

# Phoenix Industrial & Logistics, Q2 2021

## Net Absorption Breaks Records, Again

**Vacancy Rate**  
4.7%

**Net Absorption**  
6,328,220 SF

**Construction**  
20,885,277 SF

**Lease Rate**  
\$0.74 NNN

\*Arrows indicate change from previous quarter

### INDUSTRY SECTORS SEEKING SPACE

The most active industries in the second quarter were third-party logistics and manufacturing. Most companies are looking in the Southwest Valley due to its accessibility to California and the availability of labor in the area. All the top ten leasing transactions from this quarter were either third-party logistics or manufacturing users.

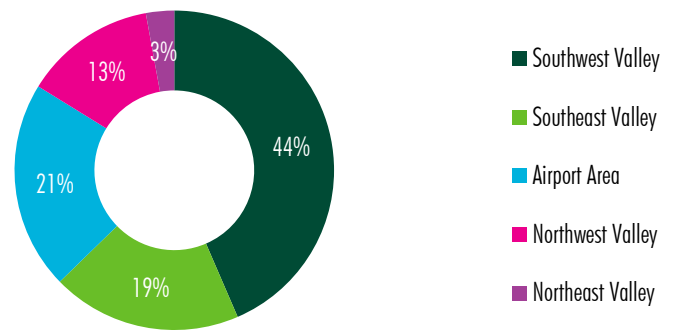
### LARGE SPEC DEVELOPMENTS COMING ONLINE IN THE NEXT YEAR

There is nearly 15 million sq. ft. of speculative developments underway, most of which is expected to deliver in 2021. With over 5,000,000 sq. ft. preleased speculative space anticipated to deliver in 2021, expect to see the vacancy rate increase or stay flat with these large deliveries. Some of the largest spec developments completing this year include the First Park at PV 303, a 930,800 sq. ft. spec development in North Goodyear and the 10 West Commerce Park, an 862,602 sq. ft. development in Buckeye.

### NEW SUPPLY CREATING MORE OPPORTUNITIES FOR MAJOR USERS

Nineteen transactions over 100,000+ sq. ft. occurred over the course of the second quarter, many in recently completed buildings which provided supply for these large users. Roughly 90.0% of these users moved into properties built in 2018 or newer.

Figure 1: Vacant Space Distribution



Source: CBRE Research, Q2 2021.

Phoenix industrial market activity continued to accelerate in Q2 2021. After a promising start to 2021, the second quarter saw one of the most active quarters in the past 20 years. Records were shattered once again with 6,384,970 sq. ft of net absorption, the highest since Q4 2013. Construction activity in the Valley is at record levels as well. For the first time ever, there is more than 20 million sq. ft. of industrial space under construction in the Phoenix metro with another 31.6 million sq. ft. currently planned.

In Q2 2021, 13 buildings delivered totaling 3,191,525 sq. ft. Net absorption continued to significantly outpace deliveries in Q2 2021. Construction deliveries throughout the valley are justified as new users enter the market and vacancy has fallen to the lowest rate to date. Out of all deliveries in the second quarter, over 89% were absorbed at the time of delivery.

**EMPLOYMENT**

Phoenix metro employment is swiftly recovering. Roughly 75% of jobs are fully recovered where some industries are surpassing pre-pandemic highs. In the second quarter, the Phoenix metro gained 135,000 jobs year-over-year bringing nonfarm employment to 2.18 million. Industrial-using employment increased by 4.9%, gaining 15,000 jobs. The unemployment rate has dropped significantly since the start of the pandemic where unemployment for the metro reached 11.5%. In the first quarter, Phoenix metro posted an unemployment rate of 5.9%.

**NET ABSORPTION**

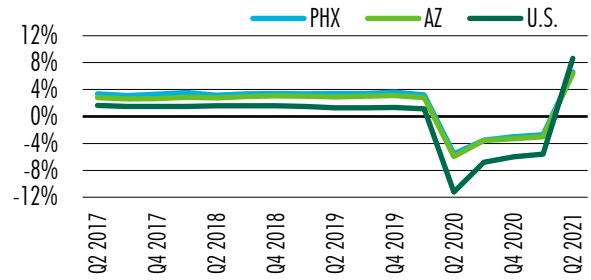
Net absorption in Q2 2021 totaled 6,328,220 sq. ft. across the Phoenix market. This is the 45th consecutive quarter of positive net absorption and the highest quarter of net absorption since Q4 2013. Gross absorption totaled 9,118,337 sq. ft. in the second quarter. MLILY, Quetico Logistics, and Five Below were the largest contributors to net absorption absorbing 2,558,560 sq. ft. of space.

All industrial market areas posted positive net absorption in Q2 2021. However, activity remained relatively low in the Northeast Valley with only 62,987 sq. ft. of positive absorption.

While all market areas in the Valley posted positive net absorption, the Southwest and Southeast Valleys had the strongest leasing activity to close the quarter. The Southwest Valley posted the strongest gains in net absorption totaling 4,807,580 sq. ft. quartering the second quarter. This is the third consecutive quarter the Southwest Valley posted net absorption greater than 3.5 million sq. ft. The Southwest Valley is desirable for users due to its proximity to west coast markets, new construction, relative affordability, and labor pool. Five Below, Amazon, and MLILY are just a handful of notable tenants that leased space or moved into newly completed build-to-suits in the Southwest Valley.

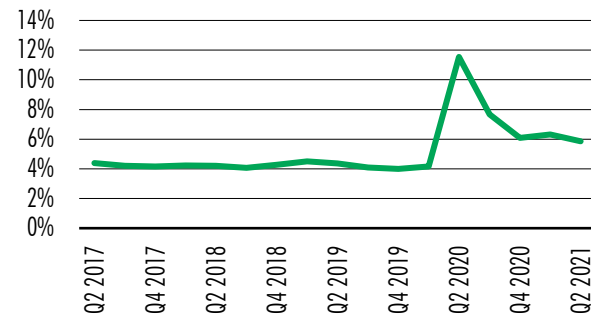
The Southeast Valley also had a strong quarter for net absorption totaling 1,765,269 sq. ft. Notable leasing activity in the Southeast Valley includes United Healthcare who signed a 208,100 sq. ft. lease in the Gilbert submarket and Li-Cycle Inc. who leased 138,949 sq. ft. in the Phoenix Mesa Gateway submarket.

Figure 2: Year-Over-Year Job Growth



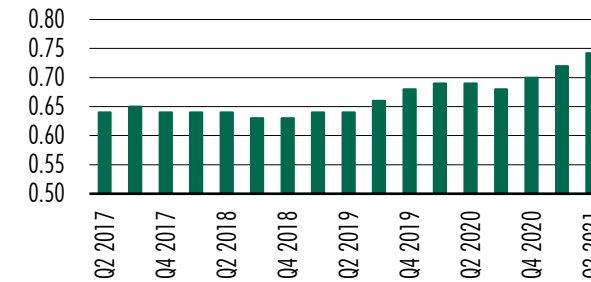
Source: U.S. Bureau of Labor Statistics, Oxford Economics, Q2 2021.

Figure 3: Phoenix Unemployment



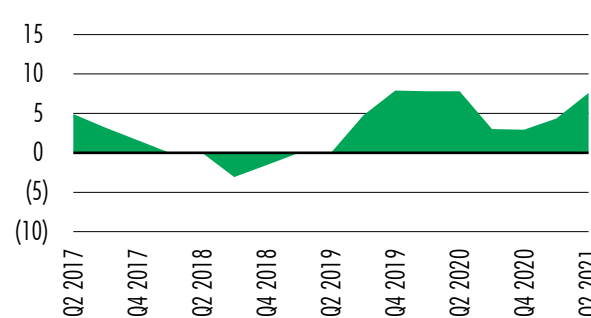
Source: U.S. Bureau of Labor Statistics, Oxford Economics, Q2 2021.  
 \*At the time of publication, June employment data was unavailable for Phoenix and Arizona; the Q2 2021 estimate is forecasted. These estimates are preliminary.

Figure 4: Average Asking Lease Rate (\$PSF/MO/NNN)



Source: CBRE Research, Q2 2021.

Figure 5: Year-Over-Year Rent Growth (%)



Source: CBRE Research, Q2 2021.

**ASKING LEASE RATES**

The overall average asking lease rate increased to \$0.74 per sq. ft. NNN in Q2 2021 from \$0.72 per sq. ft. NNN in Q1 2021. Year-over-year, the average asking rate increased \$0.05 per sq. ft. NNN. For the fourth consecutive quarter, the average asking lease rate increased quarter-over-quarter by \$0.02. This is the highest asking lease rate on record. Distribution space continues to have the lowest asking rates out of all product types at \$0.55 per sq. ft. NNN while back office and major user space have the highest asking rates well over \$1.00 per sq. ft. NNN. The desirable market fundamentals and pent-up demand from the pandemic drove lease rates as tenants competed for tightened supply.

**VACANCY**

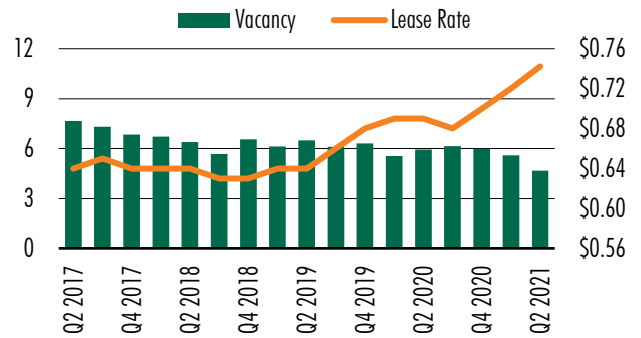
Phoenix industrial vacancy dropped to 4.7% in Q2 2021, a decrease of 90 basis points (bps) quarter-over-quarter. This is the lowest industrial vacancy rate on record in the Phoenix market. Vacancy plummeted 180 bps from 7.3% to 5.5% quarter-over-quarter in the Southwest Valley as tenants absorbed recently completed construction products. Vacancy is expected to reach record lows as recently delivered product is absorbed by tenants.

**CONSTRUCTION ACTIVITY**

In Q2 2021, 3,191,525 sq. ft. of industrial product delivered in the Phoenix market. Out of all construction deliveries in the quarter, 89.0% was committed to at the time of delivery. Several large build-to-suits delivered this quarter including a 630,000 sq. ft. Amazon facility and a built-to-suit project for Five Below totaling 700,000 sq. ft.

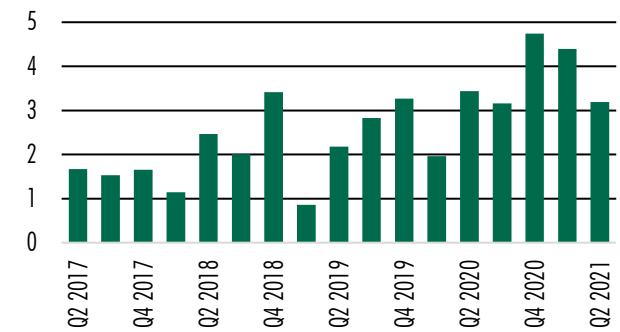
Currently, 20,885,277 sq. ft. of industrial space is underway across the Phoenix market totaling 79 buildings. This is the most industrial space under construction in the Phoenix market recorded. Of the 20,885,277 sq. ft. under construction, 27.7% is committed to. Construction activity remains heavily concentrated in the Southwest Valley. This market area accounts for 15,088,778 sq. ft., or 72.2%, of product under construction.

Figure 6: Vacancy Rate (%) vs. Lease Rate (NNN)



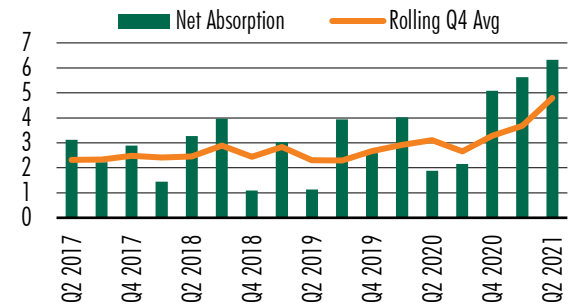
Source: CBRE Research, Q2 2021.

Figure 7: Total Quarterly Completions (MSF)



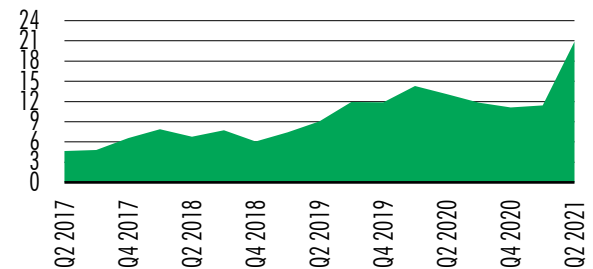
Source: CBRE Research, Q2 2021.

Figure 8: Net Absorption (MSF)



Source: CBRE Research, Q2 2021.

Figure 9: Under Construction (MSF)



Source: CBRE Research, Q2 2021.

**OUTLOOK**

The Phoenix industrial market continues to remain one of the hottest markets across the country. With record-low vacancy, steadily increasing asking rates, and net absorption levels not seen since 2013, there is no sign of the industrial market slowing down soon. Industrial users will continue to modify supply chains and the need for distribution space will grow to record levels. The Phoenix industrial market is on pace for one of the most active years in history.

The Phoenix market continues to outpace other metros on market fundamentals – job growth, population, and affordability. These fundamentals will continue to draw users from outside of the metro as well as market expansions with close to 17,000,000 sq. ft. of users currently looking for space in the Phoenix market.

Figure 10: Industrial Market Statistics

Market Area	Bldg. Sq. Ft.	Overall Vacancy (%)	Availability (%)	Current Net Absorption (Sq. Ft.)	Current Gross Activity (Sq. Ft.)	Under Construction (Sq. Ft.)	Construction Deliveries (Sq. Ft.)	Avg. Asking Lease Rates (\$PSF/MO/NNN)
Northeast Valley	13,602,404	3.4	6.0	62,987	126,510	0	0	1.15
Southeast Valley	78,572,179	4.0	5.7	1,025,070	1,765,269	4,472,005	525,342	0.90
Airport Area	77,189,481	4.4	6.5	83,908	1,021,210	397,058	0	0.82
Southwest Valley	128,387,803	5.5	7.1	4,807,580	5,608,259	15,088,778	2,666,183	0.52
Northwest Valley	50,633,870	4.3	5.4	348,675	597,089	927,436	0	0.79
<b>Metro Phoenix Total</b>	<b>348,385,737</b>	<b>4.7</b>	<b>6.3</b>	<b>6,328,220</b>	<b>9,118,337</b>	<b>20,885,277</b>	<b>3,191,525</b>	<b>0.74</b>

Source: CBRE Research, Q2 2021.

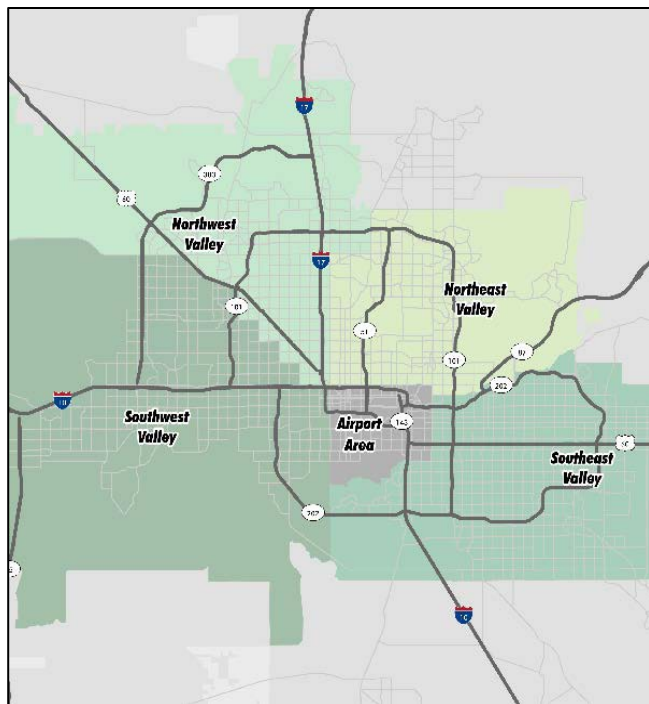
Figure 11: Key Transactions

Occupier	Industry Type	Location	Total Sq. Ft.
MLILY	Manufacturing	Southwest Valley	1,139,040
Quetico Logistics	Distribution	Southwest Valley	719,520
Five Below	Manufacturing	Southwest Valley	700,000
Amazon	Distribution	Southwest Valley	630,000
Sinomax	Distribution	Southwest Valley	323,345

Source: CBRE Research, Q2 2021.

Figure 12: Industrial Submarket Statistics

Submarket	Bldg. Count	Bldg. SF	Vacant SF	Vacancy Rate (%)	Under Construction (SF)	Construction Deliveries (SF)	Gross Activity	Net Absorption
<b>NORTHEAST VALLEY</b>								
Central Phoenix	89	2,719,987	33,372	1.2	0	0	14,723	4,513
Scottsdale Airport	342	7,000,351	324,757	4.6	0	0	83,007	41,597
Scottsdale	124	3,723,145	104,962	2.8	0	0	28,780	16,877
Salt River	10	158,921	1,060	0.7	0	0	0	0
<i>Northeast Valley Totals</i>	<i>565</i>	<i>13,602,404</i>	<i>464,151</i>	<i>3.4</i>	<i>0</i>	<i>0</i>	<i>126,510</i>	<i>62,987</i>
<b>SOUTHEAST VALLEY</b>								
East Tempe	237	4,712,666	146,435	3.1	0	0	24,562	(10,073)
Mesa	204	5,815,259	151,327	2.6	0	0	28,545	(30,659)
Falcon Field	105	4,776,225	92,538	1.9	0	0	80,713	48,398
Apache Junction	4	57,000	0	0.0	0	0	0	0
East Gilbert	91	7,607,135	352,549	4.6	1,477,677	525,342	708,963	659,414
Gilbert	550	14,629,568	251,742	1.7	431,490	0	219,299	76,686
Chandler Airport	82	5,199,065	492,891	9.5	1,427,408	0	150,423	140,143
Chandler	556	35,775,261	1,633,265	4.6	1,135,430	0	552,764	141,161
<i>Southeast Valley Totals</i>	<i>1,829</i>	<i>78,572,179</i>	<i>3,120,747</i>	<i>4.0</i>	<i>4,472,005</i>	<i>525,342</i>	<i>1,765,269</i>	<i>1,025,070</i>
<b>AIRPORT AREA</b>								
South Central Phoenix	498	17,895,478	839,759	4.7	397,058	0	241,296	(83,079)
North Airport	411	13,895,235	684,078	4.9	0	0	107,375	25,834
South Airport	659	21,226,718	1,191,315	5.6	0	0	188,691	(9,085)
Northwest Tempe	333	11,777,239	373,619	3.2	0	0	147,487	44,491
Southwest Tempe	378	12,394,811	336,226	2.7	0	0	336,361	105,747
<i>Airport Area Totals</i>	<i>2,279</i>	<i>77,189,481</i>	<i>3,424,997</i>	<i>4.4</i>	<i>397,058</i>	<i>0</i>	<i>1,021,210</i>	<i>83,908</i>
<b>SOUTHWEST VALLEY</b>								
Glendale	67	5,393,769	789,278	14.6	40,000	0	75,000	70,462
North Goodyear	51	14,091,077	539,167	3.8	7,951,112	979,663	1,199,520	1,199,520
South Goodyear	108	16,231,715	3,120,841	19.2	3,656,885	986,520	1,014,182	987,482
Tolleson	209	40,732,925	1,790,385	4.4	2,409,679	0	1,374,596	853,853
Southwest Phoenix	699	49,131,530	829,135	1.7	168,500	0	1,244,961	996,263
Buckeye	9	2,806,787	0	0.0	862,602	700,000	700,000	700,000
<i>Southwest Valley Totals</i>	<i>1,143</i>	<i>128,387,803</i>	<i>7,068,806</i>	<i>5.5</i>	<i>15,088,778</i>	<i>2,666,183</i>	<i>5,608,259</i>	<i>4,807,580</i>
<b>NORTHWEST VALLEY</b>								
Pinnacle Peak	20	552,507	24,742	4.5	0	0	1,300	1,300
Sun City	48	1,832,860	32,932	1.8	0	0	50,692	26,363
North Glendale	36	1,007,539	64,298	6.4	0	0	1,200	1,200
Deer Valley	527	16,410,863	956,495	5.8	190,593	0	243,454	93,444
Grand Avenue	297	11,432,937	137,762	1.2	736,843	0	61,002	60,377
North Black Canyon	175	4,872,815	698,284	14.3	0	0	83,683	79,235
West Phoenix	625	14,524,349	254,417	1.8	0	0	155,758	86,756
<i>Northwest Valley Totals</i>	<i>1,728</i>	<i>50,633,870</i>	<i>2,168,930</i>	<i>4.3</i>	<i>927,436</i>	<i>0</i>	<i>597,089</i>	<i>348,675</i>
<b>GRAND TOTALS</b>	<b>7,544</b>	<b>348,385,737</b>	<b>16,247,631</b>	<b>4.7</b>	<b>20,885,277</b>	<b>3,191,525</b>	<b>9,118,337</b>	<b>6,328,220</b>



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