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COMMERCIAL REAL ESTATE

Q3 2024

A LOOK INTO THE **PHOENIX** METROPOLITAN **INDUSTRIAL** MARKET

ABSORPTION 12MO/NET/SF **11.7 M ▲**	**VACANCY** **9.9% ▲**	**RENT GROWTH** 12 MONTH **9.3% ▼**
SALES COMPARABLES **569 ▲**	**SALES** PRICE/SF **$144 ▼**	**CAP RATE** **6.3% ▲**
UNDER CONSTRUCTION SQUARE FEET **37.9 M ▼**	**PERCENT** OF INVENTORY **8.8% ▼**	**PRELEASED** **36.8% ▲**

A deluge of new development completions continues to drive Phoenix's industrial vacancy rate higher, a condition that could persist into mid-2025. Builders delivered an unprecedented 35.3 million SF of net new industrial space over the past 12 months, driving a normalization of market conditions. For comparison, Phoenix averaged 8 million SF of annual net deliveries in the three years leading up to the onset of the pandemic.

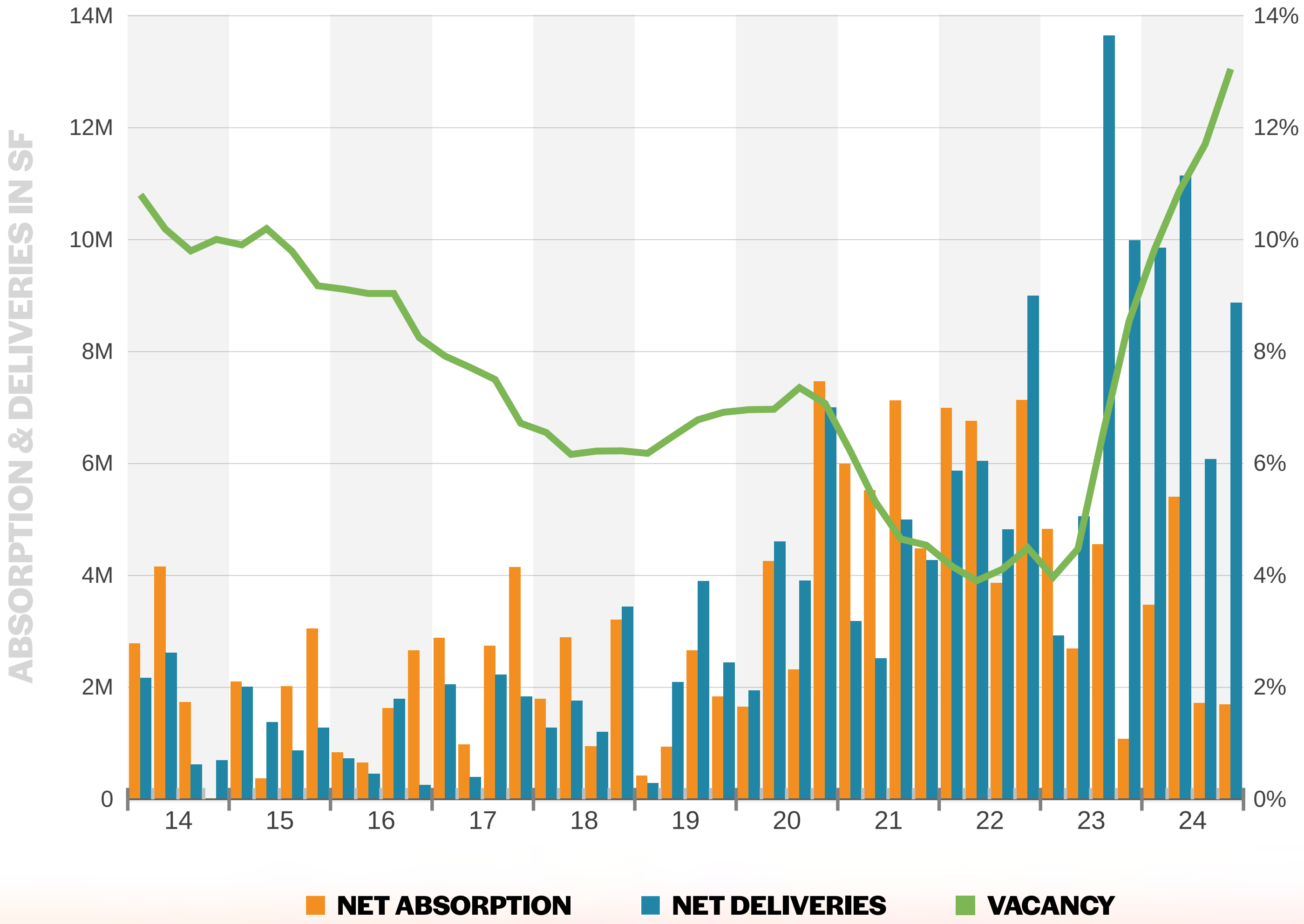
The wave of construction overshadows a resilient demand picture. While demand has eased from the frenetic pace seen in 2021 and 2022, leasing volume is 20% above 2019 levels as occupiers related to logistics, construction, and manufacturing continue to expand. For example, Logistics Plus and Amazon signed on for a total of 4.1 million SF at newly built industrial properties in the West Valley this year, reiterating the area's attractiveness as a logistics option. These factors, along with advanced manufacturing momentum, drove 10.3 million SF of net absorption over the past 12 months, the third most in the nation.

Though tenant demand has been sturdy, it has not been enough to absorb the remarkable pace of deliveries, keeping vacancy on a swift upward trajectory. Vacancy rose from 4.1% in mid-2022 to 11.7% as of 24Q4, and further increases are likely. With nearly 90% of recent construction focused on buildings larger than 100,000 SF, vacant space is accumulating most quickly in the Valley's largest properties. The vacancy rate among existing buildings larger than 100,000 SF has climbed to a decade high, and another 15 million SF of unleased space is underway in buildings of that size. Small bay product, meanwhile, is largely insulated from recent supply, with vacancy among existing properties smaller than 50,000 SF in alignment with where it was entering COVID in the low 4% range.

Source: CoStar Group, www.costar.com, Phoenix - AZ USA-Industrial-Market-2024-10-22

Increased competition from new supply is causing rent growth to decelerate. Average asking rents rose 4.6% over the past year, down from 14.9% in late 2022. Annual rent growth is forecast to slow to the lowest level in over a decade in the next 12 months as further supply additions normalize performance. Landlords of infill assets and small bay product will likely retain greater pricing power than those of big bomber space along the metro's periphery.

The 29.4 million million SF currently under construction, nearly 60% of which is being built on spec, is expected to put further upward pressure on vacancy through most of 2025. Looking beyond the near-term dislocation, the recent pullback in construction starts indicates that a reprieve of supply could be in store by late 2025 or 2026, setting Phoenix up for a return to tightening vacancies and an eventual reacceleration in rent growth.



Adam Shteir
Partner
602.769.0521
adam@citywidecre.com

Chad Kirkorsky, SIOR
Partner
480.330.2824
chad@citywidecre.com

Todd Hamilton, SIOR, CCIM
Managing Partner/Designated Broker
602.909.8759
todd@citywidecre.com

2122 East Highland Avenue, Suite 225
Phoenix, Arizona 85016