Phoenix:
Office Market Overview

4Q25

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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.

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.

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 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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Economy

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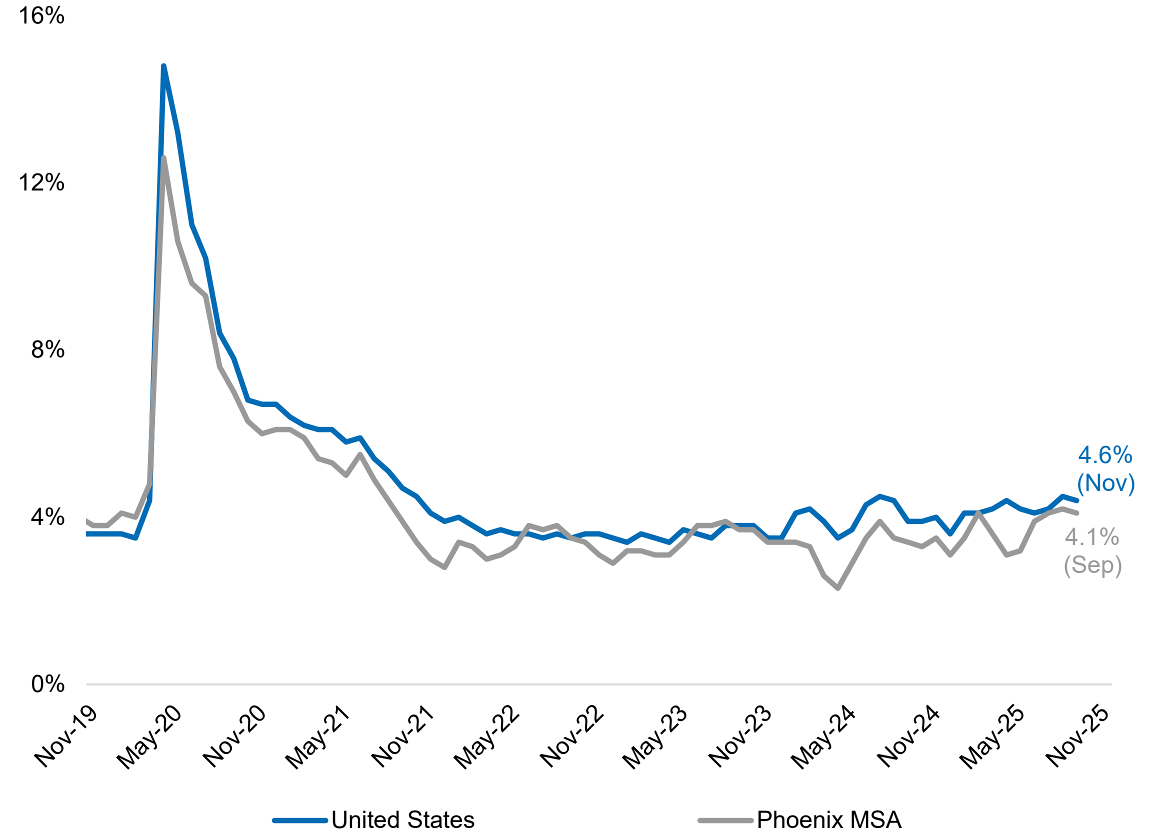
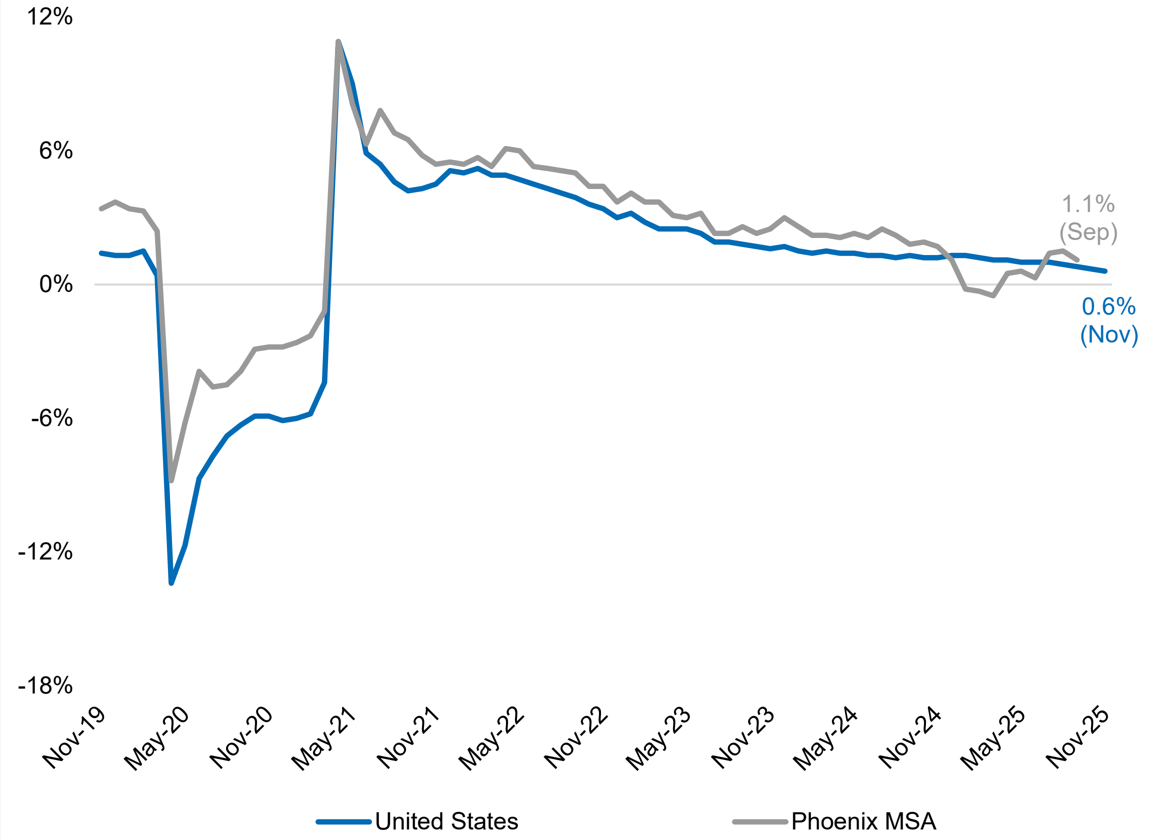
Resilient Labor Market Amid Economic Challenges

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.

Unemployment Rate, Seasonally Adjusted



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



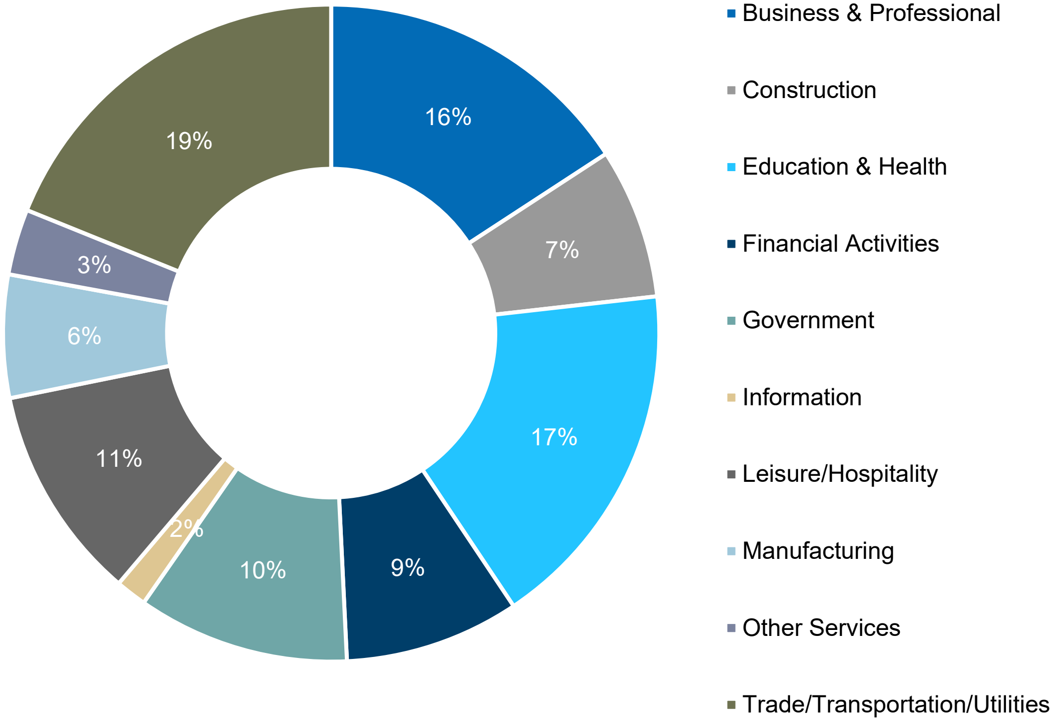
Source: U.S. Bureau of Labor Statistics, Phoenix MSA

Note: Local employment statistics for October were unavailable due to the federal government shutdown. November’s figures are delayed.

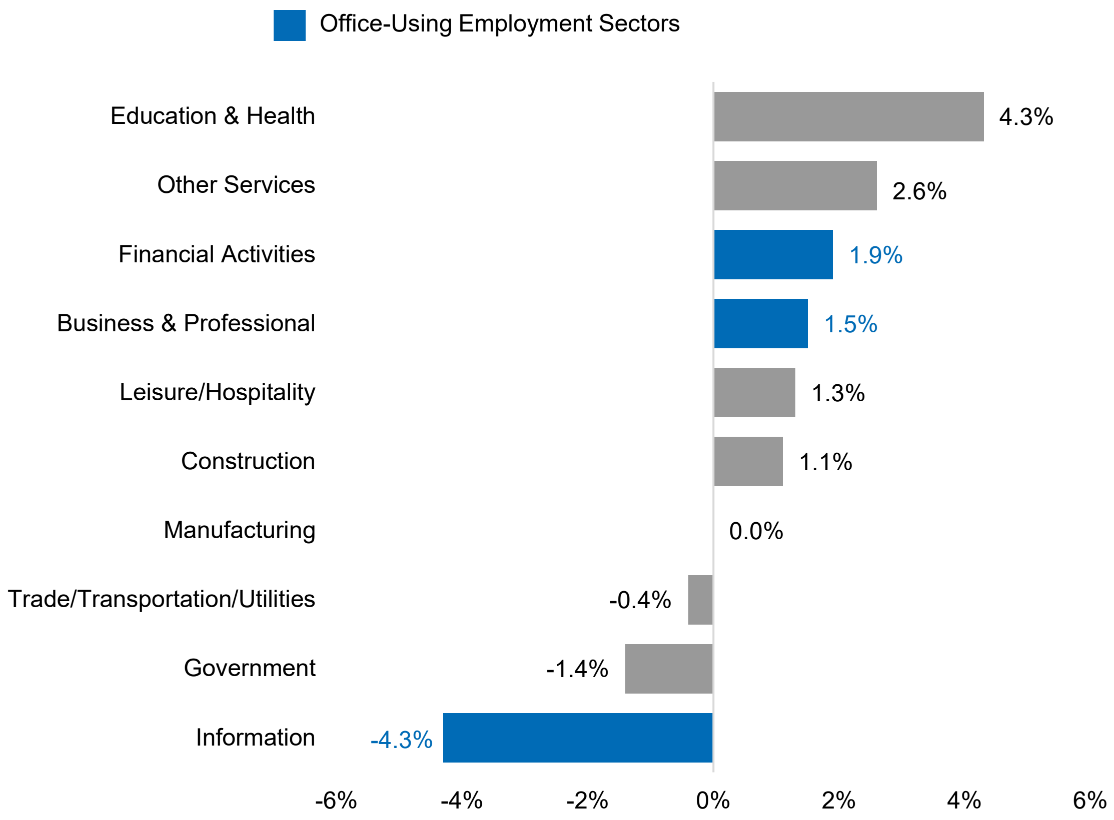
Key Office-Using Employment Sectors Post Wins and One Big loss

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.

Employment by Industry, September 2025



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



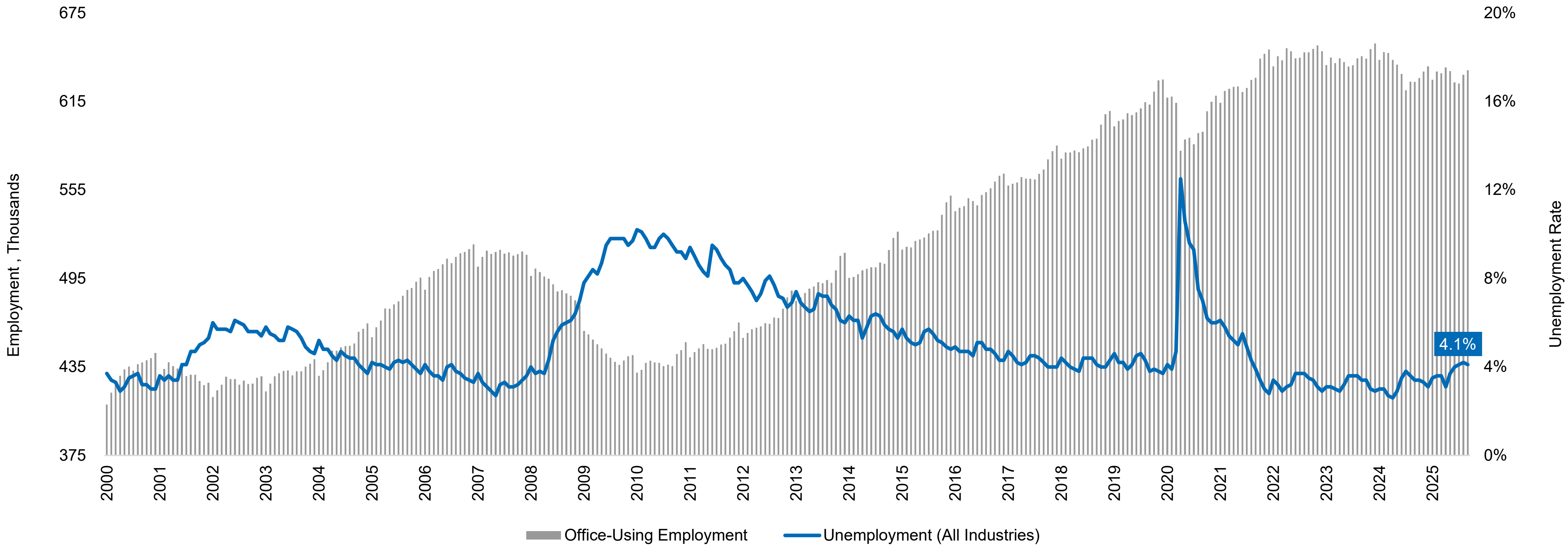
Source: U.S. Bureau of Labor Statistics, Phoenix MSA

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.

Office-Using Employment* and Unemployment Across All Industries



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.

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Market Fundamentals

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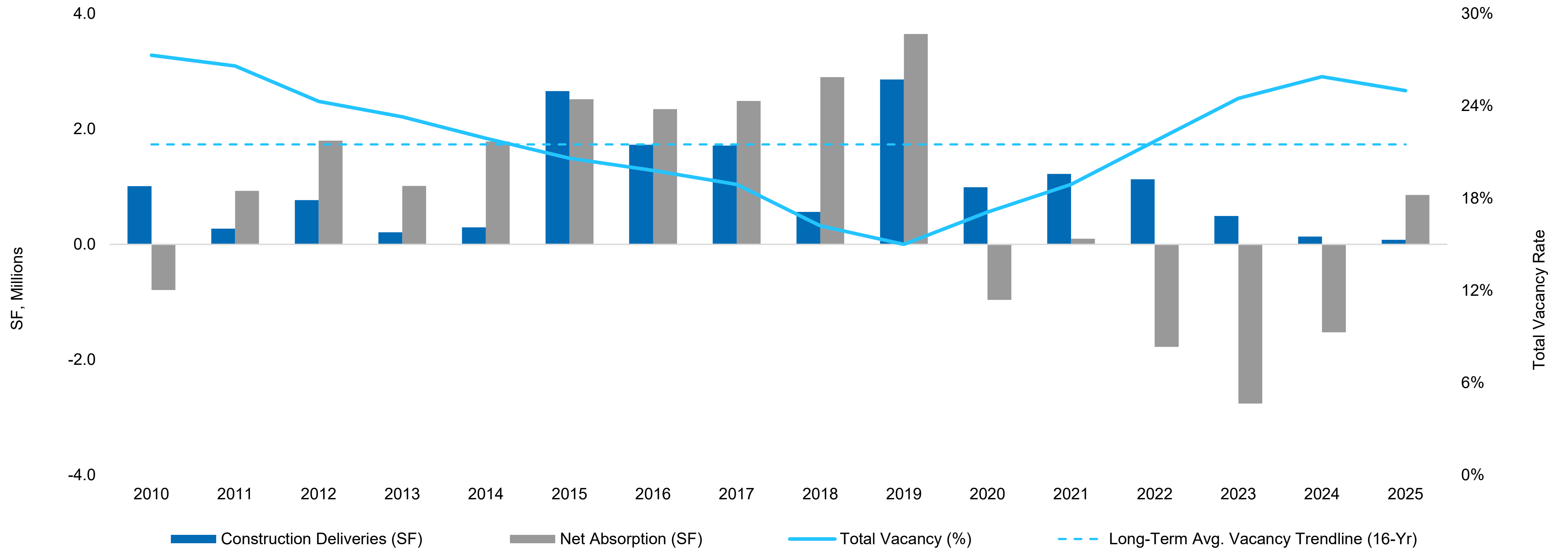
Stable Vacancy and Modest Absorption Gains Reflect Market Resilience

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.

Historical Construction Deliveries, Net Absorption, and Vacancy

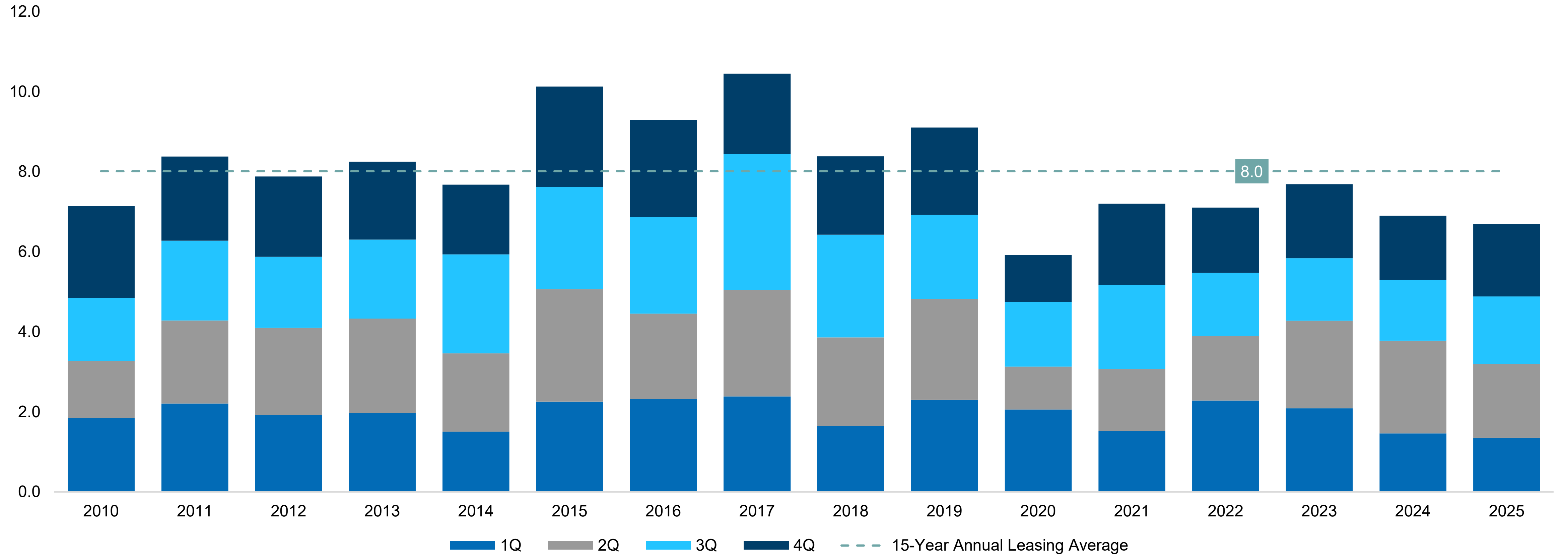


Source: Newmark Research

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 wort noting, too, that fourth-quarter leasing activity was up from last quarter.

Total Leasing Activity (MSF)

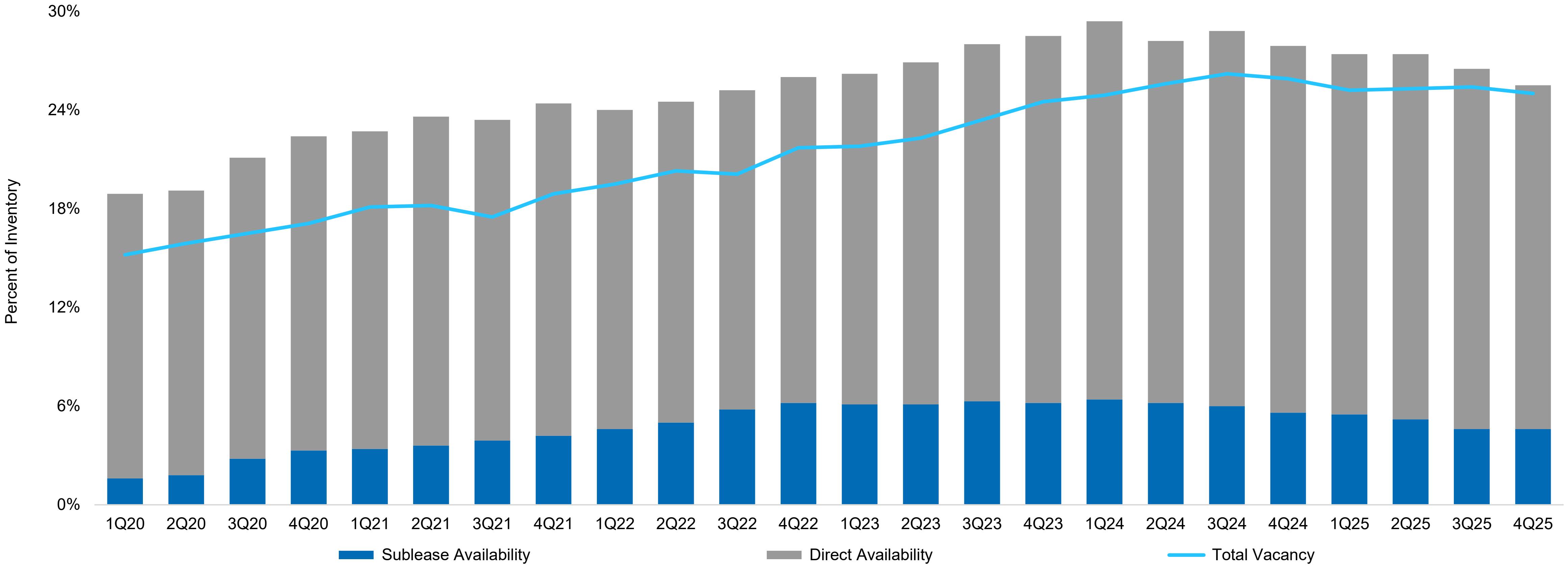


Source: Newmark Research, Costar

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.

Available Space and Total Vacancy as Percent of Overall Market

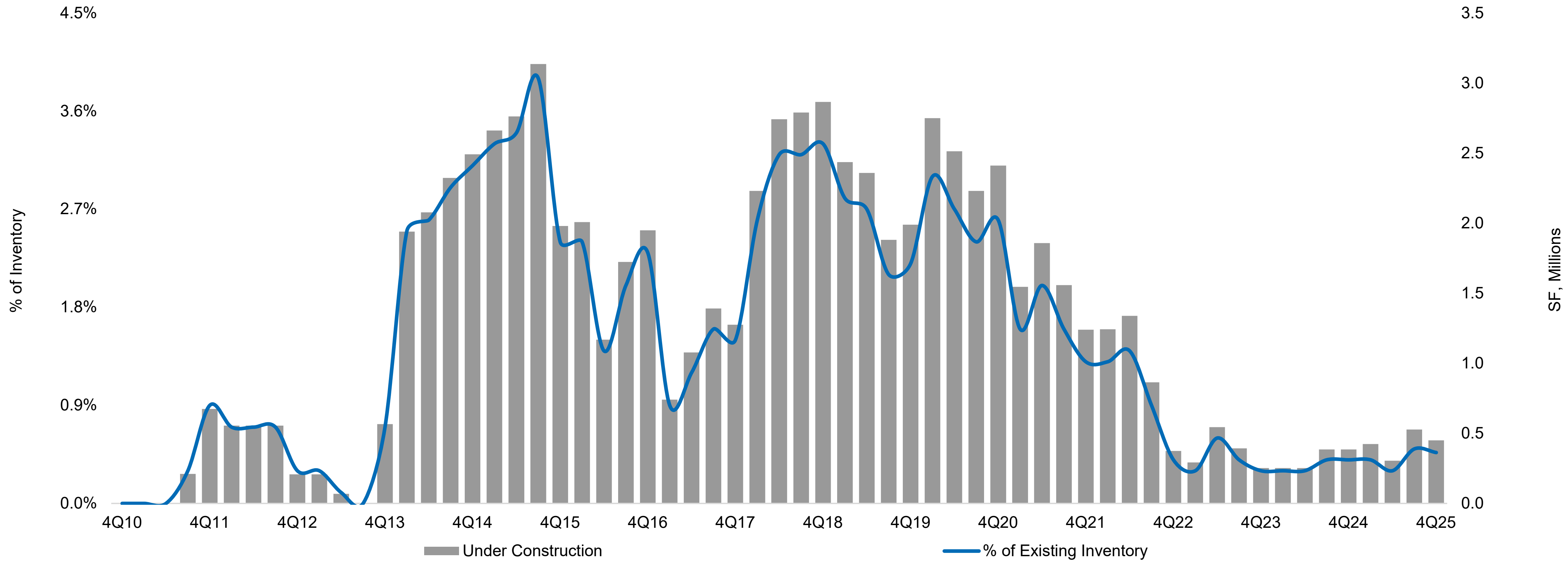


Source: Newmark Research

Constrained Office Development Shifting Towards HQ Build-to-Suits

Office construction activity reached a two-year high 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.

Office Under Construction and % of Existing Inventory



Source: Newmark Research

Trophy Buildings Outperform Class A

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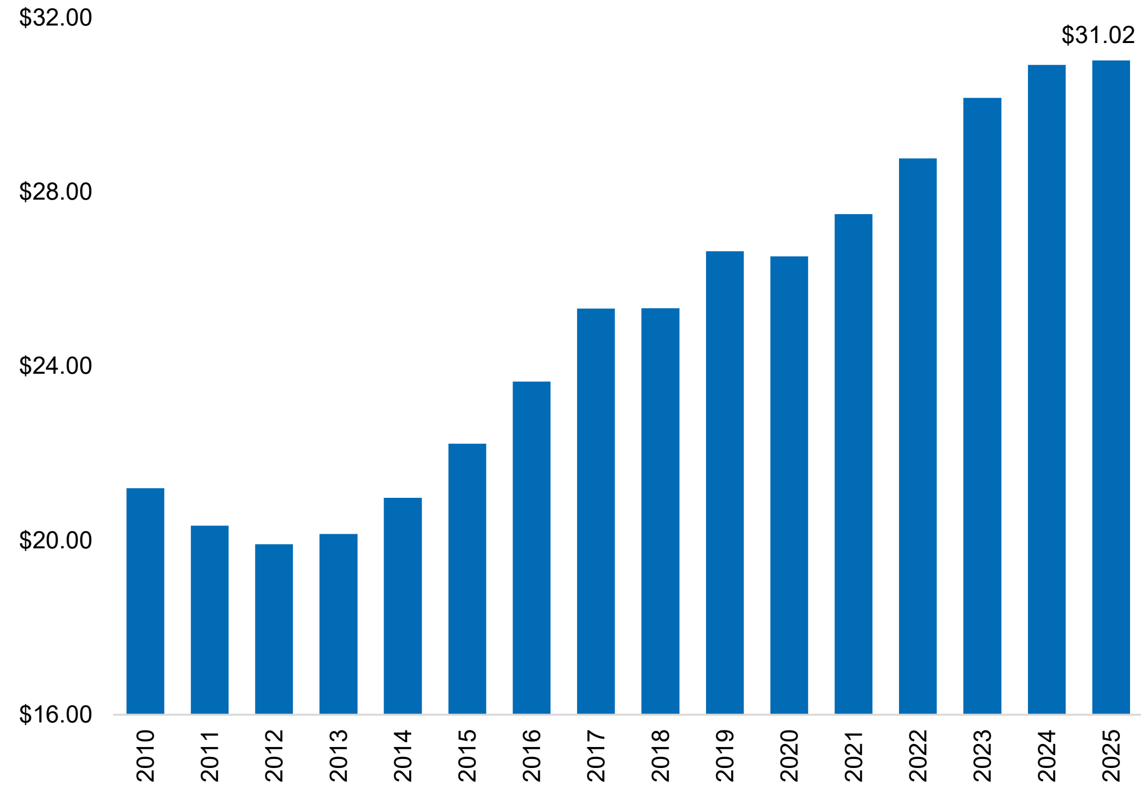
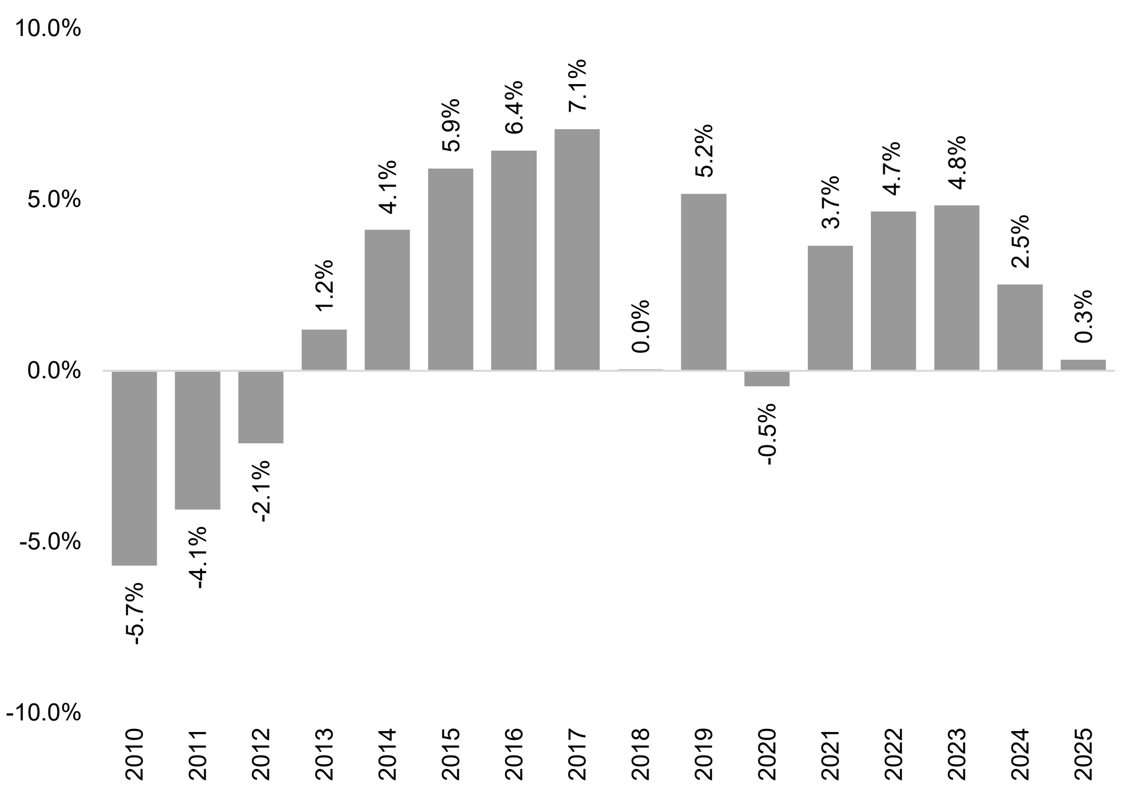
Asking Rent Slightly Increased this Quarter

The average was up a mere 0.3% 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.

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



Year-over-Year Asking Rent Growth Rate

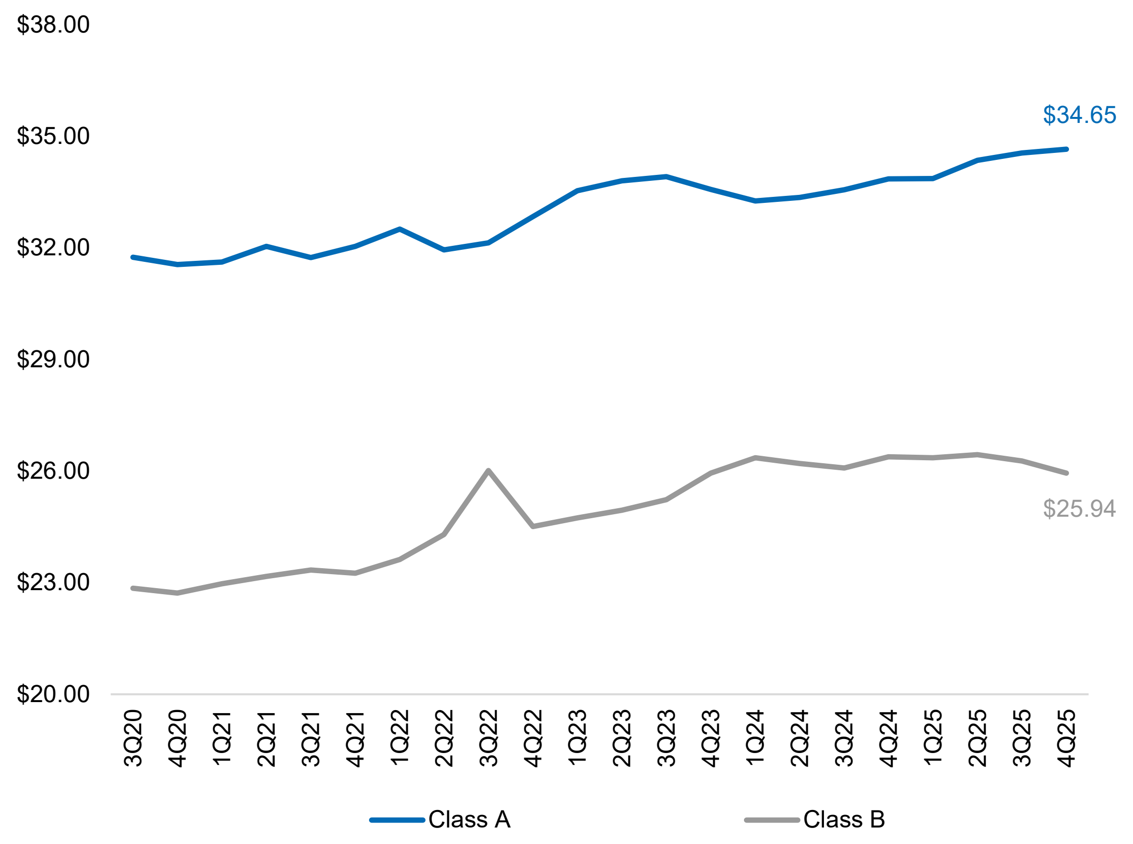


Source: Newmark Research

Sublease Competition Pressures Rent Dynamics

Sublessors are aggressively competing with landlords, creating an average $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.

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



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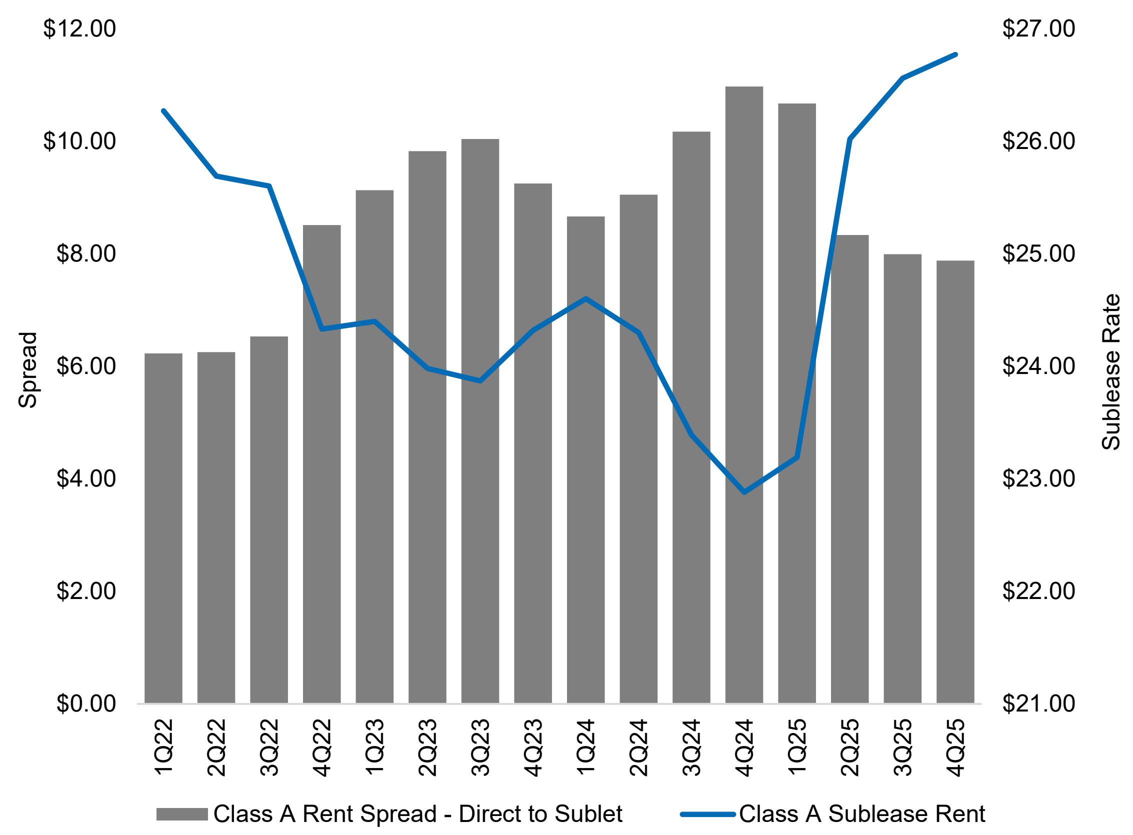

Source: Newmark Research

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 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.				

Source: Newmark Research

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.				

Source: Newmark Research

03

Population Growth and Business Costs

4Q25

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 | 4Q25

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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

nmrk.com