

FIGURES | PHOENIX INDUSTRIAL MARKET | Q4 2023

# Industrial Asking Lease Rates Lower as Vacancy Increased in Phoenix



Note: Arrows indicate change from previous quarter.

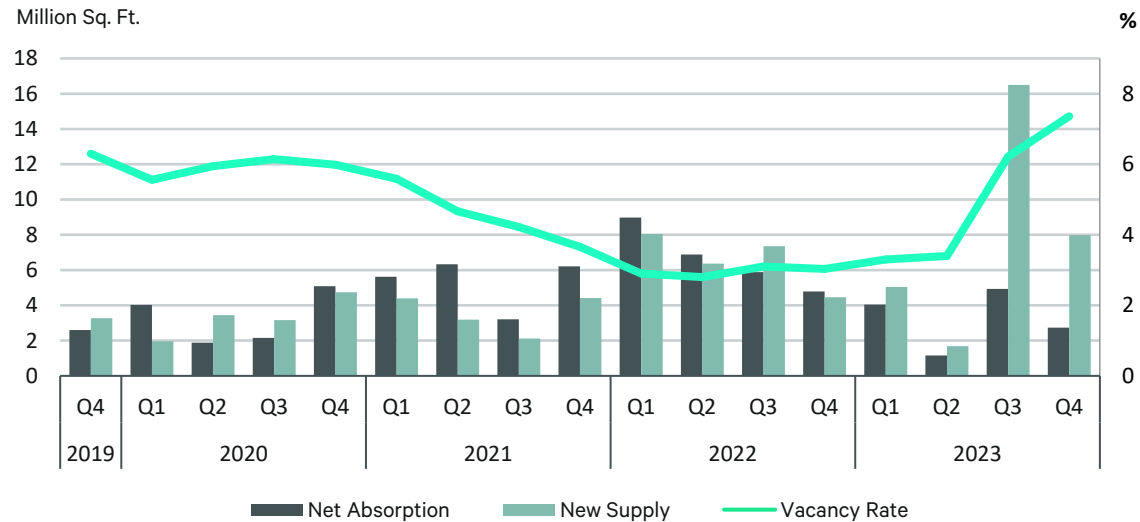
### KEY TAKEAWAYS

- Net absorption hit 2.7 million sq. ft. in Q4 2023 as leased supply was delivered across the market.
- Quarter-over-quarter, the vacancy rate increased 120 basis points (bps) to 7.4% while the average asking NNN lease rate decreased 6.9% to \$1.08 per sq. ft.
- Forty-eight buildings were delivered for a total of 8.0 million sq. ft. in Q4 2023 with 21.0% preleased or 1.7 million sq. ft.
- Construction volume slightly decreased in Q4 2023 with 39.1 million sq. ft. under construction, as the 8.0 million sq. ft. of product delivered outpaced the 6.3 million sq. ft. started.

With 2.7 million sq. ft. of net absorption experienced in the quarter, the Phoenix industrial market ends with 12.9 million sq. ft. of absorption in 2023. The fourth quarter had the lowest asking rate of 2023 as an increased amount of vacant space entered the market.

CBRE tracked 46.4 million sq. ft. of tenants in the market at the end of the fourth quarter. Phoenix remained resilient due to healthy leasing activity, increased project starts, and increased tenant demand.

FIGURE 1: Supply and Demand



Source: CBRE Research, Q4 2023.

## Availability and Vacancy

In the fourth quarter of 2023, the vacancy rate increased 120 bps quarter-over-quarter to 7.4%. While this was the highest vacancy rate since 2019, it was significantly lower than the 10-year average vacancy rate pre-pandemic, 10.4%. The Southeast Valley had the most notable rise in vacancy, which jumped 320 bps from the previous quarter to 8.2%. The key reason for the increase was the 3.3 million sq. ft. of vacant new supply that entered the submarket in the quarter. The Southwest Valley had a minor uptick in vacancy as 18% of product delivered was preleased, adding 2.5 million sq. ft. of vacant space to the submarket, pushing vacancy in the submarket to 10.0%.

It is to note that more tertiary districts apart of the Southeast and Southwest carry most of the submarket’s vacancy. The Southeast submarket would be 4.7% vacant without the Phoenix-Mesa-Gateway district, as the district makes up nearly 53.9% of vacancy in the Southeast Valley. The Southwest submarket would be 6.0% vacant without North Goodyear as the district makes up nearly 53.1% of the total market vacancy.

Distribution buildings made up most of the building type delivered this quarter. Vacancy for distribution increased to 11.8%, a 210 bps increase. Back-office product had the highest vacancy rate at 17.2%.

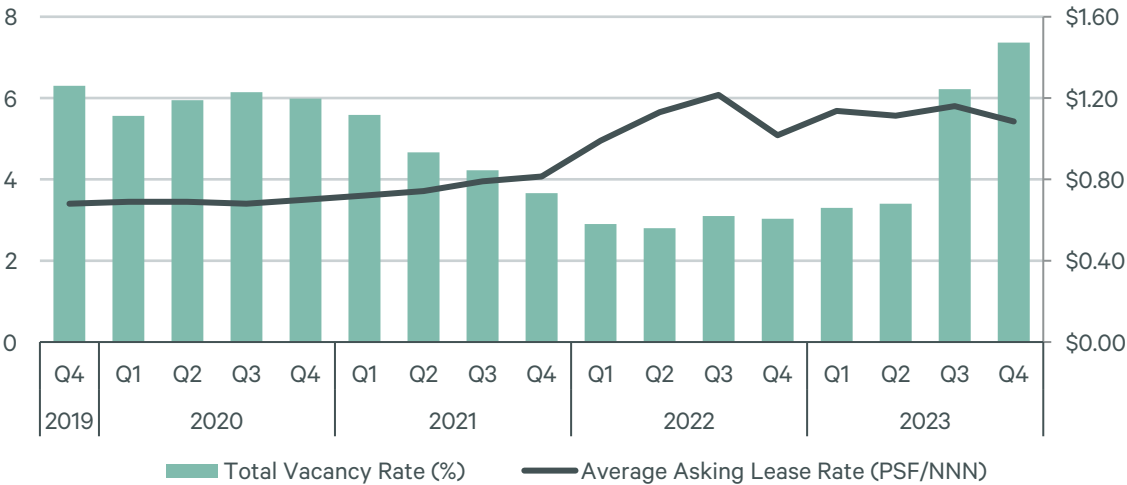
Lastly, buildings built in 2023 make up 67.8% of vacant product within Q4 2023.

## Lease Rates

The direct average asking NNN lease rate decreased in the fourth quarter to \$1.08 per sq. ft. This was a 6.9% quarter-over-quarter decline for industrial space. Rates in the Southwest Valley fell 16.8% to \$0.73 per sq. ft., however remained the most cost advantageous option for large blocks of space for distribution purposes. Asking rent in the Airport area increased to \$1.25 per sq. ft, which remained lower than the average asking lease rate from the Southeast Valley, \$1.28 per sq. ft.

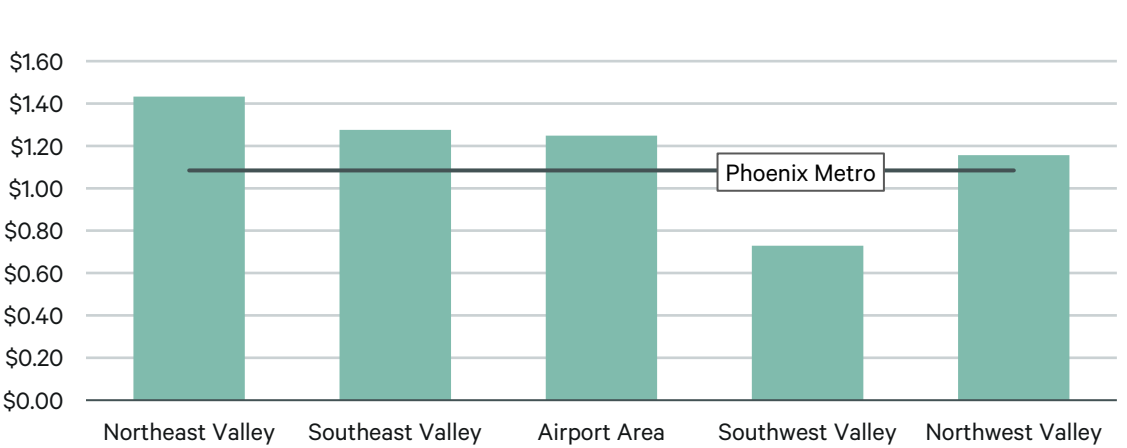
Distribution space was the most inexpensive product type on the market in Q4 2023 with an average asking rate of \$0.82 per sq. ft. NNN which represented a notable \$0.14 per sq. ft decrease from Q3 2023.

FIGURE 2: Overall Vacancy Rate and Lease Rate



Source: CBRE Research, Q4 2023.

FIGURE 3: Direct Asking Lease Rates by Submarket (\$PSF/NNN)



Source: CBRE Research, Q4 2023.

## Net Absorption and Leasing Activity

The fourth quarter of 2023 had 2.7 million sq. ft. of net absorption, bringing the annual total to 12.4 million sq. ft. Leases signed within the quarter drove net absorption. The industrial market experienced high leasing activity, as demonstrated by the uptake of 5.7 million sq. ft. The Southwest Valley contributed nearly 70% of absorption in the quarter with 1.9 million sq. ft, followed behind the Southeast Valley contributing 1.1 million sq. ft. in Q4 2023.

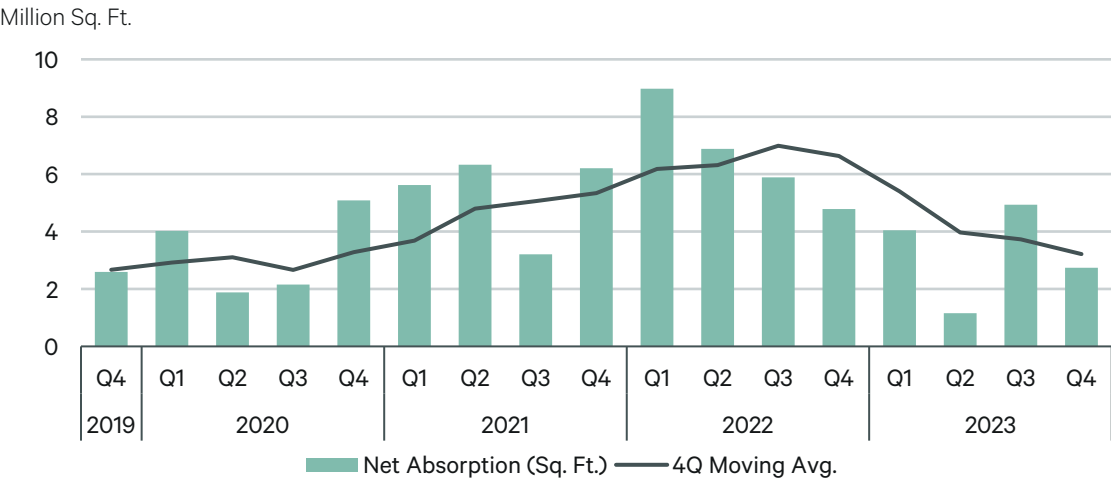
Leasing activity remained strong in the Phoenix industrial sector, which ended 2023 with gross absorption at 27.3 million sq. ft. Preleasing activity was light with 175,000 sq. ft. of leases signed for buildings under construction, which occurred primarily in the Southeast Valley. Leases that had the largest impact on net absorption included Saddle Creek Logistics Services with 570,080 sq. ft. at The Cubes at Glendale – Building E industrial facility along with Meyer Berger’s 218,451 sq. ft. leasing of vacant space at Goodyear Airport Industrial, both located in the Southwest Valley.

### Top Transactions

Leasing activity in 2023 finished in a healthy position. The fourth quarter of 2023 had 5.7 million sq. ft. of leasing activity where three of the top five leases were in the South Goodyear district:

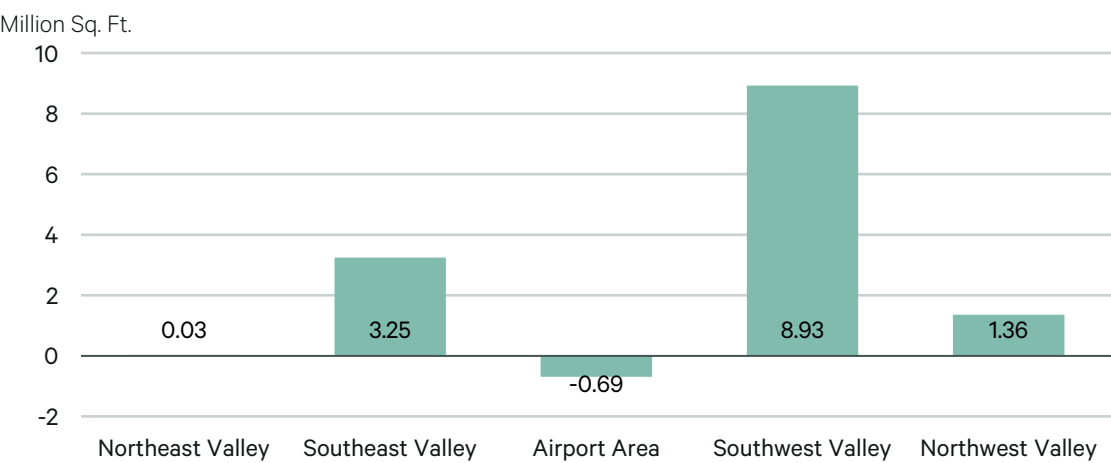
- Saddle Creek Logistics | 570,080 sq. ft. | North Goodyear
- Meyer Burger | 276,183 sq. ft. | South Goodyear
- Wholesale Tire and Wheel Distributors | 220,162 sq. ft. | Southwest Phoenix
- Meyer Burger | 218,451 sq. ft. | South Goodyear
- Sologistics | 194,598 sq. ft. | South Goodyear

FIGURE 4: Net Absorption



Source: CBRE Research, Q4 2023.

FIGURE 5: Net Absorption by Submarket YTD



Source: CBRE Research, Q4 2023.

## Development Activity

As deliveries slightly outnumbered construction starts, product under construction ended the year with 39.2 million sq. ft. As a large sum of product delivered in the Southeast Valley, amount under construction in the Southwest Valley increased to 65% of market construction, where the North Goodyear district had the most development activity with 17.4 million sq. ft. Speculative distribution buildings comprised a majority of product under construction with 31.0 million sq. ft.

Roughly, 18.1% of the product under construction was preleased. The Southwest Valley ended the year at 22.6% preleased while the Southeast Valley remained 7.7% preleased. The low preleasing percentage in the Southeast Valley can be explained by the large number of preleased builds delivered in Q4 2023 within the submarket.

### 8.0 Million Sq. Ft. Delivered this Quarter

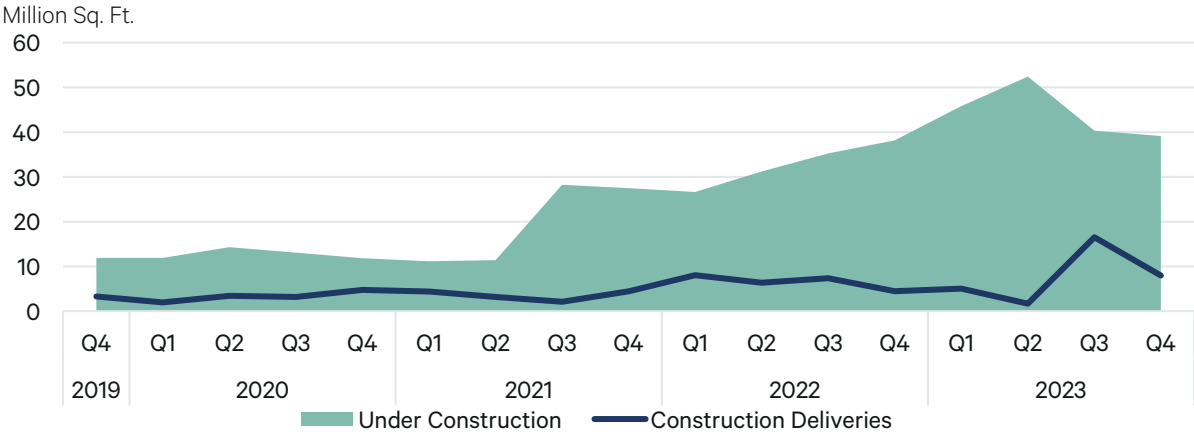
Forty-eight buildings at 8.0 million sq. ft. were completed, of which 21.0% was leased by the end of the quarter. Nearly 80% of space delivered in Q4 2023 was distribution. The Southeast Valley delivered 34 buildings which totaled 4.3 million sq. ft. and the Southwest Valley delivered 8 buildings, or 3.0 million sq. ft. Although the Southeast Valley delivered the most square footage, the largest building delivered was in the Southwest Valley:

- Reems Ranch 303 | 1,123,360 sq. ft. | North Goodyear
- Lakin Park 1B | 531,583 sq. ft. | South Goodyear
- Lexington – North Building | 488,400 sq. ft. | North Goodyear

### Six Million Sq. Ft. Broke Ground this Quarter

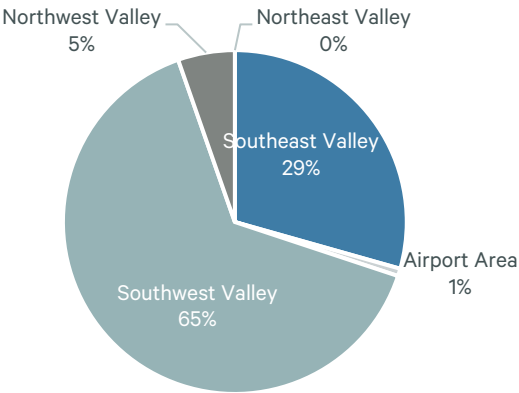
In the fourth quarter, construction commenced on 28 buildings which encompassed 6.4 million sq. ft. The Southwest Valley encompassed nearly all activity that broke ground this quarter. The largest project was the 2.4 million sq. ft. Luke Field Logistics industrial center in North Goodyear.

FIGURE 6: Under Construction and Construction Deliveries



Source: CBRE Research, Q4 2023.

FIGURE 7: Under Construction by Submarket



Source: CBRE Research, Q4 2023.

Outlook

After several quarters of difficult economic conditions, the Phoenix industrial market has proved resilient, with a hopeful future ahead. This is due to key factors such as:

- Phoenix offering a wide range of state-of-the-art industrial facilities that are difficult to find in other markets
- An increasing demand for industrial space throughout the Valley seen by growing tenant demands
- Secured water conservation planning allowing for market growth

As many industrial products near completion along with a significant amount which had started within this year, upcoming quarters may expect in increase in vacancy. Decreasing rates along with increased recognition of Phoenix as a prime industrial location, may allow for newly added vacancy to be absorbed at a timely pace.

There are currently 224 active tenants in the market looking for a grand total of 46.4 million sq. ft. of space. The overall tenants in the market count had increased by 16 from the last quarter even though several tracked tenants had secured locations through the quarter, with the total square footage required increased by 250,000 sq. ft. There are 134 tenants actively looking for space over 100,000 sq. ft. while there are 30 tenants searching for a minimum 500,000 sq. ft.



FIGURE 8: Market Statistics by Submarket

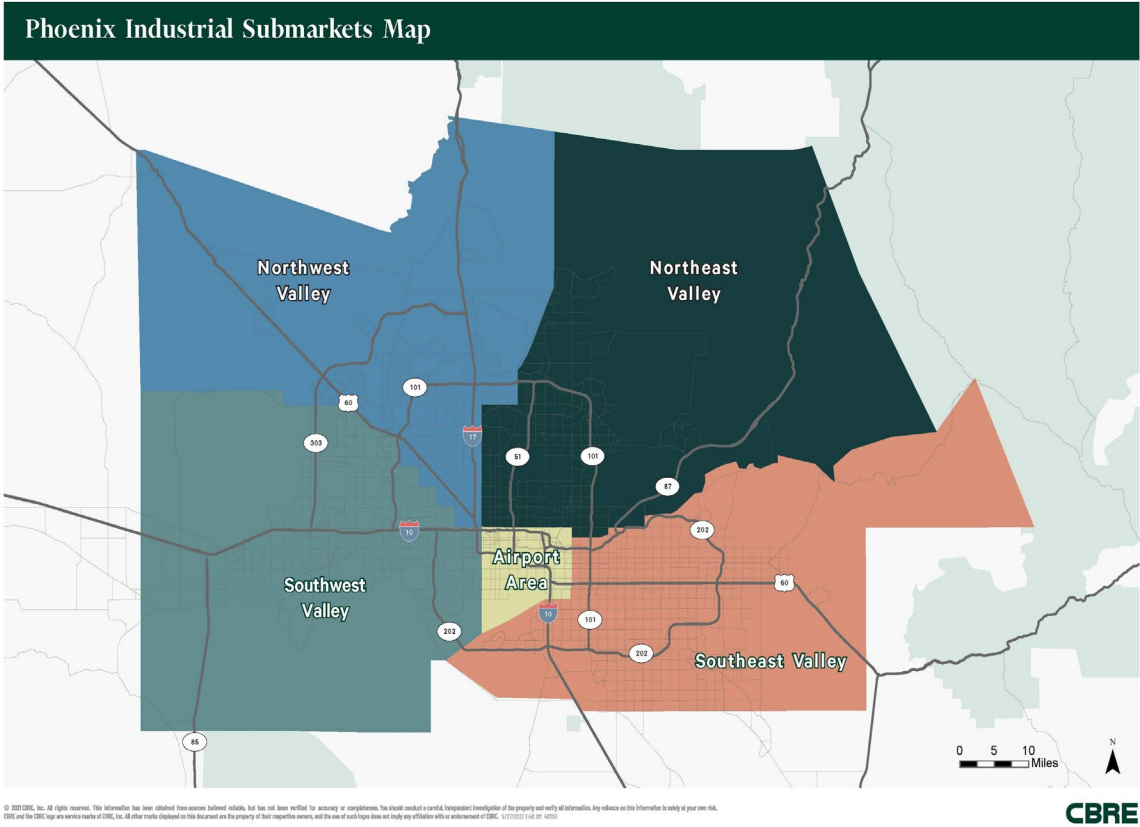
	Net Rentable Area	Availability (%)	Vacancy (%)	Net Absorption (Sq. Ft.)		Under Construction (Sq. Ft.)	Construction Deliveries (Sq. Ft.)	Avg Dir Asking Lease Rate (NNN)
				Q4 2023	2023 YTD			
Northeast Valley	13,850,686	4.26%	2.8%	72,342	31,056	0	0	\$1.43
Southeast Valley	94,338,637	9.67%	8.3%	1,055,571	3,247,090	11,507,631	4,348,874	\$1.28
Airport Area	76,874,853	5.35%	3.8%	-196,374	-692,486	276,063	60,000	\$1.25
Southwest Valley	171,487,431	10.85%	10.0%	1,871,524	8,926,745	25,283,624	3,022,119	\$0.73
Northwest Valley	53,491,792	5.22%	3.7%	-65,417	1,358,504	2,096,749	544,879	\$1.16
Phoenix Total	410,035,240	8.6%	7.4%	2,737,646	12,870,909	39,164,067	7,975,872	\$1.08

Source: CBRE Research, Q4 2023.

FIGURE 9: Market Statistics by Building Type

	Net Rentable Area (Sq. Ft.)	Availability (%)	Vacancy (%)	Net Absorption (Sq. Ft.)		Under Construction (Sq. Ft.)	Construction Deliveries (Sq. Ft.)	Avg Dir Asking Lease Rate (NNN)
				Q4 2023	2023 YTD			
Multi-Tenant	37,506,514	4.1%	3.3%	28,580	164,490	48,810	0	\$1.41
Distribution	188,488,361	13.0%	11.8%	1,730,513	10,974,188	32,972,034	6,410,346	\$0.82
Freestanding	55,666,189	2.4%	1.7%	137,111	-220,969	108,482	0	\$1.21
General Industrial	76,838,232	4.5%	3.5%	212,658	154,559	2,856,953	949,176	\$1.15
Back Office	13,210,154	24.0%	17.2%	98,205	-403,795	0	0	\$1.39
Major User	28,733,329	3.5%	2.6%	357,409	431,402	2,689,520	616,350	\$1.14
Special Purpose	9,600,620	1.7%	0.3%	173,170	1,772,150	488,268	0	\$0.00
Phoenix Total	410,035,240	8.6%	7.4%	2,737,646	12,870,909	39,164,067	7,975,872	\$1.08

Source: CBRE Research, Q4 2023.



**Definitions**

Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant. Availability Rate: Total Available Sq. Ft. divided by the total net rentable area. Average Asking Lease Rate: A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage. Net Rentable Area: The total floor area sq. ft. of the building, typically taken at the “drip line” of the building. Gross Activity: All sale and lease transactions completed within a specified time period. Excludes investment sale transactions. Net Absorption: The change in Occupied Sq. Ft. from one period to the next. Net Lease Rate: Rent excludes one or more of the “net” costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate. Occupied Sq. Ft.: Building Area not considered vacant. Vacancy Rate: Total Vacant Sq. Ft. divided by the total Building Area. Vacant Sq. Ft.: Space that can be occupied within 30 days.

Multi-tenant: Small bays divisible by less than 5,000 sq. ft; generally, a business park or incubator space. Distribution: Dock high and loading doors. Freestanding: Single tenant building less than 50,000 sq. ft. General industrial: Minimum divisibility greater than 5,000 sq. ft. Back-office: 4/1000 parking minimum; minimum divisibility greater than 5,000 sq. ft. Major user: Single user greater than 150,000 sq. ft.; no dock high or back-office. Special purpose: unique industrial buildings.

**Survey Criteria**

Includes all industrial buildings 5,000 sq. ft. and greater in size in Phoenix Metro. Buildings which have begun construction as evidenced by site excavation or foundation work.

**Contacts**

**Zach DiSalvo**  
Field Research Manager  
+1 858 646 4780  
zach.disalvo@cbre.com

**Armand Doost**  
Field Research Analyst  
+1 602 735 5044  
armand.doost@cbre.com

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