

FIGURES | PHOENIX INDUSTRIAL MARKET | Q2 2025

Phoenix Industrial Vacancy Rate Decreases for First Time since 2022



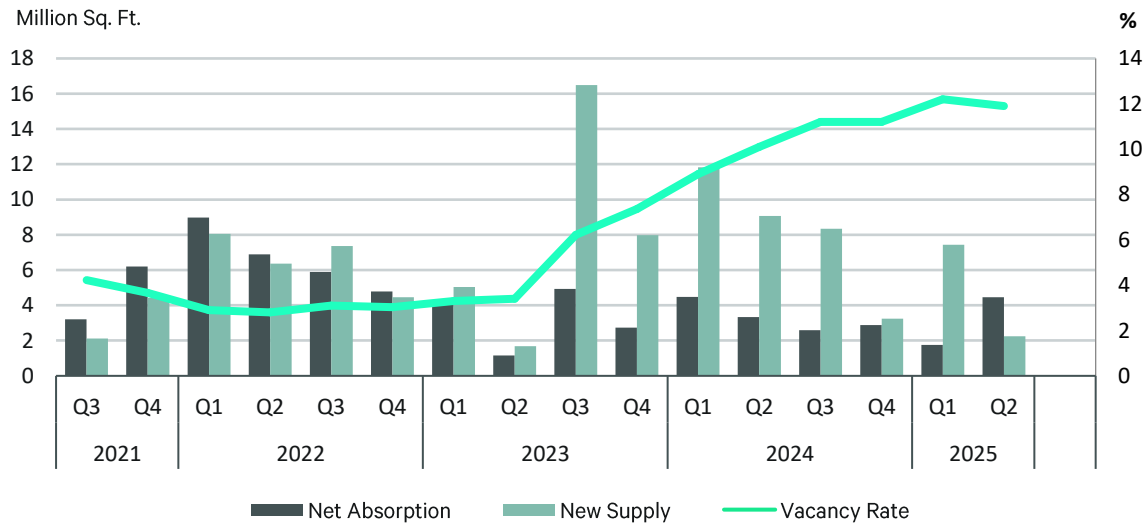
Note: Arrows indicate change from previous quarter.

KEY TAKEAWAYS

- Net absorption was 4.4 million sq. ft. in Q2 2025, with distribution properties driving the market, accounting for around 3.8 million sq. ft. of that total.
- Twenty buildings were delivered for a total of 2.2 million sq. ft. in Q2 2025, down 75% YoY from Q2 2024 deliveries.
- Asking rates returned to \$1.08, an 8% increase from Q1 2025 and a return to Q4 2023 rates.
- Quarter-over-quarter, the vacancy rate decreased 30-bps to 11.9%, the first decrease in vacancy since Q4 2022.

The Phoenix industrial market registered 4.4 million sq. ft. of net absorption and 9.1 million sq. ft. of gross absorption in the second quarter. Renewals slowed, but tenants have decided to stay as global markets and interest rates are expected to remain volatile for another few months. Fewer than 3 million sq. ft. was fully vacated this quarter which affirms that companies and clients are viewing Phoenix as a long-term location to do business. Vacancy trended negatively for the first time in 11 quarters. This was aided by a slowdown of vacant deliveries as well as extremely strong leasing activity and tenant inquiries spurred by the fiscal commitments pledged to Arizona infrastructure.

FIGURE 1: Supply and Demand



Source: CBRE Research, Q2 2025.

Availability and Vacancy

Q2 2025 saw the first decline in vacancy in almost three years. Industrial vacancy was 11.9% this last quarter, with extremely strong leasing activity and a much more controlled construction pipeline driving that figure down. This 30-bps decrease is the largest since Q1 2022.

The Southeast and Southwest Valley saw most of this absorption with their vacancy rates decreasing 70-bps and 80-bps, respectively. Both submarkets also saw over 100-bps of availabilities decrease, showing that the new developments in these areas are continuing to see an uptick in new tenant activity. This is a very good sign for the market overall as businesses that may have hit their limit in second generation space can now look for better alternatives locally than other markets.

The Northwest Valley did see an increase in vacancy to 6.6%, but events like the completion of Mack Innovation Park and small space vacates have pushed up that figure. Asking rates have increased despite this, which is a part of the tenant’s resizing story as mentioned above. The Northeast Valley and Airport Area saw a similar trend with vacancies increasing alongside asking rates.

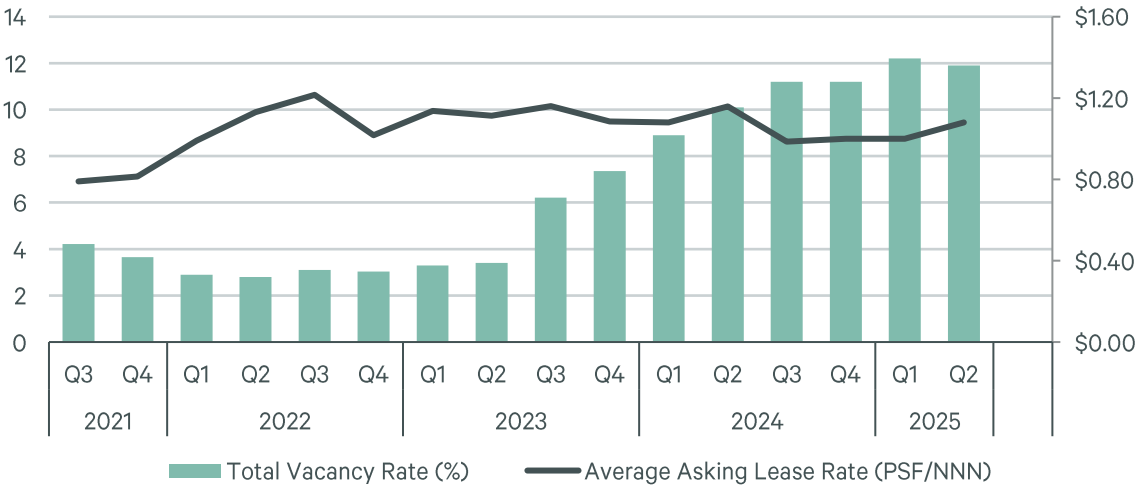
As companies begin to solidify their inquiries and plans to potentially move into the Phoenix Metro Area, the market can remain cautiously optimistic looking forward to the coming months.

Lease Rates

The Phoenix market direct average asking NNN lease rate saw an 8% increase to \$1.08 per sq. ft. in Q2 2025. The Southeast Valley saw a 20% increase in asking rates as they soared to \$1.26 per sq. ft. The Northwest Valley, Northeast Valley, and Southwest Valley saw significant gains as well. The Northwest Valley increased 4.4% to \$1.13 per sq. ft., the Northeast Valley increased 4.5% to \$1.57 per sq. ft., and the Southwest Valley increased 3.5% to \$0.84 per sq. ft. There was a decrease in Airport Area rents as those are now \$1.14 per sq. ft., down 1.8% from Q1 2025.

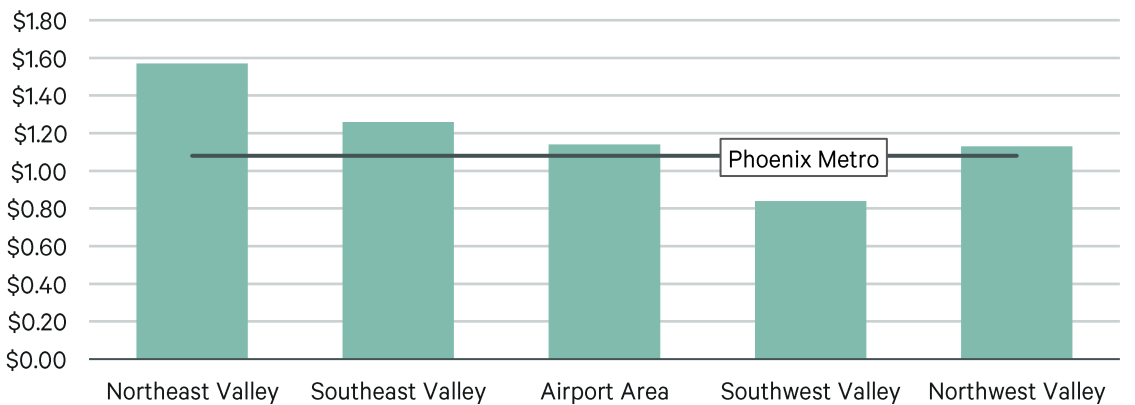
As most of the vacancies older than 18 months are in properties built after 2020, this increase in rents is part of a larger story revolving around Phoenix as a whole. The market is beginning to show signs of maturing beyond the level it was at prior to 2020.

FIGURE 2: Overall Vacancy Rate and Lease Rate



Source: CBRE Research, Q2 2025.

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



Source: CBRE Research, Q2 2025.

Net Absorption and Leasing Activity

The second quarter of 2025 saw net absorption more than double from Q1 to just over 4.4 million sq. ft. The economic uncertainty that burdened the global markets in Q1 has turned around to help Phoenix as tenants are deciding to remain in the area during these times. The Southwest and Southeast Valley continued to dominate the region as hot spots for large tenants, with those two submarkets combining for just over 4.5 million sq. ft. whilst the Airport saw a negative 299,883 sq. ft. of net absorption, with most of those companies resizing and relocating to other Phoenix submarkets. The Northeast Valley did not see much activity overall as net abs. remained right around zero throughout the second quarter. Activity in the Northwest Valley remained consistent with the last few quarters with 299,613 sq ft. absorbed this quarter.

The largest new deal signed in the last three months was Project Brave for 521,302 sq. ft. over in North Goodyear. There were no significant vacates this quarter aside from Daniel’s Moving & Storage vacating their two spaces as a result of their bankruptcy.

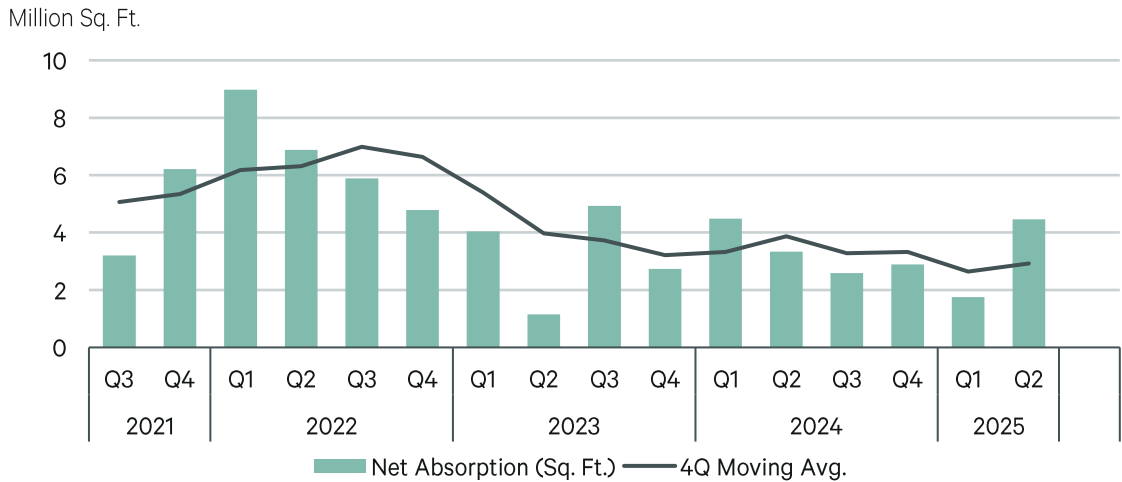
Thirteen leases over 100,000 sq. ft. were signed in Q2 with three of them being renewals. All large leases were signed in the Southwest and Southeast Valley with 11 of them being signed out west. Gross absorption went up to 9.1 million sq. ft. with just over 7 million sq. ft. of new leases contributing to that total. This extremely strong figure of new gross leasing activity supports the idea that Phoenix and its vacancy is trending in a positive direction.

Top Transactions

Leasing activity had a strong uptick overall. Q2 2025 experienced roughly 9.1 million sq. ft. of gross activity with four of the top five deals getting signed in the Southwest Valley:

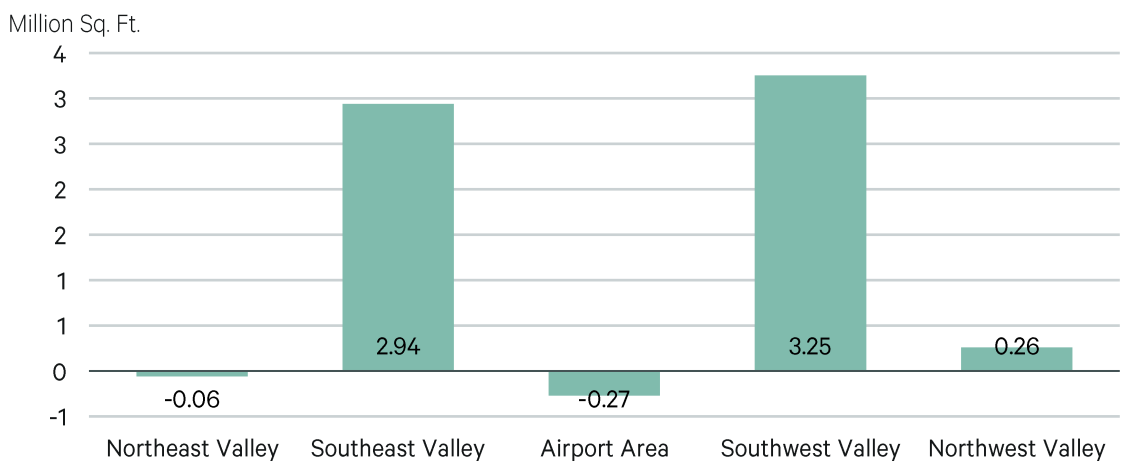
- Project Brave | 521,302 sq. ft. | South Goodyear
- Ball Corp. | 514,063 sq. ft. | North Goodyear
- Xnrgy | 377,401 sq. ft. | Phoenix Mesa Gateway
- Verst | 331,683 sq. ft. | North Goodyear
- Freeport Logistics | 302,602 sq. ft. | South Goodyear

FIGURE 4: Net Absorption



Source: CBRE Research, Q2 2025.

FIGURE 5: Net Absorption by Submarket YTD



Source: CBRE Research, Q2 2025.

Development Activity

The development pipeline in the Valley continued to cool in 2025 as the market has begun to absorb many of the new projects that were built within the last 4 years. Vacancy trended negative for the first time in roughly 3 years, mainly due to the slowing deliveries. This slow down in pace has allowed larger tenants to occupy new shell space and contribute to the maturation of the market.

The Southwest Valley is no longer the development battlegrounds that it has been for the last several quarters. The Southeast Valley has continued to out pace the other submarkets with just over 4.5 million sq. ft. under construction compared to the 6 million sq. ft. under construction in all other submarkets combined. Pre-leasing and Built to Suit projects have seen an uptick in activity, with 3 BTS projects completing this quarter and another 3 properties delivering with 0% vacancy due to leases signed this quarter.

2.2 Million Sq. Ft. Delivered this Quarter

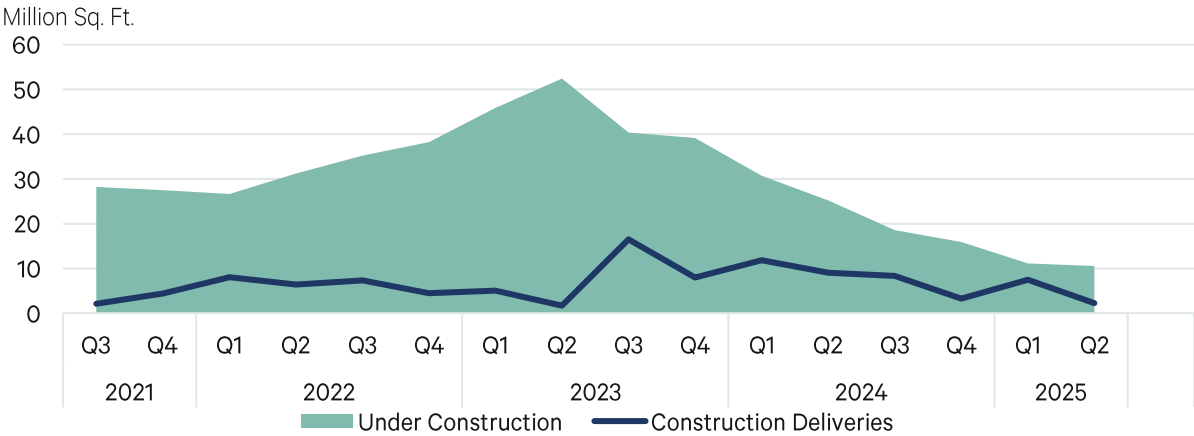
Twenty buildings amounting to 2.2 million sq. ft. were completed this quarter. No properties completed were over 275,000 sq. ft. and six buildings delivered as built to suit or fully preleased. Completions were spread throughout the valley with 60% of properties delivering in the Southeast Valley.

- The Brickyards – Buildings 1-7 | 602,919 sq. ft. | Phoenix Mesa Gateway
- Mack Innovation Park – B Buildings | 414,864 sq. ft. | Deer Valley
- VT 101– Buildings B & C | 311,660 sq. ft. | Glendale

773,953 Sq. Ft. Broke Ground this Quarter

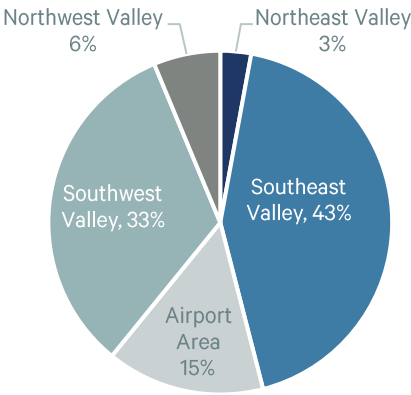
The second quarter of 2025 continued to show signs of the cooling development pipeline. Breaking ground on under 1 million sq. ft. of projects is a strong indication of the market beginning to take control and manage the existing inventory with careful consideration to new projects and build to suit endeavors. The six properties that have begun construction are in the Southeast Valley and Airport Area.

FIGURE 6: Under Construction and Construction Deliveries



Source: CBRE Research, Q2 2025.

FIGURE 7: Under Construction by Submarket



Source: CBRE Research, Q2 2025.

Outlook

The second quarter of 2025 continued the wave we have seen in the macro markets caused by last November’s election. Interest and federal rates held strong whilst unemployment began to trend positively downward. Industrial assets have begun trending as popular investment vehicles as the push for “America First” has many companies reshoring their assets and certain operations to locations closer to the U.S.

Phoenix has been one of the fastest growing locations in terms of population and business footprint since COVID-19, and this quarter was a sign of that positive trend. Local legislatures and government bodies have been passing corporate minded bills that have allowed large companies like Axon and Sprouts to consider the valley a headquarter-friendly market. This trend aligns with the financial commitments we have seen from major technology companies.

We are beginning to experience the positive side of the curve when it comes to tenant inquiries, as we are losing less clients to other markets, and more and more companies are deciding to grow alongside Phoenix rather than relocate to more historically mature markets. Certain infrastructure elements will remain among the city’s largest hurdles the city faces, but with more and more activity prompting action, we can remain hopeful things will continue to be resolved faster.



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)
				Q2 2025	2025 YTD			
Northeast Valley	14,055,988	5.7%	4.9%	-823	-59,866	305,375	243,360	\$1.57
Southeast Valley	102,868,482	15.9%	14.6%	2,237,194	2,940,251	4,544,082	1,279,325	\$1.26
Airport Area	74,002,902	6.1%	4.7%	-299,883	-271,705	1,568,430	0	\$1.14
Southwest Valley	198,065,070	16.4%	15.1%	2,293,836	3,254,603	3,463,914	311,660	\$0.84
Northwest Valley	52,823,786	8.0%	6.6%	137,081	259,613	662,452	414,864	\$1.13
Phoenix Total	441,816,228*	13.2%	11.9%	4,367,405	6,122,896	10,544,253	2,249,209	\$1.08

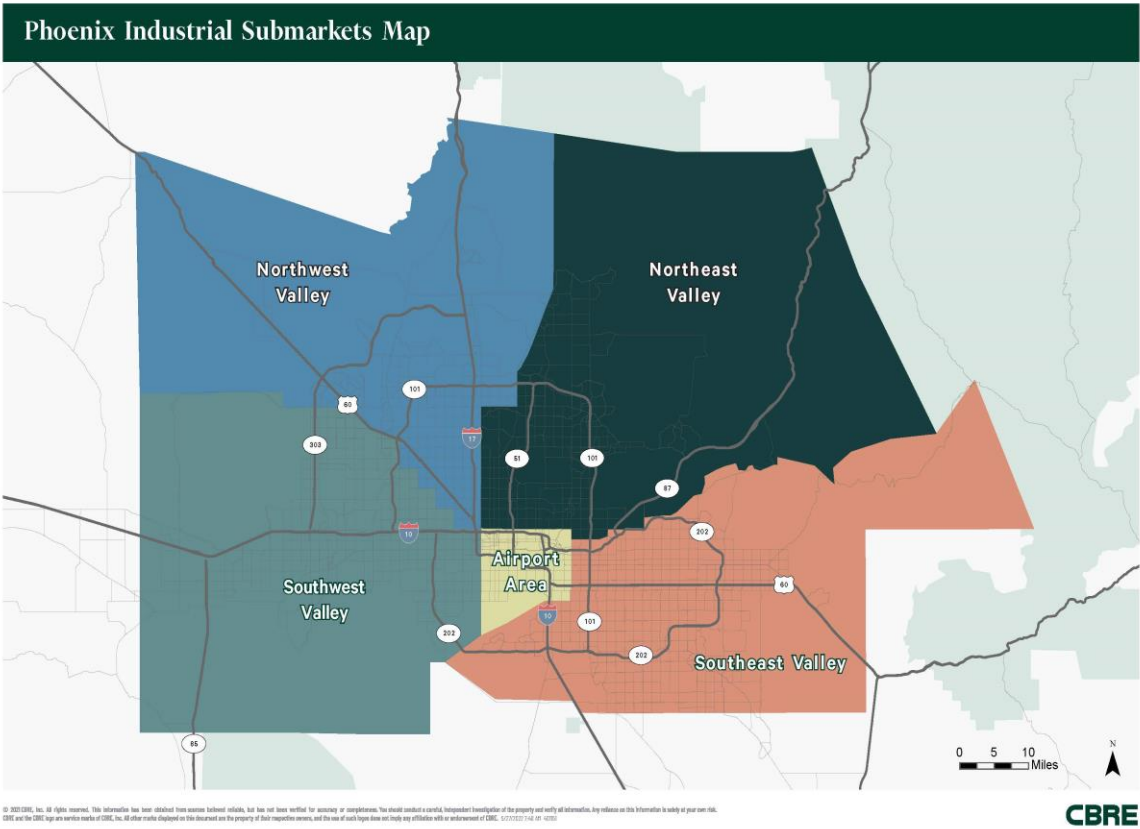
Source: CBRE Research, Q2 2025.

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 2025	2025 YTD			
Multi-Tenant	36,943,237	7.0%	5.9%	-226,411	-365,138	337,363	0	\$1.24
Distribution	225,696,644	19.6%	18.1%	3,843,562	5,954,702	7,048,630	1,389,706	\$0.88
Freestanding	55,421,679	3.0%	2.2%	107,176	-124,776	181,052	0	\$1.24
General Industrial	76,943,912	9.4%	8.1%	394,193	255,317	1,223,014	584,503	\$1.12
Back Office	9,540,595	20.2%	14.9%	-41,400	139,316	0	0	\$1.30
Major User	30,780,422	2.1%	2.0%	260,285	233,475	1,754,194	275,000	\$0.90
Special Purpose	6,489,739	0.5%	0.5%	30,000	30,000	0	0	\$0.00
Phoenix Total	441,816,228*	13.2%	11.9%	4,367,405	6,122,896	10,544,253	2,249,209	\$1.08

Source: CBRE Research, Q2 2025.

* CBRE recently audited and updated our Industrial Inventory to align closer with National Research standards. This resulted in a change of NRA compared to previous reports.



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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