

Phoenix

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Vacancy persists as oversupply of sub-500k square foot buildings weighs on market

Vacancy continues to climb, up 60 basis points (bps) from last quarter. The construction pipeline, delivering approximately 30.0 million square feet (msf) of new inventory year-to-date, has provided plenty of large, big-box options. However, the real glut is in buildings under 500,000 square feet (sf), with inventory in the 50,000 to 500,000 sf range making up about 9.0% of current market vacancy, or approximately 29.5 msf. Conversely, buildings over 750,000 sf account for just 7.2 msf of total vacancy. To put the space glut into context, yearly net absorption from 2019 to 2023 averaged approximately 17.0 msf, about half of what is currently vacant in the sub-500,000 sf category.

Right-sizing construction pipeline, plagued by supply side pressures

The construction pipeline continues to right-size in a meaningful way and now totals 22.4 msf. Of the projects currently underway, about 16.8 msf are speculative developments. The supply side is continuing to outrun demand, evidenced by not only higher vacancy rates but a speculative construction pipeline that remains about 88.0% available. The Northwest submarket continues to pace the market in construction activity and counts 13.3 msf of active projects underway.

Positive absorption continues, sublease availability inches higher

The market continues to observe positive absorption as deals signed in the first half of 2024 or earlier commence. The largest such move-in was observed in the Southwest submarket as Ross Stores took occupancy at their 1.6-msf distribution center. Despite the continued positive absorption, sublease availability has only continued upward, climbing more than 200.0% year over year and now makes up about 1.8% of total market availability. Most recently, Home Depot brought 1.3 msf of sublet space online in the Southwest submarket as they reportedly rethink their pandemic-induced supply chain needs. In the near term, Phoenix has supply, both via direct and sublet availabilities, to work through. As a result, expect continued heightened vacancy and tepid rent growth.

Key Statistics

	Q3 2023	Q3 2024	Y-0-Y
Inventory	279.8 msf	324.3 msf	+44.5 msf
Vacancy Rate	6.9%	13.8%	+690 bps
Asking Rental Rate (Monthly)	\$0.88	\$0.87	-1.7%
Net Absorption	3.1 msf	5.9 msf	+2.8 msf
Under Construction	45.8 msf	22.5 msf	-23.4 msf
Deliveries	10.7 msf	8.2 msf	-2.5 msf

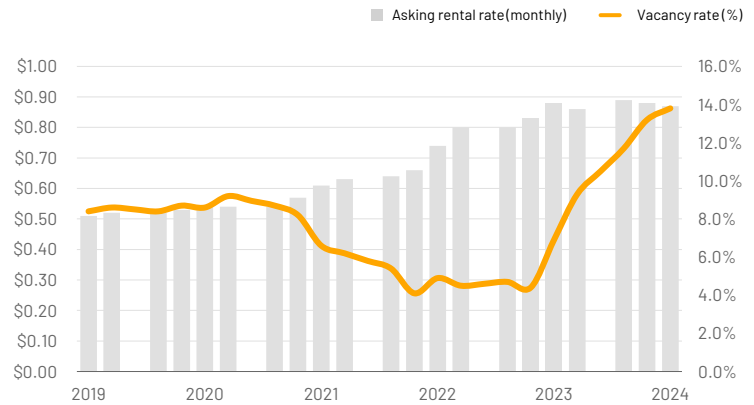
Outlook

01 Higher vacancy and slow rent growth are expected as excess supply via the direct and sublet markets is plentiful

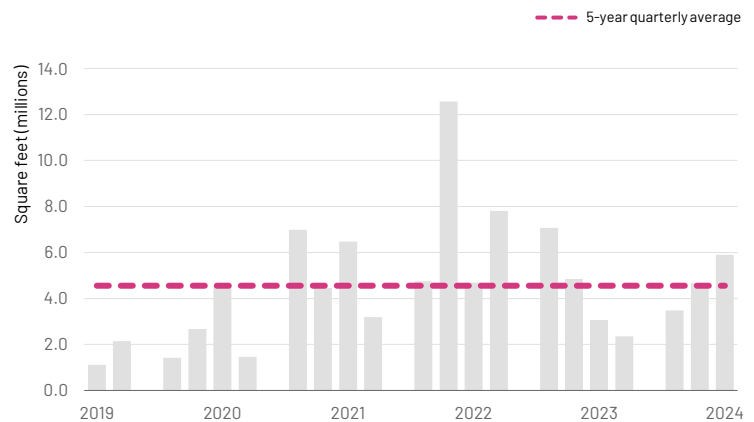
02 With approximately 14.8 msf of available speculative space in the construction pipeline, expect near-term deliveries to continue increasing vacancy

03 Long term, Phoenix's exposure to advanced manufacturing and robust consumer demand will continue to fuel industrial sector demand

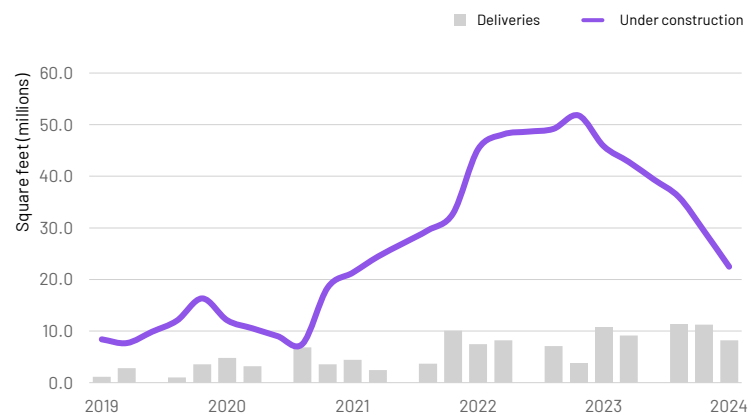
Asking Rent and Vacancy



Net Absorption



Deliveries and Under Construction



Top Leases

Source: Savills Research

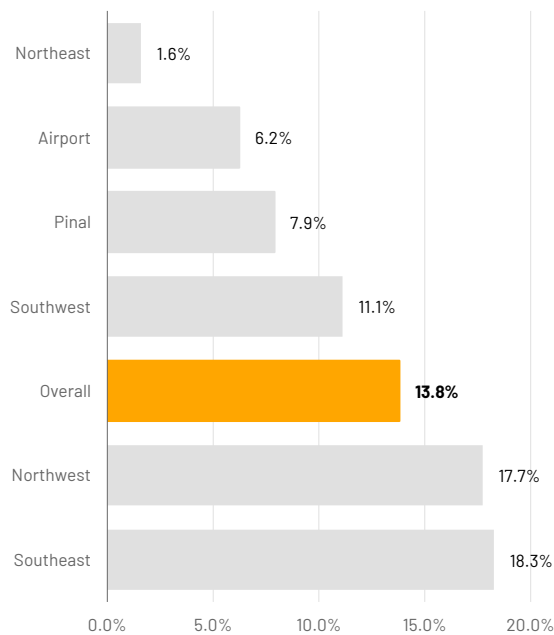
TENANT	SIZE (SF)	SUBMARKET	ADDRESS	TRANSACTION TYPE	INDUSTRY
GTI Fabrication	531,583	Southwest	SEC Cotton Lane & MC 85	New Lease	Construction Materials & Building Fixtures
American Tire Distributors	192,761	Airport	2001 S 15 th Avenue	Renewal	Logistics & Distribution/3PLs
Quantum Industrial	135,759	Southeast	5026 S Ellsworth Road - Building 9	New Lease	Industrial Machinery & Supplies
International Paper Company	113,528	Southwest	6150 W Buckeye Road	New Lease	Paper & Packaging
Knotwood USA	103,976	Southwest	5555 W Roosevelt Street	New Lease	Construction Materials & Building Fixtures

Top Sales

OWNER/BUYER	SIZE (SF)	SUBMARKET	ADDRESS	PRICE / \$/SF	SELLER
BlackRock	1,200,140	Northwest	15301 W Northern Avenue	\$128.1 M / \$107	CRG
Baker Development Corporation	850,000	Northeast	8201 E McDowell Road	\$61.1 M / \$72	General Dynamics
Longpoint Realty Partners	301,994	Southeast	1835 - 1975 S Hamilton Street	\$57.0 M / \$189	Creation Equity
MDH Partners	249,600	Southwest	835 - 945 N 215 th Avenue	\$51.0 M / \$204	Kentwood Ventures
EQT Exeter	326,018	Northwest	15152 W Camelback Road	\$50.0 M / \$153	USCD

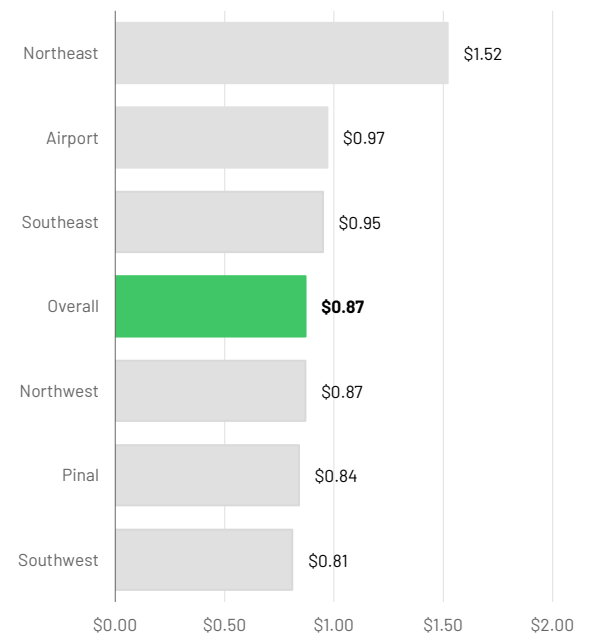
Vacancy Rate Comparison (%)

PHOENIX SUBMARKETS



Rental Rate Comparison (\$/sf)*

PHOENIX SUBMARKETS



*based on all classes of available inventory

Phoenix Q3 2024 - Industrial

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Unless otherwise noted, all rents quoted throughout this report are average asking net (NNN) rents per square foot. Statistics are calculated using both direct and sublease information. Current and historical vacancy and rent data are subject to change due to changes in inventory.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Unless otherwise noted, source for data is Savills Research.

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