

FIGURES | PHOENIX INDUSTRIAL MARKET | Q1 2024

Large Scale Deliveries & Strong Leasing Activity Drive Industrial Market



Note: Arrows indicate change from previous quarter.

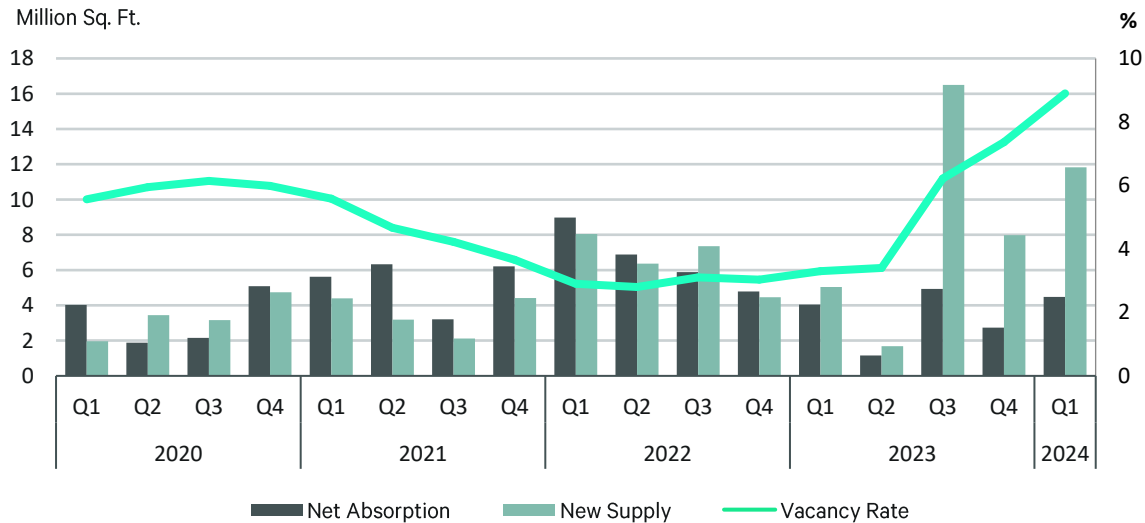
KEY TAKEAWAYS

- Fifty-seven buildings were delivered for a total of 11.6 million sq. ft. in Q1 2024, with 32.4% preleased or 3.8 million sq. ft.
- Net absorption reached 4.5 million sq. ft. in Q1 2024 as Amazon absorbed over 2 million sq. ft. of existing vacant space.
- Construction volume decreased in Q1 2024 with 30.7 million sq. ft. under construction, as the 11.6 million sq. ft. of product delivered heavily outpaced the 3.1 million sq. ft. started.
- Quarter-over-quarter, the vacancy rate increased 150 basis points (bps) to 8.9%.

With 4.5 million sq. ft. of net absorption experienced in the first quarter, the Phoenix industrial market started 2024 strong. The metro recorded a total of 9.6 million sq. ft. of gross absorption, marking the second highest quarterly total over the past 10 years. Distribution and consumer products users were the most active within the quarter. Vacancy in the market increased to 8.9% as newly delivered industrial product had entered the market available to lease.

CBRE tracked 38.6 million sq. ft. of tenants in the market at the end of the first quarter.

FIGURE 1: Supply and Demand



Source: CBRE Research, Q1 2024.

Availability and Vacancy

In Q1 2024 the vacancy rate increased 150 basis points (bps) quarter-over-quarter to 8.9%. The moderate increase in vacancy can be partially attributed by the 11.5 million sq. ft. of delivered space outpacing 4.5 million sq. ft. of net absorption. The Southeast Valley had the most notable rise in vacancy, which jumped 250 bps from the previous quarter to 10.8%. The key reason for the increase was the 3.1 million sq. ft. of vacant new supply that entered the submarket in the quarter. The Southwest Valley showed a 11.9% vacancy rate, up 190 bps from the prior quarter, as 2.5 million sq. ft. of vacant space was added to the submarket. Vacancy in the Southeast Valley submarket, excluding the Phoenix-Mesa-Gateway district, stood at 5.1%, while in the Southwest Valley submarket, excluding the North Goodyear district, was 7.6%.

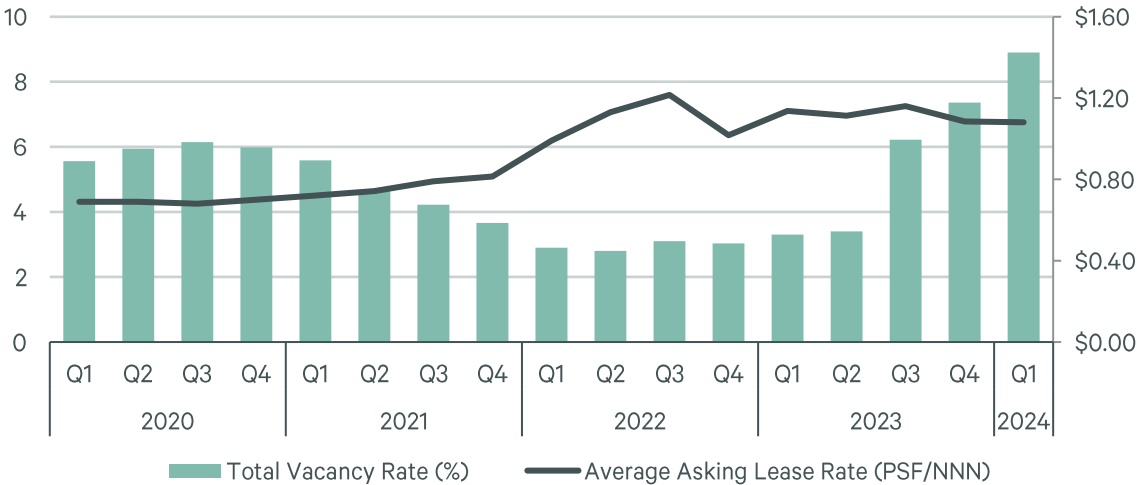
More infill submarkets such as the Airport Area recorded a lower than market average vacancy rate of 3.7%. The submarket recorded a 10 bps quarter-over-quarter decrease in vacancy, despite delivering two new buildings in the quarter. Due to the inability to expand outward, existing product within the area becomes sought after. Similarly, infill districts recorded lower vacancy than submarket averages, such as the Gilbert district in Southeast Valley which had a 1.7% vacancy rate and the Tolleson district in the Southwest Valley, which recorded 3.2% vacancy.

Lease Rates

The market direct average asking NNN lease rate remained unchanged from the prior quarter, which ended at \$1.08 per sq. ft. in Q1 2024. Rates in the Southwest Valley had a minimal 1.2% quarter-over quarter increase to \$0.74 per sq. ft, however remained the most cost advantageous option for large blocks of space for distribution purposes. Average asking lease rates remained stagnant at \$1.28 NNN per sq. ft. in the Southeast Valley. Representing the largest average asking lease rate change in Q4 2023 to Q1 2024 was seen in the Airport Area with a 2.4% decrease in NNN asking rates, landing at \$1.22 per sq. ft.

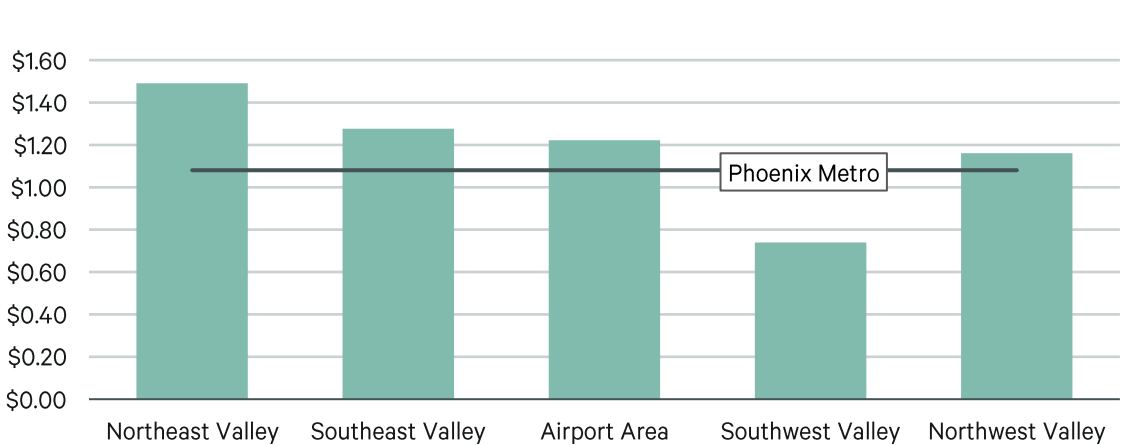
Distribution space was the most inexpensive product type on the market in Q4 2023 with an average asking rate of \$0.82 per sq. ft. NNN. Asking rates for freestanding buildings had increased \$0.10 quarter-over-quarter reaching \$1.31 NNN per sq. ft.

FIGURE 2: Overall Vacancy Rate and Lease Rate



Source: CBRE Research, Q1 2024.

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



Source: CBRE Research, Q1 2024.

Net Absorption and Leasing Activity

2024 started off strong with 4.5 million sq. ft. of net absorption in the first quarter, which marked a 38.8% increase quarter-over-quarter and a 13% increase year-over-year. The Southwest Valley contributed nearly 71% of absorption in the quarter with 3.2 million sq. ft, followed behind the Southeast Valley contributing 1.0 million sq. ft. The Airport Area submarket experienced positive absorption after experiencing three trailing quarters of negative absorption. The largest move out of the quarter occurred in the Southwest Valley as Amazon placed 567,477 sq. ft. of space for sublease at the Park 79 industrial complex.

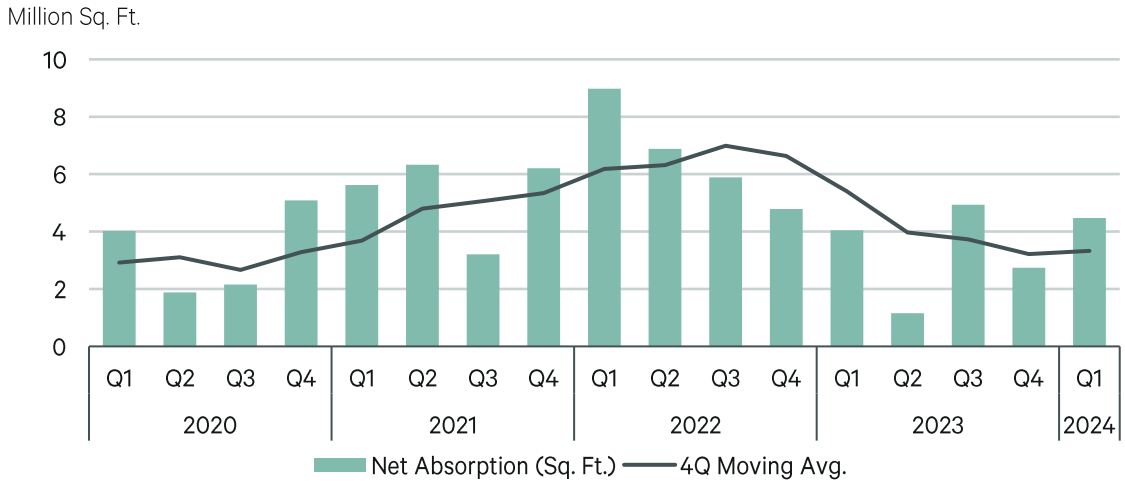
Leasing activity was notably strong in the first quarter. Three 1 million sq. ft. transactions occurring in the Phoenix industrial market within same quarter was last experienced in 2013, 11 years ago. Gross activity ended with 9.6 million sq. ft. of gross absorption recorded. Preleasing activity was robust with 1.3 million sq. ft. of leases signed for buildings under construction through out the valley, but primarily concentrated in the Southwest Valley. Leases that had the largest impact on net absorption were the Amazon leases signed at The Cubes at Glendale – Building B with 1,200,140 sq. ft. along with 1,055,016 sq. ft. leased at Paloma Vista Logistics Center – Building 1, both located in the Southwest Valley.

Top Transactions

Leasing activity in the first quarter started in a strong position to set up 2024. Q1 2024 had 9.3 million sq. ft. of leasing activity where each of the top five leases were in the North Goodyear district:

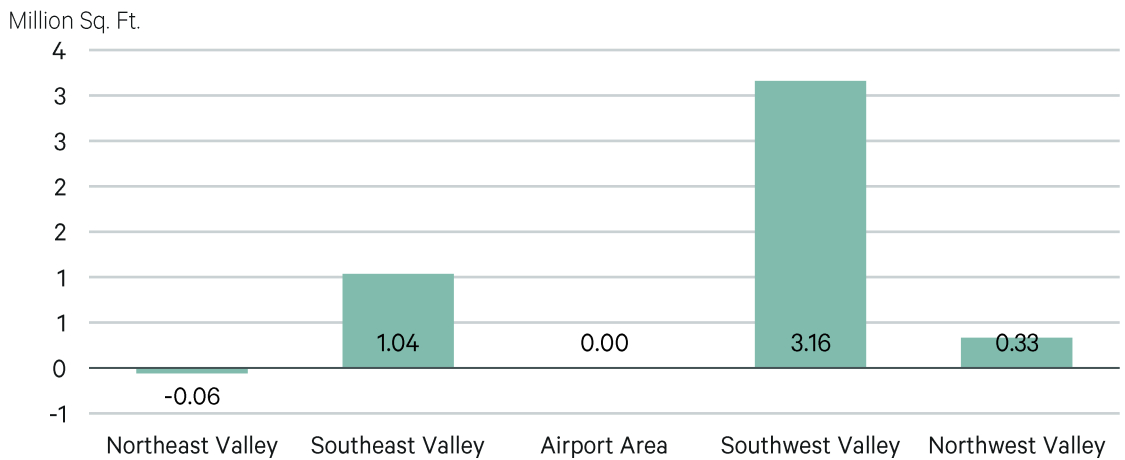
- Amazon | 1,222,480 sq. ft. | North Goodyear
- Amazon | 1,200,140 sq. ft. | North Goodyear
- Amazon | 1,055,160 sq. ft. | North Goodyear
- Sologistics | 519,167 sq. ft. | North Goodyear
- Steelcase | 211,360 sq. ft. | North Goodyear

FIGURE 4: Net Absorption



Source: CBRE Research, Q1 2024.

FIGURE 5: Net Absorption by Submarket YTD



Source: CBRE Research, Q1 2024.

Development Activity

The continued trend of deliveries outnumbering construction starts persisted in the first quarter of 2024, as product under construction decreased to 30.7 million sq. ft. As a majority of the product delivered was in the Southeast Valley, the amount under construction in the submarket ended at 8.8 million sq. ft. with the PMGA district representing 90% of the submarket activity. The North Goodyear district had the most development activity with 12.6 million sq. ft. of construction. Speculative distribution buildings comprised a majority of product under construction with 22.9 million sq. ft.

Roughly, 21.0% of the product under construction was preleased at the end of Q1 2024. The Southwest Valley ended the quarter at 30.0% preleased while the Northwest Valley remained 13.0% preleased. The preleasing percentage in the Southwest Valley was compromised of several build-to-suits along with the 1 million sq. ft. prelease signed at Prologis 303 within the quarter.

11.8 Million Sq. Ft. Delivered this Quarter

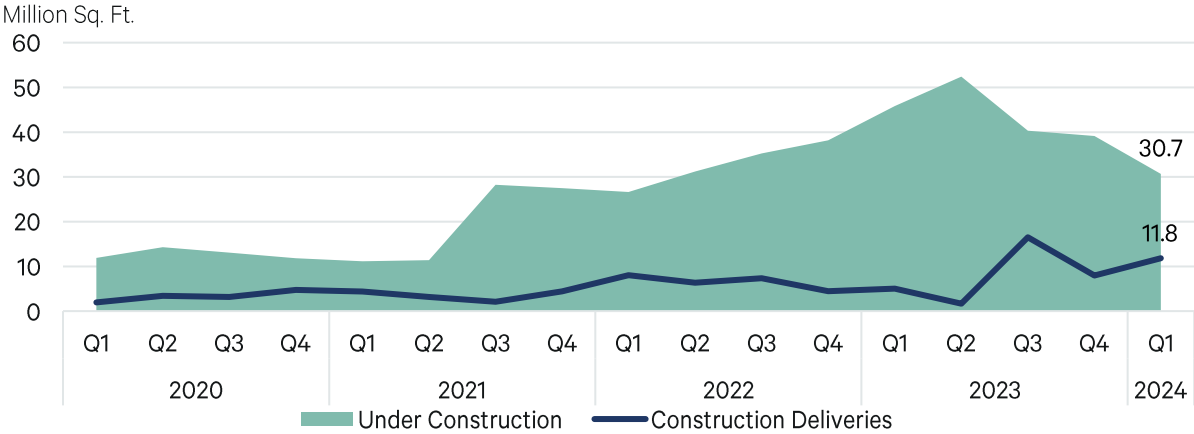
Fifty-seven buildings at 11.8 million sq. ft. were completed, of which 32.4% was leased by the end of the quarter. Nearly 89.5% of space delivered in Q1 2024 was distribution. The Southwest Valley delivered 21 buildings which totaled 7.2 million sq. ft. and the Southeast Valley delivered 29 buildings, or 3.8 million sq. ft. The largest buildings delivered were in the Southwest Valley:

- Paloma Vista Logistics Center – Building 1 | 1,055,016 sq. ft. | North Goodyear
- C303 – Building C | 958,487 sq. ft. | North Goodyear
- 303 Crossroads – Building B | 734,800 sq. ft. | North Goodyear

Three Million Sq. Ft. Broke Ground this Quarter

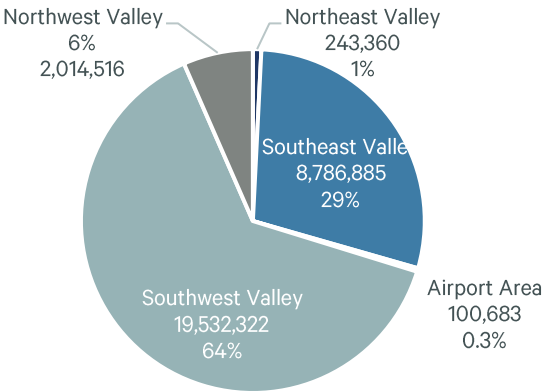
In the first quarter, construction commenced on 7 projects which encompassed 3.0 million sq. ft. Ground breakings were spread throughout the valley within the quarter. The largest project was the 1.0 million sq. ft. two building Olive Logistics Industrial Center in North Goodyear.

FIGURE 6: Under Construction and Construction Deliveries



Source: CBRE Research, Q1 2024.

FIGURE 7: Under Construction by Submarket



Source: CBRE Research, Q1 2024.

Outlook

High leasing activity and notable plans for investment in the near future demonstrate a promising outlook for the future of Phoenix Industrial. Key announcements in the quarter include :

- TSMC announcing a third factory in Phoenix as a result of the \$6.6 billion grant announced by White House officials
- LG Energy Solutions approving a \$5 billion battery manufacturing facility in Queen Creek
- Amkore to build a \$2 billion semiconductor packaging and testing facility in Peoria

As many industrial products near completion in the upcoming quarters, vacancy can be expected to edge higher. The increased pace of high gross activity with growing national recognition of Phoenix as a prime industrial market, may allow for newly delivered space to be absorbed at a timely pace.

There are currently 181 active tenants in the market looking for a total of 38.6 million sq. ft. of space. As several large tenants found space within the single quarter, the overall tracked users in the market decreased from the quarter prior. There are 108 tenants actively looking for space over 100,000 sq. ft. while there are 24 tenants searching for a minimum 500,000 sq. ft.



FIGURE 8: Market Statistics by Submarket

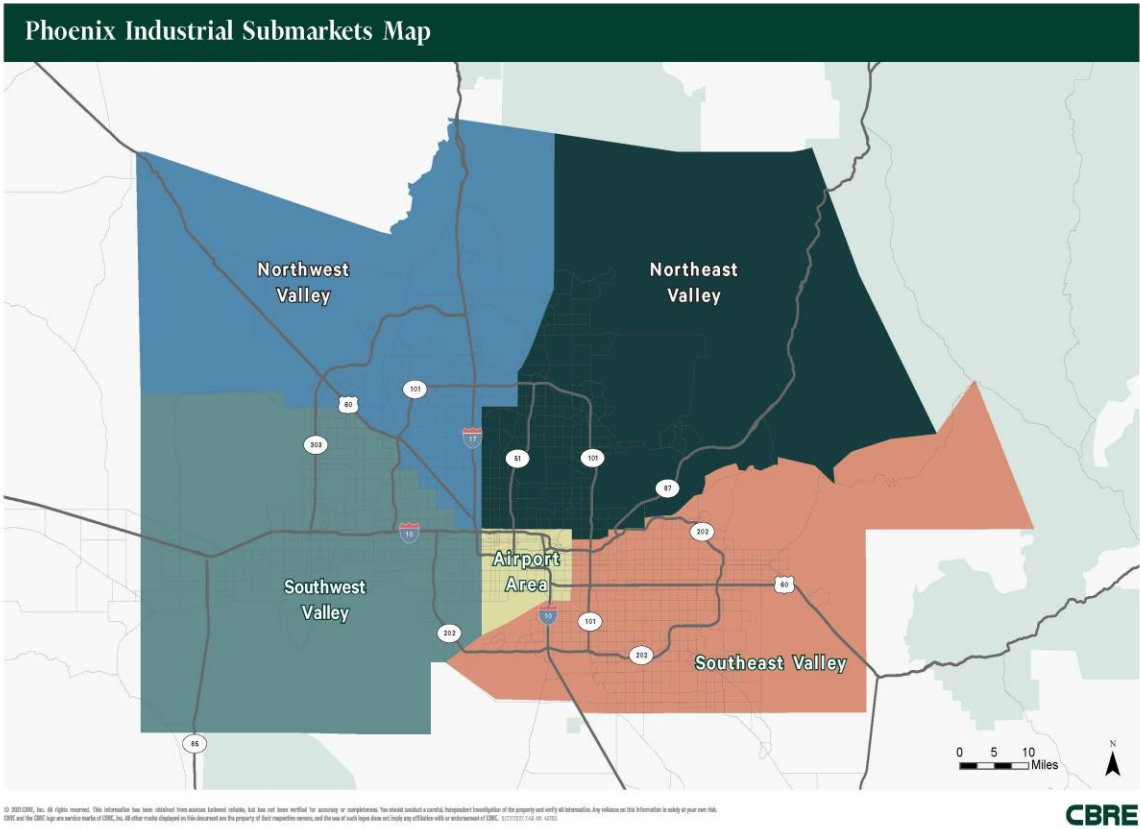
	Net Rentable Area (Sq. Ft.)	Availability (%)	Vacancy (%)	Net Absorption (Sq. Ft.)		Under Construction (Sq. Ft.)	Construction Deliveries (Sq. Ft.)	Avg Dir Asking Lease Rate (NNN)
				Q1 2024	2024 YTD			
Northeast Valley	13,725,588	5.2%	3.1%	-52,231	-52,231	243,360	0	\$1.49
Southeast Valley	96,737,987	12.3%	10.8%	1,038,265	1,038,265	8,786,885	3,776,933	\$1.28
Airport Area	75,654,565	5.2%	3.7%	3,165	3,165	100,683	175,380	\$1.22
Southwest Valley	178,902,069	12.9%	11.9%	3,160,456	3,160,456	19,532,322	7,224,974	\$0.74
Northwest Valley	52,663,024	5.8%	4.2%	334,172	334,172	2,014,516	644,626	\$1.16
Phoenix Total	417,683,233	10.2%	8.9%	4,483,827	4,483,827	30,677,766	11,821,913	\$1.08

Source: CBRE Research, Q1 2024.

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)
				Q1 2024	2024 YTD			
Multi-Tenant	37,286,947	4.6%	3.7%	-96,427	-96,427	0	48,810	\$1.39
Distribution	199,429,396	16.0%	14.6%	3,827,709	3,827,709	25,253,622	10,576,380	\$0.82
Freestanding	55,688,279	2.6%	2.0%	-54,268	-54,268	25,282	83,200	\$1.31
General Industrial	76,840,108	5.6%	4.3%	97,394	97,394	2,969,511	607,764	\$1.15
Back Office	10,025,781	21.8%	15.8%	231,996	231,996	0	0	\$1.36
Major User	28,566,512	3.3%	2.4%	266,327	266,327	2,429,351	260,169	\$1.16
Special Purpose	9,846,210	2.0%	0.7%	211,096	211,096	0	245,590	\$0.00
Phoenix Total	417,683,233	10.2%	8.9%	4,483,827	4,483,827	30,677,766	11,821,913	\$1.08

Source: CBRE Research, Q1 2024.



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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