

Phoenix Office Market Overview



Market Observations

Economy

- Local unemployment (4.2%) was below the U.S. average for the 24th-straight month.
- Nonfarm employment grew for the fifth-straight month, propelled by gains in education/health and other services.
- Office-using employment is 2.4% above its pre-pandemic level but was down 2.6% over the last 12 months as companies focused on cost-savings. Losses in the information sector, which is driven by tech companies, accounts for the decrease.
- The Fed cut interest rates by 25 bps in September, citing growing concerns over labor market softness despite persistent inflation. The current benchmark rate sits at 4.00-4.25%, with two more reductions predicted this year. Rate cuts historically support commercial real estate investment and broader economic activity.

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.

Market Fundamentals

- 300,061 SF in net absorption losses were recorded this quarter, a reversal from gains in the first half of the year.
- Total vacancy (across all classes) was 25.6%, up 40 basis points from the previous quarter. Trophy vacancy, however, continues to trend down, settling at 16.1%.
- Under construction activity rose after work commenced on Sprouts Farmers Market's new 144,500-SF campus in the CityNorth development and Fender Music's 77,505 SF at PV Mall. These build-to-suits follow the groundbreaking of Republic Services' 265,525 SF at 5353 E. City North Dr in late 2024. All will be headquarters operations.
- New office construction is rare throughout the U.S., hinting at Phoenix's appeal to corporate occupiers.

Outlook

- Corporate occupiers continue to pursue premium space, which will lower trophy's vacancy rate. Speculative development may return once the average nears 10%.
- Sublease space will continue to decline as space terms out/transitions to direct availability.
- Leasing activity will likely cool following the recent contraction in office-using employment.
- 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

3Q25

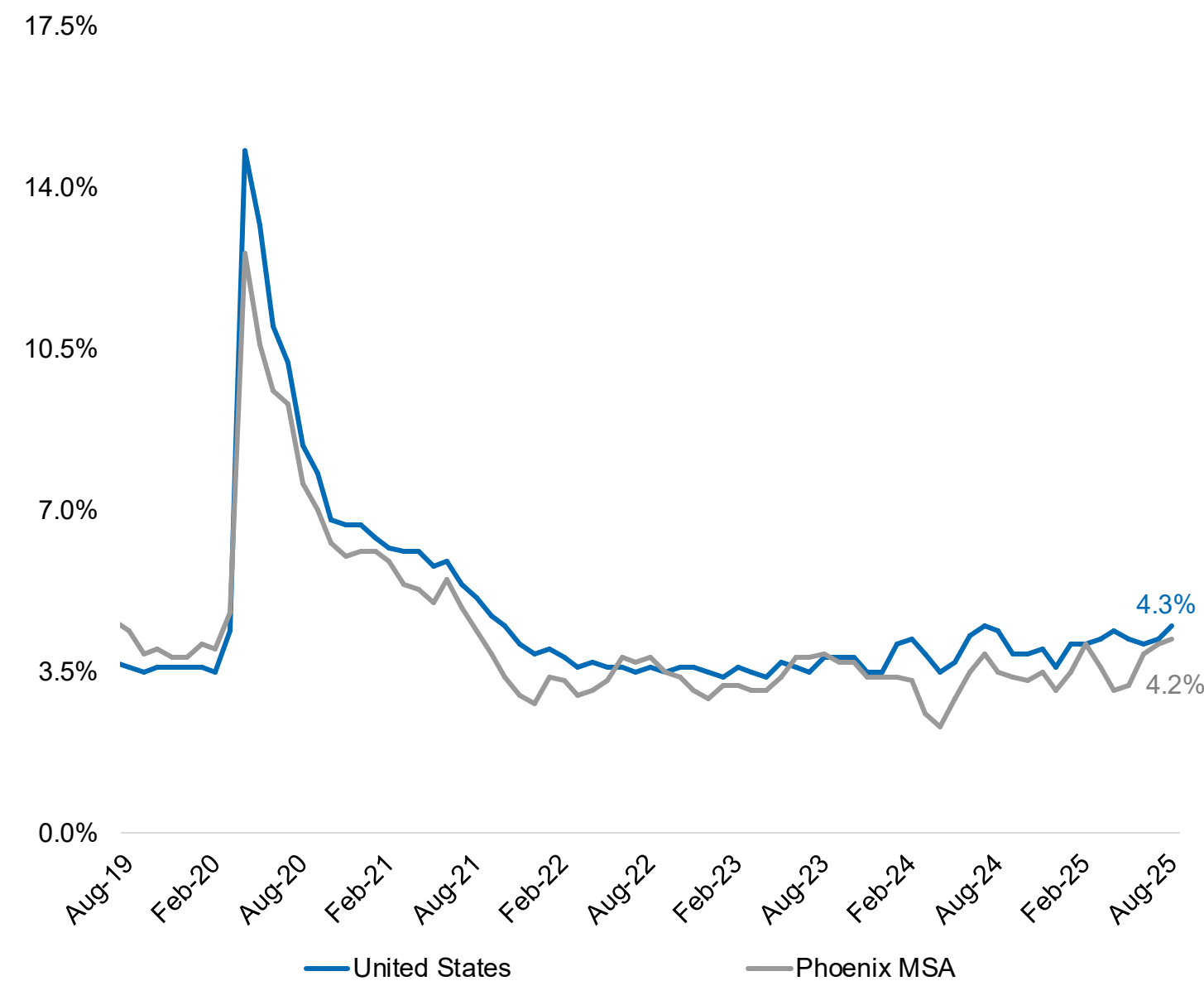
Economy



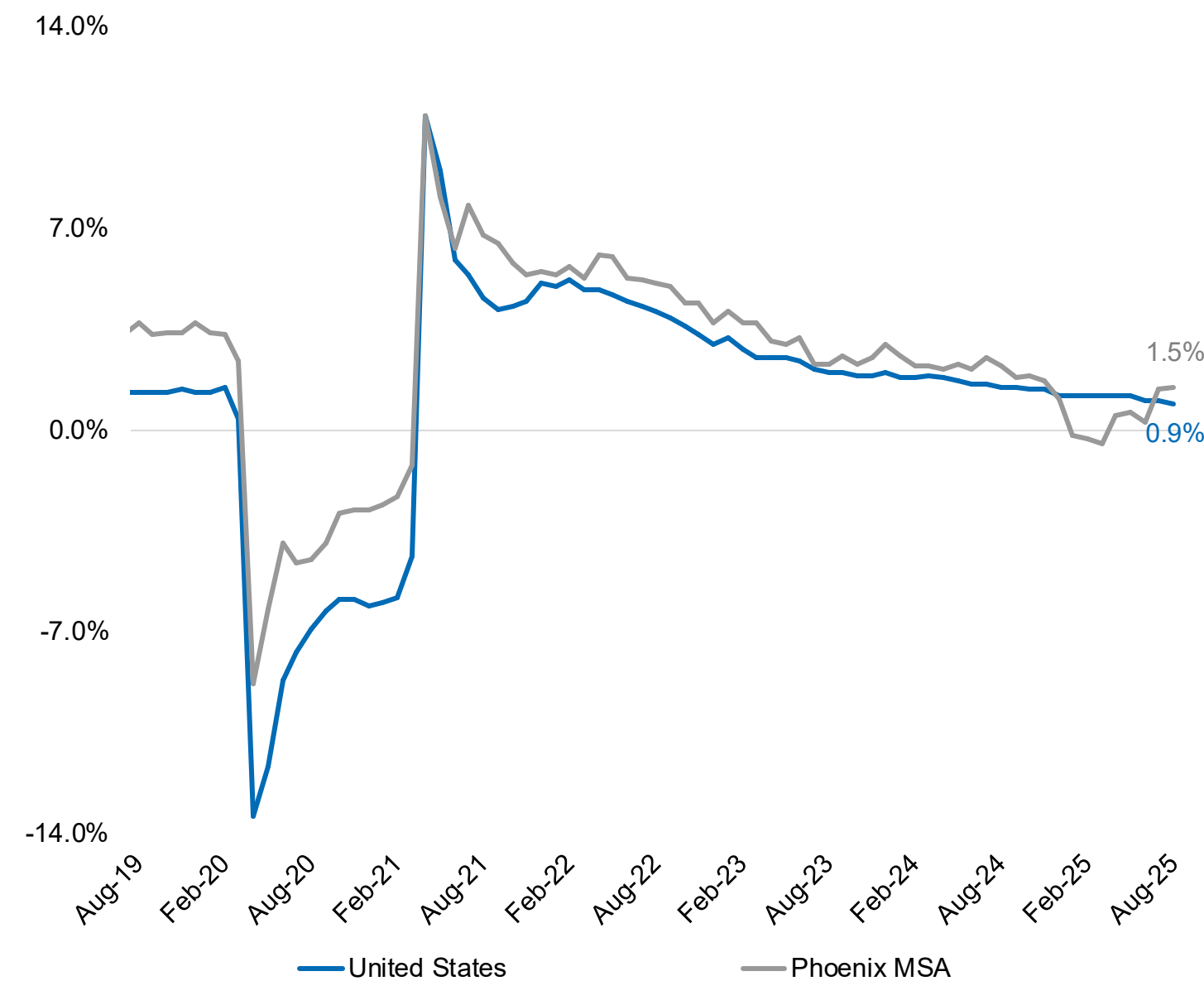
Resilient Labor Market Amid Economic Challenges

Local unemployment (currently 4.2%) was lower than the U.S. average for the 24th—straight month. Phoenix's job growth is also gaining momentum, with year-over-year nonfarm employment posting gains for five consecutive months, as select companies expand.

Unemployment Rate, Not Seasonally Adjusted



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



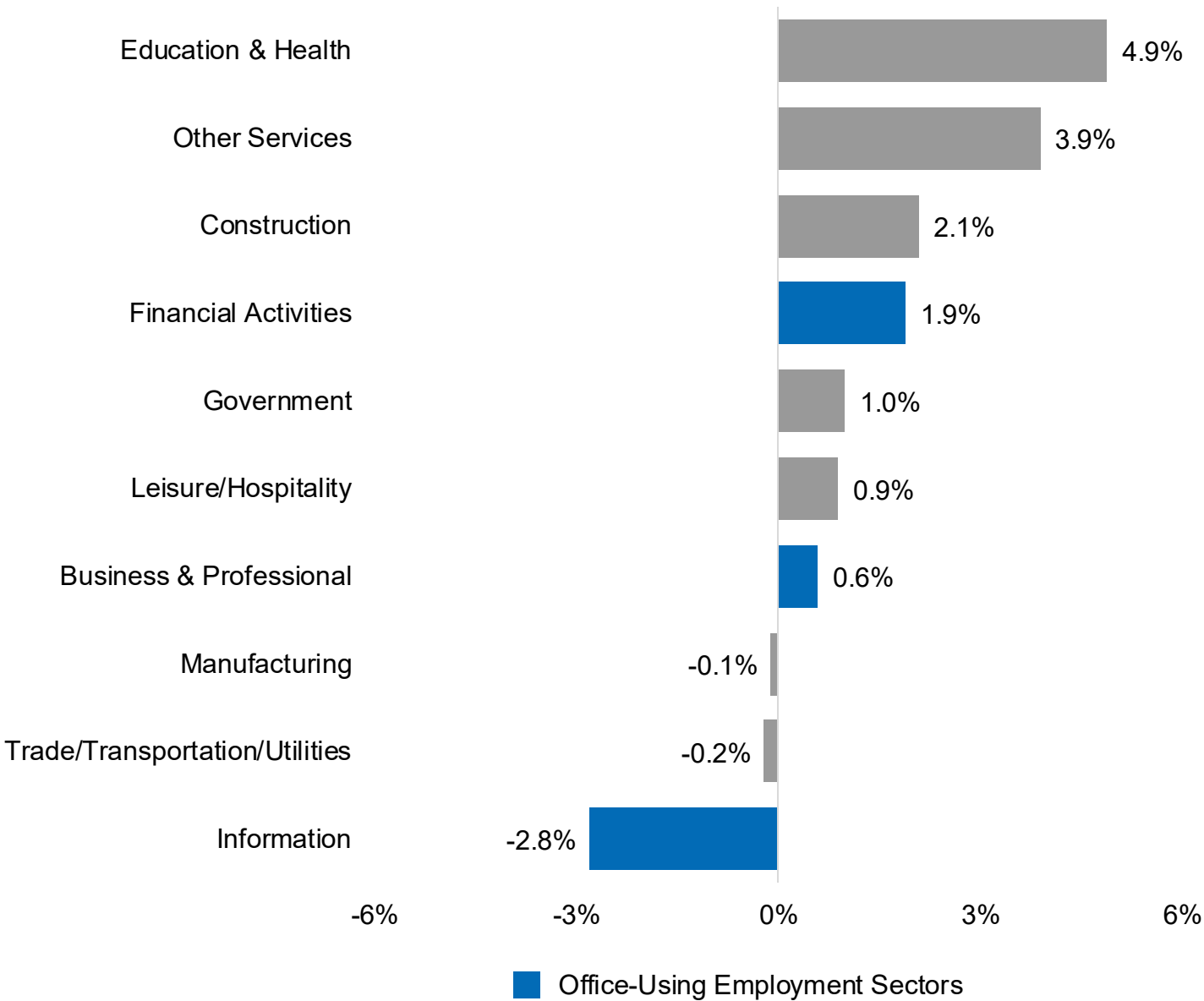
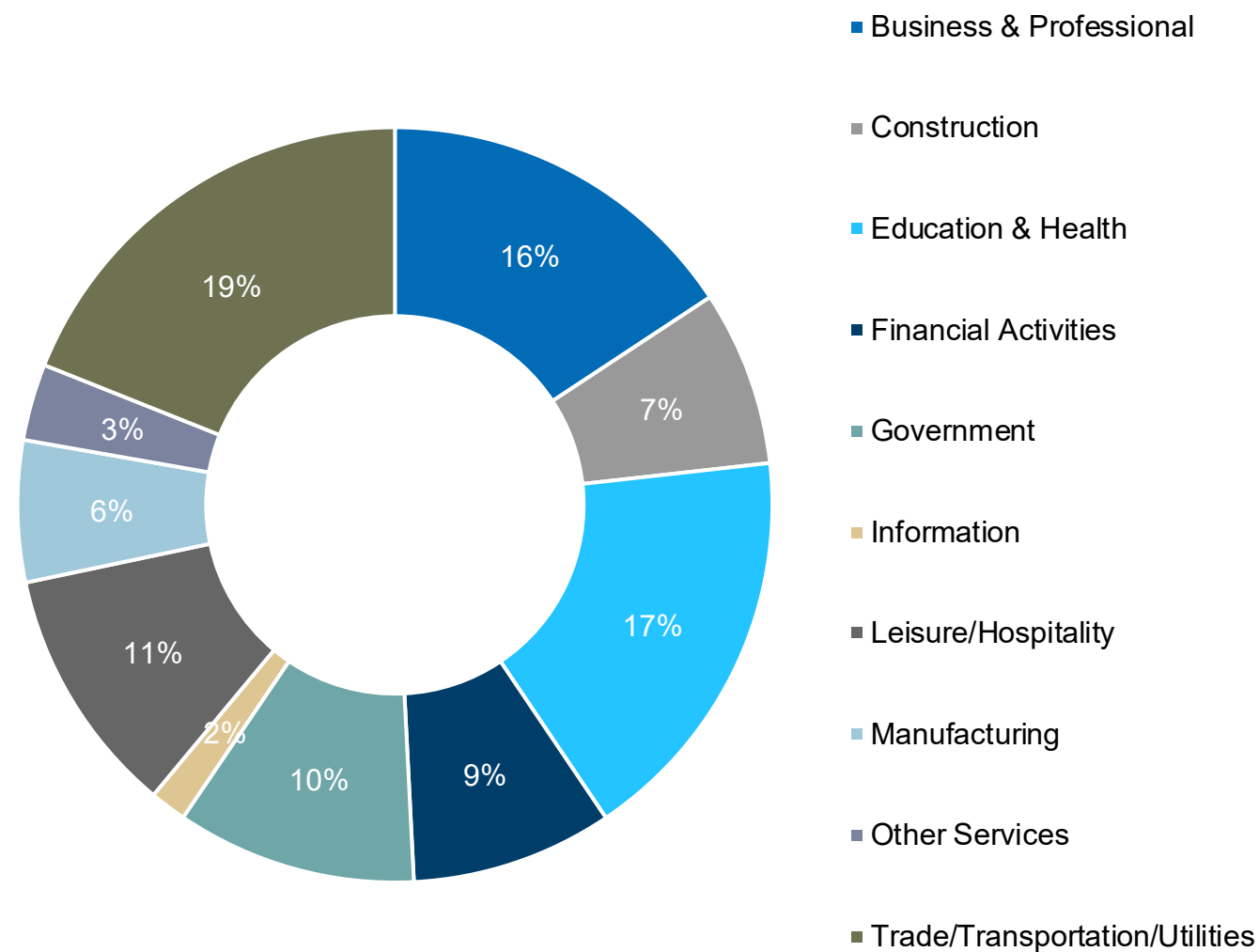
Source: U.S. Bureau of Labor Statistics, Phoenix MSA
Note: August 2025 data is preliminary.

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 -2.8%, business and professional saw a 0.6% increase, and financial activities increased by 1.9%. The contraction in tech reflects broader industry challenges, while other office-using sectors are focused on staff reductions to lower costs.

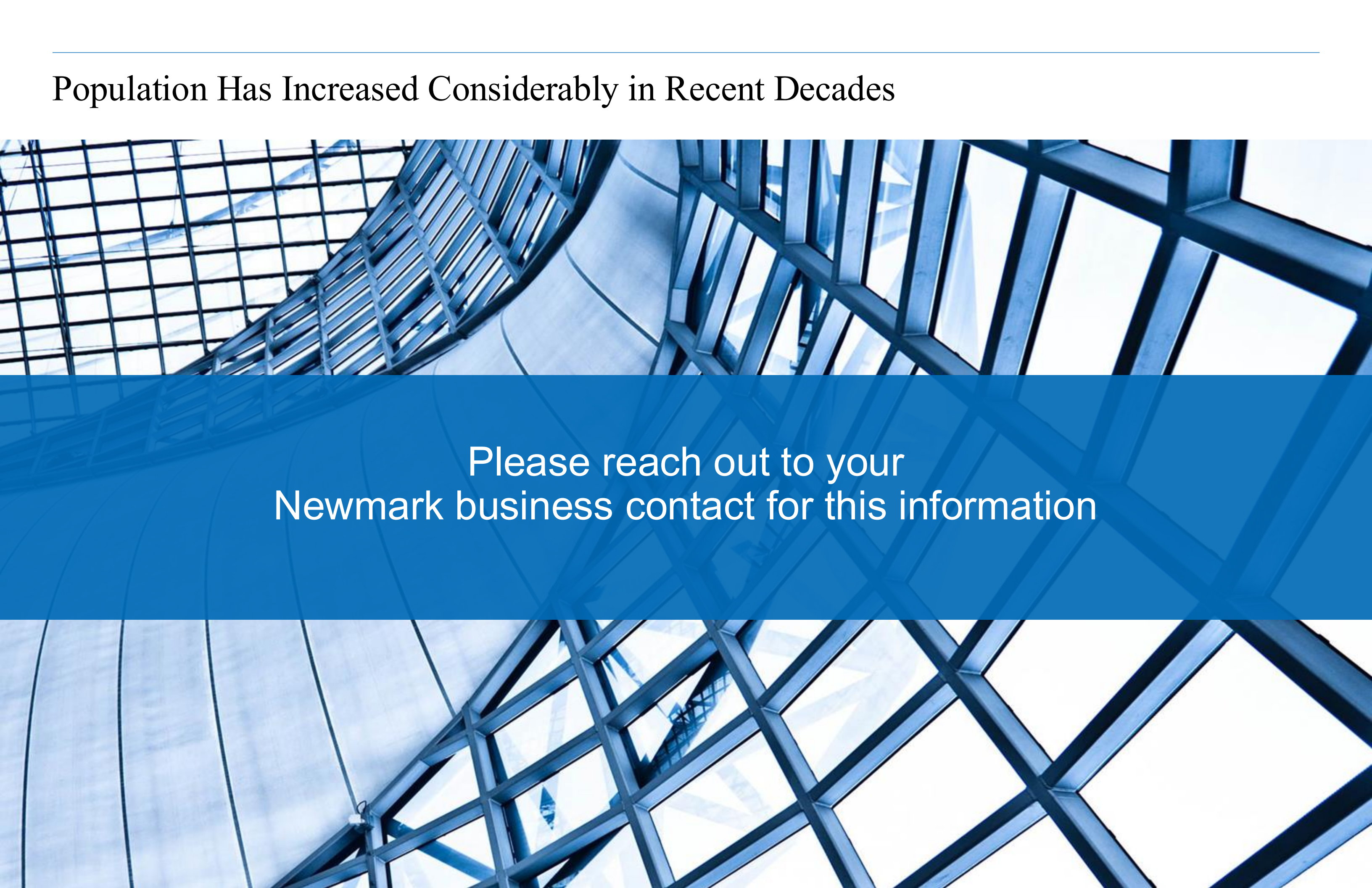
Employment by Industry, August 2025

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



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

Population Has Increased Considerably in Recent Decades

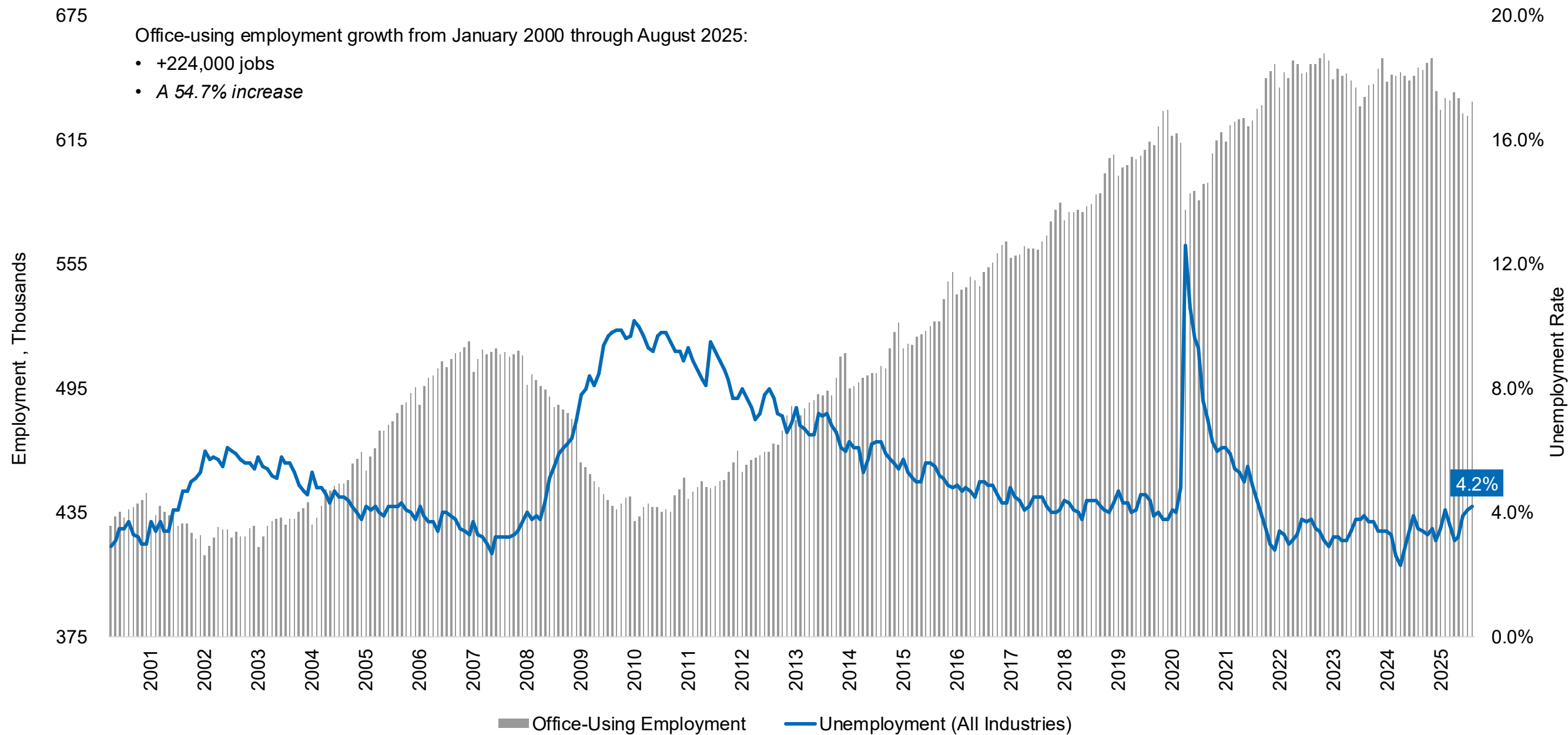


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Office-Using Employment Dip Driven by Economic Uncertainty

Current office-using employment is 2.4% higher than pre-pandemic levels (February 2020), although it is down 2.6% year-over-year. Local population growth has fueled demand for resident-serving office tenants, including insurers, banks, and law firms. Yet, 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: August 2025 data is preliminary.
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

3Q25

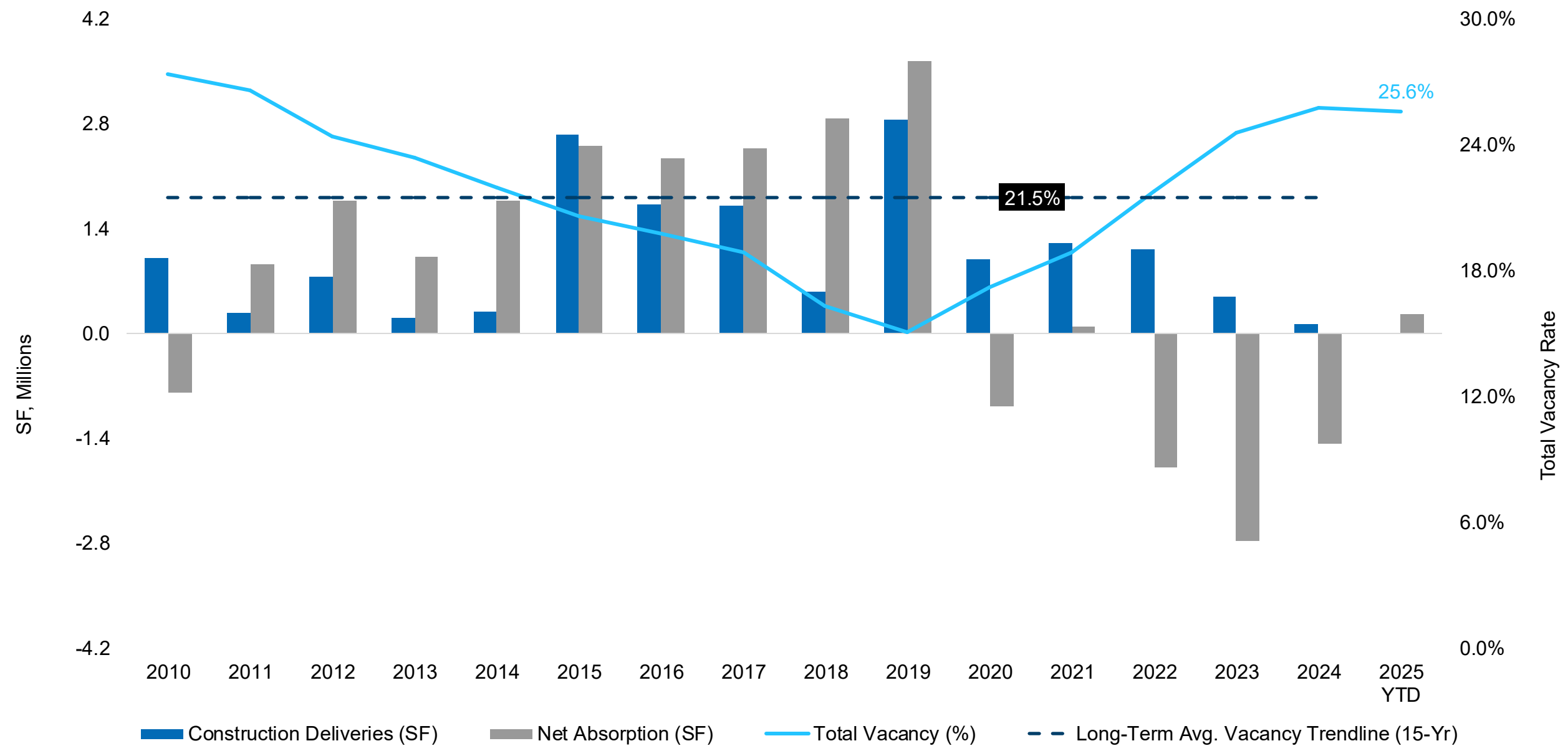
Market Fundamentals



Vacancy Increased in the Third Quarter

Total vacancy increased by 40 basis points to 25.6% in the third quarter of 2025, after moderate absorption losses. Limited construction will further moderate vacancy increases, providing some stability as the market continues to adjust to evolving tenant needs.

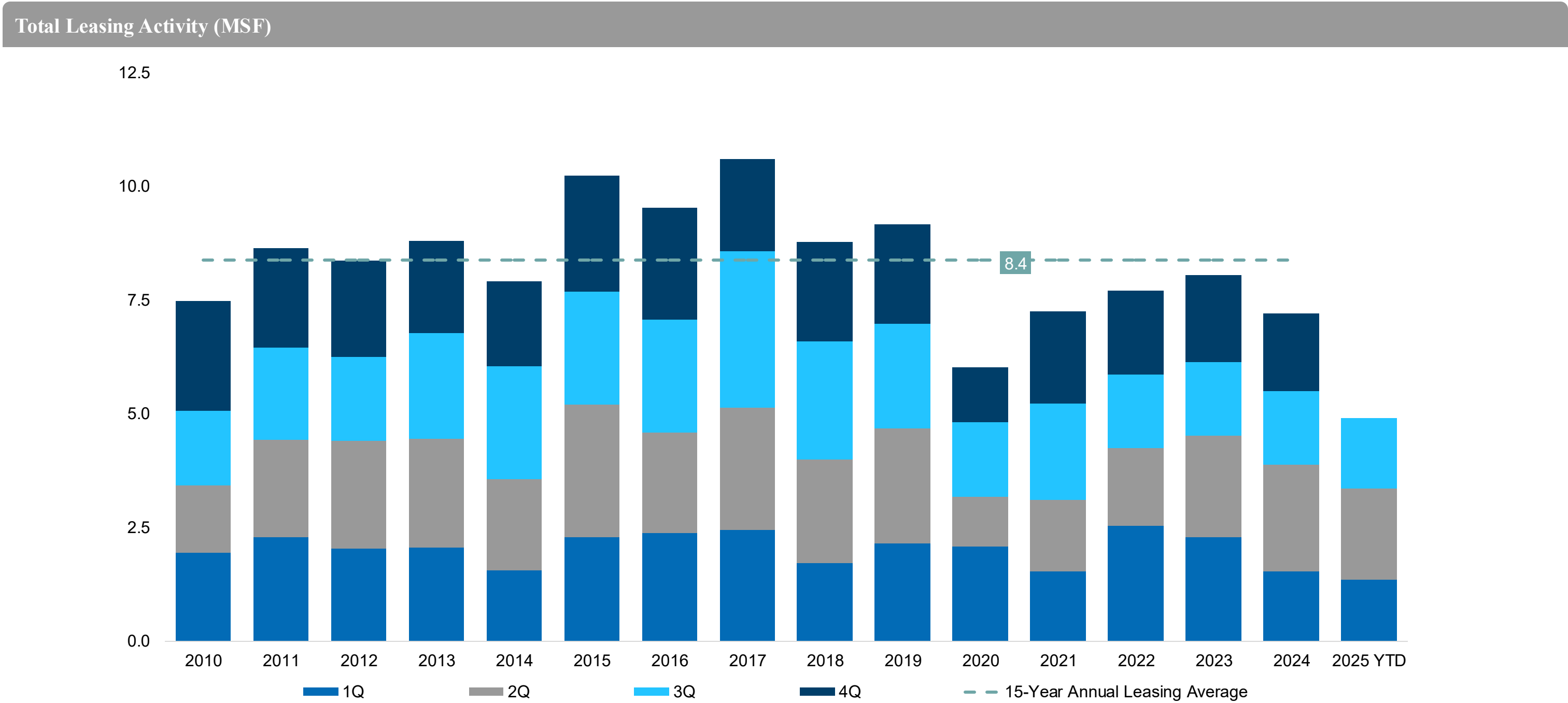
Historical Construction Deliveries, Net Absorption, and Vacancy | Greater Phoenix



Source: Newmark Research

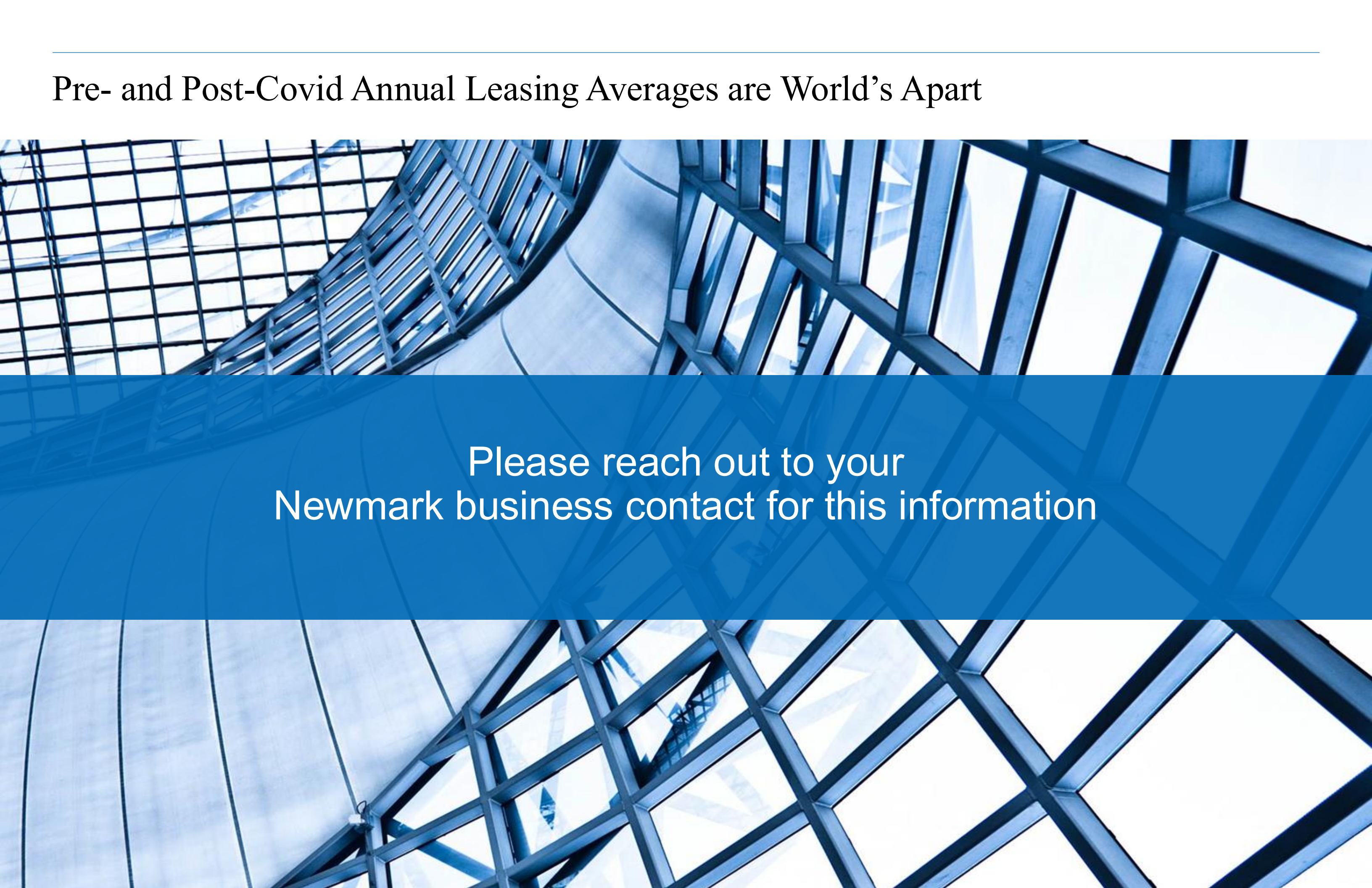
Leasing Activity in 3Q25 is Down from Previous Quarter

Third-quarter leasing activity was down from the second quarter. Deal sizes continued to trend smaller, with most activity from tenants seeking modest footprints. Shorter lease terms and a focus on flexibility persisted, highlighting ongoing caution among office users even as touring and pipeline activity improved. This environment suggests tenants remain proactive yet prudent, balancing growth opportunities with the need to adapt to evolving workplace requirements.



Source: Newmark Research

Pre- and Post-Covid Annual Leasing Averages are World's Apart

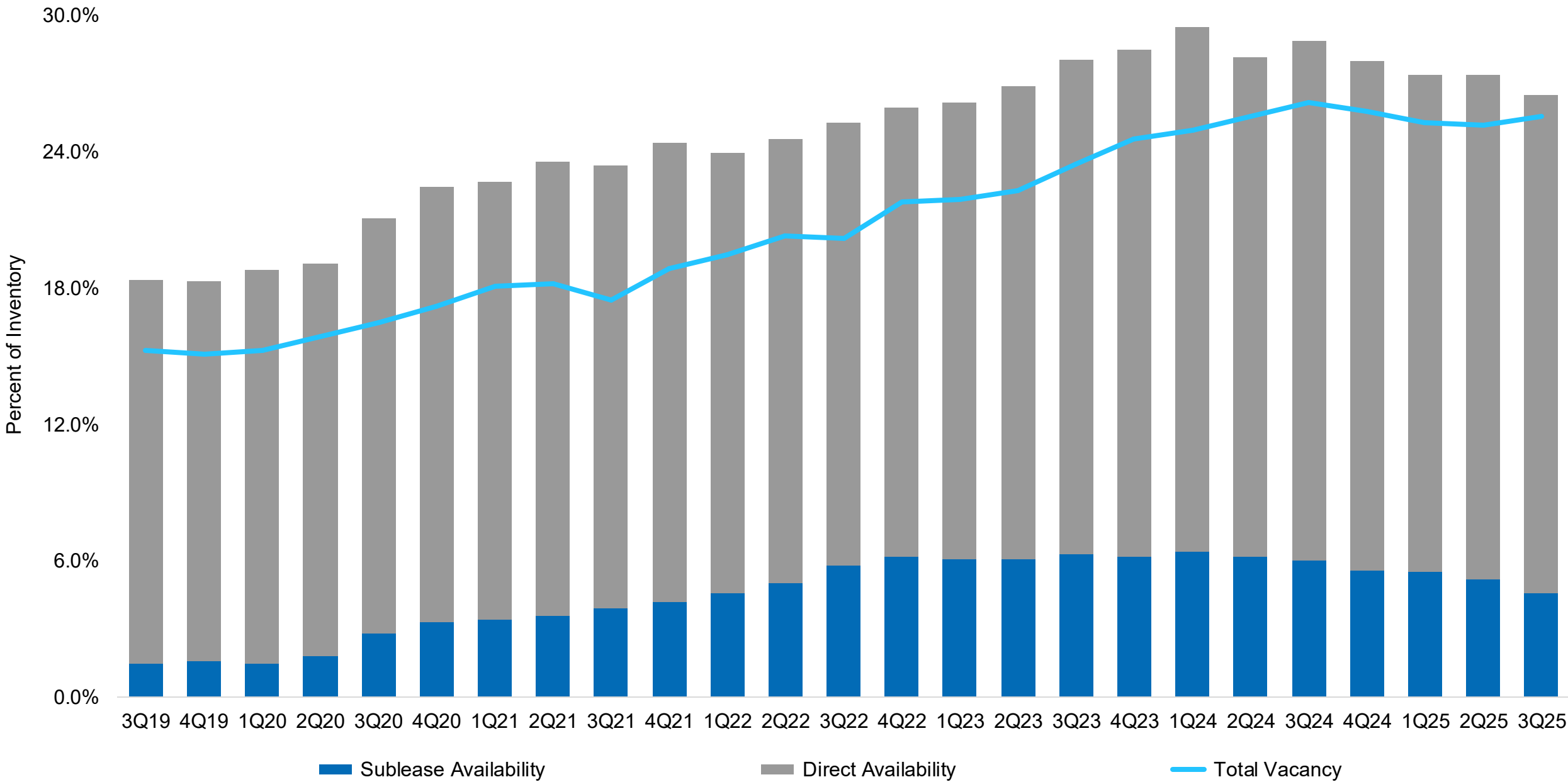


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Sublease Availability Stabilizing Along With Shorter Market Vacancies

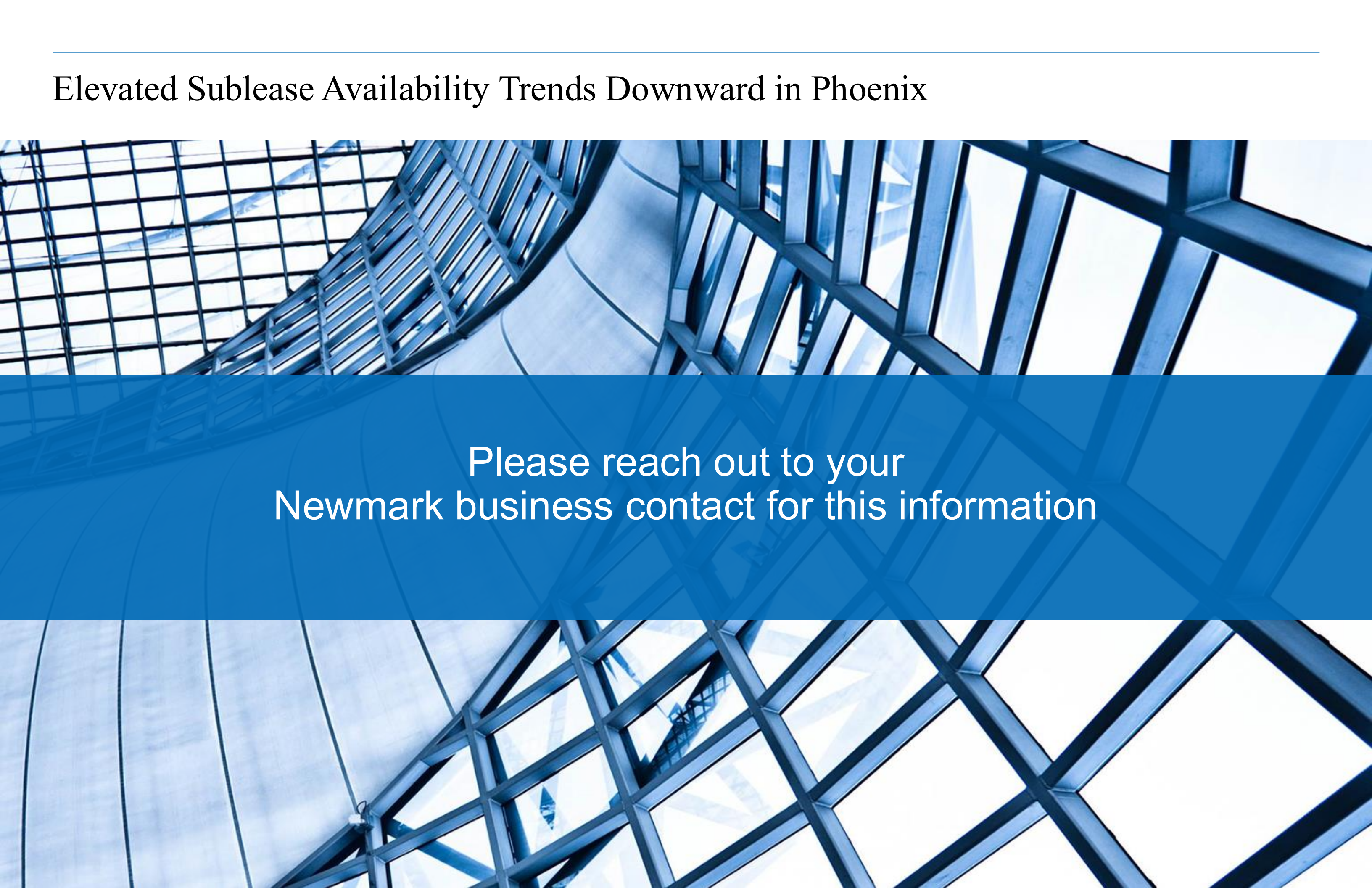
Since the onset of the pandemic, sublease availability has steadily increased due to the adoption of hybrid work models and cost-saving initiatives. However, the sublet pool decreased over the past two quarters as space transitioned to transitioned to direct availability and select blocks found subtenants. Sublease availability was down 60 basis points this quarter, while total vacancy increased by 40 basis points.

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



Source: Newmark Research

Elevated Sublease Availability Trends Downward in Phoenix

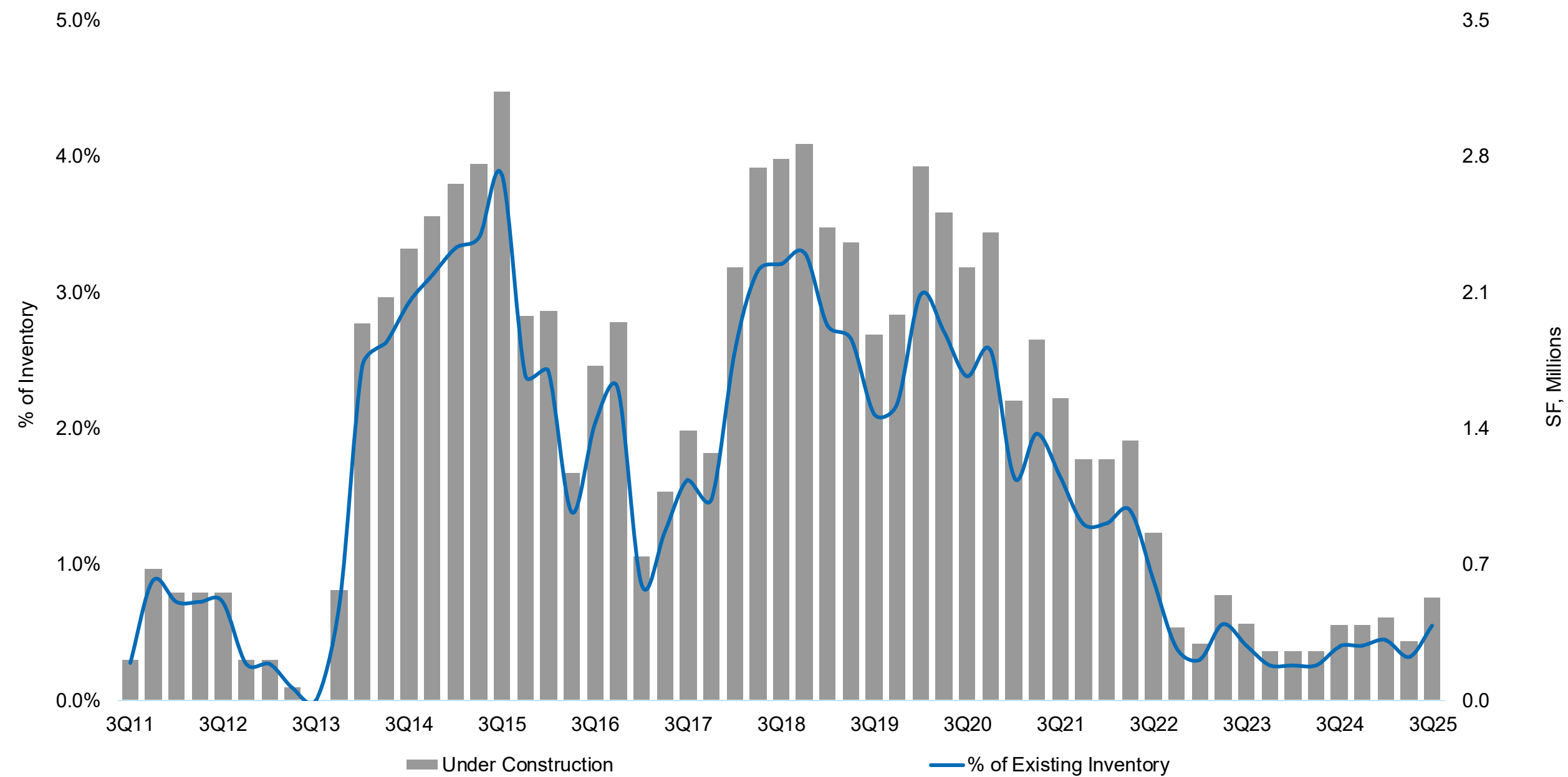


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Constrained Office Development Shifting Towards HQ Build-to-Suits

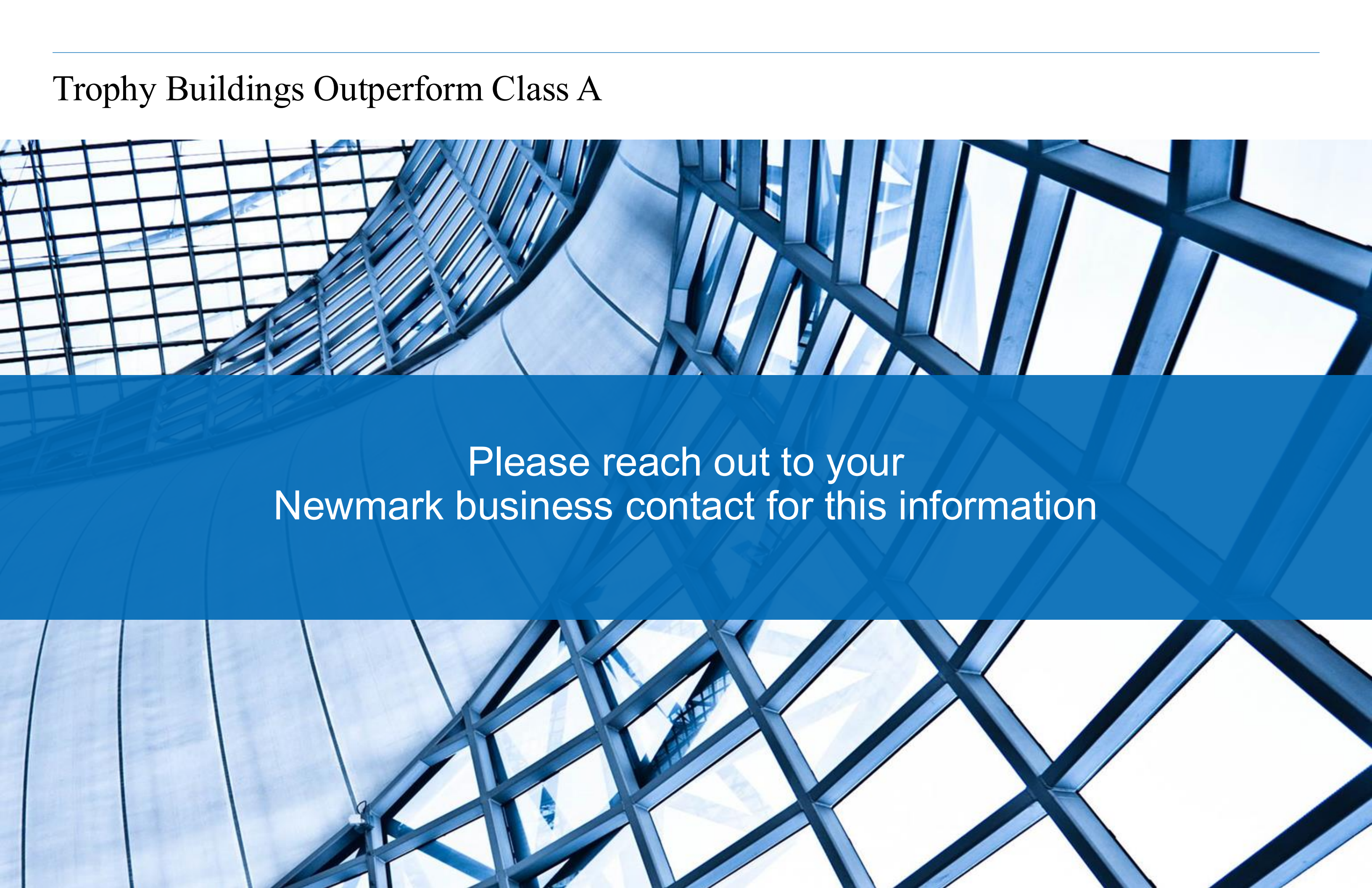
Office construction reached a two-year high, driven largely by a few headquarters build-to-suit projects. Speculative developers have paused groundbreakings for the time being.

Office Under Construction and % of Existing Inventory



Source: Newmark Research

Trophy Buildings Outperform Class A

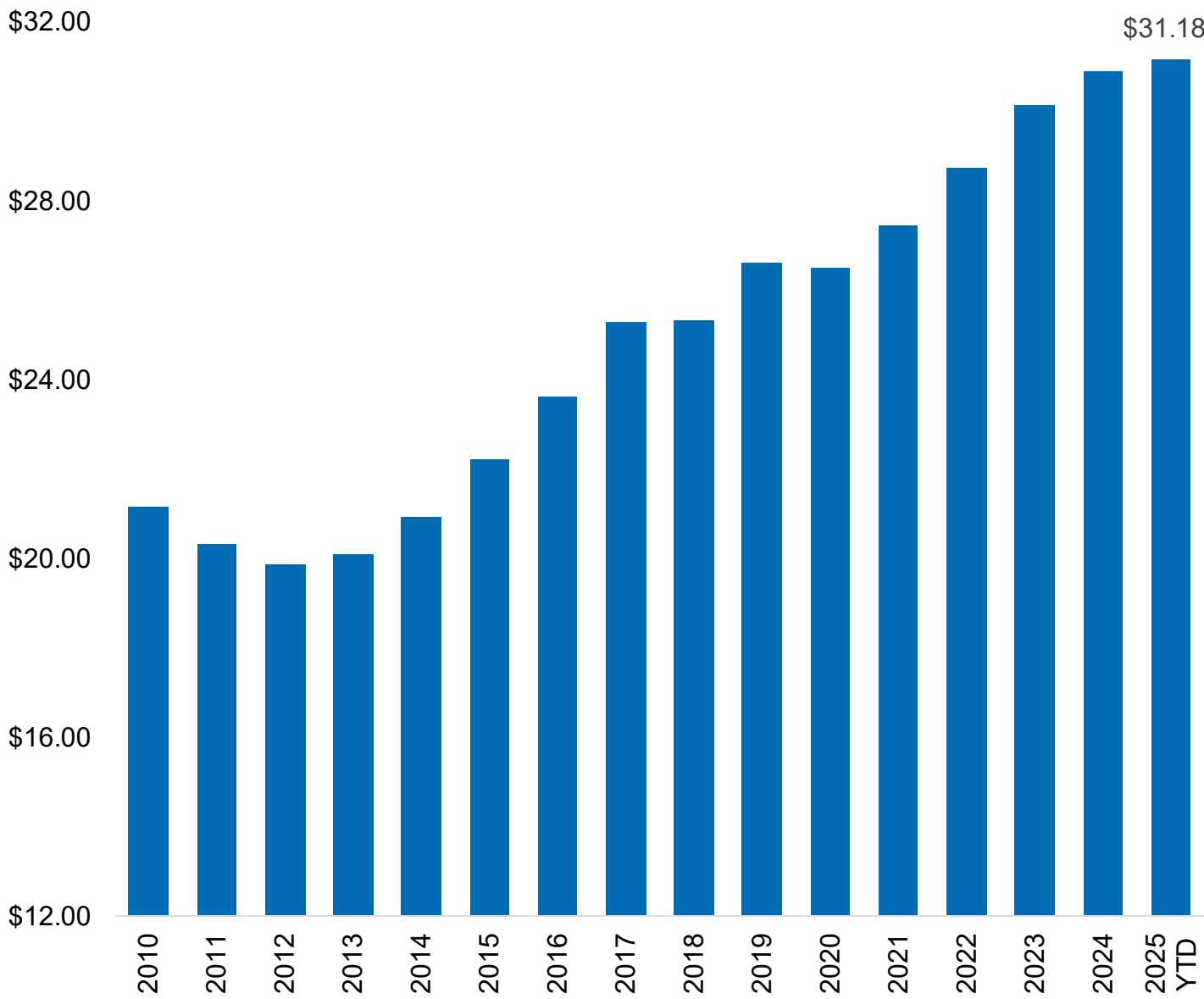


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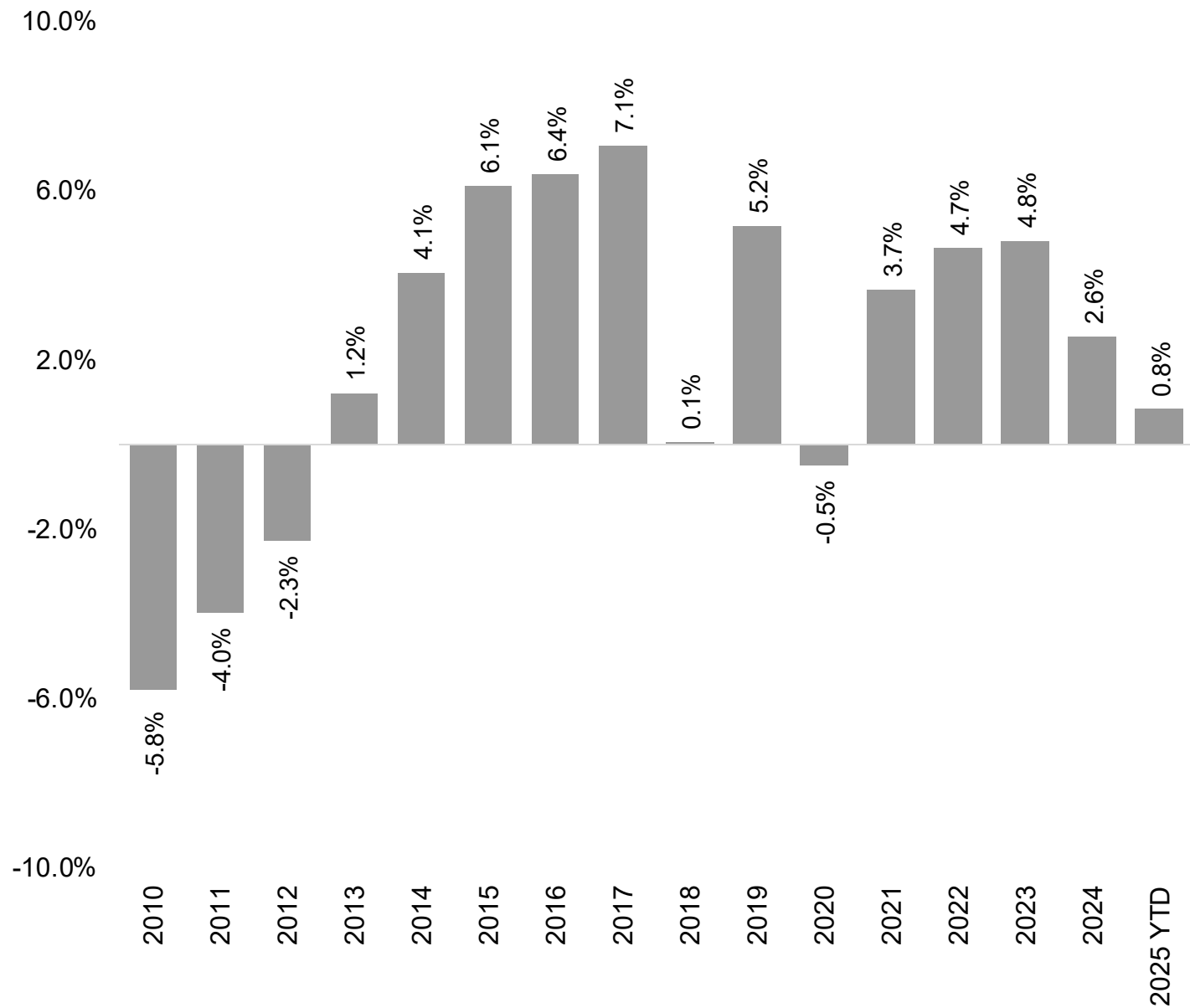
Asking Rent Slightly Increased this Quarter

The average was up a mere 0.8% from 12 months ago. Additionally, rent growth from 2021-2025 has generally 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.

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



Year-over-Year Asking Rent Growth Rate

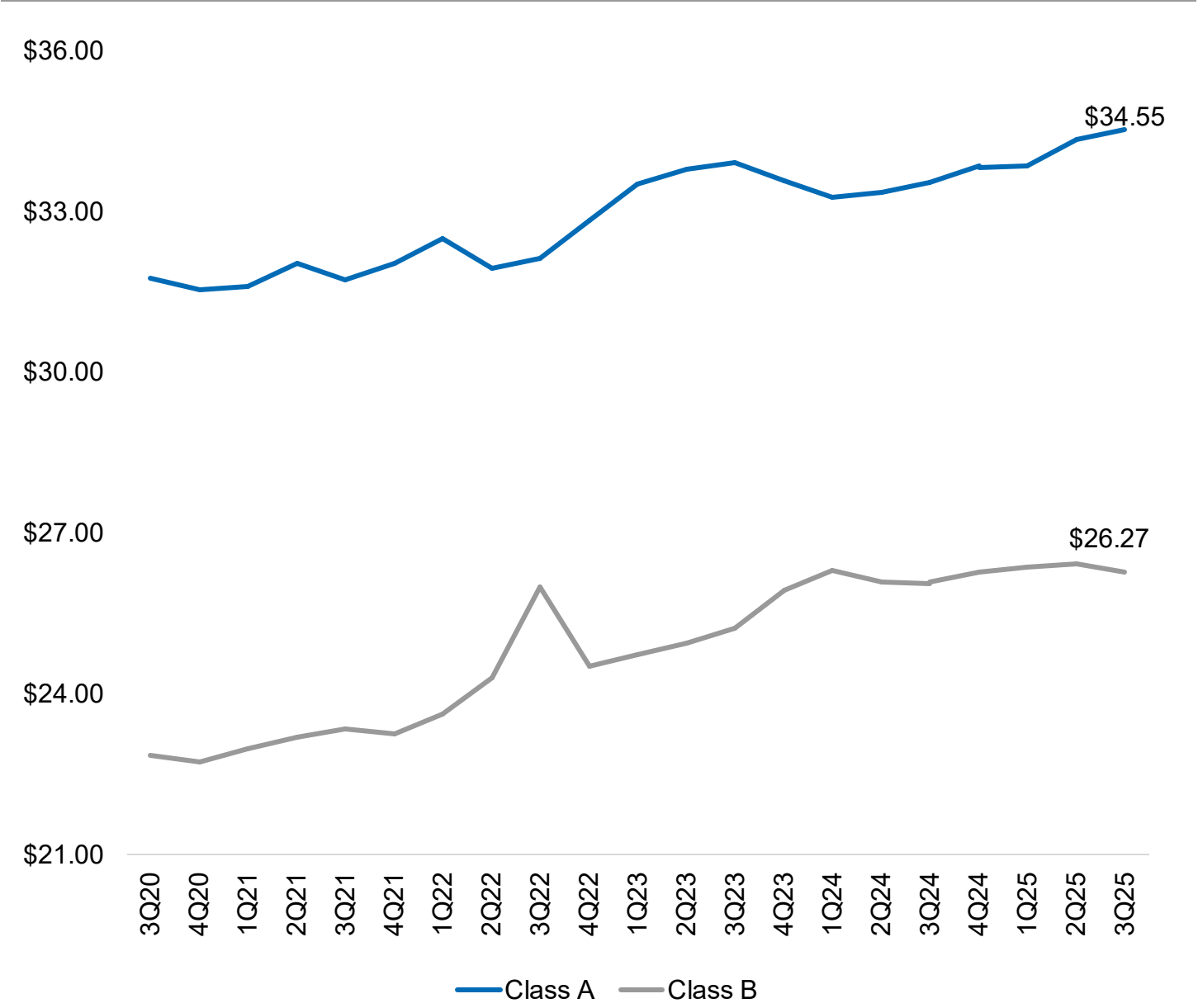


Source: Newmark Research

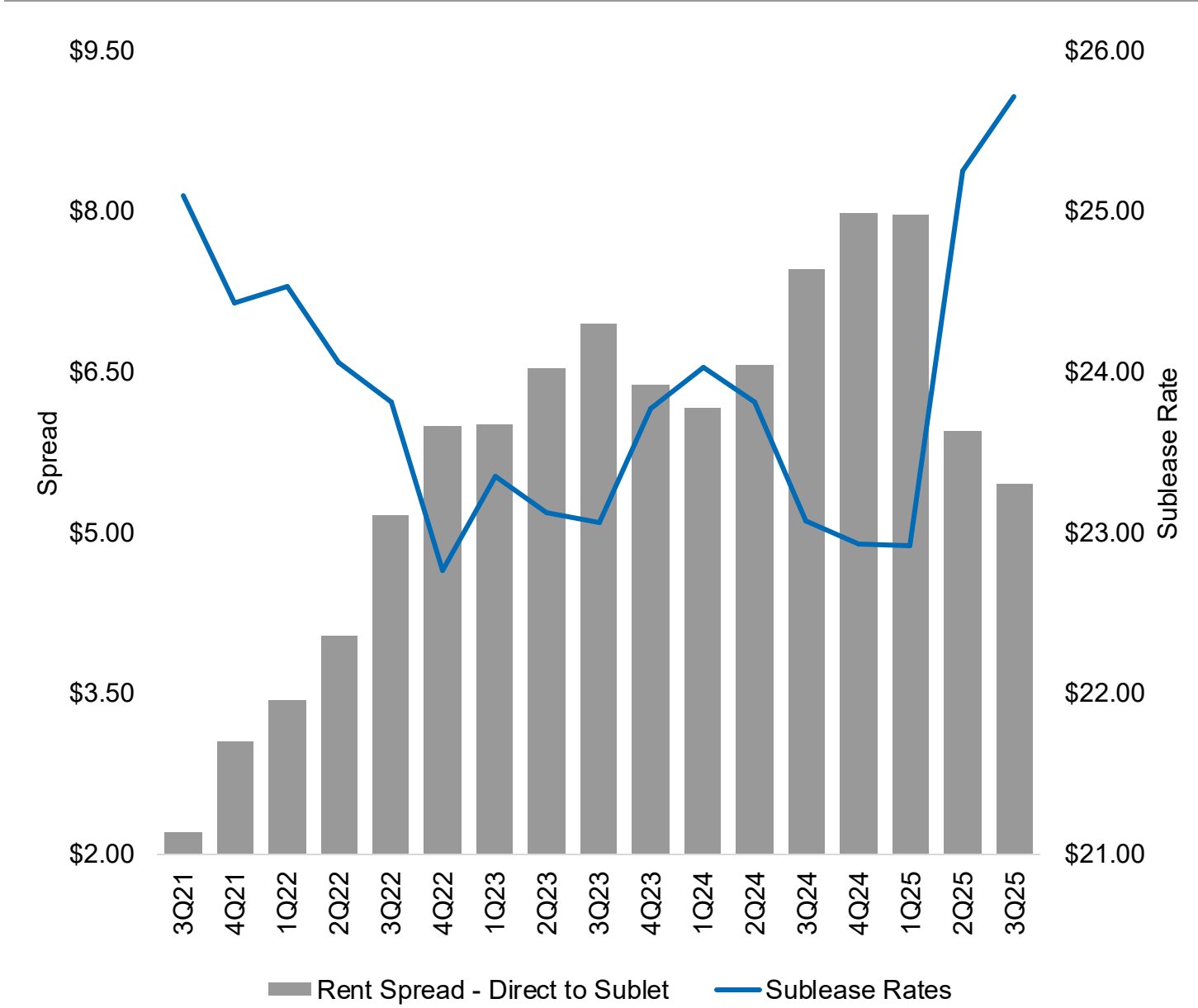
Sublease Competition Pressures Rent Dynamics

Sublessors are aggressively competing with landlords, creating an average \$5.46 per square foot rent 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.

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

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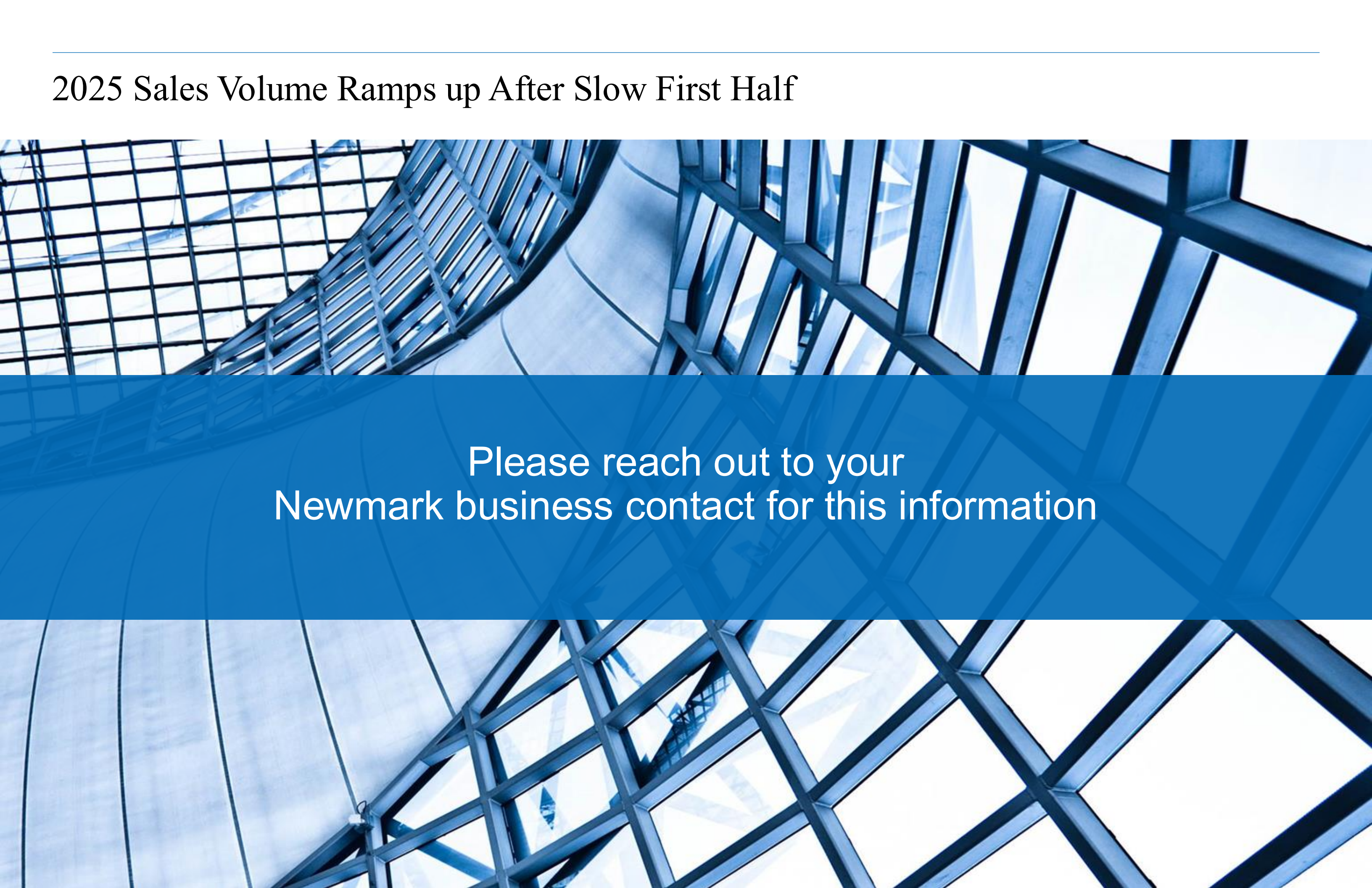
This Quarter’s Notable Lease Transactions

Direct leases, with larger deal sizes from the previous quarter, monopolize the list. A few expansion aside, most tenants are either renewing or right-sizing for cost control.

Notable 3Q25 Lease Transactions				
Tenant	Building(s)	Submarket	Type	Square Feet
Amazon	1665 W Alameda Dr	Tempe	Lease Renewal	121,351
Renewed its lease at the Alameda on a five-year term.				
Troon	16260 N 71 st St	North Scottsdale	Direct Lease	68,721
Relocated and expanded to Inisio Two after signing a sever-year term.				
Toyota	1700 S Price Rd	Chandler/Gilbert	Direct Lease	55,429
Relocated and expanded.				
Bank of Oklahoma	80 E Rio Salado Pky	Tempe	Direct Lease	39,192
Relocated to Hayden Ferry I after committing to a \$49.00/SF start rate on a 132-month term.				
Taft Stettinius & Hollister	2525 E Camelback Rd	Camelback Corridor	Direct Lease	24,895
Relocated from Esplanade V to Esplanade II after committing to a \$62.50/SF start rate and a 130-month term.				

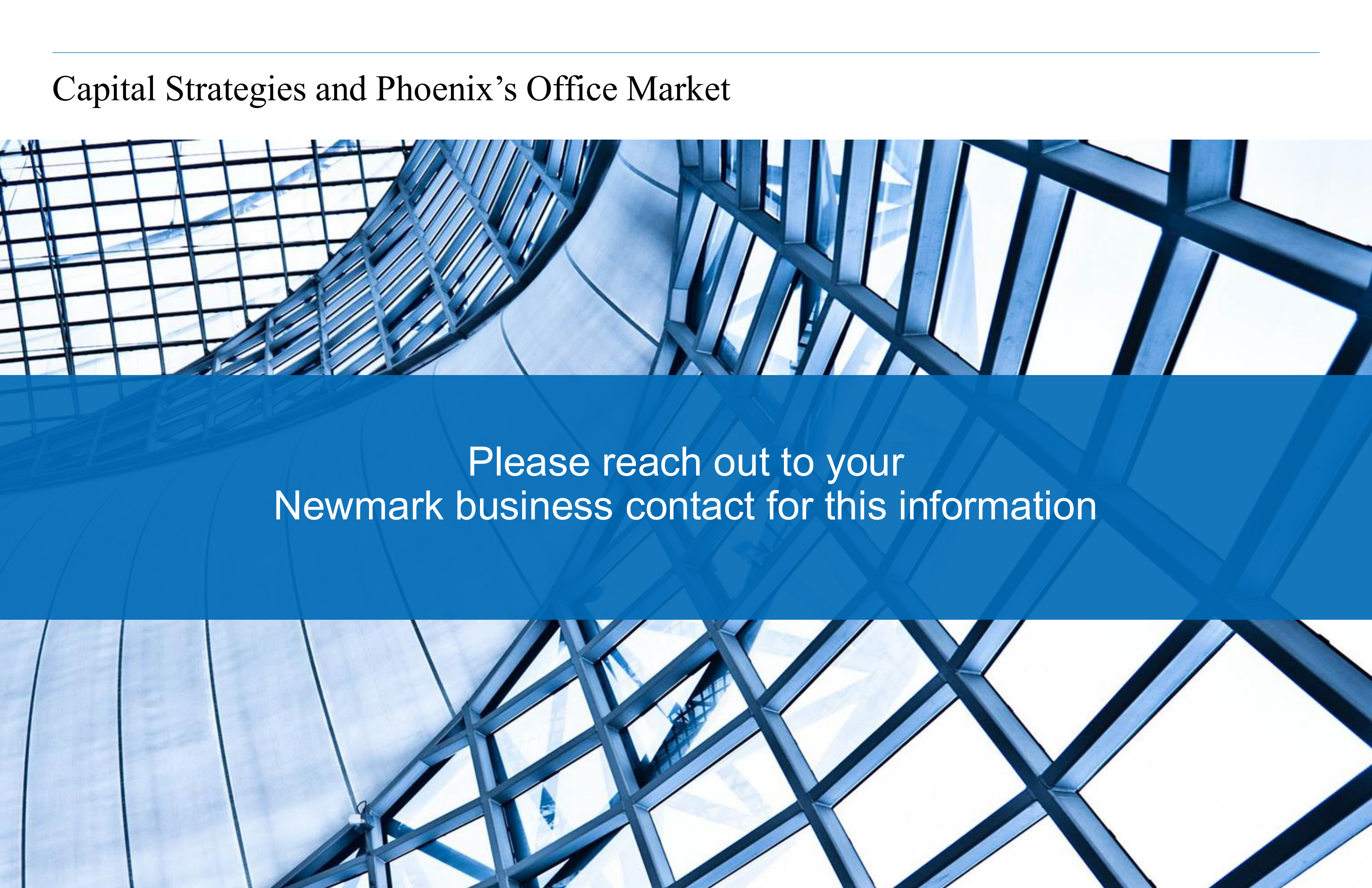
Source: Newmark Research

2025 Sales Volume Ramps up After Slow First Half



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Capital Strategies and Phoenix's Office Market



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Office Sales Rebound Modestly Amid Market Recalibration

Office sales volume rose for the second consecutive quarter, lifting transaction activity above year-ago levels. However, continued economic uncertainty and elevated interest rates are keeping many investors cautious. Despite these headwinds, the current environment offers opportunities to acquire assets at repriced levels with stronger in-place yields, as well as to pursue adaptive reuse and redevelopment strategies.

Notable 3Q25 Sale Transactions

Building Address	Submarket	Sales Price	Price/SF	Square Feet
CIO / SWVP Portfolio Acquisition	Downtown/ South Scottsdale/ South Tempe/Chadler, Camelback Corridor	\$265,999,999	\$214.00	1,245,770
Southwest Value Partners acquired the 6-property portfolio in August. Pima Center – The Corporate I & II will also be part of this portfolio as an additional \$30M transaction, pending a ground lease assumption with SRPMIC.				
ReDiscover Logistics – 2402	Deer Valley	\$60,000,000	\$177.56	337,914
Two-story, 337,914-SF building, 0% leased. Acquired as a redevelopment play to convert to industrial. Brings ViaWest Group’s total to \$75M acquired in 12 months with more in the pipeline.				
2800 Tower – 2800 N Central Ave	Midtown	\$28,500,000	\$76.87	370,736
21-story, 370,736-SF building, 55.4% leased. Sold to Skyline Real Estate in July.				
Mountain Vista Commerce Center– 14647 S 50 th St	Tempe South/Chandler	\$26,325,000	\$195.42	134,713
Three-building, 134,713-SF complex, 100% leased. The office park sold as a flex deal.				
Former Target Financial Center – 8530 S Priest Dr	Tempe South/Chandler	\$20,500,000	\$108.49	188,960
Two-building, 188,960-SF complex, 0% leased at the time of the sale.				
East Gateway – 4646-4686 E Van Buren St	Airport Area	\$19,000,000	\$82.24	231,040
Two-building, 231,040-SF complex, 65.2% leased at the time of the sale. Acquired by Helix on 9/30 as a lender-facilitated short sale.				

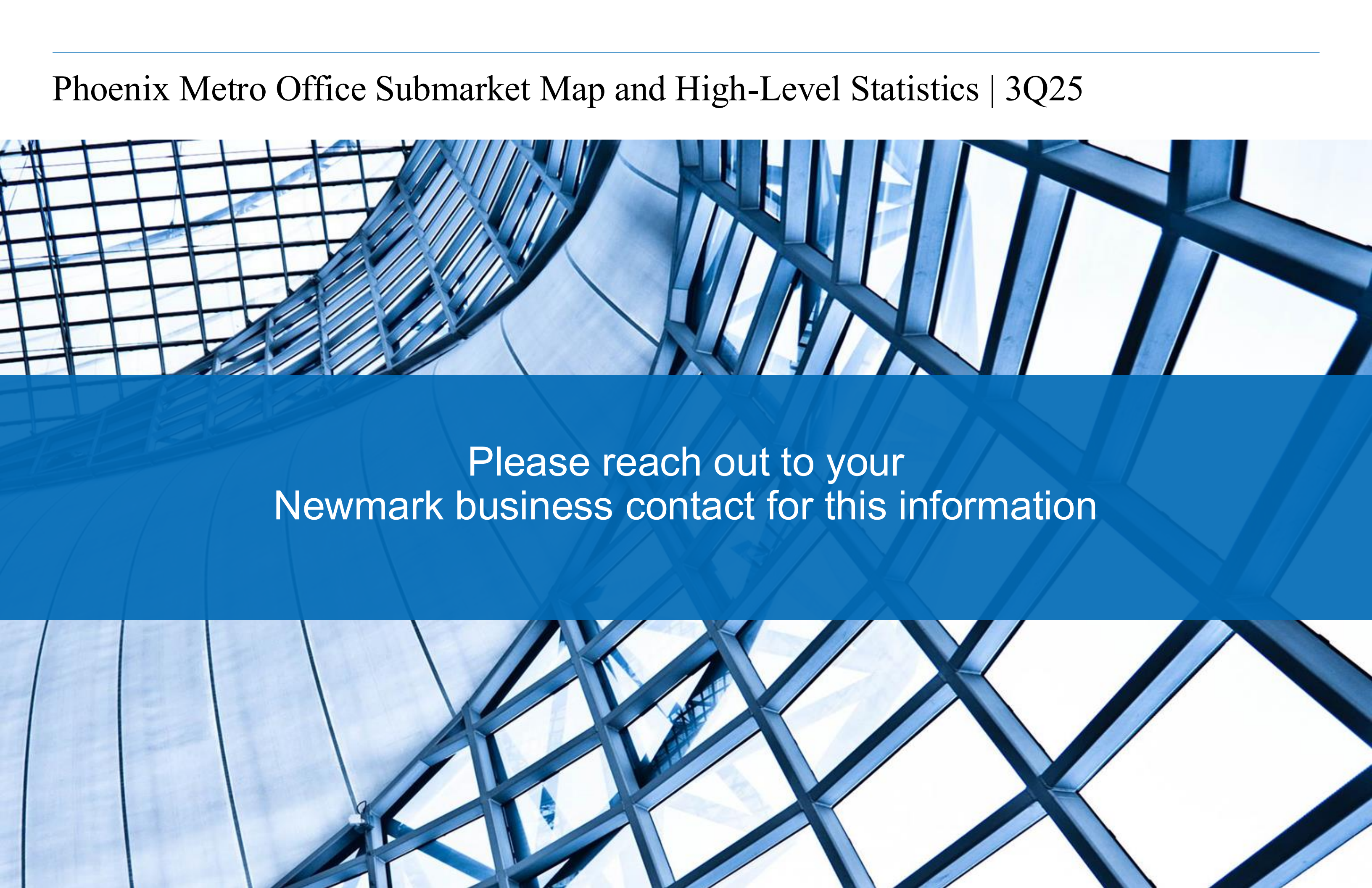
Source: Newmark Research

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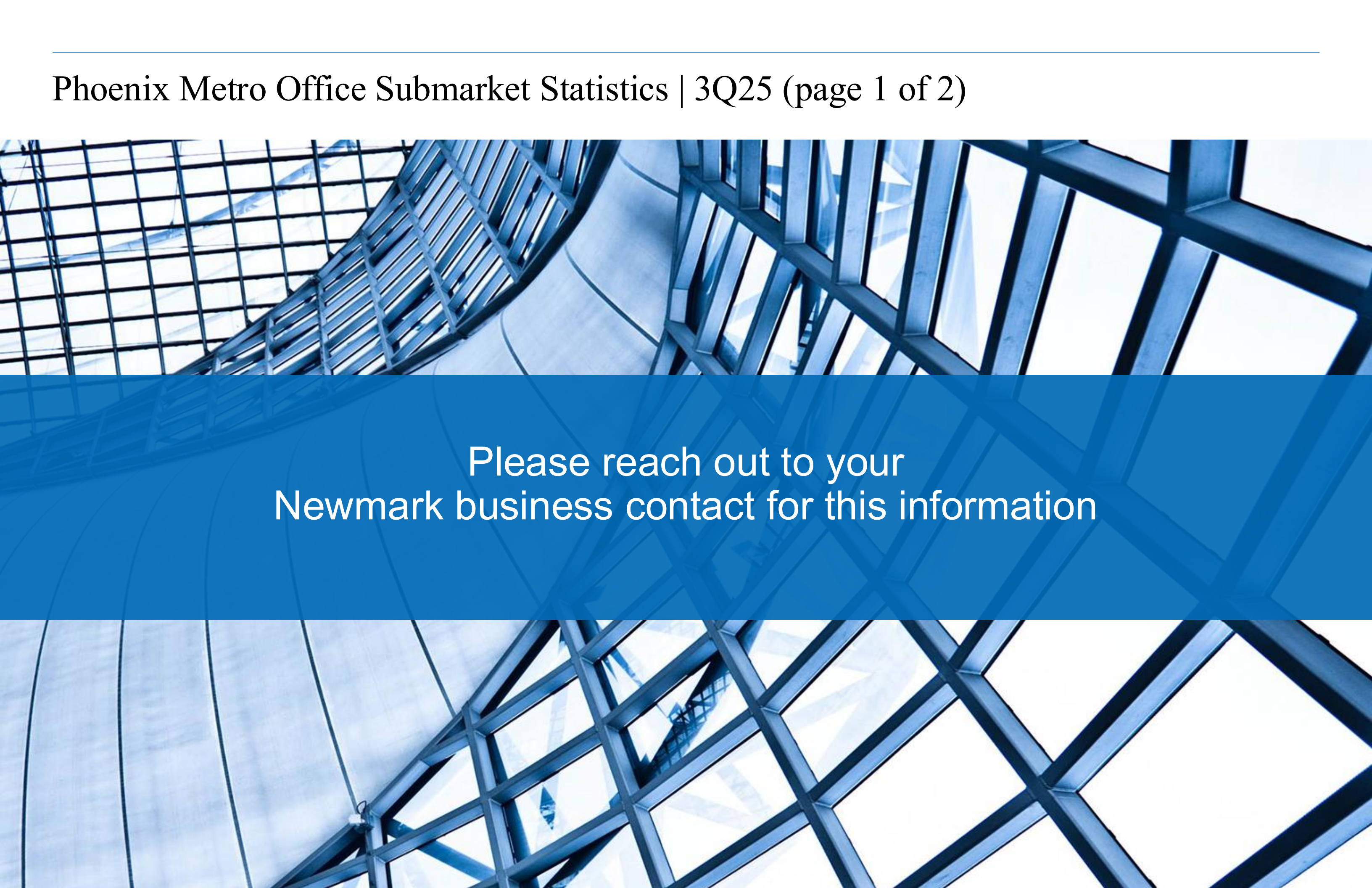
Appendix



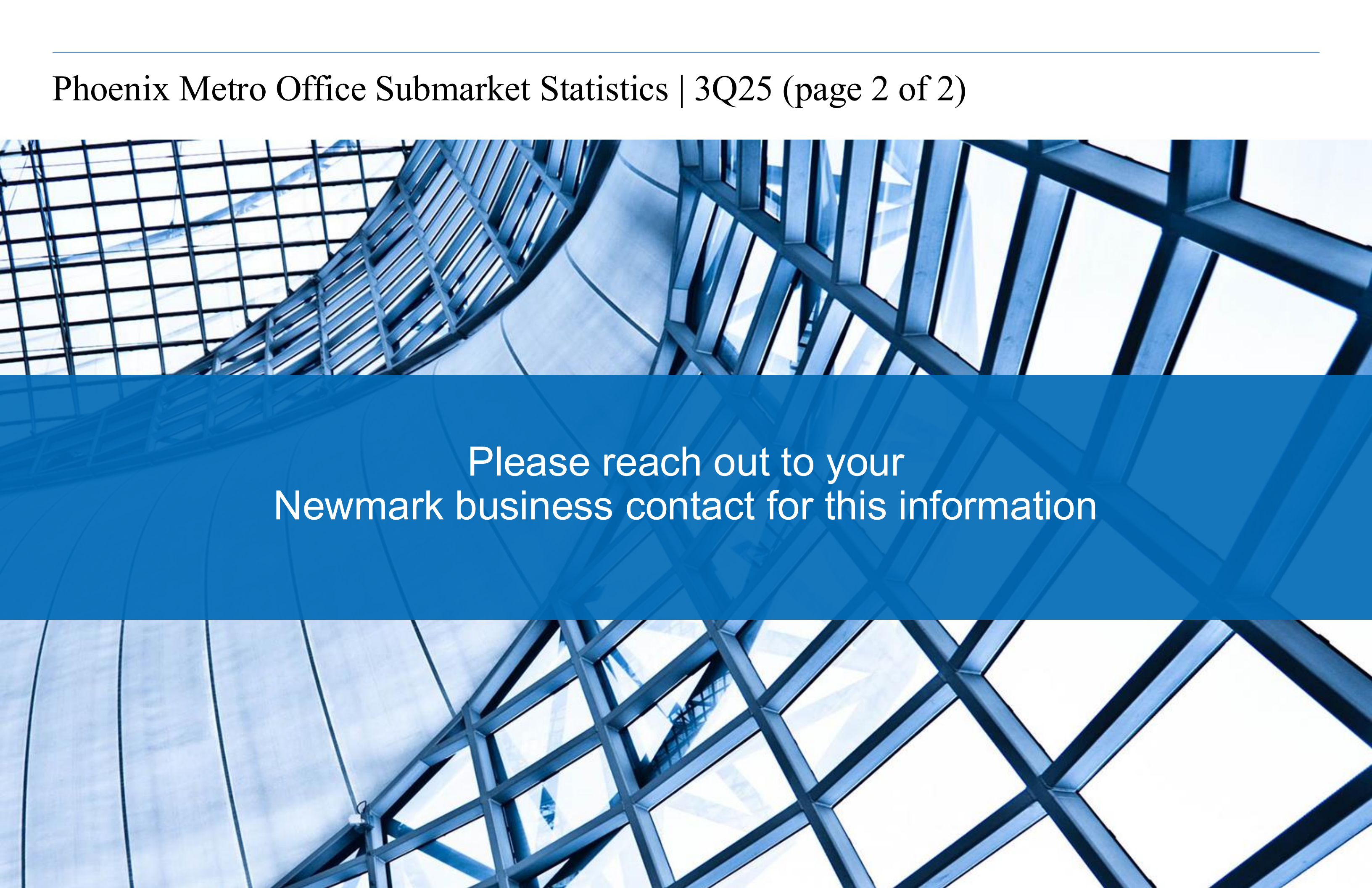
Phoenix Metro Office Submarket Map and High-Level Statistics | 3Q25



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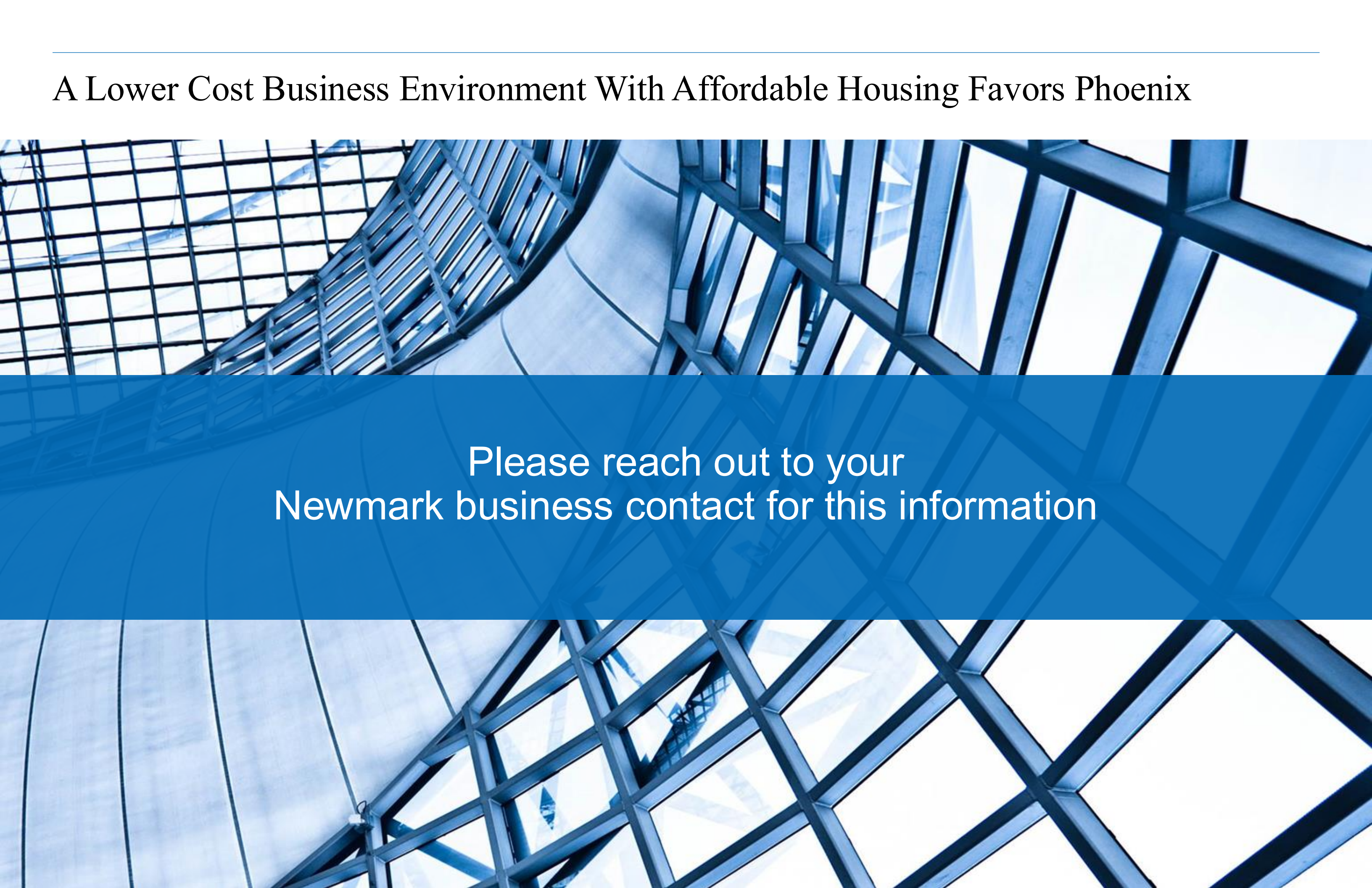


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A Lower Cost Business Environment With Affordable Housing Favors Phoenix



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