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

R·O·I PROPERTIES
ENHANCING REAL ESTATE ASSETS®

September 2025

Investors Give Another Nod to Phoenix's Potential

As noted several times in the past few months, we continue to see strength in owner-occupied office. Back-to-office is a burgeoning trend, underscored by a flight to quality. Functional office space is not enough at this point; the properties featuring all the bells and whistles are the ones attracting attention. Asking rental rates remain suppressed at around $29/SF, with Phoenix joining Denver and Portland, Oregon, as the only large Western markets below the $32/SF national average in August. Another interesting data point, on a national level, is that only four major markets (San Francisco, Boston, New York, and San Jose) saw a year-over-year increase in leasing volume. Historically, the first markets to go down are also the first to rise up, which could be a harbinger for positive office trends on a broader base going forward, especially given the amount of vacant space available.

Last month's headline deal, discussed in the August issue of *The Real State*, was Southwest Value Partners' acquisition of seven class A office properties across the Valley for $296 million. This month's nod of approval from the investing community came in the industrial market: BKM Capital Partners acquired 900,000 SF of Phoenix-area industrial space—364 units across more than 40 buildings. Greater Phoenix continues to expand economically, and having well-located industrial buildings in the Valley is a tacit acknowledgement by sophisticated investors of our growing industrial base.

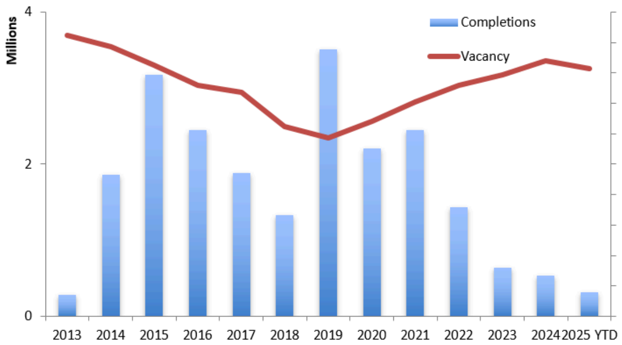
It is interesting to note that the deal consists of small-bay space, which is experiencing lower vacancies than big box properties. The principle is similar to why multifamily apartments have been so popular over the past several years: spreading risk throughout a number of units rather than being at 100% occupancy or 100% vacancy in a single-tenant property.

A Quick Note About Tariffs

Several clients have asked our team about tariffs and their potential to impact the commercial real estate market. While we do not have a crystal ball, it is worth considering how tariffs may affect CRE interests from a big-picture perspective. The cost of construction materials such as steel and aluminum, as well as hundreds of other product categories, is of particular concern—and can affect end-product pricing. About 25% of the steel used in the US is imported, for example. This not only can result in price increases for the buildings themselves, but the electrical, mechanical and plumbing systems, fixtures and finishes, and even appliances.

If you have been watching the news, you are well aware that tariffs have been a moving target—and probably will continue to fluctuate as negotiations evolve. In the meantime, increased costs may contribute to higher rental rates. Over the longer haul, while we cannot predict which direction the tariffs will go, the state of ambiguity is putting people in a holding pattern in many instances.

OFFICE



Office construction in Phoenix has nearly stalled due to weaker tenant demand, rising costs, and limited financing. While this has helped ease the supply-demand imbalance, it may lead to a shortage of first-generation space, reducing premium options for occupiers.

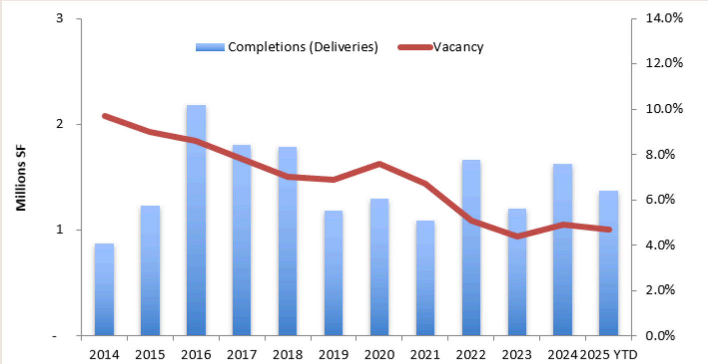
Only 2.3 million SF of gross office space has delivered over the past three years—well below the 2.8 million SF added annually from 2015 to 2021. Since early 2024, the only two leasable non-medical offices completed were originally built-to-suits that the intended users chose not to occupy.

RETAIL

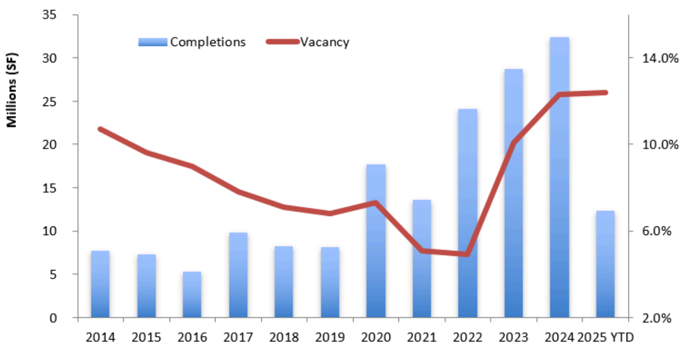
Limited retail construction over the past decade has been a key factor in the Valley's tight market conditions. During the last expansion cycle, developers shifted focus to other property types, especially in Phoenix, which was hit hard during the Global Financial Crisis.

In the past 12 months, just 1.3 million SF of net new retail space was delivered—far below the 10 million SF average seen annually from 2006 to 2008. While 2.2 million SF is currently under construction, less than one-third is available for lease, keeping supply pressure low.

Spec big box space remains rare, with most projects securing anchors and preleasing shop space before construction begins.



INDUSTRIAL



Phoenix is managing one of the most aggressive industrial development pipelines in the US. Over the past three years, 92.4 million SF of industrial space was delivered—matching the metro's 2007–2019 total and exceeding Fresno's entire inventory.

This surge has driven up vacancies and slowed rent growth. Supply pressure is expected to continue, with 24.1 million SF underway—ranking Phoenix second nationally behind Dallas-Fort Worth. The pipeline represents 4.8% of existing inventory, nearly triple the U.S. average of 1.6%.

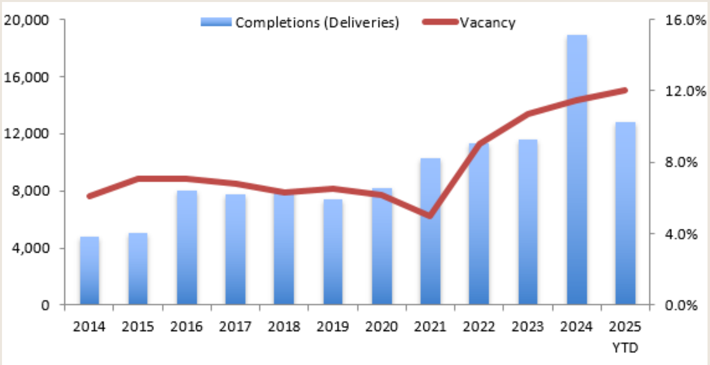
Roughly half of current projects are speculative, with no tenants secured, likely adding further vacancy pressure into 2026.

MULTIFAMILY

The Phoenix multifamily market is under pressure as new deliveries continue to outpace rental demand. In the past 12 months, 22,000 net new units were delivered—triple the pre-COVID five-year average of 7,100 units—driving vacancy rates higher since mid-2021 and turning rent growth negative.

Roughly 22,000 units remain under construction, equal to 5.3% of existing inventory, making Phoenix one of the most heavily built multifamily markets in the U.S.

While still elevated, the pipeline is about 40% lower than its mid-2023 peak due to a slowdown in construction starts over the past 18 months.



Residential Snapshot

The anticipated 0.25 rate decrease by the Federal Reserve was largely built into mortgage rates over the past 60 days, although expectations for future decreases provide a little bit of hope for sellers. Property owners who anticipated an immediate surge of buyers, however, are disappointed. Instead of a huge uptick in activity, what we are seeing is more a matter of seasonality: People returning to the Valley after spending the hot months elsewhere.

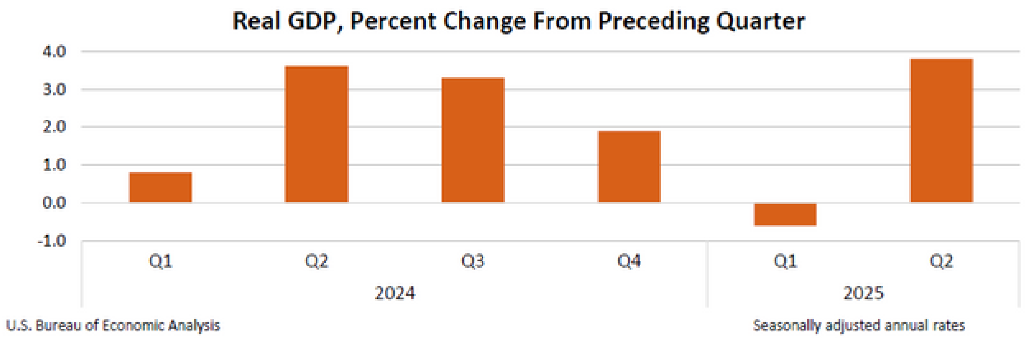
We remain in a period of high inventory relative to demand, which means sellers need to incentivize deals to make things happen. That can come most often in the form of buying down a buyer's interest rate, offering some form of credit so that the buyer can negotiate their own buydown, or providing other credits for home improvements. Sellers need to get with the program and give buyers a reason to purchase—or the market is likely to pass them by.

From August to September 2025, the overall supply-demand index increased from 77.5 to 81.7, with a slight decrease in supply and increase in demand.

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

- August 2025 ended with 7,808 new listings added to the AZMLS, down 3.7% over last year and up 7.1% over July. Seasonally, new listings begin to rise in September and peak in October as temperatures ease; this is especially prominent in luxury and retirement communities.
- New listings under $300K are up 18% in Q3 compared to last year so far, with condos (and townhomes) making up 40% and single family 28%. As a result, total condo inventory in this price range is up a whopping 71% over last year.
- Closed sales in August totaled 5,401, up 3.3% over last August and 5.8% lower than July. However, so far September closings are outpacing last September by 7.1%, the equivalent to 15 extra closings per day.
- Listings in escrow under $300K are up 20% over 2024, but condos in the same price point are only up 6%.

GROSS DOMESTIC PRODUCT, Q2 2025 (THIRD ESTIMATE)

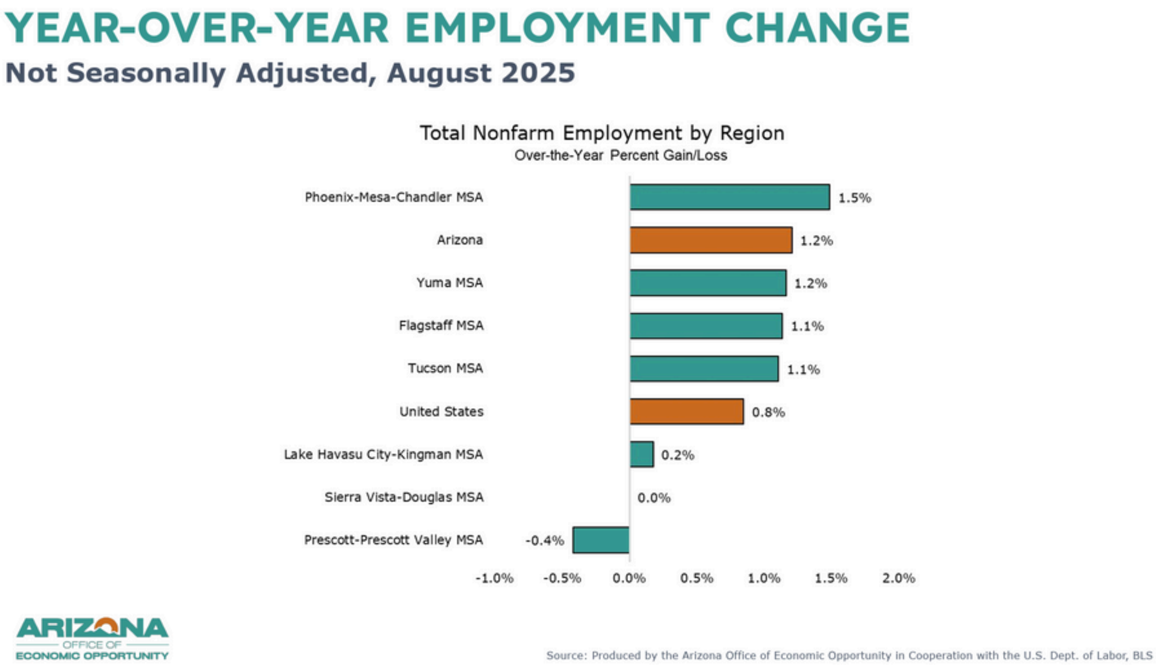


Source: BEA.gov

Real gross domestic product (GDP) increased at an annual rate of 3.8% in the second quarter of 2025 (April, May, and June), according to the third estimate released by the U.S. Bureau of Economic Analysis. In the first quarter, real GDP decreased 0.6% (revised). The increase in real GDP in the second quarter primarily reflected a decrease in imports, which are a subtraction in the calculation of GDP, and an increase in consumer spending. These movements were partly offset by decreases in investment and exports.

Real GDP was revised up 0.5 percentage point from the second estimate, primarily reflecting an upward revision to consumer spending.

AUGUST 2025 EMPLOYMENT REPORT



Year-Over-Year (YoY) Highlights

- AZ NSA nonfarm employment increased by 38,500 jobs (1.2%)
- AZ private sector employment increased by 43,700 jobs (1.6%); government employment decreased by 5,200 jobs (-1.2%)
- Eight of the 12 major sectors recorded job gains: The largest job gains were recorded in Health Care and Social Assistance (23,500 jobs), Financial Activities (4,900 jobs), and Construction (4,800 jobs)
- Job losses were recorded in: Government (-5,200 jobs), Information (-1,200 jobs), and Manufacturing (-1,200 jobs)
- Five Arizona metro areas (MSAs) gained jobs: The largest percentage gains were recorded in Phoenix-Mesa-Chandler MSA (1.5%) and Yuma MSA (1.2%)

Source: AZ Office of Economic Opportunity

Articles of Interest

CoStar – Sept. 10
Phoenix apartment rent losses compound in August

AZ Big Media – Sept. 25
Phoenix among only large markets with office asking rates below national average

Phoenix Business Journal – Sept. 24
Deer Valley land sparks bidding war, sells for $24.7M after previous auction failures

GlobeSt. – Sept. 19
Multifamily Demand Surges to One of the Strongest Quarters in 25 Years

Commercial Cafe – Sept. 23
Top-Quality Assets Continue to Drive Leasing Activity, While Few Markets See Construction Starts

Commercial Property Executive – Sept. 9
Phoenix Office Vacancy Remains Low, Despite Challenges