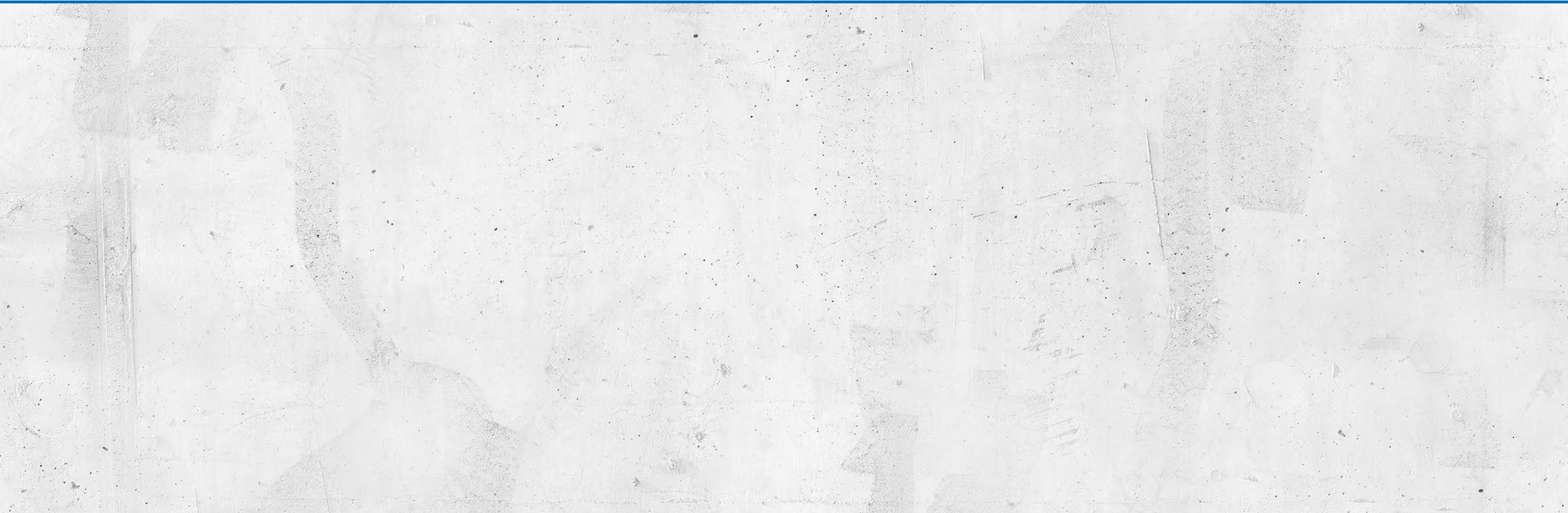


Phoenix Industrial Market Overview



Market Observations

Economy

- Phoenix’s overall labor market remains strong, with a 3.5% unemployment rate in November, even with the national average.
- Job growth was mixed across the region’s industrial-using employment sectors.
- Loaded import volume at the Ports of Los Angeles and Long Beach collectively totaled 7.6 million containers in the first 11 months of 2023. This figure is on par with the same period in 2016, which ended up being a healthy year.
- There is a strong correlation between historical import traffic and demand for warehouse space across Southwest markets.

Major Transactions

- Most of the large transactions that occurred in the fourth quarter of 2023 took place in currently under-construction or recently delivered buildings as users flock to high quality buildings.
- Saddle Creek Logistics (570,080 SF), Meta (480,000 SF) and Sunmed (326,018 SF) signed on as sole tenants in their respective buildings.
- Sales activity for industrial product totaled over \$2.4 billion for 2023, illustrating investor confidence in the Metro as a good location to place capital.

Leasing Market Fundamentals

- Net absorption in 2023 was 19.3 MSF versus 34.8 MSF in construction deliveries as numerous speculative buildings delivered partially vacant.
- 12.3 MSF in new construction delivered this quarter alone and 85.0% was vacant. Although this pushed the greater market’s total vacancy from 6.6% to 8.3%, vacancy will decrease somewhat since a portion of the new supply is leased, with tenants slated to take occupancy in the coming quarters.
- Under-construction activity decreased for the fourth consecutive quarter. 35.2 MSF is presently underway and 31.5% has pre-leased to date.
- Annual asking rent growth slowed to 6.0%, a welcome change for tenants after 2022’s unprecedented 40.2% jump.

Outlook

- As a designated workforce hub for advanced 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.
- Union Pacific will soon open an intermodal facility that offers direct connectivity to Southern California’s ports. Shipping by rail is far cheaper than by truck, and this will favor Phoenix’s distributors and manufacturers.
- Sublease availability will likely increase as distributors continue to pivot from just-in-case to a just-in-time inventory models amid slower demand for consumer goods.

1. Economy
2. Market Fundamentals
3. Appendix

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Economy



Loaded Imports in the First 11 Months of 2023 Were Slightly Higher than the Same Period in 2016

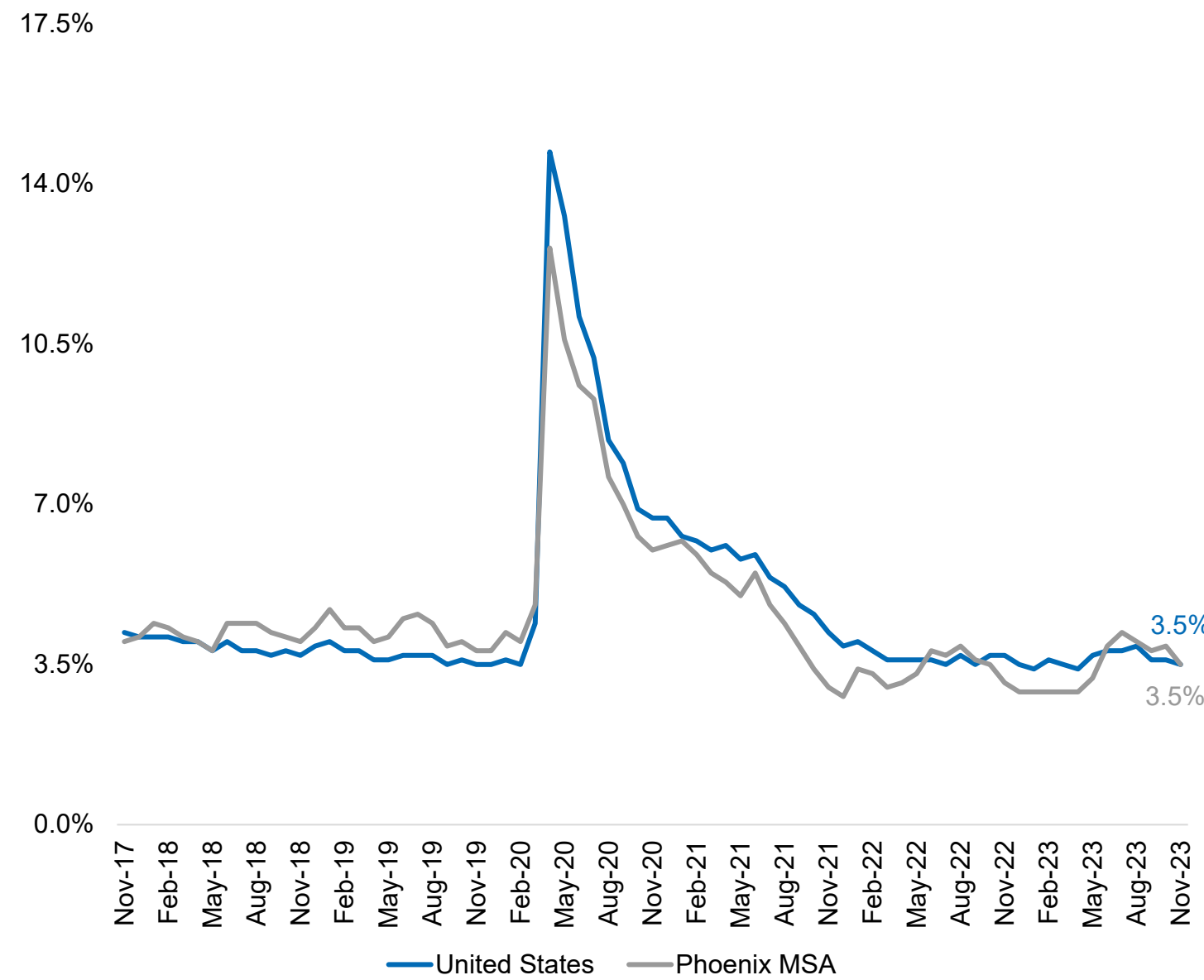


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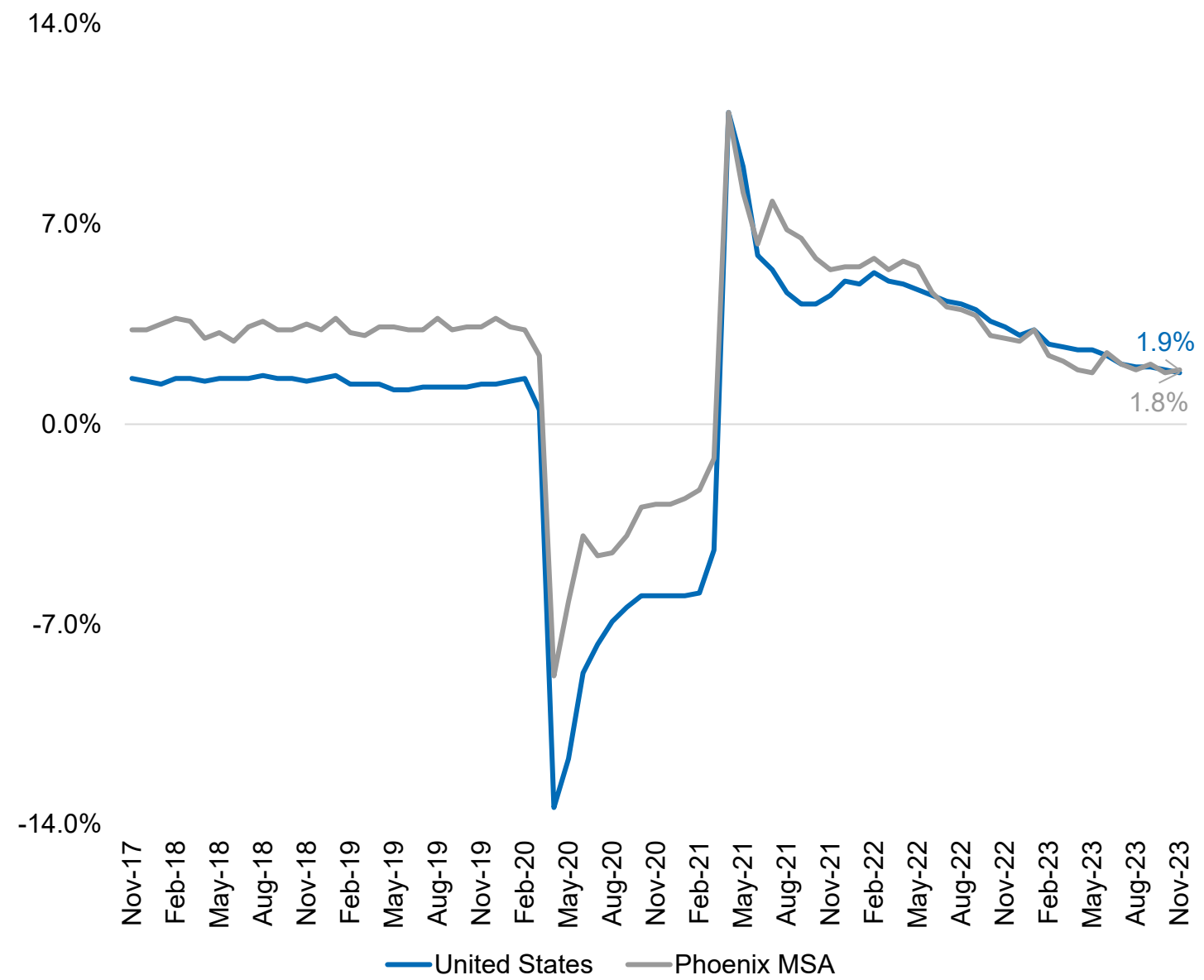
Phoenix Metro Labor Market Mirrors National Trends at Year-End

Phoenix’s unemployment rate matched the national rate in November 2023 at 3.5%, mirroring pre-pandemic unemployment averages. Overall local job growth has slowed but remains positive for now as companies adapt to softening economic conditions.

Unemployment Rate, Not Seasonally Adjusted



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

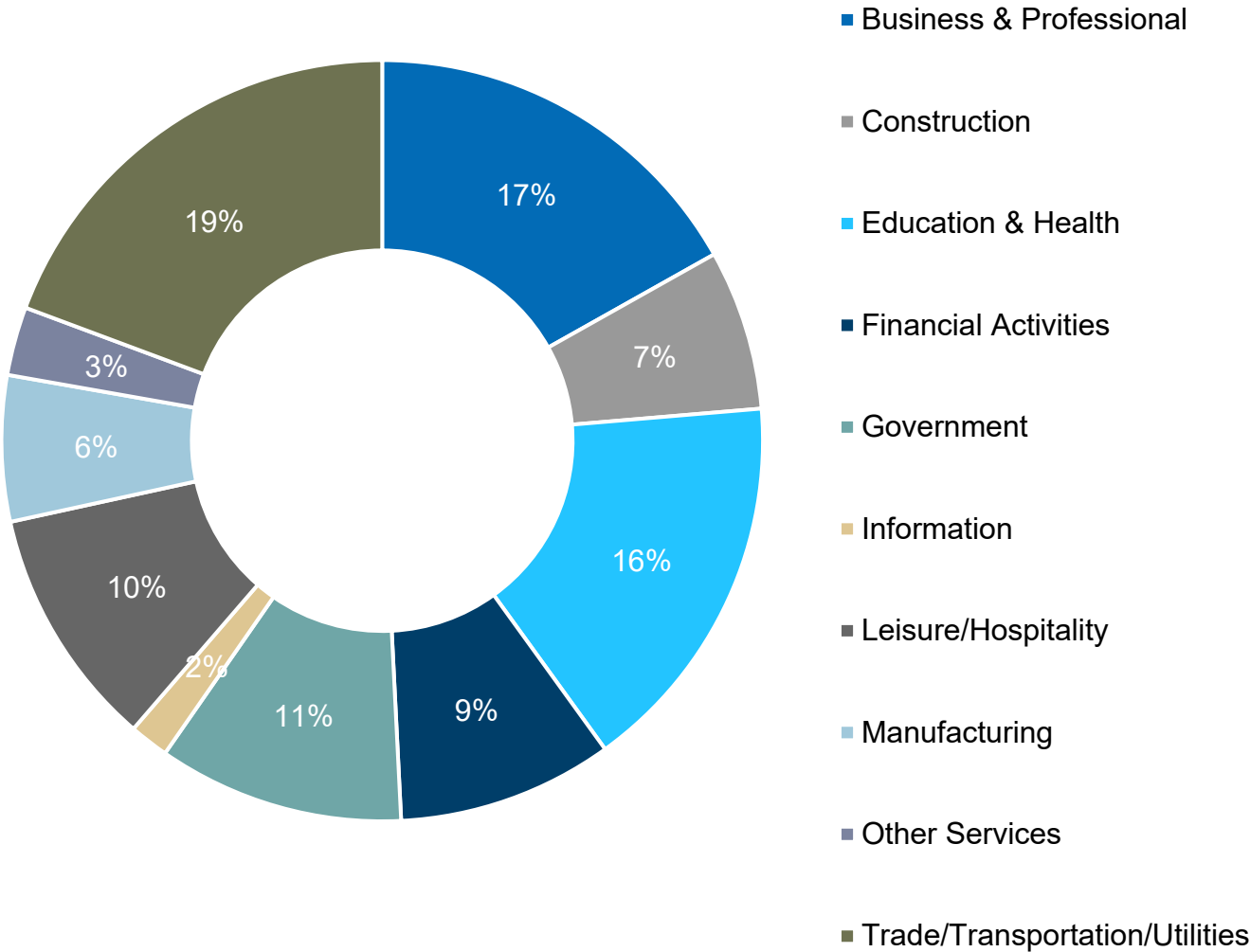


Source: U.S. Bureau of Labor Statistics, Phoenix MSA
Note: November 2023 data is preliminary.

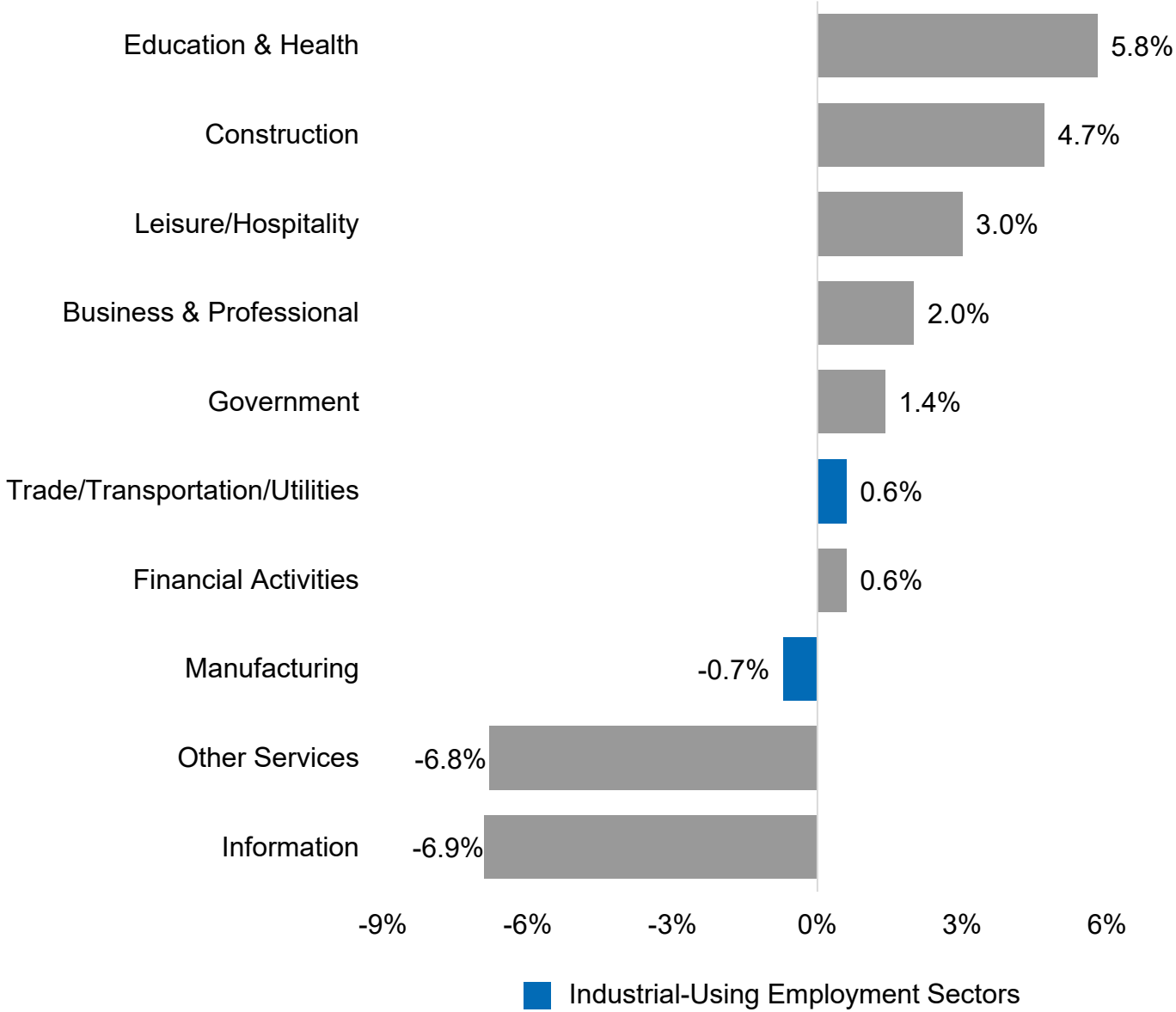
Strong Job Growth in Already Strong Sectors for the Metro

Education and health led all industries in annual job growth, followed closely by construction and leisure/hospitality. Sizeable population growth in recent years supports the first two segments, while construction remains elevated on account of record high industrial development in the region. For industrial-occupying sectors: manufacturing contracted by 0.7% while trade/transportation/utilities saw a modest gain of 0.6%.

Employment by Industry, November 2023



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

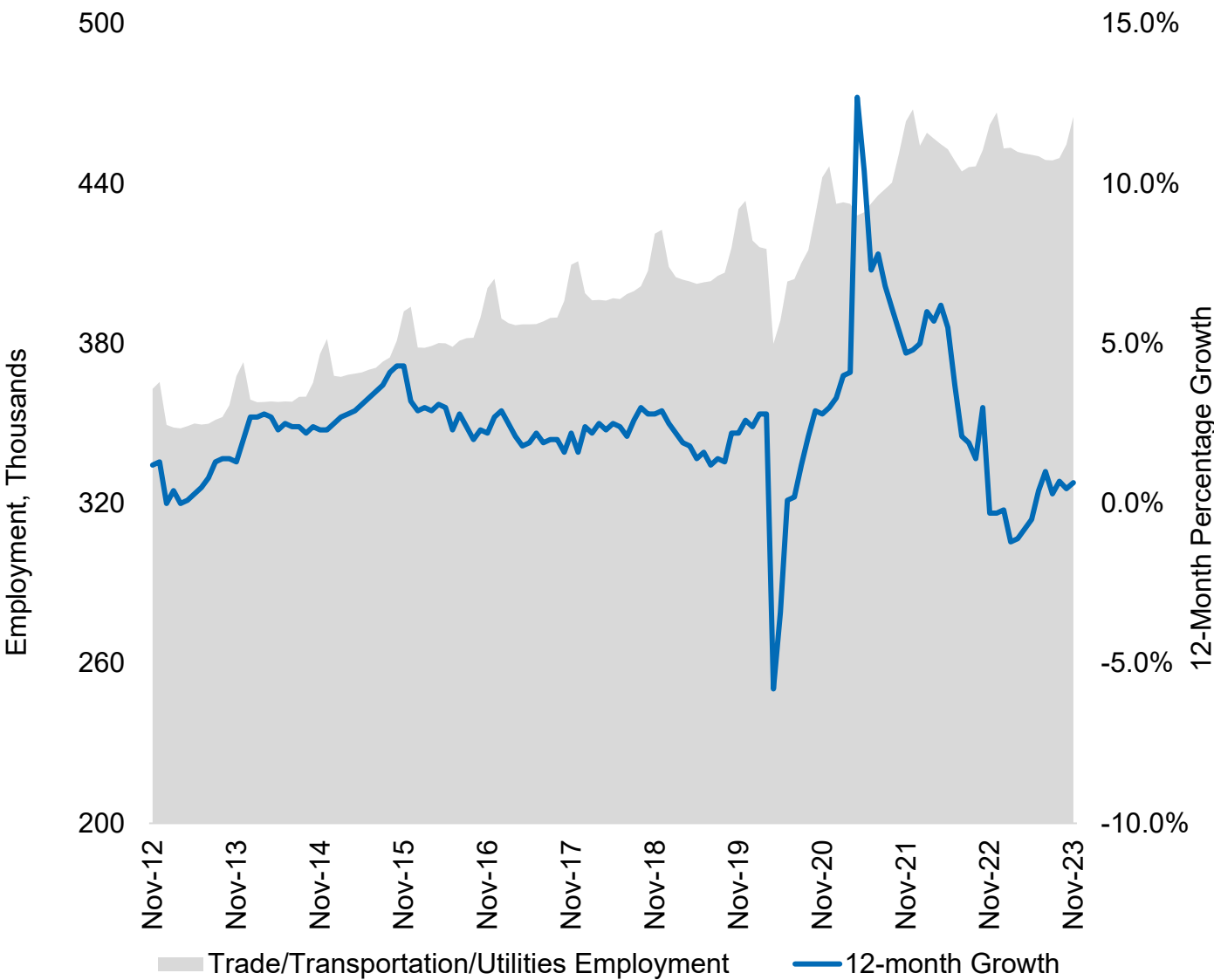


Source: U.S. Bureau of Labor Statistics, Phoenix MSA
Note: November 2023 data is preliminary.

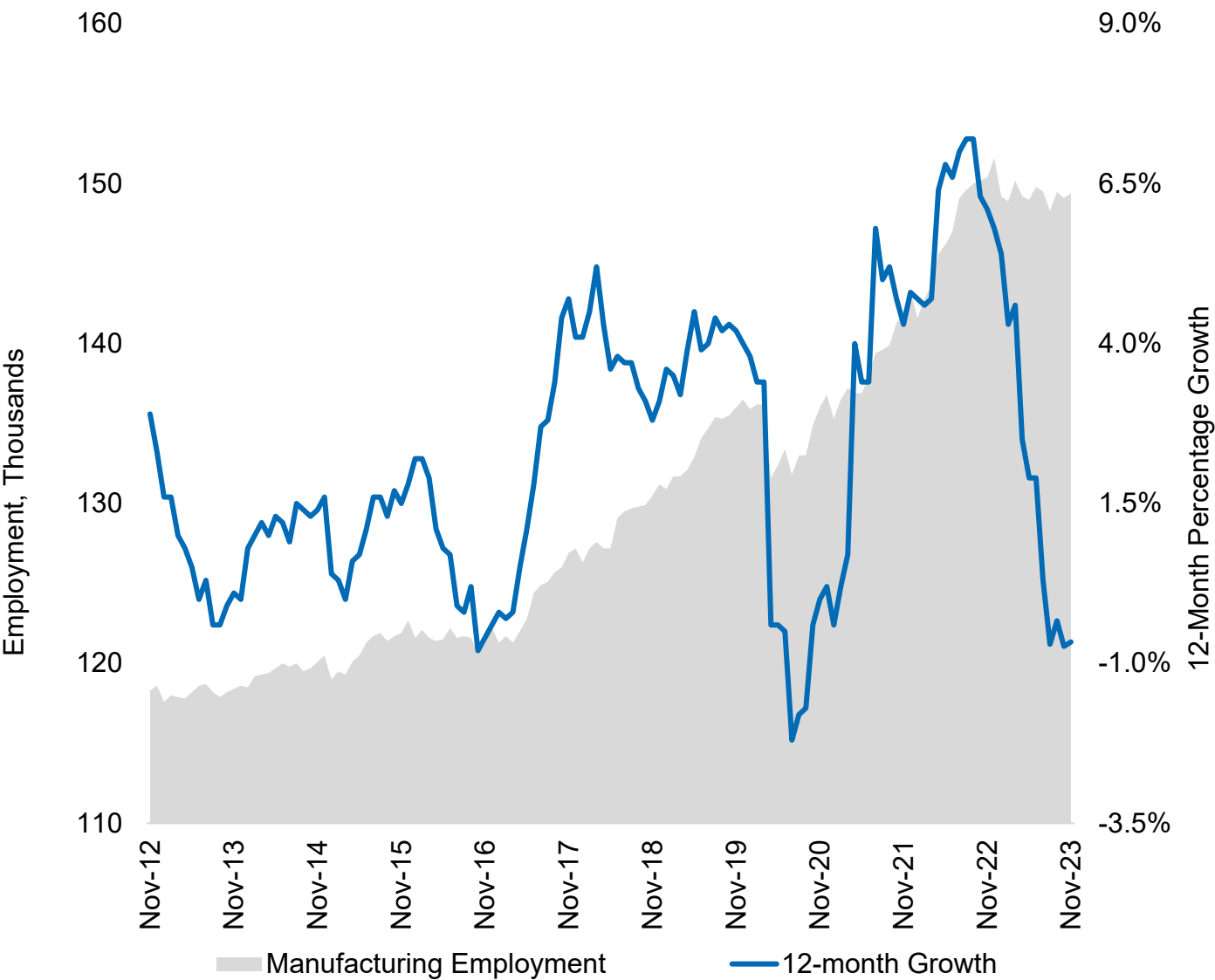
Industrial Employment Slowed but Recent Announcements Portend Growth

After a robust three years of job growth, the trade/transportation/utilities employment sector is adjusting amid less pronounced demand for consumer goods. Manufacturing annual job growth contracted slightly for the time being; this will change in the future since the White House designated the Metro as a workforce hub for advanced manufacturing. Upcoming construction deliveries with leases in place will lead to increased employment.

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

Union Pacific Will Open a New Intermodal Terminal Near Downtown Phoenix



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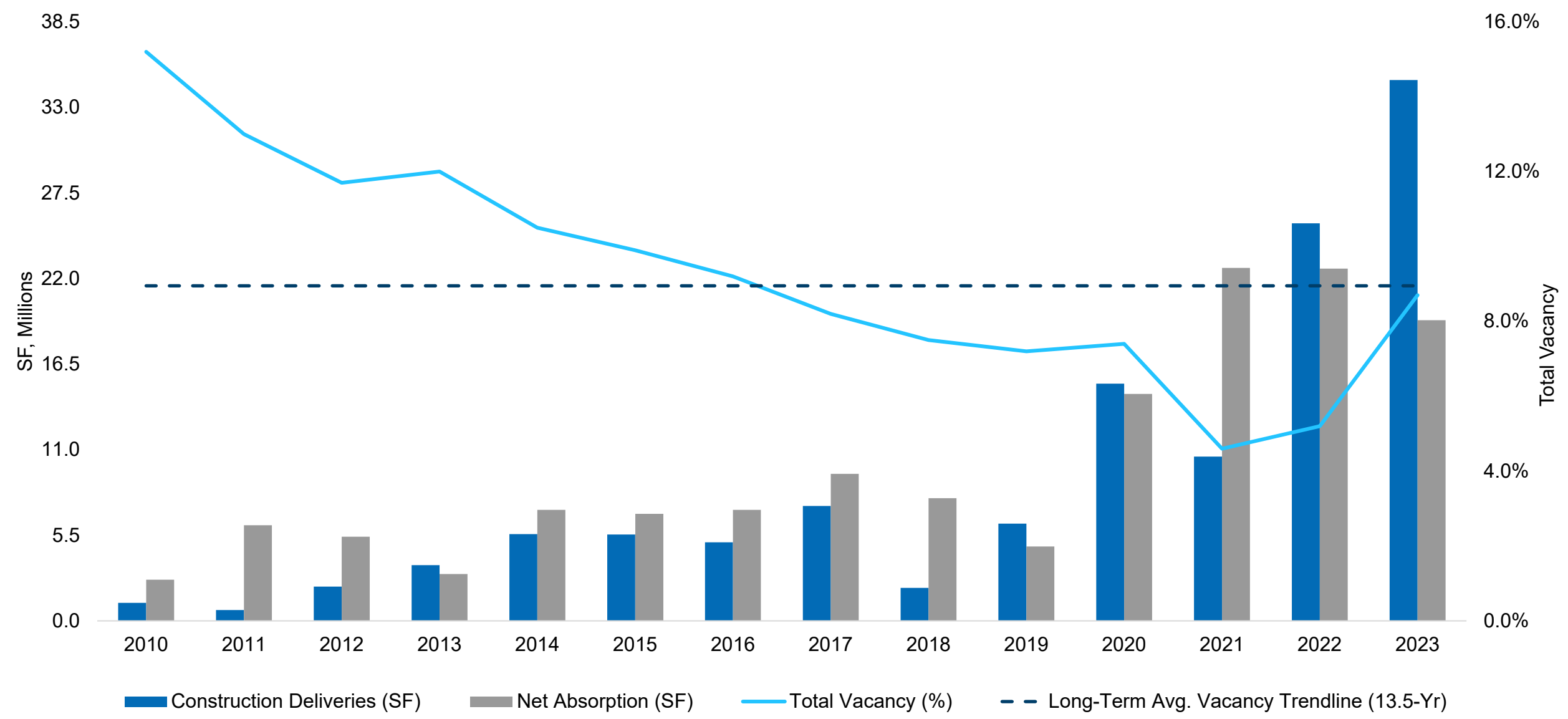
Market Fundamentals



Deliveries Reach an All-Time High Along With Increasing Vacancy

Vacancy increased to 8.7% after construction deliveries (34.8 MSF, a record high) exceeded net absorption (19.3 MSF) in 2023. During the fourth quarter alone, 12.3 MSF delivered and nearly half had leases in-places with tenants set occupy over the next two quarters. Absorption gains will occur when this happens, and vacancy will likely decrease.

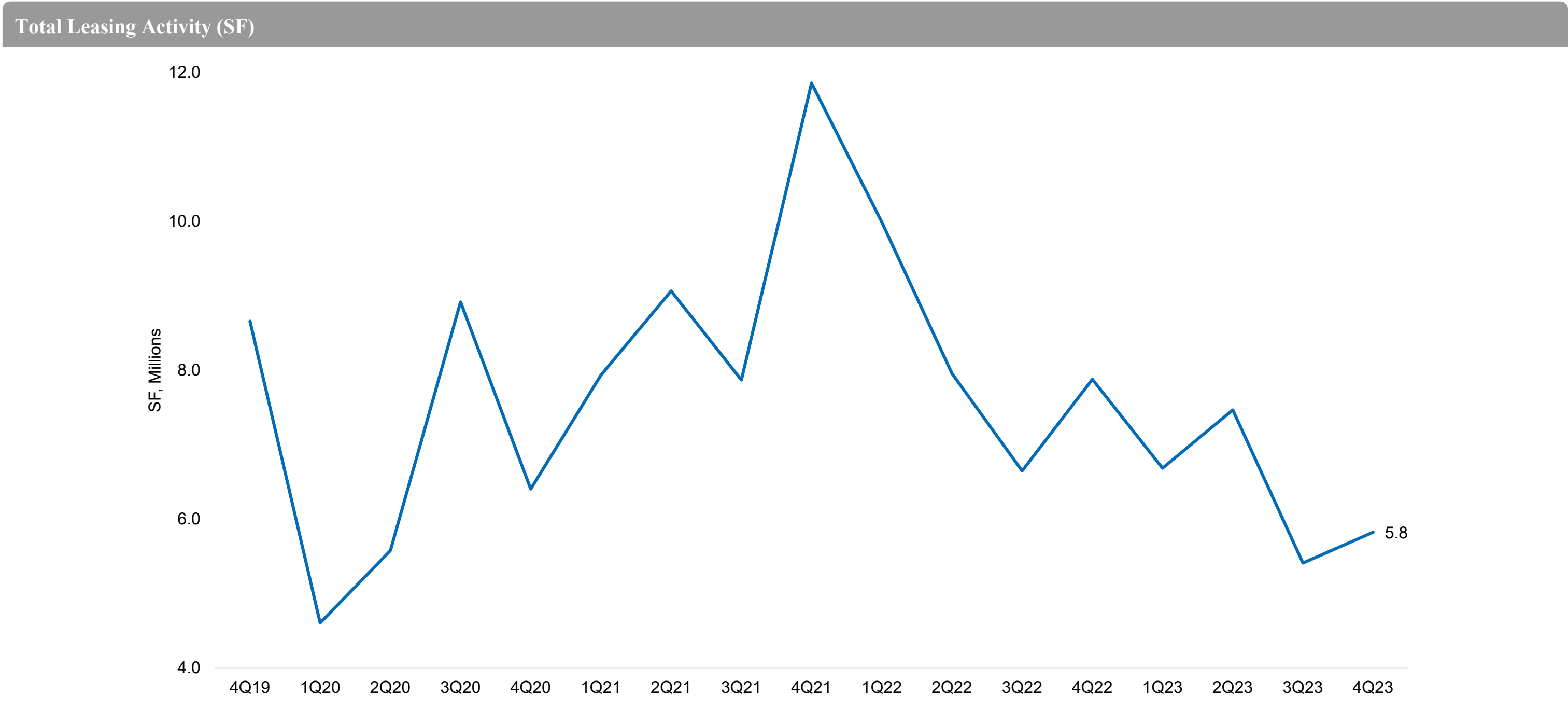
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Industrial Leasing Activity Decelerates After 2021 Record High

This quarter’s leasing activity totaled 5.8 MSF, 25% lower than the five-year average of 7.6 MSF. Manufacturing and 3PL users were especially active due to expansion in the advanced manufacturing segment and Phoenix’s ever-growing status in national supply chains. With a plethora of recently delivered space entering the market partially occupied, tenants will be able to quickly move or expand within the region in coming quarters.

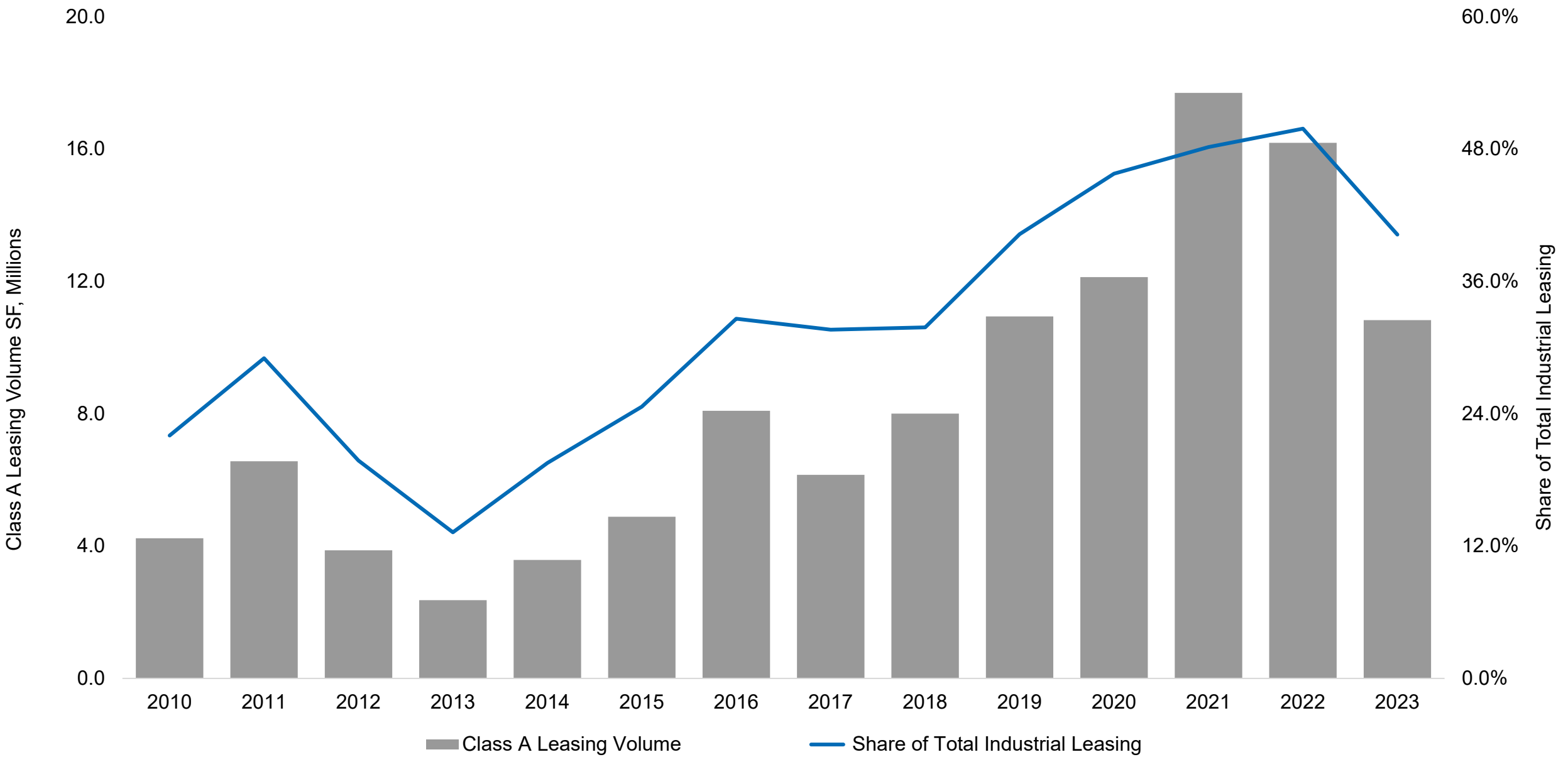


Source: Newmark Research

A Cooling Industrial Market Sees a Dip in Class A Warehouse Leasing

Class A leasing noticeably decreased in 2023 as did its share of total leasing activity as some price-conscious tenants pursued older buildings. Demand for Class A space remains, but some tenants are waiting for rents to soften first before committing.

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

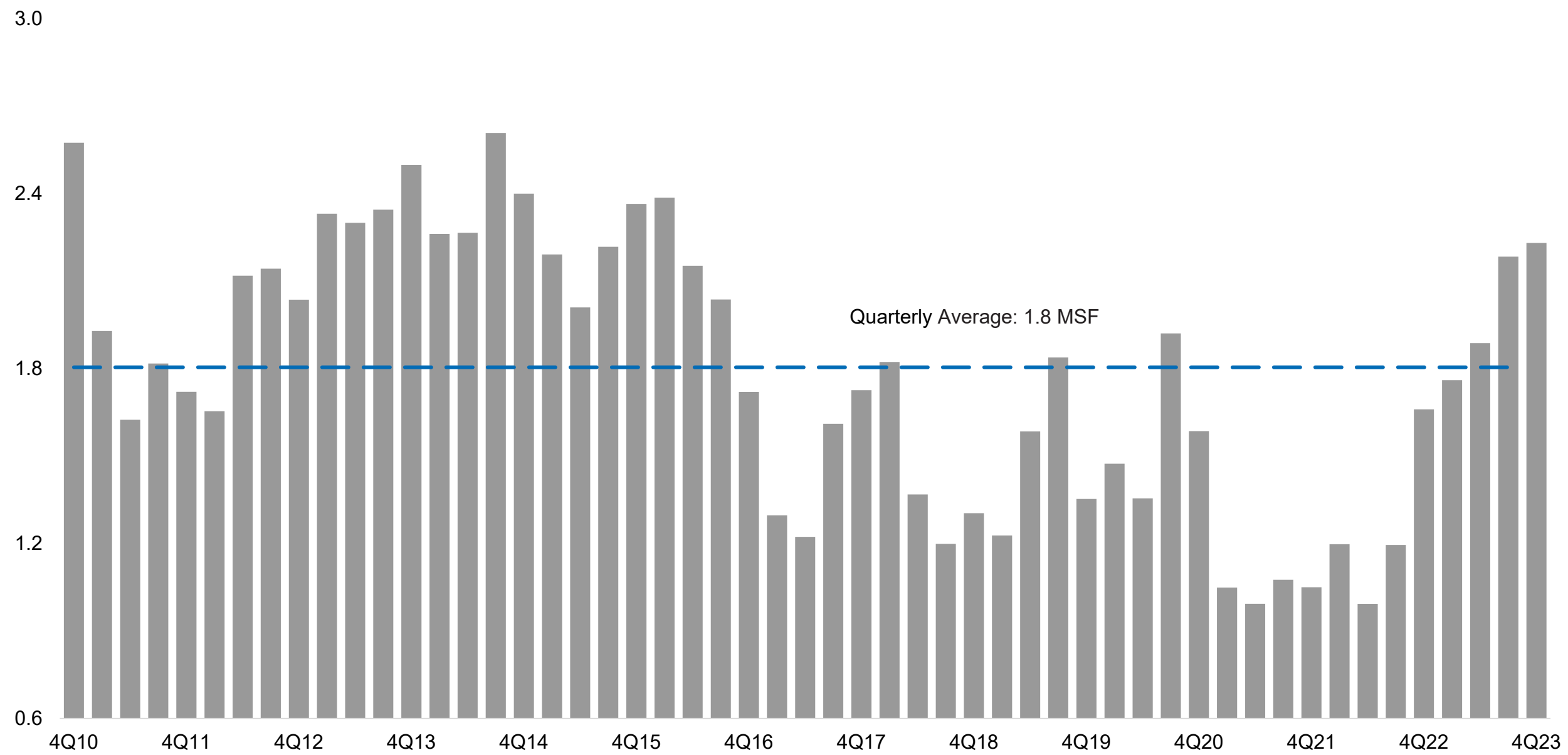


Source: Newmark Research

Industrial Sublease Availability Continues to Surpass Quarterly Average

After hitting a record low in the second quarter of 2022, sublease availability continues to rise, reaching 2.2 MSF in the fourth quarter of 2023. A shift in U.S. consumer spending from goods to services, beginning in 2022, has prompted some warehouse occupiers to pivot from a just-in-case to just-in-time inventory model. Surplus space is being shed.

Available Industrial Sublease Volume (MSF)

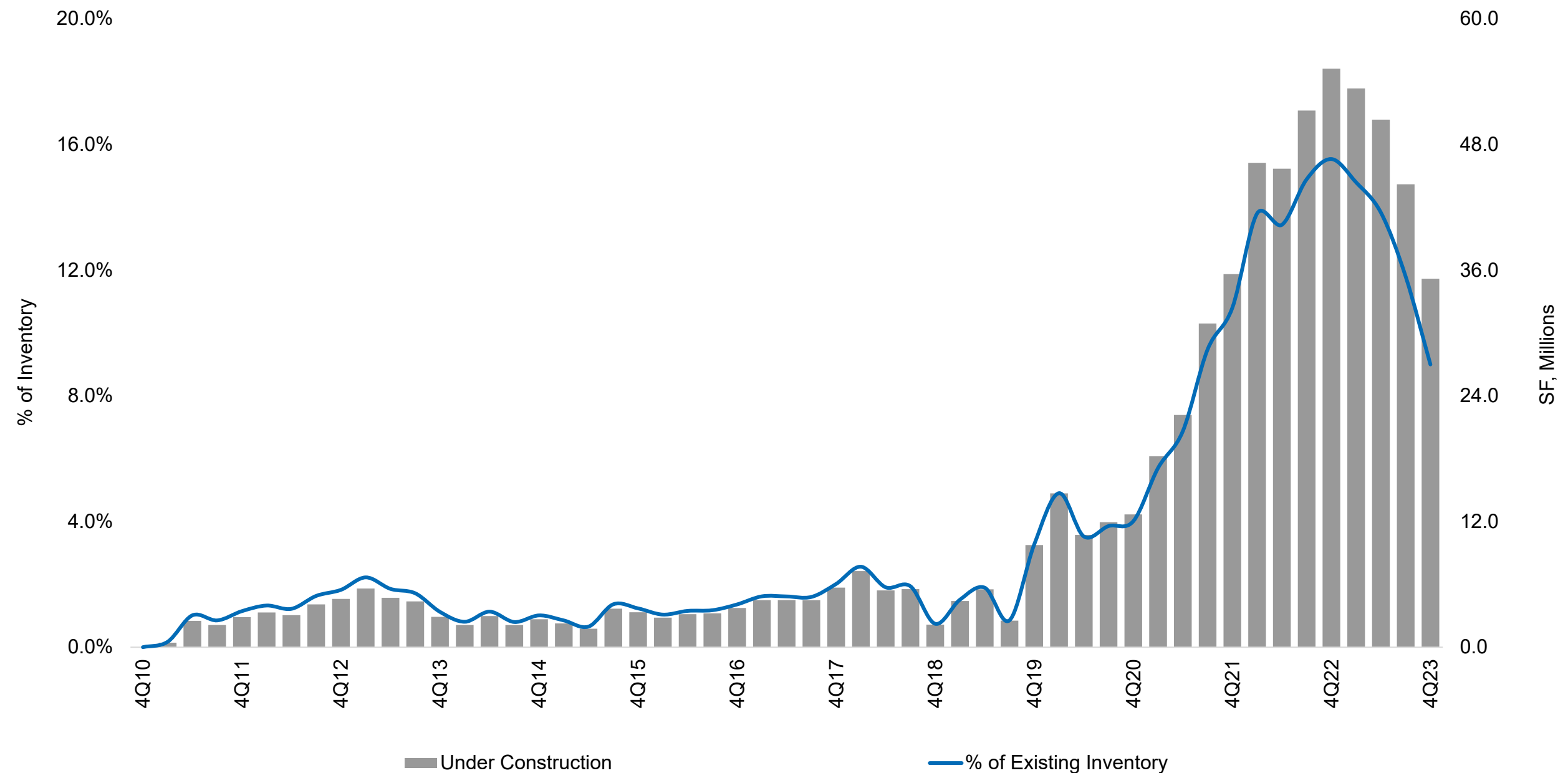


Source: Newmark Research

Industrial Supply Pipeline Eases as Construction Starts to Dwindle

The construction pipeline, after reaching a high of 55.2 MSF in the fourth quarter of 2022, continued to decline. Phoenix has the most underway product compared to other Southwest markets: a testament to the Metro’s ability to attract new businesses and investors alike before inflation took hold and construction debt financing became more difficult.

Industrial Under Construction and % of Existing Inventory

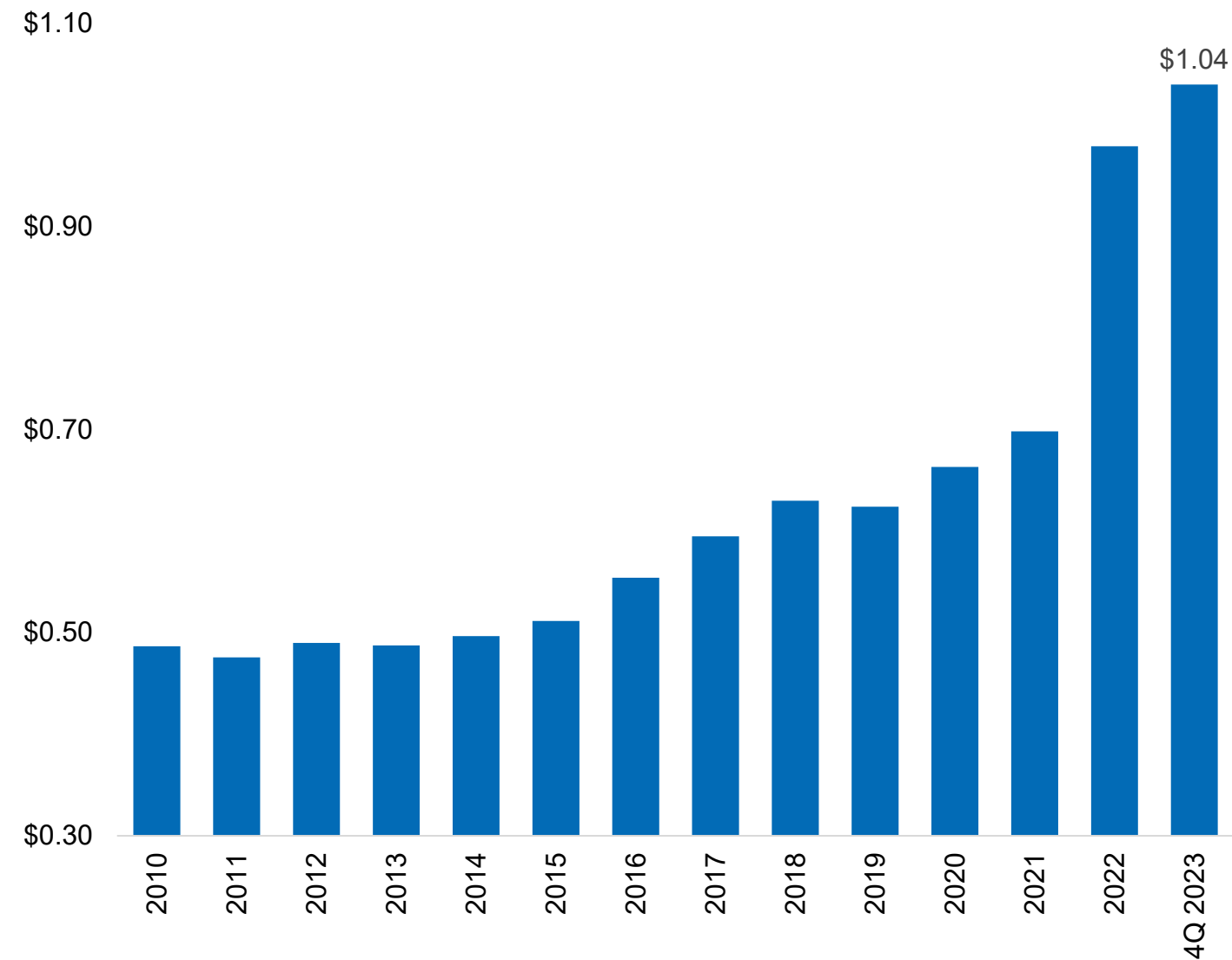


Source: Newmark Research

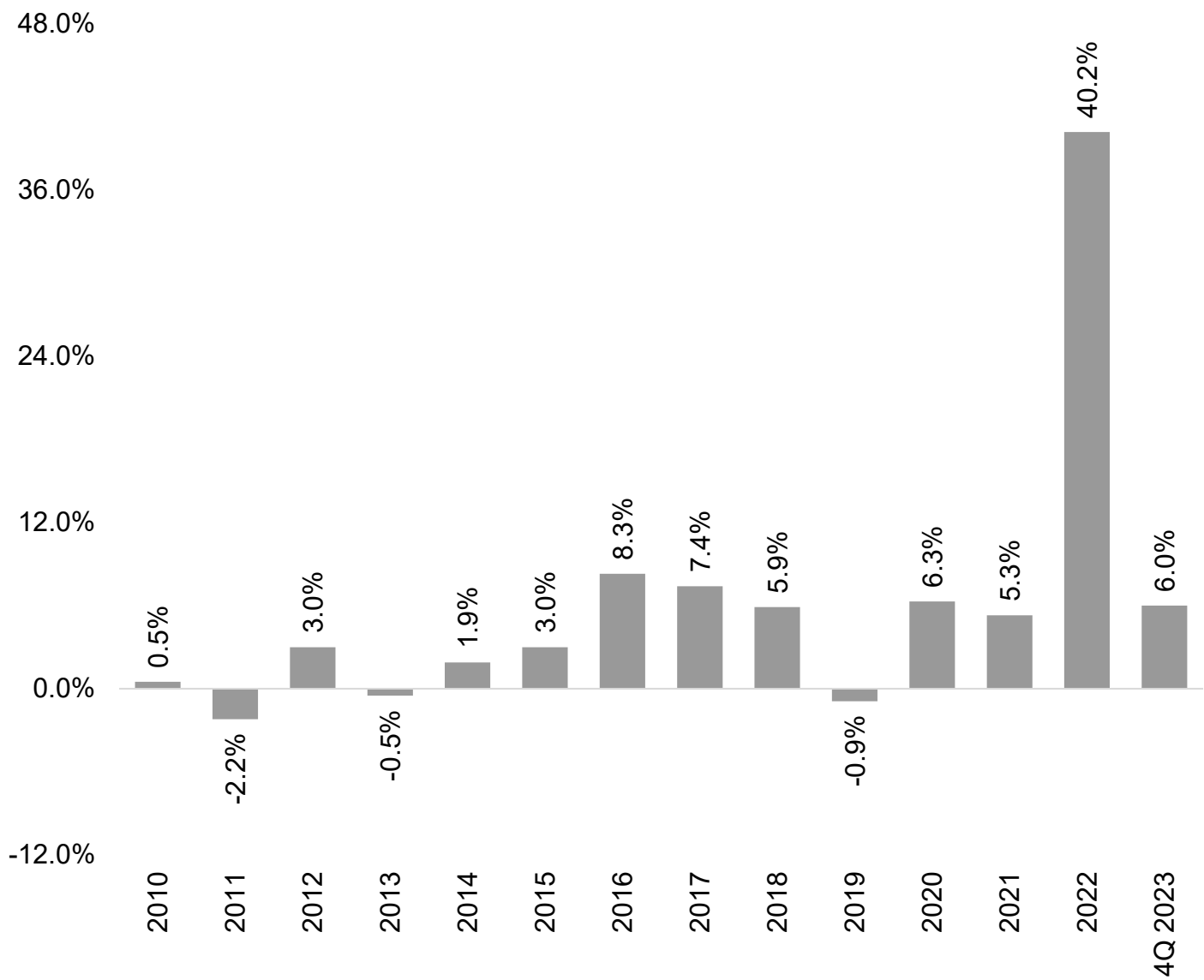
Industrial Asking Rent Growth Appears to Be Leveling Out

While average asking rents increased by 6.0% over the past 12 months, growth remains below the explosive 40.2% gain seen in 2022 and is on par with 2020 and 2021 levels. Despite higher rents, Phoenix remains an affordable option compared to the Southwest’s coastal markets; this is appealing to many companies.

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



Year-over-Year Asking Rent Growth Rate% Change



Source: Newmark Research

Notable 4Q23 Lease Transactions

Key lease agreements played a major role in securing the credibility of Phoenix as a central hub for manufacturing and datacenters. Examples include Meta in East Mesa and Saddle Creek Logistics that signed for 570,080 SF and came in as the third largest lease transaction in 2023 overall.

Select Lease Transactions				
Tenant	Building(s)	Submarket	Type	Square Feet
Saddle Creek Logistics	The Cubes at Glendale	Glendale	Direct Lease	570,080
Saddle Creek Logistics is a warehousing and transportation company that has expanded its footprint in the Valley by signing a new lease for 570,080 SF.				
Meta	Facebook Data Center	East Mesa	Direct Lease	480,000
Meta has signed to be the sole tenant in the new Facebook Data Center Building out in the East Mesa Submarket.				
Parts Town	C 303	Glendale	Direct Lease	420,536
Signed in early Q4, Parts Town is a commercial retailer that provides kitchen equipment to a wide range of clients.				
Sunmed	Falcon Park 303 – Phase II	Glendale	Direct Lease	326,018
Global medical and veterinary instrument manufacturer, Sunmed, signed for 326,018 SF in Falcon 303 as the sole tenant.				
Wholesale Tire and Wheel Distr. LLC	Link Logistics	West Central Phoenix	Direct Lease	220,162
Wholesale Tire and Wheel Distr. LLC is a wholesale distribution company for Metro Phoenix and has signed a 5-year lease for 220,162 SF.				

Notable 4Q23 Sale Transactions

The industrial sector remains strong in transaction activity and volume compared to other respective property types within the Metro. Sales were over \$549 million in the fourth quarter of 2023, totaling just north of \$2.4 billion for 2023 and up more than 20% when compared to the pre-pandemic five-year average.

Select Sale Transactions				
Building Address	Submarket	Sales Price	Price/SF	Square Feet
Airpark Logistics Center – 14555 W. Yuma Rd. (Portfolio)	Southwest Phoenix	\$184,000,000`	\$25	1,440,936
Prologis, Inc. acquired the three-building industrial portfolio totaling 1.4 MSF, expanding the company’s footprint in Arizona.				
5858 W. Lower Buckeye Rd.	West Central Phoenix	\$20,457,371	\$82	248,750
Acquired by CapRock Partners, this asset was developed as a build-to-suit property and was traded while vacant.				
Steel Corp. – Building 3 – 2100 N. Hamilton St.	Chandler	\$17,400,000	\$297	58,500
Bell Steel Commercial Ironworks sold this 58,500 square foot industrial building to Steelfab, Inc. for \$17,400.000.				
7405 E. Monte Cristo Ave.	Scottsdale Airpark	\$15,225,000	\$236	64,560
Purchased by Surgenex, this 64,560 SF industrial building is set to become part of this company’s operational infrastructure.				
VT 202 – Building B – NEC S. 59 th Ave & W. Watkins St.	Southwest Phoenix	\$14,258,296	\$186	76,407
Sold by Buckeye 59, LLC to an individual investor for \$14,258,296 in the Southwest Phoenix Submarket.				

Source: Newmark Research

4Q23

Appendix



Phoenix Metro Industrial Submarket Map and High-Level Statistics | 4Q23



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A low-angle, upward-looking photograph of a modern building's structural steel framework. The image shows a complex network of dark steel beams and girders forming a grid-like pattern against a bright blue sky. The perspective creates a sense of height and architectural scale. A semi-transparent blue horizontal band is overlaid across the middle of the image, containing white text.

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Population Has Increased Four Times Over the Past Five Decades

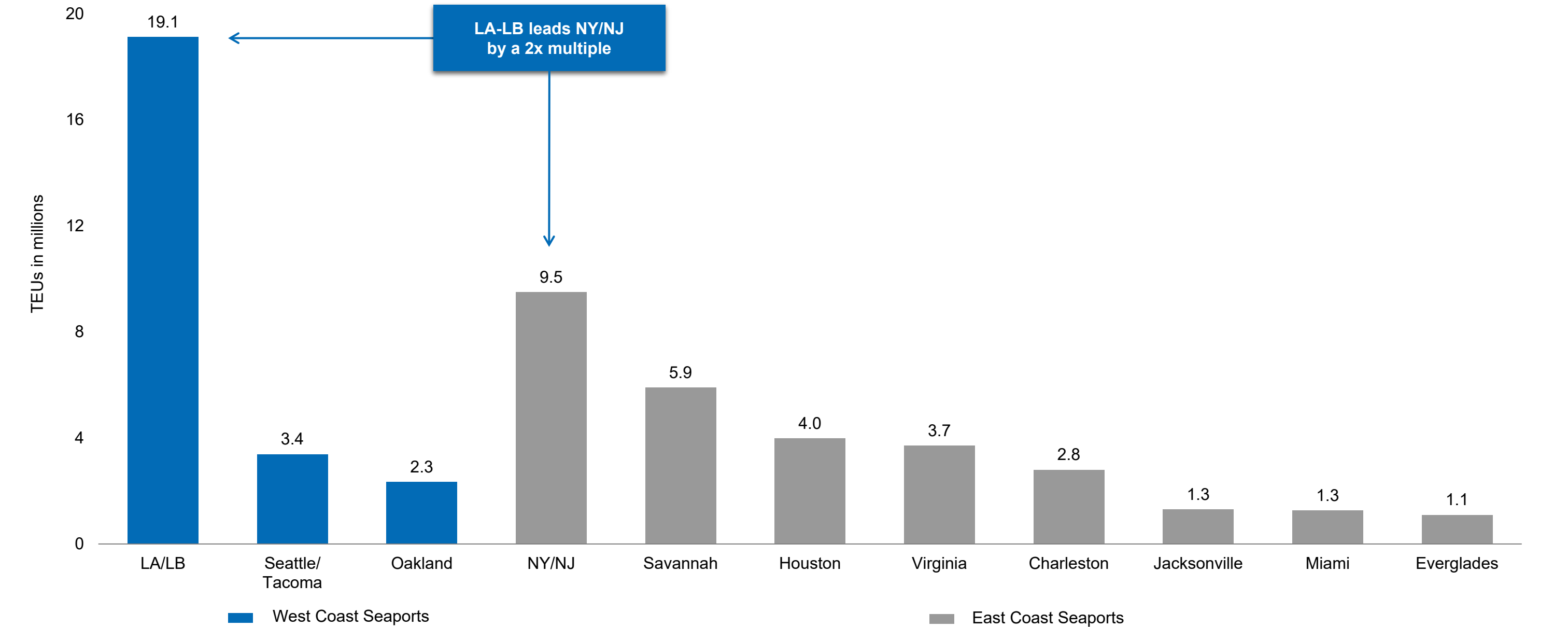


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Los Angeles-Long Beach Is the Nation’s Dominant Port System

Los Angeles-Long Beach can accommodate 18,000 TEU vessels, which are too wide to traverse the new Panama Canal. Additionally, both ports have Class 1 freight rail connectivity to the nation’s major population centers. Phoenix’s connectivity to Los Angeles-Long Beach places the Metro as a healthy conduit in the hub to distribute goods to neighboring markets.

Major U.S. Seaports: 2022 TEU Volume (All Containers: Loaded and Empty)



Source: Newmark Research, Individual Seaports

West Coast Dockworkers Signed a New Contract in 2023; Their Eastern Counterparts are Next Up...

The ILWU and PMA signed a new labor contract in September, restoring a sense of much-needed stability at U.S. West Coast seaports for the next six years. Longshoremen at East and Gulf Coast ports will soon negotiate their contract, which will expire in late 2024. Import volume will likely shift to West Coast ports until an agreement is reached.

West Coast Ports Agreement Reached...Finally!

- The International Longshore Warehouse Union (ILWU) represents dockworkers at 29 ports from Washington State to California. The Pacific Maritime Association (PMA) represents ocean carriers and terminal operators.
- The prior contract expired on July 1, 2022.
- The ILWU has a history of work disruptions in prior negotiation periods, ranging from strikes, to deliberate work slowdowns to under-staffing shifts.
- These disruptions have cost major retailers billions of dollars in the past.
- In March, for instance, the ILWU did not stagger shifts during meal periods.
- A tentative agreement was reached on June 15, 2023 for what became a new six-year contract. Longshore workers secured a 32% salary increase.
- Many Asian importers pushed inbound goods to East and Gulf Coast ports as talks dragged on. Some of this traffic is returning since stability is now less of a concern.



Source: Newmark Research, City of Los Angeles, The Real Deal

East and Gulf Coast Ports Are Up Next

- The International Longshoremen (ILA) represents dockworkers at 36 ports from Maine to Texas. The United States Maritime Alliance (USMA) represents ocean carriers and terminal operators.
- Their contract will expire on September 30, 2024.
- Harold Daggett, International President of the ILA, has warned that a strike is likely in 2024.
- Higher pay and job security as it pertains to automating port operations were primary issues for the ILA in 2018/the last negotiation period.



Import Traffic Recently Jumped at Los Angeles/Long Beach



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