2Q25

Phoenix Office Market Overview

Market Observations

Economy

- Local unemployment decreased to 3.2% this quarter, below the national average.
- Total nonfarm employment increased for the second-consecutive month, with gains in education/health and government, however there were losses in information and business and professional—two sectors that help shape office-using employment.
- Office-using employment is 2.7% above its pre-pandemic level but was slightly down over the last 12 months as companies focused on cost-savings.
- The 10-Year Treasury yield increased from 4.02% in early April to 4.35% on July 10. This increase signals a potential rise in borrowing costs, which could dampen investment and economic activity; however, it may also indicate an improving economy, prompting businesses to adapt accordingly.

Market Fundamentals

- After turning positive for the first time in nine quarters, net absorption has turned negative again, contracting by 10,249 SF, signaling renewed challenges in the market. Recent job losses and the implementation of new tariffs have introduced uncertainty that clouds the market's outlook.
- Total vacancy was 25.3%, up 10 basis points from the previous 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. Now, Phoenix is contracting by 309 SF for every employee added.
- Sublease space continues to decline, with an accelerated transition to direct availability. This trend will persist in the coming quarters.

Major Transactions

- In the second quarter of 2025, 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 institutional buyers were active in the market once again, indicating renewed interest in office assets and suggesting that this property type may be regaining its appeal among investors.
- For the first time in two quarters, traditional office property sales outpaced those of medical office assets, signaling a shift in market dynamics despite the continued strength of Phoenix's healthcare sector 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.

Outlook

- Despite ongoing economic volatility, leasing activity increased this quarter. While occupiers continued to rely on short-term extensions for flexibility, the uptick in new leases indicates some hope in the market amid persistent uncertainty.
- 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.

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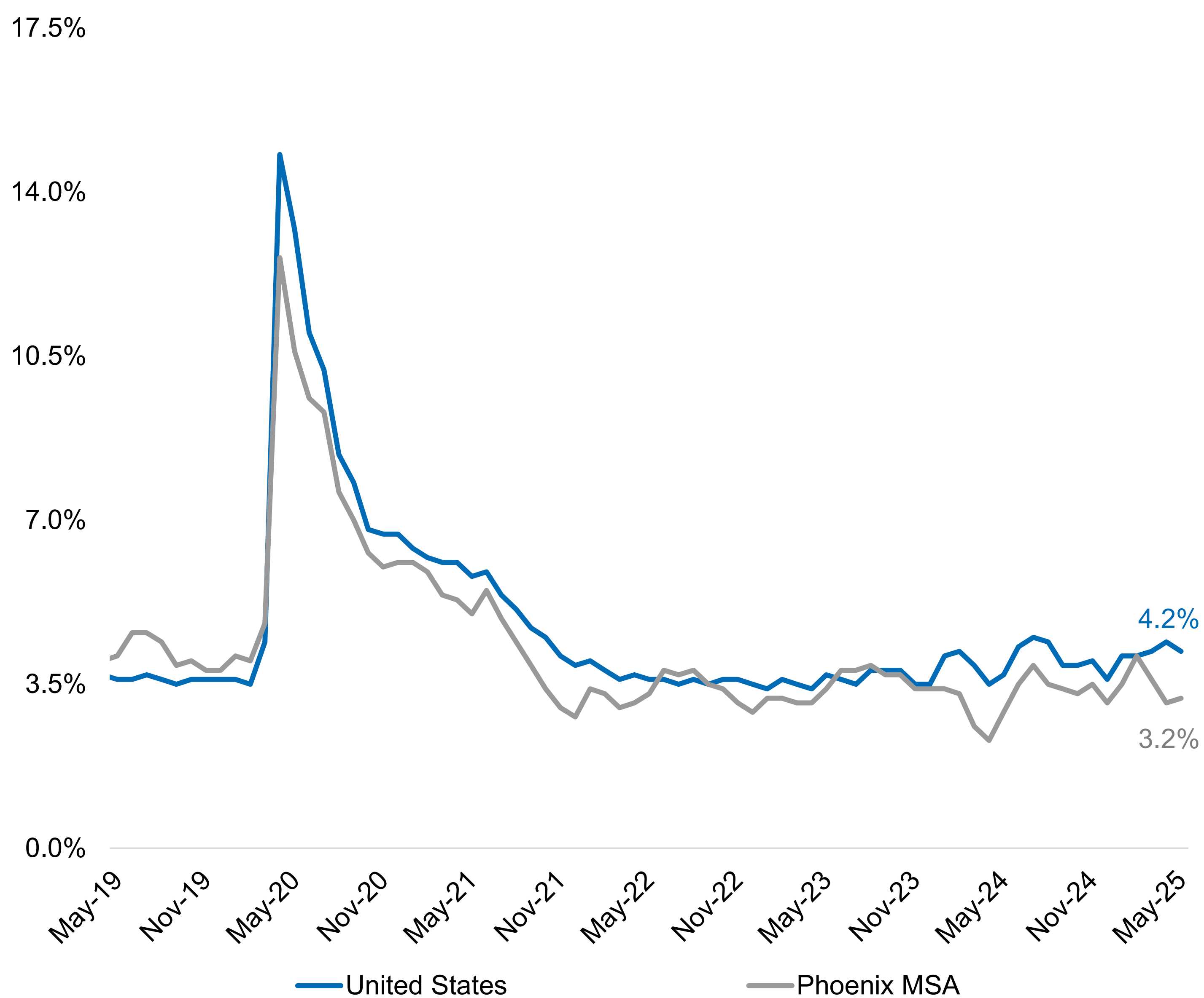
Economy

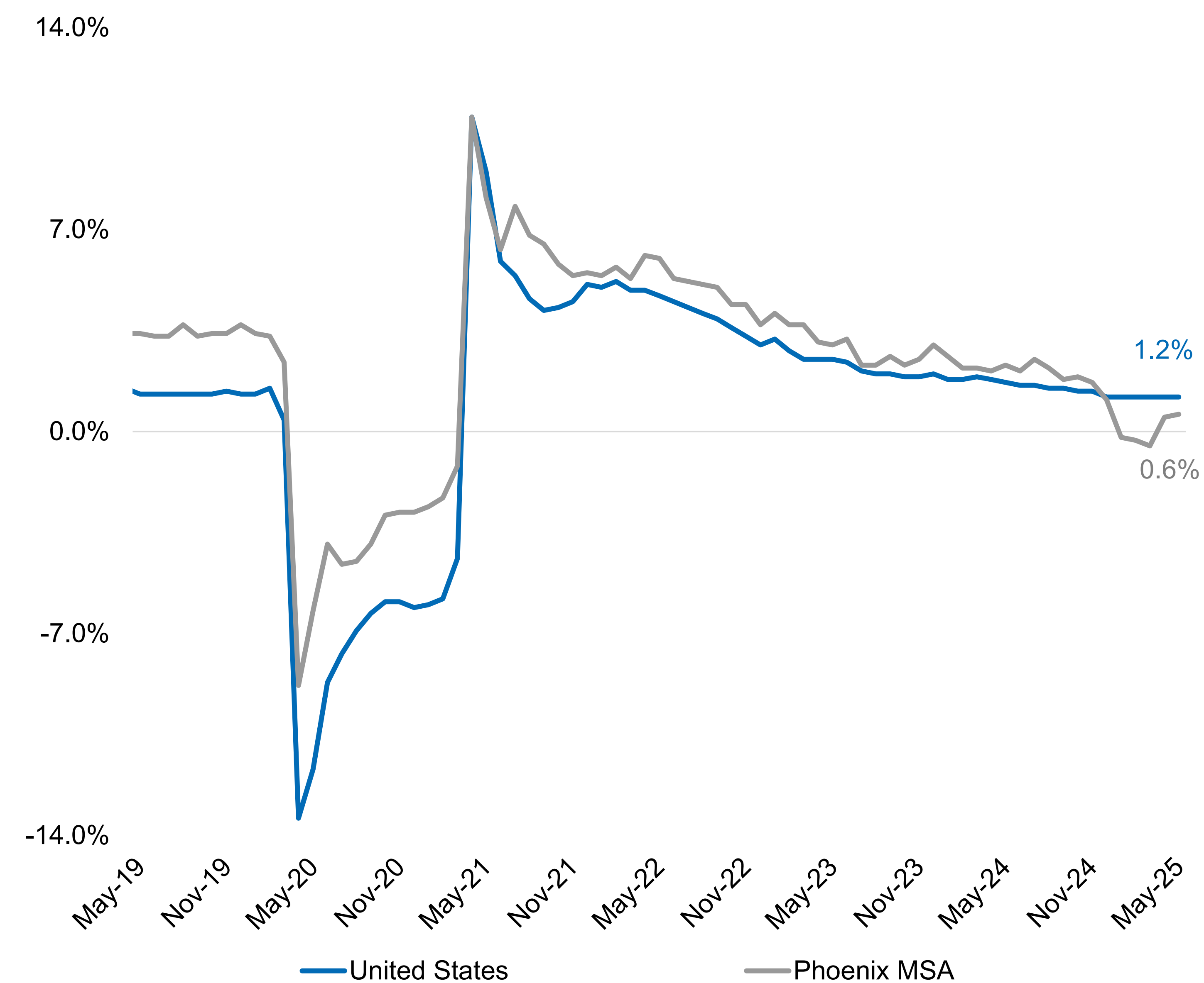
Resilient Labor Market Amid Economic Challenges

After consistently outperforming the national average since August 2023, local unemployment has fallen to a remarkable 3.2%. Phoenix's job growth is gaining momentum, with year-over-year nonfarm employment posting positive gains for the second consecutive month, as companies are renewing their focus on hiring. While economic uncertainty remains a consideration for employers.

Unemployment Rate, Not Seasonally Adjusted



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

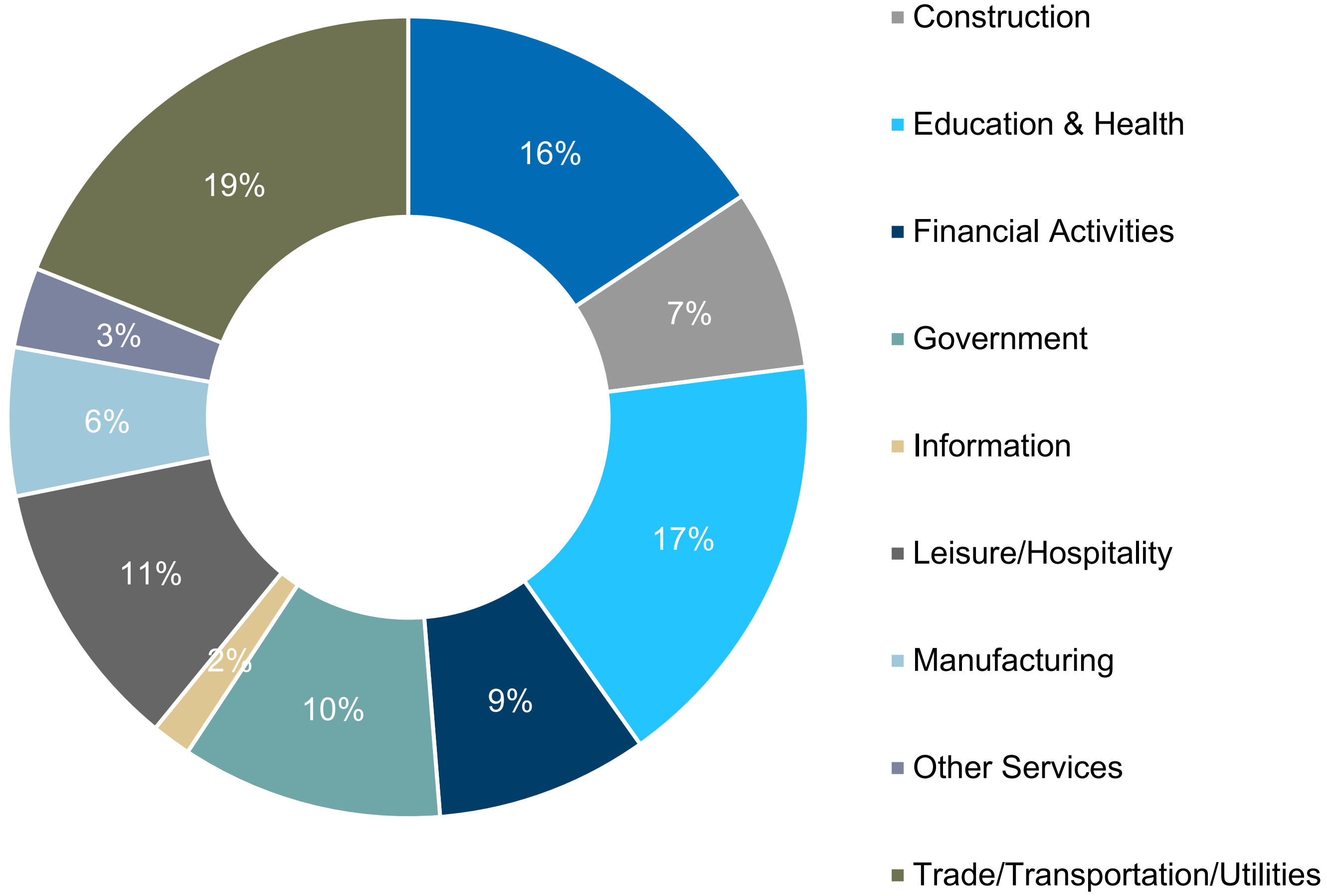


Source: U.S. Bureau of Labor Statistics, Phoenix MSA
Note: May 2025 data is preliminary.

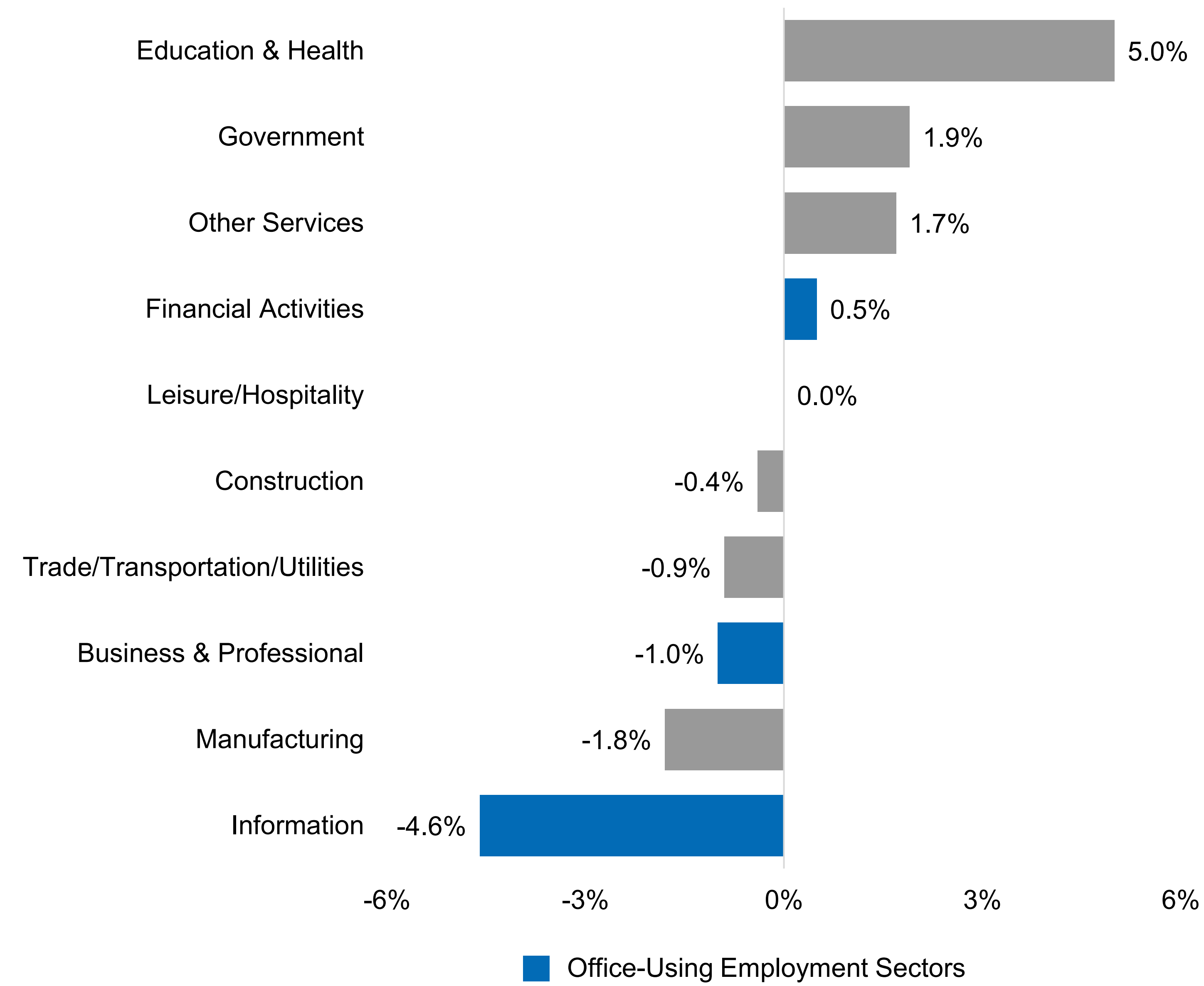
Key Office-Using Employment Sectors Continue to Shed Jobs

At the industry level, education and health led in annual job gains for the third-straight quarter, followed by government and other services. Among office-using sectors, information (dominated by tech) contracted by 4.6%, business and professional saw a 1.0% drop, and financial activities increased. The contraction in tech reflects broader industry challenges, while other office-using sectors are focused on staff reductions to lower costs.

Employment by Industry, May 2025



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



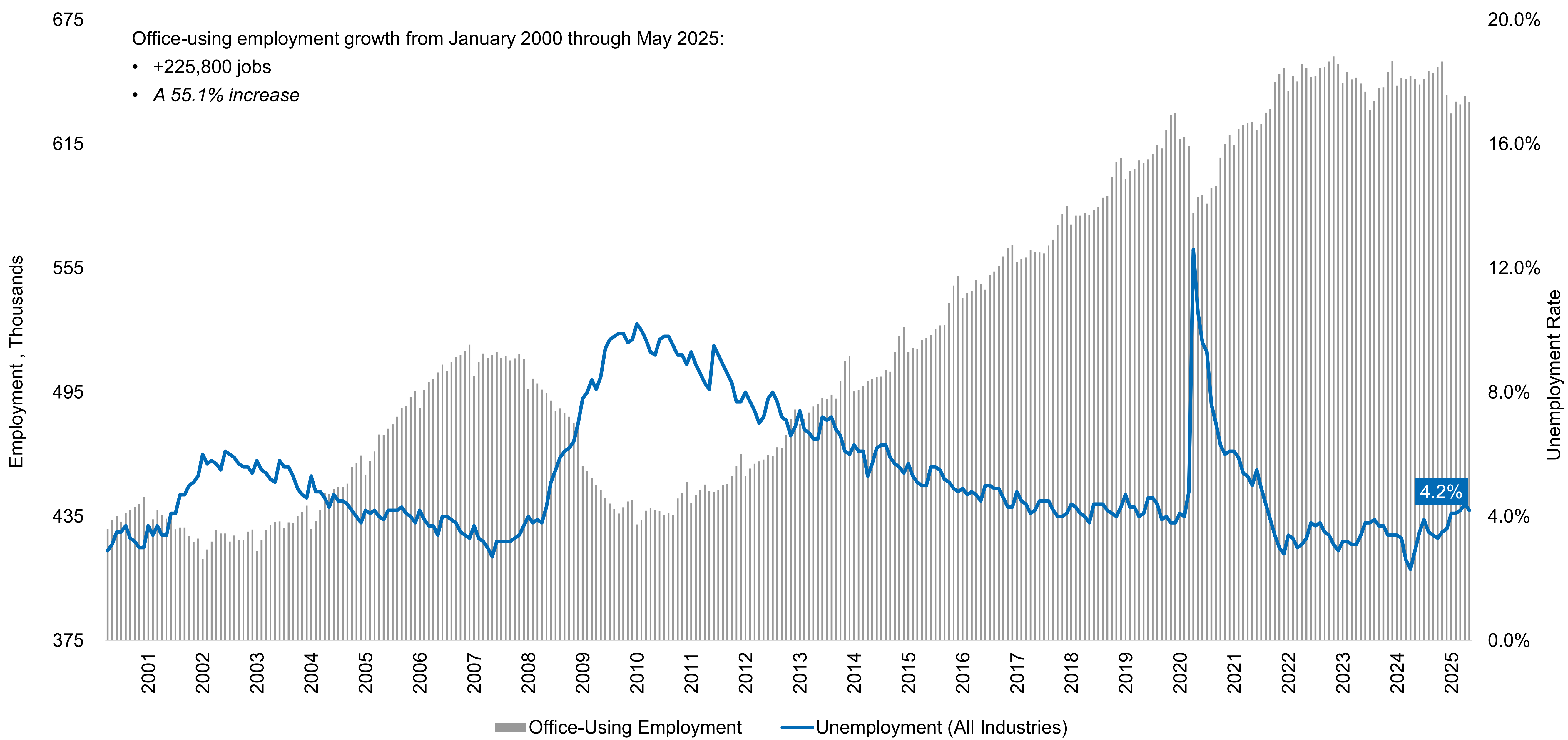
Source: U.S. Bureau of Labor Statistics, Phoenix MSA
Note: May 2025 data is preliminary.

Population Has Increased Considerably in Recent Decades

Office-Using Employment Dip Driven by Economic Uncertainty

Office-using employment stands 2.7% 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: May 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

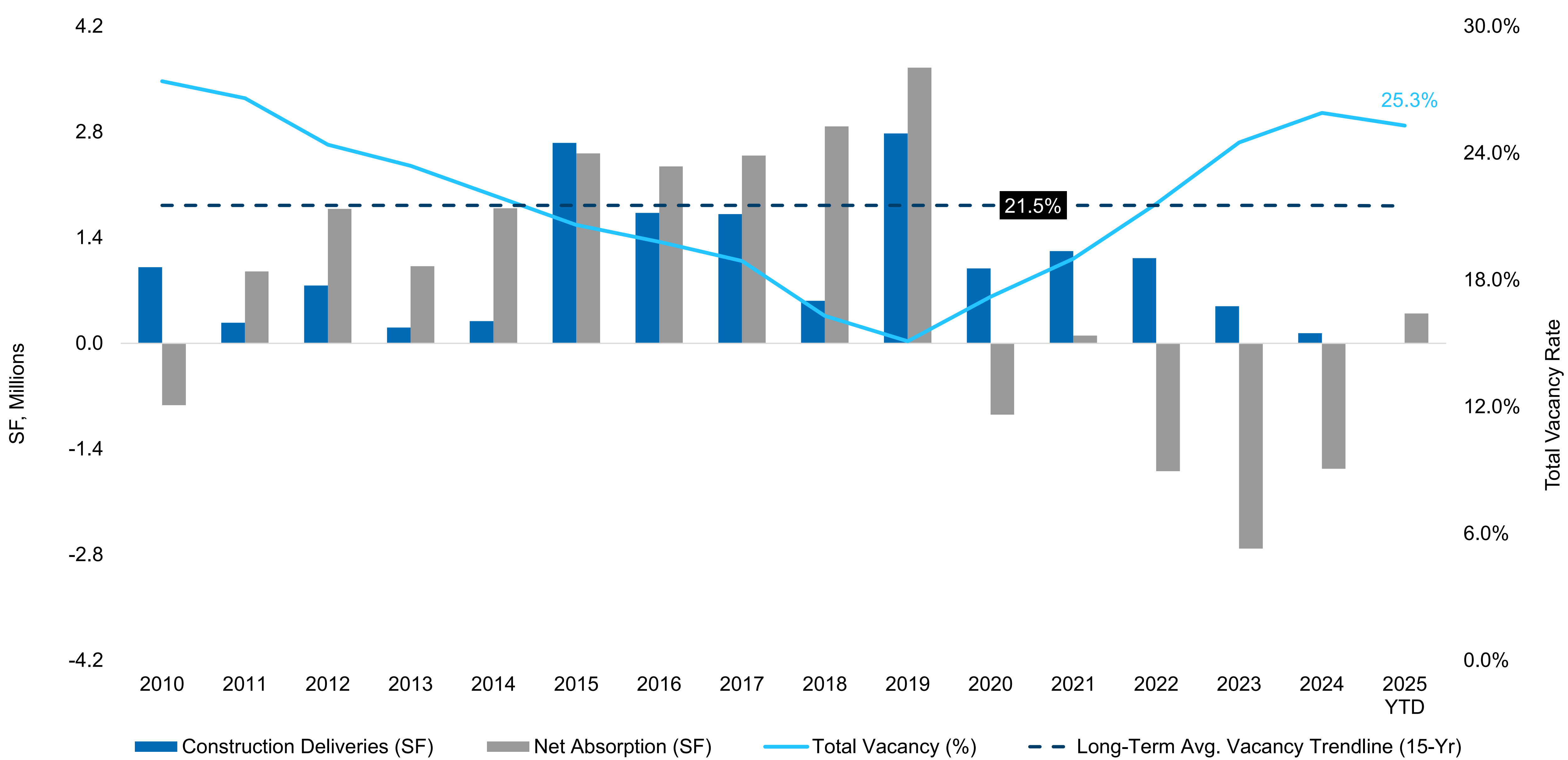
2Q25

Market Fundamentals

Vacancy Decreased for the Second Straight Quarter

Total vacancy stayed increased by 10 basis points to 25.3% in the second of 2025, after consistent absorption 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

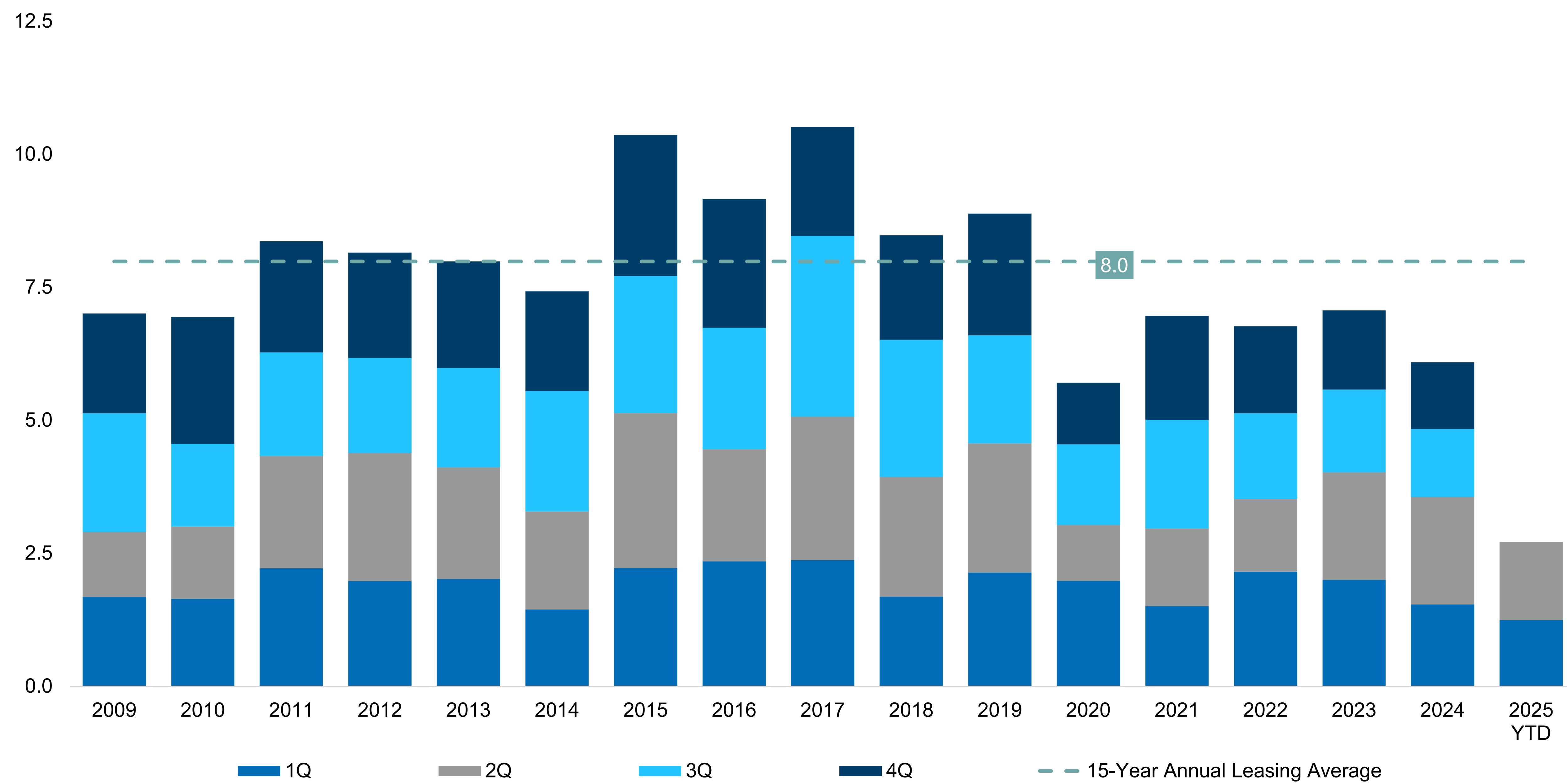


Source: Newmark Research

Leasing Activity Reflects Smaller Tenant Footprints in 2024

Second quarter's leasing activity was up from first quarter. While there was a higher volume of transactions, deal sizes continued to trend smaller, with most activity concentrated among tenants seeking modest footprints. Shorter lease terms and a focus on flexibility persisted, highlighting ongoing caution among office users even as market momentum improved. This environment suggests tenants remain proactive yet prudent, balancing growth opportunities with the need to adapt to evolving workplace requirements.

Total Leasing Activity (MSF)



Source: Newmark Research

Post-COVID Leasing Activity Strongest in Tempe and North Scottsdale

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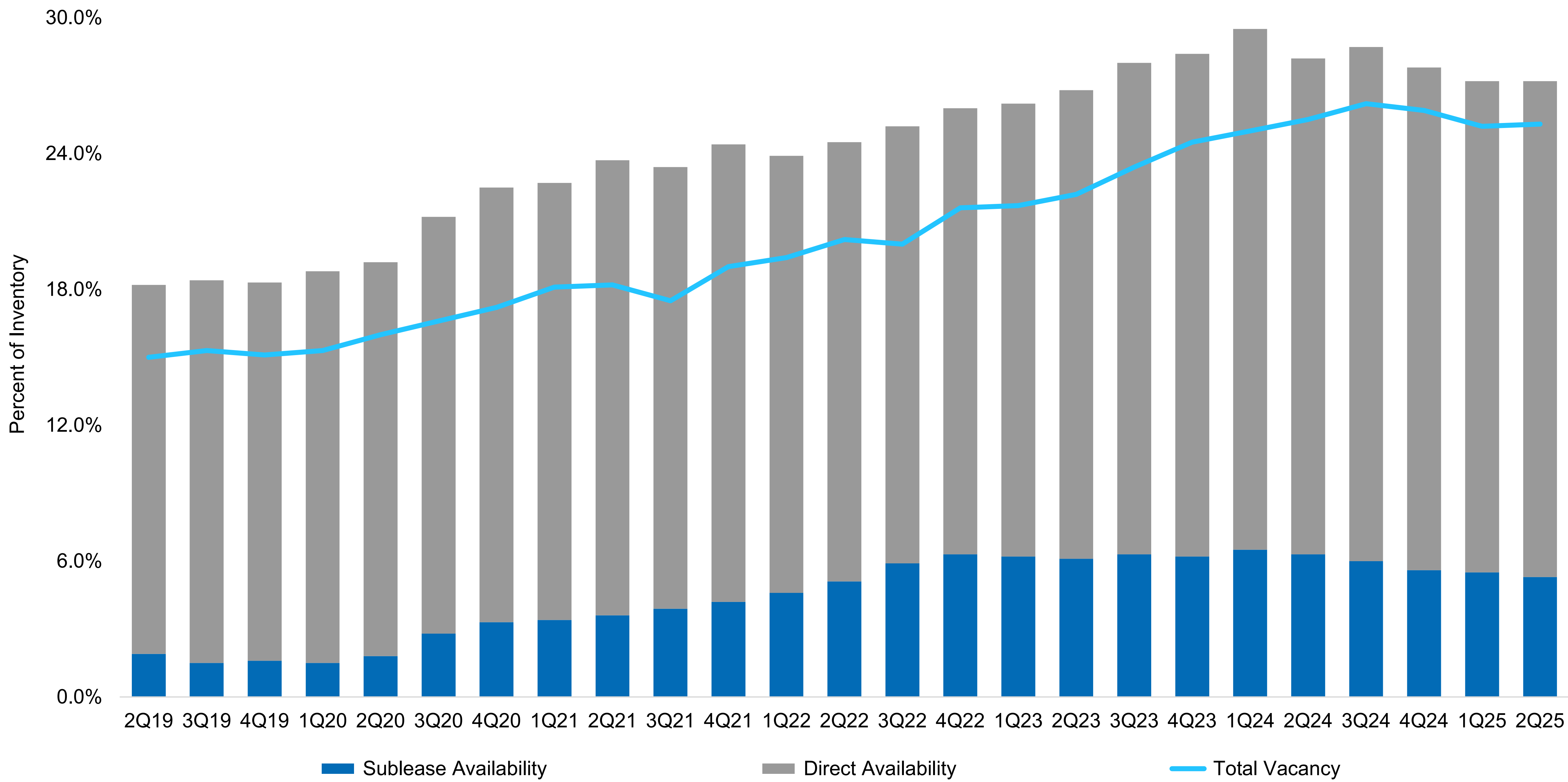
Sublease Availability Stabilizing Along With Shorter Market Vacancies

Since the onset of the pandemic, sublease availability has steadily increased due to the adoption of hybrid work models and cost-saving initiatives. However, this quarter recorded a 20-basis point decrease in sublease availability which was accompanied by a 20-basis point increase in direct availability. Additionally, vacant space is remaining on the market for shorter periods, contributing to a gradual decline in overall vacancy as tenants reassess their space requirements.

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



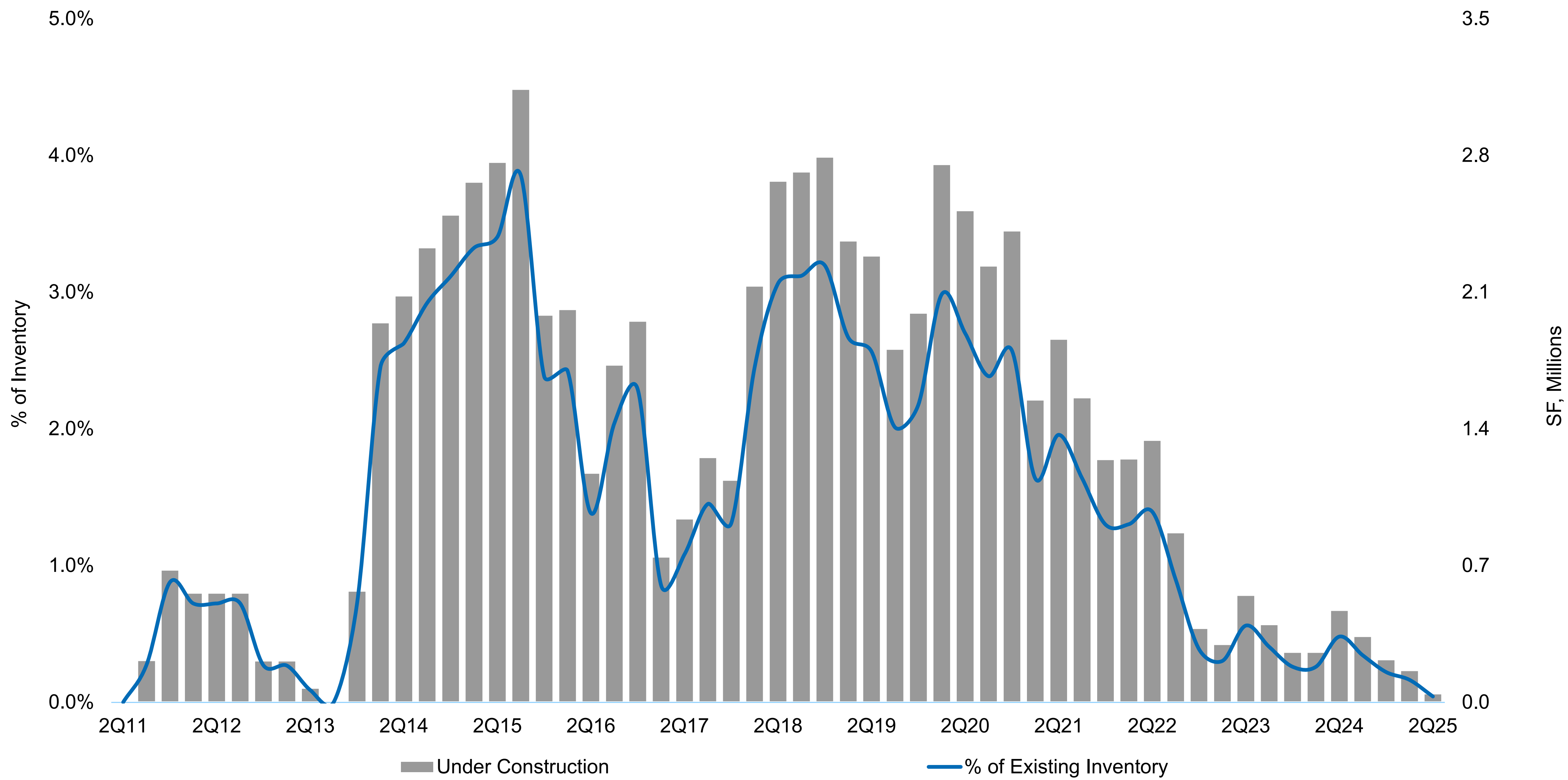
Source: Newmark Research

Elevated Sublease Availability Trends Downward in Phoenix

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 40,000 SF of traditional office space is under development. 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.

Office Under Construction and % of Existing Inventory



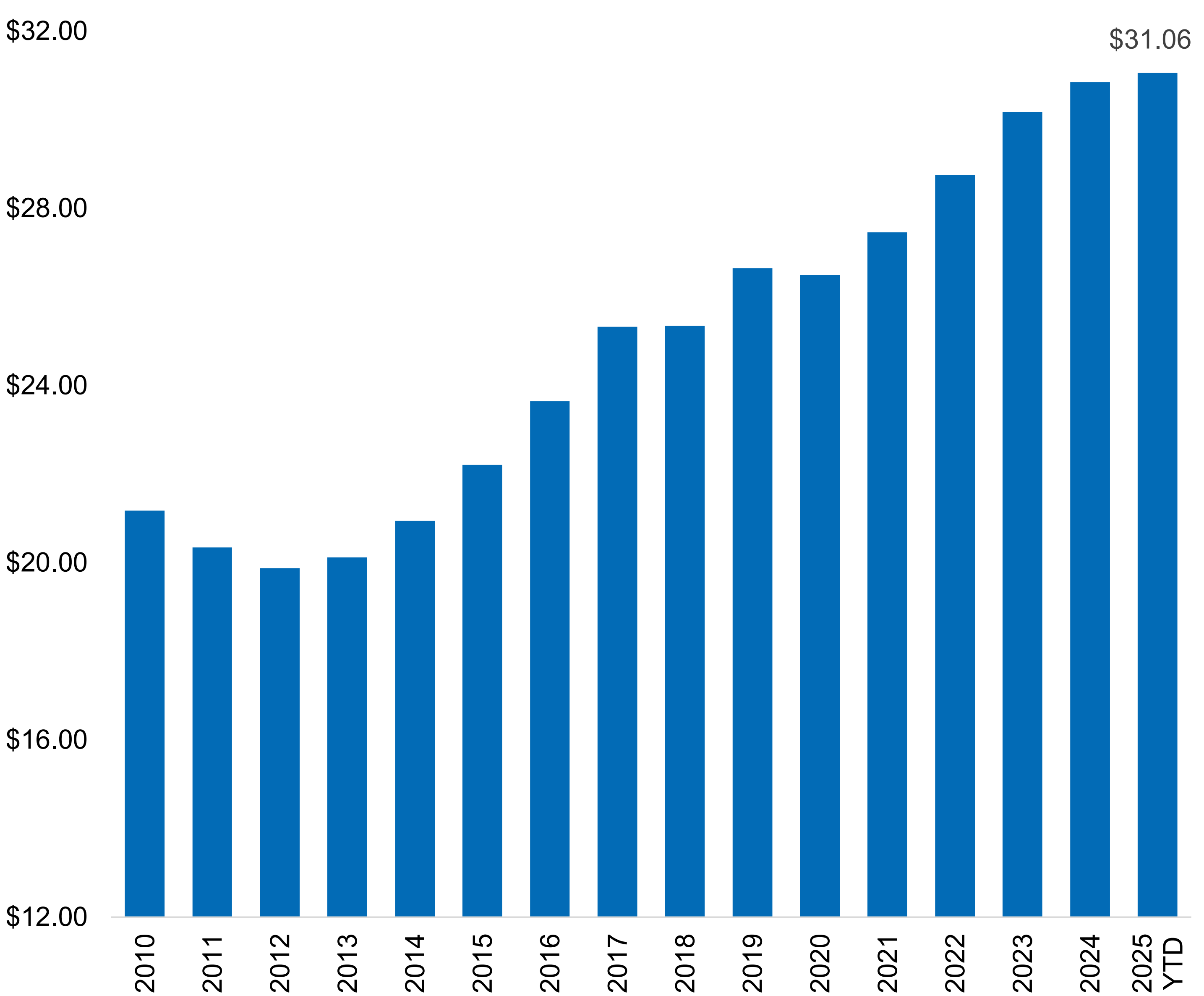
Source: Newmark Research

Opportunistic Buyers Are Taking Advantage of Discounted Pricing

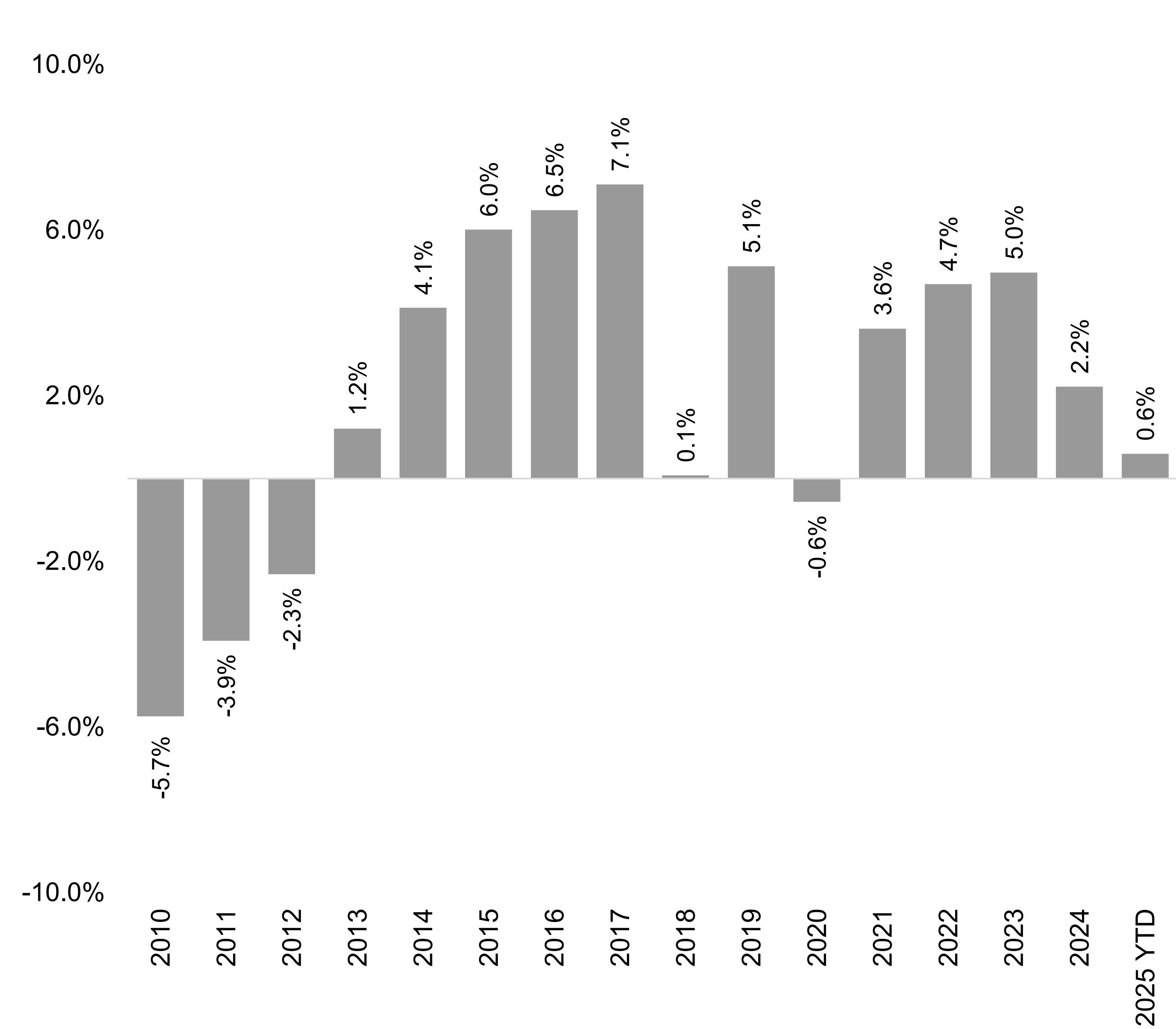
Slight Increase in Rental Growth in 2Q25

Prolonged vacancy periods inhibited rent growth in 2024, with these effects are starting to wear off in the second 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 second 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

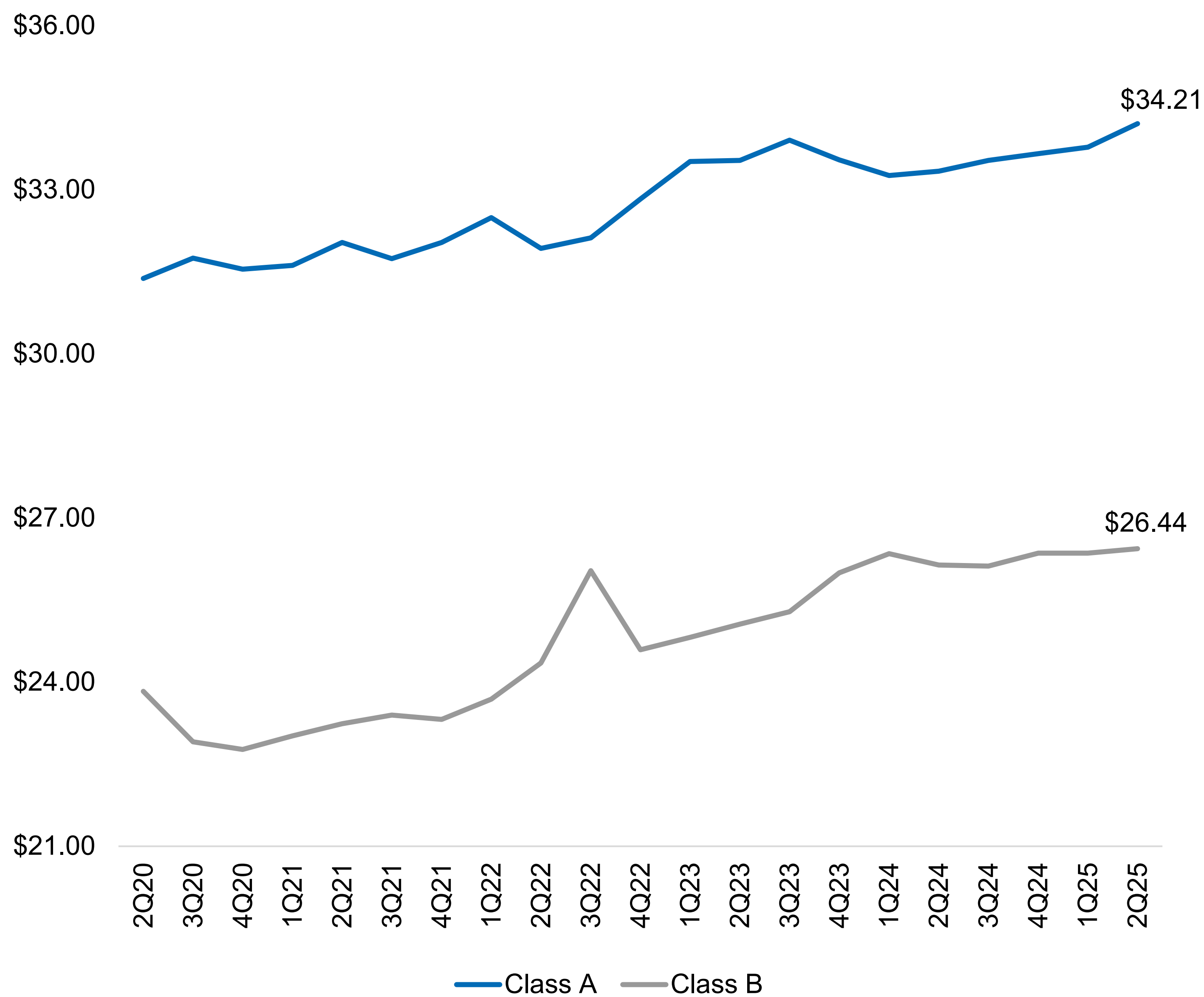


Source: Newmark Research

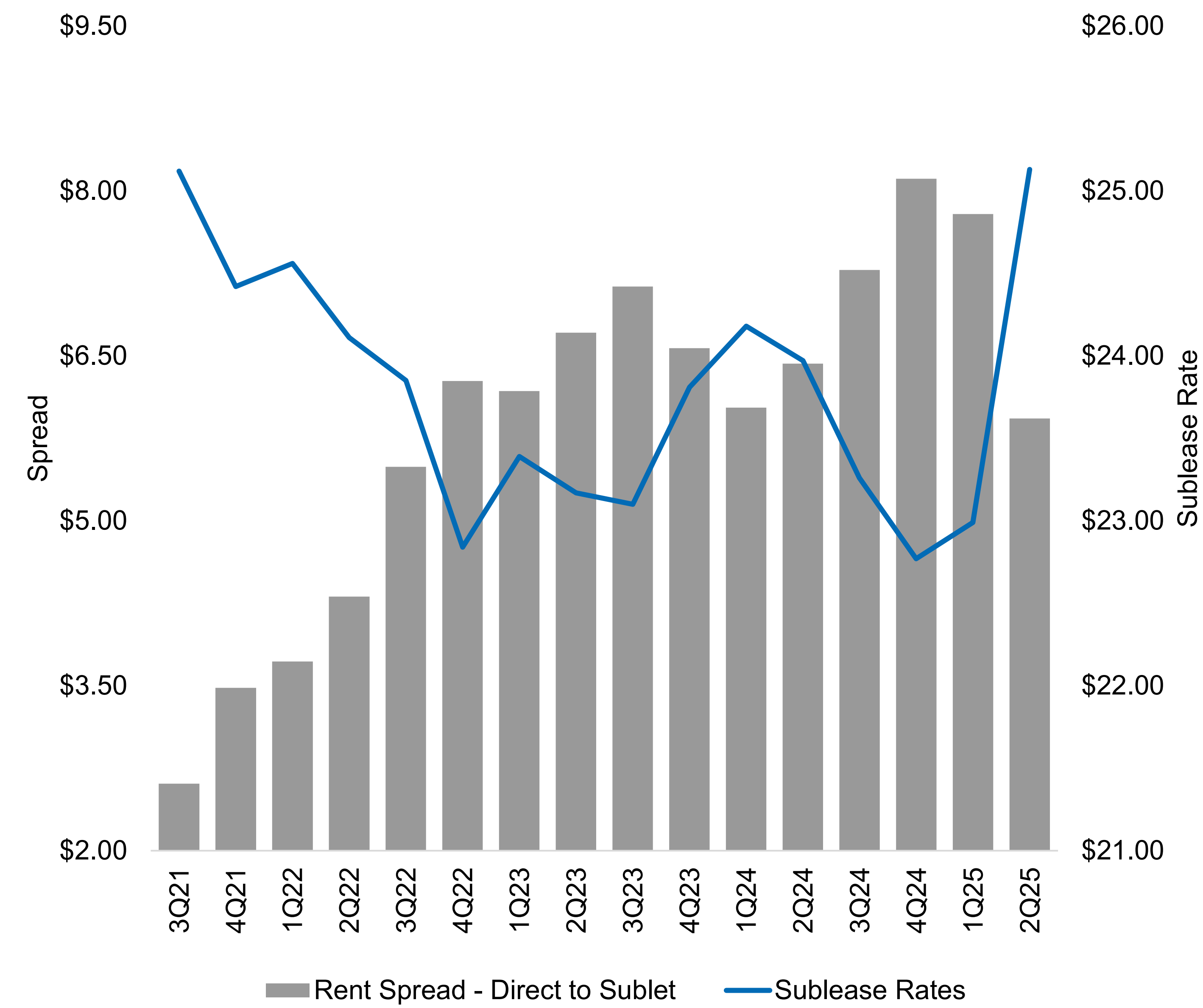
Sublease Competition Pressures Rent Dynamics

Sublessors are aggressively competing with landlords, creating a $5.93/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 three quarters 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

Trophy Buildings Outperform Class A Office Post-Pandemic

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

This Quarter's Notable Lease Transactions

Top transactions encompass all direct leases, with deal sizes having decreased compared to the previous quarter. This shift suggests that tenants are currently favoring smaller, more manageable spaces, reflecting a deliberate focus on cost control and efficiency. These leasing patterns highlight tenants' caution in response to evolving market conditions and rising operational expenses.

Notable 2Q25 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Tiffany & Bosco	1850 N Central Ave	Downtown South	Lease Expansion	57,813
Tiffany & Bosco relocated and expanded from the Esplanade to the BMO Tower Downtown.				
Yrefy	6811 E Mayo Blvd	North Scottsdale/Airpark	Direct Lease	38,996
Relocated and signed a 90-month lease in North Scottsdale.				
Verra Mobility	2046 Riverview Auto Dr	Mesa East	Direct Lease	38,996
Relocated and expanded to Union Building One.				
Align Technologies	410 Scottsdale Rd	Tempe	Lease Renewal	34,186
Renewed on 39-month term within the building.				
Health and Human Services	8800 E Chaparral Rd	South Scottsdale	Direct Lease	28,241
Moving into Chaparral Business Center II in October 2025.				

Source: Newmark Research

2025 Sales Volume Ramps up After Slow First Quarter

Capital Strategies and Phoenix's Resilient Medical Office Market

Office Sales Rebound Modestly Amid Market Recalibration

Office asset sales volume rose in Q2 2025 compared to the prior quarter, though activity remained below year-ago levels, highlighting a continued shift in market dynamics. Persistent economic uncertainty and elevated interest rates are keeping many investors cautious, while demand for traditional office space continues to evolve. Despite these headwinds, the current environment presents opportunities to acquire assets at reset pricing with stronger in-place yields, as well as to pursue adaptive reuse and redevelopment strategies.

Notable 2Q25 Sale Transactions

Building Address	Submarket	Sales Price	Price/SF	Square Feet
Camelback Collective – 2801 E Camelback Rd	Camelback Corridor	$48,250,000	$416.53	115,838
Four Story 115,838 SF building, 89% leased. Originally set the high-water mark in 2021, sold to Koelbel and Company.				
Scottsdale Centre – 7373 N Scottsdale Rd	Scottsdale Central	$44,580,000	$272.98	163,311
Two Story 163,311 SF building, 78% leased. Acquired in a 1031 exchange by the Cardone Group.				
GoDaddy Building– 2155 E GoDaddy Way	Tempe/Chandler	$35,400,000	$236.0	150,000
Two Story 150,000 SF building. Vacant at the time of the sale, purchased by Avent for new global headquarters.				
Cotton Corporate Center– 4950 S 48th St	Airport Area	$22,400,000	$305.27	73,377
Three Story 73,377 SF building, 100% leased. Sold to First Citizens Bank.				
111 W Monroe – 111 W Monroe St	Downtown South	$17,080,000	$65.27	261,672
19 Story 261,672 SF Building, 25.3% leased. Acquired by Kellwood with plans to establish its new headquarters in the building.				
92 Mountain View – 10001 N 92nd St	Scottsdale Central	$11,500,000	$98.97	116,200
Two Story 116,200 SF Building, 99.8% leased. Purchased by RBC Devco.				

Source: Newmark Research

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Appendix

Phoenix Metro Office Submarket Map and High-Level Statistics | 2Q25

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A Lower Cost Business Environment With Affordable Housing Favors Phoenix

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