

FIGURES | PHOENIX INDUSTRIAL MARKET | Q2 2023

Leasing Activity Remained Healthy for Phoenix Industrial



Note: Arrows indicate change from previous quarter.

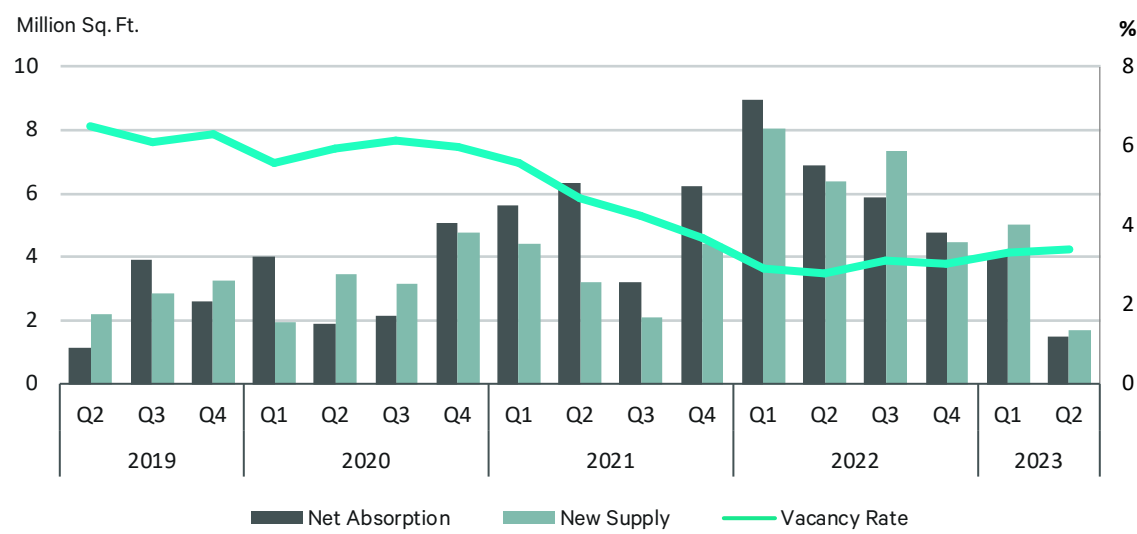
KEY TAKEAWAYS

- Net absorption hit 1.5 million sq. ft. in Q2 2023, which continued the year’s healthy activity.
- Quarter-over-quarter, the vacancy rate increased 10 basis points (bps) to 3.4%, while the average asking NNN lease rate decreased from the prior quarter to \$1.11 per sq. ft.
- Fifteen buildings were delivered for a total of 1.7 million sq. ft. in Q2 2023, which consisted primarily of speculative distribution product in the Southwest and Southeast Valleys.
- Construction activity increased in Q2 2023 with 52.4 million sq. ft. under construction, which reached a new high for construction product underway.

The year showed encouraging metrics as 1.5 million sq. ft. of net absorption was exhibited for the Phoenix industrial & logistics market. In Q2 2023, 1.7 million sq. ft. delivered of which 16.7% was released.

CBRE tracked roughly 45.5 million sq. ft. of tenants in the market at the end of the second quarter. Phoenix remained an active market that lends plenty of opportunity for out of market tenants or in market tenants looking to expand operations.

FIGURE 1: Supply and Demand



Source: CBRE Research, Q2 2023.

Availability and Vacancy

In the second quarter of 2023, the vacancy rate in Phoenix was 3.4%, which represented a slight quarter-over-quarter increase of 10 bps. Notably vacancy is far lower than the average vacancy from the past 10 years, which was 7.3%. The Southeast Valley had the most notable increase in vacancy, which increased 80 bps from the previous quarter to 5.0%. A significant reason for this increase had been the 637,635 sq. ft. of under construction space that was delivered in the quarter all of which was vacant. These newly vacant spaces on the market are highly likely to be leased by tenants looking to be in newly constructed space.

The only decrease in vacancy was in the Southwest Valley – which decreased 50 bps – landing at 2.9%. The sizable deals that had occurred within the submarket helped drive the vacancy rate to a record low.

In terms of product types, freestanding buildings continued to have the lowest vacancy rate at 1.3%. Back-office product was 17.8% vacant, a 220-bps increase from the quarter prior. However, if back-office product is excluded for the Valley, vacancy would have decreased 50 bps to 2.9%.

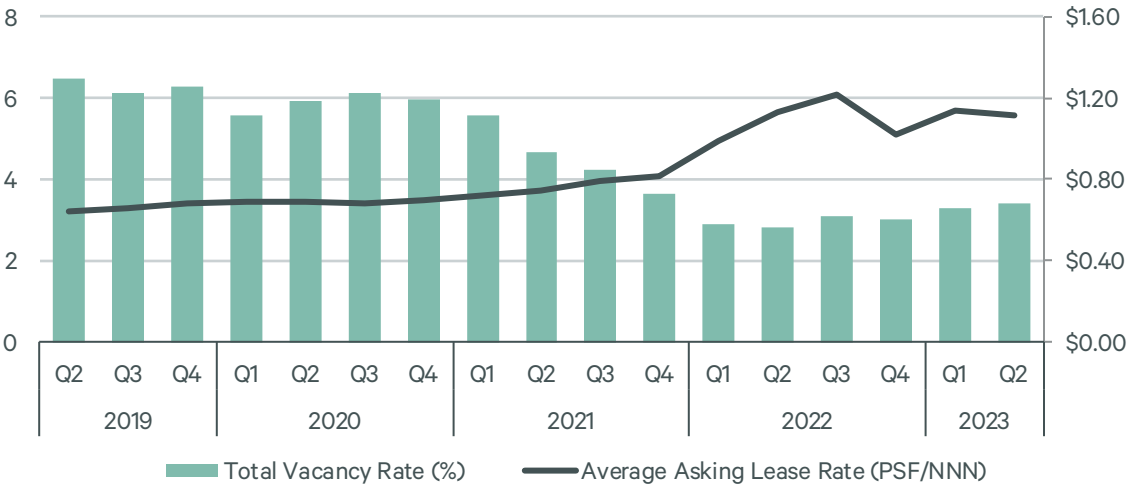
Lease Rates

The direct average asking NNN lease rate in metro Phoenix decreased in the second quarter to \$1.11 per sq. ft. The average asking lease rate remained fairly stable with a slight \$0.03 dip in rates.

The lowest rental rates remained in the Southwest Valley at \$0.81 per sq. ft. as larger blocks of space are available for users. The Northeast Valley continued to have the highest lease rate at \$1.43 per sq. ft. Newly delivered product or improved upon space asked for the highest lease rates, despite location.

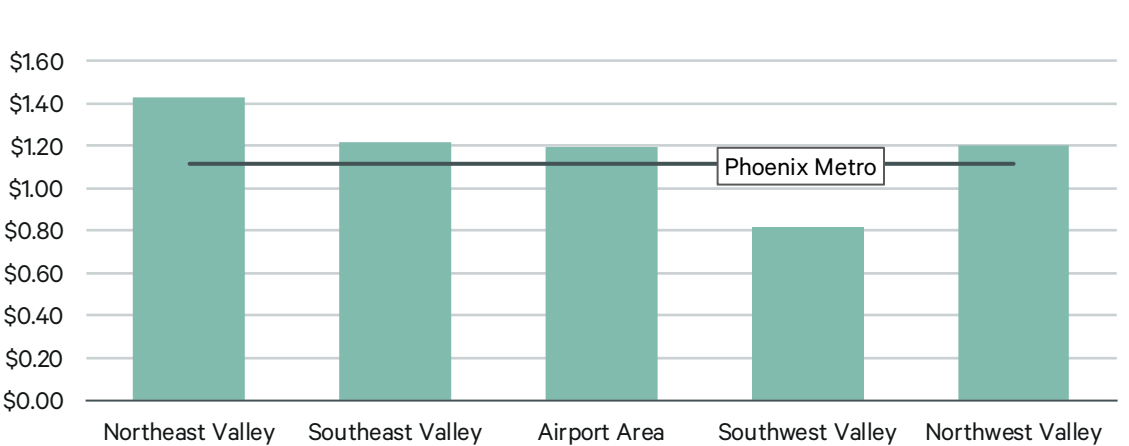
Distribution space sustained the most inexpensive product type on the market in Q2 2023 with an average asking rate of \$0.87 per sq. ft. NNN. With a \$0.01 per sq. ft increase, asking rates for distribution space remained nearly unchanged from Q1 2023. Back-office continued to be the most expensive product type with an average asking rate of \$1.34 per sq. ft. NNN.

FIGURE 2: Overall Vacancy Rate and Lease Rate



Source: CBRE Research, Q2 2023.

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



Source: CBRE Research, Q2 2023.

Net Absorption and Leasing Activity

Since its peak of nearly 9.0 million sq. ft. in Q1 2022, net absorption has seen a quarterly average decline of 27.0%. The second quarter of 2023 had 1.5 million sq. ft. of net absorption; this was at its lowest since Q2 2019. However, leasing activity was still robust this quarter, as evidenced by the notable uptake of 6.2 million sq. ft. The difference between the gross absorption rate compared to the net absorption rate can be explained by the high volume of renewals, preleasing and spaces leased before becoming vacant. The gross absorption in Q2 2023 was higher than the 10-year historical average gross absorption rate in prior quarters, 5.0 million sq. ft., which indicated a continued need for industrial space in Phoenix.

Net absorption in Phoenix was predominantly supported by leasing activity in the Southwest Valley, where the submarket contributed to 47.8% of the total gross leasing activity and exhibited sizeable net absorption of 1.5 million sq. ft. CJ Logistics secured the largest lease of the quarter by leasing 331,684 sq. ft. of space at the Commerce @ 303 - Building 1, located within the Southwest Valley.

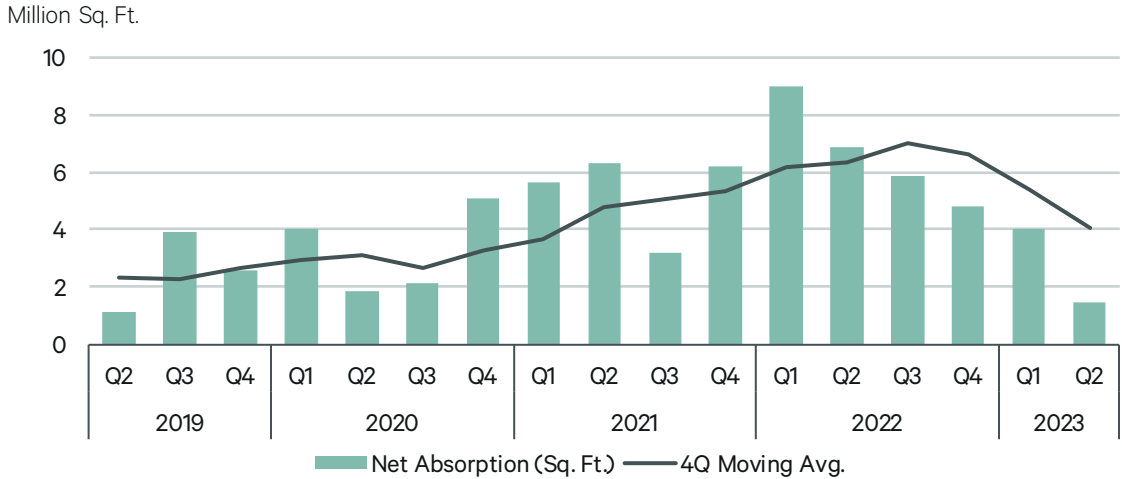
The Southeast and Southwest Valleys remained the most active industrial submarkets. The combination of these markets generated 5.4 million sq. ft. of net absorption year-to-date, which accounted for 98.3% of the net absorption observed thus far in 2023. The Airport submarket saw an increase in activity as it followed close in leasing activity this quarter to the Southeast Valley.

Top Transactions

Leasing activity in 2023 continued to be strong. The second quarter of 2023 had 6.2 million sq. ft. of leasing activity. All the top transactions for the second quarter of 2023 occurred in the Southwest Valley:

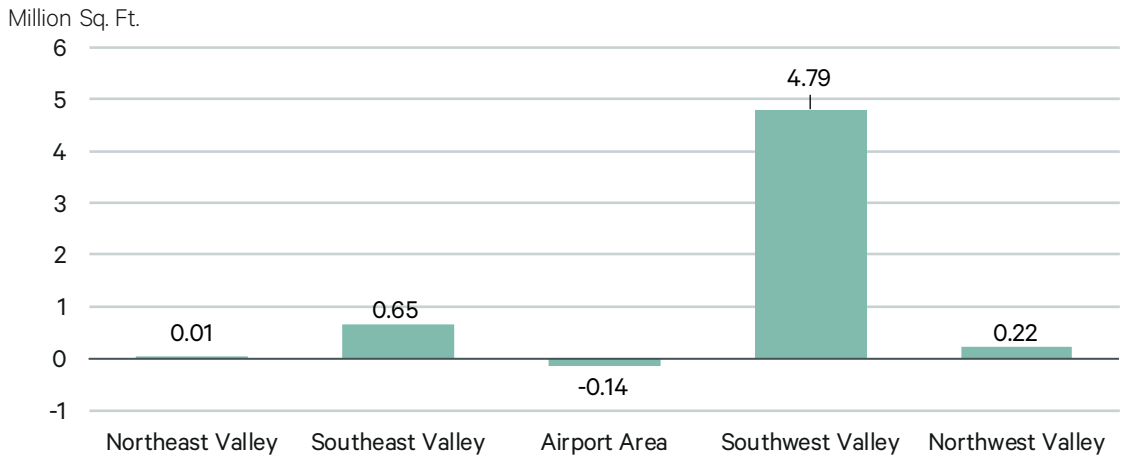
- CJ Logistics | 331,684 sq. ft. | North Goodyear
- ExxonMobil | 326,103 sq. ft. | Buckeye
- Tempur-Pedic | 321,892 sq. ft. | Tolleson
- McKesson Medical-Surgical | 300,000 sq. ft. | Tolleson
- ProLift Rigging | 251,043 sq. ft. | Glendale

FIGURE 4: Net Absorption



Source: CBRE Research, Q2 2023.

FIGURE 5: Net Absorption by Submarket YTD



Source: CBRE Research, Q2 2023.

Development Activity

The development pipeline increased to 52.4 million sq. ft. under construction. Of this, a substantial 61.6% or 32.3 million sq. ft. was underway in the Southwest Valley. In the Southeast Valley, the Phoenix Mesa Gateway district was heavily under construction with 14.9 million sq. ft. currently under construction. Inventory in the Phoenix Mesa Gateway district will increase by 70.6% as industrial product is delivered by the end of 2023.

Roughly, 16.2% of the product under construction was preleased. Current tenants in the market predominately seek new construction. As construction advances, we can anticipate greater preleasing activity.

1.7 Million Sq. Ft. Delivered this Quarter

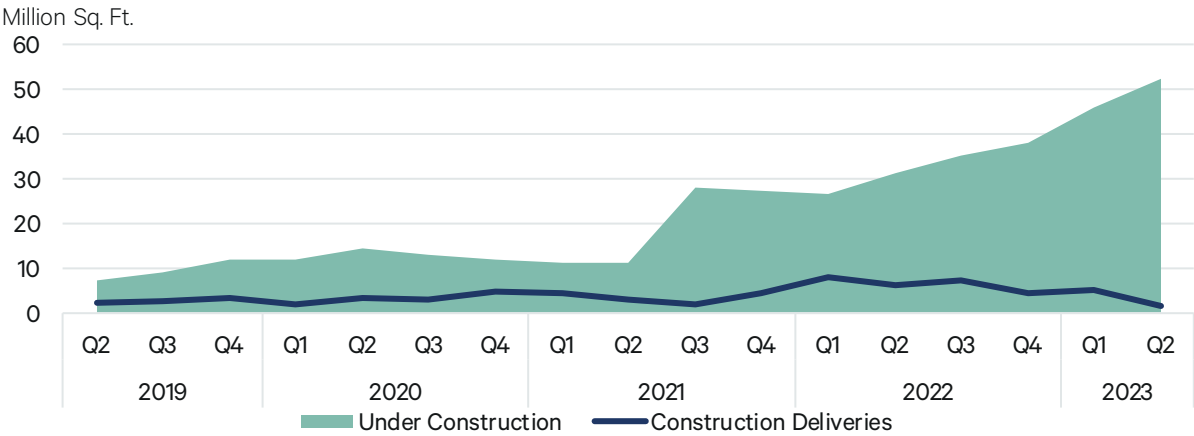
Fifteen buildings totaling 1.7 million sq. ft. were completed in the second quarter, of which 16.7% was leased by the end of the quarter. The Southeast Valley delivered six buildings which totaled 637,635 million sq. ft. and the Southwest Valley delivered five buildings, or 771,386 sq. ft. Multiple large speculative developments were completed within the Southwest Valley:

- Merit Woolf Logistics Center | 364,700 sq. ft. | North Goodyear
- Converge Logistics Center - Building A | 210,670 sq. ft. | Buckeye
- Luke Logistics Center - Phase I Building A | 175,760 sq. ft. | North Goodyear

Eight Million Sq. Ft. Broke Ground this Quarter

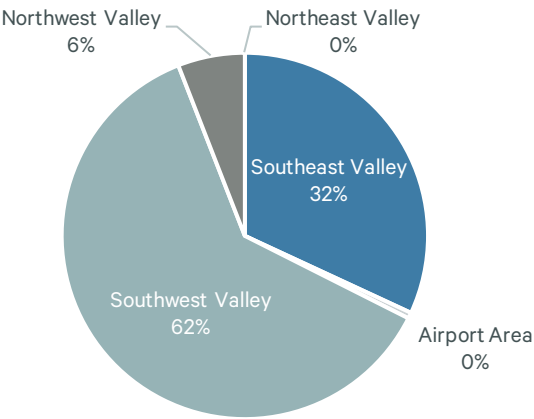
In the second quarter, construction commenced on 40 buildings which encompassed 10.0 million sq. ft. Of these, a significant proportion (76.4%) were warehouse and distribution properties. The Southwest Valley encompassed 68.3% of all activity that broke ground this quarter. The largest of which was the 1.3 million sq. ft. KOREPlex build-to-suit project. Notably, the Southwest Valley's development portfolio was primarily geared towards larger blocks of space, while the Southeast Valley catered to a greater number of buildings that offer divisible spaces suitable to more tenants.

FIGURE 6: Under Construction and Construction Deliveries



Source: CBRE Research, Q2 2023.

FIGURE 7: Under Construction by Submarket



Source: CBRE Research, Q2 2023.

Outlook

Despite economic uncertainty, the overall outlook for Phoenix metro industrial market remains full of opportunity. This is due to key factors such as:

- Companies looking to move operations to Phoenix due to attractive geographics and infrastructure for logistics
- Nationally low vacancy rates being an attractive investment for landlords and developers
- Growing population providing for an abundant labor force

With strong leasing activity and historically low vacancy in the first half of the year, Phoenix looks to continue a healthy pace to finish off the second half. A significant change within the Phoenix market is the number of developments scheduled to deliver within the second half of the year, giving future tenants in the market more options Valley-wide.

There are currently 213 active tenants in the market looking for a grand total of 45.5 million sq. ft. of space. The number of tenants looking for spaces of all sizes over 20,000 sq. ft. increased from the last quarter. There are 123 tenants actively looking for space over 100,000 sq. ft. while there are 31 tenants searching for a minimum 500,000 sq. ft, an increase of 13 tenants.



FIGURE 8: Market Statistics by Submarket

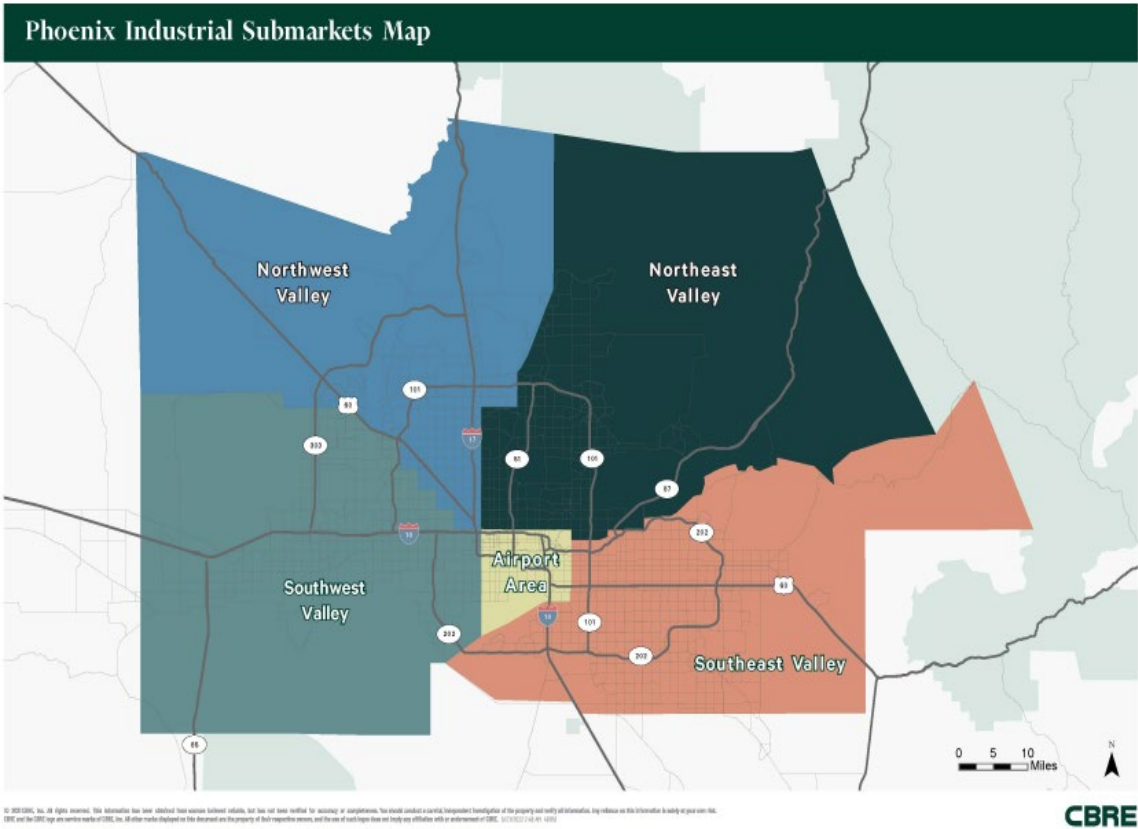
	Net Rentable Area	Availability (%)	Vacancy (%)	Net Absorption (Sq. Ft.)		Under Construction (Sq. Ft.)	Construction Deliveries (Sq. Ft.)	Avg Dir Asking Lease Rate (NNN)
				Q2 2023	2023 YTD			
Northeast Valley	13,849,982	4.5%	3.0%	57,831	11,569	0	160,019	\$1.43
Southeast Valley	88,165,569	5.8%	5.0%	219,679	645,761	16,728,482	637,635	\$1.22
Airport Area	76,802,189	4.3%	3.1%	-228,470	-139,656	276,063	0	\$1.20
Southwest Valley	154,582,550	4.5%	2.9%	1,451,109	4,793,801	32,323,930	771,386	\$0.81
Northwest Valley	51,723,071	4.0%	2.7%	-10,602	220,710	3,104,412	111,676	\$1.20
Phoenix Total	385,123,361	4.7%	3.4%	1,489,547	5,532,185	52,432,887	1,680,716	\$1.11

Source: CBRE Research, Q2 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)
				Q2 2023	2023 YTD			
Multi-Tenant	37,351,358	3.6%	2.9%	2,951	117,943	203,966	160,019	\$1.32
Distribution	166,727,965	5.4%	3.8%	1,442,150	5,403,489	44,187,235	1,343,974	\$0.87
Freestanding	55,507,905	1.7%	1.3%	11,041	-77,165	108,482	68,203	\$1.14
General Industrial	75,614,937	3.7%	2.5%	181,069	-2,659	3,631,006	108,520	\$1.12
Back Office	13,210,057	23.9%	17.8%	-258,257	-356,242	0	0	\$1.34
Major User	28,116,979	1.9%	1.9%	-8,727	75,899	2,805,870	0	\$0.96
Special Purpose	8,594,160	3.9%	2.0%	119,320	370,920	1,496,328	0	\$0.00
Phoenix Total	385,123,361	4.7%	3.4%	1,489,547	5,532,185	52,432,887	1,680,716	\$1.11

Source: CBRE Research, Q2 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.

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