KBC INSIGHTS | INDUSTRIAL MARKET UPDATE

Phoenix

ECONOMY

- The economic tailwinds we noted in our first quarter market report were transformed into stronger second quarter employment growth and sustained retail spending.
- Looking forward, as we noted in our insight, "The Inverted Pyramid Economy", economic growth is largely dependent on one sector, AI, making AI's continued success a key factor in the economic success of the second half of this year and with it, demand for logistics space.
- Additional factors we are also watching for their potential impact on the economy and demand environment for logistics space include domestic manufacturing investment, real wage growth, retail sales, trade policy, financial market conditions, and geopolitics, among others.

CONSTRUCTION

- The Phoenix industrial market delivered 1.5 million square feet (M SF) in Q2 2026, a decrease of 16.3% quarter-over-quarter (QOQ) and 51.8% year-over-year (YOY) from Q2 2025. Total inventory reached 503.0M SF. The market currently has 19.7M SF under construction, roughly flat QOQ and down 3.8% YOY from Q2 2025's 20.5M SF.
- The supply picture remains nuanced. Big-box availability is critically constrained with very few 1M SF+ buildings in the pipeline, one 750,000 SF option, and a handful of 400,000 SF blocks — while the sub-200,000 SF segment carries meaningful vacancy. Some landlords are showing increased willingness to subdivide larger footprints to accommodate demand. Construction starts totaled just 1.5M SF, down 33.9% QOQ and 76.1% YOY, with activity in big-box notably absent this quarter. Power availability continues to influence where new starts can occur, functioning as a de facto constraint on the pipeline.

MARKET CONDITIONS

- The overall vacancy rate closed Q2 2026 at 10.7%, down 100 basis points (bps) QOQ from 11.7% in Q1 2026, and down 210 bps YOY from 12.8% in Q2 2025. Vacancy is on a steady decline. The biggest availability remains concentrated in the sub-200,000 SF range.
- Overall net asking rents are holding steady at $13.27 per square foot (/SF) ($1.11/SF per month), up 0.9% QOQ and 5.4% YOY. Performance is bifurcated by size: landlords in the sub-200,000 SF segment are prioritizing occupancy and holding rates flat, while big-box landlords retain more leverage to push rents. That said, landlords broadly are avoiding aggressive rate increases — holding flat rather than risking deals — and continue to use concessions as the primary lever.

Statistics reflect all industrial buildings of all sizes

TRENDS: INDUSTRIAL PROPERTIES

	Q2 2025	Q2 2026	Chg YOY
Vacancy	12.8%	10.7%	▼
Monthly Net Asking Rents	$1.05	$1.11	▲
Net Absorption, SF	3.3M	6.4M	▲
Under Construction, SF	20.5M	19.7M	▼
New Deliveries, SF	3.1M	1.5M	▼

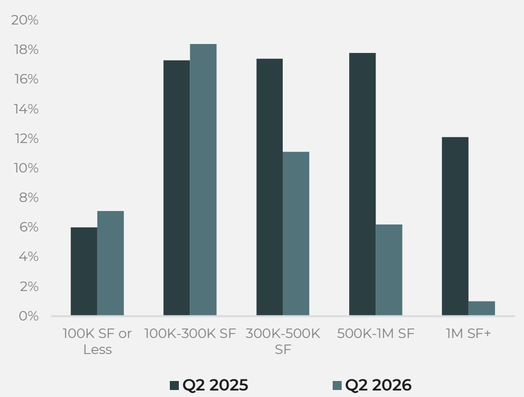
ECONOMIC INDICATORS

	May 25	May 26	Delta	
National Warehousing Employment (thousands)	1,875	1,842	-1.8%	▼

	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.

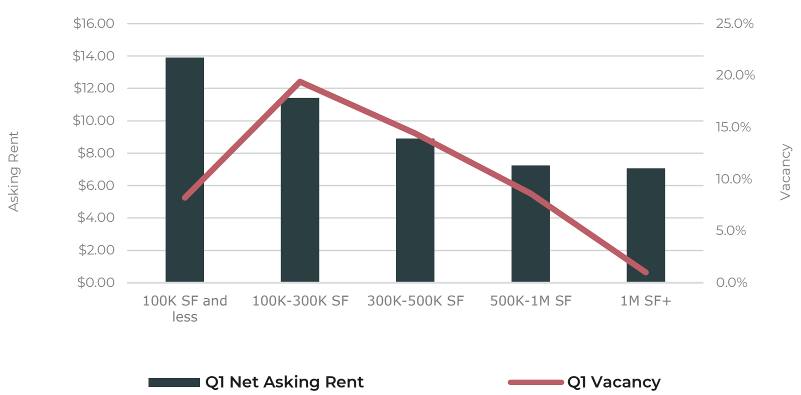
» The Phoenix market recorded 6.4M SF of net absorption in Q2 2026, sustaining the strong momentum from Q1. This represents a 3.3% decrease QOQ but a 92.6% jump YOY over Q2 2025's 3.3M SF.

» Leasing activity reached 8.3M SF, down 7.1% QOQ and roughly flat YOY versus Q2 2025's 8.3M SF. The quarter was driven predominantly by large-format demand, with 3PLs serving the data center industry emerging as the most active user group. Notable deals included DHL and Faith Technologies, the latter leasing two adjacent buildings totaling approximately 1M SF — a reflection of the market's lack of single-block 1M SF options. Deal velocity in the 200,000–300,000 SF range remained slower, but demand was concentrated at the top of the size spectrum.

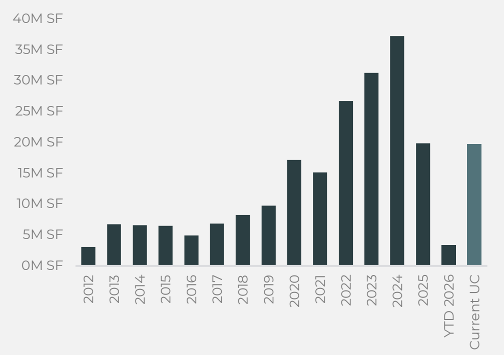
» Power availability has become a primary site selection driver, functioning as a competitive differentiator for both users and landlords. It is increasingly a race to secure adequate power supply, and users are being asked to quantify exact usage requirements upfront. This dynamic is influencing location decisions and constraining where new development can occur.

» The Phoenix industrial is cautiously optimistic going into the second half of the year. Demand is running ahead of last year's pace and leasing interest remains active, even as the typical seasonal slowdown approaches. The key risk to monitor is that big-box demand has supported the overall market for the past several quarters — with large available blocks continuing to be absorbed, availability in that segment is tightening and the market will need to see new supply or a broadening of demand into mid-bay sizes to sustain current momentum.

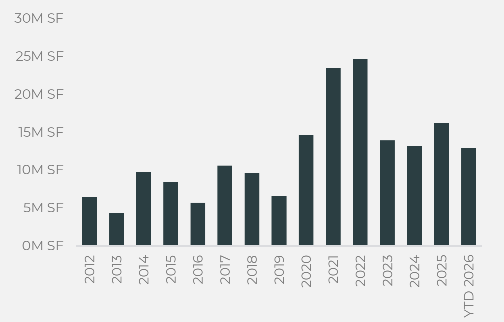
VACANCY & NET ASKING RENT



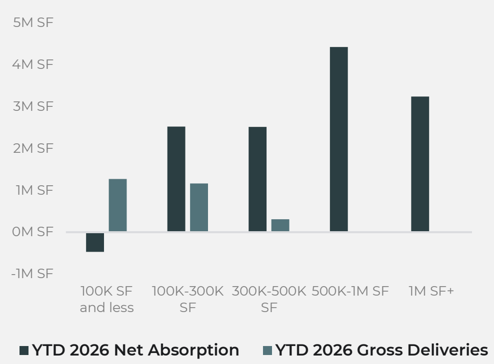
NEW SUPPLY



NET ABSORPTION



SUPPLY & DEMAND



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MARKET SUMMARY Q2 2026

Submarket Cluster	Total Inventory	Vacancy Rate	Q2 2026 Overall Net Absorption	YTD 2026 Overall Net Absorption	YTD 2026 New Leasing Activity	Under Construction	YTD 2026 Construction Completions	Overall Asking Net Rent
Airport	56,992,140	7.7%	-210,199	-639,376	1,277,352	1,230,023	422,184	$1.24
Northeast	18,410,970	6.9%	143,567	282,615	428,836	337,051	307,005	$1.81
Northwest	129,786,631	10.7%	6,170,376	8,069,169	7,325,478	8,142,177	380060	$1.01
Southeast	144,261,286	13.2%	467,679	1,927,608	4,232,446	5,728,690	1,363,167	$1.30
Southwest	153,546,721	10.0%	-209,940	3,298,483	3,909,178	4,287,082	886,066	$0.86
Phoenix Total	**502,997,748**	**10.7%**	**6,361,483**	**12,938,499**	**17,173,290**	**19,725,023**	**3,358,482**	**$1.11**

Statistics reflect all industrial buildings of all sizes
Rents are monthly

SIGNIFICANT LEASE TRANSACTIONS Q2 2026

Property Address	Submarket	Tenant	Square Feet	Lease Type
Reems Road & Northern Parkway – Building D, Waddell	Southwest	DHL	1,184,591	New Lease
13543 W Northern Avenue, Glendale	Northwest	Faith Technologies Inc. (FTI)	695,197	New Lease
13543 W Northern Avenue, Glendale	Northwest	Faith Technologies Inc. (FTI)	454,761	New Lease
10601 N Dysart Road, El Mirage	Southwest	Lam Research	284,000	New Lease

SIGNIFICANT UNDER CONSTRUCTION Q2 2026

Property Address	Submarket	Developer	Square Feet	Completion Date
Westpark 360 Burlington BTS, Buckeye	Southwest	Garrett Development Corporation	1,955,750	Q3 2027
W Northern Parkway & 147th Drive – Building 1 - Waddell	Southwest	Lovett Industrial LLC	1,140,000	Q3 2027
DSV BTS land 9560 East Pecos Road, Mesa	Southeast	DSV	950,000	Q1 2027
TEN Warehouse 5, Phoenix	Southwest	Irwin G. Pasternack & Associates	475,000	Q1 2027

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