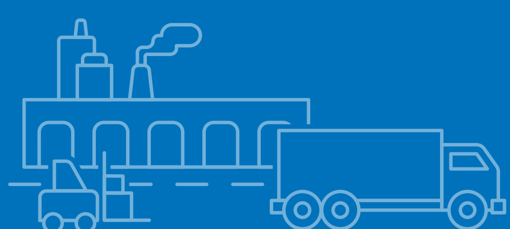
PHOENIX INDUSTRIAL MARKET OVERVIEW

Q4 2022

ECONOMIC SNAPSHOT FOR PHOENIX

AVERAGE WAGE GROWTH	+3.7%
UNEMPLOYMENT RATE	3.3%
INFLATION RATE	12.1%



INDUSTRIAL SNAPSHOT

CURRENT AVAILABLE SPACE	49.4M SF
SQUARE FOOT UNDER CONSTRUCTION	45M SF
SQUARE FOOT PROPOSED	119M SF
MARKET CAP RATE	5.4%
MARKET ASKING RENT	$11.70/SF
MARKET VACANCY RATE	4.8%

ACTIVITY DROPPED DECISIVELY

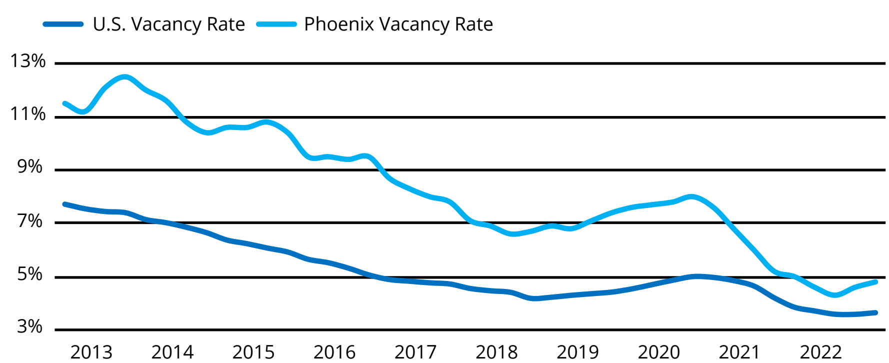
After 8 quarters of record-breaking industrial investment, activity dropped 50% from Q3 and 70% on a Y-O-Y basis. Important to note however, deal activity remained comparable to numbers in the years preceding the pandemic. This slowing is more cyclical, an example of a hot investment market coming back into equilibrium, a trend that is likely to continue in coming quarters. We do not expect to see a significant slowing of lease activity through most of 2023, as demand remains strong. While the amount of industrial product under construction dropped slightly in Q4, it continued to be well above normal. Many continue to wonder how much is too much, as Phoenix has added nearly 20% to its industrial inventory in recent quarters. Absorption will remain strong through most of 2023 but we are likely to see a tapering of demand late in the year which will translate to increasing vacancy through 2024 and beyond.

INDUSTRIAL MARKET TRENDLINE

	Q4 2022	Q4 2021	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	3.3	3.3	↔	4.8	↔
NET ABSORPTION (Thousands SF)	7.1	5.0	↑	3.8	↔
OVERALL VACANCY RATE	4.8%	5.0%	↓	6.5%	↑
OVERALL VACANT SF (MSF)	18.9	18.2	↑	22.1	↑
UNDER CONSTRUCTION (MSF)	45.4	37.2	↑	20.8	↔
ASKING RENT, NNN (PSF)	$11.24	$8.82	↑	$8.17	↑
SALES VOLUME (Millions)	$593	$1,971	↓	$836	↔

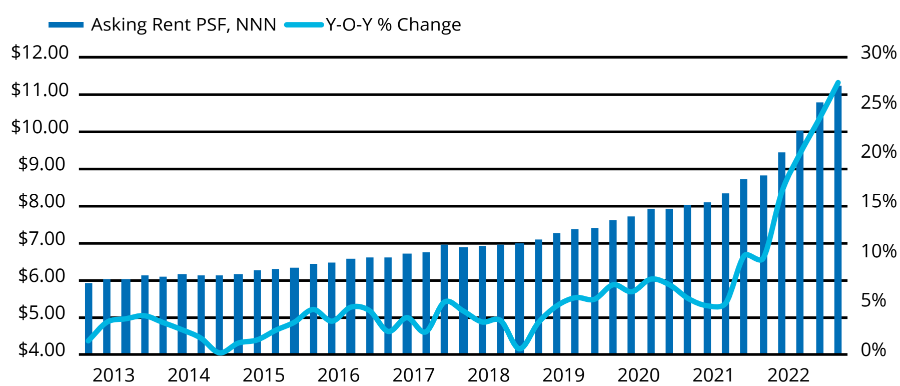
Source: Bureau of Labor Statistics, CoStar, Real Capital Analytics, Transwestern

OVERALL VACANCY RATE



Source: CoStar, Transwestern

ASKING RENT



Source: CoStar, Transwestern

RENTS CONTINUE TO RISE ACROSS THE VALLEY

Rental rates continued their upward march in Q4, significant increases were noted in every submarket except the very tight Camelback Corridor. A lack of Q4 transactions in Camelback Corridor was the sole reason it did not also record rate growth. Y-O-Y, rate increases ranged from 22% to 77%, driven primarily by a lack of inventory in some submarkets, increasing demand in others and the continued cost of construction across the board. The West Valley continues to offer the best bang for your buck, providing the largest inventory of newly constructed product, with the most affordable price tag.

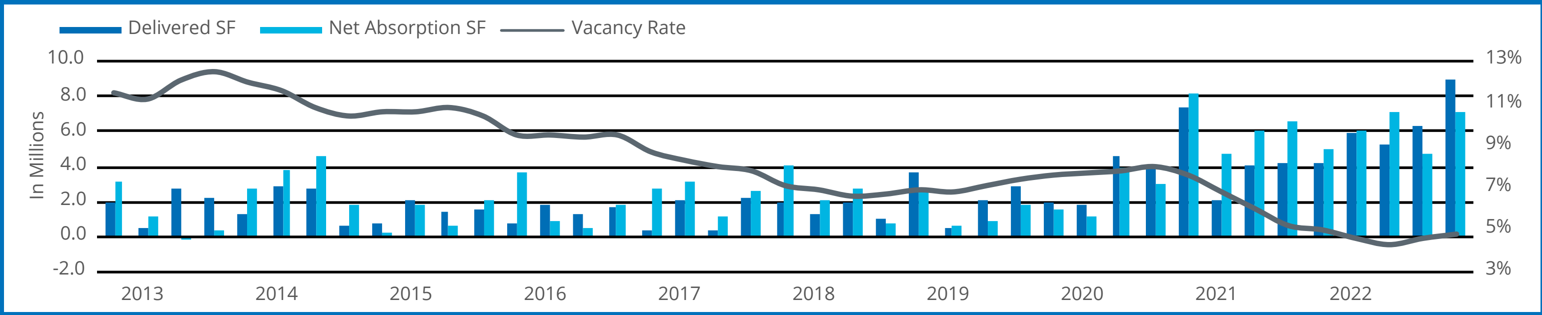
MARKET INDICATORS

Logistics | Q4 2022

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	Y-O-Y NET ABSORPTION SF	ASKING RENT PSF, NNN
AIRPORT AREA/SE PHOENIX	51,431,305	862,964	1.7%	1.9%	1,235,262	479,744	1,173,479	$11.31
DOWNTOWN/MIDTOWN (CBD)	6,476,959	283,402	4.4%	4.4%	361,334	2,204	92,728	$14.92
CAMELBACK CORRIDOR	1,674,311	17,392	1.0%	1.0%	0	0	167,399	$12.00
TEMPE	15,910,703	317,874	20.0%	2.0%	0	(62,118)	174,308	$13.07
EAST VALLEY	52,361,285	2,557,428	4.9%	5.0%	11,786,943	675,080	1,407,613	$13.03
NORTH PHOENIX	15,042,361	854,916	5.7%	5.7%	2,645,014	(145,271)	(256,456)	$14.01
WEST VALLEY	168,124,679	10,649,658	6.3%	6.6%	28,144,789	5,211,896	15,965,258	$7.74
SCOTTSDALE	7,746,535	65,710	0.8%	1.0%	183,479	(1,741)	70,968	$17.55
NORTH CENTRAL PHOENIX	31,311,967	817,172	2.6%	2.9%	0	(42,067)	489,360	$9.72
TOTAL	**350,080,105**	**16,426,516**	**5.3%**	**3.4%**	**44,356,821**	**6,117,727**	**19,284,657**	**$12.59**

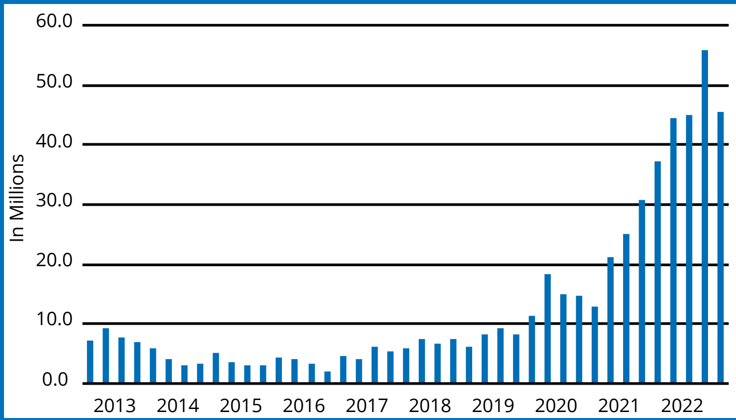
Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



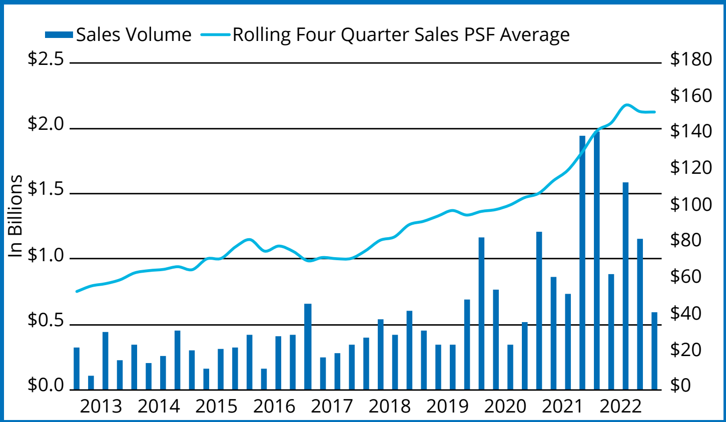
Source: CoStar, Transwestern

UNDER CONSTRUCTION



Source: CoStar, Transwestern

SALES VOLUME



Source: CoStar, Real Capital Analytics, Transwestern

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