

A wide-angle photograph of the Phoenix skyline at sunset. The sky is a mix of deep blue and orange, with long, wispy clouds catching the low light. The city's skyscrapers are silhouetted against the horizon.

NEWMARK

Phoenix: Office Market Overview

4Q25

An aerial photograph of a residential neighborhood in Phoenix. The scene is filled with numerous palm trees and lush greenery. Several houses with red-tiled roofs and white walls are visible, along with a few parked cars and a small commercial building on the right.

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Phoenix Office Market Observations



Economy

- Local unemployment (4.1%) was below the U.S. average for the 25th— straight month.
- While office-using employment remains above pre-pandemic levels, growth continues to be sluggish, with a mere 1.2% year-over-year gain.
- U.S. unemployment rose from 4.4% in September to 4.6% in November, the highest in four years.
- The Fed cut interest rates three times this year (25 bps each, bringing its benchmark rate to 3.50-3.75%. One rate cut is presently expected in 2026.



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



Leasing Market Fundamentals

- Annual net absorption (855,966 SF) was positive for the first time in three years. Half of this figure came from the fourth quarter's gain of 437,394 SF.
- Total vacancy tightened to 25.0%, down 40 bps from last quarter and 90 basis points from 2024.
- Asking rents were up 1.2% year over year. Desirable Class A space continues to lease quickly, while older, long-vacant spaces are dragging down average rates.
- Sublet availability remains low at 4.6%. With no new construction starts this quarter, limited supply could push vacancy lower and support rent growth, particularly in the Class A segment.
- Sprouts Farmers Market broke ground on its new 144,500-SF HQ this year. Office construction is rare across the U.S., and this highlights Phoenix's appeal to corporate occupiers.



Outlook

- Corporate occupiers continue to pursue premium space, which will lower trophy's vacancy rate (presently 15.2%). Speculative development may return once the average nears 10%.
- Sublease space will continue to decline as space terms out/transitions to direct availability.
- Prolonged tariffs will drive up raw material prices, increasing overall replacement costs and impacting construction budgets. This will limit construction activity, as developers delay or scale back projects in response to financial risks.
- Some economists expect U.S. business spending to remain resilient or even accelerate in 2026, driven by factors like AI adoption, easing labor constraints, and potential policy stimulus. Though, growth might moderate from peak 2025 levels, with some signs pointing to a slower start to the year before picking up.

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01

Economy

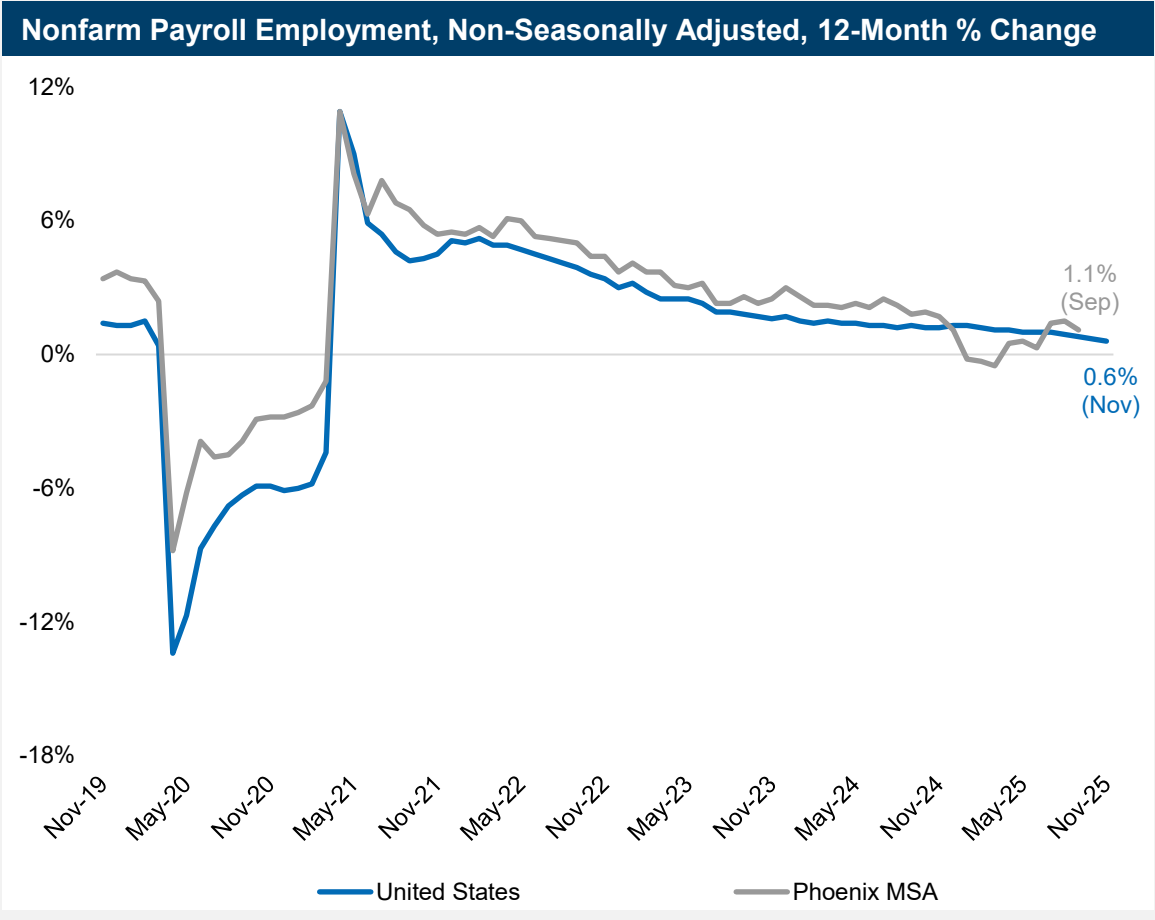
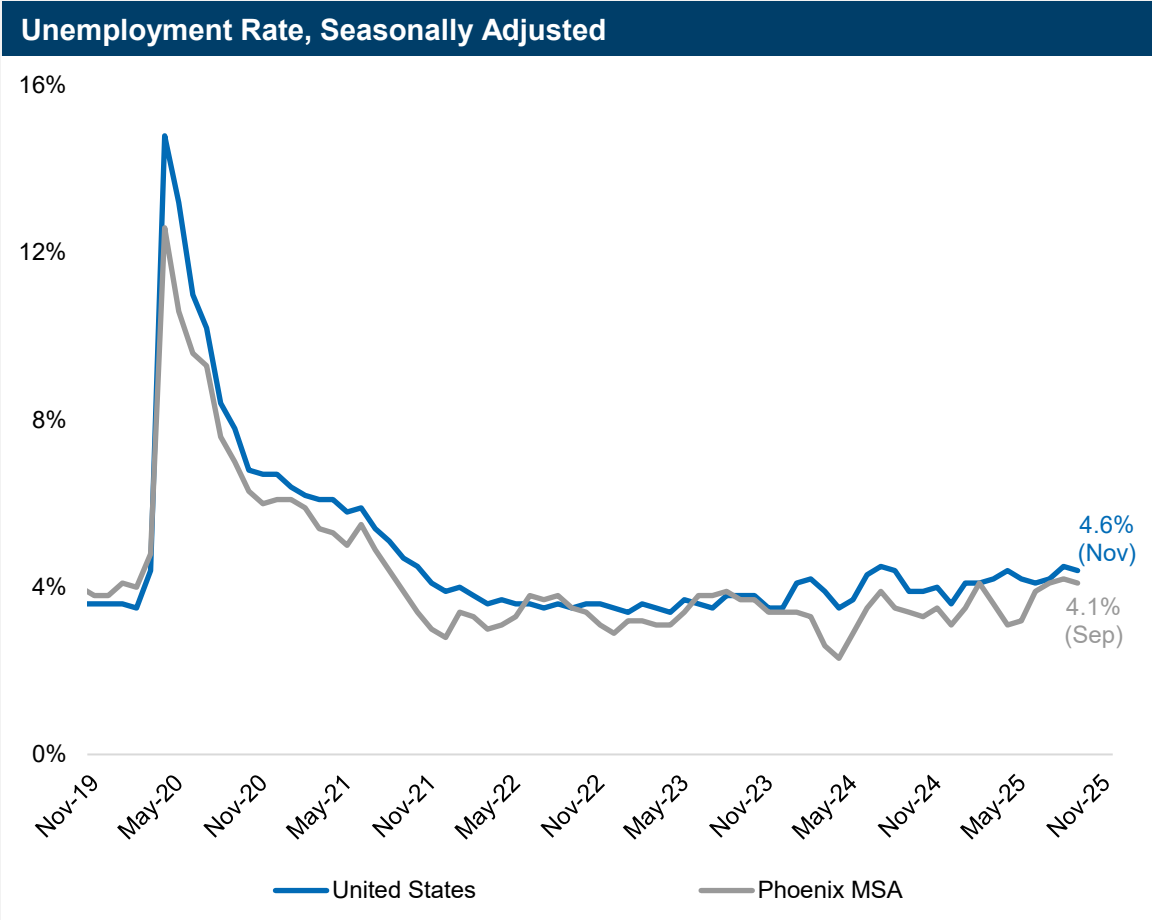
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Resilient Labor Market Amid Economic Challenges

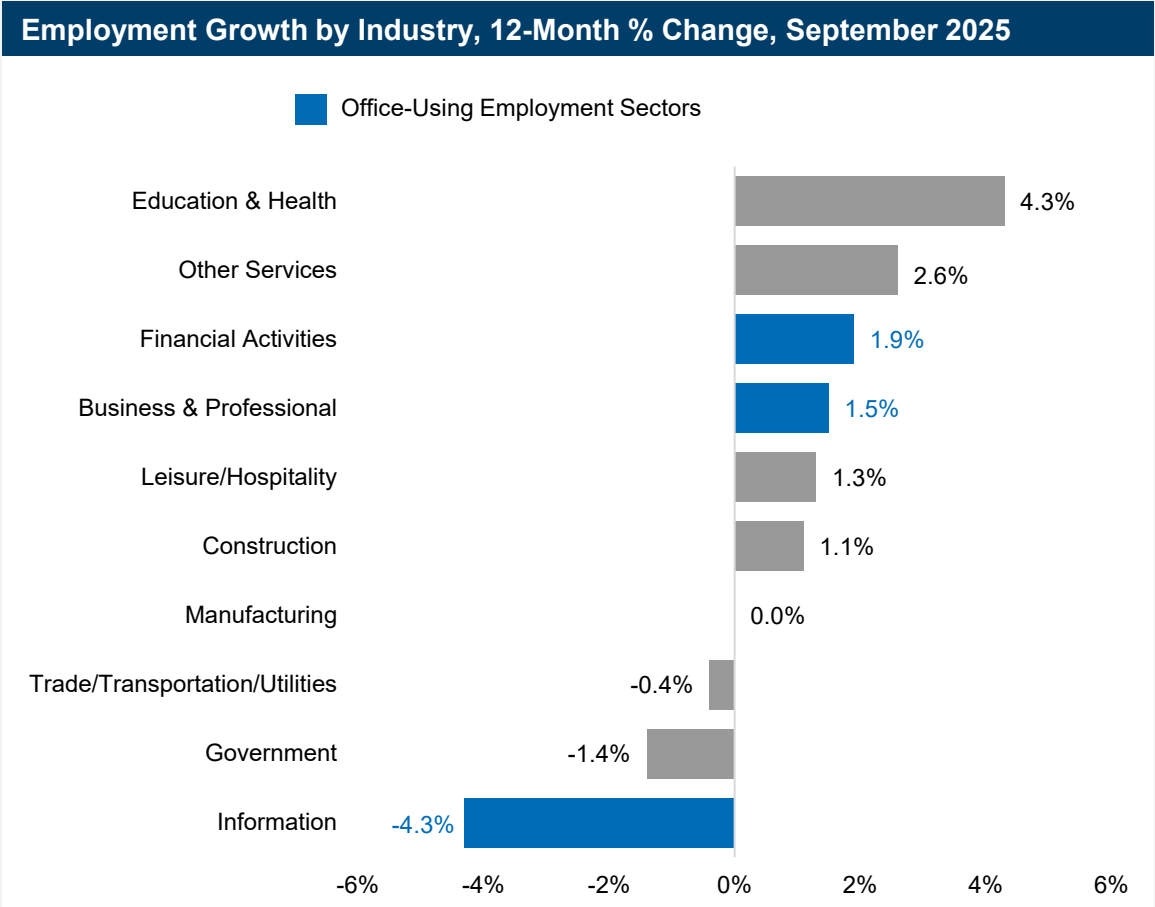
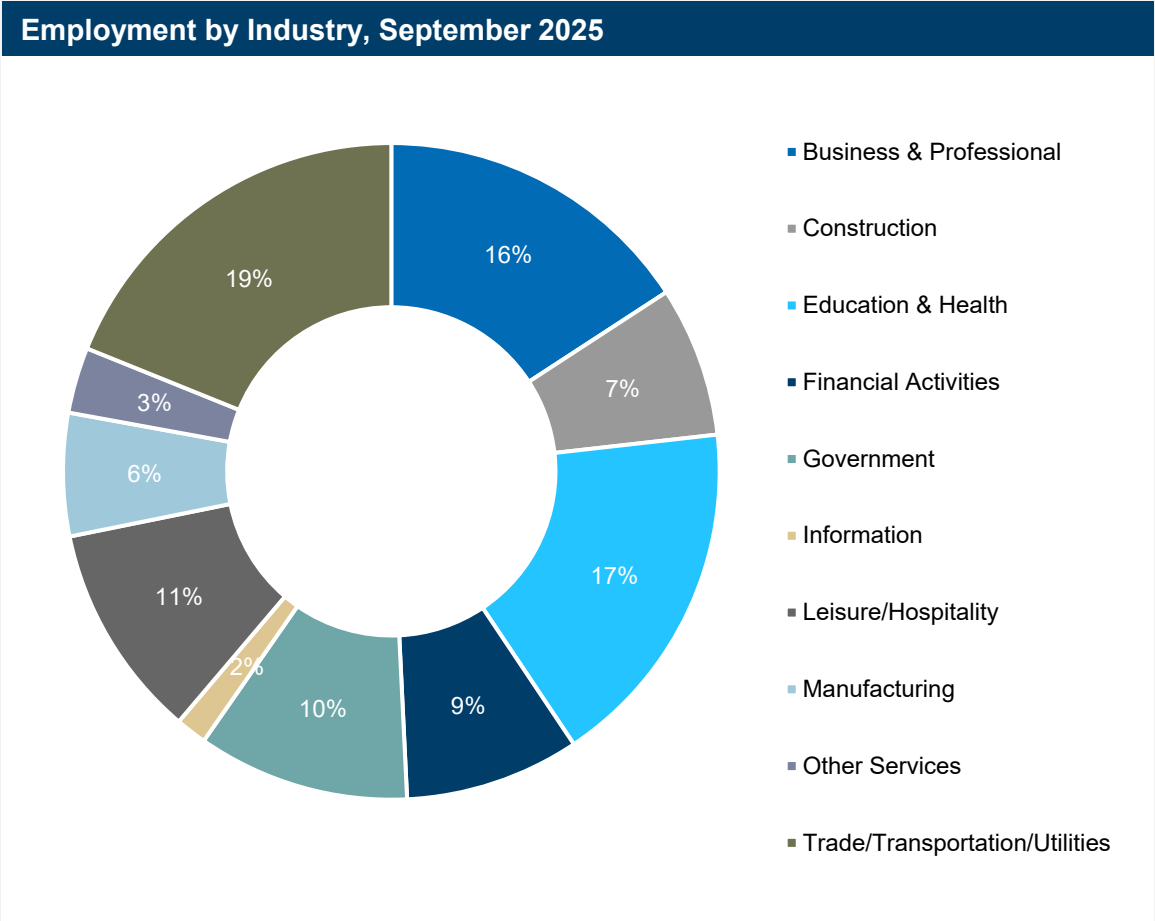
Local unemployment 4.1% (September data) was lower than the U.S. average at the time for the 25th–straight month. Phoenix's job growth is also gaining momentum, with year-over-year nonfarm employment posting gains for six consecutive months, as select companies expand.



Source: U.S. Bureau of Labor Statistics, Phoenix MSA
Note: Local employment statistics for October were unavailable due to the federal government shutdown. November's figures are delayed.

Key Office-Using Employment Sectors Post Wins and One Big loss

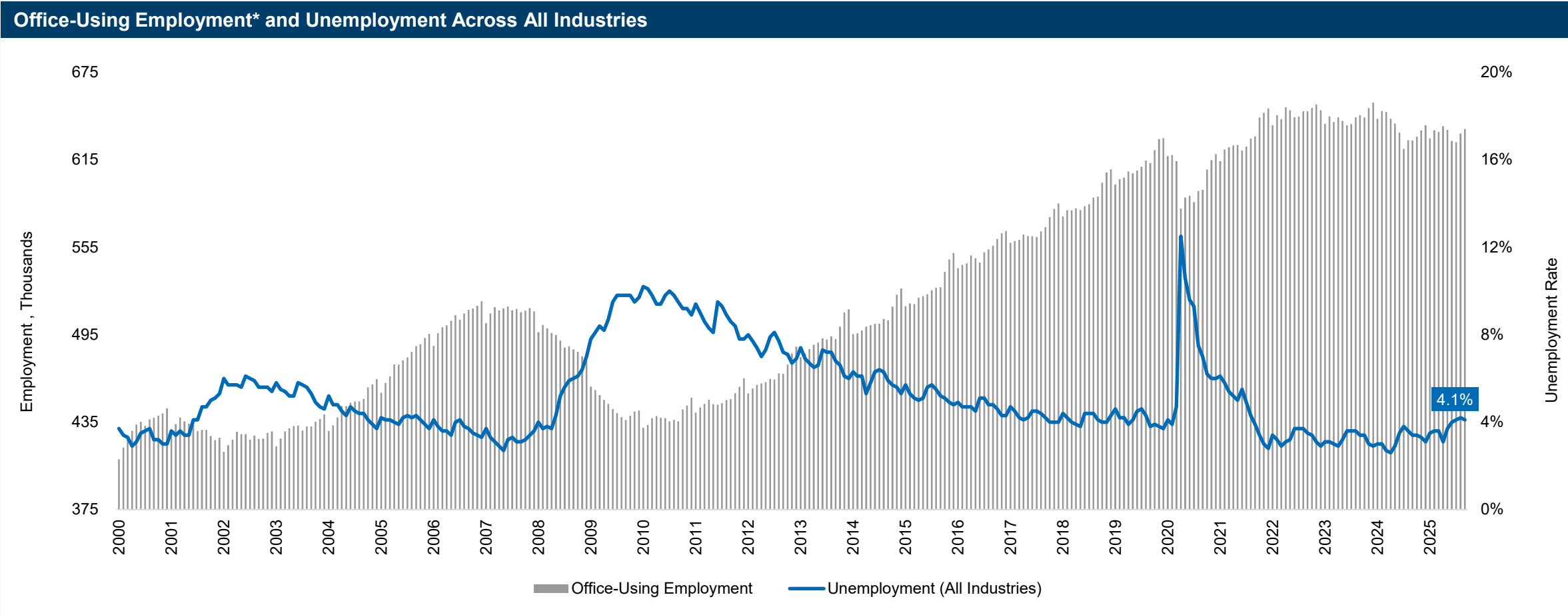
At the industry level, education and health led in annual job gains for the fourth-straight quarter, followed by other services. Among office-using sectors, information (dominated by tech) contracted by -4.3%, business and professional saw a 1.5% increase, and financial activities increased by 1.9%. The contraction in tech reflects broader industry challenges, while other office-using sectors are trying to balance cost reductions with growth.



Source: U.S. Bureau of Labor Statistics, Phoenix MSA
Note: Local employment statistics for October were unavailable due to the federal government shutdown. November's figures are delayed.

Office-Using Employment Remains Steady Amid Economic Uncertainty

Current office-using employment is 2.8% higher than pre-pandemic levels (February 2020), and up 1.2% 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 remains a current headwind for office-using employment.



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

02

Market Fundamentals

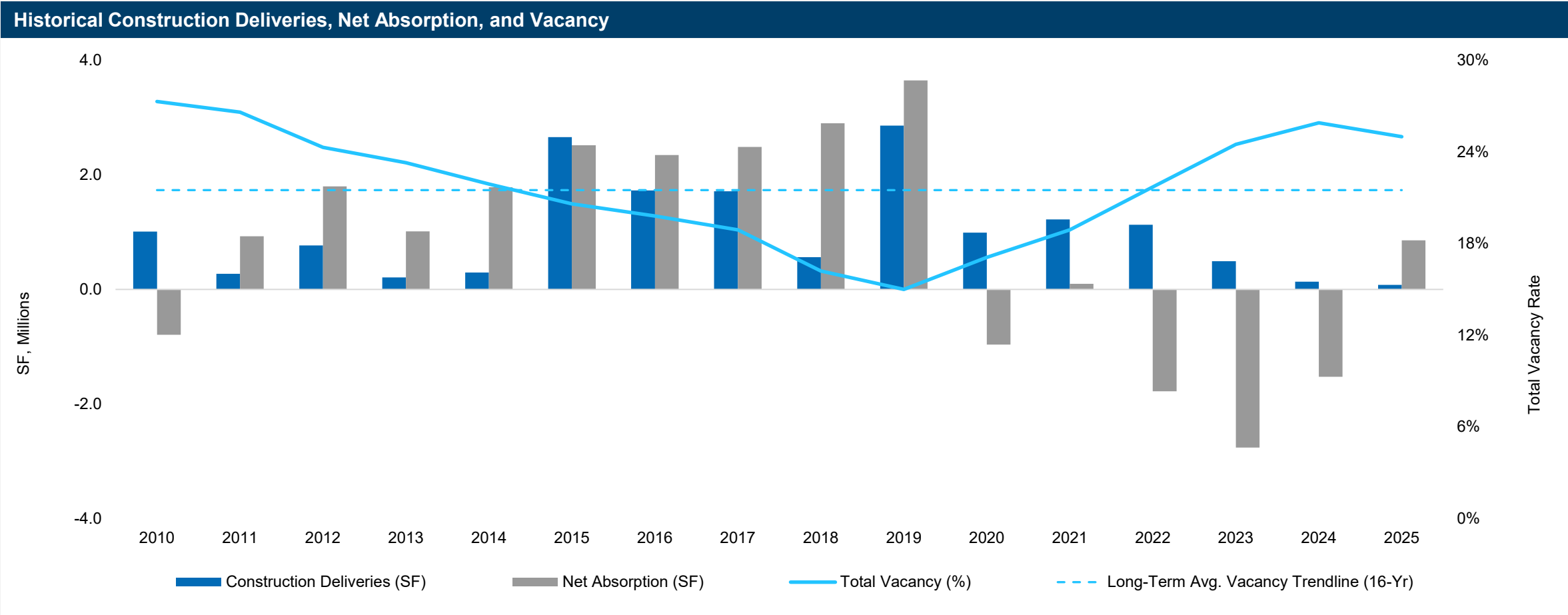
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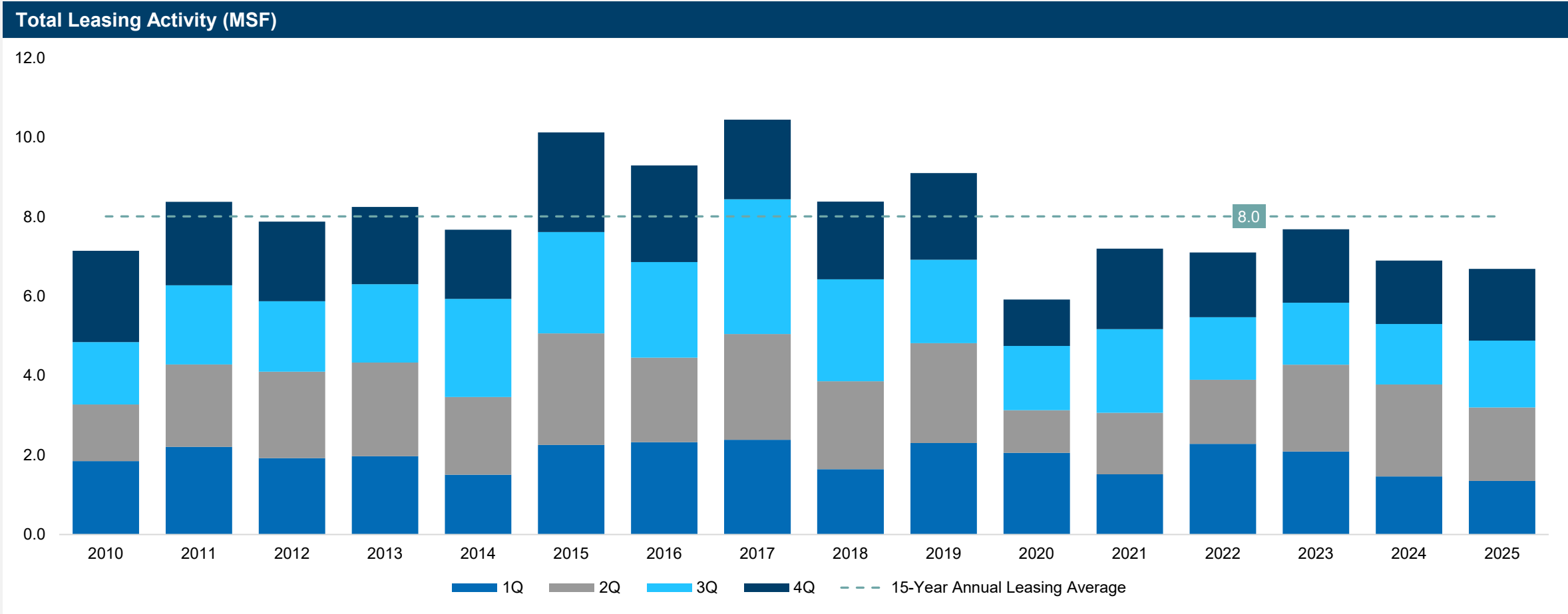
Stable Vacancy and Modest Absorption Gains Reflect Market Resilience

Total vacancy decreased by 40 basis points from the third to the fourth quarter of 2025, settling at 25.0%. The current average marks a seven-quarter low. Moderate absorption gains and limited construction will further moderate vacancy increases, providing some stability as the market continues to adjust to evolving tenant needs.



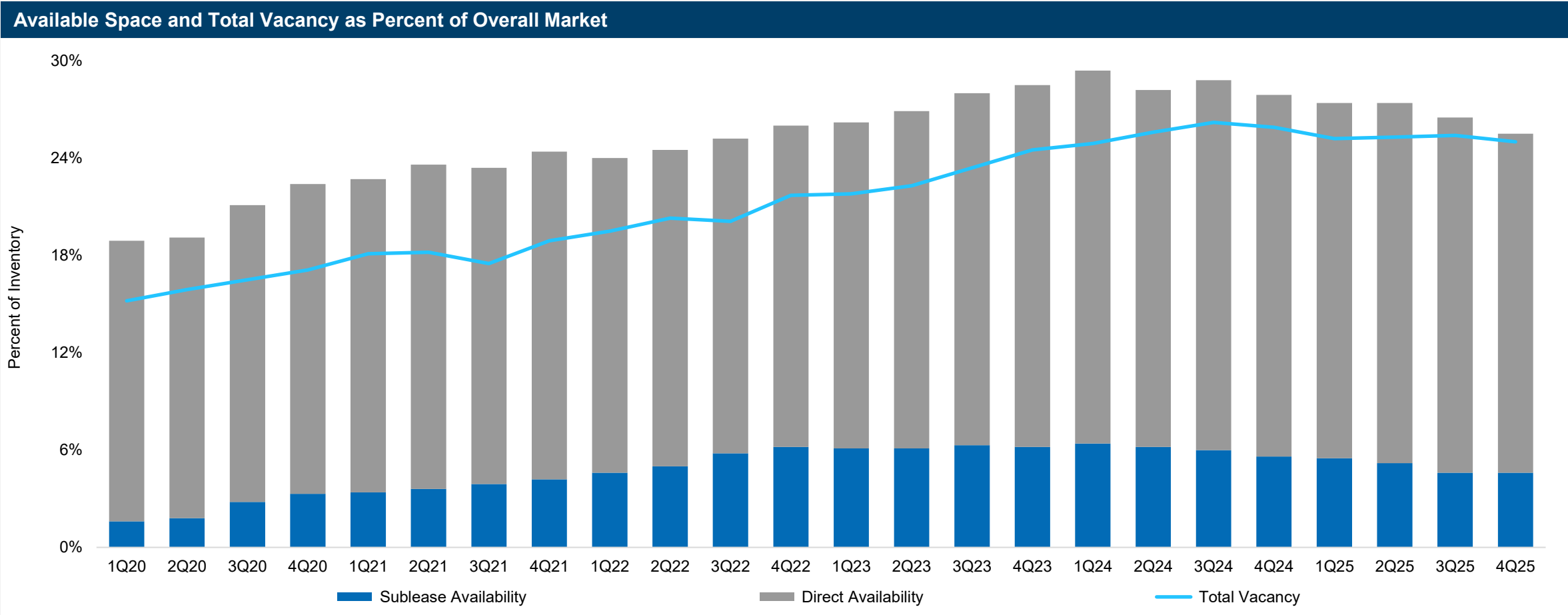
Leasing Activity Finishes the Year Short of 2024 Total

Deal sizes continued to trend smaller throughout the year as most tenants sought 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. It's worth noting, too, that fourth-quarter leasing activity was up from last quarter.



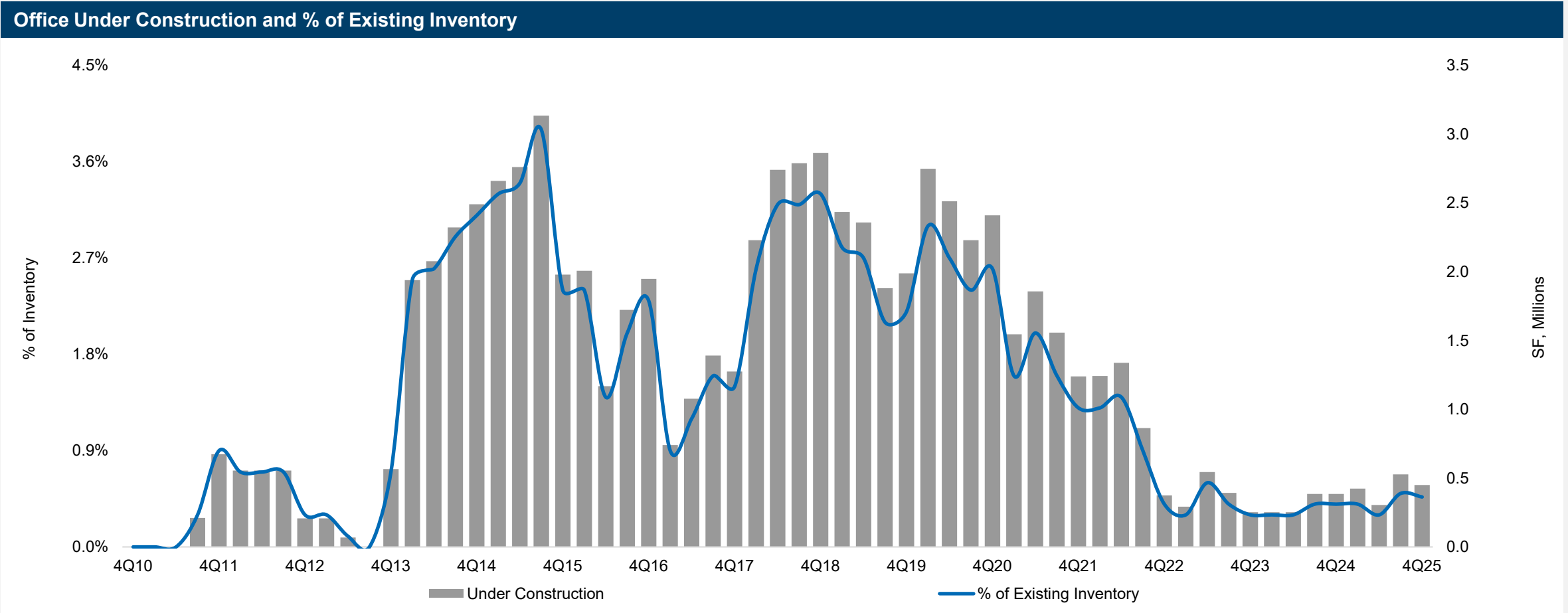
Sublease Availability Stabilizing Along With Shorter Market Vacancies

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 2025 as space transitioned to transitioned to direct availability and select blocks found subtenants. Sublease availability remained at 4.2% this quarter, while total vacancy decreased by 40 basis points.



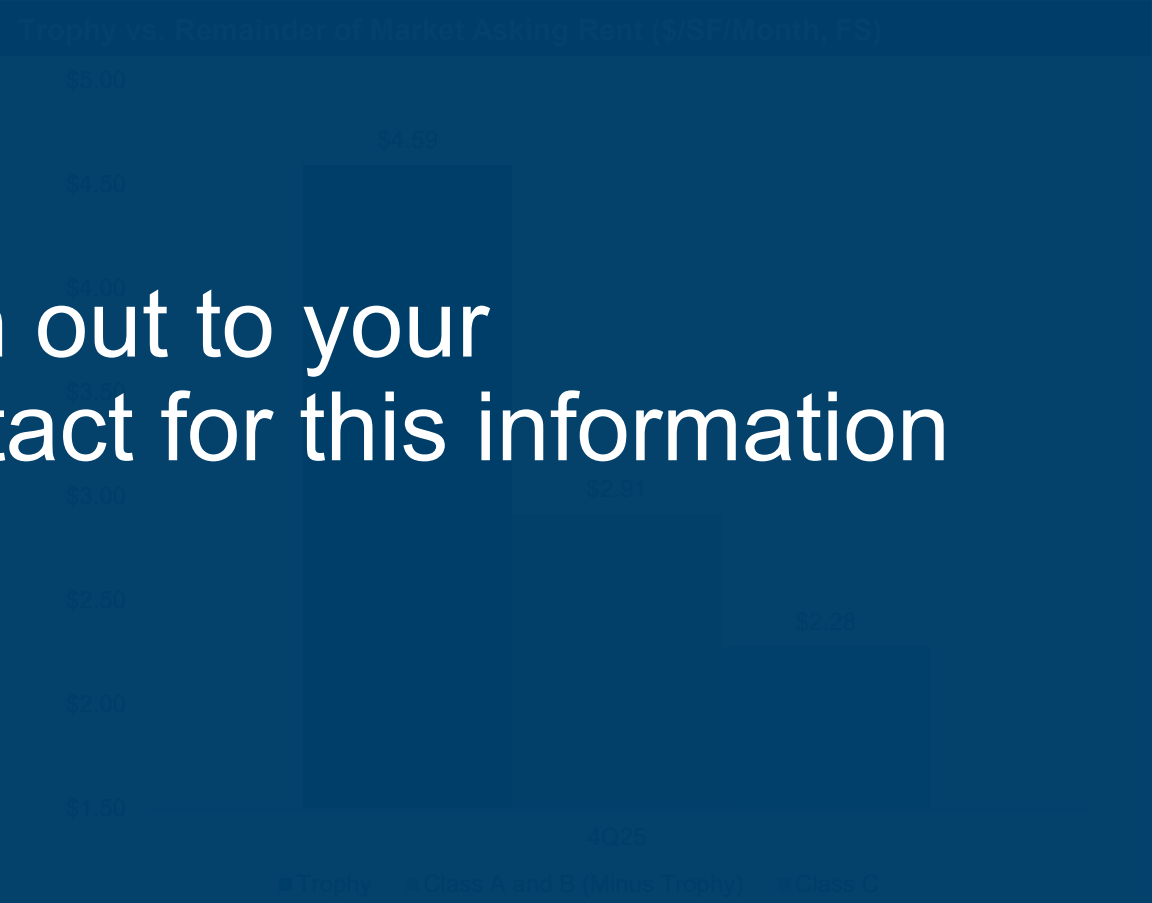
Constrained Office Development Shifting Towards HQ Build-to-Suits

Office construction activity reached a two-year high last quarter, driven primarily by several headquarters build-to-suit projects. Notably, in the fourth quarter of 2025, Fender Musical Instruments’ new headquarters was delivered, and the company took occupancy.



Trophy Buildings Outperform Class A

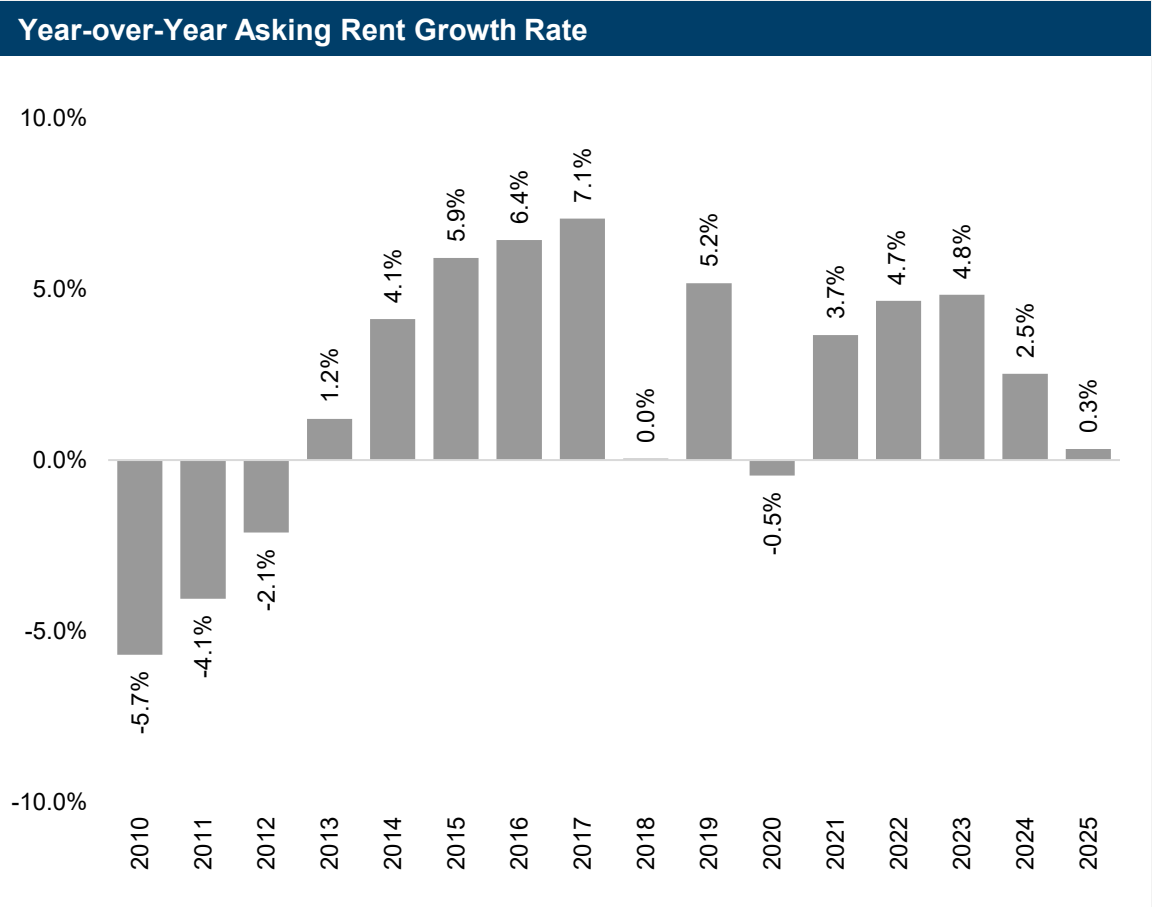
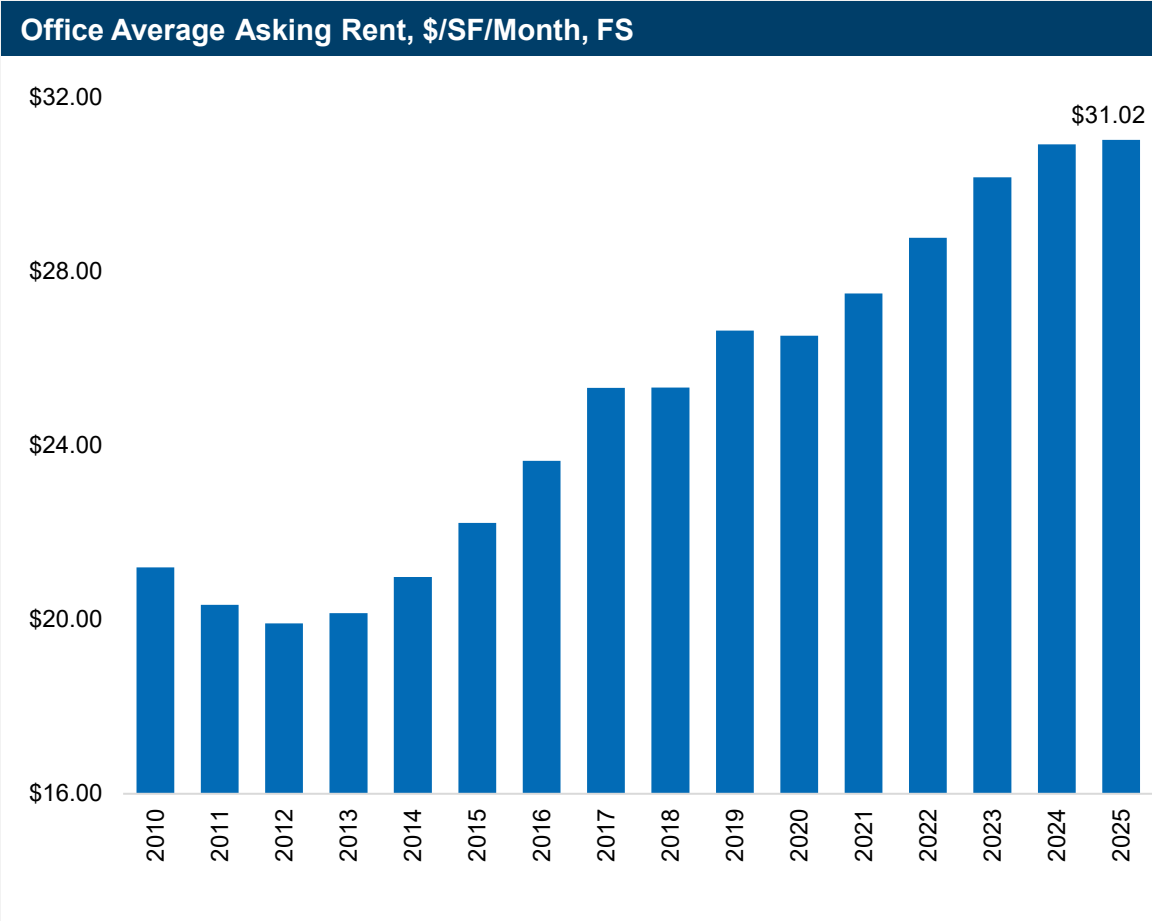
Orange County's premier trophy product, a group of 20 office buildings across the Airport Area and South County, is outperforming the remainder of Class A and B properties by a wide margin. These buildings boast exceptional quality and design, state-of-the-art systems, high-end finishes and amenities, and exceed the standards of typical Class A buildings and thus command the highest asking rents. The Irvine Company is a major player in the trophy market, owning 13 of the 20 buildings. On the other hand, tenants priced out of the trophy market are opting for the cheapest possible find from Class C inventory.



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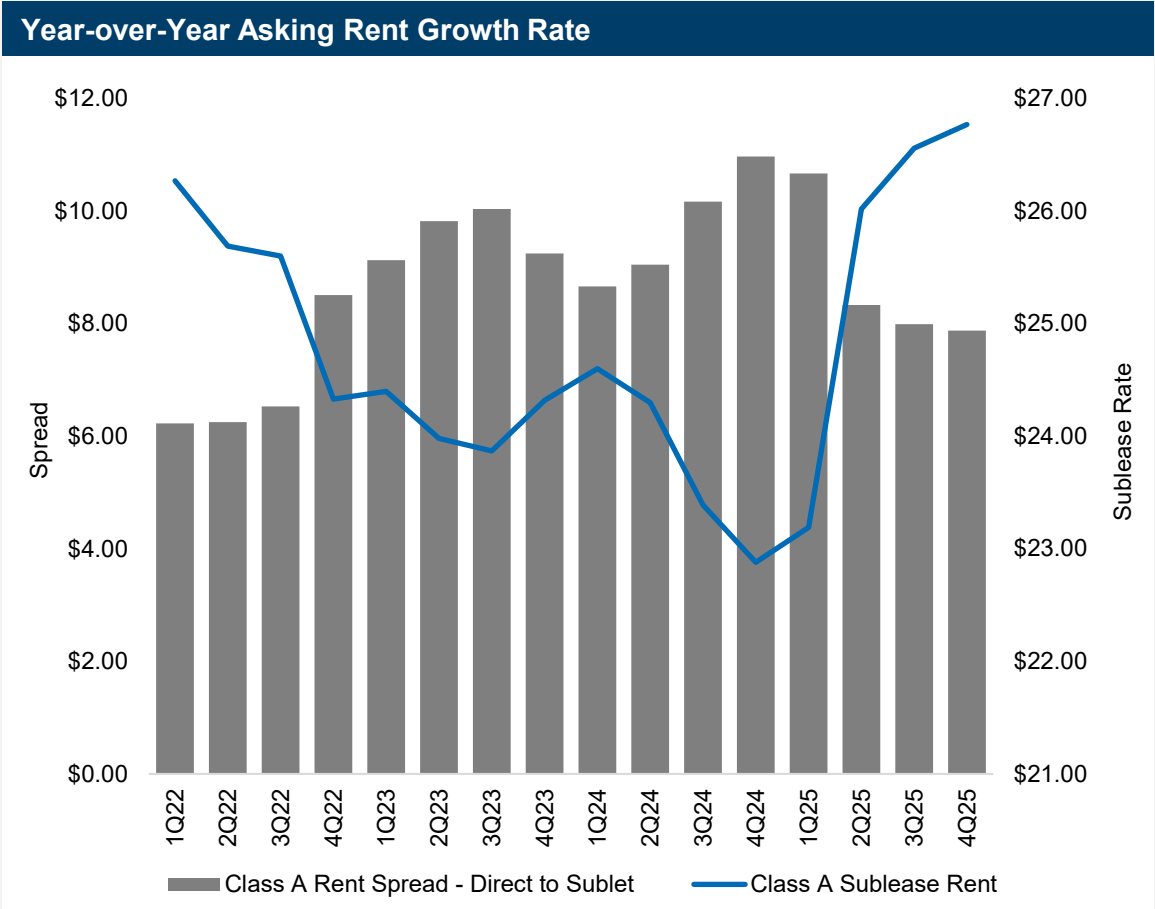
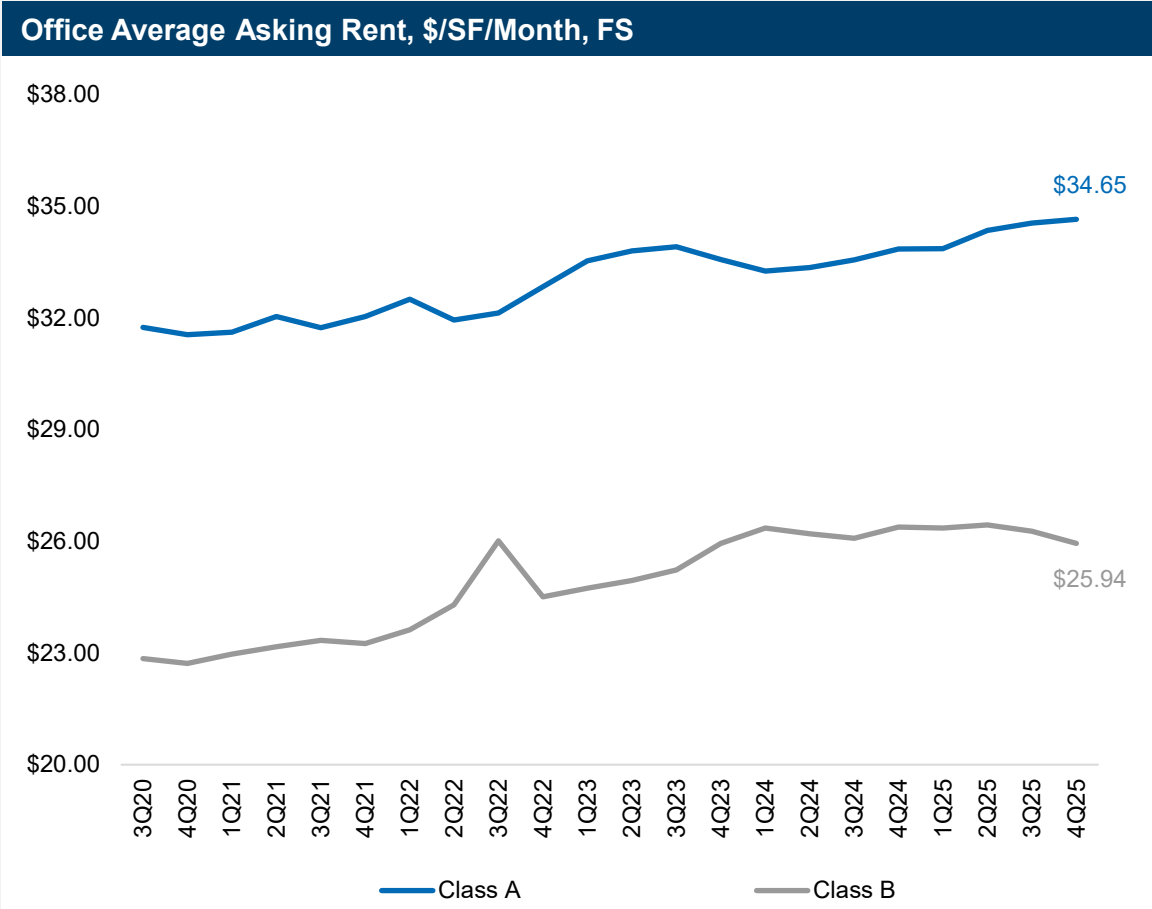
Asking Rent Slightly Increased this Quarter

The average was up a mere 0.3% 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.



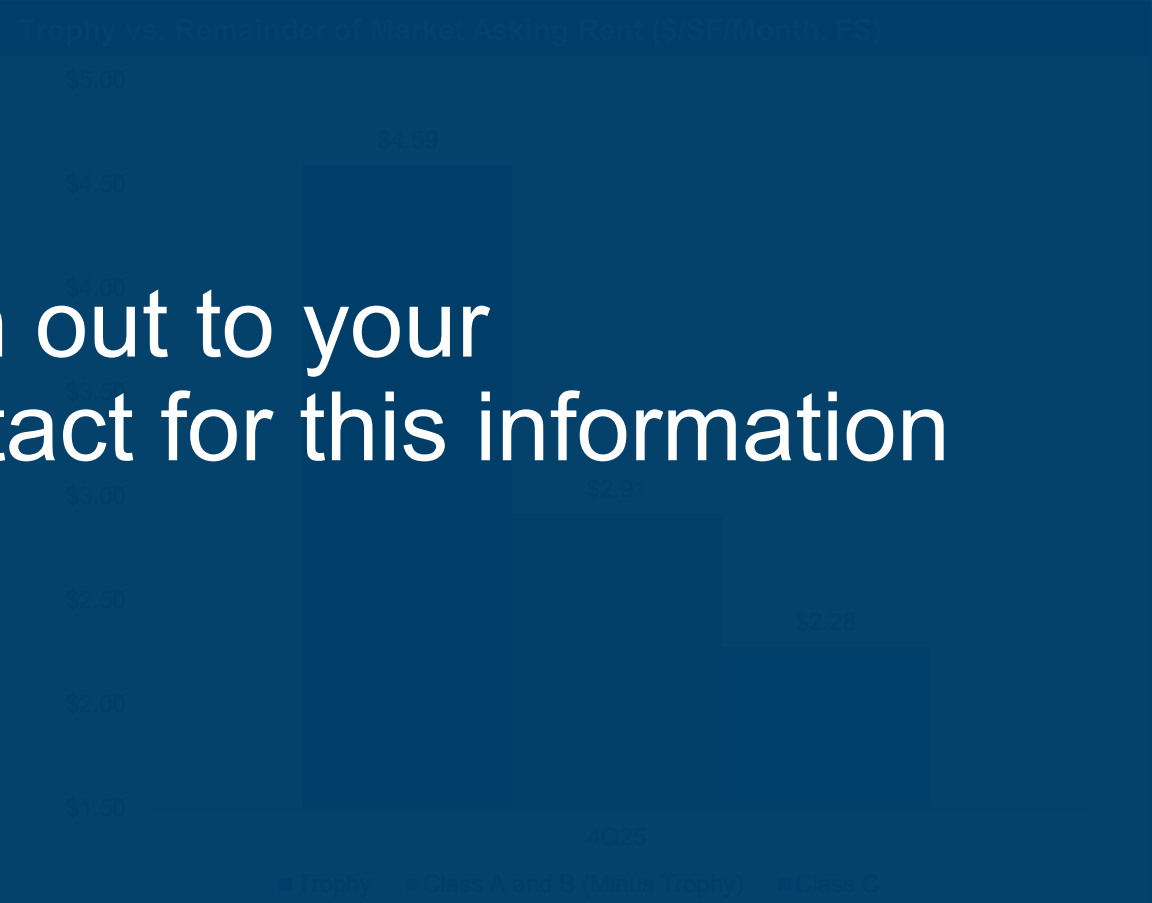
Sublease Competition Pressures Rent Dynamics

Sublessors are aggressively competing with landlords, creating an average \$7.88/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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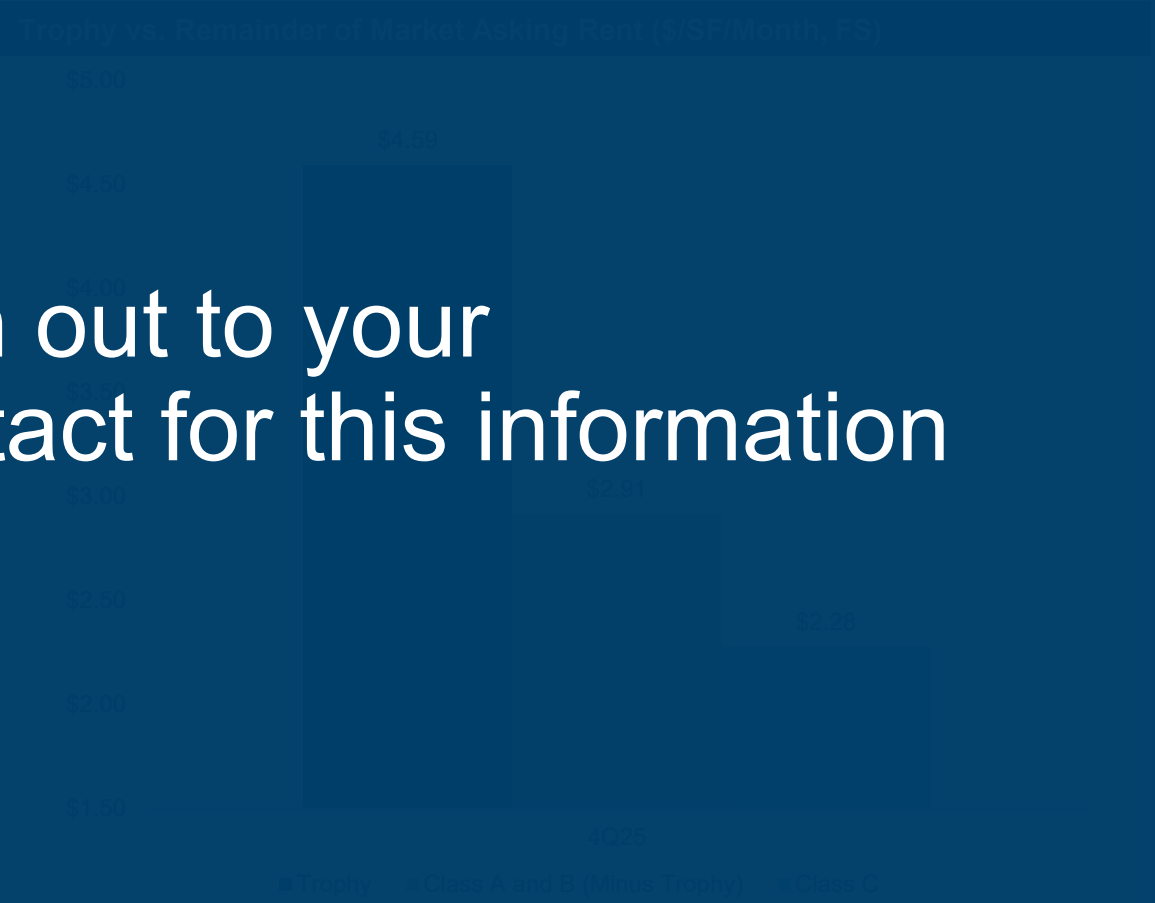
This Quarter’s Notable Leases Were Diverse

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

Notable 4Q25 Lease Transactions				
Tenant	Building(s)	Submarket	Lease Type	Square Feet
Yrefy	18500 N Allied Way	North Scottsdale	Sublease	154,497
The finance company took over the entire republic services building in December.				
SyberJet	1811 E Northrop Blvd	Chandler/Gilbert	Direct	130,642
The airplane manufacturer signed a 64-month deal in October to occupy the full building.				
Banner Health	3200 E Camelback Rd	Camelback Corridor	Direct	67,000
The health company signed a 67,000-SF lease in December.				
Meade Engineering	80 E Rio Salado	Tempe	Direct	52,873
The engineering company signed a 137-month, two-floor deal at Hayden Ferry I.				

2025 Sales Volume Ramps up After Slow First Half

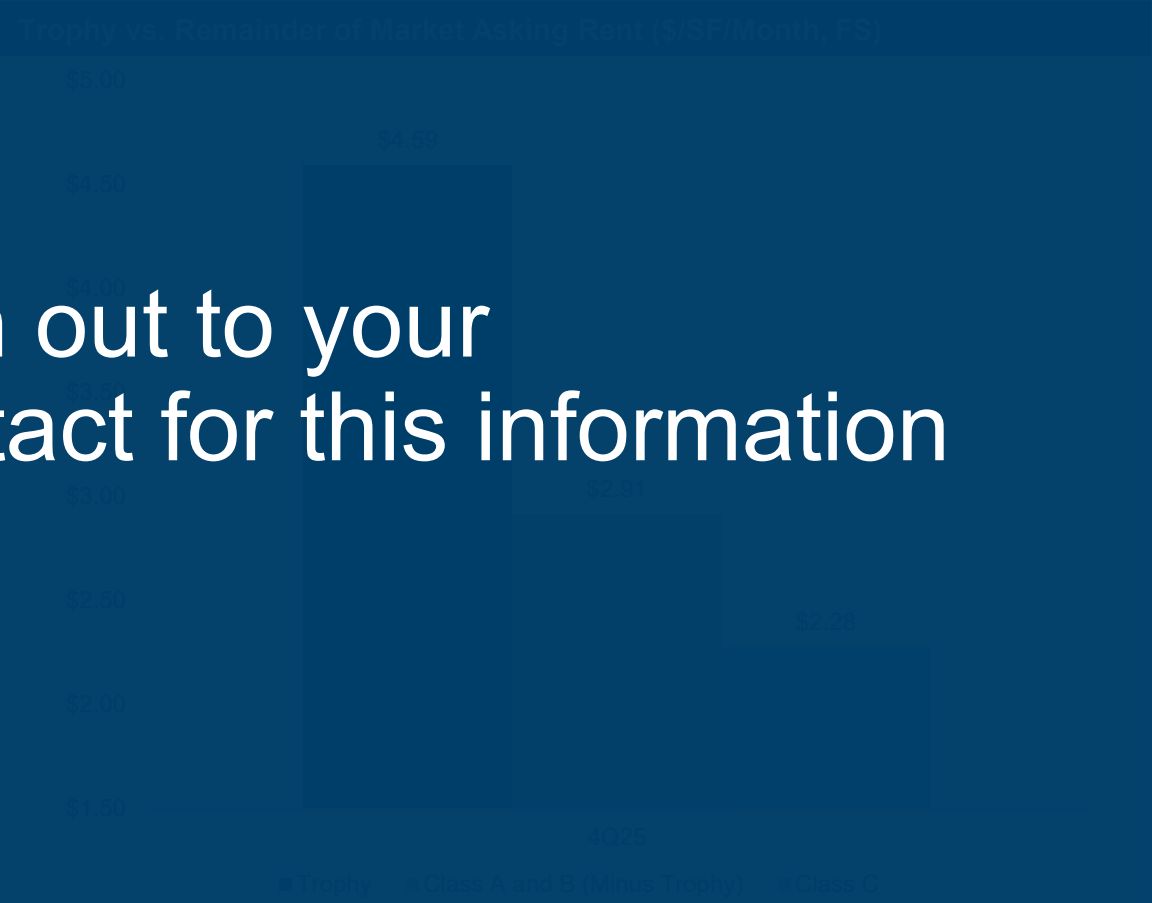
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Capital Deployment Trends Reflect Broader Market Hesitancy

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This Quarter’s Notable Sales Transactions

Office sales volume declined in the fourth quarter 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 4Q25 Sales Transactions				
Building Address	Submarket	Sales Price	Price/SF	Square Feet
5601-5801 N Pima Rd – Chaparral Commerce Center	South Scottsdale	\$82,500,000	\$207.00	398,551
Three-property center. Acquired by Salt River Devco in late December.				
8605 E Raintree Dr - Axis Raintree	North Scottsdale	\$70,750,000	\$394.46	179,360
Four-story, 179,360-SF building, 93% leased. Sold to the Horton Family in late October.				
8530-8550 S Priest Dr– Target Financial Center	Tempe	\$27,000,000	\$142.89	188,960
Two-property center. Acquired by Maricopa County Community College as an owner-user acquisition.				
4343 E Camelback Rd – London Center	Camelback Corridor	\$26,700,000	\$249.87	106,854
Four-story, 106,854-SF building. Sold to Lincoln Heritage Life Insurance Company as an owner-user acquisition.				

03

Population Growth and Business Costs

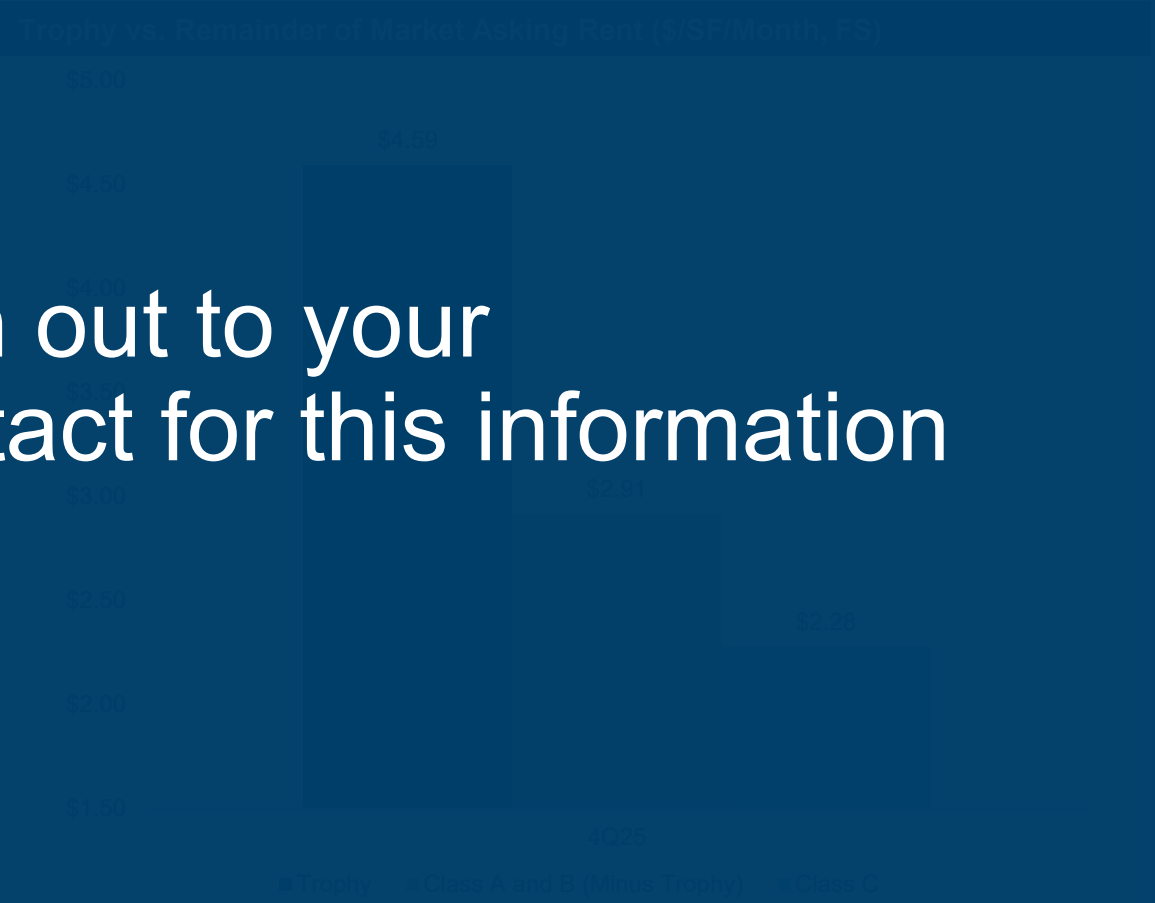
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Population Has Increased Considerably in Recent Decades

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A Lower Cost Business Environment With Affordable Housing Favors Phoenix

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04

Appendix

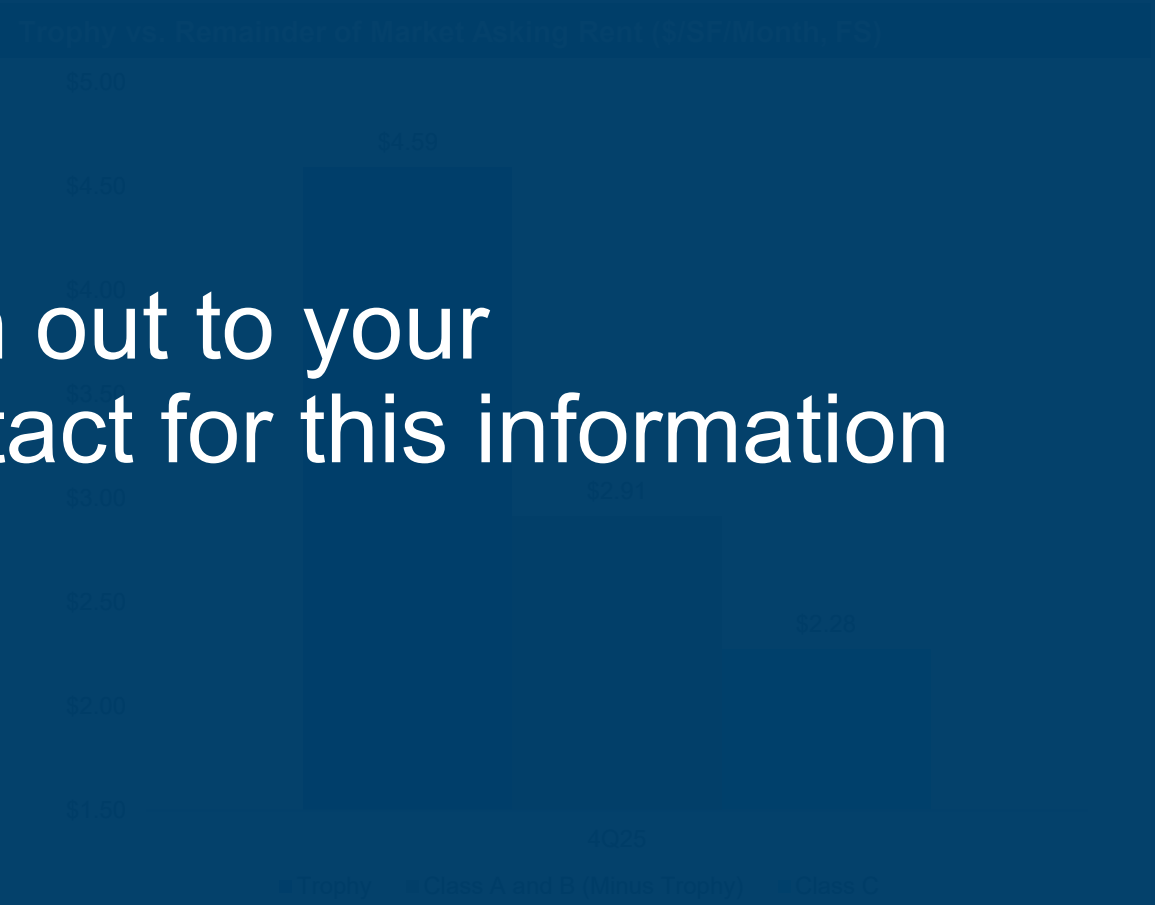
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Phoenix Metro Office Submarket Map and High-Level Statistics | 4Q25

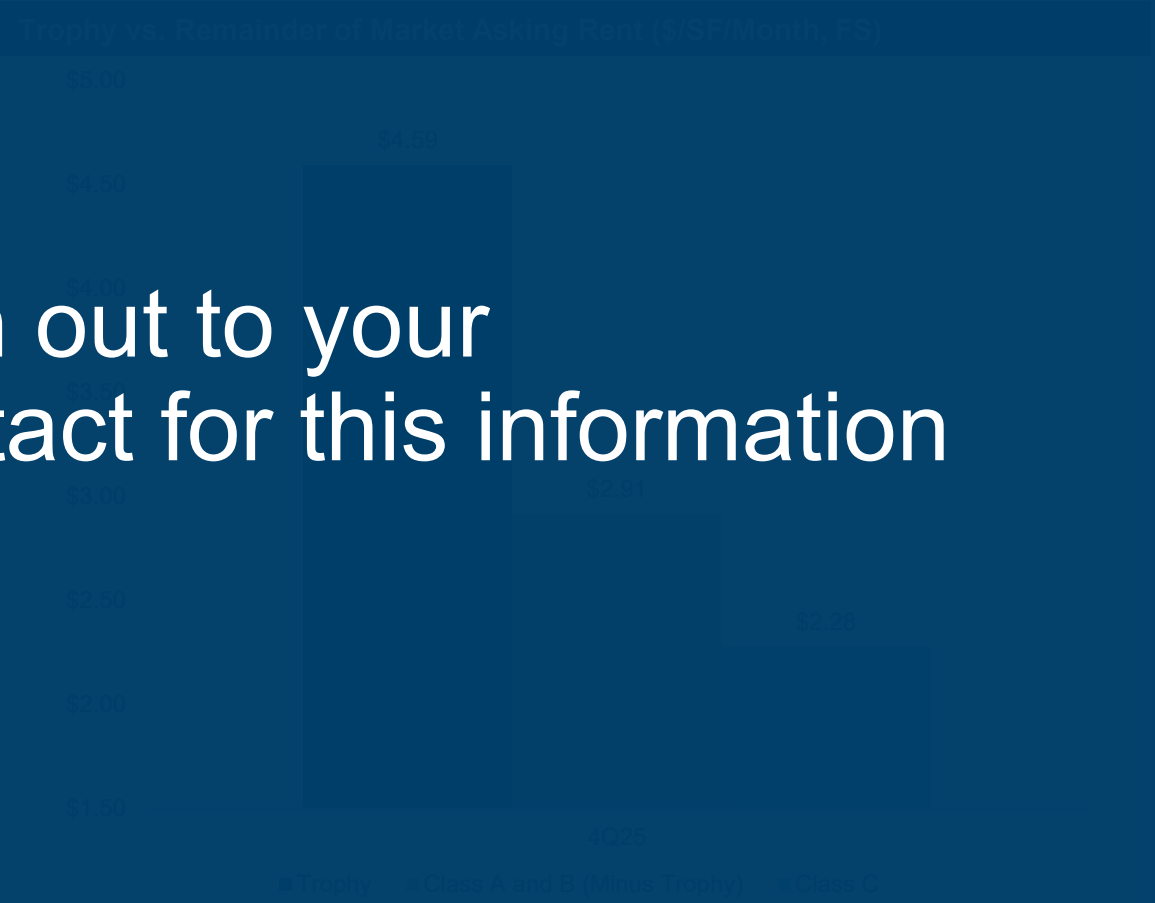
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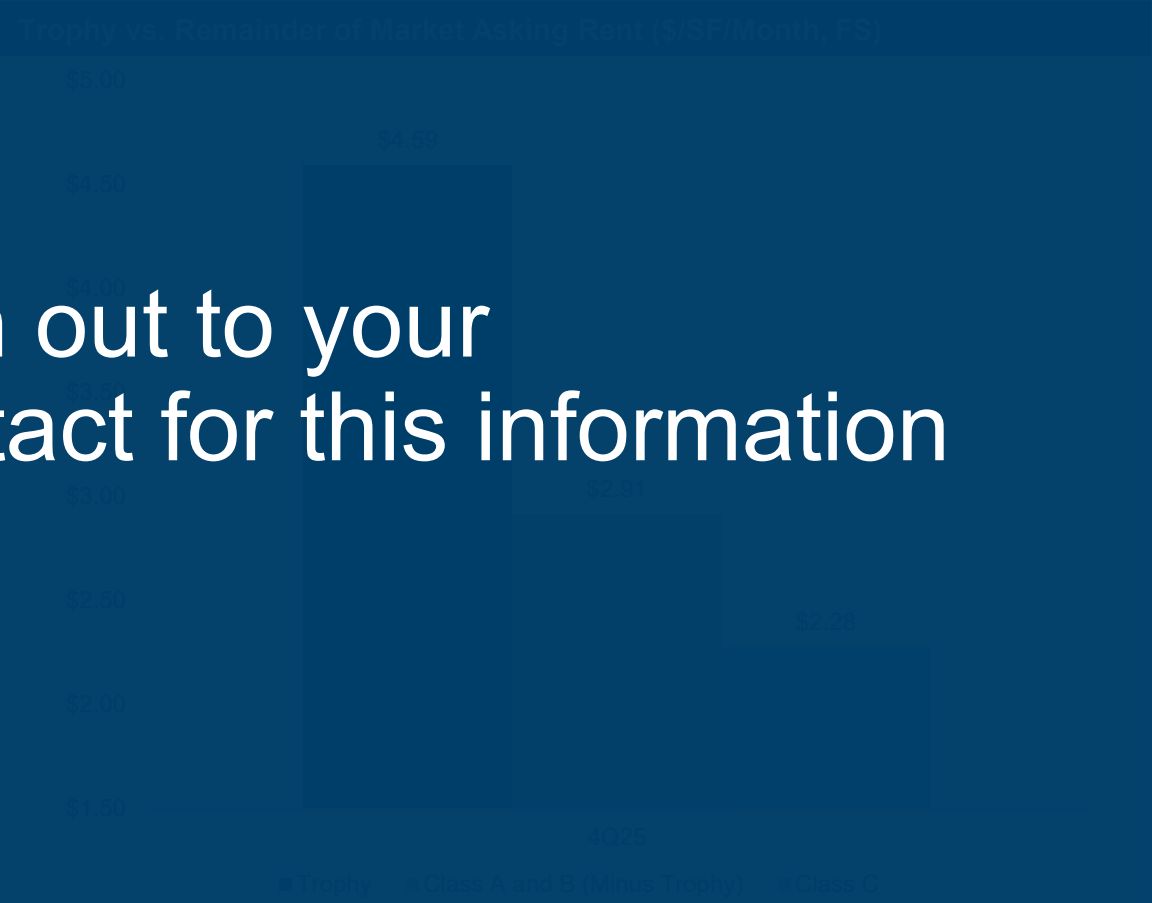
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Charlie Beaver*Research Analyst**Phoenix*

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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