

FIGURES | PHOENIX INDUSTRIAL MARKET | Q1 2025

Phoenix Industrial Construction Slows as Market Gains Control over New Supply



Note: Arrows indicate change from previous quarter.

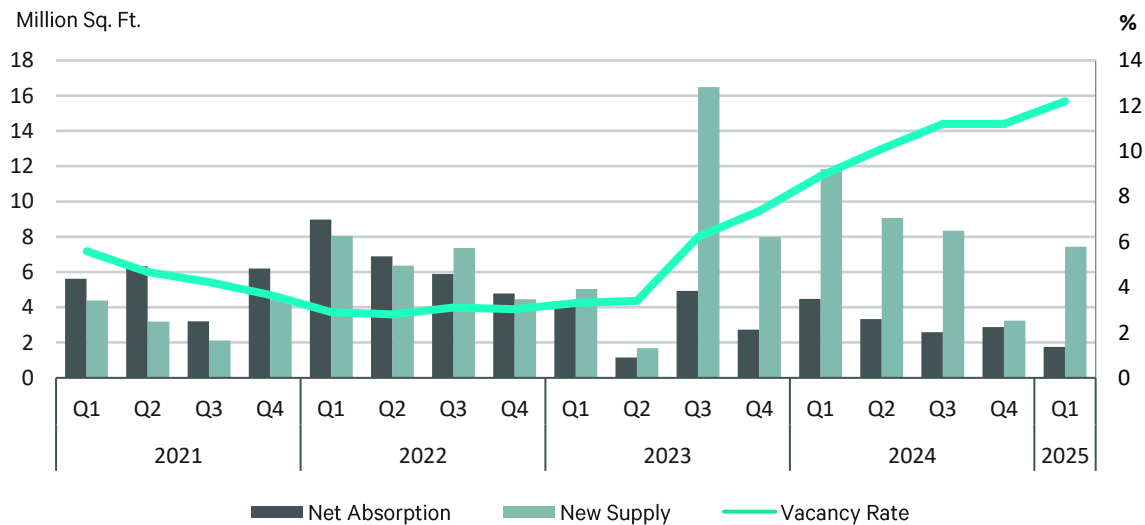
KEY TAKEAWAYS

- Net absorption was 1.8 million sq. ft. in Q1 2025, with distribution properties driving the market with around 2.1 million sq. ft. of net absorption.
- Twenty-seven buildings were delivered for a total of 7.4 million sq. ft. in Q1 2025, down 37.1% in sq. ft. from Q1 2024.
- Construction volume continued to cool in Q1 2025 with 11.1 million sq. ft. under construction, the lowest number we have seen since Q1 2021.
- Quarter-over-quarter, the vacancy rate raised 100 bps to 12.2%.

The Phoenix industrial market registered 1.8 million sq. ft. of net absorption in the first quarter. The metro recorded a total of 7.5 million sq. ft. of gross absorption, as 2.4 million sq. ft. in renewals were signed across the Valley and move-ins were dominant in Distribution type assets. Vacancy in the market increased to 12.2% as the 7.4 million sq. ft. of deliveries increased the vacant base in the market.

CBRE tracked an increase of tenant space requirements in the market to start 2025 to 38.8 million sq. ft., a 7.4% increase in demand from Q4 2024.

FIGURE 1: Supply and Demand



Source: CBRE Research, Q1 2025.

Availability and Vacancy

Phoenix Industrial vacancy was 12.2% in Q1 2025, a 100 bps increase quarter-over-quarter. The Southwest Valley, a hot spot for new construction, saw a 210 bps increase in vacancy from Q4 2024 despite posting almost 1 million sq. ft. of net absorption. That area saw 6.8 million sq. ft. of deliveries with the next closest submarket posting around 300,000 sq. ft. of deliveries.

The Northwest Valley saw a 40 bps decrease in vacancy as Deer Valley continues to draw attention caused by TSMC’s investment announcement to continue expanding their campus in North Phoenix. The Southeast Valley also saw a 10 bps decrease in vacancy showing strong signs of demand as LG nears the competition of their battery manufacturing facility in Queen Creek.

Phoenix has been a popular location for company relocation inquiries as Canada and Southeast Asia face the pressures of tariffs announced this year. This is a strong sign alongside with the cooling development pipeline that vacancy can start to decrease much sooner than expected. Several Build-to-Suits have been announced as well, showing promising signs for the market.

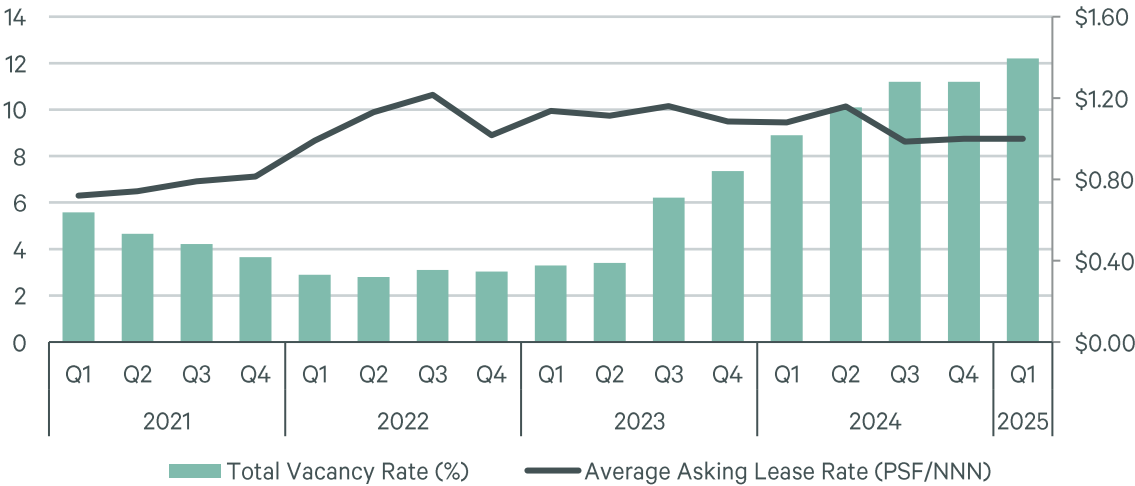
Despite seeing the greatest positive swing in Net Absorption, distribution properties saw an uptick in vacancy mainly driven by the 6.3 million sq. ft. of deliveries for assets of this type. Back office saw a 260 bps reduction in vacancy mainly due to heavy demand for flex space the market.

Lease Rates

The market direct average asking NNN lease rate stayed consistent at \$1.00 per sq. ft. in Q1 2025. Asking rates went back over \$1.00 NNN per sq. ft. in the Southeast Valley to \$1.01 NNN per sq. ft. The Airport Area, Northeast Valley, and Southwest Valley saw little to no change in asking rates as the Airport Area went down 1.7% to \$1.16 per sq. ft. , the Northeast Valley went down 0.6% to \$1.50 per sq. ft., and the Southwest Valley staying consistent at \$0.81 per sq. ft. There was a noticeable decrease in Northwest Valley rents as those are now \$1.08 per sq. ft., down 12% from Q4 2024.

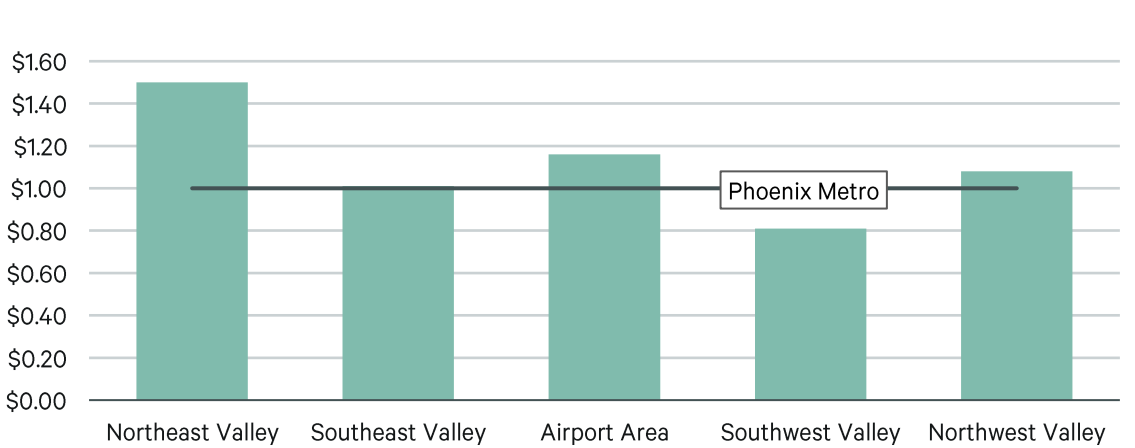
The change in rents goes hand in hand with the uptick of vacancy as most Phoenix’s vacancies are in buildings built within the last 5 years. New build rents in general have tended to trend higher than average, which may influence that drop in rents in the Northwest Valley to accommodate for more demand.

FIGURE 2: Overall Vacancy Rate and Lease Rate



Source: CBRE Research, Q1 2025.

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



Source: CBRE Research, Q1 2025.

Net Absorption and Leasing Activity

Net absorption slowed to 1.8 million sq. ft. as the market was burdened with macro-economic uncertainty. The Southwest and Southeast Valley propped up activity with 94.8% of absorption coming from these 2 submarkets. The Northeast Valley captured 59,043 sq. ft. of negative net absorption, with most of those companies relocating to other submarkets. The Airport Area saw positive net absorption with 14 tenants finding new space in the area. Activity in the Northwest Valley remained as there was 122,532 sq ft. absorbed in the submarket this quarter.

The largest new deal signed this quarter was for Kenco Logistics for 641,906 sq. ft. out in Buckeye. Delta Corp. and Connect Homes were Phoenix’s largest move-outs with Delta vacating 214,000 sq. ft. and Connect Homes ending their bankruptcy and vacating their 147,515 sq. ft. in the Southeast Valley.

Leasing activity remained consistent through the first quarter from 2024. 16 leases over 100,000 sq. ft. were signed with 7 of them being renewals for about 1.9 million sq. ft. 14 of the 16 leases were signed in the Southwest and Southeast Valley with Tolleson and the Phoenix Mesa Gateway area seeing a good portion of that large client activity. HIMS signing for 288,360 sq. ft., La-Z-Boy’s relocation, into 233,000 sq. ft. and Kenco signing for 641,906 sq. ft. had the largest impact on net absorption this quarter. Gross absorption hit 7,548,660 sq. ft. with 2,380,875 sq. ft. of renewals showing signs that companies are prepared to stay in Phoenix.

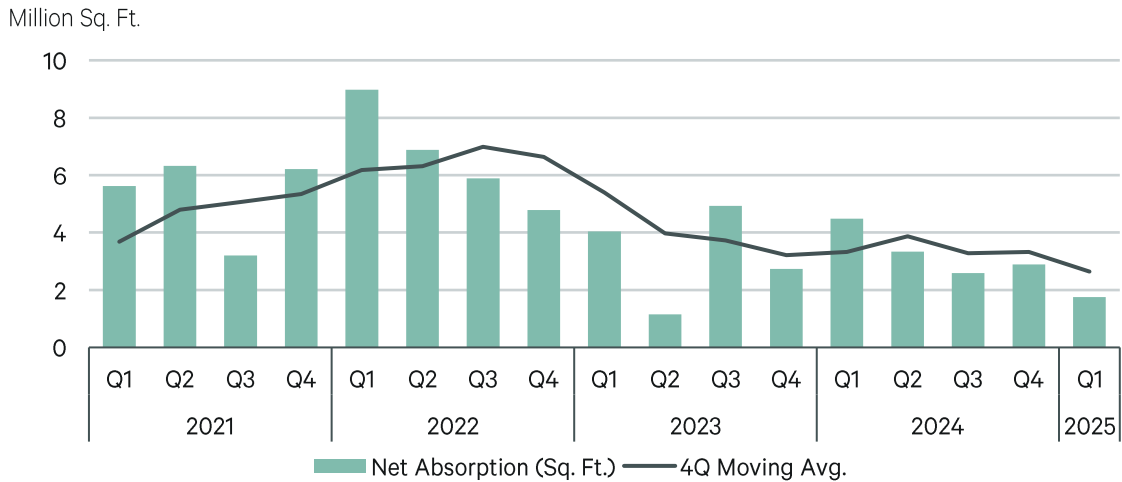
Top Transactions

Leasing activity remained strong. Q1 2021 experienced roughly 7.5 million sq. ft. of gross activity with all the top five leases signed in the Southwest Valley:

- Kenco Logistics Services | 641,906 sq. ft. | Buckeye
- Blue Buffalo* | 540,349 sq. ft. | South Goodyear
- Logisticus | 483,300 sq. ft. | North Goodyear
- Broad Range Logistics | 388,260 sq. ft. | North Goodyear
- O’Reilly Auto Parts* | 353,570 sq. ft. | Tolleson

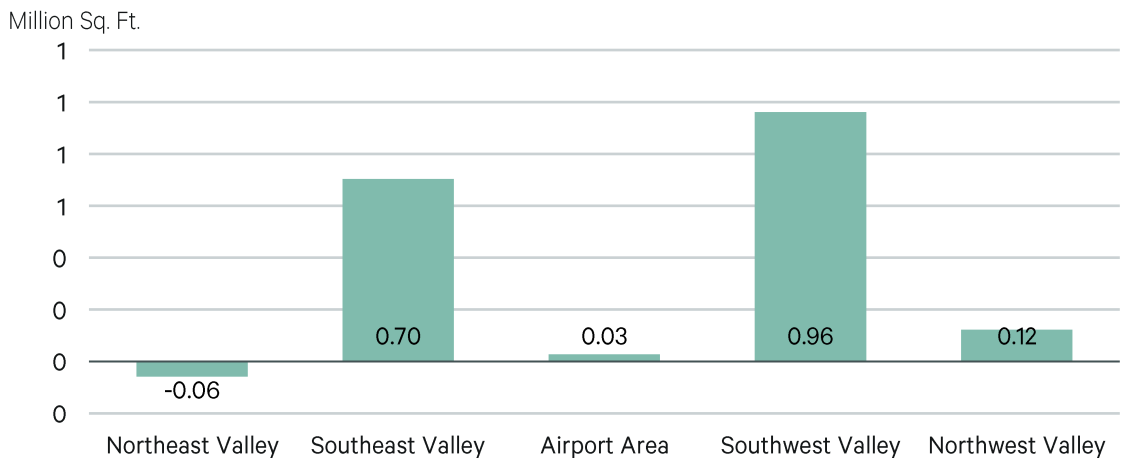
* = Renewal

FIGURE 4: Net Absorption



Source: CBRE Research, Q1 2025.

FIGURE 5: Net Absorption by Submarket YTD



Source: CBRE Research, Q1 2025.

Development Activity

Deliveries greatly outpaced ground breakings in Q1 2025, as there were only 1,897,008 sq. ft. of groundbreakings compared to the 7,432,200 sq. ft. delivered. The under-construction pipeline is now around 11.1 million sq. ft. which is the lowest it has been since Q1 2021. The last 4 years has delivered 103,989,577 sq. ft. of product, almost 25% of the entire market.

The Southeast Valley outpaced the Southwest Valley in terms of sq. ft. under construction with 5.2 million sq. ft. under development in the Southeast and 3.8 million sq. ft. in the Southwest. The past few quarters has shown signs of the slowing construction market, which continued this quarter as the Southwest Valley delivered 6.8 million sq. ft., roughly 92% of deliveries. Preleasing activity also slowed this quarter with only one Built to Suit delivering and only 1 building showing preleasing activity before delivery.

7.4 Million Sq. Ft. Delivered this Quarter

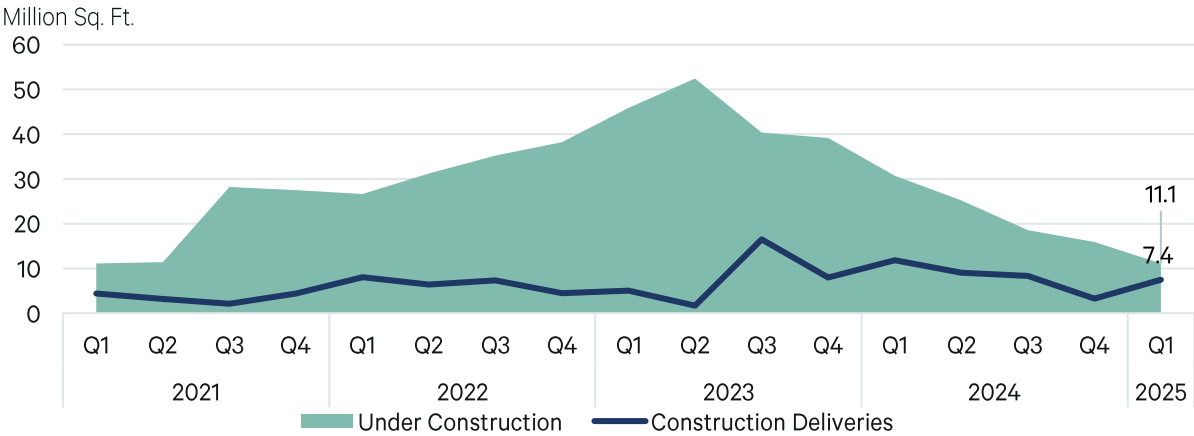
Twenty-seven buildings amounting to 7.4 million sq. ft. were completed. Roughly 85.3% of space delivered in Q1 2025 was distribution. The Southwest Valley delivered 24 buildings which totaled 6.8 million sq. ft. and the Southeast Valley delivered 3 buildings, or 296,740 sq. ft. The top three largest projects delivered were in North Goodyear:

- Luke Field Logistics – Building Charlie | 1,278,653 sq. ft. | North Goodyear
- Luke Field Logistics – Building Alpha | 695,750 sq. ft. | North Goodyear
- Olive Logistics Center – Building 1 | 611,200 sq. ft. | North Goodyear

1.9 Million Sq. Ft. Broke Ground this Quarter

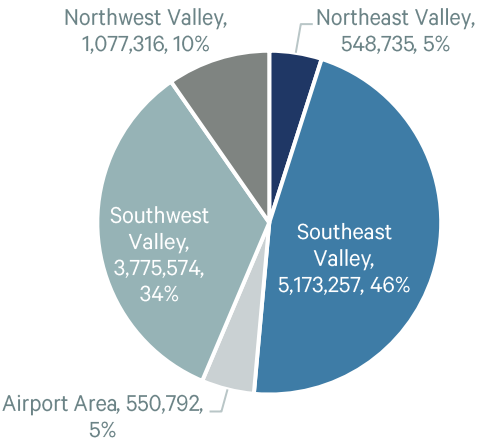
In the first quarter of 2025, construction commenced on 15 projects which encompassed 1.9 million sq. ft. Ground breakings were focused in the Southeast Valley. The largest project which broke ground was NextWave, located in the Southwest Valley, totaling 693,678 sq. ft.

FIGURE 6: Under Construction and Construction Deliveries



Source: CBRE Research, Q1 2025.

FIGURE 7: Under Construction by Submarket



Source: CBRE Research, Q1 2025.

Outlook

The U.S. economy had a very active start to 2025 with the tariff announcements and foreign policies having the greatest impact on the market so far. These policies have affected securities markets and treasury yields but also have put upward pressure on companies who rely on imports the United States to consider America first solutions.

This is a good sign for the Phoenix Market as many foreign companies have been looking at the market as an opportunity to expand their business to accommodate the new tariffs being imposed on their native countries. These inquiries are natal now, but as the markets begin to reflect these changes negatively, companies have started to progress discussions and have been touring sites more often than recent quarters.

Phoenix also remains on the Top 10 Largest Growing Markets in the United States which is in part due to the large investment commitments we have seen from massive employers in the Valley like TSMC and Microsoft and many other 3PL companies. SRP and APS, local energy providers, have also been increasing their footprint in the Valley to continue expanding to accommodate the growing energy demands these new companies are seeking.



FIGURE 8: Market Statistics by Submarket

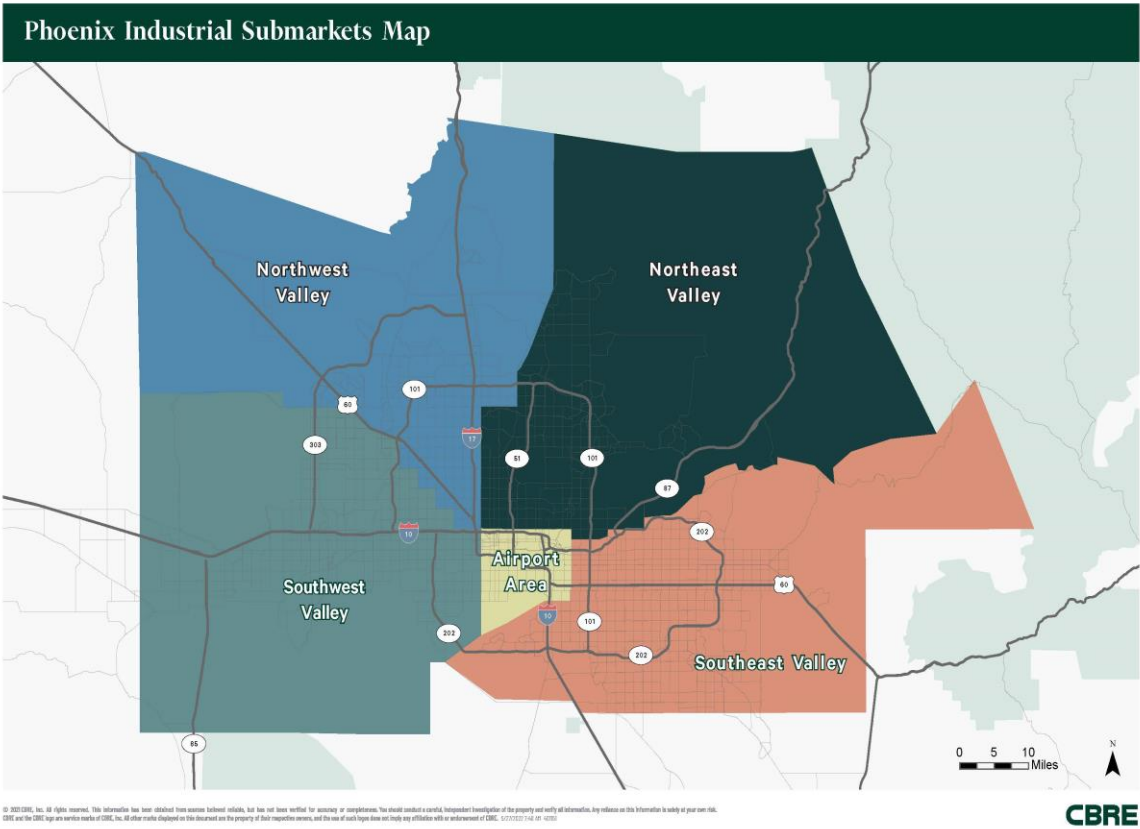
	Net Rentable Area (Sq. Ft.)	Availability (%)	Vacancy (%)	Net Absorption (Sq. Ft.)		Under Construction (Sq. Ft.)	Construction Deliveries (Sq. Ft.)	Avg Dir Asking Lease Rate (NNN)
				Q1 2025	2025 YTD			
Northeast Valley	12,752,134	4.9%	3.2%	-59,043	-59,043	548,735	0	\$1.50
Southeast Valley	104,570,480	17.6%	15.3%	703,057	703,057	5,173,257	296,740	\$1.01
Airport Area	75,785,276	5.3%	4.1%	28,178	28,178	550,792	0	\$1.16
Southwest Valley	199,212,264	17.6%	15.9%	960,767	960,767	3,775,574	6,832,334	\$0.81
Northwest Valley	54,329,512	7.5%	6.0%	122,532	122,532	1,077,316	303,126	\$1.08
Phoenix Total	447,649,666	13.6%	12.2%	1,755,491	1,755,491	11,125,674	3,234,554	\$1.00

Source: CBRE Research, Q1 2025.

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)
				Q1 2025	2025 YTD			
Multi-Tenant	37,280,614	6.4%	5.3%	-138,727	-138,727	337,363	0	\$1.23
Distribution	225,253,773	21.1%	19.2%	2,111,140	2,111,140	6,786,900	6,339,921	\$0.85
Freestanding	55,801,799	3.1%	2.4%	-231,952	-231,952	159,700	0	\$1.21
General Industrial	80,195,639	8.4%	7.5%	-138,876	-138,876	1,812,517	1,092,279	\$1.06
Back Office	9,728,873	16.4%	12.4%	180,716	180,716	0	0	\$1.35
Major User	29,542,758	2.8%	2.4%	-26,810	-26,810	2,029,194	0	\$1.17
Special Purpose	9,846,210	2.0%	0.7%	0	0	0	0	\$0.00
Phoenix Total	447,649,666	13.6%	12.2%	1,755,491	1,755,491	11,125,674	7,432,200	\$1.00

Source: CBRE Research, Q1 2025.



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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