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

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December 2025

Phoenix Retail Transitions from Untouchable to the Magic Touch

Retail has successfully evolved from the asset class that nobody wanted to touch in 2020–2022 to one of the hottest sectors in commercial real estate. In making that transition, it serves as a good example of how reactive the CRE market can be—often with more volatility in the marketplace than is merited.

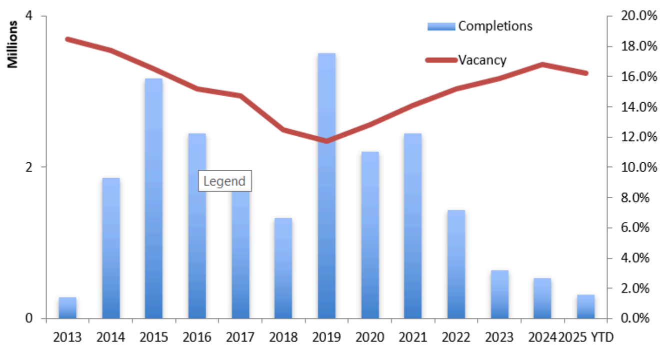
Phoenix recently cracked CoStar's top five in the country for retail rent growth, and also came in at #9 in their ranking of U.S. retail markets. Interest is particularly heavy in segments such as multi-tenant retail centers, where investors can spread risk across multiple tenants, and triple-net deals, which are experiencing rising demand in Greater Phoenix and across the country. "Another interesting twist is that investors are no longer solely focused on tier-one locations," says R.O.I. Commercial Brokerage Associate Reuben Nach. "Value-add unanchored strip mall space has gained traction, with interest ranging from mom-and-pop investors and owners to larger entities such as Blackstone- and Nuveen-backed companies that are raising funds."

Nach notes that the current retail market in Phoenix has several strong tailwinds behind it. A few examples:

- Vacancy rate: The past 10 years saw retail at 6.32% in average vacancy, but currently stands at 4.6%.
- Availability rate: This broader metric, which includes vacant space plus occupied space being marketed for sublease or coming soon, also indicates strength. Although it was lower back in late 2023, it is still extremely tight at 4.9% according to CoStar figures.
- Sales cap rates: These rates have normalized, and we are a long way from the record lows during the pandemic, when single-tenant deals were trading in the high threes and low fours. Cap rates for these assets have generally moved into the low-5% to low-6% range—although location, tenant credit, property quality, and lease term can create a broad yield spectrum. Investors are willing to sacrifice some return to get their hands on product, since there simply is not that much available.
- Preleasing: About a third of the new product coming online is available for lease.
- Rental lease rates: The average is currently at $26.52/SF compared to the 10-year average of $21/SF.

Beyond the numbers themselves, exciting new tenants are being announced that are making entries into the Phoenix market such as Micro Center and Vallarta Supermarkets, or growing their footprint, such as Miniso. Developers are taking advantage of the trend, too, with Vestar, Macerich, Red Development, and others working on Class A new developments. In addition to the pocket of building in the TSMC sphere in North Phoenix, the West Valley is buzzing with activity, including Diversified Partners starting on a new project and SimonCRE commencing on the second phase of Prasada.

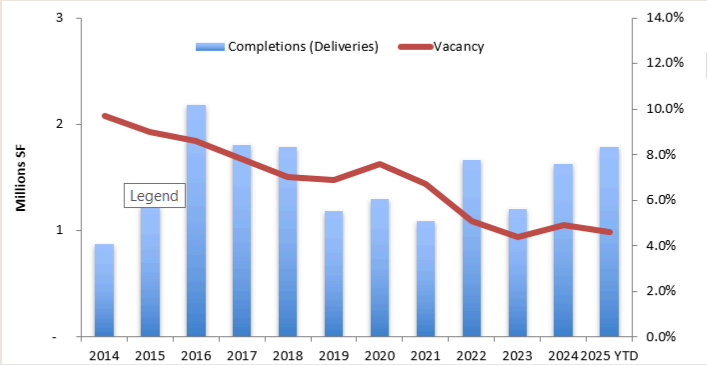
OFFICE



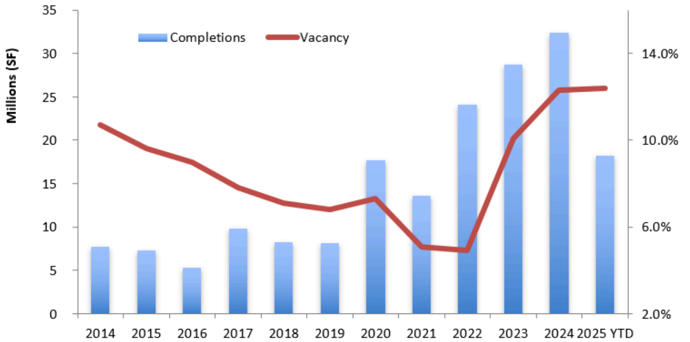
Office-to-residential conversions are expected to remain limited in Phoenix due to a lack of older buildings and ample land for new construction. Instead, some underperforming offices are being replaced with industrial projects and data centers. Renovations and spec suite buildouts have gained traction, as tenants seek well-amenitized, move-in-ready space. In the Camelback Corridor, the Esplanade completed a $60 million renovation, raising spec suite rents to $65/SF. George Oliver also finished a $52 million renovation of Bond and plans another major repositioning, Arbor, in Old Town Scottsdale.
Looking ahead, less than 1.5 million SF is expected to deliver in 2025–2026. Softer demand, tight lending, and elevated sublease availability will likely keep conditions stable.

RETAIL

Retail construction in Phoenix is focused on fast-growing outer submarkets with limited existing supply, such as Queen Creek, Goodyear/Litchfield Park, Buckeye, and Surprise. Since 2020, retail construction outside Loop 101 and Loop 202 has more than doubled that within the loops. In Buckeye, Vestar broke ground on the 500,000-SF Verrado Marketplace, anchored by Target, Safeway, and Harkins BackLot. About 70% is preleased, with phase one opening in spring 2026. Nearby, Buckeye Commons, a 427,400-SF Costco-anchored center, also broke ground in 2024 and will open in 2026. With a modest pipeline and little speculative building, supply pressure remains low, helping keep availability tight and supporting continued, though slower, rent growth.



INDUSTRIAL



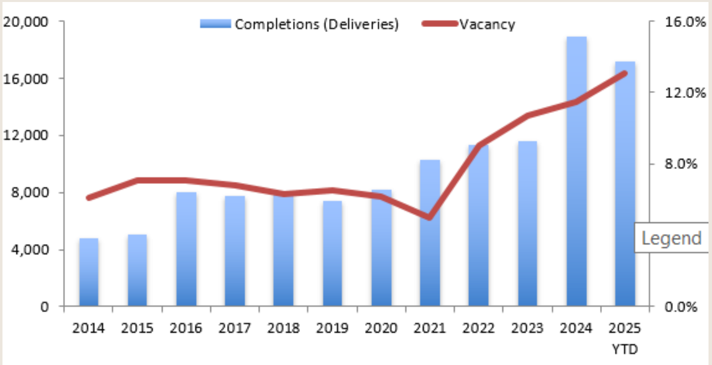
Development in Phoenix has increasingly focused on the metro's outskirts, where land is more available. Since 2019, West Valley submarkets like Glendale, Goodyear, and Tolleson have accounted for over half of all net industrial supply added.

On the east side, the Phoenix-Mesa Gateway Airport area has been another hotspot, with 19 million SF delivered within five miles of the airport since early 2023 and another 5 million SF underway.

While a slowdown in completions has recently helped stabilize property performance, construction is ramping up again. Q3 marked the second straight quarter with over 4.5 million SF in new starts—the first such streak since early 2024. Recent supply growth remains a headwind for the sector.

MULTIFAMILY

The Valley's fast-growing west-side suburbs have seen a surge in development, with 23,500 units delivered to the North and South West Valley submarkets since the pandemic began. This influx has intensified competition and slowed performance, especially in build-to-rent (BTR) communities, which make up about 30% of deliveries since 2020—just behind garden-style properties at one-third. In contrast, construction has been more limited in East Valley submarkets like Chandler, where higher land costs and lengthy entitlements restrict new projects. Land-constrained areas like Old Town Scottsdale and the Camelback Corridor have also seen less activity. Starts have slowed since the 2022–2023 peak, and permitting has dropped sharply due to weaker performance, rising costs, and tighter access to equity.



Residential Snapshot

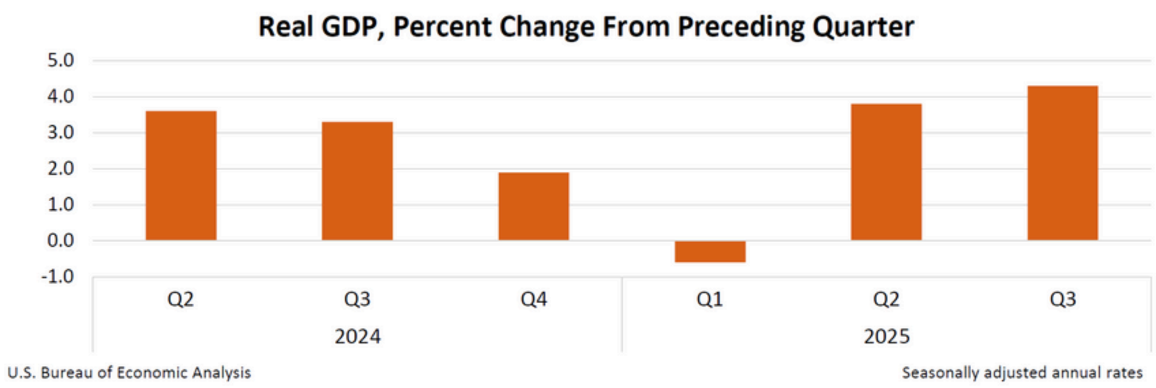
The mortgage lock-in effect continues to present a challenge in the residential markets, warranting a recent story in the Wall Street Journal as well as a specific mention at the December Federal Reserve meeting by Chair Jerome Powell. Homeowners with low-interest-rate loans are staying put rather than listing their properties, because the high cost of funds gives them little financial incentive to do so. (More than half of American homeowners had an interest rate below 4% as of the second quarter of 2025; about 80% have rates of 6% or less.) Interest rates may decrease further in 2026, but they are very unlikely to drop below the low 5s let alone into the 4s. What's needed, in order to break the lock-in, is for prices and mortgage payments to come down to levels perceived as affordable.

As anticipated for this time of year, not a lot of inventory has come to market the past month. Meanwhile, signs of distress and short sales are on the uptick, particularly among properties that were acquired in 2021-2022 that have come down in value to the point they are underwater. The trend is no longer confined to outlying areas with large inventories of new builds, however, and has extended into more central areas of the Valley. The affected product types are largely starter homes and move-ups, and specifically condominiums and attached housing.

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

- The fourth quarter of 2025 so far has been the strongest year end for sales and contract activity in 3 years, coinciding with mortgage rates stabilizing for 4 months in the low-6% range for only the third time in 3 years. This provides hope for Q1 2026.
- The big surprise this quarter has been the surge of sales over $1M, up 22% combined from last year and a large portion closing in December.
- Closed sales under $300K have also seen notable growth, up 17% over last year, but not enough to offset the luxury surge. This caused the overall median sales price to spike this month, even as sub-$500K home prices continued to glide down.

GROSS DOMESTIC PRODUCT, Q3 2025 (INITIAL ESTIMATE)

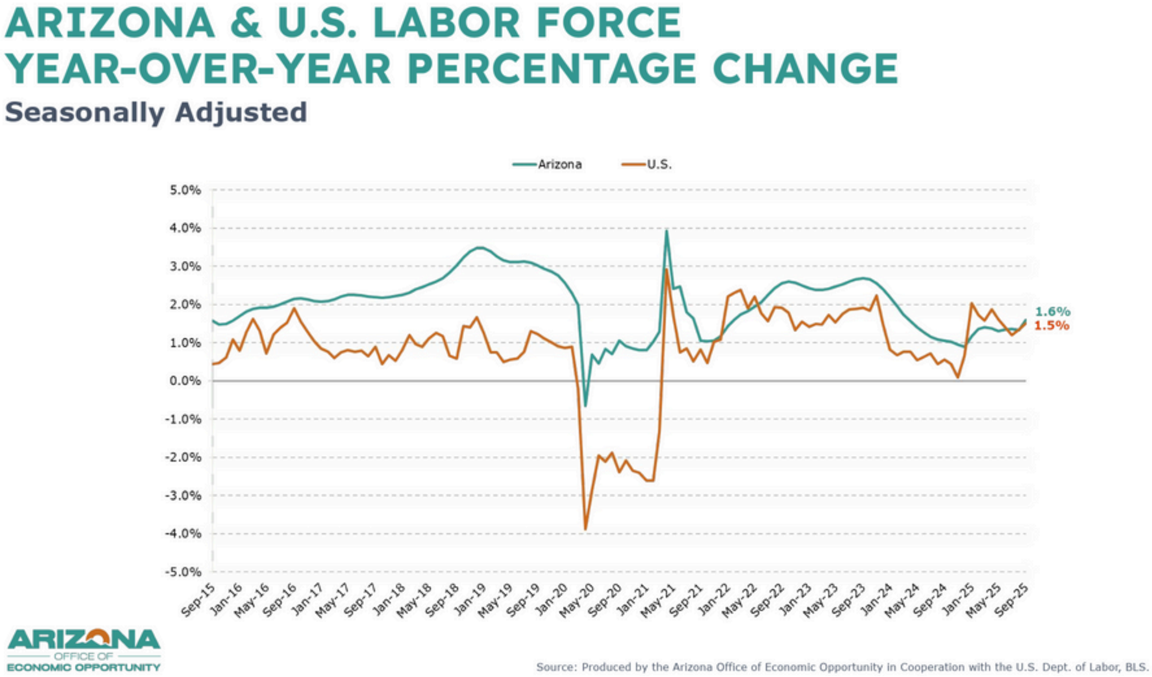


Real gross domestic product (GDP) increased at an annual rate of 4.3 percent in the third quarter of 2025 (July, August, and September), according to the initial estimate released by the U.S. Bureau of Economic Analysis. In the second quarter, real GDP increased 3.8 percent.

Due to the recent government shutdown, this initial report for the third quarter of 2025 replaces the release of the advance estimate originally scheduled for October 30 and the second estimate originally scheduled for November 26.

Source: BEA.gov

EMPLOYMENT REPORT



Year-Over-Year Highlights

- Arizona NSA nonfarm employment increased by 37,200 jobs (1.2%).
- Private sector employment up by 41K jobs (1.5%); government employment down by 3,800 jobs (-0.9%).
- Eight of the 12 major sectors recorded job gains: The largest gains were recorded in Health Care & Social Assistance (20,500 jobs), Professional & Business Services (6,600), and Leisure & Hospitality (5,600). Losses included Government (-3,800), Information (-1,900), Manufacturing (-900) and Trade, Transportation & Utilities (-800).
- All but one of the Arizona metro areas (MSAs) gained jobs. The largest percentage gains were recorded in Yuma MSA (1.7%), Phoenix-Mesa-Chandler MSA (1.1%), and Tucson MSA (0.9%), while Prescott-Prescott Valley MSA lost jobs (-0.3%). — *Source: AZ Office of Economic Opportunity*

Articles of Interest

AZ Central – Dec. 11
One Camelback in Phoenix could near completion after years of nothing

AZ Big Media – Dec. 14
5 best cities for smart investors in 2025

Phoenix Business Journal – Dec. 9
Diversified Partners plans 16-acre retail development in fast-growing Surprise

GlobeSt. – Dec. 22
Inside CoStar's Top 10 U.S. Retail Markets

Commercial Cafe – Dec. 18
Coworking Captures Opportunity as National Office Pipeline Continues to Shrink

CoStar – Dec. 5
Phoenix cracks the nation’s top five ranking for retail rent growth