KBC INSIGHTS | INDUSTRIAL MARKET UPDATE

Phoenix

ECONOMY

» Consumer goods demand hinges on how much tariff related price increases reduce domestic demand, and retaliatory tariffs reduce international demand. Absent an immediate and substantial reversal of tariffs, domestic and international goods demand will decline reducing this demand driver. Potentially offsetting these to some degree is hoped for but not certain middle- and lower-income tax cuts.

» Implementing tariffs can benefit domestic manufacturing industries by reducing imports from certain countries, supporting job growth, and providing a boost to the manufacturing sector. Additionally, tariffs could potentially encourage foreign manufacturers to relocate production to the United States. However, while there are opportunities for growth, the implementation of tariffs may negatively impact domestic consumers who rely on foreign parts and materials, as the rising costs of imported goods would ultimately affect consumer prices.

CONSTRUCTION

» The Phoenix industrial market saw 6.7 million square feet (M SF) delivered in Q1 2025. This is a decrease of 21.2% from the square footage delivered in Q1 2024. The Northwest submarket saw the greatest number of deliveries so far this year with nearly 5.2M SF or 77% of the market total.

» The pipeline under construction as seen a significant reduction with just 16.3M SF in the first quarter. This is due to the lack of new starts in the market which have seen a decline of 70% since Q1 2024. With just 2.2M SF of starts in the first quarter, the pipeline will remain lower than it has been over the past several years.

MARKET CONDITIONS

» The vacancy rate for the Phoenix market kicked of the first quarter at 12.7% . While above the long-term average of 9.3%, this is only a 20-basis point (bp) increase quarter-over-quarter (QOQ). Still up 310 bps from Q1 2024, the lack of construction starts and shrinking pipeline will help offset additional vacancy increases.

» There was a 14.8% increase in sublease space QOQ bringing vacant available sublease space to 7.3M SF for Q1 2025. This is a significant increase YOY but makes up just 1.5% of total vacant available space in the market. Overall, sublease space is helping provide occupiers with some lower cost options in a desirable market.

Statistics reflect all industrial buildings of all sizes

TRENDS: INDUSTRIAL PROPERTIES

	Q1 2024	Q1 2025	Chg YOY
Vacancy	9.6%	12.7%	▲
Monthly Net Asking Rents	$1.11	$1.13	▲
Net Absorption, SF	2.2M	3.3M	▲
Under Construction, SF	38.5M	16.3M	▼
New Deliveries, SF	8.5M	6.7M	▼

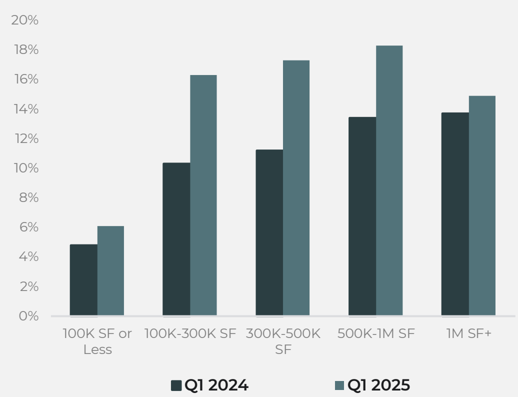
ECONOMIC INDICATORS

	Feb 24	Feb 25	Delta	
National Warehousing Employment (thousands)	1,839	1,837	-0.1%	▼

	2024	2025	Delta	
Phoenix Population	4.77M	4.83M	1.2%	▲

Increases / Decreases YOY

VACANCY VS. LONG-TERM AVERAGE



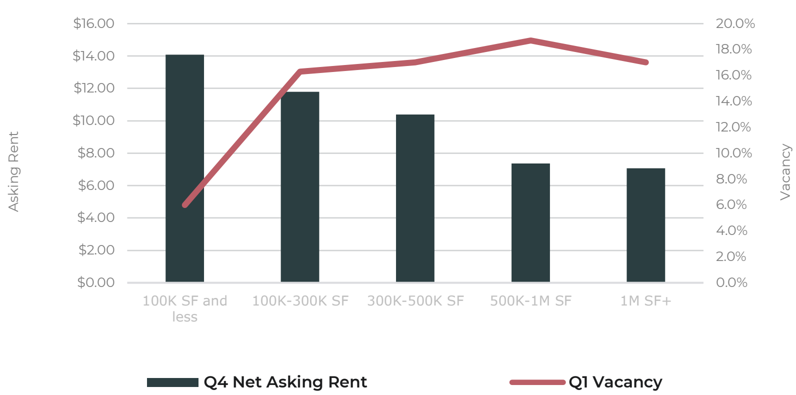
KBC INSIGHTS | INDUSTRIAL MARKET UPDATE

Phoenix

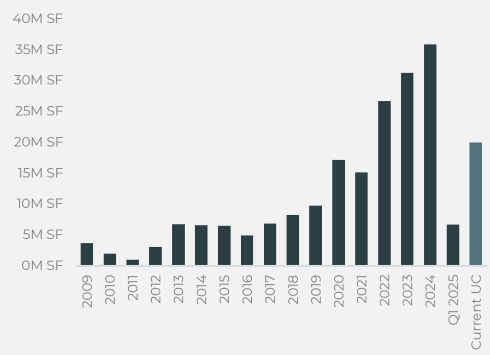
MARKET CONDITIONS CONT.

- The Phoenix market started off 2025 with a substantial increase in net absorption both YOY and QOQ with 3.3M SF. This is up 53% over the 2.2M SF reported at Q1 2024.
- The Northwest and Southwest submarkets saw the most positive activity, both seeing at least twice as much positive absorption QOQ. Activity in the 100,000-300,000 SF size range was the most active in the first quarter.
- There is still a lot of uncertainty in the market among users surrounding the new administration and the impacts tariffs will have on the economy and the subsequently the industrial market. While there is a lot of optimism, many are still in "wait and see" mode and the demand in the market will be very submarket dependent and opportunistic.
- Asking rent growth has slowed to 2.1% YOY bringing the asking rent per square foot per month (/SF) to $1.13. Rates are still climbing slightly, and landlords are holding on asking rents. However, deals signed are seeing large amounts of concessions to meet occupancy requirements.
- Top submarkets will continue to see higher rent growth throughout the year. All submarkets in the Phoenix industrial market saw increases with the Southwest and Northeast seeing the largest increases of 3.1% in both markets which is in line with the long-term average growth rate of 3.1%.
- It is likely that in 2025 rents will continue to see slight increases or remain flat in most submarkets as vacancy stays high. This is an excellent opportunity for occupiers to capitalize on quality space options in the market before the lack of deliveries begins to impact vacancy and later, asking rents.

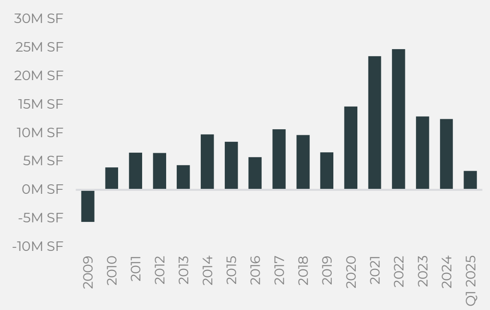
VACANCY & NET ASKING RENT



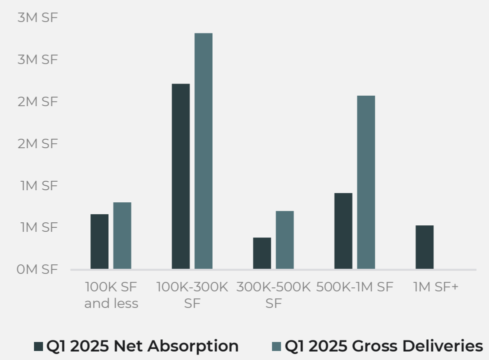
NEW SUPPLY



NET ABSORPTION



SUPPLY & DEMAND



KBC INSIGHTS | INDUSTRIAL MARKET UPDATE

Phoenix

MARKET SUMMARY Q1 2025

Submarket Cluster	Total Inventory	Vacancy Rate	Q1 2025 Overall Net Absorption	2025 YTD Overall Net Absorption	2025 YTD New Leasing Activity	Under Construction	2025 YTD Construction Completions	Overall Asking Net Rent
Airport	55,558,685	5.4%	(371,392)	(371,392)	548,826	188,750	-	$ 1.24
Northeast	17,075,179	4.6%	(125,822)	(125,822)	184,230	593,162	-	$ 1.76
Northwest	124,911,045	17.6%	2,570,518	2,570,518	1,532,141	4,723,168	5,169,736	$ 1.12
Southeast	136,225,268	13.6%	525,750	525,750	1,657,156	7,024,966	98,881	$ 1.32
Southwest	150,073,545	11.4%	740,559	740,559	1,242,341	3,748,465	1,438,628	$ 0.90
Phoenix Total	**483,843,722**	**12.7%**	**3,339,613**	**3,339,613**	**5,164,694**	**16,278,511**	**6,707,245**	**$ 1.13**

Statistics reflect all industrial buildings of all sizes
Rents are monthly

SIGNIFICANT LEASE TRANSACTIONS Q1 2025

Property Address	Submarket	Tenant	Square Feet	Lease Type
I-10 Gateway, Buckeye	Southwest	Kenco Logistics	641,906	New Lease
N Cotton Lane, Glendale	Northwest	BroadRange Logistics	388,260	New Lease
1700 West Glendale Ave, Glendale	Northwest	La-Z-Boy	233,988	New Lease

SIGNIFICANT CONSTRUCTION Q1 2025

Property Address	Submarket	Developer	Square Feet	Completion Date
7737 N Litchfield, Luke Field Building C	Northwest	Lincoln Property	1,278,653	Q1 2025
13543 W Northern Ave, Building A	Northwest	Lincoln Property	695,197	Q1 2025
17210 W Olive Ave, Building 1	Northwest	Logistics Property Co.	611, 797	Q1 2025

Mike Freret
Market Lead
+1 602 743 7506
mike.freret@kbcadvisors.com

Chris Lydon, SIOR
Leasing Specialist
+1 847 651 5905
chris.lydon@kbcadvisors.com

Danny Schuster
Leasing Specialist
+1 708 218 3646
danny.schuster@kbcadvisors.com

Kirk Kuller
Capital Markets
+1 480 227 0561
kirk.kuller@kbcadvisors.com

Callahan Conway
Capital Markets
+1 479 200 9692
callahan.conway@kbcadvisors.com

Bo Mills
Capital Markets
+1 602 524 1104
bo.mills@kbcadvisors.com

Carolyn Salzer
Senior Director, Head of Research
+1 847 609 2687
carolyn.salzer@kbcadvisors.com

Phoenix Office
2425 E Camelback Road. Suite 1080
Phoenix, AZ 85016