



Phoenix, AZ

Industrial
21Q4

Key Takeaways

- Rental rates have increased over 9.8 percent Y-o-Y
- Net absorption in 2021 was 80% higher than 2020
- Median price per square foot is up nearly 23.3 percent Y-o-Y



Vacancy Rate
4.80%

YOY
▲
FORECAST
▲



Net Absorption
5.7M SF

YOY
▲
FORECAST
▲



Under Construction
30M SF

YOY
▲
FORECAST
▲



Overall Asking Lease Rates (NNN)
\$0.69/SF

YOY
▲
FORECAST
▲

Q4 2021

Strong demand from new tenants and investors coming into the market resulted in Phoenix setting multiple record in 2021. Vacancy ended at 4.8%, which was 40 bps lower than last quarter, which was a previous record. Net absorption reached a high point ending the year at 24.1 million square feet. Construction activity kicked up higher in the fourth quarter ending at 30.2 million square feet.

Market Indicators



2.8%
Unemployment Rate (November-21)



4.82%
GDP - Quarterly % change yr/yr

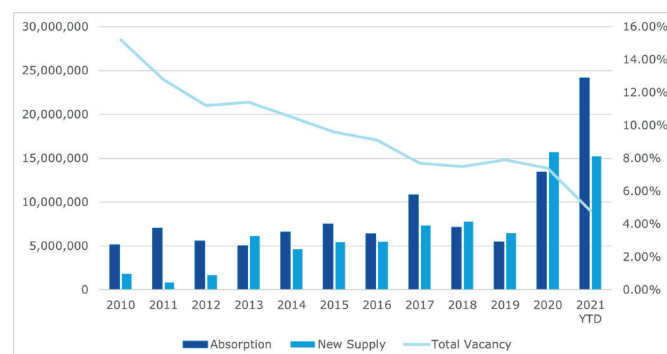


1.514%
U.S. 10 Year Treasury Note

Historic Comparison

	20 Q4	21 Q3	21 Q4
Total Inventory (in Thousands of SF)	320,842	336,692	339,567
New Supply (in Thousands of SF)	3,232	4,650	3,736,260
Net Absorption (in Thousands of SF)	6,632	7,261	5,688
Direct Vacancy	7.9%	5.2%	4.8%
Under Construction (in Thousands of SF)	9,274	20,040	30,222
Overall Asking Lease Rates (NNN)	\$0.61	\$0.66	\$0.69

Historical Absorption, Deliveries and Vacancy Rates



Lease Transactions



Lease
Elwood Logistic Center
16155 W Elwood St
Goodyear | 1.3MSF



Lease
The Cubes Glendale
7723 N Reems Rd
Glendale | 1.2M SF



Lease
First Park at PV 303
4580 N Pebble Creek Pky
Glendale | 802K SF

Sale Transactions

Property Name/Property Address	Submarket	Sale Date	Sale Price	Size SF	Sale Price SF	Class
Logic Park 91/9191-9393 S 91st Ave (3 building sale)	Tolleson	12/15	\$135,888,337	728,390	\$187	A
Fairway 10/750-950 N 119th Ave (3 buildings sale)	Goodyear	12/10	\$126,750,000	720,317	\$176	A
Merit PLC/ 1515 S 91st Ave	Tolleson	12/27	\$83,500,000	487,500	\$171	A



Executive Summary

Q4 2021

The labor market and talent pool in Phoenix are some of the primary reasons the industrial market had an award-winning year. The unemployment rate in Phoenix MSA posted the lowest level ever captured in the market at 2.8 percent at the end of November. As of November 2021, Phoenix metro had increased the labor force by 18,300 employees compared to February 2020 (pre-pandemic). Total non-farm jobs have increased 5.5 percent year-over-year in November and the Transportation, Warehousing and Utilities supersector jobs have increased by 8.7 percent over the same period. Manufacturing jobs have increased by 3.5 percent, and this trend is expected to continue as we see more and more high-tech manufacturing companies relocate to Phoenix.

Residential real estate company, Redfin.com, recently released a new study ranking Phoenix the #2 metro area for top net inflow destination from their users trailing behind Miami, FL. The top two cites people moved from were Los Angeles, CA and Seattle, WA.

During the fourth quarter, the Phoenix Industrial market broke multiple barriers, which is elevating the market into a hyper competitive market. Investment sales reached the highest quarter ever in the market, topping off at \$2.7 billion with a median price per square foot ending at \$159 per square foot. Rental rates jumped 3.1 percent quarter-over-quarter ending at \$0.69 per square foot. Net

absorption for the quarter was 5.6 million square feet, and the total for the year peaked to 24.1 million square feet. Direct vacancy has decreased 40 bps quarter-over-quarter and 260 bps year-over-year to finish fourth quarter at 4.8 percent. This is another benchmarking quarter for Phoenix, reaching the lowest vacancy rate ever achieved in the market. Approximately 5.6 million square feet of new inventory was delivered during fourth quarter, bringing year-to-date completions to a total of 15.2 million square feet. An additional 4.3 million square feet were started this quarter bringing total construction to 30.2 million square feet. This marks the highest level of construction activity in market history, ahead of last quarter that was previously a milestone.

Outlook

The big question heard around the market is “Do we think the market is over built?” The answer to this question was answered in 2021 with supporting data. The market delivered 15.2 million square feet, but absorbed more than 24 million square feet. Vacancy has drastically decreased and the tenant pipeline remains extremely robust for 2022. More investors and employers are looking at Phoenix because of the healthy, sustainable growth, as well as robust and strong labor force

Vacancy

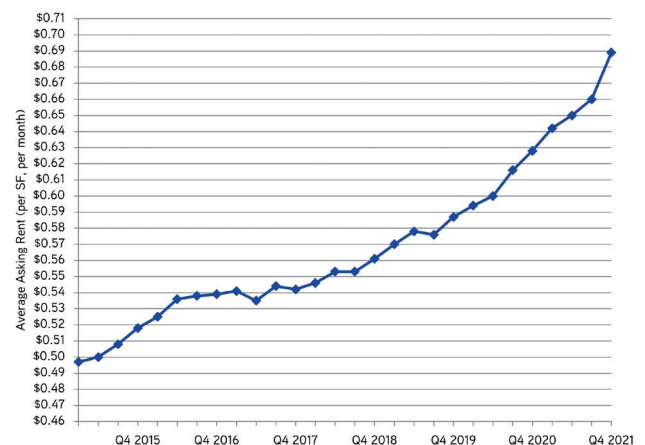
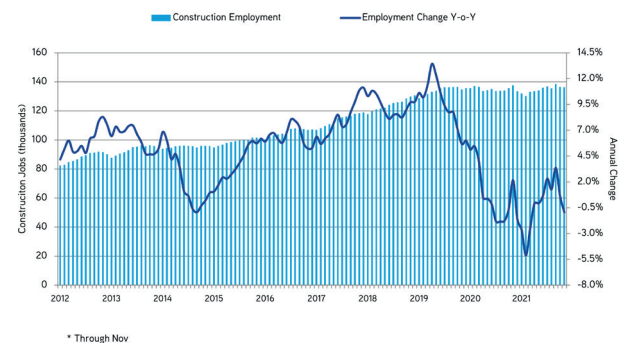
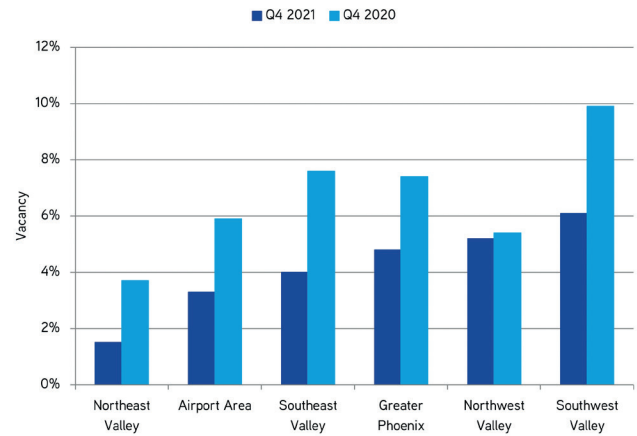
Strong activity of the industrial market drove vacancy rate to a new record low, and outperformed the previous quarter dropping 40 bps ending the year at 4.8 percent. The strength of the industrial market is currently at the most attractive period ever seen in Phoenix. The market delivered 15.2 million square feet of new product throughout the year and managed to decrease vacancy by 260 bps year-over-year. Every submarket cluster posted decreased vacancy both quarter-over-quarter and year-over-year. The Southwest and Southeast submarket clusters experienced the largest decrease in vacancy year-over-year declining 380 bps and 360 bps, ending at 6.1 and 4.0, respectively. The Northwest submarket cluster delivered the most inventory for the fourth consecutive quarter, completing 2.2 million square feet. This submarket decreased its vacancy by 20 bps over-the-quarter to 5.4 percent. Larger blocks of space are in such high demand that currently only 16 existing buildings throughout metro Phoenix offer options for tenants seeking 150,000 square feet. A mere nine options offer available blocks of space over 300,000 square feet.

Absorption and Leasing

Year-to-date net absorption topped 24 million square feet, setting a market record for highest amount of net absorption in a single year, and almost doubling the amount that was recorded last year (13.4 million square feet). Fourth quarter marked the seventh consecutive quarter of net absorption over two million square feet, ending the quarter at 5.6 million square feet. Home Depot signed the largest lease of the quarter, committing to 1.3 million square feet at Elwood Logistic Center. The building completed construction last December, and it was one of the first speculative building over 1 million square feet near Loop 303 corridor. Another million plus square foot speculative building landed the second largest lease of the quarter. The Cubes at Glendale inked the retail company William Sonoma to occupy building A, which is 1.2 million square feet. The building is currently under construction and expected to deliver in early 2022. While warehouse and distribution tenants are taking large blocks of space, the market is benefiting from increased activity of advanced manufacturing companies relocating or expanding in the valley. The Swiss solar company, Meyer Burger, selected Arizona over Tennessee, and Georgia as the location for their new manufacturing facility.

Rental Rates

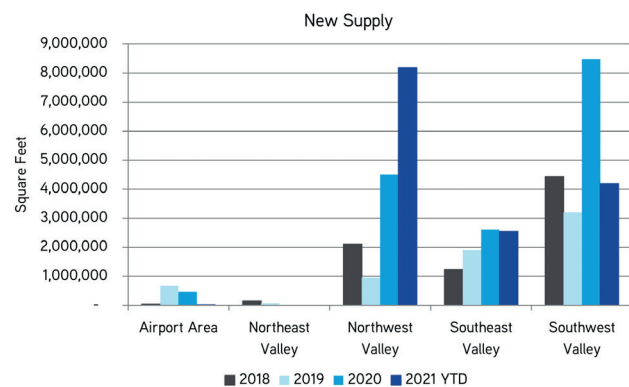
Rental rates continued to increase, rising 9.8 percent year-over-year and 3.1 percent over-the-quarter, reaching \$0.69 per square foot. This marks the largest increase both over-the-quarter and year-over-year. Since 2018, rental rates have increased at an average of 4.91 percent annually, rising rapidly in recent years with a total of 17.1 percent since Q4 2019. Southwest submarket cluster had the largest elevation in rates both year-over-year and quarter-over-quarter, increasing by 13.9 and 5.7 percent, respectively ending at \$0.54 per square foot. Southwest cluster is followed by Airport area, which had led the market in rental increases for the past three quarters, increasing by 11.1 and 2.3 percent, ending at \$0.91 per square foot over the same timeframe. Northwest submarket cluster had the largest rate increase over-the-quarter, increasing by 5.0 percent to \$0.64 per square foot. Warehouse product type posted the largest increases year-over-year increasing 11.2 percent to \$0.65 per square foot. Manufacturing product type had the largest increase quarter-over-quarter, increasing 2.3 percent ending at \$0.77 per square foot.



Construction

Each quarter in 2021 set a new record for product under construction in the Phoenix market, and fourth quarter did not fail to follow the trend. There are currently 30.2 million square feet of new product underway with over 30 percent of the space already committed to tenants. Approximately 75 percent of the buildings under construction are being developed within the Northwest and Southwest submarket clusters. The fourth quarter delivered 3.7 million square feet of new inventory, bringing the year-to-date total to 15.2 million square feet, a decrease of 5.3 percent compared to 2020.

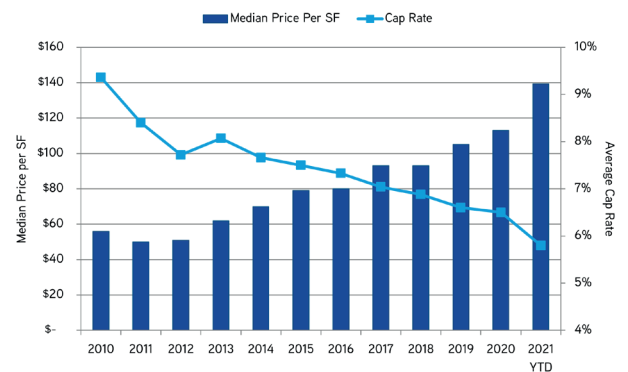
The Southeast Valley has averaged below 1.7 million square feet of construction quarterly since 2015 and currently has 7.0 million square feet underway. This submarket delivered an additional 523,499 square feet during fourth quarter with an extremely low vacancy of only 1.6 percent. The four largest completions this quarter were in the West Valley and were 100 percent leased at the time of delivery. These buildings will house the following tenants: KeHe, HelloFresh, and Meyer Burger, which totaled more 1.4 million square feet.



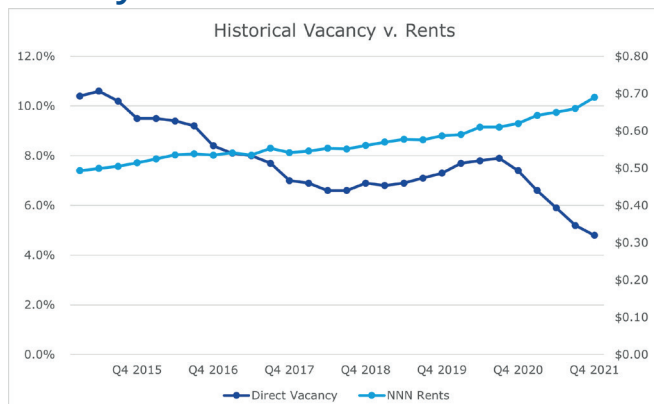
Investment Trends

Investment sales volume during fourth quarter topped \$2.7 billion, bringing year-to-date sales up to \$4.9 billion. Fourth quarter was the highest single quarter of investment sales in the Phoenix market. The median price per square foot of sales in the fourth quarter increased 30.6 percent year-over-year to \$159 per square foot. Year-to-date the median price has reached \$140 per square foot, which was an increase of 23.2 percent compared to median price during 2020. Cap rates continued compressing, with a decline of 22 bps to 5.80 percent.

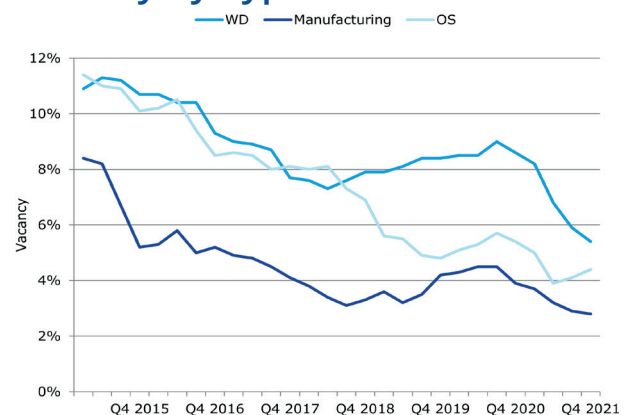
Fourth quarter posted the largest portfolio sale, sold to Equus Capital by Reliance Management and consisted of 74 properties for a price of \$1.15 billion. Logic Park 91 was the next largest sale this quarter. The project consisted of three buildings totaling 728,390 square feet and sold for \$135 million. Marwest Enterprises sold the project to Pauls Corporation. The buildings were fully leased to 10 tenants at the time of the sale. Merit PLC | Two was the largest single property sale of the fourth quarter. The 487,500-square-foot building sold from Merit Partners to Lexington Realty for \$83.5 million, \$173 per square foot. The building was 32 percent leased to one confirmed tenant and is expected to deliver early 2022.



Vacancy vs. Rental Rate



Vacancy by Type



LEGEND

WD = Warehouse-Distribution

MF = Manufacturing

OS = Office Services = Flex/R&D

Existing Properties		Direct Vacancy		Sublease Availability		Total Vacancy			Net Absorption - SF		New Supply - SF		Under Constr.	Avg Rent
Building Type	Total Inventory SF	SF	Rate	SF	Rate	SF	Total Available Q4-21	Vacant Rate Q4-20	Current Period	YTD	Current Period	YTD	SF	Rate (fs)
INDUSTRIAL MARKET														
Airport Market Cluster: North Airport, S Airport N of Roeser, S Airport S of Roeser, SC N of Salt River, SC S of Salt River														
WD	33,743,526	1,090,862	3.2%	228,634	0.7%	1,319,496	3.9%	5.9%	153,603	812,396	-	17,100	383,185	\$0.84
MF	8,233,152	79,300	1.0%	-	0.0%	79,300	1.0%	1.7%	16,439	28,684	-	-	-	\$0.76
OS	3,858,103	329,500	8.5%	2,000	0.1%	331,500	8.6%	8.9%	22,283	35,041	-	-	-	\$1.21
TOTAL	45,834,781	1,499,662	3.3%	230,634	0.5%	1,730,296	3.8%	5.9%	192,325	876,121	-	17,100	383,185	\$0.91
Northeast Market Cluster: Central Phoenix, Scottsdale Airpark, Scottsdale/Salt River														
WD	6,637,555	149,278	2.2%	63,469	1.0%	212,747	3.2%	5.6%	48,386	223,691	-	-	-	\$1.01
MF	3,654,383	24,855	0.7%	9,429	0.3%	34,284	0.9%	1.4%	12,816	27,857	-	-	-	\$0.87
OS	3,562,312	37,825	1.1%	2,418	0.1%	40,243	1.1%	2.5%	(1,894)	49,956	-	-	-	\$0.98
TOTAL	13,854,250	211,958	1.5%	75,316	0.5%	287,274	2.1%	3.7%	59,308	301,504	-	-	-	\$0.97
Northwest Market Cluster: Deer Valley/Pinnacle Peak, Glendale, Grand Avenue, N Glendale/Sun City, North Black Canyon, North Outlying, W Phx N of Thomas, W Phx S of Thomas														
WD	50,663,472	3,305,715	6.5%	20,630	0.0%	3,326,345	6.6%	6.1%	2,109,079	8,702,032	2,021,361	8,182,686	12,041,243	\$0.56
MF	15,490,204	278,356	1.8%	8,800	0.1%	287,156	1.9%	3.4%	98,060	493,711	-	280,000	1,398,165	\$0.69
OS	3,956,794	92,487	2.3%	15,000	0.4%	107,487	2.7%	4.5%	4,824	86,228	-	-	-	\$0.99
TOTAL	70,110,470	3,676,558	5.2%	44,430	0.1%	3,720,988	5.3%	5.4%	2,211,963	9,281,971	2,021,361	8,462,686	13,439,408	\$0.64
Southeast Market Cluster: Chandler Airport, Chandler, Chandler N/Gilbert, Falcon Field/Apache Junction, Mesa, Tempe East, Tempe Northwest, Tempe Southwest														
WD	55,275,235	2,054,211	3.7%	236,938	0.4%	2,291,149	4.1%	8.8%	972,861	4,645,578	418,136	1,960,208	7,031,437	\$0.79
MF	28,154,435	1,238,738	4.4%	7,500	0.0%	1,246,238	4.4%	5.3%	122,549	819,089	105,363	589,955	-	\$0.79
OS	8,897,551	394,037	4.4%	83,077	0.9%	477,114	5.4%	5.5%	(41,576)	99,671	-	-	-	\$1.09
TOTAL	92,327,221	3,686,986	4.0%	327,515	0.4%	4,014,501	4.3%	7.6%	1,053,834	5,564,338	523,499	2,550,163	7,031,437	\$0.79
Southwest Market Cluster: Goodyear, SW N of Buckeye Road, SW S Buckeye Road, Tolleson, Southwest Outlying														
WD	102,234,845	6,682,190	6.5%	71,356	0.1%	6,753,546	6.6%	10.9%	2,224,967	8,070,099	1,191,400	4,080,092	9,120,064	\$0.54
MF	11,941,252	260,697	2.2%	0	0.0%	260,697	2.2%	3.5%	(23,151)	260,462	-	117,520	248,750	\$0.54
OS	3,264,975	183,495	5.6%	0	0.0%	183,495	5.6%	0.6%	(31,099)	(184,944)	-	-	-	\$0.63
TOTAL	117,441,072	7,126,382	6.1%	71,356	0.1%	7,197,738	6.1%	9.9%	2,170,717	8,145,617	1,191,400	4,197,612	9,368,814	\$0.54

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LEGEND

WD = Warehouse-Distribution

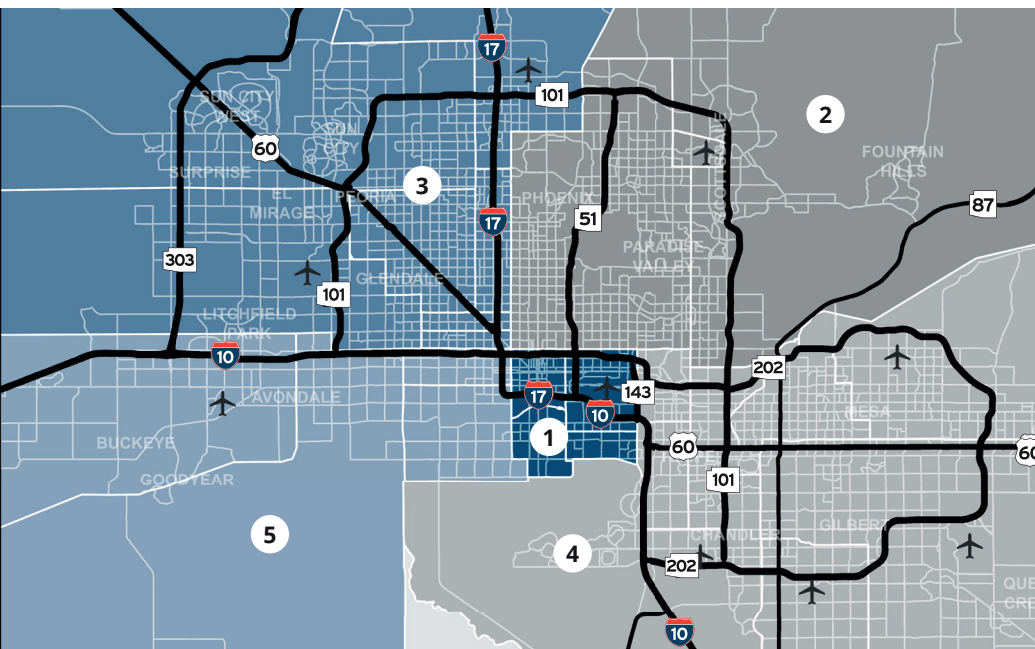
MF = Manufacturing

OS = Office Services = Flex/R&D

Existing Properties Building Type	Total Inventory		Direct Vacancy		Sublease Availability		Total Vacancy		Net Absorption - SF		New Supply - SF		Under Constr.		Avg Rent
	SF		SF	Rate	SF	Rate	SF	Vacant Rate Q4-21	Current Period	YTD	Current Period	YTD	SF	Rate (fs)	
Grand Total															
WD	248,554,633	13,282,256	5.3%		621,027	0.2%	13,903,283	5.6%	8.5%	5,508,896	22,453,796	3,630,897	14,240,086	28,575,929	\$0.65
MF	67,473,426	1,881,946	2.8%		25,729	0.0%	1,907,675	2.8%	9.7%	226,713	1,629,803	105,363	987,475	1,646,915	\$0.77
OS	23,539,735	1,037,344	4.4%		102,495	0.4%	1,139,839	4.8%	5.1%	(47,462)	85,952	-	-	-	\$1.06
TOTAL	339,567,794	16,201,546	4.8%		749,251	0.2%	16,950,797	5.0%	7.4%	5,688,147	24,169,551	3,736,260	15,227,561	30,222,844	\$0.69

Quarterly Comparisons and Totals

21Q4 Total	339,567,794	16,201,546	0	749,251	0	6,950,797	0	0	5,688,147	24,169,551	3,736,260	15,227,561	30,222,844	\$0.69
21Q3 Total	336,692,590	17,355,736	5.2%	948,703	0.3%	8,304,439	6.2%	7.8%	7,261,012	18,481,044	5,973,046	10,776,474	25,883,228	\$0.66
21Q2 Total	333,094,639	19,534,724	5.9%	806,908	0.2%	0,341,632	6.1%	7.8%	5,843,973	11,220,032	2,450,697	4,809,327	23,794,007	\$0.65
20Q1 Total	329,686,220	21,905,853	6.6%	962,751	0.3%	2,868,604	6.9%	7.7%	5,376,059	5,376,059	2,358,630	2,358,630	19,306,420	\$0.64
20Q4 Total	326,705,035	24,320,884	7.4%	1,703,673	0.5%	26,024,557	8.0%	7.2%	7,085,545	13,908,003	6,537,748	16,093,159	7,009,753	\$0.63
20Q3 Total	320,842,177	25,435,452	7.9%	1,599,539	0.5%	27,034,991	8.4%	7.1%	2,579,685	6,632,601	3,232,596	9,896,928	9,274,288	\$0.61



1. Airport Market
2. Northeast Market
3. Northwest Market
4. Southeast Market
5. Southwest Market

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351 offices in 67 countries on 6 continents

United States: 115

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\$3.3B
in revenue



2B
square feet under management



18,000 +
professionals and staff

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