

A wide-angle photograph of the Phoenix skyline at sunset. The sky is a vibrant blue with scattered, wispy clouds that catch the golden light of the setting sun. The city's buildings, including several prominent skyscrapers, are silhouetted against the bright horizon. The overall mood is serene and picturesque.

NEWMARK

Phoenix:
Office Market Overview

1Q26

An aerial photograph of a residential neighborhood in Phoenix. The scene is dominated by numerous tall palm trees and lush greenery. The houses are mostly single-story with light-colored exteriors and red-tiled roofs. A few cars are parked on the streets, and a larger commercial-style building with a flat roof is visible on the right side of the frame. The lighting suggests a bright, sunny day.

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Phoenix Office Market Observations



Economy

- Recent local employment figures were unavailable due to the last federal government shutdown and subsequent delays from the Bureau of Labor Statistics to collect and process data.
- Local unemployment was 3.5% in December 2025, below the U.S. average for the 28th-straight month. While Phoenix's office-using employment remains above pre-pandemic levels, growth continues to be sluggish, with a mere 2.1% year-over-year gain.
- The Federal Reserve kept its benchmark rate unchanged at 3.5%–3.75%, projecting quarter-point cuts in 2026 and 2027. Officials pointed to concerns over the Iran war's impact, noting surging oil prices and higher inflation while national unemployment remains flat.



Leasing Market Fundamentals

- First-quarter net absorption totaled 633,066 SF, marking the second consecutive quarter of positive absorption. Nearly 42% of this total was from Republic Services taking occupancy of its 265,525-SF build-to-suit headquarters in March.
- Total vacancy tightened to 23.5%, a decrease of 120 bps from last quarter and 170 bps lower than one year ago. This improvement is primarily due to office buildings being removed from inventory and redeveloped into other property types.
- Asking rents were up 2.0% year over year. Desirable Class A options continue to lease quickly, while older, long-vacant spaces are dragging down average rates.
- Sublet availability remains low at 4.2%. With no new construction starts this quarter, limited supply could push vacancy lower and support rent growth, particularly in the trophy segment.



Major Transactions

- Tenant relocations remained prevalent across the market. While most firms maintained their existing footprints and some pursued expansion, instances of downsizing continued to be observed.
- Owner-users and private buyers were active in the market once again, with most taking advantage of discounted pricing.
- Approaching loan maturities are increasing pressure on landlords, with more distressed and bank-owned office assets anticipated to enter the market. This will shape pricing dynamics for the foreseeable future.



Outlook

- Corporate occupiers continue to pursue premium space, which will lower trophy's vacancy rate (presently 13.2%). Speculative development may return once trophy vacancy nears 10%.
- Sublease space will continue to decline as space terms out/transitions to direct availability.
- The U.S. economy is on track to expand roughly 2.4% in 2026 despite a Q4 2025 stumble (0.7% annualized, partly attributable to the government shutdown), with Q1 rebounding toward potential. At the present, oil price escalation and persistent tariff inflation remain the primary threats to business confidence and office-using hiring.
- For Phoenix, the more proximate risk is tariff-driven construction cost inflation limiting future speculative development and extending the current supply-constrained environment, which modestly favors landlords in the Class A and trophy segment.

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Economy

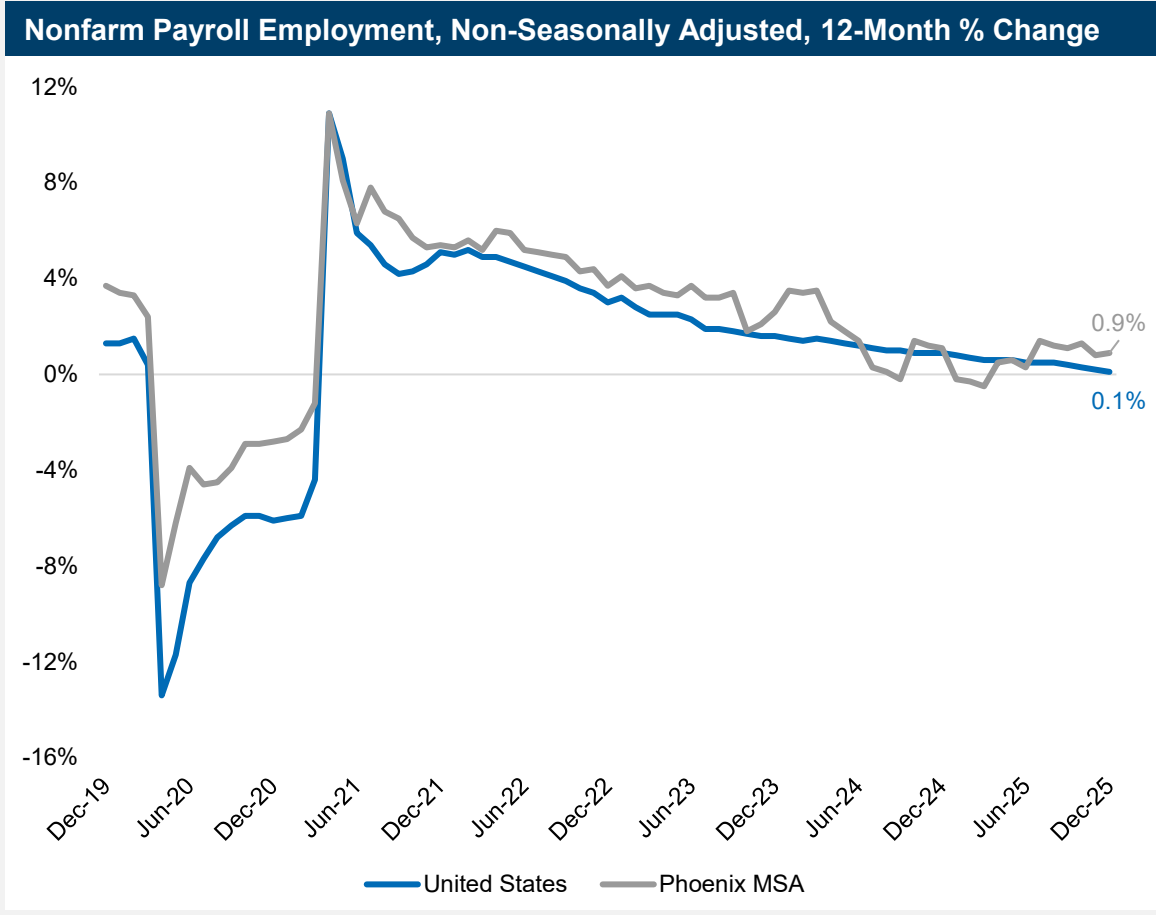
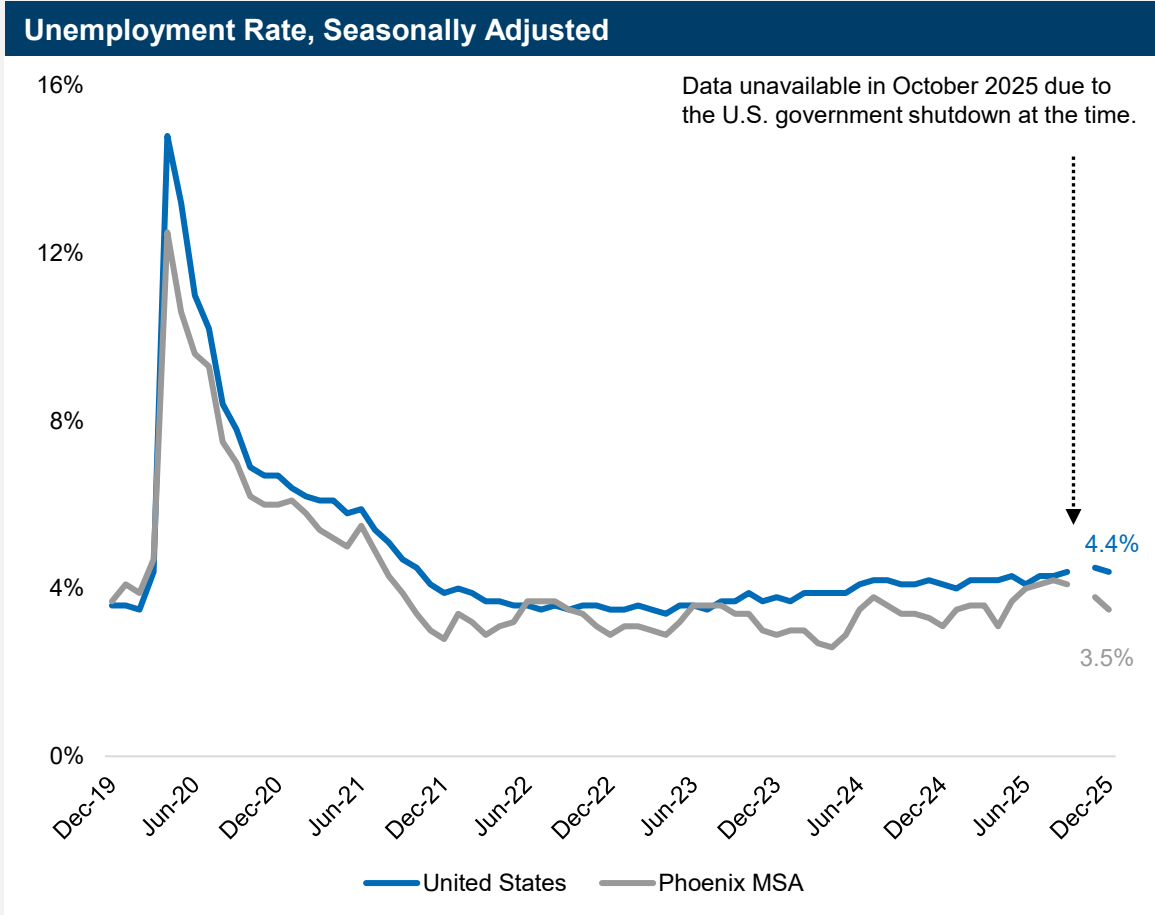
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Resilient Labor Market Amid Economic Challenges

Local unemployment (3.5%) in December 2025 was lower than the U.S. average for the 28th-straight month. Phoenix's job growth is also gaining momentum, with year-over-year nonfarm employment posting gains for nine consecutive months, as select companies expand.

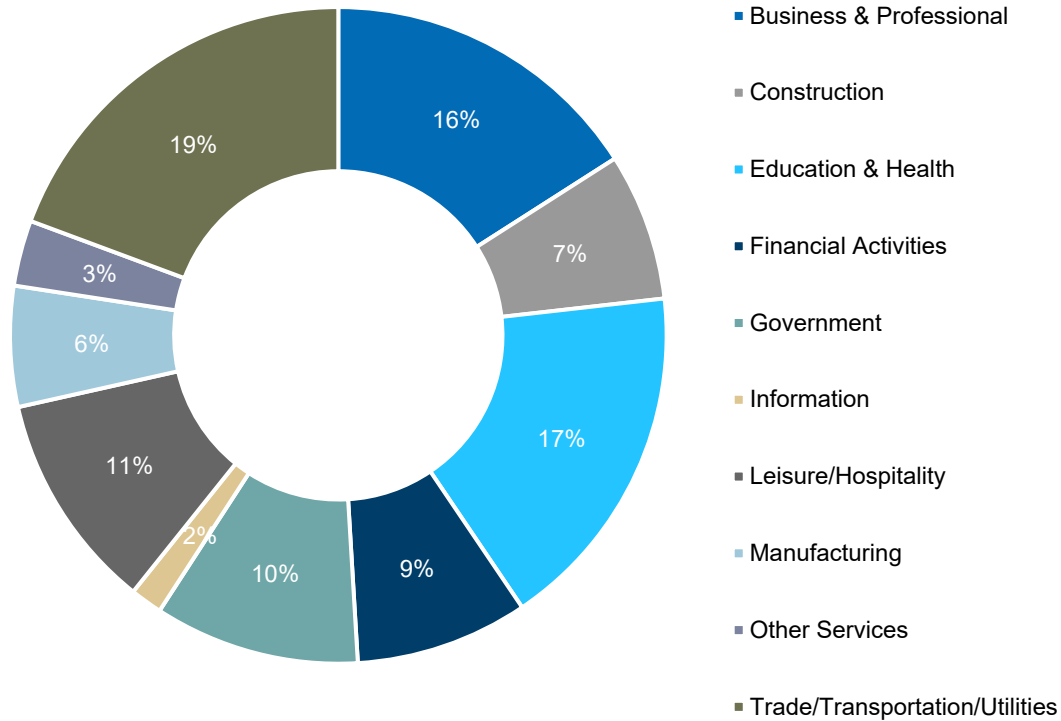


Source: U.S. Bureau of Labor Statistics, Phoenix MSA
 Note: Local employment statistics for January and February were unavailable at the time of writing due to this quarter's federal government shutdown.

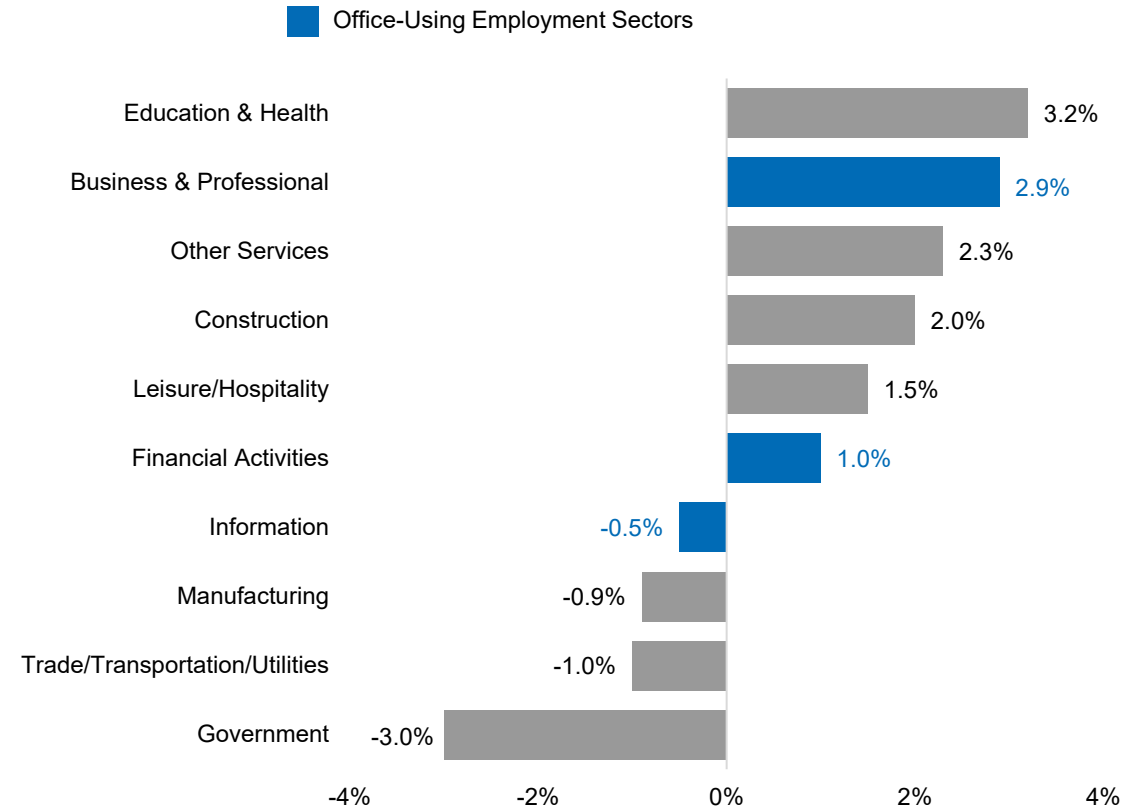
Two of the Three Office-Using Employment Sectors Posted Job Gains

At the industry level, education and health led in annual job gains for the fifth-straight quarter, followed by other services. Among office-using sectors, information (dominated by tech) contracted by -0.5%, business and professional saw a 2.9% increase, and financial activities increased by 1.0%. The contraction in tech reflects broader industry challenges, while other office-using sectors are trying to balance cost reductions with growth.

Employment by Industry, December 2025

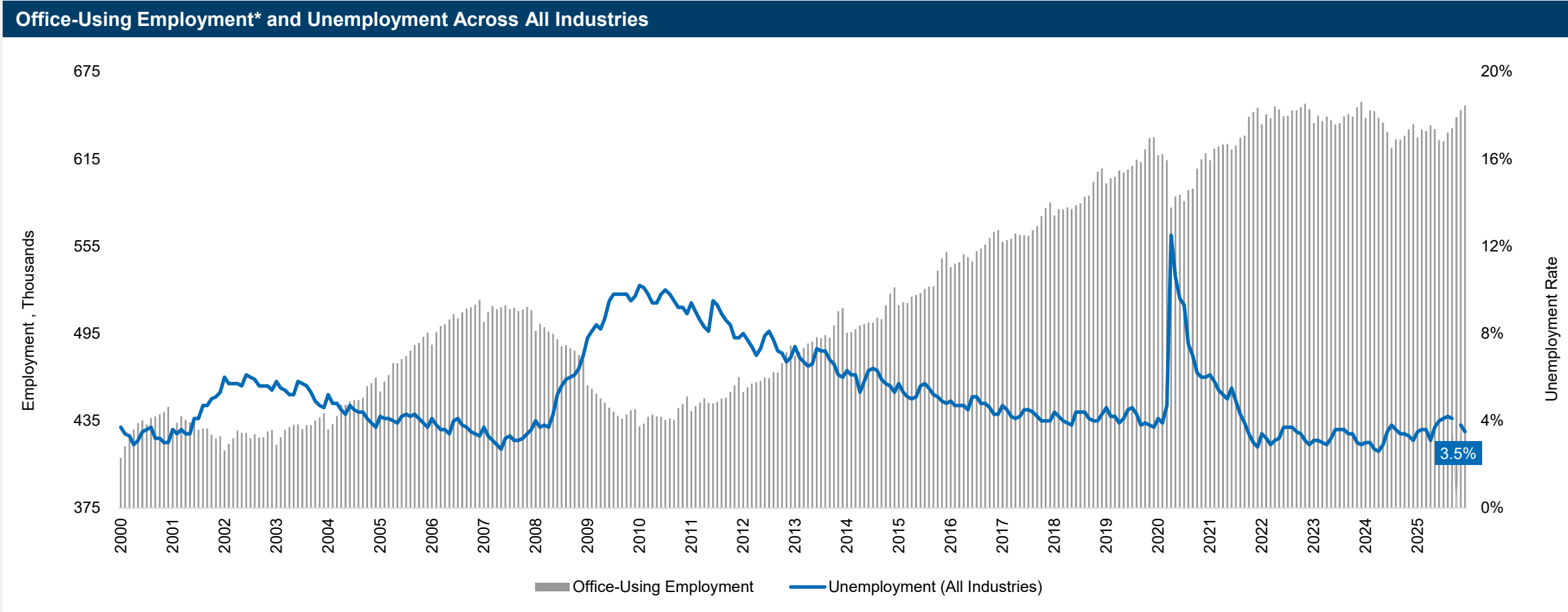


Employment Growth by Industry, 12-Month % Change, December 2025



Office-Using Employment Remains Steady Amid Economic Uncertainty

Office-using employment sits 5.4% above its February 2020 baseline — a recovery that outpaces many peer markets. Year-over-year growth of 2.1% reflects a split within the sector: business and professional services continues to expand, while the information sector — pressured by national tech-sector headcount reductions — contracted modestly. Phoenix's sustained population growth provides a durable demand floor among resident-serving office tenants, particularly in financial services and law. Rising labor and occupancy costs, however, remain a structural check on broader employment expansion.



Source: U.S. Bureau of Labor Statistics, Phoenix MSA
 Note: December 2025 data. October local employment data is unavailable due to the federal Government Shutdown. *Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

02

Market Fundamentals

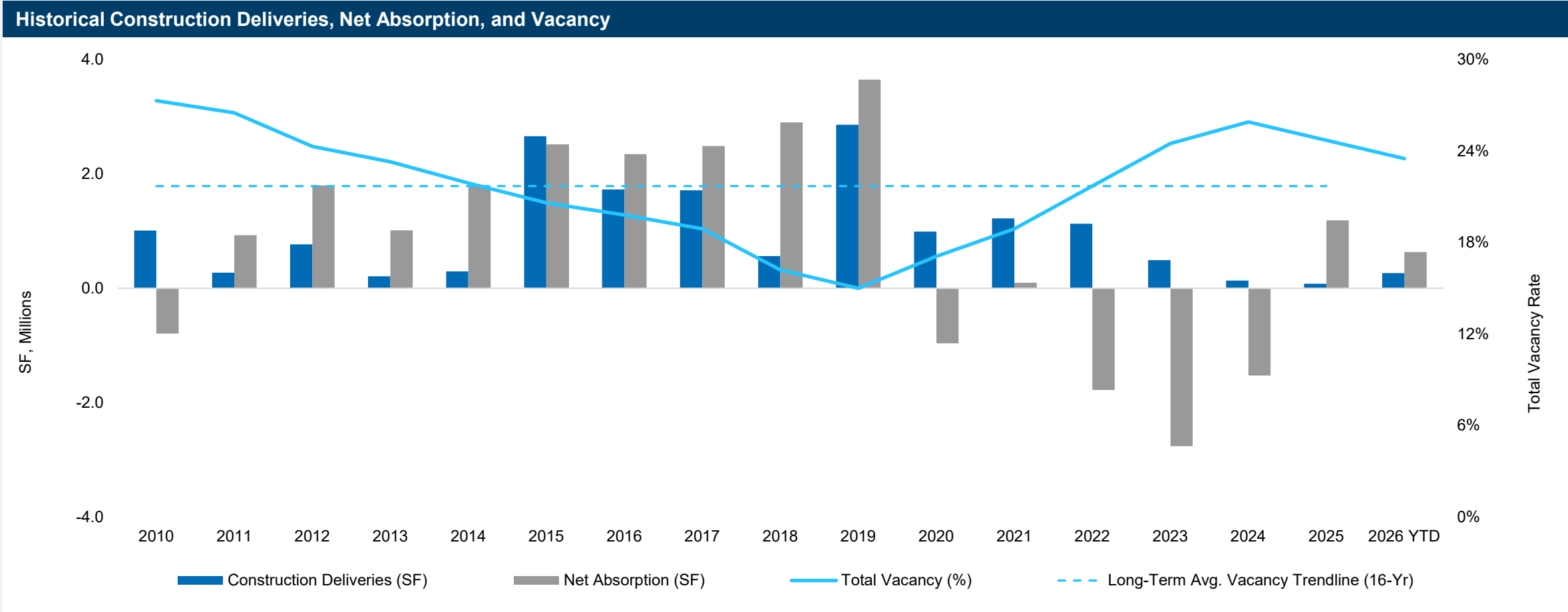
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Stable Vacancy and Modest Absorption Gains Reflect Market Resilience

Total vacancy decreased by 120 basis points from the fourth quarter of 2025 to the first quarter of 2026, settling at 23.5%. Moderate absorption gains, limited construction, and the redevelopment of underperforming buildings to other uses are exerting downward pressure on office vacancy.

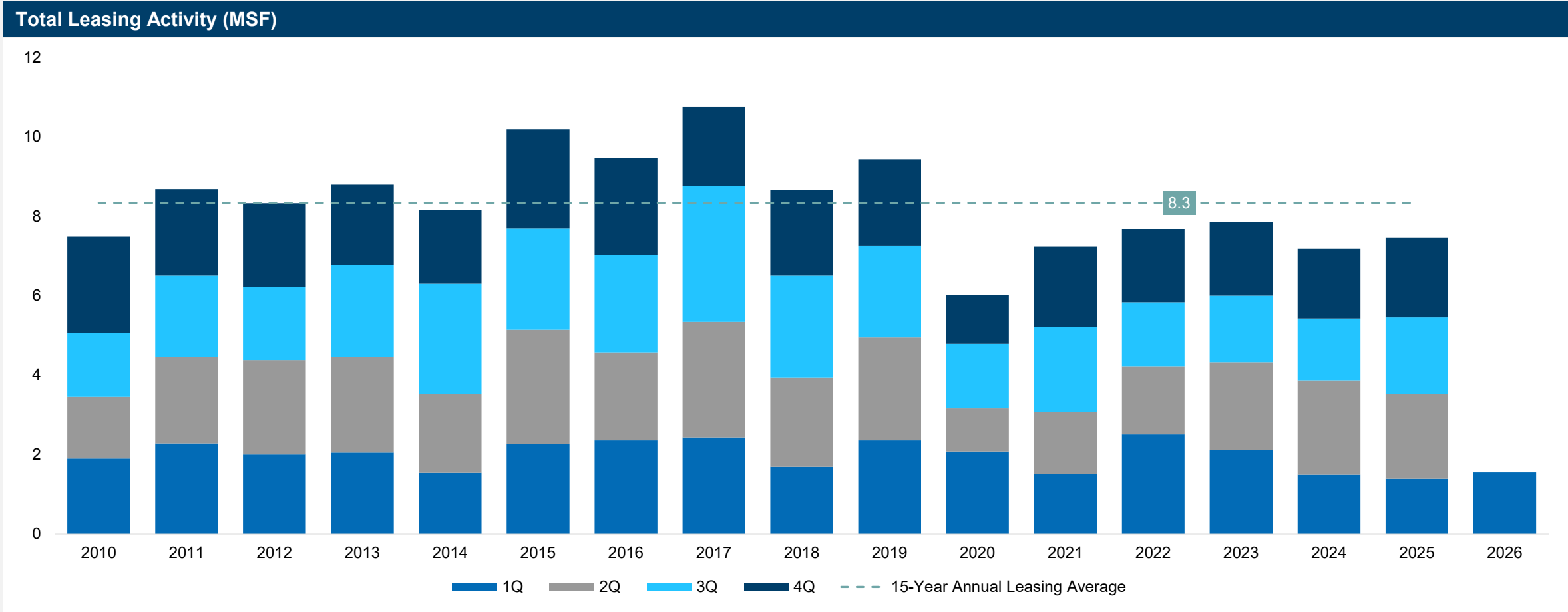


Office Relocations Have Become Notable in Recent Years

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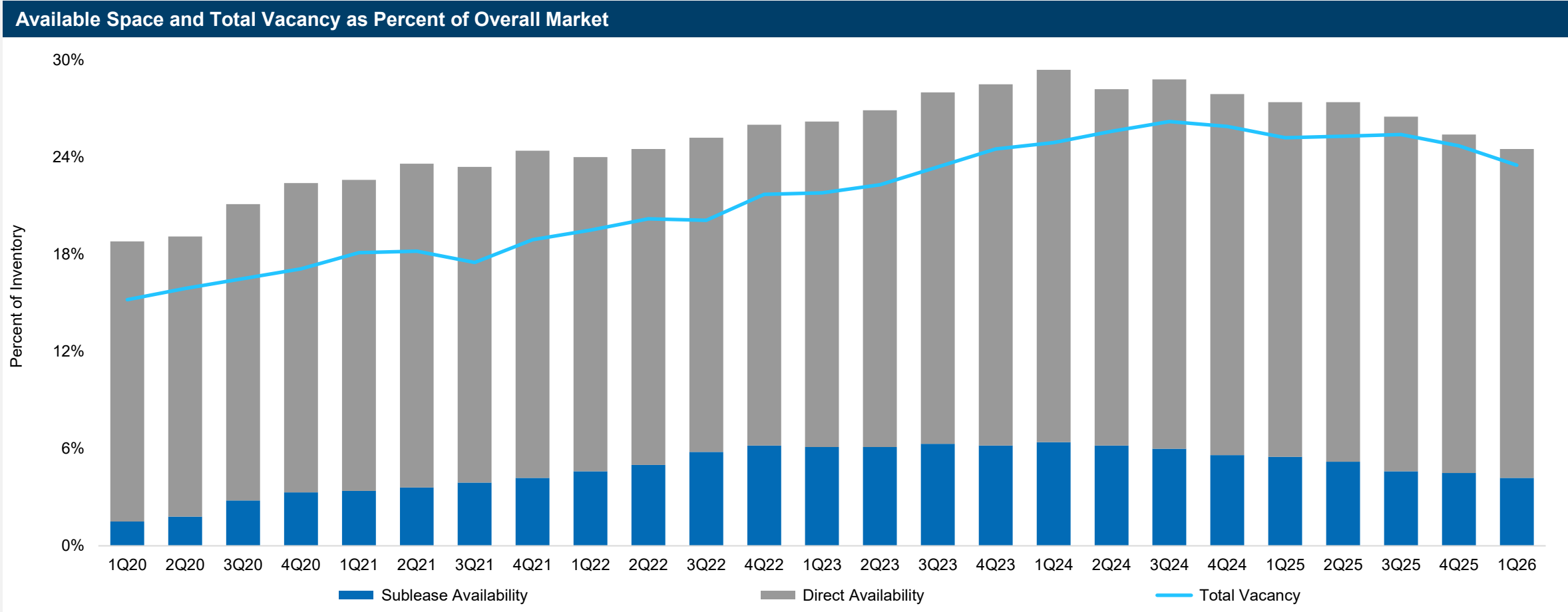
Leasing Activity Starts 2026 Off Strong

Most tenants favor modest footprints and shorter, more flexible terms—signaling caution despite improved touring and pipeline activity. Tenants remain proactive yet prudent, balancing growth with evolving workplace needs. Leasing activity in the opening quarter of 2026 exceeded first-quarter totals from the past two years.



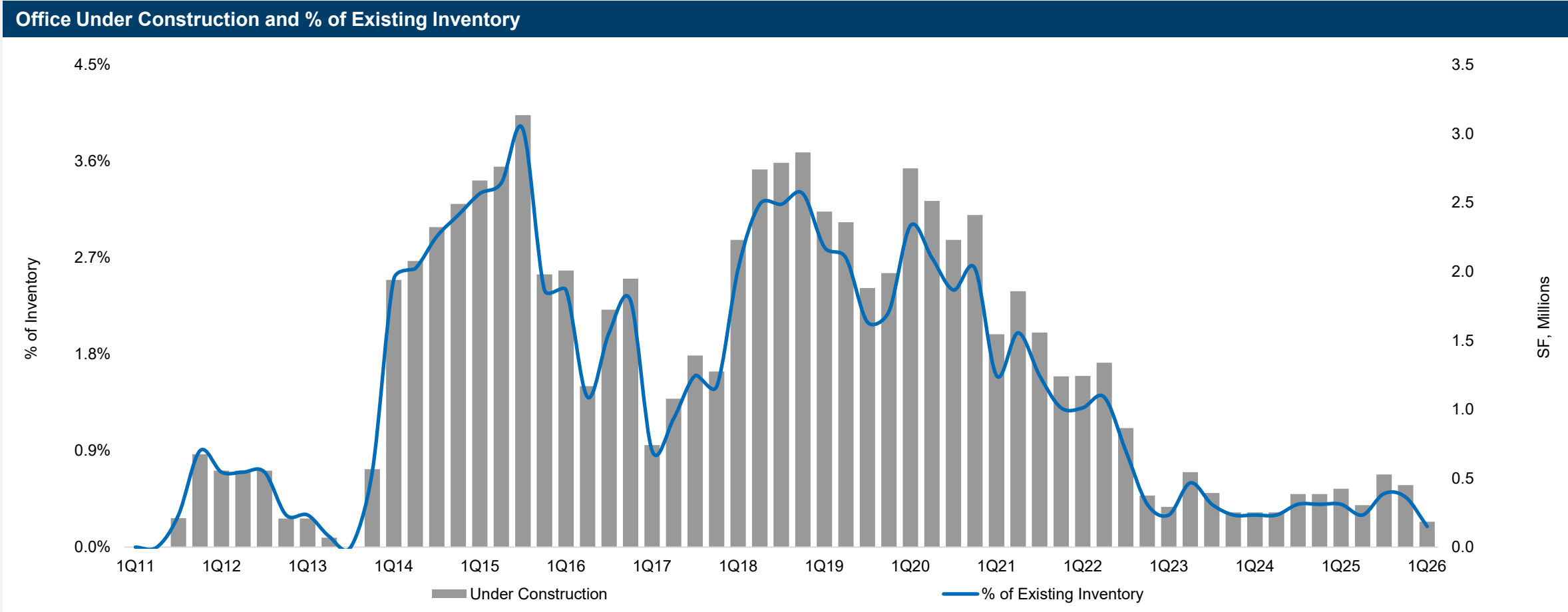
Sublease Availability Stabilizing as Overall Vacancy Declines

Sublease availability rose early in the pandemic as hybrid work models and cost-saving initiatives took hold. However, the sublet pool began to contract in 2025 and continued to decline in 2026 as space transitioned to direct availability and select blocks secured subtenants. This quarter, sublease availability fell 30 basis points quarter over quarter to 4.2%, while total vacancy declined 120 basis points quarter over quarter.



Constrained Office Development Shifting Towards HQ Build-to-Suits

Office construction activity reached a two-year high two quarters ago, driven primarily by several build-to-suit headquarters projects. Notably, in the first quarter of 2026, Republic Services' new headquarters was delivered, and the company took occupancy.

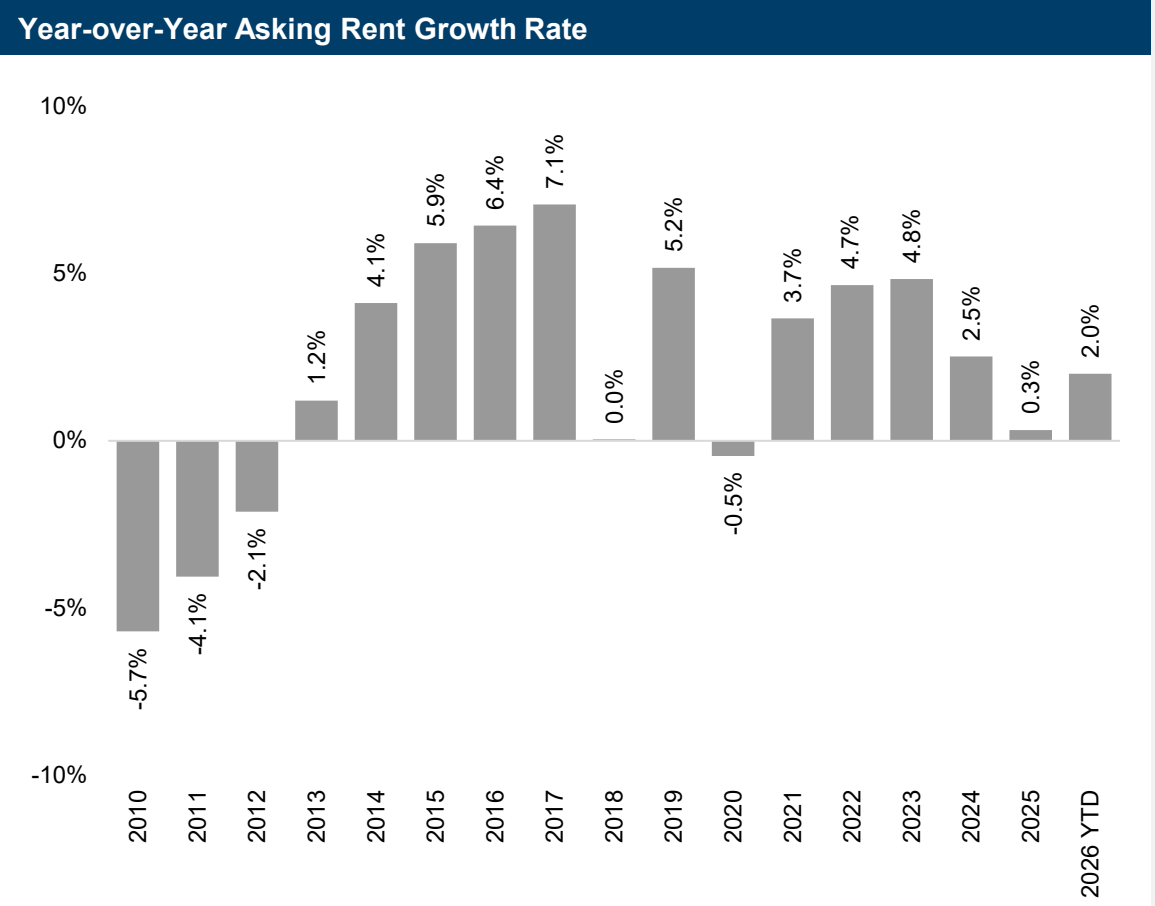
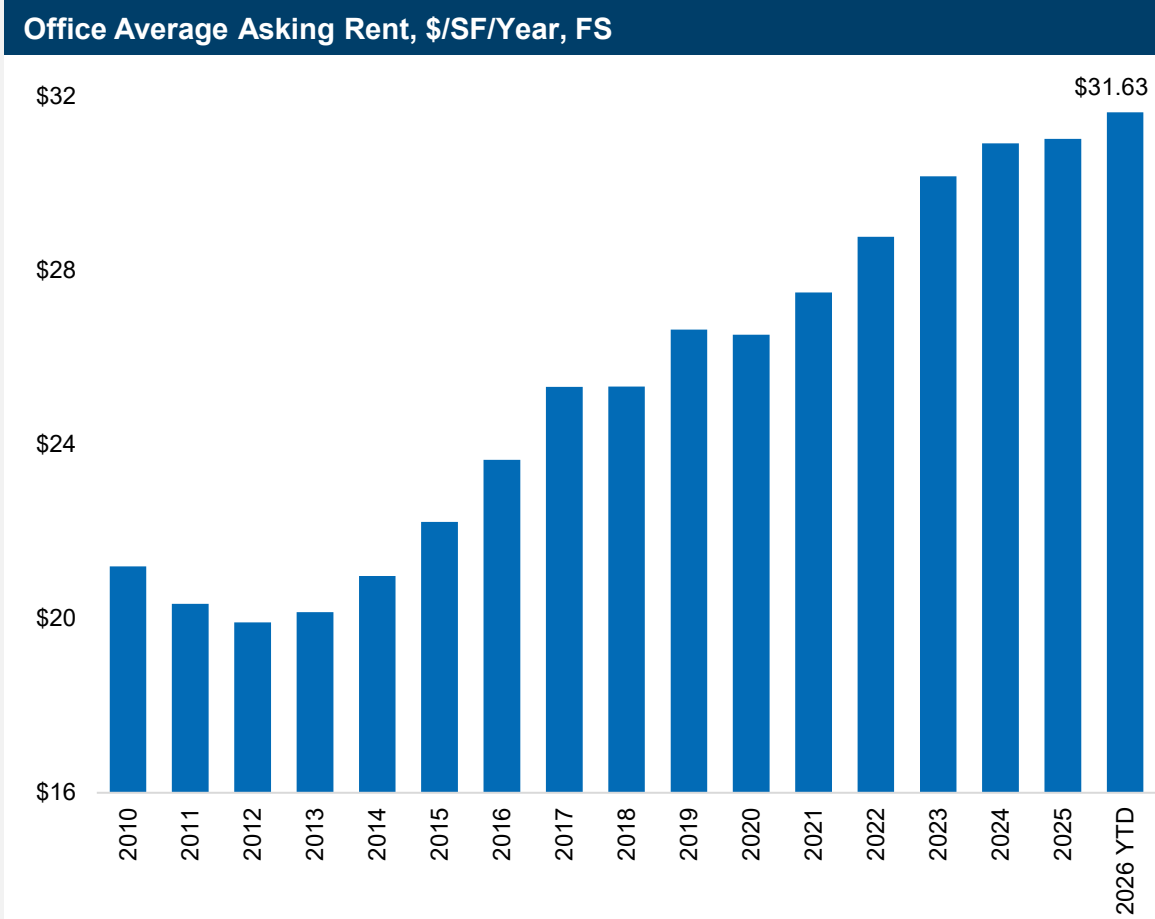


Trophy Buildings Outperform Class A

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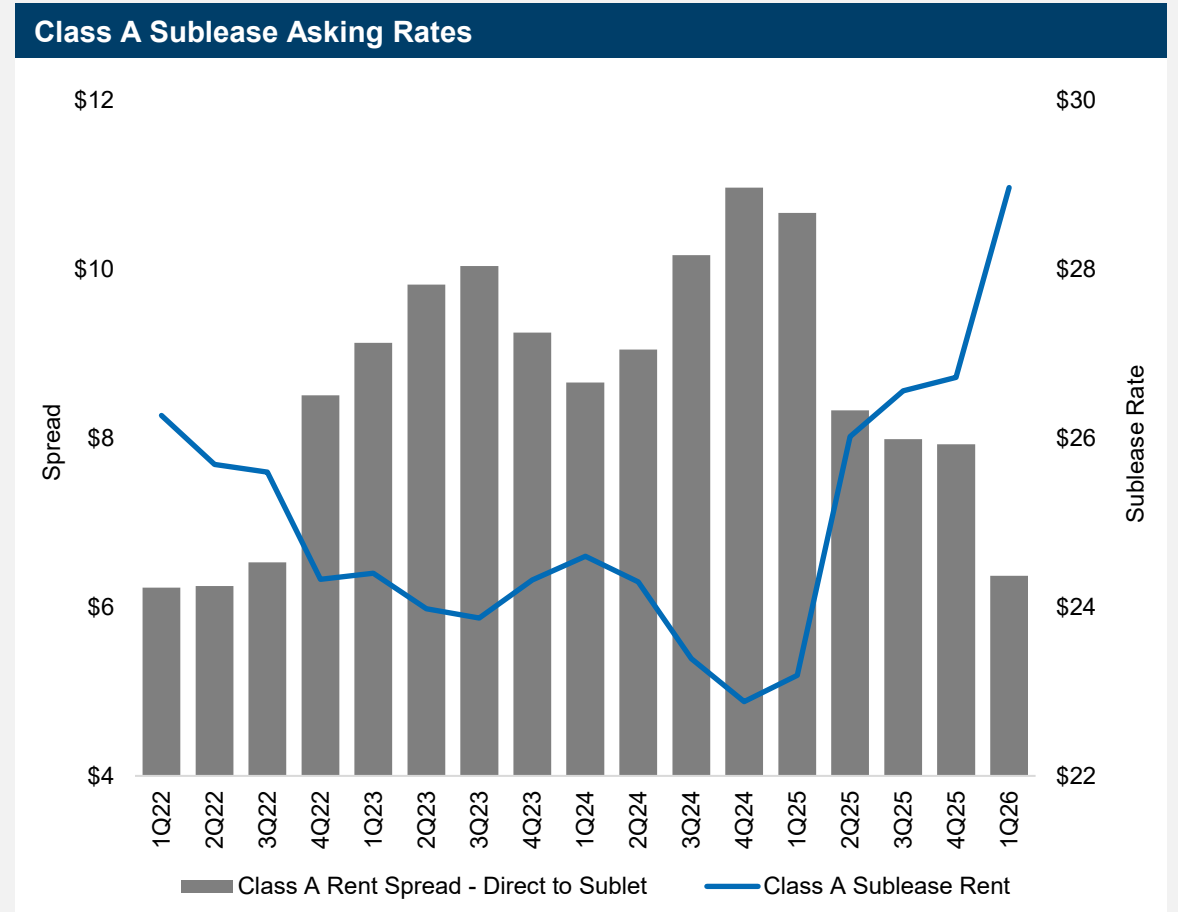
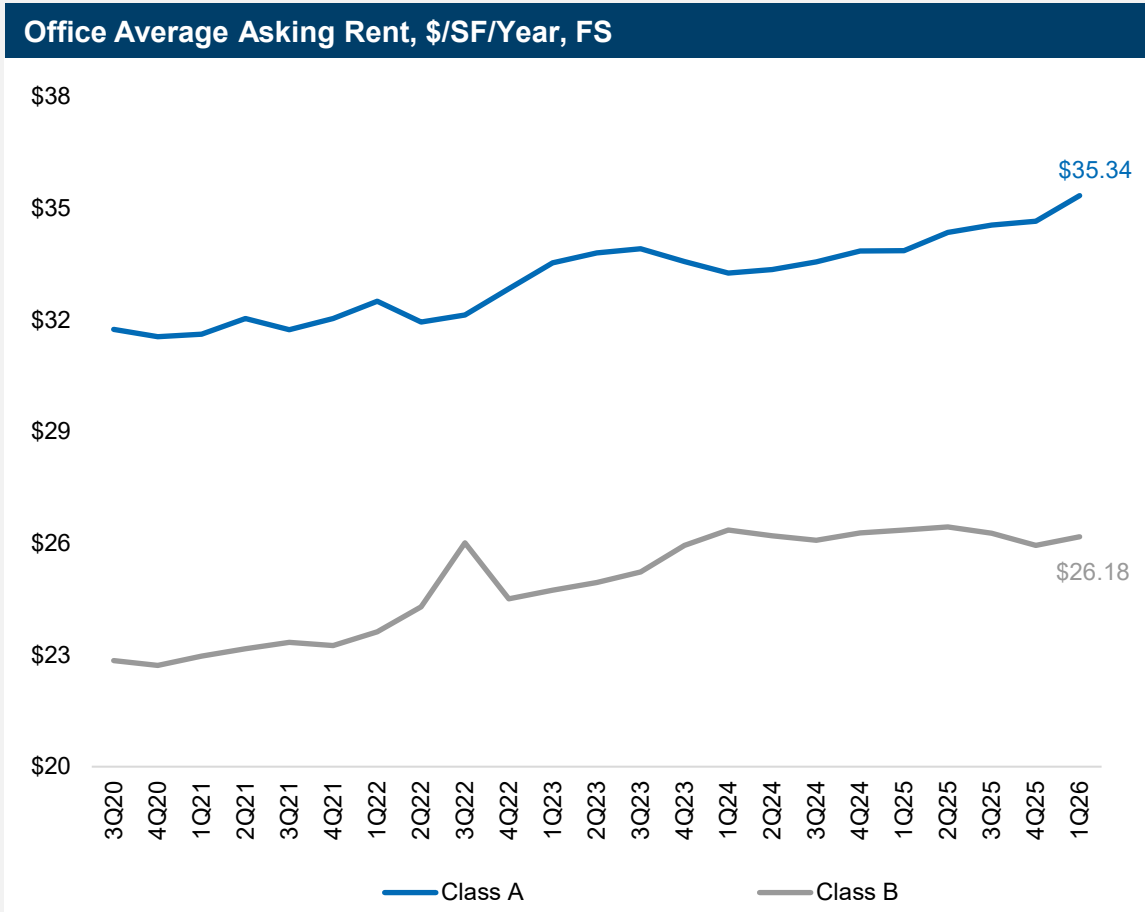
Asking Rent Slightly Increased this Quarter

The average was up a mere 2.0% from 12 months ago. Additionally, rent growth from 2021-2025 has mostly underperformed the rate of inflation. Generally, landlords have maintained direct asking rents while relying on elevated concessions and tenant improvement (TI) allowances to compete for tenants. Rents are expected to remain stable until declining availability creates upward pressure.



Sublease Competition Pressures Rent Dynamics

Sublessors are aggressively competing with landlords, creating an average \$6.37/SF spread between direct and sublease space. Despite this pressure, Class A direct asking rents have posted moderate growth over the past three quarters, reflecting resilient demand for higher-quality space in a challenging market.



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

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This Quarter's Notable Leases Were Diverse

Activity was spread out across submarkets, industries, and lease types.

Notable 1Q26 Lease Transactions				
Tenant	Building(s)	Submarket	Lease Type	Square Feet
Concorde Career College	8990 W Glendale Ave	Glendale	Direct	53,325
<i>The career college signed a 167-month, two floor deal at 91 Glendale.</i>				
Nonstop Financial	7720 N Dobson Rd	Central Scottsdale	Sublease	50,334
<i>The financial company signed an 89-month sublease deal in January.</i>				
Waymo	1033 W Roosevelt Way	Tempe	Sublease	40,357
<i>The technology company signed a 40,357-SF sublease in January.</i>				
Wings Credit Union	1850 W Rio Salado Pkwy	Tempe	Direct	37,398
<i>The financial company signed a 66-month deal in January.</i>				

03

Sales Activity

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2026 Sales Volume Begins the Year Slow

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Capital Deployment Trends Reflect Broader Market Hesitancy

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This Quarter's Notable Sales Transactions

Office sales volume decreased in the first quarter of 2026 compared to the fourth quarter of 2025 amid continued economic uncertainty and elevated interest rates, which are keeping many investors cautious. Despite these headwinds, the current environment offers opportunities to acquire assets at repriced levels with stronger in-place yields and to pursue adaptive reuse and redevelopment strategies.

Notable 1Q26 Sales Transactions

Building Address	Submarket	Sales Price	Price/SF	Square Feet
Rio West – 1621-2021 W Rio Salado Pkwy	Tempe	\$61,500,000	\$207.00	296,663
<i>Four single story and one two story office; constructed 2005 & 2007; ±23.91 acres; stabilized occupancy. Acquired by Levine Investments in late January.</i>				
Thirty 03 – 3003 N Central Ave	Downtown	\$32,250,000	\$70.00	458,047
<i>26-story, 458,047-SF building, 71.0% leased. Sold to the Canadian-based Mikhail Holdings in early February.</i>				
Norterra I & II – 25500 & 25600 N Norterra Pkwy	Deer Valley	\$26,750,000	\$115.00	232,650
<i>Two-property center. Acquired by Wentworth Property Company in late February.</i>				
Regents Centre – 1900-1910 W University	Tempe	\$12,182,000	\$111.00	109,546
<i>Two-property center. Sold for land value to The Opus Group as an industrial redevelopment opportunity. Sale was the second half of an 18.8 acre land assemblage for redevelopment to 300K SF of modern infill industrial / flex product.</i>				

04

Population Growth and Business Costs

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Population Has Increased Considerably in Recent Decades

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A Lower Cost Business Environment With Affordable Housing Favors Phoenix

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Appendix

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Please reach out to your
Newmark business contact for this information

Charlie Beaver*Research Analyst**Phoenix*

charlie.beaver@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

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