

Q4 2024

MARKET REPORT

METRO PHOENIX

Industrial Market Report

VACANCY ▲

CONSTRUCTION ▼

AVERAGE NNN ▲



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Arizona, particularly the market for industrial real estate and associated services, could become the beneficiary of geopolitical events and state policy. More specifically, policies from states other than Arizona.

Our neighbors to the west just passed a new law, California AB98, that sets a stricter standard for approval of any warehouse, distribution or logistics facility greater than 250,000 square feet. The law essentially increases the setbacks and distances from developments with multiple loading docks in proximity to “sensitive sites” such as schools, residential neighborhoods and health care facilities.

The new administration, meanwhile, has threatened tariffs since winning the election in November, and our neighbors to the south are listening.

Mexico’s President Sheinbaum has announced plans to reduce imports from China. Instead, the country will offer a variety of tax incentives for nearshoring and to increase the amount of locally made goods and materials. The announcement is part of a recent series of events related to manufacturing, logistics and finance to support trade between Mexico and the United States, and to mitigate impacts from a 25% tariff potentially imposed by President Trump.

Politics aside, the infrastructure is in place for one of the greatest periods of collaborative trade between Canada, the U.S. and Mexico in history, courtesy of the \$31 billion merger in 2023 that created the only freight railroad directly connecting the three countries. The new Canadian Pacific Kansas City (CPKC) operates a 20,000-mile network from Canadian ports through the Midwest and to factories and seaports in Mexico.

Phoenix Industrial Market Metrics

The Phoenix industrial market has grown an astounding 38% since the start of the pandemic, shifting from an inventory base of 333.3 million square feet (MSF) in 1Q2020 to its most recent level in the fourth quarter last year, at 458.5 MSF.

PHX Q4 AT A GLANCE:

Vacancy: 13.0% ▲

SF Construction: 21.1 MSF ▼

Average NNN: \$12.16 ▲

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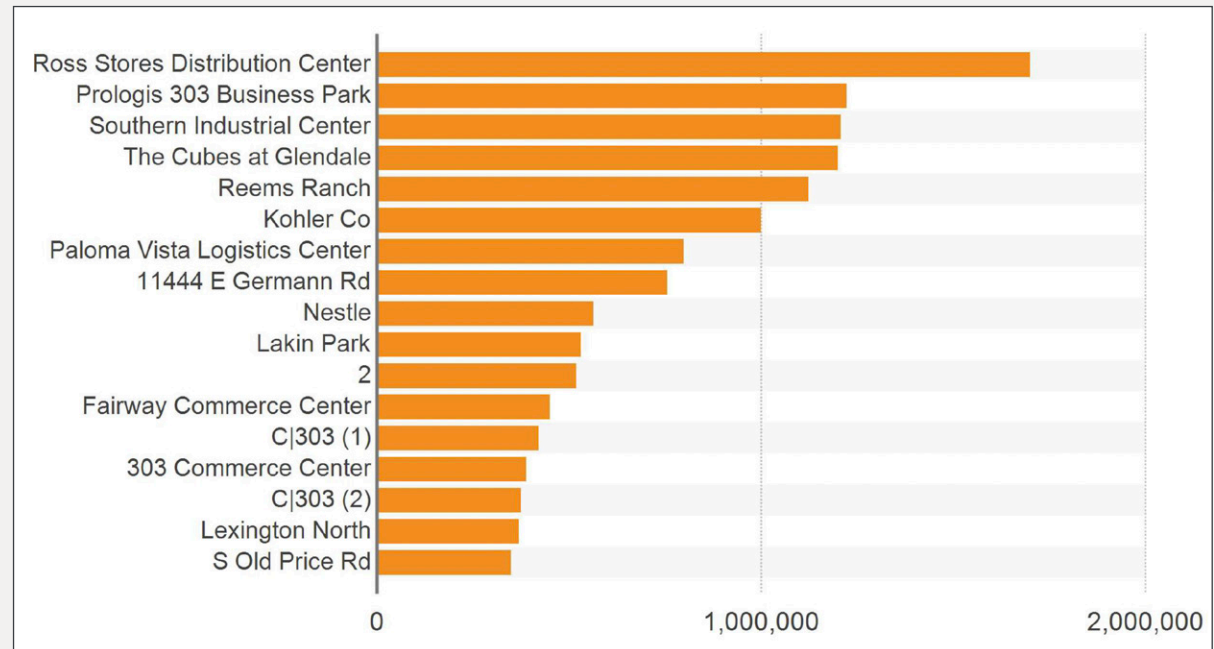
4th Quarter Phoenix Market Metrics

In fact, a report from CommercialEdge pegs Phoenix as the #1 ranked industrial market in the U.S., based on several metrics, and namely, highest percentage growth over existing inventory, at 8.7%. Rent growth, deliveries in recent years and online searches for industrial space were some of the other metrics.

Builders delivered 8.56 MSF spread across 39 buildings in the fourth quarter and have another 127 industrial buildings totaling 21.15 MSF in various stages of construction. The buildings include manufacturing, warehouse/distribution, logistics and flex office/industrial product. The majority of new construction underway is in the Northwest Valley, with 10.4 MSF and the Southeast Valley, with 6.4 MSF of pending inventory.

Fourth quarter net absorption was positive 1.35 MSF, compared with 3.4 MSF the previous period, and 1.08 MSF a year earlier.

12 Month Net Absorption SF in Selected Buildings



Rockefeller Group finished construction of a 418,400 SF distribution center on 24 acres in Surprise in the Southwest Valley. Called Surprise Pointe Commerce Center, the new facility can accommodate one-to-four tenants and features 84 dock-doors, a 185-foot truck yard, 103 trailer-parking stalls and 466 auto-parking stalls.

Fourth quarter net absorption was positive 1.35 MSF, compared with 3.4 MSF the previous period, and 1.08 MSF a year earlier.

Even with positive net absorption, the industrial vacancy rate increased (again) to 12.1% at the close of the recent quarter. It was 10.8% after the third quarter, and 7.7% a year ago. In other words,

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4th Quarter Phoenix Market Metrics

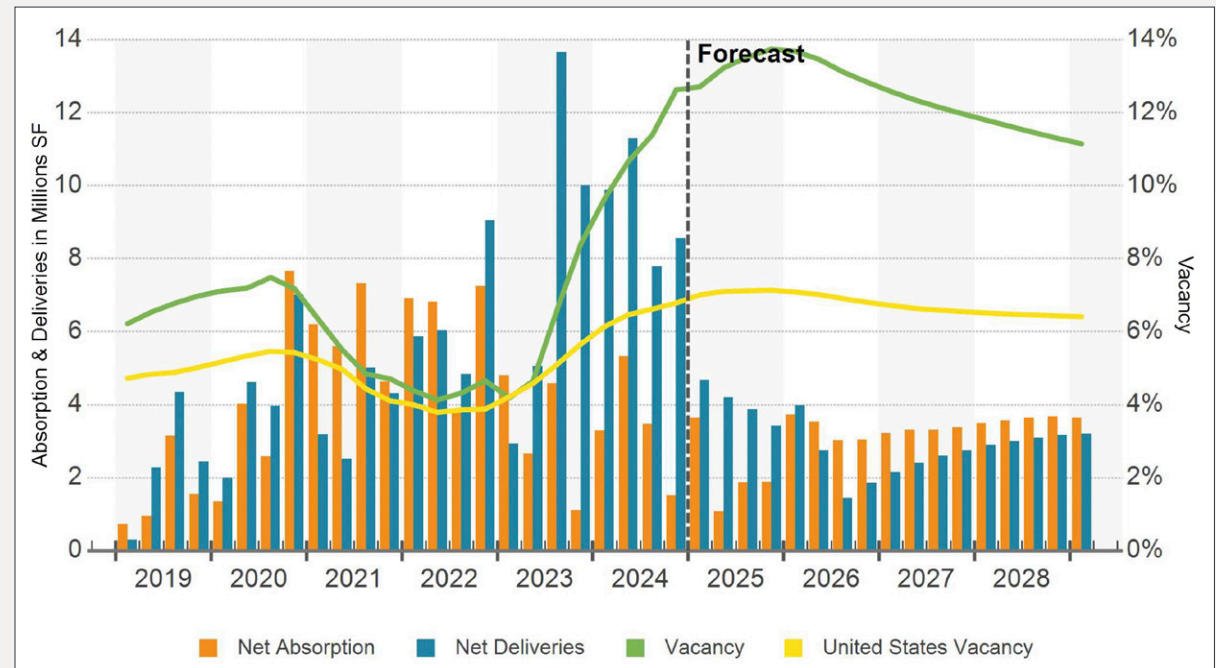
even though new tenants are leasing and occupy the majority of the new inventory, the new supply outweighs the current demand.

Looking at the data on new construction, however, we must conclude that builders and their respective lenders remain confident that there's room for the market to continue its expansion.

Another reason why vacancy levels have increased while net absorption stays in the black is that sublease space is also on the rise. By the end of 2024, 7.58 MSF of sublease space was available, up from 3 MSF a year earlier. Sublease space now constitutes 1.6% of total available inventory in the valley. At the beginning of 2022, by contrast, only 442,621 SF of sublease was available, or a miniscule 0.01% of total available space.

Looking at the data on new construction,

Net Absorption, Net Deliveries & Vacancy vs USA



however, we must conclude that builders and their respective lenders remain confident that there's room for the market to continue its expansion.

Total average asking rents reached NNN \$12.16 at the end of the fourth quarter, up from \$11.98

the previous period yet on par with a year ago, when asking industrial rents were \$12.12 PSF. Not surprisingly, the delta between direct asking rents and sublet rents was significant: \$13.3 direct versus \$8.91 sublet.

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4th Quarter Phoenix Market Metrics

Top Leases and Sales

During the fourth quarter, eight leases were signed comprised of 100,000 SF or greater, the largest of which was a Glendale deal by an unnamed tenant for 527,979 SF at 15700 W. Glendale Avenue.

Over in Goodyear, another unnamed tenant took 276,804 SF at 14555 W. Yuma Road, while Link Logistics committed to 190,000 SF at 2001 S. 15th Avenue, Phoenix, adjacent to I-17.

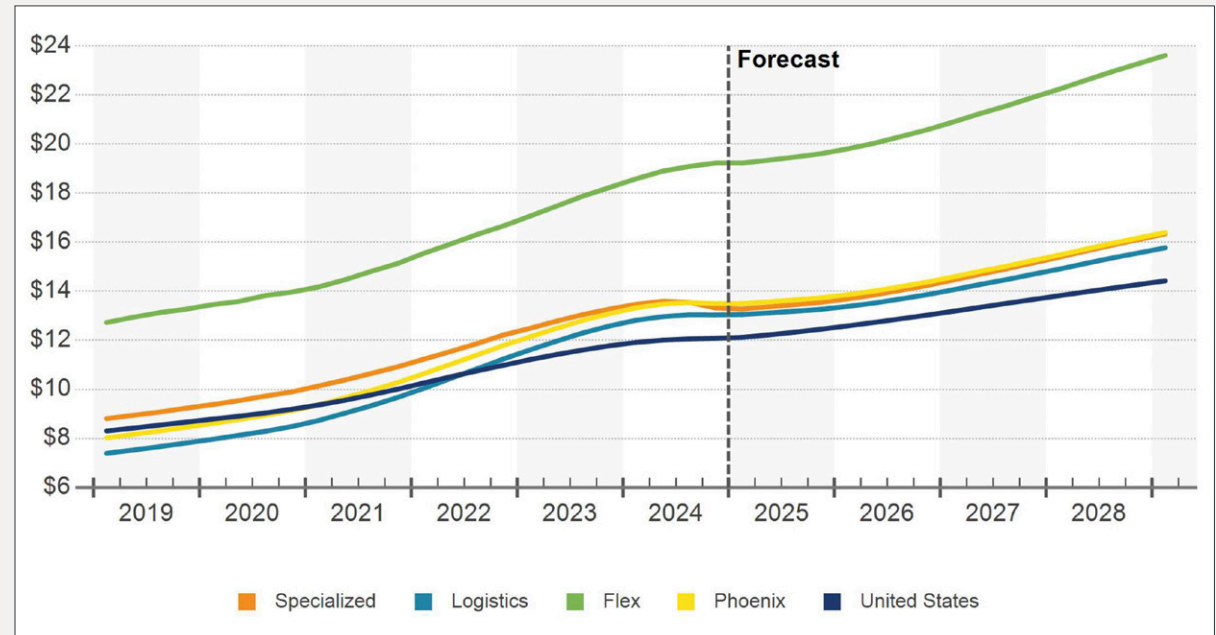
Three of the significant leases in the quarter serve as a reminder that the Phoenix industrial market is much more than a warehouse and distribution center in the Western U.S.

Phoenix Manufacturing Inc., a 50+ year company, designs and tests high-performance evaporating cooling systems. It leased 164,540 SF on S. Airport and S. Roeser Road.

Cyclic Materials asserts that it's on a mission to change the global supply chain of rare earth elements, by recycling those elements, which are used in making smartphones, electric vehicles and producing green energy. Cyclic committed to 141,117 SF at the southwest corner of Pecos Road and Hawes Road near the Chandler and Gilbert submarkets.

Precision Science is a leading contract animal pharmaceutical manufacturer and is regulated by both the FDA and EPA. Precision leased

Metro Phoenix Asking Rent Per SF



130,000 SF on W. Alameda Road near the Deer Valley Airport.

A newly constructed, 1,056,353-square-foot building on W. McDonald Road sold for \$112 PSF, or a little more than \$118 million. A 170,555 SF property on E. University Drive commanded the highest price per foot in the recent quarter, or \$230 PSF for \$39.3 million, while the second-

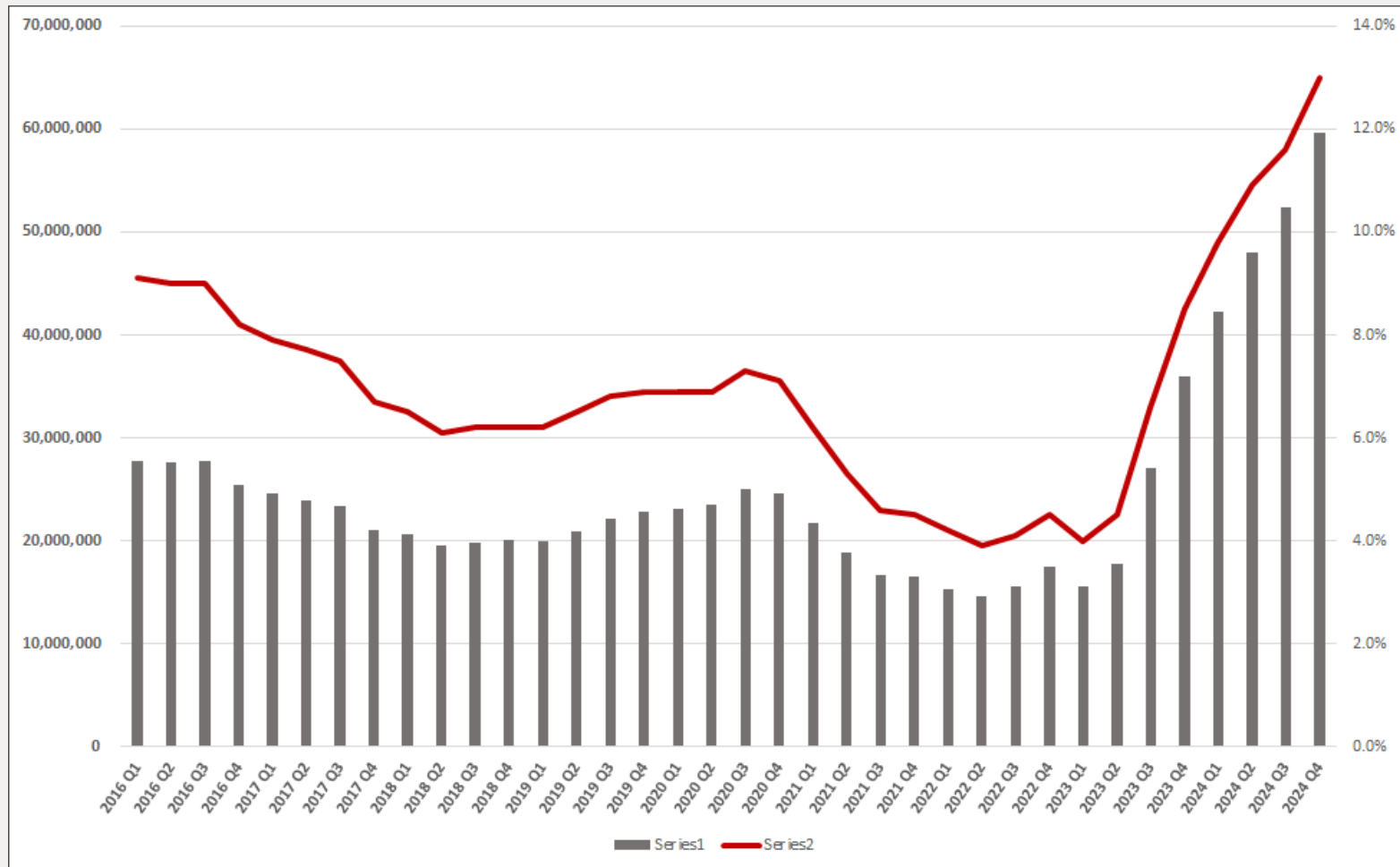
largest trade in the period featured a 400,000 SF asset on W. Buckeye Road that sold for nearly \$70 million, or \$174 PSF.

While sales volume has been off since 2021, when capital markets began to suffer from interest rate spikes, some \$4.3 billion of industrial property in the valley traded hands last year, a 140% increase over the annual average from 2015-2019.

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4th Quarter Phoenix Market Metrics

Industrial Vacancy Rates

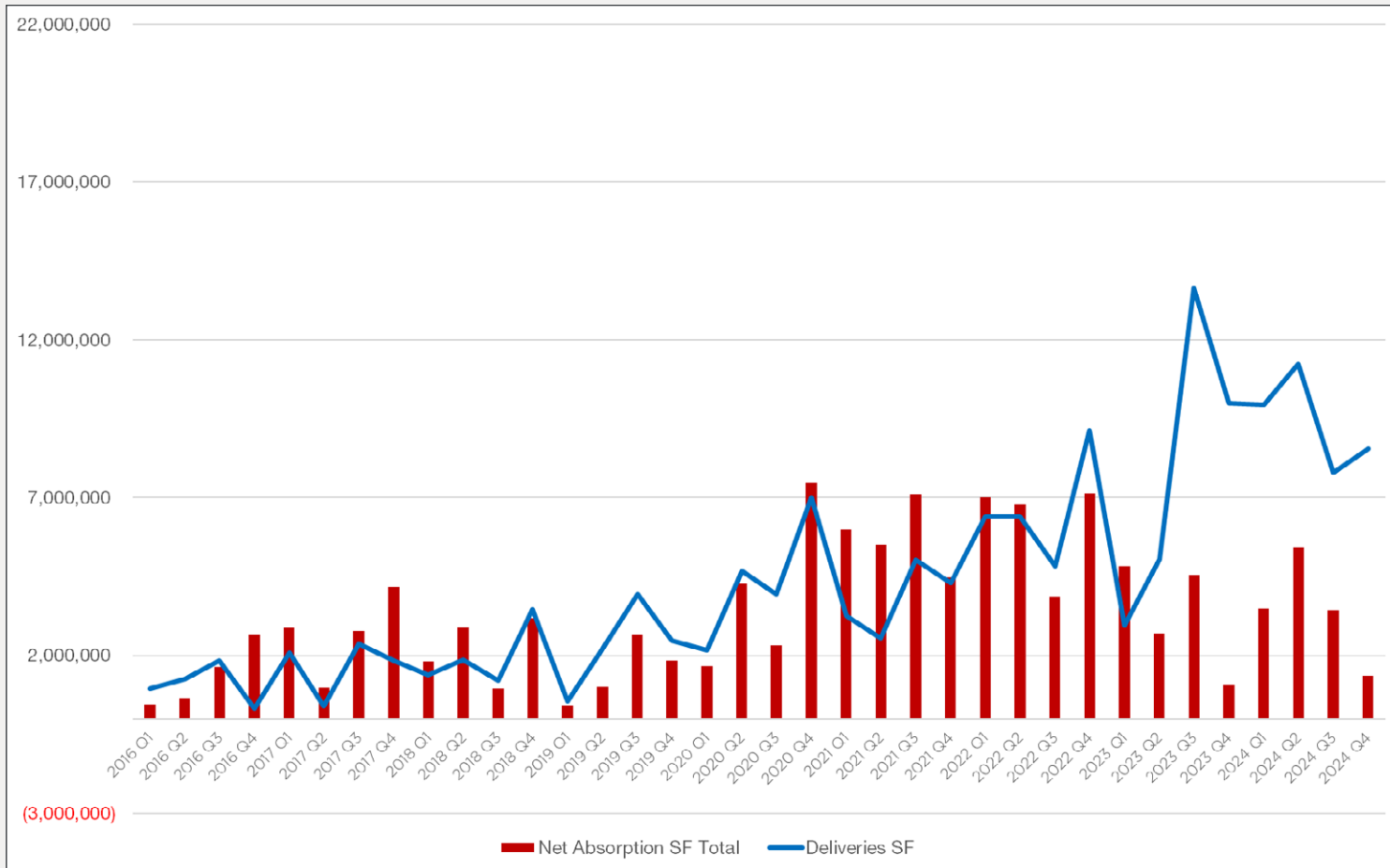


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4th Quarter Phoenix Market Metrics

Supply, Demand, and Under Construction



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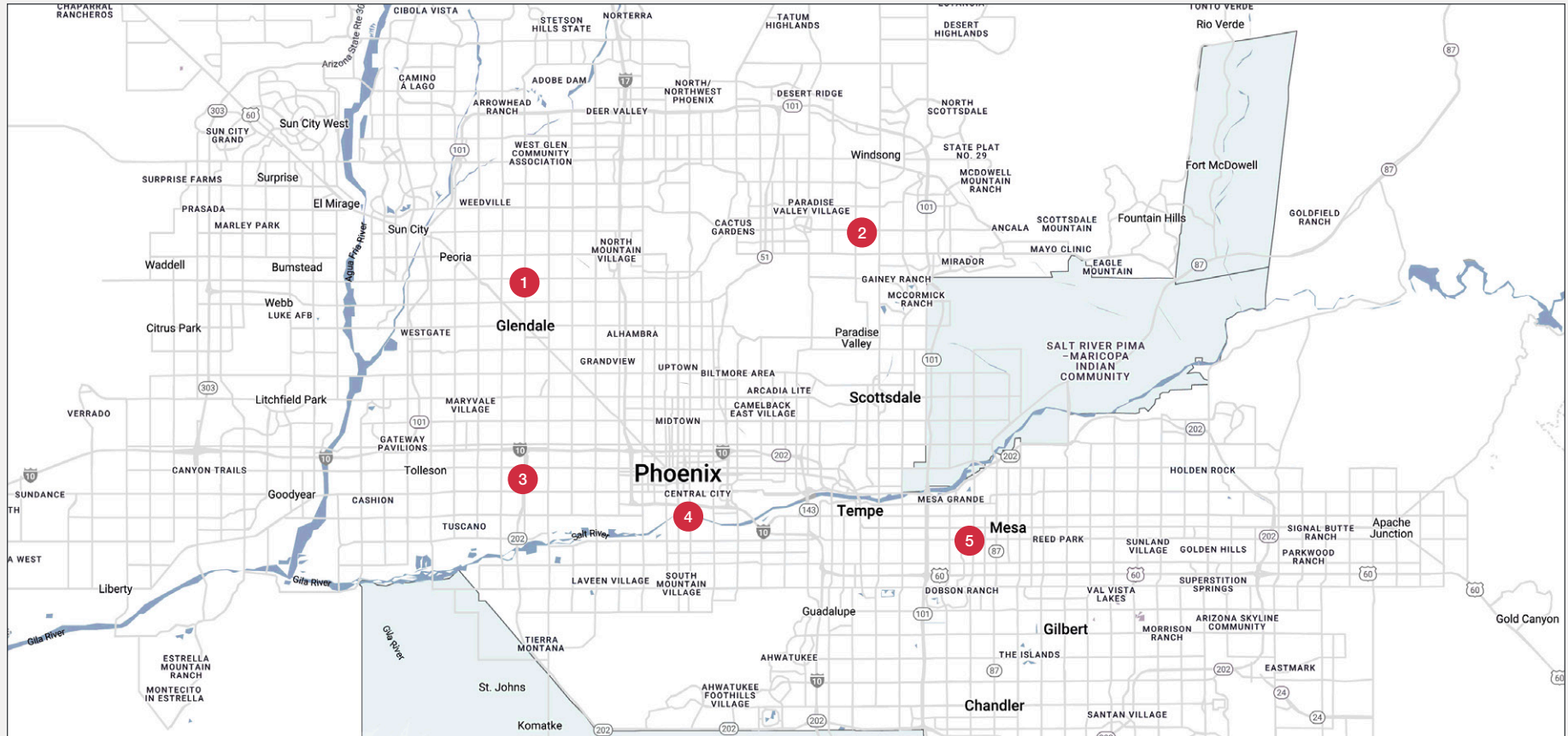
Industrial Submarkets

Submarket Snapshot

	RBA	Vacant SF	Vacant %	Net Absorption	Deliveries	Under Construction	Avg NNN Rate	Yearly NNN Rate
Sky Harbor	50,483,735 ▲	2,405,277 ▼	4.8% ▼	273,084 ▲	106,220 ▲	130,300 ▲	\$1.10 ▼	\$13.23 ▼
Northeast Valley	11,792,170 -	372,907 ▲	3.2% ▲	(20,496) ▼	- ▼	287,787 -	\$1.40 ▲	\$16.77 ▲
Northwest Valley	113,173,116 ▲	19,572,070 ▲	17.3% ▲	1,114,665 ▼	5,321,208 ▲	10,355,480 ▼	\$0.93 ▲	\$11.17 ▲
Southeast Valley	135,777,805 ▲	19,018,503 ▲	14.0% ▲	731,920 ▼	1,424,378 ▼	6,423,185 ▼	\$1.19 ▼	\$14.32 ▼
Southwest Valley	147,284,932 ▲	18,247,768 ▲	12.4% ▲	(747,909) ▼	1,706,210 ▼	3,952,168 ▼	\$0.85 ▲	\$10.21 ▲
All Submarkets	458,511,758 ▲	59,616,525 ▲	13.0% ▲	1,351,264 ▼	8,558,016 ▲	21,148,920 ▼	\$1.01 ▲	\$12.16 ▲
2024 Q3	449,953,742 ▲	52,409,773 ▲	11.6% ▲	3,424,495 ▼	7,800,518 ▼	28,775,927 ▼	\$0.99 ▼	\$11.88 ▼
2024 Q2	442,165,144 ▲	48,045,670 ▲	10.9% ▲	5,426,791 ▲	11,247,101 ▲	33,537,911 ▼	\$1.07 ▼	\$12.80 ▲
2024 Q1	430,985,543 ▲	42,292,860 ▲	9.8% ▲	3,494,473 ▼	9,933,936 ▼	40,237,755 ▼	\$1.08 ▲	\$12.98 ▲
2023 Q4	421,132,178 ▲	35,933,968 ▲	8.5% ▲	1,078,904 ▲	9,985,776 ▼	44,216,183 ▼	\$1.01 ▲	\$12.12 ▲
2023 Q3	411,146,402 ▲	27,027,096 ▲	6.6% ▲	4,554,389 ▲	13650942 ▲	48,014,201 ▼	\$0.99 ▲	\$11.93 ▲
Flex Total Valley	33,246,777 ▼	2,454,284 ▼	7.4% ▼	163,880 ▲	- -	484,442 ▲	\$139.67 ▲	\$1,676.00 ▲

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Industrial Submarkets



1 Northwest Valley

Deer Valley/Pinnacle Peak, Glendale, Grand Avenue, N Glendale/Sun City, North Black Canyon, W Phx N of Thomas Rd, W Phx S of Thomas Rd

2 Northeast Valley

Central Phoenix, Scottsdale Airport, Scottsdale/Salt River

3 Southwest Valley

Goodyear, SW N of Buckeye Rd, SW S of Buckeye Rd, Tolleson

4 Sky Harbor

North Airport, S Airport N of Roeser, S Airport S of Roeser, SC N of Salt River, SC S of Salt River

5 Southeast Valley

Chandler Airport, Chandler, Chandler N/Gilbert, Falcon Field/Apache Junction, Mesa, Tempe E, Tempe NW, Tempe SW

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Phoenix

Industrial & Land Specialists



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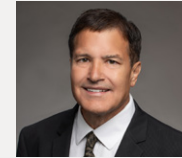
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NAI Horizon knows commercial real estate. With over 30 years in the Valley, NAI Horizon's extensive market insight allows us to match client needs with the right solutions. NAI Global member firms span the U.S. and 64 other countries, with more than 325 offices and more than 5,800 local market experts on the ground. Supported by the central resources of the NAI Global organization, member firms deliver market-leading services locally, and combine their in-market strengths to form a powerful bond of insights and execution for clients with multi-market interests.

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