



Phoenix industrial market report

Q4 2023

**AVISON
YOUNG**

Phoenix industrial: Market trends

8.8m

Deliveries (sf)

Phoenix continues to lead the nation in industrial deliveries through Q4 2023. In Q4, the Valley delivered over 8.8 million square feet of industrial space, predominantly in the Northwest, Southeast, and Southwest Phoenix submarkets. In addition to this number, 44.3 million square feet are under development. The Valley ranks #1 in inventory under construction, followed by other leaders such as Dallas, Fort Worth, Atlanta, Charlotte, Las Vegas, and Inland Empire, to name a few.

2.3m

Net absorption activity (sf)

Net absorption declined slightly in Q4 from Q3 but remains positive at 2.3 million square feet. Overall net absorption for 2023 did decline compared to 2022 but continues to outperform pre-pandemic numbers. The growth in industrial construction will continue to temporarily affect the balance between occupied and vacant space through 2024 and into 2025, but demand is expected to remain strong due to the positive net absorption experienced in 2023, along with internationally renowned companies such as Amkor, ASM and TSMC continuing to invest and establish facilities in the Valley.

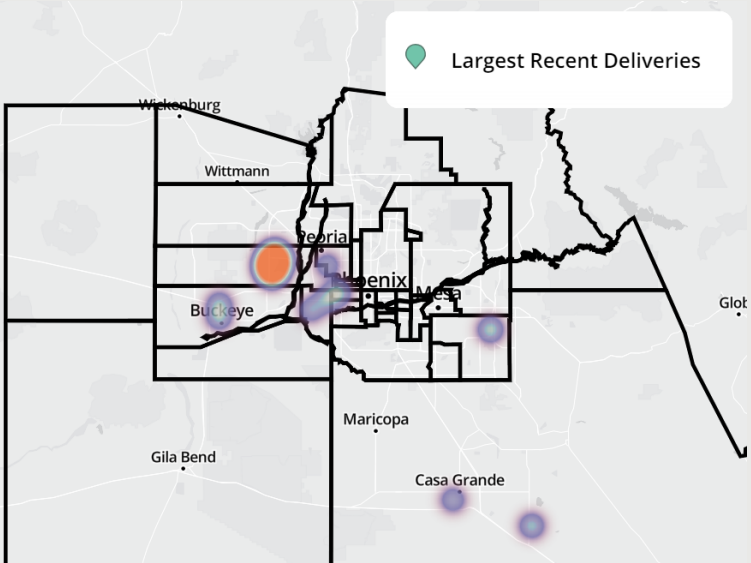
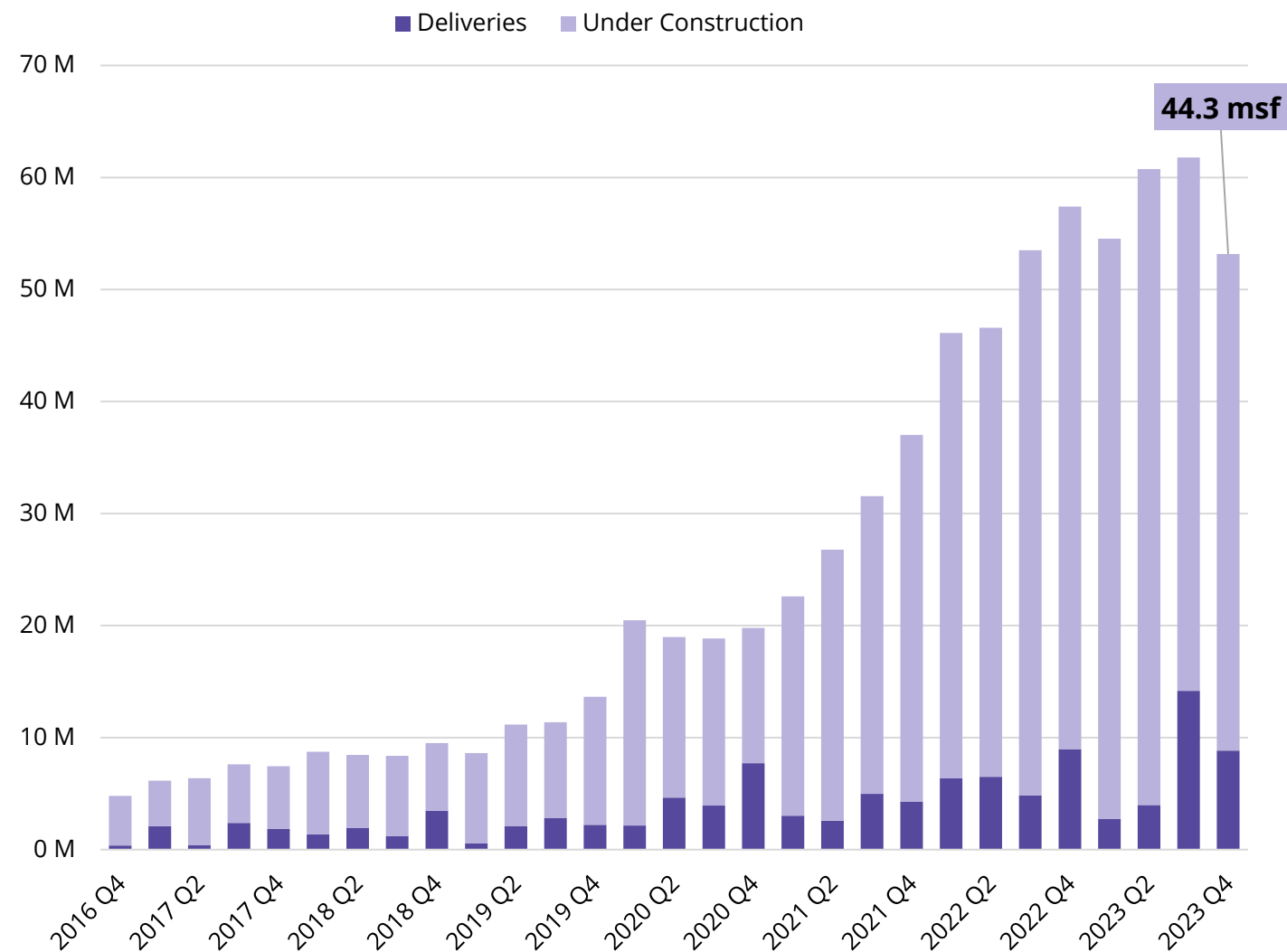
8.0%

Vacancy Rate (%)

Q4 concludes 2023 with a spike in vacancy in contrast to the beginning of the year, due almost exclusively to new deliveries. With new developments continually being brought to the market, vacancy has doubled from what it was in Q1 2023, and this trend is anticipated to continue through 2024. Due to the dramatic addition of delivered space in 2023, an increase in vacancy wasn't expected. For the last two quarters, the Valley has seen a stark increase in vacancy, with an addition of 220 basis points between Q2 and Q3 and an addition of 150 basis points between Q3 and Q4.

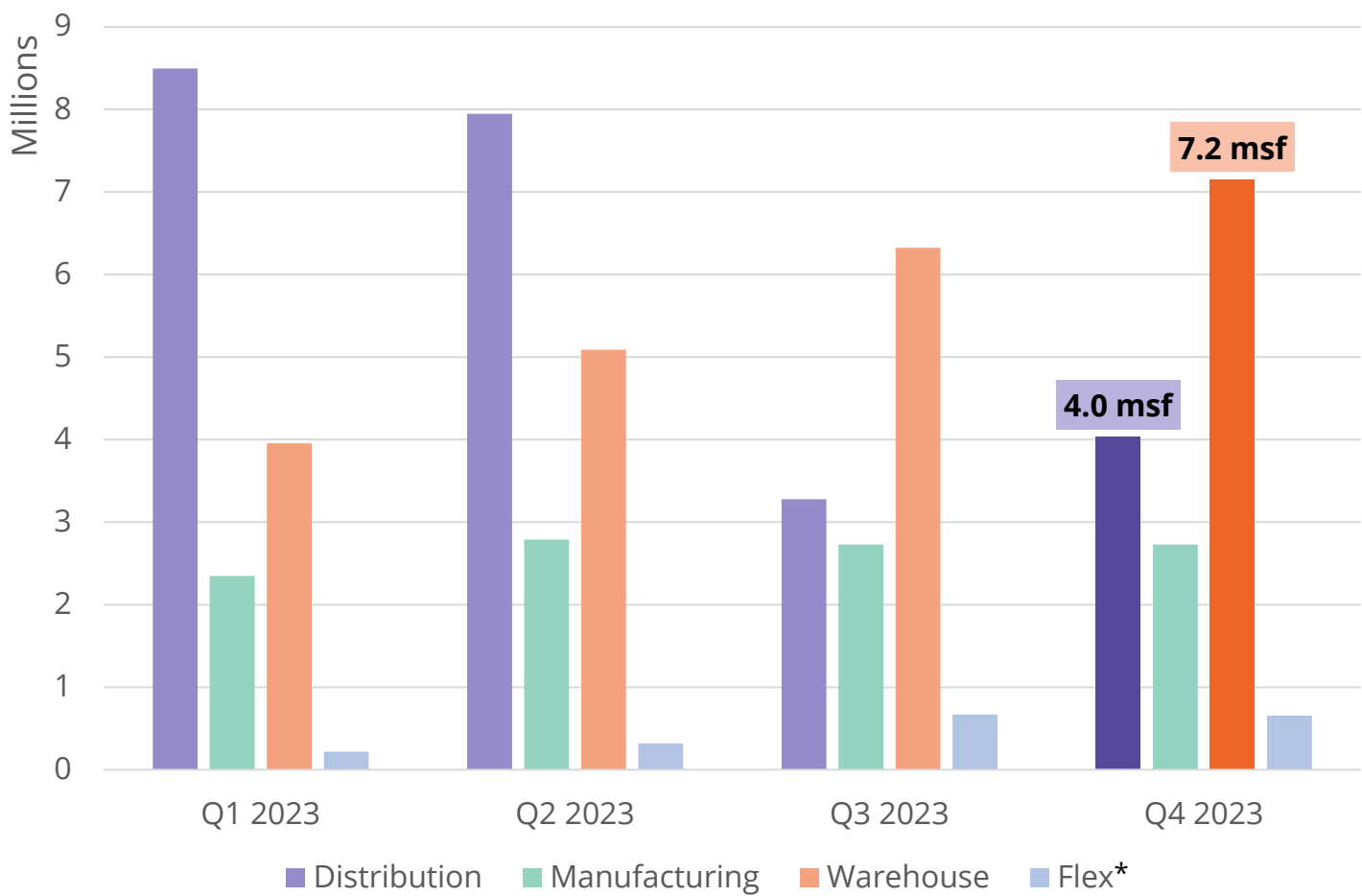
Note: This report is indicative of industrial properties that are 5k sf and up.

Phoenix industrial: Development activity (sf)



The Phoenix industrial market continues to boom with unprecedented development numbers leading the nation in overall construction. As new construction starts to decline in Q4, developers still delivered 8.8 million sf in Q4 with 44.3 million sf still in the construction pipeline. The 8.8 million sf of delivered space in Q4 accounts for 18.25% of the Valley's industrial space under construction during Q3 2023, and 2.16% of the total inventory by the 2023 year-end.

Phoenix industrial: Under construction (sf)

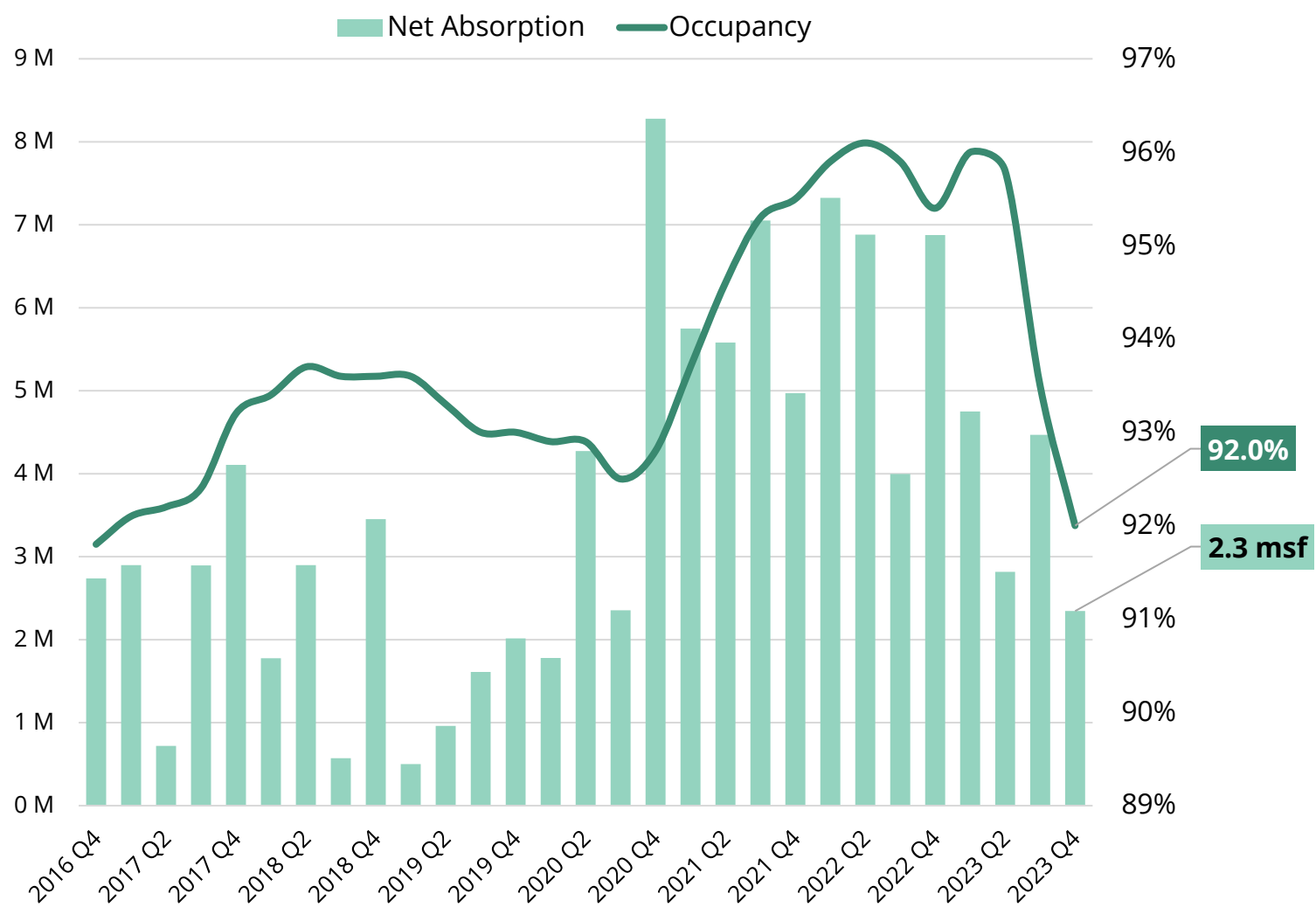


* This report was not inclusive of Flex space but is shown here for comparison.

From the start of 2023 to the end, there was a reorientation in the focus of industrial development. Between Q1 and Q3 2023, there was a large change in the construction of distribution centers, leading to an influx of those properties into the market. Concurrently, there was a gradual uptick in the construction of warehouse spaces, indicating that inventory is not only being delivered, but more warehouse projects are underway.

If this construction pattern persists, this trend could align with the growth of key industries in the Valley, including but not limited to consumer goods and retail, IT, and telecommunications.

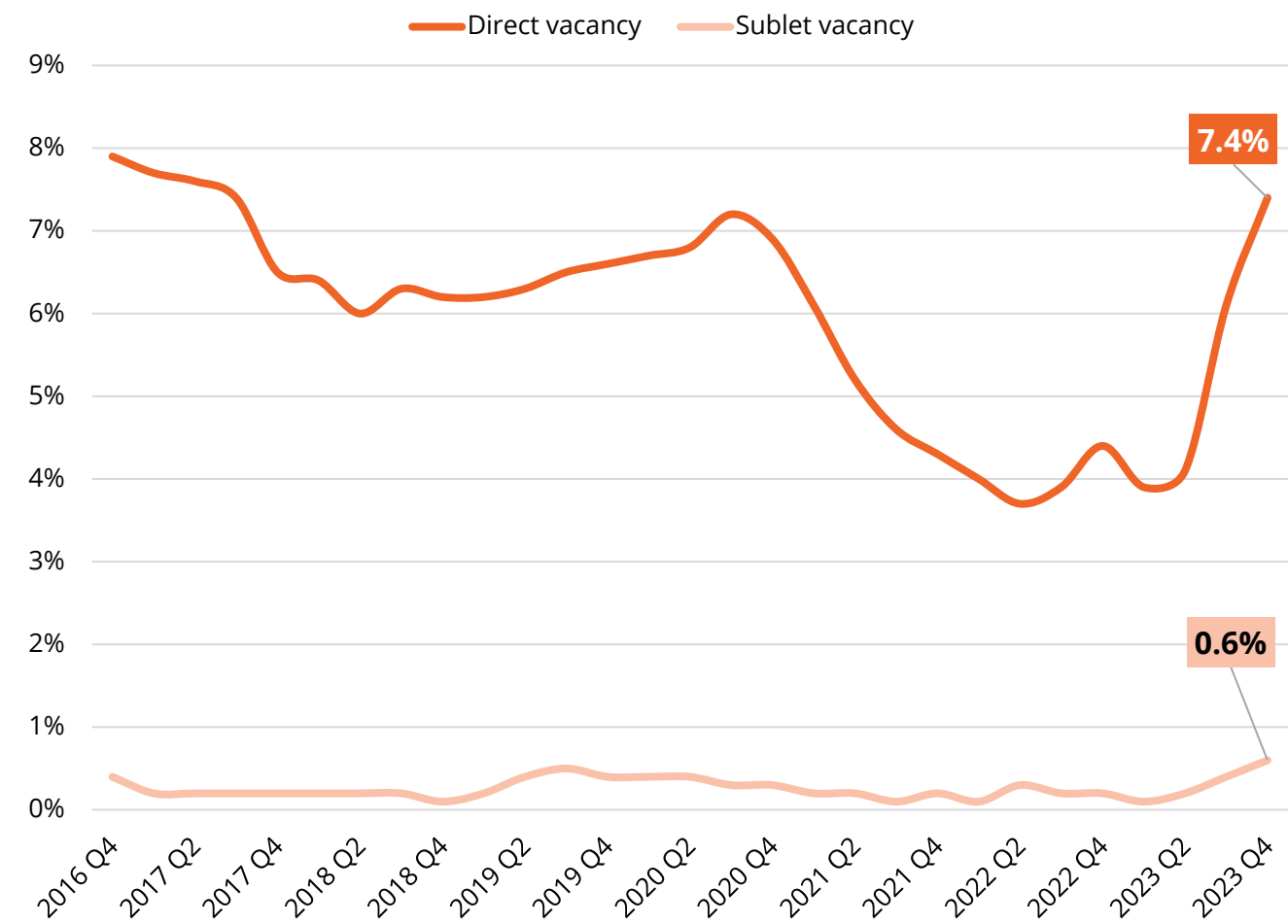
Phoenix industrial: Net absorption (sf)



As development continues to soar, there is a slight dip in net absorption for Q4 2023 from Q3 2023. Despite this, net absorption remains in positive territory at 2.3 million square feet. The growth in industrial construction may temporarily disrupt the balance between occupied and vacant spaces. Although occupancy rates dropped slightly by 150 basis points between Q3 and Q4, the total occupied space in the Valley increased by 2.2 million square feet between Q3 and Q4.

While vacancy rates continue to climb due to new supply, the outlook for net absorption in 2024 is positive and is anticipated to perform similarly to 2023.

Phoenix industrial: Vacancy rates (%)



Upon the 2023 year-end, the Valley's industrial landscape underwent a shift, characterized by an increase in vacancy rates—a departure from the low vacancy seen in the first half of the year. Vacancies doubled in Q4 2023, in relative to what they were in Q1 2023, a result that aligns with the anticipated outcome following the substantial influx of new developments delivered during this period. Further observations reveal vacancy increases of 220 basis points and 150 basis points between Q2 and Q3, and Q3 and Q4 in 2023, respectively.

Despite this quarter's performance, vacancy is still below historical averages and there is still tenant demand, therefore Phoenix still appears to be a healthy market.

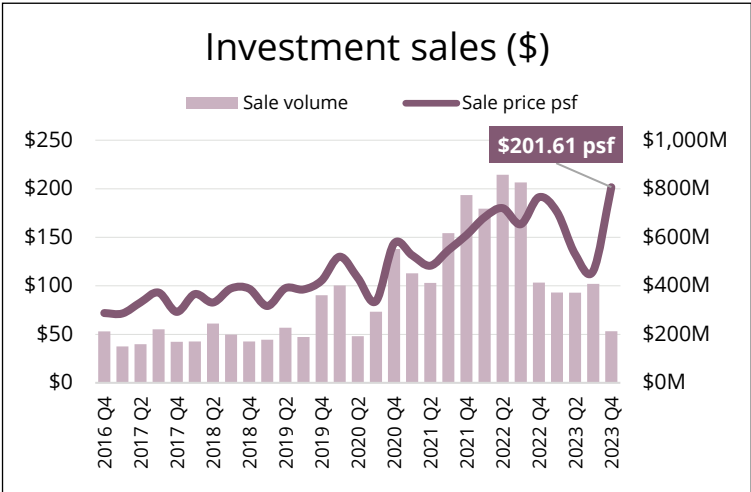
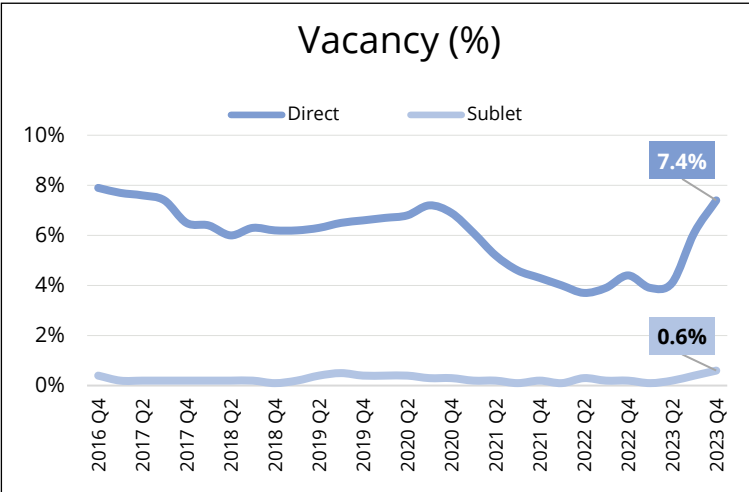
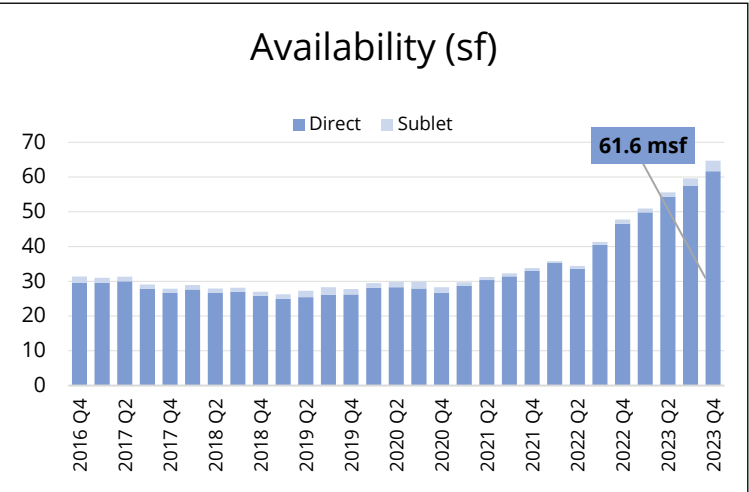
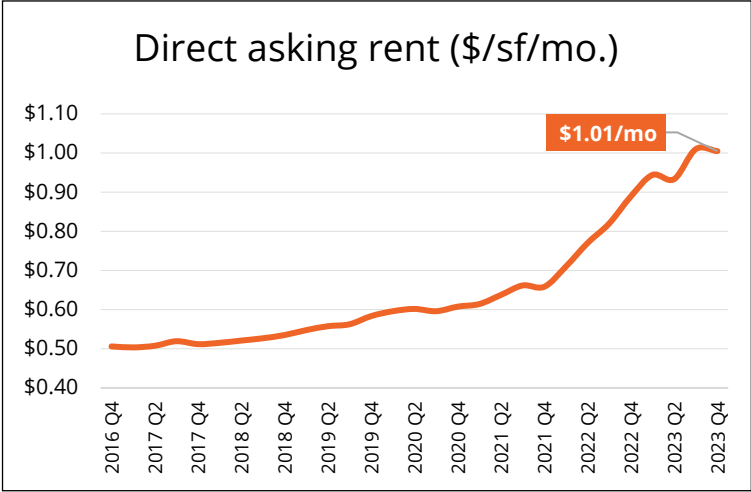
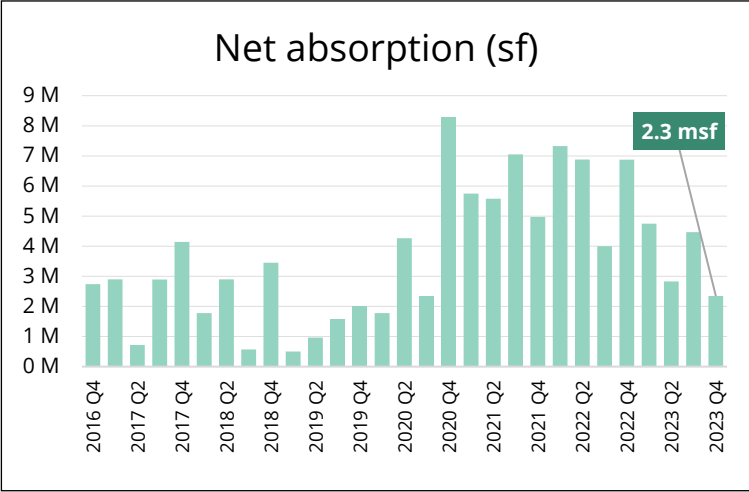
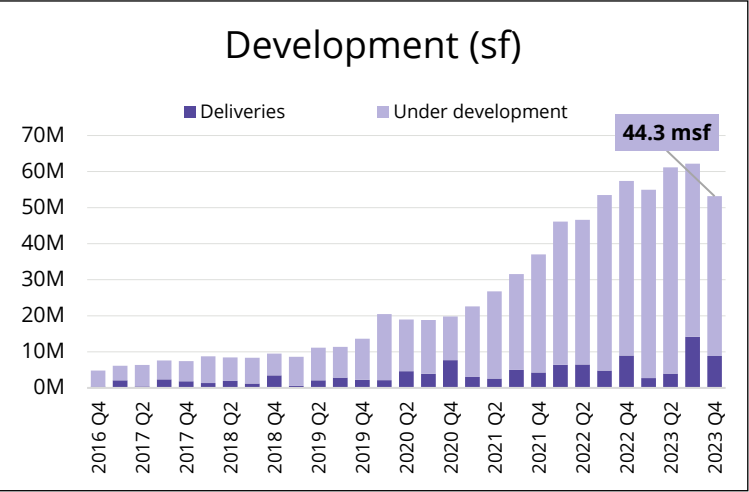
Appendix



Phoenix industrial: Submarket clusters

Submarket	Existing inventory sf	Deliveries sf (Q4)	Under development sf	Direct vacancy (%)	Sublet vacancy (%)	Total vacancy (%)	Total change in vacancy % (Q/Q)	Net absorption sf (Q4)	Monthly direct asking rent psf NNN
Airport Industrial	48,155,619	0	325,863	3.0%	1.3%	3.3%	-0.1%	(420,215)	\$1.17
Northeast Phoenix	11,553,845	0	18,789	2.6%	0.1%	2.6%	-1.0%	122,280	\$1.42
Northwest Phoenix	94,089,723	3,055,945	18,392,767	11.3%	0.6%	11.9%	+2.8%	148,234	\$0.77
Pinal County	11,394,680	45,000	2,299,688	2.1%	0%	2.1%	+1.1%	(64,703)	\$0.86
Southeast Phoenix	105,714,563	3,488,653	13,987,957	7.0%	0.2%	7.3%	+1.2%	2,251,385	\$1.24
Southwest Phoenix	137,255,767	2,257,887	9,299,854	7.4%	0.7%	8.1%	+1.3%	308,199	\$0.95
Market total	408,164,197	8,847,485	44,324,918	7.4%	0.6%	8.0%	+1.5%	2,345,180	\$1.01

Phoenix industrial: Market indicators



Phoenix industrial: Sales, leasing & development activity

Recent leasing activity

Tenant	Address	Submarket	Sign date	Size (sf)	Transaction type	Lease type
Saddle Creek Logistics	7421 N Reems Rd – Bldg E	Glendale	October 2023	570,080	New Lease	Direct
Facebook	SEC Elliot & Ellsworth Rd – Bldg 2	Chandler	November 2023	480,000	New Lease	Direct
Parts Town	5201 N Cotton Ln	Glendale	October 2023	420,536	New Lease	Direct
Sunmed	NEC 152 nd Ave & Camelback Rd	Glendale	October 2023	326,018	New Lease	Direct
Wholesale Tire and Wheel Distributors, LLC	107 S 41 st Ave	SW N of Buckeye Rd	December 2023	220,162	New Lease	Direct

Recent sales activity

Buyer	Address	Sale date	Building size (sf)	Sale price	Sale price psf	Seller
CapRock Partners	5858 W Lower Buckeye Rd, SW S of Buckeye	November 2023	248,750	\$20,457,371	\$82.24	Sun State Builders
Surgenex	7405 E Monte Cristo Ave	November 2023	64,560	\$15,225,000	\$235.83	Nobility Management, LLC
Harrison Condos	NEC S 59 th Ave & W Watkins St – Bldg B	November 2023	76,407	\$14,258,296	\$186.61	VanTrust Real Estate LLC
Glanbia plc	2235 S Central Ave - Advo	October 2023	80,640	\$10,000,000	\$124.01	APS BioGroup

Top projects under development

Project Name	Address	City	Delivery date	Building size sf	Developer
Ross Stores Distribution Center	23499 W Southern Ave	Buckeye	June 2024	1,600,000	McShane Construction Company
Luke Field Warehouse	SEC Litchfield Rd & Northern Ave – Bldg C	Glendale	May 2024	1,260,000	LPC Desert West
Prologis 303 Business Park	SWC Cotton Ln & Camelback Rd – Bldg 1	Goodyear	March 2024	1,222,480	Prologis
Reems Ranch 303	15700 W Glendale Ave	Litchfield Park	Jan 2024	1,123,360	Bickman Industrial

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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