

4Q24

# Phoenix Industrial Market Overview



**NEWMARK**

# Market Observations

## Economy

- U.S. retail sales annual growth is at a nine-year low, which has implications for industrial leasing and sales activity.
- Loaded import volume at Southern California’s ports totaled 9.2 million containers in the first 11 months of 2024, up 22.1% from the same period in 2023.
- A good portion of this cargo is being shipped eastward by rail to markets outside of Southern California. Goods that are “just passing through” have a negligible impact on local market dynamics.
- Gulf and East Coast ports will likely regain a portion of lost import volume as 2025 progresses when a new six-year contract between the International Longshoremen’s Association and the United States Maritime Alliance is finalized.

## Major Transactions

- Leasing volume for the year was somewhat muted relative to 2023. Thirty-five percent of leasing activity took place in Class A space, indicating that demand for quality space is still high, albeit more subdued than in recent years (e.g., 48.2% in 2022).
- Pre-leasing activity is limited amid elevated modern-gen product availability.
- Industrial sales volume totaled \$4.0 billion in 2024, higher than 2022 (\$3.8 billion) and 2023 (\$2.4 billion). Volume will increase in the years ahead as the region continues to evolve as a major logistics hub.
- CIP Real Estate Property Services and Sun Life were among this quarter’s top buyers.

## Leasing Market Fundamentals

- Net absorption in the fourth quarter of 2024 was 3.5 MSF versus 10.7 MSF in construction deliveries as numerous speculative buildings delivered partially vacant.
- Unleased speculative construction deliveries pushed the market’s total vacancy rate to 13.4%, the highest rate since 2011.
- Sublet availability increased a modest 3.9% from last quarter to reach 6.5 MSF as new listings exceeded sublease leasing activity.
- Under-construction activity decreased for the sixth consecutive quarter; 17.2 MSF is presently underway.
- The average asking rent dropped by 8.7% year-over-year as the market continues to readjust to the influx of new construction and sublease space coming online.

## Outlook

- Sublease availability will likely increase as distributors continue to pivot back to just-in-time inventory models amid slower demand for consumer goods.
- 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.

1. Economy
2. Market Fundamentals
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# Economy





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2024 Will Be the Second Busiest Year on Record Once December's Numbers are In

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West Coast Dockworkers Signed a New Contract in 2023; Their Eastern Counterparts are Next Up...

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## Import Traffic Has Jumped Since Late 2023 at Los Angeles/Long Beach

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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

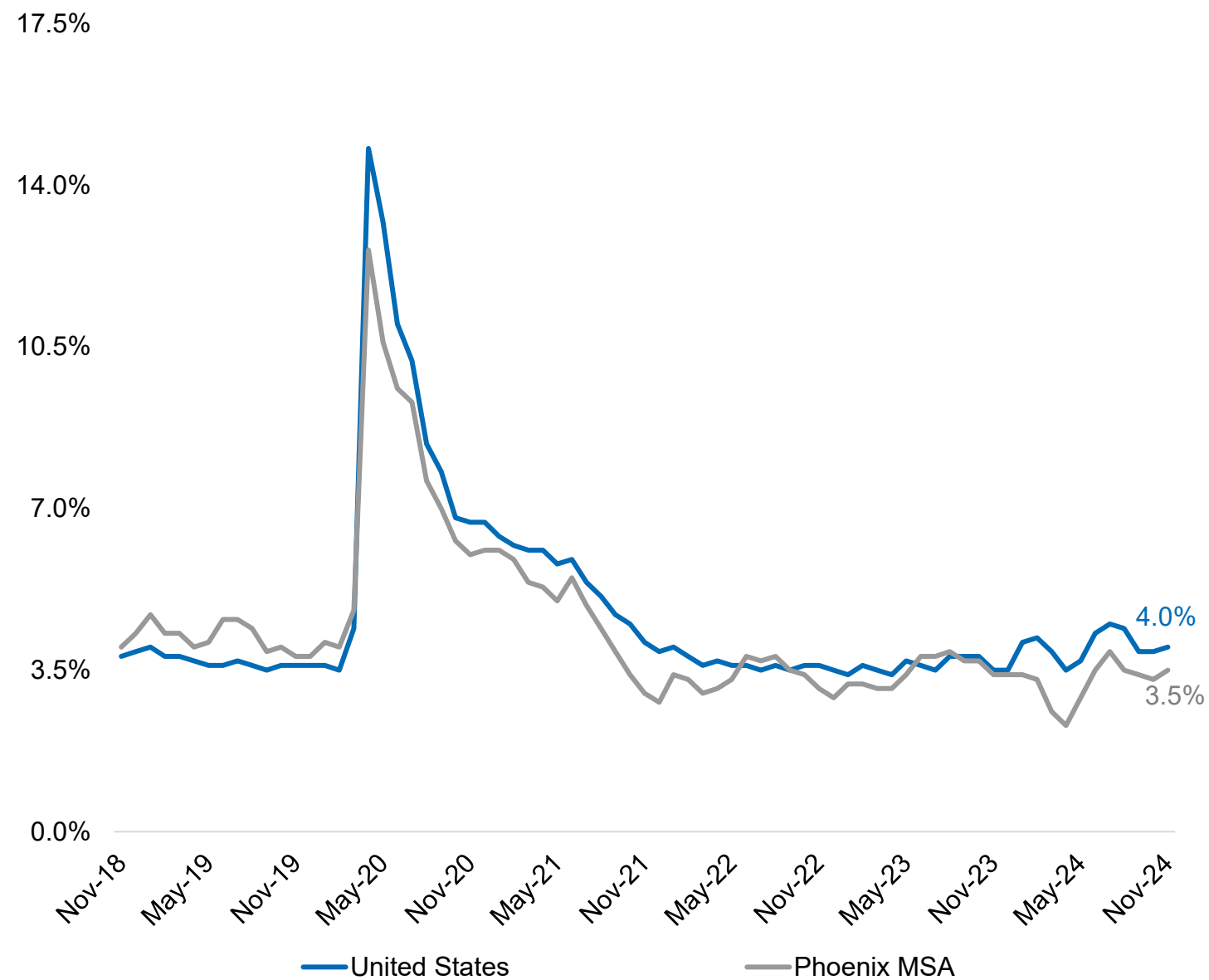
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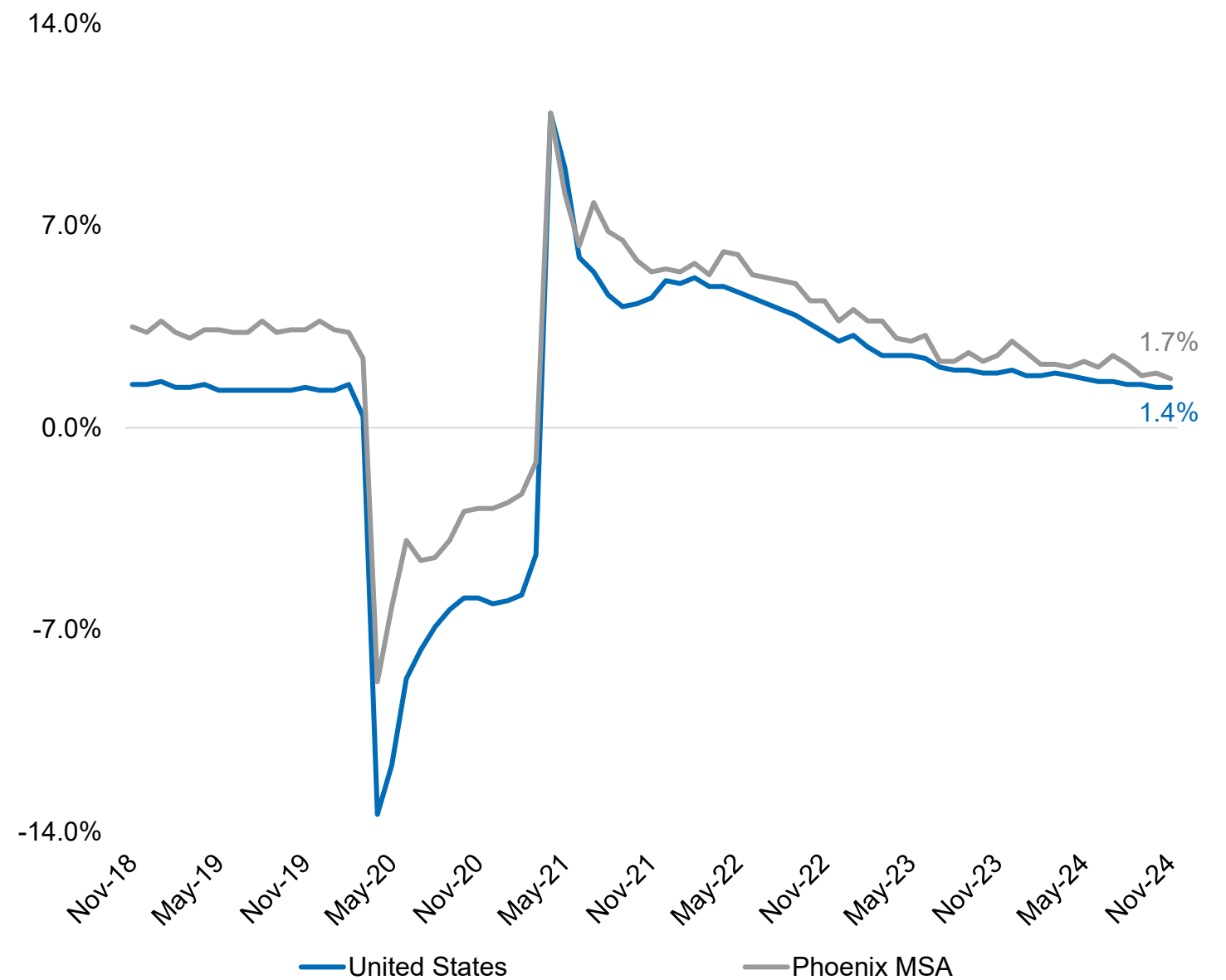
# Resilient Labor Market Amid Economic Challenges

Local unemployment remains strong at 3.5%, outperforming the national average of 4.0% since August 2023. While job growth has decelerated, it remains positive as companies adjust to shifting economic conditions. Sustained lower unemployment highlights the region's economic resilience, though caution is warranted given broader economic uncertainties.

Unemployment Rate, Not Seasonally Adjusted



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



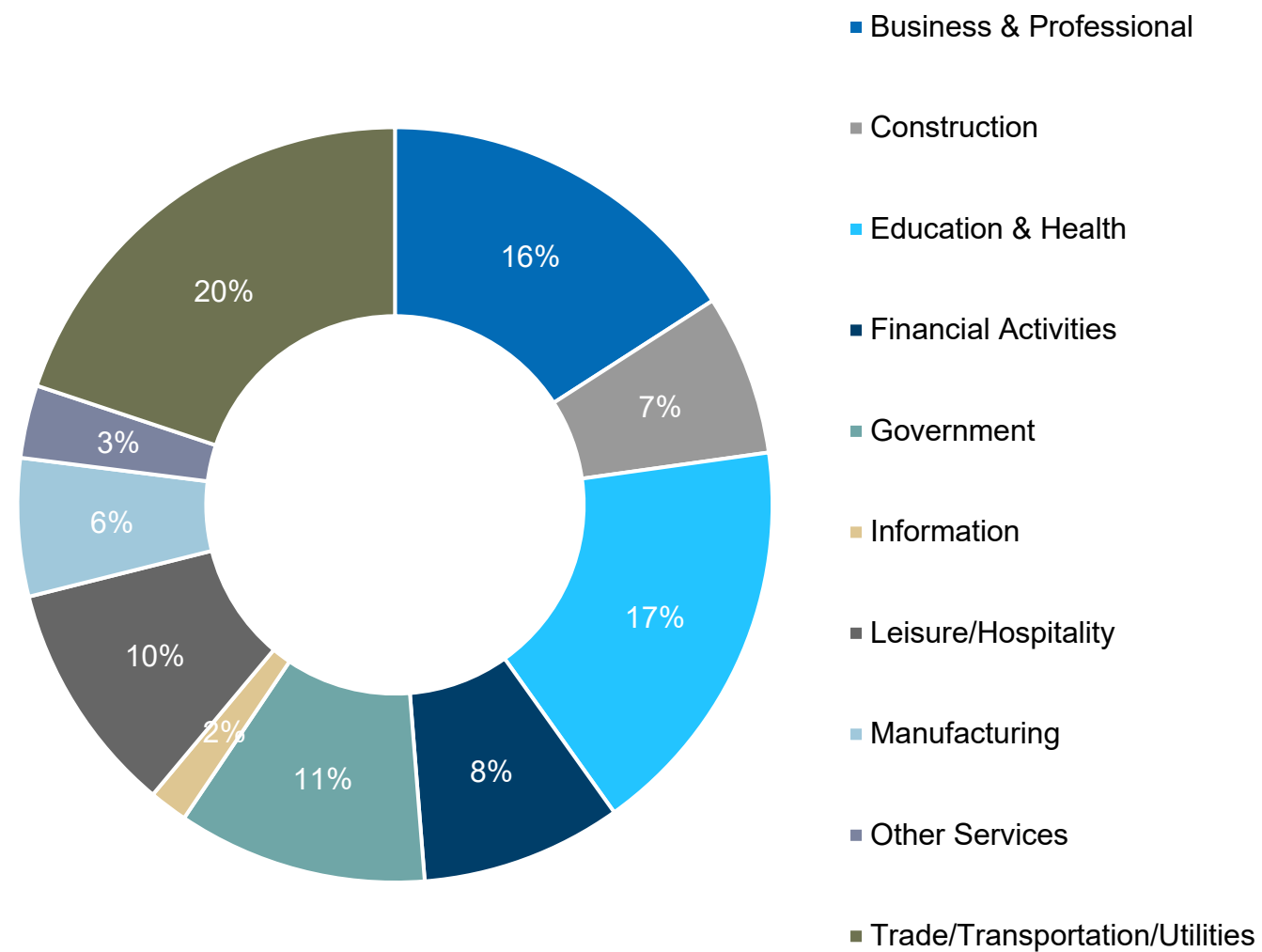
Source: U.S. Bureau of Labor Statistics, Phoenix MSA  
 Note: November 2024 data is preliminary.



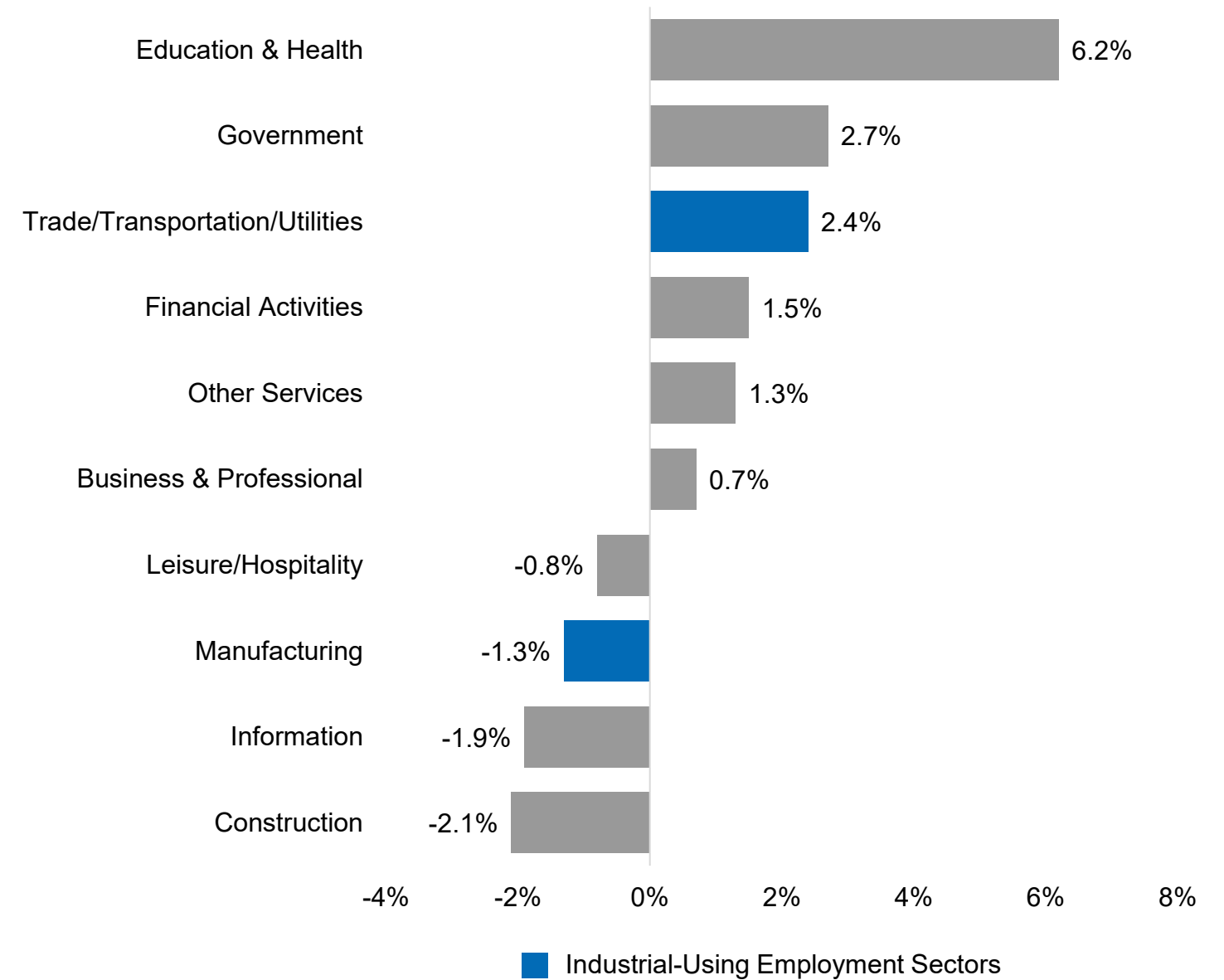
# Job Growth Was Pronounced in Already Strong Employment Sectors

Education and health led annual job growth, followed by government and trade/transportation/utilities.

Employment by Industry, November 2024



Employment Growth by Industry, 12-Month % Change, November 2024



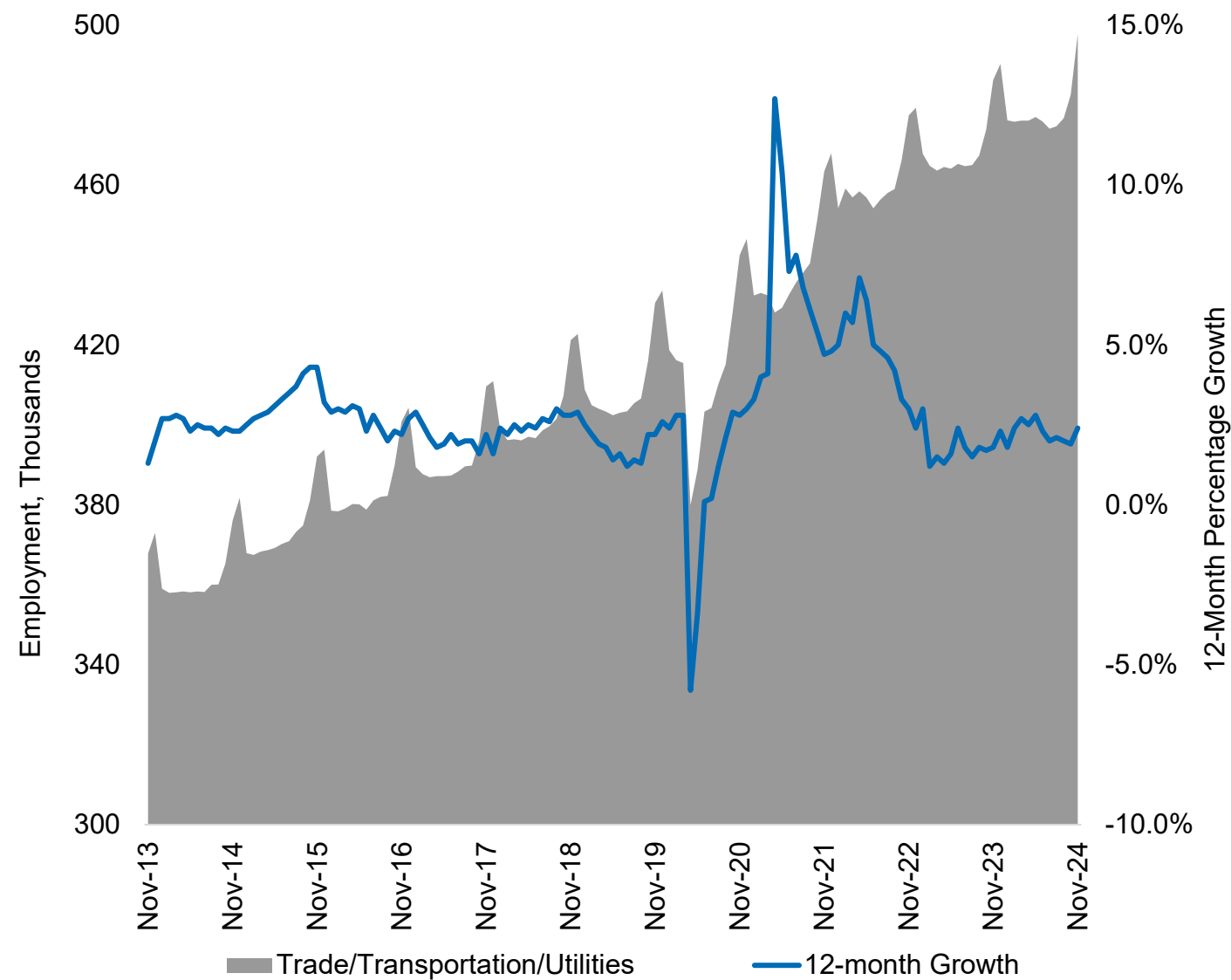
Source: U.S. Bureau of Labor Statistics, Phoenix MSA  
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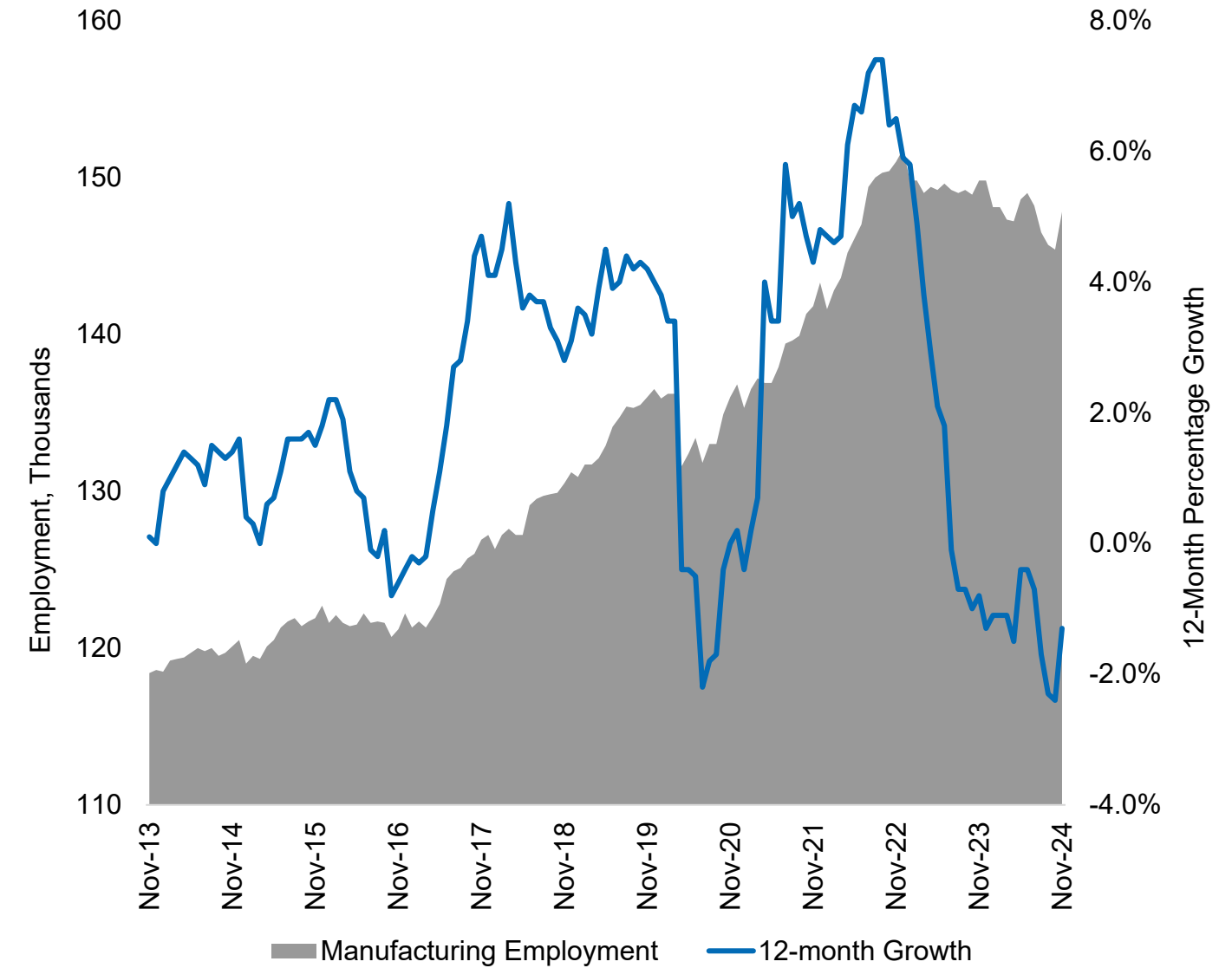
# Seasonal Volatility Aside, TPU Employment is Strong; Manufacturing is Uneven

Phoenix's warehouse segment continues to benefit from population growth and distributors priced out of more expensive coastal markets. Manufacturing annual job growth contracted slightly for the time being but will trend upwards over the long-term since the White House designated the Metro as a workforce hub for advanced manufacturing.

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



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Union Pacific Opened a New Intermodal Terminal Near Downtown Phoenix in Early 2024

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# Market Fundamentals

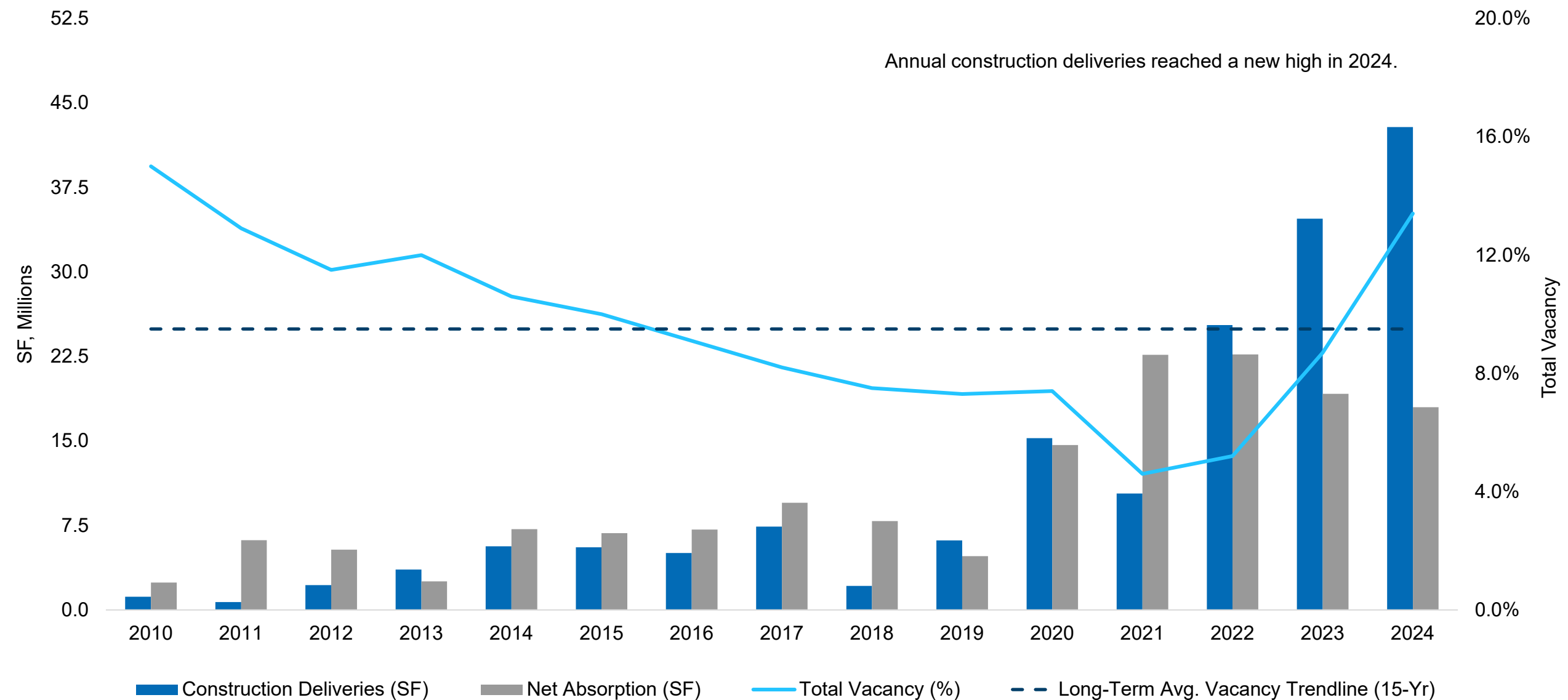




# Vacancy Surpasses Historical Average in 2024

Vacancy increased to 13.4% after 42.9 MSF in construction deliveries was met with 18.0 MSF in net absorption gains in 2024. Fewer construction starts will help to temper future vacancy increases as developers wait to see how the 113.2 MSF built since 2021 will be absorbed by users in the coming quarters.

## Historical Construction Deliveries, Net Absorption, and Vacancy



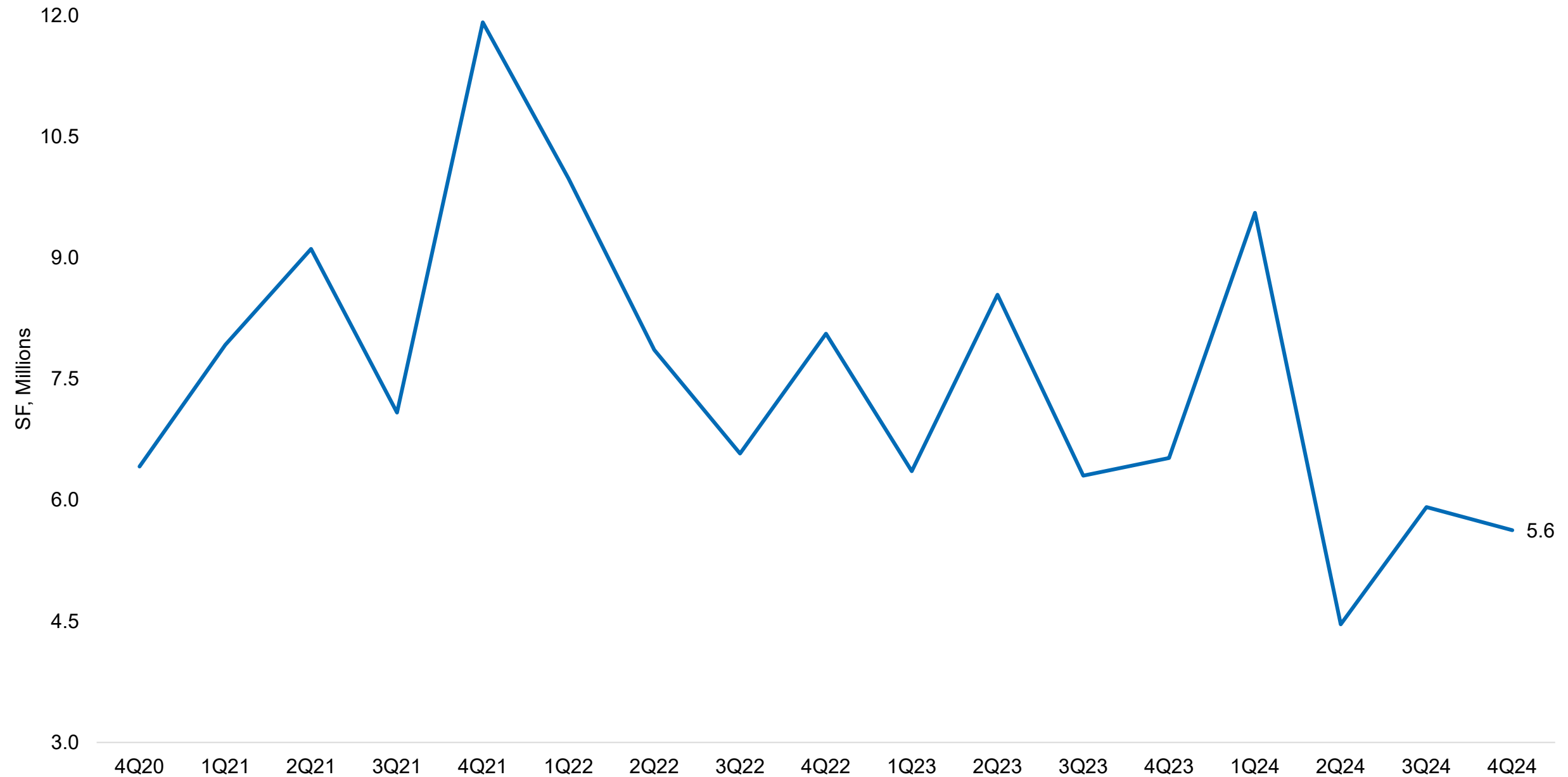
Source: Newmark Research



# Industrial Leasing Activity Stalls in 4Q24

This quarter's leasing activity totaled 5.6 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.

Total Leasing Activity (SF)



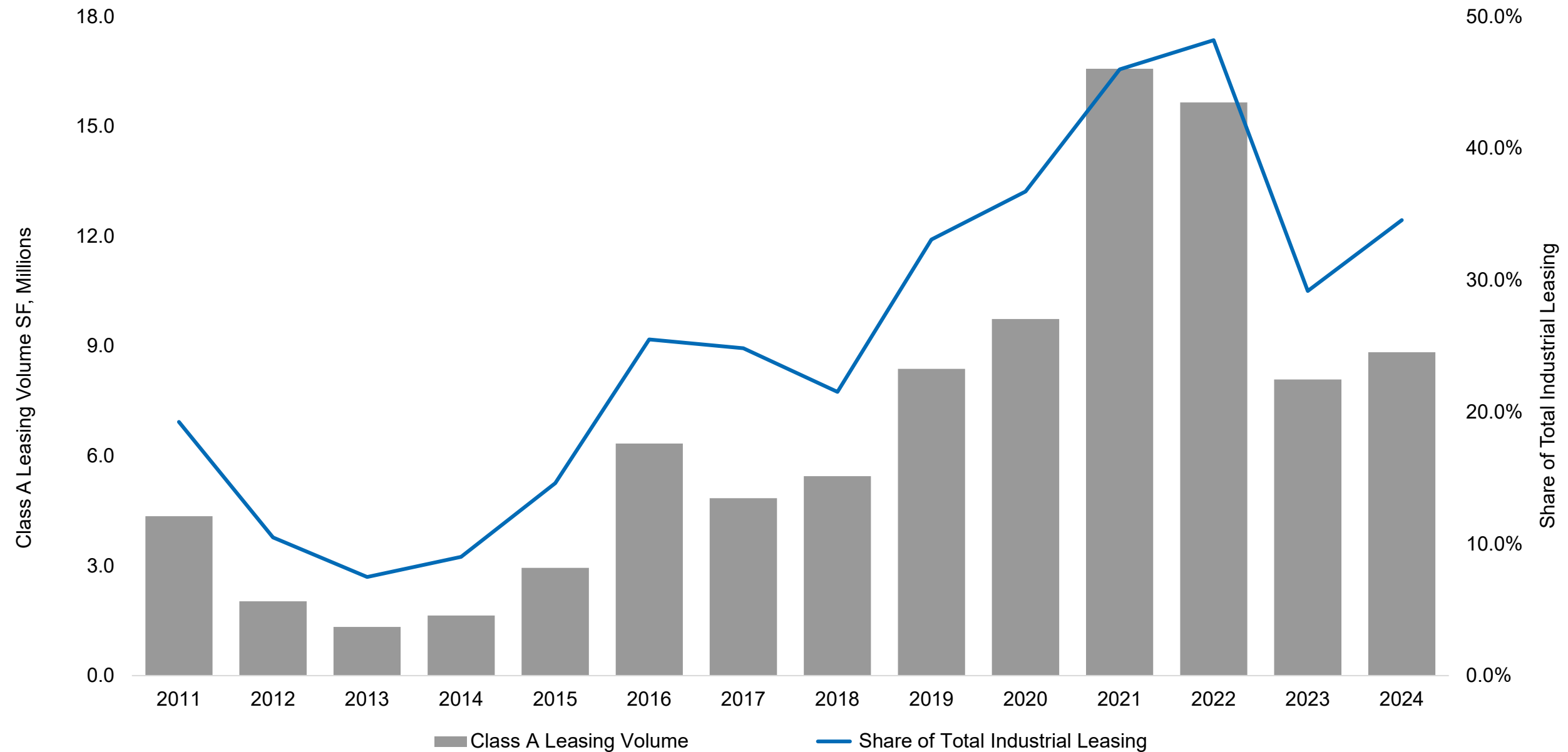
Source: Newmark Research



# A Cooling Industrial Market Sees Lowered Class A Warehouse Leasing

Class A leasing activity has noticeably decreased since 2022. Class A accounted for 34.6% of leasing activity in 2024. 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.

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



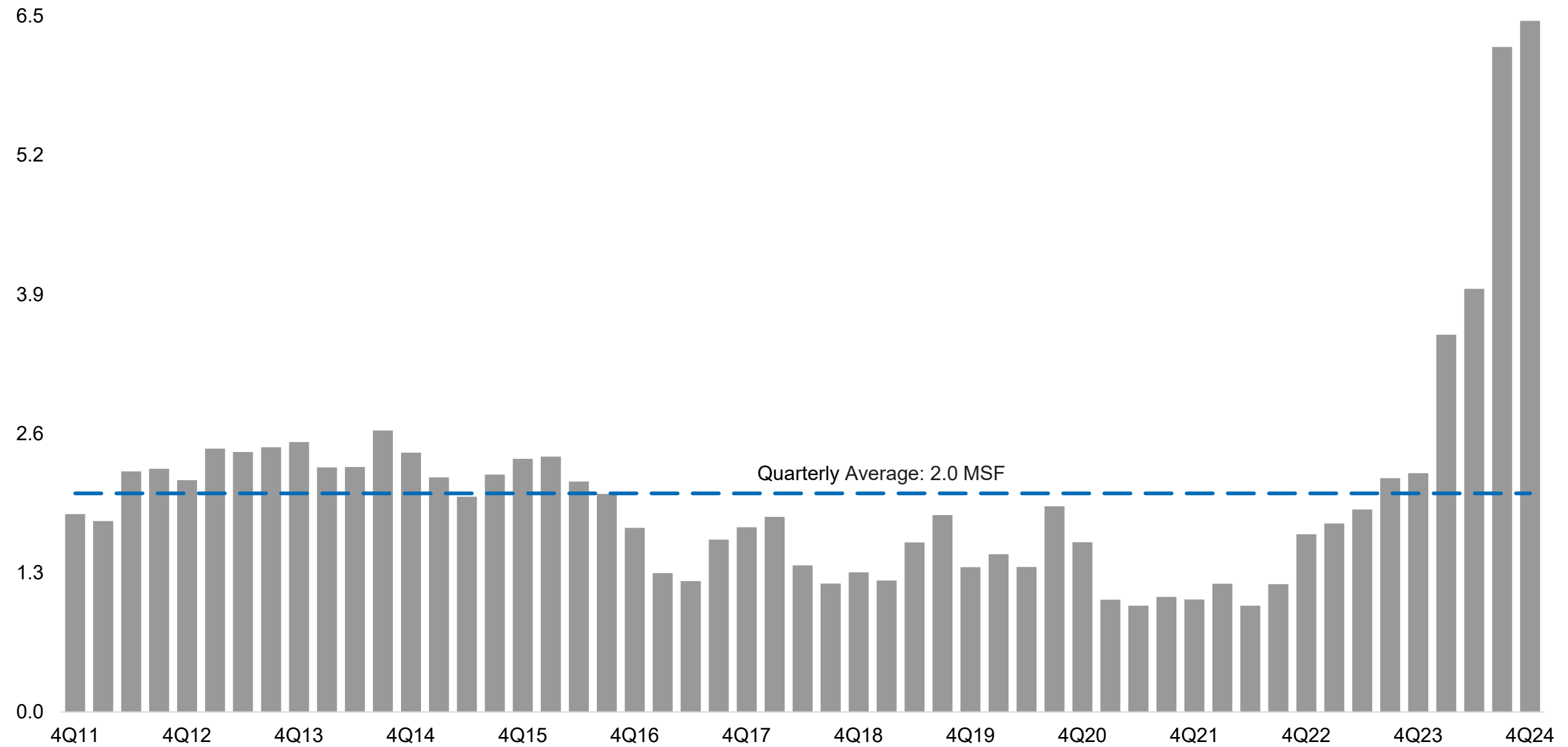
Source: Newmark Research



# Industrial Sublease Availability Remains at All-Time High

Sublease space rose by 3.9% 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 (6.5 MSF) and as a percentage of total inventory (1.5%).

Available Industrial Sublease Volume (MSF)



Source: Newmark Research



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## Industrial Subleases on Rise in Phoenix

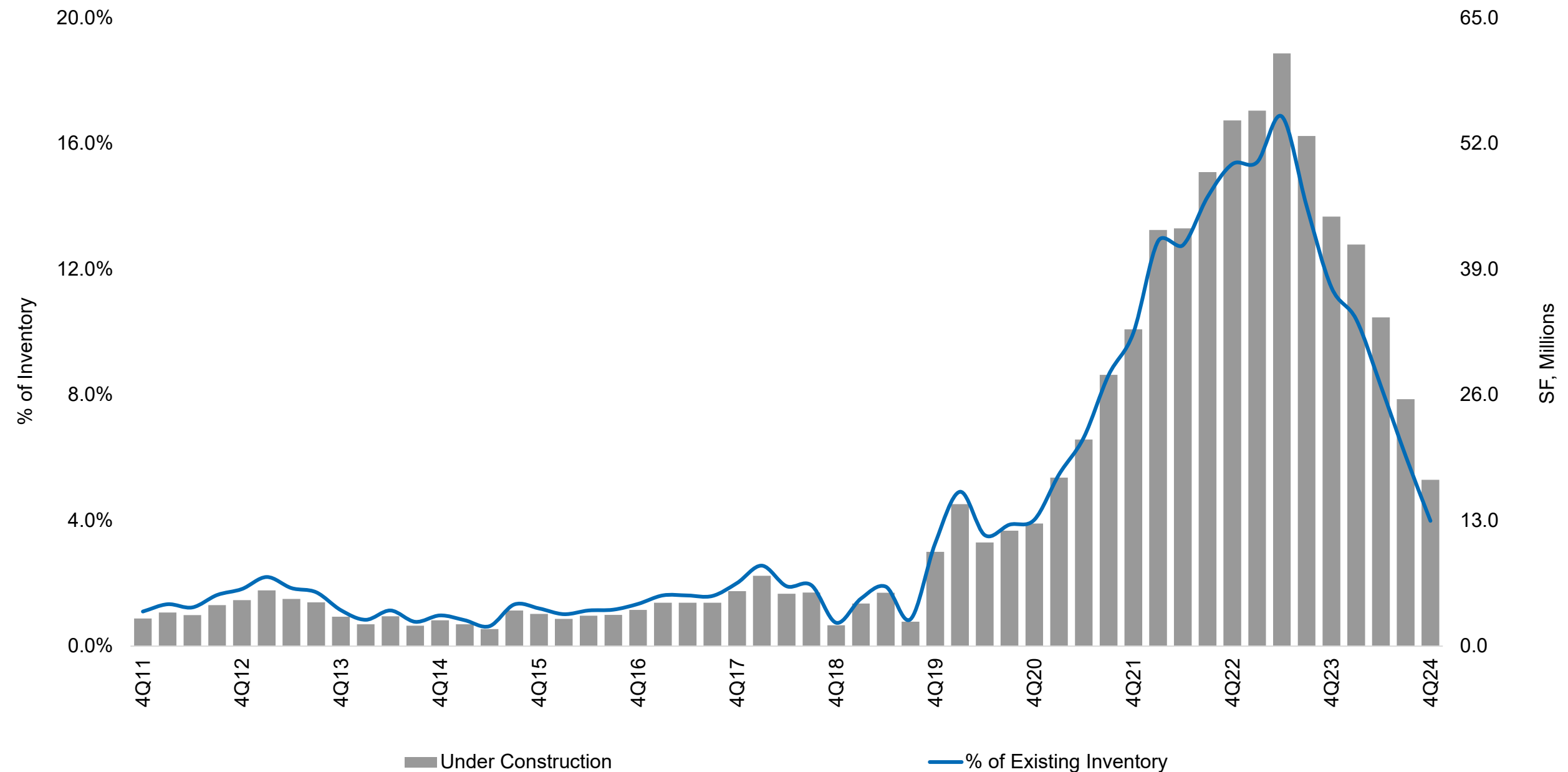
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# Industrial Supply Pipeline Continues to Empty

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



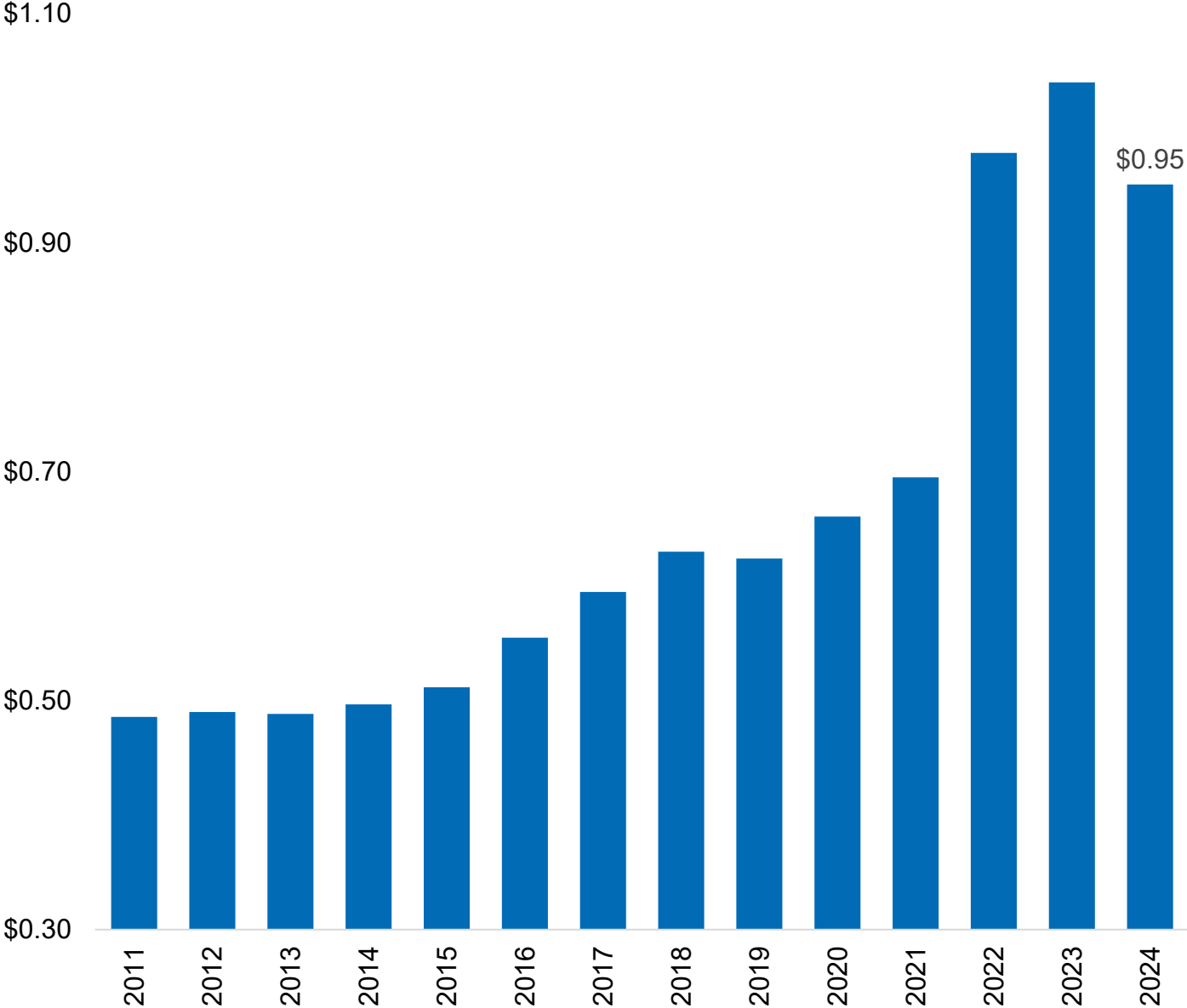
Source: Newmark Research



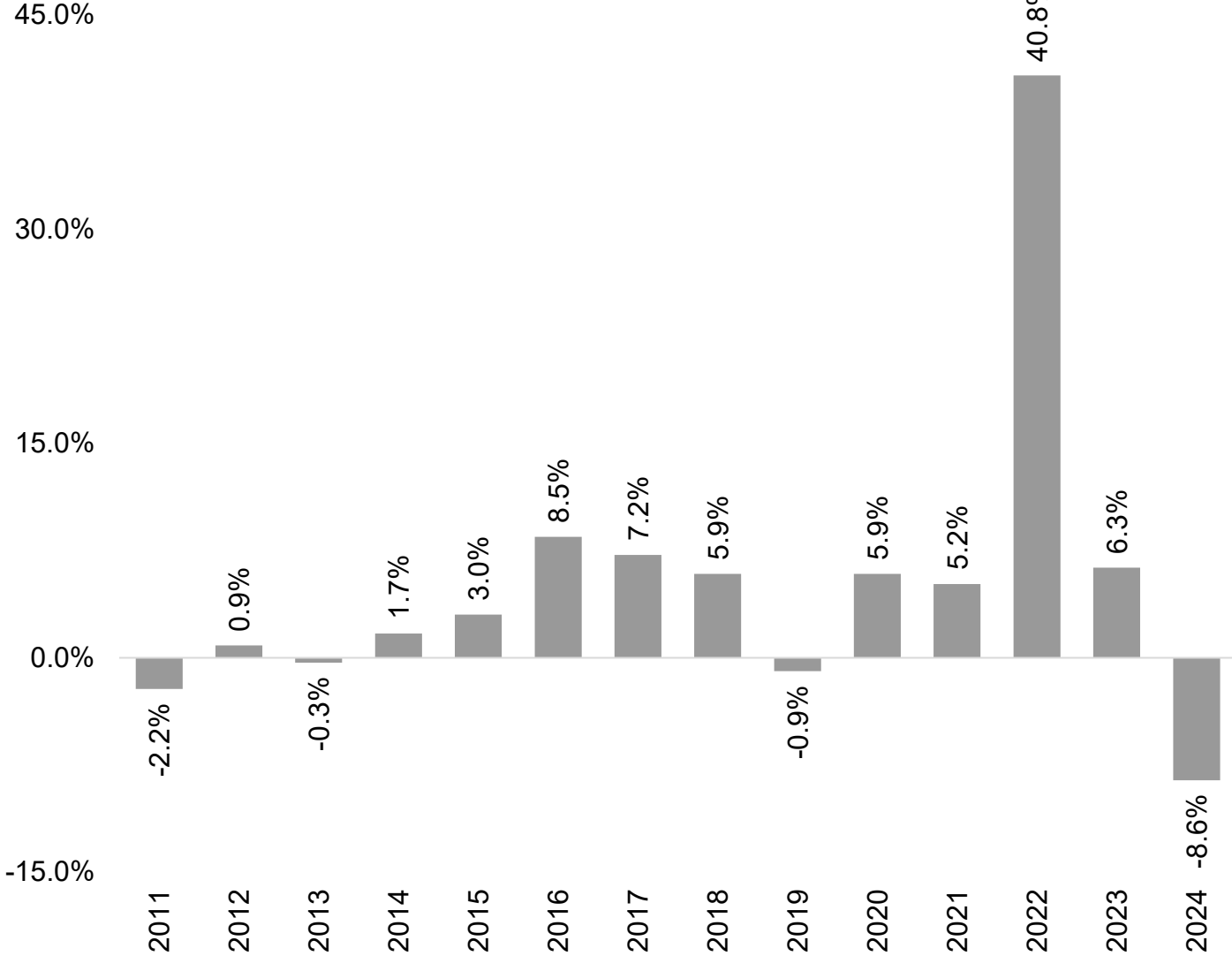
# High Construction Levels and Increased Sublease Availability Drop Asking Rents

Continued high levels of speculative construction deliveries, alongside record high sublet availability, have pushed asking rents down as landlords work to attract tenants. As construction deliveries decline in the coming quarters and right-sizing efforts slow, asking rents will eventually plateau. They will increase when leasing activity eventually picks up.

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



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research



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## Exceptional Effective Rent Growth in Recent Years is Reversing Course

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# Notable 4Q24 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
Logistics Plus Inc.	15700 W Glendale Ave	Glendale	Direct Lease	527,979
<i>The 3PL will occupy the partially-vacant property in February 2025. Lease term expires in 4Q34.</i>				
BroadRange Logistics	6235 N Cotton Ln	Glendale	Direct Lease	388,260
<i>The 3PL is scheduled to occupy the property when it delivers in June 2026. Lease term expires in 1Q35.</i>				
Confidential Tenant	14555 W Yuma Rd	Goodyear	Direct Lease	276,804
<i>Tenant will move into the vacant property in February 2025.</i>				
Hydro	402 N 44 <sup>th</sup> Ave	Phoenix	Lease Renewal	221,116
<i>The renewable energy company, which has occupied the property since 2020, recommitted to its space in November.</i>				
Thyssen Krupp	17780 W Thomas Rd	Goodyear	Sublease	205,720
<i>The industrial engineering and steel production company moved into the partially-vacant property in October. Lease term expires in 4Q25.</i>				



# Notable 4Q24 Sale Transactions

Sales volume in 2024 was nearly double that of the previous year. The market observed its highest quarterly sales volume since the fourth quarter of 2021.

## Select Sale Transactions

Building Address	Submarket	Sales Price	Price/SF	Square Feet
Paloma Vista Logistics Center	Southwest Phoenix	\$118,250,000	\$112	1,056,353
<i>BGO acquired the property from Ares Management Corp in November. Amazon is the sole tenant.</i>				
Airport Logistics Center	Phoenix	\$72,400,000	\$184	393,484
<i>INDUS Realty Trust acquired the property from CBRE Investment Management in November.</i>				
7200 W Buckeye Rd	Phoenix	\$69,548,477	\$174	400,000
<i>Karney Management Company acquired the property from Cohen Asset Management Inc in October.</i>				
7980-7990 W Buckey Rd	Phoenix	\$48,830,000	\$152	322,070
<i>SENTRE, Inc. purchased the asset from DigitalBridge in December. WinCup fully occupies the building.</i>				
6700 W Morelos Pl	Chandler	\$36,000,000	\$156	231,500
<i>Avnet Integrated acquired the property from Peakstone Realty Trust in December.</i>				



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Sales Volume Across All CRE Segments Was Up in 2024

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## Private, Opportunistic Buyers Are Active

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# Appendix







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Population Has Increased Considerably in Recent Decades

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

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