

Phoenix

Vacancy continues to plummet as user demand outpaces new supply

- Occupier demand outpaced new supply by 4.6 million s.f., plunging total vacancy down to an unprecedented 3.2%.
- Highly skilled labor dynamics drove an influx of manufacturing commitments to the Southeast Valley, pushing vacancy in the region down to 2.2%.
- The West Valley's convenient infrastructure continues to entice large W&D users and logistics companies to the region. Two thirds of total absorption transpired in the West Valley this year.
- An uptick in tenant demand is expected as the federal government announced the CHIPS and Science Act, a plan to invest \$280 billion to bolster one of Arizona's key sectors: the semiconductor industry.

Despite a record year of new supply being introduced to the Phoenix industrial market, user demand outpaced new deliveries by 4.6 million s.f. and shrunk vacancy rates to an all-time low. As a result, average asking rents surged by 25% year-over-year. Phoenix attained nearly 30 million s.f. of occupancy growth in 2022 as users from across the world continue to gravitate towards the valley's business friendly environment, skilled labor force, and reliable infrastructure. The robust development pipeline features a wide array of buildings with a variety of specs and sizes to accommodate user requirements across the valley, positioning Phoenix for another year of significant occupancy gains.

An abundance of highly-skilled engineering talent continues to be a strong catalyst for various initiatives within the EV, advanced manufacturing, and high-tech sectors. Arizona's top universities collectively churn out an estimated 15,000 STEM graduates each year. Moreover, Maricopa Community Colleges offer incentives to students enrolled in manufacturing-related courses, fueling the industry with qualified labor.

The metro's well-planned highway system paired with its central location in the southwest region allows companies to access more than 33 million people and reach the major ports in Los Angeles and Long Beach within a one-day truck haul. This has positioned Phoenix as a hub for distribution and has generated significant logistics and e-commerce growth, which made up a combined 32% of total leasing activity this year. Logistics Plus, Unis, Outerspace, and Morrison Express are a few prime examples of large occupiers that expanded their footprints into the Phoenix market in 2022.

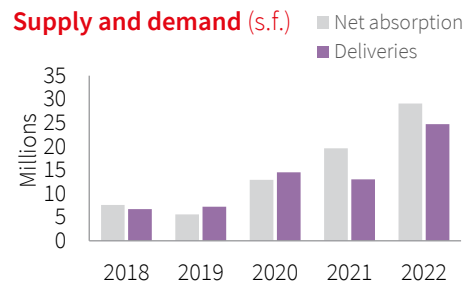
Outlook

Phoenix's elevated population growth, well-planned energy and infrastructure, and business friendly legislation will continue to attract new users to the valley to absorb much of 2023's deliveries. With debt and equity markets reluctant to finance new developments, a foreseeable pinch in supply and corresponding spike in rents are in the horizon.

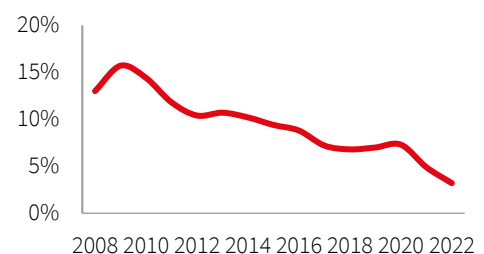
Fundamentals

	Forecast
YTD net absorption	29,369,144 s.f. ▲
Under construction	39,166,518 s.f. ▼
Total vacancy	3.2% ▼
Sublease vacancy	385,678 s.f. ▼
Direct asking rent	\$0.75 p.s.f. ▲
Sublease asking rent	\$0.76 p.s.f. ▲
Concessions	Stable ►

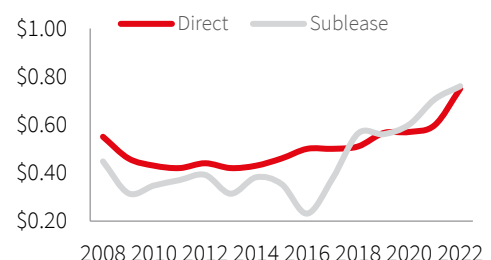
Supply and demand (s.f.)



Total vacancy (%)



Average asking rent (\$ p.s.f.)



JLL Research Report

Industrial Statistics

	Inventory (s.f.)	Quarterly total net absorption (s.f.)	YTD total net absorption (s.f.)	YTD total net absorption (% of stock)	Total vacancy (%)	Total availability (%)	Average total asking rent (\$ p.s.f.)	Quarterly Completions (s.f.)	YTD Completions (s.f.)	Under construction (s.f.)
Phoenix total										
Warehouse & Distribution	261,167,523	6,180,477	28,573,401	10.9%	3.7%	13.7%	\$0.74	8,885,657	24,618,011	35,399,104
Manufacturing	60,601,771	237,186	1,052,609	1.7%	1.1%	4.9%	\$0.86	0	648,165	3,767,414
Special Purpose	7,018,938	25,241	-143,025	-2.0%	2.9%	3.5%	\$1.07	0	0	0
Overall Total	328,788,232	6,442,904	29,482,985	9.0%	3.2%	12.0%	\$0.75	8,885,657	25,266,176	39,166,518
Deer Valley Ind										
Warehouse & Distribution	10,164,733	192,255	261,415	2.6%	3.2%	17.3%	\$1.01	165,993	395,490	1,661,241
Manufacturing	3,199,155	66,863	46,511	1.5%	2.8%	1.3%	\$1.05	0	0	750,000
Special Purpose	247,296	0	-58,128	-23.5%	23.5%	40.1%	\$1.12	0	0	0
Overall Total	13,611,184	259,118	249,798	1.8%	3.5%	13.7%	\$1.02	165,993	395,490	2,411,241
51 Corridor										
Warehouse & Distribution	1,690,968	-14,651	77,224	4.6%	4.8%	3.9%	\$0.94	0	89,087	0
Manufacturing	720,491	-519	-2,900	-0.4%	2.1%	2.1%	\$0.95	0	0	0
Special Purpose	230,316	0	-16,000	-6.9%	7.0%	7.0%	\$1.03	0	0	0
Overall Total	2,641,775	-15,170	58,324	2.2%	4.3%	3.7%	\$0.96	0	89,087	0
Scottsdale										
Warehouse & Distribution	4,592,413	-17,858	55,788	1.2%	3.0%	3.1%	\$1.18	0	0	0
Manufacturing	2,164,218	20,363	69,153	3.2%	1.0%	1.0%	\$1.14	0	0	0
Special Purpose	529,526	0	5,510	1.0%	0.3%	0.4%	\$0.00	0	0	0
Overall Total	7,286,157	2,505	130,451	1.8%	2.2%	2.3%	\$1.17	0	0	0
Southeast Valley total										
Warehouse & Distribution	94,090,598	1,816,661	8,591,521	9.1%	2.6%	10.7%	\$0.84	2,325,212	7,307,568	9,818,009
Manufacturing	30,407,112	89,526	315,643	1.0%	1.0%	8.6%	\$0.84	0	0	2,392,414
Special Purpose	2,961,891	-25,425	-24,625	-0.8%	2.5%	1.9%	\$0.99	0	0	0
Overall Total	127,459,601	1,880,762	8,882,539	7.0%	2.2%	10.0%	\$0.85	2,325,212	7,307,568	12,210,423
Chandler Ind										
Warehouse & Distribution	9,757,150	-27,216	1,716,444	17.6%	2.0%	15.6%	\$0.94	0	1,216,160	1,409,281
Manufacturing	7,964,077	0	84,005	1.1%	0.2%	0.2%	\$0.00	0	0	0
Special Purpose	313,071	0	-4,885	-1.6%	1.6%	0.0%	\$0.00	0	0	0
Overall Total	18,034,298	-27,216	1,795,564	10.0%	1.2%	9.1%	\$0.94	0	1,216,160	1,409,281
Gilbert Ind										
Warehouse & Distribution	21,140,467	1,971,035	6,110,701	28.9%	3.8%	21.0%	\$0.78	2,283,212	5,883,707	6,459,617
Manufacturing	4,688,057	8,222	117,852	2.5%	1.0%	34.5%	\$0.81	0	0	2,392,414
Special Purpose	506,954	0	5,504	1.1%	2.6%	2.6%	\$0.90	0	0	0
Overall Total	26,335,478	1,979,257	6,234,057	23.7%	3.3%	23.4%	\$0.79	2,283,212	5,883,707	8,852,031
Mesa Ind										
Warehouse & Distribution	7,600,565	-32,277	144,613	1.9%	2.0%	17.9%	\$0.91	0	0	1,329,486
Manufacturing	2,789,586	-2	110,377	4.0%	0.6%	0.6%	\$1.05	0	0	0
Special Purpose	572,691	-3,465	830	0.1%	2.0%	0.6%	\$1.25	0	0	0
Overall Total	10,962,842	-35,744	255,820	2.3%	1.6%	13.2%	\$0.92	0	0	1,329,486
Tempe Ind										
Warehouse & Distribution	21,970,103	-75,273	244,825	1.1%	2.3%	4.2%	\$0.98	0	0	197,000
Manufacturing	6,495,651	9,239	92,107	1.4%	2.4%	3.5%	\$1.09	0	0	0
Special Purpose	356,958	1,440	3,726	1.0%	0.0%	0.0%	\$0.00	0	0	0
Overall Total	28,822,712	-64,594	340,658	1.2%	2.3%	4.0%	\$1.00	0	0	197,000
Airport										
Warehouse & Distribution	33,622,313	-19,608	374,938	1.1%	2.3%	3.1%	\$0.83	42,000	207,701	422,625
Manufacturing	8,469,741	72,067	-88,698	-1.0%	0.7%	1.3%	\$1.11	0	0	0
Special Purpose	1,212,217	-23,400	-29,800	-2.5%	3.6%	3.2%	\$0.99	0	0	0
Overall Total	43,304,271	29,059	256,440	0.6%	2.0%	2.8%	\$0.86	42,000	207,701	422,625
West Valley total										
Warehouse & Distribution	150,628,811	4,204,070	19,587,453	13.0%	4.4%	15.6%	\$0.67	6,394,452	16,825,866	23,919,854
Manufacturing	24,110,795	60,953	624,202	2.6%	0.9%	1.1%	\$0.95	0	648,165	625,000
Special Purpose	3,049,909	50,666	-49,782	-1.6%	1.9%	2.4%	\$1.05	0	0	0
Overall Total	177,789,515	4,315,689	20,161,873	11.3%	3.9%	13.6%	\$0.67	6,394,452	17,474,031	24,544,854
Grand Avenue										
Warehouse & Distribution	19,445,846	16,117	47,388	0.2%	2.7%	2.8%	\$1.03	88,678	125,194	0
Manufacturing	6,294,627	28,823	583,875	9.3%	2.0%	2.0%	\$1.05	0	648,165	0
Special Purpose	1,070,751	50,666	896	0.1%	0.0%	1.4%	\$1.05	0	0	0
Overall Total	26,811,224	95,606	632,159	2.4%	2.4%	2.5%	\$1.03	88,678	773,359	0

Northwest

Warehouse & Distribution	26,774,118	2,999,709	8,022,893	30.0%	13.6%	32.4%	\$0.67	4,298,022	10,267,031	10,425,632
Manufacturing	5,795,562	0	55,318	1.0%	0.2%	0.1%	\$1.35	0	0	625,000
Special Purpose	129,021	0	0	0.0%	0.0%	0.0%	\$0.00	0	0	0
Overall Total	32,698,701	2,999,709	8,078,211	24.7%	11.2%	27.6%	\$0.67	4,298,022	10,267,031	11,050,632

Southwest

Warehouse & Distribution	104,408,847	1,188,244	11,517,172	11.0%	2.4%	12.4%	\$0.66	2,007,752	6,433,641	13,494,222
Manufacturing	12,020,606	32,130	-14,991	-0.1%	0.8%	1.2%	\$0.85	0	0	0
Special Purpose	1,850,137	0	-50,678	-2.7%	3.1%	3.1%	\$1.05	0	0	0
Overall Total	118,279,590	1,220,374	11,451,503	9.7%	2.2%	11.2%	\$0.66	2,007,752	6,433,641	13,494,222