KBC INSIGHTS | INDUSTRIAL MARKET UPDATE

Phoenix

ECONOMY

» The U.S. economy entered 2026 with meaningful tailwinds to growth including expanded business investment tax incentives, larger personal tax refunds, significant ongoing artificial intelligence (AI) related business investment, and hoped for reshoring related increases in domestic investment.

» The first quarter's average monthly employment growth increased to nearly 70,000, up from 20,000 during the same period last year, albeit with job growth highly concentrated in the healthcare sector and wage growth moderating.

» Future economic growth depends on multiple factors including sustained job growth, sustained AI investment, increased domestic investment beyond AI, both trade and fiscal policy, favorable financial market conditions, and the Strait of Hormuz disruption with its varied potential impacts including on consumer spending power.

CONSTRUCTION

» The Phoenix industrial market delivered just over 1.7 million square feet (M SF) in Q1 2026, a decrease of 63.2% quarter-over-quarter (QOQ) and 74.5% year-over-year (YOY) from Q1 2025. Total inventory reached 500.7M SF. The market currently has 20.1M SF under construction, up 3.0% QOQ and 16.7% YOY over Q1 2025's 17.2M SF.

» The supply picture is nuanced: the bigger-box 400,000-800,000 SF range remains undersupplied, with only one 600,000 SF option and no 500,000 SF or 1M SF buildings currently available. And while two projects broke ground this quarter with four more planned, construction starts totaled just 2.3M SF, down 21.5% QOQ and 16.5% YOY. Developers remain cautious and the pipeline is not seen as an oversupply risk.

MARKET CONDITIONS

» The overall vacancy rate closed Q1 2026 at 11.7%, down 100 basis points (bps) QOQ from 12.7% in Q4 2025, and down 120 bps YOY from 12.9% in Q1 2025. Vacancy is on a steady decline and is expected to continue trending down by an additional 20-40 bps in the near term.

» Overall net asking rents are holding steady at $13.04 per square foot (/SF) ($1.09/SF per month), up 2.4% QOQ and 5.5% YOY. Performance remains highly submarket dependent. Landlords continue to prioritize occupancy, trading concessions over lease rate reductions rather than cutting face rents.

Statistics reflect all industrial buildings of all sizes

TRENDS: INDUSTRIAL PROPERTIES

	Q1 2025	Q1 2026	Chg YOY
Vacancy	12.9%	11.7%	▼
Monthly Net Asking Rents	$1.03	$1.09	▲
Net Absorption, SF	4.1M	6.3M	▲
Under Construction, SF	17.2M	20.1M	▲
New Deliveries, SF	6.9M	1.7M	▲

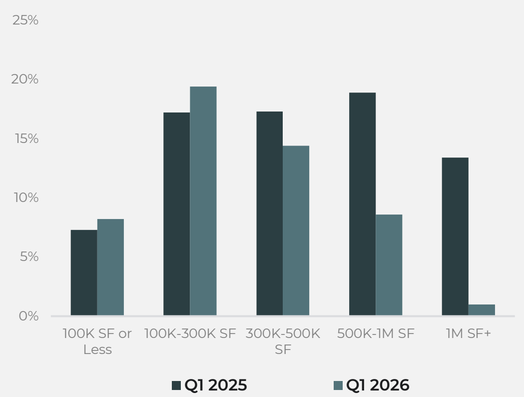
ECONOMIC INDICATORS

	Feb 25	Feb 26	Delta	
National Warehousing Employment (thousands)	1,883	1,834	-2.7%	▼

	2025	2026	Delta	
Phoenix Population	4.83M	4.89M	1.2%	▲

▶ Increases / Decreases YOY

VACANCY BY SIZE RANGE



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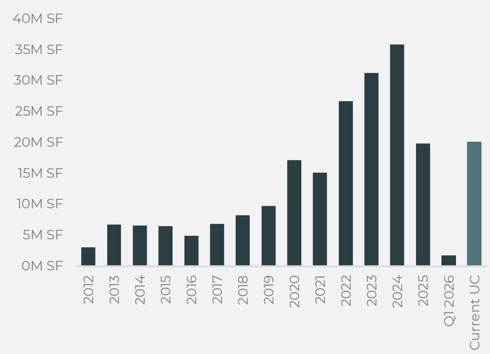
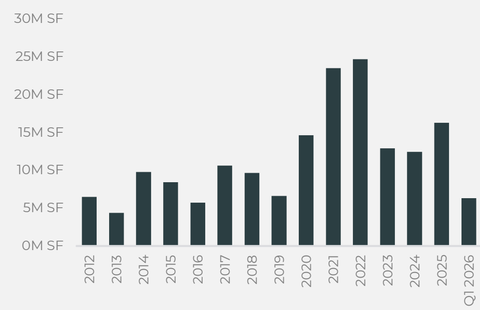
MARKET CONDITIONS CONT.

- The Phoenix market recorded 6.3M SF of net absorption in Q1 2026, the strongest quarterly result in several quarters and surpassed expectations. This represents a 73.3% increase QOQ and a 55.4% jump YOY over Q1 2025's 4.1M SF.
- Leasing activity hit 7.5M SF, up 0.3% QOQ and 24.1% YOY over Q1 2025's 6.0M SF. Overall, deal activity was strong across new leases and renewals, with notable velocity in the large-format space segment (400,000 SF and above). DHL's three-building commitment, anchored by a 1M SF lease, drove significant absorption. With large available blocks being absorbed, developers are moving to backfill the pipeline with new speculative 1M SF starts.
- Demand for infill locations with functional space remains consistent. Groups are now prioritizing power availability as a key site selection criterion, but lack of power will be a bigger issue moving forward. Many users are being asked to quantify exact usage to ensure that there is adequate power available. This will impact new starts.
- Vacancy is expected to continue its decline, with an additional 20-40 bp improvement anticipated. The disciplined construction pipeline — with developers being cautious about new starts given power constraints and demand uncertainty — will help prevent oversupply. Rental rates are increasingly deal-specific, reinforcing the importance of granular market intelligence in understanding true market trends versus one-off transactions.

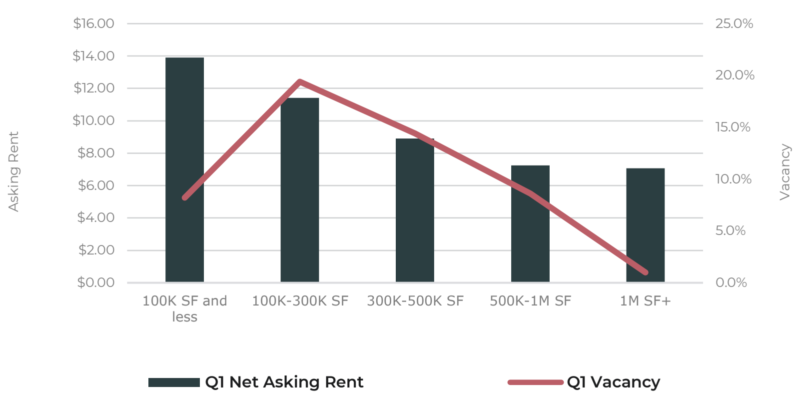
NEW SUPPLY



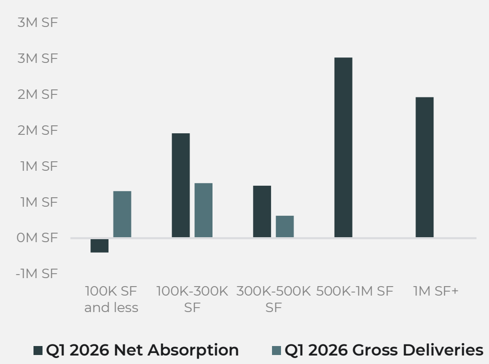
NET ABSORPTION



VACANCY & NET ASKING RENT



SUPPLY & DEMAND



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MARKET SUMMARY Q1 2026

Submarket Cluster	Total Inventory	Vacancy Rate	Q1 2026 Overall Net Absorption	YTD 2026 Overall Net Absorption	YTD 2026 New Leasing Activity	Under Construction	Q1 2026 Construction Completions	Overall Asking Net Rent
Airport	56,719,330	7.1%	(431,069)	(431,069)	621,794	1,253,378	262,879	$ 1.23
Northeast	18,007,557	6.8%	99,057	99,057	239,433	337,051	307,005	$ 1.79
Northwest	129,310,263	15.3%	1,826,473	1,826,473	2,577,354	7,698,462	0	$ 1.00
Southeast	143,408,888	13.1%	1,295,118	1,295,118	1,636,512	6,265,444	572,119	$ 1.28
Southwest	153,256,849	9.7%	3,508,771	3,508,771	2,390,113	4,564,177	606,066	$ 0.85
Phoenix Total	**500,702,887**	**11.7%**	**6,298,350**	**6,298,350**	**7,465,206**	**20,118,512**	**1,748,069**	**$ 1.09**

Statistics reflect all industrial buildings of all sizes
Rents are monthly

SIGNIFICANT LEASE TRANSACTIONS Q1 2026

Property Address	Submarket	Tenant	Square Feet	Lease Type
Southern Industrial Center, 24105 W Southern Avenue, Buckeye	Southwest	AWS	1,207,360	New Lease
Olive Logistics Center – BLDG 1 & 2 17210 W Olive Avenue, Glendale	Northwest	DHL	1,030,880	New Lease
West 202 Logistics Building F & G 555 & 675 N 55th Avenue, Phoenix	Southwest	LG Electronics	597,297	New Lease

SIGNIFICANT UNDER CONSTRUCTION Q1 2026

Property Address	Submarket	Developer	Square Feet	Completion Date
LG Battery Plant, Mesa	Southeast	LG	1,300,000	Q2 2026
Northern Parkway Logistics, Waddell	Northwest	LXP	1,184,591	Q1 2027
VT 303 North, Glendale	Northwest	VanTrust	1,146,518	Q4 2026

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