Industrial Fundamentals Stabilize Amid Supply-Driven Reset

▼10.2%	▲4.9M	▼1.4M	▲14.0M	▲$1.06
Vacancy Rate	SF Net Absorption	SF Construction Delivered	SF Under Construction	NNN / Asking Lease Rate

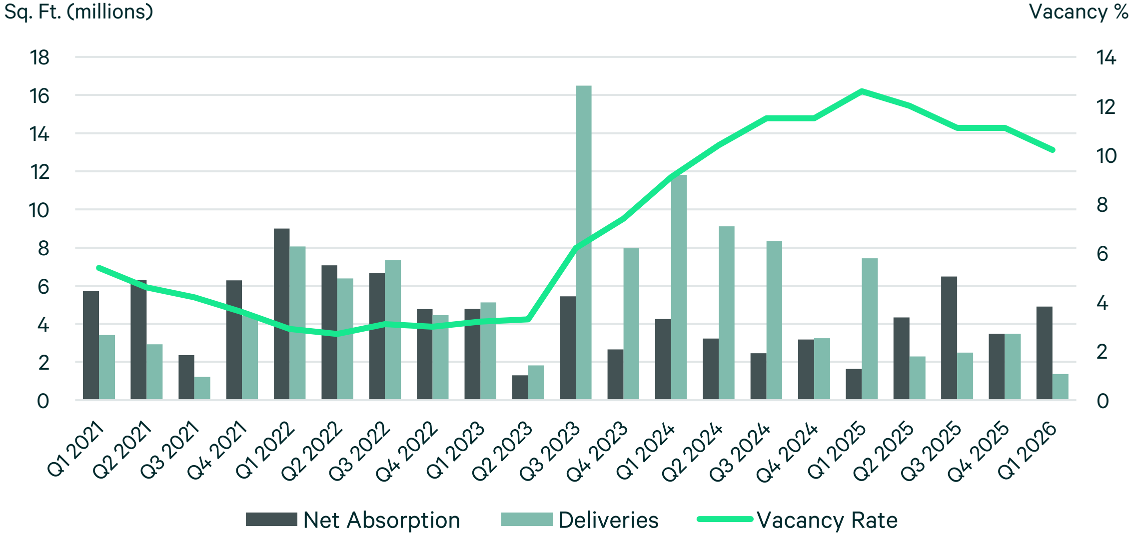
Note: Arrows indicate change from previous quarter.

KEY TAKEAWAYS

- Net absorption totaled 4.9 million sq. ft. in Q1 2026, up 200% from Q1 2025.
- Fifteen buildings were delivered totaling 1.4 million sq. ft., the lowest number of sq. ft. delivered since Q1 2019.
- Asking rates improved 1.9% to $1.06 NNN per sq. ft.
- Vacancy rates resumed its decline from 2025 with 80-bps absorbed in Q1 2026 bringing the rate to 10.2%.

The market tightened in Q1 2026 as demand accelerated and vacancies receded with net absorption reaching 4.9 million sq. ft., up 40.9% from Q4 2025. Supply metrics showed a market absorbing a smaller flow of new product while the pipeline expanded. The construction pipeline grew to 14.0 million sq. ft., a 38.2% increase from Q4 2025 and 11.7% above Q1 2025. At the same time, completions dropped to 1.4 million sq. ft., down 60.5% quarter-over-quarter and 81.5% year-over-year, occurring in the same period that vacancy and availability moved lower. Pricing moved higher alongside these tighter conditions, with average asking rents increasing 1.9% quarter-over-quarter and 6.0% year-over-year.

Figure 1: Historical Net Absorption, Deliveries, and Vacancy



Source: CBRE Research, Q1 2026

Vacancy and Availability Rate

The industrial market vacancy rate finished Q1 2026 at 10.2%, down from 11.0% in Q4 2025. On a year-over-year basis, availability declined from 12.6% in Q1 2025 to 10.2% in Q1 2026. Over the past three years, availability has risen from 3.2% in Q1 2023 to 10.2% in Q1 2026. The major rise in vacancy has come from the 107.3 million sq. ft. delivered since Q1 2022, with only about 75.0 million sq. ft. absorbed over the same period. Our market continues to show maturity with demand-driven development dominating the pipeline.

In Q1 2026, the Northeast Valley submarket recorded the lowest overall vacancy rate at 6.8%, followed by the Airport Area at 7.0%. Southeast Valley posted the highest vacancy rate at 14.2%, while Southwest Valley at 10.2% and Northwest Valley at 7.9% also remained above the metro's tightest submarkets.

Sublease vacancy increased in Q1 2026, reaching 0.7% compared to 0.6% in Q4 2025. In total, there was approximately 3.2 million sq. ft. of sublease space on the market in Q1 2026.

Figure 2: Total Vacancy Rate & Total Availability Rate

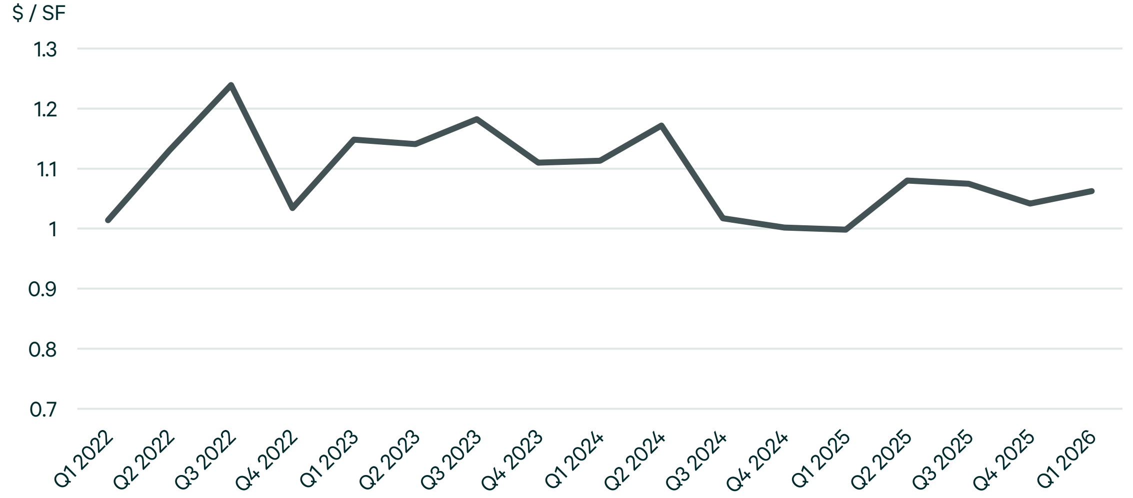
Source: CBRE Research, Q1 2026

Asking Rent

Average asking rent across the market was $1.06 per sq. ft. in Q1 2026. This represented a 1.9% increase quarter-over-quarter and a 6.0% increase year-over-year. The market is showing strong stabilization in asking rents as there has not been greater than 10% quarter over quarter change since Q3 2024. Before 2022, the Valley had never seen NNN rates exceed $1.00, and it is not projected to return to a level below that.

Northeast Valley posted the highest average asking rent in Q1 2026 at $1.75 per sq. ft., followed by Airport Area at $1.17 per sq. ft. Northwest Valley, Southeast Valley, and Southwest Valley recorded growth in their average asking rents of $1.10, $1.09, and $0.89 per sq. ft., respectively. The spread between the highest and lowest submarkets was $0.86 per sq. ft., highlighting the concentration of different product types around Phoenix.

Figure 3: Average Direct Asking Rate



Source: CBRE Research, Q1 2026

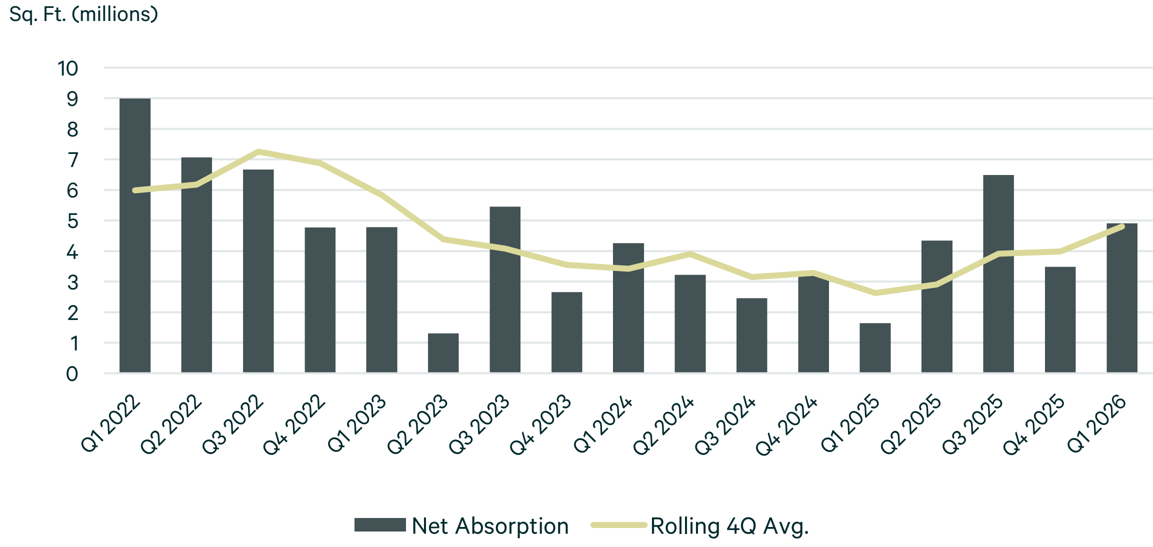
Net Absorption

The market posted positive 4.9 million sq. ft. of net absorption in Q1 2026, exceeding the 1.6 million sq. ft. total in Q1 2025 and the 3.5 million sq. ft. recorded in Q4 2025. Recent quarters have remained firmly in positive territory, with Q1 2026 marking one of the strongest absorption showings in the past three years.

Positive net absorption for Q1 2026 was concentrated primarily in the Southwest Valley submarket with 6.0 million sq. ft. for the quarter, and the Southeast Valley submarket with 99,000 sq. ft. The Northeast Valley was the other submarket to record positive net absorption with 51,000 sq. ft. Two submarkets recorded negative net absorption, Airport Area with negative 808,000 sq. ft., and Northwest Valley with negative 403,000 sq. ft.

Distribution product saw the most concentrated velocity of net absorption with 5.1 million sq. ft. being absorbed this quarter. The other product types combined for a negative 200,000 sq. ft. of net absorption. A similar story exists when looking at net rentable area, with the 300,000 sq. ft. and larger segment recording a total of 5.1 million sq. ft. of net absorption.

Figure 4: Net Absorption Trend



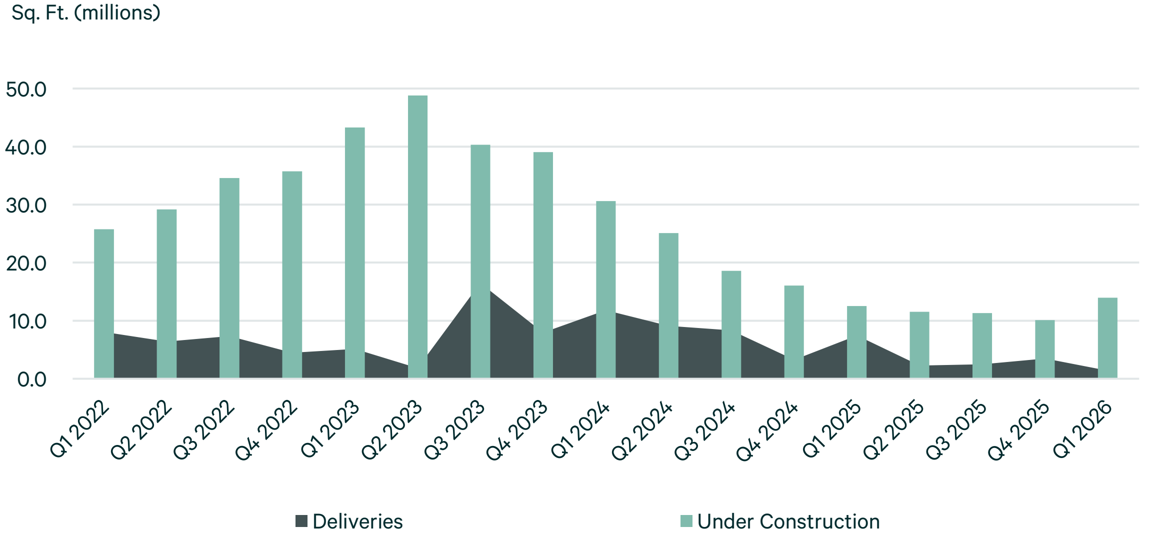
Source: CBRE Research, Q1 2026

Construction Activity

In Q1 2026, the market recorded 14.0 million sq. ft. under construction and 1.4 million sq. ft. of deliveries. Under construction volume increased 38.2% quarter-over-quarter and 11.7% year-over-year, while deliveries posted a 60.5% decrease compared to Q4 2025 and an 81.5% drop from Q1 2025. Of the 14.0 million sq. ft. under construction, 26% is preleased or built to suit. This is highlighted by the major projects below, with the largest developments in four of the five submarkets being built-to-suit spaces for major users.

Southwest Valley and Southeast Valley account for the highest under construction activity, anchored by the largest project, the LG Energy Battery Manufacturing Facility (1.3 million sq. ft., delivering Q2 2026), alongside Northern Parkway Logistics Center – Bldg. D (1.2 million sq. ft., delivering Q1 2027) and VT303 North (1.1 million sq. ft., delivering Q3 2027). Northwest Valley and Northeast Valley also show active pipelines through Amkor Testing Facility Phase 1 (1.0 million sq. ft., delivering Q1 2028) and the ASM Development Facility (400,000 sq. ft., delivering Q3 2027).

Figure 5: Construction Activity



Source: CBRE Research, Q1 2026

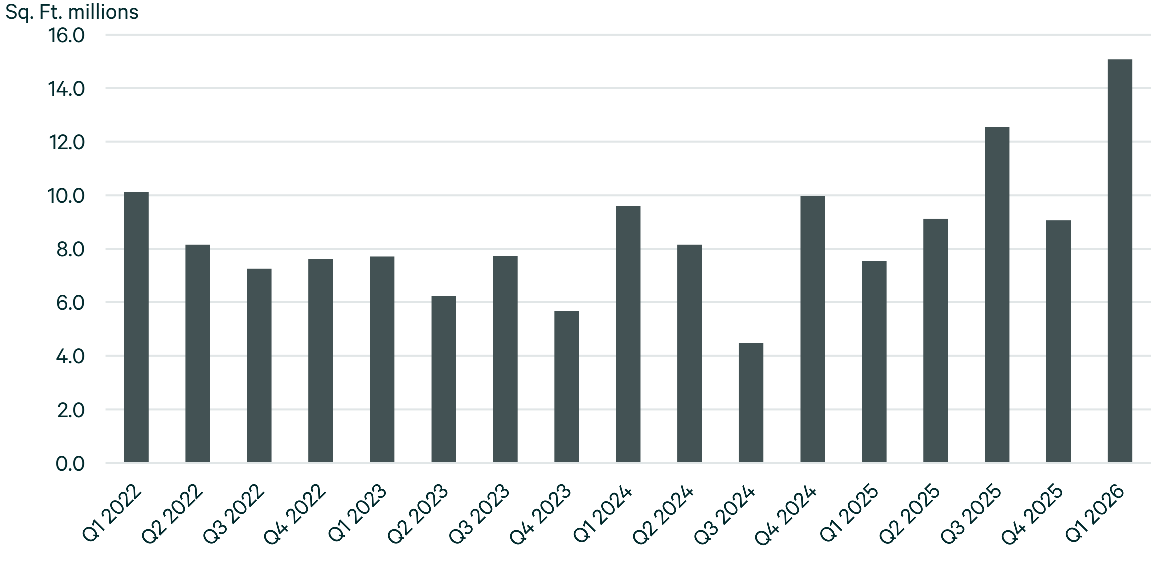
Gross Absorption

At the close of Q1 2026, gross absorption in the Valley hit an all time quarterly high with over 15 million sq. ft. of activity. A large portion of this figure was driven by deals 250,000 sq. ft. or larger, with three, one million sq. ft. new leases signed. This is a major milestone for Phoenix as there are now no available million sq. ft. spaces on the market as of the close of this quarter. The other portions of the leased area performed about the same, with the 10,000-19,999 sq. ft. segment performing the worst of the other four. Preleasing also continued to increase in velocity with several leases signed on under construction product and second-generation space not yet vacated.

By submarket, Southwest Valley records the highest gross absorption at 10.7 million sq. ft., followed by Southeast Valley at 2.0 million sq. ft., together capturing the bulk of current activity. Positive but more moderate volumes are registered in the Airport Area at 1.3 million sq. ft., Northwest Valley at 801,000 sq. ft., and Northeast Valley at 222,000 sq. ft., indicating active albeit less concentrated demand in these locations.

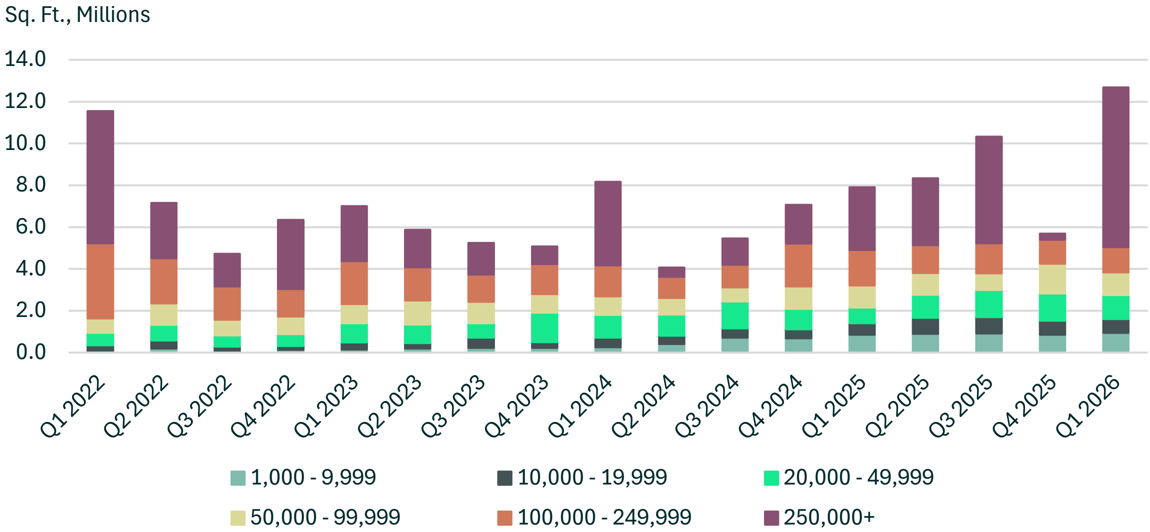
Leased area differs from gross absorption because it excludes unconfirmed withdrawn spaces which may be part of a renewal or an owner/user purchase.

Figure 6: Gross Absorption Trend



Source: CBRE Research, Q1 2026

Figure 7: Historical Leased Area (New Lease & Renewals only)



Source: CBRE Research, Q1 2026

Figure 8: Key Lease Transactions

Tenant	Sq. Ft. Leased	Transaction Type	Address	Submarket
Amazon.com	1,063,000	New Lease	500 N 55th Ave	Southwest Valley
DHL	1,031,000	New Lease	17210 & 17240 W Olive Ave	Southwest Valley
DHL	630,000	New Lease	16500 W Glendale Ave	Southwest Valley
LG Energy Solution	597,000	New Lease	555 & 675 N 55th Ave	Southwest Valley
Tilebar	345,000	New Lease	7875 W Buckeye Rd	Southwest Valley
Kenco Group	289,000	New Lease	17000 W Glendale Ave	Southwest Valley
Dvele	220,000	New Lease	3223 S Crimson Rd	Southeast Valley
PillPack	175,000	Renewal	3809 E Watkins St	Airport Area

Source: CBRE Research, Q1 2026

Market Statistics by Submarket

Figure 9

Submarket	Net Rentable Area	Total Direct Vacancy (%)	Total Sublease Vacancy (%)	Total Vacancy (%)	Total Availability (%)	Current Quarter Net Absorption (SF)	YTD Net Absorption (SF)	Deliveries (SF)	Under Construction (SF)	NNN / Asking Lease Rate ($/mo.)
Airport Area	71,538,654	6.0	1.0	7.0	8.1	(808,197)	(808,197)	242,100	1,313,289	1.17
Northeast Valley	14,348,643	6.3	0.5	6.8	7.1	51,481	51,481	305,375	735,593	1.75
Northwest Valley	52,192,977	7.6	0.4	7.9	9.3	-402,947	-402,947	0	2,478,485	1.10
Southeast Valley	104,655,494	12.9	1.2	14.2	15.2	99,292	99,292	48,799	5,065,264	1.09
Southwest Valley	201,739,141	9.7	0.5	10.2	12.1	5,969,185	5,969,185	781,772	4,378,784	0.89
Total	**444,474,909**	**9.5**	**0.7**	**10.2**	**11.7**	**4,908,814**	**4,908,814**	**1,378,046**	**13,971,415**	**1.06**

Source: CBRE Research, Q1 2026

Market Statistics by Size

Figure 10

Size Range	Net Rentable Area	Total Direct Vacancy (%)	Total Sublease Vacancy (%)	Total Vacancy (%)	Total Availability (%)	Current Quarter Net Absorption (MSF)	YTD Net Absorption (MSF)	Deliveries (MSF)	Under Construction (MSF)	NNN / Asking Lease Rate ($/mo.)
Under 100,000 sq. ft.	173,949,369	6.9	0.6	7.5	8.6	(617,096)	(617,096)	362,281	2,782,36	1.19
100,000-199,999 sq. ft.	74,255,454	17.4	1.3	18.8	21.2	34,594	34,594	704,179	3,680,104	1.09
200,000-299,999 sq. ft.	41,965,299	18.0	1.0	19.0	20.6	361,607	361,607	0	2,211,771	0.96
300,000-499,999 sq. ft.	48,265,776	12.9	1.4	14.3	17.0	1,127,939	1,127,939	311,586	711,875	0.84
500,000-749,999 sq. ft.	42,045,991	6.2	0.2	6.4	7.3	1,936,257	1,936,257	0	0	0.67
750,000+ sq. ft.	63,993,020	1.6	0.0	1.6	2.2	2,065,513	2,065,513	0	4,585,303	0.78
Total	**444,474,909**	**9.5**	**0.7**	**10.2**	**11.7**	**4,908,814**	**4,908,814**	**1,378,046**	**13,971,415**	**1.06**

Source: CBRE Research, Q1 2026

Economic Overview

Over the last five years, total employment in the Phoenix area has grown at an average annual rate of 2.9% while across the U.S., employment has grown at an average annual rate of 2.3%. In the last 4 quarters, Phoenix's employment has grown at an average annual rate of 0.8%. Our forecast predicts growth of 1.0% in the Phoenix area over the next five years.

The latest estimates of distribution and manufacturing employees in Phoenix are 222,600 and 145,600, respectively. Over the last five years Phoenix's distribution employment has grown by 3.4% while manufacturing employment has grown by 1.7%. Over the last 12 months distribution employment has declined by 1.3% and manufacturing employment has declined by 1.2%.

On a national level, the current business cycle may be five years old, but U.S. growth appears resilient, despite clear risks on the horizon. GDP growth should average 2.1%, matching 2025 levels and exceeding peer economies. America’s aggressive build-out of AI infrastructure is a unique edge. Hyperscaler capex is nearing 3% of GDP—just below residential investment. Concerns about the sustainability of this growth and its broader impact are rattling both credit and equity markets. Global energy prices are also a concern. Assuming it is resolved quickly, and U.S. oil prices stay in the $80/bbl range, the impact on U.S. growth should be minimal. The impact on headline inflation, which is forecast to average 3.2% this year, up from the mid-2% range in February, will be material. Should conflicts escalate, this would elevate inflation and long-term yields and would likely impact the commercial real estate market.

Market Statistics by Product Type

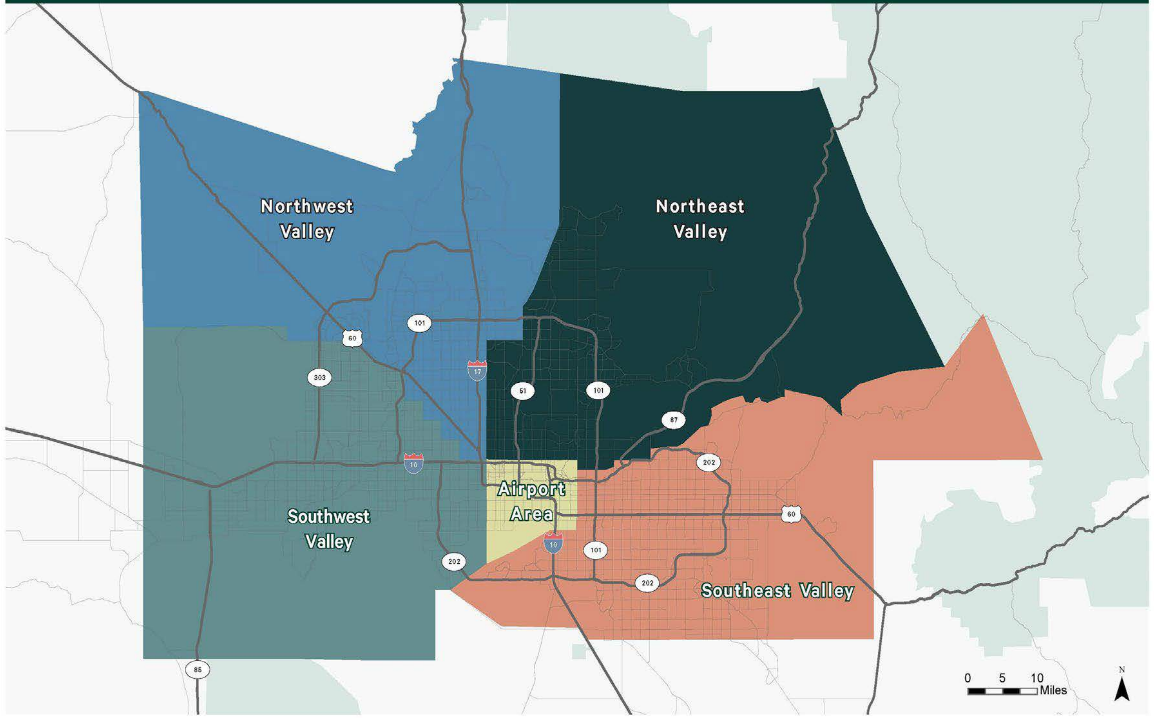
Figure 11

Product Type	Net Rentable Area	Total Direct Vacancy (%)	Total Sublease Vacancy (%)	Total Vacancy (%)	Total Availability (%)	Current Quarter Net Absorption (SF)	YTD Net Absorption (SF)	Deliveries (SF)	Under Construction (SF)	NNN / Asking Lease Rate ($/mo.)
Back Office	9,491,963	13.0	2.5	15.6	16.7	-99,993	-99,993	0	184,824	1.20
Distribution	228,644,516	12.7	0.9	13.6	15.4	5,117,866	5,117,866	527,053	8,799,793	0.94
Freestanding	52,252,502	3.6	0.3	3.9	4.6	-49,700	-49,700	189,372	299,619	1.32
General Industrial	77,623,882	9.1	0.7	9.8	11.4	-511,788	-511,788	130,300	1,285,326	1.13
Major User	33,760,036	2.1	0.0	2.1	2.1	249,476	249,476	311,586	2,892,054	0.96
Multi-Tenant	37,401,309	6.3	0.3	6.6	7.5	292,953	292,953	219,735	509,799	1.23
Special Purpose	5,300,701	2.3	0.0	2.3	8.1	-90,000	-90,000	0	0	0.00
Total	**444,474,909**	**9.5**	**0.7**	**10.2**	**11.7**	**4,908,814**	**4,908,814**	**1,378,046**	**13,971,415**	**1.06**

Source: CBRE Research, Q1 2026

Market Area Overview

Phoenix Industrial Submarkets Map



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 building Area. Average Asking Lease Rate: A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage. Building 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. Gross Lease Rate: Rent typically includes real property taxes, building insurance, and major maintenance. 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. Class A industrial are buildings built after 2000, with 32’ or greater clear height and ESFR sprinklers.

Survey Criteria

Includes all industrial buildings 10,000 sq. ft. and greater in size in the Phoenix Metro Area. Buildings which have begun construction as evidenced by site excavation or foundation work

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