

FIGURES | PHOENIX INDUSTRIAL MARKET | Q3 2024

# Phoenix Construction Starts Outpaced by Deliveries in the Third Quarter of 2024

▲ 11.2%

Vacancy Rate

▼ 2.6 M

SF Net Absorption

▼ 18.5 M

SF Construction

▼ \$0.99

NNN / Asking Lease Rate

Note: Arrows indicate change from previous quarter.

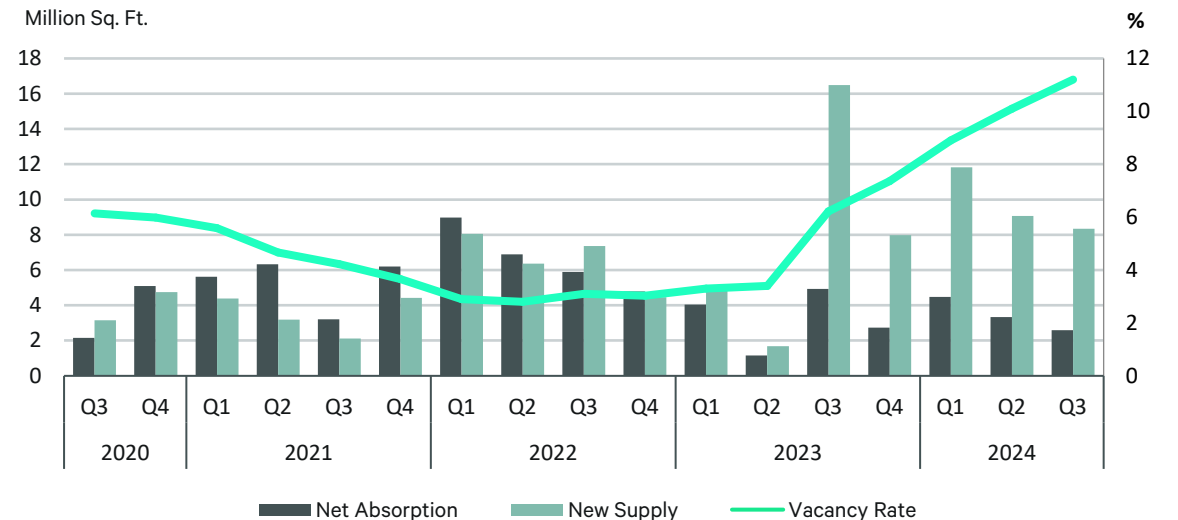
## KEY TAKEAWAYS

- Forty-three buildings were delivered for a total of 8.3 million sq. ft. in Q3 2024, with 29.8% preleased or built to suit.
- Net absorption reached 2.6 million sq. ft. in Q3 2024 as Ross Stores moved into their 1.7 million sq. ft. space in the Southwest Valley.
- Construction volume decreased in Q3 2024 with 18.5 million sq. ft. under construction, as the 8.3 million sq. ft. of product delivered heavily outpaced the 1.6 million sq. ft. started.
- Quarter-over-quarter, the vacancy rate increased 110 basis points (bps) to 11.2%.

The Phoenix industrial market registered 2.6 million sq. ft. of net absorption in the third quarter. The metro recorded a total of 8.2 million sq. ft. of gross absorption, as large-scale tenant move in's and renewals were signed across the market. Manufacturing and Transportation users were the most active during the quarter. Vacancy in the market increased to 11.2% primarily due to the influx of 5.8 million sq. ft. of newly constructed space.

CBRE tracked 43.2 million sq. ft. of tenants in the market at the end of the third quarter.

FIGURE 1: Supply and Demand



Source: CBRE Research, Q3 2024.

## Availability and Vacancy

In Q3 2024 the vacancy rate increased 110 basis points (bps) to 11.2%. The moderate increase in vacancy can be partially attributed by the 5.8 million sq. ft. of vacant space delivered outpacing 2.6 million sq. ft. of net absorption. The Southeast Valley had the most notable rise in vacancy, which jumped 210 bps from the previous quarter to 17.2%. The key reason for the increase was the 3.1 million sq. ft. of vacant new supply that entered the submarket in the quarter. The Southwest Valley showed a 15.4% vacancy rate, up 130 bps from the prior quarter, as 47.2% of space was leased upon delivery. Vacancy in the Southeast Valley submarket, excluding the Phoenix-Mesa-Gateway district, stood at 5.4%, while in the Southwest Valley submarket, excluding the North Goodyear district, was 9.2%.

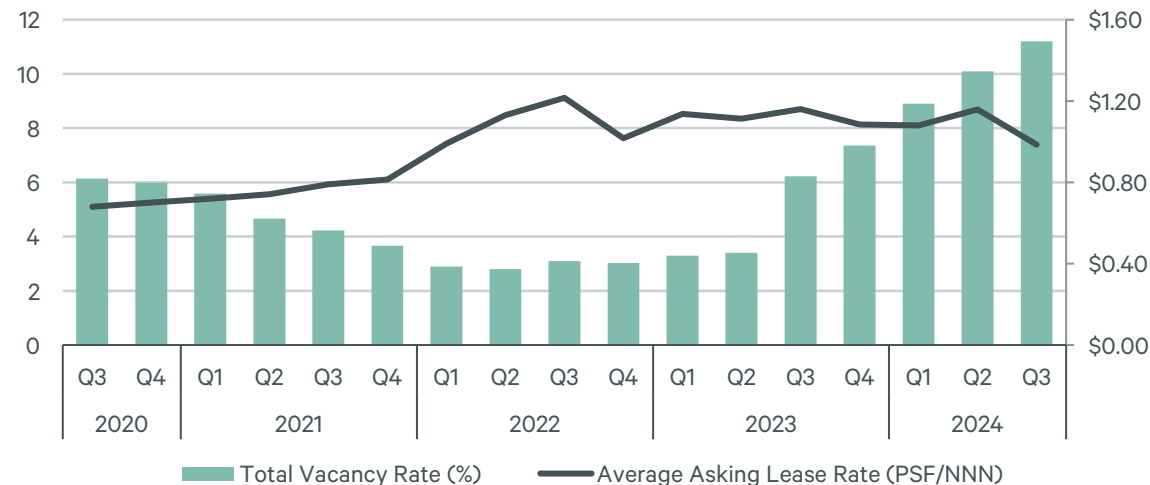
More infill submarkets such as the Airport Area recorded a lower than market average vacancy rate of 3.9%. Vacancy in the submarket remained unchanged in the quarter as tenants moving into space within the quarter nearly matched the amount of space vacated. The Northwest Valley vacancy also remained nearly the same from the prior quarter, increasing 10 bps quarter-over-quarter to 6.4%. Of note, infill districts recorded lower vacancy than submarket averages, such as the Gilbert district in Southeast Valley which had a 1.6% vacancy rate and the Tolleson district in the Southwest Valley, which recorded 2.4% vacancy.

## Lease Rates

The market direct average asking NNN lease rate was \$0.99 per sq. ft. in Q3 2024. Rates in the Southwest Valley were \$0.79 per sq. ft, however remained the most cost advantageous option for large blocks of space for distribution purposes. Average asking lease rates were \$1.00 NNN per sq. ft. in the Southeast Valley. Lastly, average asking lease rates in the Airport Area landed at \$1.17 per sq. ft. The quarter-over-quarter decline in asking rents is largely attributed to recent large deliveries marketing big block availabilities that are skewing the weighted average.

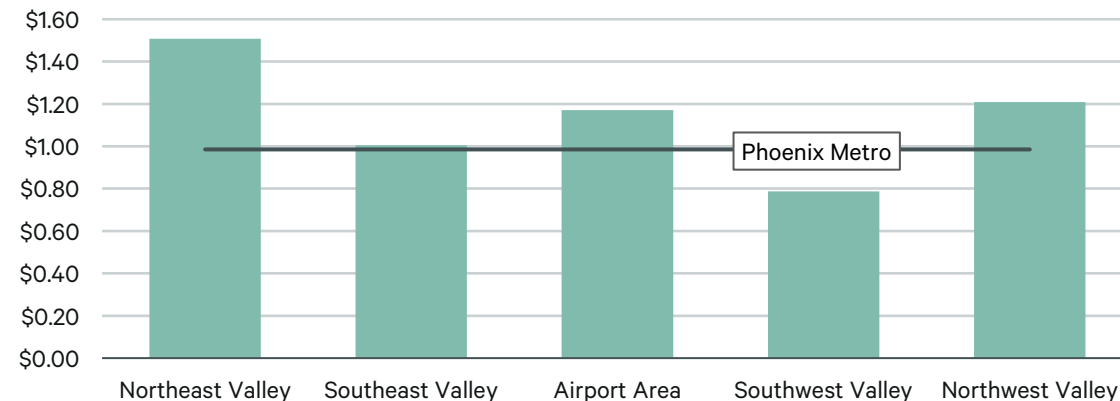
Distribution space was the most inexpensive product type on the market in Q3 2024 with an average asking rate of \$0.86 per sq. ft. NNN. Asking rates for freestanding buildings and multi-tenant were \$1.30 and \$1.36 NNN per sq. ft. respectively.

FIGURE 2: Overall Vacancy Rate and Lease Rate



Source: CBRE Research, Q3 2024.

FIGURE 3: Direct Asking Lease Rates by Submarket (\$PSF/NNN)



Source: CBRE Research, Q3 2024.

## Net Absorption and Leasing Activity

Net absorption remained strong as roughly 2.6 million sq. ft. of space was taken off the market in the third quarter, reaching 10.4 million sq. ft. of vacant space absorbed so far in 2024. The Southwest Valley contributed nearly 75.7% of absorption this quarter with 2.2 million sq. ft, followed behind the Southeast Valley contributing 444,059 sq. ft. The Airport Area submarket experienced a 59,534 sq. ft. increase in net absorption from the previous quarter. The largest move in of the quarter occurred in the Southwest Valley as Ross Store’s 1.7 million sq. ft. distribution space in Buckeye completed construction. The largest move out of the quarter had been Home Depot, who had vacated their 1.3 million sq. ft. space in the South Goodyear district, placing the space on the market for sublease.

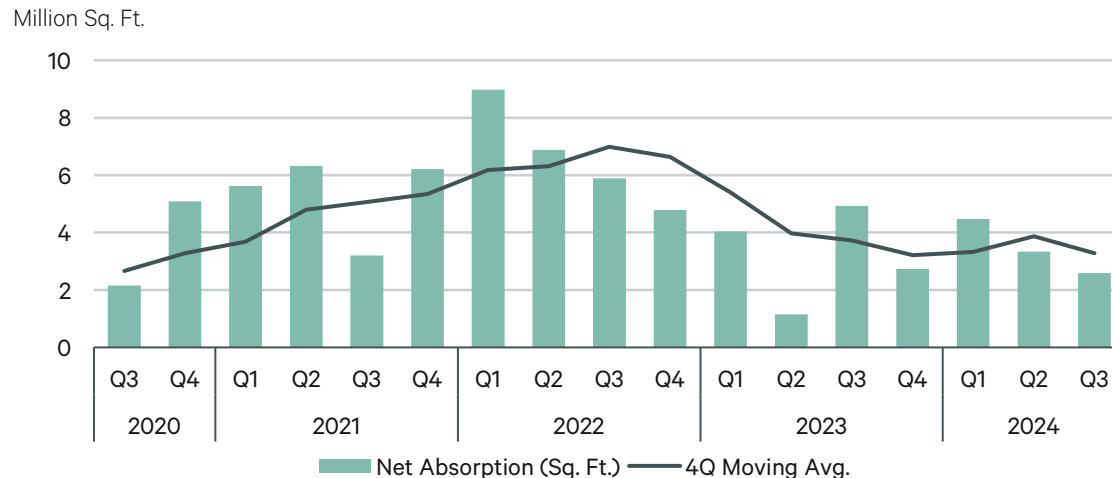
Moderate leasing activity was sustained within the third quarter. Gross activity ended with 8.2 million sq. ft. of gross absorption recorded. 10 leases over 100,000 sq. ft. were signed in the quarter, all located in the Southwest Valley. Additionally, leases that had the largest impact on net absorption were GTI Fabrication who signed 531,583 sq. ft. of space at Lakin Park 1B and Proactive Supply Group who leased 337,897 sq. ft. at Interstate Logistics Center. During the third quarter, 600,558 sq. ft. of space was renewed across the Phoenix industrial market.

### Top Transactions

Leasing activity in the third quarter continued to be robust in 2024. Q3 2024 experienced 8.2 million sq. ft. of gross activity with two of the top five leases signed in the Tolleson district:

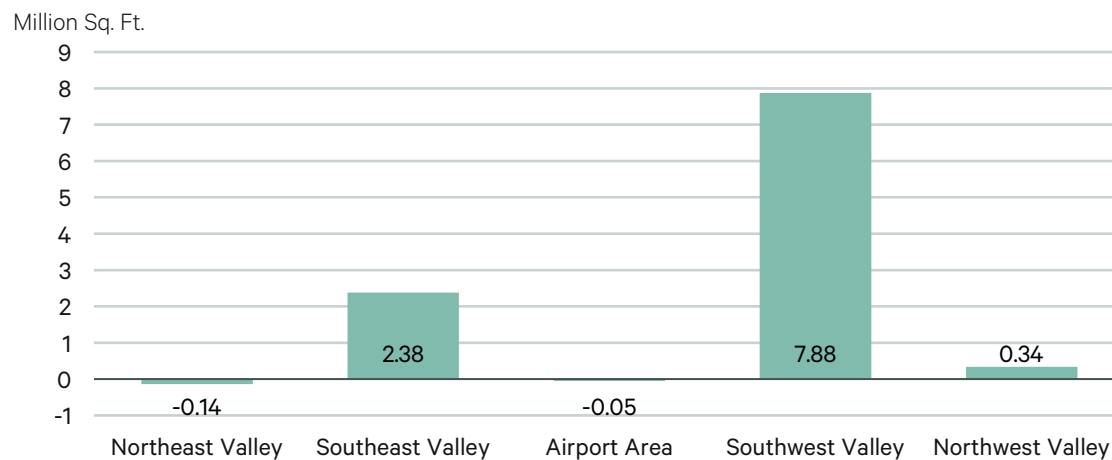
- GTI Fabrication | 531,583 sq. ft. | South Goodyear
- Proactive Supply Group | 337,897 sq. ft. | Tolleson
- Custom Mechanical Systems | 203,801 sq. ft. | North Goodyear
- Iron Mountain | 161,515 sq. ft. | Tolleson
- MEI Rigging & Crating | 160,000 sq. ft. | North Goodyear

FIGURE 4: Net Absorption



Source: CBRE Research, Q3 2024.

FIGURE 5: Net Absorption by Submarket YTD



Source: CBRE Research, Q3 2024.

## Development Activity

The ongoing trend of deliveries outpacing construction starts persisted in the third quarter of 2024, as product under construction decreased to 18.5 million sq. ft. As a majority of the product delivered was balanced between the Southwest and Southeast Valley, the amount under construction in the submarkets ended at 12.8 million sq. ft. and 4.2 million sq. ft. respectively. The North Goodyear district had the most development activity with 7.5 million sq. ft. of construction. Speculative distribution buildings comprised a majority of product under construction with 14.1 million sq. ft.

Roughly 24.1% of the product under construction was released at the end of Q3 2024. The Southeast Valley ended the quarter at 48.1% preleased while the Southwest Valley remained 18.0% preleased. The preleasing percentage in the Phoenix industrial market decreased due to deliveries of several large built-to-suits such as Ross Store and Rehrig.

### 8.3 Million Sq. Ft. Delivered this Quarter

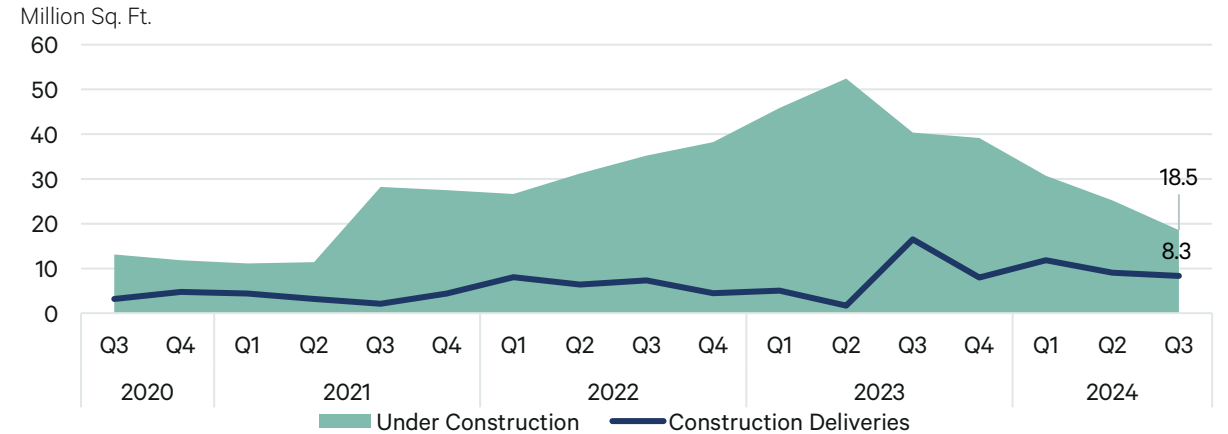
Forty-three buildings amounting to 8.3 million sq. ft. were completed, of which 29.8% were leased by the end of the quarter. Nearly 97.4% of space delivered in Q3 2024 was distribution. The Southwest Valley delivered 13 buildings which totaled 5.2 million sq. ft. and the Southeast Valley delivered 29 buildings, or 3.1 million sq. ft. The top three largest projects delivered were in the Southwest Valley:

- Ross Stores BTS | 1,720,000 sq. ft. | Buckeye
- Virgin Industrial Park | 1,019,840 sq. ft. | North Goodyear
- West Summit at Surprise | 704,472 sq. ft. | North Goodyear

### 1.6 Million Sq. Ft. Broke Ground this Quarter

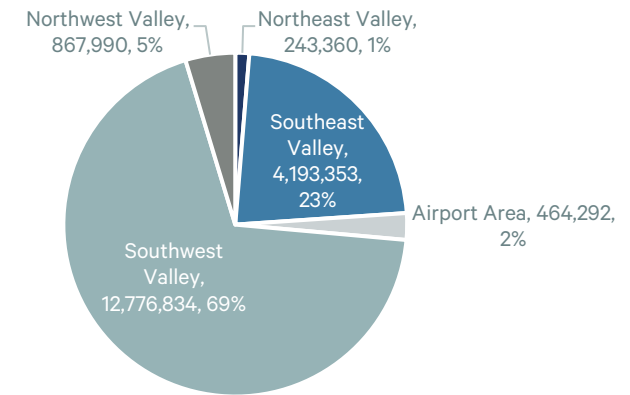
In the third quarter, construction commenced on 14 projects which encompassed 1.6 million sq. ft. Ground breakings were focused in the Southeast Valley and Airport Area. The largest project which broke ground was Schrader Farms Business Park, located in the Southeast Valley, with 432,098 sq. ft.

FIGURE 6: Under Construction and Construction Deliveries



Source: CBRE Research, Q3 2024.

FIGURE 7: Under Construction by Submarket



Source: CBRE Research, Q3 2024.

## Macro Economic Summary

Soft landings are rare, but recent data suggest that this outcome for the economy is increasingly likely. Business investment is holding its own and consumer distress is confined to a few vulnerable segments. Discretionary spending, such as travel, is generally on a par with last year although many signs indicate the post-pandemic spending boom is over. The key threat to consumption is a rollover in the labor market although the recent bump in unemployment appears benign, mainly driven by an increase in participation. A reason for concern is the decline in the share of private industries that are creating jobs. On the other hand, companies are not shedding workers at a particularly high rate. The labor market has slowed, but it is not slumping.

While many are focused on November’s election the most consequential policy lever has already been pulled via the FOMC’s 50 bps September cut and signaling another 50 by year-end. This easing of financial conditions combined with continued economic growth should support modest hiring and consumption that precedes tighter commercial space market fundamentals. This backdrop will breathe fresh wind into real estate transactions markets and coincides with other signals that cap rates have peaked and may be starting to fall in some sectors.



FIGURE 8: Market Statistics by Submarket

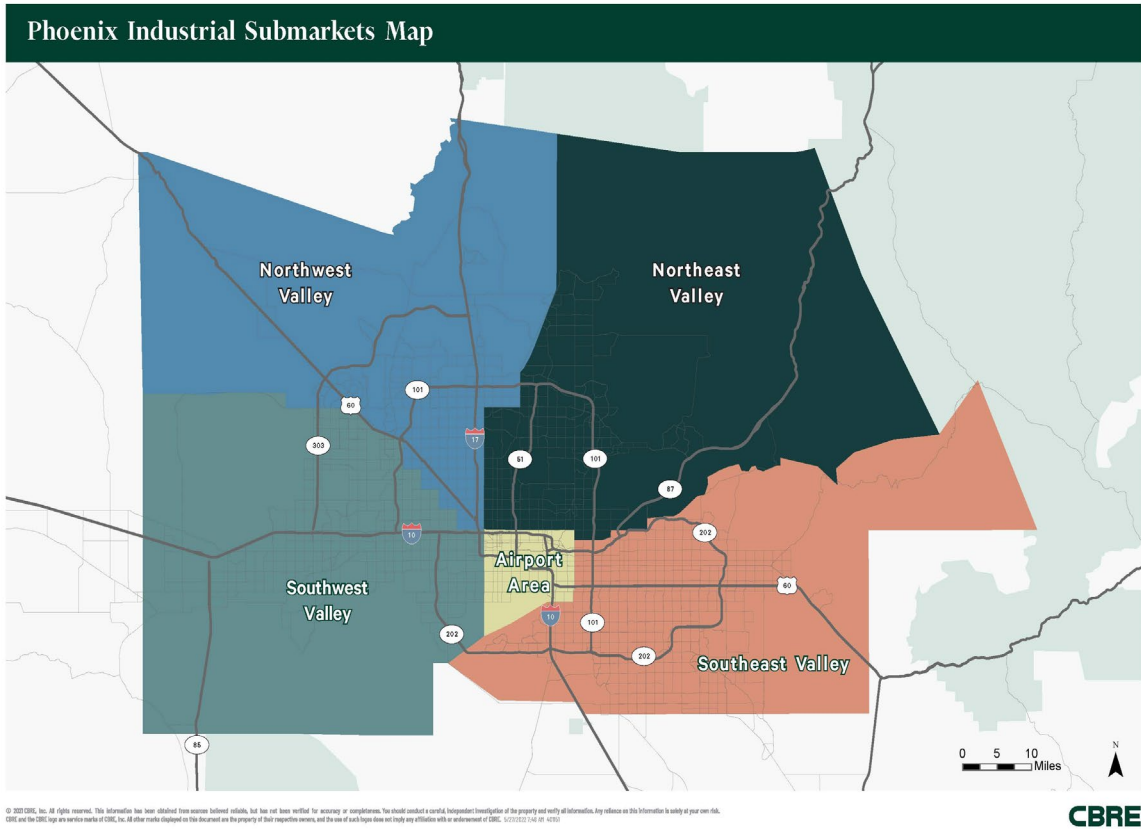
	Net Rentable Area (Sq. Ft.)	Availability (%)	Vacancy (%)	Net Absorption (Sq. Ft.)		Under Construction (Sq. Ft.)	Construction Deliveries (Sq. Ft.)	Avg Dir Asking Lease Rate (NNN)
				Q3 2024	2024 YTD			
Northeast Valley	13,764,848	4.5%	2.9%	-89,990	-138,052	243,360	0	\$1.51
Southeast Valley	104,081,746	17.2%	15.4%	444,059	2,378,833	4,193,353	3,100,907	\$1.00
Airport Area	75,615,569	5.1%	3.9%	991	-54,687	464,292	0	\$1.17
Southwest Valley	188,182,432	15.4%	13.8%	2,222,140	7,878,753	12,776,834	5,190,989	\$0.79
Northwest Valley	53,887,326	8.0%	6.4%	13,335	340,681	867,990	43,672	\$1.21
<b>Phoenix Total</b>	<b>435,531,921</b>	<b>12.8%</b>	<b>11.2%</b>	<b>2,590,535</b>	<b>10,405,528</b>	<b>18,545,829</b>	<b>8,335,568</b>	<b>\$0.99</b>

Source: CBRE Research, Q3 2024.

FIGURE 9: Market Statistics by Building Type

	Net Rentable Area (Sq. Ft.)	Availability (%)	Vacancy (%)	Net Absorption (Sq. Ft.)		Under Construction (Sq. Ft.)	Construction Deliveries (Sq. Ft.)	Avg Dir Asking Lease Rate (NNN)
				Q3 2024	2024 YTD			
Multi-Tenant	37,275,924	5.1%	3.9%	-97,895	-319,410	0	0	\$1.36
Distribution	214,905,056	20.1%	18.3%	2,663,991	9,059,370	12,238,838	8,120,436	\$0.86
Freestanding	55,773,476	2.9%	2.2%	-132,897	-162,947	0	0	\$1.30
General Industrial	79,033,275	7.6%	5.9%	93,800	493,260	2,647,757	215,132	\$1.09
Back Office	9,955,262	18.6%	14.2%	203,326	443,702	0	0	\$1.37
Major User	28,742,718	2.8%	2.0%	-139,790	680,457	3,659,234	0	\$1.16
Special Purpose	9,846,210	2.0%	0.7%	0	211,096	0	0	\$0.00
<b>Phoenix Total</b>	<b>435,531,921</b>	<b>12.8%</b>	<b>11.2%</b>	<b>2,590,535</b>	<b>10,405,528</b>	<b>18,545,829</b>	<b>8,335,568</b>	<b>\$0.99</b>

Source: CBRE Research, Q3 2024.



**Definitions**

Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant. Availability Rate: Total Available Sq. Ft. divided by the total net rentable area. Average Asking Lease Rate: A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage. Net Rentable Area: The total floor area sq. ft. of the building, typically taken at the “drip line” of the building. Gross Activity: All sale and lease transactions completed within a specified time period. Excludes investment sale transactions. Net Absorption: The change in Occupied Sq. Ft. from one period to the next. Net Lease Rate: Rent excludes one or more of the “net” costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate. Occupied Sq. Ft.: Building Area not considered vacant. Vacancy Rate: Total Vacant Sq. Ft. divided by the total Building Area. Vacant Sq. Ft.: Space that can be occupied within 30 days.

Multi-tenant: Small bays divisible by less than 5,000 sq. ft; generally, a business park or incubator space. Distribution: Dock high and loading doors. Freestanding: Single tenant building less than 50,000 sq. ft. General industrial: Minimum divisibility greater than 5,000 sq. ft. Back-office: 4/1000 parking minimum; minimum divisibility greater than 5,000 sq. ft. Major user: Single user greater than 150,000 sq. ft.; no dock high or back-office. Special purpose: unique industrial buildings.

**Survey Criteria**

Includes all industrial buildings 5,000 sq. ft. and greater in size in Phoenix Metro. Buildings which have begun construction as evidenced by site excavation or foundation work.

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