

## MARKET TRENDS

# PHOENIX INDUSTRIAL

### MARKET DRIVERS

**AFTER A RECORD LEVEL 14M SF** of new deliveries came online in 3Q, another overwhelming 8.9M SF of space was delivered in 4Q. With the constant wave of new supply in the past few years, the Phoenix industrial market has added approximately 20% to the existing inventory since 2020, making it one of the most aggressive construction pipelines in the country.

**WITH THE RECORD LEVEL VOLUME** of new deliveries in the last two quarters, vacancy and availability rates have increased 67% YOY and 27% YOY respectively. The market may experience a temporary shift in conditions, as demand has shown some signs of moderating especially in the mega warehouse spaces in larger properties.

**ALTHOUGH DEALS ARE STILL BEING MADE** throughout The Valley, the impact of higher interest rates and stricter lending standards are starting to reshape investor strategies. There is strong demand from investors in newly constructed vacant properties that have lease-up opportunities, as well as demand for value-add deals for leased buildings where rents can be increased for higher returns.

### ECONOMIC REVIEW

**ACCORDING TO THE ARIZONA OFFICE OF ECONOMIC OPPORTUNITY**, Phoenix metro's unemployment rate in November increased 40 basis points YOY to 3.5% but decreased 40 basis points month-over-month from 3.9% in October. This is compared to the state's unadjusted rate of 4.0%.

**THE NUMBER OF COMPANIES MOVING** to metro Phoenix is noteworthy, but the diversity of industries has helped sustain the region's long-term stability. The businesses that Phoenix is attracting have evolved, and the market has emerged as a hub for advanced manufacturing, aerospace, logistics, and technology.

continued on page 3

## Market Summary

	4Q23	3Q23	4Q22	Annual Change
Vacancy Rate	8.2%	6.8%	4.9%	<b>67.35%</b>
Availability Rate	14.3%	13.4%	11.3%	<b>26.55%</b>
Asking Lease Rate	\$1.06	\$1.04	\$0.94	<b>12.77%</b>
Leasing Transactions	5,749,241	6,038,043	7,901,366	<b>-27.24%</b>
Sale Transactions	3,851,538	4,793,677	3,143,211	<b>22.54%</b>
Direct Net Absorption	2,935,366	5,478,942	6,911,702	<b>N/A</b>

↓ **5.7M SF**  
LEASING ACTIVITY

↑ **2.9M SF**  
NET ABSORPTION

↑ **8.2%**  
VACANCY RATE

↑ **\$1.06**  
ASKING RENT (AVG)

↓ **8.86M SF**  
NEW DELIVERIES

Year-Over-Year Trend

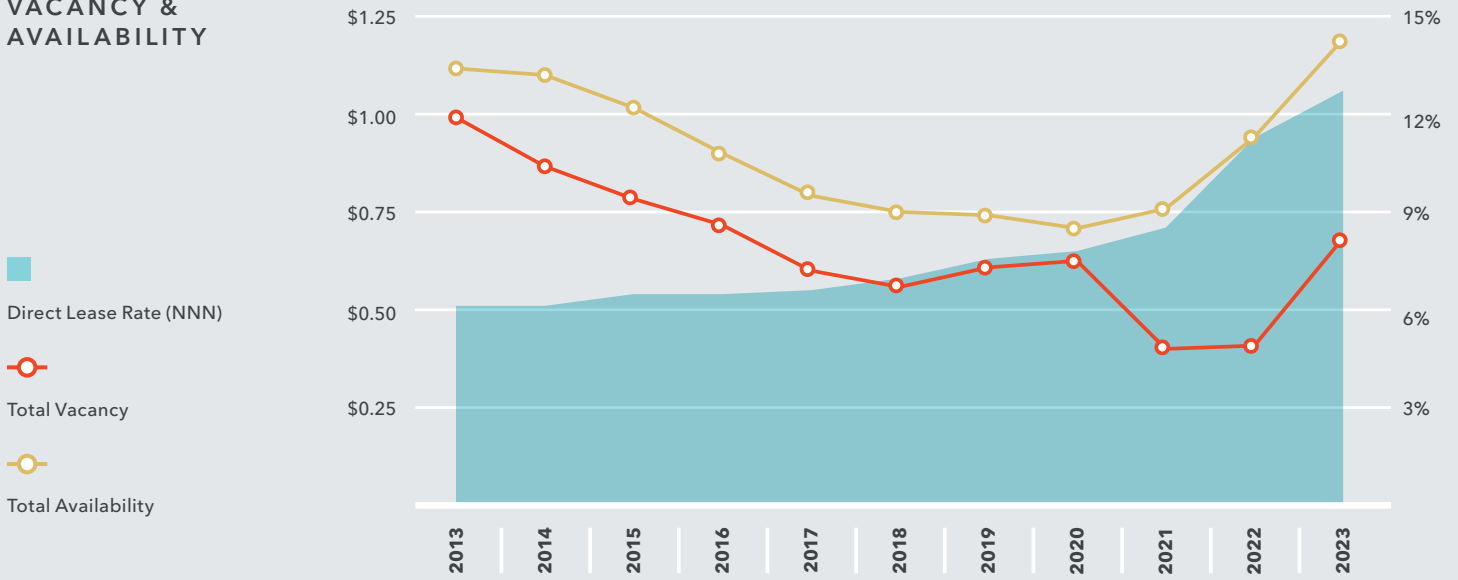
## Market Highlights

**NEW DELIVERIES** skyrocketed to a record level 29.8M SF in 2023.

**RENTAL RATES** climbed to a new high of \$1.06 PSF NNN.

**SALES VOLUME** increased YOY to 3.8M SF.

## LEASE RATE, VACANCY & AVAILABILITY

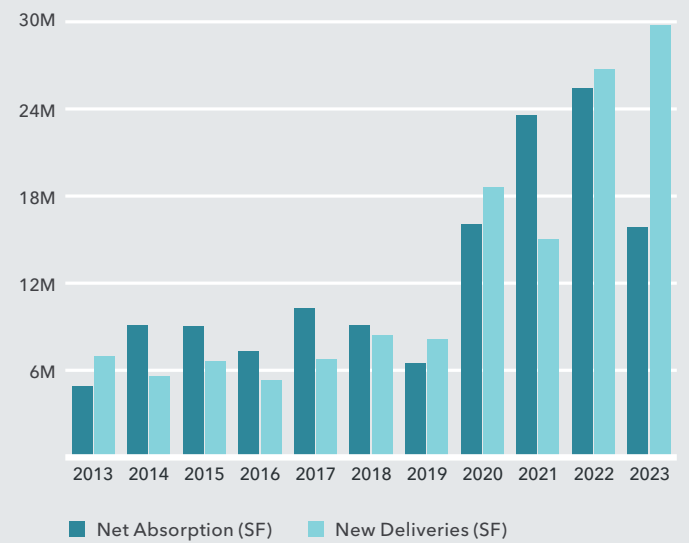


## BIGGEST SALE OF THE QUARTER

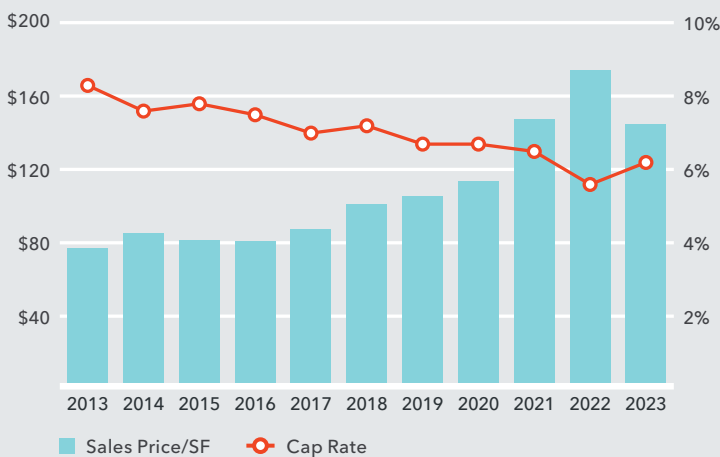
*Gateway University  
Park II Portfolio, Tempe*



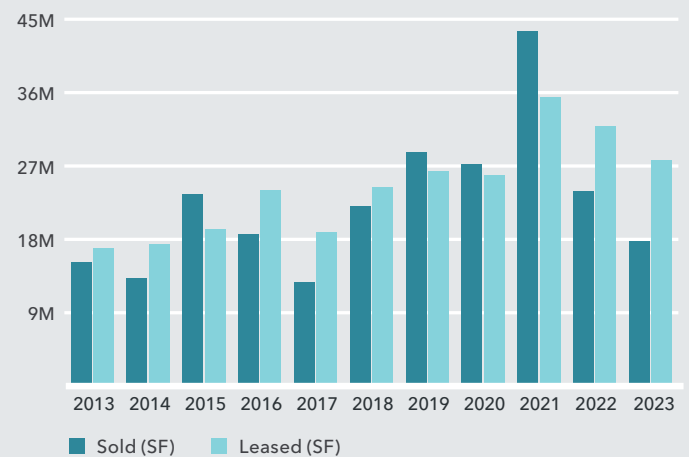
## NET ABSORPTION & NEW DELIVERIES



## AVERAGE SALES PRICE/SF & CAP RATE



## SALE VOLUME & LEASING ACTIVITY



## SUBMARKET STATISTICS

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	4Q Direct Net Absorption	2023 Direct Net Absorption	SF Under Construction	2023 Construction Completions	4Q Total Leasing Activity	2023 Total Leasing Activity	Average Direct Rental Rate (NNN)
North Airport	13,516,186	3.0%	4.2%	31,482	543,056	0	507860	25,721	330,555	\$1.23
South Airport North of Roeser	15,351,479	3.4%	4.6%	(24,522)	113,311	-	196953	208,279	1,066,827	\$1.28
South Airport South of Roeser	4,405,463	2.2%	2.2%	(1,172)	95,411	24800	0	120,794	286,352	\$1.19
SC North of Salt River	14,860,093	4.7%	6.3%	(184,657)	(232,605)	301,063	0	37,577	584,301	\$1.20
SC South of Salt River	2,349,757	2.4%	3.6%	-	(44,314)	0	0	0	-	\$0.99
<b>Airport Area</b>	<b>50,482,978</b>	<b>3.5%</b>	<b>4.7%</b>	<b>(178,869)</b>	<b>474,859</b>	<b>325,863</b>	<b>704,813</b>	<b>392,371</b>	<b>2,268,035</b>	<b>\$1.24</b>
Central Phoenix	3,370,412	2.6%	2.6%	4,489	21,520	10,000	0	8,332	96,563	\$1.25
Scottsdale Airpark	6,504,856	3.3%	3.5%	97,130	9,467	0	0	47,233	227,050	\$1.44
Scottsdale/Salt River	5,518,693	2.7%	2.8%	(29,576)	36,491	0	160,019	101,994	261,226	\$1.53
<b>Northeast</b>	<b>15,393,961</b>	<b>2.9%</b>	<b>3.0%</b>	<b>72,043</b>	<b>67,478</b>	<b>10000</b>	<b>160019</b>	<b>157,559</b>	<b>584,839</b>	<b>\$1.44</b>
Deer Valley/Pinnacle Park	18,486,953	4.4%	5.0%	130,394	523,276	2,935,330	397,819	221,605	1,795,164	\$1.39
Glendale	41,246,671	19.4%	20.3%	627,219	6,144,002	12,769,765	8,617,275	1,627,637	5,576,245	\$0.60
Grand Avenue	12,974,754	2.7%	3.0%	(43,342)	70,103	432,910	232,554	87,180	270,662	\$0.75
North Black Canyon	4,402,530	8.1%	9.7%	(245,935)	(20,553)	0	0	10,709	127,139	\$1.08
Surprise	4,607,175	11.3%	11.3%	89,655	98,900	2,249,626	546,929	23,815	786,848	\$0.60
West Phoenix North of Thomas Road	7,221,582	4.4%	4.4%	51,106	96,361	0	109,600	86,838	282,216	\$0.96
West Phoenix South of Thomas Road	6,565,534	5.1%	5.1%	(61,041)	(225,619)	0	0	31,526	119,893	\$0.97
<b>Northwest</b>	<b>95,505,199</b>	<b>11.2%</b>	<b>11.8%</b>	<b>548,056</b>	<b>6,686,470</b>	<b>18,387,631</b>	<b>9,904,177</b>	<b>2,089,310</b>	<b>8,958,167</b>	<b>\$0.78</b>
<b>Pinal County</b>	<b>10,678,780</b>	<b>1.7%</b>	<b>1.7%</b>	<b>(49,188)</b>	<b>281,391</b>	<b>2,299,688</b>	<b>407,100</b>	<b>7,529</b>	<b>1,255,789</b>	<b>\$0.74</b>
Chandler Airport	7,757,164	3.7%	5.1%	185,609	757,785	1,056,047	170,117	45,958	563,444	\$1.38
Chandler	23,300,142	6.5%	6.6%	103,898	(78,558)	1,501,869	510,832	308,853	1,195,294	\$1.18
Chandler North/Gilbert	34,968,941	13.7%	13.7%	2,072,564	4,196,480	11,479,907	7,438,008	912,368	3,874,764	\$1.35
Falcon Fld/Apache Junction	5,479,987	0.7%	1.4%	(10,637)	57,428	244,286	0	31,002	183,838	\$1.36
Mesa	6,531,063	4.1%	4.1%	(17,345)	(69,689)	0	0	18,424	560,485	\$1.11
Tempe East	6,092,189	4.1%	4.1%	(122,315)	(161,984)	0	0	17,606	320,383	\$1.24
Tempe Northwest	10,412,315	5.9%	6.5%	74,452	(374,290)	0	0	79,574	445,066	\$1.28
Tempe Southwest	21,489,295	5.2%	6.1%	(212,035)	(308,949)	356,904	197,000	135,500	1,406,939	\$1.21
<b>Southeast</b>	<b>116,031,096</b>	<b>7.6%</b>	<b>8.0%</b>	<b>2,074,191</b>	<b>4,018,223</b>	<b>14,639,013</b>	<b>8,315,957</b>	<b>1,549,285</b>	<b>8,550,213</b>	<b>\$1.26</b>
Goodyear	31,327,923	16.3%	18.1%	(30,452)	1,270,586	8,637,414	5,063,837	266,006	1,063,873	\$0.96
Southwest North of Buckeye Road	36,596,858	9.0%	9.9%	(369,264)	242,899	0	2,883,523	641,178	1,663,467	\$1.09
Southwest South of Buckeye Road	20,259,279	2.8%	3.0%	643,569	802,278	253,460	876,231	396,871	1,632,441	\$0.85
Tolleson	48,839,028	2.7%	2.8%	225,280	1,962,397	408,980	1,442,109	249,132	1,720,085	\$1.38
<b>Southwest</b>	<b>137,023,088</b>	<b>7.5%</b>	<b>8.2%</b>	<b>469,133</b>	<b>4,278,160</b>	<b>9,299,854</b>	<b>10,265,700</b>	<b>1,553,187</b>	<b>6,079,866</b>	<b>\$0.95</b>
<b>Phoenix Total</b>	<b>425,115,102</b>	<b>7.6%</b>	<b>8.2%</b>	<b>2,935,366</b>	<b>15,806,581</b>	<b>44,962,049</b>	<b>29,757,766</b>	<b>5,749,241</b>	<b>27,696,909</b>	<b>\$1.06</b>
Manufacturing & Warehouse	227,557,600	3.5%	4.2%	(70,764)	2,394,781	37,616,371	21,277,260	1,810,493	10,119,961	\$1.04
General Industrial	132,447,269	6.4%	7.0%	623,022	6,134,934	7,345,678	8,480,506	2,263,939	8,654,864	\$0.77
Flex	31,980,713	6.8%	7.6%	(42,590)	(129,570)	0	0	257,040	1,548,918	\$1.32

## NEAR-TERM OUTLOOK

**AFTER THE SURGE IN ACTIVITY** experienced in recent years following the onset of the pandemic, the Phoenix Industrial market is beginning to shift towards a more normalized trajectory. Demand is expected to level out and vacancy availability rates will continue to hike up due to the sheer volume of new projects being delivered in the coming year.

**ALTHOUGH HIGHER INTEREST RATES** coupled with a potential economic cooldown are forecast to weigh on demand in the new year, the strong, structural underlying demand drivers in Phoenix are anticipated to help the industrial market stay at the top of the industrial ranks among the nation.

TOP SALE TRANSACTIONS 4Q 2023

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
Gateway University Park II	Tempe Northwest	256,655	\$48,300,000	\$188.19	BKM Capital Partners	Stockbridge Capital Grp, LLC
23005-23025 N 15th Ave	Deer Valley/Pinnacle Pk	110,679	\$22,400,000	\$202.39	Albany Rd Real Estate Partners	Baron Properties
5858 W Lower Buckeye Rd	SW S of Buckeye Rd	248,750	\$20,457,371	\$82.24	CapRock Partners	Sun State Builders
7405 E Monte Cristo Ave	Scottsdale Airpark	64,560	\$15,225,000	\$235.83	Surgenex	Nobility Management, LLC
VT 202-NEC S 59th Ave & W Watkins St	SW S of Buckeye Rd	76,407	\$14,258,296	\$186.61	Harrison Condos	VanTrust Real Estate, LLC

TOP LEASE TRANSACTIONS 4Q 2023

Property	Submarket	SF	Transaction Date	Landlord	Tenant
7421 Reems Rd - The Cubes at Glendale	Glendale	570,080	October 2023	Fundrise	Saddle Creek Logistics
SEC Elliot & Ellsworth Rd	Chandler N/Gilbert	480,000	November 2023	Meta Platforms, Inc.	Facebook
5201 N Cotton Ln - C 303	Glendale	420,536	October 2023	Merit Partners	Parts Town
Falcon Park - Phase II	Glendale	326,018	October 2023	Cohen Asset Management	Sunmed
107 S 41st Ave	SW N of Buckeye Rd	220,162	December 2023	Link Logistics Real Estate	Wholesale Tire & Wheel Distributors, LLC

TOP UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery
C 303 - Phase I	NWC Loop 202 & Camelback Rd	Glendale	1,755,043	First Industrial Realty Trust, Inc.	1Q 2024
Prologis 303 Business Park	SWC Cotton Ln & Camelbac Rd - Phase II	Glendale	1,627,280	Prologis, Inc.	3Q 2024
Goodyear Airpark	14900-15150 W Broadway Rd	Goodyear	1,626,573	Harvard Investments	3Q 2024
23499 W Southern Ave	23499 W Southern Ave	Goodyear	1,600,000	Ross Stores	2Q 2024
Paloma Vista Logistics Center - Phase I	NWC I-10 & Perryville Rd	Goodyear	1,479,698	US Capital Development	1Q 2024

Data Source: CoStar, AZ Office of Economic Opportunity, AZ Central, AZ Big Media



Kidder Mathews is the largest, independent commercial real estate firm on the West Coast, with 900 real estate professionals and staff in 20 offices in Washington, Oregon, California, Nevada, and Arizona. We offer a complete range of brokerage, appraisal, asset services, consulting, project and construction management, and debt equity finance services for all property types.

The information in this report was composed by the Kidder Mathews Research Group.

**GARY BARAGONA**  
 Director of Research  
 415.229.8925  
 gary.baragona@kidder.com

**ERIC PAULSEN**  
 Regional President, Brokerage  
 Southern California & Arizona  
 602.513.5200  
 eric.paulsen@kidder.com  
 LIC N° 01001040

<b>COMMERCIAL BROKERAGE</b>	<i>\$12B</i> TRANSACTION VOLUME ANNUALLY	<i>32.1M</i> ANNUAL SALES SF	<i>41.2M</i> ANNUAL LEASING SF
<b>ASSET SERVICES</b>	<i>53M</i> MANAGEMENT PORTFOLIO SF	<i>771+</i> ASSETS UNDER MANAGEMENT	<i>250+</i> ASSET SERVICES CLIENTS
<b>VALUATION ADVISORY</b>	<i>2,800+</i> ASSIGNMENTS ANNUALLY	<i>42</i> TOTAL APPRAISERS	<i>23</i> WITH MAI DESIGNATIONS

This information supplied herein is from sources we deem reliable. It is provided without any representation, warranty or guarantee, expressed or implied as to its accuracy. Prospective Buyer or Tenant should conduct an independent investigation and verification of all matters deemed to be material, including, but not limited to, statements of income and expenses. Consult your attorney, accountant, or other professional advisor.