The Real State®
The Real State of the Phoenix Commercial Real Estate Market

R·O·I PROPERTIES
ENHANCING REAL ESTATE ASSETS®

March 2026

K-Shaped Performance in Office and Hotels

From a commercial real estate perspective, the office and hotel markets display significant differences in performance. In the current market, however, there's a common thread between them: Both have formed what economists call a K-shaped recovery—a split between the haves and have-nots.

Office: A Flight to Quality. On a national basis, office has been a story of "the bigger they are, the harder they fall." A CoStar analysis of buildings sold last year found a $4.7 billion drop in value—an aggregate decline of 24%—compared with the properties' previous sale prices dating back to 2010. The poor performance was most stark in buildings over 200,000 SF and worst above 500,000 SF. In contrast, two-thirds of smaller building sales (particularly under 50,000 SF) were profitable, with an average price of $475 P/SF and a 17% return.

In general, Phoenix is outperforming the national figures, but parallels can be seen in the Camelback Corridor vs. Midtown. The businesses that need a Camelback address to be "part of the scene," such as banking, financial planning, real estate, insurance, legal and other financial services businesses, are willing to pay to be in expensive, highly amenitized buildings—and are willing to shrink their footprint to set up shop in the better location.

Midtown, meanwhile, has far more large multi-tenant properties that are difficult to reposition. You have leases on multiple terms. How do you get everybody out at the same time? How do you address the entrances and common-area amenities while still providing access to the public?

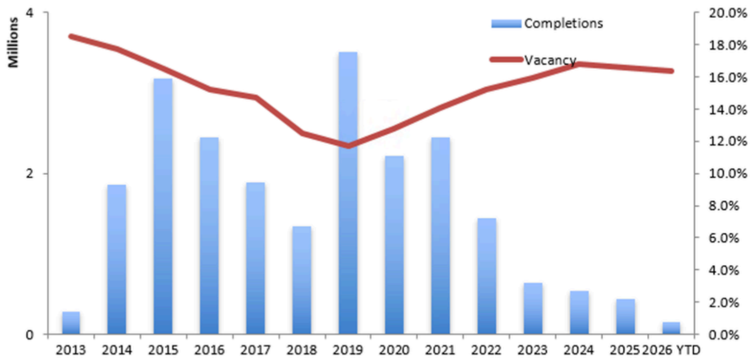
All indications are that the office market has reached a bottom in Phoenix. Aggressive investors are acquiring, but there is some distance from prior pricing.

Hotels: High-End Soars While Limited-Service Lags. Hotels are mirroring the same dynamic. At high-end hotels, people are still spending money. They have plenty of liquidity and disposable income, and they're going on vacation. Limited-service hotels, in contrast, are suffering along with lower-income households. In 2025, RevPAR (revenue per available room) fell 4.4% in economy-class hotels, according to CoStar.

It's interesting to note that luxury travel advisory Embark Beyond's Q4 2025 Travel Trends Report describes a split even within luxury. Product targeted at the ultrawealthy is performing better than that for the aspirational luxury traveler, such as base-rate deluxe rooms.

On the surface, the office and hotel segments could not be more different. But in the current environment, businesses and people who are doing well financially also have the ability to maintain their status quo. For those who are not, the current market is a struggle—and they will need to make adjustments to return to balance.

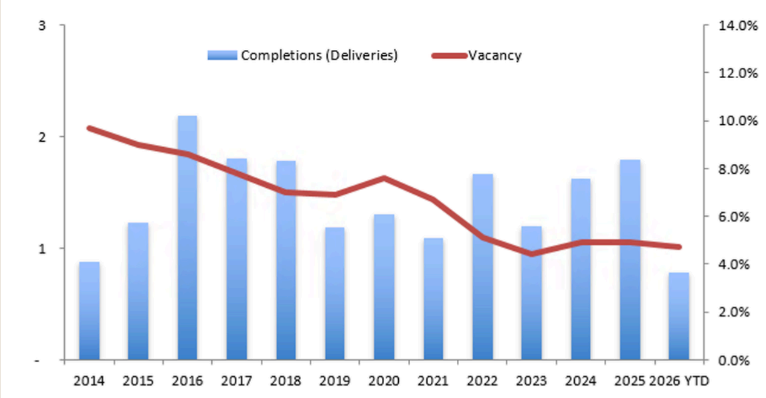
OFFICE



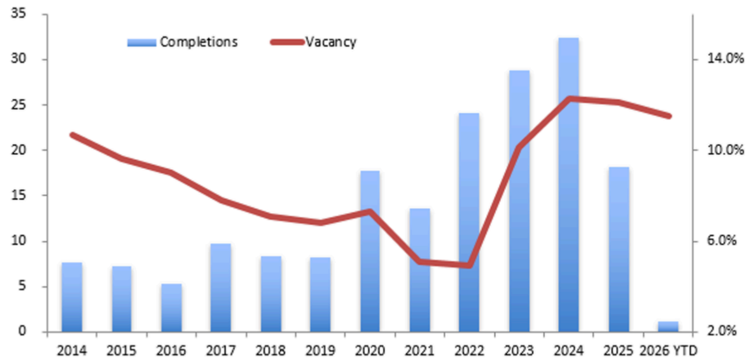
The Phoenix office market is showing early signs of stabilization, with vacancy declining from 16.8% to 16.4% following positive absorption driven by owner-user acquisitions, steady leasing activity, and increased in-office attendance. Despite this progress, recovery remains gradual due to economic uncertainty and an estimated 5.5 million SF of post-COVID occupancy loss still to be absorbed. Limited new construction has eased supply pressure, with the development pipeline well below pre-pandemic levels. Demand and rent growth are concentrated in high-quality buildings within desirable submarkets, while older and non-premium spaces continue to face challenges. This divide is leading to modest overall rent growth and an uneven recovery, with some properties being renovated or repurposed as the market continues to rebalance.

RETAIL

The Phoenix retail market remains tight heading into 2026, supported by strong population growth, rising incomes, and low unemployment, which continue to drive tenant demand. Availability has risen slightly to 4.9% due to store closures and bankruptcies but remains historically low. These closures have created expansion opportunities, with 2.3 million SF of net absorption over the past year as retailers backfilled vacant space. Limited new construction continues to support stability, with most new supply focused in fast-growing suburbs like Buckeye, Surprise, and Queen Creek. Rent growth has moderated to 5.2% but remains above historical averages, and the market is expected to stay balanced with steady demand and constrained supply, despite potential economic headwinds.



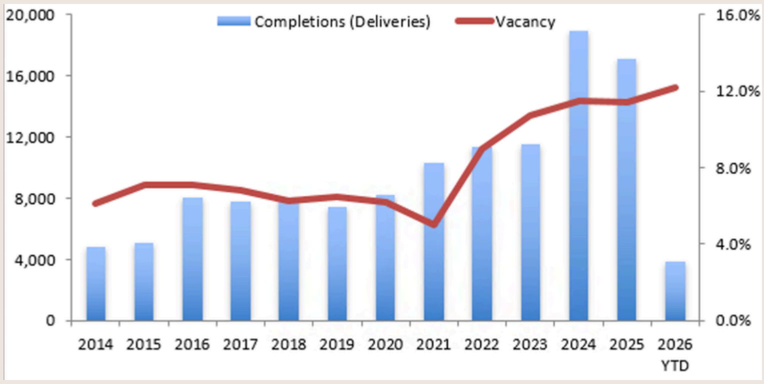
INDUSTRIAL



The Phoenix industrial market is stabilizing, though near-term uncertainty remains. Vacancy has leveled off after rising sharply due to a surge in new construction, reaching 11.5%, the highest since the Great Recession, while rent growth has slowed. Tenant demand remains steady, with 19.0 million SF of net absorption driven by logistics, retail, and advanced manufacturing, but has not fully kept pace with recent deliveries. Larger logistics buildings have been most impacted, with higher vacancy rates, while smaller properties remain relatively tighter. Rent growth has moderated to 3.6% as increased supply gives tenants more options, though infill and small-bay assets continue to outperform. With significant space still under construction, vacancy is expected to remain elevated in the near term, but a slowdown in new deliveries should support gradual improvement and renewed rent growth moving forward.

MULTIFAMILY

The Phoenix apartment market continues to face a mismatch between strong demand and elevated supply. Net absorption reached 17,000 units in 2025, well above historical averages, but was outpaced by 21,000 new units delivered, pushing vacancy to 12.2%. With another 18,000 units under construction, Phoenix remains one of the most active multifamily development markets in the country, particularly in high-growth areas like Downtown Phoenix, Tempe, and the Southwest Valley. Increased competition has driven rents down 3.0% in 2025, with concessions rising and rent declines now impacting both high-end and workforce housing. While a slowdown in construction should begin to ease supply pressure by late 2026 or 2027, excess inventory is expected to keep vacancy elevated and rents under pressure in the near term.



Residential Snapshot

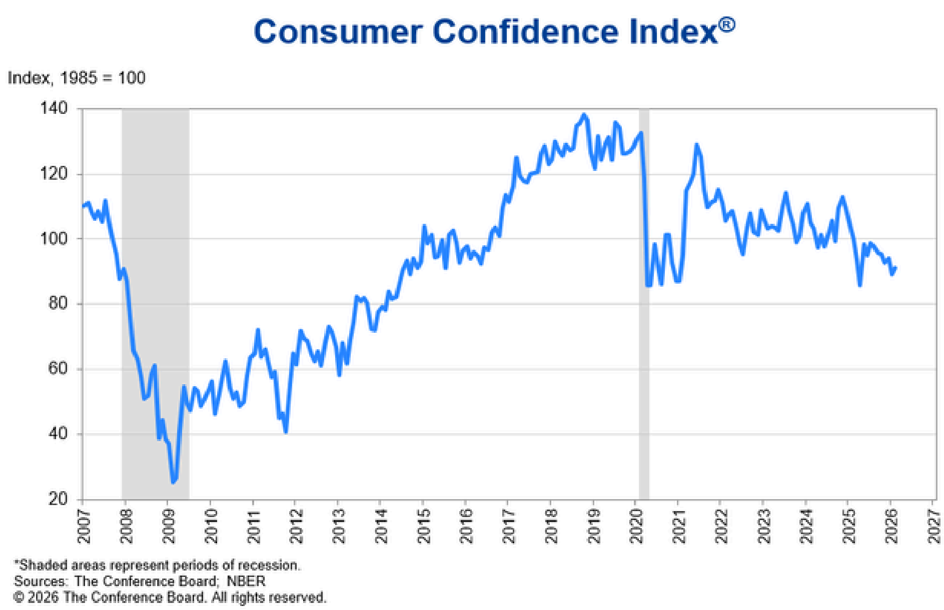
The Greater Phoenix residential market is experiencing a recent uptick in investor interest and deals. Although that is the broad picture, there are noticeable differences in approach. On one end are wholesalers who make lowball offers without even visiting a given property. On the other are the true investors: willing to do their due diligence, including spending time at the property, and waiving inspections.

Until the past few months, there was enough uncertainty, particularly in the entry-level/move-up space, that investors had become scarce. One interesting trend is that many investors are taking a buy-improve-hold-and-rent approach rather than a fix-and-flip. In such cases, that's a wager on potential buyers waiting on interest rates and the overall economy. Whereas fix-and-flip investors need true wholesale pricing to make the numbers work before selling to an owner-occupant, many investors have graduated into a longer-term view of generating stable rental income. In both cases, there is variance in how much they are willing to take on in rehab. On the low end, cosmetic fixes might include changing out flooring, countertops, and paint—whether or not the structure is up to date. More serious renovations involve a lot of work and heavy lifting, whether reconfiguring or adding rooms in addition to the cosmetic polish.

Other market factors that R.O.I. Properties is tracking include:

- Last month, total active listings were up 4.3% over last year, and now they're down -0.7%. This is attributed in part to a 7% decline in new listings added to inventory in February combined with a 10% increase in expired listings.
- The stagnation in the supply count is mostly in listings between $500K-$600K, where new listing counts were down 17% in February, and those between $600K-$800K, where they were down 14%.
- February closings were down just slightly at -0.9% below February 2025 sales. However, contract activity began to pull away from last year and currently listings in escrow are the highest they've been for this time of year in three years. This correlates with conventional mortgage rates dropping to 5.99% and maintaining that level for the last two weeks of February.

CONSUMER CONFIDENCE



Source: The Conference Board

The Conference Board Consumer Confidence Index® increased by 2.2 points in February to 91.2 (1985=100), from an upwardly revised 89.0 in January. "Confidence ticked up in February after falling in January, as consumers' pessimistic expectations for the future eased somewhat," said Dana M Peterson, Chief Economist, The Conference Board. "Four of five components of the Index firmed. Nonetheless, the measure remained well below the four-year peak achieved in November 2024 (112.8)."

WESTERN BLUE CHIP ECONOMIC FORECAST

ARIZONA

Annual Percent Change 2027 from 2026

	Current $ Personal Income	Retail Sales	Wage & Salary Employment	Population Growth	Single Family Housing Permits
ASU Economic Outlook Center	5.5%	4.7%	1.8%	1.4%	8.0%
EconLit LLC	4.6%	2.9%	1.4%	1.3%	5.0%
Elliott D. Pollack & Co.	5.1%	4.2%	1.2%	1.3%	5.0%
Joint Legislative Budget Committee	5.2%	4.0%	1.7%	1.3%	5.0%
Neal Helm					
Rounds Consulting Group	5.5%	3.5%	1.5%	1.3%	5.0%
Southwest Growth Partners					
The Maguire Company					
The Retail Economist, LLC	5.4%	1.6%	2.8%	1.2%	1.6%
UA - Eller College	5.8%	4.2%	1.5%	1.3%	-7.3%
Consensus Forecast	***5.3%***	***3.6%***	***1.7%***	***1.3%***	***3.2%***

Source: Seidman Institute

Articles of Interest

Commercial Cafe – March 19
Slow Construction Starts, Rising Office Decommissioning & Conversion Trends Support Conditions for Vacancy Improvement

AZ Big Media – March 25
Arizona building permits fall as multifamily surges

Phoenix Business Journal – March 17
Phoenix data center market set to double amid power crunch, zoning shifts

AZ Big Media – March 4
Phoenix office market posts strongest net absorption since pre-pandemic

CoStar – March 10
Largest US office towers take biggest price beating

CoStar Insight – March 6
Phoenix commercial real estate sales accelerated in 2025