



NEWMARK

Phoenix:
Industrial Market Overview

1Q26



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Phoenix Industrial Market Observations



Economy

- Loaded import volume at Southern California's ports reached 10.1 million containers in 2025, the busiest year on record. Monthly traffic was uneven throughout the year, reflecting a pattern of importers front-loading shipments ahead of tariff deadlines, followed by volume pullbacks once new rates took effect.
- Historically, goods from China drive import volume at the ports. The fact imports set a new record — despite China carrying the highest U.S. tariff rates of any trading partner — is counterintuitive and is explored in the slides to come.
- U.S. wage growth continues to outpace inflation and retail sales remain healthy; both are supportive of import demand and occupier activity. These conditions could deteriorate if the Iran conflict escalates into a sustained inflationary shock and unemployment rises meaningfully.
- Phoenix's labor market continues to outperform national averages.



Leasing Market Fundamentals

- Total vacancy decreased to 11.9% – 80 basis points lower than last quarter's average – after net absorption (4.8 MSF) exceeded construction deliveries (1.6 MSF). Although total vacancy has been in the double-digits since mid-2024, it has decreased for four-straight quarters.
- Available sublease declined 4.1% from last quarter to reach 7.1 MSF.
- Class A has dominated overall leasing activity since 2019. This quarter, Class A buildings accounted for 68% of total leasing.
- Maricopa County was named the top county in the U.S. by *Site Selection Magazine* for capital investment, largely driven by its dominance in advanced manufacturing, particularly for semiconductor fabrication, data centers, and supporting logistics.



Major Transactions

- Leasing activity was up after LG Energy Solution and DHL collectively signed five large leases. The two companies accounted for 35% of this quarter's leasing volume.
- DHL signed three of the quarter's largest leases, committing to nearly 1.7 MSF.
- Phoenix's sales volume in 2025 topped that of the Inland Empire and slightly lagged Los Angeles—markets whose inventories are 70% and 127% larger.
- Institutional buyers are more active in Phoenix than in Southern California markets. They accounted for 29% of 2025 local industrial sales.



Outlook

- The U.S. economy is on track to expand roughly 2.4% in 2026, despite a fourth-quarter-2025 stumble (0.7% annualized, partly attributable to the government shutdown), with this quarter signaling a recovery toward trend growth. Oil price escalation and persistent tariff-driven inflation remain the primary near-term threats to business confidence and consumer spending.
- Elevated diesel prices increase drayage costs for warehouses further from Southern California's ports — a dynamic that could slow tenant migrations from Southern California to Phoenix.
- Population growth and infrastructure enhancements favor long-term market dynamics. BNSF, for instance, acquired a 4,321-acre site in Phoenix's West Valley in 2022 and wants to develop a major transportation hub by 2028.
- TSMC's growth in the region has created an ever-evolving ecosystem of suppliers and supporting businesses. All favors demand for industrial real estate.

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Southern California's Ports and U.S. Retail Sales

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Southern California's Ports: 2025 Was the Busiest Year on Record

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Imports from China into Southern California's Ports Plummeted in 2025

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Southeast Asia Imports to Southern California's Ports Top China in 2025

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Retail Sales (an Indicator of Warehouse Demand) Up in 2025

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The Pandemic Accelerated E-Commerce Sales Growth and Adoption Rates

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U.S. Wage Growth is Outpacing Inflation While Unemployment is Steady

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Local Economy

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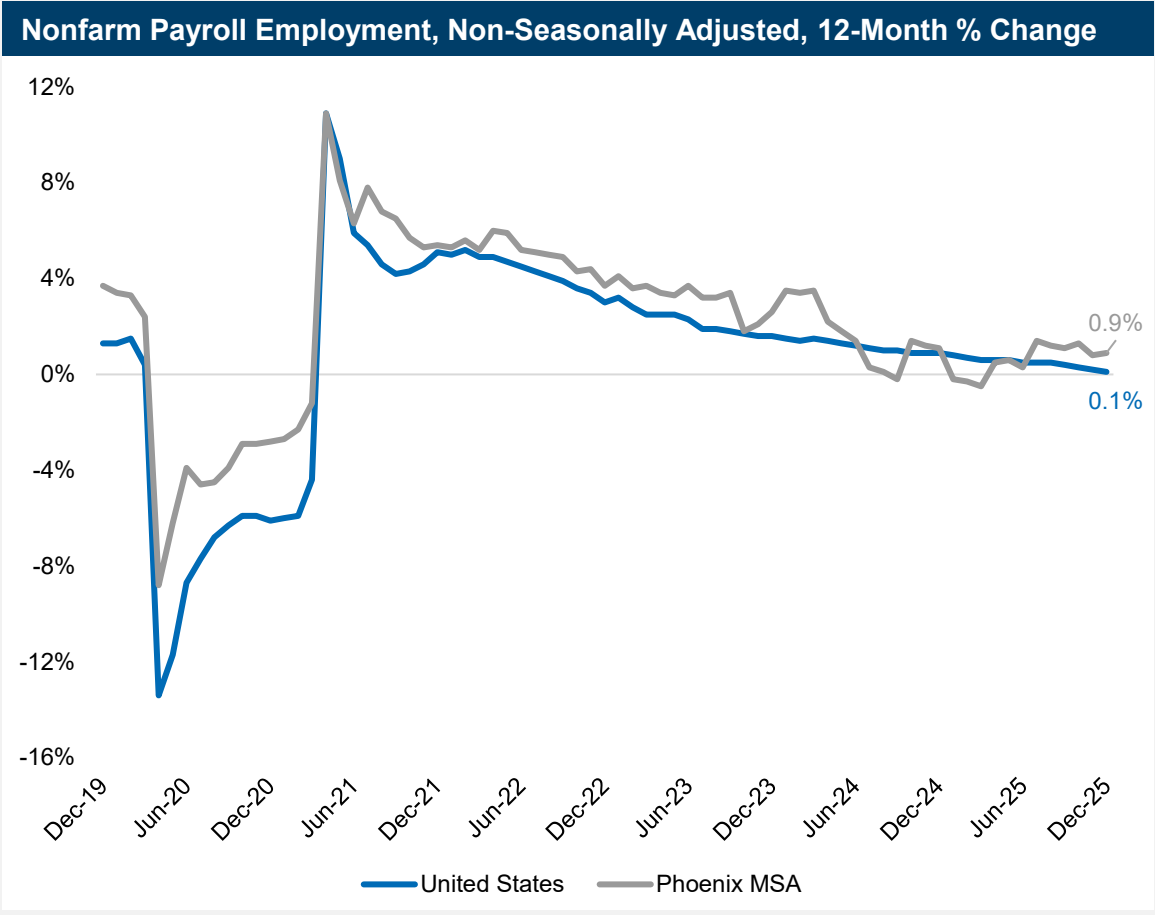
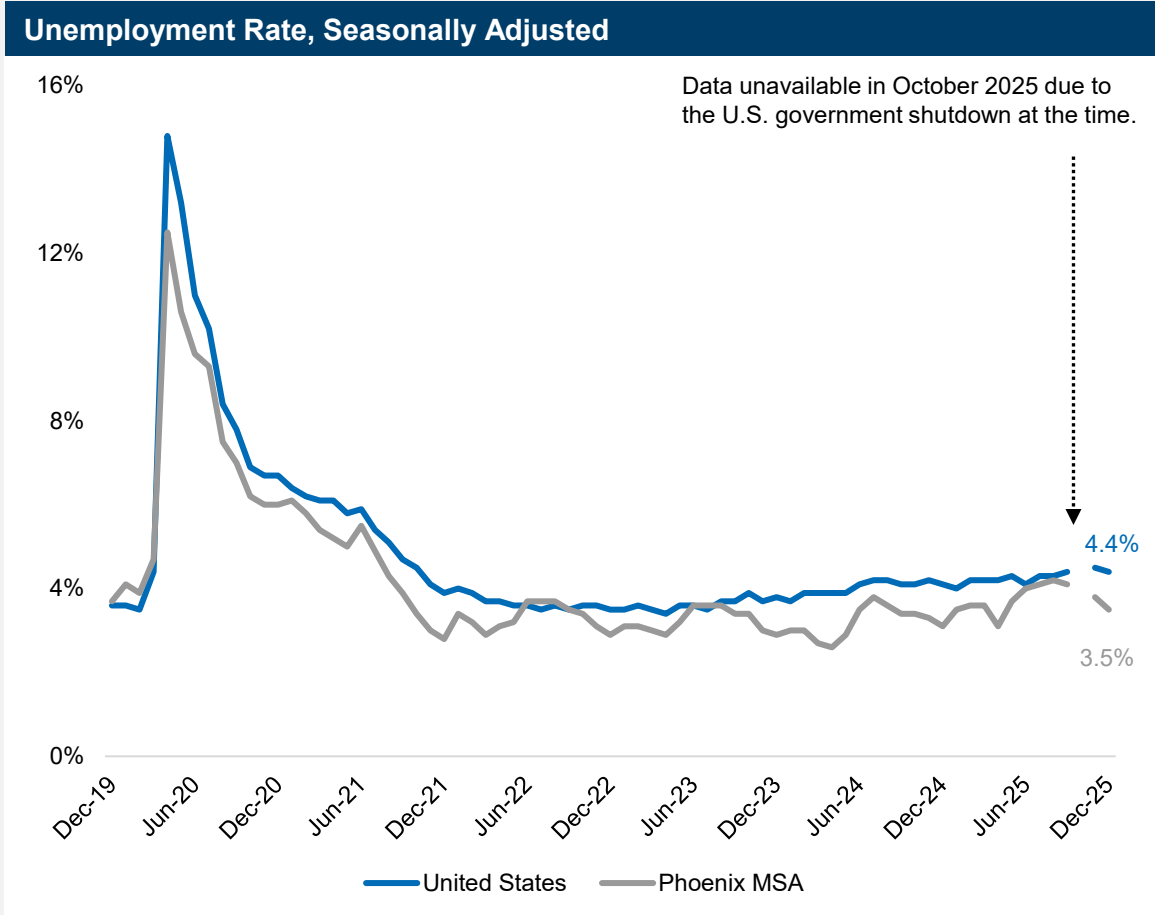


Population Has Increased Considerably in Recent Decades

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Resilient Labor Market Amid Economic Challenges

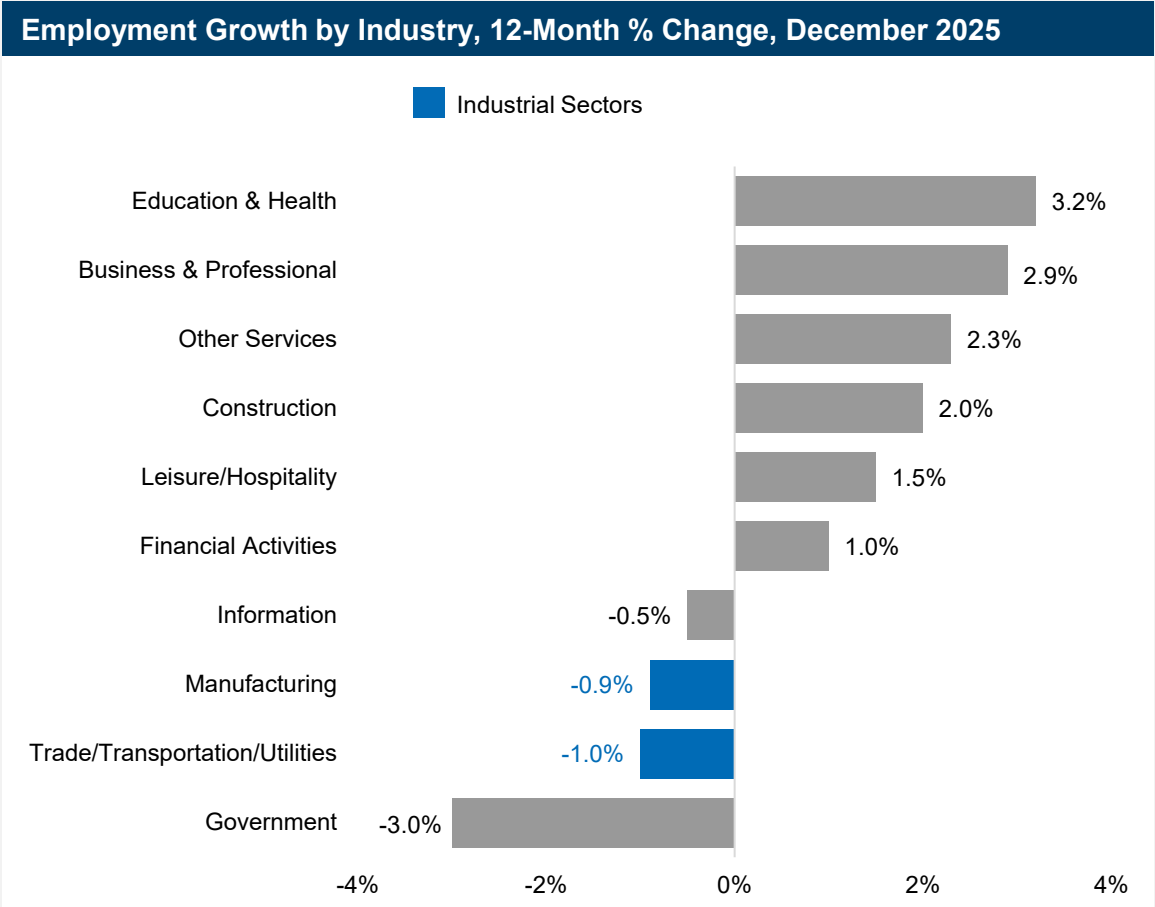
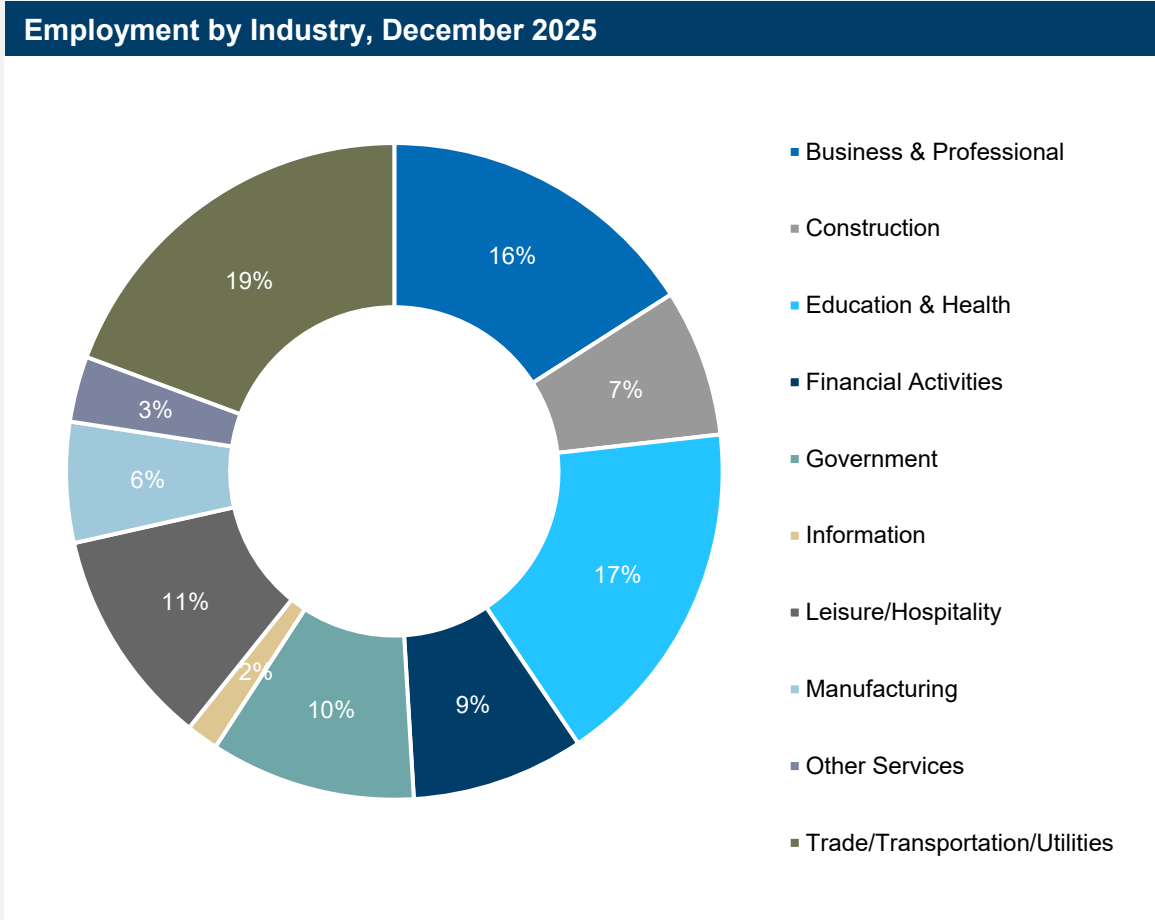
Local unemployment (3.5%) in December 2025 was lower than the U.S. average for the 28th-straight month. Phoenix's job growth is also gaining momentum, with year-over-year nonfarm employment posting gains for nine consecutive months, as select companies expand.



Source: U.S. Bureau of Labor Statistics, Phoenix MSA
 Note: Local employment statistics for January and February were unavailable at the time of writing due to this quarter's partial federal government shutdown.

Key Industrial Sector Posts Faint Losses

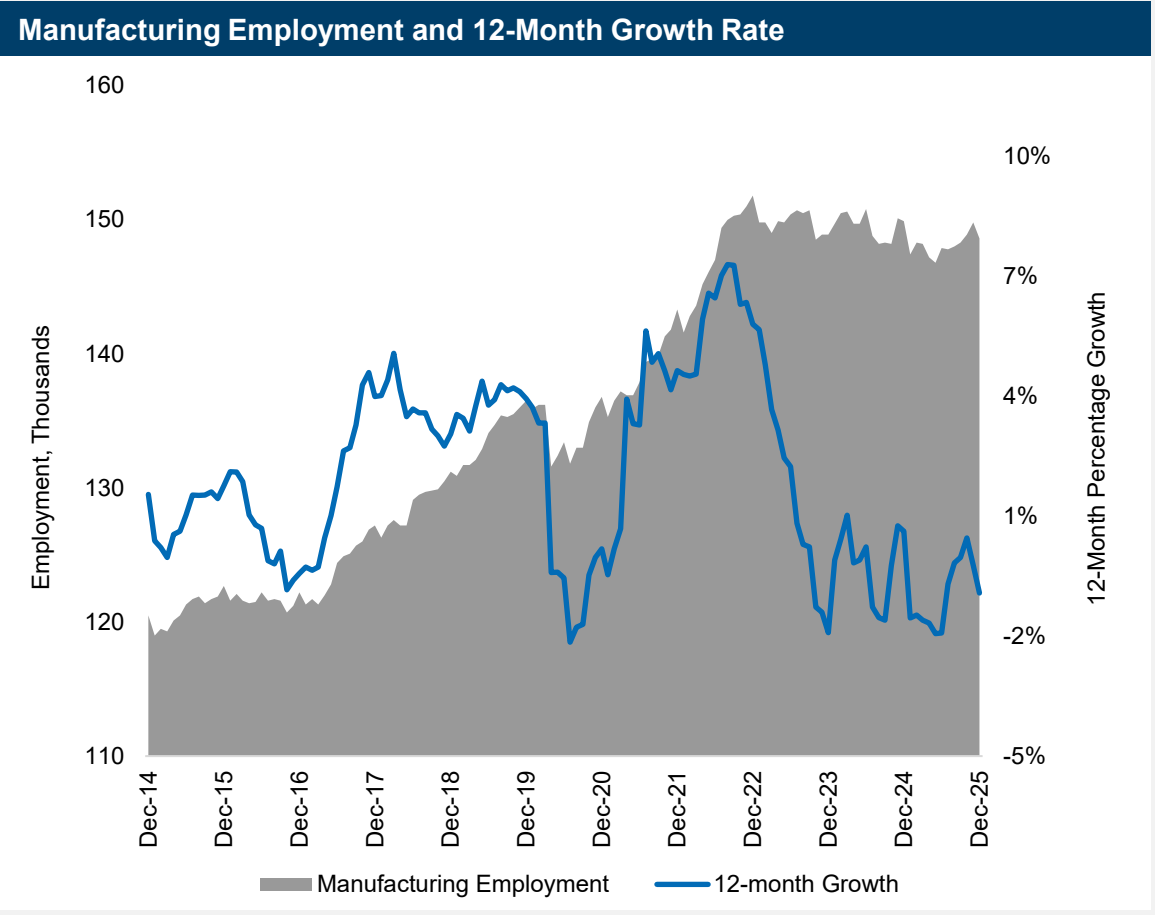
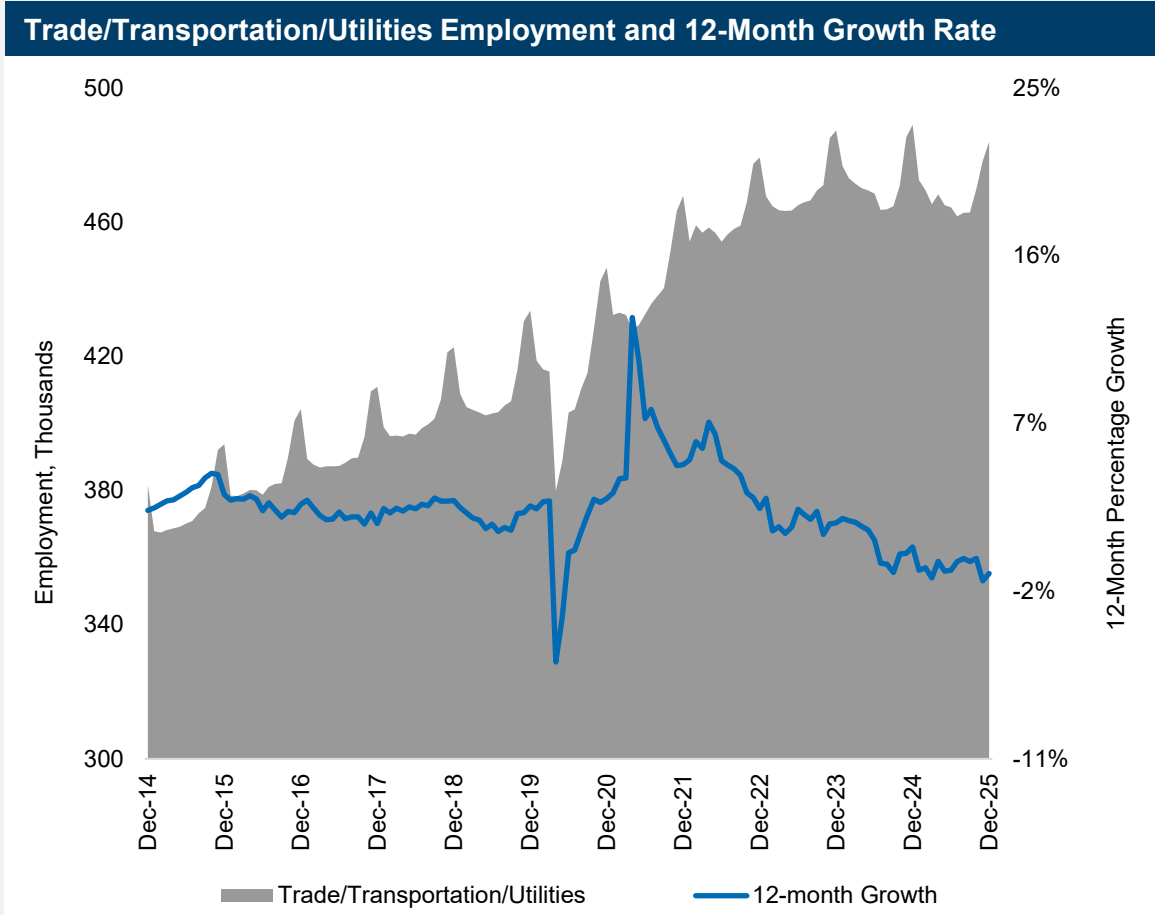
At the industry level, education and health services led annual job gains for the second consecutive quarter, followed by construction and other services. Trade, transportation, and utilities (a key industrial sector) posted slight losses.



Source: U.S. Bureau of Labor Statistics, Phoenix MSA
 Note: Local employment statistics for January and February were unavailable at the time of writing due to this quarter's partial federal government shutdown.

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, employment has recently contracted amid a higher cost, slower growth environment. Manufacturing employment is expected to improve in the long-term as the White House designated the metro area as a workforce hub for advanced manufacturing.



Source: U.S. Bureau of Labor Statistics, Phoenix MSA
 Note: Local employment statistics for January and February were unavailable at the time of writing due to this quarter's partial federal government shutdown.

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Leasing Market Fundamentals

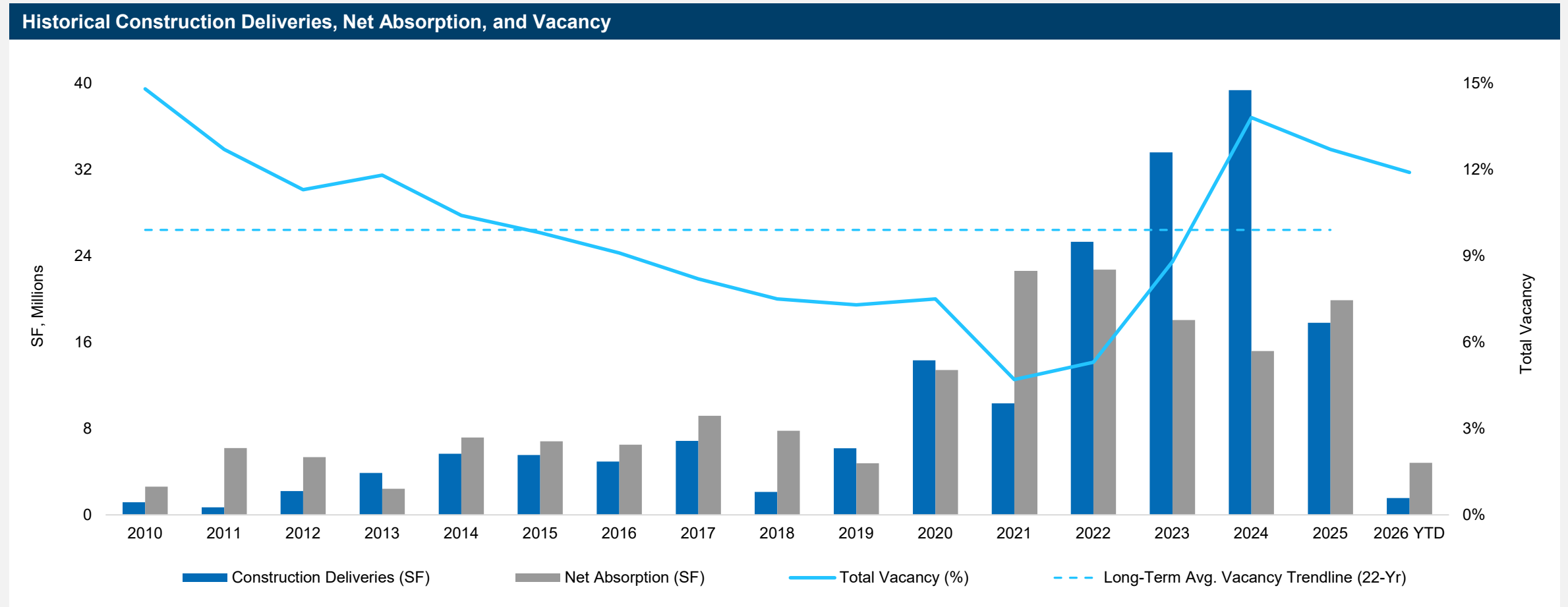
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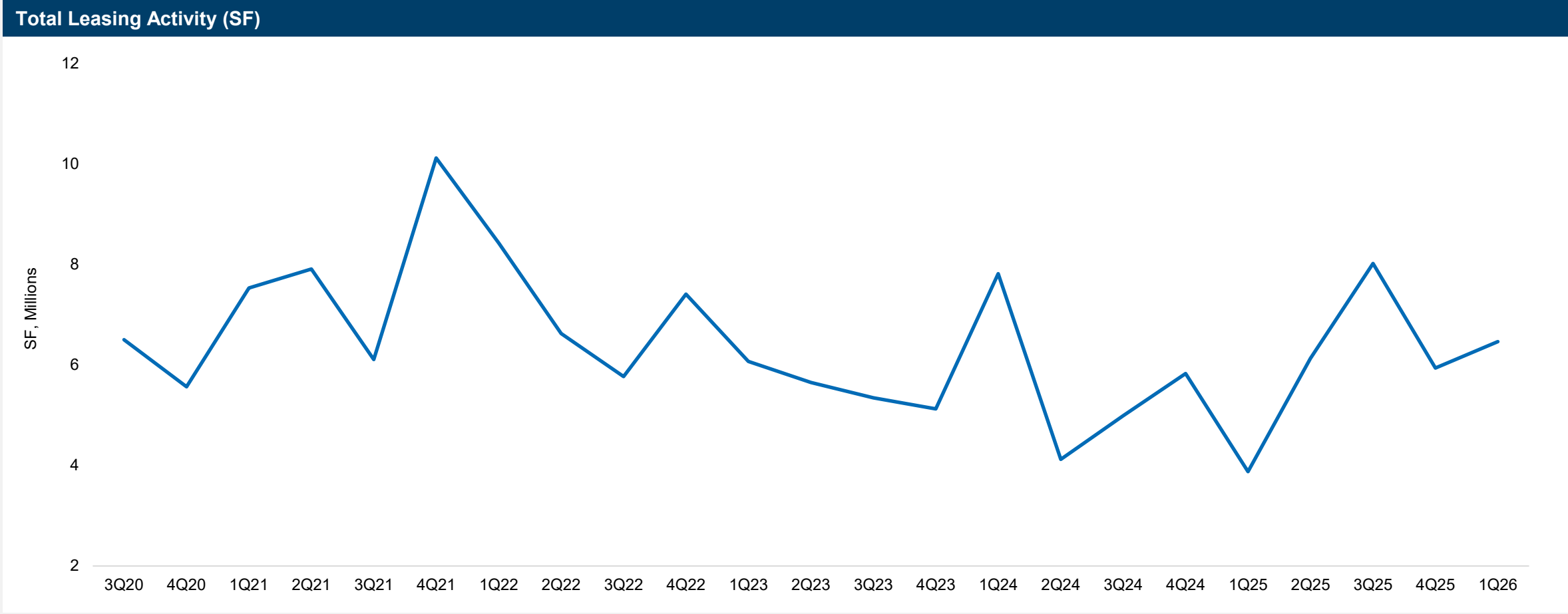
Vacancy Decreased to Start 2026

Vacancy decreased to 11.9% after 1.6 MSF in construction deliveries were met with 4.8 MSF in net absorption in the first quarter of 2026. Fewer construction starts will help to temper future vacancy increases.



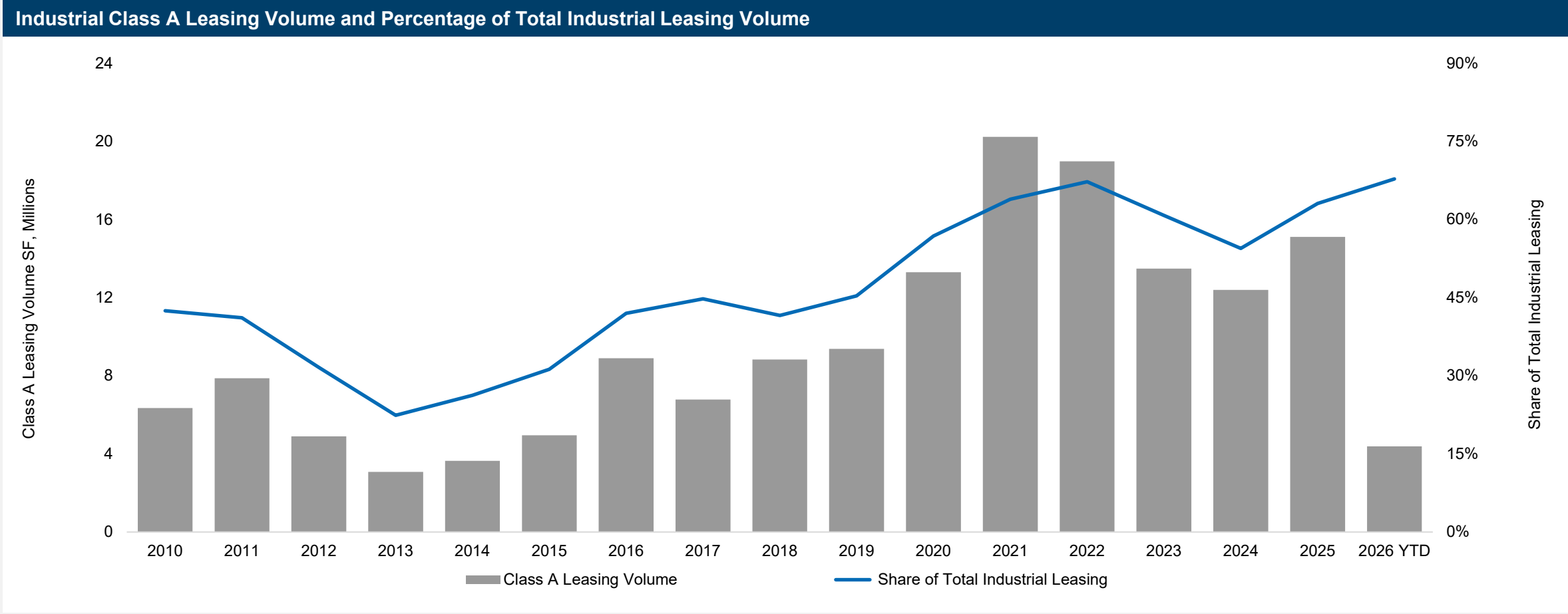
Leasing Activity Trends Up in the First Quarter

This quarter's leasing activity totaled 6.5 MSF, ahead of the 5.9 MSF of leasing activity in the fourth quarter of 2025. It's worth noting that pre-leasing activity, which was prominent in 2021 and 2022, is beginning to accelerate.



Class A Leasing Above Long-Term Average

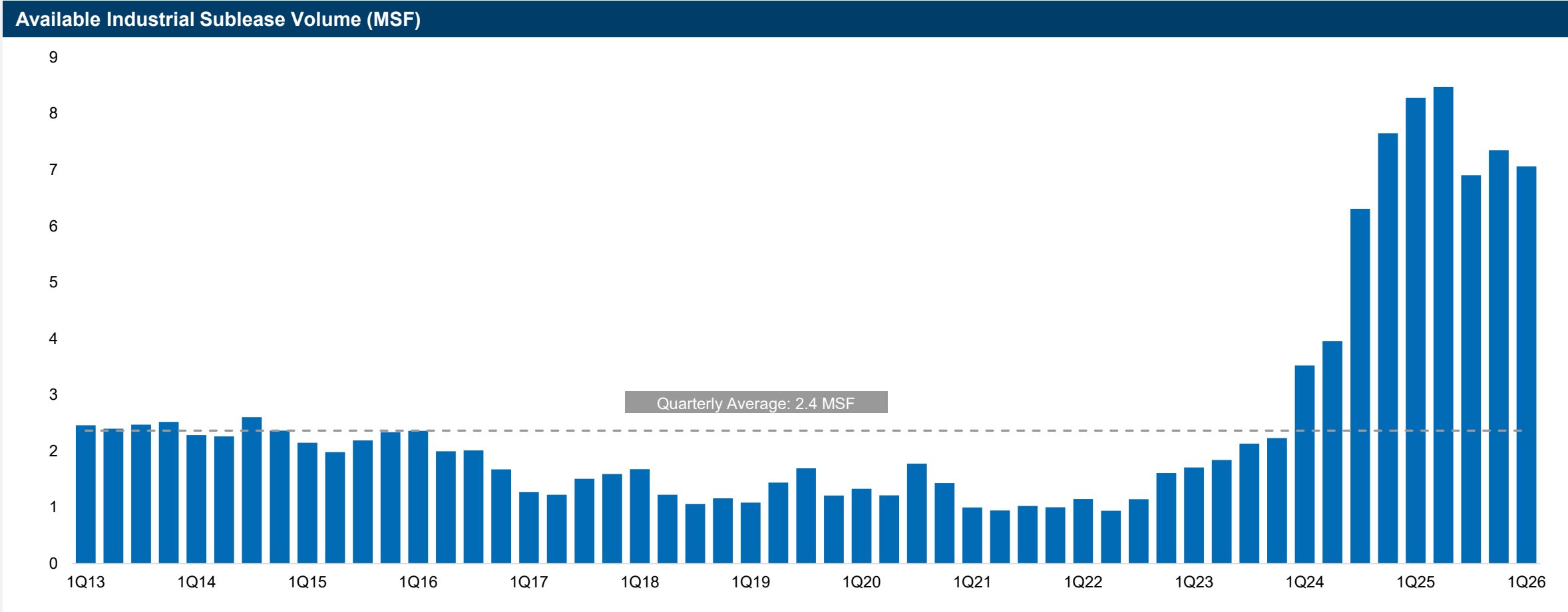
Class A leasing volume is not as pronounced as 2022, but it is increasing: Class A leasing accounted for 68% of total leasing this quarter.



Source: Newmark Research, CoStar

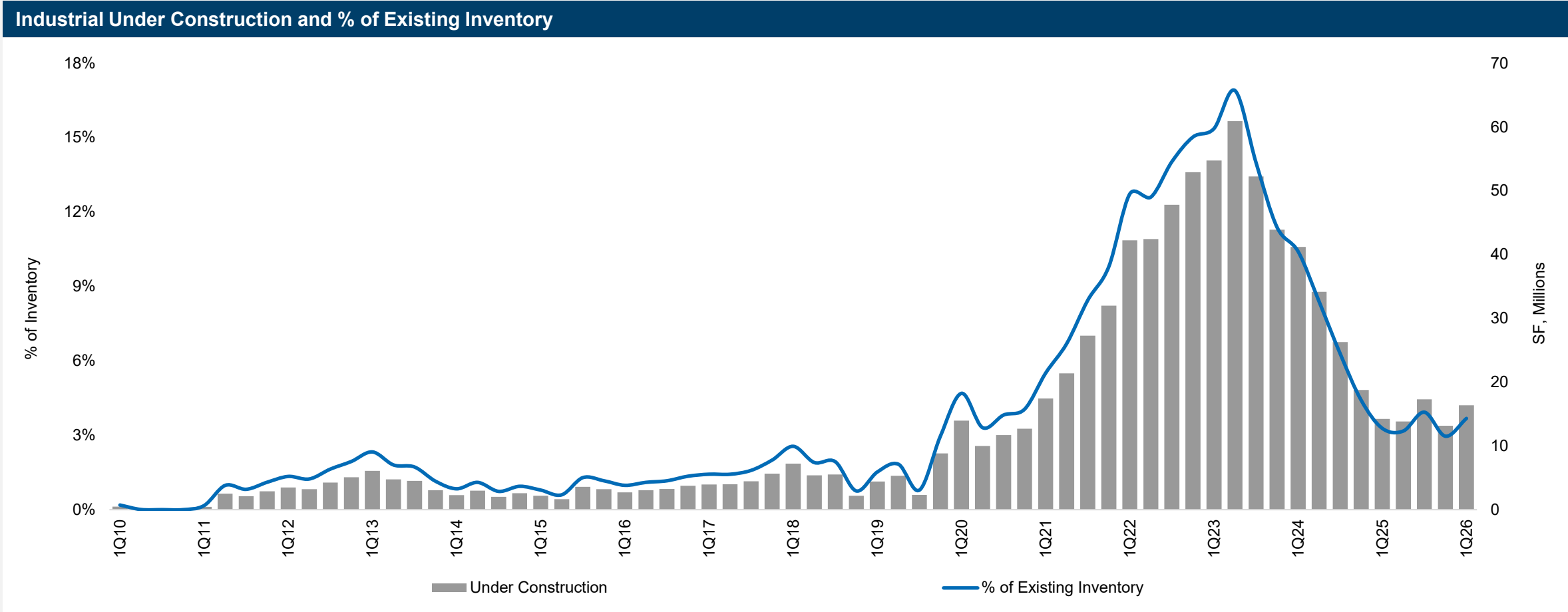
Sublease Space Down 4.1% from Last Quarter

The current sublet pool (7.1 MSF) remains less than the high of 8.5 MSF, reached in the second quarter of 2025. Going forward, the sublet pool will likely fluctuate as cost-cutting measures from some occupiers are counterbalanced with the progressive leasing of desirable sublet offerings.



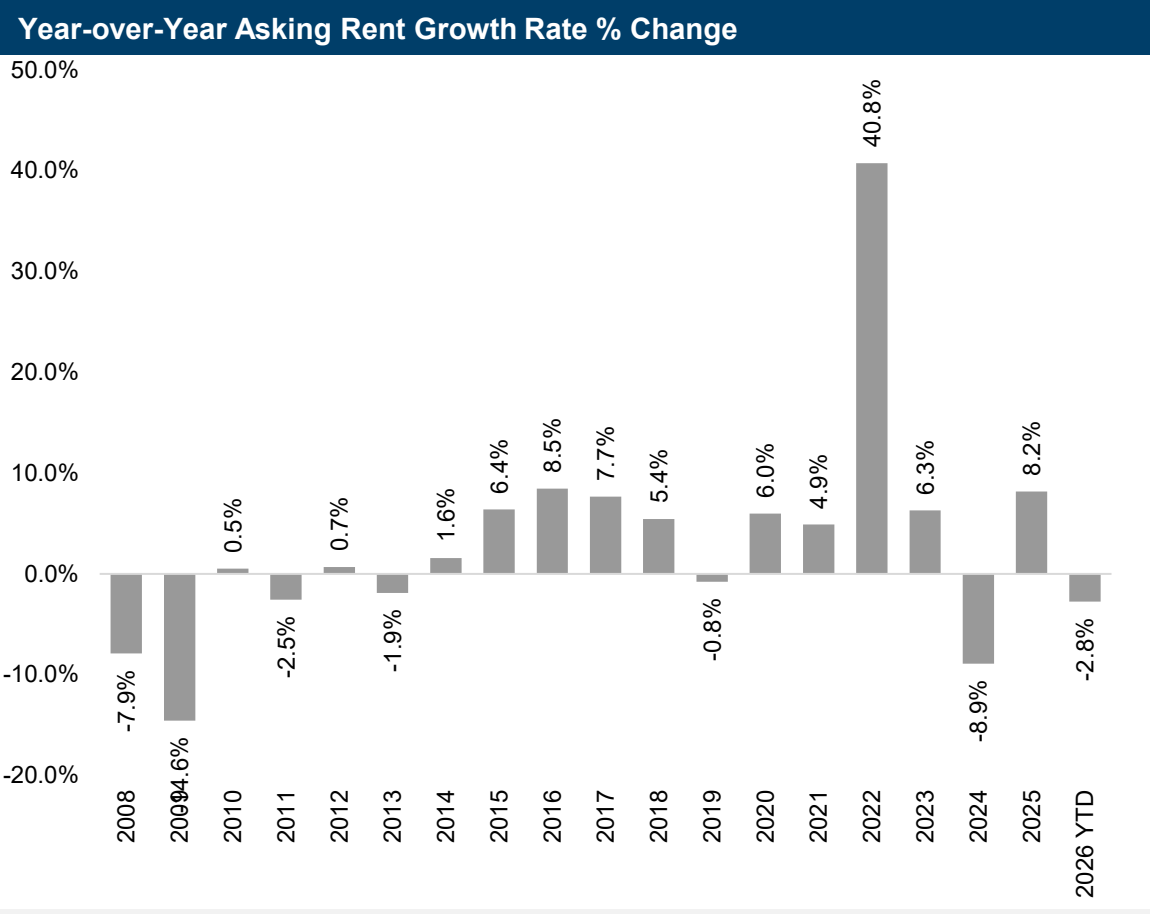
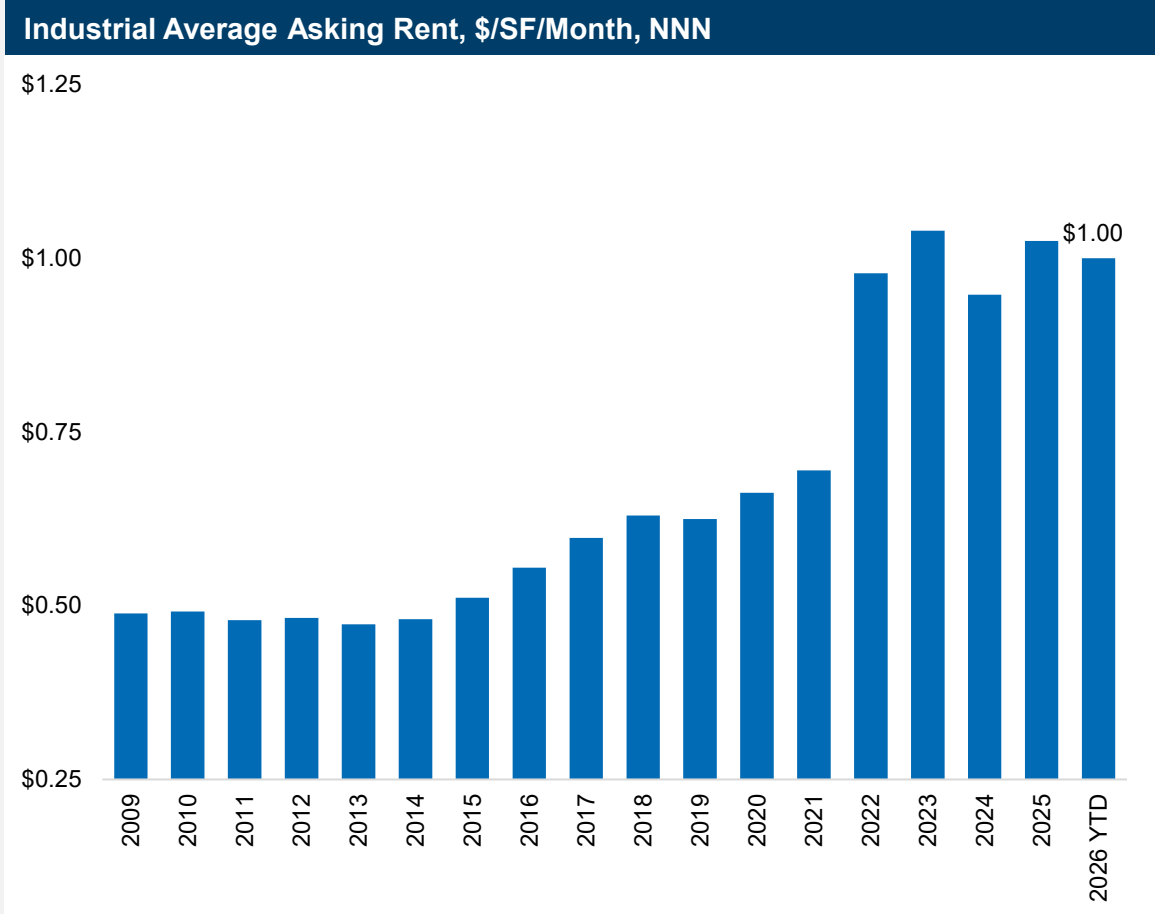
Industrial Supply Pipeline Increased Slightly in the First Quarter

After peaking at 61.3 MSF in mid-2023, the construction pipeline declined for eight consecutive quarters through the second quarter of 2025. This quarter, the construction pipeline increased marginally as developers cautiously resumed starts on a limited set of projects.



Asking Rents May Soon Moderate

Record-high construction deliveries in 2024, coupled with rising sublet availability, initially pushed asking rents down. Now, both metrics are progressively slowing that, in turn, may cause asking rent to gradually stabilize if leasing activity remains healthy.



Effective Rent Growth Will be Modest at Best

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Notable 1Q26 Lease Transactions

In the first quarter, leasing activity was driven by two companies undertaking major expansions in Phoenix, together accounting for 35% of leasing activity.

Notable 1Q26 Lease Transactions				
Tenant	Building	Submarket	Type	Square Feet
DHL	16500 W Glendale Ave	Glendale	Direct	629,835
<i>The freight and logistics company will occupy the entire building in August 2026.</i>				
DHL	17210 W Olive Ave	Glendale	Direct	611,797
<i>Will occupy the entire building in April 2026.</i>				
DHL	17240 W Olive Ave	Glendale	Direct	420,282
<i>Will occupy the entire building in April 2026.</i>				
LG Energy Solution	675 N 55 th Ave	Southwest Phoenix	Direct	301,711
<i>The manufacturing firm will occupy the entire building in September 2026.</i>				
LG Energy Solution	555 N 55 th Ave	Southwest Phoenix	Direct	295,586
<i>Will occupy the entire building in September 2026.</i>				

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Sales Activity

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This Quarter's Notable Sale Transactions

Investors and owner-users were both active, when surveying this quarter's top sales.

Notable 1Q26 Sales Transactions				
Building Address	Submarket	Sales Price	Price/SF	Square Feet
6801 N Cotton Ln	Glendale	\$104,000,000	\$113.64	915,160
<i>Prologis acquired the property from Heitman in March.</i>				
5215 N Alsup Rd	Glendale	\$93,000,000	\$140.19	663,367
<i>EQT Real Estate purchased the fully leased property from Steelwave in January.</i>				
15784 W Hatcher Rd	Glendale	\$90,579,360	\$160.00	566,121
<i>Electric Research & Manufacturing Cooperative bought the property from Indicap in January. The buyer plans to occupy the full building in 2Q26.</i>				
13290 W Sweetwater Ave	N Glendale	\$70,035,000	\$167.39	418,400
<i>U.S. Immigration & Customs Enforcement (ICE) acquired the property in January. ICE plans to use the building as a detention center.</i>				

Slow Sales Activity in the Opening Quarter of 2026

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Private Buyers Remain Active

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Phoenix Sales are Rising, While Institutional Capital is Expanding Its Holdings

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

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Key Benefits

- Duty deferral on goods imported into the zone for export to the U.S.
- Duty deferral on goods imported into the zone for export to a foreign country
- Duty deferral on goods imported into the zone for export to another zone
- Duty deferral on goods imported into the zone for export to a foreign country

Key Features for FTEs

- Large scale operations, high volume of imported components and raw materials
- Business operations involving assembly, packaging or assembling products

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- Operational flexibility: stocks and inventory can be held in the zone
- Lower insurance premiums: reduced customs supervision, security requirements and duties are excluded from insurable values, decreasing overall insurance premiums
- Ideal for Scale: See the next section

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