

INVESTMENT OUTLOOK

Industrial
Phoenix Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

MIDYEAR 2025

Reduced Development and Long-Term Tailwinds Help Phoenix Withstand Subdued Leasing

Construction slows as California restrictions pique interest in Phoenix. Despite softer leasing in 2025 amid tariff-related uncertainty, minimal tenant move-outs and a steep drop in deliveries are poised to ease vacancy pressures. In the East Valley, tapering new supply and large upcoming move-ins, including from several food and beverage distributors, as well as LG Energy Solutions' 1 million-square-foot battery plant, will help maintain stable occupancy. Fewer completions along the Interstate 10 and Loop 303 corridors should also limit the increase in available space, as occupiers remain drawn to the area's strong highway access. In May 2025, many California cities implemented stricter warehouse development rules, keeping firms seeking modern space drawn to Phoenix, which offers more post-2020-built supply than Los Angeles, Orange County and the Inland Empire combined. Semiconductor manufacturing is also emerging as a durable demand driver, led by TSMC's \$100 billion plan to build three additional fabrication plants.

Small-bay investment holds despite rising business costs. Sales activity has moderated in 2025 following last year's strong rebound. Large investors have pulled back from infill areas in South Phoenix and Tempe, instead favoring outlying suburbs such as the Loop 303 Corridor. Buyers may continue to look here as they target modern, stabilized assets. Private investor activity has held relatively stable. More buyers are shifting toward closer-in areas, where limited development, strong highway access and proximity to dense populations are expected to support occupancy levels despite broader headwinds. Small-bay assets have seen a slight rise in vacancy this year, suggesting some users may be struggling to pass on higher tariff-induced costs. Even so, vacancy in the segment remains near 5 percent — well below the big-box rate of over 15 percent — reinforcing buyer interest.

2025 MARKET FORECAST

+1.2%



EMPLOYMENT: Job growth will align with last year as 30,000 new roles are added. Health care hiring should hold steady, while manufacturing and warehousing may face continued headwinds.

15 million
sq. ft.



CONSTRUCTION: Completions in 2025 will fall by about 50 percent from 2024's record total. The Loop 303 and Interstate 10 corridors in the southwest will receive about two-thirds of new supply.

+130 bps



VACANCY: After climbing by more than 700 basis points over the past two years, the reduced delivery pipeline will help slow the pace of vacancy expansion as the metro's rate reaches 13.2 percent.

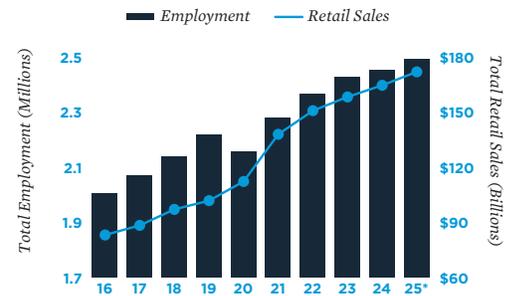
-2.0%



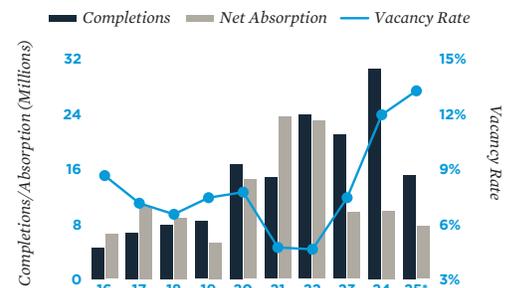
RENT: Asking rents will record a modest decline for the second consecutive year amid elevated big-box vacancy and soft tenant demand. The metro's average rate will dip to \$11.85 per square foot.

INVESTMENT: Mayo Clinic's planned downtown medical school and \$1.9 billion North Phoenix expansion are expected to draw related health care suppliers, bolstering investor interest in nearby small-bay assets.

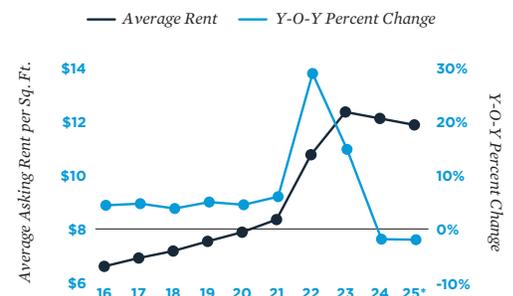
Economic Trends



Supply and Demand



Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2023. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guarantee regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.