

2Q23

Phoenix Industrial Market Overview

An aerial photograph showing a large industrial facility, likely a refinery or chemical plant. The image is dominated by a grid of large, rectangular storage tanks or silos, arranged in neat rows. The tanks are light-colored, possibly white or light blue, and are separated by narrow aisles. The perspective is from a high angle, looking down at the facility, which creates a strong sense of scale and order. The lighting is bright, casting soft shadows that emphasize the three-dimensional nature of the tanks.

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Market Observations

Economy

- Phoenix’s labor market remains strong, with a 3.3% unemployment rate in May 2023. This is lower than the U.S. average of 3.7%.
- Education and health services led local employment sectors in job gains over the past 12 months, with information and other services seeing the biggest losses.
- The construction sector experienced the largest growth for the industrial-occupying employment sectors, expanding by 3.2% from 12 months ago. This was fueled largely by multifamily and industrial development. Trade/transportation/utilities experienced slight negative growth as many industrial occupiers right-size space needs.

Major Transactions

- PAC Worldwide renewed at Riverside Business Center in West Central Phoenix for 383,075 SF.
- With plans to occupy at completion next quarter, Exxon Mobil took 326,103 SF in the Crimson Canyon Center project.
- Third-party logistics company CJ Logistics signed to occupy half of Commerce @ 303, showing some demand for goods/distribution remains within the market, despite consumer spending shifts.

Leasing Market Fundamentals

- Net absorption in the first half of 2023 measured 13.3 million SF, surpassing construction deliveries (8.5 million SF) by a large margin. Leases signed in the past couple quarters with later occupancy dates as tenant improvement work completed was a factor.
- The 50.4-million-SF construction pipeline trended downward for the second consecutive quarter; construction deliveries are historically high, while new construction starts are sharply decelerating. Preleasing in under-construction product ended at 32.8% at quarter-end.
- Vacancy decreased down to a new record at 3.8% as asking rent growth velocity slowed significantly to 5.1% in the first half of 2023. Vacancy is likely to increase over the next few quarters amid strong construction deliveries and as user demand finds an equilibrium between services and goods.

Outlook

- The macroeconomic outlook remains cloudy, but leasing activity continues, albeit at a clip resembling pre-pandemic levels.
- Aggressive asking rent growth appears to be cooling after an explosive 40%-plus 2022. Landlords are leveraging concessions and tenant improvements to maintain strong taking rent growth.
- As a designated workforce hub for manufacturing by the White House, the Phoenix industrial market stands to be more resilient than other metros as users in the sector look to enter or expand.

1. Economy
2. Leasing Market Fundamentals

2Q23

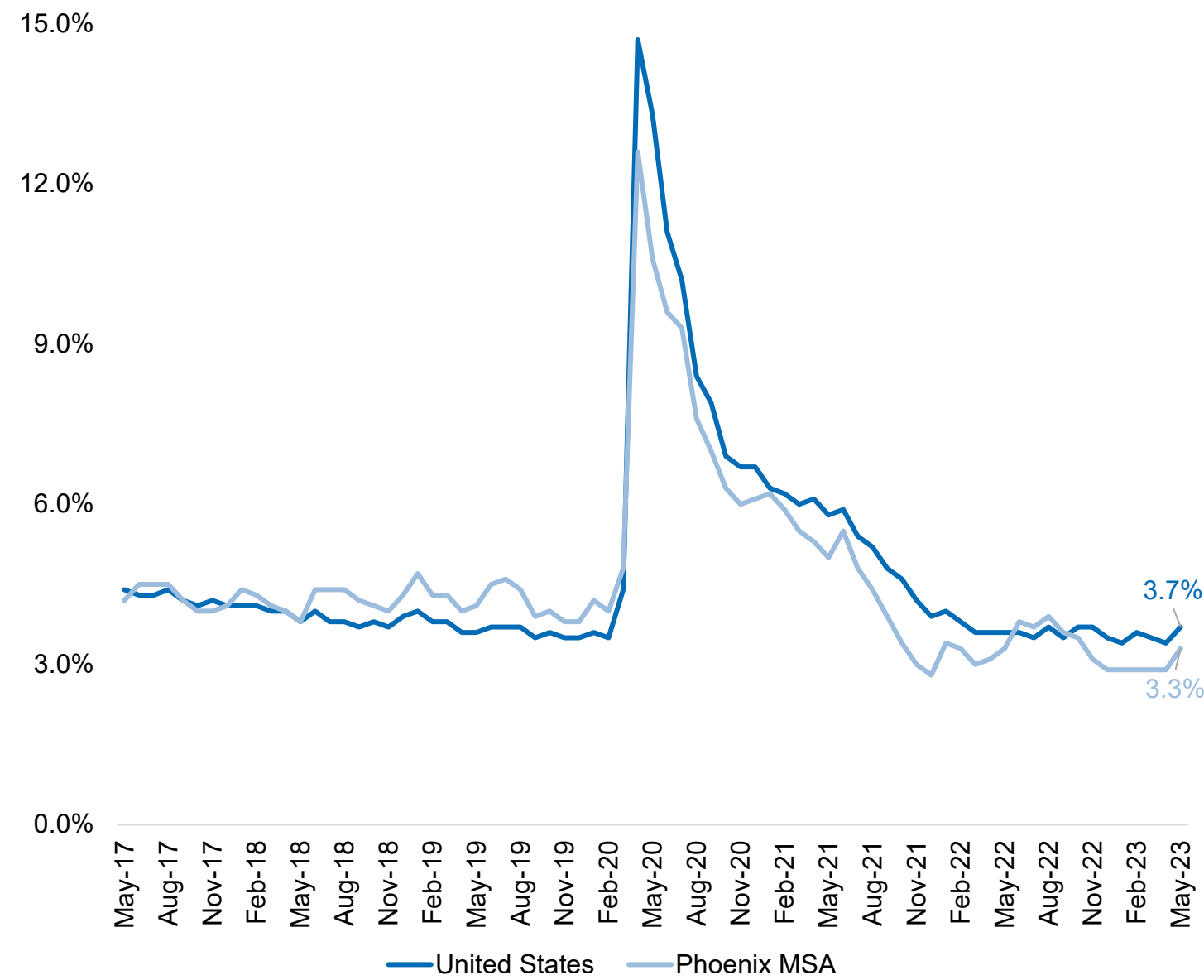
Economy



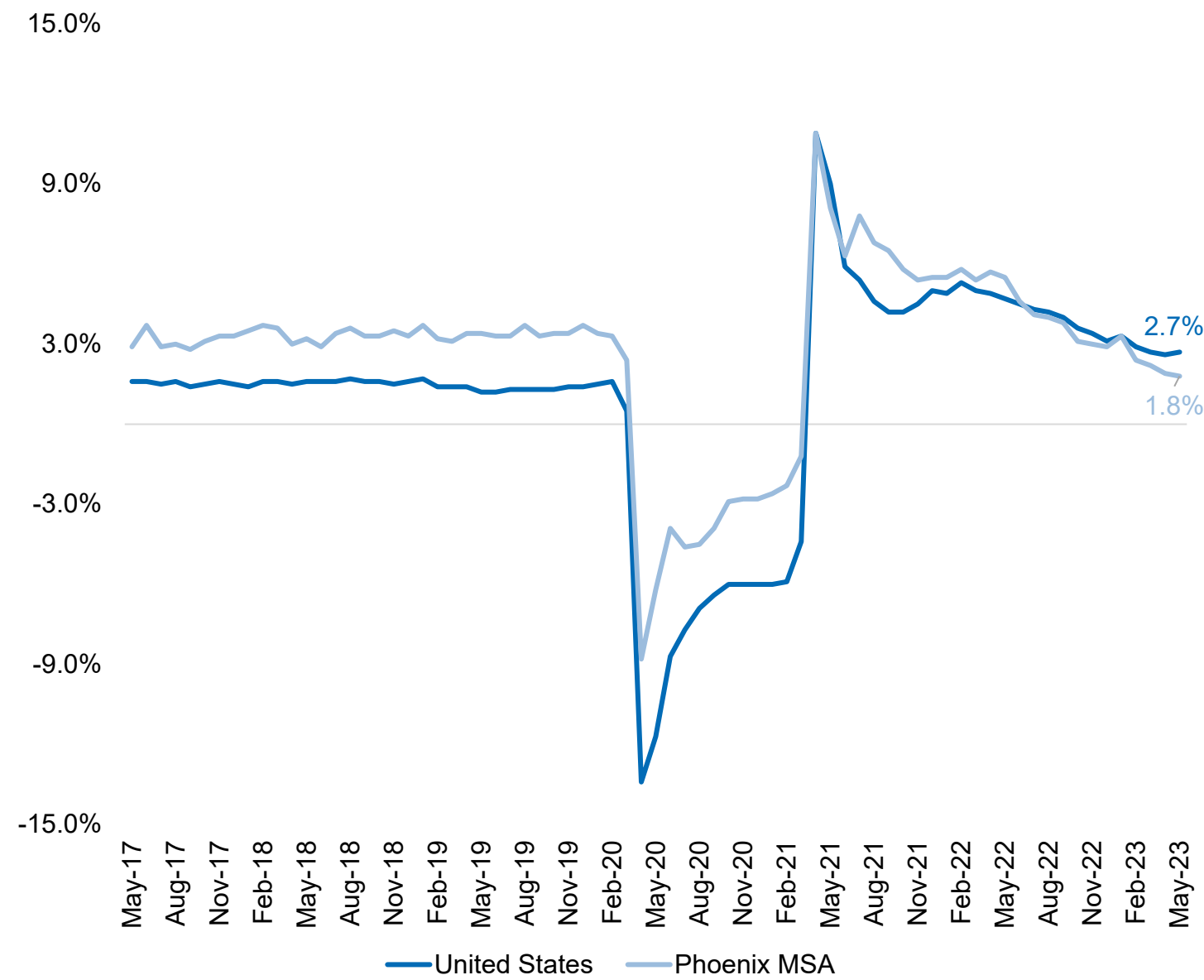
Phoenix Metro Labor Market Stabilizes

Phoenix’s unemployment rate was below the national average in May 2023, averaging 3.3% relative to 3.7% for the U.S. Overall local job growth has slowed down but remains in the positive for now as companies adapt to softening economic conditions.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

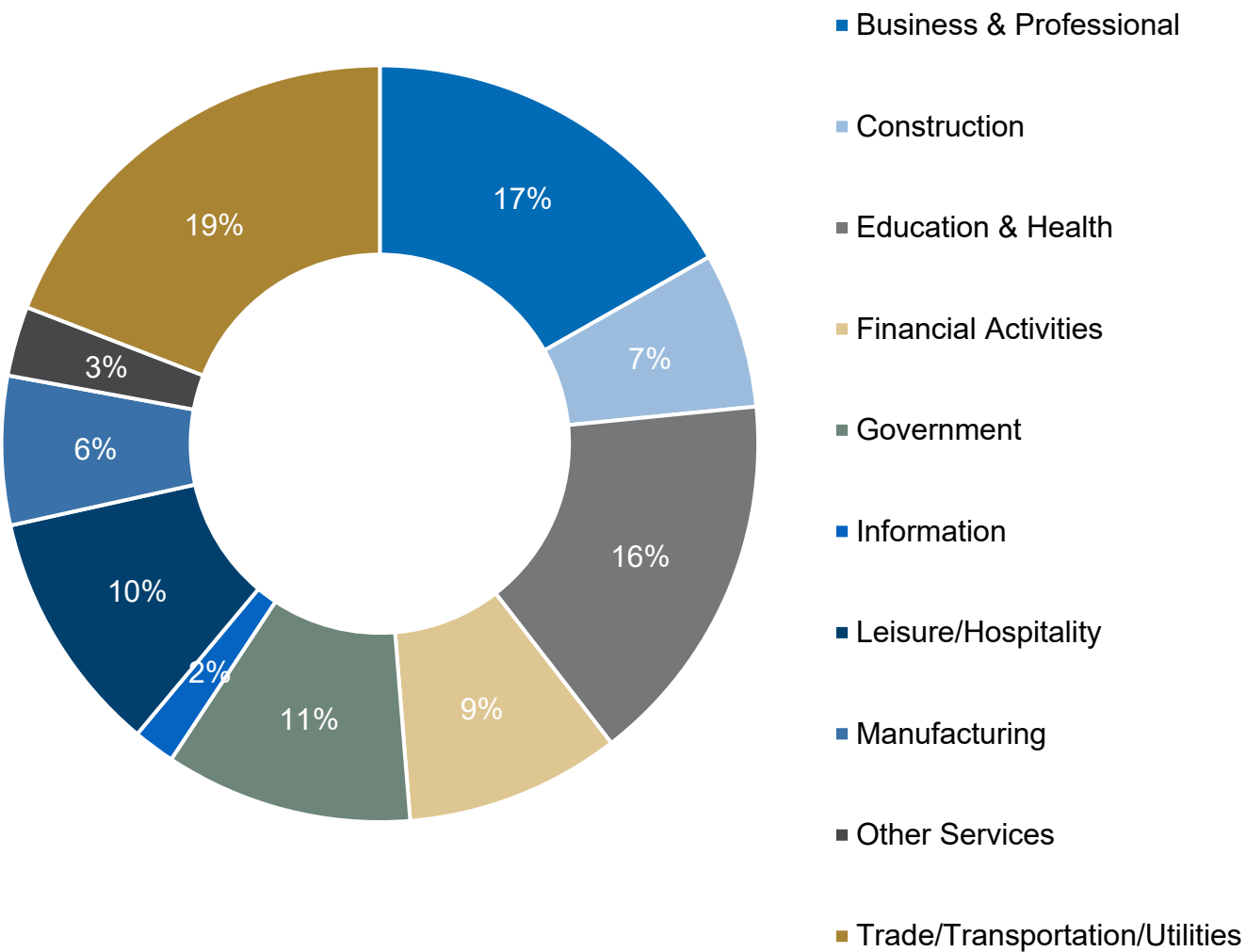


Source: U.S. Bureau of Labor Statistics, Phoenix MSA

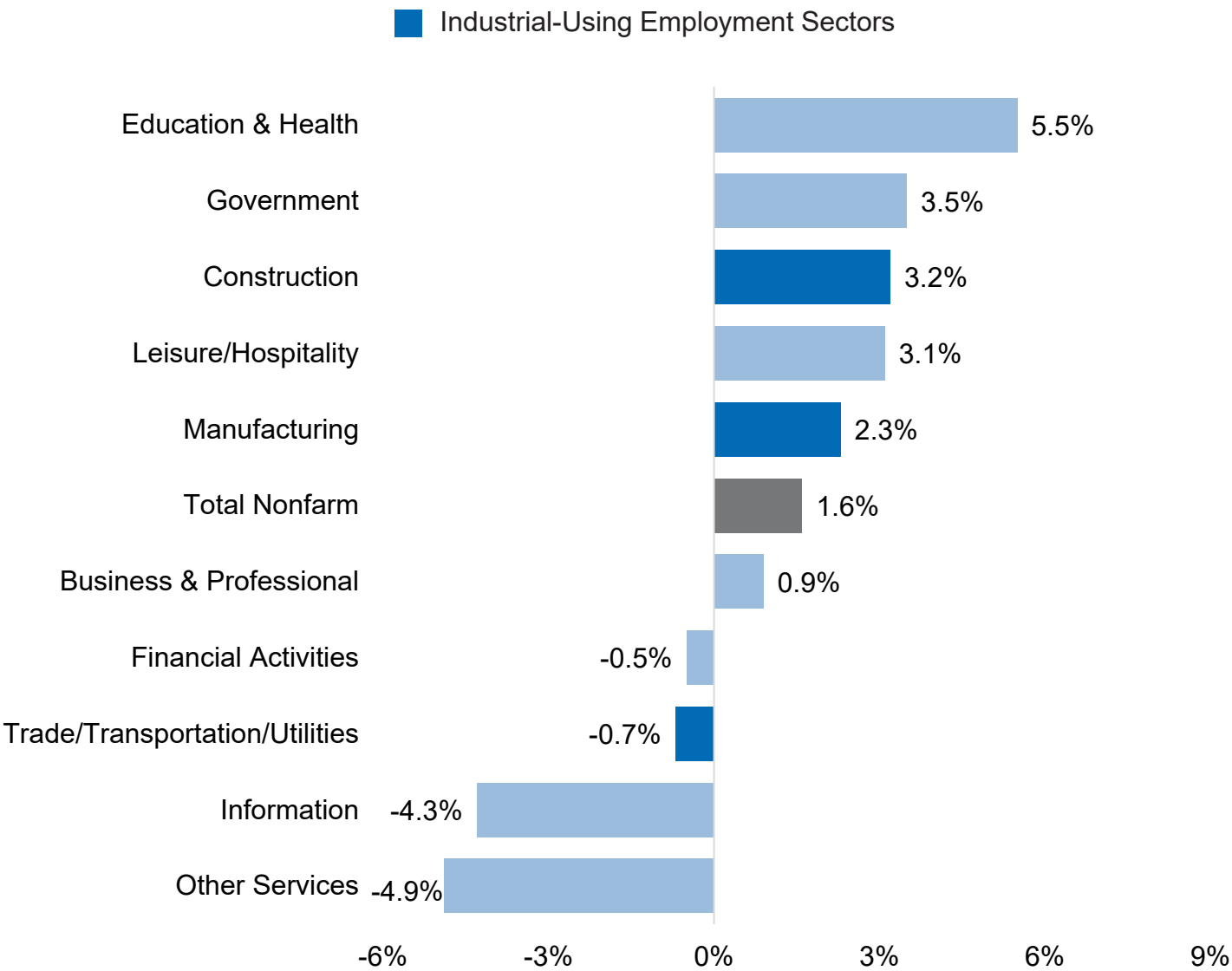
Strong Job Growth in Already Strong Sectors for the Metro

Education and health led all industries in annual job growth, followed closely by government and construction. Sizeable population growth in recent years supports the first two segments, while construction remains elevated on account of historic industrial development in the region. Overall industrial-using employment sectors saw year-over-year gains, despite a small contraction in trade, transportation and utilities.

Employment by Industry, May 2023



Employment Growth by Industry, 12-Month % Change, May 2023

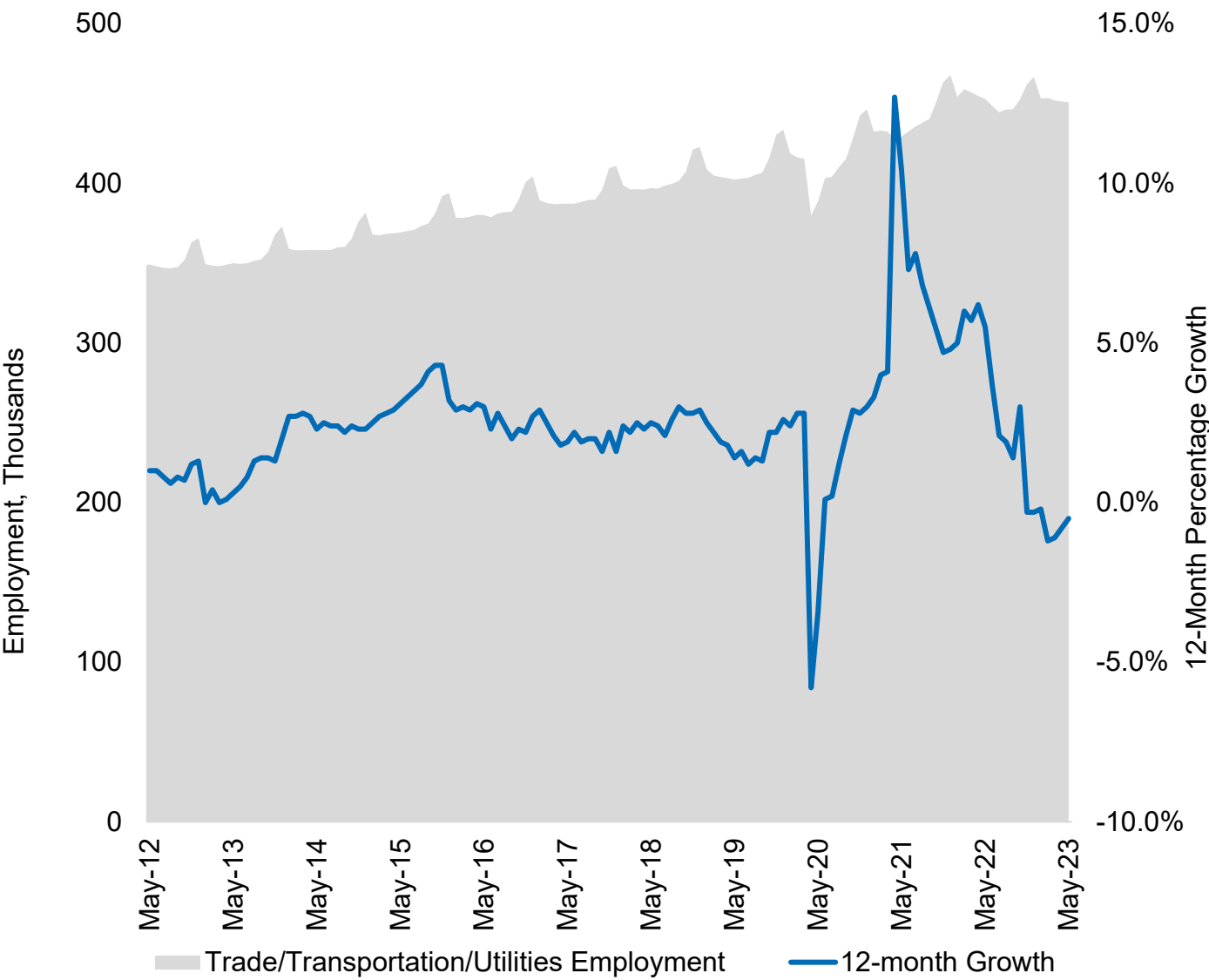


Source: U.S. Bureau of Labor Statistics, Phoenix MSA

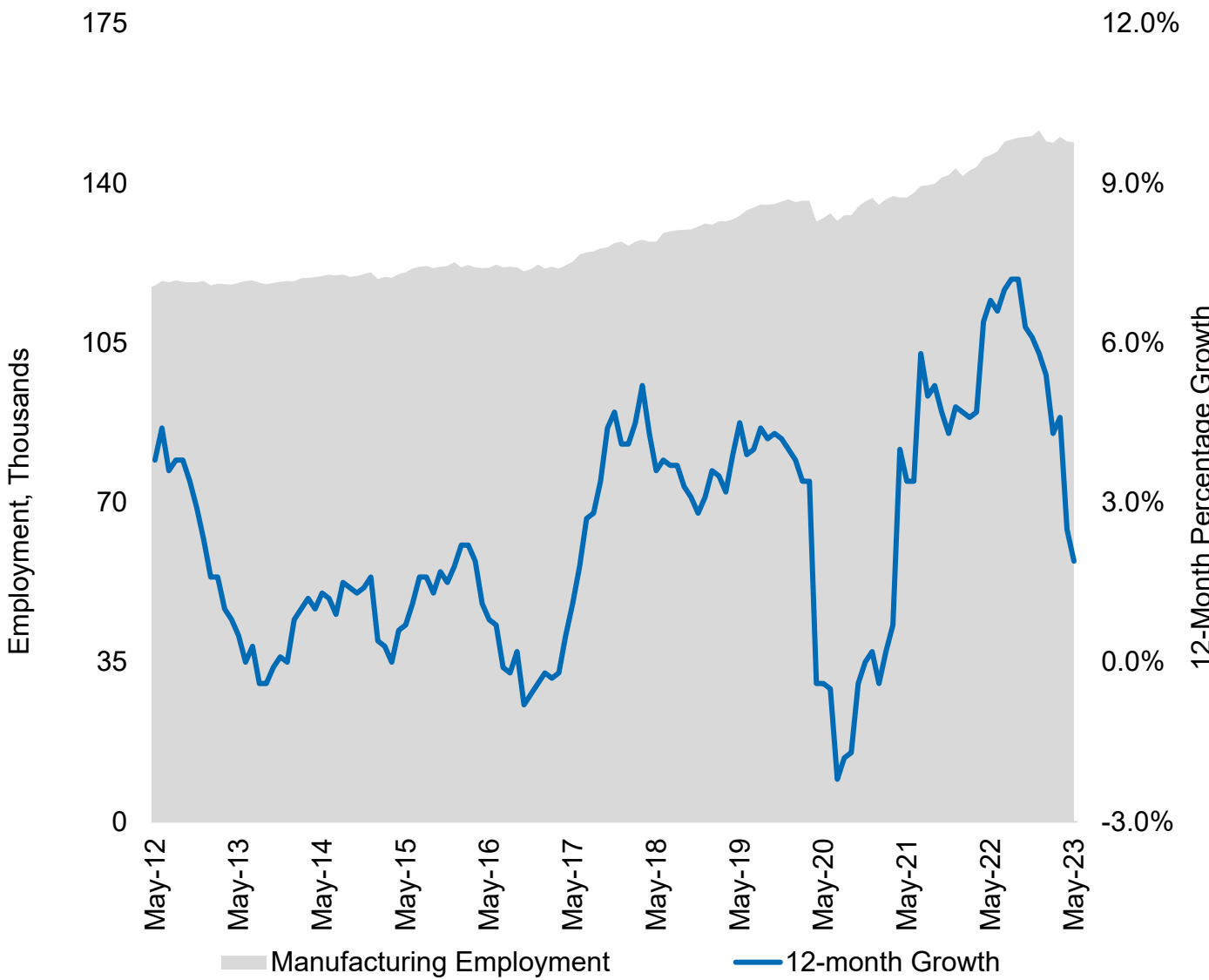
Industrial Employment Strong; Manufacturing Demand High in 2023 and 2024

After a robust three years of job growth, the trade/transportation/utilities employment sector is right-sizing amid a shift in consumer demand for goods. Manufacturing job growth remains strong at 1.9% and with the Metro designated by the White House as a workforce hub for advanced manufacturing, job growth in the sector is expected to continue expanding for the near future.

Trade/Transportation/Utilities Employment and 12-Month Growth Rate



Manufacturing Employment and 12-Month Growth Rate



Source: U.S. Bureau of Labor Statistics, Phoenix MSA

2Q23

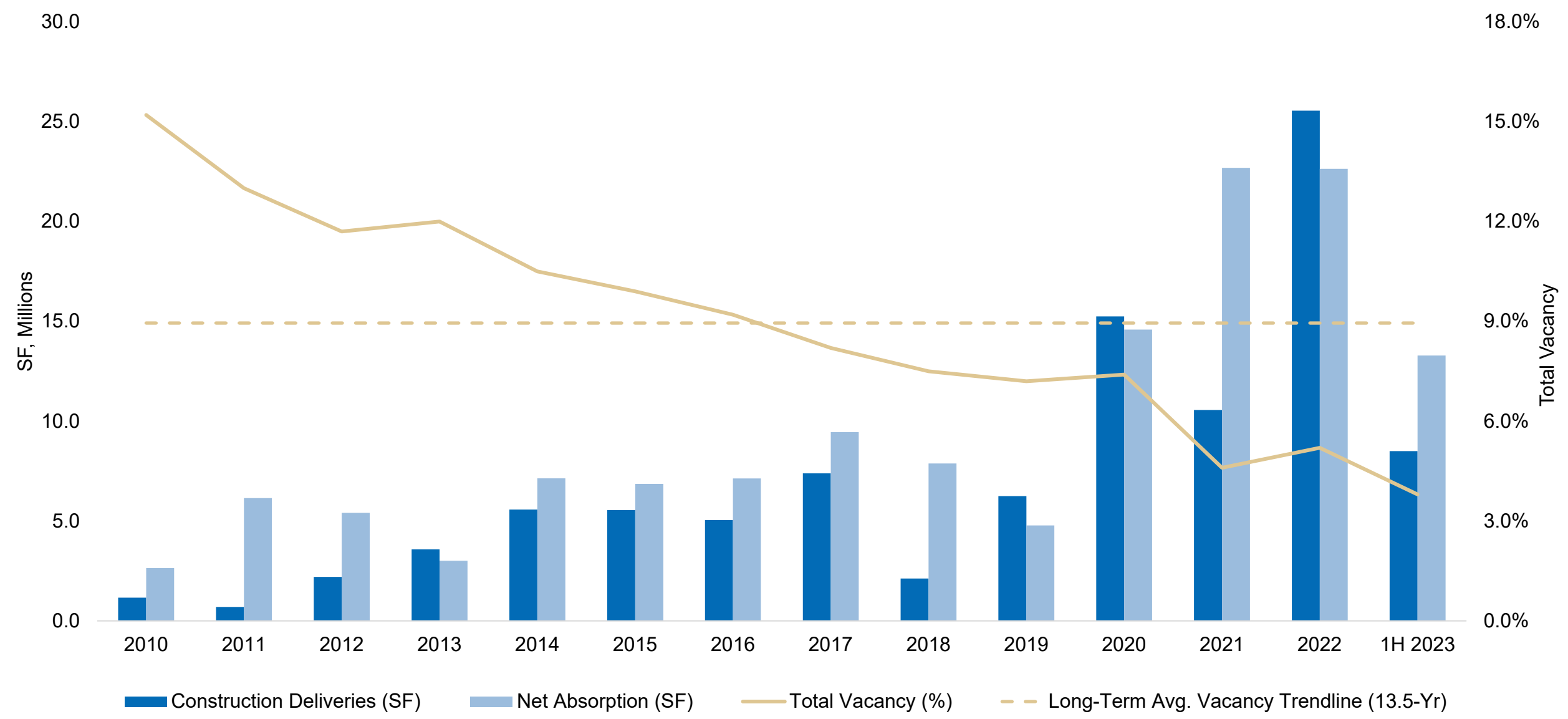
Leasing Market Fundamentals



Vacancy Decreases as Net Absorption Outpaces Construction Deliveries

Vacancy decreased to a new record at 3.8% in the second quarter of 2023, well below the 13.5-year average of 9.0%. Vacancy is expected to increase slightly with several speculative developments close to delivery with no tenants in tow in the second half of 2023; however, recent advanced manufacturing announcements for the Metro may attract other industrial users to the market and will dampen a large increase in vacancy in 2023 and 2024 if they follow suit.

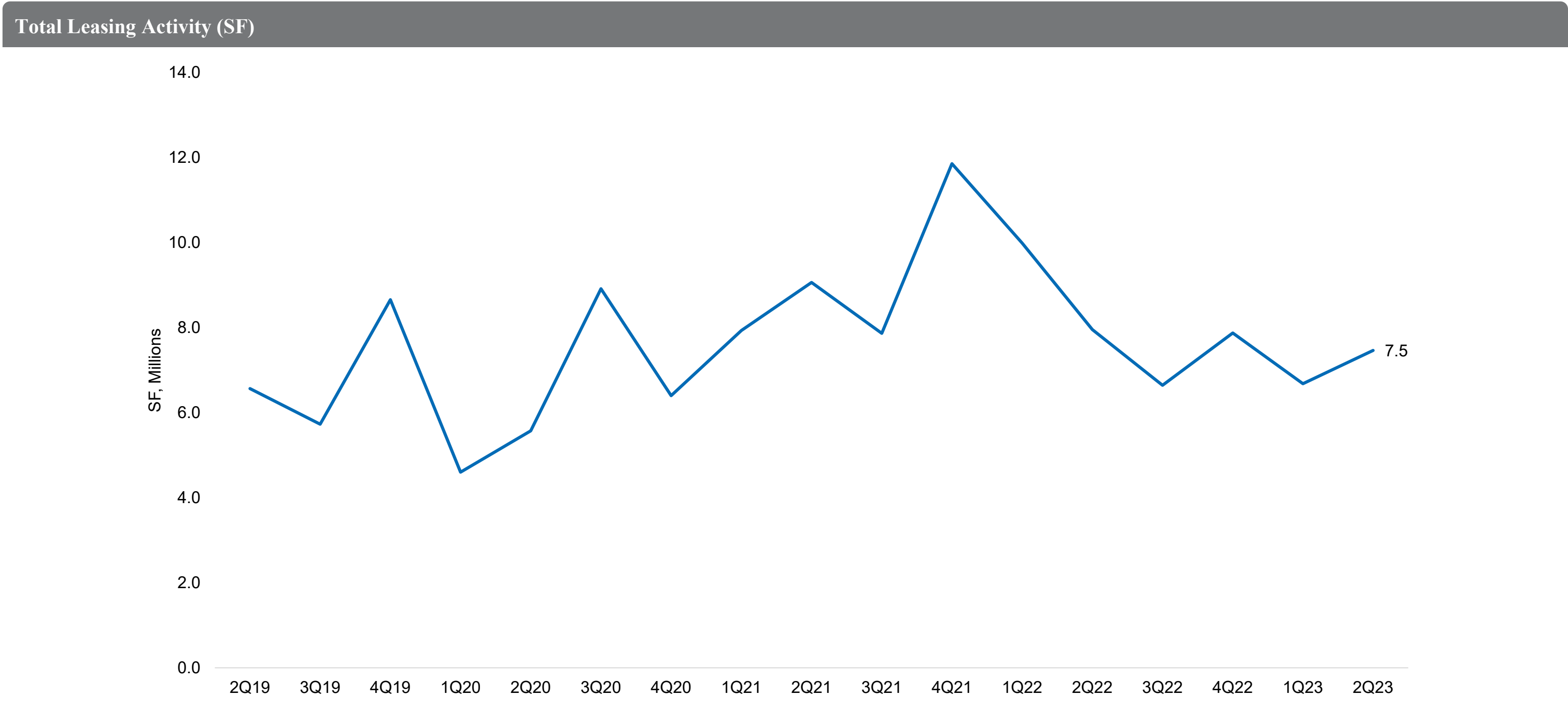
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Industrial Leasing Activity Decelerates to Pre-Pandemic Measures

Demand for industrial space remains strong, albeit leasing activity has slowed from 2021’s fourth-quarter high. In the second quarter of 2023, there were 7.5 million SF of leasing activity, just under the five-year average of 7.6 million SF. Leasing activity was strongest among manufacturing and 3PL users.

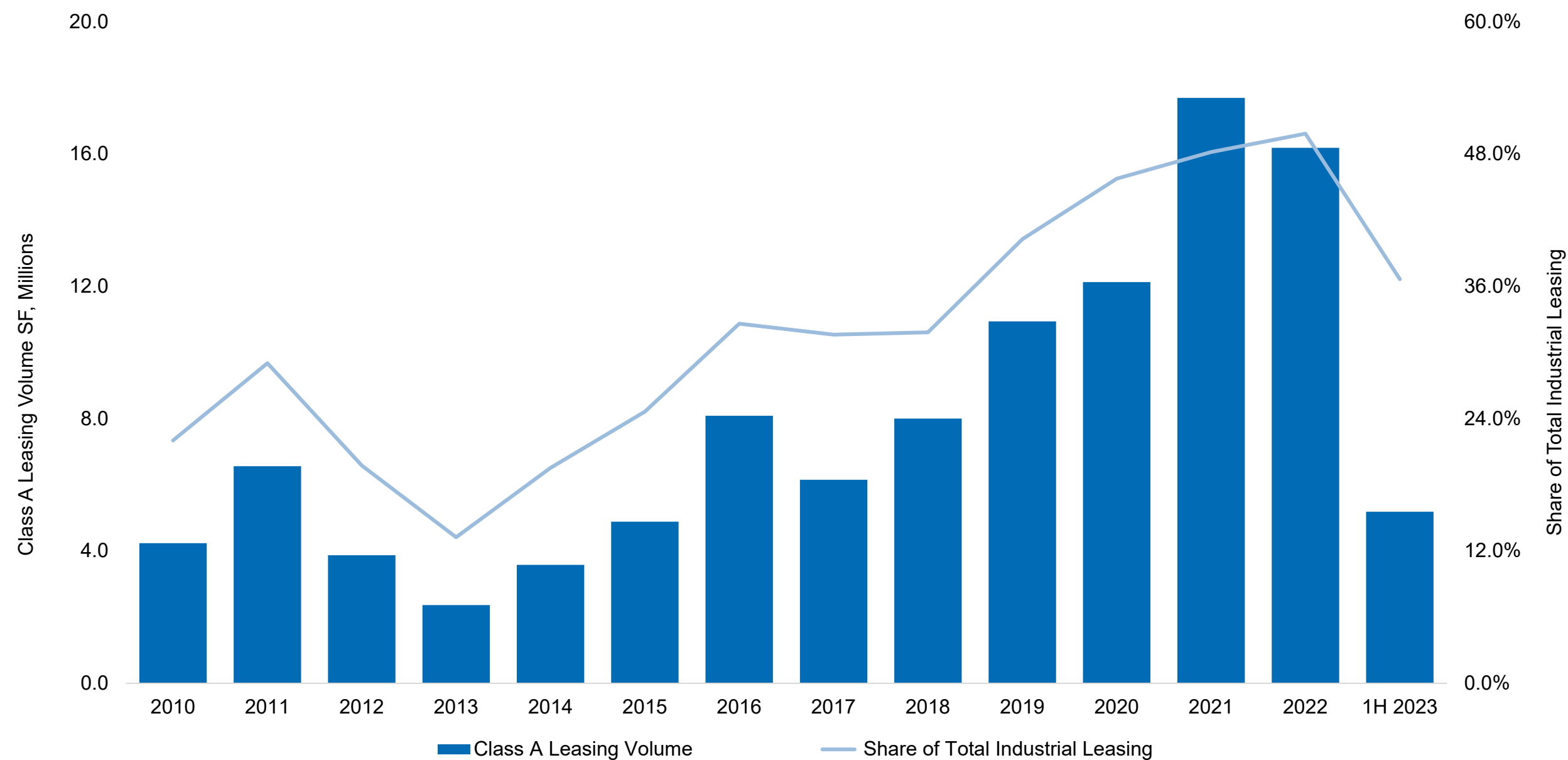


Source: Newmark Research

Class A Warehouse Leasing Remains Elevated, Down from Recent Highs

Developers raced to build new construction over the last few years as vacancy continued to trend downwards from 2020 on as developers raced to meet occupier demand for more space in the Metro. Most of the new construction is considered Class A, largely contributing to the increase in Class A leasing volume. Cost-conscious tenants are more likely to consider Class B and C space, which is evident with the decrease in Class A leasing volume in the first half of 2023.

Industrial Class A Leasing Volume and Percentage of Total Industrial Leasing Volume

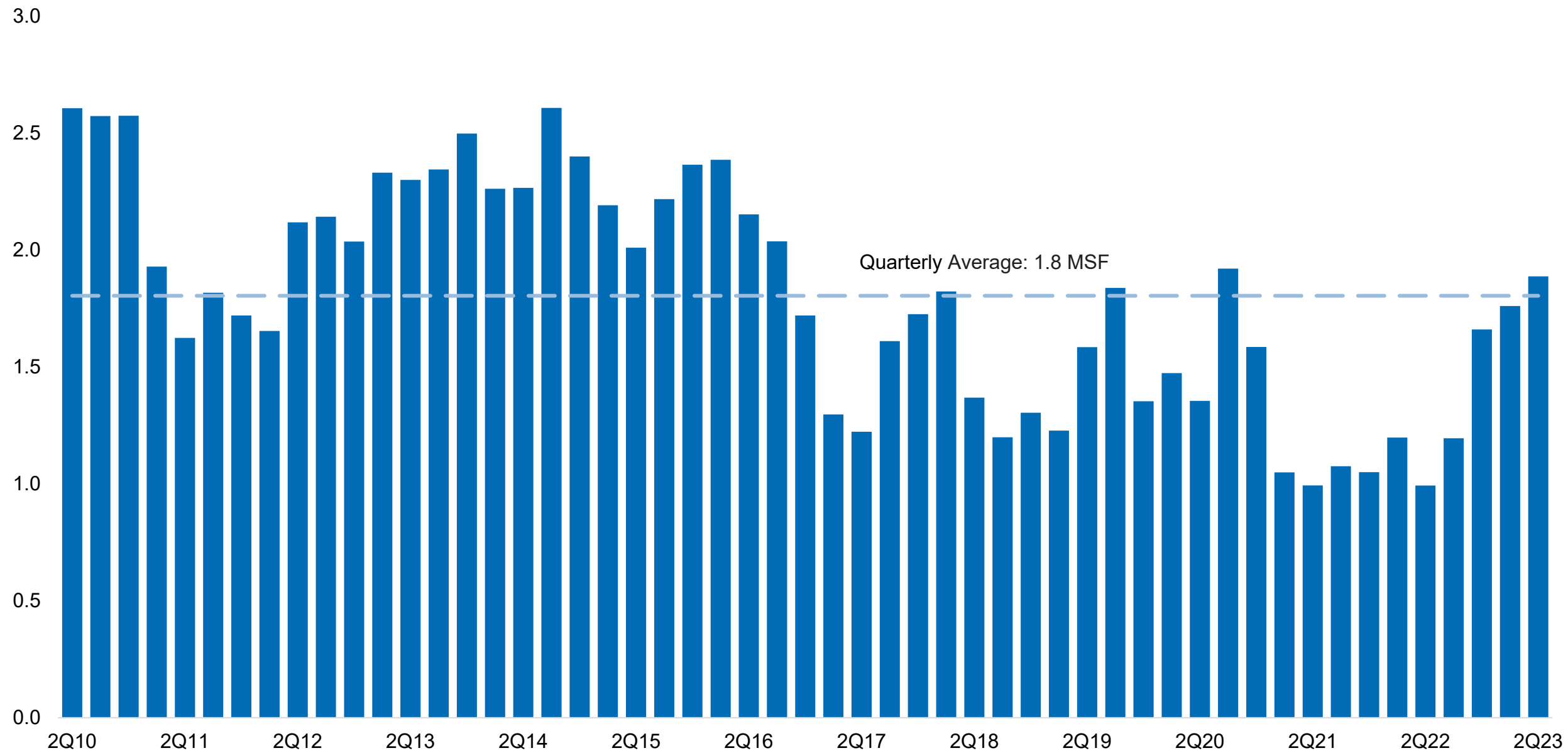


Source: Newmark Research

Industrial Sublease Availability Surpass Quarterly Average

After hitting a record low of sublease availability in the second quarter of 2022, sublease availability has steadily rose since to 1.9 million SF in the second quarter of 2023, surpassing the 14-year quarterly average for the first time since the third quarter of 2020. As consumer spending moved from goods to services in recent quarters, some warehouse and supplier industrial users returned space to the market as demand for product slowed down.

Available Industrial Sublease Volume (MSF)

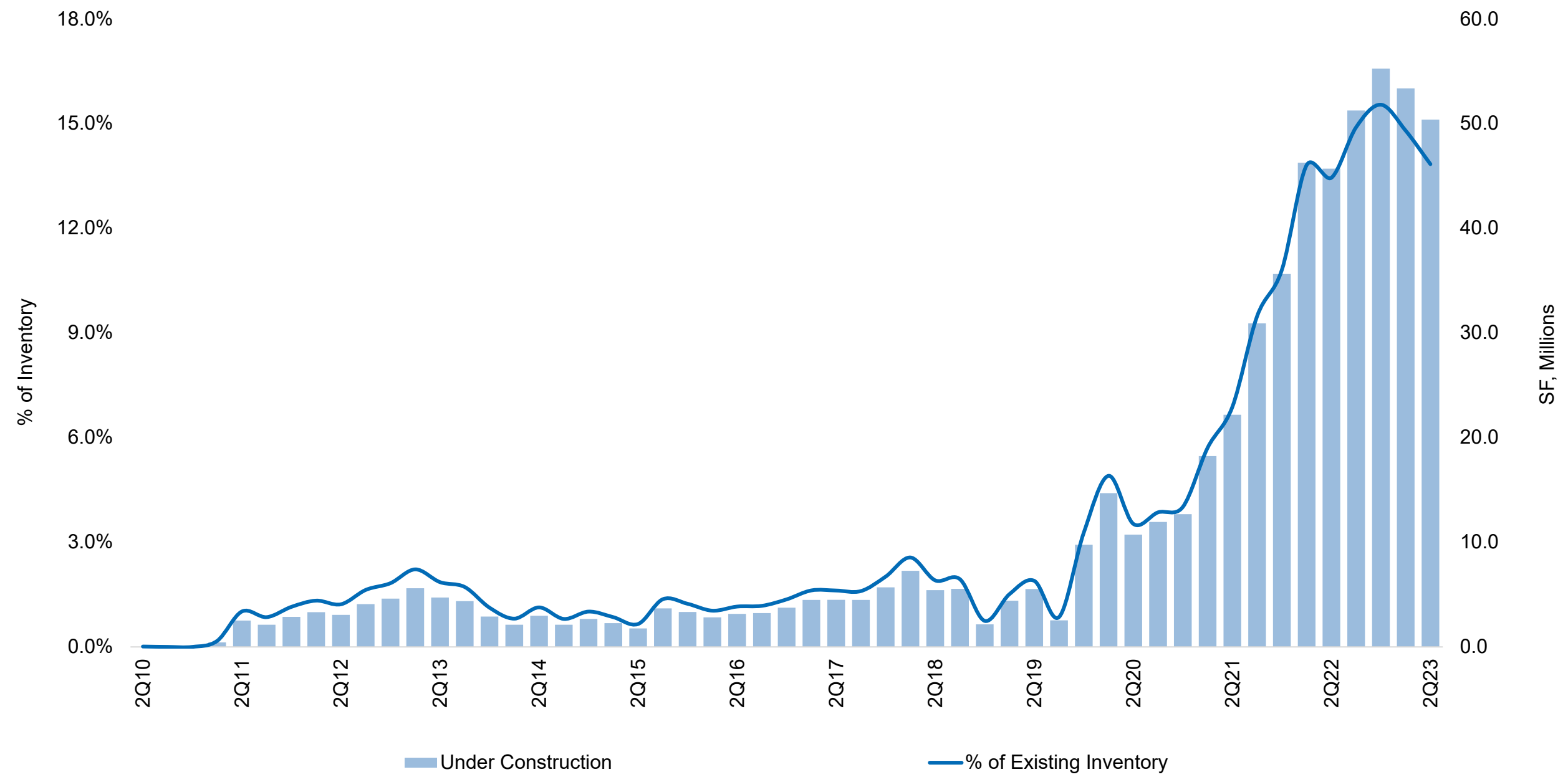


Source: Newmark Research

Industrial Supply Pipeline Eases as Construction Starts Dwindle

The construction pipeline trended downward for the second consecutive quarter after reaching a high of 55.2 million SF in the fourth quarter of 2022. Inflation, coupled with difficulty in sourcing construction debt, is acting a deterrent to a number of construction starts. The construction landscape and overall quantity of projects delivering and breaking ground are much higher than surrounding metros in the Southwest region, as users continue to view Phoenix as an attractive location to build and expand.

Industrial Under Construction and % of Existing Inventory

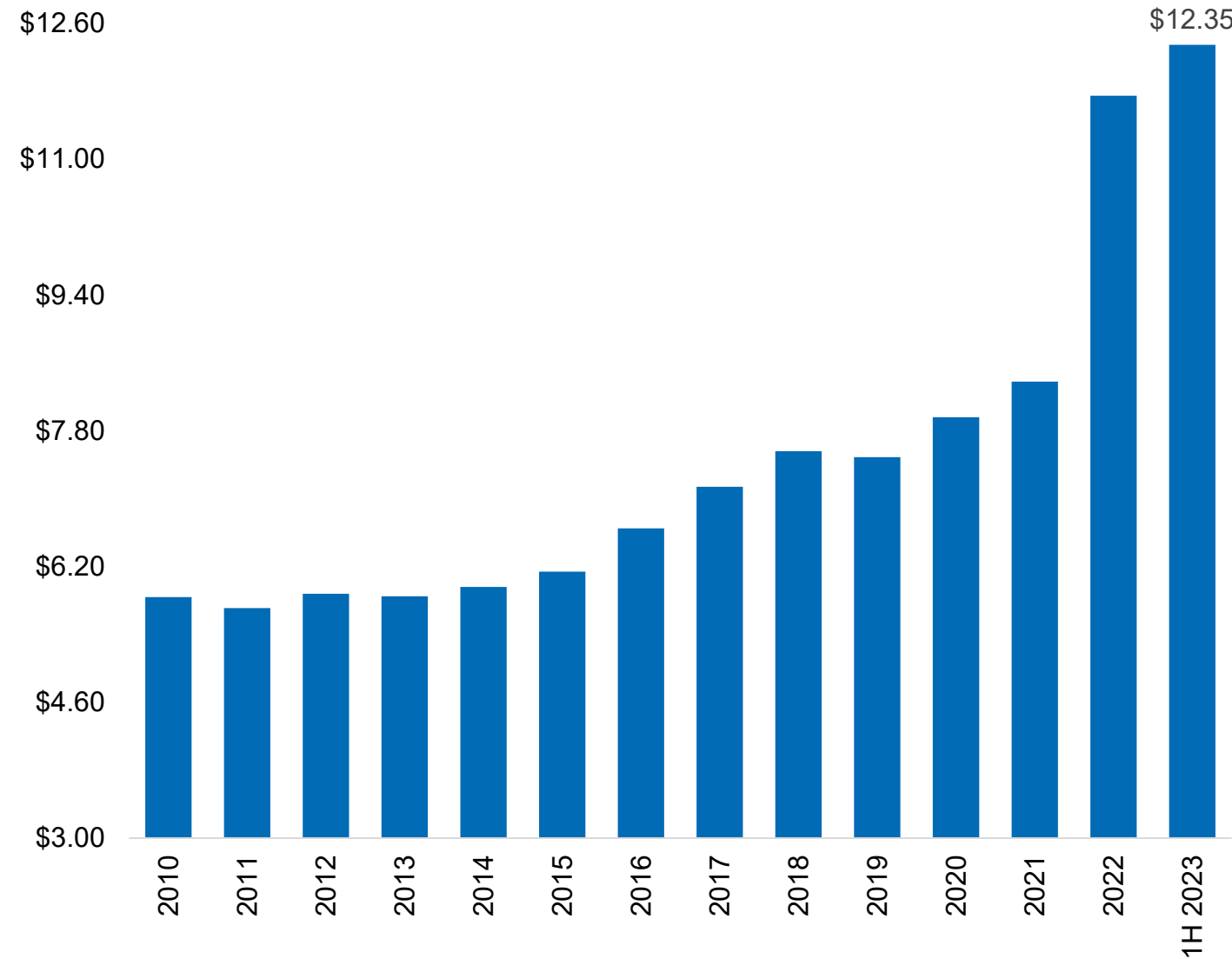


Source: Newmark Research

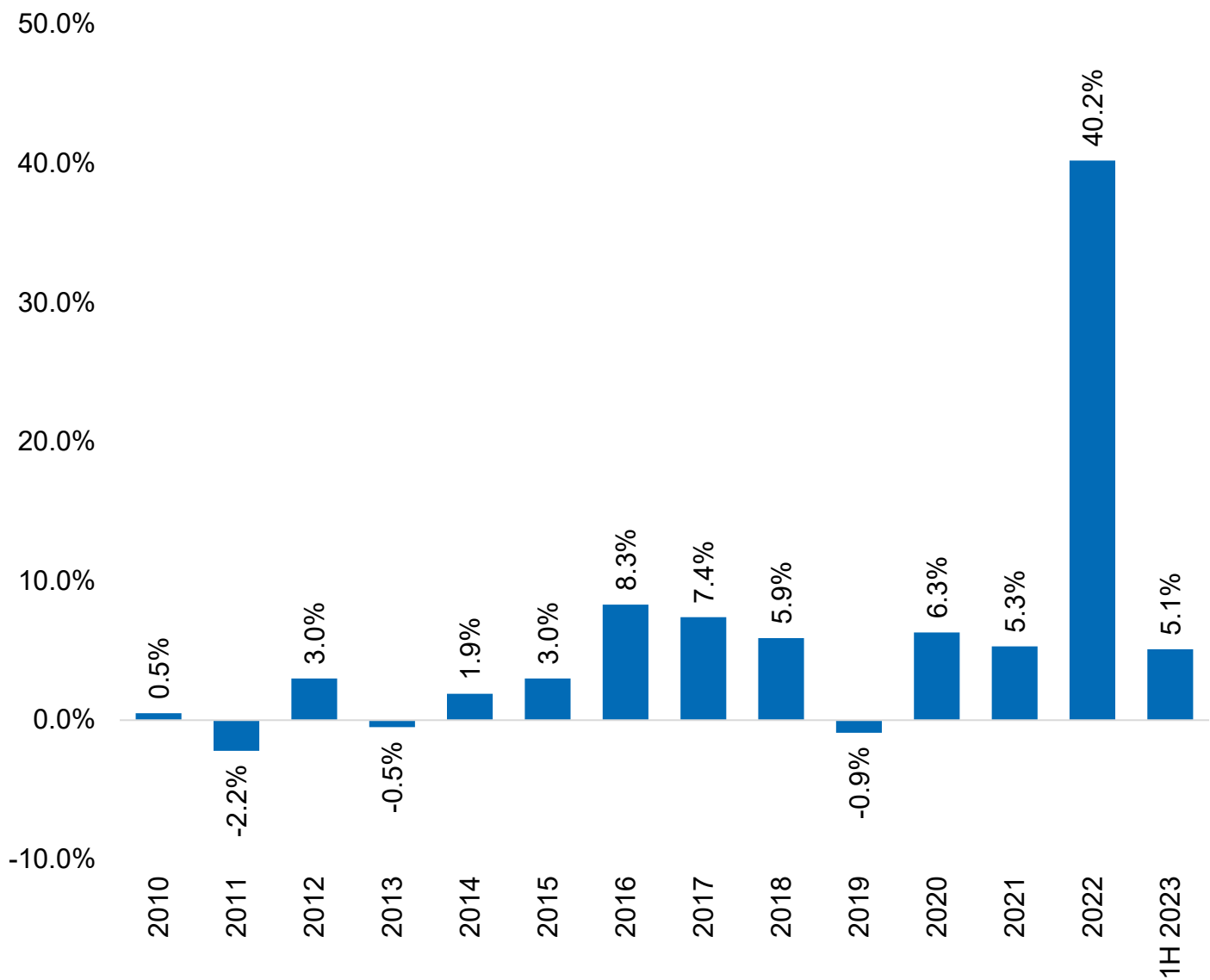
Industrial Asking Rent Growth Appears to Be Leveling off for Now

Industrial average asking rents still increased by 5.1% in the first half of 2023 after an explosive 2022 that saw a 40.2% increase. With such an unsustainable growth rate in 2022, industrial users welcomed the slowed rent growth velocity albeit readjusting to the new normal for industrial rates for the market overall. Numerous Class A projects are slated to deliver before the end of the year and will likely continue push rents upwards as leases are signed at new watermark highs.

Industrial Average Asking Rent, \$/SF/Year, NNN



Year-over-Year Asking Rent Growth Rate % Change



Source: Newmark Research

Notable 2Q23 Lease Transactions

The Glendale submarket welcomed a handful of new tenants this quarter: CJ Logistics, Tricolor Auto and Prolift Rigging, to name a few. Additionally, many larger leases signed this quarter took place in projects currently under construction, a good sign for developers that space is still in high demand despite the large influx of new product that has entered and/or is planned to complete in the coming quarters.

Select Lease Transactions				
Tenant	Building	Submarket	Lease Type	Square Feet
Pac Worldwide	Riverside Business Center	West Central Phoenix	Renewal	383,075
The manufacturer of protective mailers and specialty packaging renewed their distribution space lease in West Central Phoenix.				
CJ Logistics	Commerce @ 303	Glendale	Direct New	331,684
The third-party logistics company that provides sea and air transport of import/export freight is taking over half of the first property at Commerce @ 303.				
Exxon Mobil	Crimson Canyon Center	Southwest Phoenix	Direct New	326,103
This multinational oil and gas corporation is adding to its footprint in this Class A industrial property with plans to deliver in Q3 of 2023.				
Tricolor Auto	Blue Cactus Logistics	North Glendale	Direct New	257,920
The Texas-based car dealership, serving across the Southwest, is occupying this center in its entirety.				
ProLift Rigging	Park Aldea Phase II	Glendale	Direct New	251,043
This relocation solutions company is expanding into Phoenix MSA at this Class A industrial building park.				

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