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

R·O·I PROPERTIES®
ENHANCING REAL ESTATE ASSETS

January 2025

A Time of Maturation in the Phoenix CRE Market

Southern California's wildfires have been headline news for the past few weeks, representing billions of damage to property and livelihoods for our neighbors to the west. The full impact will take months to assess and years to address: sorting through insurance issues and the reconstruction of homes, neighborhoods, and businesses. With the obvious strain on the California economy, it stands to reason that Arizona is positioned to be one of the safety valves to assist displaced Golden State residents. In a recent article, AZ Central noted that "requests from Los Angeles-area residents looking for Valley rentals have already jumped," and that high costs and long rebuilding timelines could make Greater Phoenix an appealing option.

Californians have been migrating in a net positive direction to Arizona for years. At a rate of more than 170 people per day, the past decade has seen about 630,000 Californians relocate to Arizona—and along with them, numerous headquarters relocations and company expansions. The last time we saw a significant outside influence on the migration patterns were during the Covid-19 pandemic, when people suddenly had a lot more flexibility with when and where they could work. Again, it's too early to know the full impact, but the relative excess inventory in the Greater Phoenix multifamily sector could end up being mutually beneficial for Californians needing an alternative.

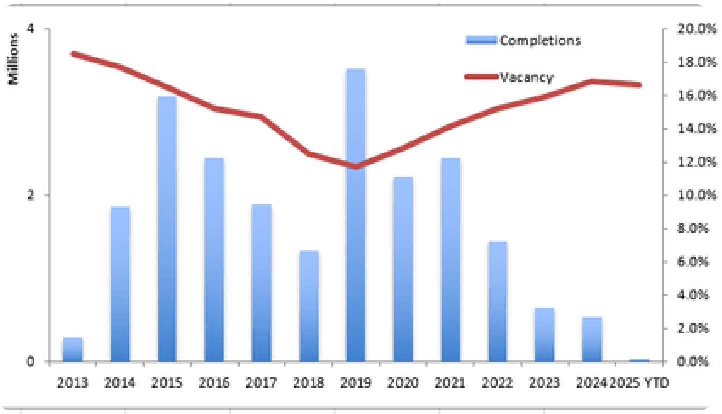
Beyond the immediate California factor, the start of 2025 marks a time of maturation in the Greater Phoenix economy. Increasing numbers of companies are interested in relocating to the Valley, particularly in technology—paying off on the long-term strategy of developing the Silicon Desert. Taiwan Semiconductor and Amkor alone represent billions in economic impact. In addition, notable relocations of headquarters last year to Phoenix included Comtech (a satellite telecom company from New York) and USAA Federal Savings Bank (formerly based in San Antonio).

Such moves and investments most visibly impact the industrial side of CRE and job creation, but they also echo within the ecosystem of suppliers, housing, and support infrastructure from grocery stores to entertainment complexes. With new facilities and large employers flowing into the market, we are seeing an uptick in owner-operator interest, as well as additional tenant interest. That type of symbiotic expansion bodes well for the economic growth within our community and the health of the overall Phoenix CRE sector.

New Year's Resolution: Maximize the Value of Your Real Estate Assets in 2025

Whether you own a commercial property that you'd like to sell, or are interested in learning more about investment opportunities in the current market, 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.

Office



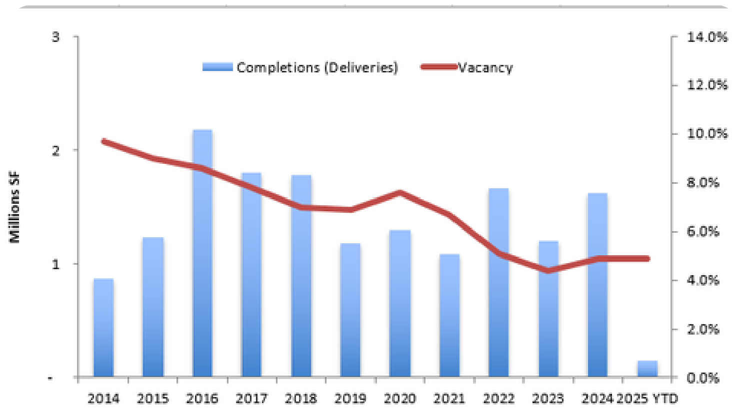
Like other metros, supply additions have reached a near standstill in Phoenix. Weaker underlying tenant demand, higher development costs, and limited availability of construction financing have made it difficult for builders to break ground. While the reprieve of new construction has helped avoid exacerbating the supply and demand imbalance, it could result in a shortage of first-generation office space in the midterm, providing occupiers with fewer premium expansion options.

Less than 750,000 SF of gross new office space is expected to deliver in 2024, a meaningful slowdown from the 2.8 million SF added per year on average from 2015 to 2021. The only two leasable non-medical offices to complete this year were originally built-to-suits that the user later chose not to occupy: a 133,400 SF office for Carvana and a 135,000 SF office for Viasat. Both are located in Tempe and remain vacant.

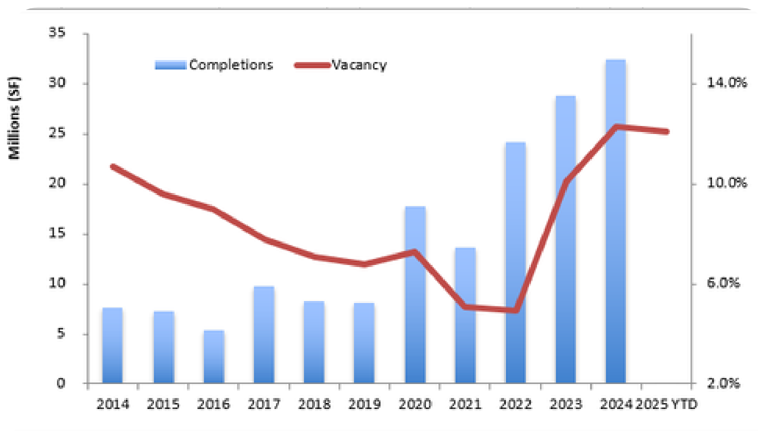
Retail

The lack of construction activity over the past decade has been one of the primary contributors to the Valley's tight market conditions. Developers shifted their focus to other property types during the most recent expansion cycle, particularly in Phoenix, which was hit especially hard during the Global Financial Crisis.

Over the past 12 months, builders completed just 1 million SF of net new retail space, a considerable downshift compared to 2006-08, when more than 10 million SF per year was delivered. Though the amount of space under construction has risen above the prepandemic average to 2.5 million SF in early 2025, just 20% is available for lease, keeping supply-side pressure largely at bay. Spec big box space is rare, and most builders often have their anchors and junior anchors in tow before beginning construction, as well as having much of the shop space preleased.



Industrial



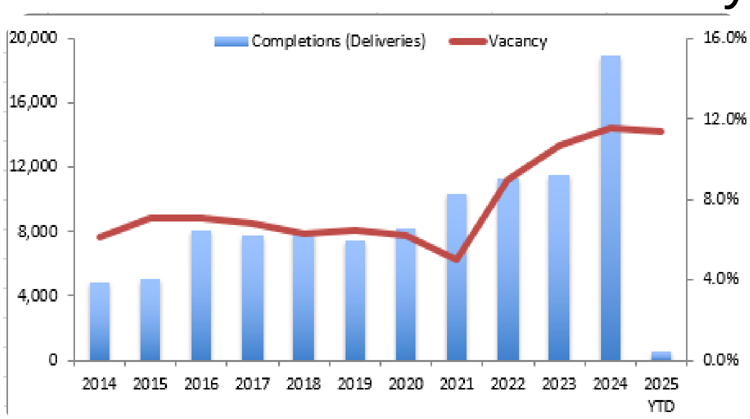
The Phoenix industrial market is contending with one of the most aggressive development pipelines in the country. Over the past three years, a staggering 94.7 million SF of cumulative gross deliveries took place, which is on pace with the completion total from 2007 to 2019 combined. The wave of construction has put substantial upward pressure on market-wide vacancy and caused rent growth to decelerate swiftly.

Supply-side pressure will likely continue over the next several quarters. The 22.9 million SF underway ranks Phoenix as one of the nation's top construction markets. That amount represents 4.7% of existing inventory, more than doubling the 1.7% share for the overall United States. With about 55% of development progressing without a tenant in place, the delivery of empty spec space is expected to put further upward pressure on vacancy over the near term.

Multifamily

Supply-side challenges plague the Phoenix multifamily market as a wave of deliveries overshadows rebounding rental demand. Over the past 12 months, apartment builders delivered a staggering 24,000 net new units, outpacing the pre-COVID five-year annual average of about 7,100 units per year. The surge in construction activity has caused vacancies to rise quickly since mid-2021 and turned rent growth negative.

The impact of the construction pipeline will be felt through at least this year. About 27,000 units are under construction, representing 6.7% of existing inventory. That figure ranks Phoenix as one of the most aggressively built markets in the country. With much of the development activity focused on luxury properties, supply pressure has been most acute in the Class A segment, though weakness has also extended to Class B properties.



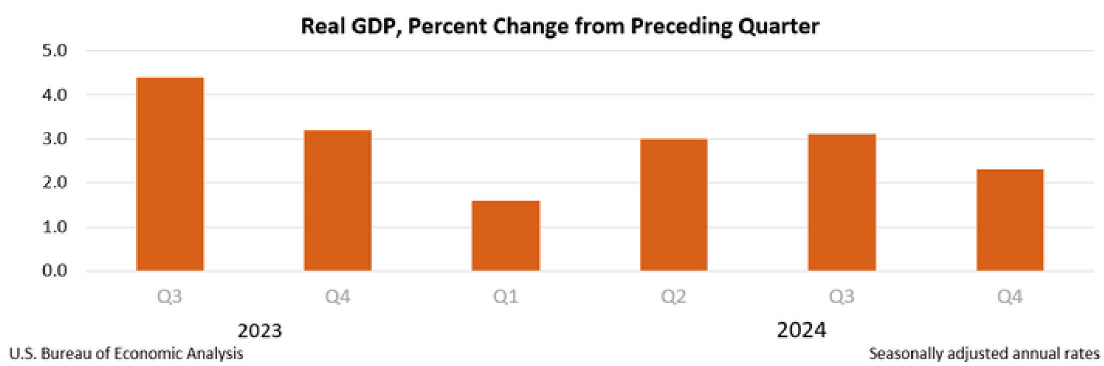
Residential Snapshot

December 2024 to January 2025, the supply-demand index increased 1.7 points from 88.9 to 90.6. The supply index declined from 86.8 to 84.2 and the demand index declined from 77.1 to 76.3. At their January meeting, the Federal Reserve held steady on the Fed Funds rate. The Greater Phoenix housing market bounced out of a buyer's market into balance at the beginning of January, but it should be back in a buyer's market by the time February starts. With rates over 7%, one might expect the decline in the overall index is due to demand weakening, but the demand index is remarkably stable in the face of current rates. It's the supply index that has begun to rise again as demand remained stable, but low. In addition to the Federal Reserve announcement, the end of the month includes updated economic reports on labor, and PCE inflation. If no significant changes are revealed, expect home prices to remain flat and stable.

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

- January to date has kicked off with 10% more new listings in the first few weeks compared to last year, and the highest number of new listings added to the Arizona Regional MLS since 2019; this gave buyers a boost of inventory to choose from.
- While active listings under $500K are showing a large increase in total supply over last year, that price point is not seeing a massive jolt in new listings compared to the past 3 years. Listings are simply accumulating due to low demand in a high mortgage rate environment, which can lead to longer marketing times.
- January is kicking off with 12% more closed sales than last January, but 5.3% fewer listings under contract in the pipeline. Weekly accepted contracts are trailing 2024 at the start of the year, but rising as expected for the spring buying season.
- Mortgage rates have remained stubbornly high (bouncing around 7% since late October) which continues to suppress demand in all price ranges under $1M.
- New homes have grown in market share from 20% of all recorded sales in 2022 to 27% in 2024.

GROSS DOMESTIC PRODUCT: 4TH QUARTER 2024 (ADVANCE ESTIMATE)



Source: US Bureau of Economic Analysis

Real gross domestic product (GDP) increased at an annual rate of 2.3 percent in the fourth quarter of 2024 (October, November, and December), according to the advance estimate released by the U.S. Bureau of Economic Analysis. In the third quarter, real GDP increased 3.1 percent.

Compared to the third quarter, the deceleration in real GDP in the fourth quarter primarily reflected downturns in investment and exports. Imports turned down.

The price index for gross domestic purchases increased 2.2 percent in the fourth quarter, compared with an increase of 1.9 percent in the third quarter.

ARIZONA EMPLOYMENT REPORT – DEC. 19, 2024

2025 ANNUAL PERCENTAGE CHANGE	Population	Personal Income	Retail Sales	Wage & Salary Employment	Manufacturing Employment	Construction Employment
ASU Economic Outlook Center	1.5%	5.6%	2.5%	2.2%	1.0%	4.0%
EconLit LLC	1.7%	4.9%	3.5%	2.1%	2.0%	2.8%
Elliott D. Pollack & Co.	1.6%	5.9%	5.5%	1.8%	2.4%	2.1%
Joint Legislative Budget Committee	1.6%	5.8%	4.1%	2.1%	1.7%	2.6%
Rounds Consulting	1.5%	4.5%	2.0%	2.0%	1.0%	1.5%
Southwest Growth Partners	1.7%	5.1%	3.1%	2.1%	1.6%	2.1%
The Maguire Company	1.5%	5.2%	3.5%	2.0%	2.0%	2.2%
University of Arizona Eller College	1.6%	6.0%	2.9%	2.3%	4.0%	0.2%
CONSENSUS	**1.6%**	**5.4%**	**3.4%**	**2.1%**	**2.0%**	**2.2%**

Source: Arizona Blue Chip Data

Articles of Interest

AZ Big Media – Jan. 24
Phoenix continues to be a hot spot for industrial development

AZ Big Media – Jan. 20
10 biggest commercial real estate deals in Arizona in 2024

National Observer/Phoenix Business Journal – Jan. 10
What to watch in CRE, housing this year

GlobeSt. – Jan. 28
Investors Eye These Cities for Prime CRE Opportunities in 2025

Trepp Talk – Jan. 13
The Year-End 2024: Liquidity is Coming Back; Risks Persist, but is There a Green Light for CRE Ahead?

Construction Review Online – Jan. 14
Halo Vista: A $7 Billion 'City Within a City' Surrounding TSMC in Phoenix