Phoenix:

Office Market Overview

2Q26

Phoenix Office Market Observations

Economy

- Local unemployment was 4.1% in May 2026, below the U.S. average for the fourth-straight month.
- Phoenix's office-using employment remains above pre-pandemic levels, but job gains have been sluggish, with only a 0.6% year-over-year increase.
- Office-using employment totals 638,500 jobs, 3.8% above the pre-COVID level — a growth profile that outpaces many peer markets.
- Persistent inflation has pushed the Federal Reserve away from its easing bias, with policymakers now stressing two-sided risks and treating additional rate hikes this year as a meaningful possibility, keeping financing costs and cap-rate pressure elevated for office owners.

Leasing Market Fundamentals

- Second-quarter net absorption totaled 167,319 SF, marking the third consecutive quarter of positive absorption.
- Total vacancy tightened to 23.4%, a decrease of 20 bps from last quarter and 200 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 2.2% 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 and the repositioning of office to other uses.
- Tenant demand remains best represented in suburban nodes such as North Scottsdale, North Tempe, and other executive-housing-adjacent corridors.
- 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 12.7%). Speculative development may return once trophy vacancy nears 10%.
- Sublease space will continue to decline as space terms out and transitions to direct availability.
- The U.S. economy is expected to grow near 2% in 2026, though Q1 rose just 1.6%. Oil prices have swung amid Mideast tensions, and tariff-linked inflation, near 4.2%, still weighs on hiring confidence, even as AI investment and consumer spending support the outlook.
- 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 segments.

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Economy

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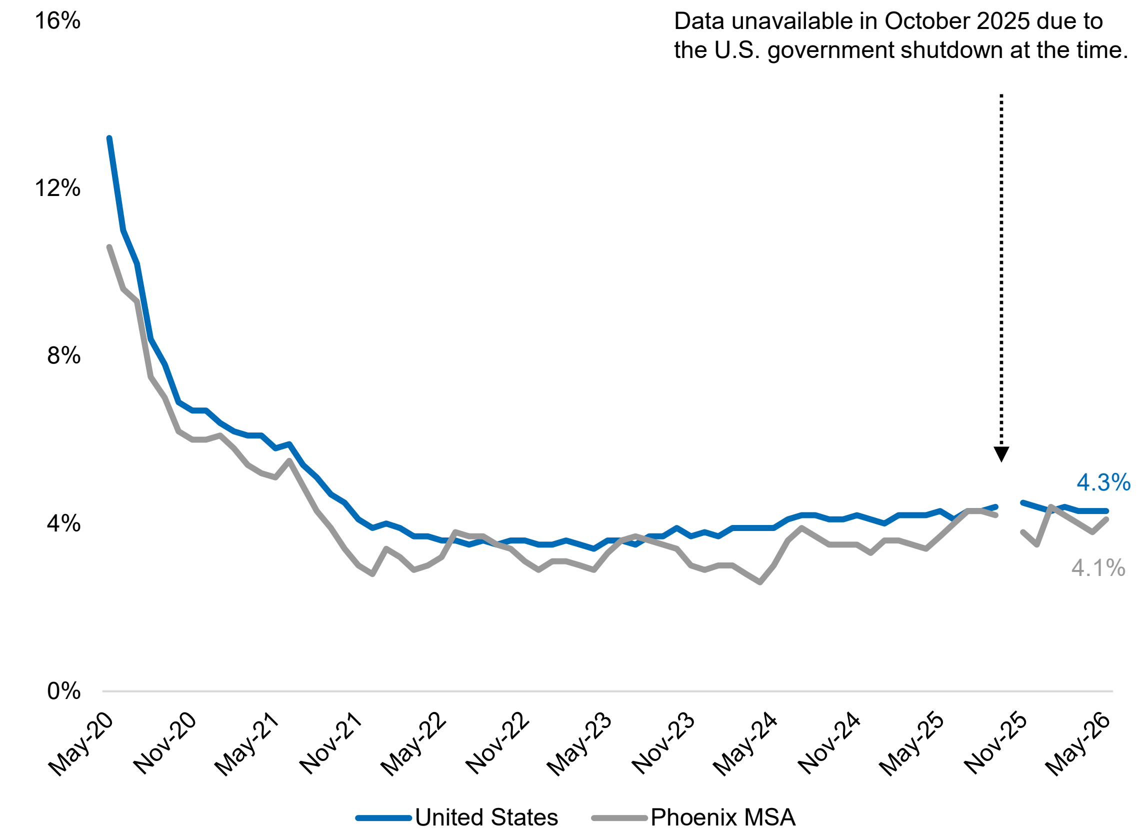
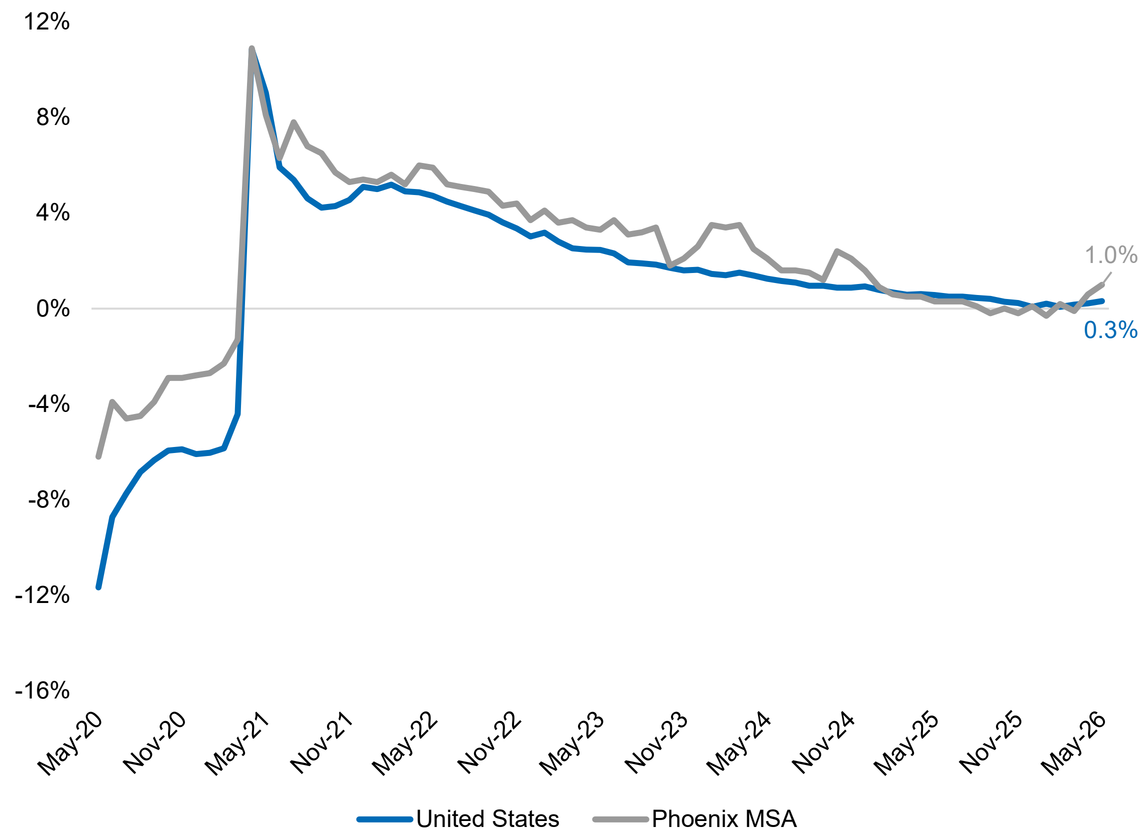
Resilient Labor Market Amid Economic Challenges

Local unemployment (4.1%) in May 2026 was lower than the U.S. average for the fourth-straight month. Phoenix's job growth is also gaining momentum, with year-over-year nonfarm employment posting gains for two consecutive months, as select companies expand.

Unemployment Rate, Seasonally Adjusted



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

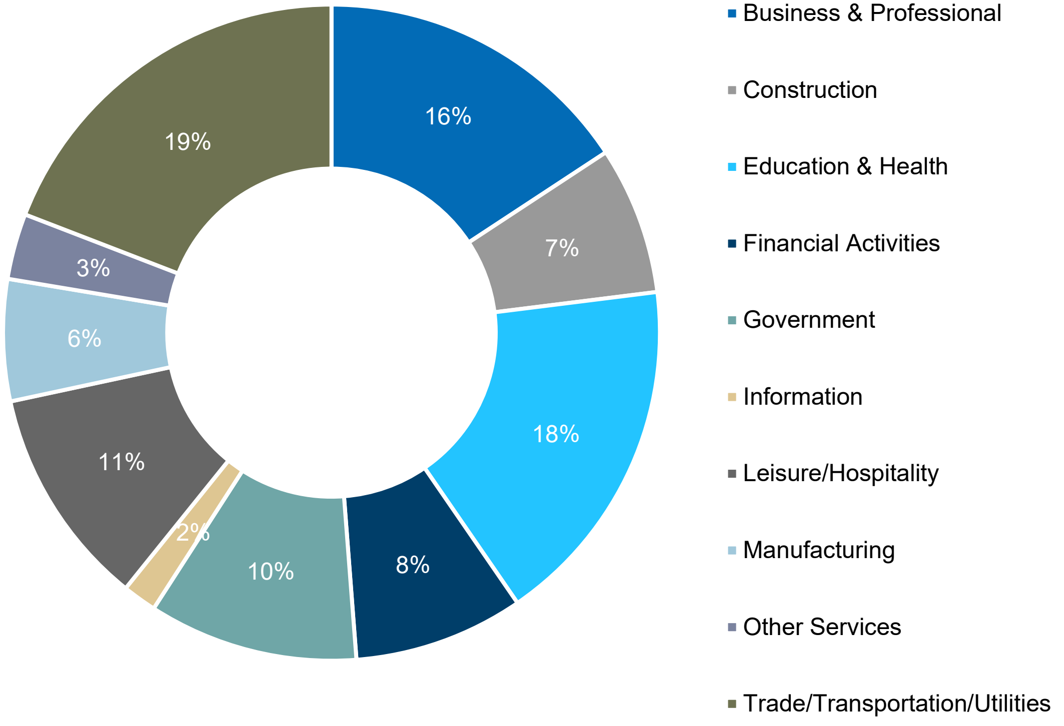


Source: U.S. Bureau of Labor Statistics, Phoenix MSA
Note: Local employment statistics for October were unavailable at the time of writing due to the federal government shutdown.

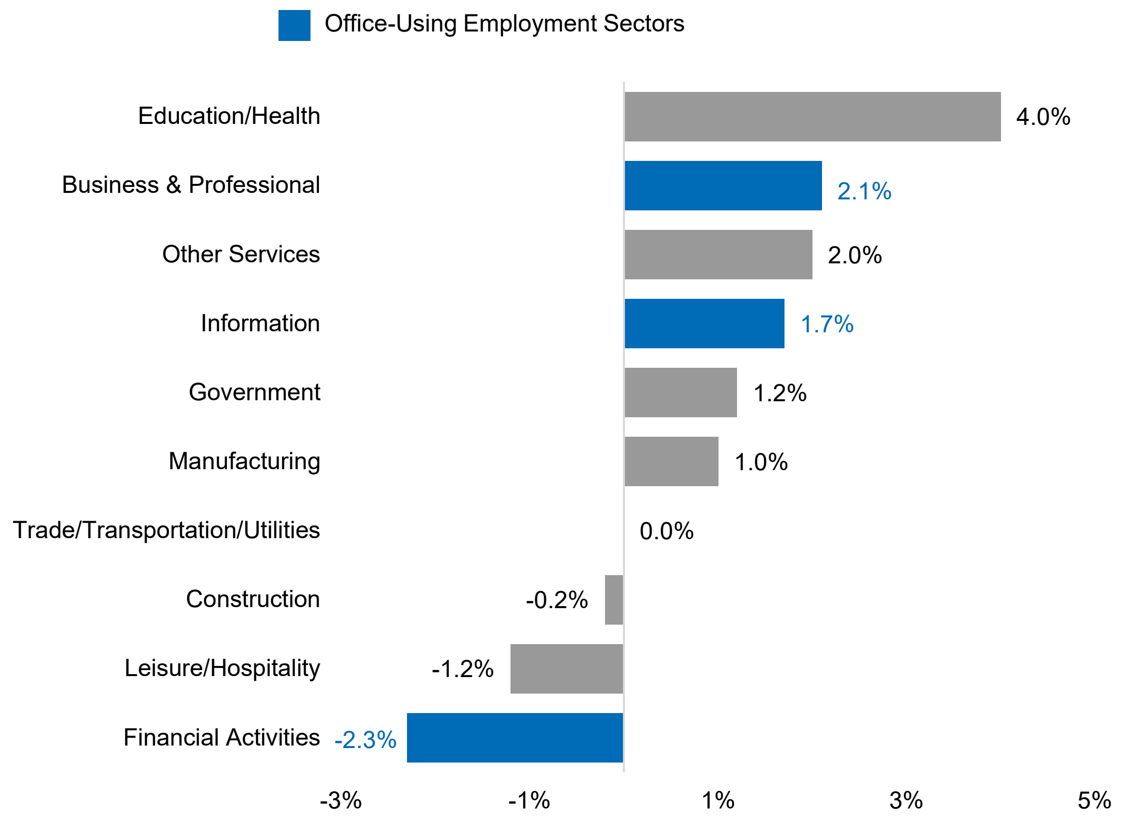
Two of the Three Office-Using Employment Sectors Posted Job Gains

At the industry level, education and health led in annual job gains for the sixth-straight quarter, followed by business and professional services. Among office-using sectors, information (dominated by tech) increased by 1.7%, business and professional also saw a 2.1% increase, and financial activities contracted by 2.3%.

Employment by Industry, May 2026



Employment Growth by Industry, 12-Month % Change, May 2026

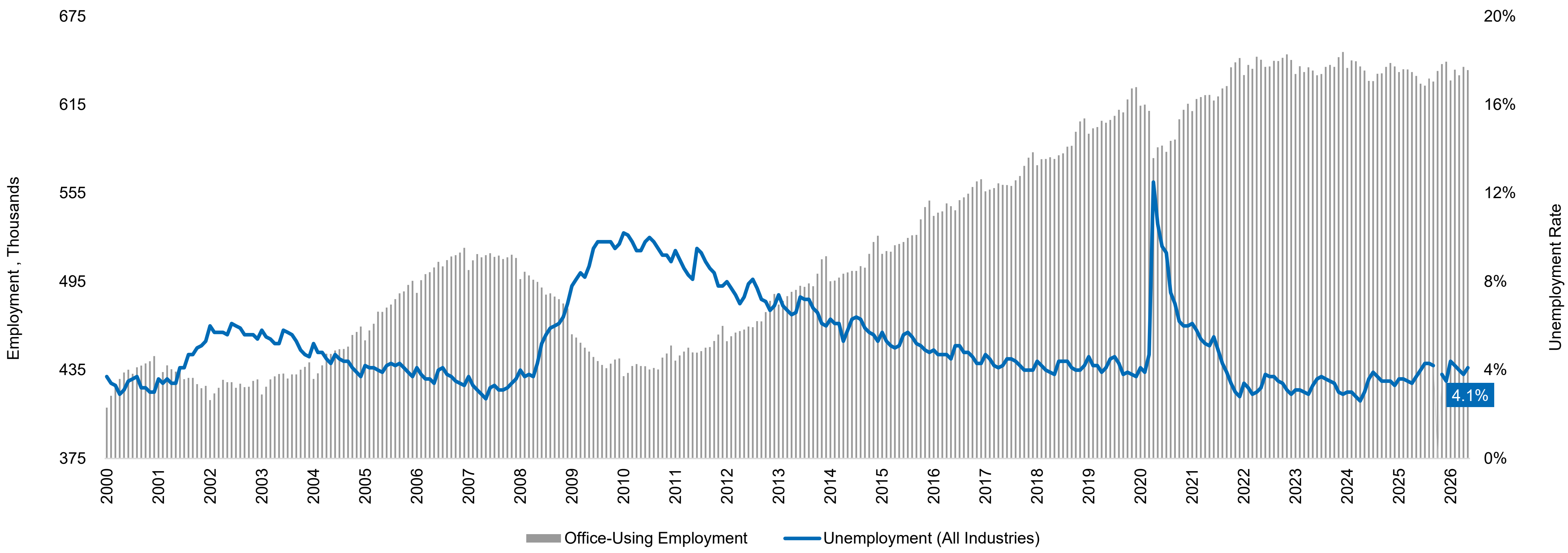


Source: U.S. Bureau of Labor Statistics, Phoenix MSA

Office-Using Employment Remains Steady Amid Economic Uncertainty

Office-using employment now sits 3.8% above its February 2020 baseline, a growth profile that outpaces many peer markets. The present total (638,500 jobs) is 0.6% higher than one year ago. 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.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Phoenix MSA

Note: Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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Market Fundamentals

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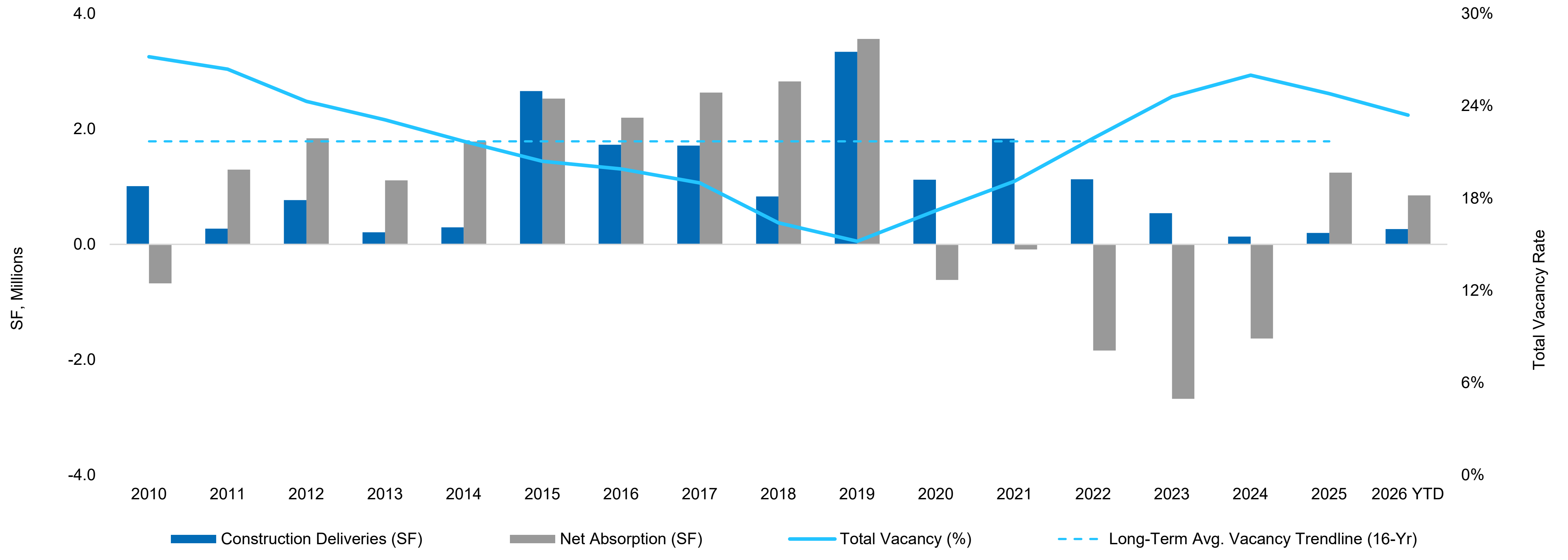
Stable Vacancy and Modest Absorption Gains Reflect Market Resilience

Total vacancy decreased by 20 basis points from the first quarter of 2026 to the second quarter of 2026, settling at 23.4%. Moderate absorption gains and limited construction are exerting downward pressure on office vacancy.

Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Office Repositions Have Become Notable in Recent Years

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Tenants in the Market by Submarket and Industry

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Emerging and Falling Submarkets

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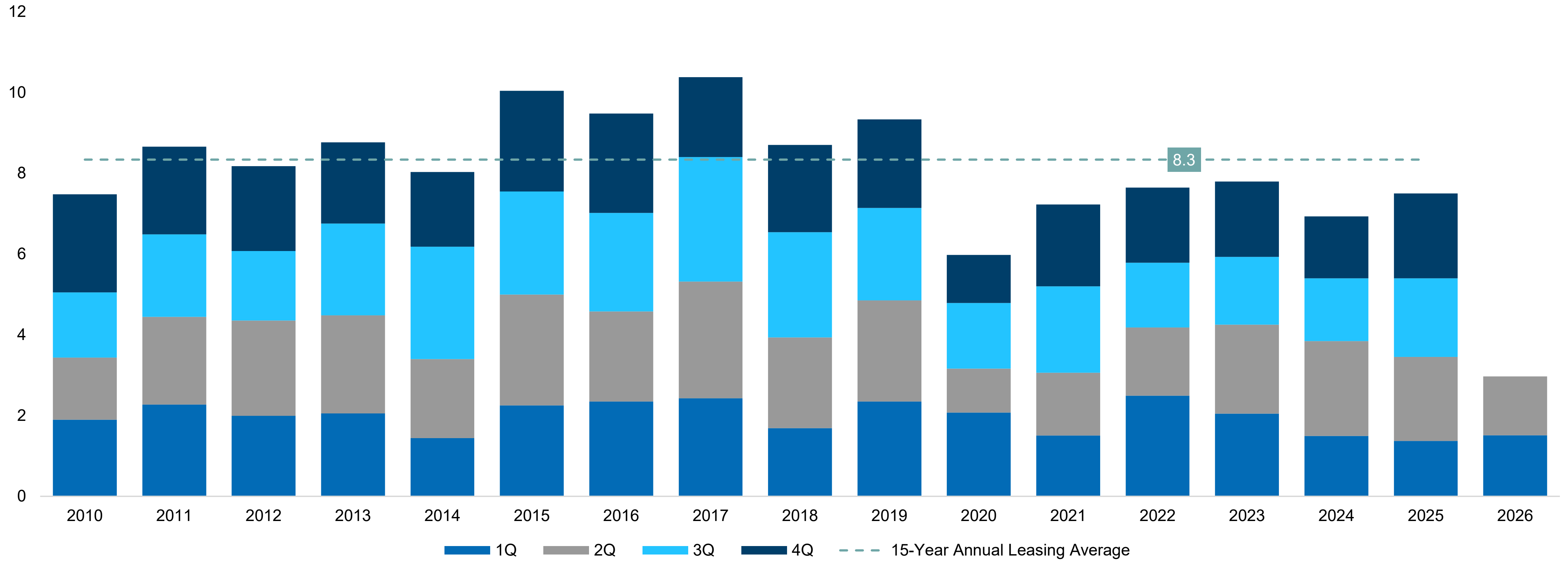
Leasing Activity Slows in Second Quarter

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.

Total Leasing Activity (MSF)

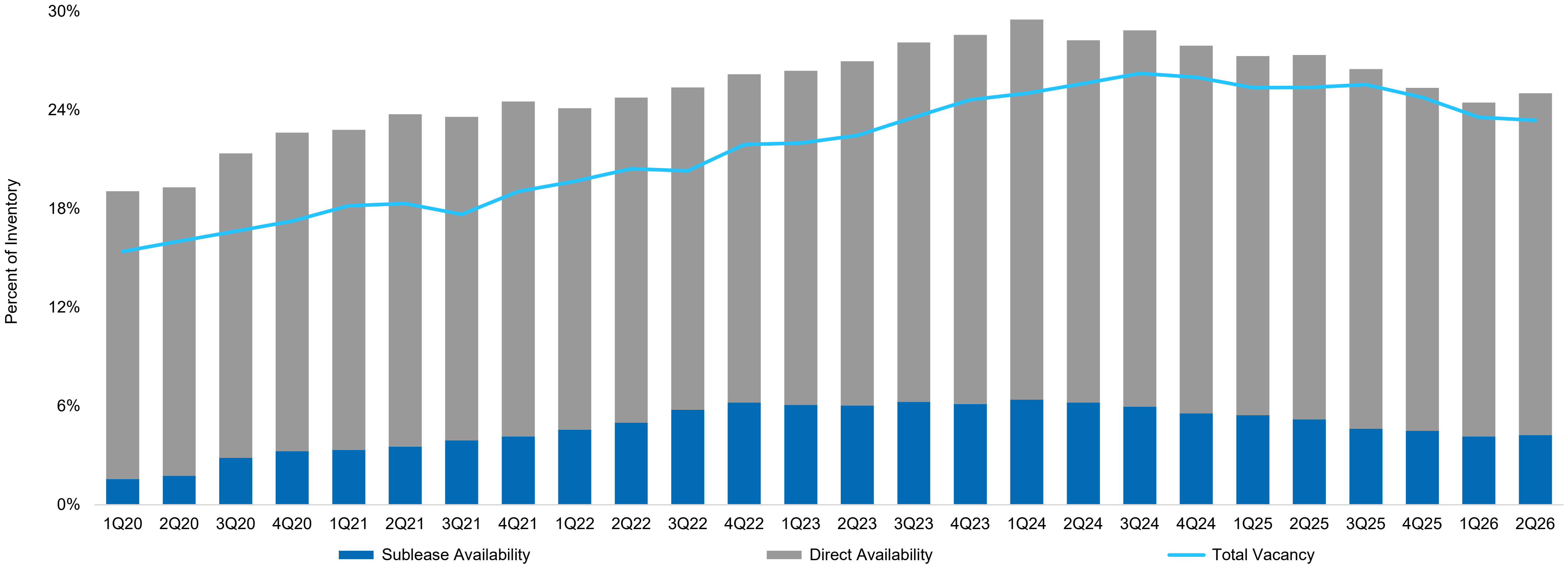


Source: Newmark Research, Costar

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 held steady at 4.2%, while total vacancy declined 20 basis points quarter over quarter.

Available Space and Total Vacancy as Percent of Overall Market

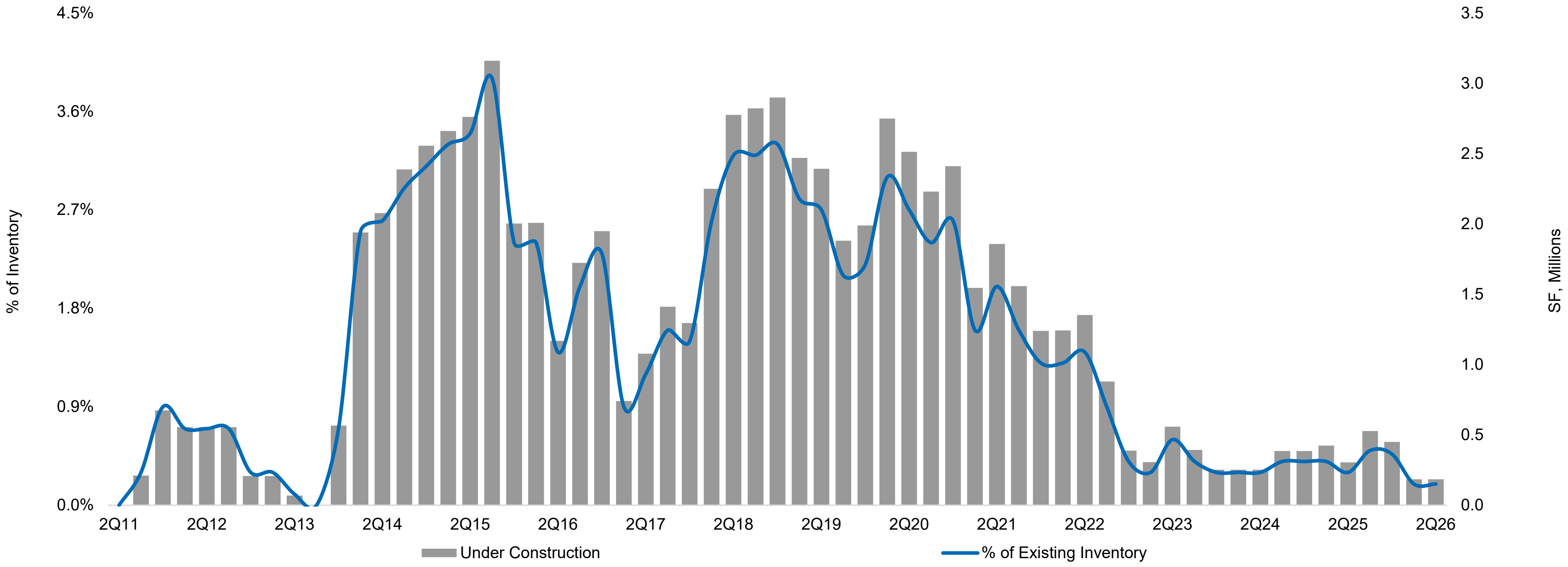


Source: Newmark Research

Constrained Office Development Shifting Towards HQ Build-to-Suits

Office construction activity reached a two-year high three 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.

Office Under Construction and % of Existing Inventory



Source: Newmark Research

Trophy Buildings Outperform Class A

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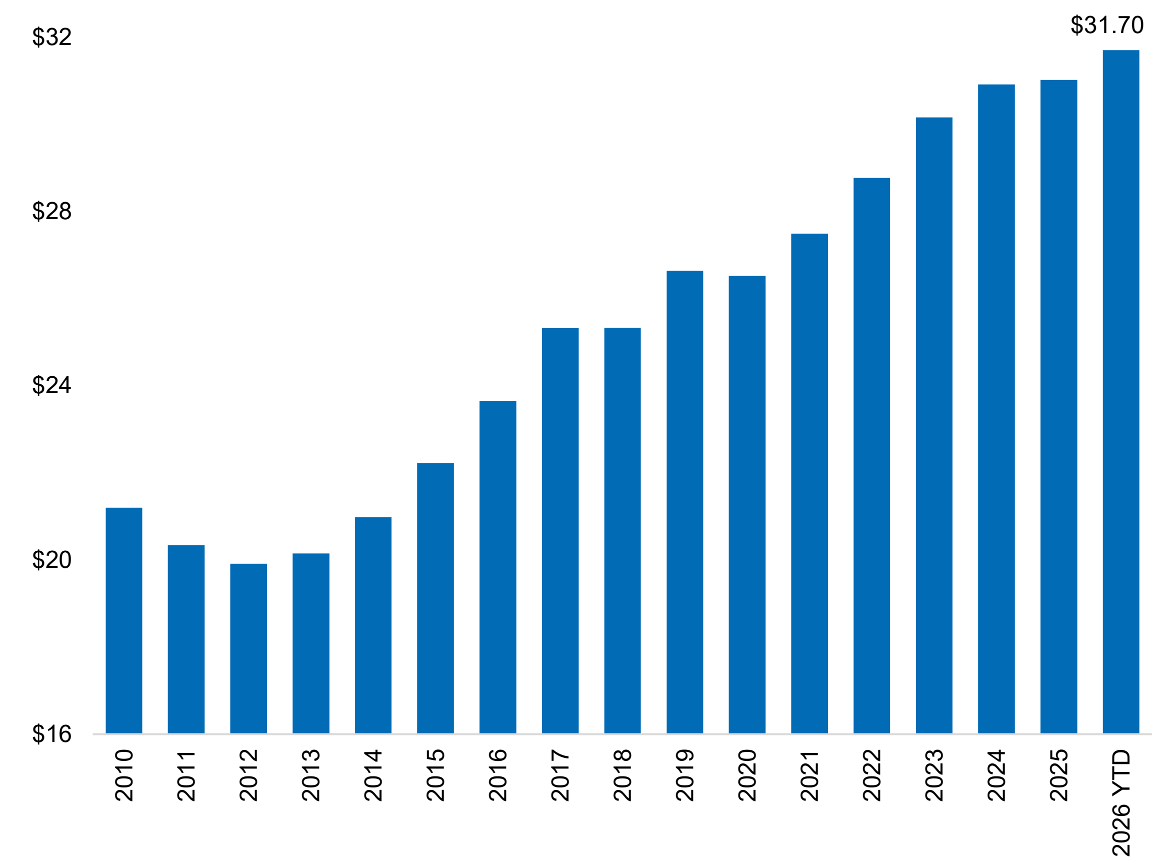
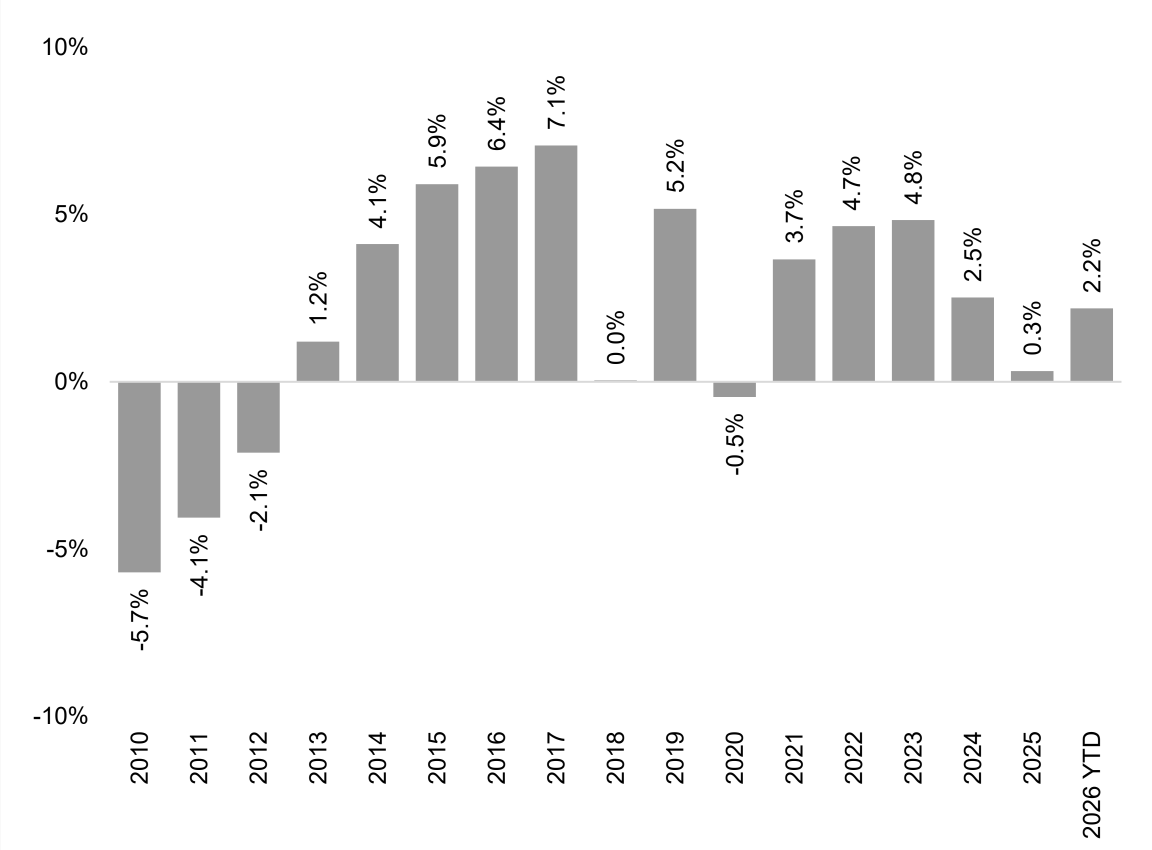
Asking Rent Slightly Increased this Quarter

The average was up a mere 2.2% 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 availability significantly tightens.

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



Year-over-Year Asking Rent Growth Rate

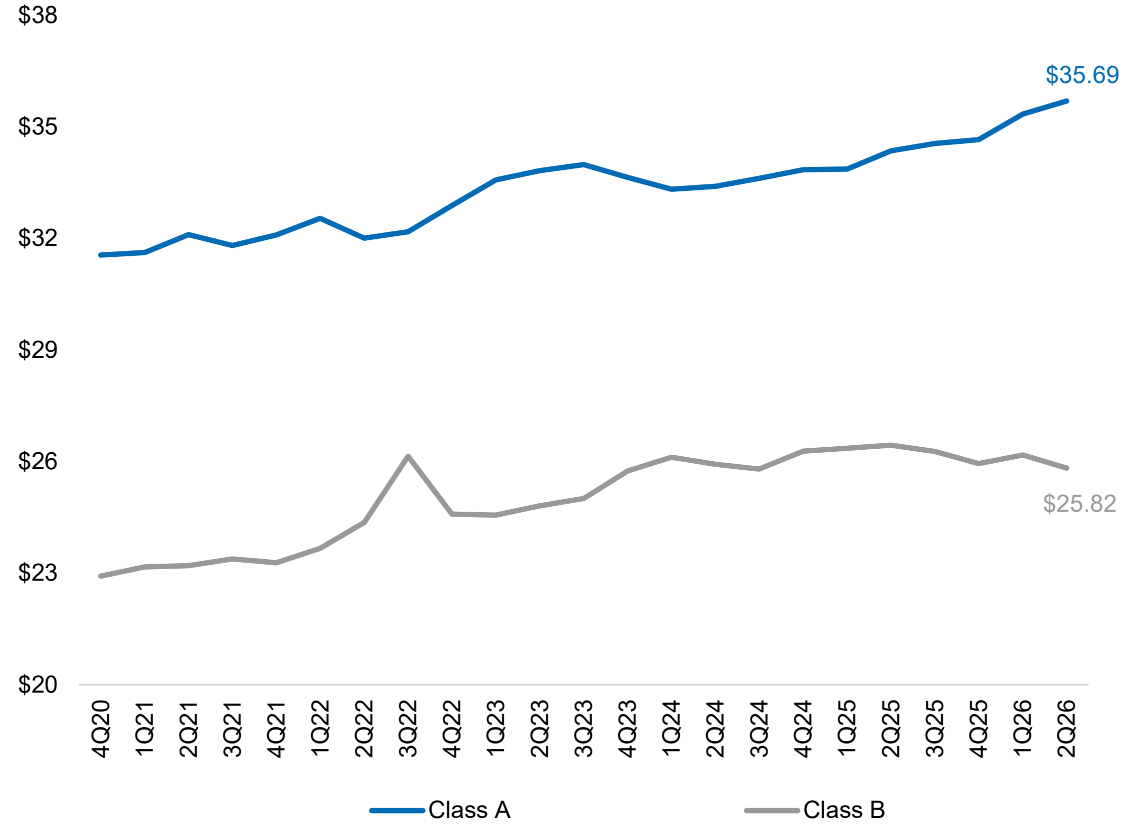


Source: Newmark Research

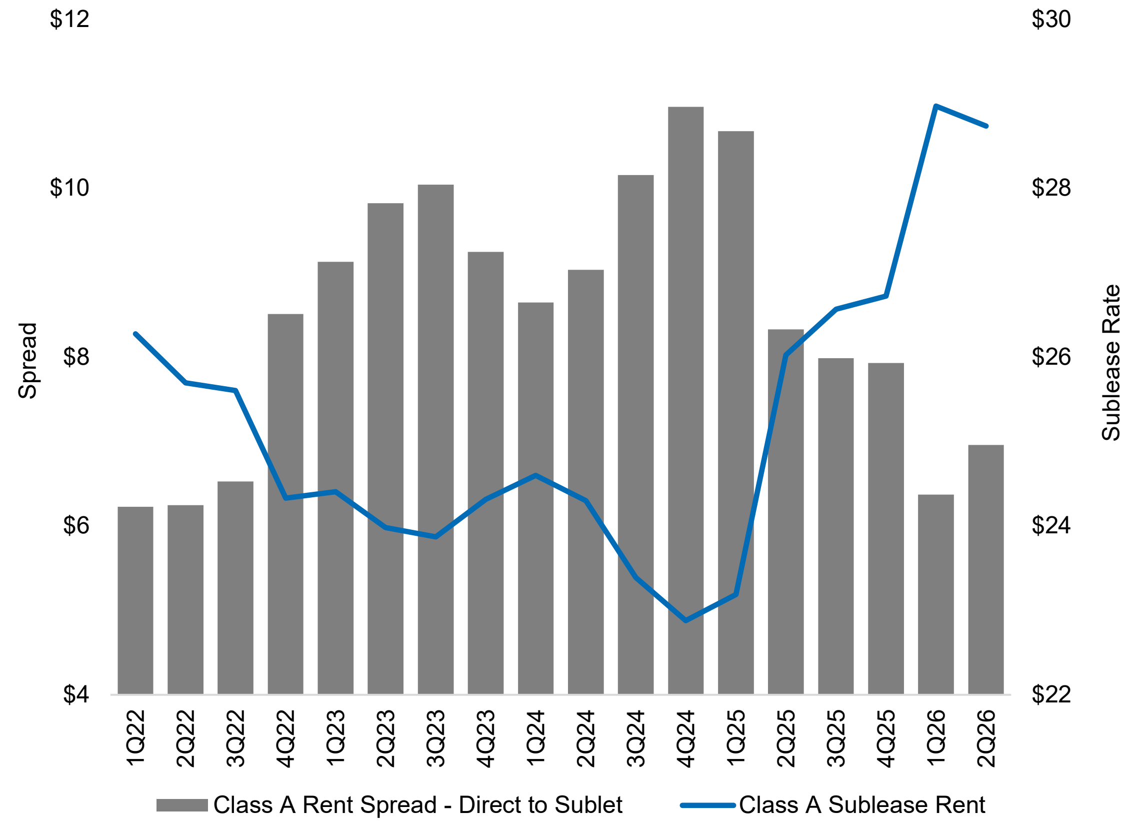
Sublease Competition Pressures Rent Dynamics

Sublessors are aggressively competing with landlords, creating a current $6.96/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.

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



Class A Sublease Asking Rates



Source: Newmark Research

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 2Q26 Lease Transactions

Tenant	Building(s)	Submarket	Lease Type	Square Feet
Consumer Cellular	8501 E Raintree	Scottsdale North/Airpark	Direct	123,340
The technology company signed a 180-month, full-building deal at 8501 E Raintree.				
McCarthy Construction	3133 E Camelback Rd	Camelback Corridor	Direct	96,252
The construction company signed for 96,252-SF in late June.				
AssistRX	2190 E Elliot Rd	Tempe South/Chandler	Sublease	47,790
The healthcare technology company signed a 47,790-SF sublease in early May.				
Medcare Benefits	1365 N Scottsdale Rd	South Scottsdale	Direct	36,046
The medical insurance company committed to 36,046-SF in April.				

Source: Newmark Research

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Sales Activity

2Q26

Office Sales Comprised 19.3% of Volume in the First Half of 2026

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Office Sales Volume: Up Close

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Capital Deployment Trends Reflect Broader Market Hesitancy

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This Quarter's Notable Sales Transactions

Office sales volume rose in the second quarter of 2026 compared with the first, even as economic uncertainty and elevated interest rates kept many investors cautious. Activity is concentrating in repriced opportunities with stronger in-place yields and in strategies such as adaptive reuse and redevelopment.

Notable 2Q26 Sales Transactions

Building Address	Submarket	Sales Price	Price/SF	Square Feet
PXED – 4025-4045 S Riverpoint Pkwy	Tempe	$103,000,000	$171.76	599,664
Three-property, 100% leased campus. Sold to LXP Investment Trust in May.				
Lakefront at Scottsdale – 7501 E McCormick Pkwy	Central Scottsdale	$25,500,000	$276.97	92,067
Two-story, 92,067-SF building, 40.3% leased. Sold to Diversified Partners as a redevelopment play in late May.				
Scottsdale Perimeter – 17600 N Perimeter Dr	Scottsdale North/Airpark	$20,750,000	$160.21	129,521
Two-story, 129,521-SF building, 0% leased. Acquired by Finish Line Auto Storage as a redevelopment play in late May.				
Desert Vista Corporate Center – 19825 N 7th St	Deer Valley	$19,458,000	$199.83	97,372
Two-story, 97,372-SF building, 0% leased. Sold to TranMark in April as a part of an owner-user transaction.				

Source: Newmark Research

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Population Growth and Business Costs

2Q26

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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Phoenix Metro Office Submarket Map and High-Level Statistics | 2Q26

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Phoenix Metro Office Submarket Statistics | 2Q26 (page 1 of 2)

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Phoenix Metro Office Submarket Statistics | 2Q26 (page 2 of 2)

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