

1Q25

Phoenix Industrial Market Overview



Market Observations

Economy

- Southern California’s seaports (the nation’s top trade gateway) had their second busiest year on record in 2024. The outlook for 2025 is muted at best.
- [Widespread U.S. tariffs](#) on foreign goods sent shockwaves across global financial markets in early April.
- Uncertainty presently reigns: How long the new tariffs remain in effect, the degree to which other countries retaliate, and the U.S.’ willingness to negotiate were looming questions at the time of writing.
- Consumer Confidence is trending down, and U.S. retail sales will follow if consumer prices rise. The sales drop will be precipitous if domestic unemployment increases.

Major Transactions

- Leasing volume was sluggish this quarter. Yet, demand for quality space remains high, with 61% of volume concentrated in Class A buildings.
- Pre-leasing activity is limited amid elevated modern-gen product availability.
- Industrial sales volume totaled \$916.4 million this quarter. Volume will increase in the years ahead as the region continues to evolve as a major logistics hub.
- BKM Capital and Longpoint Realty Partners were among the quarter’s top buyers.

Leasing Market Fundamentals

- Net absorption in the first quarter of 2025 was 6.2 MSF versus 8.2 MSF in construction deliveries as numerous speculative buildings delivered partially vacant.
- Unleased speculative construction deliveries pushed the market’s total vacancy rate to 13.7%, the highest rate since 2011.
- Sublet availability increased 8.5% from last quarter to reach 8.3 MSF.
- Under-construction activity decreased for the sixth consecutive quarter; 13.5 MSF is presently underway.
- The average asking rent increased by 1.2% year over year as the market levels out while construction deliveries continue to slow down.

Outlook

- Phoenix will appeal to distributors priced out of Southern California. Namely, those that are warehousing goods with longer dwell times. Lower rents, lower taxes, less regulation, population growth, infrastructure enhancements and proximity to the Mexican border are among factors.
- BNSF will develop a 4,321-acre transportation hub in the North Glendale area that will include an intermodal terminal, a warehouse/distribution business park and rail-served sites. Groundbreaking will commence in 2025, with completion set for 2028. The Phoenix site will link to inland ports in Southern California and Dallas.
- Returning to tariffs: Occupiers tend to adopt a wait-and-see approach during periods of volatility, which may dampen near-term leasing activity.

1. Economy
2. Market Fundamentals
3. Appendix

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Economy



Southern California's Ports: 2024 Was the Second Busiest Year on Record

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West Coast Dockworkers Signed a New Contract in 2023; Their Eastern Counterparts Just Settled

A low-angle, upward-looking photograph of a modern building's exterior. The image shows a complex network of dark steel beams and supports forming a grid-like structure. Large glass panels are visible, reflecting the sky. The perspective creates a sense of height and architectural scale. A semi-transparent blue horizontal band is overlaid across the middle of the image, containing white text.

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Population Has Increased Considerably in Recent Decades

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Retail Sales (an Indicator of Warehouse Demand) Continue to Moderate

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The Pandemic Accelerated E-Commerce Sales Growth and Adoption Rates

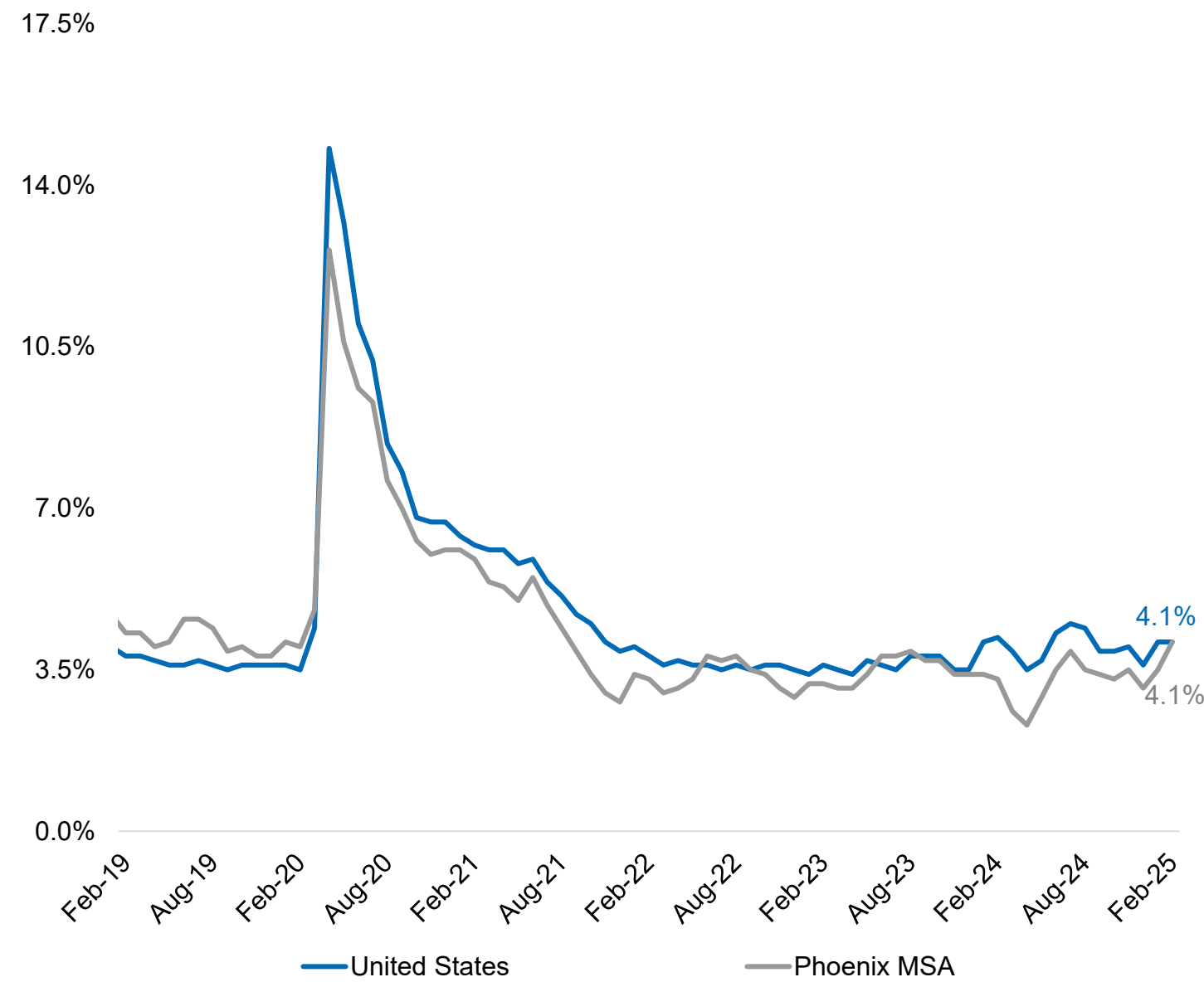


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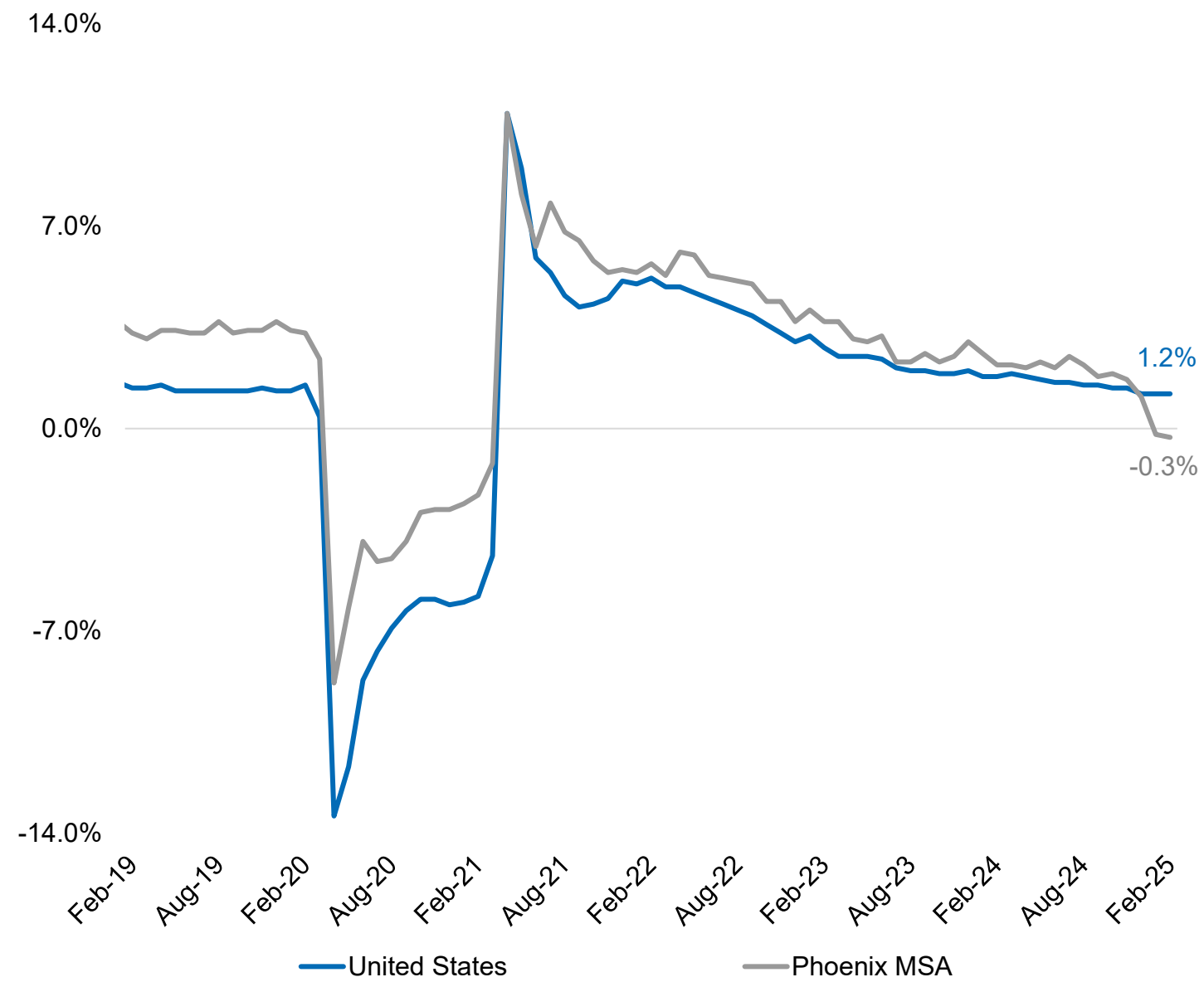
Resilient Labor Market Amid Economic Challenges

After outperforming the national average since August 2023, local unemployment rose to 4.1% . Phoenix’s job growth has deaccelerated as year-over-year nonfarm employment was negative for the second-straight month as companies continue to focus on cost-savings. Recent widespread tariffs, meanwhile, cast a shadow over local and global economies alike.

Unemployment Rate, Not Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

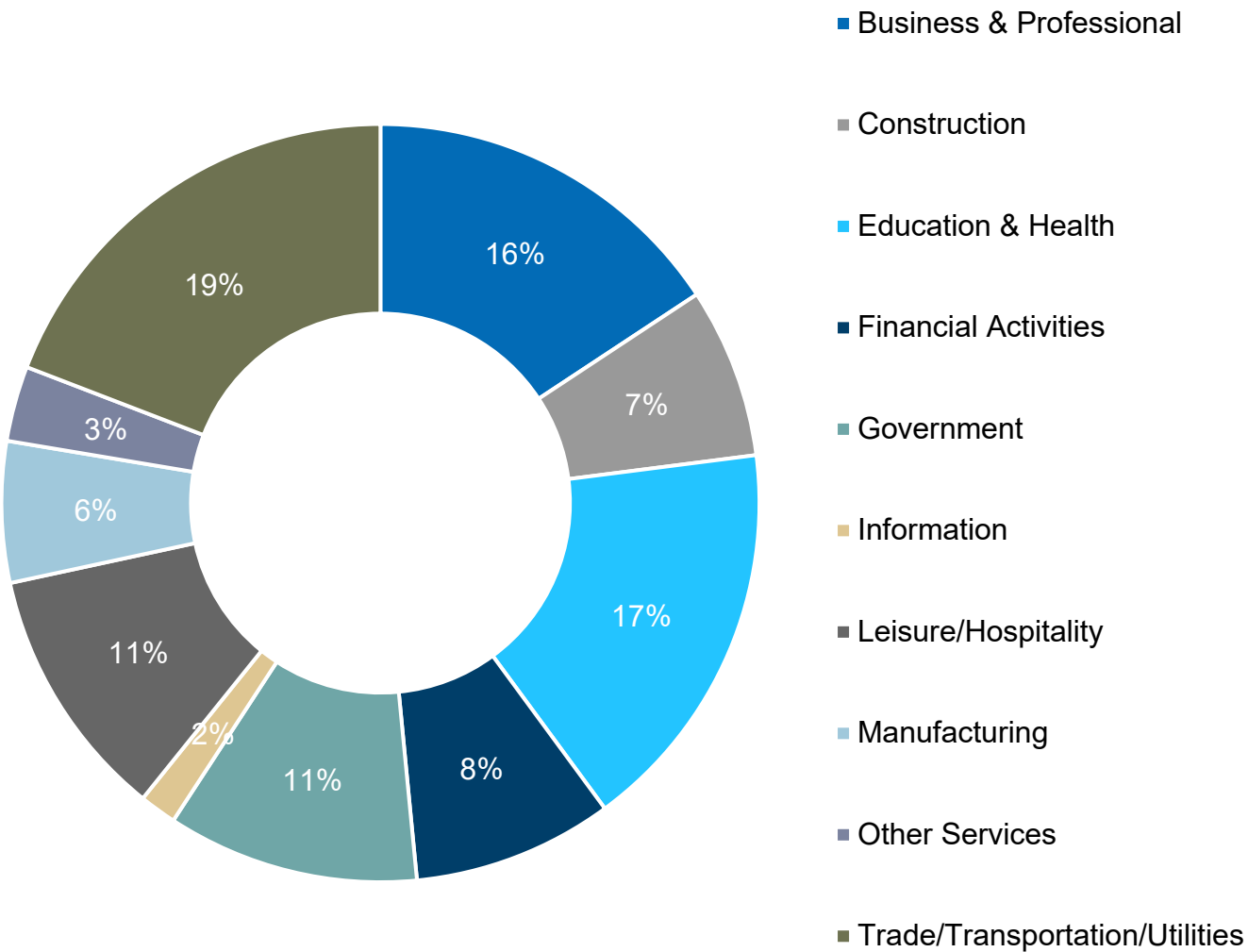


Source: U.S. Bureau of Labor Statistics, Phoenix MSA
Note: February 2025 data is preliminary.

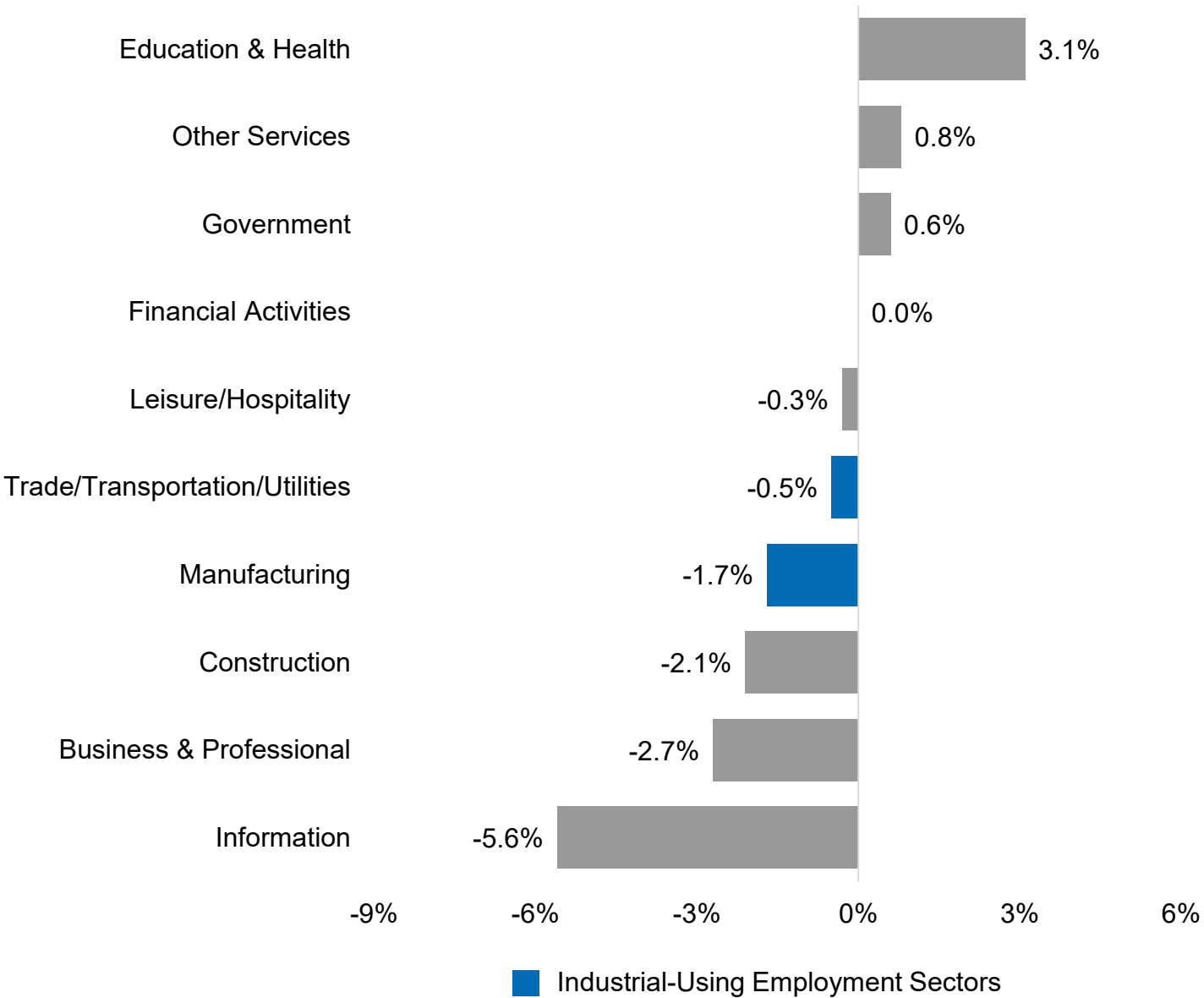
All Employment Sectors Shed Jobs

At the industry level, education and health sectors led in annual job gains for the second consecutive quarter, followed by government and other services. Trade, transportation, and utilities posted faint losses; a trend often observed after the holiday season. Additionally, manufacturing (another key industrial sector) contracted by 1.7%.

Employment by Industry, February 2025



Employment Growth by Industry, 12-Month % Change, February 2025

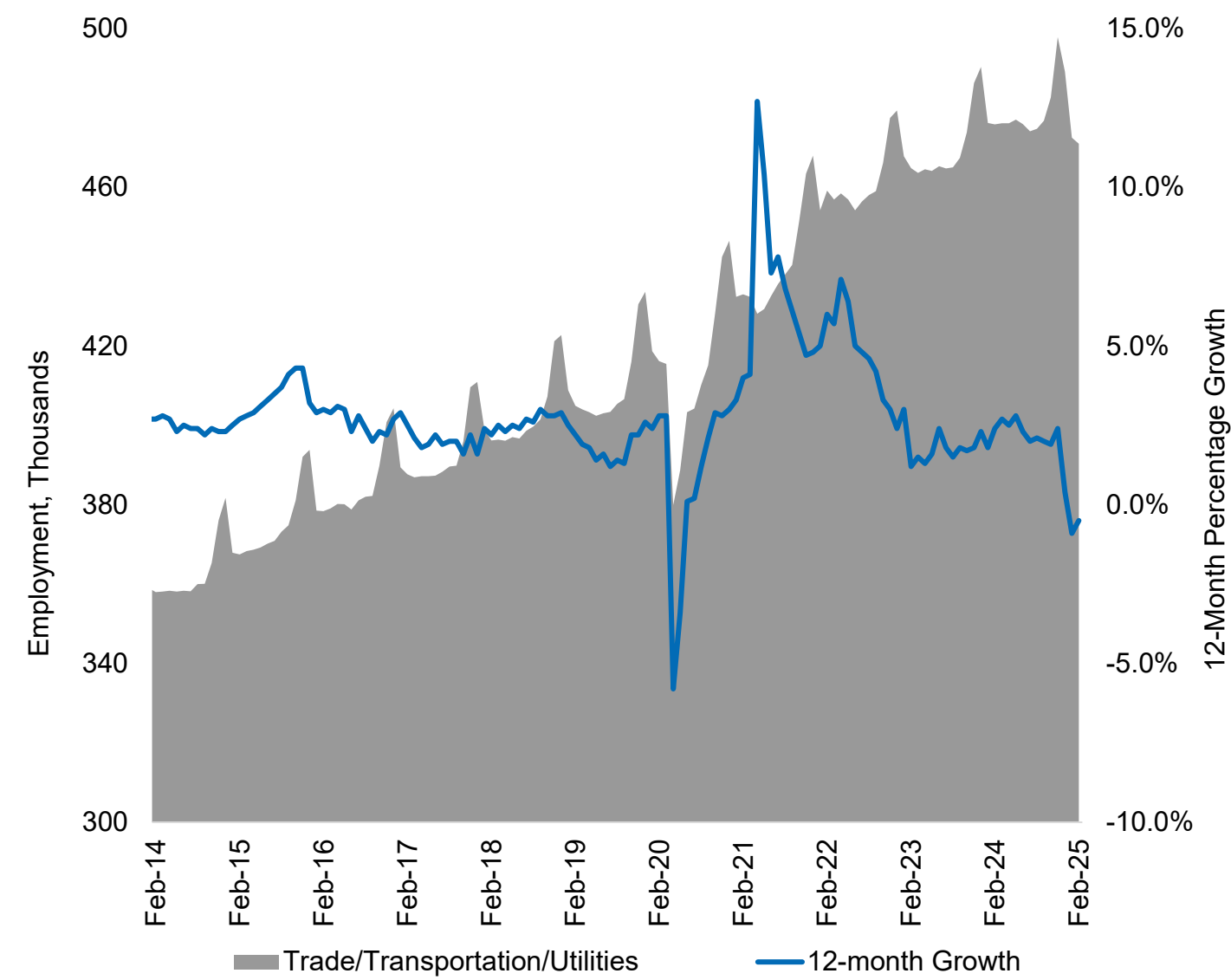


Source: U.S. Bureau of Labor Statistics, Phoenix MSA
Note: February 2025 data is preliminary.

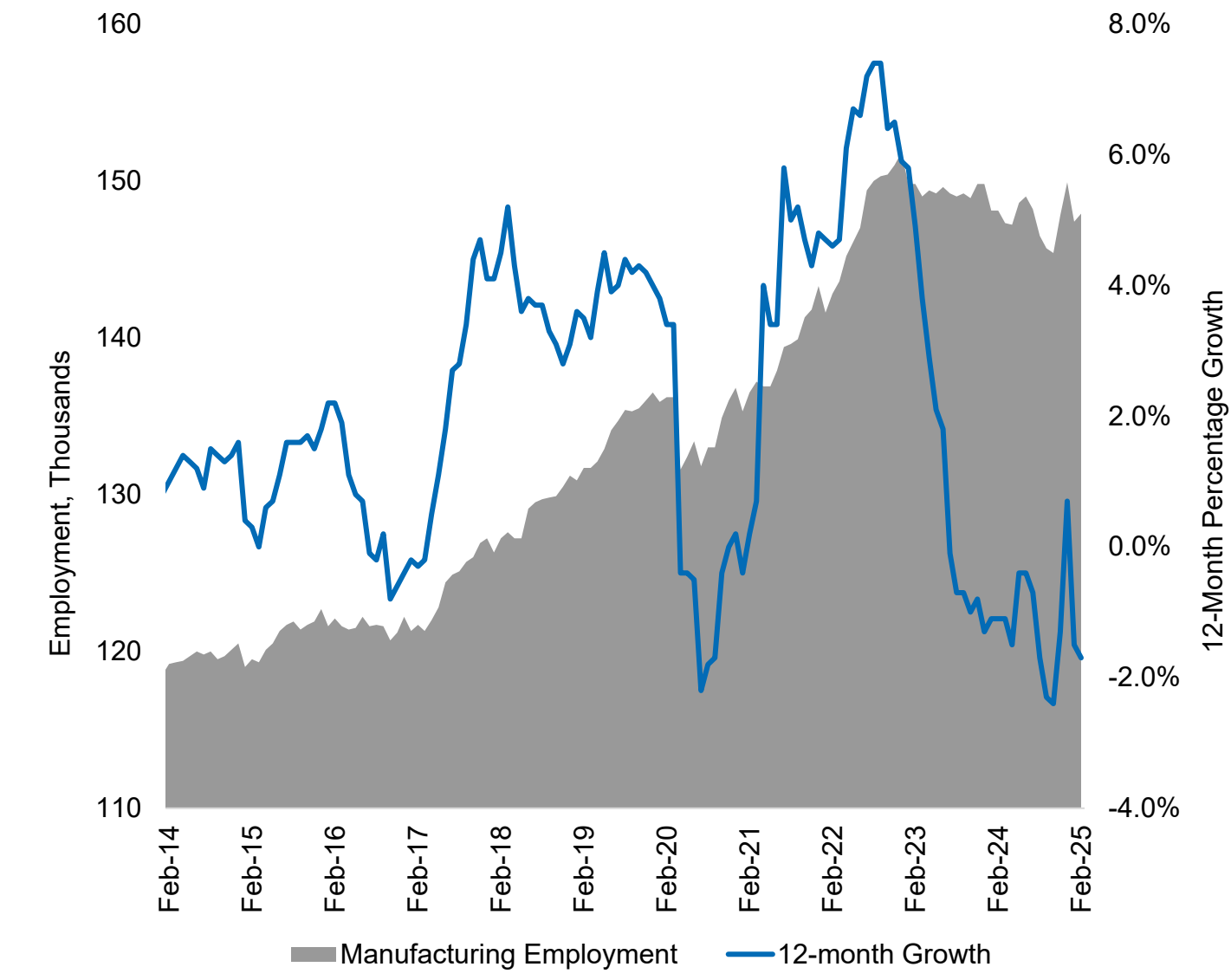
Economic Volatility is affecting TPU and Manufacturing Employment

Amidst economic volatility, both trade/transportation/utilities (TPU) and manufacturing employment in Phoenix face challenges. While the warehouse segment benefits from ongoing population growth and distributors being priced out of pricier coastal markets, manufacturing has experienced a slight contraction in annual job growth. However, this is expected to improve in the long-term as the White House has designated the metro area as a workforce hub for advanced manufacturing, providing a foundation for future job expansion.

Trade/Transportation/Utilities (TPU) Employment and 12-Month Growth Rate



Manufacturing Employment and 12-Month Growth Rate



Source: U.S. Bureau of Labor Statistics, Phoenix MSA

Union Pacific Opened a New Intermodal Terminal Near Downtown Phoenix This Year

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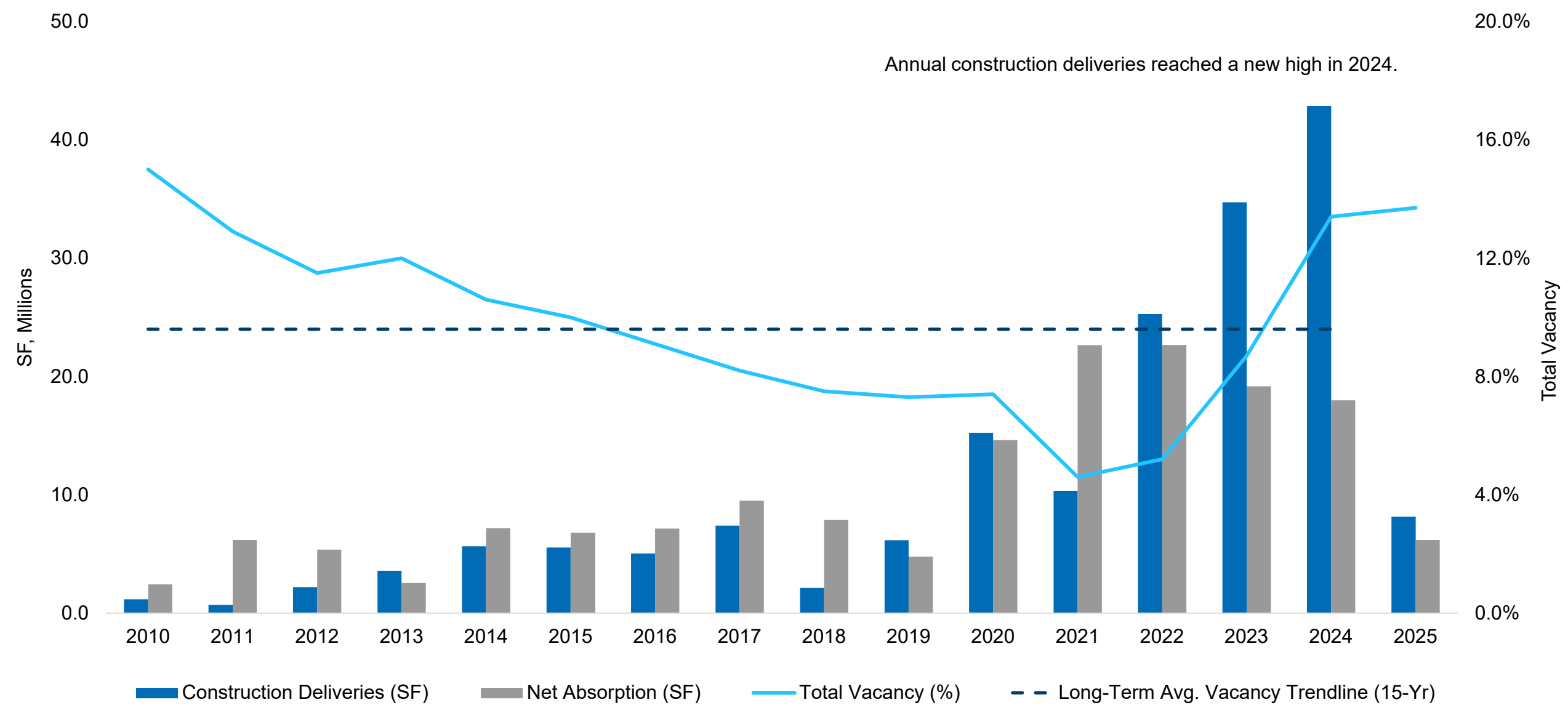
Market Fundamentals



Vacancy Surpasses Historical Average Again in 2025

Vacancy increased to 13.7% after 8.2 MSF in construction deliveries was met with 6.2 MSF in net absorption gains during the first quarter of 2025. Fewer construction starts will help to temper future vacancy increases as developers wait to see how the 113.2 MSF built since 2021 is absorbed by users in the coming quarters.

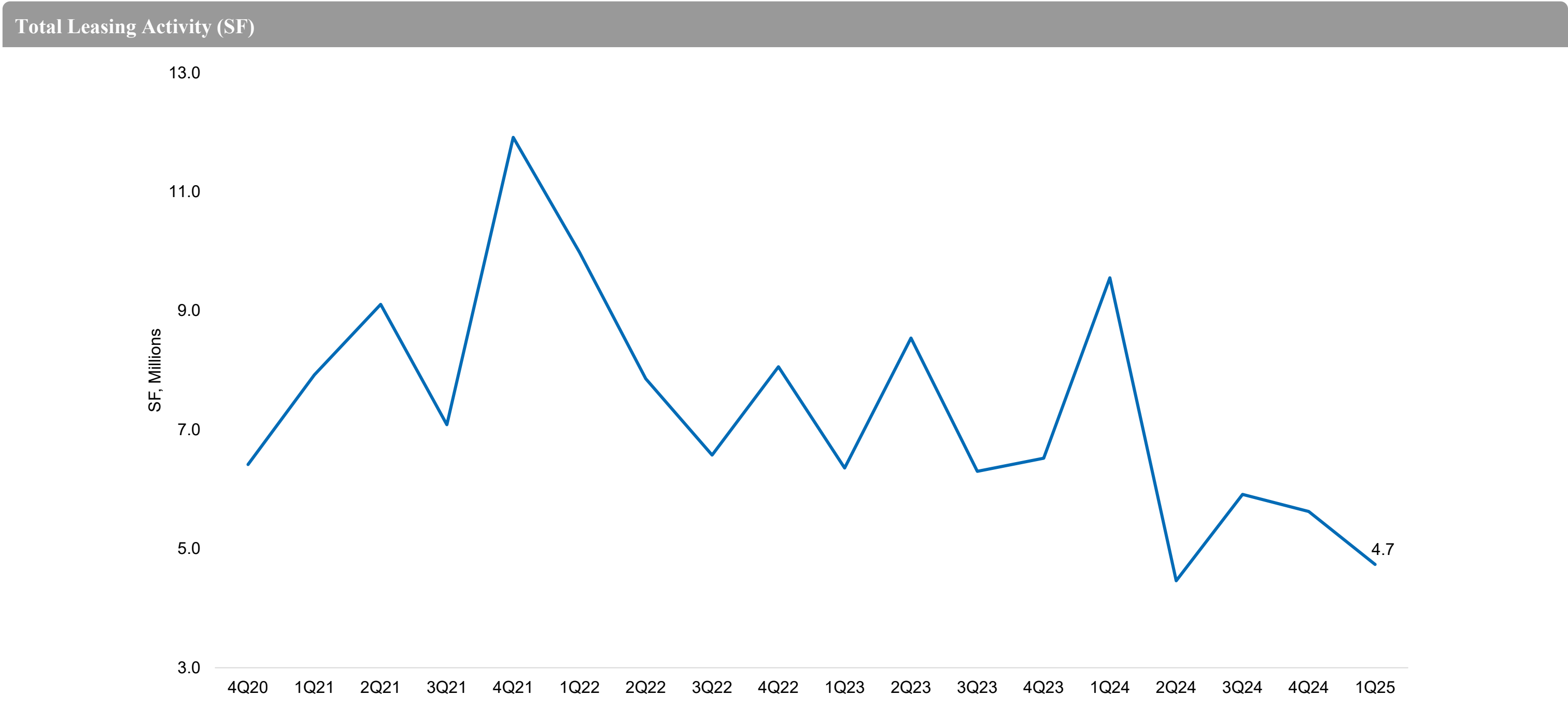
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Industrial Leasing Activity Falls in 1Q25

This quarter’s leasing activity totaled 4.7 MSF, the second-lowest the Metro has experienced in the last four years. Pre-leasing activity that was prominent in 2021 and 2022 has slowed and more tenants are waiting for buildings to deliver first before signing leases. Tenant downsizes and general cost-cutting efforts are also crimping leasing momentum.

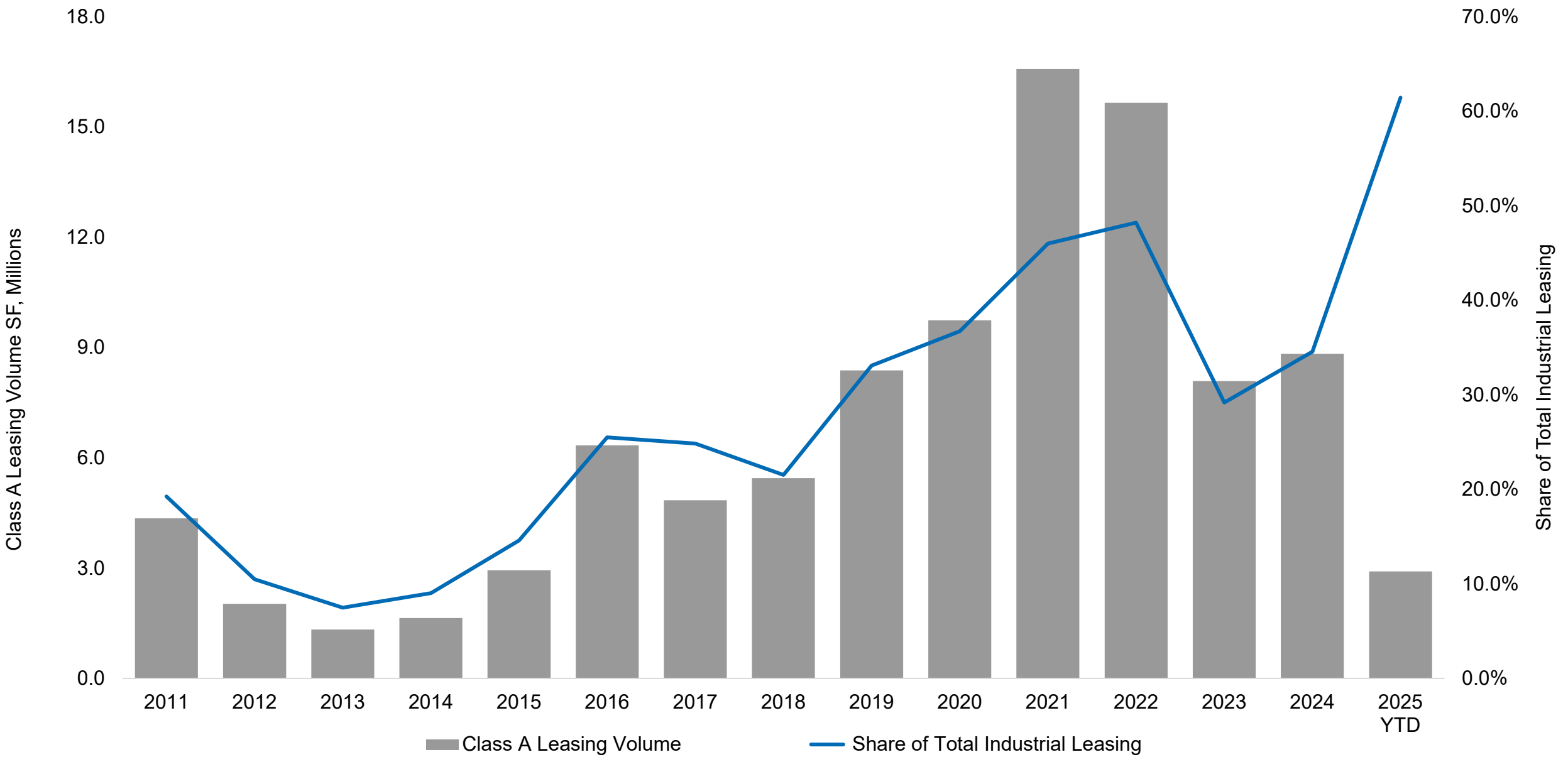


Source: Newmark Research

A Cooling Industrial Market Sees Lowered Class A Warehouse Leasing

Class A leasing activity has noticeably decreased since 2022, while Class A accounted for 61.4% of leasing activity in the first quarter of 2025. Even though Class A leasing is going down overall, it's share of overall leasing is the highest it has ever been. Demand for Class A space remains strong, but with the current influx of new supply, tenants have the upper hand with more options to choose from as landlords look to fill vacancies and tenants want quality space for the space they are leasing.

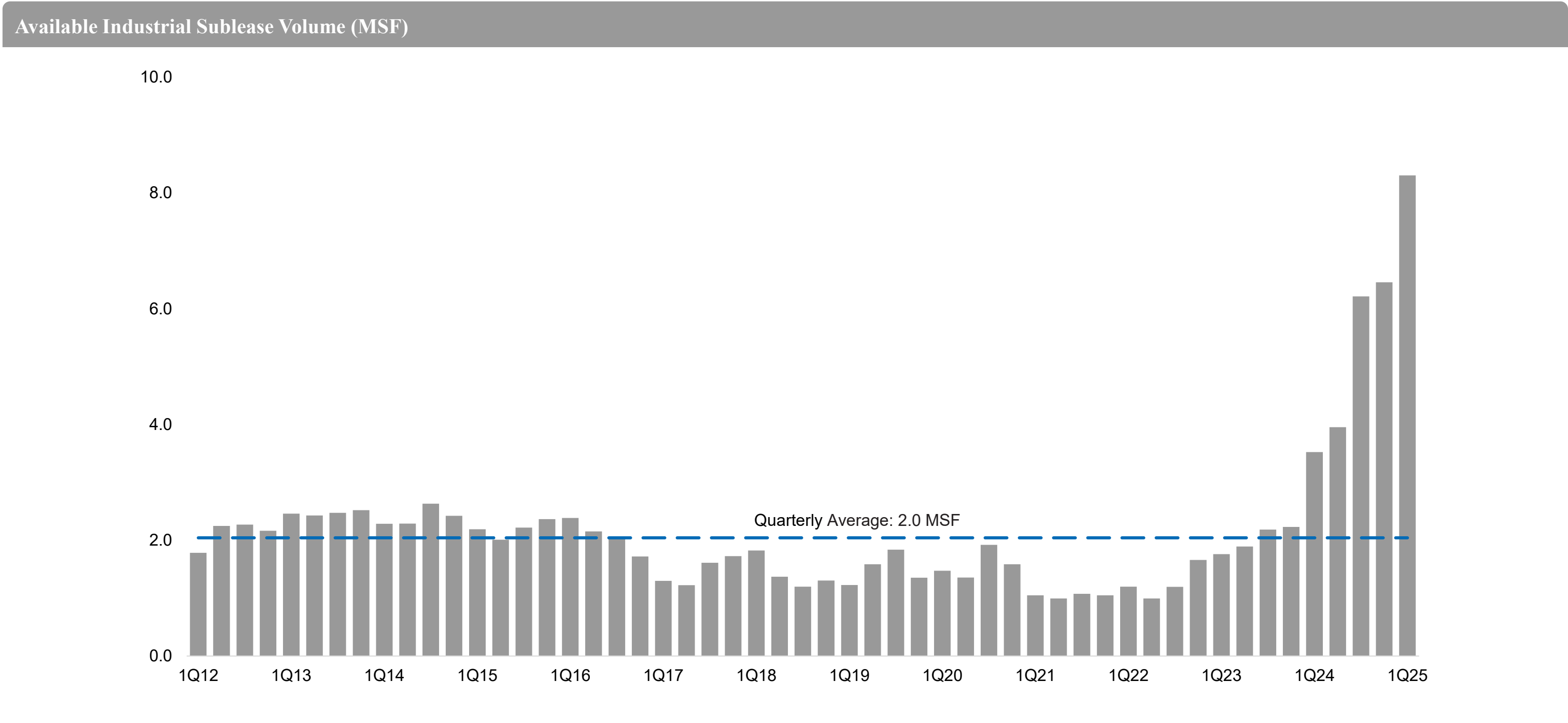
Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume



Source: Newmark Research

Industrial Sublease Availability Skyrockets After Hitting All-Time High

Sublease space rose by 28.6% from last quarter as sublease signings were offset by new listings. The current sublet pool is at a record high, both on a square footage basis (8.3 MSF) and as a percentage of total inventory (1.8%).



Source: Newmark Research

Industrial Subleases Still on the Rise in Phoenix

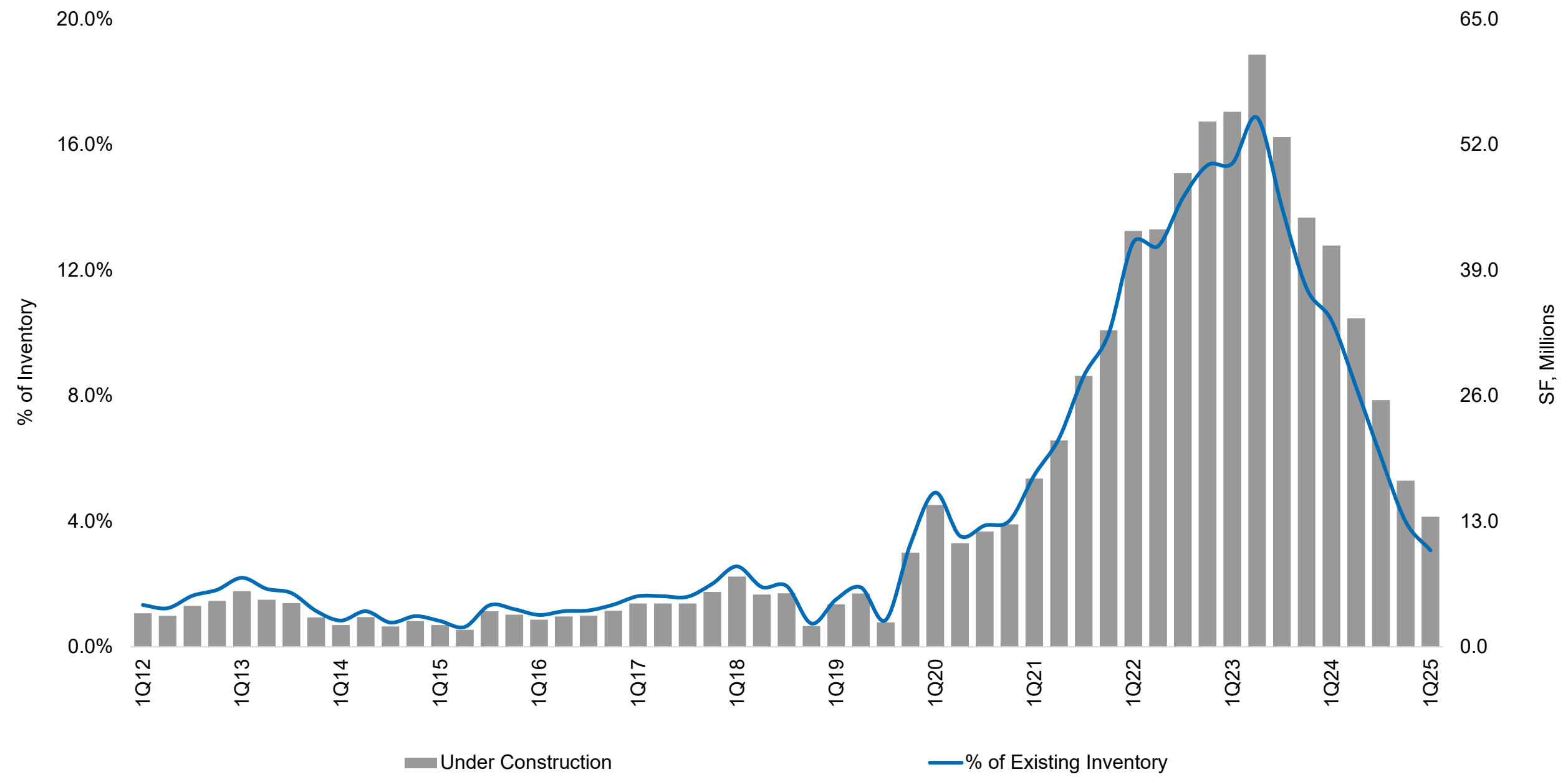


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Industrial Supply Pipeline Continues to Empty

The construction pipeline, after reaching a high of 61.3 MSF in the second quarter of 2023, is decreasing. Since 2021, the Phoenix Metro inventory base has increased dramatically – up by 35.3% in the last four years. Phoenix has the most underway product compared to other Southwest markets: a testament to the Metro’s ability to attract new businesses and investors alike before inflation took hold and construction debt financing became more difficult.

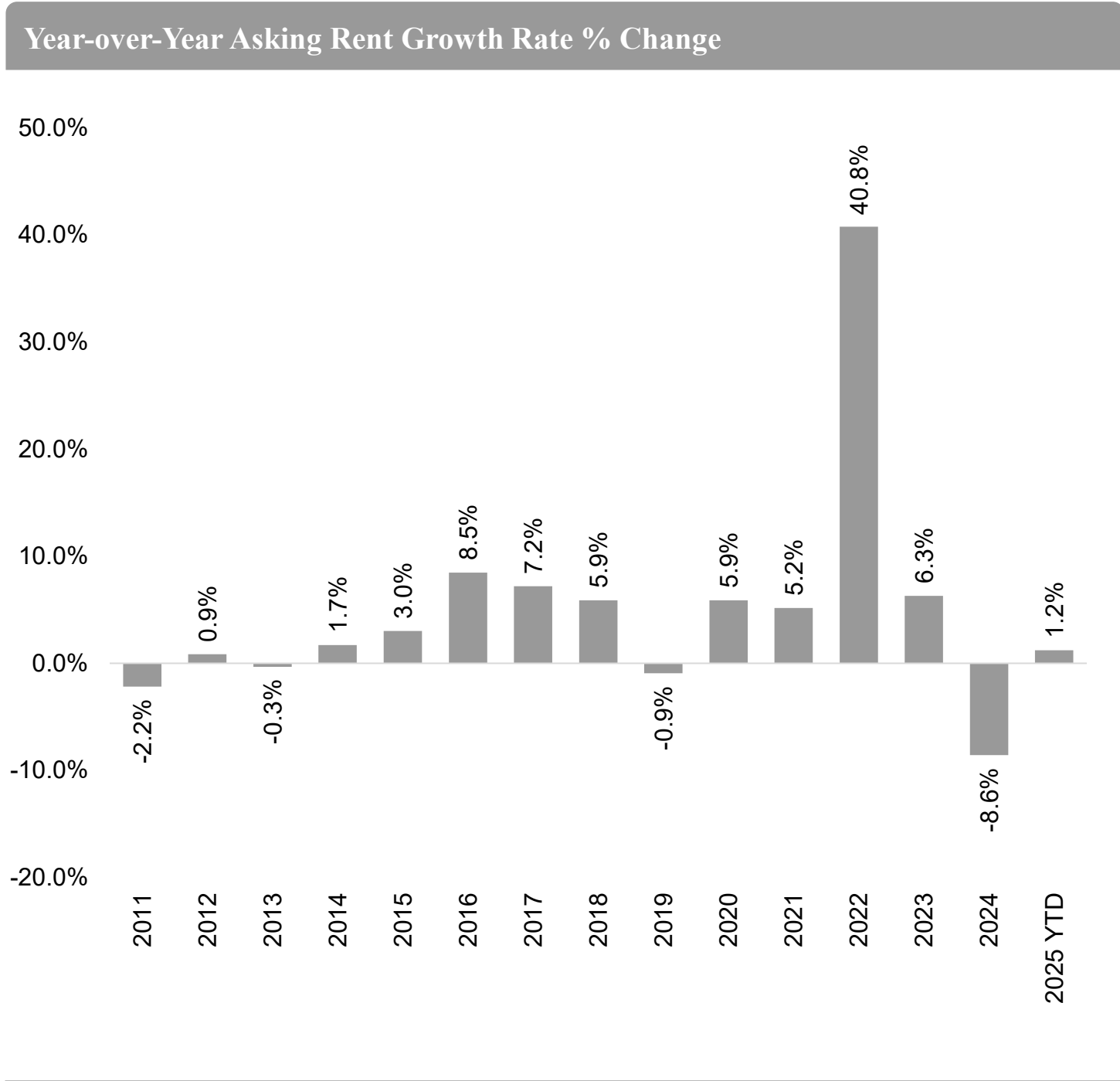
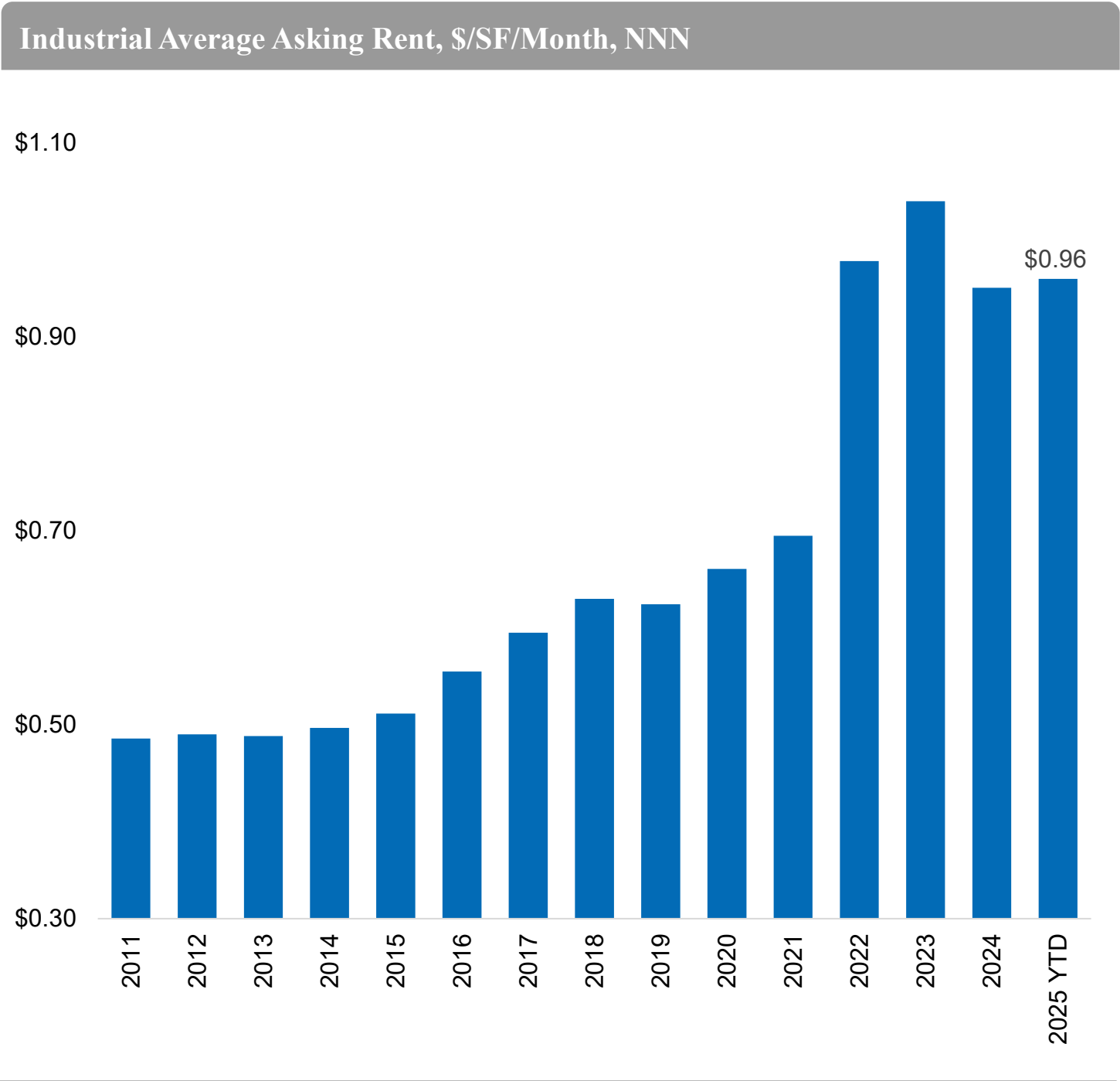
Industrial Under Construction and % of Existing Inventory



Source: Newmark Research

Asking Rents Stabilize as Construction and Sublease Levels Remain High

Continued high levels of speculative construction deliveries, alongside record-high sublet availability, initially pushed asking rents down as landlords worked to attract tenants. However, as construction deliveries begin to decline and right-sizing efforts slow, asking rents are beginning now stabilized.



Source: Newmark Research

Exceptional Effective Rent Growth in Recent Years is Reversing Course

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General Advanced Manufacturing Announcements



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TSMC has Expanded its Original Project to \$165 Billion

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Notable 1Q25 Lease Transactions

Key lease agreements played a major role in enhancing Phoenix’s appeal as a central hub for manufacturing and 3PL users.

Select Lease Transactions				
Tenant	Building(s)	Submarket	Type	Square Feet
Kenco	440 N 215 th Ave	Southwest Phoenix	Direct Lease	641,906
The 3PL will occupy the vacant property in June 2025. Lease term expires in 2Q28.				
Logisticus Group	16400 W Glendale Ave	Glendale	Direct Lease	483,300
The 3PL is scheduled to occupy the whole property in June 2025.				
Hims	8142 E Pecos Rd	East Mesa	Direct Lease	289,463
Tenant occupied the vacant property in January 2025. Lease term expires in 1Q35				
La-Z-Boy	17000 W Glendale Ave	Glendale	Direct Lease	233,988
The consumer goods company occupied half of the property in March 2025.				
Turfab	8903 E Peterson Ave	Gilbert	Direct Lease	151,000
The energy company moved into the vacant property in March 2025.				

Source: Newmark Research

Notable 1Q25 Sale Transactions

Sales volume in the first quarter of 2025 experienced a slowdown, primarily attributed to the recent economic volatility and prevailing market uncertainty. As businesses and investors grappled with fluctuating conditions, many opted for a cautious approach, delaying significant transactions until market conditions stabilize.

Select Sale Transactions				
Building Address	Submarket	Sales Price	Price/SF	Square Feet
1200 N 132 nd Ave	Glendale	\$54,000,000	\$129.03	418,494
Starwood Capital Group acquired the property as a part of a portfolio from Goldman Sachs in March				
801 S 75 th Ave	Tolleson	\$51,851,156	\$156.46	331,398
BKM Capital Partners acquired the property as part of a 12-property portfolio from Starwood Capital in March.				
4877 N Cotton Ln	Glendale	\$46,400,000	\$113.05	410,421
Madison Capital acquired the property from REI in a Sale Leaseback.				
Echo Park 303 - Bldg A	Glendale	\$39,000,000	\$177.08	220,240
LBA Logistics purchased the asset from Echo Real Estate Capital in February. HubStarr Logistics fully occupies the building.				
601 S 54 th St	Chandler	\$30,652,627	\$227.15	134,944
Longpoint Realty Partners purchased the asset as a part of a 6-property portfolio from Starwood Capital in March.				

Source: Newmark Research

2025 Starts Slow in Sales Activity



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Institutional Buyers are Back and Aggressive



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Appendix



A low-angle, upward-looking photograph of a modern building's exterior. The image features a complex network of dark, metallic steel beams forming a grid-like structure. Large glass panels are interspersed within the frame, reflecting the sky and other parts of the building. The perspective creates a sense of height and architectural scale. A semi-transparent blue horizontal band is overlaid across the middle of the image, containing white text.

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A low-angle, upward-looking photograph of a modern building's exterior. The image features a complex network of dark blue steel beams and glass panels, creating a geometric pattern. The sky is visible through the glass, appearing as a light blue background. A semi-transparent blue horizontal band is overlaid across the middle of the image, containing white text.

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Access to Large Populations and Lower Costs of Doing Business Favor Phoenix

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