



Phoenix industrial market report

Q1 2024

**AVISON
YOUNG**

Phoenix industrial market trends

10m

Deliveries (sf)

The Phoenix Industrial sector began 2024 with a significant addition of 10 million square feet to the market, surpassing last quarter's figures.

Over the past year, industrial deliveries in Phoenix have outpaced other major industrial markets. There is no anticipation of a slowdown in deliveries in the coming 24 months, as speculative development that began in 2022 and beyond continues to make its way into the market. Currently, 36.9 million square feet remain in the development pipeline, and significant projects are expected to be completed this year, such as a 1.2 million square foot Prologis building in the Glendale (Northwest) submarket, leased by Amazon.

4.6m

Net absorption (sf)

Q1 2024 witnessed a surge in positive absorption, totaling 4.6 million square feet, which stands at more than double the figure recorded in the previous quarter. This substantial increase comes at a time when vacancy rates in the Phoenix Industrial sector are on the rise due to the influx of new developments. However, it is important to recognize that Amazon's aggressive leasing activity prominently drove this quarter's positive absorption, as they signed over 3 million square feet in direct leases in the Northwest and Southeast regions.

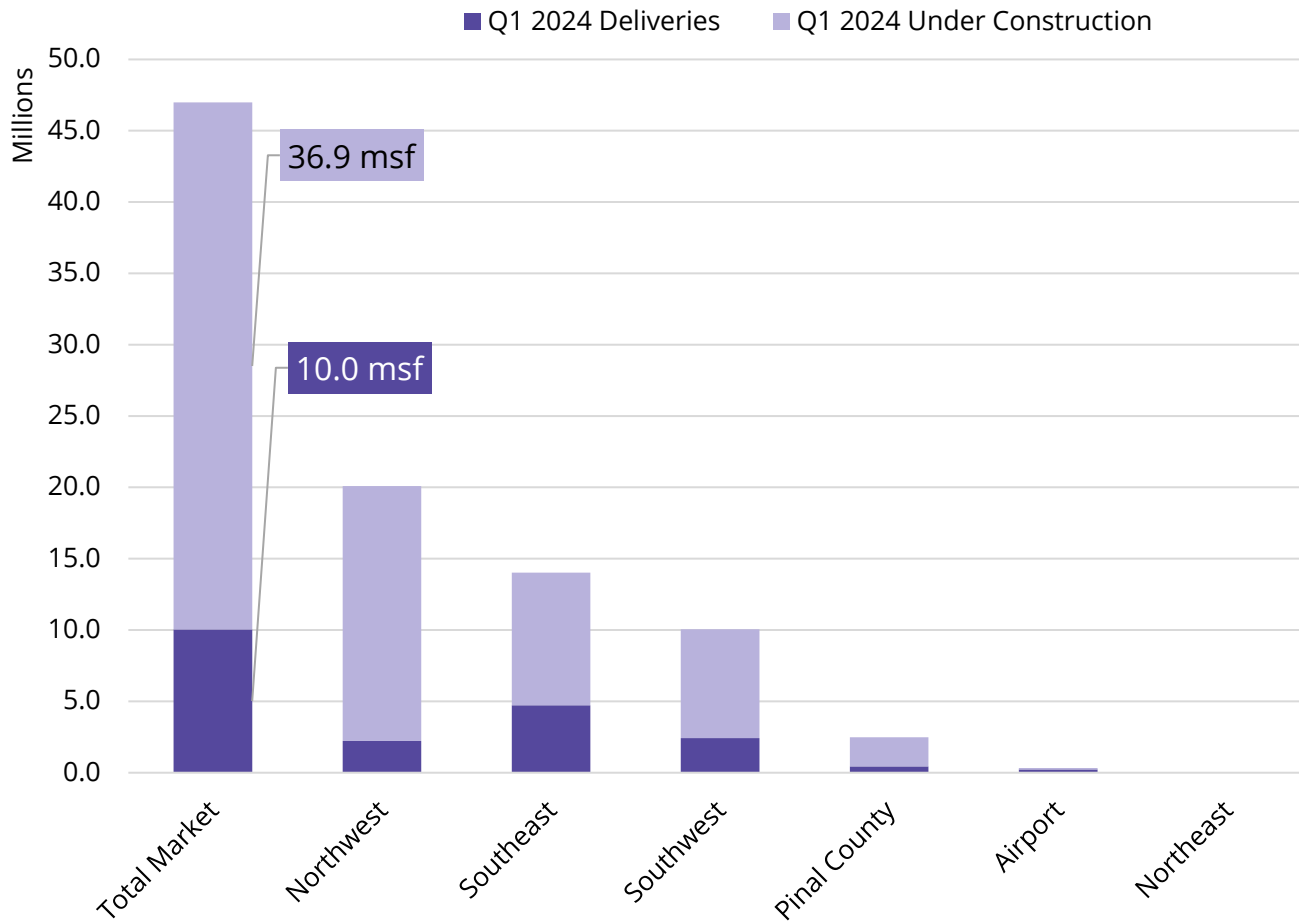
9.7%

Vacancy rate (%)

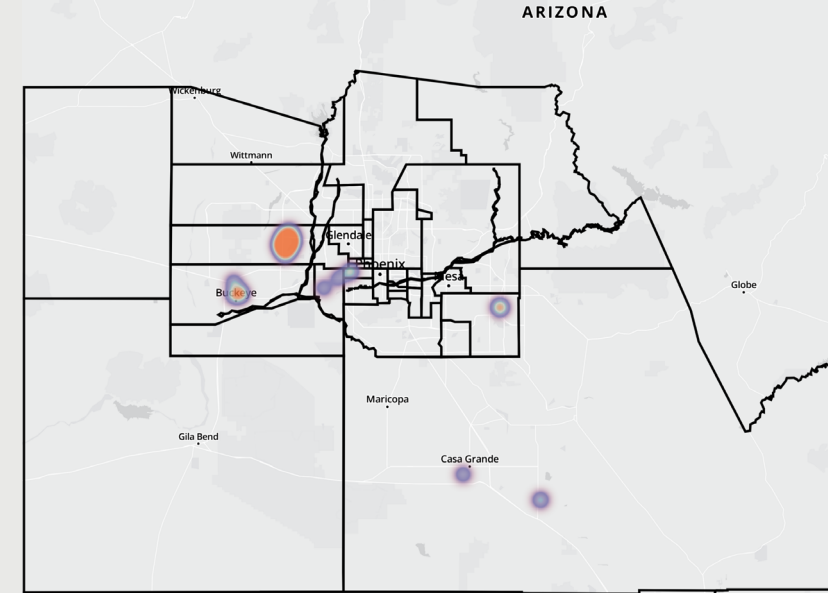
In Q1 2024, vacancy rates in the industrial sector surged to 9.7%, up 570 basis points, more than double what it was a year ago in Q1 2023. Developers are racing to roll out new inventory, anticipating the forthcoming demand driven by continued government backing of semiconductor facilities in the valley. Under the CHIPS and Science Act, the U.S. Department of Commerce inked a non-binding preliminary memorandum of terms with TSMC Arizona, earmarking \$6.6 billion in direct funding and \$5 billion in loans. This investment is poised to bolster TSMC's establishment of three plants in Phoenix, catalyzing the AI boom and related industries (VKTR, 2024).

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

Phoenix industrial development (sf)

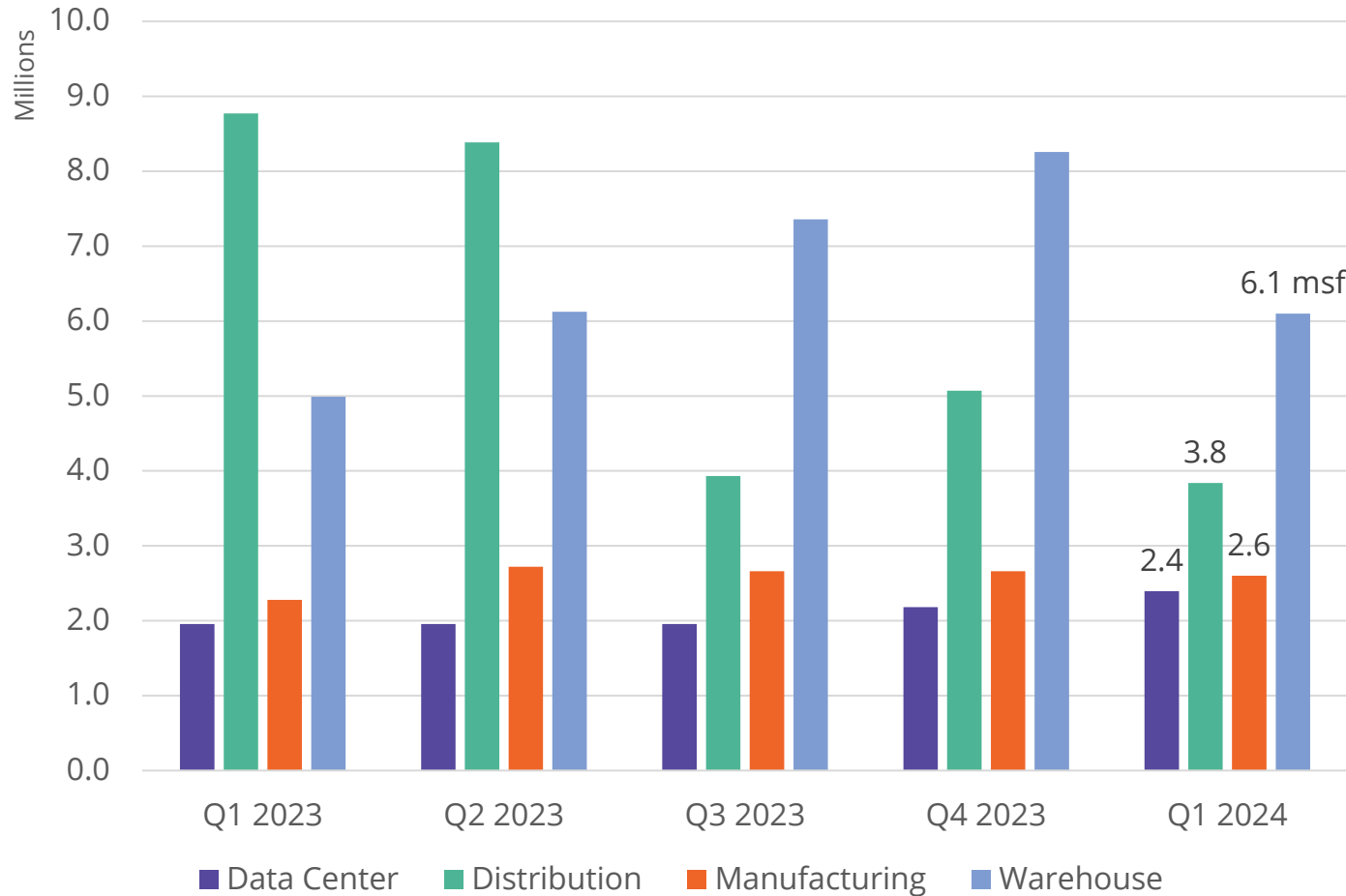


Robust Development Activity



The Phoenix Industrial market's robust growth kicks off 2024 with 10 million square feet of new inventory and a highly active pipeline in the Northwest, Southeast, and Southwest submarket clusters.

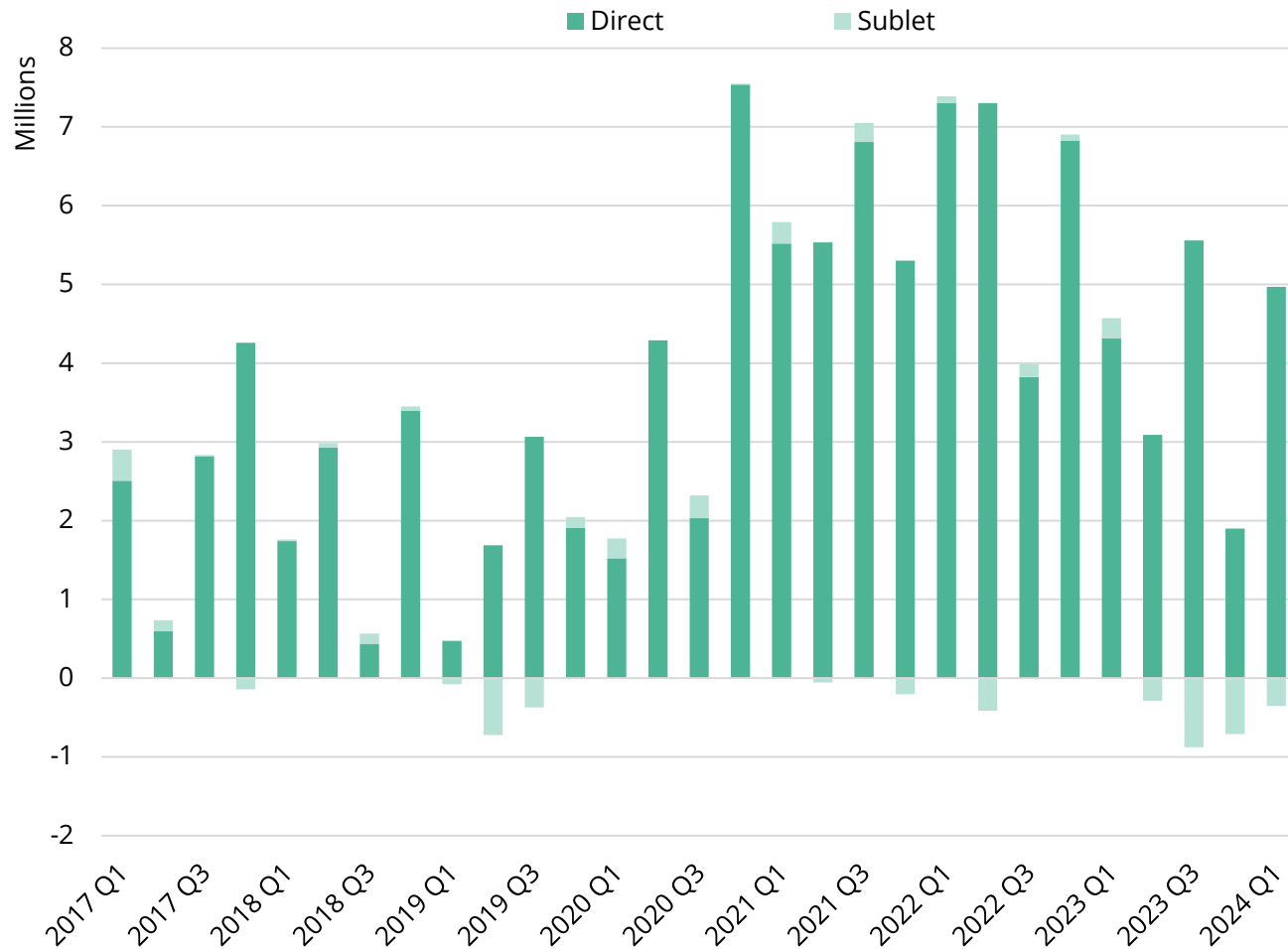
Phoenix industrial under construction(sf)



Note: Industrial projects that are unclassified in Costar (no subtype) are not represented in this data.

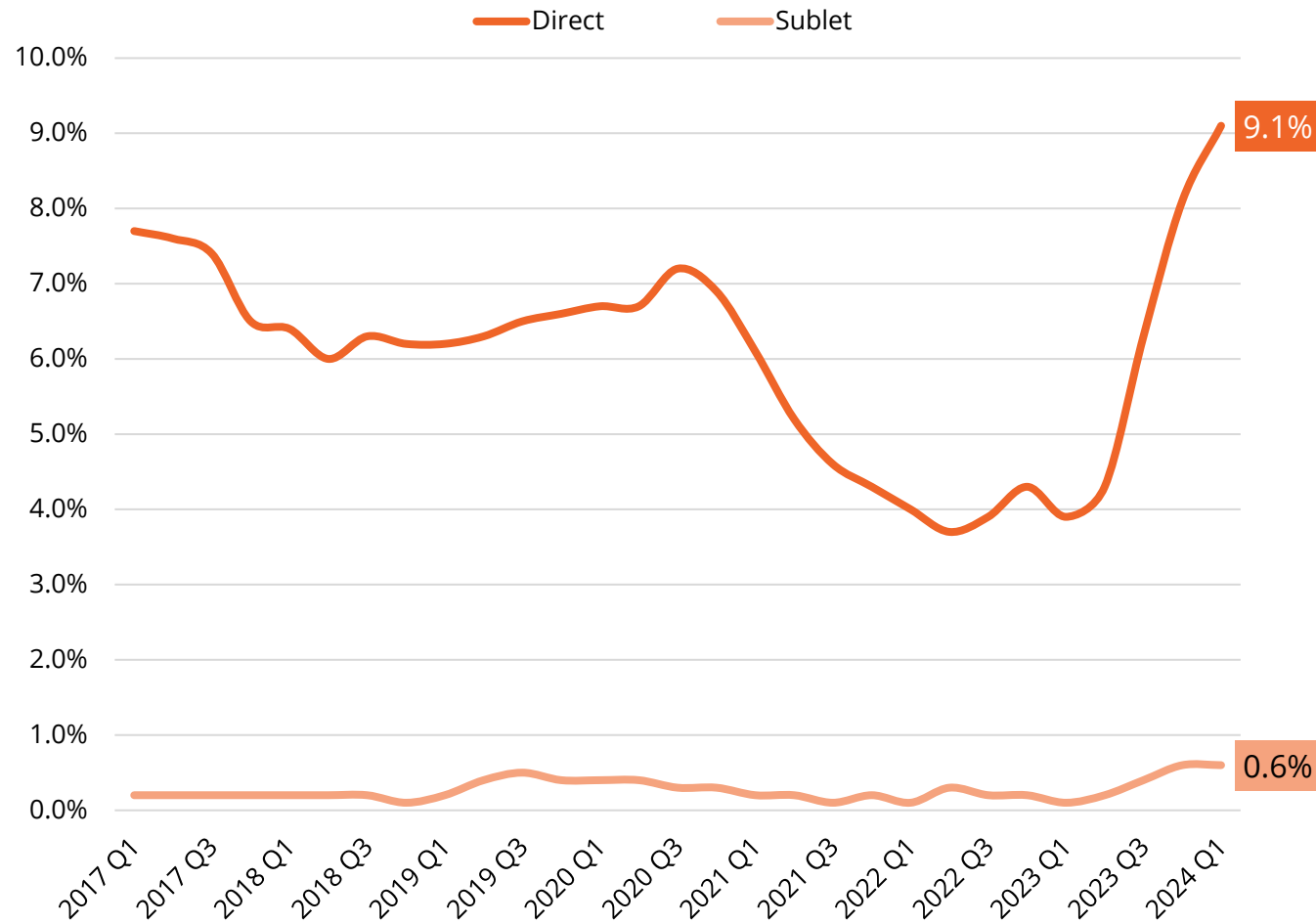
In Q1 2024, while there was a notable increase in new inventory entering the market, under-construction activity slowed down as many projects, particularly in warehouse and distribution subtypes, have paused until the majority of new inventory being delivered to the market gets absorbed.

Phoenix industrial absorption (sf)



In Q1 2024, the Phoenix Industrial sector experienced healthy positive absorption, totaling a net 4.6 million square feet. This demonstrates how the merits of the Phoenix market, including population growth, availability of qualified labor, and proximity to California ports, continue to elevate the region to national prominence among major players in the high-tech manufacturing, supply chain and logistics and electric vehicle industries.

Phoenix industrial vacancy rates (%)



In Q1 2024, total vacancy surged to 9.7%, driven by a direct vacancy rate of 9.1% attributed to the robust delivery of new speculative building spaces as demonstrated by that fact. In addition, only 38% of the under-construction inventory is fully preleased at this moment.

With the wave of Fortune 100 and 500 companies into the Phoenix industrial sector, like Amazon and TSMC, expect changes in the overall market including employment, population, and housing as well as more occupation by their suppliers.

Appendix



Phoenix industrial market activity

Recent leasing activity

Tenant	Address	Submarket	Sign date	Size (sf)	Transaction type	Lease type
Amazon	4780 N Cotton Ln	Glendale (Northwest)	March 2024	1,222,480	New Lease	Direct
Amazon	15301 W Northern Ave	Glendale (Northwest)	March 2024	1,200,140	New Lease	Direct
Amazon	NNWC Interstate -10 & Perryville Rd	Goodyear (Southeast)	March 2024	1,056,353	New Lease	Direct
Steelcase	NWC Loop 303 & Camelback Rd	Glendale (Northwest)	February 2024	210,660	New Lease	Direct
Sologistics	850 N 119 th Ave	Goodyear (Southeast)	January 2024	194,598	New Lease	Sublease

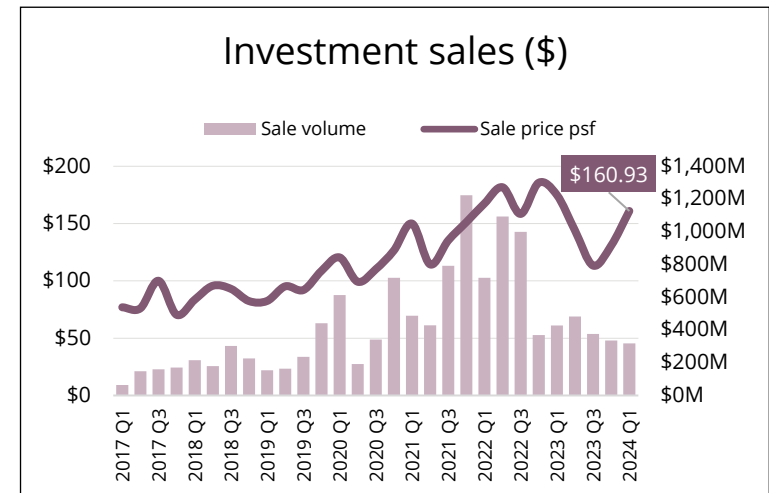
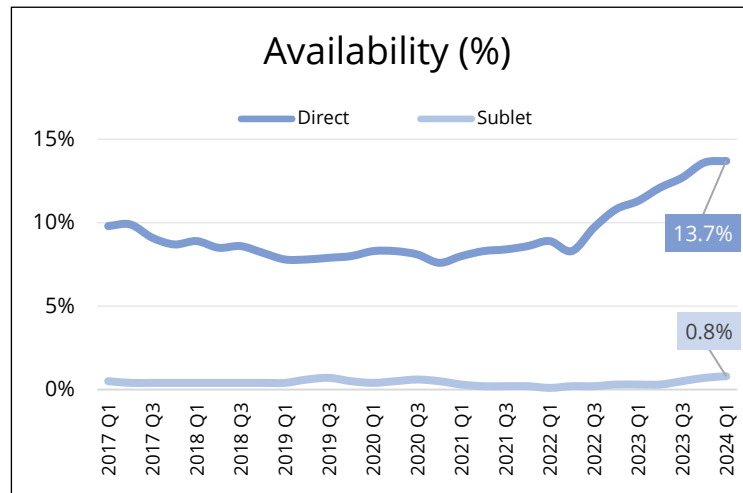
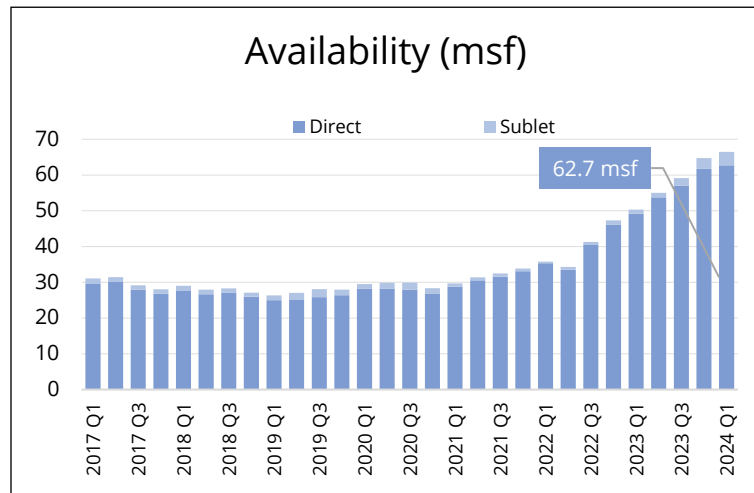
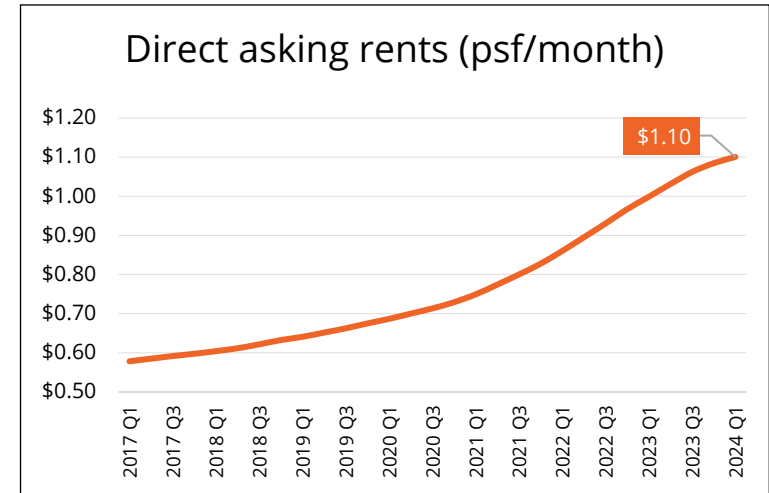
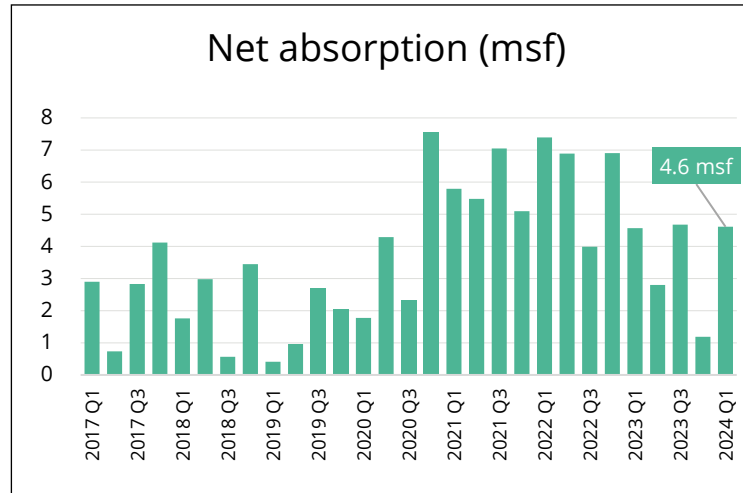
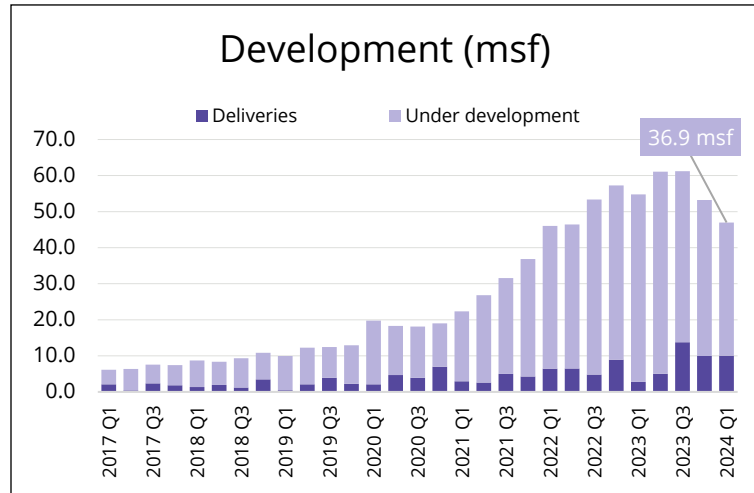
Recent sales activity

Buyer	Address	Sale date	Building size (sf)	Sale price	Sale price psf	Seller
Link Logistics Real Estate	2300 S 51 st Ave	January 2024	335,459	\$42.2M	\$125.80	Bixby Land Company
MDC Realty Advisors	2632 E Chambers Dr	February 2024	114,907	\$24.3M	\$211.48	American Refrigeration Supplies, Inc.
Cohen Asset Management Inc	3750 S 156 th Ave	March 2024	120,000	\$21.8M	\$181.67	ATLAS
The Meritex Company	3930 E Watkins St	January 2024	101,932	\$20.3M	\$199.15	Pat Simone Charitable Foundation

Top projects under development

Project Name Address	Submarket	Delivery date	Building size sf	% Preleased	Developer
Ross Stores Distribution Center 23499 W Southern Ave	Goodyear (Southeast)	June 2024	1,600,000	N/A - Owner occupied	McShane Construction Company
Luke Field Warehouse SEC Litchfield Rd & Northern Ave – Building C	Glendale (Northwest)	November 2024	1,278,653	0%	LPC Desert West
Prologis 303 Business Park 4780 N Cotton Ln – Building 1	Glendale (Northwest)	May 2024	1,222,480	100% - Amazon	Prologis
Kohler Co Manufacturing Facility W Clayton Rd	Pinal County	April 2024	1,065,741	93.8% - Kohler Co	Saint Holdings

Phoenix industrial market indicators



Phoenix industrial market stats

Submarket cluster	Existing inventory sf	Deliveries sf (Q1)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Change in vacancy (Q/Q)	Net absorption sf (Q1)	Net absorption % of inventory (Q1)	Monthly direct asking rent psf NNN
Airport Industrial	48,610,008	222,104	103,759	3.7%	1.1%	4.9%	+80 bps	(140,335)	-0.3%	\$1.19
Northeast Phoenix	11,688,132	10,000	8,789	3.0%	0.2%	3.2%	+60 bps	(64,861)	-0.6%	\$1.72
Northwest Phoenix	97,692,588	2,219,102	17,867,391	13.2%	0.6%	13.8%	+100 bps	935,430	1.0%	\$1.09
Pinal County	11,974,334	442,389	2,040,194	4.3%	0%	4.3%	+230 bps	166,085	1.4%	\$1.06
Southeast Phoenix	111,126,841	4,725,048	9,291,667	10.2%	0.4%	10.6%	+200bps	2,134,172	1.9%	\$1.28
Southwest Phoenix	139,944,156	2,419,159	7,629,501	8.1%	0.8%	8.9%	+50bps	1,582,806	1.1%	\$0.89
Market total	421,036,059	10,037,802	36,941,301	9.1%	0.6%	9.7%	+110 bps	4,613,297	1.1%	\$1.10

Note: Availability rates differ from vacancy rates due to space being listed as available before the current leases' expiration and the pre-leasing of unreleased space.

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

For more market insights and
information visit **avisonyoung.com**

David Genovese

Principal
Managing Director
+1 480 423 7900
David.Genovese@avisonyoung.com

Giovanna Abraham

Analyst
Market Intelligence
+1 929 270 0155
Giovanna.Abraham@avisonyoung.com