The Real State®

The Real State of the Phoenix Commercial Real Estate Market

R·O·I PROPERTIES
ENHANCING REAL ESTATE ASSETS®

August 2026

Higher-for-Longer Rates Drive Appeal for Cash Deals

Interest rates have been on a rollercoaster ride over the past decade. The Fed Funds rate peaked above 5% in 2006-07 before flattening from 2009-15, when inflation was almost nonexistent in the wake of the Great Recession. That was followed by a bump above 2% in 2019 as the economy started to recover, and another near-zero stretch when covid slammed on the brakes. With inflation roaring during the post-lockdown rebound, a bout of rapid tightening started in 2022 and sent rates back above 5% from mid-2023 to mid-2024.

While the Fed Funds range has softened to 3.50% to 3.75% since then, consumers in general and the commercial real estate market in particular are left feeling queasy from the ride. Persistent inflation remains above the Fed's target of 2%—and the hopes from last year for as many as three rate cuts in 2026 appear to have been overly optimistic.

The extended period of higher-for-longer interest rates has had several key impacts on CRE:

- Increased borrowing costs
- Lower overall return expectations/profitability
- Difficulty refinancing/overleveraged properties on floating-rate loans
- Decreased property valuations

Add them all up, and the net effect has been a lower volume of overall transactions on the commercial side. Rates have affected all product across all investment asset classes, including office, industrial, retail, multi-family, and also, single tenant triple net deals. Retail seems to be faring the best. In Greater Phoenix, there is some seasonality at play, since more people spend time out of town and it may slow transactions a bit. The truth, though, is that finding and executing deals doesn't depend on whether it's summer, fall, winter or spring.

Another factor is that many investors view real estate as an alternative to stock market or bond transactions—so the appropriate returns need to be there. Higher interest rates may encourage many to opt out of financing; leverage can decrease returns as interest rates increase. In such cases, investors need to obtain a higher cap rate in the marketplace to compensate for the higher risk, sending prices down, since they are inverse to cap rates.

Overall, the high-rate environment is driving more cash deals and fewer financed deals on the investment side. There are advantages from a negotiation standpoint, such as fostering the ability to get to a better deal quicker. In addition, without adding leverage, the balance sheets on their properties look healthier.

Finding the Value in Commercial Properties in 2026

Whether you own commercial property that you are looking to sell, or are interested in owner-occupant or investment opportunities, the R.O.I. Properties team can negotiate the most favorable deal for you. Please contact us at: info@roiproperties.com or 602-319-1326.

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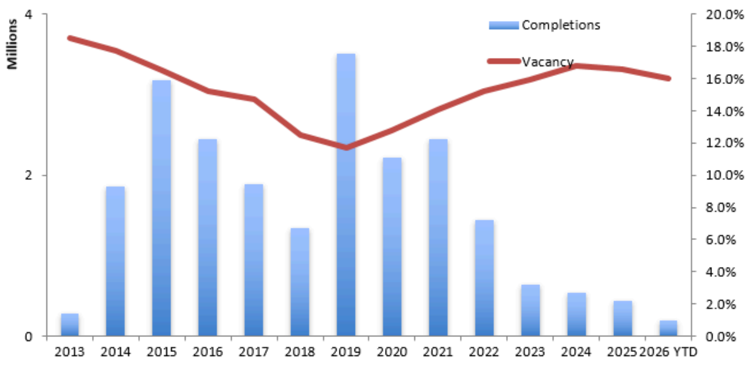
OFFICE



While lease rates at Phoenix's top buildings continue to set new records, the market notched overall asking rent growth of just 1.6% over the past 12 months, lagging the rate of inflation. Additionally, landlords often offer generous TI packages to attract users, further weighing on effective rent growth.

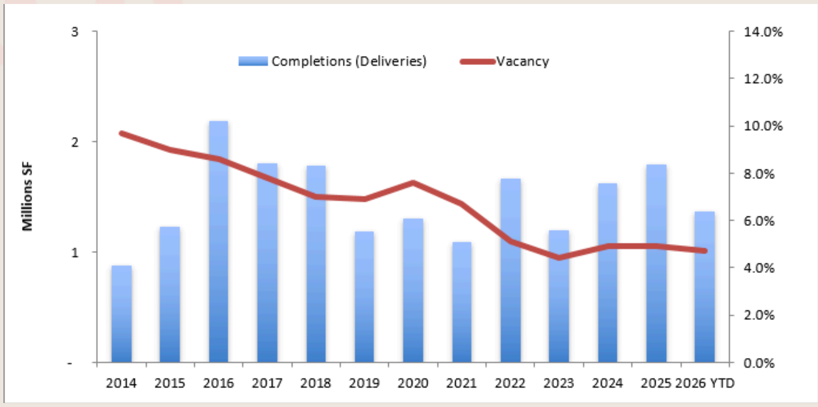
Against this backdrop, some owners have invested in renovations and spec suites to make their buildings more desirable. Those in high-demand submarkets have found some success luring tenants from other areas, pointing to an uneven recovery throughout the Valley.

The diverging performance between premium and nonpremium buildings defines the current landscape, and what becomes of the latter will likely guide the path of recovery.

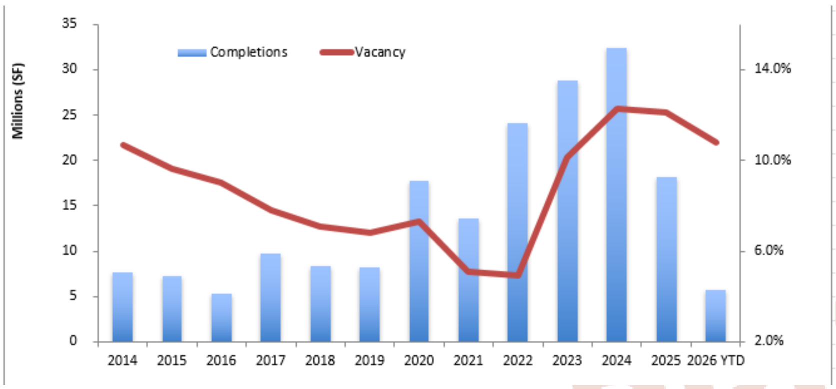
RETAIL

One of the main factors supporting the steady improvement in retail property fundamentals over the past decade has been the lack of new construction. About 3.0 million SF delivered over the past 12 months, down from an average of 10 million SF annually during the peak from 2006 to 2007. Though the construction pipeline has grown to 2.5 million SF, less than a third is available for lease, and supply-side pressure remains limited.

The bulk of supply additions can be found in rapidly growing suburbs on the outskirts of the metro, like Buckeye, Surprise, and Queen Creek. These areas boast strong population growth and ample developable land, as well as a more limited existing retail offering.



INDUSTRIAL



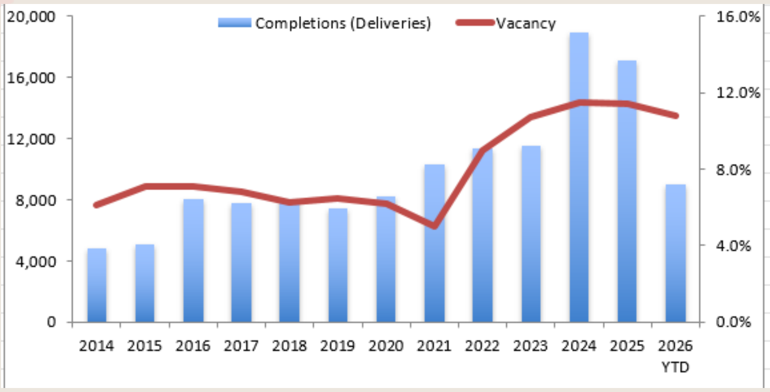
The recovery of the Phoenix industrial market accelerated in Q2 2026, as strong tenant demand met an easing completion schedule to keep vacancy on a downward trend. While space availability remains elevated by historical standards, conditions have meaningfully improved—with deliveries continuing to moderate and large occupiers absorbing significant blocks of newly constructed space.

Unlike many U.S. industrial markets, where vacancy continues to trend upward and rent growth has largely stalled, Phoenix has recorded stronger absorption and improving occupancy, placing it among the faster recovering metros nationally.

MULTIFAMILY

The Phoenix apartment market showed early signs of recovery in the first half of 2026. Accelerating net absorption met an easing construction pipeline, causing vacancy and rent growth to improve.

Moving forward, the rapidly thinning construction pipeline in multifamily should provide supply-side relief over the near term, bringing annual deliveries back near pre-pandemic levels by 2027. Vacancy is expected to modestly compress during this period as the market takes time to digest the substantial pace of deliveries from the past few years. Additionally, while rent growth will likely remain in negative territory throughout most of the year, a repeat of 2025's accelerating decline is unlikely, and the prospect for positive growth by the end of 2027 is improving.



Residential Snapshot

As we head into the Labor Day weekend, uber-luxury ($2 million and up) remains the most competitive segment of the Greater Phoenix residential marketplace. There's not as much product, deals tend to be cash rather than financed, and transactions are happening. Beyond that sweet spot, however, conditions continue to be challenging in entry-level and starter homes through lower-end luxury ranges. Homes are taking longer to sell, and mortgage rates remain one of the biggest obstacles for buyers, with 30-year fixed rates hovering in the upper-6% range.

Even so, the buyers who are interested are also committed, given that interest rates may be as good as they get for the foreseeable future. It remains a buyer's market, with more product than prospects, and they have plenty of negotiability.

For sellers, pricing and condition continue to be critical. Greater Phoenix homes are generally selling at about 97% of list price, and seller-paid concessions remain common. Appropriately priced and well-presented homes continue to sell, while overpriced properties face longer marketing times and additional price reductions.

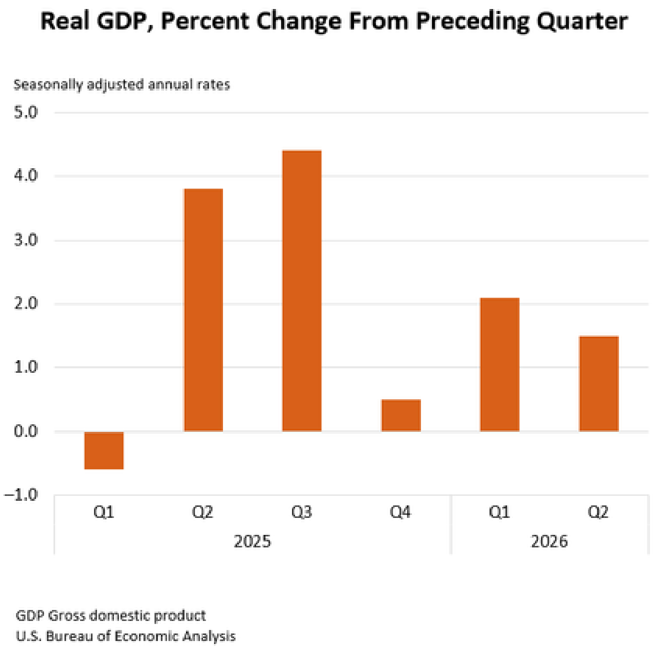
Other market factors that R.O.I. Properties is tracking include:

- New listings in July totaled 7,425 in the Arizona Regional MLS, up 1.9% over last July's count of 7,290. However, August listings have been weak, with 6,015 new listings added as of August 25, down 3.6% from last year.
- New single-family home permits issued in Greater Phoenix from January through July are down 12.2% from last year and down 37.2% from the 2021 peak. However, they are up 16% in Buckeye, 24% in Apache Junction, and 28% in Florence.
- Multifamily permits, which are more rental communities than condominiums and townhomes these days, are also down 29% from last year and down 48% from their 2022 peak.
- July sales closed at 5,846, up 1.9% over last July. Current listings under contract, however, remain nearly 6% below last year. This indicates that August and September closings will most likely come up short in year-over-year comparisons.

Your Expert Real Estate Advisors
Under All Market Conditions

At R.O.I. Properties, we work hard to ensure that our clients thrive in every real estate market—particularly as market conditions shift. Contact us at 602.319.1326 or info@roiproperties.com.

REAL GDP (SECOND ESTIMATE)



Source: BEA.gov

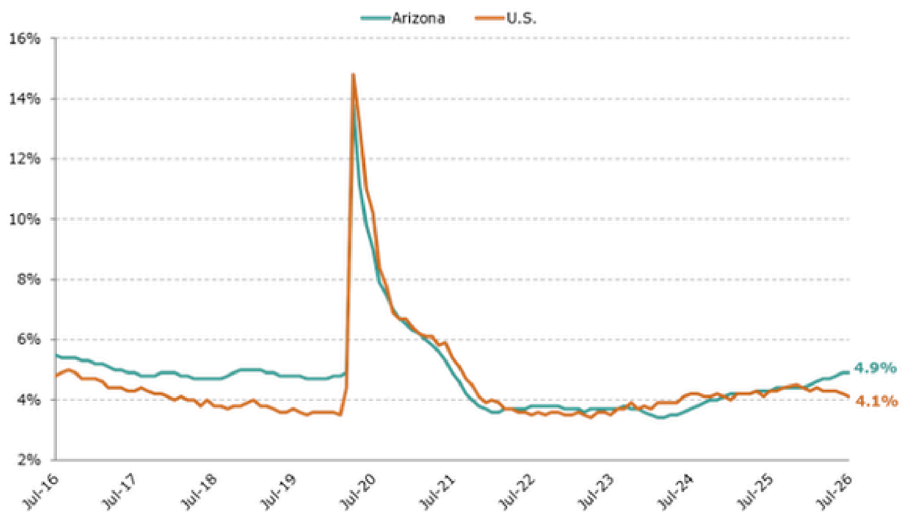
Real gross domestic product (GDP) increased at an annual rate of 1.5 percent in Q2 2026 (April, May, and June), according to the second estimate released on August 26 by the U.S. Bureau of Economic Analysis (BEA). In the Q1, real GDP increased 2.1 percent.

The contributors to the increase in real GDP in Q2 were increases in consumer spending, exports, and investment that were partly offset by a decrease in government spending. Imports, which are a subtraction in the calculation of GDP, increased.

Compared to Q1, the deceleration in real GDP in Q2 reflected a downturn in government spending and decelerations in investment and exports that were partly offset by an acceleration in consumer spending. Imports increased more in Q2 than in Q1.

U.S. AND ARIZONA UNEMPLOYMENT RATES

Seasonally Adjusted, Rounded to Nearest Hundred



PERIOD	LABOR FORCE	EMPLOYMENT	UNEMPLOYMENT	UNEMPLOYMENT RATE
Jul-26	3,710,000	3,528,700	181,300	4.9%
OTM CHANGE	-14,400	-14,700	400	0.0
OTY CHANGE	-92,400	-108,900	16,500	0.6

Source: Arizona Office of Economic Opportunity

Year-Over-Year Highlights

- Arizona NSA nonfarm employment increased by 24,200 jobs (0.8%)
- Arizona private sector employment increased by 29,200 jobs (1.0%), while government employment decreased by 5,000 jobs (-1.3%)
- Eight of the 12 major sectors recorded job gains: The largest gains were recorded in Health Care and Social Assistance (13,400 jobs) and Professional & Business Services (12,500 jobs). The largest losses were recorded in Leisure and Hospitality (-7,100 jobs), Government (-5,000 jobs), and Financial Activities (-3,900 jobs).
- One of the seven Arizona metro areas (MSA) recorded job gains—Phoenix-Mesa-Chandler MSA (+1.2%)—while the largest job losses were recorded in Flagstaff MSA (-3.9%).

Articles of Interest

Commercial Property Executive – Aug. 6
Phoenix Office Posts Strong Sales

Commercial Cafe – Aug. 20
National Office Report

Phoenix Business Journal – Aug. 19
Taiwan-based firms acquire land at Mack Innovation Park amid TSMC buildout

GlobeSt. – Aug. 20
Retail Demand Rebounds as Scarce Supply Preserves Landlord Leverage

CoStar – Aug. 26
CoStar Report Shows Data Centers Fueling Increasing Share of U.S. Industrial Demand

AZ Big Media – Aug. 25
Phoenix CRE industry faces shifting economy as hiring weakens