INVESTMENT FORECAST

Industrial

Phoenix

IPA | INSTITUTIONAL PROPERTY ADVISORS

2026

Distributors and Advanced Manufacturers Revive Big-Box Leasing, Moving Market Closer to Balance

Demand catches up to new supply. For several years, deliveries outpaced demand as Phoenix underwent one of the nation's most aggressive industrial build-outs. That imbalance is now narrowing. The metro posted the third-largest vacancy decline among major markets in the year ended March, led by properties above 250,000 square feet, where vacancy dropped more than 500 basis points to below 12 percent. Leasing in that tier rose to at least 25 deals from 11 a year earlier, suggesting large users are finally acting on delayed decisions. The strongest gains emerged along Interstate 10 and Loop 303 in the northwest and southwest, where third-party logistics firms and retailers such as Walmart cut vacancy by more than 150 basis points in the first quarter alone. Vacancy in the southeast also tightened as firms like Hadrian and Axon added to the area's high-tech industrial base. Completions falling to a decade low in 2026 should extend this progress, though slower hiring and energy volatility could pressure tenants.

Modern space fuels bulk trades as small-bay demand holds. Investment rose sharply over the past year, and dollar volume hit a record as over $1 billion traded in each of the past four quarters through March. Owner-user purchases by firms like Walmart and Dollar Tree helped lift activity and signaled conviction in Phoenix's demand base. The recent supply wave should also continue to create opportunities for institutions to acquire modern industrial product. Along Loop 303, high-vacancy buildings may remain compelling, as pricing around $100 per square foot offers a lower-basis entry, while tighter vacancy along Interstate 10 should sustain interest in stabilized assets with durable cash flow. Near Sky Harbor Airport, bulk trades have slowed, yet the submarket is expected to remain a key node for small-bay investors seeking infill properties.

2026 MARKET FORECAST

+0.6% — **Employment:** After losing jobs last year, the creation of 14,000 new roles in 2026 marks a modest rebound, though job growth of 0.6 percent will be less than one-fifth of the 2015-2019 average.

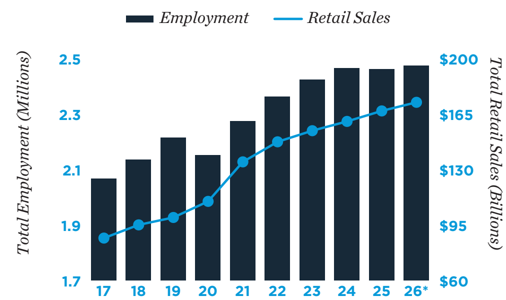
6,000,000 *sq. ft.* — **Construction:** Deliveries will fall by more than half from last year and sit 80 percent below the 2024 peak, with the sharpest slowdown occurring along the Loop 303 corridor in the southwest.

-130 bps — **Vacancy:** Early-year leasing momentum and a sharp drop in new supply position Phoenix for the second-strongest vacancy compression among major markets, lowering the rate to 11.8 percent.

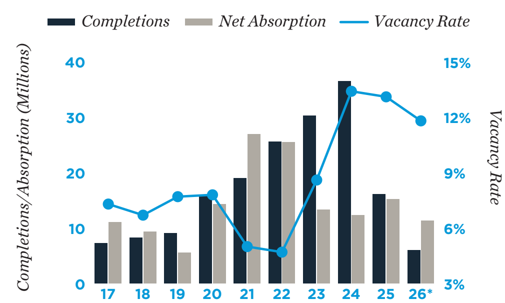
+2.4% — **Rent:** After modest declines over the past two years, rent growth resumes as vacancy pressures ease, lifting the metro's average asking rate to $12.51 per square foot by year-end.

INVESTMENT: *Near-record construction of more than 1 million square feet around Sky Harbor Airport could attract large tenants, deepening small-bay demand and expanding the pool of institutional-grade assets.*

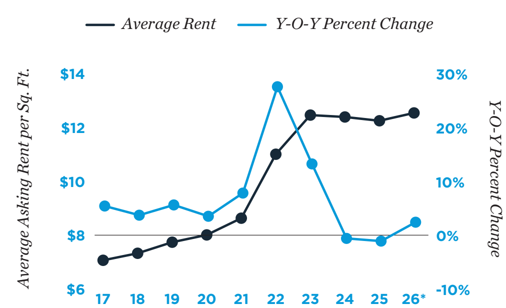
Economic Trends



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 January 2026. 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 office 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 future event. This is not intended to provide specific investment advice and should not be considered as investment advice.