

Phoenix Office Market Overview



Market Observations

Economy

- Local unemployment increased to 4.1% this quarter, on par with the national average.
- Total nonfarm employment contracted for the second-consecutive month, with gains in education/health and government not enough to offset losses in information and business and professional—two sectors that help shape office-using employment.
- Office-using employment is 3.5% above pre-pandemic levels. This figure could decrease if new U.S. tariffs trigger an economic slowdown and companies adjust.
- The 10-Year Treasury yield dropped from 4.79% in mid-January to 4.02% by April 4. This decrease signals a potential easing in borrowing costs, which could stimulate investment and economic activity, though it may also reflect broader economic concerns that businesses need to navigate.

Major Transactions

- In the first quarter of 2025, tenant relocations were prevalent. Most firms maintained their footprints, while a few expanded.
- Owner-user and large portfolio sales experienced this quarter. Last year's presidential election and the implications for policy changes was likely a factor.
- Medical office property sales outperformed traditional office assets for a second-straight quarter, driven by Phoenix's strong healthcare fundamentals.
- Approaching loan maturities are increasing pressure on landlords, with more distressed and bank-owned office assets anticipated to enter the market, potentially affecting pricing dynamics throughout 2025.

Market Fundamentals

- For the first time in nine quarters, net absorption turned positive, achieving gains of 185,485 square feet. While this development is promising, recent job losses and the implementation of new tariffs have introduced a level of uncertainty that clouds the market's outlook.
- Total vacancy was 25.5%, down 50-basis-points from the last quarter.
- Hybrid work continues, based on the interplay of office-using employment with office occupancy. Before the pandemic, office occupancy increased 170 SF for every employee added. Since COVID-19, Phoenix is now contracting by 314 SF per new employee.
- Sublease space continues to decline, with an accelerated transition to direct availability. This trend will persist in the coming quarters.

Outlook

- During periods of economic volatility, occupiers often adopt a wait-and-see approach, leading to a slowdown in near-term leasing activity. Companies may choose to extend current leases for flexibility, impacting leasing market momentum.
- Sudden volatility in the 10-Year Treasury rate prompts property buyers and sellers to reassess strategies, slowing sales volume as they adjust to interest rate changes affecting financing and returns.
- Prolonged tariffs will drive up raw material prices, increasing overall replacement costs and impacting construction budgets. This leads to decreased construction activity, as developers delay or scale back projects in response to financial risks.

1. Economy
2. Market Fundamentals
3. Appendix

1Q25

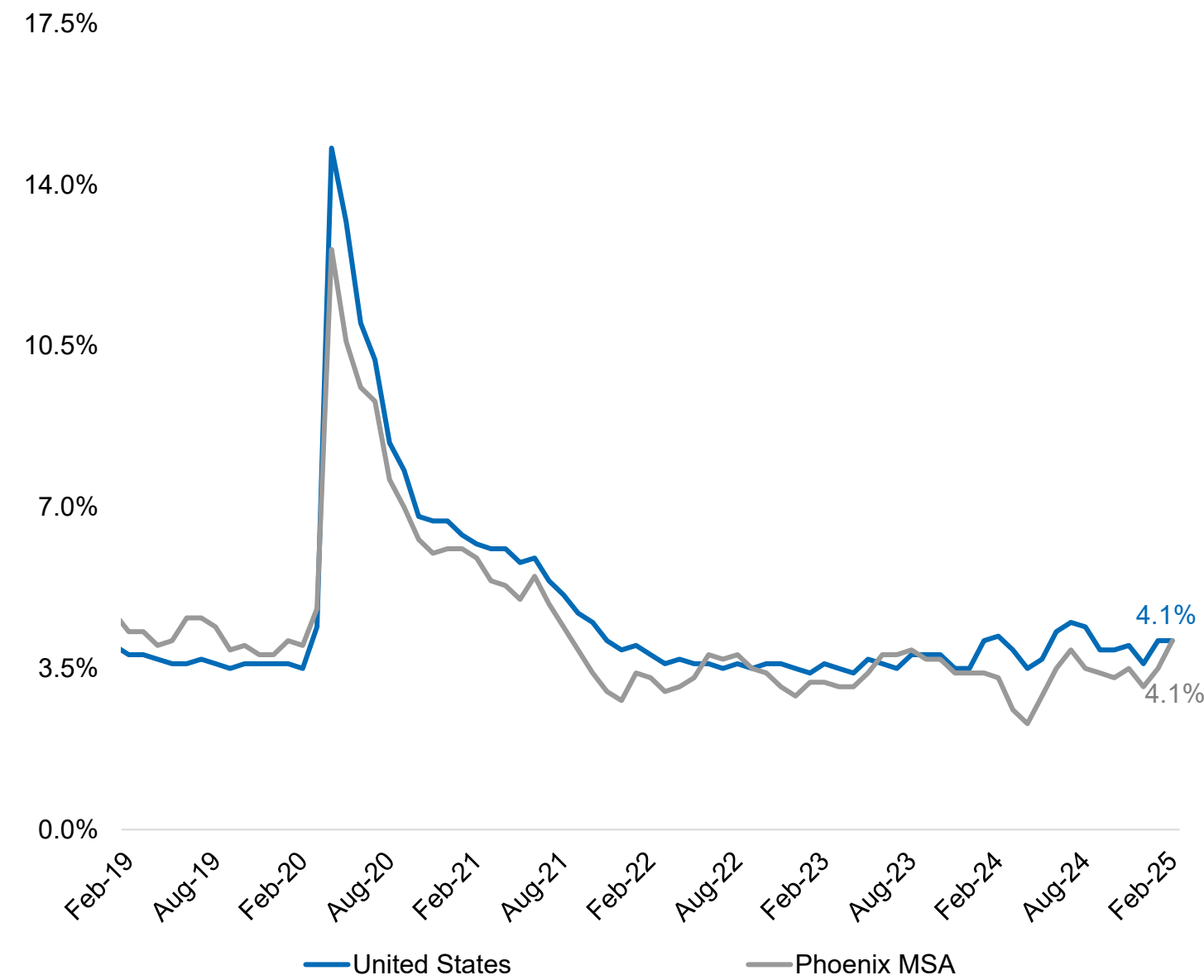
Economy



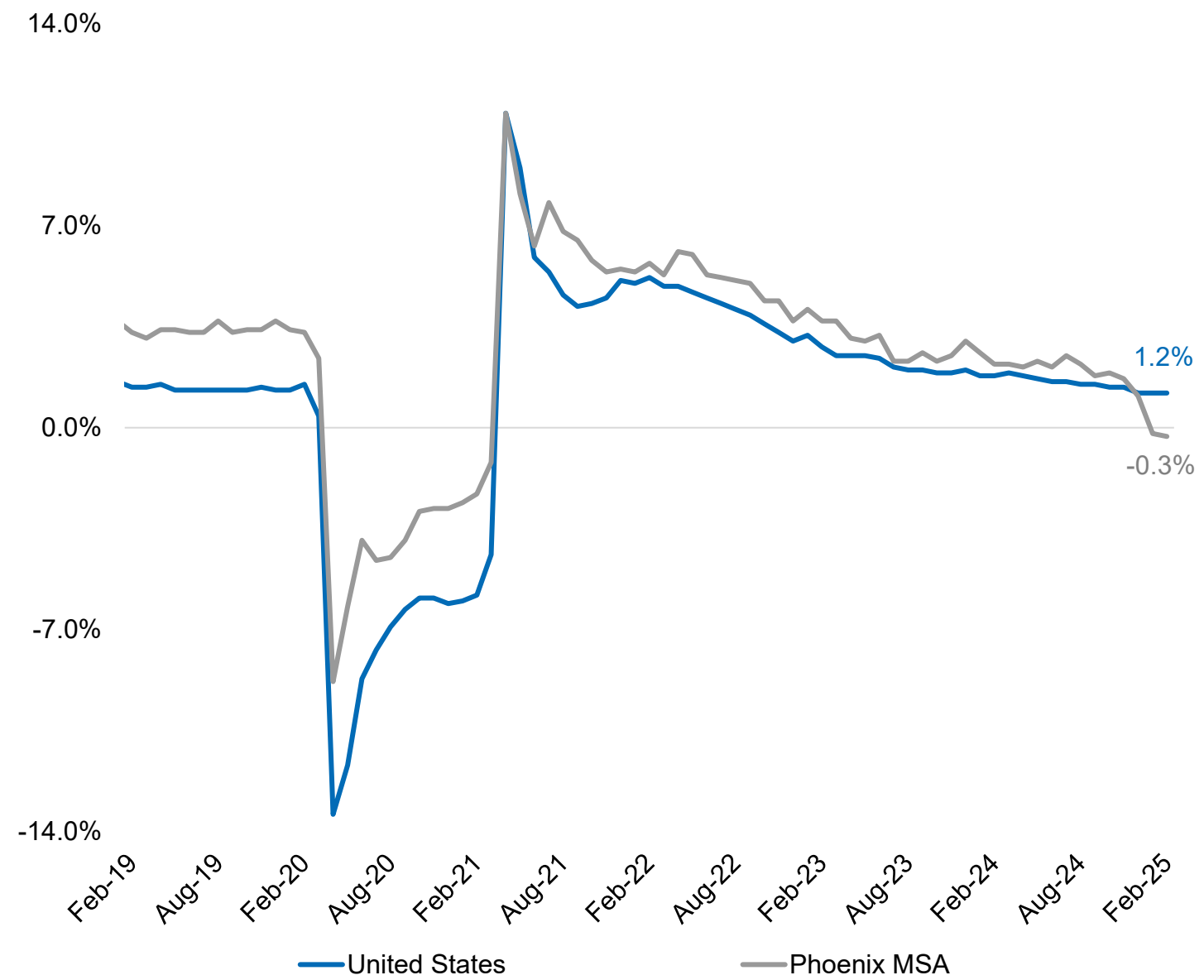
Resilient Labor Market Amid Economic Challenges

After outperforming the national average since August 2023, local unemployment rose to 4.1% . Phoenix’s job growth has deaccelerated as year-over-year nonfarm employment was negative for the second-straight month as companies continue to focus on cost-savings. Recent widespread tariffs, meanwhile, cast a shadow over local and global economies alike.

Unemployment Rate, Not Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change



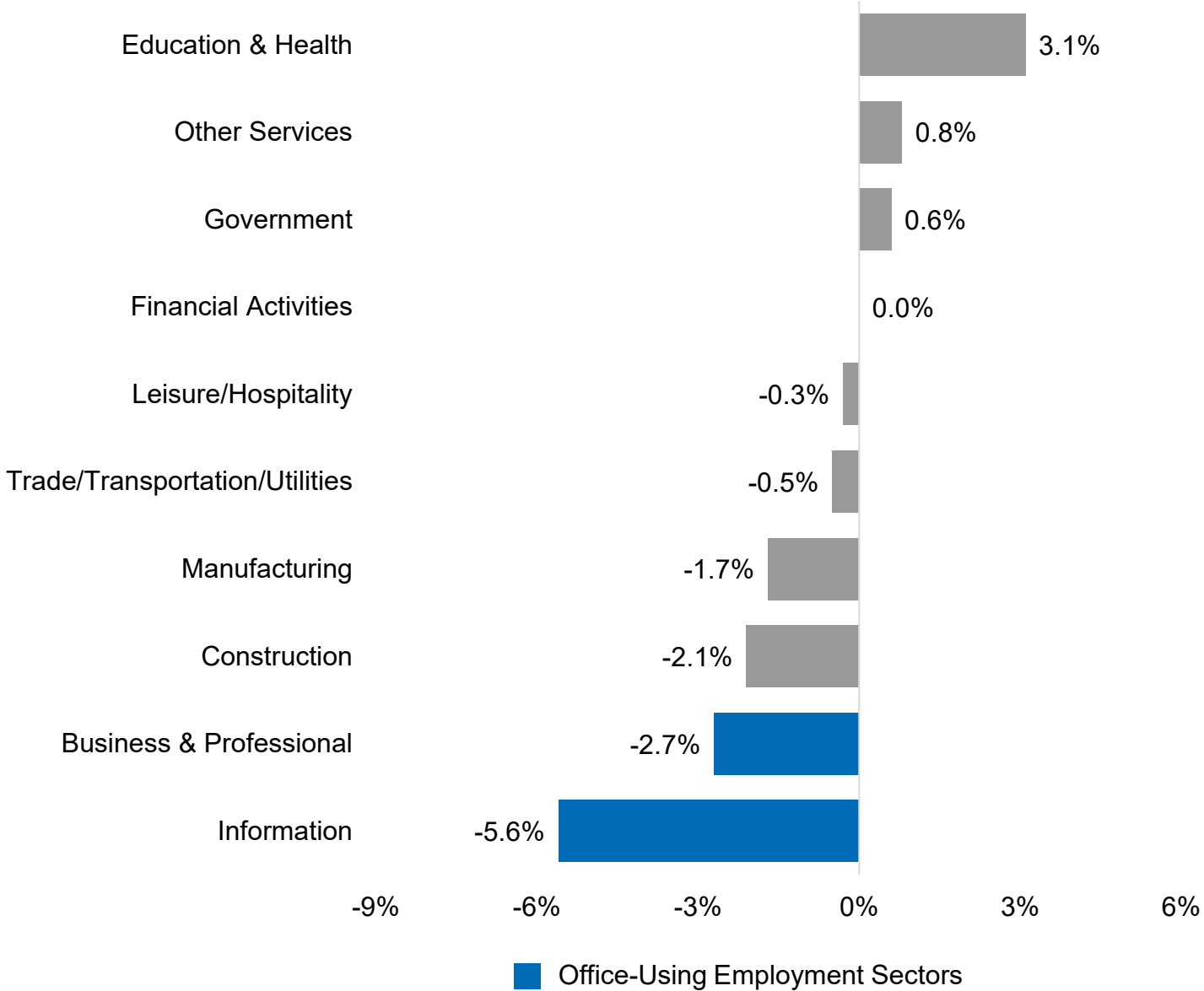
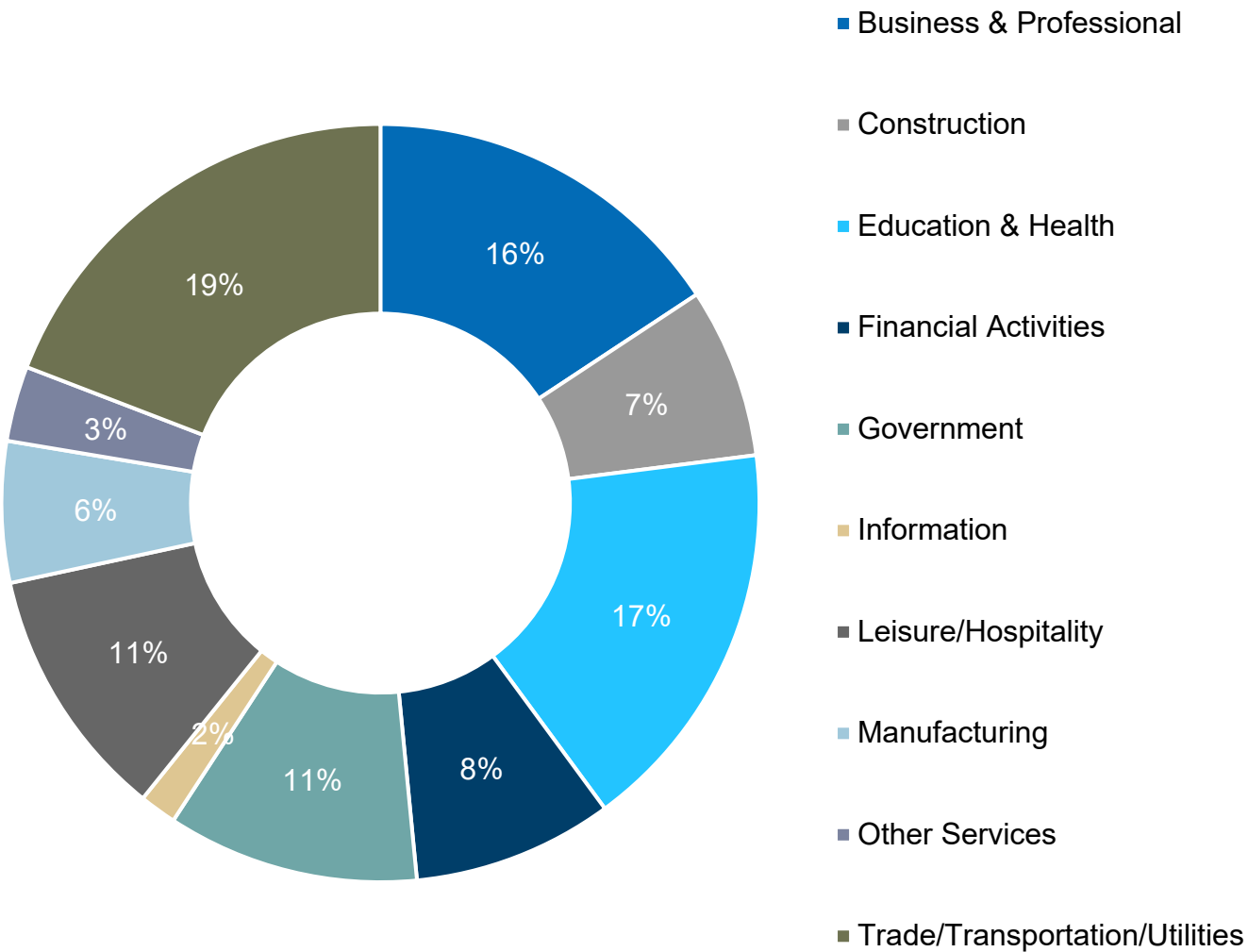
Source: U.S. Bureau of Labor Statistics, Phoenix MSA
Note: February 2025 data is preliminary.

Key Office-Using Employment Sectors Shed Jobs

At the industry level, education and health led in annual job gains for the second-straight quarter, followed by government and other services. Trade/transportation/utilities posted losses, which often happens after the holiday season. Among office-using sectors, information (dominated by tech) contracted by 5.6%, business and professional saw a 2.7% drop, and financial activities was unchanged. The contraction in tech reflects broader industry challenges, while other office-using sectors are focused on staff reductions to lower costs.

Employment by Industry, February 2025

Employment Growth by Industry, 12-Month % Change, February 2025



Source: U.S. Bureau of Labor Statistics, Phoenix MSA
Note: February 2025 data is preliminary.

Population Has Increased Considerably in Recent Decades

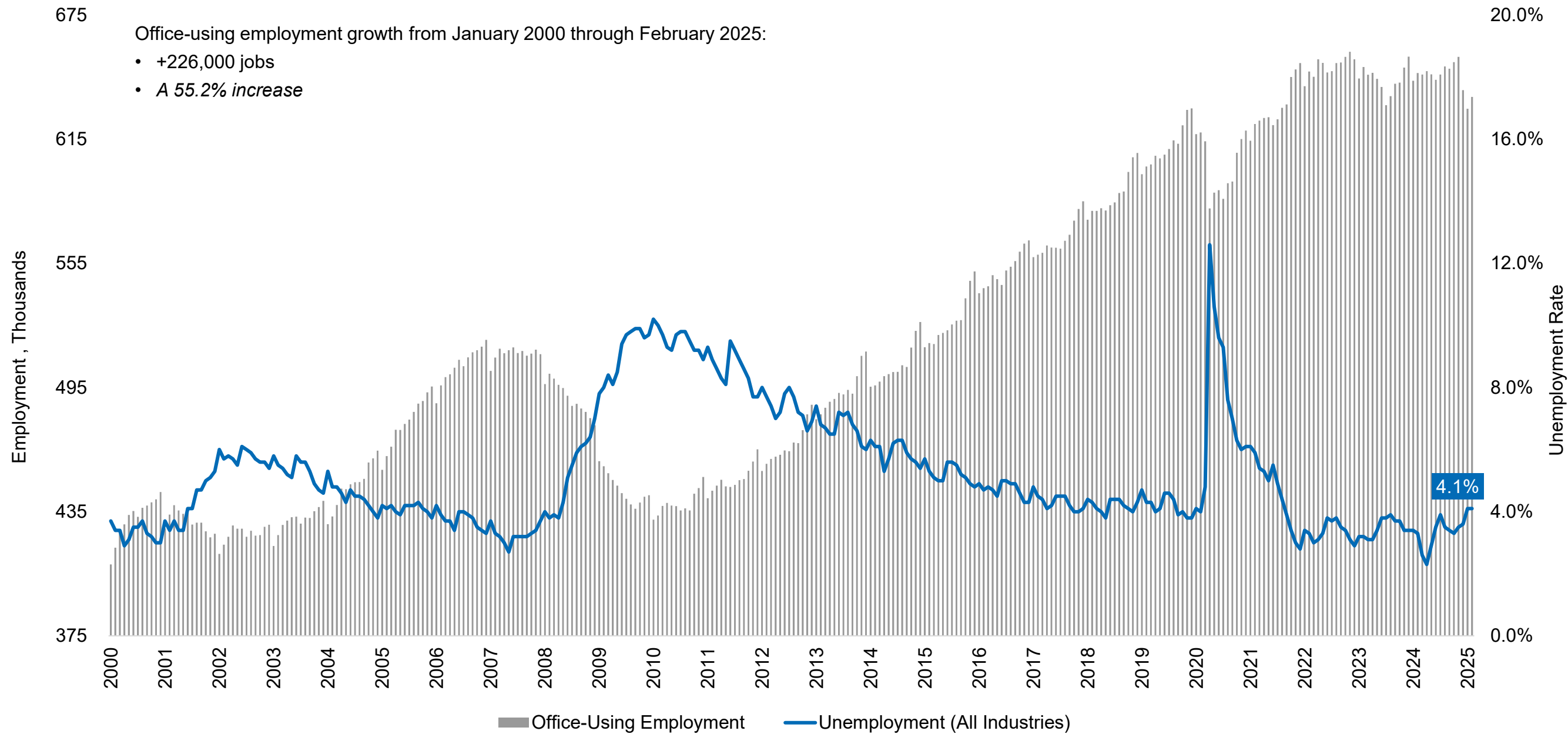


Please reach out to your
Newmark business contact for this information

Office-Using Employment Dip Driven by Economic Uncertainty

Office-using employment stands 3.5% above pre-pandemic levels (February 2020), although it is down 1.7% year-over-year. Local population growth has fueled demand for resident-serving office tenants, including insurers, banks, and law firms. A costlier operating environment and new uncertainty on the trajectory of the U.S. economy following tariffs are among current headwinds for office-using employment.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Phoenix MSA
Note: February 2025 data is preliminary.
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

Office Occupancy Contracting Despite Growth in Office Employment



Please reach out to your
Newmark business contact for this information

1Q25

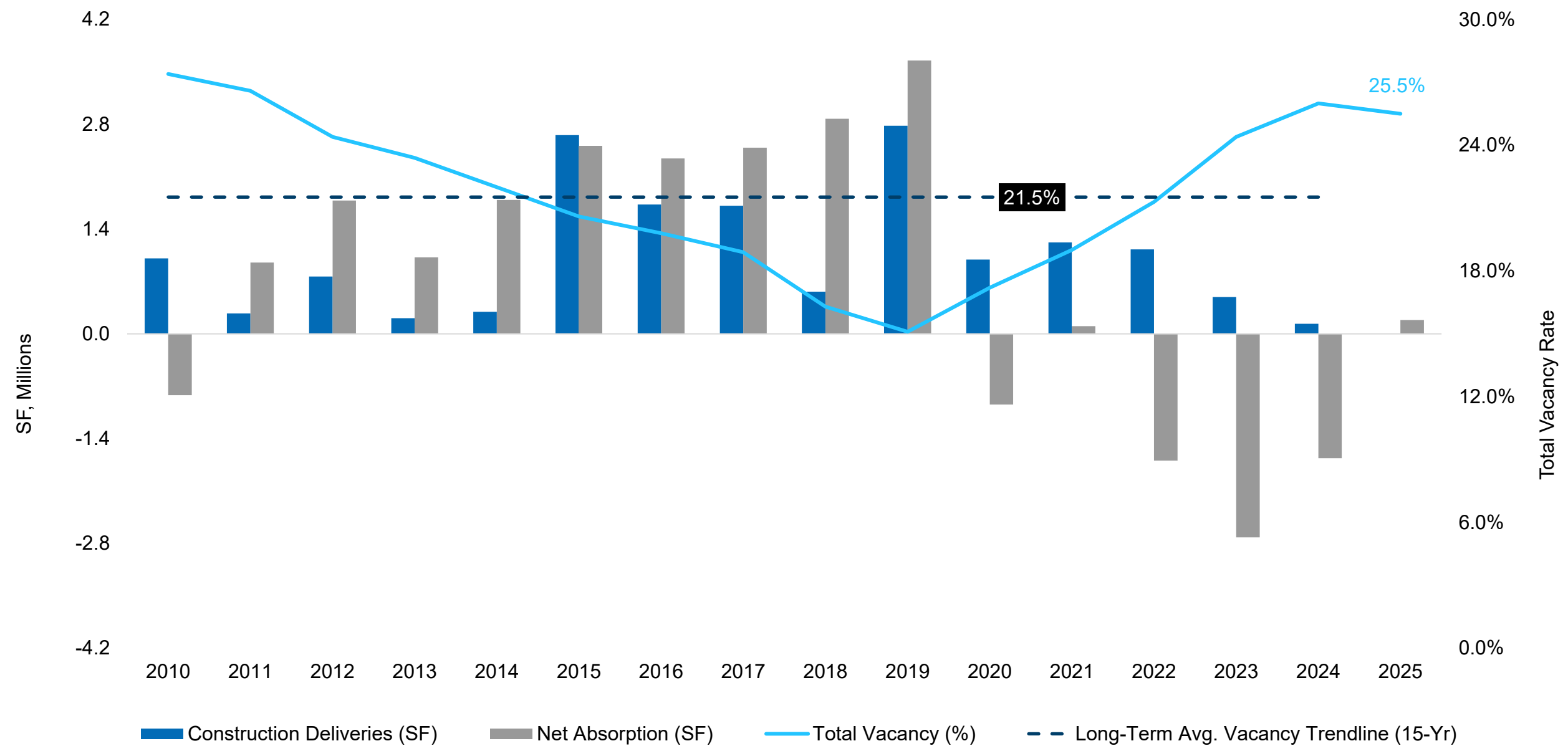
Market Fundamentals



Vacancy Decreased This Quarter

Total vacancy reached 25.5% in the first quarter of 2025, a 50-basis point drop from the end of 2024, after faint absorption gains and the absence of new supply. Limited construction will further moderate vacancy increases, providing some stability as the market continues to adjust to evolving tenant needs.

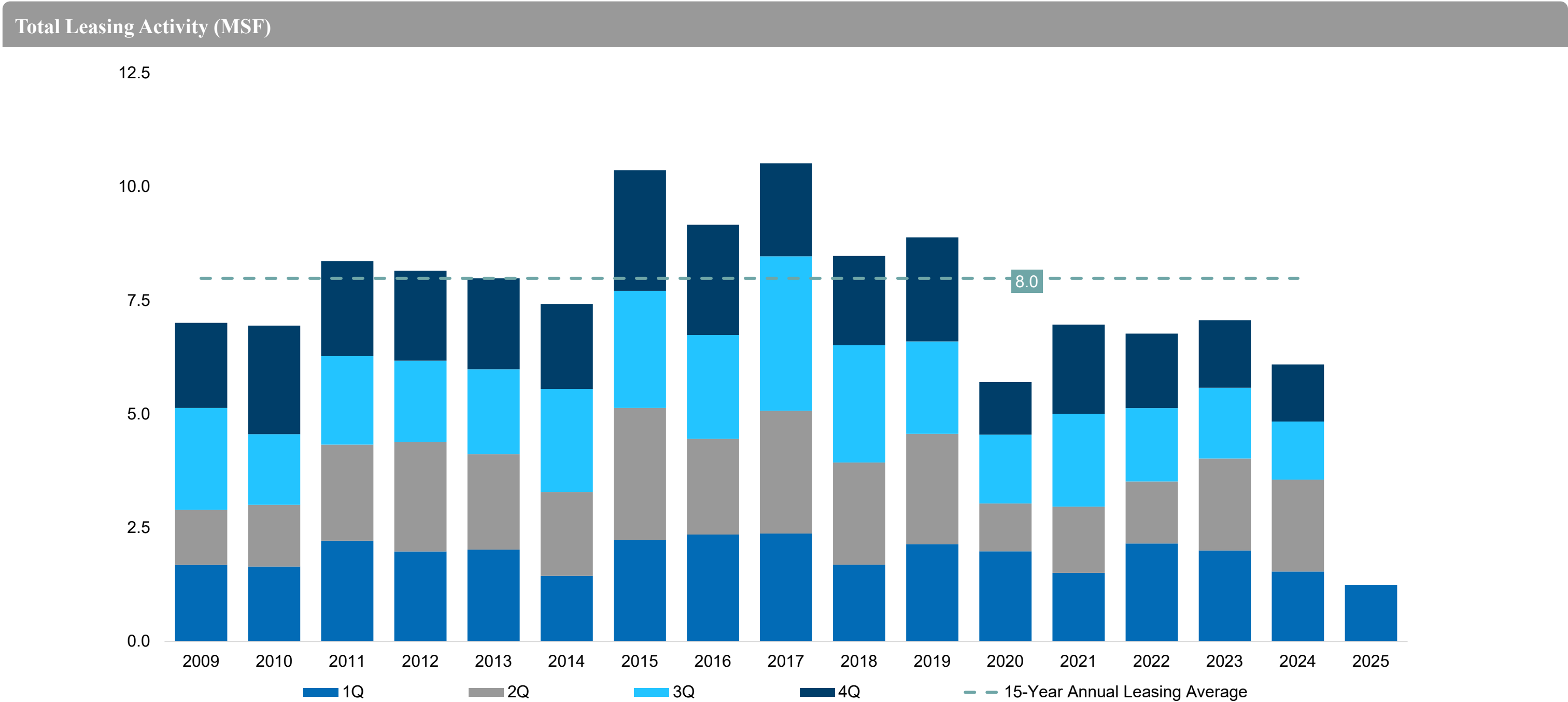
Historical Construction Deliveries, Net Absorption, and Vacancy | Greater Phoenix



Source: Newmark Research

Leasing Activity Reflects Smaller Tenant Footprints in 2024

In the first quarter of 2025, leasing activity was notably subdued, characterized by a prevalence of fewer transactions within the market. Office tenants increasingly preferred lease renewals or expanding their footprint in other locations. This trend was reflected in a cautious approach to new transactions and renewals. Moreover, lease agreements were often structured with shorter terms, reflecting a strategic preference for flexibility and future expansion opportunities.

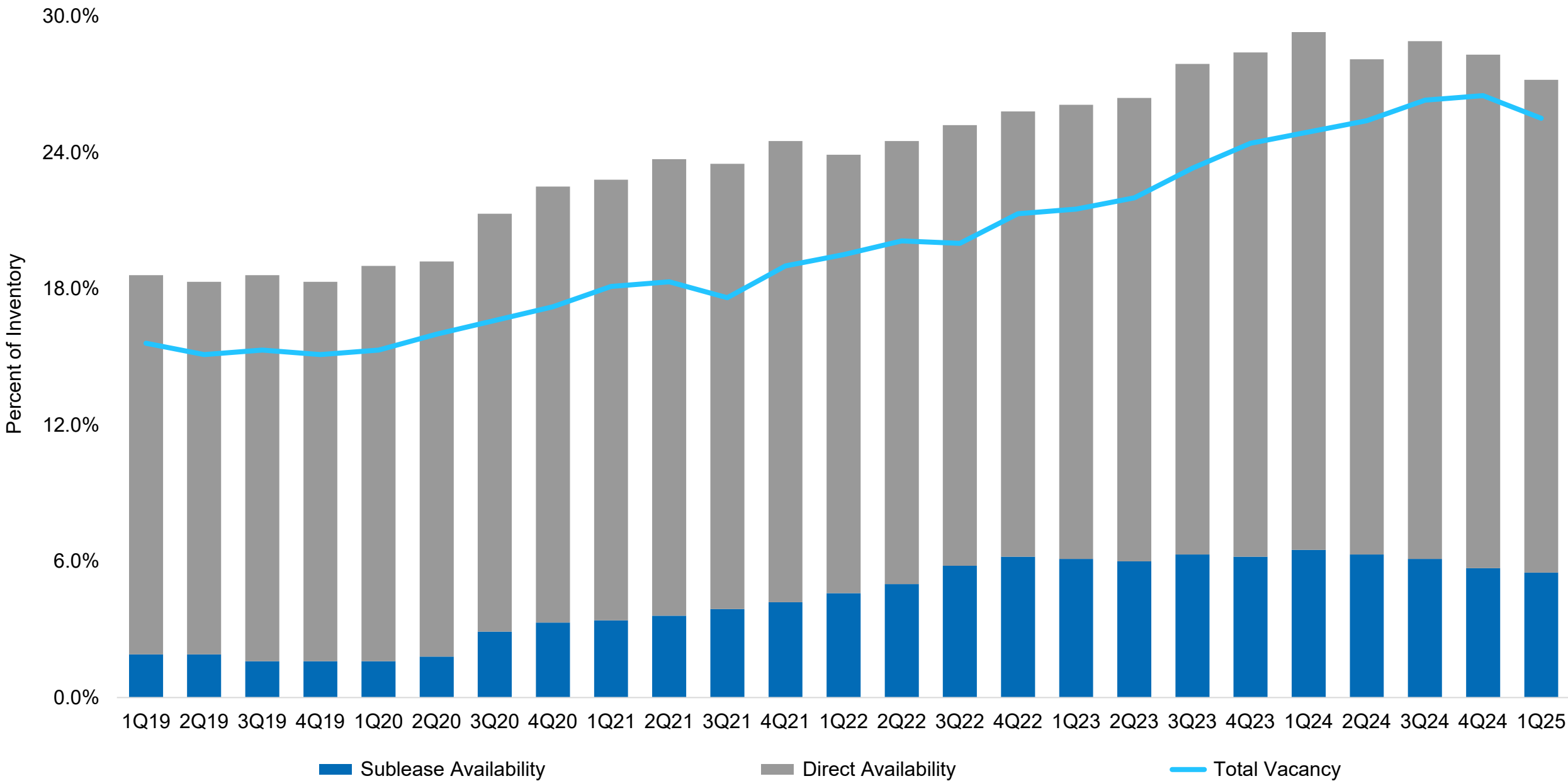


Source: Newmark Research

Sublease Availability Stabilizing Along With Shorter Market Vacancies

Since the pandemic, sublease availability steadily increased due to hybrid work and cost-saving measures. However, this quarter saw another 20-basis-point drop in sublease availability and a 90-basis-point decline in direct availability. Vacant space is now sitting on the market for shorter periods of time, contributing to a gradual downtick in overall vacancy as tenants reevaluate their plans. The trend highlights the ongoing optimism in the Phoenix office market.

Available Space and Total Vacancy as Percent of Overall Market | Greater Phoenix



Source: Newmark Research

Elevated Sublease Availability Trends Downward in Phoenix



Please reach out to your
Newmark business contact for this information

Tempe Outperforms Within Phoenix Metro Office Market



Please reach out to your
Newmark business contact for this information

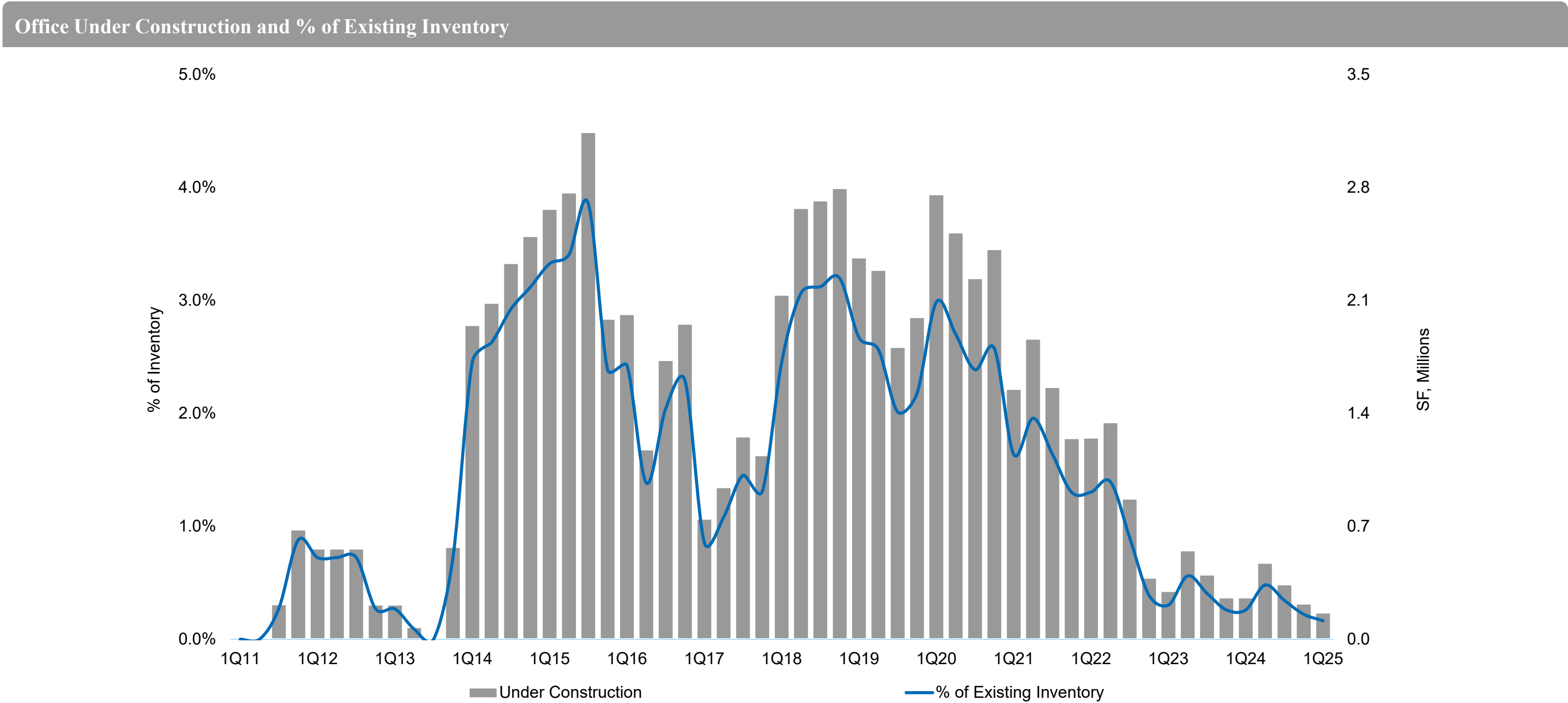
DOGE Lease Cancellations Focused in Downtown Phoenix



Please reach out to your
Newmark business contact for this information

Constrained Office Development Amid Shifting Demand

Since 2020, the rise of hybrid work models and moderated tenant demand have gradually reduced office construction activity. Currently, only 159,222 SF of traditional office space is under development, with just two projects delivered in 2024. This limited pipeline provides an opportunity for tenants to utilize existing inventory effectively. In response to these shifting market conditions, developers are increasingly focusing on other asset classes, such as industrial.

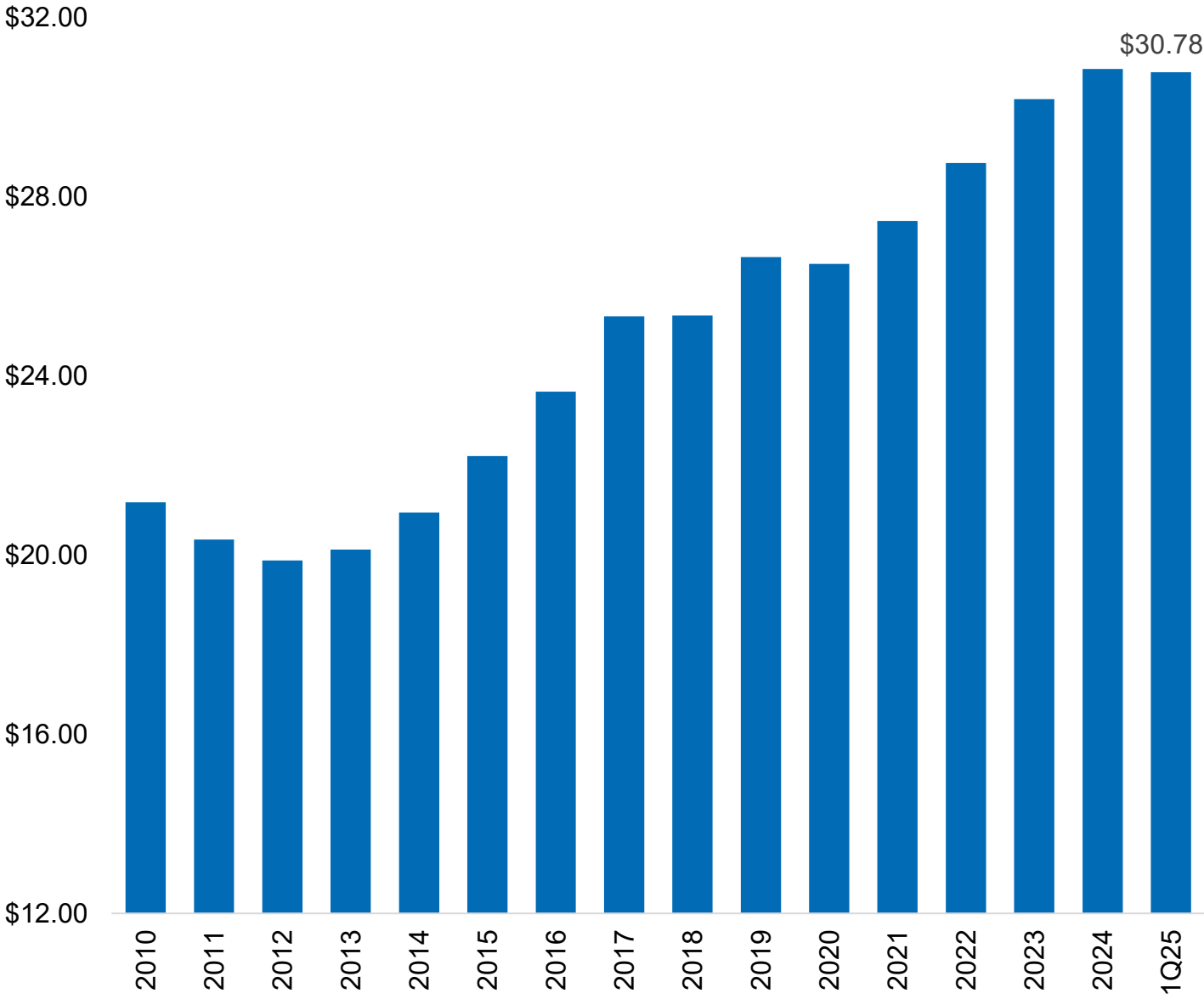


Source: Newmark Research

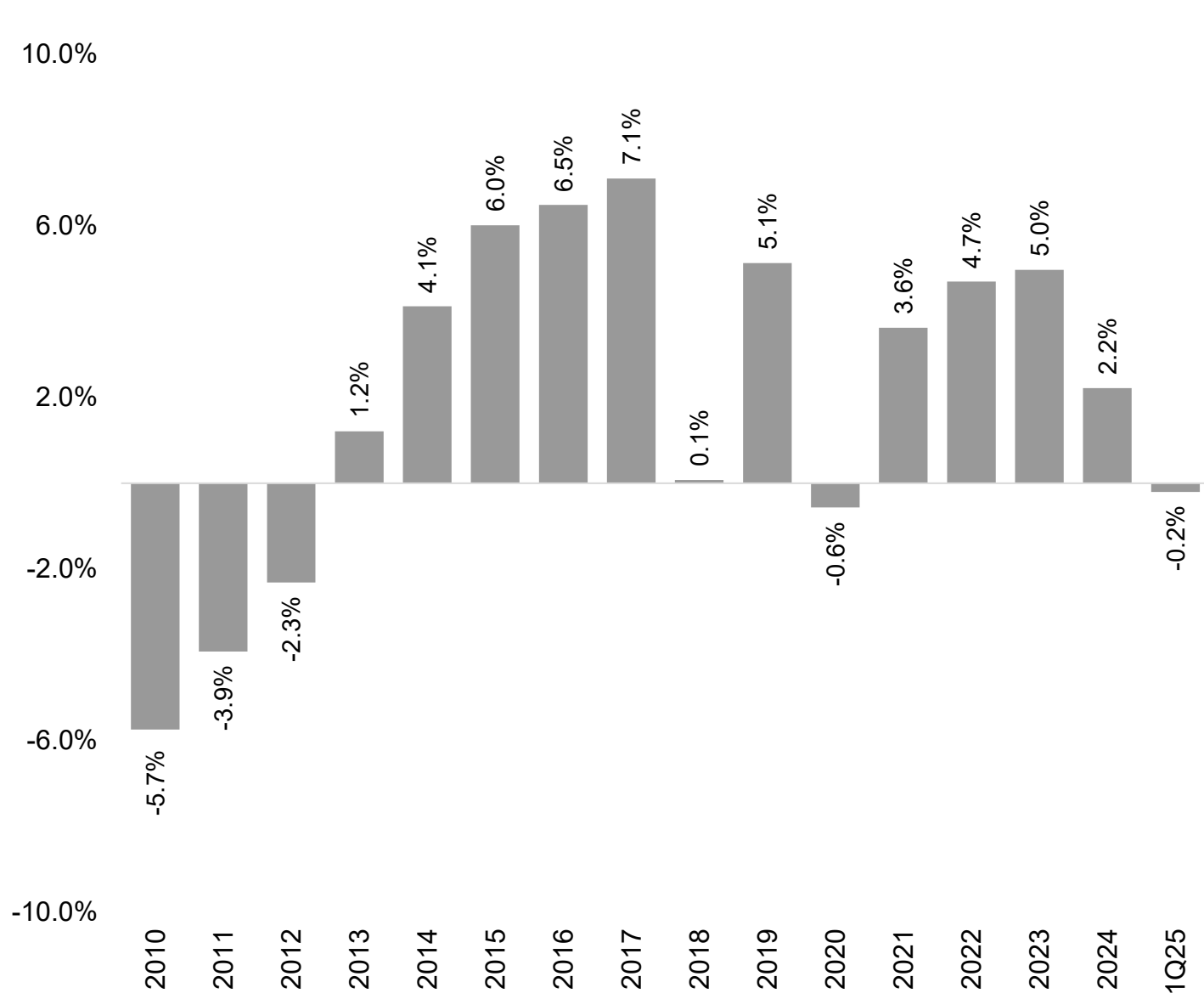
Slight Decline in Rental Growth in 1Q25

Prolonged vacancy periods inhibited rent growth in 2024, with these effects extending into the first quarter of 2025. Landlords have been maintaining their asking rates for direct space, while simultaneously offering increased concessions and tenant improvement allowances to attract tenants effectively. With no new construction deliveries in the first quarter of 2025, the establishment of new rate benchmarks is improbable. Rental rates are expected to remain stable until a decrease in availability creates upward pressure.

Office Average Asking Rent, \$/SF/Year, FS



Year-over-Year Asking Rent Growth Rate

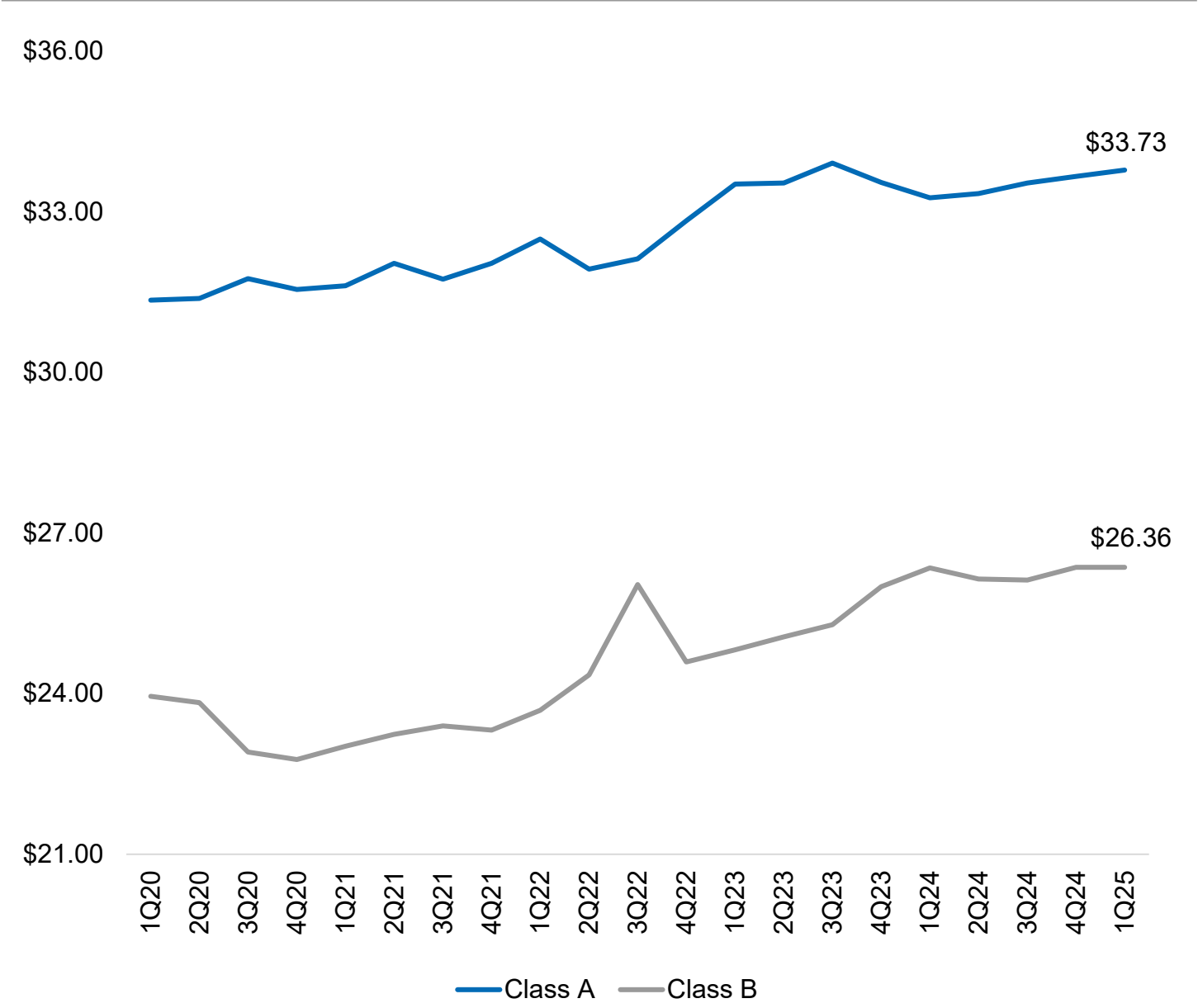


Source: Newmark Research

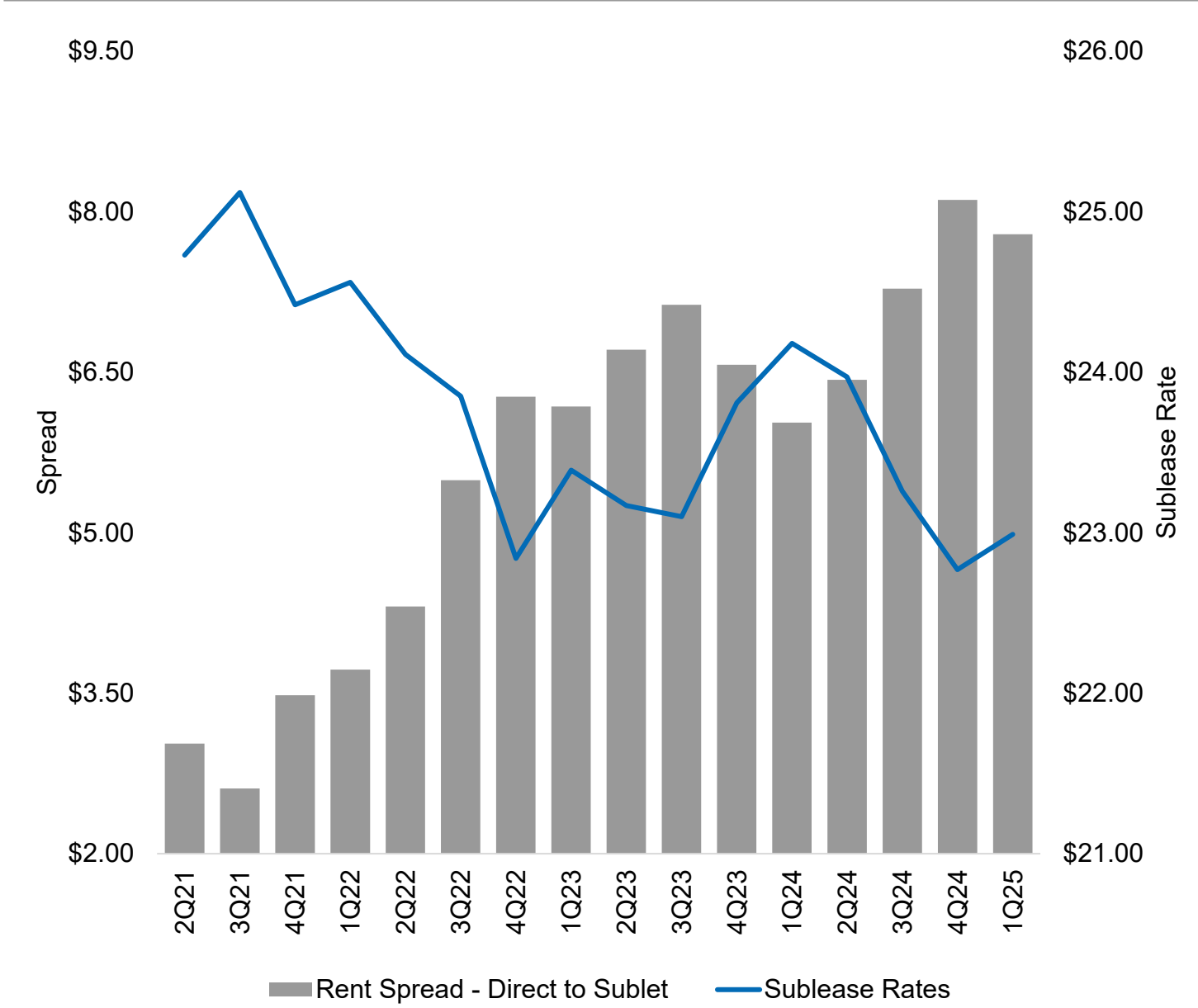
Sublease Competition Pressures Rent Dynamics

Sublessors are aggressively competing with landlords by reducing rents, creating a \$7.79/SF rent spread between direct and sublease space. Despite this pressure, Class A and Class B direct asking rates demonstrated moderate growth throughout the last two quarters, reflecting resilient demand for higher-quality space in a challenging market.

Class A and Class B Asking Rents, \$/SF/Year, FS



Sublease Asking Rates



Source: Newmark Research

Effective Rents are Marginally Down Since 2019, and Will Remain Flat

Please reach out to your
Newmark business contact for this information

Office Conversions Gain Traction in Phoenix Amid Shifting Demand



Please reach out to your
Newmark business contact for this information

This Quarter’s Notable Lease Transactions

Top transactions encompass a mix of direct leases and one sublease, with deal sizes having increased compared to the previous quarter. This reflects a trend where tenants are strategically positioning themselves to secure larger spaces, potentially to accommodate growth or future needs, while still prioritizing financial prudence. Such measures indicate a proactive approach to managing expenses effectively amidst fluctuating market conditions and rising operational costs.

Notable 1Q25 Lease Transactions				
Tenant	Building(s)	Submarket	Type	Square Feet
Progressive Insurance	339 E Germann Rd	Chandler/Gilbert	Lease Expansion	64,247
Progressive insurance expanded from 25,000 to 64,247 SF within the building				
Invitation Homes	2525 W Frye Rd	Chandler/Gilbert	Direct Lease	47,435
Relocated and expanded out of 1121 W Warner Rd				
LPL HOLDINGS, INC	500 E Rio Salado Pkwy	Tempe	Sublease	42,373
Signed an 80-month term under Carvana’s sublease				
SAP America	1101 W Washington St	Tempe	Lease Renewal	32,880
Renewed and downsized within the building				
Visit Phoenix	1 E Washington St	Downtown South	Direct Lease	24,722
Moving into CityScape in April 2025, representing 4.2% of the building				

Source: Newmark Research

2025 Starts Slow in Sales Activity



Please reach out to your
Newmark business contact for this information

Capital Strategies and Phoenix's Resilient Medical Office Market



Please reach out to your
Newmark business contact for this information

Sales Activity Decreased from Previous Quarter

In the first quarter of 2025, office asset sales volume experienced a notable decline, reflecting a shift in market dynamics. This downturn is influenced by economic uncertainties and high interest rates, leading investors to proceed with caution. The changing landscape has impacted the demand for traditional office spaces. However, these challenges present an opportunity for investors to acquire office at a reset basis with elevated in-place yield as well as certain opportunities to explore adaptive reuse and redevelopment projects, transforming underutilized office spaces into innovative real estate solutions.

Notable 1Q25 Sale Transactions

Building Address	Submarket	Sales Price	Price/SF	Square Feet
The Forum at Gilbert Ranch- 1472-1530 E Williams Field Rd	Chandler/Gilbert	\$23,475,000	\$242.11	96,962
Five, 1 & 2-story buildings, 93% leased, multi-tenant office and medical office buildings with subterranean parking				
Paradise Valley Medical Center - 3805 E Bell Rd	Central/ East Phoenix	\$23,028,802	\$213.23	108,000
Five-story, multi-tenant medical office sold as part of a 10-property, \$108M, multi-state portfolio				
Amkor Technology Global Corporate HQ – 2045 E Innovation Circle	Tempe/Chandler	\$22,050,000	\$226.14	97,504
Two-story, 9-year leased, single tenant office positioned on long term ground lease within the Arizona State University Business Park; reported 8.16% cap rate				
Element at Kierland – 14614 N Kierland Blvd	Scottsdale Airpark	\$18,479,487	\$334.36	55,268
Two-story, multi-tenant office property with extensive Kierland Golf Course frontage; purchased as a long term, covered-land investment				
Warner Crossing – 8312 S Hardy Dr	Tempe/Chandler	\$14,400,000	\$191.29	75,280
Single-story, flex/office building that was purchased for owner-user purposes				
Elliot Center – 875 W Elliot Rd	Tempe/Chandler	\$13,500,000	\$60.43	223,392
Two-story, 100% vacant office building sold for land value; the property will be redeveloped into multiple industrial buildings				

Source: Newmark Research

1Q25

Appendix



Phoenix Metro Office Submarket Map and High-Level Statistics | 1Q25



Please reach out to your
Newmark business contact for this information



Please reach out to your
Newmark business contact for this information



Please reach out to your
Newmark business contact for this information

A Lower Cost Business Environment With Affordable Housing Favors Phoenix



Please reach out to your
Newmark business contact for this information

For more information:

Charlie Beaver

Research Analyst
Phoenix

charlie.beaver@nmrk.com

Amelia Yates

Research Manager
Phoenix, Las Vegas, SLC

amelia.yates@nmrk.com

Dain Fedora

Head of Research
Southwest

dain.fedora@nmrk.com

Phoenix Office

2555 E. Camelback Rd.
Suite 600
Phoenix, AZ 85016
t 602-952-3800

New York Headquarters

125 Park Ave.
New York, NY 10017
t 212-372-2000

nmrk.com

Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

All information contained in this publication (other than that published by Newmark) is derived from third party sources. Newmark (i) has not independently verified the accuracy or completeness of any such information, (ii) does not make any warranties or representations, express or implied, concerning the same and (iii) does not assume any liability or responsibility for errors, mistakes or inaccuracies of any such information. Further, the information set forth in this publication (i) may include certain forward-looking statements, and there can be no guarantee that they will come to pass, (ii) is not intended to, nor does it contain sufficient information, to make any recommendations or decisions in relation to the information set forth therein and (iii) does not constitute or form part of, and should not be construed as, an offer to sell, or a solicitation of any offer to buy, or any recommendation with respect to, any securities. Any decisions made by recipient should be based on recipient's own independent verification of any information set forth in this publication and in consultation with recipient's own professional advisors. Any recipient of this publication may not, without the prior written approval of Newmark, distribute, disseminate, publish, transmit, copy, broadcast, upload, download, or in any other way reproduce this publication or any of the information it contains with any third party. This publication is for informational purposes only and none of the content is intended to advise or otherwise recommend a specific strategy. It is not to be relied upon in any way to predict market movement, investment in securities, transactions, investment strategies or any other matter. If you received this publication by mistake, please reply to this message and follow with its deletion, so that Newmark can ensure such a mistake does not occur in the future.

NEWMARK