

# 2020 North America Industrial Big Box

Review & Outlook

CBRE RESEARCH



CBRE

# Phoenix



The Greater Phoenix industrial market is delivering strong results with continued record net absorption and rental rate growth. Phoenix's strategic geographic location, combined with its outstanding water, power and transportation infrastructure, make it a highly desirable market for users of all industry sectors. Additionally, with 50,000 students graduating from our colleges and universities each year and population growth of approximately 100,000 per year, the labor supply is incredibly healthy. We are confident that the Phoenix industrial market will continue to accelerate in the coming year."

– Paul Komadina, Senior Managing Director





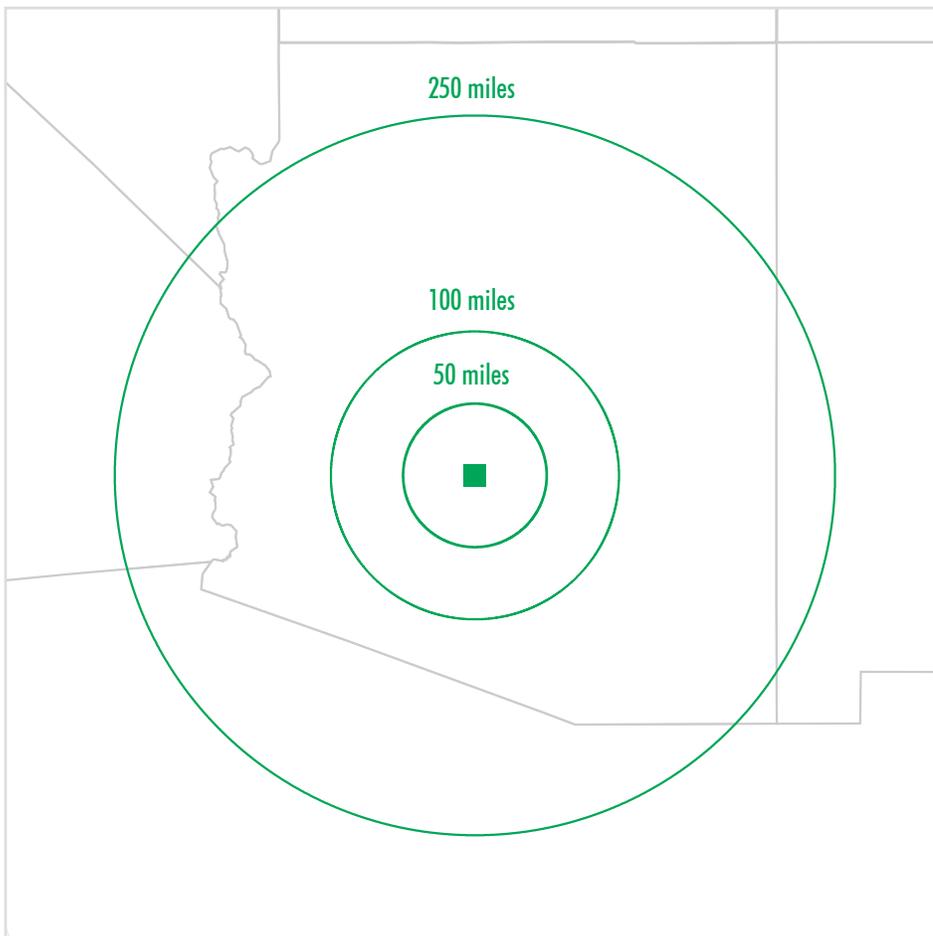
# Phoenix

## Demographics

The Phoenix MSA is one of the fastest growing in North America, which is increasing demand for big-box industrial facilities and providing a growing available labor pool. Close to 5 million people or 1.7 million households live within 50 miles of the population core, with an expected growth rate of nearly 8% over the next five years. Nearly 25% of the population in the 18-to-34 age group.

According to [CBRE Labor Analytics](#), the local warehouse labor force of 58,167 is expected to grow by 10.1% over the next decade. The average wage for a non-supervisory warehouse employee is \$14.27 per hour, 1.4% higher than the national average but 5.3% less than the Inland Empire.

**Figure 1: Phoenix Population Analysis**



Distance from Phoenix Core	2020 Total Population	5 Year Growth
50 miles	4,844,027	7.8%
100 miles	5,443,445	7.9%
250 miles	8,445,738	6.8%

Source: CBRE Location Intelligence.

**Figure 2: Phoenix Warehouse & Storage Labor Fundamentals**

Source: CBRE Labor Analytics.

\*Median Wage (1 year experience); Non-Supervisory Warehouse Workers (forklift, warehouse workers).

## Location Incentives

Over the past five years, there have been 140 economic incentives deals totaling nearly \$223 million at an average of \$6,083 per new job in the Phoenix metropolitan area, according to Wavteq.

According to [CBRE's Location Incentives Group](#), among the top incentive programs offered in metro Phoenix is the Arizona Competes Fund, which provides discretionary grants to businesses that achieve certain performance measures and create new jobs with wages that are equal to or above the median county wage.

Another program available in metro Phoenix is the Quality Jobs Tax Credit Program, which awards income tax credits of up to \$9,000 per job to generate high-quality employment opportunities in Arizona. The income tax credits are spread over three years to encourage continuous employment. To qualify, businesses must make a capital investment and create jobs that meet specific wage requirements. These tax credits are non-refundable and non-transferrable, and any unused credits may be carried forward for up to five consecutive years.

**Figure 3: Phoenix Top Incentive Programs**

Program	Description
Quality Jobs Tax Credit Program	Tax credit up to \$3,000 per each new job for up to 3 years of continuous employment
Arizona Competes Fund	Discretionary cash grant program
Qualified Facility Tax Credit Program	Tax credit (refundable) up to 10% of total capital expenditures for manufacturing, R&D, and HQs of manufacturing

Source: CBRE Location Incentives Group.

Note: The extent, if any, of state and local offerings depends on location and scope of the operation.

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## Logistics Driver

Approximately 130,000 miles of Arizona highways, including I-10, I-8 and I-40, make it easy to get goods to consumers. Recent expansions and improvements were made to Loops 202 and 303.

[Phoenix Sky Harbor International Airport \(PHX\)](#) is a burgeoning air cargo hub utilized by FedEx, DHL

and UPS. The airport processed more than 393,100 tons of cargo in 2019 between two complexes: South Air Cargo and West Air Cargo. Cargo operations at PHX are forecast to increase in years ahead. The [Comprehensive Asset Management Plan](#) for PHX includes new development to handle more air cargo.

## Capital Markets



As institutional, private and foreign investors expand their holdings in Phoenix, cap rates continue to compress for both Class A and B assets. Robust market fundamentals and a challenging regulatory environment in California are helping drive occupiers to Phoenix, resulting in rising rental rates and lower cap rates as investors seek industrial assets with near-term rollover to capture future growth. The market’s exceptional fundamentals, strong labor pool and ability to quickly reach consumers in all Western states will continue to drive strong investor demand in 2021.”

– Joe Cesta, Executive Vice President

Figure 4: Cap Rate Comparison

	Class A	Class B
2020	4.50% - 5.00%	5.00% - 5.50%
2019	4.75% - 5.25%	5.50% - 6.25%

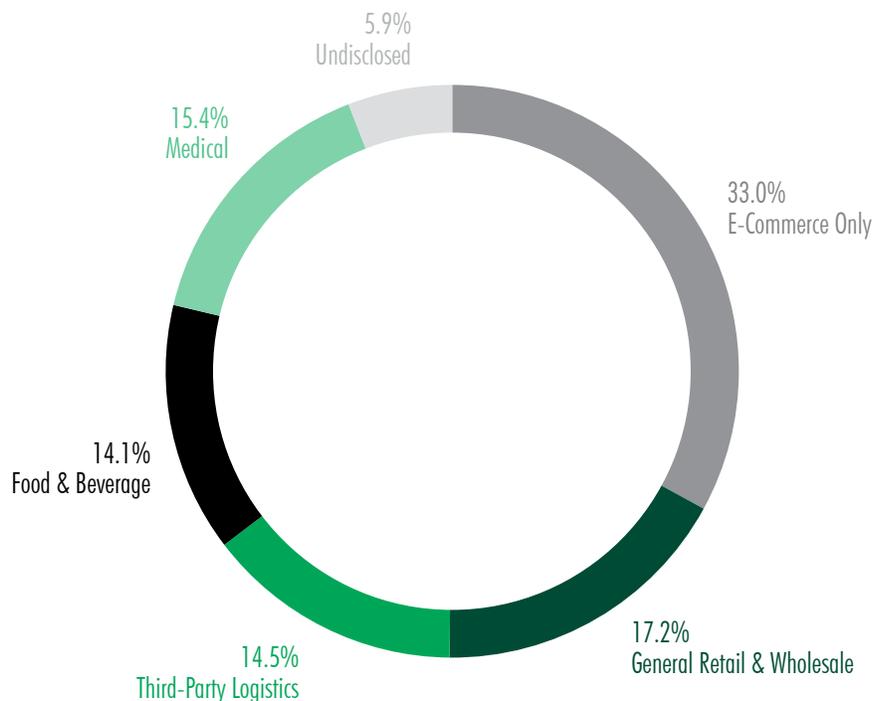
Source: CBRE Research.

## Supply & Demand

Strong population growth has attracted big-box occupiers to the market, resulting in a year-over-year doubling of transaction volume in 2020 to a record-breaking 13 million sq. ft. Net absorption also doubled to 10.5 million sq. ft., making Phoenix the No. 1 growth market (net absorption as a percent of total inventory) in North America. The direct vacancy rate fell by 2 percentage points to 7.0%, while the average asking rent increased to \$5.99 per sq. ft.

E-commerce occupiers accounted for 33% of total transactions last year, followed by medical occupiers with 15.4%. Construction completions totaled 9.3 million sq. ft. in 2020. Another 8.3 million sq. ft. is currently under construction, 48.4% of which is preleased.

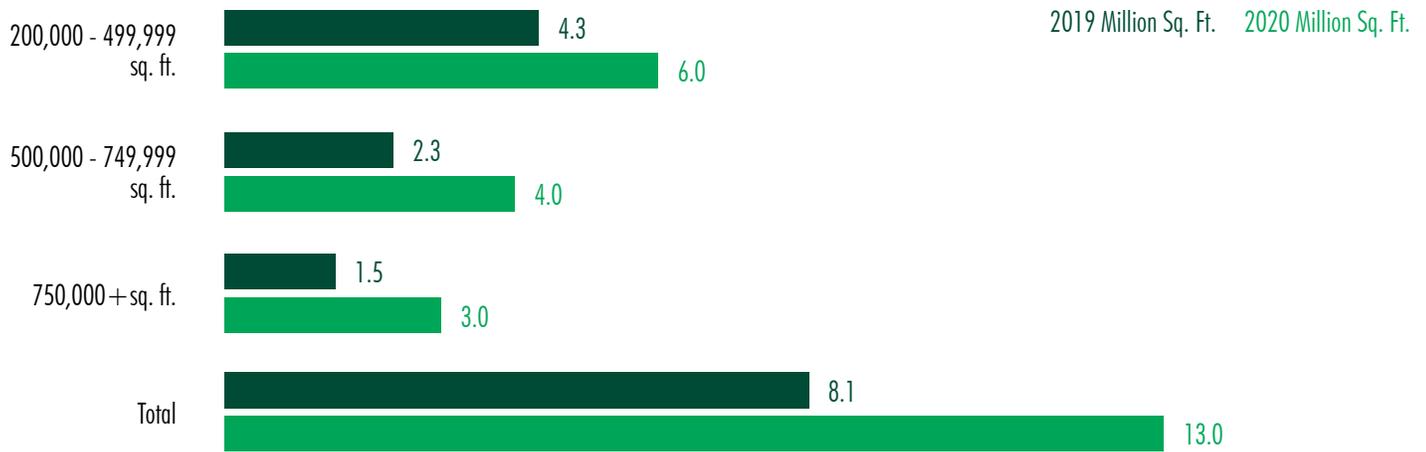
**Figure 5: 2020 Occupier Transaction Market Share**



Note: Includes transactions signed in 2020.

Source: CBRE Research.

**Figure 6: Transaction Volume**



Note: Includes new leases, renewals, and user sales transactions 200,000 sq. ft. and above.  
Source: CBRE Research.

**Figure 7: Big Box Year-Over-Year Data Comparison**

2020						
	# of Existing Buildings	Existing Inventory SF	Direct Vacancy Rate	Overall Net Absorption	Construction Completions	First Year NNN Taking Rent psf/yr
200,000-499,999 SF	187	54,332,755	9.0%	4,446,766	4,243,360	\$5.70
500,000-749,999 SF	40	24,236,203	4.1%	3,069,207	2,010,071	\$4.80
750,000+ SF	33	36,982,799	5.9%	3,021,869	3,073,434	\$7.20
<b>Total</b>	<b>260</b>	<b>115,551,757</b>	<b>7.0%</b>	<b>10,537,842</b>	<b>9,326,865</b>	<b>\$5.99</b>
2019						
	# of Existing Buildings	Existing Inventory SF	Direct Vacancy Rate	Overall Net Absorption	Construction Completions	First Year NNN Taking Rent psf/yr
200,000-499,999 SF	174	50,553,766	10.4%	2,733,107	3,523,716	\$5.90
500,000-749,999 SF	38	22,958,343	12.2%	1,584,610	1,826,560	\$5.09
750,000+ SF	29	33,115,503	4.5%	1,451,546	-	N/A
<b>Total</b>	<b>241</b>	<b>106,627,612</b>	<b>9.0%</b>	<b>5,769,263</b>	<b>5,350,276</b>	<b>\$5.52</b>

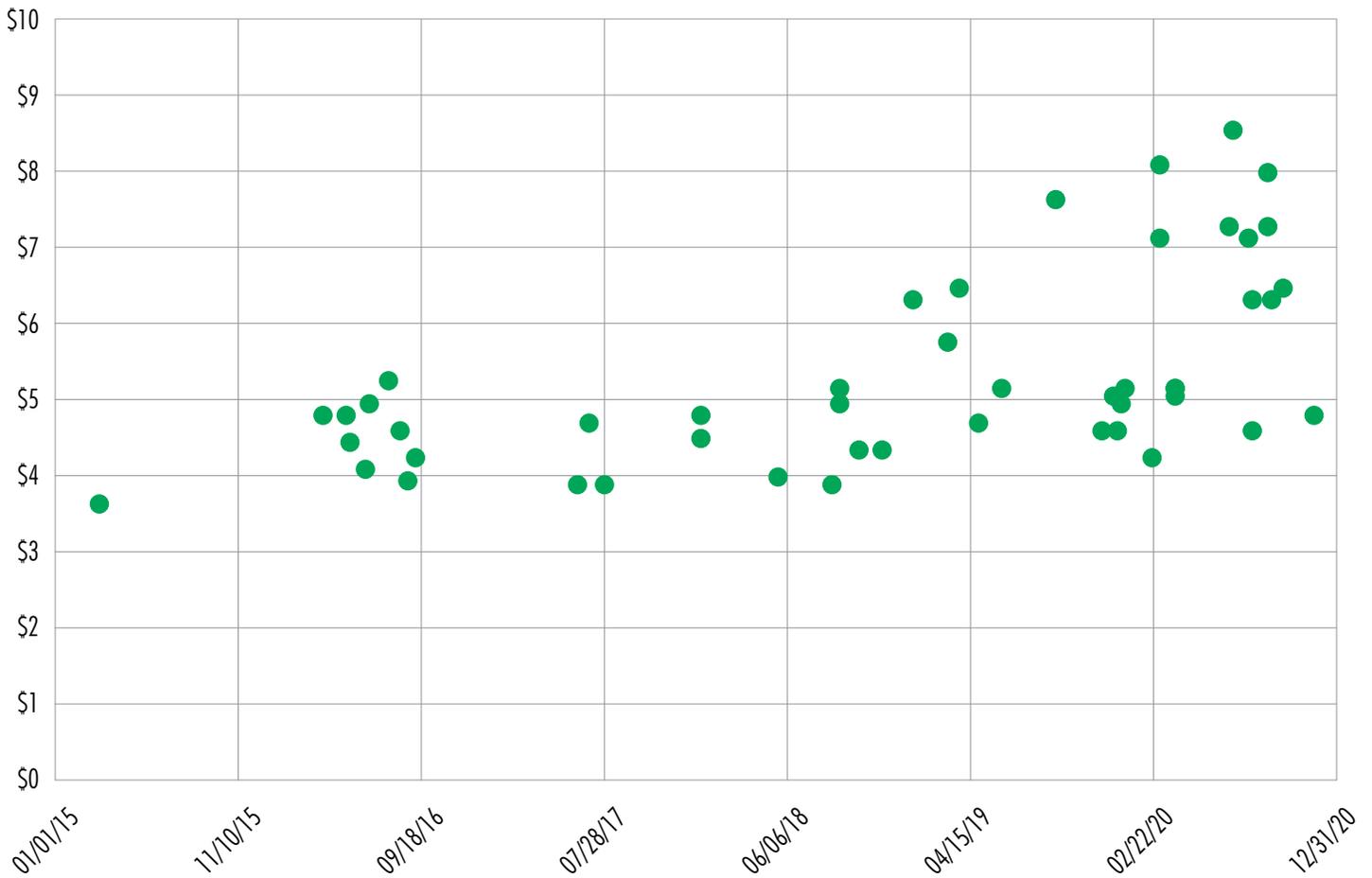
Source: CBRE Research.

**Figure 8: Under Construction & Percentage Released**

	2020 Under Construction Sq. Ft.	% Released
200,000-499,999 sq. ft.	3,216,102	68.1%
500,000-749,999 sq. ft.	5,072,108	35.9%
750,000+ sq. ft.	0	N/A
<b>Total</b>	<b>8,288,210</b>	<b>48.4%</b>

Source: CBRE Research.

**Figure 9: First Year Taking Rents (psf/yr)**



Note: Includes first year taking rents for leases 200,000 sq. ft. and above.  
Source: CBRE Research.

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