

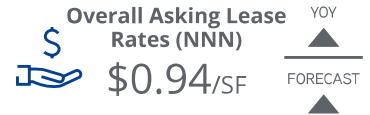


Phoenix, AZ

Industrial
22Q4

Key Takeaways

- Rental rates have increased over 33.41 percent Y-o-Y ending at \$0.94 NNN
- The amount of product under construction increased 6.8 percent Q-o-Q to 43.7 million square feet
- 5.6 million square feet of positive net absorption, bringing 2022 total to 27.2 million square feet



Q4 2022

The rise in interest rates showed its impact in the investment sales market, posting the lowest volume of the past two years. However, on the leasing side of the industrial market, it has not felt a hint of a slowdown. 2022 outpaced 2021 in net absorption by 12 percent, ending the year at 27 million square feet. New completion of product in the fourth quarter was the largest delivery recorded in the Phoenix market, delivering 8.1 million square feet, bringing the yearly total to 26.2 million. Rental rates continued increasing at an elevated rate, increasing 33.4 percent year-over-year, ending at \$0.94 per square foot.

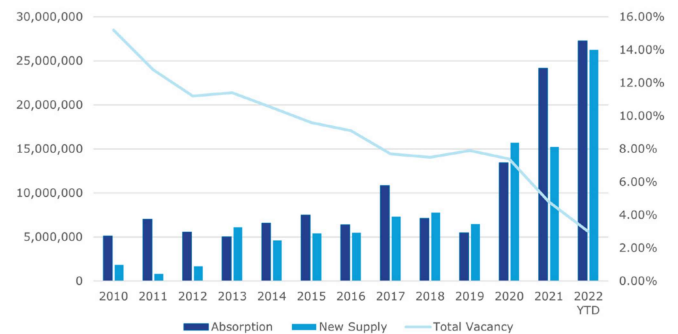
Market Indicators



Historic Comparison

	21 Q4	22 Q3	22 Q4
Total Inventory (in Thousands of SF)	339,567	363,959	373,043
New Supply (in Thousands of SF)	3,736	5,801	8,173
Net Absorption (in Thousands of SF)	5,688	4,949	5,643
Direct Vacancy	4.8%	2.4%	3.0%
Under Construction (in Thousands of SF)	30,222	40,903	43,704
Overall Asking Lease Rates (NNN)	\$0.69	\$0.85	\$0.94

Historical Absorption, Deliveries and Vacancy Rates



Lease Transactions



Lease
Sarival Logistics Center
Bldg A
Glendale
1,156,860 SF



Lease
GO 99 Bldg 3/SEC
99th & Buckeye Rd
Tolleson
763,410 SF



Lease
Falcon Park 303 Phase I/
15132 W Camelback Rd
Glendale
599,486 SF

Sale Transactions

Property Name/Property Address	Submarket	Sale Date	Sale Price	Size SF	Sale Price SF	Class
Central Logistics Center (4 Bldgs)	SC N of Salt River	10/6	\$93,500,000	408,668	\$229	A
Chandler Technology Center/7300 W Detroit St	Chandler	10/19	\$51,500,000	196,791	\$262	A
FedEx Truck Terminal/5620 W Lower Buckeye Rd	SW S of Buckeye Rd	12/20	\$37,500,000	64,709	\$580	A



Executive Summary

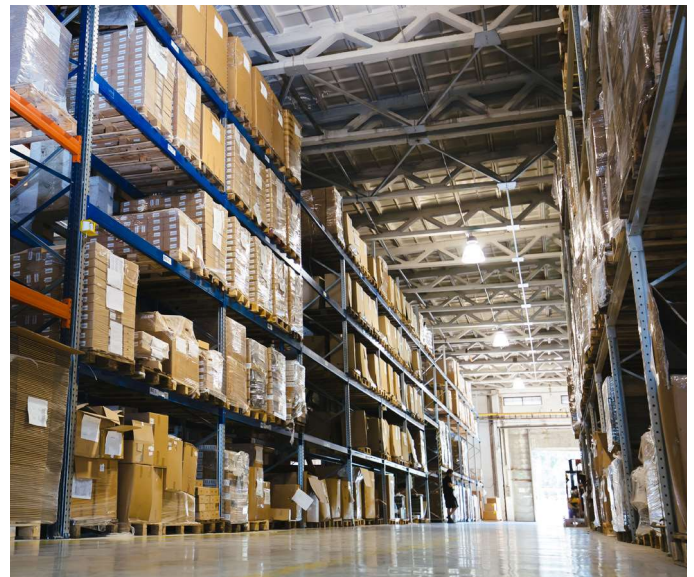
Q4 2022

As the federal reserve continues to raise interest rates at historical levels, December brought the first slow down in rate increases, rising only 50 bps instead of the 75 bps that had occurred the past four consecutive sessions. The industrial labor market is experiencing improvement due to growth of the Phoenix economy. As of November 2022, Phoenix metro had expanded its labor force by 90,200 employees compared to November 2021, which represents a 4.0 percent increase. Transportation, Warehousing and Utilities supersector jobs have increased by 1.9 percent, Manufacturing jobs have increased by 8.0 percent, and the Construction supersector jobs increased 6.7 percent over the same period. The growth of the labor force in the industrial market has not slowed down and is expected to expand further with the amount of tenant demand the market is attracting.

Despite the looming fear of a recession, the Phoenix Industrial market has positioned itself to continue positive momentum. The fourth quarter outperformed the previous quarter in every facet besides investment sales. Net absorption in the fourth quarter ended at 5.6 million square feet, bringing the year-to-date total to 27.2 million square feet. Net absorption in 2022 outpaced the historical year of 2021 by over 3 million square feet. Vacancy ended at a year-end historic low of 3.0 percent for the entire industrial market, a decrease of 180 bps year-over-year. There were 8.1 million square feet of new inventory delivered during fourth quarter, making 2022 the year of most product delivered totaling 27.6 million square feet. An additional 43.7 million square feet of industrial product is under construction, marking an increase of 44.6 percent compared to fourth quarter 2021. Investment sales posted the lowest quarter of the year with only \$558 million in sales volume, bringing 2022 sales volume to \$4.1 billion. Median price per square foot ended at \$185 for the entire year. Rental rates jumped 10.2 percent quarter-over-quarter and 33.4 percent year-over-year, ending at \$0.94 per square foot (NNN).

Outlook

In early December TSMC announced it was substantially increasing its investment in the market from \$12 billion to \$40 billion, a 230 percent increase. This represents the largest foreign direct investment in U.S. history. The announcement will ripple throughout the entire market, as more than 40 new suppliers have already shown interest in relocating as a result of the company's plans. This is outside of the beneficial activity the market already experienced from the initial announcement. With a new governor moving into office in 2023, it is extremely crucial that Arizona and Phoenix maintain the pro-business environment established under the previous administration that has attracted so many new businesses.



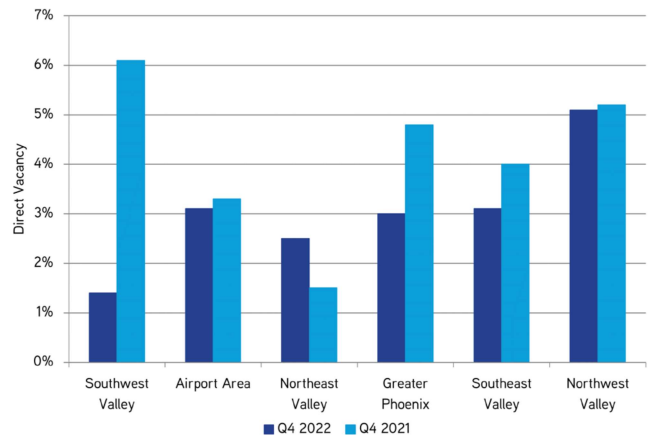
Vacancy

Year-end 2022 posted the lowest vacancy level ever recorded year-end in the Industrial market. Even though vacancy ticked up 60 bps quarter-over-quarter, vacancies declined 180 bps compared to year-end 2021 ending at 3.0 percent. Despite national headlines of a slowdown in demand for industrial space, the Phoenix market is witnessing the opposite. According to Greater Phoenix Economic Council, there are currently 32 prospective tenants in the market looking for space over 200,000 square feet, an increase over 60 percent compared to third quarter.

Larger blocks of space are in such high demand that currently 11 existing buildings throughout metro Phoenix contain options for tenants seeking 200,000 square feet, and seven of the buildings were completed in 2022.

For the fourth consecutive quarter, the Southwest submarket clusters had the largest decrease in vacancy year-over-year dropping 470 bps. For the second consecutive quarter, the Southwest submarket cluster posted the lowest vacancy in the market ending at 1.4 percent.

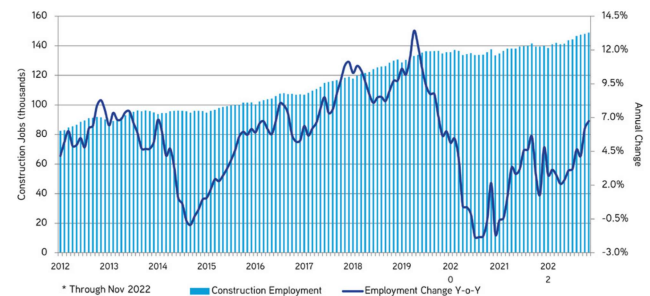
The Northwest submarket cluster had the largest increase in vacancy quarter-over-quarter, increasing 190 bps, to 5.1 percent. This was due to 4.8 million square feet that delivered in the fourth quarter and entered the market with a high vacancy of 58 percent. However, these buildings have seen substantial prospective tenant activity.



Absorption and Leasing

The fourth quarter marked the 11th consecutive quarter surpassing one million square feet of net absorption. It marked the seventh quarter in the past two years when net absorption peaked over 5 million square feet. The fourth quarter ended with 5.6 million square feet of positive net absorption, bringing the year-to-date total to 27.2 million square feet. This represents a 12.7 percent increase from 2021. Large blocks of space are in such high demand that in 2022 there were 28 new direct leases signed over 200,000 square feet, and eight of those were signed in the fourth quarter. Those fourth quarter leases constitute 28.5 percent of 2022 leases signed and a 60 percent increase from the third quarter. As a result of the strong tenant demand, leasing on new construction has been extremely competitive. Only 17.1 percent of the 26.2 million square feet that delivered in 2022 are currently available.

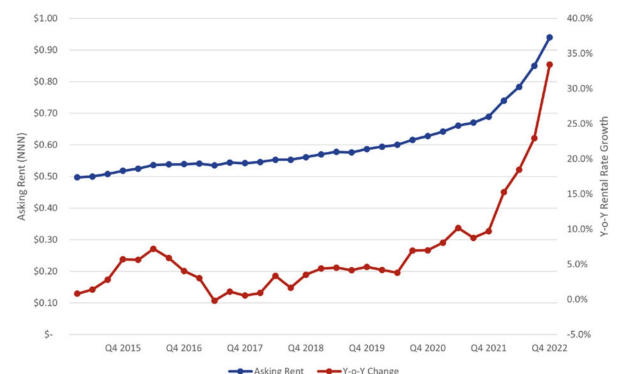
The largest lease of the quarter involved the third-party logistics company Logistics Plus. The company signed a lease for 1.1 million square feet at the recently completed Sarival Logistics Center. This was the company's second 2022 lease signed in Greater Phoenix. The second largest lease of the quarter was with China-based solar manufacturer JA Solar. The company has taken 763,410 square feet at GO 99, located at the southeast corner of 99th Avenue and Buckeye Road. This deal was a big win for Phoenix, as the company plans to hire more than 600 new employees at this facility by the end of Q4 2023.



Rental Rates

The competitive market drove rental rates up to record levels, rising 33.4 percent year-over-year and 10.2 percent quarter-over-quarter, reaching \$0.94 per square foot. This rate increase marks the largest of the year, outpacing the second and third quarter which jumped up 20.2 and 22.9 percent year-over-year, respectively. Since 2019, rental rates have increased at an annual average of 10.3 percent. Rates have risen rapidly in the past two years, increasing over 45.3 percent compared to fourth quarter of 2020.

The industrial sector is so active throughout the entire market that every submarket cluster in metro Phoenix experienced rental rate increases both quarter-over-quarter and year-over-year. The Southeast submarket cluster led the market with the quarter-over-quarter rental increase of 11.7 percent to \$1.09 per square foot. The Northeast submarket cluster, which has the second lowest vacancy rate in the market, witnessed the largest year-over-year rental rate increases, jumping up an astonishing 41.7 percent.

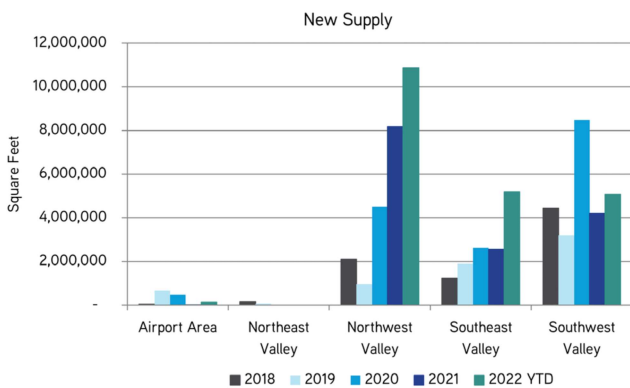


Construction

Since the start of the pandemic during each quarter the industrial market construction has outpaced previous quarter. Fourth quarter 2022 remained on that course and currently there are 43.7 million square feet underway. This is a 44.6 percent increase compared to year end 2021, and an increase of 6.8 percent from the third quarter. Within the 43 million square feet of product under construction, more than 22 percent of the space is pre-leased. On a national level, Phoenix maintained the number four market position for most industrial space under construction, behind Dallas/Fort Worth, Atlanta, and Greater Los Angeles, respectively.

During the final three months of 2022 developers delivered the most amount of new inventory ever in a single quarter, completing 8.1 million square feet. This brought the total amount delivered in 2022 to 26.2 million square feet, which represent a 7.03 percent increase in total inventory. Since year-end 2020, the market has delivered over 52 million square feet, increasing the total inventory by 15.4 percent.

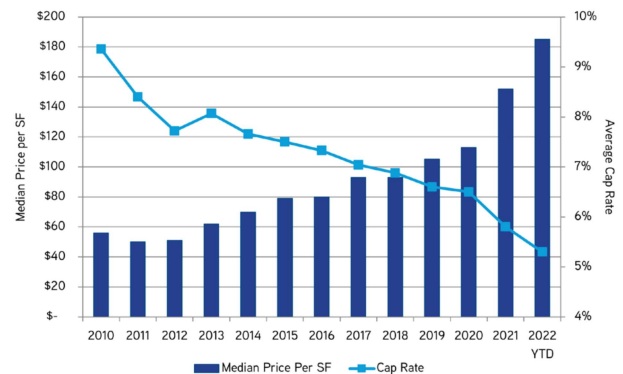
The growth and development of the West Valley continues to reshape the Loop 303 corridor and infill the industrial corridor along I-10. Approximately 70.1 percent of the buildings under construction are being developed within the Northwest and Southwest submarket clusters.



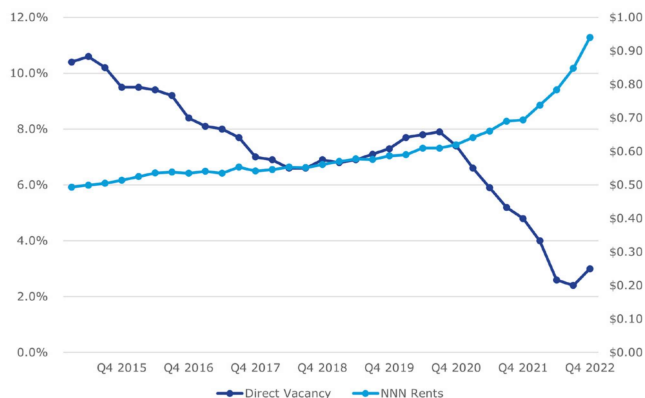
Investment Trends

Increased interest rates were the cause of a drastic slowdown in investment sales volume during the fourth quarter, posting the lowest volume going back to third quarter of 2020, ending at \$588 million. However, the incredibly strong leasing demand and rising rental rates created a 7.1 percent rise in the median price per square foot compared to fourth quarter 2021. Total sales volume for 2022 decreased 35.4 percent compared to volume in 2021, but the median price per square foot increased 21.8 percent ending at \$185. The fourth quarter was the first quarter of 2022 when the market did not have a building or portfolio trade over \$100 million. The Airport Area submarket cluster led the market with most amount of volume trading during fourth quarter, reaching \$180 million, with an average price per square foot of \$208. The Southeast submarket cluster followed with volume of \$169 million and an average price per square foot of \$186.

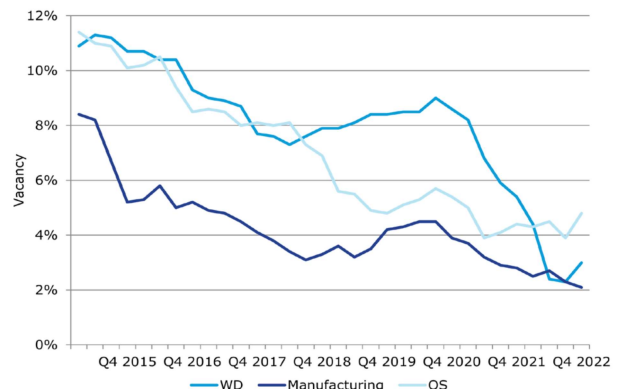
The largest transaction of the quarter was a four-building portfolio sale in central Phoenix called Central Logistic Center totaling 408,668 square feet. The four buildings were a mix of two newly constructed buildings, a recently renovated cold storage building, and a 165,518-square-foot vacant building that the buyer, Westcore, plans to renovate. The portfolio traded for \$93.5 million from Via West Group to Westcore Properties.



Vacancy vs. Rental Rate



Vacancy by Type





LEGEND	
WD =	Warehouse-Distribution
MF =	Manufacturing
OS =	Office Services = Flex/R&D

Existing Properties Building Type	Direct Vacancy		Sublease Availability		Total Vacancy		Net Absorption - SF		New Supply - SF		Under Constr.	Avg Rent		
	Total Inventory SF	SF	Rate	SF	Rate	Total Available Q4-22	Vacant Rate Q4-21	Current Period	YTD	Current Period	YTD	SF	Rate (NNN)	
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	36,324,423	1,042,108	2.9%	115,570	0.3%	1,157,678	3.2%	3.7%	44,791	916,640	-	207,701	446,589	\$1.23
MF	8,454,513	148,688	1.8%	-	0.0%	148,688	1.8%	1.0%	(27,058)	(38,364)	-	-	-	\$1.17
OS	3,828,007	327,184	8.5%	-	0.0%	327,184	8.5%	7.6%	82,871	169,910	-	-	-	\$1.26
TOTAL	48,606,943	1,517,980	3.1%	115,570	0.2%	1,633,550	3.4%	3.5%	100,604	1,048,186	-	207,701	446,589	\$1.23
Northeast Market Cluster: Central Phoenix, Scottsdale Airpark, Scottsdale/Salt River														
WD	7,905,519	249,345	3.2%	62,709	0.8%	312,054	3.9%	5.1%	54,509	268,888	-	-	183,479	\$1.39
MF	3,474,245	72,105	2.1%	8,000	0.2%	80,105	2.3%	0.7%	139	(47,268)	-	-	-	\$1.35
OS	3,564,991	57,951	1.6%	57,082	1.6%	115,033	3.2%	1.1%	31,972	(3,226)	-	-	-	\$1.34
TOTAL	14,944,755	379,401	2.5%	127,791	0.9%	507,192	3.4%	3.1%	86,620	218,394	-	-	183,479	\$1.40
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	61,126,733	3,744,304	6.1%	90,690	0.1%	3,834,994	6.3%	4.0%	2,026,339	6,259,471	4,853,271	10,019,252	15,883,047	\$0.75
MF	16,085,772	243,932	1.5%	5,429	0.0%	249,361	1.6%	1.8%	122,131	682,589	-	648,165	1,250,000	\$1.01
OS	3,820,232	181,402	4.7%	23,016	0.6%	204,418	5.4%	2.0%	52,394	(58,192)	-	-	-	\$1.07
TOTAL	81,032,737	4,169,638	5.1%	119,135	0.1%	4,288,773	5.3%	3.4%	2,200,864	6,883,868	4,853,271	10,667,417	17,133,047	\$0.81
Southeast Market Cluster: Chandler Airport, Chandler, Chandler N/Gilbert, Falcon Field/Apache Junction, Mesa, Tempe East, Tempe Northwest, Tempe Southwest														
WD	67,033,200	1,886,448	2.8%	320,793	0.5%	2,207,241	3.3%	3.6%	1,801,336	6,538,046	1,974,926	7,532,309	12,354,206	\$1.06
MF	27,594,176	876,775	3.2%	-	0.0%	876,775	3.2%	4.7%	63,486	310,044	-	-	59,346	\$1.07
OS	8,935,118	425,140	4.8%	92,827	1.0%	517,967	5.8%	4.8%	(44,820)	49,720	-	-	-	\$1.30
TOTAL	103,562,494	3,188,363	3.1%	413,620	0.4%	3,601,983	3.5%	4.0%	1,820,002	6,897,810	1,974,926	7,532,309	12,413,552	\$1.09
Southwest Market Cluster: Goodyear, SW N of Buckeye Road, SW S Buckeye Road, Tolleson, Southwest Outlying														
WD	109,657,693	1,614,722	1.5%	653,701	0.6%	2,268,423	2.1%	8.0%	1,278,826	11,933,903	1,345,777	7,833,386	13,528,153	\$0.66
MF	12,058,249	56,034	0.5%	0	0.0%	56,034	0.5%	2.2%	153,727	204,663	-	-	-	\$0.67
OS	3,181,085	125,030	3.9%	0	0.0%	125,030	3.9%	6.2%	2,500	73,495	-	-	-	\$0.80
TOTAL	124,897,027	1,795,786	1.4%	653,701	0.5%	2,449,487	2.0%	7.4%	1,435,053	12,212,061	1,345,777	7,833,386	13,528,153	\$0.66

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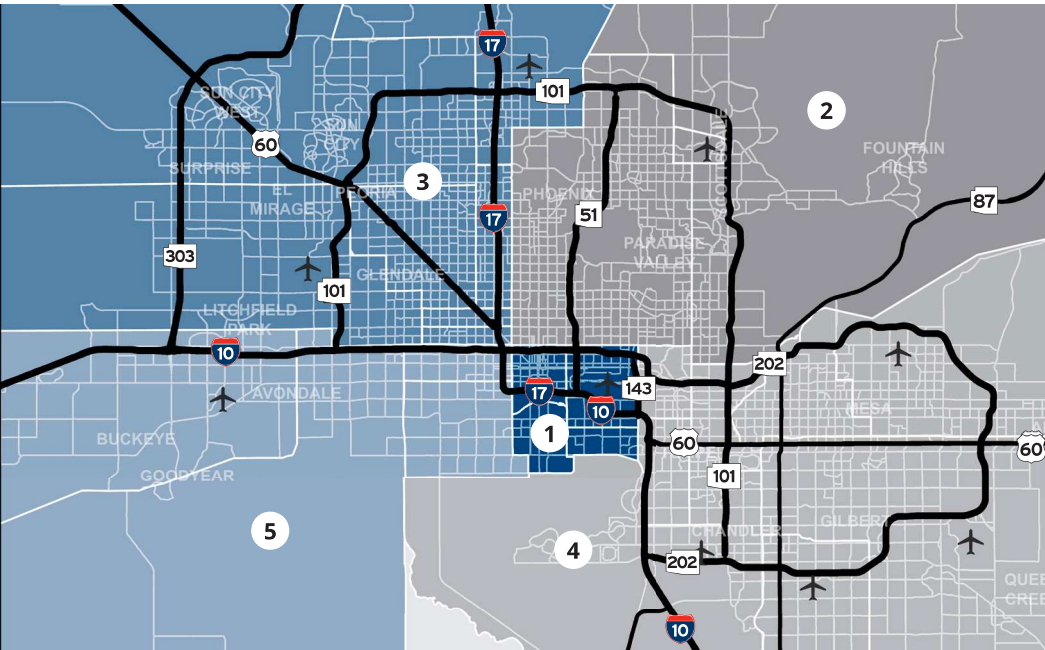
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LEGEND	
WD =	Warehouse-Distribution
MF =	Manufacturing
OS =	Office Services = Flex/R&D

Existing Properties Building Type	Direct Vacancy			Sublease Availability		Total Vacancy			Net Absorption - SF		New Supply - SF		Under Constr.	Avg Rent
	Total Inventory SF	SF	Rate	SF	Rate	Total Available SF	Q4-22	Vacant Rate Q4-21	Current Period	YTD	Current Period	YTD	SF	Rate (NNN)
Grand Total														
WD	282,047,568	8,536,927	3.0%	1,243,463	0.4%	9,780,390	3.5%	6.9%	5,205,801	25,916,948	8,173,974	25,592,648	42,395,474	\$0.90
MF	67,666,955	1,397,534	2.1%	13,429	0.0%	1,410,963	2.1%	3.4%	312,425	1,111,664	-	648,165	1,309,346	\$1.05
OS	23,329,433	1,116,707	4.8%	172,925	0.7%	1,289,632	5.5%	4.0%	124,917	231,707	-	-	-	\$1.26
TOTAL	373,043,956	11,051,168	3.0%	1,429,817	0.4%	12,480,985	3.3%	4.8%	5,643,143	27,260,319	8,173,974	26,240,813	43,704,820	\$0.94

Quarterly Comparisons and Totals														
22Q4 Total	373,043,956	11,051,168	3.0%	1,429,817	0.4%	12,480,985	3.3%	4.8%	5,643,143	27,260,319	8,173,974	26,240,813	43,704,820	\$0.94
22Q3 Total	363,959,795	8,894,921	2.4%	1,058,405	0.3%	9,953,326	2.7%	5.2%	4,949,956	21,617,176	5,801,541	18,066,839	40,903,260	\$0.85
22Q2 Total	357,122,222	9,273,928	2.6%	1,081,669	0.3%	10,355,597	2.9%	5.9%	8,999,537	16,884,618	6,701,074	12,591,957	35,216,520	\$0.78
22Q1 Total	350,630,873	14,112,826	4.0%	652,118	0.2%	14,764,944	4.2%	6.6%	7,885,081	7,885,081	5,890,883	5,890,883	33,965,845	\$0.74
21Q4 Total	344,977,821	16,655,736	4.8%	749,251	0.2%	17,404,987	5.0%	7.4%	5,688,147	24,169,551	3,736,260	15,227,561	30,222,844	\$0.69



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

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351 offices in 63 countries on 6 continents

United States: 115

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\$4.6B

in revenue



2B

SF under management



18,000 +

professionals and staff

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