

Phoenix

Warehouse and distribution space continues to dominate the Phoenix industrial market.

- The Phoenix average asking rate remained the same quarter-over-quarter but increased \$0.02 from the third quarter of 2019.
- Year-to-date, warehouse and distribution absorbed nearly 6.2 million square feet, 81 percent of that absorption came from the West Valley.
- The Southeast Valley recorded a \$0.02 increase from the previous quarter to bring the average rental rate to \$0.70, lead by the Chandler submarket which recorded an average asking rate of \$0.79 in the third quarter.

The Metro Phoenix industrial market ended the third quarter recording 7.7 percent vacancy. This marks a 50-basis point increase quarter-over-quarter and year-over-year. The market saw just over 1.6 million square feet of positive net absorption, up 60 percent from the third quarter of 2019. An additional three million square feet are set to absorb throughout the remainder of 2020 and into 2021. The increase can be attributed to the rise in need for manufacturing and warehouse space brought on by the onset of COVID-19.

Across the Metro's industrial market, under-construction properties continue to progress with over 8.2 million square feet of new product currently underway. With rising e-commerce, medical supplies and food and beverage demands, warehouse and distribution properties continue to dominate the construction pipeline with nearly 7.2 million square feet underway. 89 percent of this under construction space can be found in the West Valley. Abundant land and access to infrastructure makes the Northwest and Southwest submarkets construction hotspots with 3.4 million and 2.9 million square feet under way, respectively. The Phoenix Metro, over the first three quarters of 2020, delivered just over 8.5 million square feet of new construction, nearly doubling the amount of new construction space that delivered over the same time period in 2019.

Outlook

Looking forward, industrial remains highly active and competitive as e-commerce needs have risen by roughly 30 percent. This trend is expected to continue as large-scale brick and mortar retail locations shutter doors and consumers continue to flock toward online purchases. This, coupled with Phoenix's growing population and the increased demand for food and beverage products, will continue to drive demand for warehouse and distribution space in the market. This will continue to propel the Phoenix industrial market as the area emerges from the COVID-19 environment.

Fundamentals	Forecast
YTD net absorption	6,269,176 s.f. ▲
Under construction	8,212,328 s.f. ▲
Total vacancy	7.7% ▼
Sublease vacancy	899,319 s.f. ▼
Direct asking rent	\$0.58 p.s.f. ▲
Sublease asking rent	\$0.63 p.s.f. ▼
Concessions	Increasing ▲

