The Real State®

The Real State of the Phoenix Commercial Real Estate Market

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June 2026

As TSMC Expands, the North Valley Reaches Critical Mass

Since 2020, Taiwan Semiconductor Manufacturing Co. has generated significant buzz—along with development—in the Northwest Valley. Although the company's $165 billion investment is the headline-grabbing number, the story goes far beyond TSMC itself, extending into the company's supply chain vendors, the people, and the cultural aspects of international commerce in the Greater Phoenix area.

The Real State recently sat down with Jill Yen JD, MRED, and R.O.I. Vice President - Commercial Division, who represents numerous Asian clients throughout the Valley, with a particular focus on North Phoenix.

Real State: Can you tell us a bit about your observations of how TSMC has transformed the North Valley?

Jill Yen: The growth that North Phoenix is experiencing is just astronomical. TSMC originally announced that they were going to build three or four semiconductor fabs, and then it became six, and now probably over 10—and that's in addition to two packaging and testing facilities and one research and development facility that was announced earlier this year when TSMC purchased an additional 900 acres just south of the 303.

RS: How has that impacted TSMC's suppliers?
JY: We're not just seeing companies come and take up space that's already there. They are fueling the next two or three decades of growth. Companies that might have been sitting on the fence a few years ago can now see that everything has reached critical mass, which shifted them from short-term planning to mid-to-long-term planning. Now, instead of leasing for three to five years, it makes sense to buy land and build their own warehouse that can be used for a decade or more.

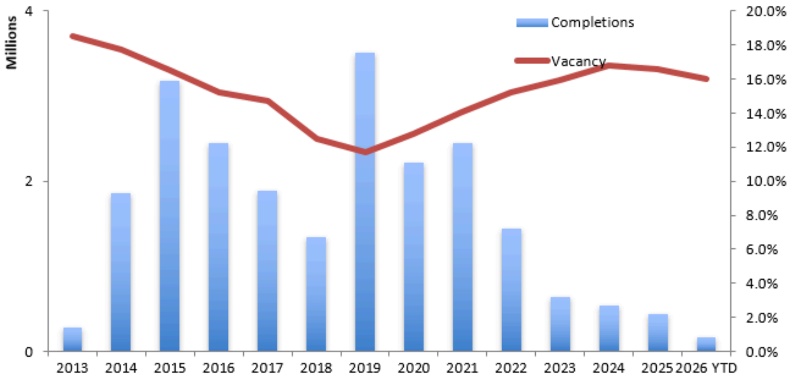
RS: What are the main challenges you're seeing, and what are the opportunities that go along with addressing them?
JY: There are quite a few, but the first is housing. North Park, just south of the 303, should help fill in the critical housing shortage with a mix of single- and multi-family housing units. Along with that, the other is shopping. Phoenix's primary Asian retail infrastructure is all in the East Valley, more than an hour away, during peak traffic times. So, what I'm seeing is that the next wave of investment and development is going to be focused on providing those amenities within convenient distance.

RS: What are some of the other initiatives that are bringing visibility to potential Taiwanese companies and investors?
JY: The Greater Phoenix Economic Council has been a huge influence in the TSMC project, along with fostering economic ties with Taiwan and other Asian countries in general. R.O.I. recently joined as an investor in GPEC to increase our connections in that space. The other game-changer has been direct flights between Phoenix and Taiwan on Starlux and China Airlines. People are more aware of Phoenix as a destination, and it makes it easier for them to come see in person what it's all about.

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.

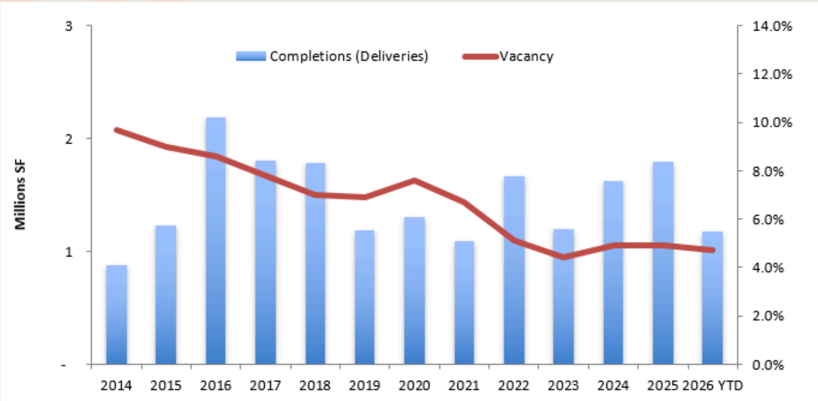
OFFICE



Phoenix's office market recovery stayed on track in Q1 2026, with vacancy easing from its 2024 peak of 17.1% to 16.0%. Leasing reached roughly 10 million SF over the trailing 12 months — within 5% of pre-pandemic levels — as tenants gravitated toward pre-built suites and high-quality, amenity-rich buildings. A near-total lack of new construction has helped, with demolition of non-competitive buildings actually shrinking inventory by 1.5 million SF over the past year. The recovery remains uneven, though: Premium trophy buildings in top submarkets are setting record rents, while the commodity suburban space that makes up most of the Valley's inventory lags behind, holding overall asking rent growth to just 1.3% and keeping landlord concessions high. Sluggish employment growth, economic volatility, and AI adoption all pose downside risks to the near-term outlook.

RETAIL

Phoenix's retail market stayed fundamentally tight in early 2026, even as a pickup in store closures nudged availability up to 5.0% from 4.2% in late 2023 — still well below the low-8% range entering the pandemic. Strong demographics, income growth, and low unemployment continue to drive healthy demand, with vacancies increasingly backfilled by off-price retailers, dollar stores, and experiential tenants. Limited new construction remains a key support, with most new supply concentrated in fast-growing suburbs like Buckeye, Surprise, and Queen Creek. Tightness kept asking rent growth strong at 4.5%, among the top five U.S. markets. The outlook stays balanced through 2027, though weaker macroeconomic conditions and stricter immigration policy pose downside risks.

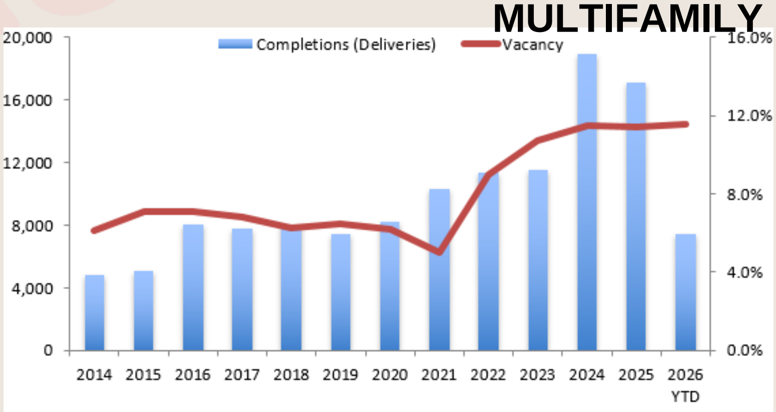


INDUSTRIAL

Phoenix's industrial market is stabilizing, though its near-term outlook remains uncertain. The supply-driven vacancy increase that pressured performance since early 2023 has finally flattened as easing completions met steady demand. Logistics, retail, and advanced manufacturing tenants drove 22.2 million SF of net absorption over the past year, yet 14.8 million SF of new deliveries pushed vacancy from 4.1% in mid-2022 to 10.7% today. Competition from new supply slowed asking rent growth to 3.3%, down from 12.6% in late 2022. With 22 million SF still under construction, vacancy should stay elevated near-term, though a slowing delivery pace should allow measured improvement through 2026.

MULTIFAMILY

Phoenix's apartment market started 2026 strong, with net absorption hitting a record high in Q1 as easing construction helped vacancy and rent growth improve. The Valley recorded 21,000 units of net absorption over the past year — well above the pre-COVID average of 7,200 and among the top five U.S. markets — driven by relative affordability and job opportunity. Builders delivered 20,000 units in the same period, bringing supply and demand into balance for the first time since 2021 and easing vacancy to 11.6%. Still, the 17,000 units under construction represent 3.8% of inventory, among the nation's highest, with oversupply risk concentrated in Downtown Phoenix, Tempe, and the Southwest Valley. Looking ahead, a rapidly thinning pipeline should bring deliveries near pre-pandemic levels by 2027, though rent growth will likely stay negative for most of the year.



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Residential Snapshot

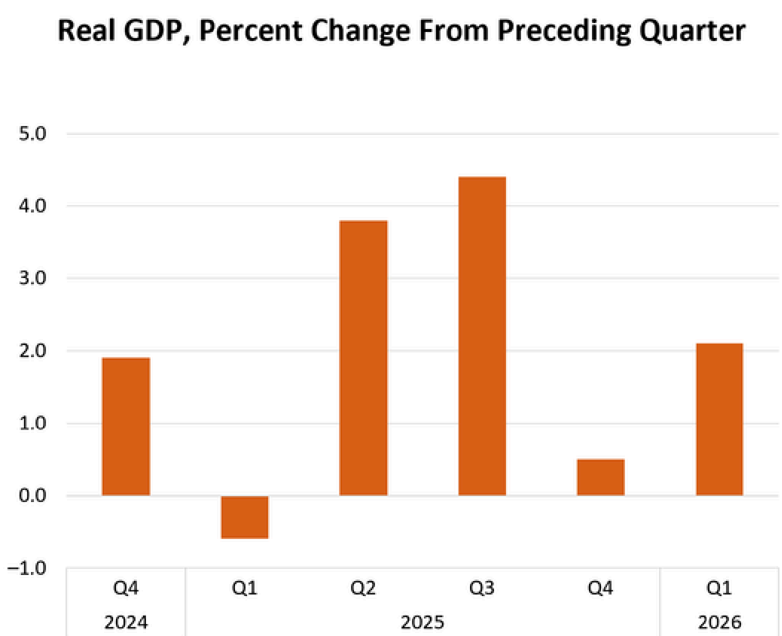
Mortgage rates have remained in a holding pattern in the 6.5% range for the past month. While there has been pressure from the administration to ease rates, the Federal Reserve left the Fed Funds rate steady at their July meeting—with no commitment to lower any time soon and even some potential for an increase if inflation persists. In the Greater Phoenix residential market, we are seeing acceptance of this reality among homebuyers, particularly in entry-level and move-up product. Although interest rates are not on their side, softened pricing and increased negotiability are helping to send more buyers back into the market. Prices are not what they were pre-Covid, nor will they get there, but they have fallen from the highs of 2022–early 2023, at least for entry level and move-up product.

From May to June 2026, the supply-demand index decreased 0.6 points from 82.0 to 81.4. The supply index dropped 2.9 points from 107.2 to 104.3, while the demand index fell 3.0 points from 87.9 to 84.9. Since both indexes declined by roughly the same amount, there was little change in overall index.

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

- New listings in May totaled 8,331 in the Arizona Regional MLS, down 7.1% from last May's count of 8,963 and down 11.5% from April. It is normal for new listings to decline from March through July, so a decline month over month is not unusual. However, 11.5% is a higher drop in both percentage and number than what would be expected for new listings this time of year.
- While cancellation counts are elevated, they are better than last year. Since September, cancellations have been running roughly 7-8% of supply. That's an improvement from June to August last summer, when they were running 9-10% of supply.
- May sales closed at 6,952, up 4.1% over last May's count of 6,680. June sales to date are also up 4.1% over last June as of this writing. The primary driver of the increase in sales is demand for homes over $800,000, up nearly 20% over last June, with an extra 141 sales. There have been 17 extra sales under $800,000 so far in June, which is only a 0.5% improvement.

GDP (THIRD ESTIMATE) – Q1 2026



Source: BEA.gov

Real gross domestic product (GDP) increased at an annual rate of 2.1 percent in the first quarter of 2026 (January, February, and March), according to the third estimate released today by the U.S. Bureau of Economic Analysis. In the fourth quarter of 2025, real GDP increased 0.5 percent.

Real GDP was revised up 0.5 percentage point from the second estimate, primarily reflecting a downward revision to imports, which are a subtraction in the calculation of GDP, that was partly offset by a downward revision to consumer spending.

LABOR MARKET COMPARISON: ARIZONA VS. U.S.

A comparison of year-over-year percentage changes across key industries as of May 2026 (not seasonally adjusted).

Industry	Arizona	United States
Total Nonfarm Employment	+0.5%	+0.3%
Construction	-0.4%	+0.7%
Manufacturing	+0.3%	-0.4%
Retail Trade	-0.2%	+0.3%
Employment Services	+8.7%	+0.5%
Health Care	+4.1%	+2.6%
Leisure & Hospitality	-1.2%	+0.9%

YOY Highlights: Arizona Employment Increased by 16,000 Jobs Since May 2025

Arizona NSA nonfarm employment increased by 16,000 jobs (0.5%), with private sector employment up by 19,900 jobs (0.7%), and government employment down by 3,900 jobs (-0.9%).

Seven of the 12 major sectors recorded job gains:

- The largest job gains were recorded in Health Care and Social Assistance (15,900 jobs) and Professional & Business Services (9,400 jobs)
- The largest job losses were recorded in Financial Activities (-5,200 jobs), Leisure and Hospitality (-4,700 jobs), and Government(-3,900 jobs)
- Job gains were recorded in Phoenix-Mesa-Chandler MSA (1.0%)
- The largest job losses were recorded in Flagstaff MSA (-2.3%) and Sierra Vista-Douglas MSA (-2.3%)

Source: AZ Office of Economic Opportunity

Articles of Interest

Bisnow – May 27
Developers Race To Grab Spots Near TSMC's Chipmaking Factories

Commercial Cafe – June 18
Central Business Districts Feel the Brunt of Rising Office Distress

Phoenix Business Journal – June 8
Waymo acquires 5,458-acre proving grounds site in $220M deal

GlobeSt. – June 22
Investors Face New Math As Home Values Continue to Outpace Rents

AZ Central – June 25
Another semiconductor company to buy land in north Phoenix near TSMC

AZ Big Media – June 25
Phoenix office market shows encouraging signs of recovery