

YoY Chg      12-Mo. Forecast

**7.4%**  
Overall Vacancy ▲ ▲

**11.2M**  
YTD Net Absorption, SF ▼ ▼

**45.9M**  
Under Construction, SF ▲ ▼

**\$1.14**  
Overall Asking Rent, PSF ▲ ▼

### ECONOMIC INDICATORS Q3 2023

YoY Chg      12-Mo. Forecast

**2.4M**  
Phoenix Employment ▲ ▲

**3.3%**  
Phoenix Unemployment Rate ▼ ▲

**3.7%**  
U.S. Unemployment Rate ▬ ▲

Source: BLS

\*Q3 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 Q3 2023, the Phoenix market recorded an employment level of 2.4 million jobs and the unemployment rate decreased from 3.6% in Q3 2022 to 3.3% in Q3 2023. The metro area continues to have tremendous growth, as the number of households increased by 2.1% year-over-year (YOY) to 1.9 million. Wage growth continues to bring job seekers back into the labor market, as the median household income reached \$81,300 in Q3 2023, an increase of 4.0% YOY.

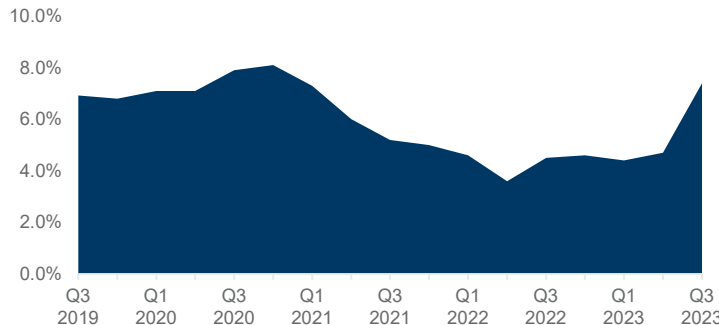
### MARKET OVERVIEW

The Phoenix market registered an overall vacancy rate of 7.4% at the close of the third quarter, a quarterly increase of 280 basis points (bps), and an annual increase of 310 bps. The vacancy rate has risen rapidly due to softening tenant demand and increased supply growth. The vacancy rate in the first nine-months of the year climbed in four of the five macro submarkets with the exception being the Northeast Valley which decreased 50 bps to 2.8%. The Southwest Valley had the most substantial increase in vacancy in the third quarter as the vacancy rate swelled 380 bps to 9.7% followed by the Southeast Valley where the vacancy rate rose 280 bps to 7.5%.

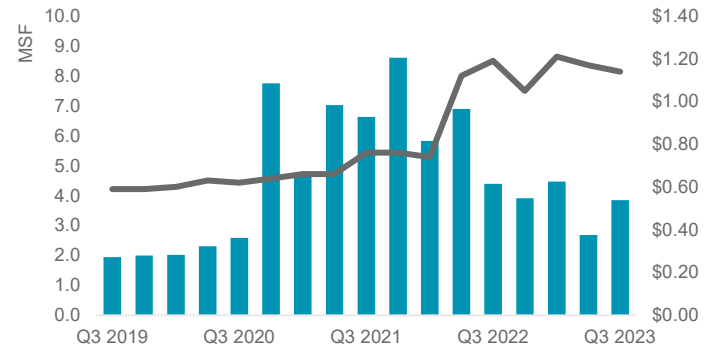
The construction pipeline for Phoenix ranks second in the U.S. behind only Dallas (54.3 msf) with 45.6 msf underway. The warehouse/distribution sector in Phoenix dominates the development pipeline with approximately 34.7 msf or 76% of all product types under construction. Construction starts declined QOQ in the third quarter with 4.7 msf of new starts. This pushed the total square footage breaking ground using the rolling quarter-on-quarter measure to 23.4 msf as some developers opted to delay ground breakings due to the excess supply and changes in the financing market.

Phoenix's inventory continued to grow as 15.5 million (msf) of new industrial product was added to the market in the third quarter bringing the completions in the nine-month period to 24.1 msf. This places Phoenix fourth in the U.S. for new construction this year. The Southwest Valley and Southeast Valley submarkets recorded the highest number of completions

### OVERALL VACANCY



### OVERALL NET ABSORPTION/OVERALL ASKING RENT



in the third quarter, with 11.6 msf and 3.3M sf completed, respectively. Speculative projects accounted for 97% of new projects or 15.0 msf of which 25.2% or 3.8 msf was delivered occupied.

New leasing in the first nine-months of 2023 totaled 14.6 million square feet (msf) and was down significantly compared to one year ago when new leasing totaled 25.6 msf. The third quarter new leasing totaled 3.9 million square feet (msf), down significantly from 6.3 msf in the second quarter. Demand remained strong in the warehouse/distribution sector, accounting for 76% (3.0 msf) of new leasing in the third quarter. The Southwest Valley submarket posted the highest amount of new leasing activity, accounting for 33.4% of total new leasing due to the proximity to the Ports of Los Angeles and Long Beach and large population base in Southern California.

Asking rents remained at or near historically high levels at the close of the third quarter across all sizes and product types. The direct average asking rate decreased 1.7% YOY to \$1.17 per in the third quarter on a triple net (NNN) basis. The warehouse sector asking rents increased 15.3% to \$1.13 psf while manufacturing sector asking rents remained relatively unchanged at \$1.08 psf.

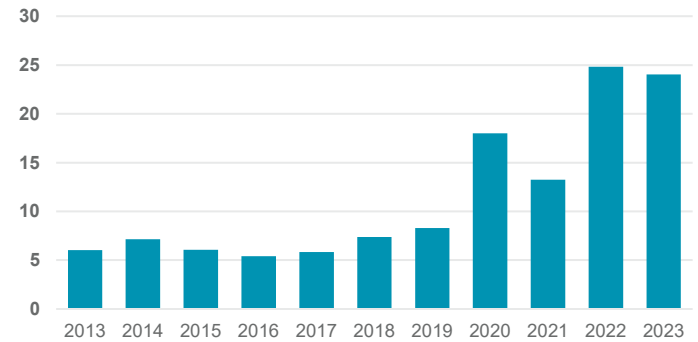
In addition to demand of warehouse space, the Phoenix market has yielded an uptick in manufacturing as there has been over \$60 billion in private investments made across the state. Significant manufacturing announcements include Taiwan Semiconductor Manufacturing Co. locating their first manufacturing facility in the U.S. in north Phoenix and the continued Intel expansion of their Ocotillo campus in Chandler. In addition to the semiconductor sector there have been major announcements in the electric vehicle, battery and energy storage technology which include LG Energy Solution's capital investment of \$6.9 billion and Korepower's \$1 billion investment.

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 and emerging technologies such as battery and energy storage.

**Outlook**

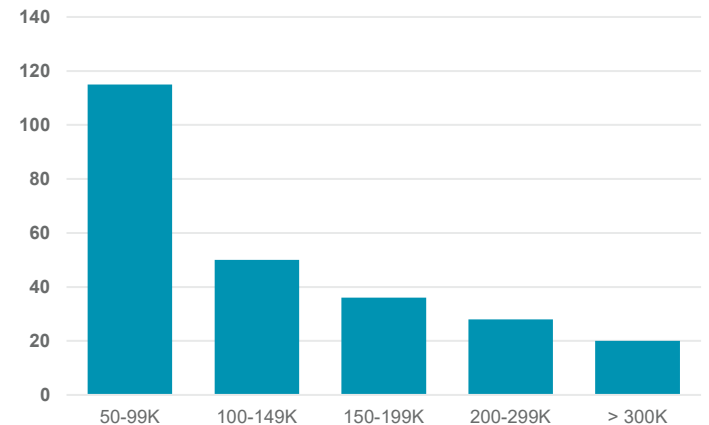
- There will be limited construction starts through the balance of the year and into 2024 as the market works through the new supply that will be delivered with limited preleasing with new projects being paused or pushed back.
- The vacancy rate is expected to further increase in 2024 as under construction projects are scheduled to deliver with limited preleasing.
- Tenant demand will continue to be fueled by 3PL's, retail/apparel, e-commerce, 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 Q3 2023

### MARKET STATISTICS

SUBMARKET	TOTAL BLDGS	INVENTORY	DIRECT VACANT	SUBLET VACANT	OVERALL VACANCY RATE	Q3 OVERALL NET ABSORPTION	2023 YTD OVERALL NET ABSORPTION	UNDER CONSTRUCTION	OVERALL NNN ASKING RATE	DIRECT NNN ASKING RATE
Airport	1,762	70,372,866	2,909,964	576,290	5.0%	-261,251	-490,811	634,233	\$1.13	\$1.17
Northeast Valley	508	14,048,633	370,745	28,401	2.8%	50,002	4,820	-	\$1.25	\$1.28
Northwest Valley	1,480	50,486,585	1,856,836	83,194	3.8%	-147,609	-179,473	7,166,889	\$1.13	\$1.13
Southeast Valley	1,662	88,703,037	6,131,978	559,773	7.5%	1,517,361	2,128,943	16,821,452	\$1.23	\$1.26
Southwest Valley	1,230	171,775,869	16,000,423	585,268	9.7%	2,689,260	9,763,484	21,252,222	\$0.89	\$0.93
<b>Grand Total</b>	<b>6,642</b>	<b>395,386,990</b>	<b>27,269,946</b>	<b>1,832,926</b>	<b>7.4%</b>	<b>3,847,763</b>	<b>11,226,963</b>	<b>45,874,796</b>	<b>\$1.14</b>	<b>\$1.17</b>

PROPERTY TYPES	TOTAL BLDGS	INVENTORY	DIRECT VACANT	SUBLET VACANT	OVERALL VACANCY RATE	Q3 OVERALL NET ABSORPTION	2023 YTD OVERALL NET ABSORPTION	UNDER CONSTRUCTION	OVERALL NNN ASKING RATE	DIRECT NNN ASKING RATE
High Technology (HT)	328	22,636,448	2,066,626	128,904	9.7%	319,678	-236,492	4,072,934	\$1.14	\$1.13
Manufacturing (MF)	3,302	124,152,261	2,295,591	184,732	2.0%	-408,080	-262,127	7,142,788	\$1.07	\$1.08
Office Service (OS)	363	14,963,480	2,001,430	359,450	15.8%	-54,294	-148,448	-	\$1.31	\$1.30
Warehouse Distribution (WD)	2,649	233,634,801	20,906,299	1,159,840	9.4%	3,990,459	11,874,030	34,659,074	\$1.07	\$1.13
<b>Grand Total</b>	<b>6,642</b>	<b>395,386,990</b>	<b>27,269,946</b>	<b>1,832,956</b>	<b>7.4%</b>	<b>3,847,763</b>	<b>11,226,963</b>	<b>45,874,796</b>	<b>\$1.14</b>	<b>\$1.17</b>

### KEY CONSTRUCTION COMPLETIONS Q3 2023

PROPERTY	SUBMARKET	MAJOR TENANT	SF	CONSTRUCTION TYPE	OWNER/DEVELOPER
Park 303   Phase II Bldg. C	Southwest Valley	Vacant	1,259,666	Speculative	Lincoln Property Company
The Cubes at Mesa Gateway   Bldg. C	Southeast Valley	Lowe's	1,200,340	Speculative	CRG
The Cubes at Glendale   Bldg. B	Southwest Valley	Vacant	1,200,140	Speculative	CRG

### KEY PROJECTS UNDER CONSTRUCTION Q3 2023

PROPERTY	SUBMARKET	MAJOR TENANT	SF	CONSTRUCTION TYPE	OWNER/DEVELOPER
TSMC	Northwest Valley	Taiwan Semiconductor Manufacturing Co.	4,300,000	Built-To-Suit	TSMC
Ross Stores	Southwest Valley	Ross Stores	1,600,000	Built-To-Suit	Ryan Companies
Prologis 303 Business Park	Southwest Valley	Vacant	1,222,480	Speculative	Prologis

## Industrial Q3 2023

### KEY LEASE TRANSACTIONS

PROPERTY	SF	TENANT	TRANSACTION TYPE	CITY	SUBMARKET
NWC Loop 303 & Camelback Road	420,536	Parts Town	Direct	Glendale	Southwest Valley
Arizona Republic	302,989	Arizona Republic	Direct	Phoenix	Northwest Valley
Copperwing Logistics Park	293,265	Arcadia Cold Storage	Direct	El Mirage	Southwest Valley
MET202	192,580	Paulo Solar Energy	Direct	Mesa	Southeast Valley
3929 West Lower Buckeye Road	190,512	DSV Air & Sea	Direct	Phoenix	Southwest Valley

### KEY SALES TRANSACTIONS

PROPERTY	SF	BUYER	PRICE	PRICE PSF	CITY	SUBMARKET
G303	1,253,382	EQT Exeter	\$105,000,000	\$83.77	Glendale	Southwest Valley
Hatcher Industrial Park (Portfolio)	906,125	Westcore	\$92,719,745	\$102.32	Glendale	Southwest Valley
Arizona Republic	302,989	ATLAS	\$38,000,000	\$125.42	Phoenix	Northwest Valley
Warner Crossing (Portfolio)	201,151	Granite Capital Group	\$34,500,000	\$171.05	Tempe	Southeast Valley
Reywest Commerce Center	180,000	ViaWest Group	\$19,000,000	\$105.56	Phoenix	Southwest Valley

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Industrial Q3 2023

## Industrial Submarket Map

Phoenix Metro Area

