COMMERCIAL PROPERTIES INC.
Locally Owned. Globally Connected. CORFAC International

GET CONNECTED TODAY

Phoenix Industrial Market Report

Q-2 2025

Information Prepared by:

CoStar™

TEAM JSA
JONES SOLDO ALLEN

Eric Jones
D 480.966.8671
M 602.291.9400
ejones@cpiaz.com

John G. Soldo, SIOR
D 480.966.1304
M 602.989.4584
jsoldo@cpiaz.com

Elizabeth Allen
D 480.889.2558
M 480.640.6211
eallen@cpiaz.com

Summary - Vacancy Trends Upward With New Industrial Big Box Construction

- A deluge of new development completions continues to drive Phoenix's industrial vacancy rate higher, a condition that could persist into 2026.
- Builders delivered an unprecedented 24.5 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.

12 Mo Deliveries in SF	12 Mo Net Absorption in SF	Vacancy Rate	12 Mo Rent Growth
24.7M	11.2M	12.6%	2.3%

TEAM JSA
JONES SOLDO ALLEN

Eric Jones
D 480.966.8671
M 602.291.9400
ejones@cpiaz.com

John G. Soldo, SIOR
D 480.966.1304
M 602.989.4584
jsoldo@cpiaz.com

Elizabeth Allen
D 480.889.2558
M 480.640.6211
eallen@cpiaz.com

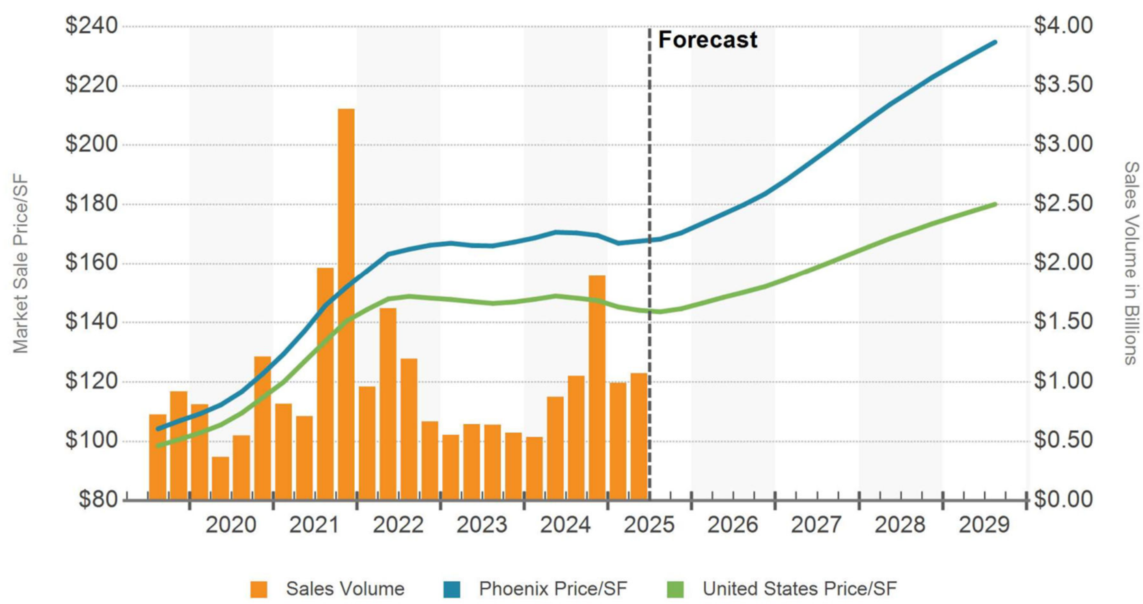
Sales – Phoenix Industrial

- Though sales volume lags the unprecedentedly strong level seen in 2021, investment activity is outperforming nearly all other periods in the Valley's history.

- About $5.0 billion traded over the past 12 months, outpacing the average annual total from 2015 to 2019 by 140%.

- Furthermore, sales volume accelerated every quarter throughout 2024, similar to trends seen during the previous expansion cycle and a sign that the market may be returning to more typical conditions.

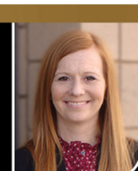
SALES VOLUME & MARKET SALE PRICE PER SF



TEAM JSA
JONES SOLDO ALLEN

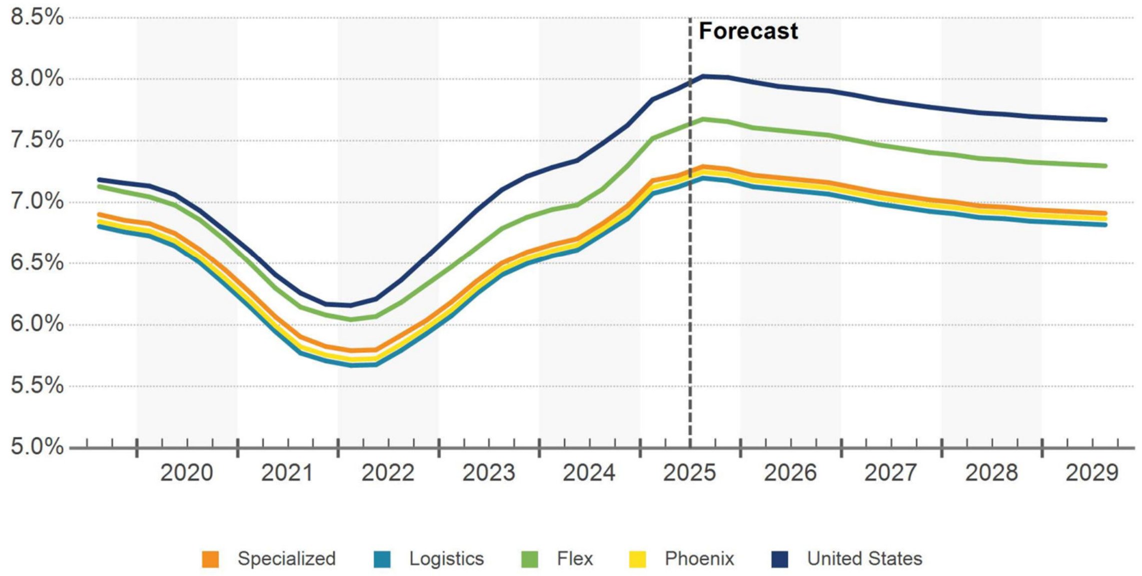
Eric Jones
D 480.966.8671
M 602.291.9400
ejones@cpiaz.com

John G. Soldo, SIOR
D 480.966.1304
M 602.989.4584
jsoldo@cpiaz.com



Elizabeth Allen
D 480.889.2558
M 480.640.6211
eallen@cpiaz.com

MARKET CAP RATE

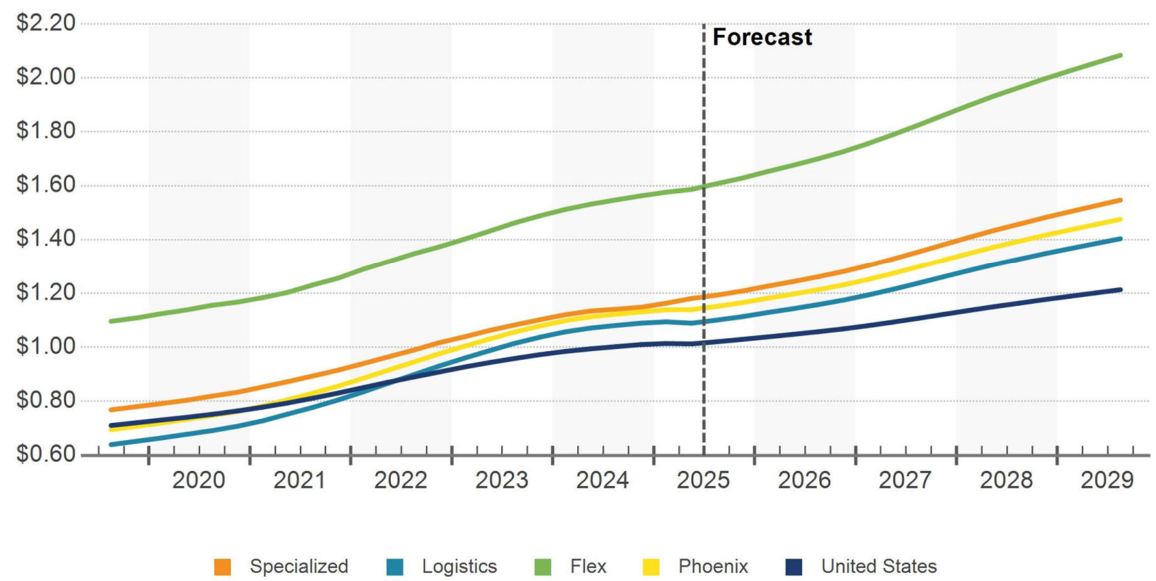


Rents – Phoenix Industrial

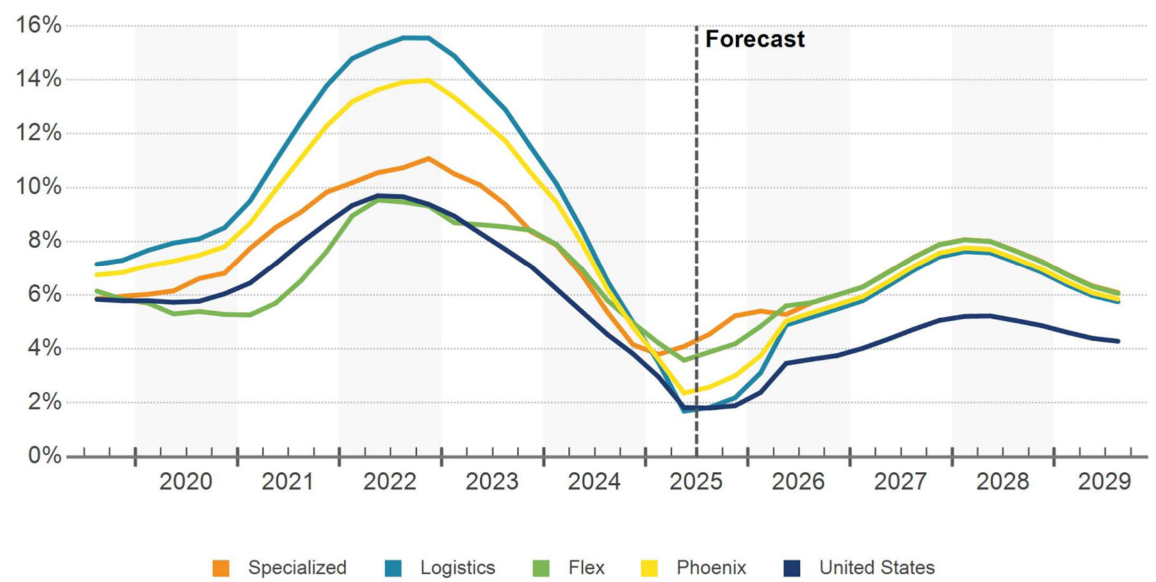
- Rent growth is decelerating swiftly in the Phoenix industrial market as easing demand and increased competition from new supply crimp gains.
- The average asking rent rose 2.3% over the past 12 months.
- The average asking rent is down from an average of about 5.5% from 2015 to 2019.

Eric Jones
D 480.966.8671
M 602.291.9400
ejones@cpiaz.com
John G. Soldo, SIOR
D 480.966.1304
M 602.989.4584
jsoldo@cpiaz.com
Elizabeth Allen
D 480.889.2558
M 480.640.6211
eallen@cpiaz.com

MARKET ASKING RENT PER SQUARE FEET



MARKET ASKING RENT GROWTH (YOY)



Contact us for additional market information.

Talk to the experts!

TEAM JSA
JONES SOLDO ALLEN

Eric Jones
D 480.966.8671
M 602.291.9400
ejones@cpiaz.com

John G. Soldo, SIOR
D 480.966.1304
M 602.989.4584
jsoldo@cpiaz.com

Elizabeth Allen
D 480.889.2558
M 480.640.6211
eallen@cpiaz.com

Summary (Continued from Page 1)

The wave of construction overshadows a resilient demand picture. While demand has eased from the frenetic pace seen in 2021 and 2022, leasing volume modestly accelerated over the past year and is 33% above the average annual level from 2017 to 2019 as occupiers related to logistics, construction, and retail continue to expand. These factors, along with advanced manufacturing momentum, drove 11.2 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 4.2% in mid-2022 to 12.6% today, and further increases could be in store.

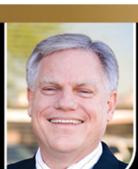
With nearly 90% of recent construction focused on buildings larger than 100,000 SF, vacant space is accumulating most quickly in the Valley's largest properties. The vacancy rate among existing buildings larger than 100,000 SF has climbed to a 15-year high of above 16%, and another 8 million SF of unleased space is underway in buildings of that size. Small bay product, meanwhile, is more insulated from recent supply, with vacancy among existing properties smaller than 50,000 SF in the high 4% range, though rates have been rising in this segment too.

Increased competition from new supply is causing rent growth to decelerate. Average asking rents rose 2.3% over the past year, down from 14.0% in late 2022. Annual rent growth is forecast to slow further as additional supply normalizes 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.

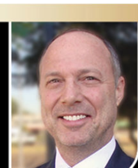
The 20.9 million SF under construction, about 60% of which is being built on spec, is expected to put further upward pressure on vacancy throughout the year. Additionally, a potential slowdown in economic growth and trade due to increased tariffs presents a downside risk to demand formation. Access to West Coast ports of entry and Mexico is a strong value proposition that has supported logistics demand in Phoenix.

Looking beyond the near-term dislocation, the recent pullback in construction starts indicates that a reprieve of supply could be in store by 2026, setting Phoenix up for a return to tightening vacancies and an eventual reacceleration in rent growth.

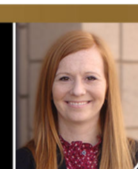
TEAM JSA
JONES SOLDO ALLEN



Eric Jones
D 480.966.8671
M 602.291.9400
ejones@cpiaz.com



John G. Soldo, SIOR
D 480.966.1304
M 602.989.4584
jsoldo@cpiaz.com



Elizabeth Allen
D 480.889.2558
M 480.640.6211
eallen@cpiaz.com

Sales – Phoenix Industrial (Continue from Page 2)

Phoenix is a structurally different industrial investment market than it was before the pandemic. The historic wave of supply over the past five years has brought a fresh offering of institutional-quality assets to the market, drawing the attention of private equity firms, investment managers, and other major buyers. The transformation of the metro's inventory, buyer profile, and importance in national supply chains underscores the Valley's growing institutionalization in the eyes of investors.

For example, BentallGreenOak (BGO), one of the largest private equity real estate firms in the world, paid $118.25 million ($112/SF) for Paloma Vista Logistics Center in November 2024. The 1.1 million SF warehouse was built in 2024 and was fully leased to Amazon on a 10-year triple net lease. The seller was a joint venture between Ares Management Corporation and US Capital Development. Before the pandemic, the Valley recorded just two single-asset transactions of $100 million or more. Since then, there have been nine nine-figure deals, including three purchased by BGO.

Yields for these assets with a long-term predictable income stream are often more sensitive to movements in borrowing costs than those with more value-add potential. Cap rates for newly built, fully leased large bay logistics properties have increased about 200+ basis points since bottoming out in early 2022.

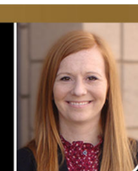
For example, EQT Exeter acquired the second phase of Falcon Park 303 in July 2024 for $50 million ($153/SF) at a 6% cap rate. The 326,000 SF property was built in Glendale in 2023 and was fully leased to AirLife on a triple net lease with commitments through October 2030. Another new construction West Valley asset traded at a 3.5% cap rate a few years ago. Cohen Asset Management paid $128.6 million ($149/SF) in June 2022 for 10 West Commerce Park, an 862,600 SF property in Buckeye leased to Funko with commitments through October 2032.

The surge in construction over the past few years has put considerable upward pressure on vacancy and weighed on rent growth, particularly for 100,000+ SF properties in the metro's periphery. Against this backdrop, small and mid-bay properties in infill locations that do not directly compete with much of the new supply have garnered more attention. These deals often feature an opportunity to boost NOIs through lease-up or a mark-to-market play.

TEAM JSA
JONES SOLDO ALLEN

Eric Jones
D 480.966.8671
M 602.291.9400
ejones@cpiaz.com

John G. Soldo, SIOR
D 480.966.1304
M 602.989.4584
jsoldo@cpiaz.com



Elizabeth Allen
D 480.889.2558
M 480.640.6211
eallen@cpiaz.com

For example, CIP Real Estate paid $168.3 million ($208/SF) for Broadway 101 Commerce Park in December 2024, the largest deal of the year. The 11- building industrial park was built in the mid-2000s in an infill location in the city of Mesa. The buildings range in size from 44,000 SF to 105,900 SF, with 16-foot to 28- foot clear heights. The asset was 98% leased to 34 tenants at the time of sale.

Moving forward, transaction activity could continue to rebound this year. Upcoming loan maturities, including $2 billion in CMBS through 2026, may prompt owners to bring assets to market and harvest gains. Additionally, additional construction activity by merchant builders should supply a steady stream of newly built assets for sale. Downside risks include decelerating rent growth and persistently high vacancy, which could reduce buyers' capacity to underwrite aggressive NOI growth.

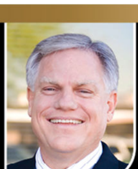
Rents – Phoenix Industrial (Continue from Page 3)

Though rent growth is easing, Phoenix saw some of the most explosive gains in the country in the years following the onset of the pandemic, leaving many owners with substantial leasing spreads at the time of renewal. According to market participants, the loss to lease in many multi-tenant small- and mid-bay properties in infill locations is especially attractive. Properties under 50,000 SF comprise a fraction of the construction pipeline, and availability is still comparatively tight, suggesting rent growth could be more resilient in this segment.

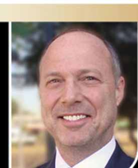
Rents for spaces between 100,000 SF to 200,000 SF are generally in the $10/SF to $14/SF NNN range. Buildings in the West Valley will usually lease at the lower end of the spectrum, while those in the East Valley or closer to the metro core can command higher rates.

A pair of leases last year for recently delivered buildings highlights this dynamic. The International Paper Company is paying $11.30/SF NNN to fully occupy 113,500 SF at a 2023-built distribution building near Tolleson, a rapidly growing town in Phoenix's West Valley suburbs. Meanwhile, Atkore is paying $14.40/SF NNN to lease 113,300 SF at a 2023-built distribution building in Chandler, an East Valley suburb. Both buildings have 30 to 32-foot ceiling heights.

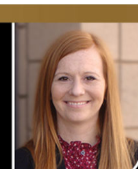
TEAM JSA
JONES SOLDO ALLEN



Eric Jones
D 480.966.8671
M 602.291.9400
ejones@cpiaz.com



John G. Soldo, SIOR
D 480.966.1304
M 602.989.4584
jsoldo@cpiaz.com



Elizabeth Allen
D 480.889.2558
M 480.640.6211
eallen@cpiaz.com

Sublet availabilities in this size tranche can dip into $9/SF NNN and those between 250,000 SF and 500,000 SF can be found in the $8/SF to $9/SF range. Buckeye Business Center, a 2014-built distribution property in Buckeye, is advertising a 395,200 SF space for $8.64/SF NNN.

Large 500,000+ SF leases at newly-built West Valley properties will generally lease in the high-$6/SF to high- $7/SF range while 1+ million SF commitments can go below that. Kenco leased a 641,900-SF space at a newly built property in March 2024, paying $6.71/SF NNN. Additionally, Logistics Plus and GTI Fabrication each signed 500,000+ SF leases in 2024 paying $7.08/SF and $7.80/SF, respectively.

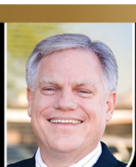
Elevated levels of oncoming new supply are set to keep vacancy elevated this year, which will likely cause Phoenix's annual rent growth figure to slow further over the next few quarters. By 2026-2027, a reduction in space additions should allow vacancy to begin tightening again and rent growth to move toward pre-COVID norms.

However, there are real risks that even as the market begins to tighten, Phoenix's high vacancy level restricts owners' ability to reaccelerate rent increases at this pace. This is particularly the case for rents of bulk distribution spaces in the West Valley and the Mesa Gateway Airport area, which currently have some of the market's highest availability rates.

Contact us for additional market information.

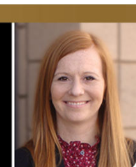
Talk to the experts!

TEAM JSA
JONES SOLDO ALLEN



Eric Jones
D 480.966.8671
M 602.291.9400
ejones@cpiaz.com

John G. Soldo, SIOR
D 480.966.1304
M 602.989.4584
jsoldo@cpiaz.com



Elizabeth Allen
D 480.889.2558
M 480.640.6211
eallen@cpiaz.com