



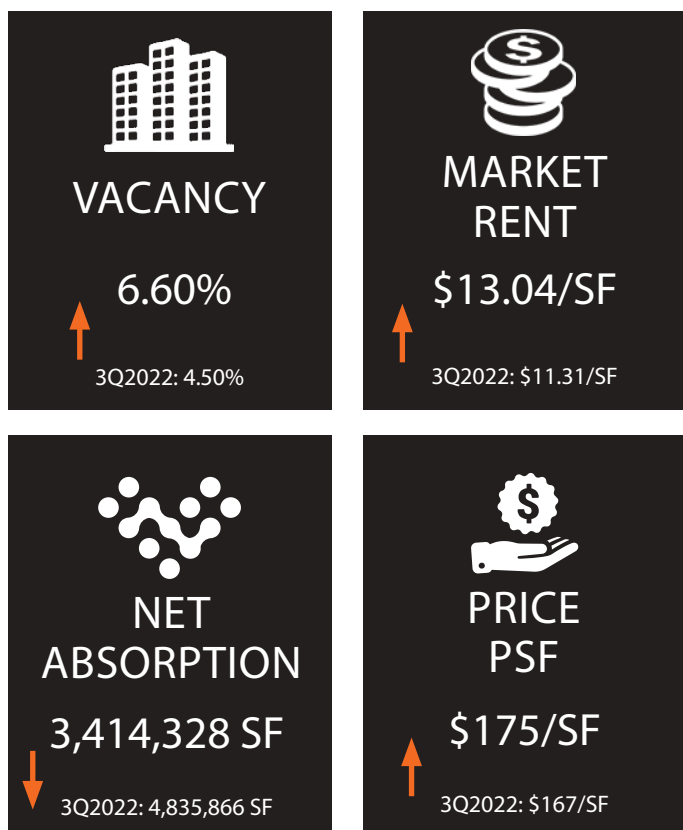
3Q2023 METRO PHOENIX INDUSTRIAL NEWSLETTER

CONTACT INFORMATION

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METRO PHOENIX INDUSTRIAL OVERVIEW

QUARTERLY INDUSTRIAL STATS



Conditions are shifting in the Phoenix industrial market as a wave of new construction overwhelms sturdy leasing activity. Developers completed a record 13.7 million SF in 23Q3, outpacing the second-strongest quarter for gross deliveries on record by several millions of SF.

The Loop 303 corridor in Phoenix's West Valley has been a construction hotspot. Since 2020, industrial developers have completed more than 24 million SF within two miles of the recently upgraded highway as the area emerges as a prominent link in national supply chains. Proximity to the Ports of LA and Long Beach has provided steady tailwinds for distributed-related demand.

The Valley also boasts strong momentum in terms of advanced manufacturing. While TSMC and its \$40-billion semiconductor plant capture most of the news headlines, other large-scale investments in the battery, electric vehicle, and solar industries as well as their support and suppliers are creating a vibrant ecosystem of high-tech assembly. These tailwinds have helped keep Phoenix's net absorption stronger than most other markets.

Over the past 12 months, the Phoenix industrial market recorded 17.5 million SF of net absorption, compared to an average of about 8 million SF per year from 2015 to 2019. Builders, meanwhile, completed a record 27.3 million SF over the past year, contributing to an increase in the metro-wide vacancy rate from a near all-time low of 4.2% in 23Q1 to 6.6% in 23Q3.

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 multi-billion 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.

While rates increased an impressive 12.2% over the past 12 months, it remains below the 16.4% gain the market saw in late 2022. Additionally, on a quarter-over-quarter basis, rents rose 2.4% in 23Q3, a slowdown from the 4%+ gains seen in early 2022. 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 14%. 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%.

ECONOMIC HIGHLIGHTS

Employment Data (YOY)

- ▶ 3.80% Unemployment Rate (USA) +0.30%
- ▶ 3.80% Unemployment Rate (Metro PHX) + 0.20%
- ▶ 2.575MM Employed Residents (Metro PHX)

Metro PHX Housing Trends (YOY)

- ▶ \$431,000 Median Home Price -1.80%
- ▶ 5,423 Closed Transactions -14.30%
- ▶ 56 Days on Market +8 Days
- ▶ 2.90 Months of Supply -0.67 Months

10-Year Treasury

- ▶ 4.59% as of 09/29/2023
- ▶ +0.83% YOY | +0.47% MOM

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 \$13.04/SF, which is in line with the national average and well below levels seen in most California markets.

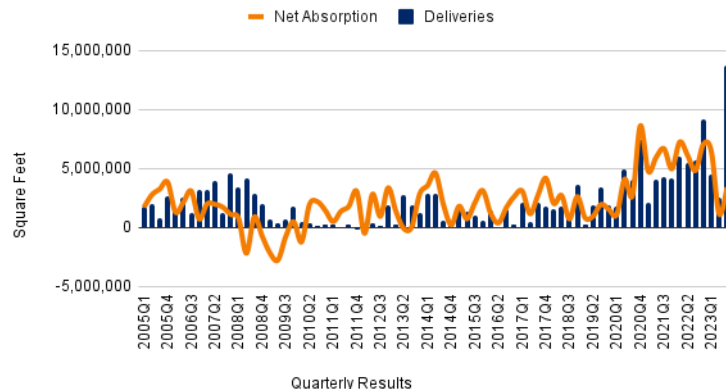
Expectations are for a further moderation in rent growth in the coming year as the market digests the record supply pipeline. CoStar's Base Case forecast, which includes a mild recession next year, calls for rent growth to end 2024 in the sub-3% range. High-growth areas with a sizable pipeline of speculative deliveries could face additional softness as tenants find more available options.

The surge in construction starts that took place in 2022 is beginning to hit the market. With many of the projects delivering vacant, the upswing in speculative completions negatively impacted the metro-wide vacancy rate as the market navigates a period of transition. 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. Nearly 50% 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.

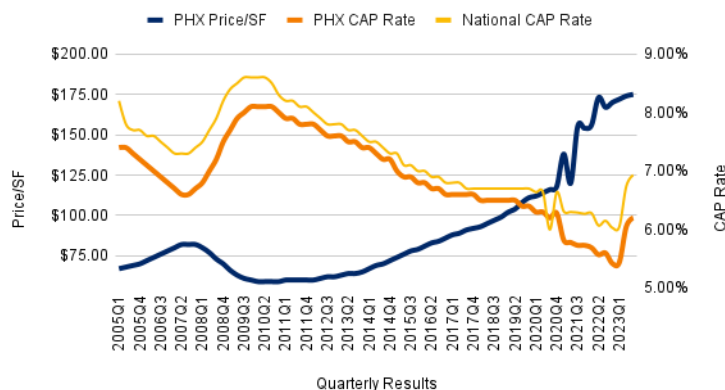
Through the first three quarters of the year, more than \$1.8 billion worth of industrial assets traded hands, representing a 50% decline from the same period in 2022. The rapid rise in interest rates over the past 18 months has begun to reshape buyer strategies. In 2021 and 2022 when rates were lower, 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 where in-place leases are 20% below the market rate.

Moving forward, the Valley boasts several long-term tailwinds that support underlying industrial demand including strong momentum in terms of advanced manufacturing, a growing role in national supply chains, and a rapidly expanding consumer base. While these factors sustain tenant interest in Phoenix industrial properties, the record delivery schedule is outpacing steady demand, causing property fundamentals to normalize. Construction starts have started to come down over the past few quarters as elevated interest rates for new construction loans make it more difficult to break ground. As a result, Phoenix could see a moderation in new supply by late 2024 or early 2025, helping return balance to the market.

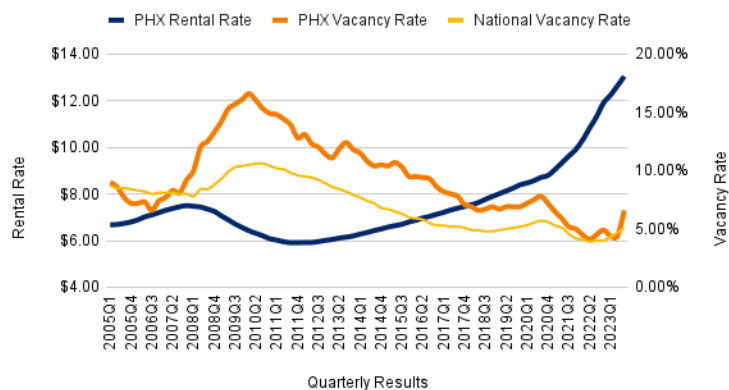
METRO PHOENIX DELIVERIES AND ABSORPTION



PRICE AND CAP RATE TRENDS



RENTAL AND VACANCY RATES



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

SUBMARKET ANALYTICS - 3Q2023 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	4,489,007	10,000	3.1%	101,352	\$18.26	\$213.44	6.7%	\$2,350,000
Chandler	23,758,251	1,501,869	7.2%	-139,432	\$15.46	\$228.07	6.1%	\$32,036,000
Chandler Airport	7,776,249	1,226,164	5.8%	387,047	\$15.44	\$318.24	5.9%	\$5,800,000
ChandlerN/Gilbert	32,466,489	14,985,573	11.7%	2,297,782	\$14.99	\$206.33	6.2%	\$20,403,532
Deervly/Pinnacle Pk	19,685,032	2,945,330	5.3%	159,094	\$16.87	\$202.95	6.4%	\$63,454,752
FalconFld/ApacheJct	6,223,821	244,286	1.5%	80,572	\$16.84	\$208.37	6.4%	\$2,635,000
Glendale	38,314,191	12,425,385	15.3%	8,981,257	\$11.24	\$133.95	6.3%	\$218,634,304
Goodyear	29,438,726	9,833,755	11.4%	2,170,008	\$10.20	\$146.77	6.1%	\$0
Grand Avenue	14,737,407	432,910	2.7%	192,041	\$11.63	\$153.76	6.3%	\$8,119,820
Mesa	7,860,032	0	3.7%	-34,075	\$14.18	\$166.43	6.5%	\$17,670,000
North Airport	14,901,126	0	4.0%	328,215	\$15.18	\$183.67	6.6%	\$6,652,500
North Black Canyon	4,649,899	0	2.4%	-161,896	\$15.03	\$169.64	6.6%	\$7,579,700
North Outlying	230,863	0	0.0%	13,803	\$13.67	\$155.89	6.5%	\$0
Northwest Outlying	40,024	0	0.0%	0	\$14.27	\$164.30	6.8%	\$0
Pinal County	11,852,197	2,346,188	1.1%	483,638	\$12.26	\$118.88	6.4%	\$4,910,000
S Airport N of Roeser	16,168,809	0	4.0%	94,195	\$14.46	\$184.84	6.5%	\$12,657,607
S Airport S of Roeser	4,707,418	24,800	2.3%	102,568	\$14.66	\$190.57	6.4%	\$0
SC N of Salt River	16,514,974	301,063	4.3%	-197,950	\$13.17	\$160.45	6.4%	\$9,341,000
SC S of Salt River	2,733,407	0	2.4%	-35,105	\$12.91	\$165.40	6.6%	\$3,925,000
Scottsdale Airpark	7,005,712	8,788	5.2%	-120,082	\$21.03	\$316.40	6.0%	\$22,846,990
Scottsdale/SaltRiver	5,732,650	0	3.2%	137,194	\$21.00	\$223.28	6.3%	\$2,250,000
Southwest Outlying	99,833	0	0.0%	0	\$10.05	\$95.42	7.3%	\$0
Surprise	4,812,620	1,720,283	9.9%	67,625	\$14.74	\$173.18	6.5%	\$670,000
SW N of Buckeye Road	37,624,030	0	8.7%	352,448	\$9.88	\$143.60	6.1%	\$51,782,424
SW S of Buckeye Road	20,605,049	142,121	5.1%	-24,213	\$11.08	\$173.86	5.9%	\$0
Tempe East	7,015,238	0	1.7%	271,935	\$15.59	\$214.07	6.5%	\$0
Tempe Northwest	11,150,478	0	6.7%	-513,521	\$15.21	\$194.85	6.4%	\$6,500,000
Tempe Southwest	22,267,036	356,904	4.9%	-91,959	\$13.84	\$192.34	6.4%	\$104,351,800
Tolleson	49,483,300	285,294	3.2%	2,775,104	\$10.25	\$160.01	5.8%	\$11,200,000
W Phoenix N of Thomas Road	8,244,500	109,600	3.3%	-16,249	\$10.78	\$124.47	6.9%	\$10,745,000
W Phoenix S of Thomas Road	7,243,086	0	3.7%	-172,546	\$11.01	\$138.14	6.4%	\$7,035,000
Total/Averages	437,831,454	48,900,313	5.1%	17,488,850	\$14.04	\$181.34	6.4%	\$633,550,429

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



