The Real State®

The Real State of the Phoenix Commercial Real Estate Market

R·O·I PROPERTIES
ENHANCING REAL ESTATE ASSETS®

May 2026

For Pad Development in Arizona, It's All About Exposure

One of the notable trends in Greater Phoenix commercial real estate is an insatiable demand for well-located pad sites—specifically hard-corner signalized intersections. Whether gas stations, credit unions and other financial institutions, education users, quick service restaurants (QSRs), or coffee shops, everyone is making the flight to quality. Developers are willing to pay high per-square-foot prices while tenants are willing to pay high rates to secure prime locations.

R.O.I. Properties clients are still staying disciplined, focusing on vehicles per day, site access, and end-user demand. Developers, users, and investors are looking for sites that check all of those boxes. Even in a lower-income area, the exposure from high traffic counts can be sufficient to command a premium. On a geographical level, general activity is strong throughout the Valley, although markets such as Surprise, Arrowhead, the West Valley, and newer developments in the East Valley are particularly active. Notable developments include Simon CRE's new phases of Prasada (Surprise), Vestar's Laveen Town Center (South Phoenix/Laveen), and Medina Station (Mesa). Class A new developments are achieving record lease rates and occupancy.

Reuben Nach, Vice President of R.O.I. Properties' Commercial Division, notes that the activity extends beyond the Valley into tertiary markets as well. "We are currently working on single-tenant stabilized assets, value-add retail, and retail development land in markets like Sedona and Cottonwood, and the activity has been solid, with many offers for each site," he says.

The overall growth of the Greater Phoenix area continues to be a magnet for regional and national tenants that are willing to pay high lease rates. Two notable examples include:

- 7-Eleven is both acquiring and leasing new sites in West Phoenix and Downtown, adding to the existing 140 7-Eleven stores across Arizona (primarily located in Phoenix and Tucson).
- Several local and regional credit unions are making a push into the market, including Tulsa, Oklahoma-based BOK Financial. In recent months, BOK Financial has closed deals in the Arrowhead and Mesa markets.

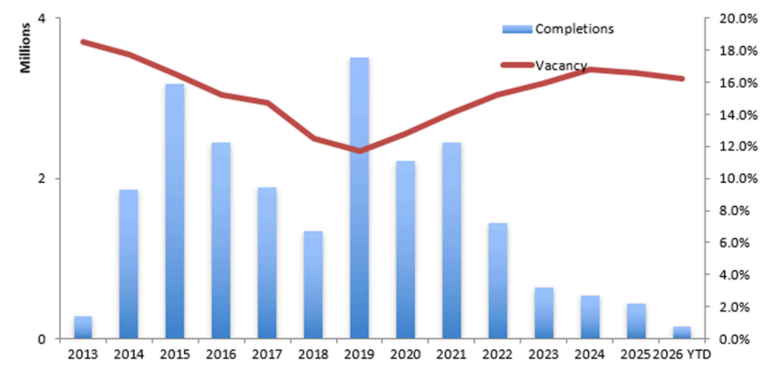
"On the investment sales side, there's still a lot of money on the sidelines in search of high-quality net lease, stabilized strip center, and value-add strip center assets," Nach says. "Our team has multiple gas stations that have received more than 10 offers on each, and QSR sites such as one in Surprise that's getting a lot of great activity. Additionally, we are selling many value-add strip center deals. Investor appetite is strong for these assets!"

While some observers believe the retail segment is becoming a bit frothy, prices are staying high at the premium end of the market. It's important to note that other points on the spectrum are not part of the trend. Mom-and-pop and class B leasing activity is average and slowing down, while class C is underperforming.

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.

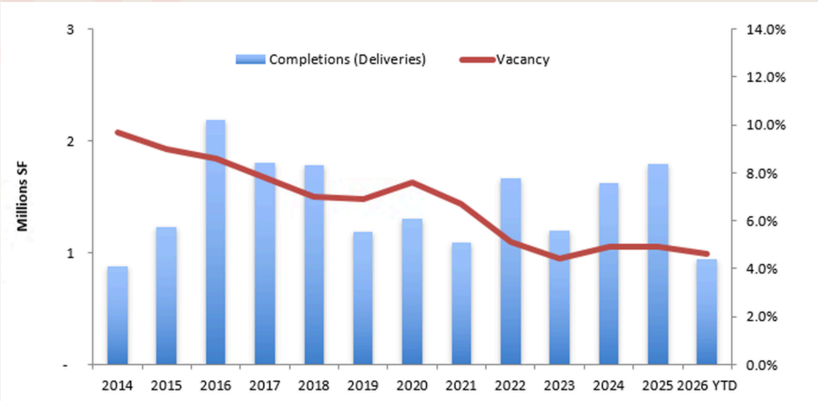
OFFICE



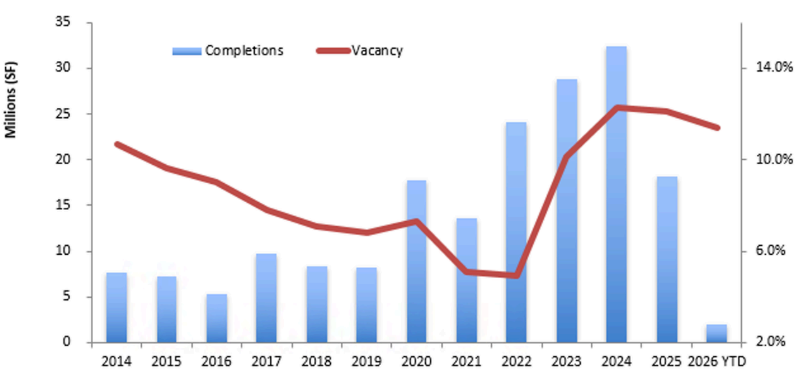
Phoenix's office market continued its gradual recovery in early 2026, driven by improving tenant demand, limited new construction, and a rise in demolitions of outdated buildings. Leasing activity climbed to nearly pre-pandemic levels, with tenants favoring move-in-ready suites and high-quality buildings in prime locations. At the same time, minimal new development and the removal of older, high-vacancy properties helped reduce overall vacancy from 17.1% in 2024 to 16.2%. Premium office properties continue to outperform, achieving strong demand and record rents, while older suburban buildings face slower recovery and rely on concessions and renovations to stay competitive. Despite positive momentum, risks such as slower job growth, economic uncertainty, and evolving workplace technology, including AI, could impact future demand.

RETAIL

Phoenix's retail market remained strong in early 2026, supported by steady tenant demand, strong demographics, income growth, and limited new construction. While store closures and bankruptcies pushed availability up to 4.9%, it remains well below historical averages. Vacant spaces are being backfilled by off-price retailers, dollar stores, and experiential tenants, helping drive 1.9 million SF of net absorption over the past year. Tight supply has kept rent growth strong, with asking rents up 5.1% year-over-year, ranking Phoenix among the top major markets nationally. Looking ahead, vacancy is expected to stay compressed through 2027, though economic uncertainty and slower population or consumption growth could present risks.



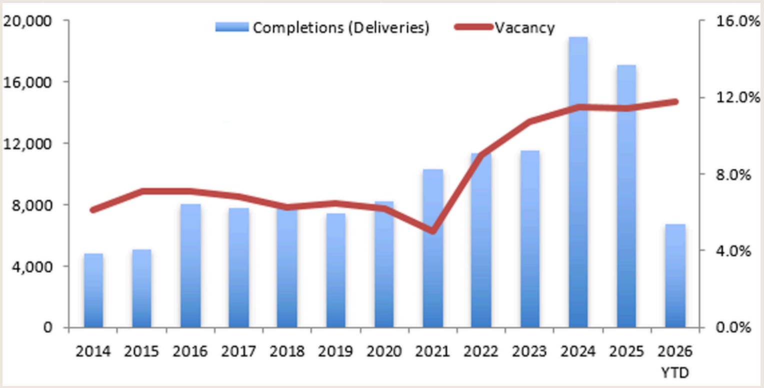
INDUSTRIAL



Phoenix's industrial market is beginning to stabilize in 2026 as slowing construction activity converges with steady tenant demand from logistics, retail, and advanced manufacturing users. While demand remains healthy, the massive wave of recent development has pushed vacancy up to 11.4%, the highest level since the Great Recession, particularly among large logistics buildings over 100,000 SF. Smaller industrial properties continue to perform better with tighter vacancy levels. Increased supply has also slowed rent growth to 3.7% year-over-year, down significantly from 2022 highs, while additional speculative development and rising sublease space continue to pressure the market. Looking ahead, slowing deliveries are expected to gradually reduce vacancy and support stronger rent growth over time, though trade slowdowns and supply chain shifts remain potential risks.

MULTIFAMILY

Phoenix's apartment market started 2026 with record-high demand, as 21,000 units of net absorption matched new deliveries and helped vacancy improve to 11.8%. Population growth, relative affordability, and employment opportunities continue to support renter demand, placing Phoenix among the top national markets for apartment absorption. However, elevated construction over the past few years continues to weigh on operations, especially in high-growth areas like Downtown Phoenix, Tempe, and the Southwest Valley. Rent growth remains negative at -2.4% year-over-year, with operators continuing to offer concessions to compete. Looking ahead, a shrinking construction pipeline should help vacancy gradually compress, though rent growth may remain negative through much of the year.



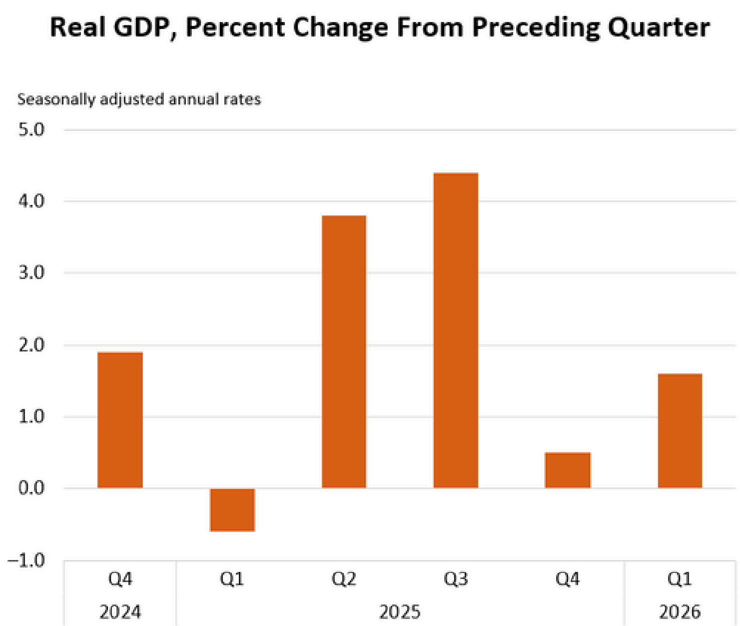
Residential Snapshot

From April to May 2026, the supply-demand index decreased from 83.1 to 82.0, with the supply index up from 106.6 to 107.2 and the demand index down from 88.6 to 87.9. Mortgage rates saw another volatile month, fluctuating from a low of 6.4% to a high of 6.75% before drifting back down to 6.6%, but buyer demand performed better than expected. As all eyes are fixated on inflation due to trade uncertainty, personal income per capita in Arizona has been on the rise, ranking our state #7 in the country for a 4.3% annual increase per the University of Arizona. The Bureau of Labor Statistics reported the May average hourly rate for Greater Phoenix as $37.45, up 31% since 2020. That is nearly $78,000/year for a full-time annual employee. Assuming a dual-income household, that puts a median-priced single-family home well within the affordability range for a couple making $140,000/year.

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

- New listings in April totaled 9,414 in the Arizona Regional MLS, down 7.7% from last year. May new listings are trending nearly 9% below last year to date, which is contributing in part to overall supply counts down 6.2%.
- Historically, new listings added weekly to the MLS are at the second lowest count in 25 years, the lowest being 2023. May and June are high months seasonally for cancelled and expired listings; it's not unusual to see cancellations rise 10-15% between April and June, and expired listings rise 15-25%. They are even more pronounced in the luxury market, where sellers often remove their homes from the MLS for the summer.
- Analytics are not pointing to a severe housing shortage. Shortages typically coincide with rising asking prices and fewer price reductions. The opposite is occurring. Today's measures show that inventory is within normal range based on 25 years of data.
- April sales closed at 7,145, up 2.9% over last year's April count of 6,944. So far, May sales to date are up 9.4% with just a few closing days to go. That equates to an extra 417 closings so far before the month ends.
- The market under $300K is showing the most improvement, up 31% month to date with 158 more closings, mostly condominiums. The second-best improvement by the numbers is the $300K-$400K market, up 110 closings for an increase of 11% so far. In third place is $1M-$1.5M, up 27% with an extra 55 sales.

GDP (SECOND ESTIMATE) – Q1 2026



Source: BEA.gov

Real gross domestic product (GDP) increased at an annual rate of 1.6 percent in the first quarter of 2026 (January, February, and March), according to the second estimate released on May 28 by the U.S. Bureau of Economic Analysis. In the fourth quarter of 2025, real GDP increased 0.5 percent. The contributors to the increase in real GDP in the first quarter were exports, investment, consumer spending, and government spending. Imports, which are a subtraction in the calculation of GDP, increased. Real GDP was revised down 0.4 percentage point from the advance estimate, primarily reflecting downward revisions to investment and consumer spending.

WESTERN BLUE CHIP ECONOMIC FORECAST - APRIL 2026

ARIZONA

Annual Percent Change 2027 from 2026

	Current $ Personal Income	Retail Sales	Wage & Salary Employment	Population Growth	Single Family Housing Permits
ASU Economic Outlook Center	6.0%	4.0%	1.2%	1.2%	2.0%
EconLit LLC	5.1%	3.4%	1.4%	1.3%	5.0%
Elliott D. Pollack & Co.	6.0%	4.2%	1.2%	1.2%	4.0%
Joint Legislative Budget Committee	5.0%	3.7%	1.1%	1.3%	4.5%
Neal Helm	5.0%	3.9%	1.5%	1.3%	5.0%
Rounds Consulting Group	5.2%	3.2%	1.2%	1.2%	-3.0%
Southwest Growth Partners	4.3%	1.5%	1.1%	0.0%	-2.0%
The Maguire Company					
The Retail Economist, LLC					
UA - Eller College	6.1%	4.2%	1.3%	1.2%	-2.1%
Consensus Forecast	***5.3%***	***3.5%***	***1.3%***	***1.1%***	***1.7%***

Source: Seidman Institute

Articles of Interest

Globe St. – May 14
Multifamily REITs Point To Pricing Outperformance in California and Coastal Markets

Commercial Cafe – May 19
Construction Pipeline Continues to Bottom Out as AI Expansion Adds to Uncertainty in Office Sector

Phoenix Business Journal – May 5
Phoenix's million-square-foot warehouses are gone as smaller industrial spaces drive deals

Commercial Property Executive – May 18
Dollar Tree Opens 1 MSF Distribution Center Outside Phoenix

ABC15 – May 8
Phoenix restricts data center growth at 2,300-acre development

AZ Big Media – May 27
How Silicon Desert is powering Phoenix industrial surge