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National Industrial Report

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Phoenix Benefits From Southern California Overflow

- It is no secret that Southern California has the hottest industrial markets in the country, in large part due to extraordinary growth in e-commerce that has led the Port of Los Angeles to set a new record for volume every month. The Inland Empire (8.2%) and Los Angeles (6.9%) had the highest rent growth over the last 12 months, and although Orange County's growth has been slower (2.8%), it has the highest rental rates in the country at \$11.11 per square foot.
- Being less than a day's drive from the busiest port in the country while offering cheaper rents than the Inland Empire has led Phoenix to become a market in high demand for major tenants. Amazon, Nikola, Red Bull and Five Below all have facilities underway. Taiwan Semiconductor Manufacturing Co. is planning a massive site in North Phoenix; the first phase is 3.8 million square feet. Gatorade recently signed a lease for 750,000 square feet of warehouse and distribution space currently under construction in Tolleson Corporate Park, expanding PepsiCo's presence in the area.
- Tolleson Corporate Park is only one of the locations in the western part of the metro experiencing massive supply growth due to its ideal location. One-half of the 14.0 million square feet under construction is located in the Phoenix-West submarket, nearest to I-10, which offers access to Southern California to the west and Phoenix Sky Harbor International Airport to the east.
- A robust new supply pipeline has, for now at least, kept a lid on Phoenix's rent growth. Average rents increased only 3.4% over the last 12 months, while vacancies sit at 6%. Despite soft rent growth, investors are bullish on Phoenix. Transactions totaling \$396 million have already been recorded for the first quarter, with assets selling at an average of \$140 per square foot, more than double their average price five years ago. 17017 West Indian School Road in Goodyear, with Daimler Trucks North America's parts distribution facility as sole tenant, traded for \$43.1 million, or \$163.50 per square foot.
- Not all of the growth in Phoenix's industrial market can be attributed to its proximity to Southern California; local demographics also play a role. The Phoenix-Mesa-Chandler Metropolitan Statistical Area added the third most residents of any metro in the country over the past decade, increasing by more than 750,000 (18.0%). This not only provides quality labor supply for the industrial employers but increases demand for more localized assets like last-mile delivery and cold storage.

