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

R·O·I PROPERTIES
ENHANCING REAL ESTATE ASSETS®

September 2026

Negotiating Leverage Shifts Toward Buyers

The Federal Reserve's quarter-point interest rate increase in mid-September was widely anticipated, but the reality of its arrival still sent shock waves into the commercial real estate market. As noted in last month's issue of *The Real State*, higher-for-longer interest rates have increased borrowing costs, lowered overall return expectations and property values, and caused difficulty in refinancing, particularly for overleveraged properties on floating-rate loans.

The result has been the most challenging business conditions we have seen in the past few years, and it feels like someone pressed the "pause" button on the real estate market (including residential properties). Beyond the potential for another Fed Funds increase later this year, it does not quell nerves in the market to see the 10-year Treasury above 5.2% for the first time in almost 20 years.

Even so, this particular slowdown has its own unique dimension. Many economic indicators are positive or trending that way. Inflation has slowed but remains persistent, hence the rising rate environment. The market does not rhyme with 2007-08, when loans were defaulting and nobody was buying because prices had not adjusted, nor is it like the shock of Covid.

The lack of market activity in Greater Phoenix is most notable in commercial owner-occupant properties, as these types of commercial buyers often react to uncertain financial conditions with a consumer mindset. They are often small-business owners, and this is a more difficult market for them to wrap their arms and brains around, particularly with increasing interest rates. In the current interest rate environment, with current market pricing, the prospective buyer's decision may align more closely with a "rent" versus "buy decision," purely from an economic perspective.

While the impulse may be wait-and-see in times of uncertainty, anticipated interest rate increases may make the argument for getting on top of things now—provided the numbers work and favor a buy. As is the case in the residential sector (excepting properties over $2M), Greater Phoenix is in a buyer's market in most commercial asset classes. Strategic buyers who can pay cash are moving through this market strategically, and in many instances, with negotiability in an environment that is rife with nervous sellers and experiencing an uptick in deals that fall through.

For sellers who have owner-occupant product, in which buyers typically use financing, there is no sugar-coating it: It's a tough market. Make sure you are at bullseye pricing, to attract attention, and when inspection items come back that need to be addressed, move through them with patience and professionalism. Buyers hold the high cards for now, and you need to play your hand wisely for a deal to be successful.

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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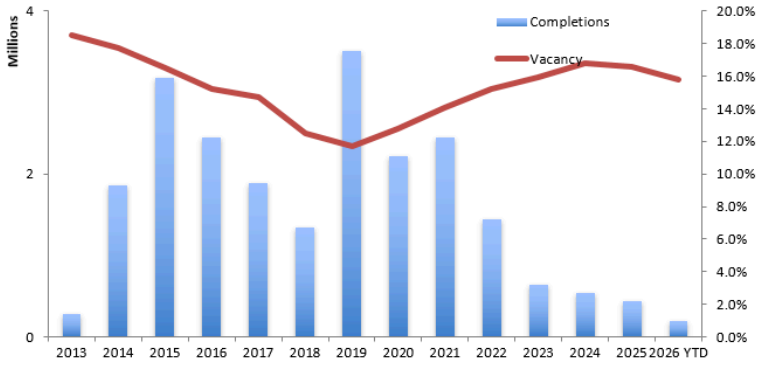
OFFICE

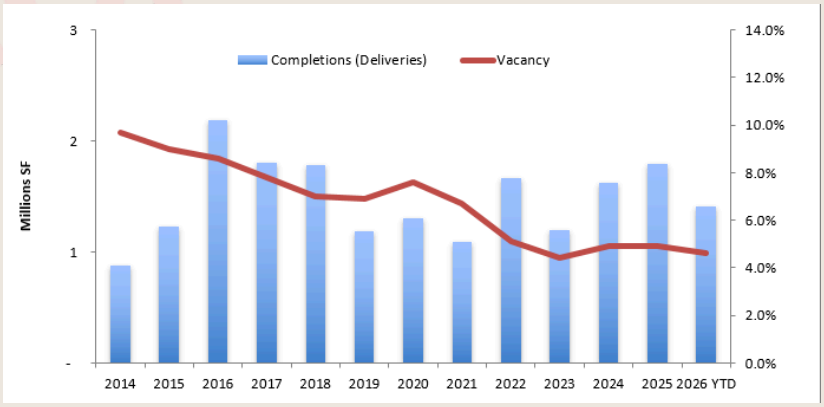


The recovery in the Phoenix office market remained on track in the first half of 2026. Improving space demand is converging with accelerating demolitions, driving a gradual reduction in vacancy.

New lease volume accelerated over the past year, reaching about 9.5 million SF in the 12-month period ending in Q2 2026. That amount, which includes medical and non-medical office space, brings leasing within 9% of pre-pandemic levels.

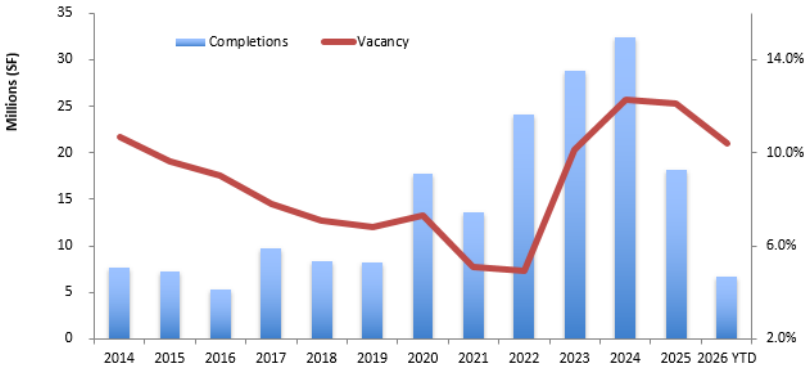
Users have shown a preference for pre-built suites and high-quality buildings/locations as tenants continue to prioritize speed of move-in and amenity-rich spaces for employee attraction and retention purposes.

RETAIL



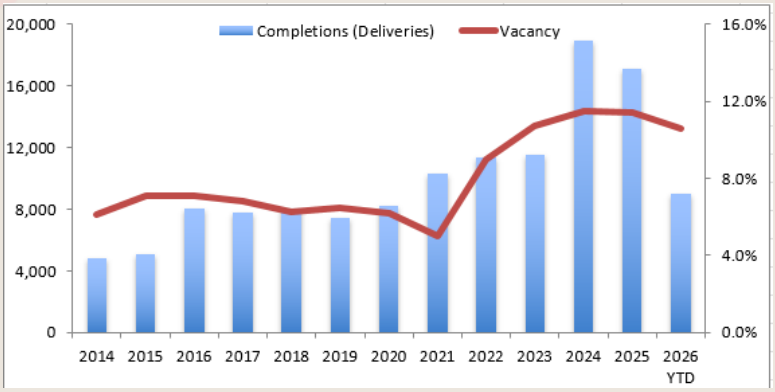
Fundamental tightness in the space markets has kept rent growth strong, with the average asking rent increasing 4.5% over the past 12 months. While that marks a moderation from all-time highs in early 2024, it still ranks the Valley among the top five major markets in the country for rent growth. Additionally, the robust gains since the onset of the pandemic leave healthy leasing spreads for many landlords. Moving forward, the outlook remains balanced. Vacancy is expected to remain compressed through 2027 as a modest delivery schedule converges with sturdy space demand. While rent growth could ease from the robust pace seen over the past few years, the Valley is well positioned to outperform. Downside risks include worse-than-expected macroeconomic performance.

INDUSTRIAL



With nearly 90% of recent construction concentrated in buildings larger than 100,000 SF, performance has also diverged by size segment. Small-bay and infill properties, which face limited competition from new big-box supply, have maintained stronger occupancy and pricing power. At the opposite end of the spectrum, demand from tenants and owner/users has remained robust for the Valley's mega-warehouses, driving vacancy among logistics properties larger than 500,000 SF down to below 5%, near a record low. However, empty space has accumulated in the middle of the market, where vacancy for logistics buildings between 100,000 SF and 500,000 SF has climbed above 20%, with an additional 5 million SF of unleased space currently under construction.

MULTIFAMILY



While the 16,000 units under construction are down more than 50% from a few years ago, it still represents 3.7% of existing inventory. That share ranks Phoenix as one of the nation's most active markets for new construction, and there are pockets of the market facing ongoing oversupply risk. Empty units are most likely to accumulate in high-growth areas like Downtown Phoenix and Tempe, as well as the South West Valley.

While improved, vacancy remains near the highest level since the recovery of the Global Financial Crisis, keeping annual rent growth in negative territory. The average asking rent fell -1.1% over the past 12 months, as healthy first-half performance was offset by steep losses in the second half of 2025.

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Residential Snapshot

The short story in Greater Phoenix residential is that there are lots of nerves in a difficult marketplace, with activity down and interest rates, price reductions, and cancellations ticking up. The assumption in early September was that the Federal Reserve was going to raise rates, so that had been baked into the numbers that we were already seeing in higher mortgages. This week, the 30-year mortgage average crossed above 7.5% for the first time since November 2023. In addition to another potential Fed increase later this year, the 10-year Treasury—one of the key inputs for mortgage rates—climbed above 5.2% for the first time in almost 20 years. Even with many positive economic indicators, including employment, the Federal Reserve is focusing monetary policy on curbing inflation.

With supply up and demand down, it's a textbook buyer's market: The slowdown has delivered a broader range of appealing available properties and additional negotiability. Particularly under $1 million, there is very little activity. Strategic buyers making cash offers have a stronger hand than they have had in the several years—and with another rate increase likely, the timing could be in their favor. Meanwhile, sellers need to be priced right, with their property in the best possible condition, to attract buyer attention and offers. When it comes time for inspection or if issues arise, the default should be to problem-solving mode, not attempting to play hardball.

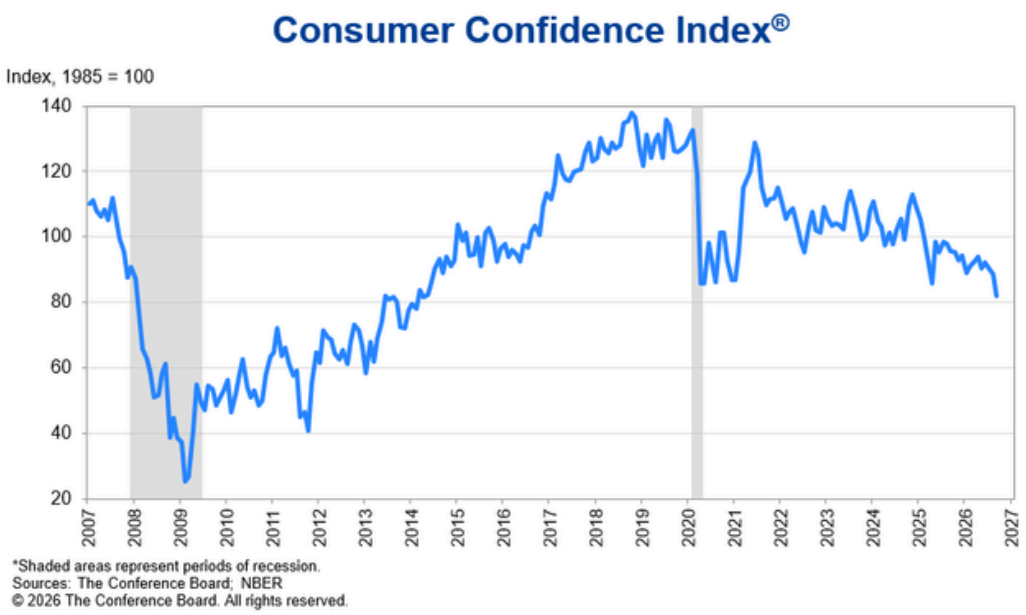
Other market factors that R.O.I. Properties is tracking include:

- Good news for first-time homebuyers: Inventory is up significantly in the most affordable price ranges, as higher mortgage rates knock out other competing buyers.
- The shock and awe of mortgage rate increases also spurred a wave of price reductions mid-September, pushing asking prices down 2.2% in the $300-400K price range.
- August sales closed at 5,057, down 6.3% from last August, as the low contract activity after the 4th of July fed through to closings.
- September running 1.7% ahead of last year with 18 of 21 closing days counted, but listings under contract are now 9.6% below last year. This indicates that October closings will 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.

CONSUMER CONFIDENCE



Source: The Conference Board

"The Consumer Confidence Index deteriorated notably in September, following two prior months of softening. The Present Situation Index fell sharply, while the Expectations Index slipped further into negative territory. Consumer appraisals of current business conditions became negative for the first time since September 2024. Perceptions of the current labor market also worsened, though remained within positive territory. Over the next six months, consumers expected both business conditions and the labor market to weaken. Consumers still anticipated their household incomes to rise, but less so compared to previous months."—*The Conference Board*

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GREATER PHOENIX BLUE CHIP ECONOMIC FORECAST: Q3 2026

2027 ANNUAL PERCENTAGE CHANGE	Population	Personal Income	Retail Sales	Wage & Salary Employment	Manufacturing Employment	Construction Employment
ASU Economic Outlook Center	1.5%	5.8%	3.5%	1.5%	1.0%	1.0%
EconLit LLC	1.7%	5.0%	3.0%	1.7%	1.5%	1.8%
Elliott D. Pollack & Co.	1.4%	6.0%	4.4%	1.7%	2.0%	2.0%
Joint Legislative Budget Committee						
Rounds Consulting	1.5%	6.0%	3.5%	1.3%	0.5%	0.5%
Southwest Growth Partners						
The Maguire Company	1.3%	4.8%	3.3%	1.1%	0.8%	1.1%
University of Arizona Eller College	1.4%	6.3%	4.6%	1.1%	2.3%	-0.3%
CONSENSUS	**1.5%**	**5.7%**	**3.7%**	**1.4%**	**1.4%**	**1.0%**

Source: Seidman Institute

Articles of Interest

Yahoo! Finance – Sept. 14
Sprouts nearly doubles HQ size as expansion efforts continue

citybiz – Sept. 14
Steel Peak Acquires First Industrial Outdoor Storage (IOS) Property in Phoenix, Arizona Market

Phoenix Business Journal – Sept. 22
Industrial activity ramps up in Mesa; plus 6 other Valley real estate deals to know

GlobeSt. – Sept. 28
Multifamily Deliveries Are Set to Fall Sharply in 2026

CoStar – Sept. 11
Phoenix apartment rents edge down in August

AZ Big Media – Sept. 18
5 biggest Metro Phoenix commercial real estate deals from August

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