

YoY Chg 12-Mo. Forecast

4.7%
Overall Vacancy ▲ ▲

7.1M
YTD Net Absorption, SF ▼ ▼

51.8M
Under Construction, SF ▲ ▼

\$1.17
Overall Asking Rent, PSF ▲ ▼

ECONOMIC INDICATORS Q2 2023

YoY Chg 12-Mo. Forecast

2.4M
Phoenix Employment ▲ ▲

3.0%
Phoenix Unemployment Rate ▼ ▲

3.6%
U.S. Unemployment Rate ▬ ▲

Source: BLS

*Q2 data is based on the U.S. Bureau of Labor Statistics, All Employees: Total Nonfarm in Phoenix-Mesa-Scottsdale, AZ (MSA) – seasonally adjusted.

ECONOMY

In Q2 2023, the Phoenix market recorded an employment level of 2.4 million jobs and the unemployment rate decreased slightly from 3.2% in Q2 2022 to 3.0% in Q2 2023. The metro area continues to have tremendous growth, as the number of households increased by 2.0% year-over-year (YOY) to 1.9 million.

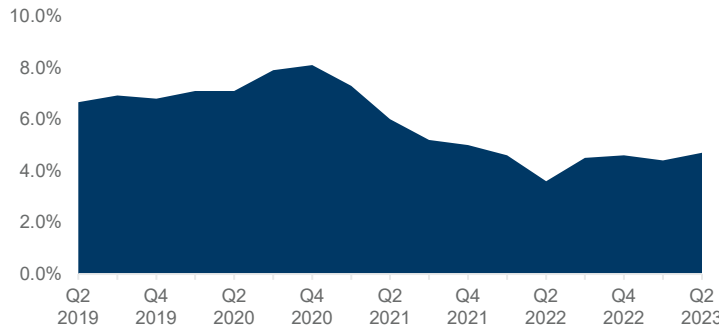
MARKET OVERVIEW

At mid-year 2023 new leasing totaled 9.8 million square feet (msf) and was down significantly compared to one year ago when new leasing totaled 20.6 msf. The second quarter of 2023 new leasing totaled 5.7 million square feet (msf), up slightly from 4.1 msf in the first quarter. Demand remained strong in the warehouse/distribution sector, accounting for 79.9% (4.6 msf) of new leasing in the second quarter. The Southwest Valley submarket posted the highest amount of new leasing activity, accounting for 52.9% of total new leasing due to the proximity to the Ports of Los Angeles and Long Beach and large population base in Southern California.

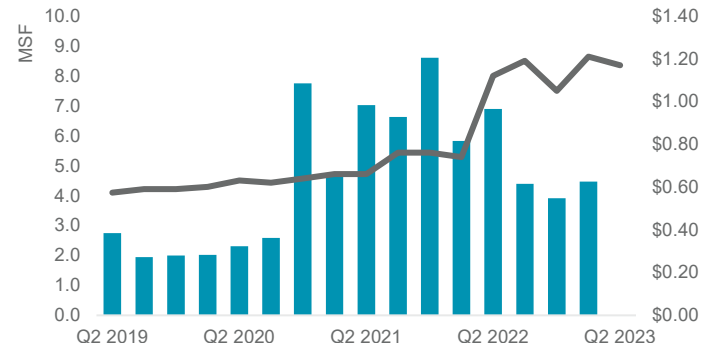
Phoenix reached 7.1 msf of net absorption at mid-year 2023 and was down significantly compared to one year ago when net absorption totaled 13.4 msf. Occupancy gains were bolstered by 12 tenants moving into spaces 100,000 sf and larger in the second quarter. The Southwest Valley led the metro in absorption gains with Logistics Plus and Site One Landscaping occupying 1,156,860 sf and 392,000 sf, respectively during the second quarter.

The construction pipeline for Phoenix ranks second in the U.S. behind only Dallas (69.9 msf) with 51.8 msf underway. The warehouse/distribution sector in Phoenix dominates the development pipeline with approximately 41.6 msf or 89% of all product types under construction. Construction starts increased QOQ in the second quarter with 8.2 msf of new starts. This pushed the total square footage breaking ground using the rolling quarter-on-quarter to 33.1 msf as developers opted to delay ground breakings due in part to the changes in the financing market in the last fifteen months.

OVERALL VACANCY



OVERALL NET ABSORPTION/OVERALL ASKING RENT



MARKETBEAT PHOENIX

Industrial Q2 2023



In the second quarter, developers added 3.8 msf of new product to the market. The Southwest Valley and Southeast Valley submarkets recorded the highest number of completions in the first quarter, with 2.3 msf and 952,429 sf completed, respectively. Speculative projects accounted for 92% of new projects or 3.5 msf of which 47.5% or 1.7 msf was delivered occupied. Due to the velocity and depth of occupiers in the market, owners and developers continue to be optimistic that their space will be occupied in the near term.

Asking rents remained at or near historically high levels at the close of the second quarter across all sizes and product types. The direct average asking rate increased 4.5% YOY to \$1.17 per in the second quarter on a triple net (NNN) basis. The warehouse sector asking rents increased 37% to \$1.11 psf while manufacturing sector asking rents remained unchanged at \$1.06 psf.

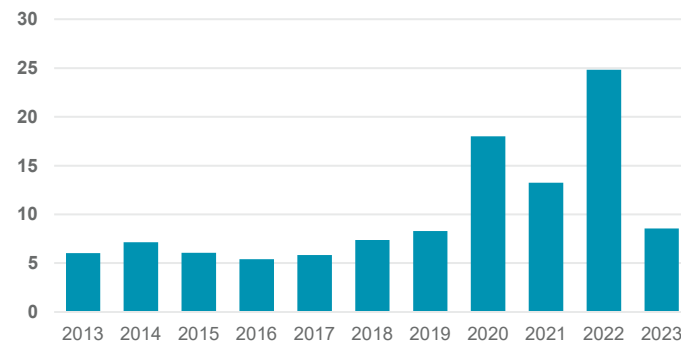
In addition to demand of warehouse space, the Phoenix market has seen an uptick in manufacturing as there has been over \$58 billion in private investments made across the state. Significant manufacturing announcements include Taiwan Semiconductor Manufacturing Co. locating their first manufacturing facility in the U.S. in north Phoenix and the continued Intel expansion of their Ocotillo campus in Chandler.

As the Phoenix metro industrial market continues to diversify it will continue to be one of the most resilient real estate sectors as activity remains strong particularly with the rise in general manufacturing demand and the commitment by the state of Arizona to the semiconductor industry.

Outlook

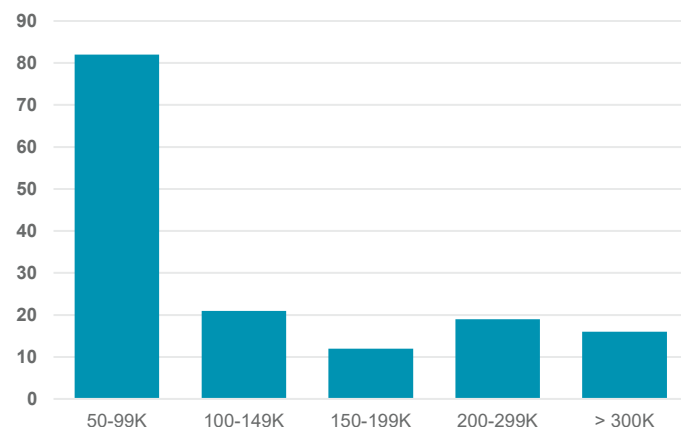
- Concern of overbuilding has risen in Phoenix amid the rapidly shifting macroeconomic dynamics and potential negative impact on consumer demand.
- The vacancy rate is expected to increase in the second half of 2023 as under construction projects are scheduled to deliver with limited preleasing.
- While deal volume and construction activity were historically high, land pricing has moderated. Phoenix should continue to benefit from extremely tight market conditions in Southern California as tenants opt for opportunities further inland where options are not as scarce.
- Tenant demand will continue to be fueled by 3PL's, food & beverage, general manufacturing, and semiconductor chip related manufacturers.

NEW SUPPLY (MSF)



LARGE BLOCK SPACE

BLOCKS OF CONTIGUOUS SPACE, EXISTING BUILDINGS
(NUMBER OF BLOCKS; BUILDINGS ARE ONLY COUNTED ONCE)



MARKETBEAT PHOENIX

Industrial Q2 2023



MARKET STATISTICS

SUBMARKET	TOTAL BLDGS	INVENTORY	DIRECT VACANT	SUBLET VACANT	OVERALL VACANCY RATE	Q2 OVERALL NET ABSORPTION	2023 YTD OVERALL NET ABSORPTION	UNDER CONSTRUCTION	OVERALL NNN ASKING RATE	DIRECT NNN ASKING RATE
Airport	1,757	69,886,137	2,548,527	339,141	4.1%	-45,459	-236,363	636,849	\$1.21	\$1.22
Northeast Valley	504	13,860,064	215,476	45,103	1.9%	27,175	-45,182	188,569	\$1.21	\$1.23
Northwest Valley	1,479	50,400,224	1,662,044	55,377	3.4%	94,463	-31,540	3,088,978	\$1.22	\$1.22
Southeast Valley	1,634	85,165,800	4,582,729	451,282	5.9%	-115,158	563,259	18,354,570	\$1.19	\$1.22
Southwest Valley	1,200	159,879,415	7,603,644	232,945	4.9%	2,719,457	6,869,273	29,558,517	\$0.90	\$0.93
Grand Total	6,574	379,191,640	16,612,420	1,123,848	4.7%	2,680,478	7,119,447	51,827,483	\$1.17	\$1.19

PROPERTY TYPES	TOTAL BLDGS	INVENTORY	DIRECT VACANT	SUBLET VACANT	OVERALL VACANCY RATE	Q2 OVERALL NET ABSORPTION	2023 YTD OVERALL NET ABSORPTION	UNDER CONSTRUCTION	OVERALL NNN ASKING RATE	DIRECT NNN ASKING RATE
Office Service (OS)	360	14,694,628	1,969,840	328,132	15.6%	78,671	-94,154	39,491	\$1.31	\$1.31
Warehouse Distribution (WD)	2,603	218,751,036	10,992,970	532,604	5.3%	2,804,873	7,623,818	46,102,111	\$1.11	\$1.17
High Technology (HT)	326	21,872,021	1,985,416	192,458	10.0%	-163,345	-556,170	2,130,371	\$1.17	\$1.19
Manufacturing (MF)	3,285	123,873,955	1,664,194	70,654	1.4%	-39,721	145,953	3,555,510	\$1.07	\$1.06
Grand Total	6,574	379,191,640	16,612,420	1,123,848	4.7%	2,680,478	7,119,447	51,827,483	\$1.17	\$1.19

KEY CONSTRUCTION COMPLETIONS Q2 2023

PROPERTY	SUBMARKET	MAJOR TENANT	SF	CONSTRUCTION TYPE	OWNER/DEVELOPER
Luke Logistics Center	North Goodyear	Vacant	522,480	Speculative	CA Ventures
Lexington South @ PV 303	North Goodyear	Site One Landscaping	392,000	Speculative	Lexington Realty Trust
Gateway 303	North Goodyear	Win Supply	362,603	Speculative	GIC Real Estate

KEY PROJECTS UNDER CONSTRUCTION Q2 2023

PROPERTY	SUBMARKET	MAJOR TENANT	SF	CONSTRUCTION TYPE	OWNER/DEVELOPER
Ross Stores	Buckeye	Ross Stores	1,600,000	Built-To-Suit	Ryan Companies
Park 303	North Goodyear	Vacant	1,259,666	Speculative	Lincoln Property Company
Southern Industrial Center	Buckeye	Vacant	1,207,360	Speculative	Contour Real Estate

Industrial Q2 2023

KEY LEASE TRANSACTIONS

PROPERTY	SF	TENANT	TRANSACTION TYPE	CITY	SUBMARKET
Lexington North @ PV 303	488,400	FIGS	Direct	Goodyear	North Goodyear
Commerce @ 303	331,683	CJ Logistics	Direct	Glendale	North Goodyear
Crimson Canyon Center	326,103	ExxonMobil	Direct	Buckeye	Buckeye
Buckeye85	321,873	Tempur-Pedic	Direct	Tolleson	Tolleson
Riverside Business Center	301,944	PAC Worldwide Corporation	Renewal	Phoenix	Southwest Phoenix

KEY SALES TRANSACTIONS

PROPERTY	SF	BUYER	PRICE	PRICE PSF	CITY	SUBMARKET
GO 99 South	1,282,863	Kohlberg Kravis Roberts & Co	\$165,000,000	\$128.62	Tolleson	Tolleson
Falcon Park 303	599,486	Cohen Asset Management	\$81,698,544	\$136.28	Glendale	North Goodyear
The Cubes at Glendale	570,080	Fundrise	\$82,661,600	\$145.00	Glendale	North Goodyear
Tempe 4	158,507	Magnolia Industrial Park, LLC	\$23,550,000	\$148.57	Tempe	Chandler
17 North Corporate Center	111,676	The Meritex Company	\$20,401,128	\$182.68	Phoenix	Deer Valley

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Industrial Q2 2023

Industrial Submarket Map

Phoenix Metro Area

