scottsdale/SaltRiver       | 5,577,245            | 160,019                 | 3.0%               | 35,148            | \$20.43        | \$219                | 6.2%            | \$8,100,000          |
| Southwest Outlying         | 99,833               | 0                       | 0.0%               | 0                 | \$9.75         | \$94                 | 7.3%            | \$0                  |
| Surprise                   | 4,436,007            | 1,971,677               | 1.8%               | 49,792            | \$14.68        | \$170                | 6.5%            | \$0                  |
| SW N of Buckeye Road       | 34,908,466           | 2,692,723               | 2.2%               | 29,507            | \$9.61         | \$141                | 6.1%            | \$23,476,984         |
| SW S of Buckeye Road       | 20,413,115           | 383,717                 | 5.8%               | -431,694          | \$10.71        | \$169                | 5.9%            | \$0                  |
| Tempe East                 | 7,035,969            | 0                       | 2.3%               | 209,865           | \$15.10        | \$209                | 6.5%            | \$5,200,000          |
| Tempe Northwest            | 11,128,596           | 0                       | 4.9%               | -319,570          | \$14.83        | \$191                | 6.4%            | \$7,633,625          |
| Tempe Southwest            | 22,112,297           | 356,904                 | 4.4%               | 45,544            | \$13.42        | \$187                | 6.4%            | \$42,600,000         |
| Tolleson                   | 47,756,614           | 1,568,157               | 3.6%               | 2,159,769         | \$9.90         | \$157                | 5.8%            | \$165,000,000        |
| W Phoenix N of Thomas Road | 8,222,563            | 109,600                 | 3.5%               | 18,180            | \$10.50        | \$124                | 6.8%            | \$8,140,925          |
| W Phoenix S of Thomas Road | 7,236,007            | 0                       | 1.0%               | 88,188            | \$10.69        | \$135                | 6.4%            | \$7,704,265          |
| <b>Total/Averages</b>      | <b>423,412,485</b>   | <b>57,150,930</b>       | <b>3.3%</b>        | <b>18,721,756</b> | <b>\$13.68</b> | <b>\$177</b>         | <b>6.4%</b>     | <b>\$634,353,962</b> |





