

2Q25

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. Traffic since has been uneven
- [Widespread U.S. tariffs](#) on foreign goods sent shockwaves across global financial markets in early April. This has since been followed by deadline extensions, country-by-country negotiations, and warnings of additional duties.
- Business leaders have cautioned that an inconsistent tariff policy will increase inflation risk and keep volatility high.
- Consumer confidence is trending down, and U.S. retail sales will follow when consumer prices rise. The sales drop will be precipitous if domestic unemployment sharply rises.

Major Transactions

- Leasing volume increased in the second quarter. Demand for quality space remains high, with 65% of volume concentrated in Class A buildings.
- Pre-leasing activity is limited amid elevated modern-gen product availability.
- Industrial sales volume totaled \$827 million this quarter. Sales will increase in the years ahead as the region continues to evolve as a major logistics hub.
- BKM Capital and EQT were among the quarter’s top buyers.

Leasing Market Fundamentals

- Quarterly net absorption was 5.7 MSF versus 3.3 MSF in construction deliveries. New supply additions are slowing as the construction pipeline empties.
- In a welcome change, total vacancy fell for the first time in seven quarters to reach 13.0%, down 13.7% from last quarter. Available sublease space increased, however, by 2.3% over the same period, to settle at 8.5 MSF.
- Under-construction activity decreased for the sixth consecutive quarter; 12.6 MSF is presently underway. Although construction is decreasing as expected, the market still has one of the most robust pipelines in the nation as it grows into a major hub.
- The average asking rent increased by 1.9% year over year as the market levels out.

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 this year, 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

2Q25

Economy



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

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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

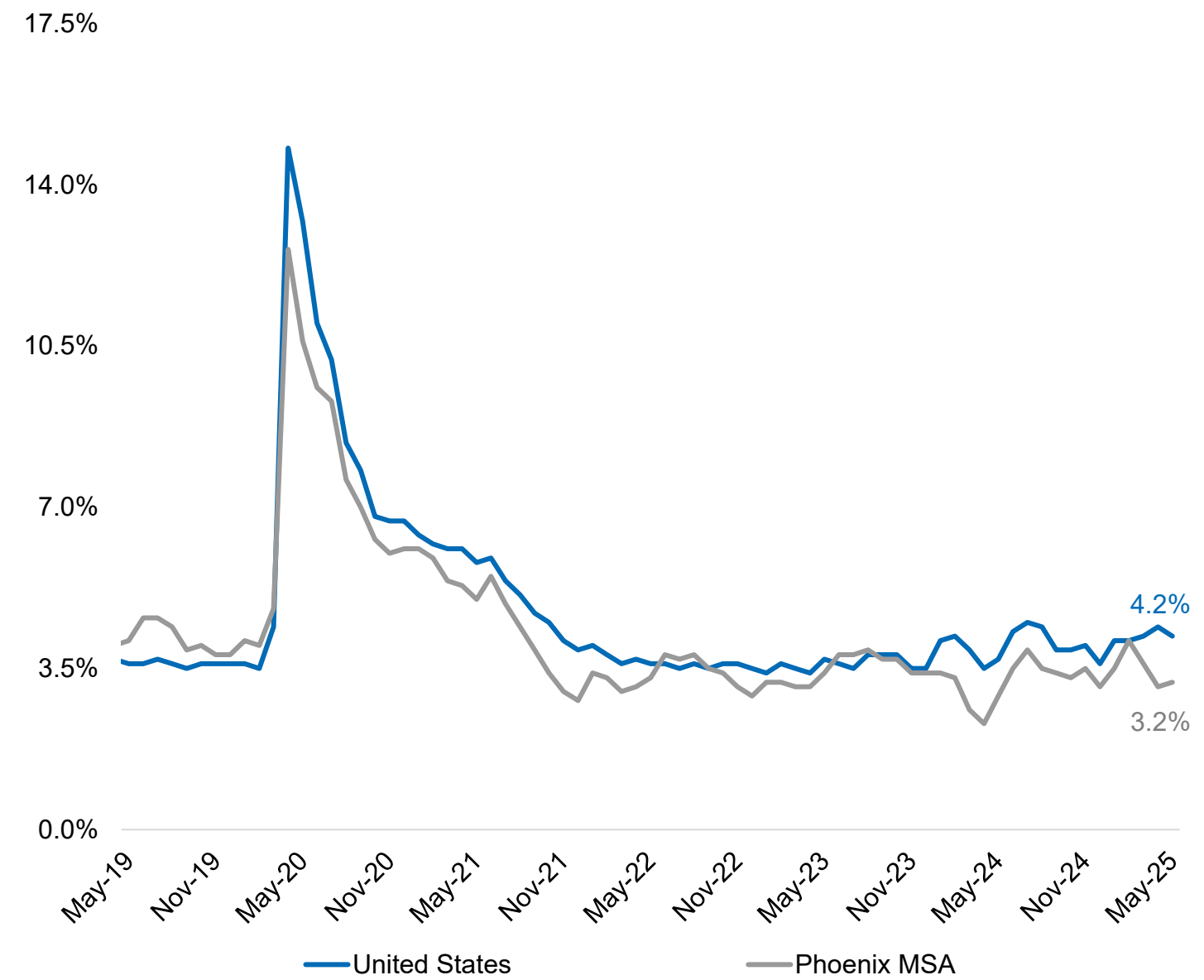


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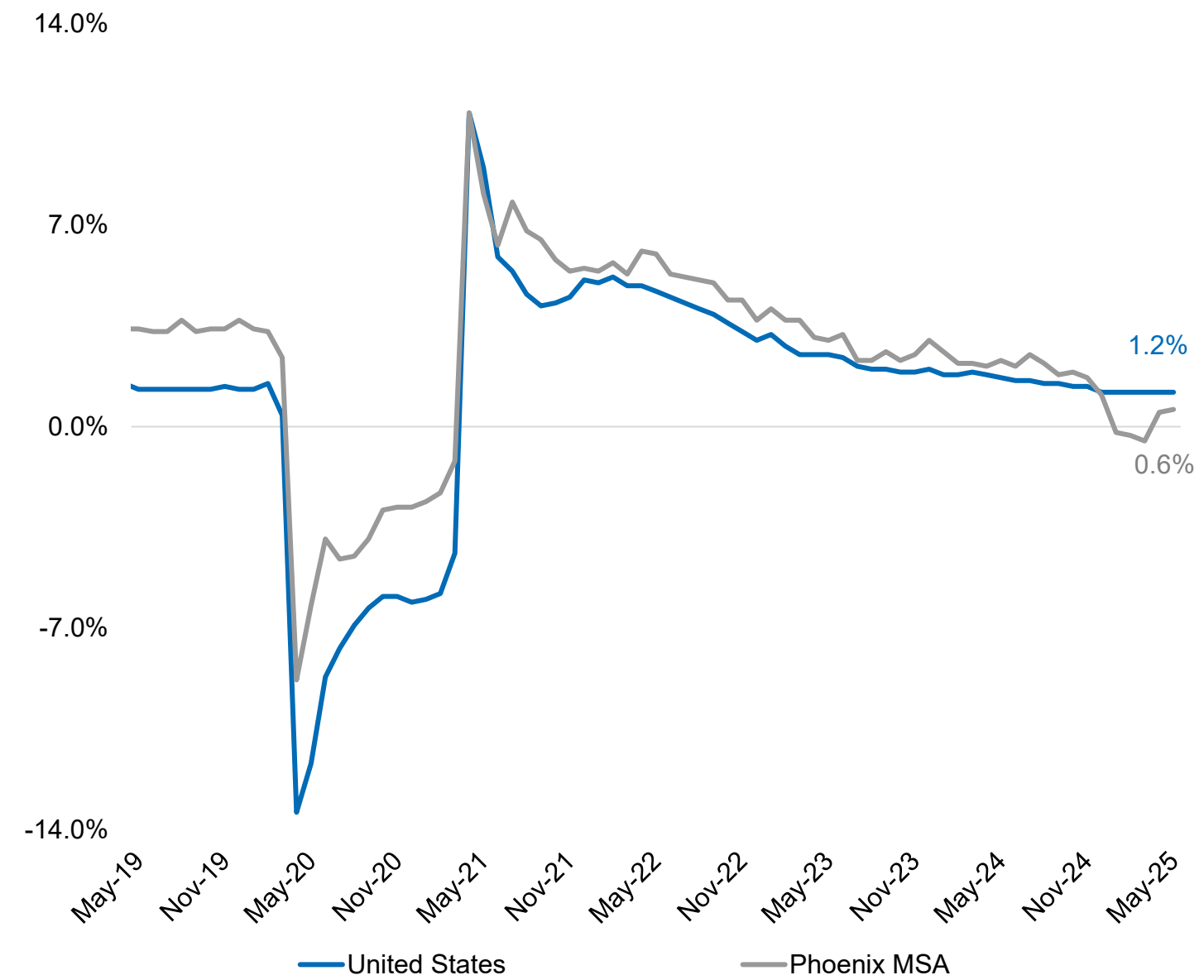
Resilient Labor Market Amid Economic Challenges

After consistently outperforming the national average since August 2023, local unemployment has fallen to a remarkable 3.2%. Phoenix's job growth is gaining momentum, with year-over-year nonfarm employment posting positive gains for the second consecutive month, as companies are renewing their focus on hiring. While economic uncertainty remains a consideration for employers.

Unemployment Rate, Not Seasonally Adjusted



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

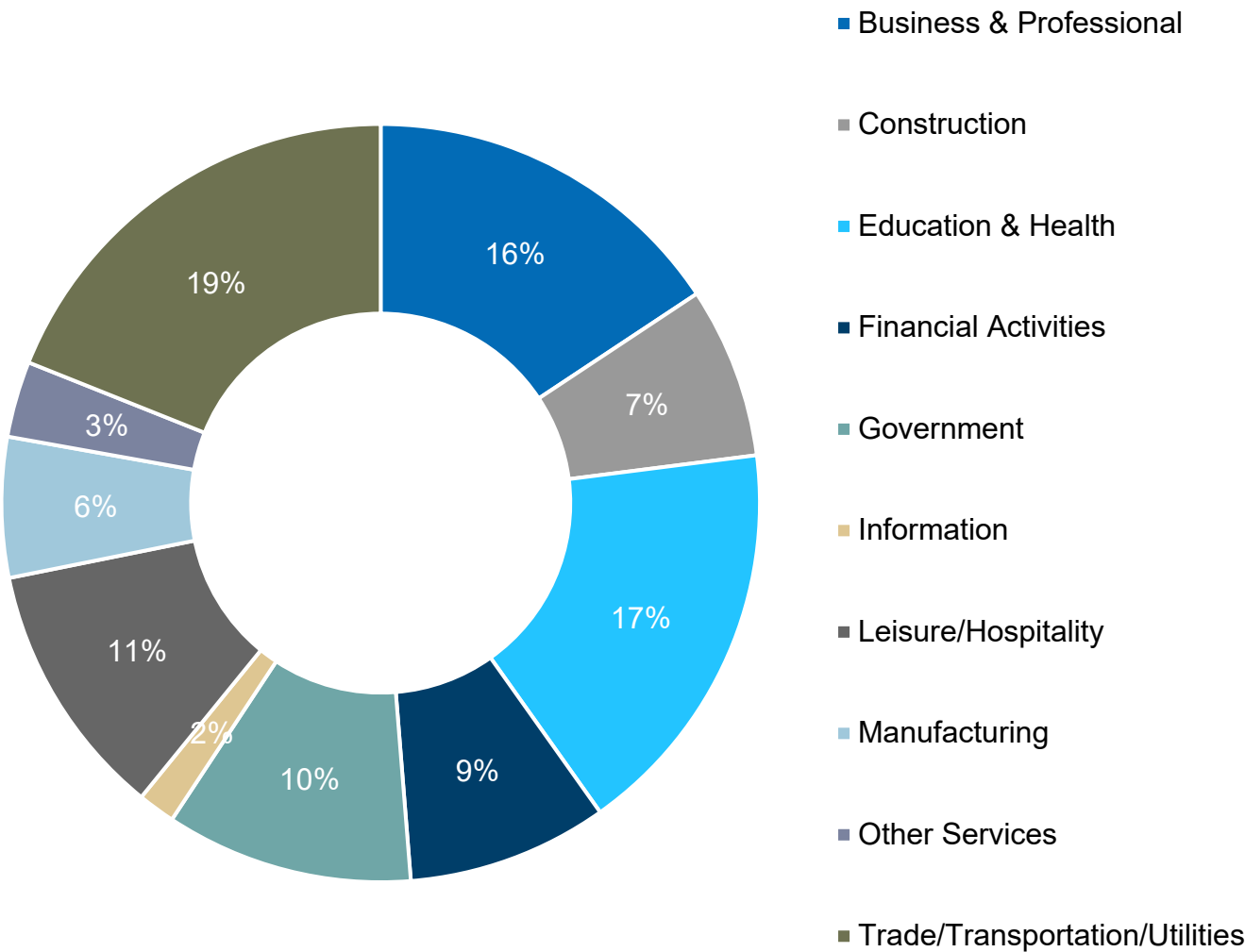


Source: U.S. Bureau of Labor Statistics, Phoenix MSA
Note: May 2025 data is preliminary.

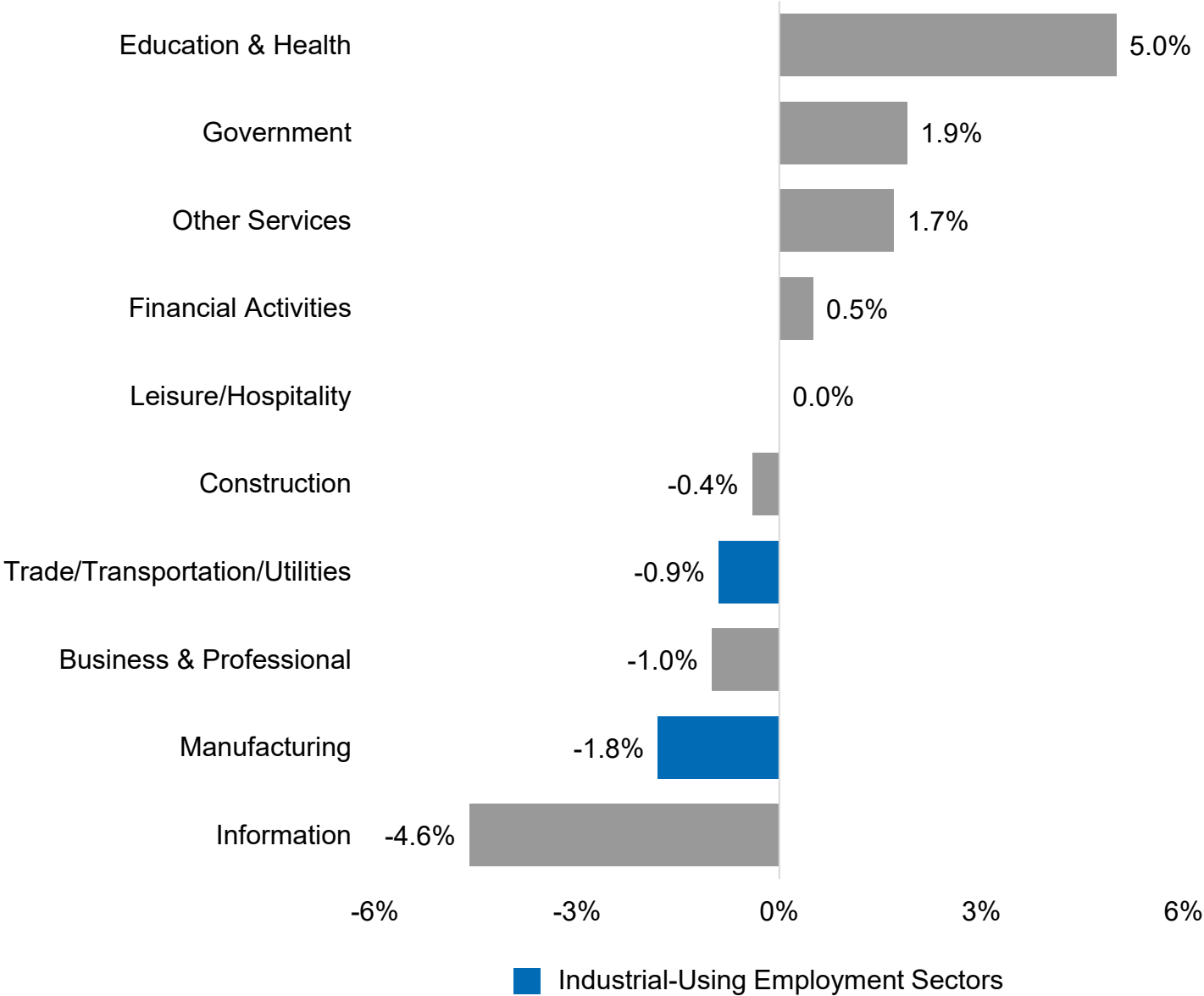
Key Industrial Sectors Shed Jobs

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 1.8%.

Employment by Industry, May 2025



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

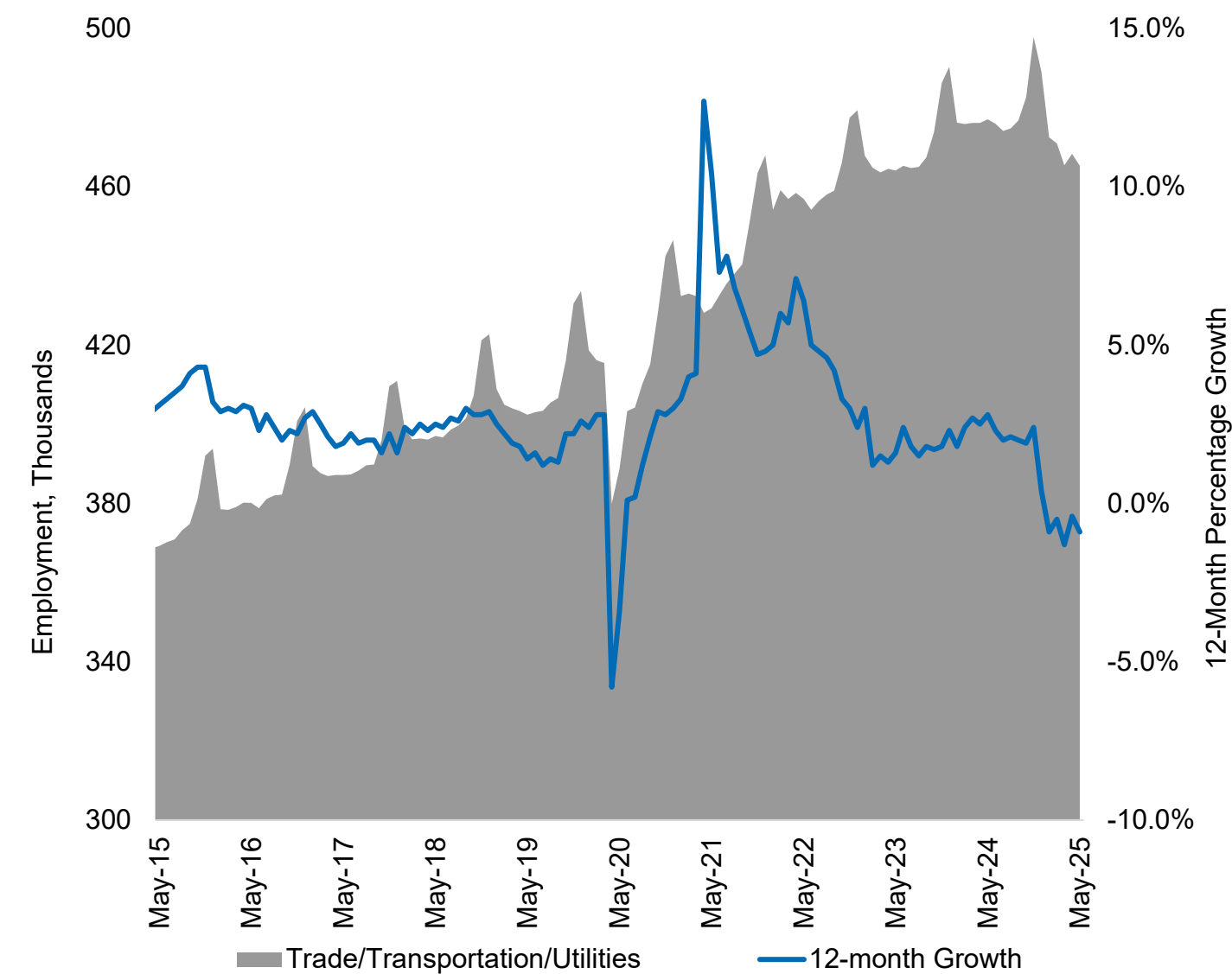


Source: U.S. Bureau of Labor Statistics, Phoenix MSA
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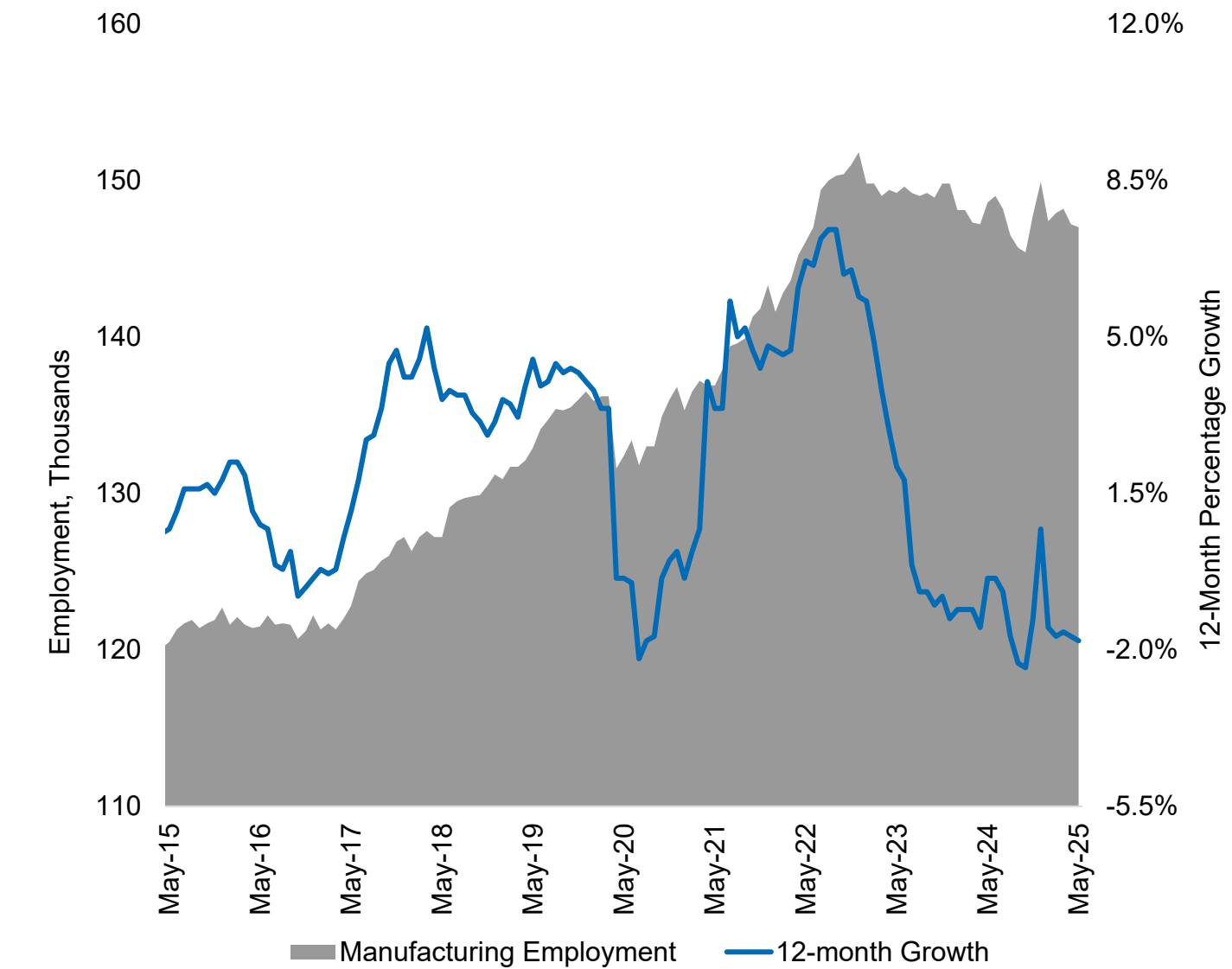
Economic Volatility is Affecting TPU and Manufacturing Employment

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

A low-angle, upward-looking shot of a modern building's exterior. The image features a complex network of dark steel beams and supports that form a grid-like structure. Large glass panels are visible, 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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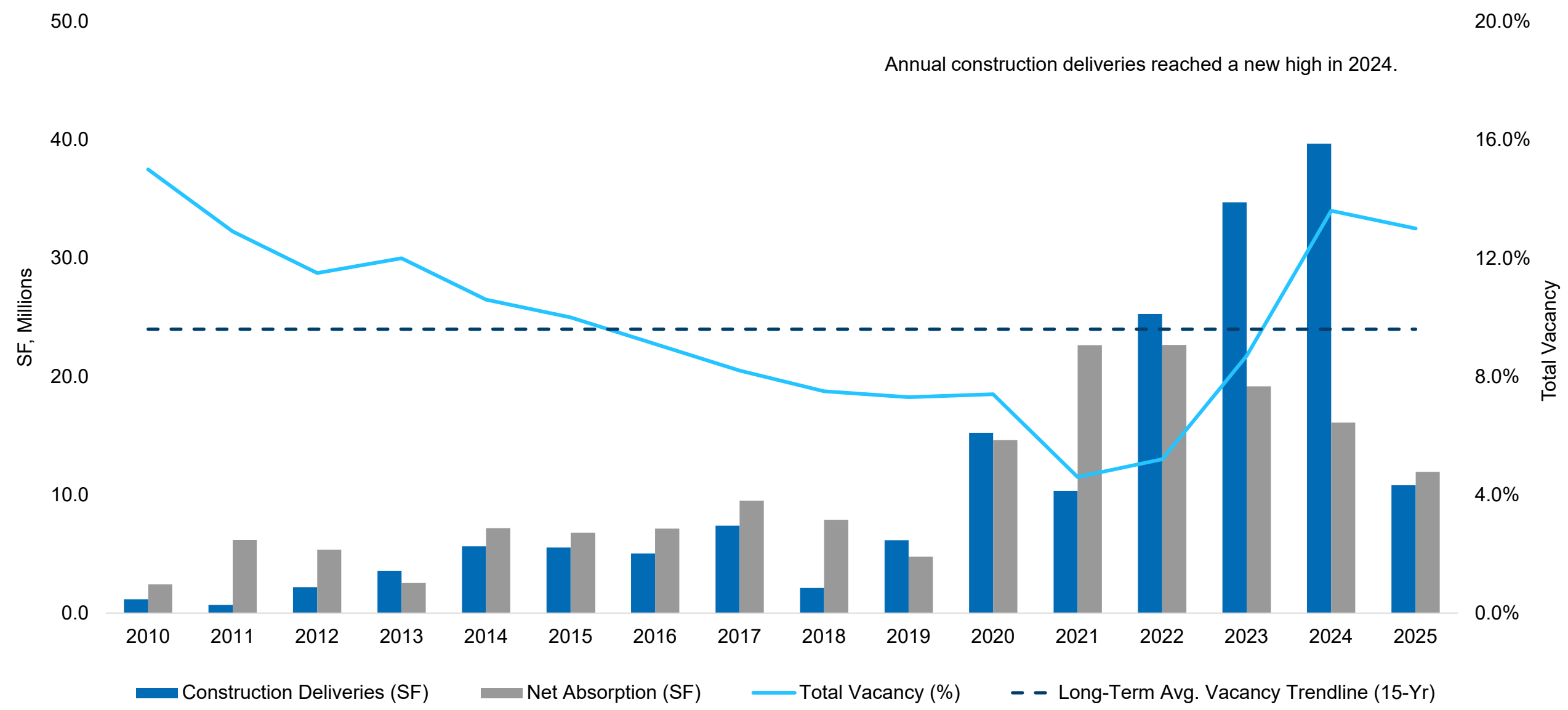
Market Fundamentals



Vacancy Decreases in 2Q25

Vacancy decreased to 13.0% after 10.8 MSF in construction deliveries was met with 11.9 MSF in net absorption gains during the first half of 2025. Fewer construction starts will help to temper future vacancy increases as developers wait to see how the 116.5 MSF built since 2021 is absorbed by users in the coming quarters.

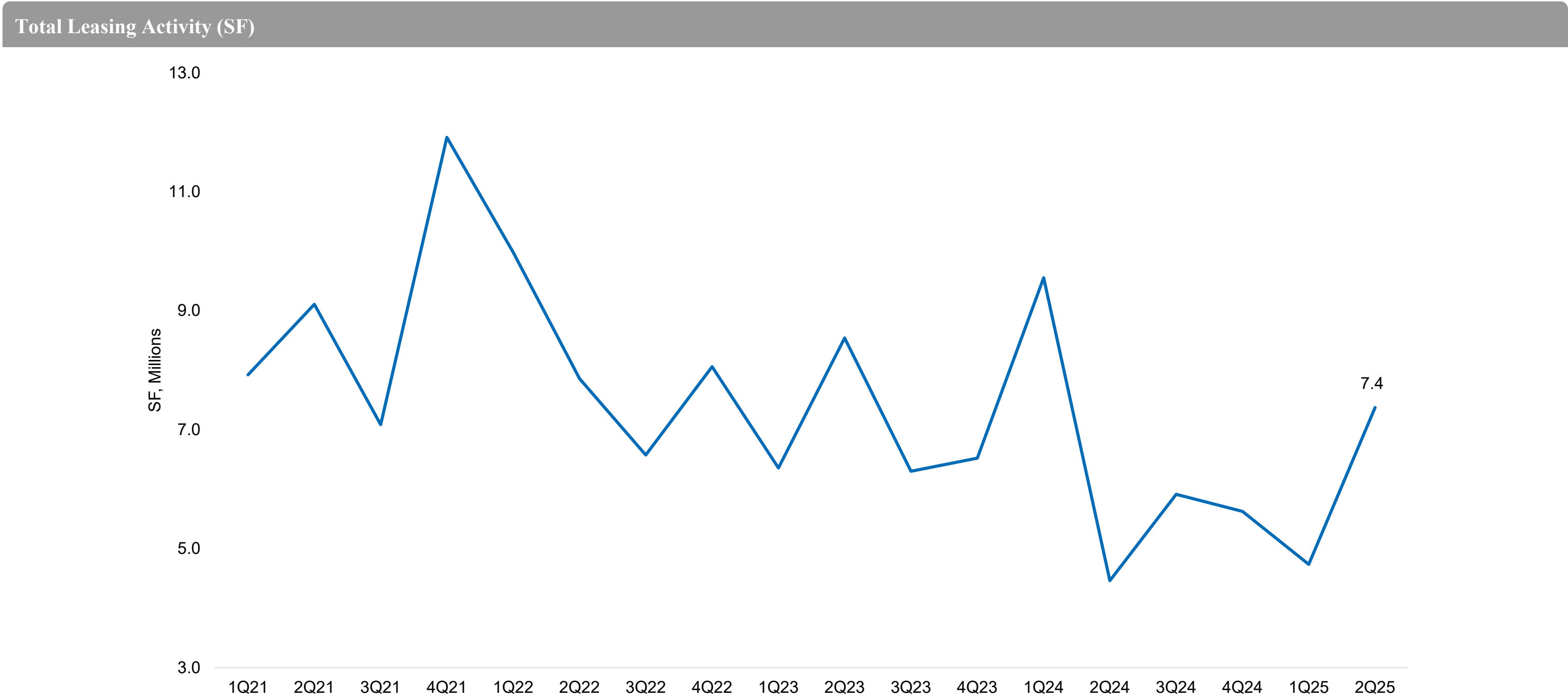
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Industrial Leasing Activity Increases in 2Q25

This quarter’s leasing activity totaled 7.4 MSF, the highest the Metro has experienced in the last four quarters. Pre-leasing activity that was prominent in 2021 and 2022 has picked back up again as more tenants commit to underway space.

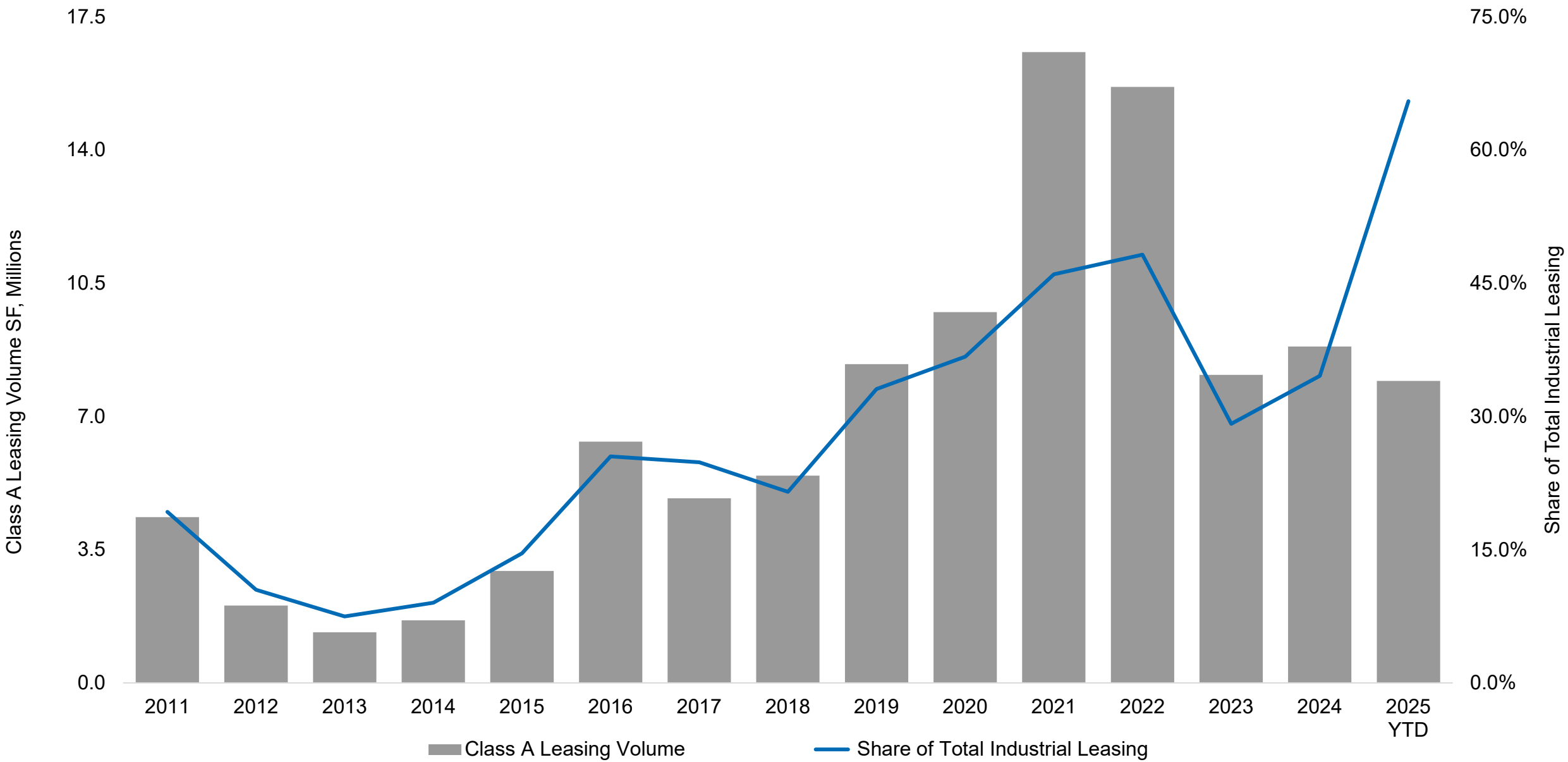


Source: Newmark Research

Class A Warehouse Leasing Volume on Rise

Class A leasing is not be as pronounced as 2022, but it is increasing: Volume totaled 7.9 MSF in the first half of 2025, nearly on par with full-year activity in 2023 and 2024.

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

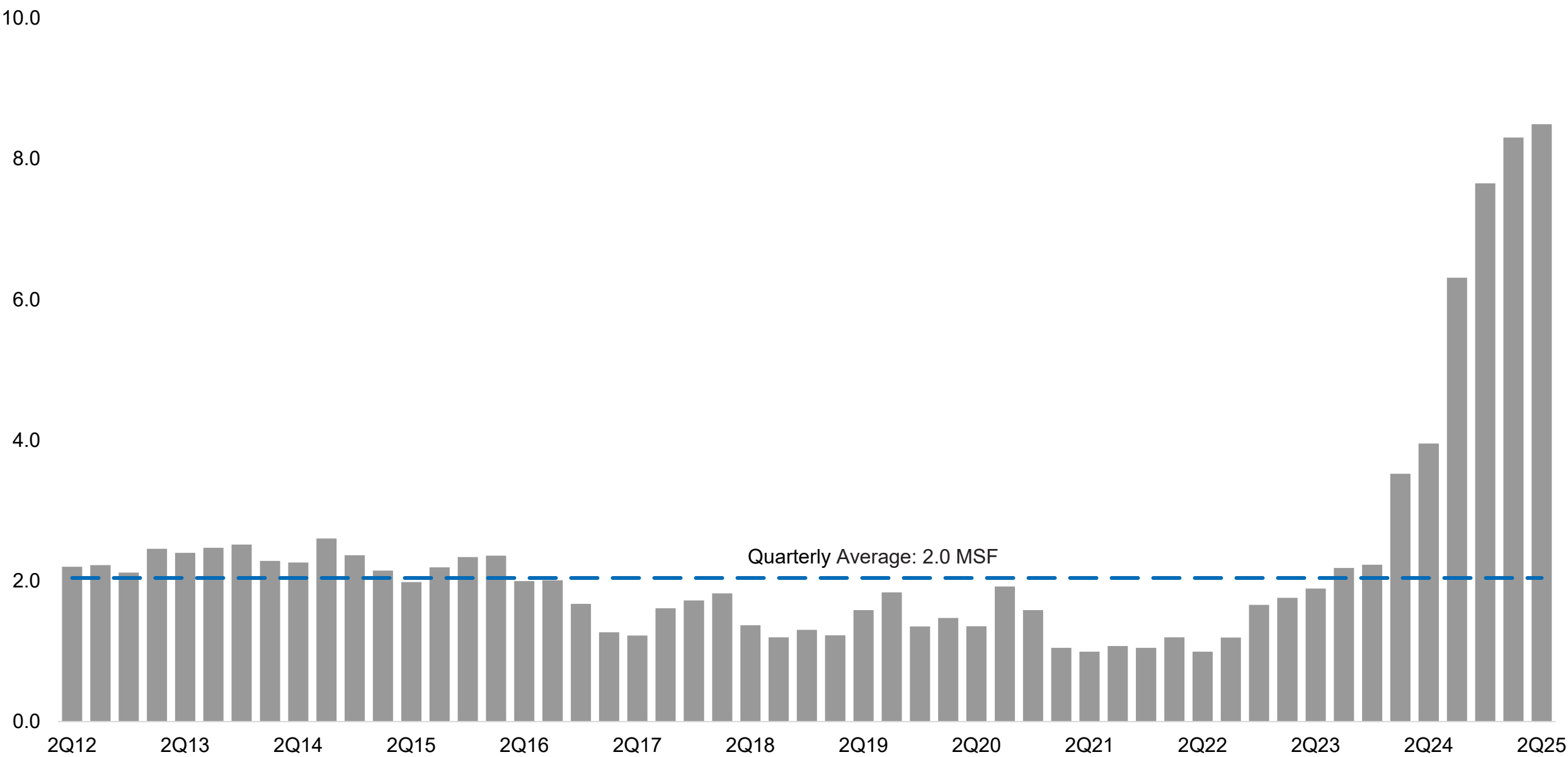


Source: Newmark Research

Sublease Space Climbs to a New High

Sublease space rose by 31.6% from year-end 2024 to mid-2025, as sublease signings were offset by new listings. The current sublet pool is at a record high, both on a square footage basis (8.5 MSF) and as a percentage of total inventory (1.9%).

Available Industrial Sublease Volume (MSF)

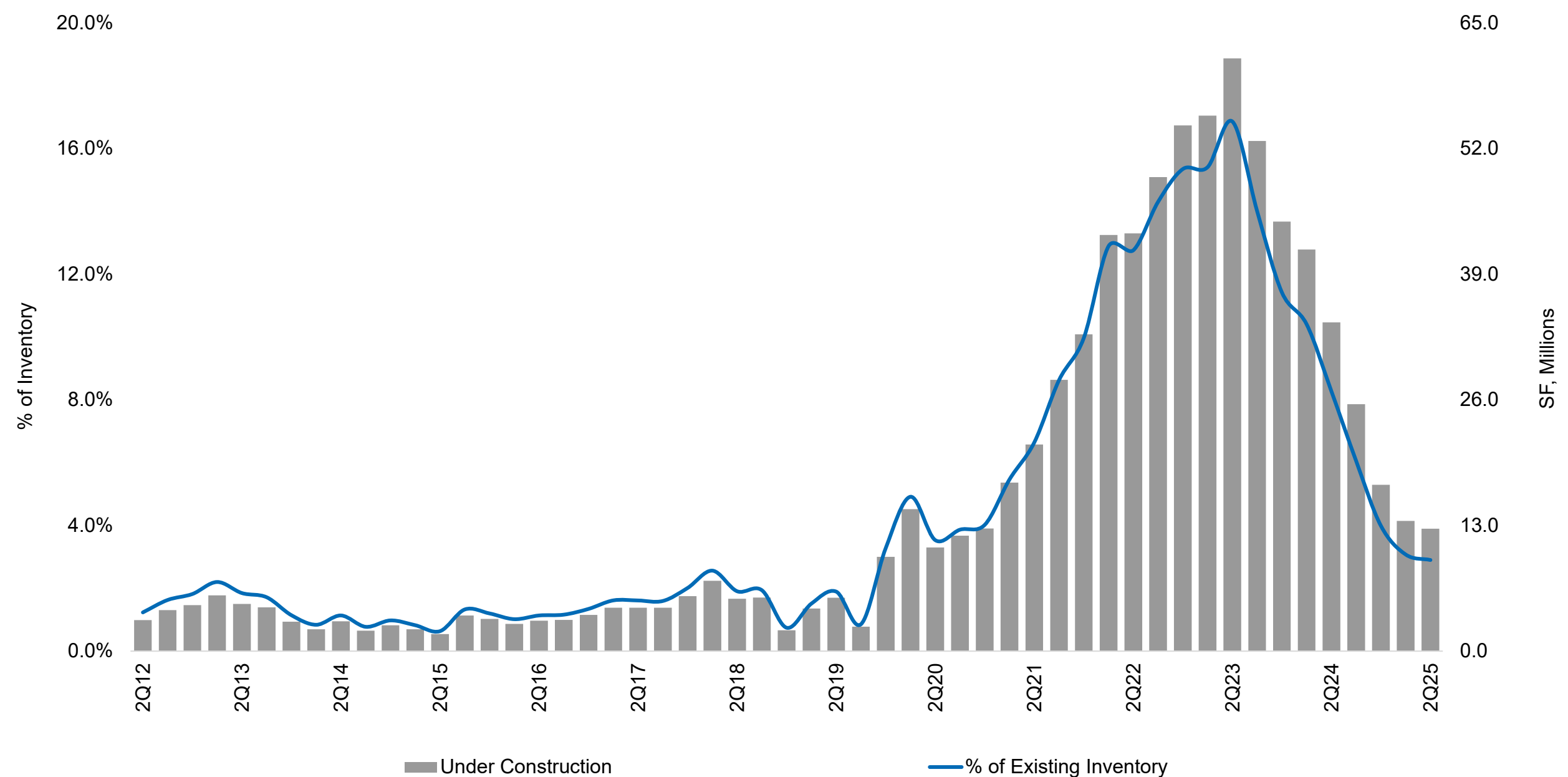


Source: Newmark Research

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 38.4% 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

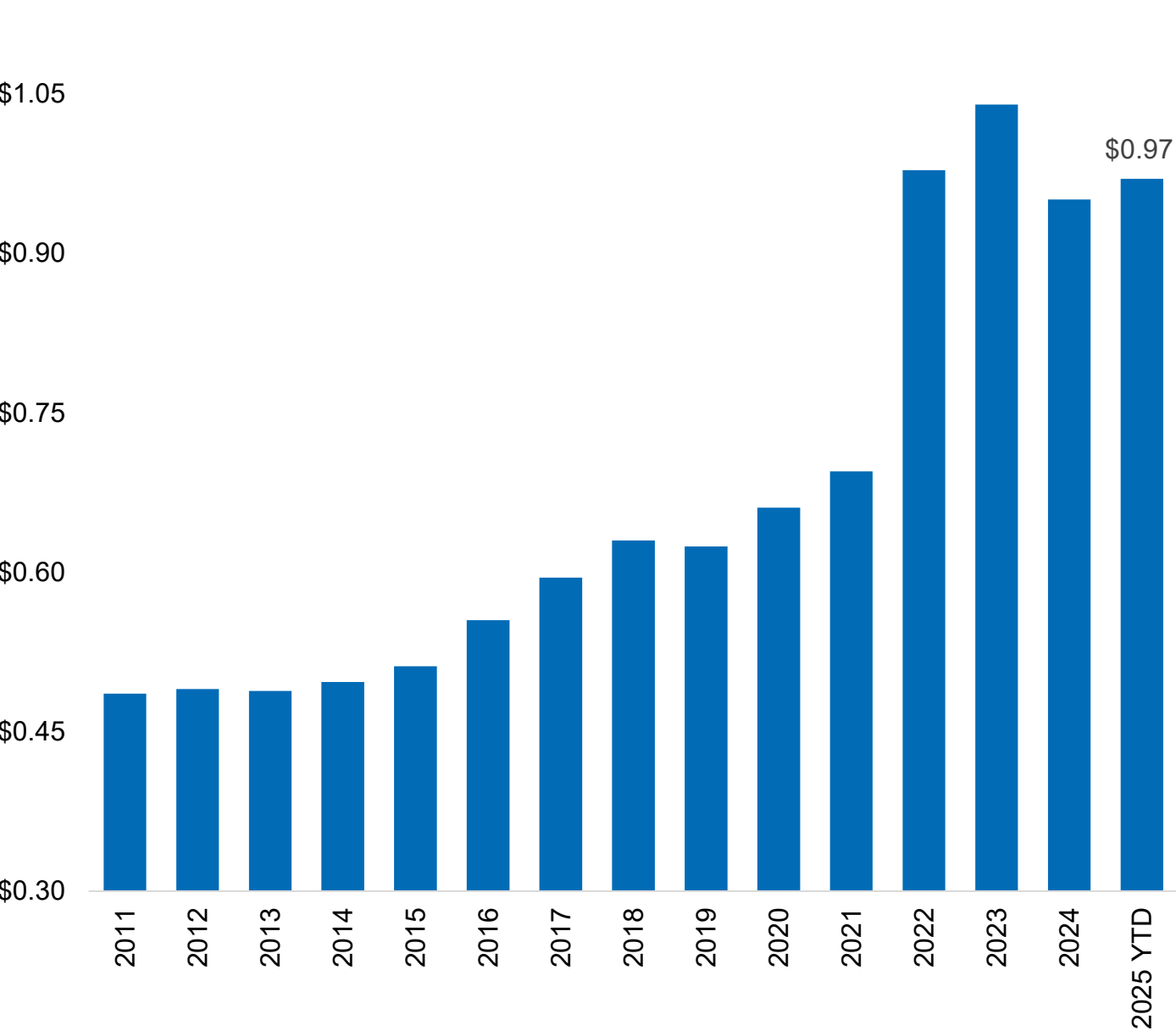


Source: Newmark Research

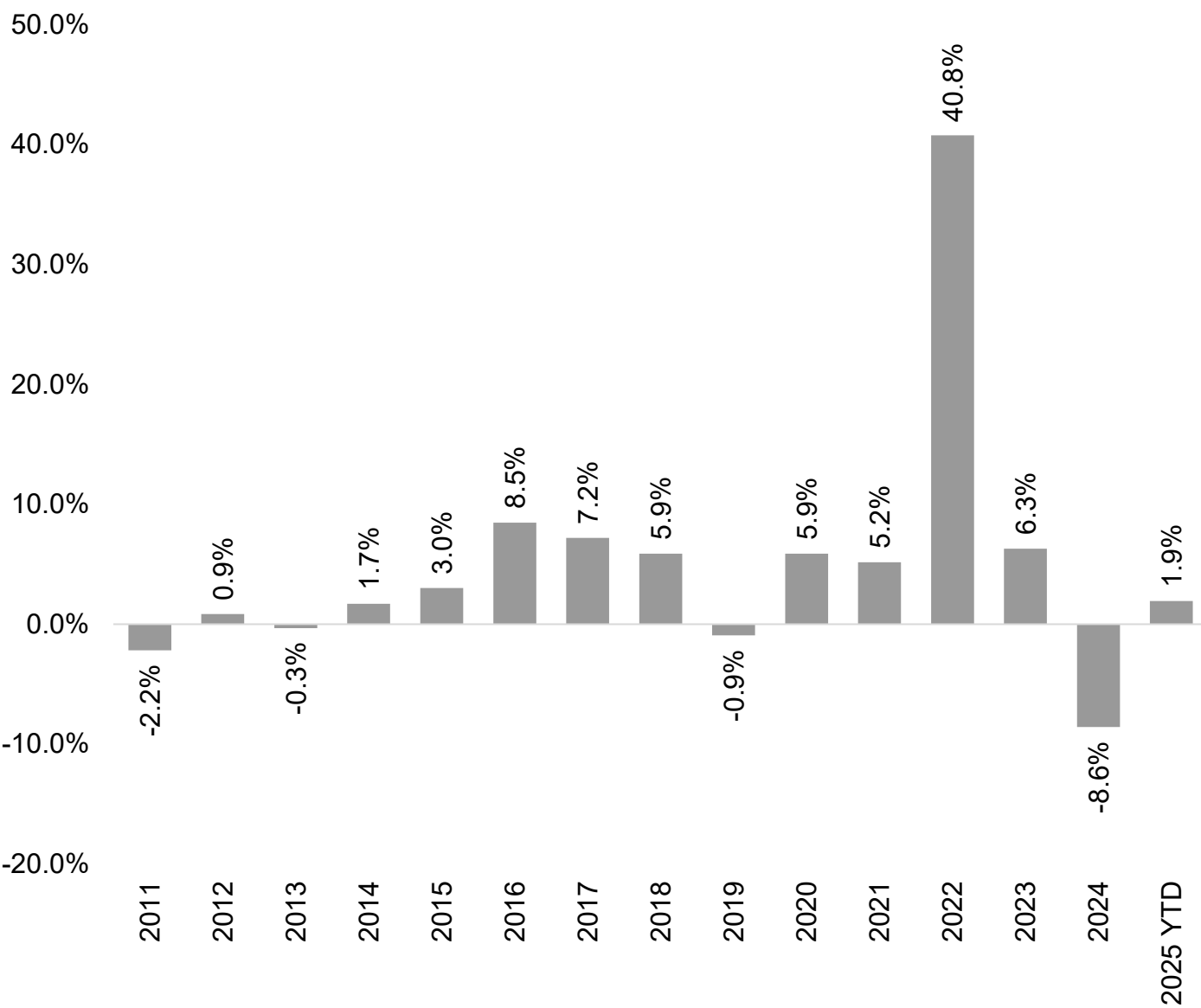
Asking Rents Stabilize as Construction and Sublease Levels Remain High

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 to stabilize.

Industrial Average Asking Rent, \$/SF/Month, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research

Exceptional Effective Rent Growth in Recent Years is Reversing Course

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Notable 2Q25 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
Project Brave	200 S Litchfield	Southwest Phoenix	Direct Lease	521,302
The company will occupy the vacant property in December 2025.				
Verstgroup Logistics	5215 N Alsup Rd	Glendale	Direct Lease	331,683
The 3PL occupied half property in June 2025.				
JA Solar	1825 S 99 th Ave	Southwest Phoenix	Expansion	272,497
Tenant occupied the vacant property in June 2025. Lease term expires in 3Q30.				
United Sports Brand	1395 S Bullard	Southwest Phoenix	Direct Lease	245,519
The wholesaler will occupy half of the building in July 2025.				
Daikin	1515 S 27 th Ave	West Central Phoenix	Direct Lease	188,661
The manufacturing company moved into the vacant property in June 2025.				

Source: Newmark Research

Notable 2Q25 Sale Transactions

Sales volume in the second 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
6390 N Sarival Ave	Glendale	\$128,200,000	\$110.82	1,156,860
EQT acquired the property from Blackstone in May.				
6860 S Harl Ave	Tempe	\$58,686,741	\$291.7	201,187
CBRE Investment Management acquired the property as part of a 2-property portfolio from ViaWest in April.				
13400 W Cactus Rd	N Glendale	\$44,500,000	\$172.53	257,920
Hillwood Development acquired the property from Blue Scope in June.				
6840 S Harl Ave	Tempe	\$44,363,259	\$284.53	155,916
CBRE Investment Management acquired the property as part of a 2-property portfolio from ViaWest in April.				
4712 S Ellsworth Rd	East Mesa	\$42,309,359	\$302.21	140,000
Super Radiator Coils purchased the asset as an owner-user buy from Scannell Properties in April.				

Source: Newmark Research

2025 Starts Slow in Sales Activity



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Institutional Buyers are Back and Aggressive

A low-angle, upward-looking photograph of a modern building's structural framework. The image shows a complex network of dark steel beams and girders forming a grid-like pattern against a bright blue 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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Appendix





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

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