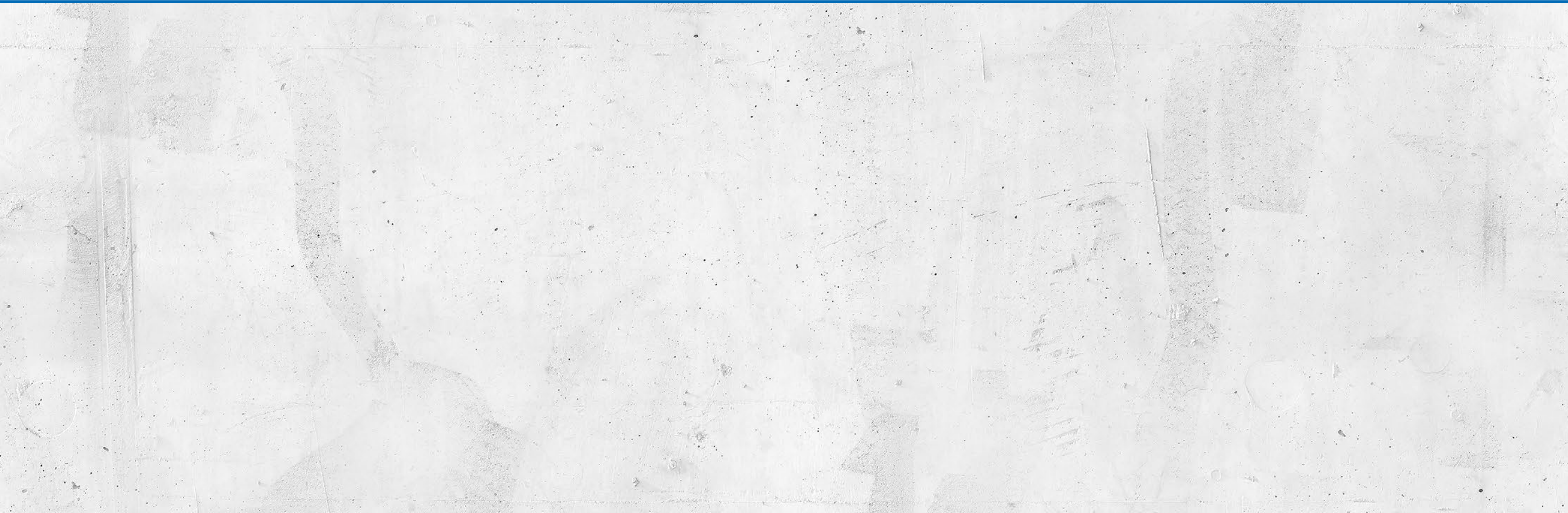

2Q24

Phoenix Industrial Market Overview



Market Observations

Economy

- Phoenix’s labor market remains strong, with a 2.9% unemployment rate in May, 80 basis points lower than the national average.
- Job growth was mixed across the region’s industrial-using employment sectors.
- Loaded import volume at Southern California’s ports totaled 3.7 million containers in the first five months of 2024, up 17.0% from the same period in 2023.
- Ship attacks in the Red Sea, along with a potential strike by Gulf and East Coast dockworkers in the coming months, are causing more goods to be funneled in through western ports of entry, notably Los Angeles/Long Beach. A fair share of this rerouted traffic is being shipped by rail to eastern seaboard markets.

Major Transactions

- Automotive and logistic tenants made strong moves throughout the Metro in the second quarter of 2024.
- Leasing activity slowed in the second quarter; nearly half of all leasing activity took place in Class A space, indicating the demand for quality space is still high.
- Sales activity for industrial product totaled \$1.2 billion in the first half of 2024, illustrating investor confidence in the Metro as a good location to place capital.
- Stonelake Capital Partners and Blackstone were among their quarter’s top buyers.

Leasing Market Fundamentals

- Net absorption in the second quarter of 2024 was 7.8 MSF versus 11.3 MSF in construction deliveries as numerous speculative buildings delivered partially vacant.
- Unleased speculative construction deliveries, coupled with record levels of sublet vacant space, pushed the market’s total vacancy rate to 10.5%.
- Under-construction activity decreased for the fourth consecutive quarter, while 37.7 MSF is presently underway.
- Available sublease space totals 4.1 MSF, up 85.8% from year-end 2023.
- The average asking rent dropped by 14.6% from year-end as the market readjusts to the influx of new construction and sublease space coming online.

Outlook

- As a designated workforce hub for advanced manufacturing by the White House, the Phoenix industrial market stands to be more resilient than other metros as users in the sector look to enter or expand.
- Union Pacific opened an intermodal facility that offers direct connectivity to Southern California’s ports and Houston. Shipping by rail is far cheaper than by truck, and this will favor Phoenix’s distributors and manufacturers.
- Sublease availability will likely increase as distributors continue to pivot back to just-in-time inventory models amid slower demand for consumer goods.

1. Economy
2. Market Fundamentals
3. Appendix

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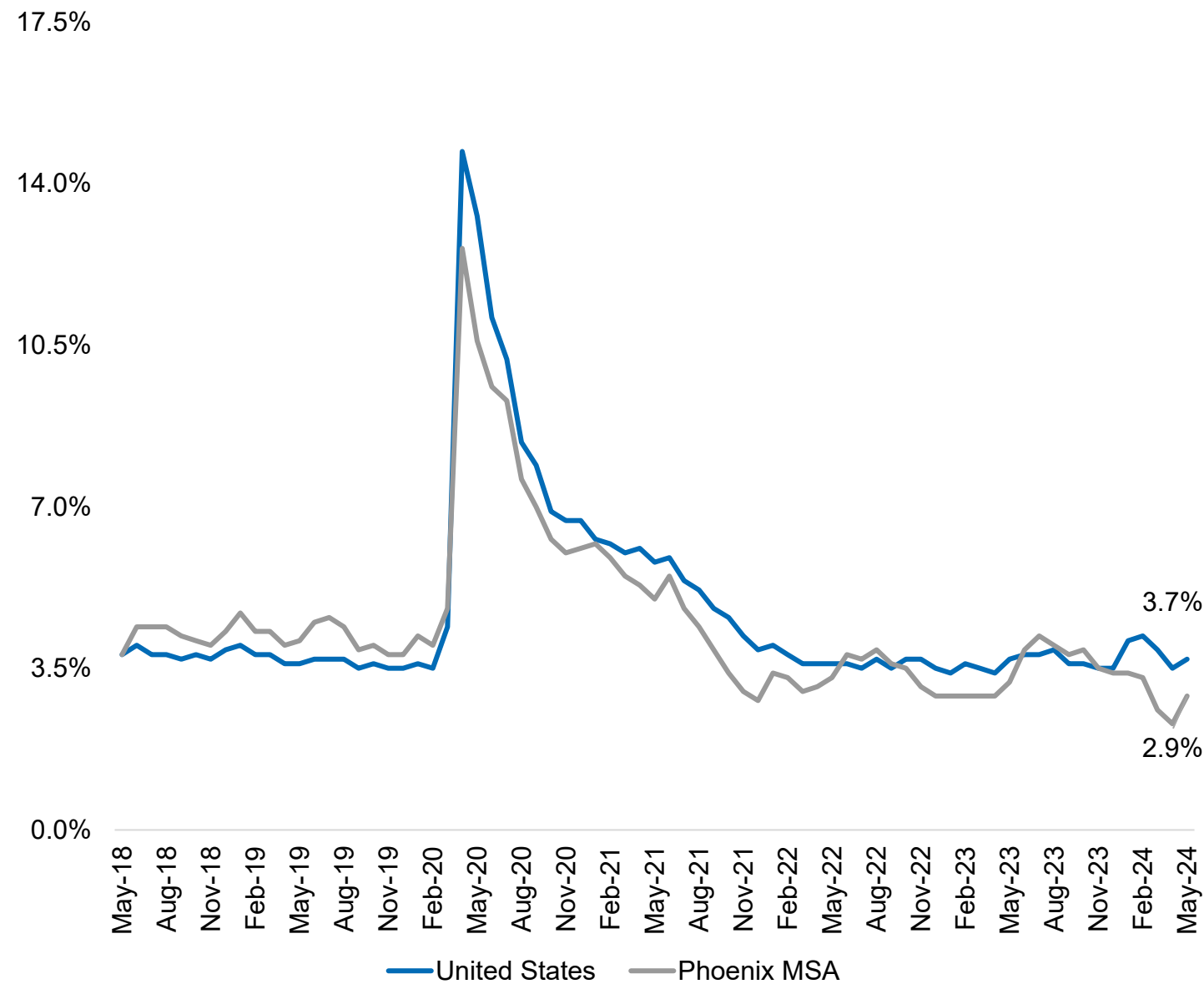
Economy



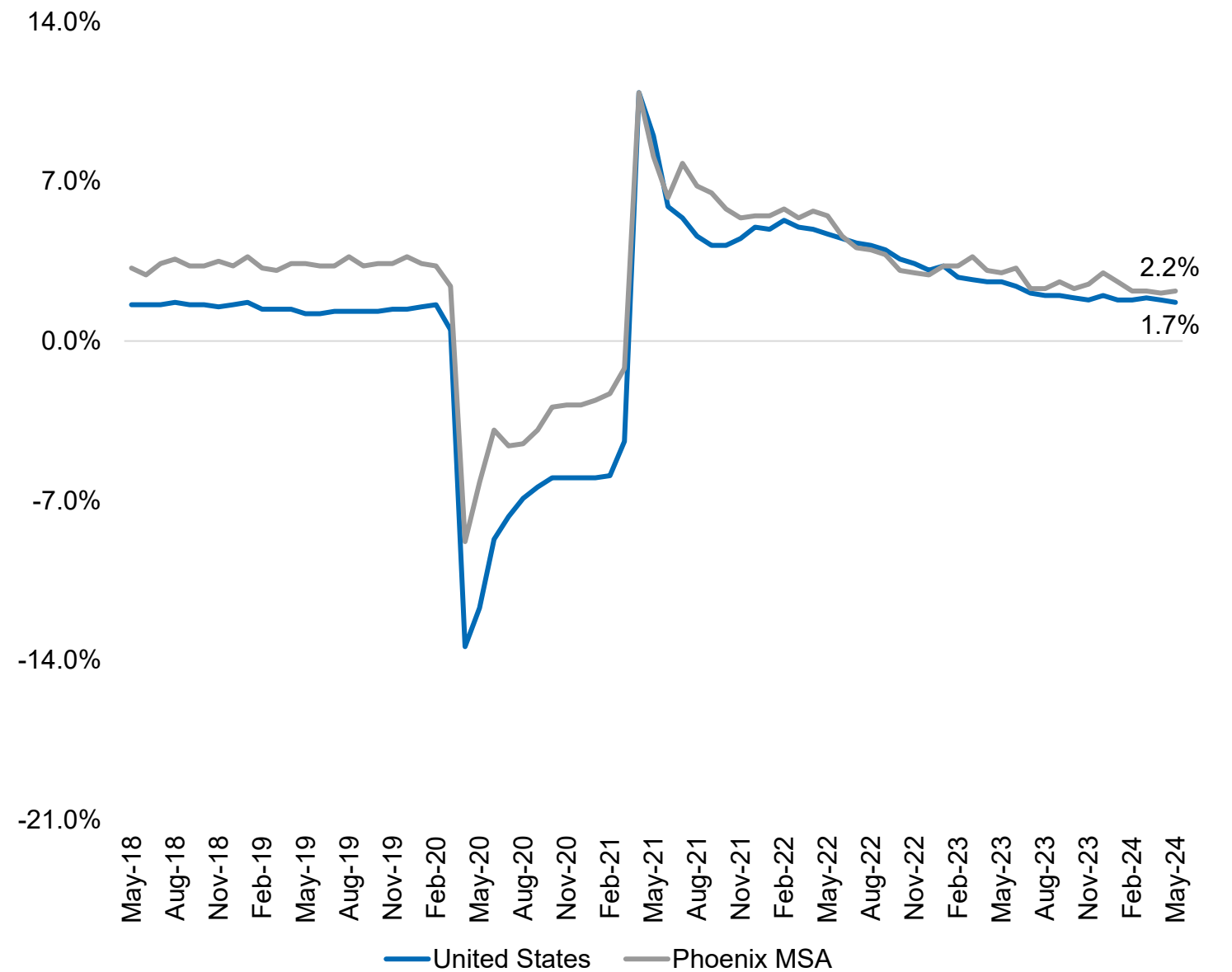
Phoenix's Labor Market Shows Favorable Trends Ahead of National Averages

Local unemployment (currently, 2.9%) has remained below the national average (3.7%) for six consecutive months. Overall local job growth has slowed but remains in the positive for now as companies adapt to softening economic conditions.

Unemployment Rate, Not Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

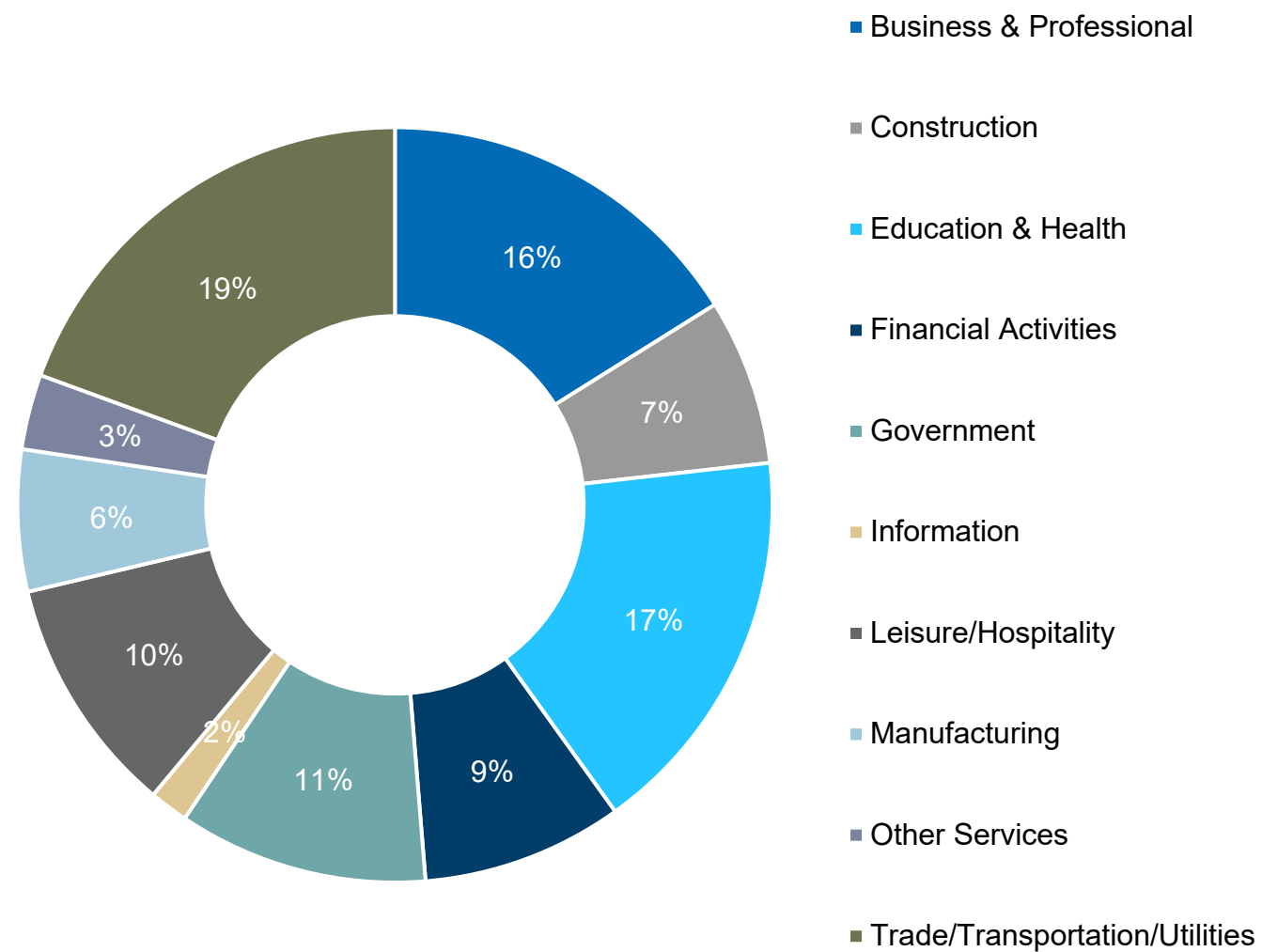


Source: U.S. Bureau of Labor Statistics, Phoenix MSA
 Note: May 2024 data is preliminary.

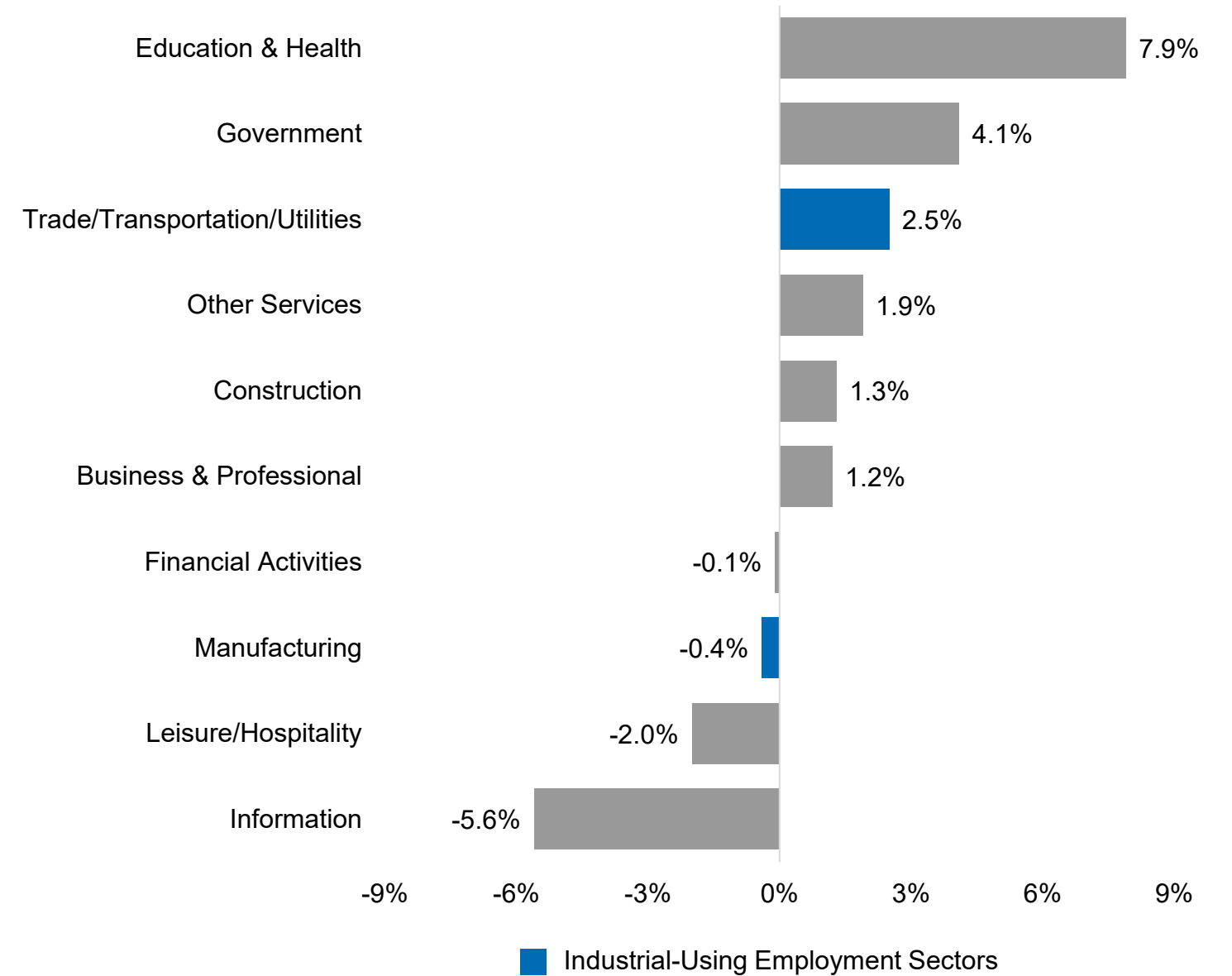
Job Growth Was Pronounced in Already Strong Employment Sectors

Education and health led all industries in annual job growth, followed closely by government and trade/transportation/utilities. For industrial-occupying sectors: manufacturing contracted by 0.4%, while trade/transportation/utilities grew by 2.5%.

Employment by Industry, May 2024



Employment Growth by Industry, 12-Month % Change, May 2024

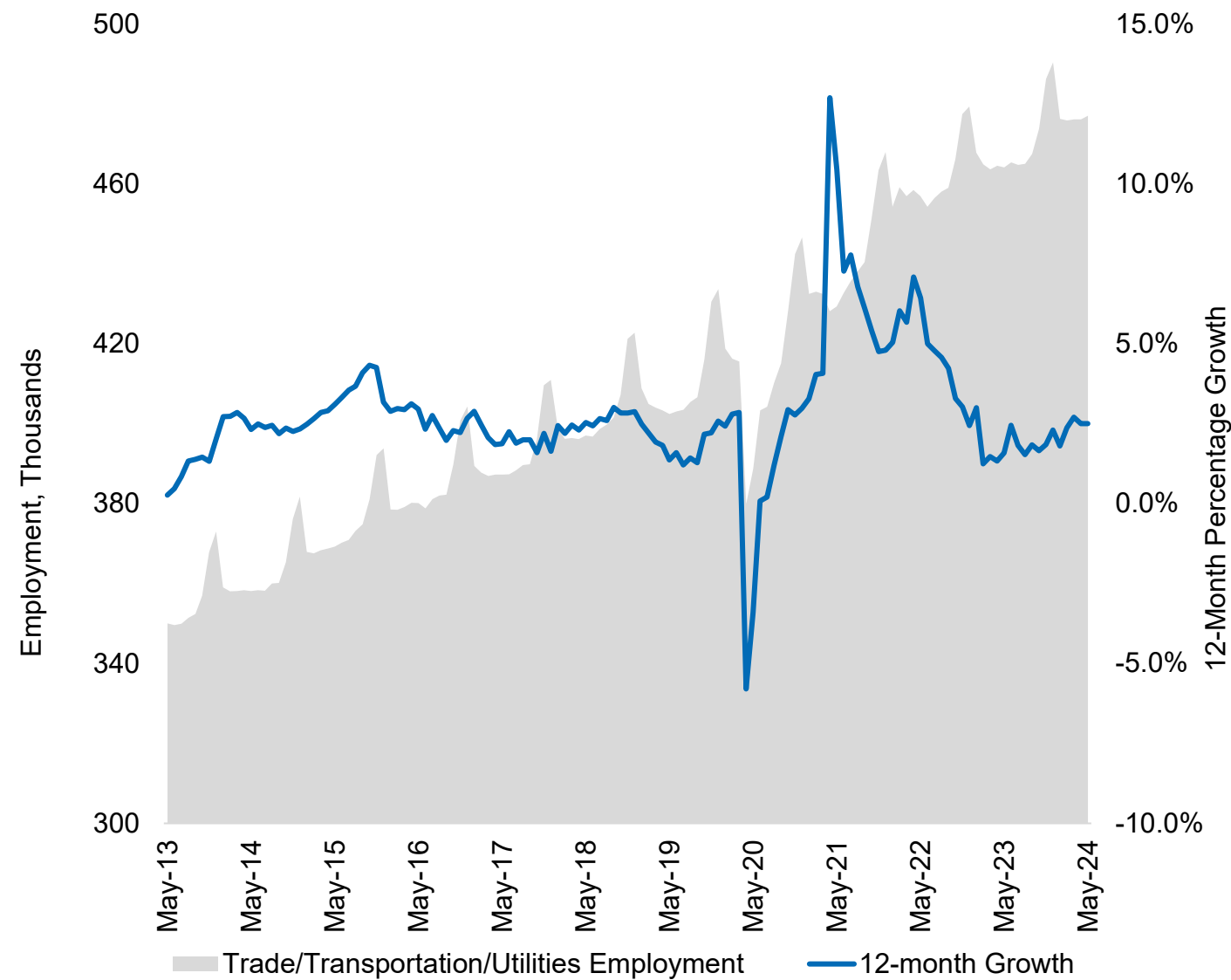


Source: U.S. Bureau of Labor Statistics, Phoenix MSA
 Note: May 2024 data is preliminary.

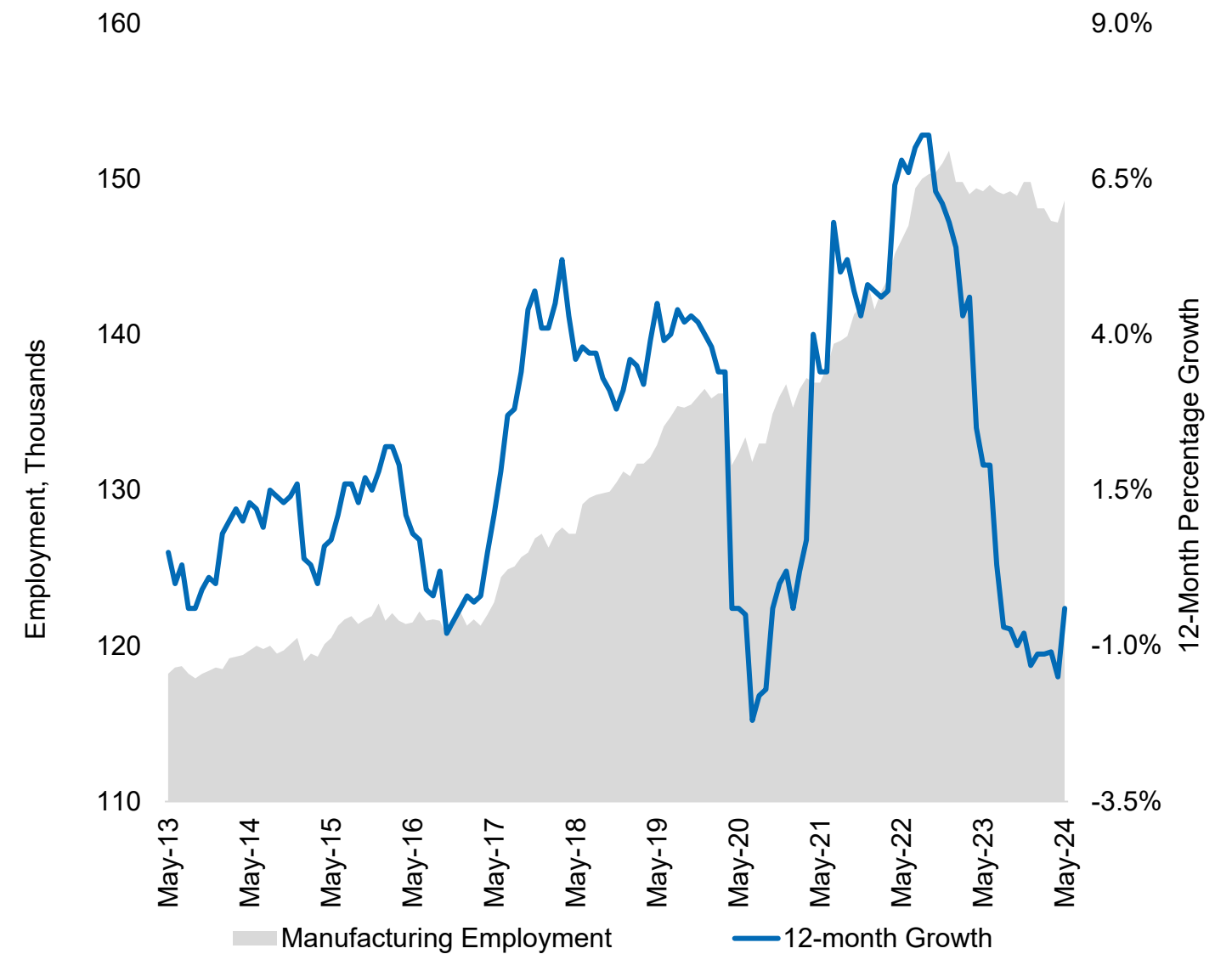
Industrial Employment Slowed but Recent Announcements Portend Growth

After a robust three years of job growth, the trade/transportation/utilities sector is adjusting amid less pronounced demand for consumer goods. Manufacturing annual job growth contracted slightly for the time being but will trend upwards over the long-term since the White House designated the Metro as a workforce hub for advanced manufacturing.

Trade/Transportation/Utilities Employment and 12-Month Growth Rate



Manufacturing Employment and 12-Month Growth Rate



Source: U.S. Bureau of Labor Statistics, Phoenix MSA

Loaded Imports in the First Five Months of 2024 Were Stronger Than the Same Periods in 2018 and 2019



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Union Pacific Opened a New Intermodal Terminal Near Downtown Phoenix This Year

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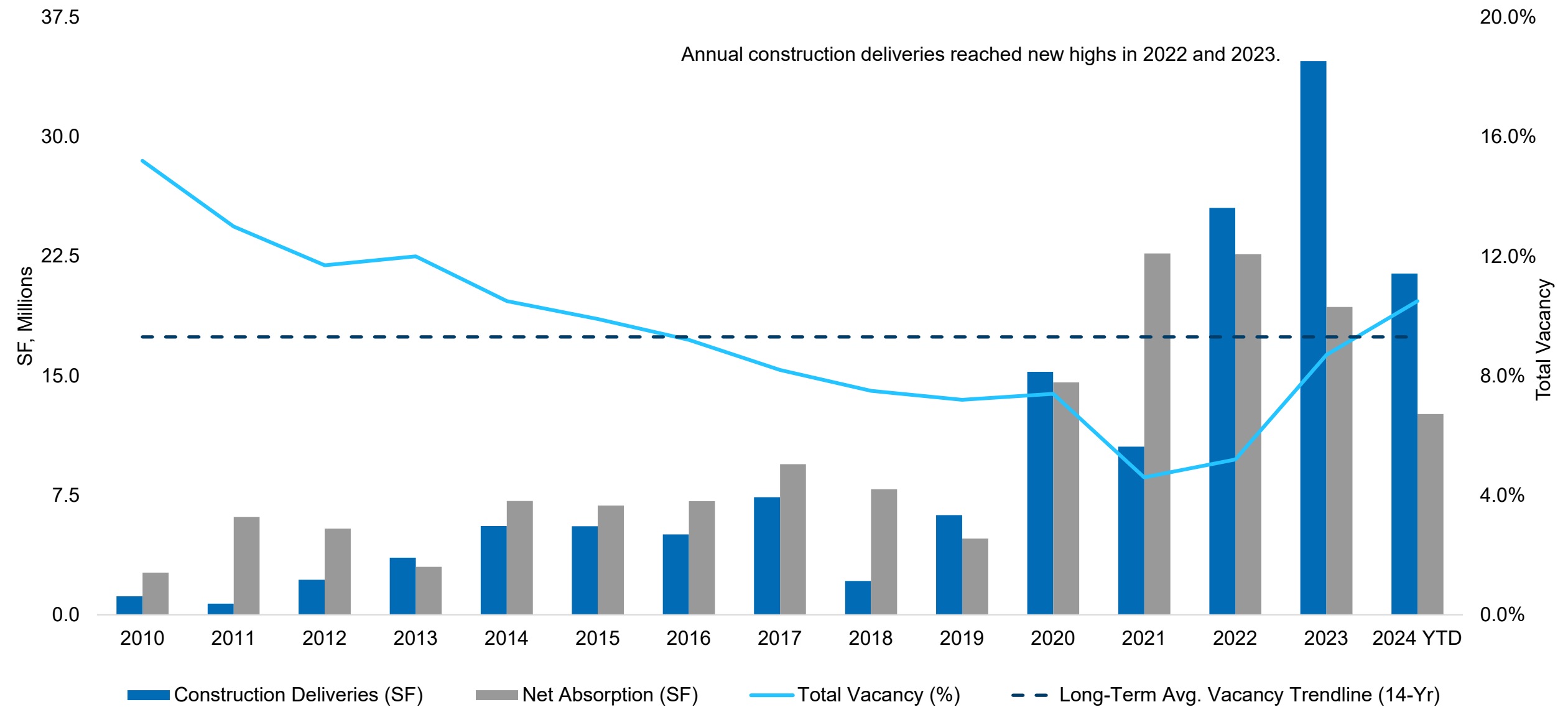
Market Fundamentals



Vacancy Surpasses Historical Average in 2024

Vacancy increased to 10.5% after 21.4 MSF in construction deliveries was met with 12.6 MSF in net absorption gains in the first half of 2024. Fewer construction starts will help to temper future vacancy increases as developers wait to see how the nearly 100 MSF delivered since 2021 will be absorbed by users in the coming quarters.

Historical Construction Deliveries, Net Absorption, and Vacancy

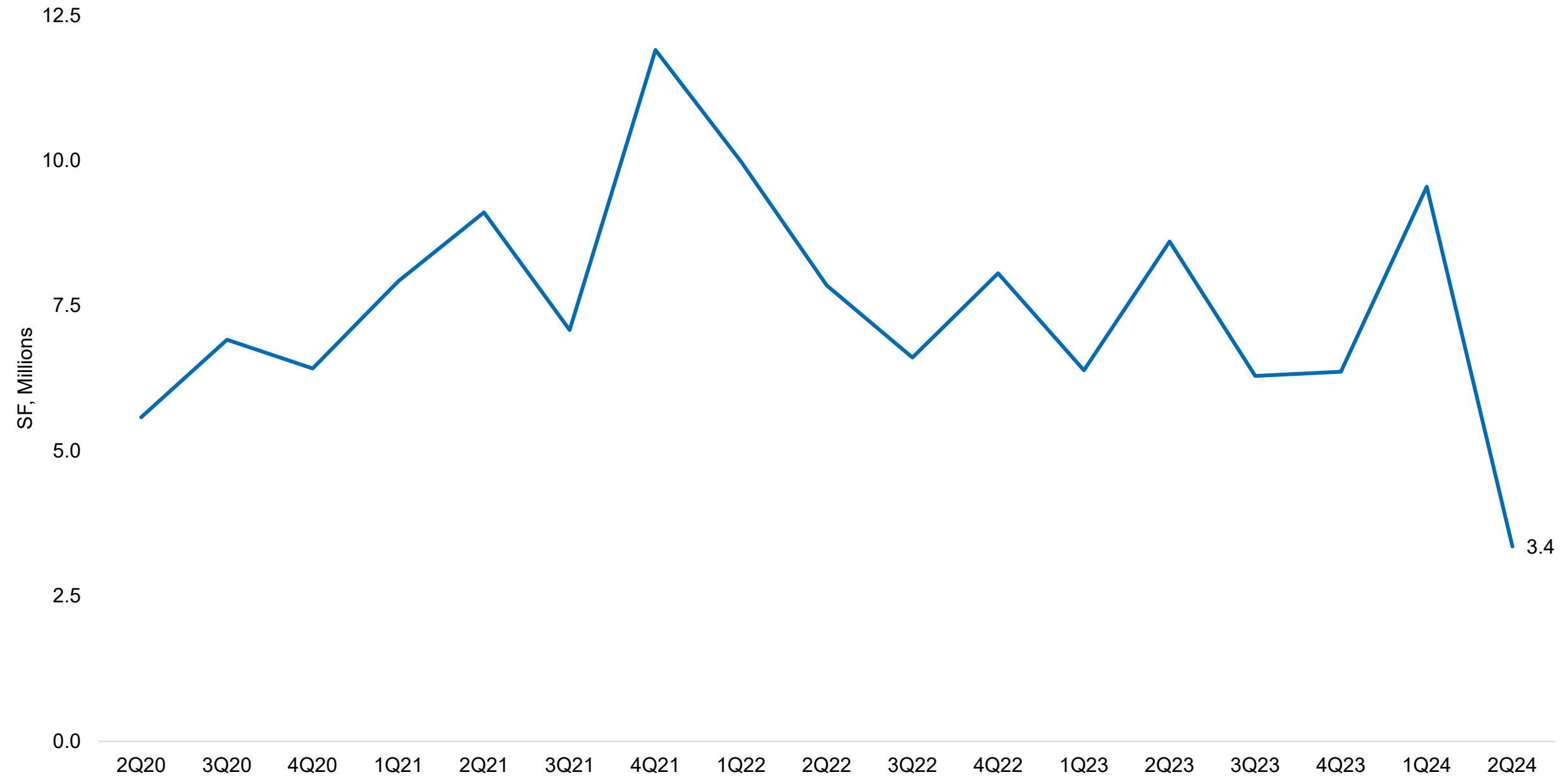


Source: Newmark Research

Industrial Leasing Activity Dropped in 2Q24

This quarter's leasing activity totaled 3.4 MSF, the lowest the Metro has experienced in the last four years. Pre-leasing activity that was prominent in 2021 and 2022 slowed down and more tenants are waiting for buildings to deliver first before signing leases. Tenant right-sizing and general cost-cutting efforts are also crimping leasing momentum. More space options from rising vacancy has also removed a sense of urgency for some users, but also allows the ability to quickly move or expand as needs change.

Total Leasing Activity (SF)

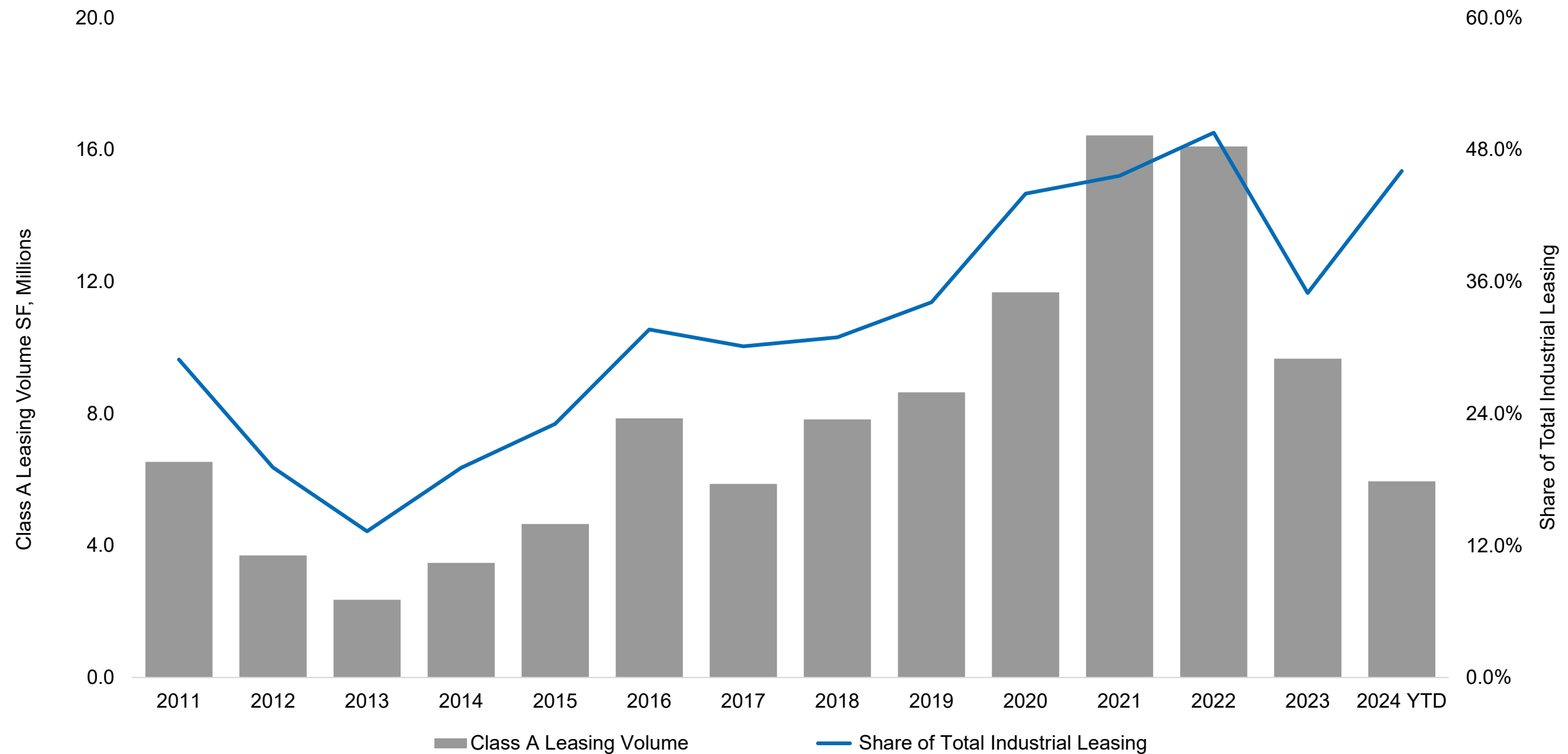


Source: Newmark Research

A Cooling Industrial Market Sees Lowered Class A Warehouse Leasing

Class A leasing activity has noticeably decreased since 2021 but is currently on track to surpass 2023's total if current trends persist. Class A accounted for nearly half of overall leasing activity in the first half of 2024. Demand for Class A space remains strong, but with the current influx of new supply, tenants have the upper hand with more options to choose from as landlords look to fill vacancies.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume

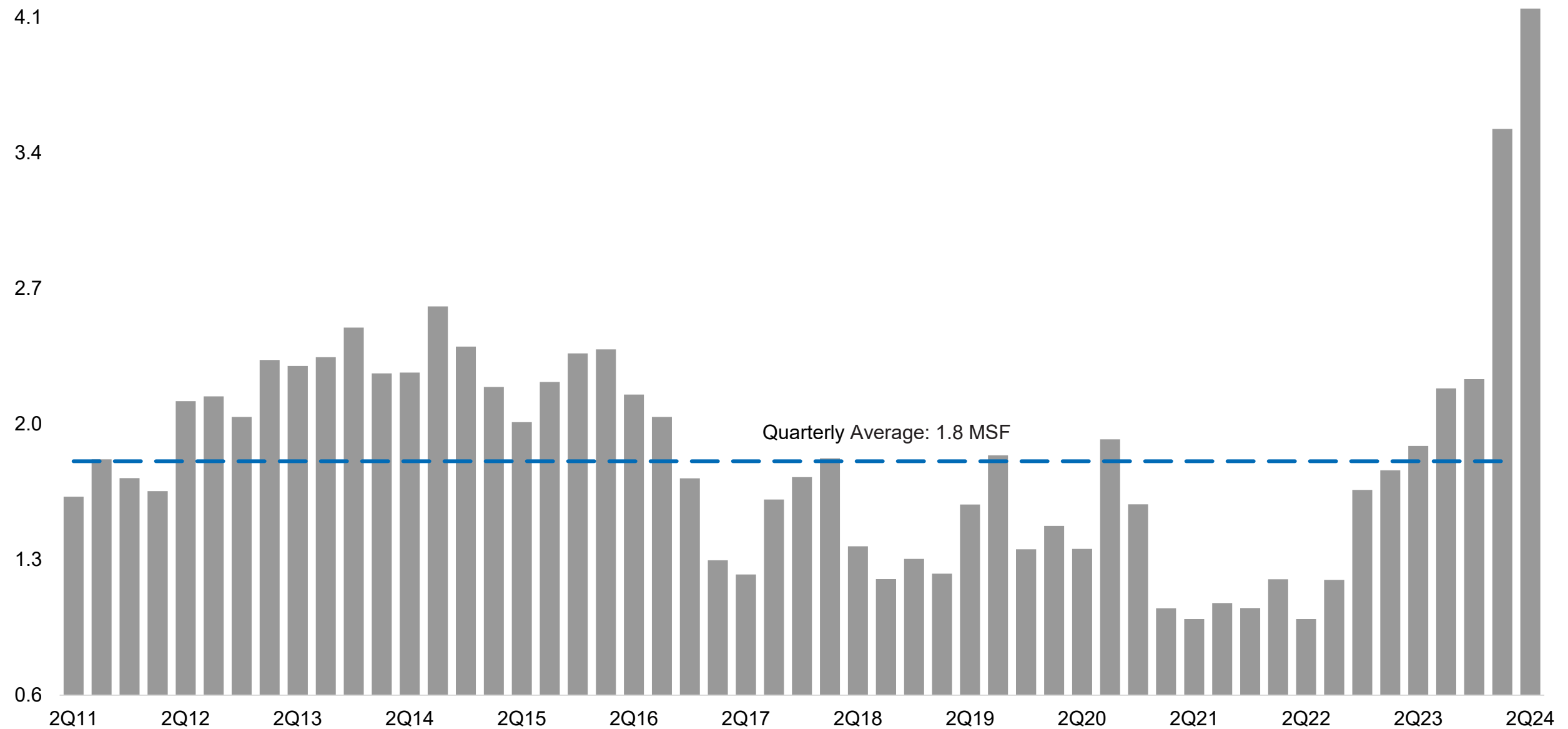


Source: Newmark Research

Industrial Sublease Availability Increased For Another Quarter

After hitting a record low in the second quarter of 2022, sublease availability continues to rise, reaching a record high of 4.1 MSF in the second quarter of 2024. Large offerings from Metso (337,897 SF), ElectraMeccanica (235,094 SF) and XPO Logistics (205,720 SF) all pushed sublease availability up and illustrate how some occupiers are trying to reduce costs amid an uneven retail sales environment.

Available Industrial Sublease Volume (MSF)

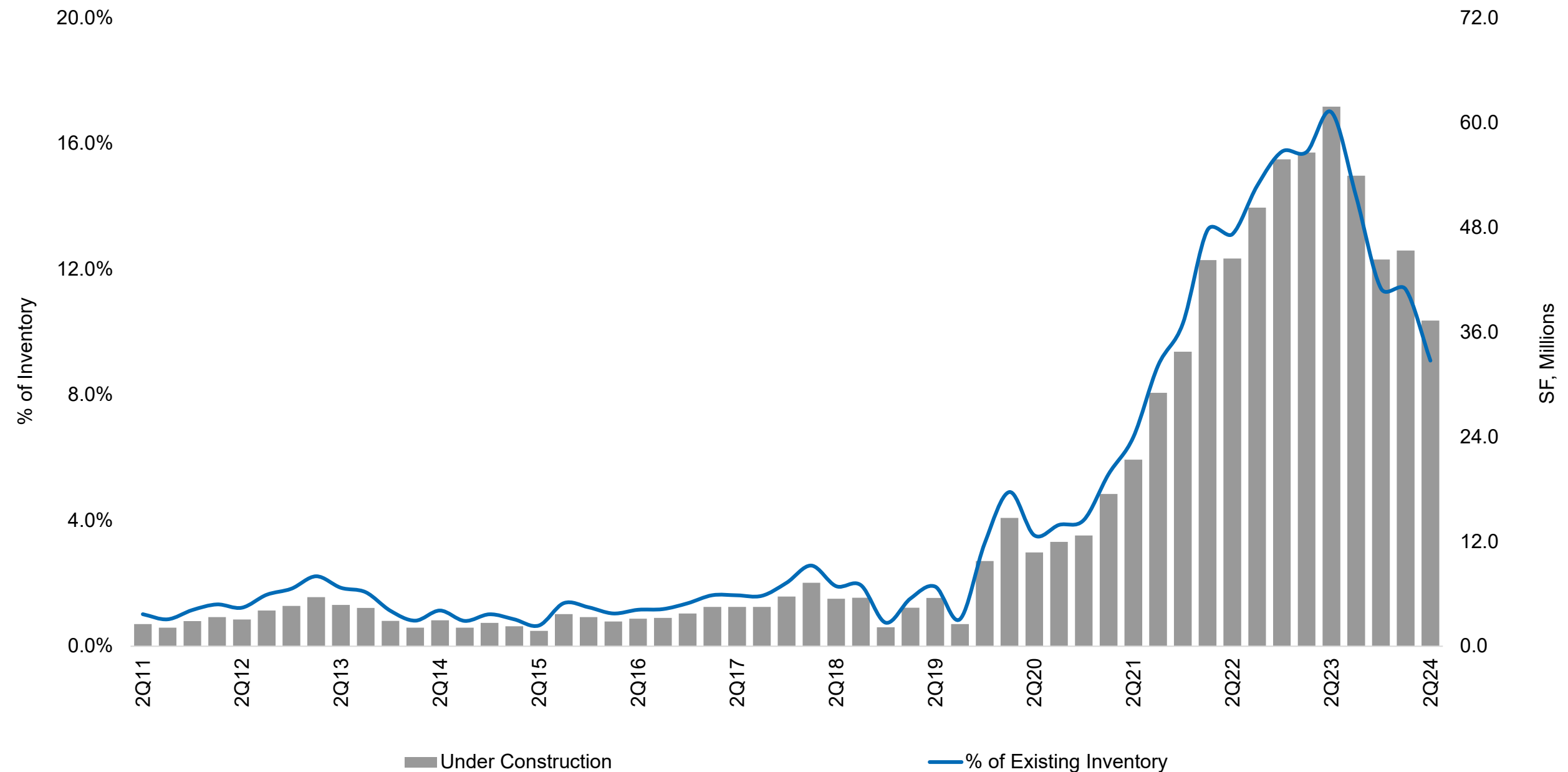


Source: Newmark Research

Industrial Supply Pipeline Still Strong But Seeing Slowdown

The construction pipeline, after reaching a high of 61.8 MSF in the second quarter of 2023, is decreasing. Since 2021, the Phoenix Metro inventory base has increased dramatically – up by 28.9% in the last 3.5 years. Phoenix has the most underway product compared to other Southwest markets: a testament to the Metro’s ability to attract new businesses and investors alike before inflation took hold and construction debt financing became more difficult.

Industrial Under Construction and % of Existing Inventory

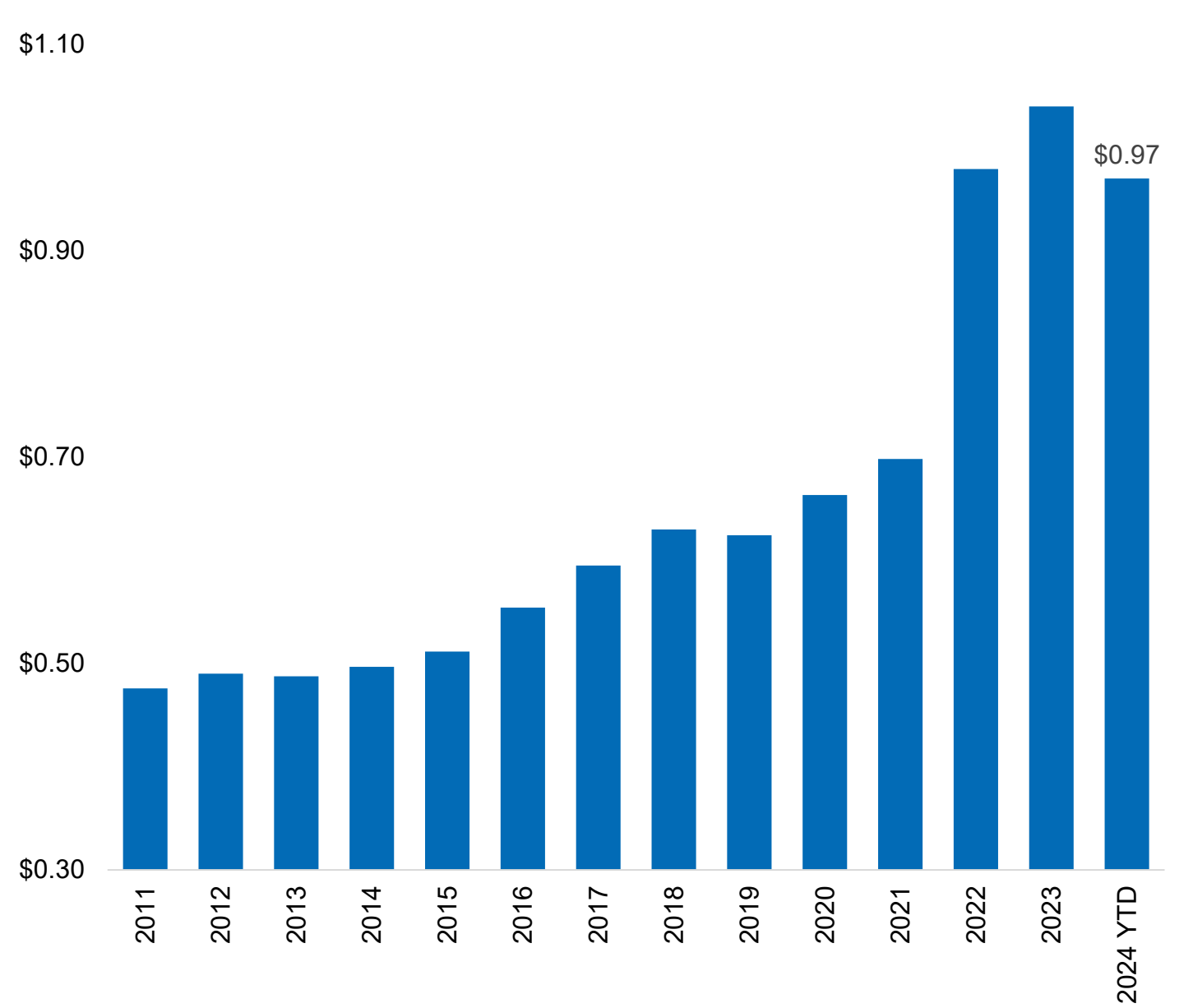


Source: Newmark Research

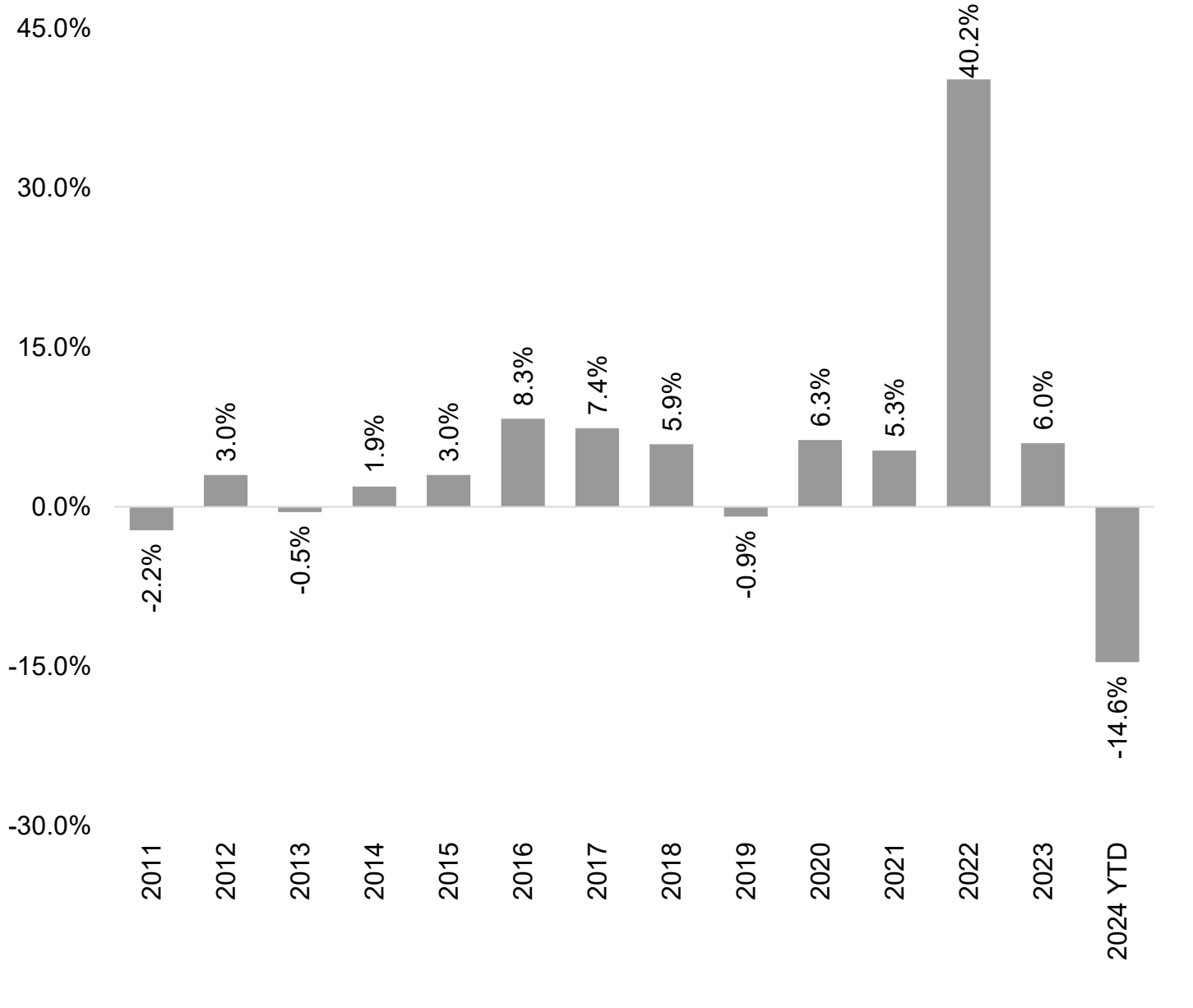
High Construction Levels and Increased Sublease Availability Drop Asking Rents

Continued high levels of speculative construction deliveries, alongside record high sublease availability, has pushed asking rents down as landlords work to attract tenants. As construction deliveries decline in the coming quarters and right-sizing efforts slow, asking rents are expected to rise, but at a slower pace than recent years.

Industrial Average Asking Rent, \$/SF/Month, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research

Exceptional Effective Rent Growth in Recent Years is Moderating



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Notable 2Q24 Lease Transactions

Key lease agreements played a major role in securing the credibility of Phoenix as a central hub for manufacturing and 3PL users. New space commitments from logistics and automotive companies dominated leasing activity during the second quarter of 2024.

Select Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Logistics Plus Inc.	Reems Ranch 303	Glendale	Direct Lease	595,381
<i>Logistics Plus Inc. occupied over half of the 1.2 MSF Reems Ranch 303 industrial property, signing a new lease for 595,381 square feet.</i>				
USPS	Fairway Commerce Center	Southwest Phoenix	Direct Lease	450,260
<i>USPS took over as the sole tenant of the Fairway Commerce Center building in the Southwest Phoenix submarket.</i>				
Magna Steyr	Power Industrial – Building 4	East Mesa	Direct Lease	229,876
<i>Signed in early Q2, Magna Steyr signed a lease to occupy 229,876 square feet at the newly completed Power Industrial building park, as well as 10.8 acres of adjacent land for a staging lot.</i>				
Quietflex Manufacturing Company LP	Ryan West Business Park – Building H	Southwest Phoenix	Lease Extension	128,890
<i>Nationwide ductwork manufacturer, Quietflex, elect to extend their lease at the Ryan West Business Park.</i>				
Lucid Motors	1108 W. Gila Bend Hwy.	Pinal	Direct Lease	95,520
<i>Electric-vehicle company, Lucid, expands its Valley footprint signing a deal to occupy 95,520 square feet of space out in the Pinal submarket.</i>				

Notable 2Q24 Sale Transactions

Although overall sales volume is down compared to prior years, the industrial sector still recorded notable deals this quarter.

Select Sale Transactions

Building Address	Submarket	Sales Price	Price/SF	Square Feet
1685 & 2250 S. Litchfield Rd. (Portfolio)	Southwest Phoenix	\$108,100,000	\$149	725,303
<i>Sold in early June by CIM Group, the two-building portfolio was purchased by Stonelake Capital Partners for \$108.1 million.</i>				
KKR – 5302 W. Buckeye Rd. (Portfolio)	West Central Phoenix	\$87,000,000	\$161	539,560
<i>This five-building bulk/portfolio investment sale was purchased by Blackstone Inc., the largest owner or real estate in the world, for \$87 million.</i>				
Merit-Woolf Logistics Center – 10100 N. 151 st Ave.	Glendale	\$73,925,000	\$203	364,700
<i>Sold by Merit Partners to Packaging Corporation of America for \$73.9 million as a user-sale.</i>				
Gateway I-10 – 440 N. 215 th Ave.	Southwest Phoenix	\$60,100,000	\$94	641,906
<i>BET Investments Inc. sold the 641,906 SF property to EQT Exeter as a cold-shell sale, TI's having not been built out.</i>				
Freeport Logistics – 4625 N. 45 th Ave.	Grand Avenue	\$30,700,000	\$125	244,673
<i>Built on 13.1 acres, this 100% leased, 244,673 square foot industrial property was sold to Prologis Inc. for \$30.7 million, or \$125 per square foot.</i>				

Total Sales Volume Picked Up in Second Quarter

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Private, Opportunistic Buyers Are Active

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Appendix



Phoenix Metro Industrial Submarket Map and High-Level Statistics | 2Q24



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Population Has Quadrupled Over the Past Five Decades



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Access to Large Populations and Lower Costs of Doing Business Favor Phoenix

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West Coast Dockworkers Signed a New Contract in 2023; Their Eastern Counterparts are Next Up...

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Import Traffic Has Jumped Since Late 2023 at Los Angeles/Long Beach

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