



# Phoenix industrial market report

Q3 2023

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**AVISON  
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# Phoenix industrial: Market trends

## 13.1 msf

### Development activity (Q3)

Phoenix continues to expand its role as a key industrial market in the national supply-chain, as the Valley now ranks in the Top-5 nationally for the following metrics over the past 12-months: sf under construction (#2), sf delivered (#5), sf under construction as a % of inventory (#1), net absorption (#4), and rent growth (#2).

A notable portion of the record-setting development pipeline observed in Q2 (57.7 msf) was delivered during the 3<sup>rd</sup> quarter, with 62 buildings totaling 13.1 msf of industrial space delivered during the period – 22.7% of the overall inventory reported as under-construction during Q2.

## 3.3 msf

### Net absorption (Q3)

Demand remains strong despite lingering concerns of overbuilding due to record development levels observed in the past year.

Net absorption has decreased significantly from this time last year, but continues on a pace above historical norms, as evidenced by the 11.1 msf absorbed YTD. Such performance is the 4th highest on record with the 4th quarter still to come. Alone the 3<sup>rd</sup> quarter saw a notable 22.2% increase quarter-over-quarter – rising from 2.7 msf in Q2 to 3.3 msf.

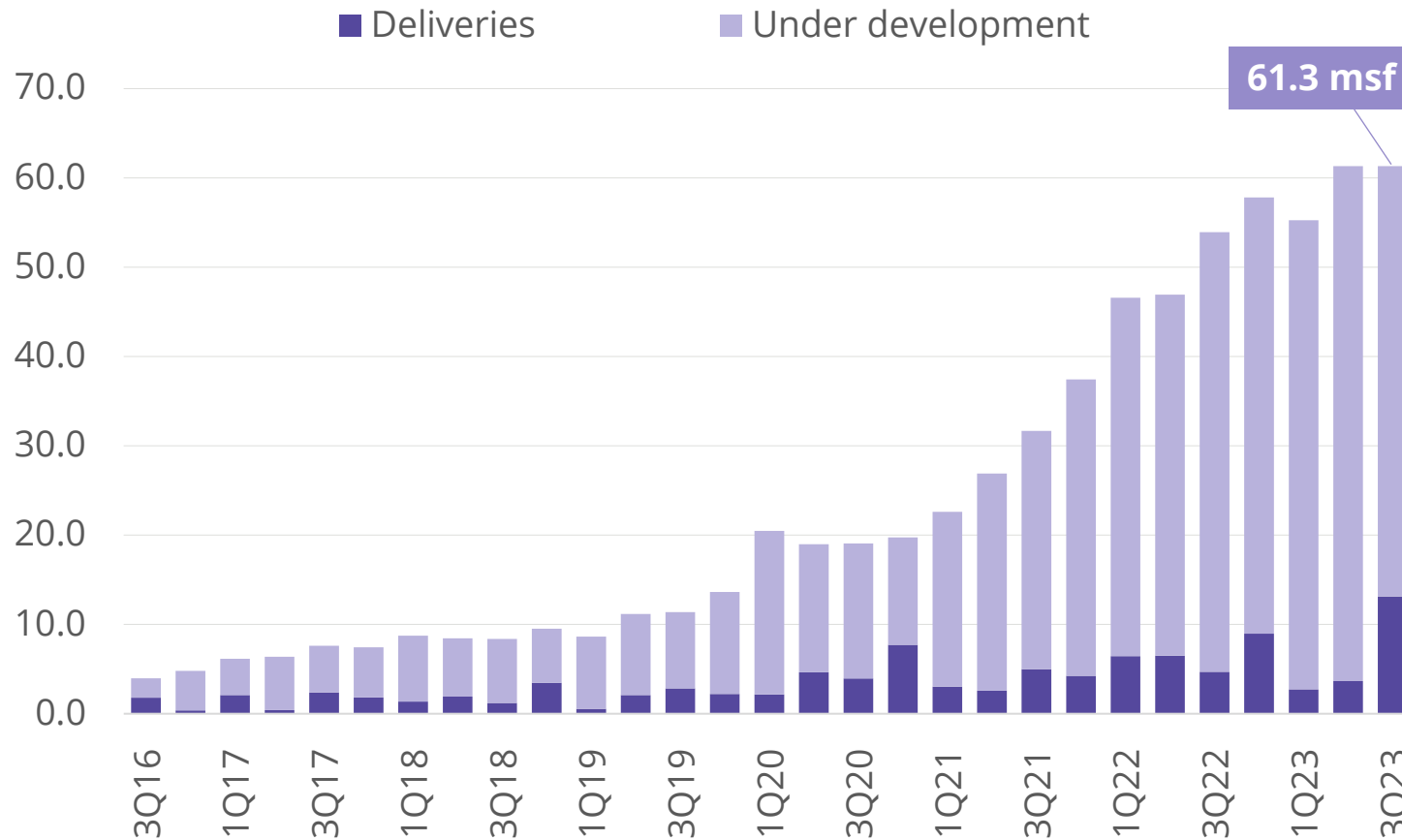
## \$1.01/sf

### Direct asking rent (\$/sf/mo.)

The annual growth rate of direct asking rents in the Phoenix market impressively outpaces all major markets nationally except Charlotte, NC.

Even with the delivery of 13.1 msf of primarily “Class A” quality buildings during the quarter, asking rates increased \$0.07 from \$0.94/sf/mo. in Q2 to \$1.01/sf/mo. in Q3. – a 7.4% increase quarter-over-quarter. This is a remarkable rebound from Q2, which saw the first quarter-over-quarter decrease in rent for the first time in 3 years.

# Phoenix industrial: Development activity (msf)

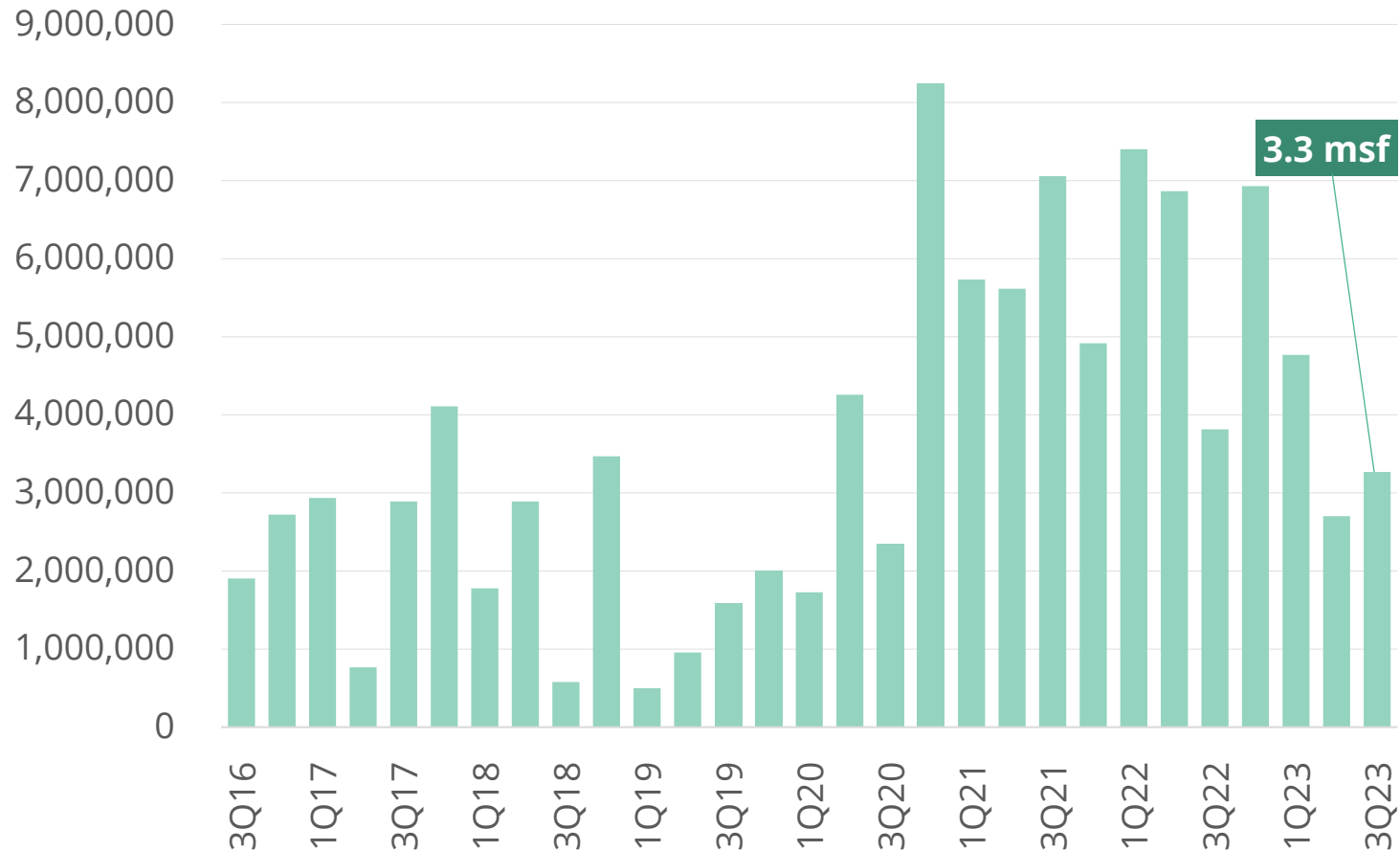


Phoenix sets record-high for deliveries in a quarter, with 13.1 msf delivered during Q3 – 4.1 msf more than the second highest quarter (Q4 2022).

The 13.1 msf of new inventory accounts for 22.7% of the 57.7 msf reported as under construction in Q2, and now accounts for 3.3% of the Valley's total industrial inventory.

New construction will continue to impact the industrial market over the next several quarters, as 48.2 msf remains under construction – with most of this space projected to be delivered by 2025.

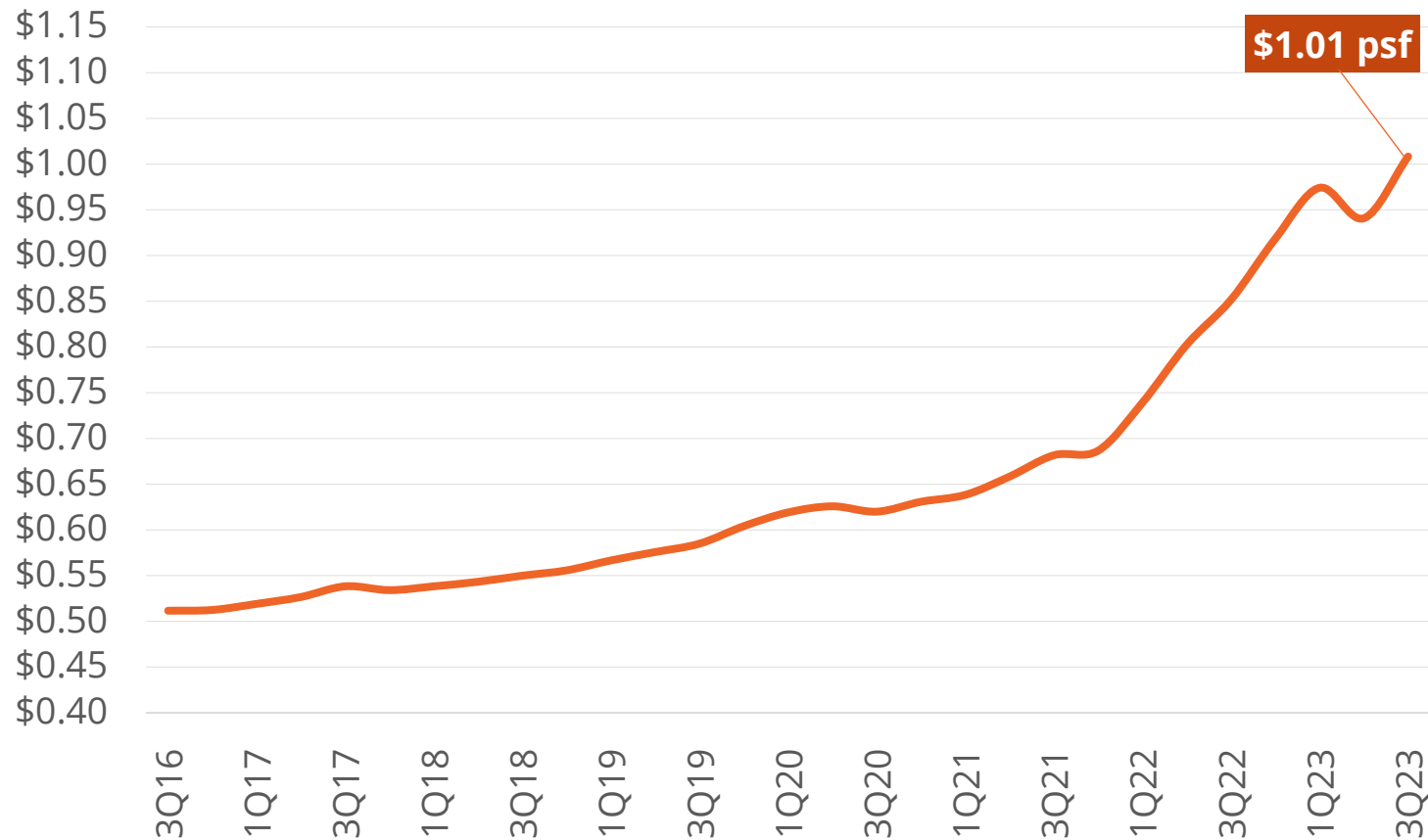
## Phoenix industrial: Net absorption (sf)



Demand for Phoenix industrial remains strong in Q3 – recording 3.3 msf of positive absorption.

Despite concerns of overbuilding, Phoenix holds several fundamental and valued drivers of demand to keep the industrial market growing in the right direction – including high population & job growth, low tax rates for both individuals and corporations, as well as a growing list of Fortune 500 companies increasing their footprint in the Valley.

## Phoenix industrial: Direct asking rents (\$/sf/mo.)



Phoenix moves to 2nd in the nation for annual rent growth, following a \$0.07/sf/mo. (7.4%) increase in direct asking rents during Q3 – ending the quarter with an average asking rate of \$1.01/sf/mo.

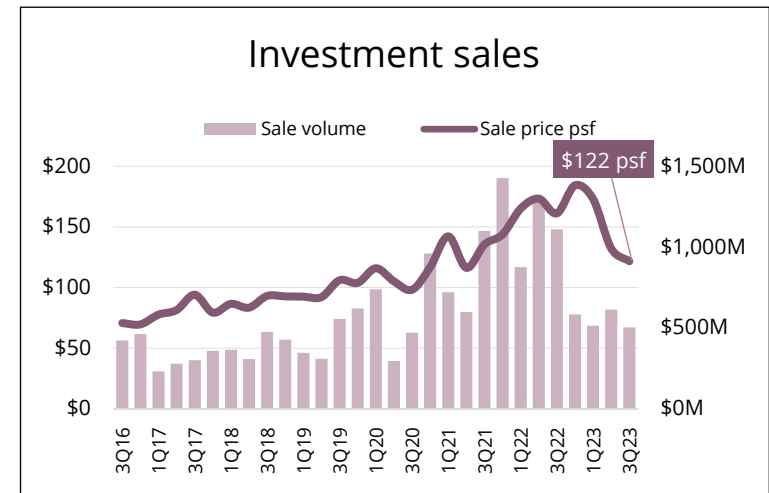
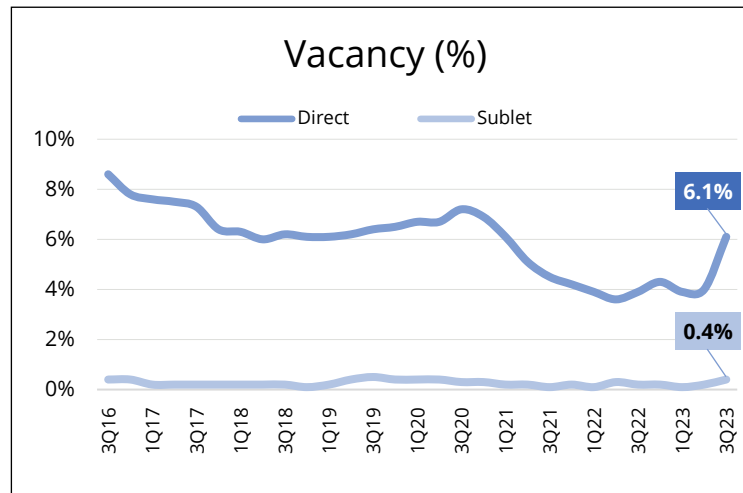
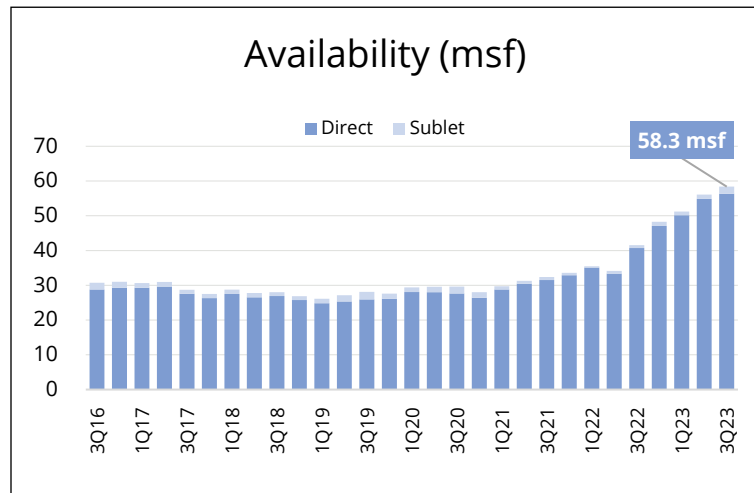
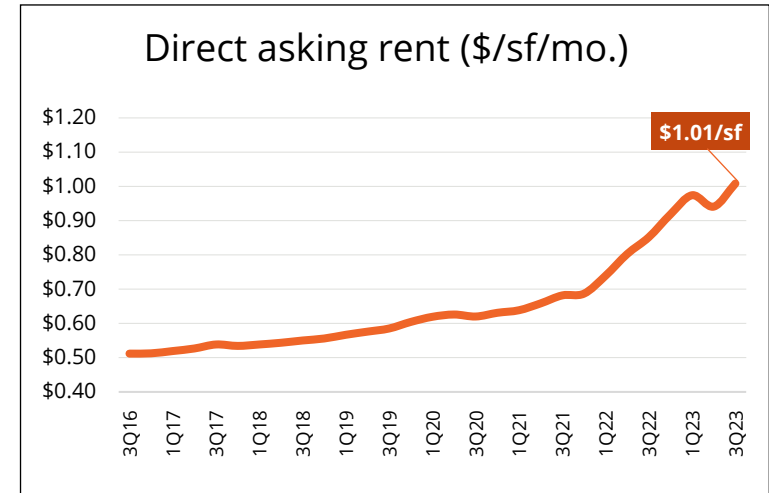
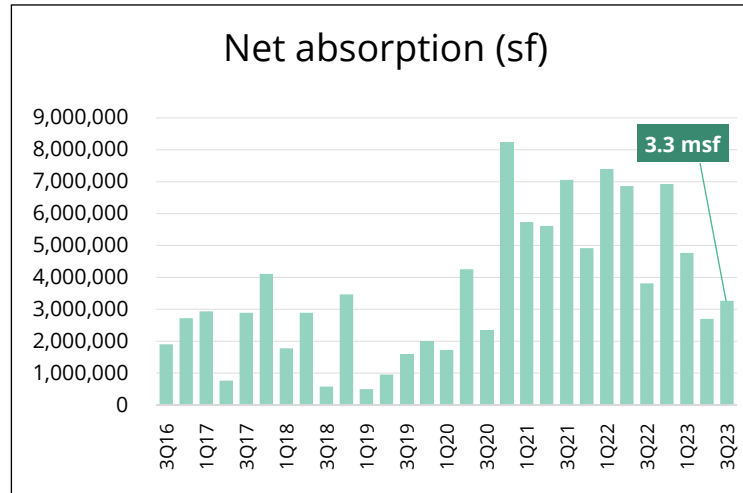
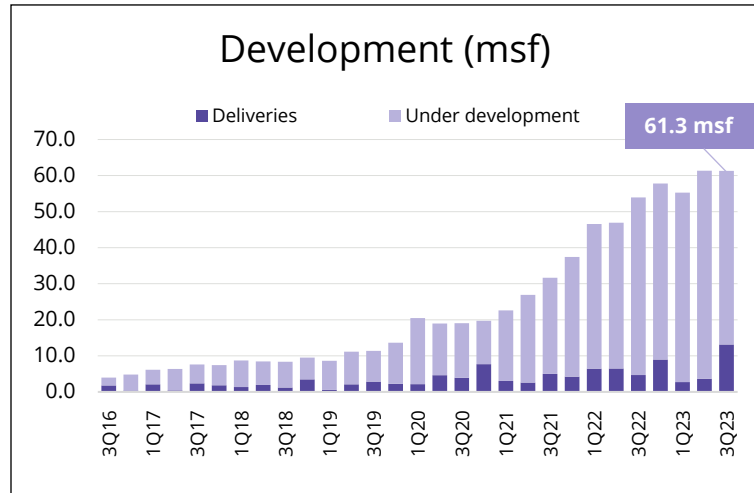
The growth in asking rent during Q3 was largely driven by a majority of available space consisting of new construction, which typically commands higher rental rates than second-generation space. Moreover, the emergence of Phoenix as an advanced manufacturing market has stimulated demand for higher technology buildings which typically ask much higher rates than the more basic build-outs of warehouses & distribution centers.



# Appendix



# Phoenix industrial: Market indicators



# Phoenix industrial: Sales, leasing, & development activity

## Recent leasing activity

Tenant	Address	Submarket	Sign date	Size (sf)	Transaction type	Lease type
Figs	SWC Indian School Rd & Loop 303	Glendale	August 2023	488,400	New Lease	Direct
Aligned Energy	NEC S Price & Innovation St	Chandler	August 2023	396,343	New Lease	Direct
Arizona Republic	22600 N 19 <sup>th</sup> Ave	Deer Valley / Pinnacle Peak	August 2023	290,000	New Lease	Direct
Not Disclosed	275 W Pinnacle Peak Rd	Deer Valley / Pinnacle Peak	July 2023	207,984	New Lease	Direct
Paulo Solar	3265 S Crimson Rd	Mesa	September 2023	192,580	New Lease	Direct

## Recent sales activity

Buyer	Address	Sale date	Building size (sf)	Sale price	Sale price psf	Seller
EQT Exeter	6605 N Sarival Ave, Glendale	July 2023	1,253,382	\$105,000,000	\$83.77	Hines
Westcore	15101 W Hatcher Rd, Waddell	July 2023	519,167	\$51,058,387	\$98.35	Ryan Companies
Westcore	15151 W Hatcher Rd, Waddell	July 2023	386,958	\$41,661,358	\$107.66	Ryan Companies
ATLAS	22600 N 19 <sup>th</sup> Ave, Phoenix	August 2023	302,989	\$38,000,000	\$125.42	Gannet
ViaWest Group	3865 W Van Buren St, Phoenix	August 2023	180,000	\$19,000,000	\$105.56	Sub-Zero Group

## Top projects under development

Project Name	Address	City	Delivery date	Building size sf	Developer
Ross Stores Distribution Center	23499 W Southern Ave	Buckeye	December 2023	1,600,000	McShane Construction Company
Prologis 303 Business Park – Phase II	SWC Cotton Ln & Camelback Rd	Goodyear	March 2024	1,222,480	Prologis
Southern Industrial Center	24105 W Southern Ave	Buckeye	November 2023	1,207,360	Contour Real Estate
The Cubes @ Glendale – Building B	SEC N Reems Rd & W Northern Ave	Glendale	October 2023	1,200,140	CRG Development



# Phoenix industrial: Submarket cluster stats

	Existing inventory sf	Deliveries sf (Q3)	Under development sf	Direct vacancy rate (%)	Sublet vacancy rate (%)	Total vacancy rate (%)	Total change in vacancy % (Q/Q)	Net absorption (sf)	Annual direct asking rent psf NNN
<b>Airport Industrial</b>	47,879,729	40,000	325,863	2.4%	1.0%	3.4%	+0.6%	(267,917)	\$1.13
<b>Northeast Phoenix</b>	11,501,295	160,019	10,000	3.5%	0.1%	3.6%	+1.3%	20,702	\$1.47
<b>Northwest Phoenix</b>	90,254,729	4,863,364	17,338,326	9.0%	0.1%	9.1%	+4.7%	1,227,448	\$0.80
<b>Pinal County</b>	12,297,150	13,803	2,344,688	1.0%	0.0%	1.0%	+0.3%	(29,179)	\$0.83
<b>Southeast Phoenix</b>	99,407,189	2,062,599	18,405,619	5.9%	0.3%	6.2%	+1.8%	285,615	\$1.21
<b>Southwest Phoenix</b>	135,281,228	5,989,689	9,758,322	6.3%	0.5%	6.8%	+2.0%	2,047,297	\$0.93
<b>Market total</b>	<b>396,004,359</b>	<b>13,129,474</b>	<b>48,182,818</b>	<b>6.1%</b>	<b>0.4%</b>	<b>6.5%</b>	<b>+2.4%</b>	<b>3,283,966</b>	<b>\$1.01</b>

# Industrial insights glossary of terms

## Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

## Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

## Industrial rents and concessions

- **Triple net rents:** tenant is responsible for paying rent, utilities, taxes, operating expenses and common area maintenance
- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as triple net (NNN)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as triple net (NNN)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an industrial suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

## Property subtypes

- **Distribution:** properties used primarily to ship good with higher proportions of dock doors and taller clear heights
- **General Warehouse:** properties used to store goods and materials
- **Manufacturing:** properties where goods are produced and assembled with heavier power and stronger floor loads for equipment

## Capital markets

- **Investment volume:** industrial sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

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