

METRO PHOENIX

**NAI** Horizon

# Industrial

VACANCY ▲

CONSTRUCTION ▼

AVERAGE NNN ▲

4th Quarter  
**2022**  
INDUSTRIAL  
**Market Report**

### Demand for Industrial Real Estate Continues to Grow

Looking back at the commercial real estate industry since pandemic began, what stands out the most is how robust the industrial property markets have been. Nationwide, and in virtually every major metropolitan area and secondary market, the industrial market set records in the most significant categories. Categories such as year-over-year (2019-2020, 2020-2021, 2021-2022) absorption figures, new construction deliveries, and double-digit rent increases. Prologis reported that rents within its U.S. portfolio grew 28% last year. As remarkable as that data point is, it was still slightly less than the rental rate increases experienced in Phoenix last year!

### National Trends

Across the U.S., however, it was closer to 15% by comparison. We witnessed ultra-low vacancy rates – even sub-2% – in the biggest distribution markets, such as California’s Inland Empire. Speculative development projects looked more like build-to-suit deals, with occupiers committing to buildings before walls were tilted. In Dallas, some 80 million square feet of industrial distribution product was under construction as the sun set on 2022.

A seismic shift occurred in the second half of 2022, with the Federal Reserve raising benchmark interest rates at breakneck speed. Suddenly, the capital got scared. On fourth quarter virtual, monthly meetings with NAI Global’s industrial and logistics pros in over 20 U.S. markets, brokers reported that merchant developers were pulling back on new projects in the sweet spot from 150,000 square feet to 500,000 square feet. In earnings calls, even the institutions, including Prologis, said that they would move forward with big-box projects that are already in the works. Yet, they would pause speculative development involving one million square foot buildings. With demand remaining high, and the expectation that the current development with the scheduled deliveries for 2023 will be absorbed based on existing absorption rates, this has led to a forecast that calls for a supply gap by 2024. With few new starts in the coming year, there will need to be more industrial inventory by 2024.

Reports are coming in that the industrial market slowed nationwide in the second half of 2022, with net absorption off by nearly 10% in the fourth quarter, and closer to 15% when compared with the final quarter of 2021. NAI Global’s Industrial & Logistics Group reported in its December meeting

that big deals were still getting signed and blue-chip companies, such as Walmart, were still on the hunt for land deals that could accommodate large-scale distribution facilities. However, we know that cycles are cycles, and the pace of growth for the past few years is unsustainable. It is too soon to say that supply has met occupiers' demand. Thus, 2023 could be another strong year for industrial real estate development and leasing activity.

Against this backdrop, here's what we know about the Phoenix industrial market performance in the 4th quarter of 2022, based on the numbers and recorded transactions.

### Phoenix 4th Quarter Industrial Market

Twenty-nine industrial buildings were delivered to the market, totaling more than 7 million square feet. Both figures set records.

Logistics Plus was one of the developers to complete a new project in the fourth quarter with its recently completed LP PHX 2, a 1.1 million-square-foot facility in Glendale. That brought the company's footprint in The Valley to more than 1.5 million square feet of storage and fulfillment space.

LP PHX 2 has 40-foot clear heights, 190-foot truck court depth, 50-foot by 56-foot column spacing, 60-foot speed bays, LED lighting, ESFR fire protection, 395 trailer stalls, 795 car parking spaces, and 5,000 square feet of speculative office space.

Situated on a 148-acre site at Loop 303 and Bethany Home Road intersection, the warehouse is near interstates 10 and 17 and approximately 26 miles from downtown Phoenix.

LP PHX 2 is adjacent to the Logistics Plus

It is too soon to say that supply has met occupiers' demand. Thus, 2023 could be another strong year for industrial real estate development and leasing activity.

### PHX Q4 AT A GLANCE:

VACANCY: 4.6% ▲

SF CONSTRUCTION: 14.5 M SF ▼

AVG NNN RATE: \$0.93 ▲



warehouse project that opened this May. LP PHX 1 is significantly smaller, at 543,000 square feet, but saw immediate interest from tenants in the solar and tech sectors after its completion.

The closest quarter to the last period's deliveries record was in the final quarter of 2020, when 6.55 million square feet of new inventory was added to the market. In the third quarter of last year, twenty-four new buildings comprised of 2.97 million square feet came to the market.

Demand remained elevated in the fourth quarter, with the market absorbing nearly everything delivered. Net absorption equaled 4,543,824 square feet, and the quarter ended with an occupancy rate of 95.4%. There were 268 (direct deal) lease transactions completed in this period,

which is on the low side compared to recent years, yet comparable to quarterly net absorption figures. For example, the quarterly average going back 12 quarters is 430 direct transactions per period, with net absorption averaging just over 4.1 million square feet per quarter.

Rental rates reached \$11.15 NNN last period, which is up substantially from \$8.38 a foot a year earlier. On a YoY basis, this is an increase of more than 30%.

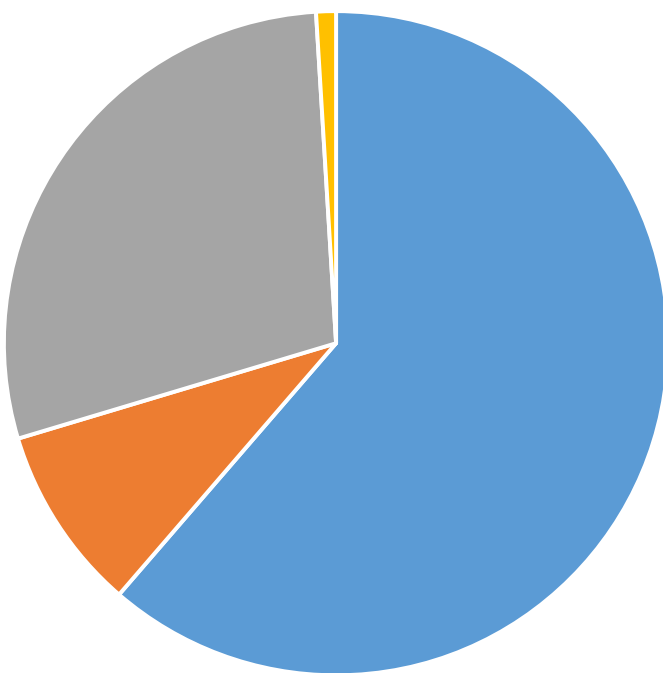
Some of the largest leases in the period included a 1,023,610-square-foot deal with footwear maker, Puma, in Glendale, a Tolleson lease to a confidential solar company involving over 730,000 square feet, a 600,000-square-foot lease to Project Copperhead in Goodyear, and a 500,000 square-foot lease to Nestle USA in Glendale.

There were 86 new buildings under construction at the close of 2022, with over 14 million square feet under their respective rooftops. More is on the way.

Suburban Land Reserve Inc., the real estate division of the Church of Jesus Christ of Latter-day Saints, has become the latest developer to receive approval from the Glendale City Council to build a large industrial park in the Arizona city's growing Loop 303 corridor.

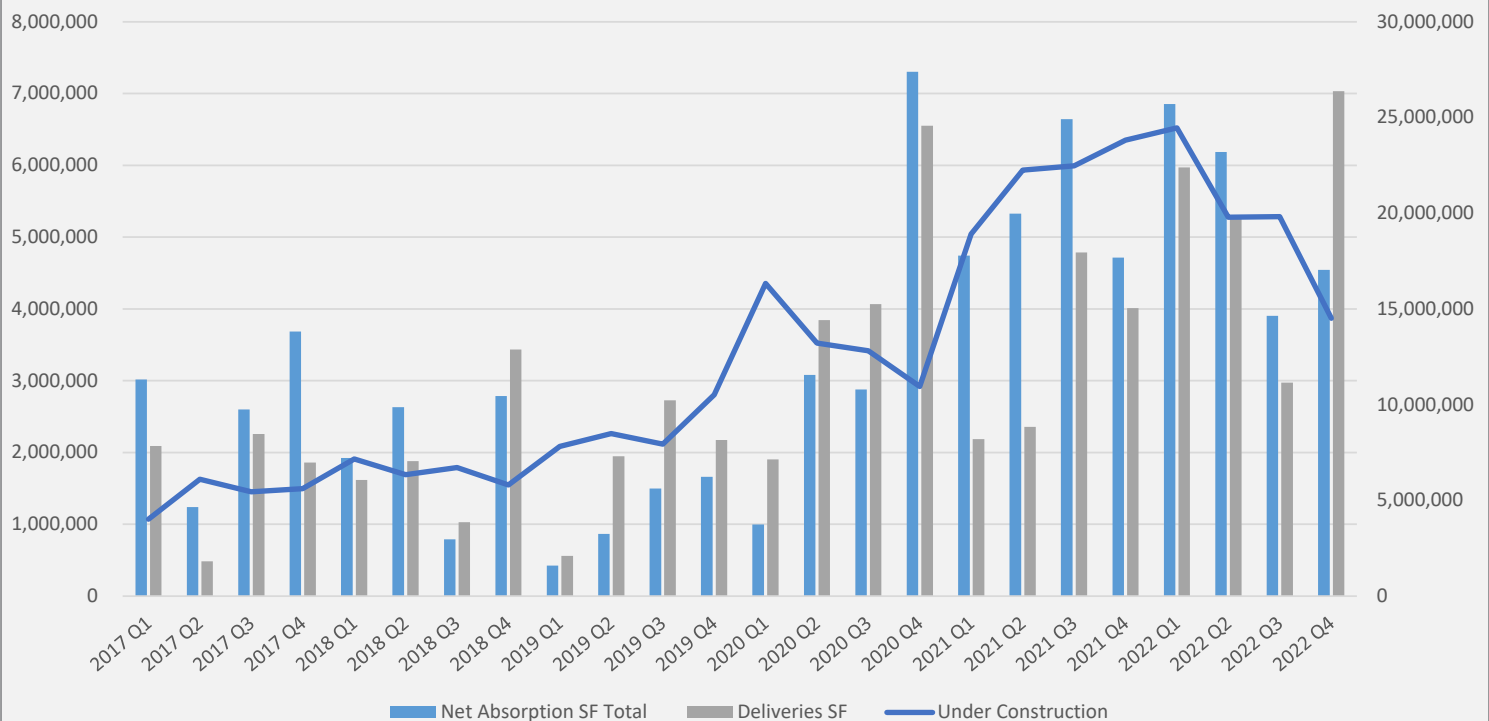
The \$600 million Parkway 303 East will feature four industrial buildings of 1.1 million square feet each. The 276-acre development site, previously used for agricultural purposes, is at the intersection of

Under Construction SF



■ Distribution ■ Manufacturing ■ Warehouse ■ Flex

### Supply, Demand & Under Construction



Olive and Sarival Avenues.

The site is about a half-mile from Woolf Logistics Center, which includes a 722,000-square-foot canning facility for RRB Beverage Operations Inc., a joint venture between Rauch Fruit Juices, Red Bull and Ball Corp., and a 916,000-square-foot Mark Anthony Brewing facility.

Some notable sales in the second half last year included a \$39 million sale-leaseback in which Banner Health sold its 196,791-square-foot property to Marman Properties, and then leased it back. Located in Chandler, the seller realized a 324% appreciation after a 137-month hold period. In October, Westcore Properties paid ViaWest Group \$93,500,000 for a four-building property comprised of 407,408 square feet (\$229.59 per

SF) on Buckeye Road in Phoenix.

In November, Bucknell Industrial sold a three-building, Class B, and 237,527-square-foot industrial asset in Phoenix to Sterling Investors for \$34,000,000 (\$143.14 per SF), while Enpro Investors bought a Tempe Class B and 150,388-square-foot light manufacturing property (occupied by Circle K in about half of the building) from The Carlyle Group. That sale worked out to \$226.08 per SF.

In December, FedEx Corp. executed a sale-leaseback on a 30-foot clear-height building that the logistics company occupies on Lower Buckeye Road in Phoenix. ArcBest Corp. paid \$37,500,000 for the 51,000-square-foot building, which is an astounding \$735.29 per SF.

# Q4 2022

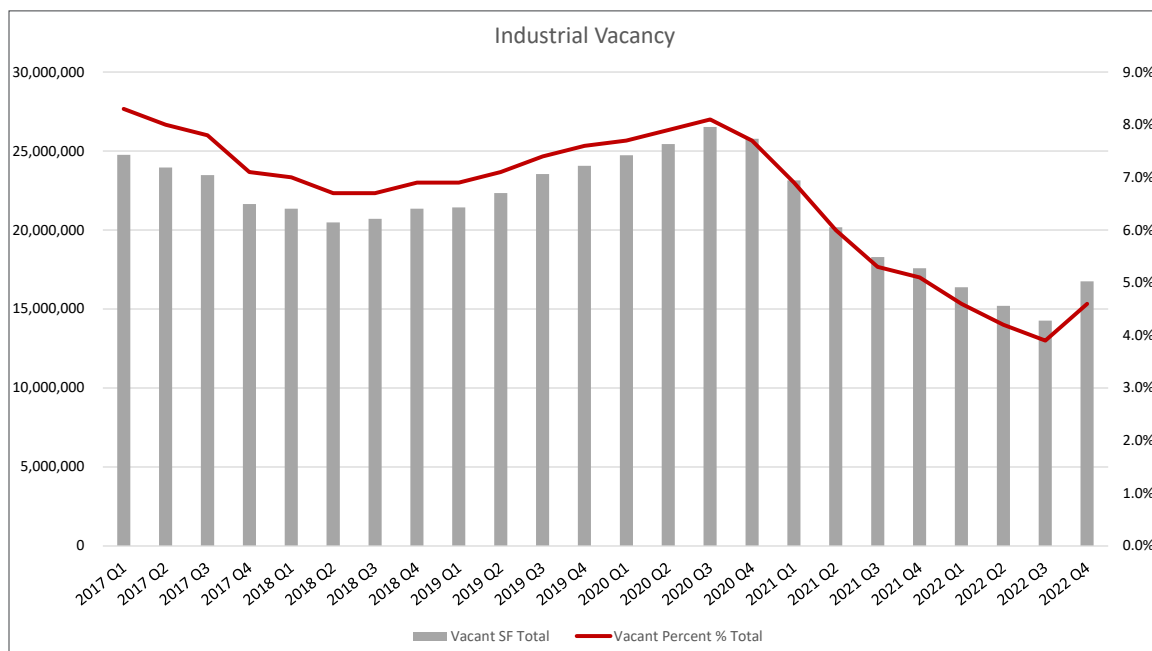
## INDUSTRIAL MARKET METRO PHOENIX

### Phoenix Market Snapshot

#### Market Overview

	Total RBA		Vacant SF		Vacant %		Net Absorption		Deliveries		Under Construction		Average Rental		Yearly NNN	
Distribution	98,277,656	▲	5,872,434	▲	6.0%	▲	1,387,894	▲	3,796,394	▲	8,896,933	▼	\$0.63	▲	\$7.52	▲
Manufacturing	63,478,030	▲	1,395,482	▲	2.2%	▲	(110,052)	—	—	—	1,309,346	▼	\$0.82	▲	\$9.81	▲
Warehouse	172,222,074	▲	6,710,755	▼	3.9%	▼	3,186,009	▲	3,187,528	▲	4,158,896	▼	\$0.97	▲	\$11.60	▲
Flex	34,243,373	▼	2,775,722	▲	8.1%	▲	79,973	▼	49,585	▲	140,056	▼	\$1.30	▲	\$15.61	▲
<b>TOTAL</b>	<b>368,221,133</b>	<b>▲</b>	<b>16,754,393</b>	<b>▲</b>	<b>4.6%</b>	<b>▲</b>	<b>4,543,824</b>		<b>7,033,507</b>	<b>▲</b>	<b>14,505,231</b>	<b>▼</b>	<b>\$0.93</b>	<b>▲</b>	<b>\$11.15</b>	<b>▲</b>

#### Industrial Vacancy Rates



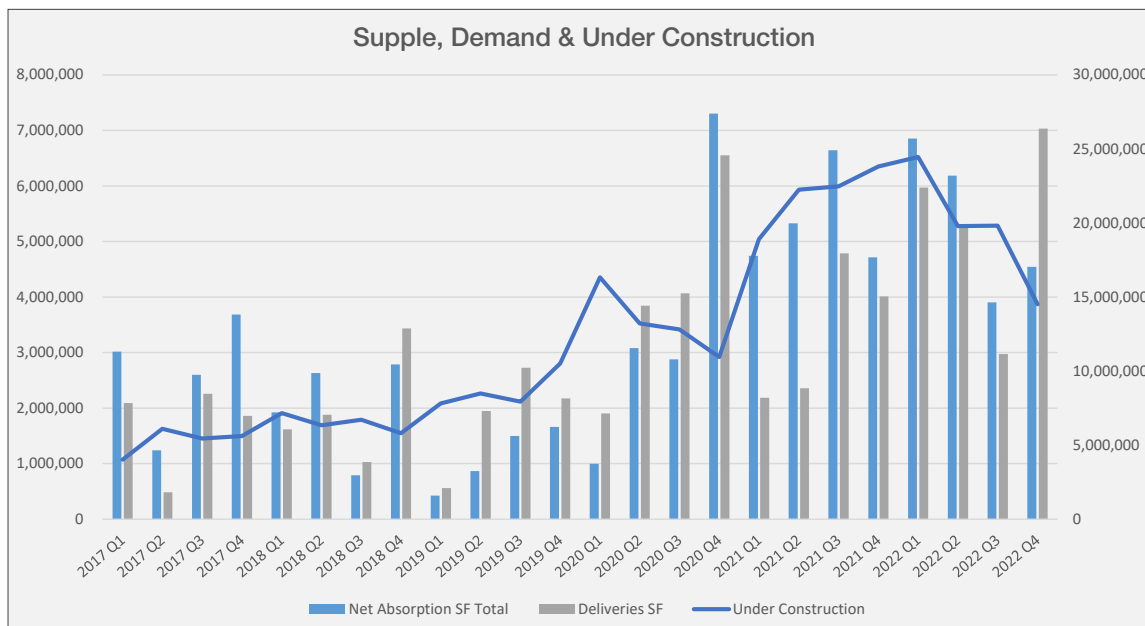
# Q4 2022

## INDUSTRIAL MARKET METRO PHOENIX

### Submarket Snapshot

	RBA		Vacant SF	Vacant %	Net Absorption	Deliveries		Under Construction	Avg NNN Rate	Yearly NNN Rate	
Sky Harbor	50,493,748	▲	1,647,596	▲ 3.3%	▲ 39,551	▲ –	▼	446,589	▲ \$1.23	▲ \$14.73	▲
Northeast Valley	14,972,244	▼	551,141	▼ 3.7%	▼ 68,788	▲ –	–	23,460	– \$1.38	▲ \$16.56	▲
Northwest Valley	82,388,741	▲	5,667,310	▲ 6.9%	▲ 2,822,773	▲ 4,358,975	▲	9,738,454	▼ \$0.73	▼ \$8.80	▼
Southeast Valley	102,908,868	▲	3,867,699	▲ 3.8%	▲ 818,754	▼ 1,003,863	▲	1,748,962	▼ \$1.10	▲ \$13.14	▲
Southwest Valley	117,457,532	▲	5,020,647	▲ 4.3%	▲ 793,958	▲ 1,670,669	▲	2,547,766	▼ \$0.66	▲ \$7.89	▲
All Submarkets	368,221,133	▲	16,754,393	▲ 4.6%	▲ 4,543,824	▲ 7,033,507	▲	14,505,231	▼ \$0.93	▲ \$11.15	▲
2022 Q3	359,363,315	▲	15,169,875	▲ 4.2%	▲ 3,761,073	▲ 3,915,092	▲	22,705,065	▼ \$0.85	▲ \$10.14	▲
2022 Q2	354,402,853	▲	14,976,643	▲ 4.2%	▲ 4,328,319	▲ 3,731,997	▲	17,529,186	▼ \$0.80	▲ \$9.55	▲
2022 Q1	345,603,234	▲	17,627,261	▼ 5.1%	▼ 4,486,789	▲ 3,406,166	▲	21,792,880	▼ \$0.69	▲ \$8.31	▲

### Supply, Demand & Under Construction

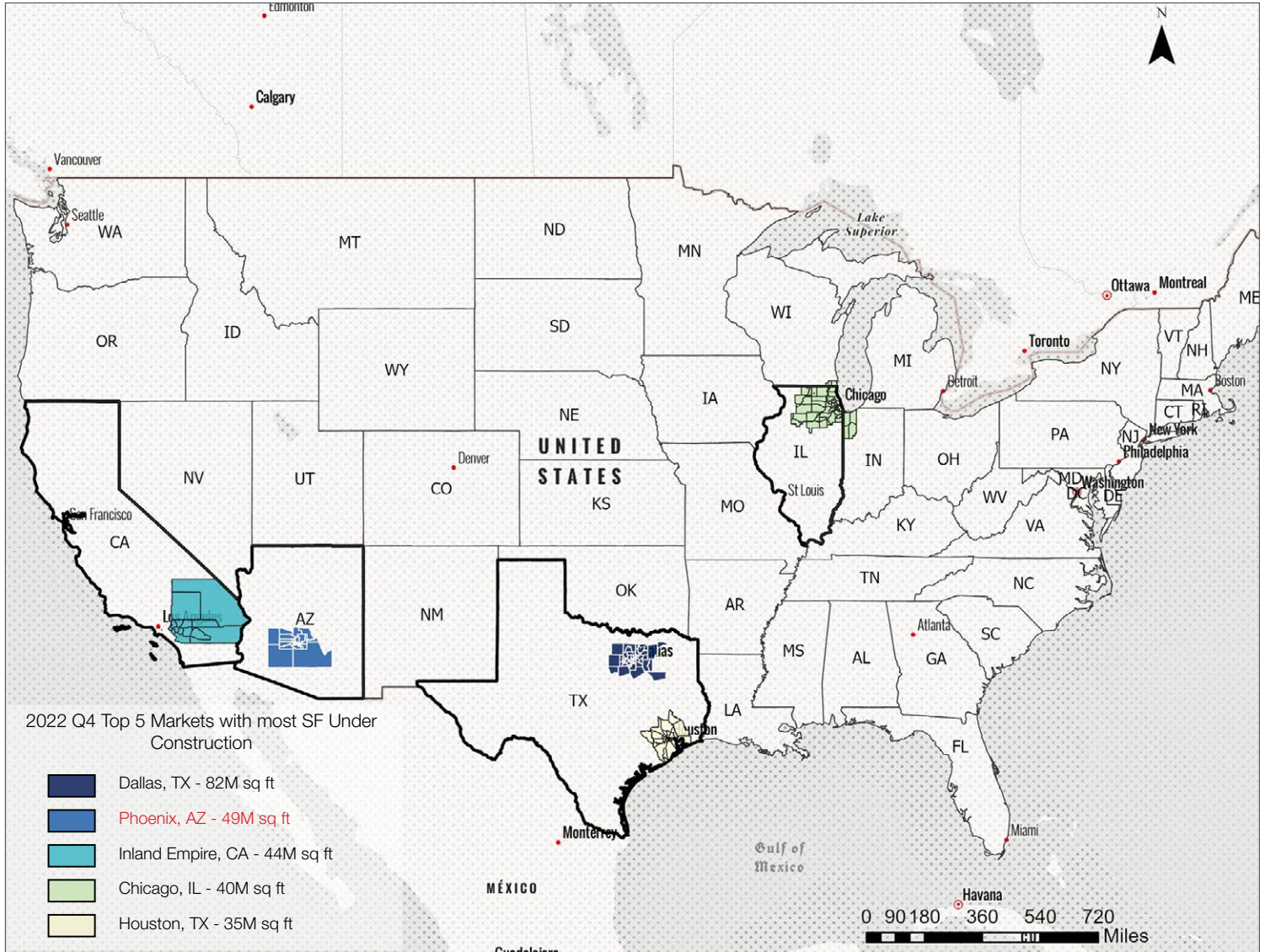




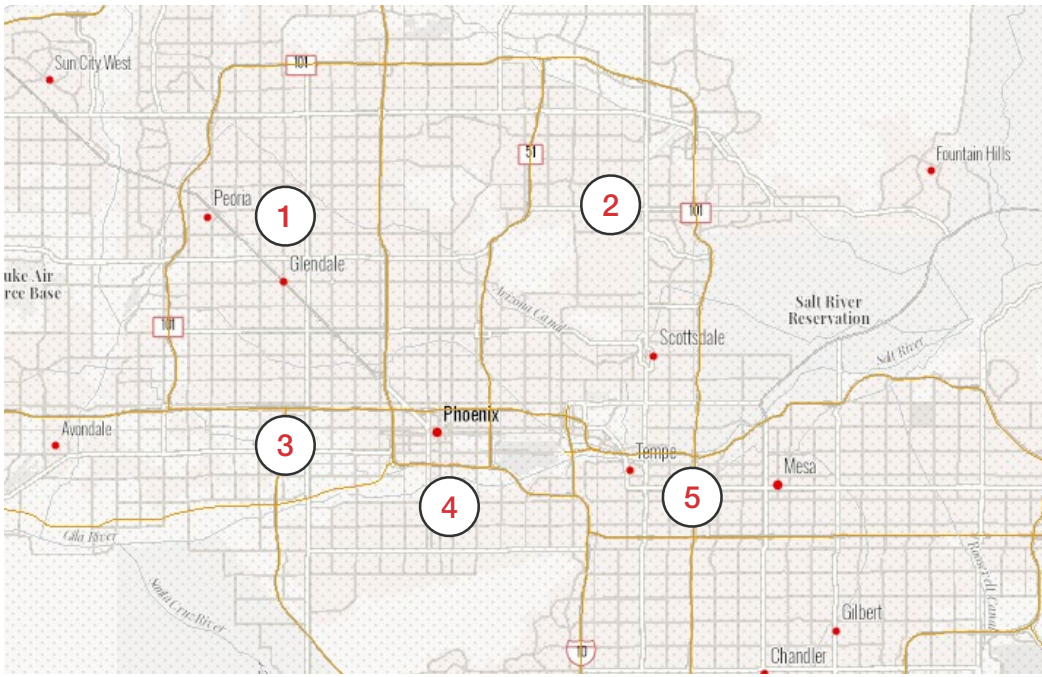
# Q4 2022

## INDUSTRIAL MARKET METRO PHOENIX

### Top Industrial Real Estate Under Construction







## Industrial Submarkets

- 1 Northwest Valley**  
Deer Vly/Pinnacle Pk, Glendale, Grand Avenue, N Glendale/Sun City, North Black Canyon, W Phx N of Thomas Rd, W Phx S of Thomas Rd
- 2 Northeast Valley**  
Central Phoenix, Scottsdale Airpark, Scottsdale/Salt River
- 3 Southwest Valley**  
Goodyear, SW N of Buckeye Rd, SW S of Buckeye Rd, Tolleson
- 4 Sky Harbor**  
North Airport, S Airport N of Roeser, S Airport S of Roeser, SC N of Salt River, SC S of Salt River
- 5 Southeast Valley**  
Chandler Airport, Chandler, Chandler N/Gilbert, Falcon Field/Apache Junction, Mesa, Tempe E, Tempe NW, Tempe SW

# We are here. Phoenix



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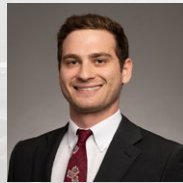
NAI Horizon knows commercial real estate. With over 30 years in the Valley, NAI Horizon's extensive market insight allows us to match client needs with the right solutions. NAI Global member firms span the U.S. and 42 other countries, with more than 300 offices and more than 5,100 local market experts on the ground. Supported by the central resources of the NAI Global organization, member firms deliver market-leading services locally, and combine their in-market strengths to form a powerful bond of insights and execution for clients with multi-market interests.

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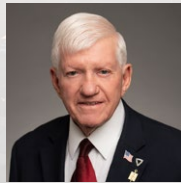
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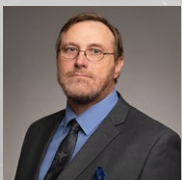
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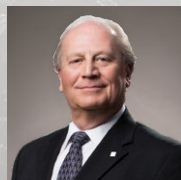
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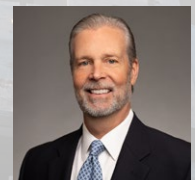
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