

Phoenix Commercial Real Estate Market Overview and Outlook



Presented By:
Connor Devereux
Director of Market Analytics

About the Speaker



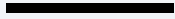
Connor Devereux

Director of Market Analytics, Phoenix

- **7 Years with Marcus & Millichap's Research Services Division**
- **Spoken at Industry Events, Webinars, and Investor Meetings**
- **Develops CoStar's Market Narratives for Phoenix and Tucson**
- **Coverage: Multifamily, Retail, Office, and Industrial**

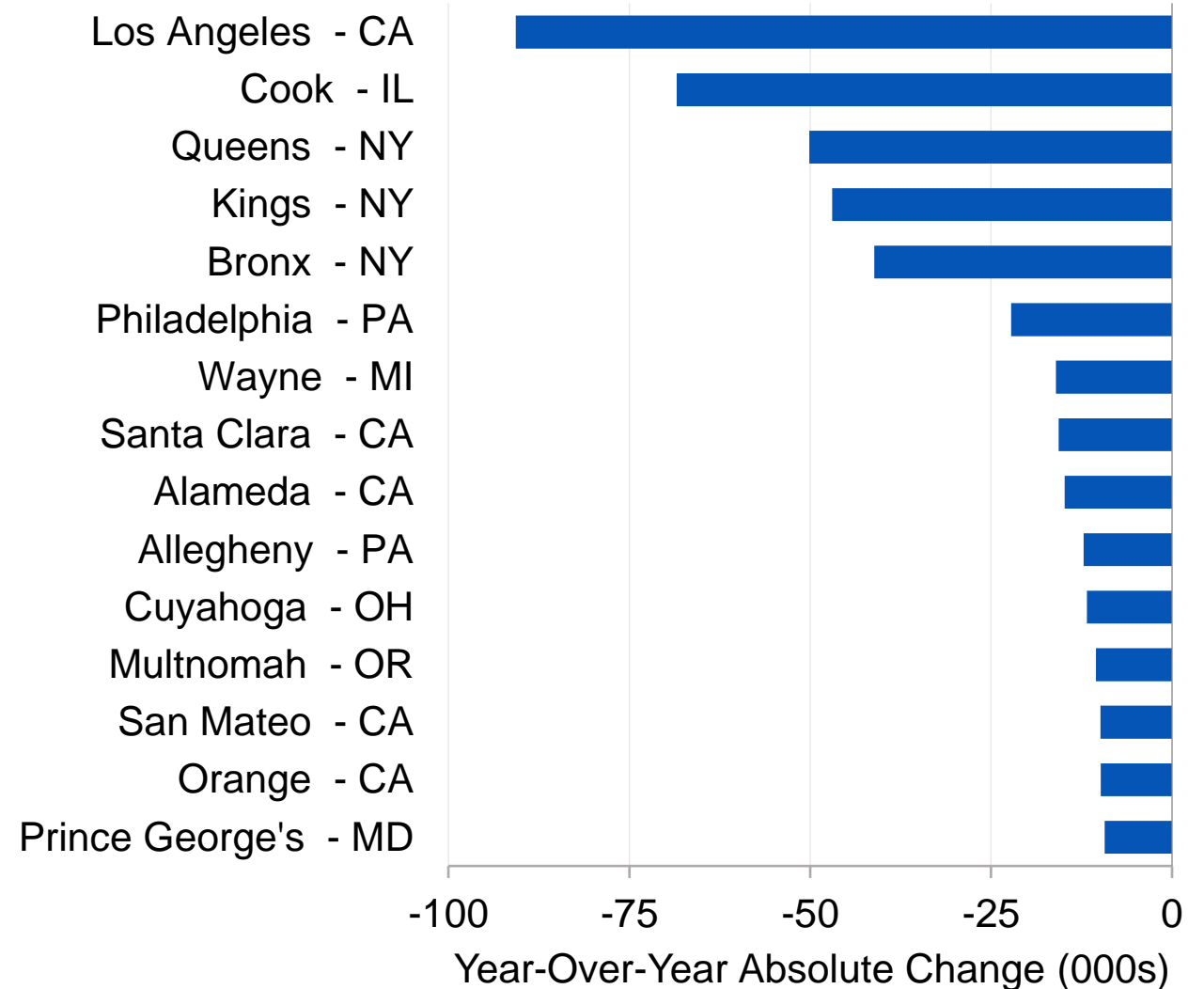
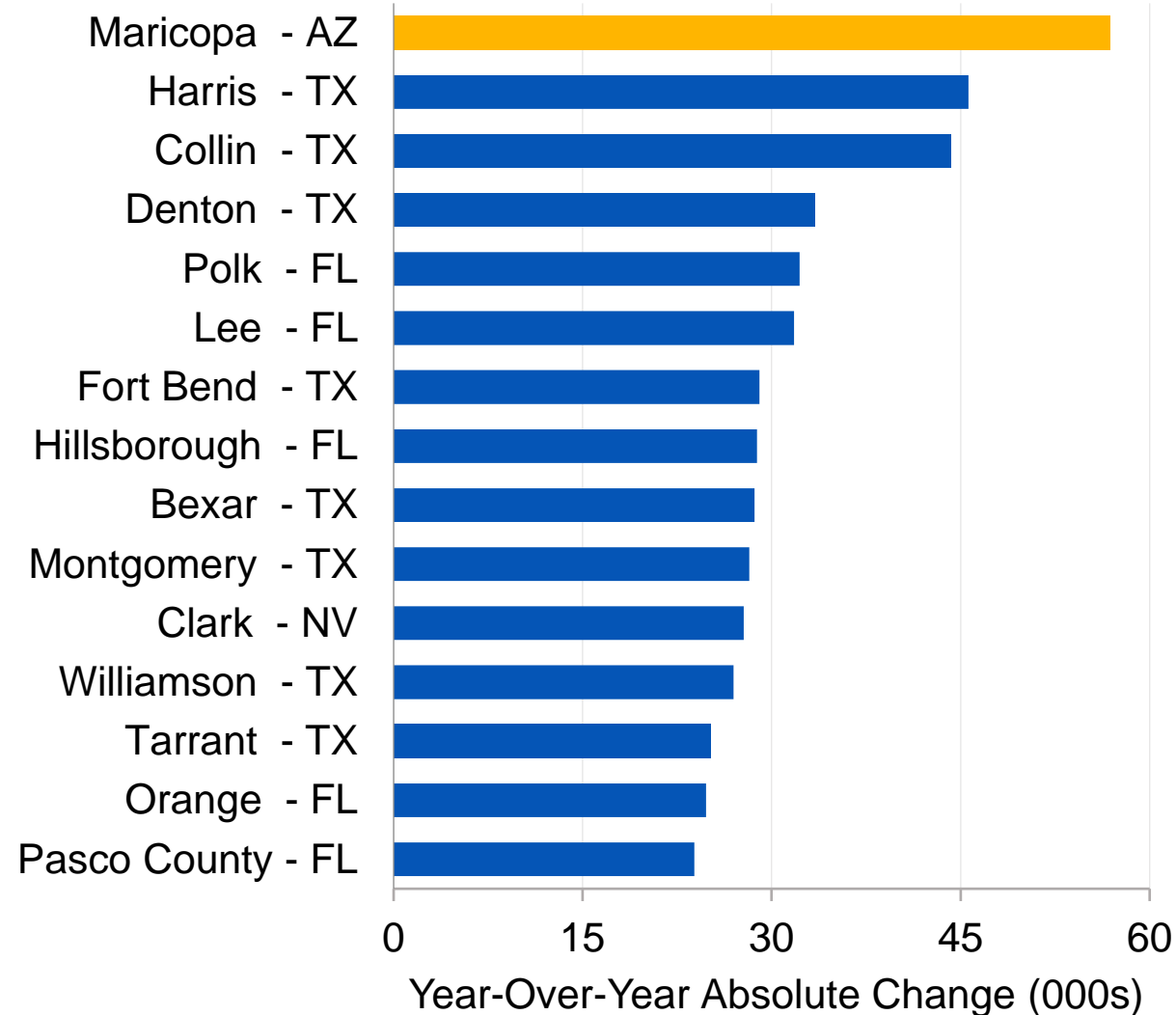
Executive Summary

- **Healthy Economic and Demographic Profile Supports Long-Term Outlook**
- **Multifamily Facing Supply-Driven Disruption – Imbalance at Top of Market**
- **Retail Quietly Outperforming – High Pop. Growth and Low Construction**
- **Office Faces Challenges on Multiple Flanks – Sublease Spaces Weighs**
- **Industrial Headed for Normalization – Record Supply Will Test Momentum**



Phoenix Economic & Demographic Overview

Arizona, Texas, and Florida Dominate Population Growth in 2022



U-HAUL®

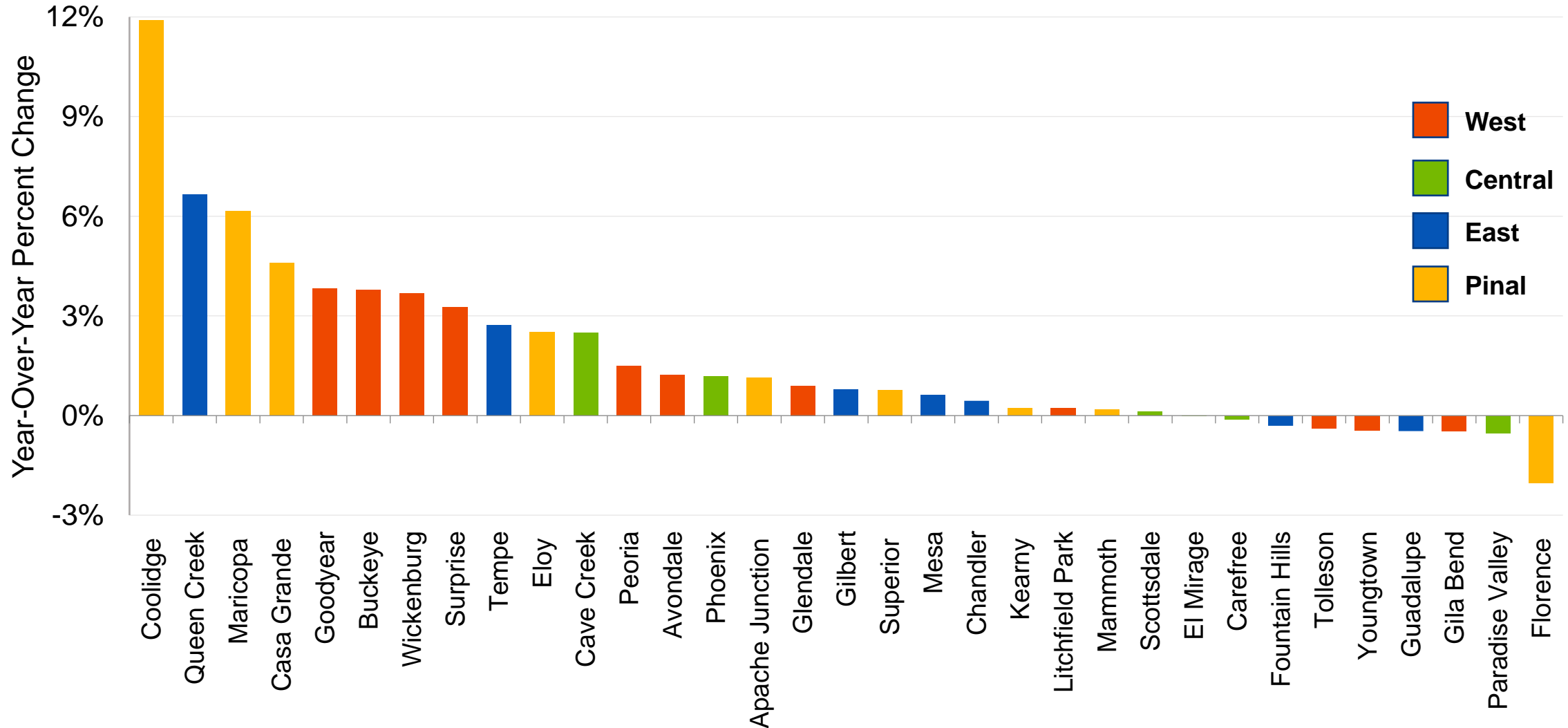
SELF-STORAGE

Climate Controlled

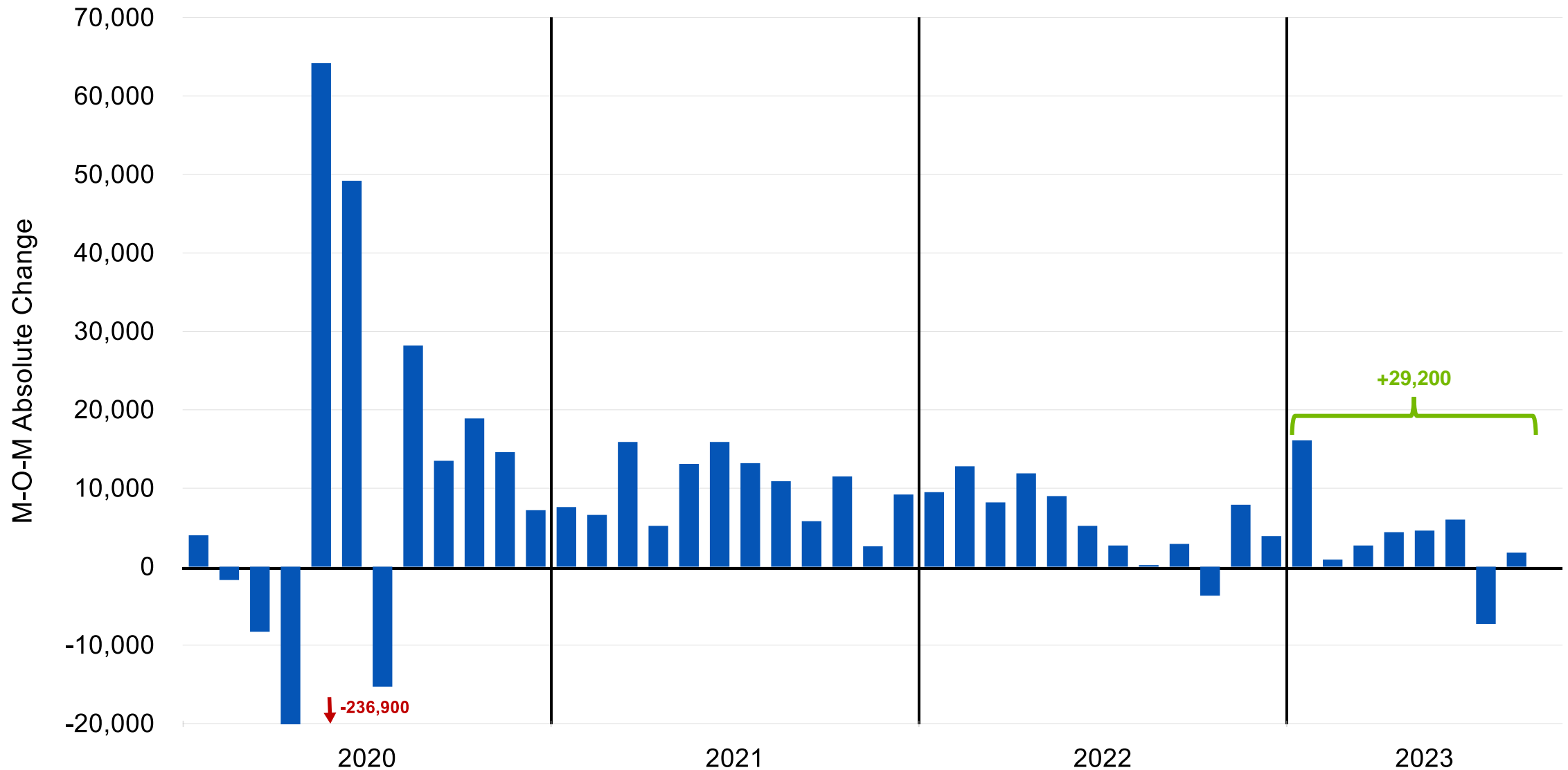
**LARGE TRUCK
SPECIAL TO
CALIFORNIA**

2626

Which Cities Are Driving The Valley's Population Growth?

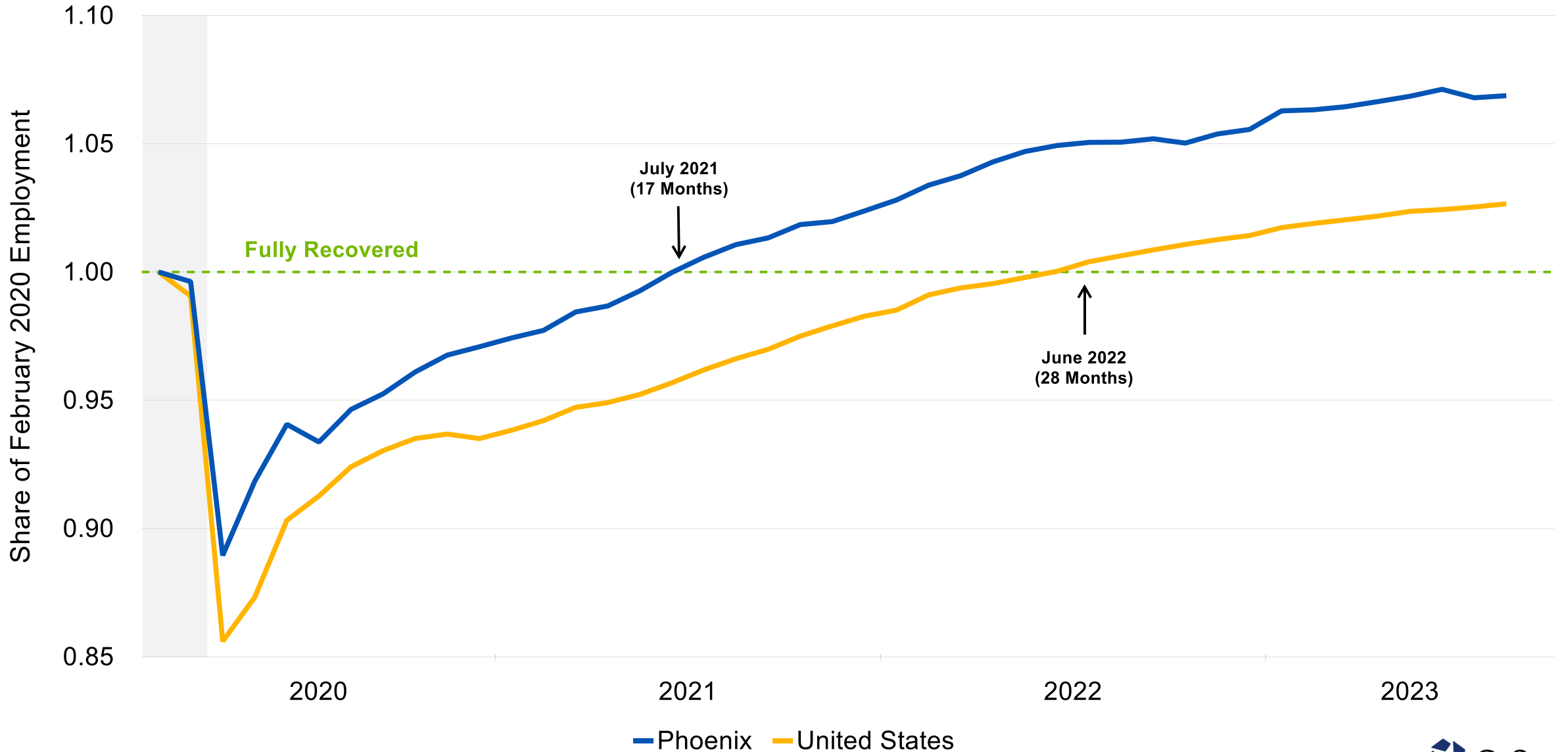


Phoenix Monthly Job Growth – Momentum Beginning to Ease



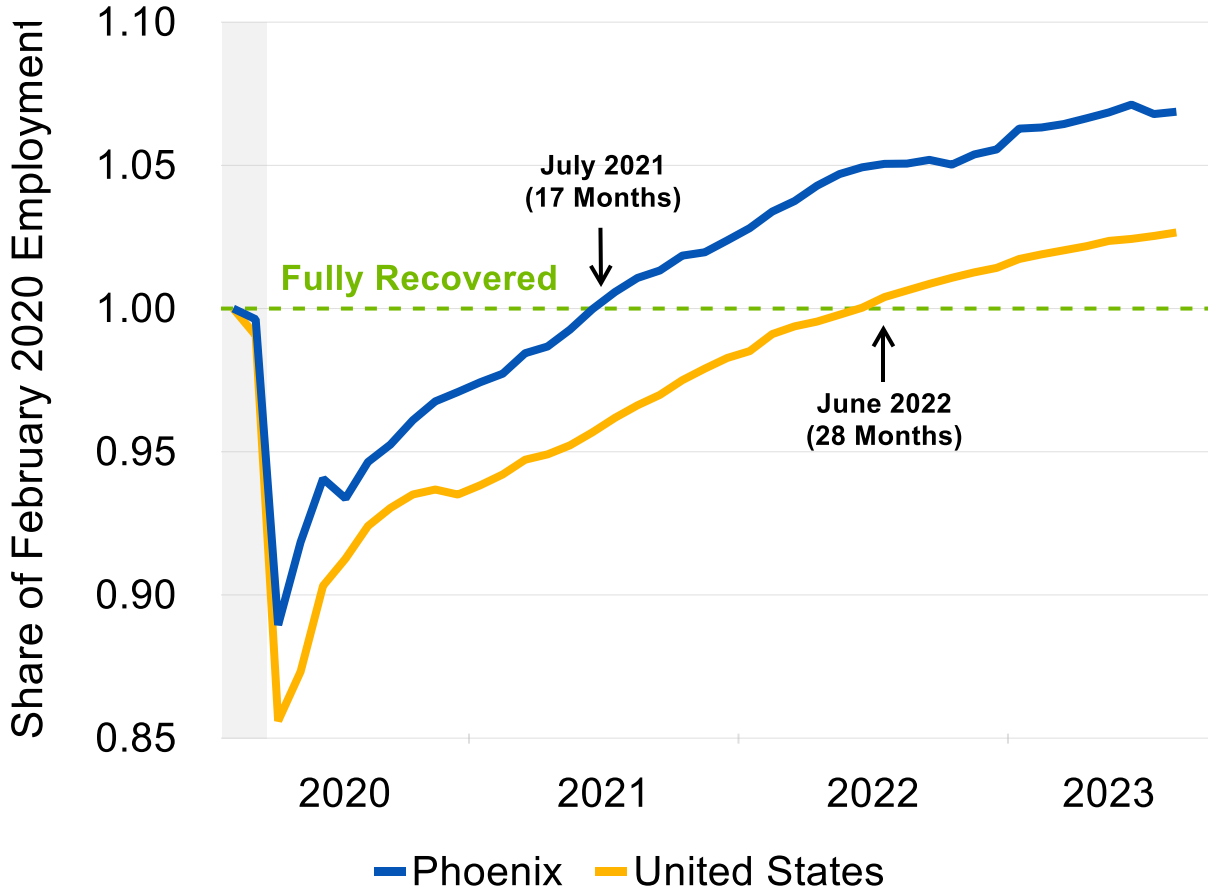
Source: CoStar, 8/2023

Phoenix Had One of the Most Rapid Job Recoveries in the U.S.



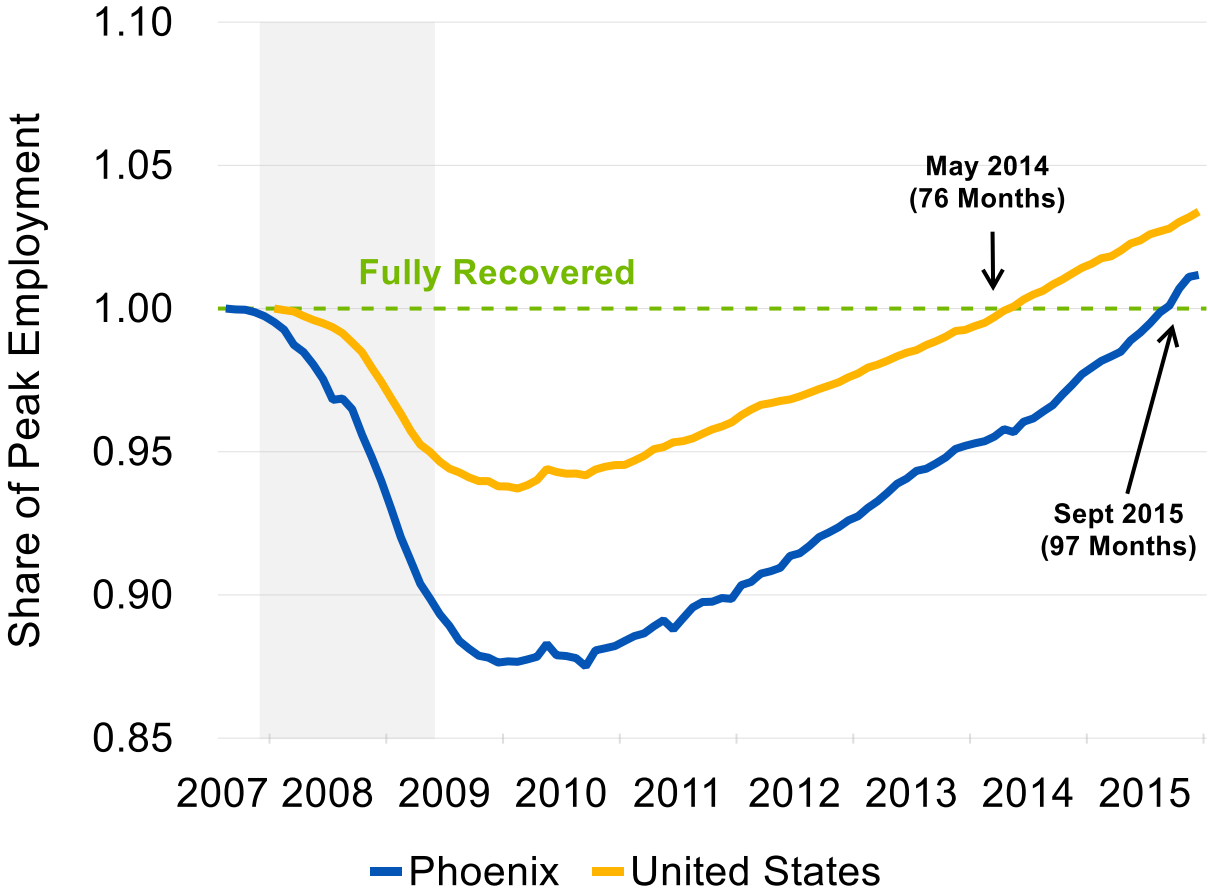
A Tale of Two Recessions... Diversity of AZ Economy on Full Display

Global Health Crisis (2020)



Source: CoStar, 8/2023

Global Financial Crisis (2007-2008)

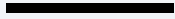


Source: CoStar, 8/2023



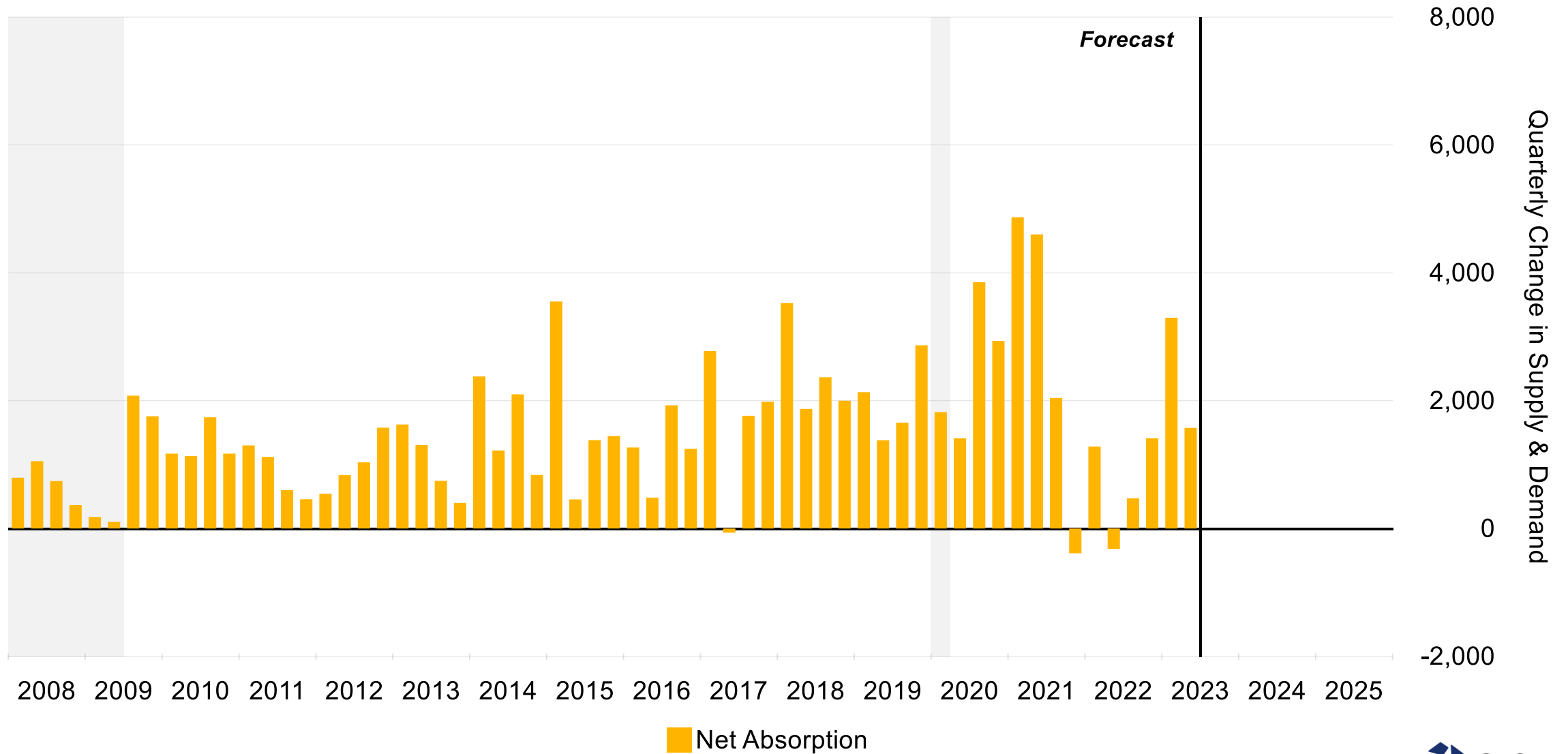
The Five 'S's of the New Arizona Growth Economy

- **Semiconductors** – TSMC, Intel, and Their Suppliers/Support
- **Supply Chain** – Warehouse, Distribution, and Logistics
- **Sustainability** – Electric Vehicles, Battery, Solar
- **Space** – Blue Origin, Virgin Galactic, Aerospace/Defense
- **Sciences, Life** – Biotech, Medical Device, PBC, Universities



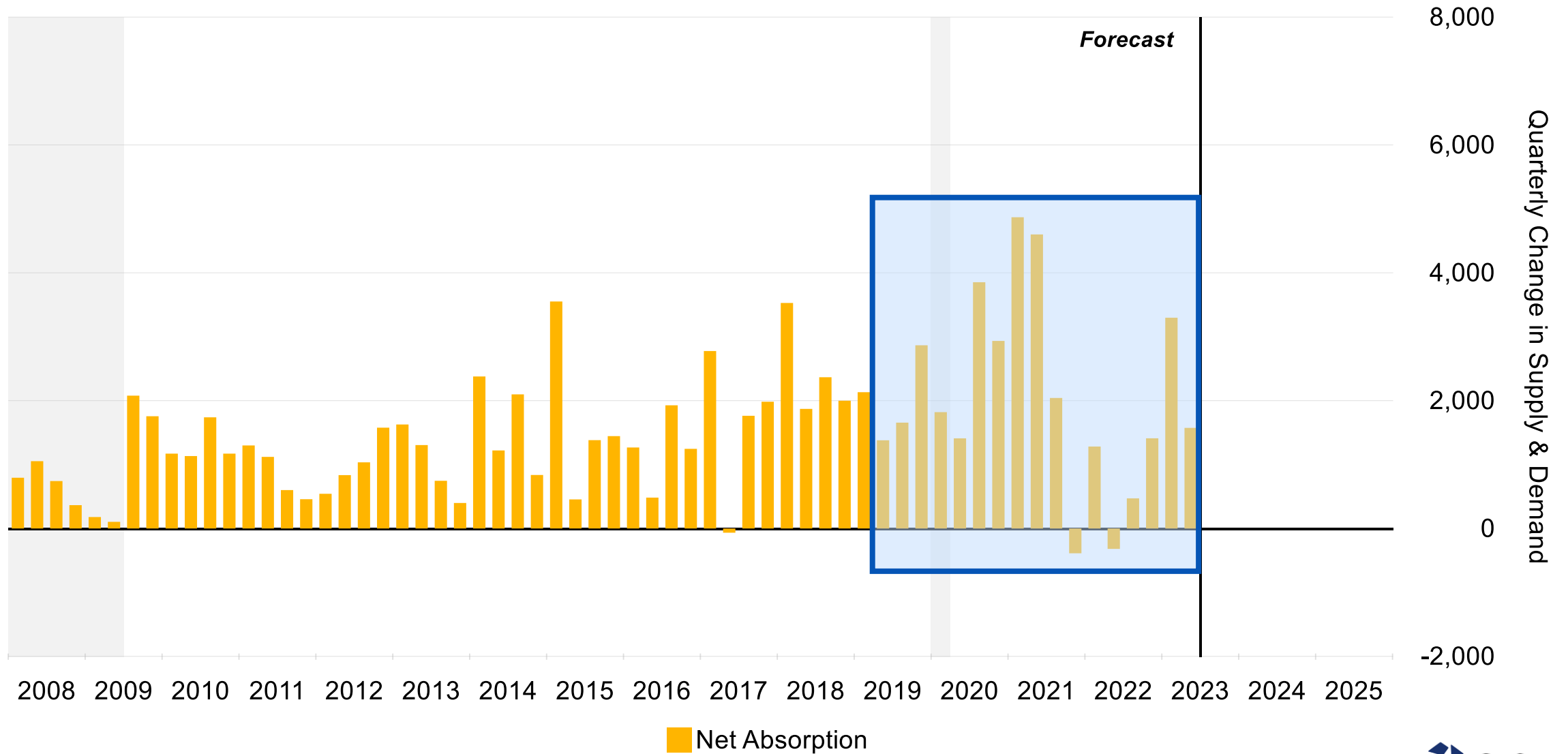
Phoenix Multifamily Fundamentals

Phoenix Apartment Supply and Demand Trends



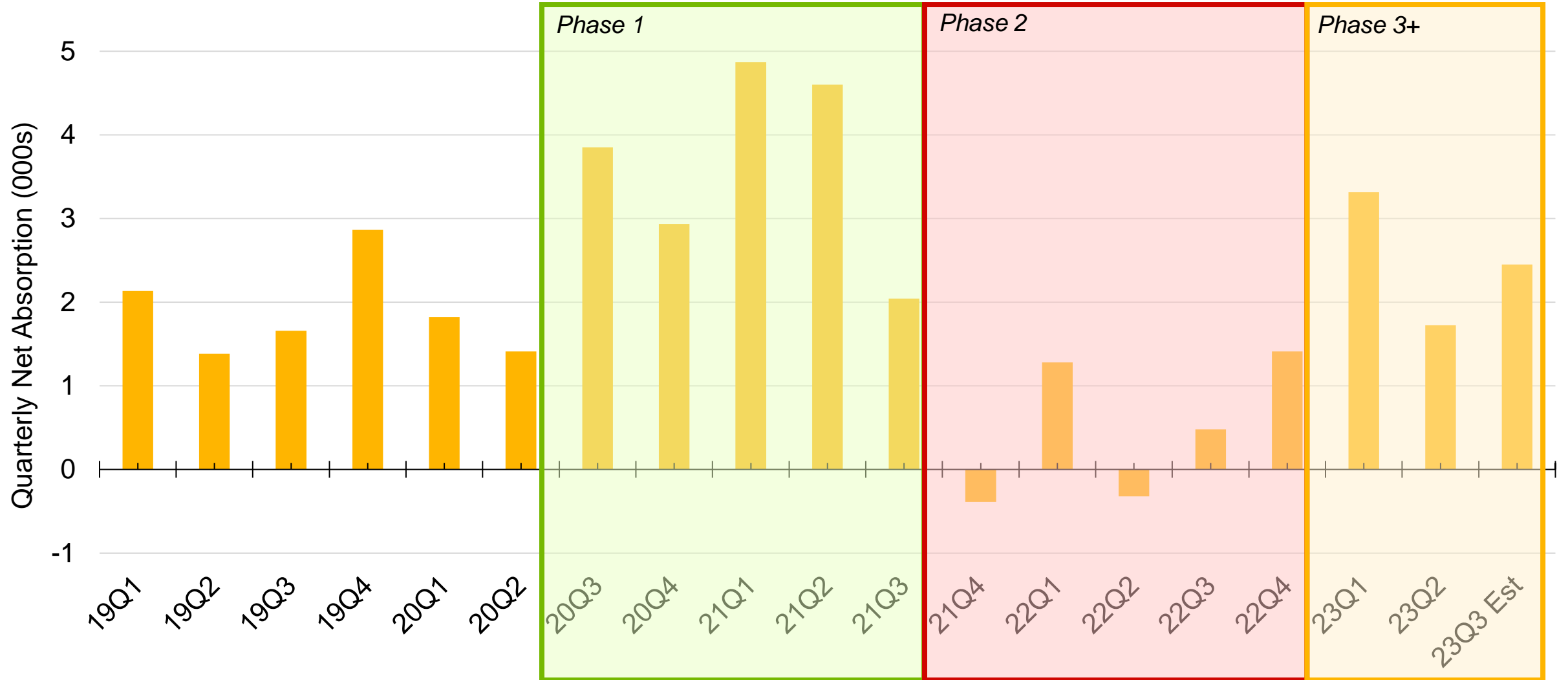
Source: CoStar, 2023 Q2

Phoenix Apartment Supply and Demand Trends

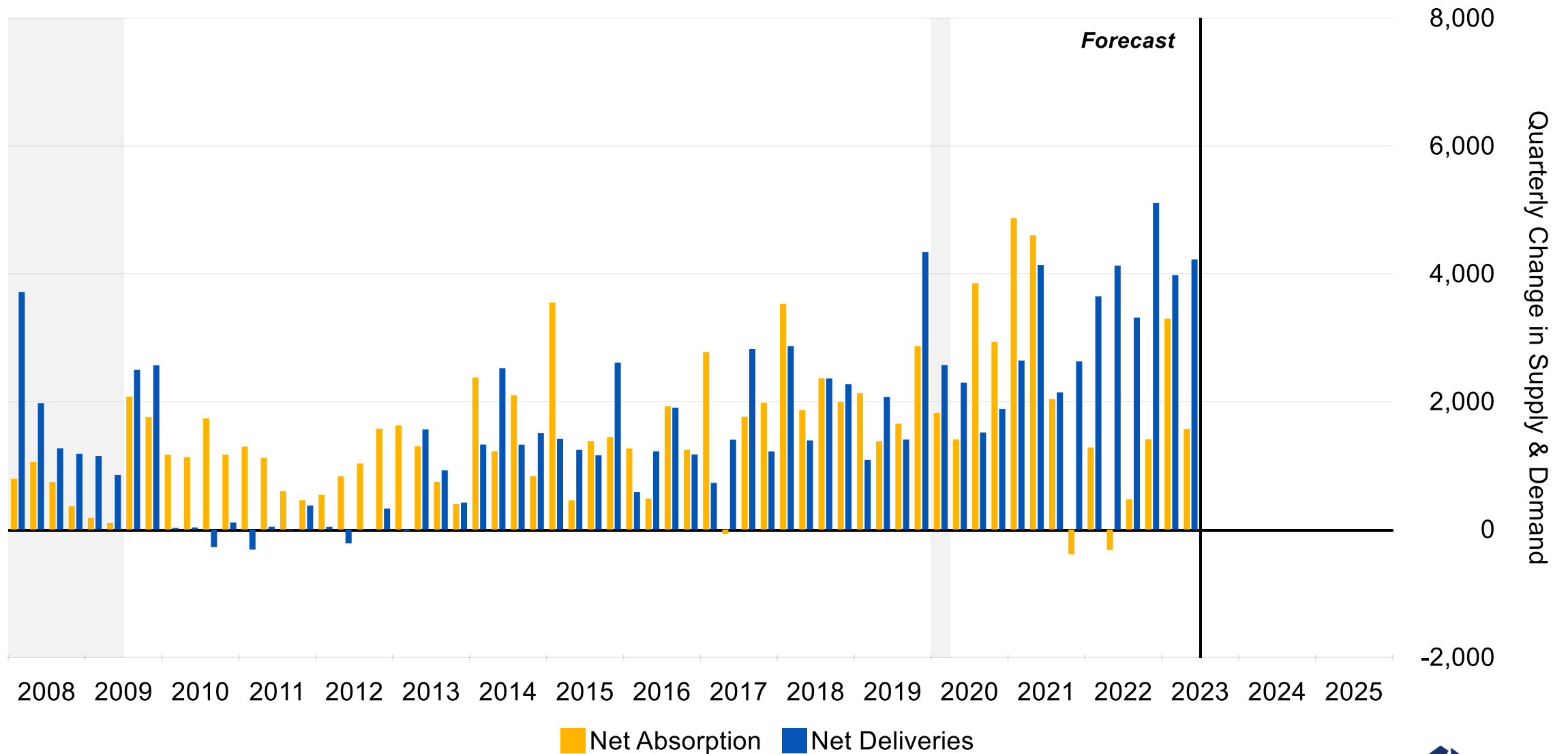


Source: CoStar, 2023 Q2

Demanding Holding Up Well as Market Enters Third “Phase”

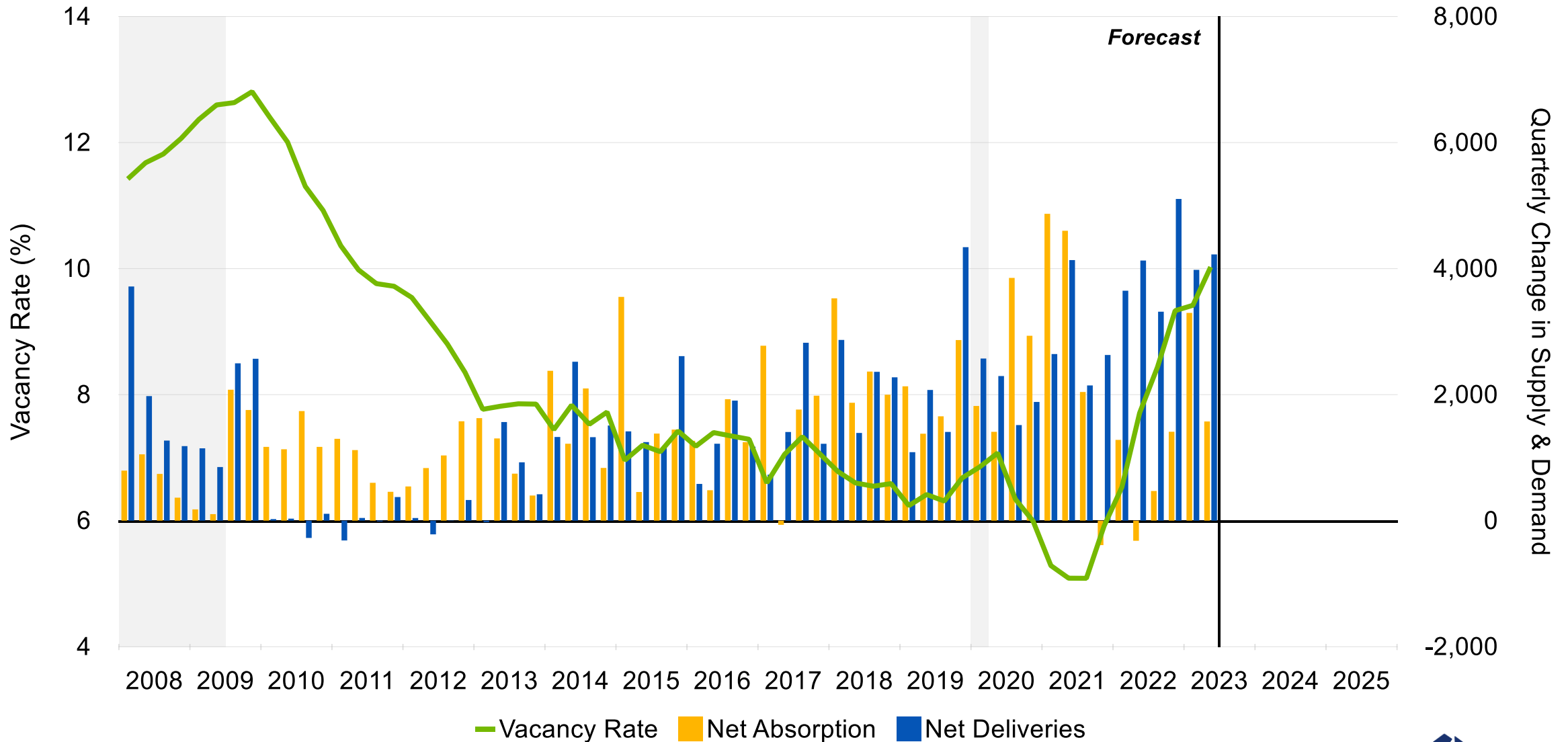


Phoenix Apartment Supply and Demand Trends



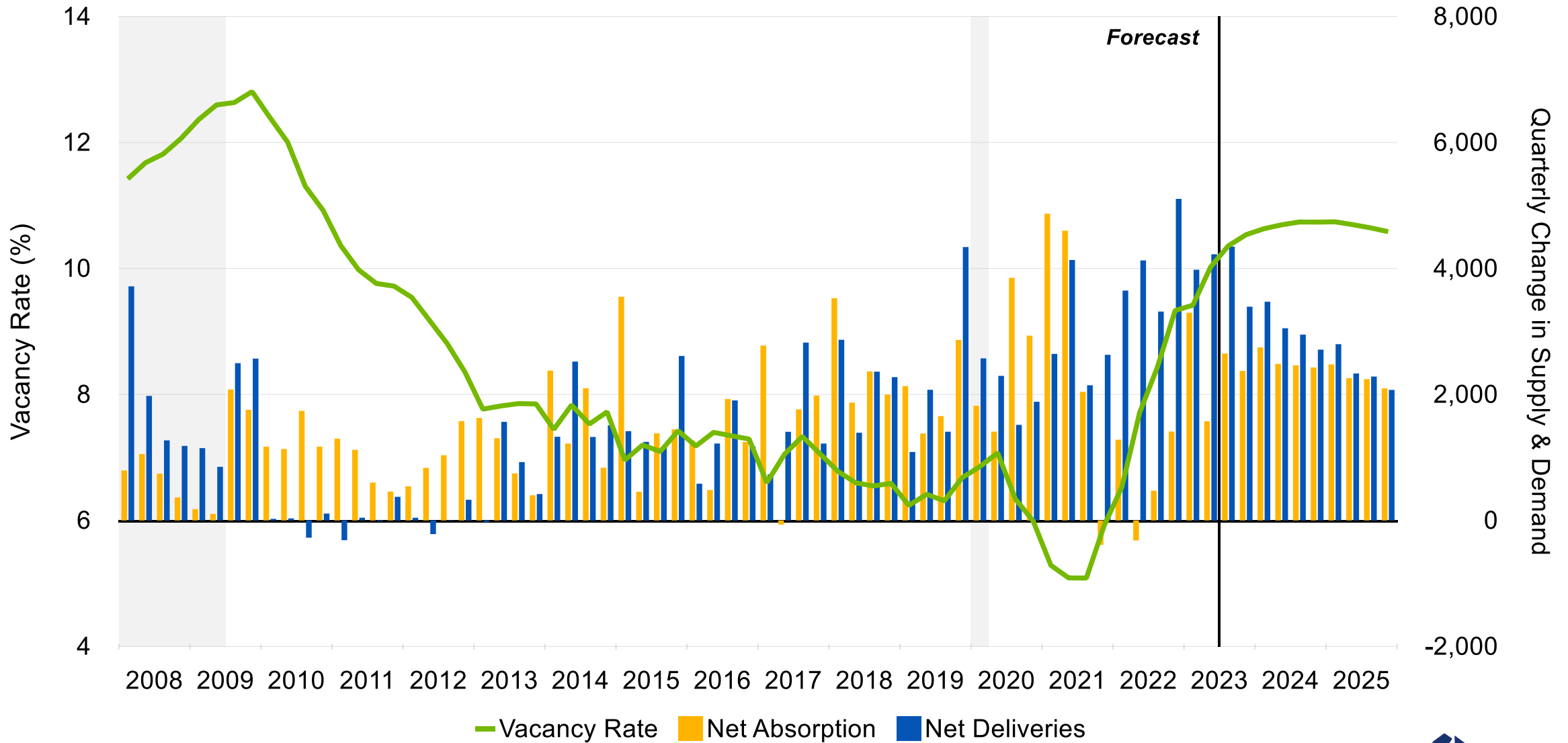
Source: CoStar, 2023 Q2

Phoenix Apartment Supply and Demand Trends



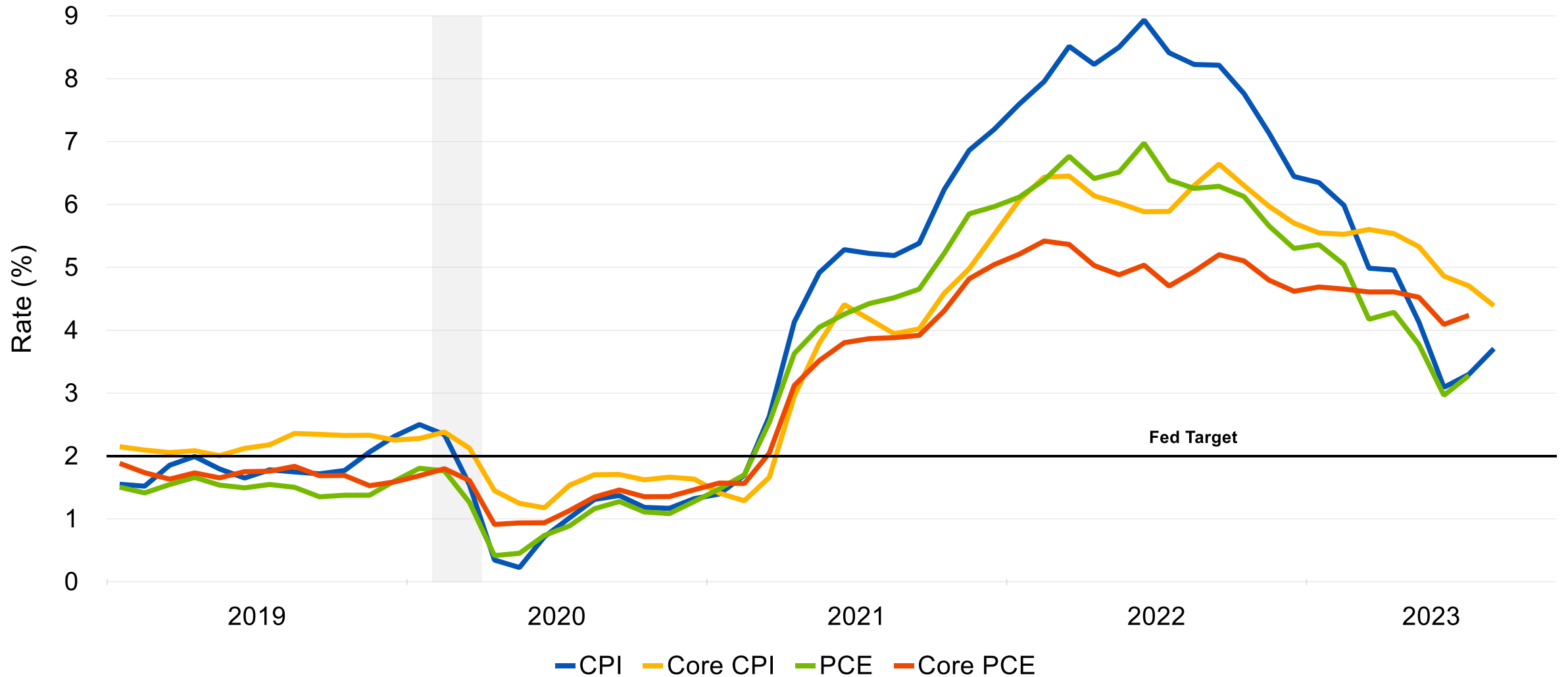
Source: CoStar, 2023 Q2

Phoenix Apartment Supply and Demand Trends

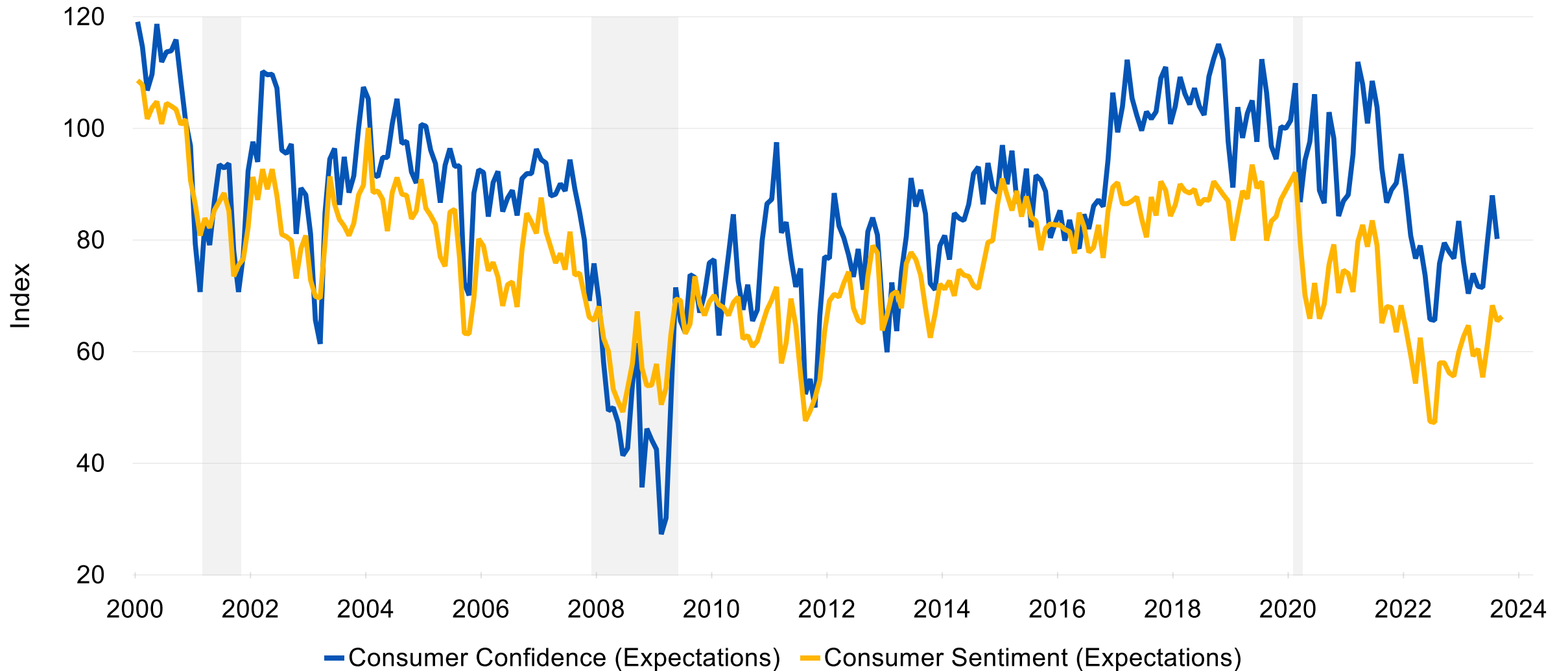


Source: CoStar, 2026 Q2

Inflation Readings Mostly Heading in the Right Direction

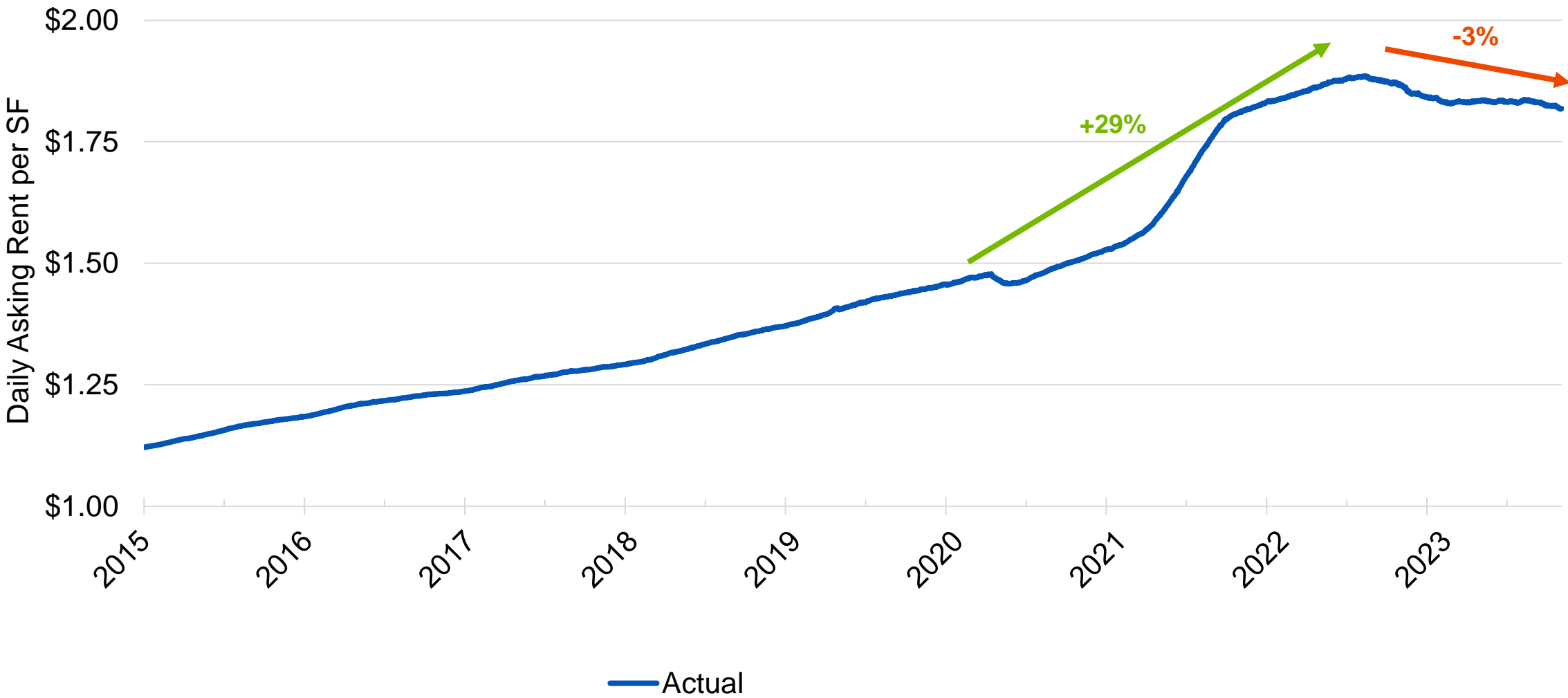


Anxiety of U.S. Consumer Beginning to Alleviate



Source: CoStar, Macrobond, Conference Board, University of Michigan, 8/2023

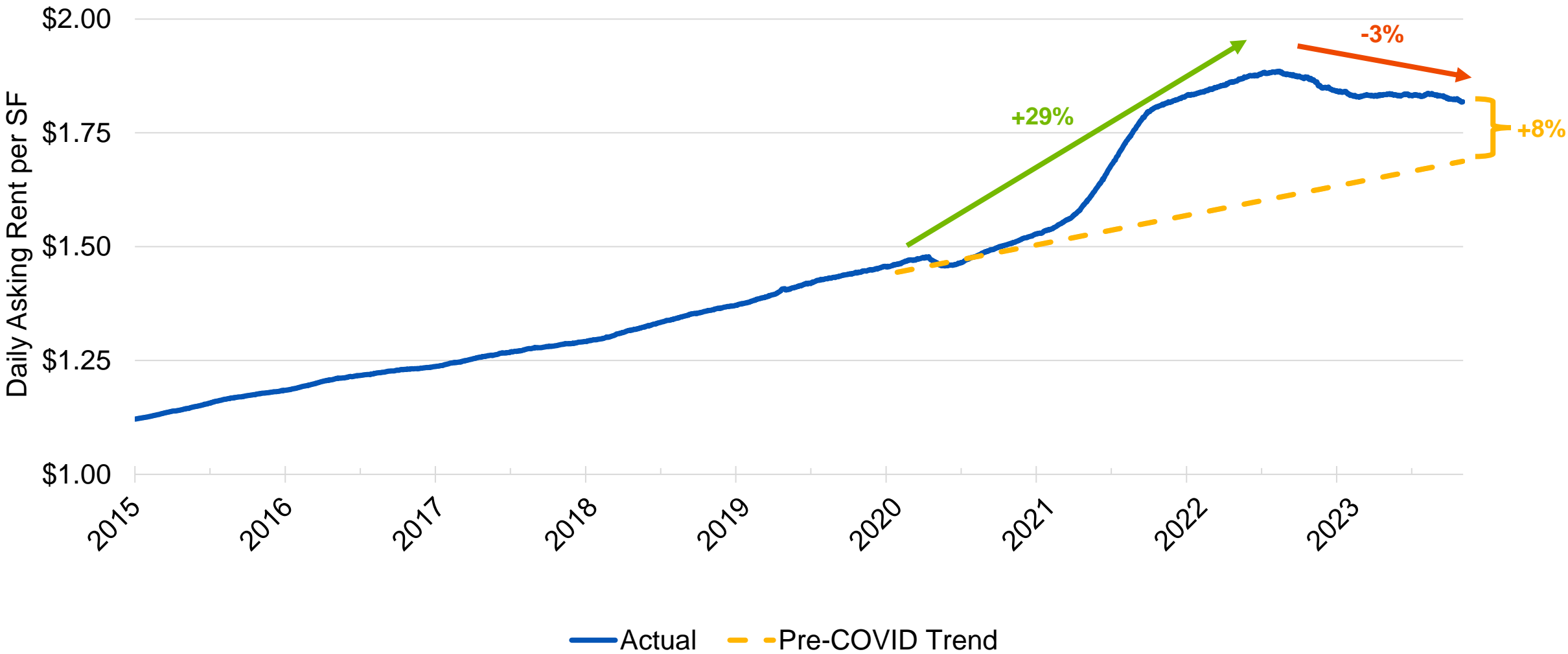
Phoenix Gave Back Some Gains, But Still Ahead of Pre-COVID Trend



Source: Apartments.com, September 18



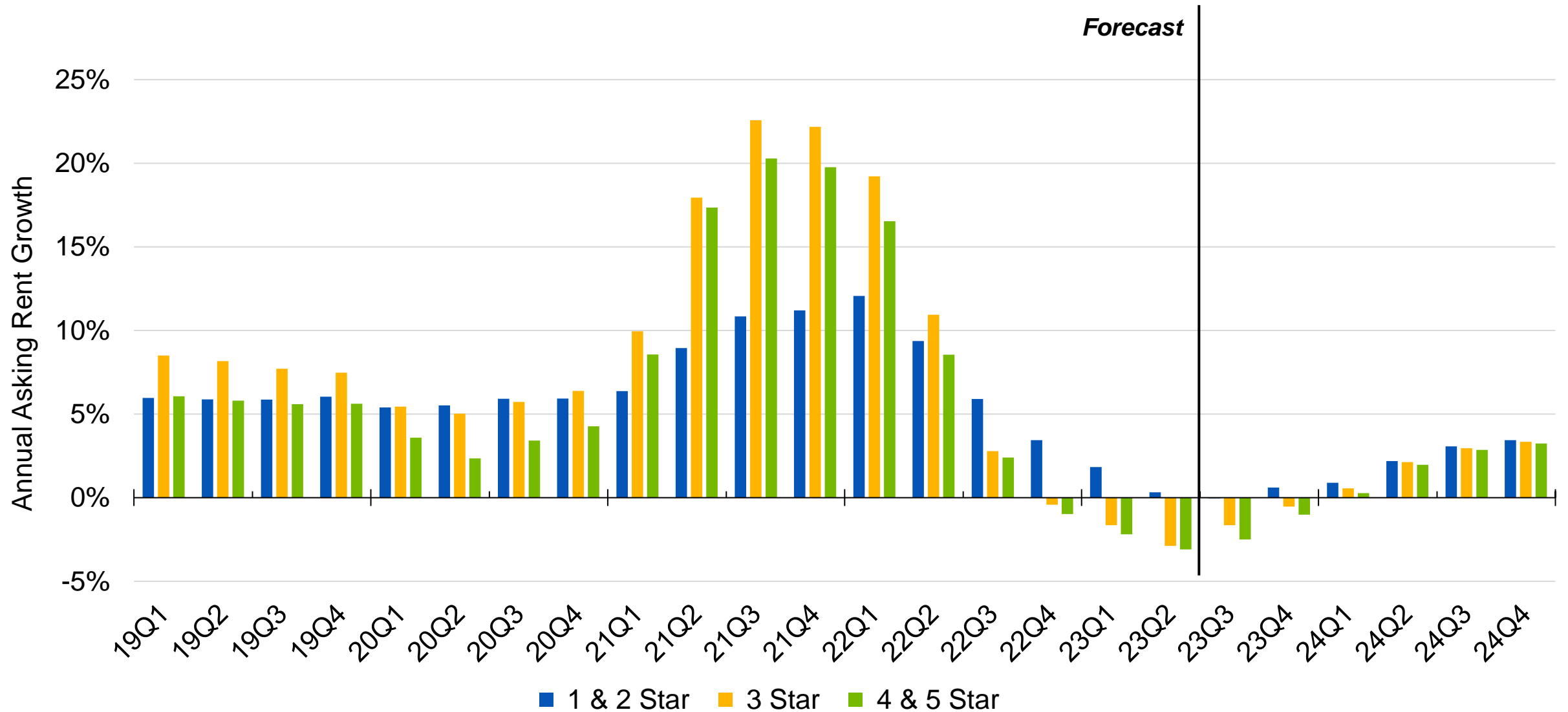
Phoenix Gave Back Some Gains, But Still Ahead of Pre-COVID Trend



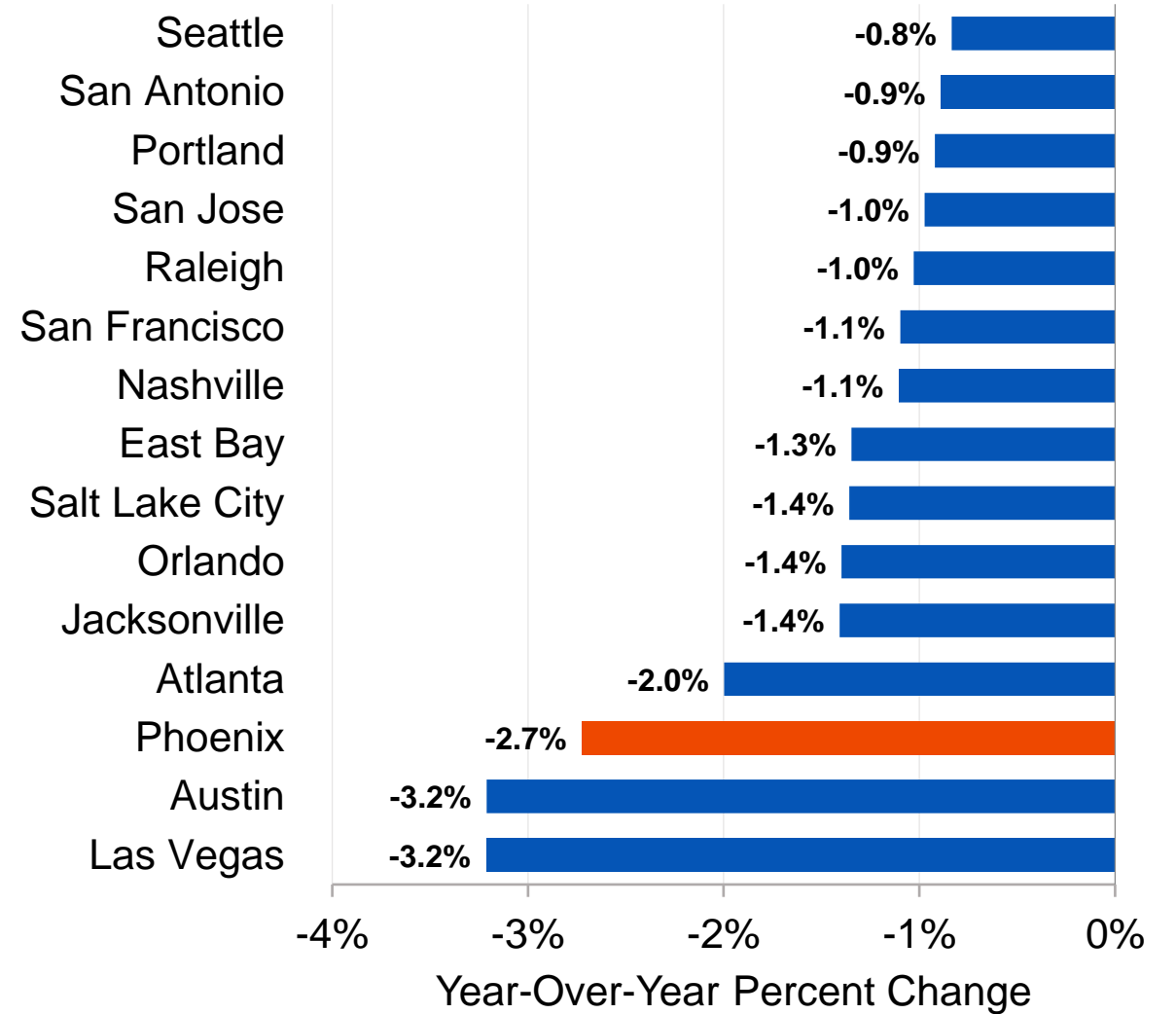
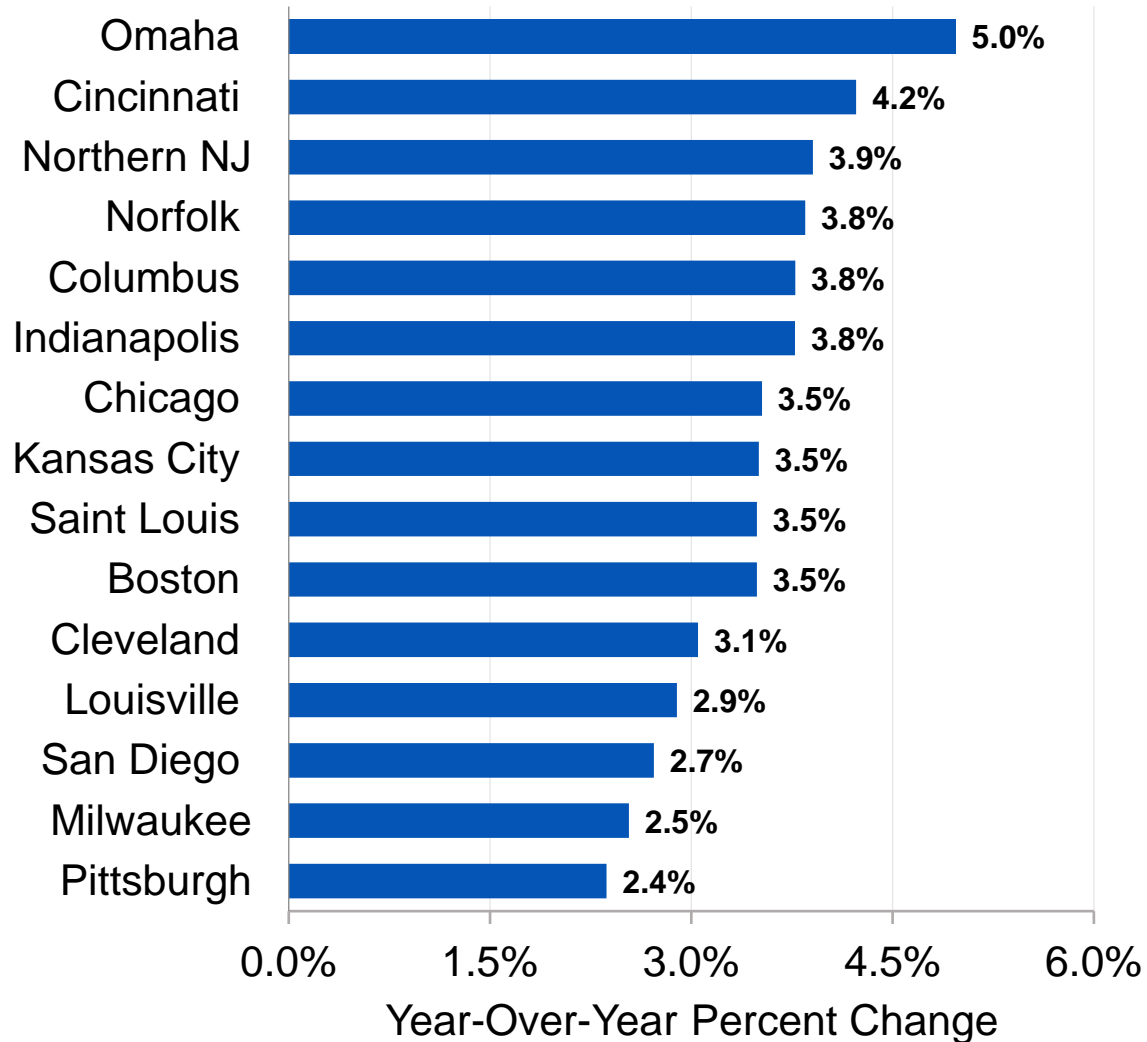
Source: Apartments.com, September 18



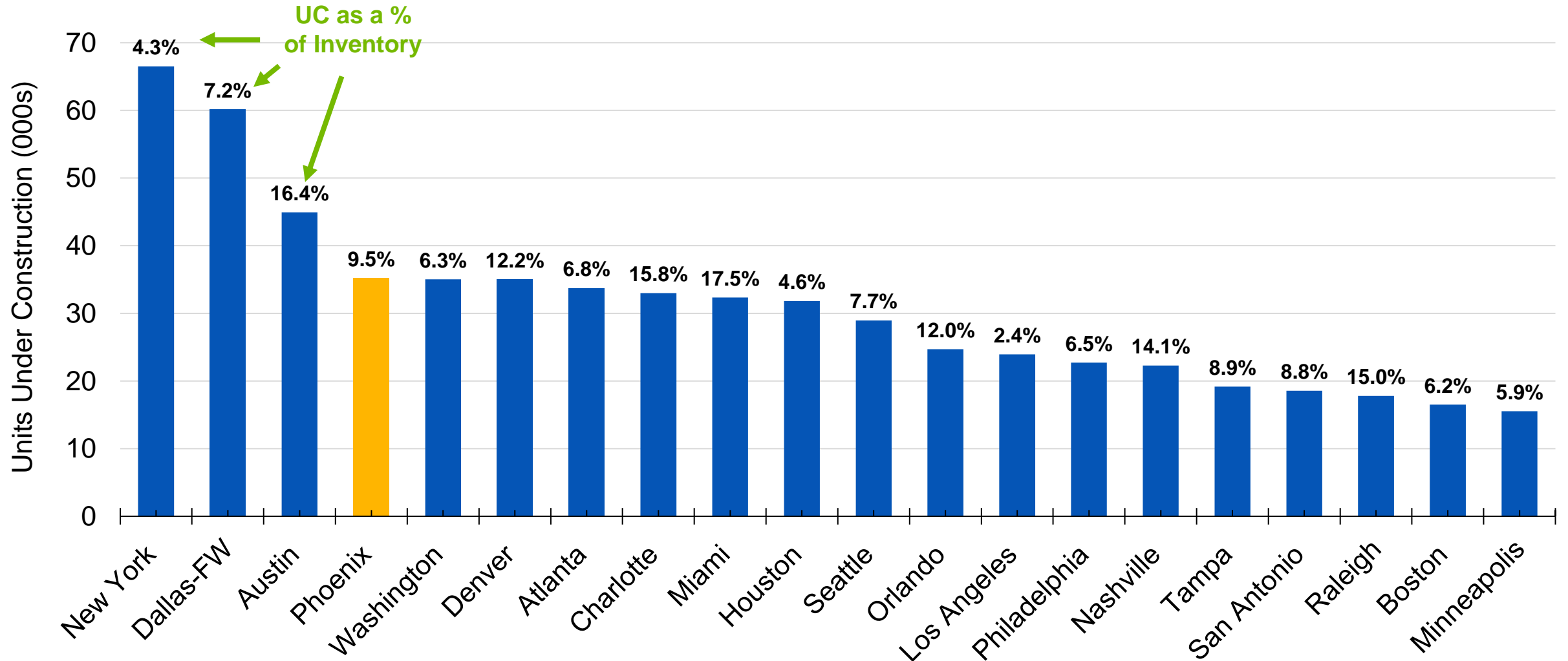
Phoenix Apartment Rent Growth by Star Rating



Annual Rent Growth Rankings by Market

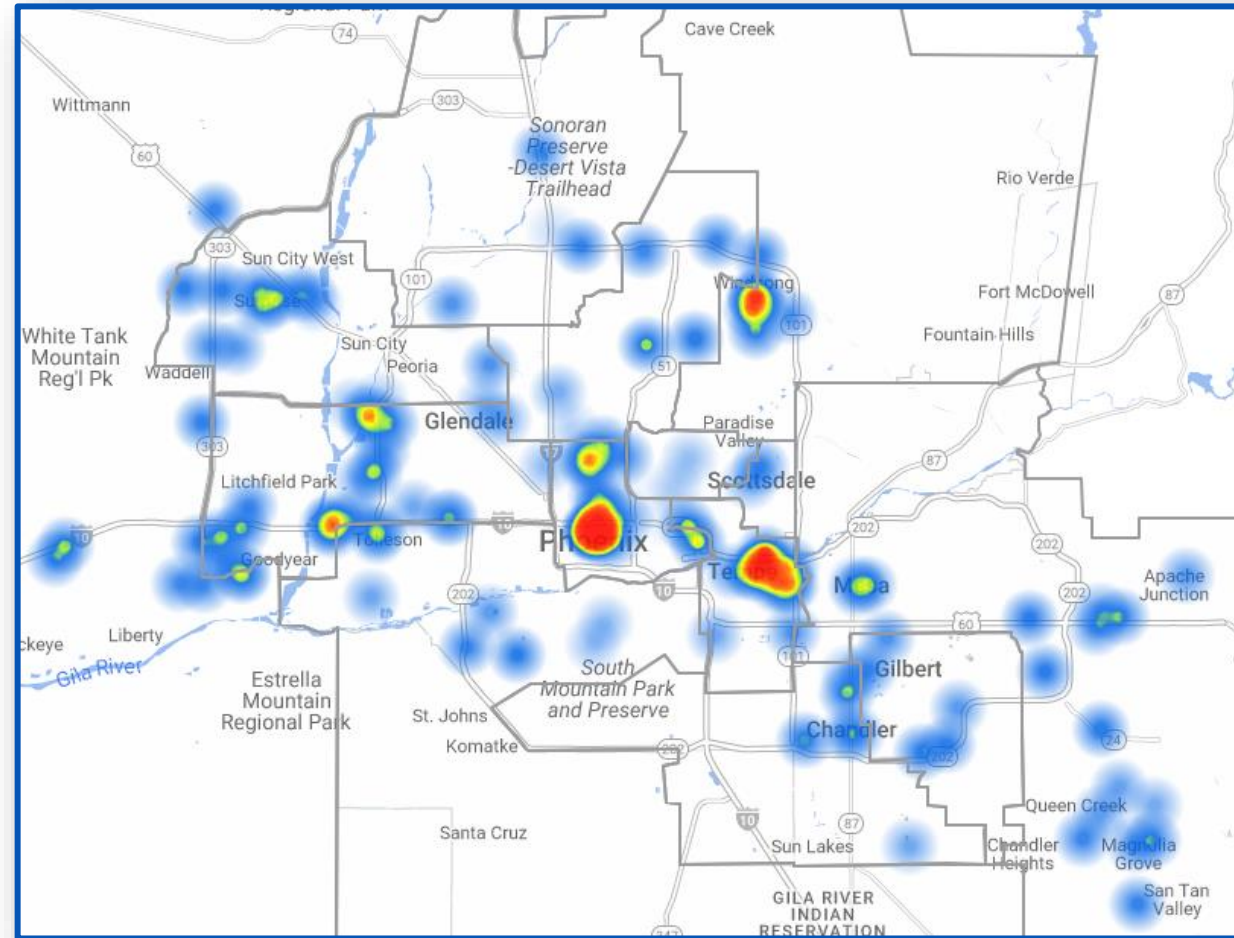
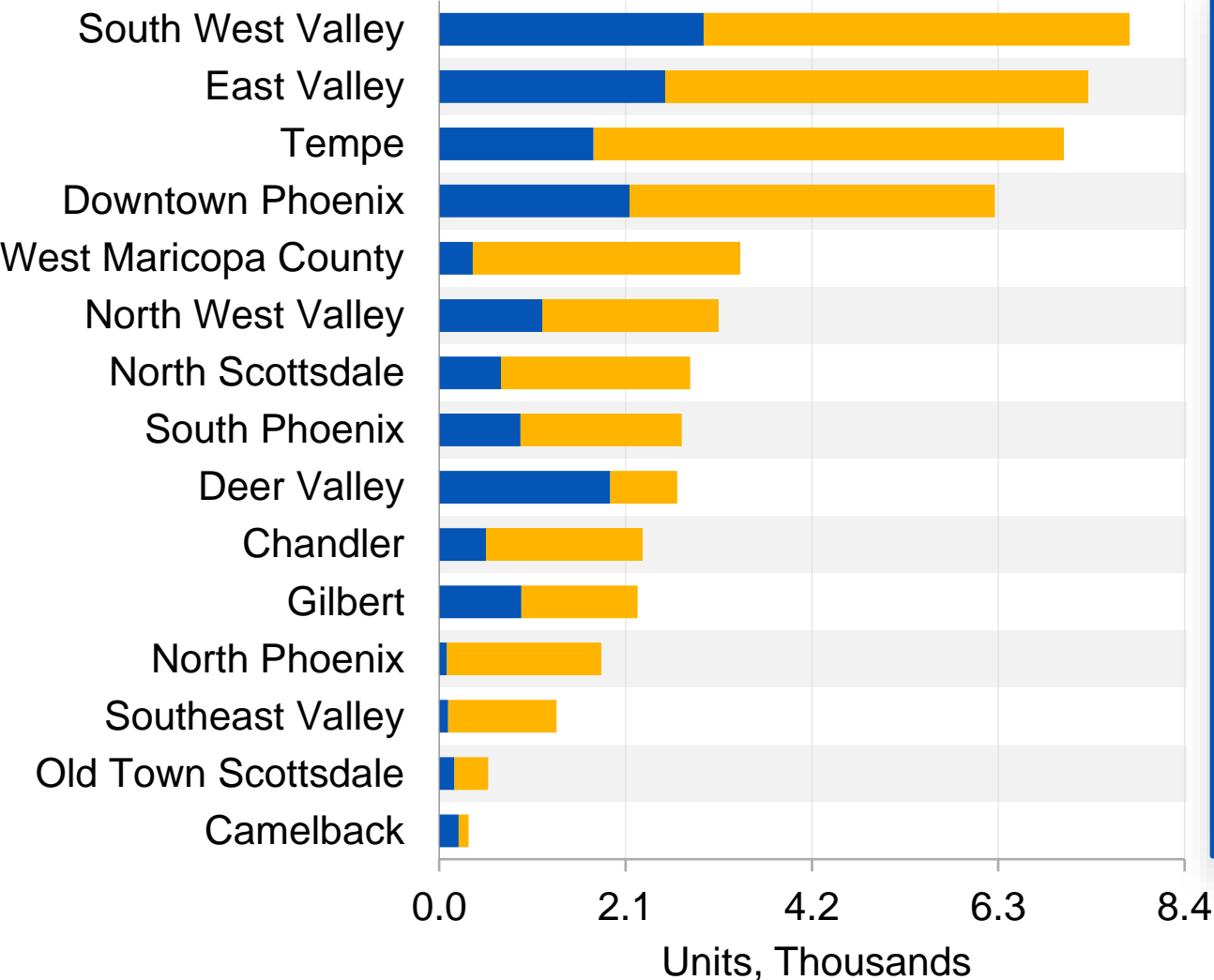


Putting Phoenix's Construction Pipeline in Perspective



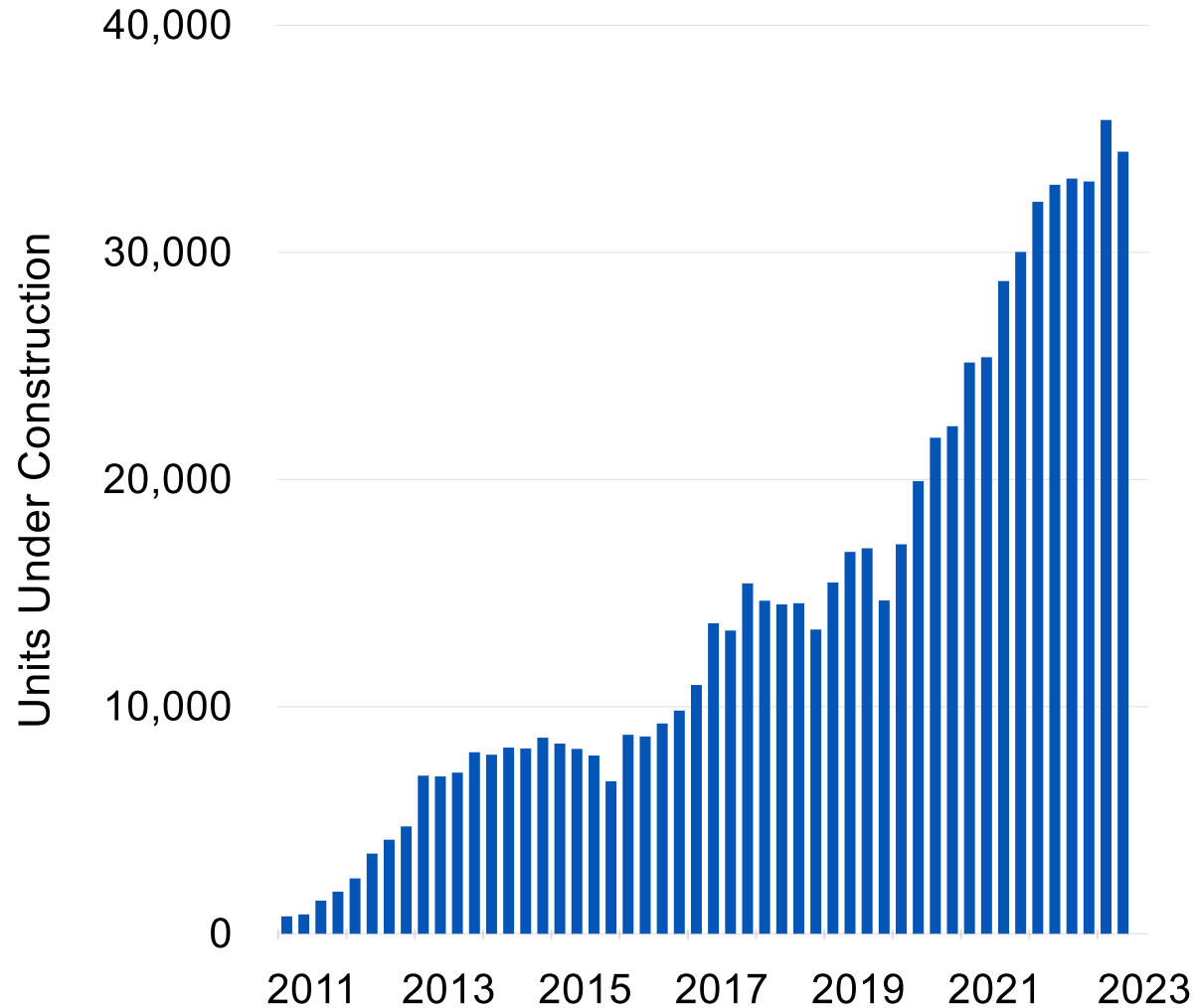
Construction Activity Focused On SW Valley, Downtown, & Tempe

■ 12-Month Delivered ■ Under Construction



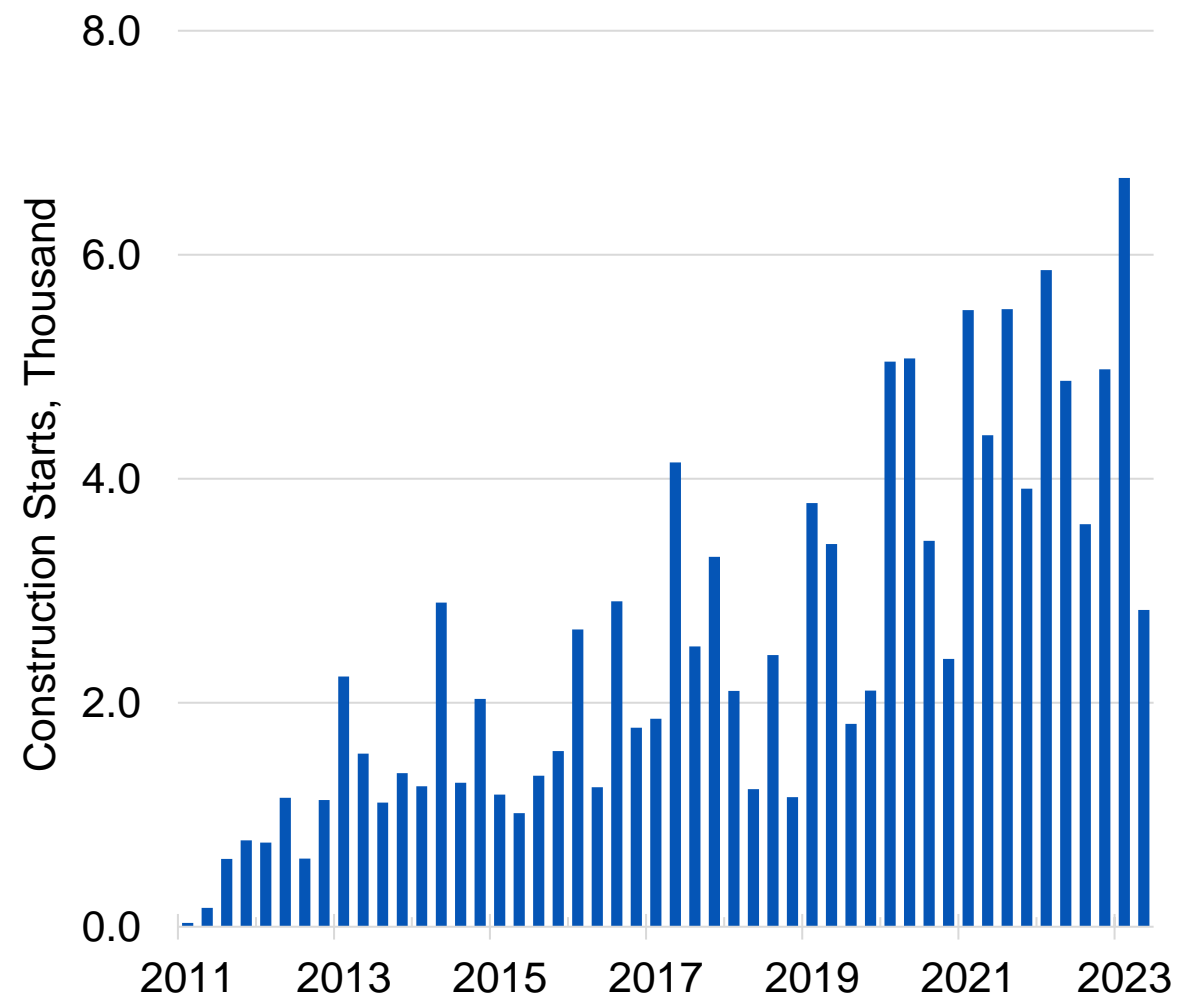
Phoenix Apartment Construction Pipeline

Units Under Construction



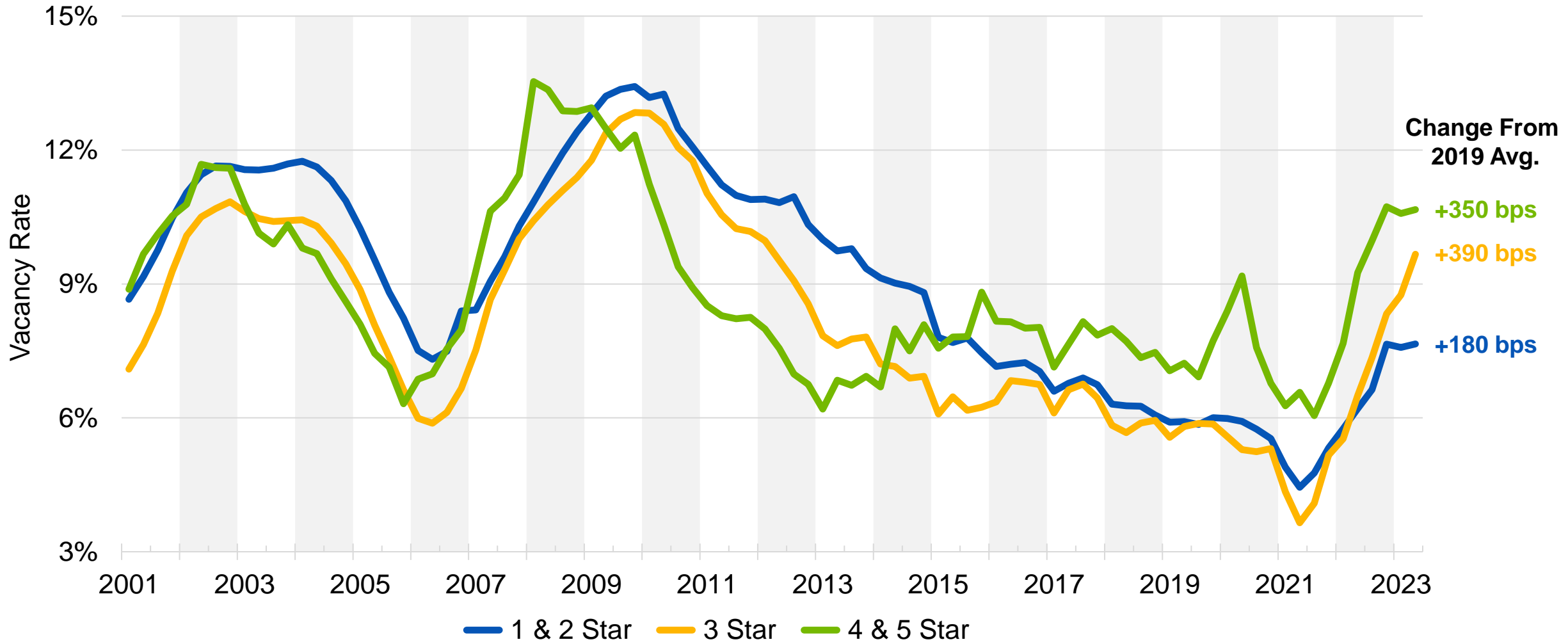
Source: CoStar, 2023 Q2

Construction Starts

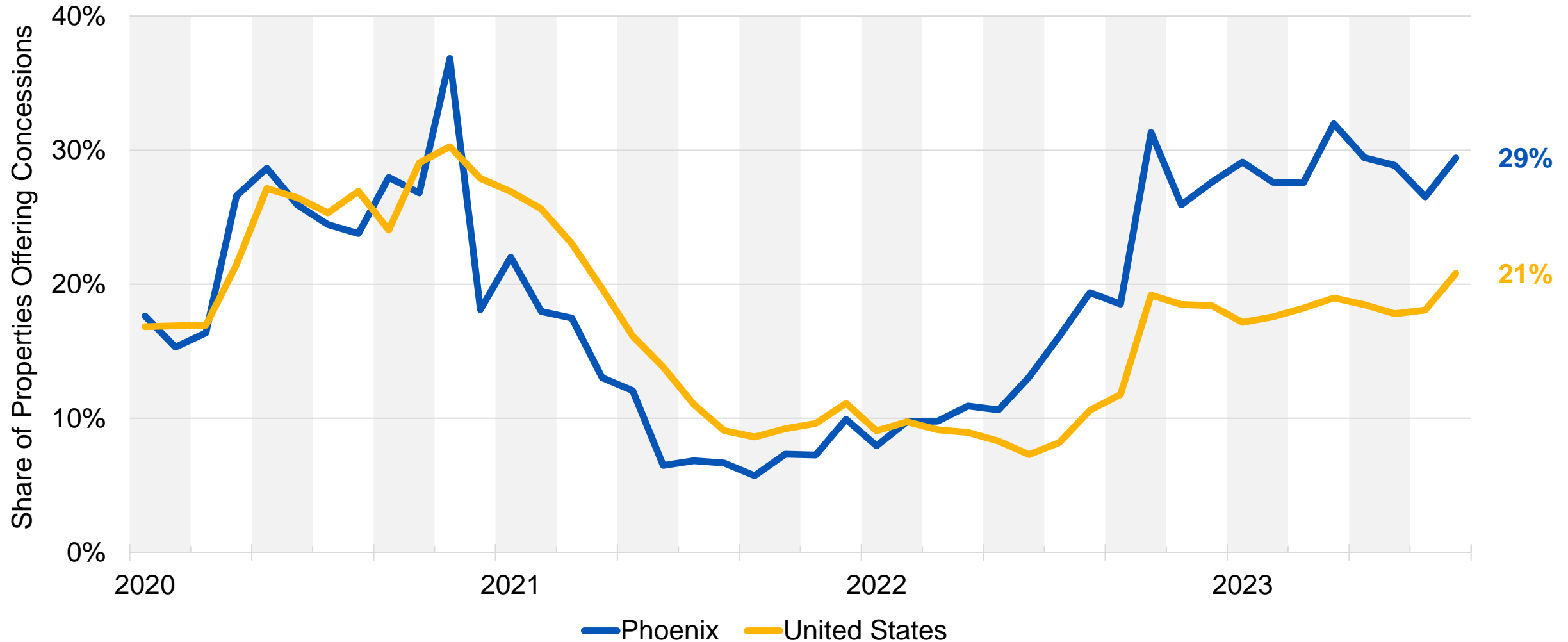


Source: CoStar, 2023 Q2

Phoenix Apartment Vacancy by Star Rating



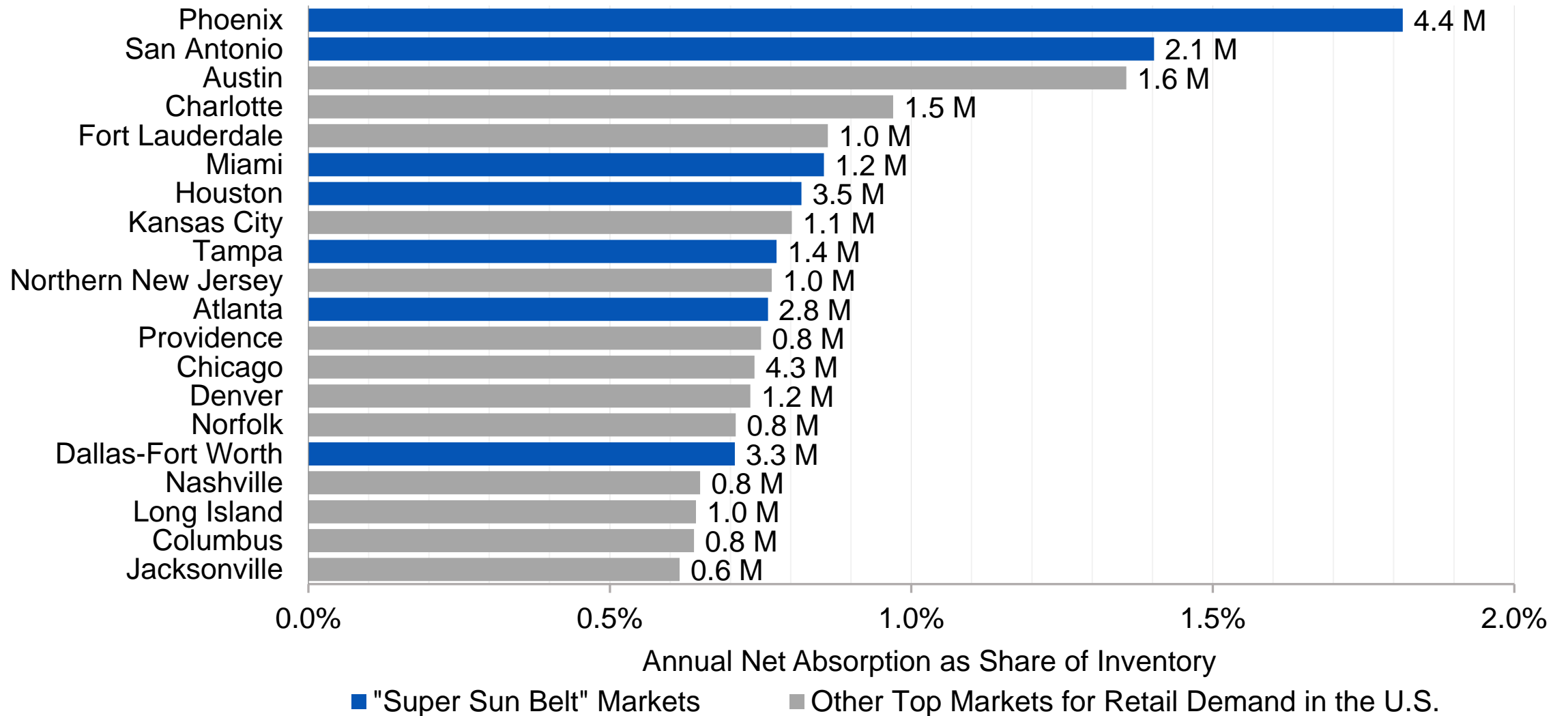
Phoenix Multifamily Concession Usage Trends





Phoenix Retail Fundamentals

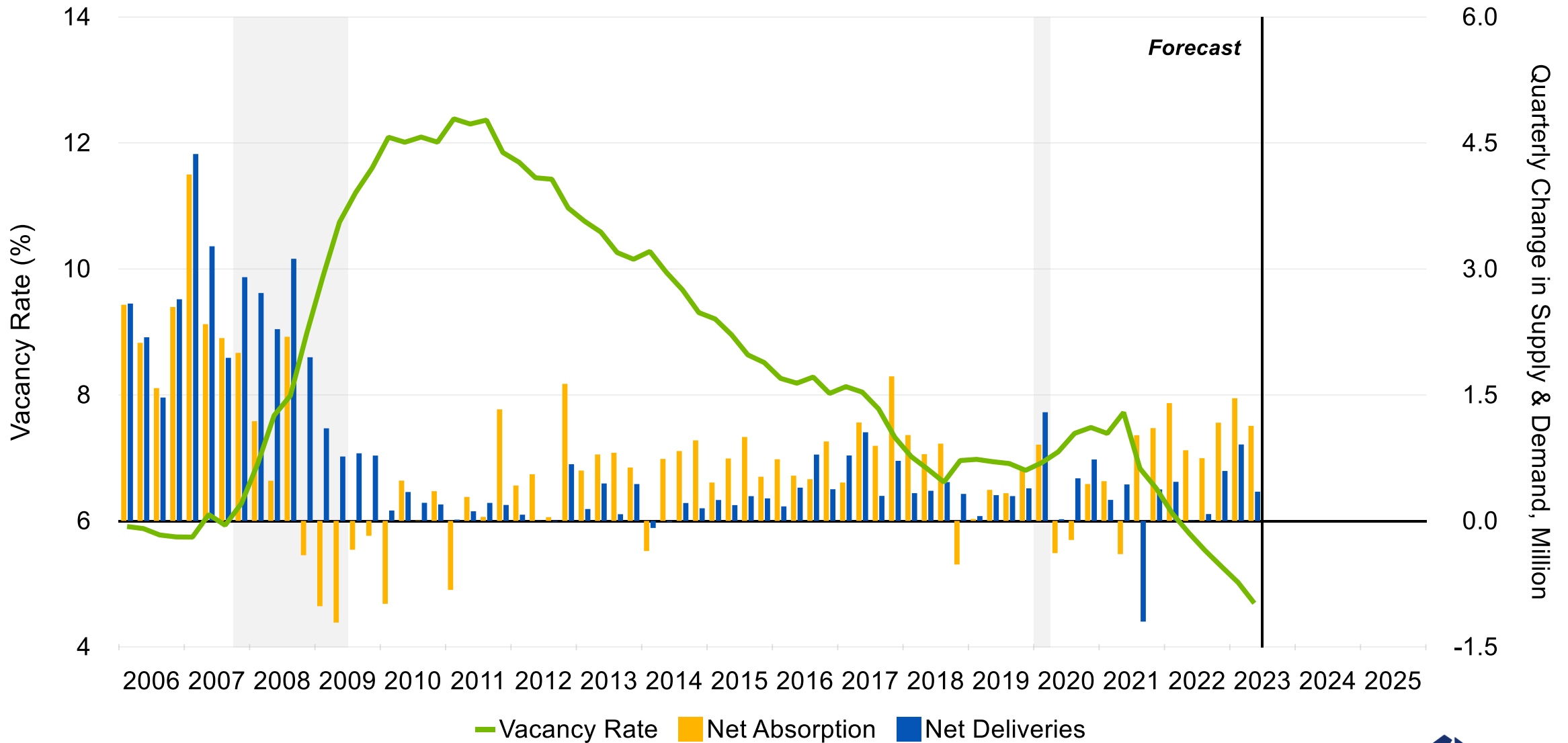
Retail Demand Is Strong Throughout the Fast-Growing Sun Belt



Source: CoStar, September 2023

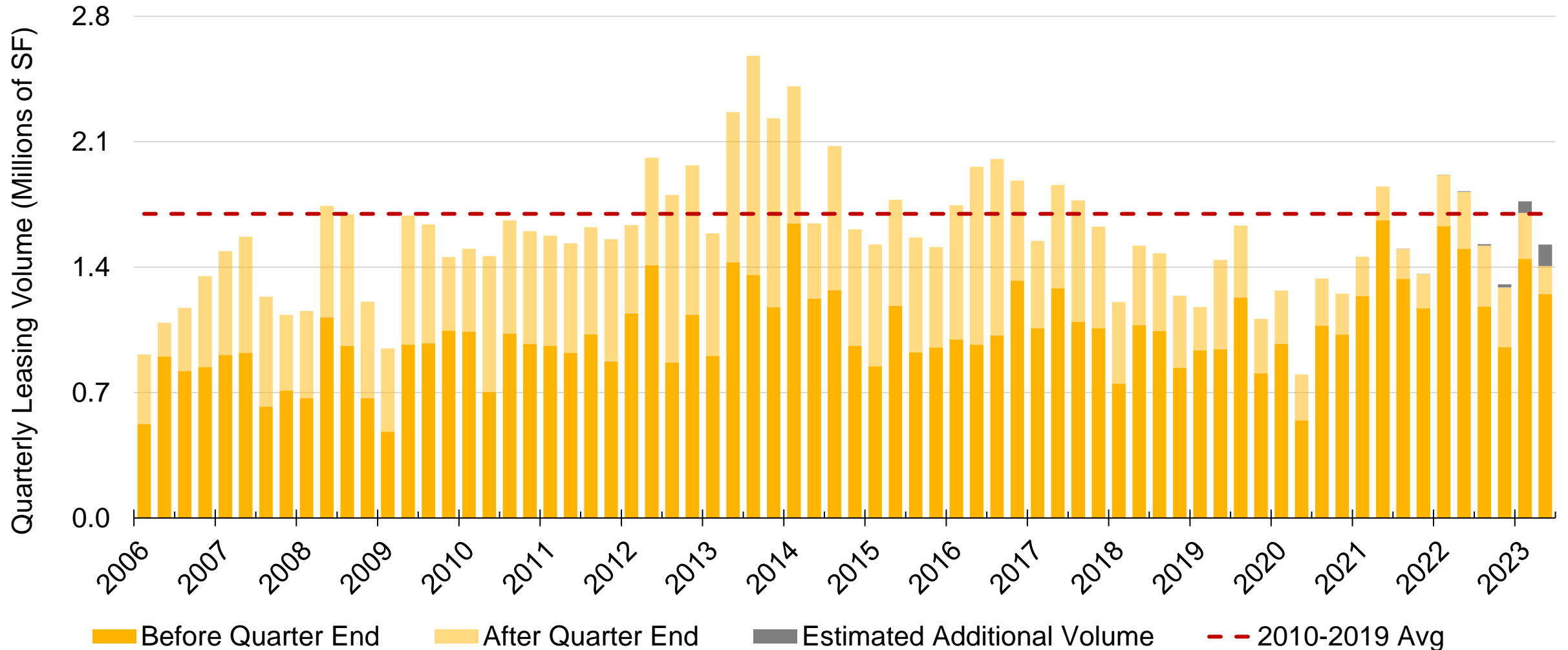
Note: Analysis includes markets with 100 million+ square feet of inventory. Labels represent annual net absorption in millions of square feet. Data is from the most recent quarter's end.

Phoenix Retail Supply and Demand Trends



Source: CoStar, 2023 Q2

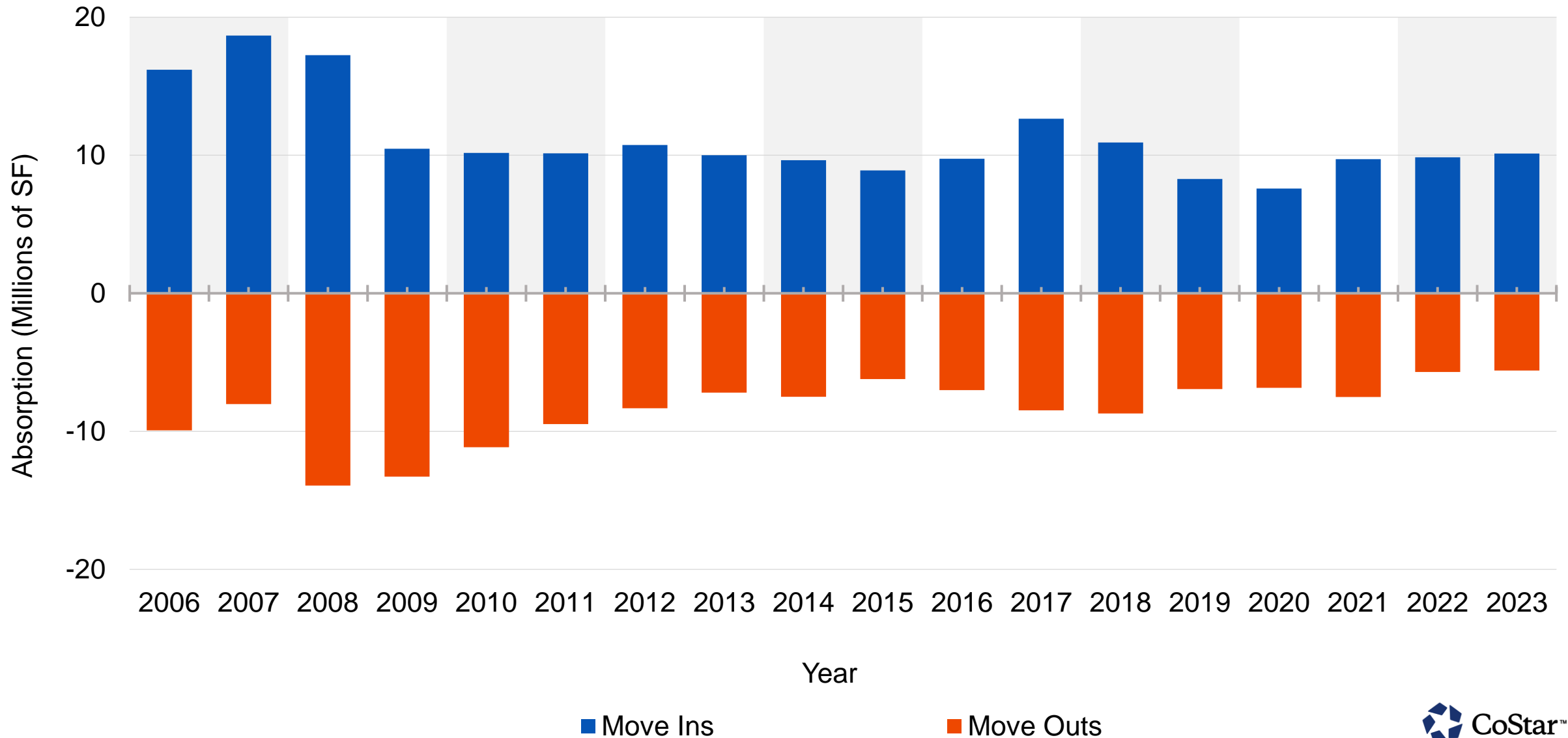
Phoenix Retail Quarterly Leasing Volume



Excludes renewals
Source: CoStar, 2023 Q2

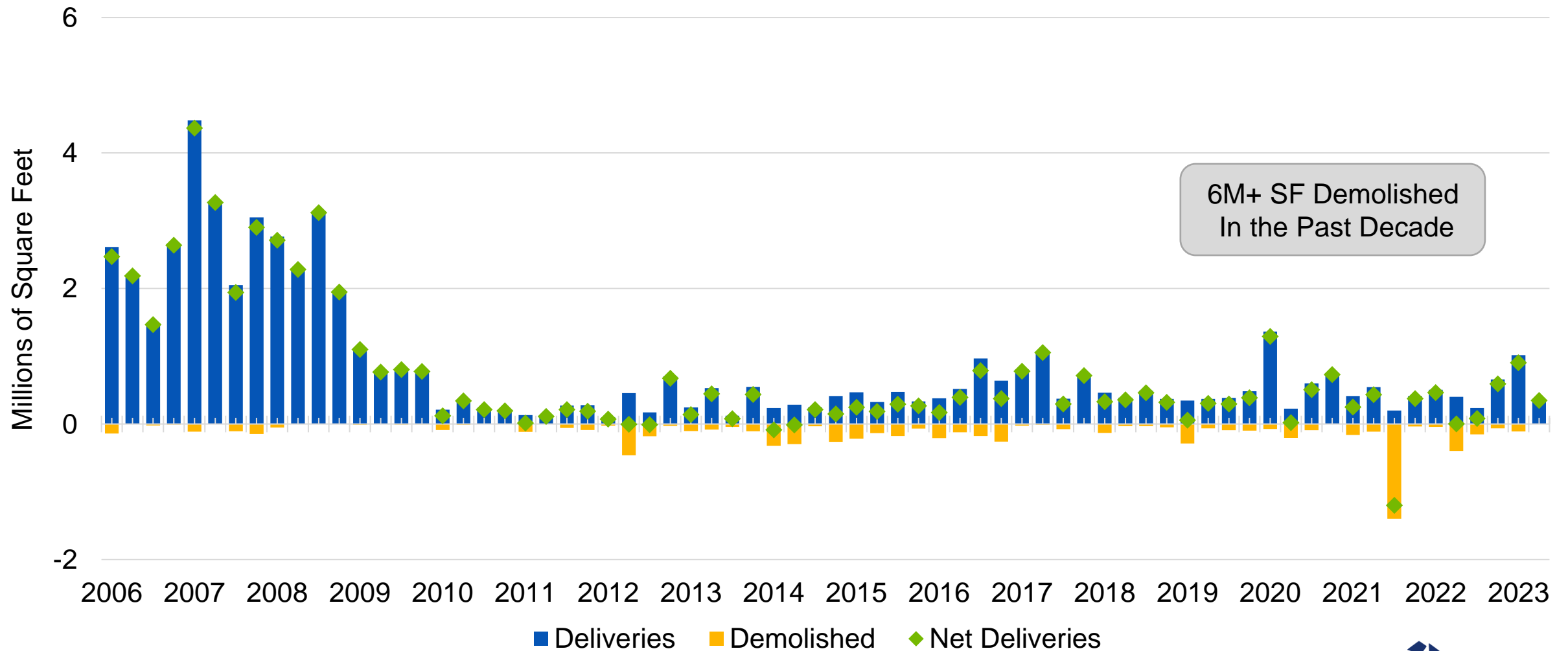


Reduced Closures Supporting Retail Property Performance

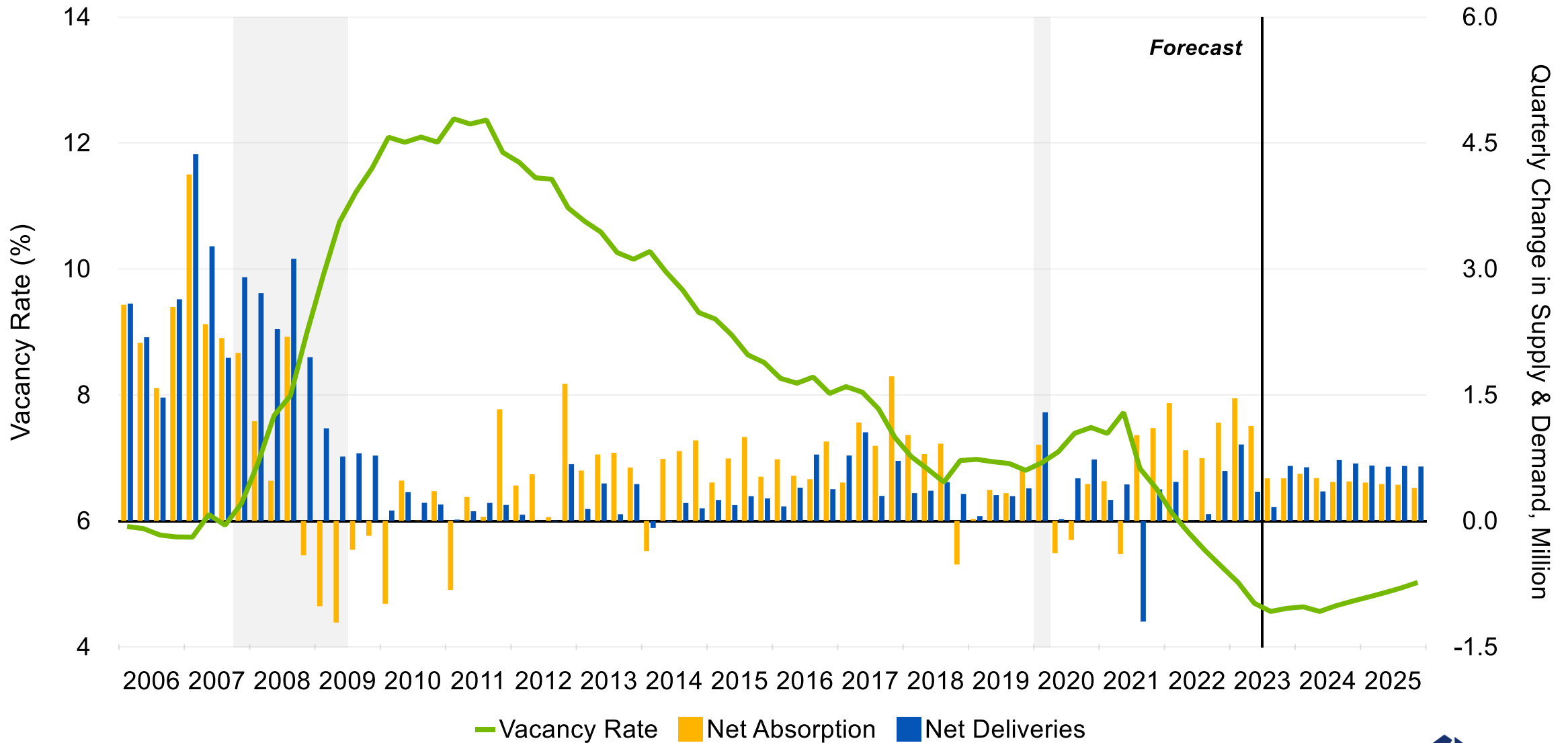


Source: CoStar, Trailing 12 months through 2023 Q1

Limited Development Pipeline Keeps Supply & Demand in Balance

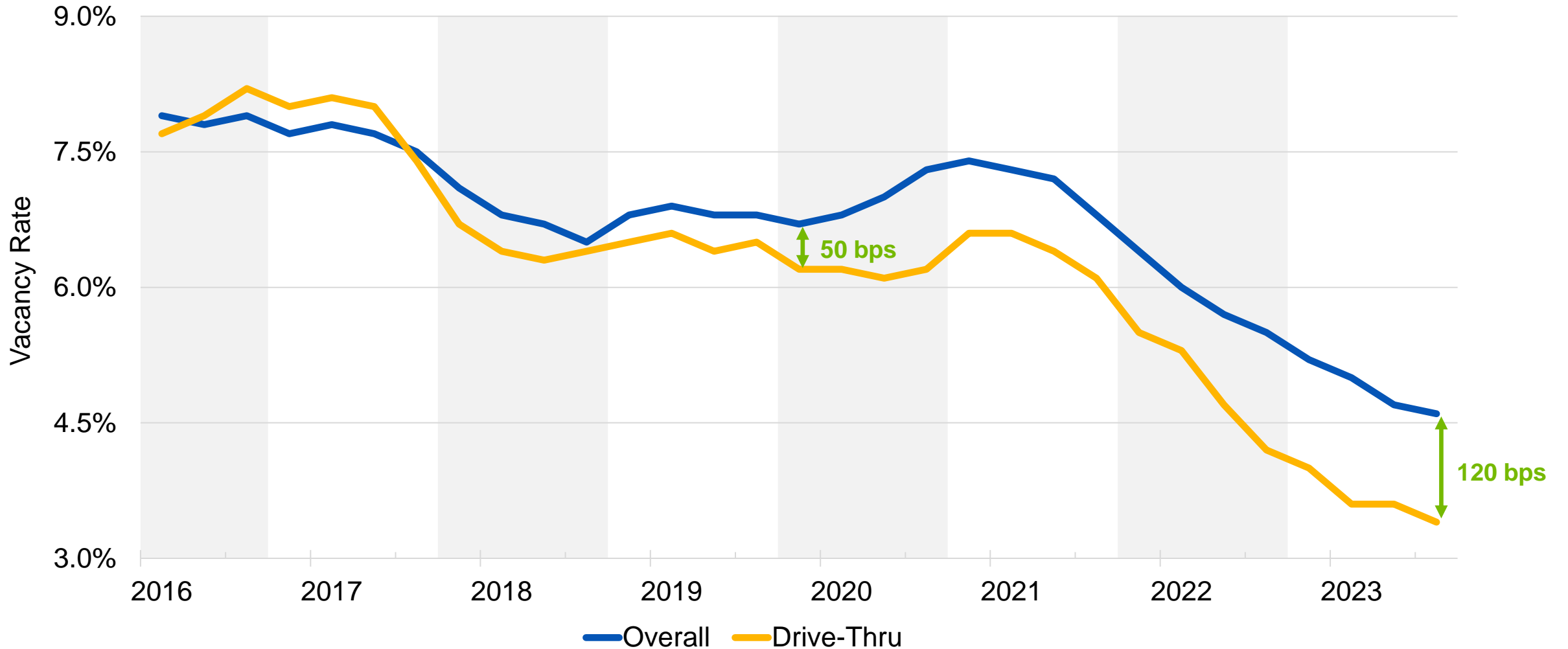


Phoenix Retail Supply and Demand Trends



Source: CoStar, 2026 Q2

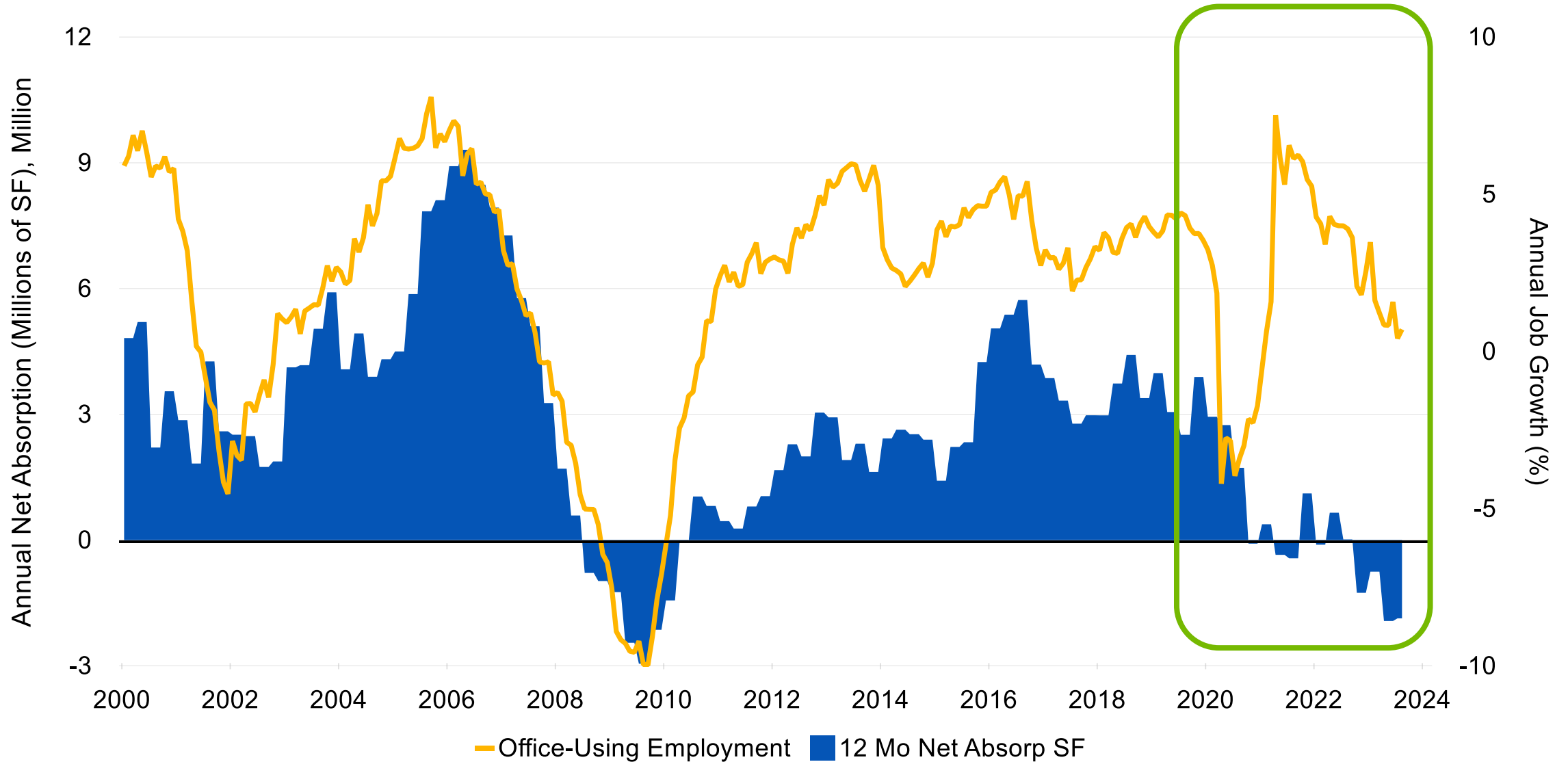
Phoenix Drive-Thru Retailers Outperforming Since Onset of COVID





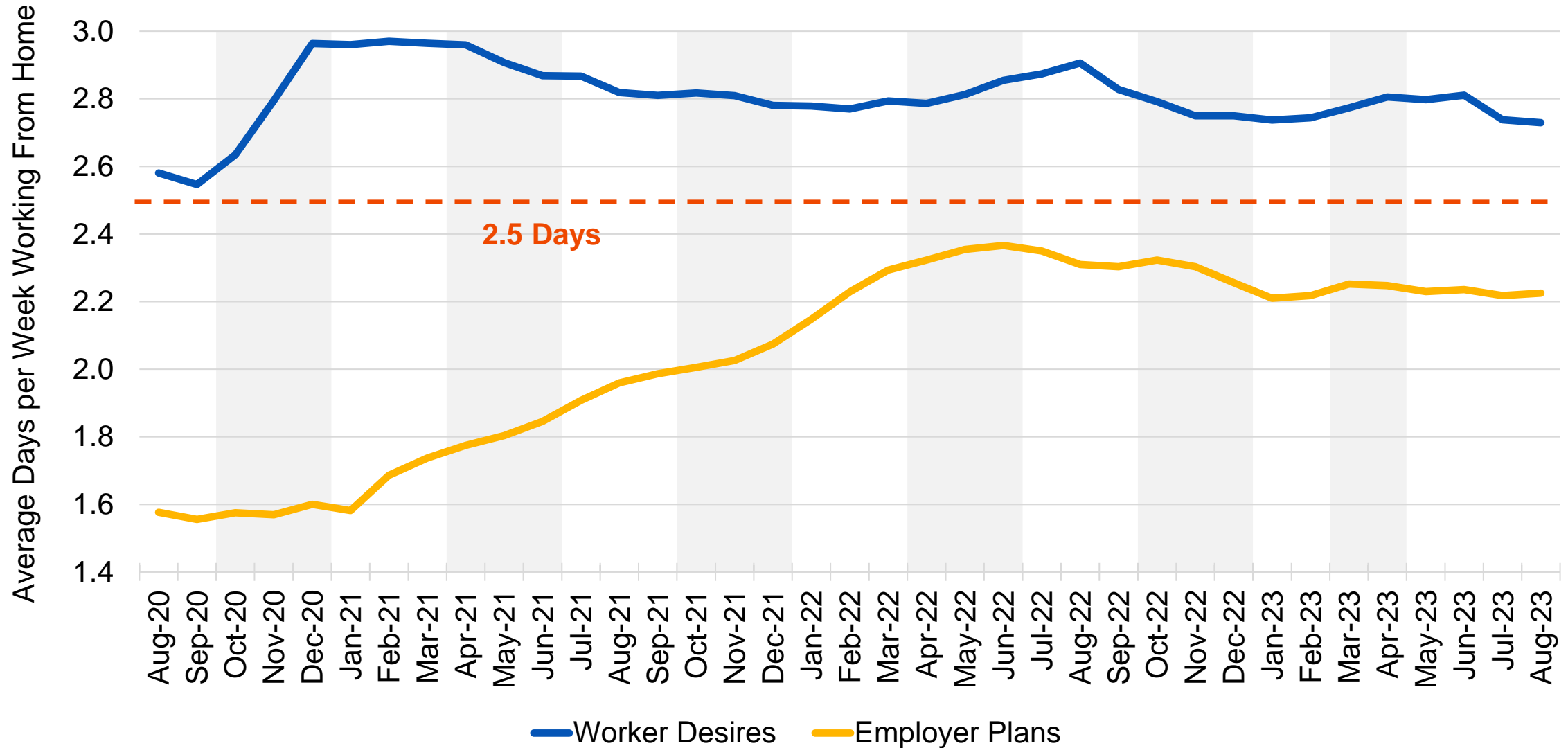
Phoenix Office Fundamentals

Wide Gap Between Office-Using Jobs and Office Demand

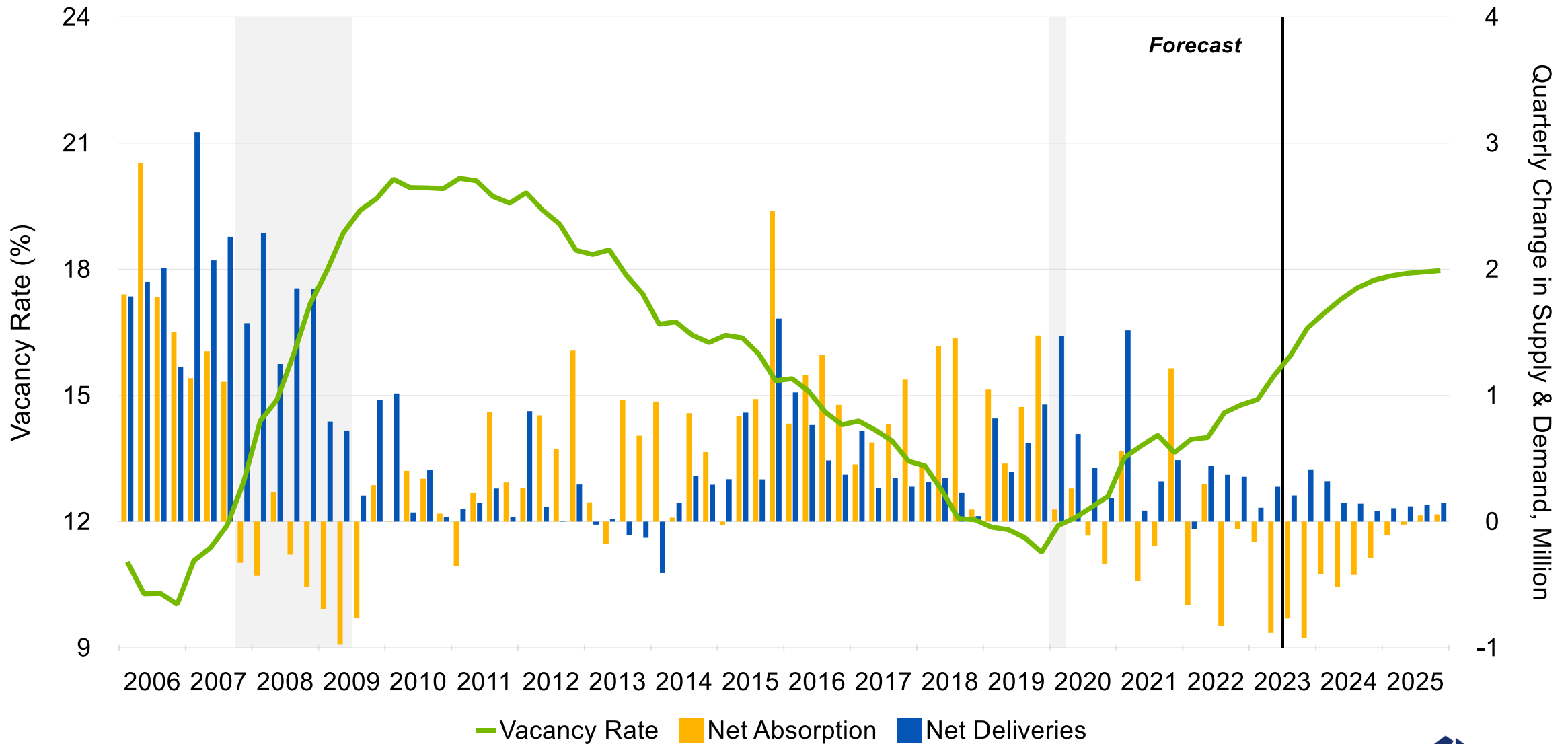


Source: CoStar, 6/2026

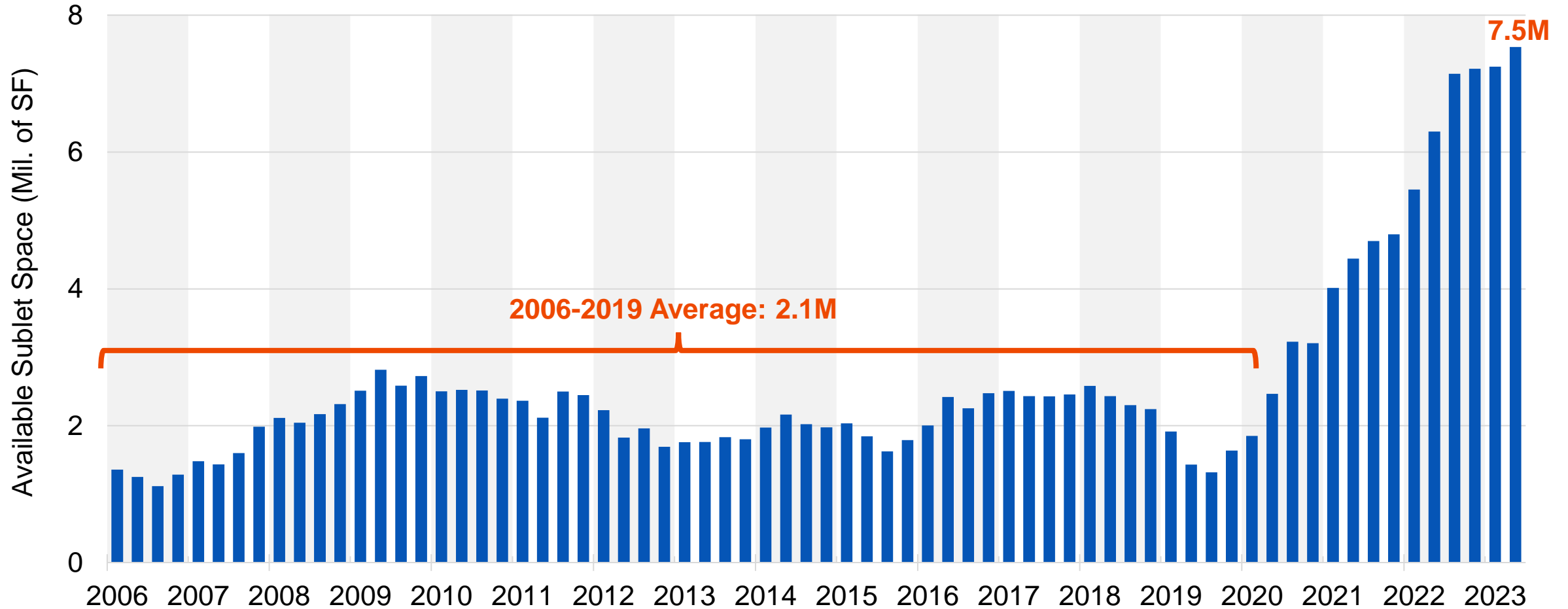
Flex Work Seems Here to Stay – Employer Plans vs. Worker Desires



Phoenix Office Supply and Demand Trends

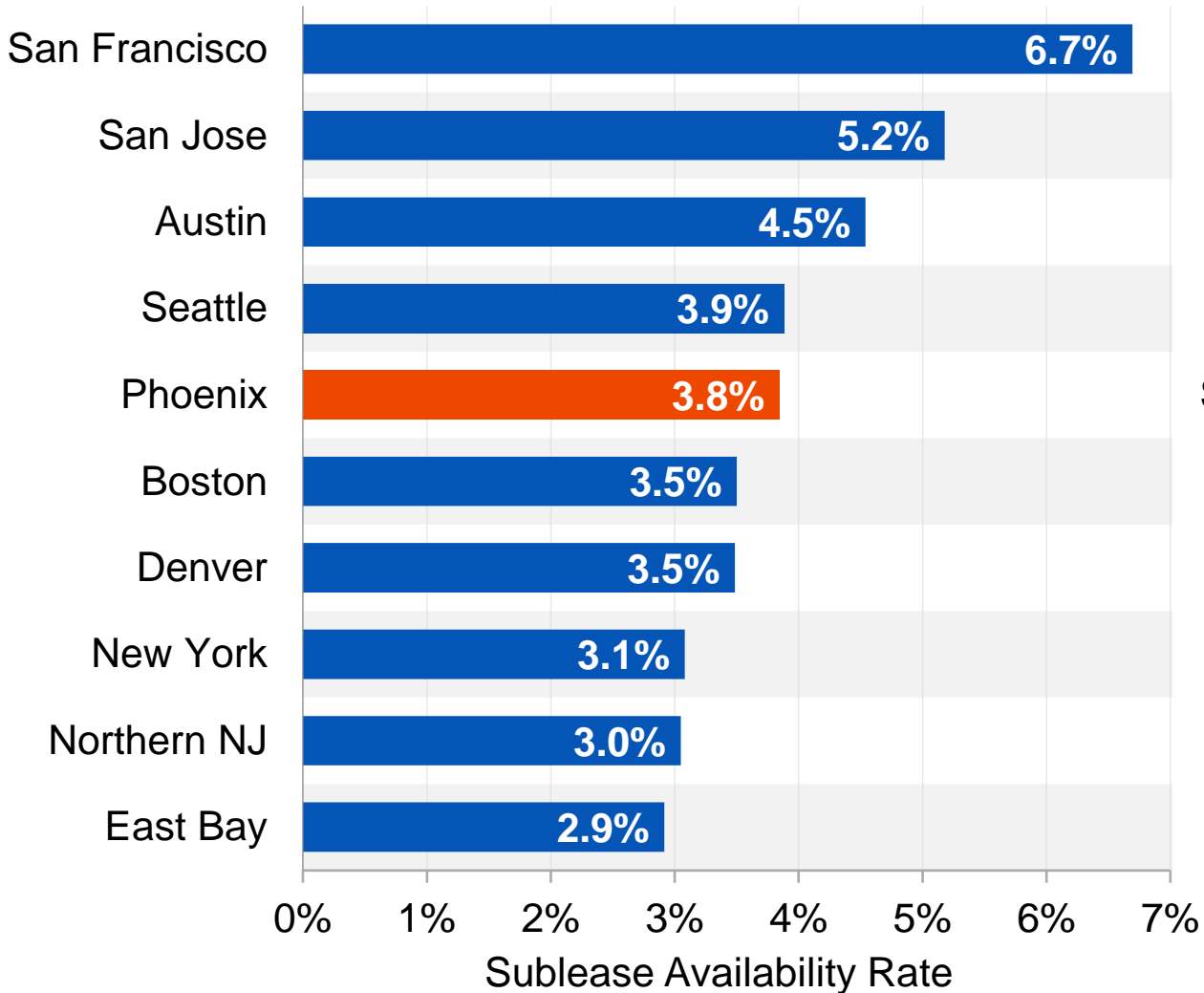


Phoenix Available Office Sublet Space

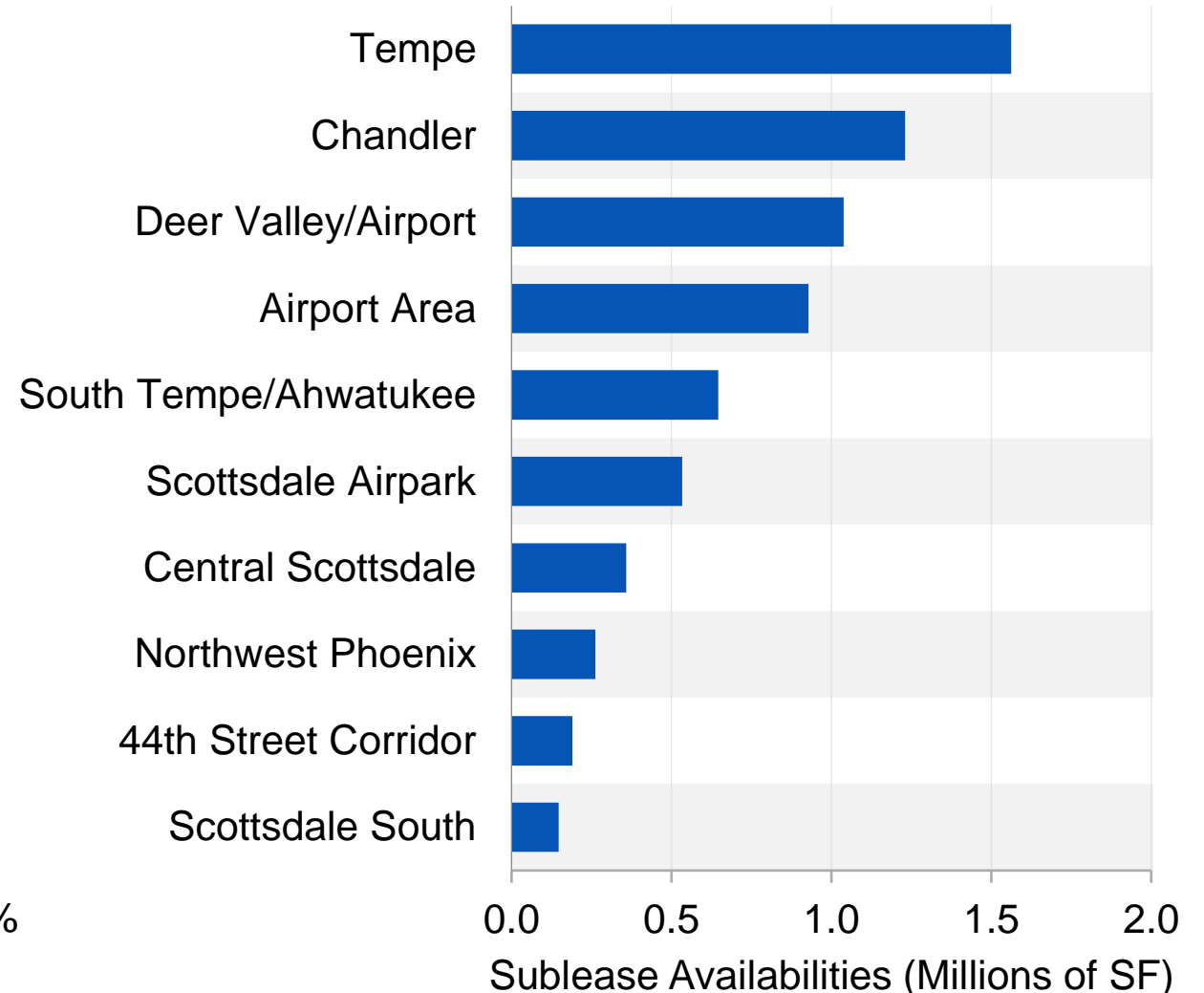


Putting Phoenix Office Sublease Availabilities in Perspective

Top Markets in the U.S.



Top Submarkets in Phoenix

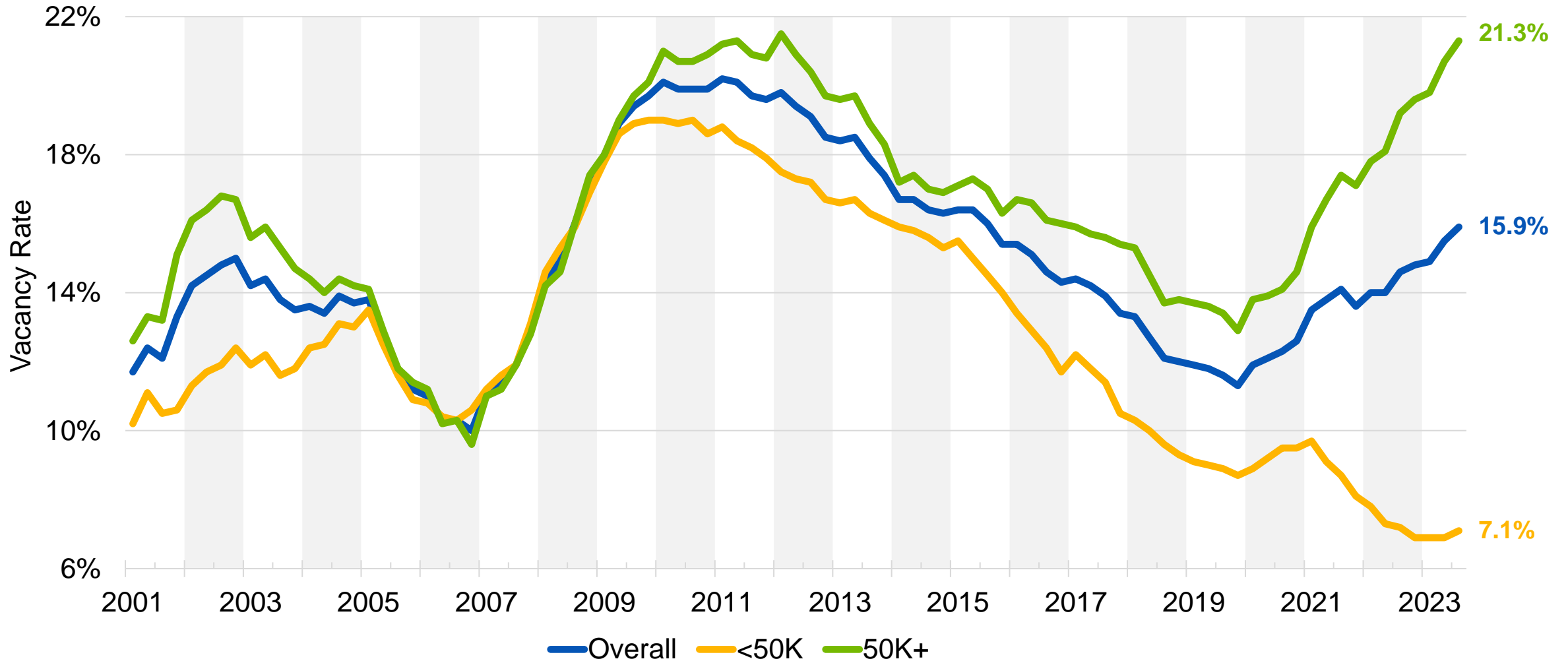


Includes markets with at least 100 million SF of inventory

Source: CoStar, 2023 Q1

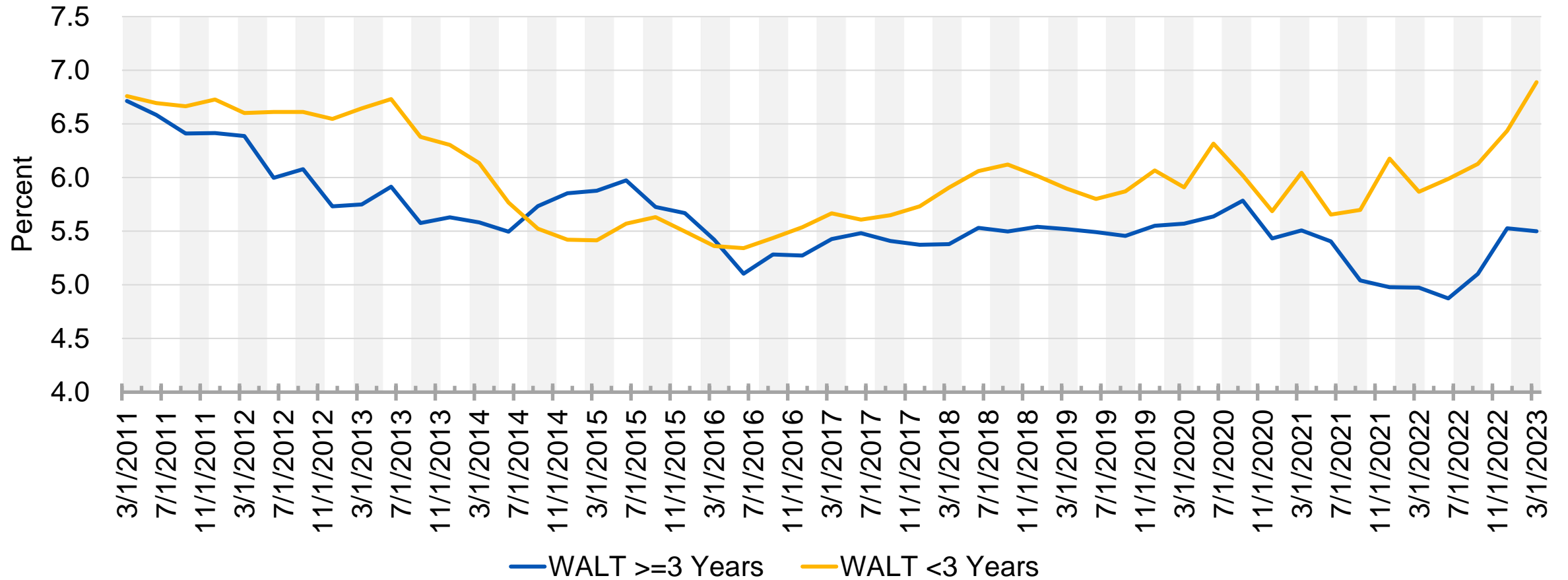
Phoenix Office Vacancy Rates by Size Tranche

Are We Seeing A Flight to... Efficiency? Functionality? Agility?



Investors See Lease Exposure as Increasingly Risky

12-Month Rolling Average U.S. Transaction Cap Rate



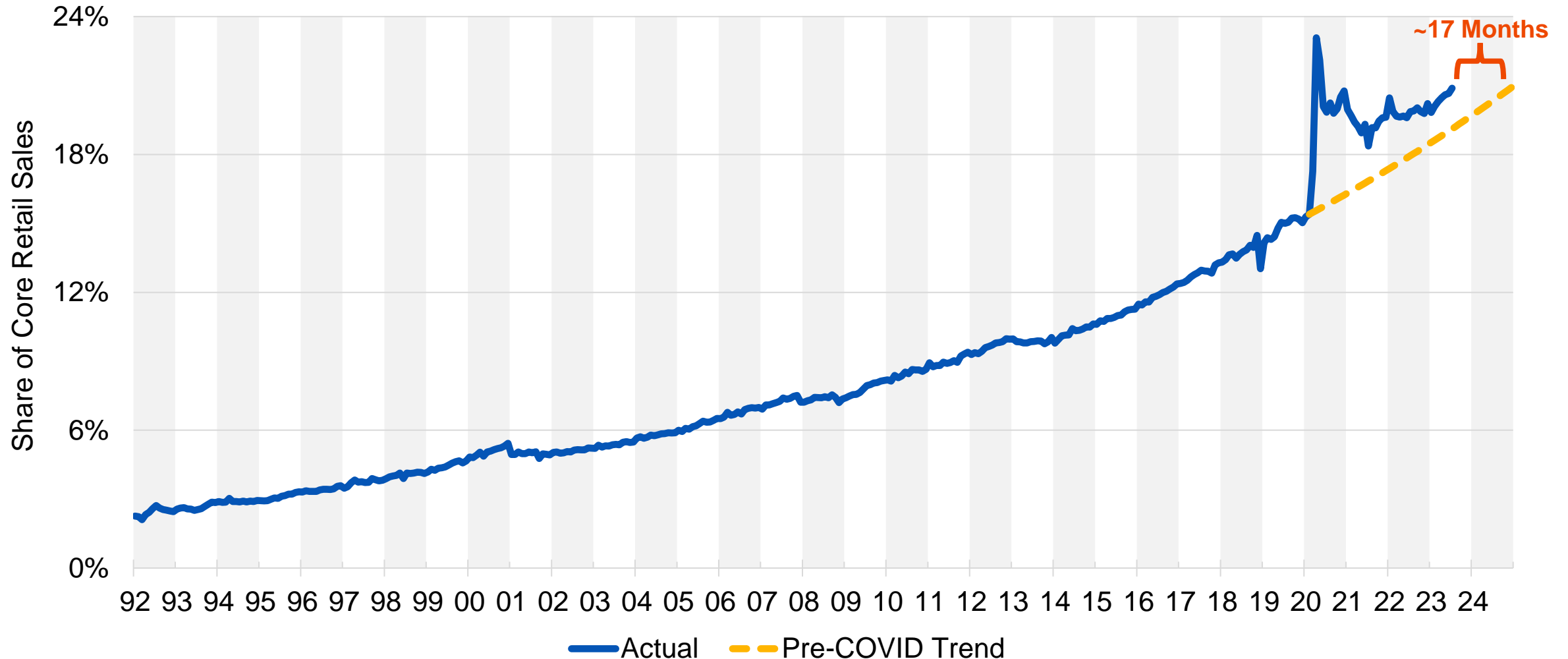
*For Office properties >50k sf, Major 54 markets, only properties where at least 50% of occupied space has lease expiration. Vacancies count as lease term of 0



Phoenix Industrial Fundamentals

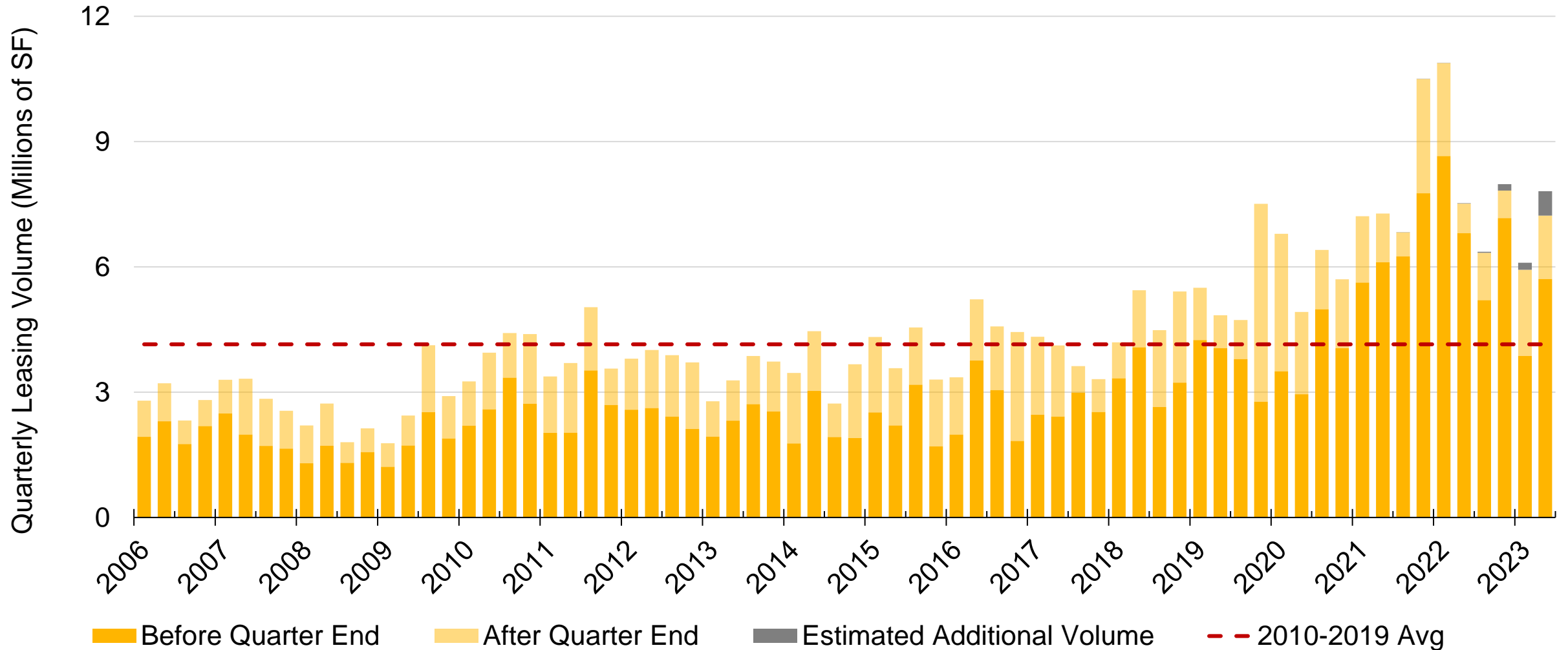
COVID Accelerated Adoption of E-Commerce by 1.5 Years

E-Commerce Share of Core Retail Sales



Trendline using exponential regression; $R^2 = 99.5\%$
Source: CoStar, U.S. Census Bureau, July 2023

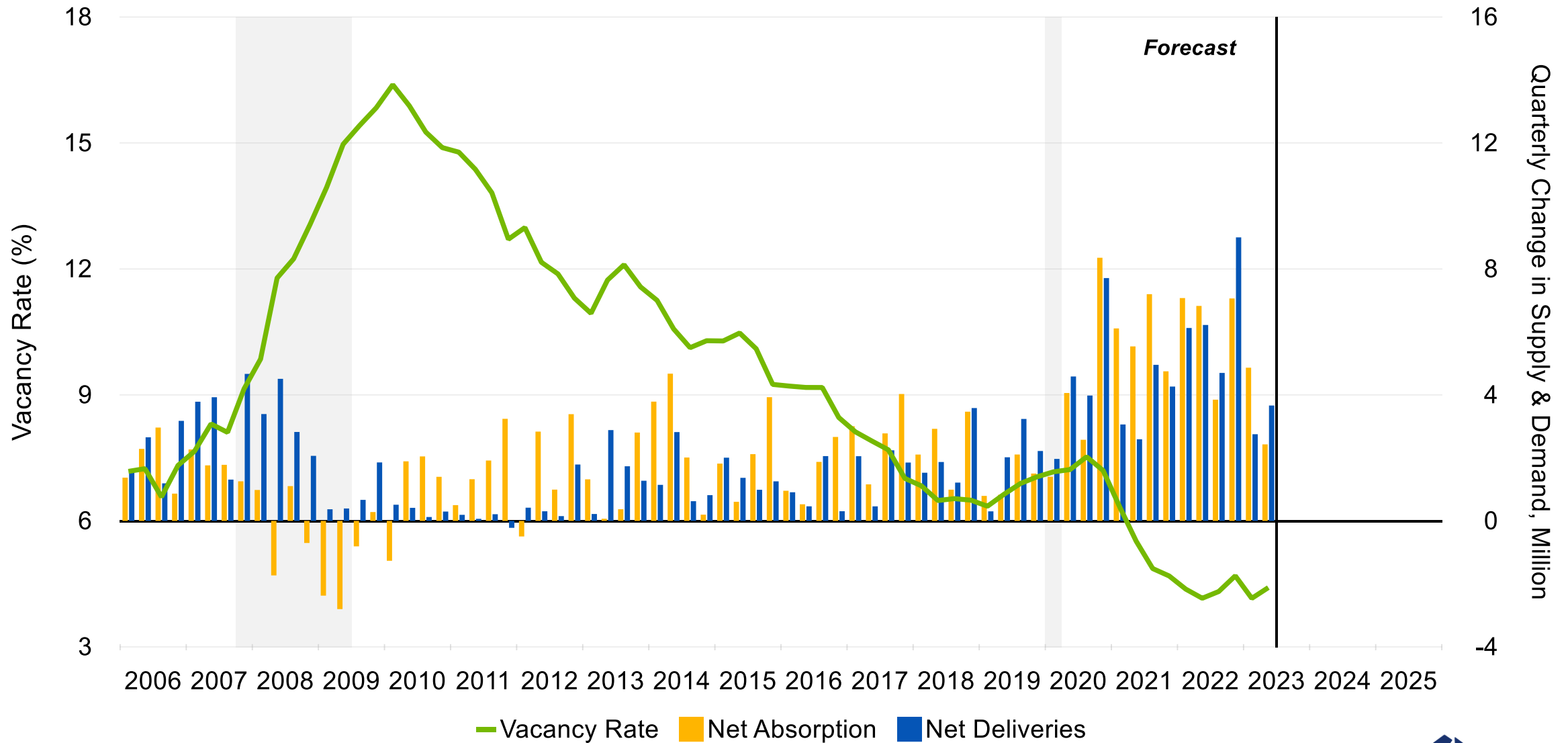
Phoenix Industrial Quarterly Leasing Volume



Excludes renewals
 Source: CoStar, 2023 Q2

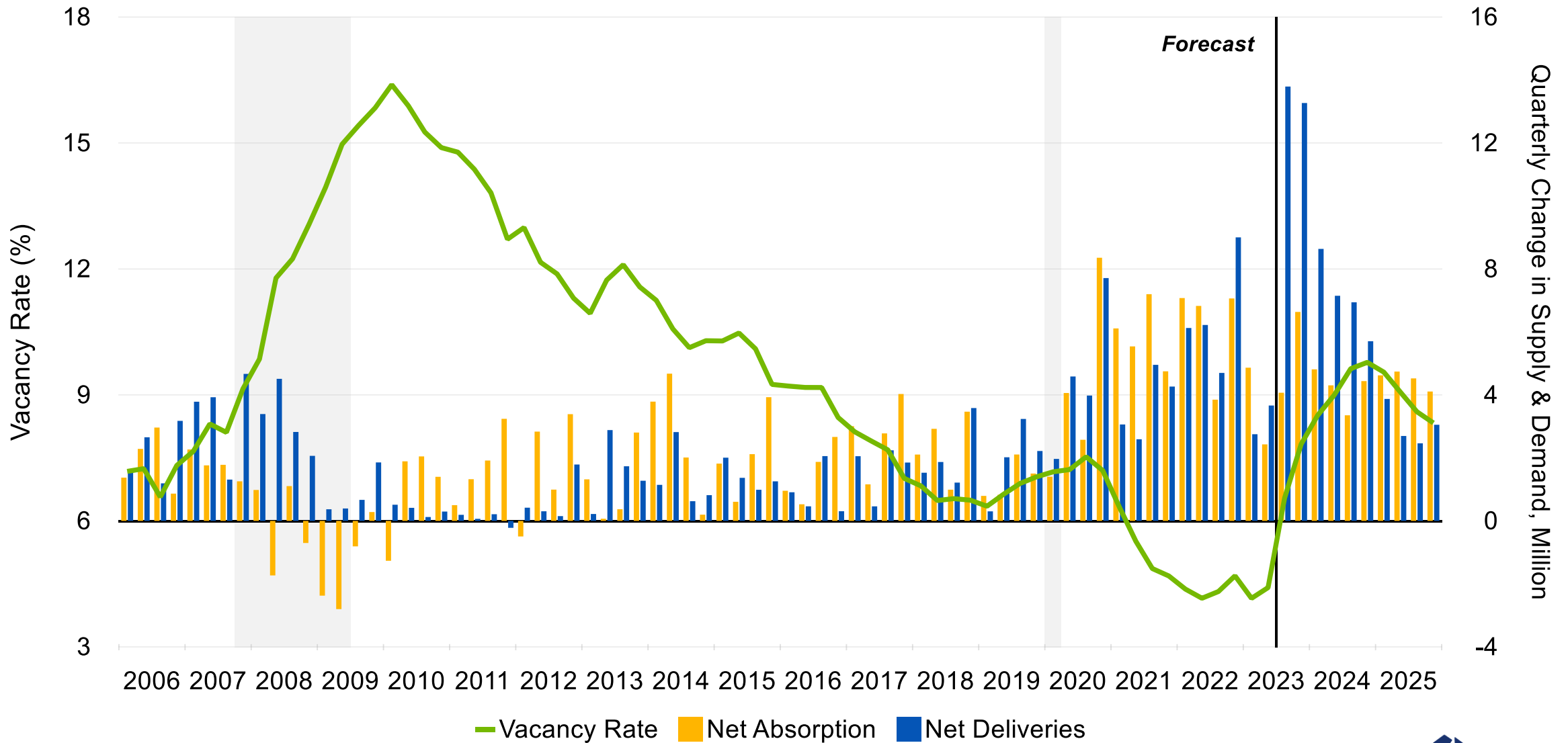


Phoenix Industrial Supply and Demand Trends



Source: CoStar, 2023 Q2

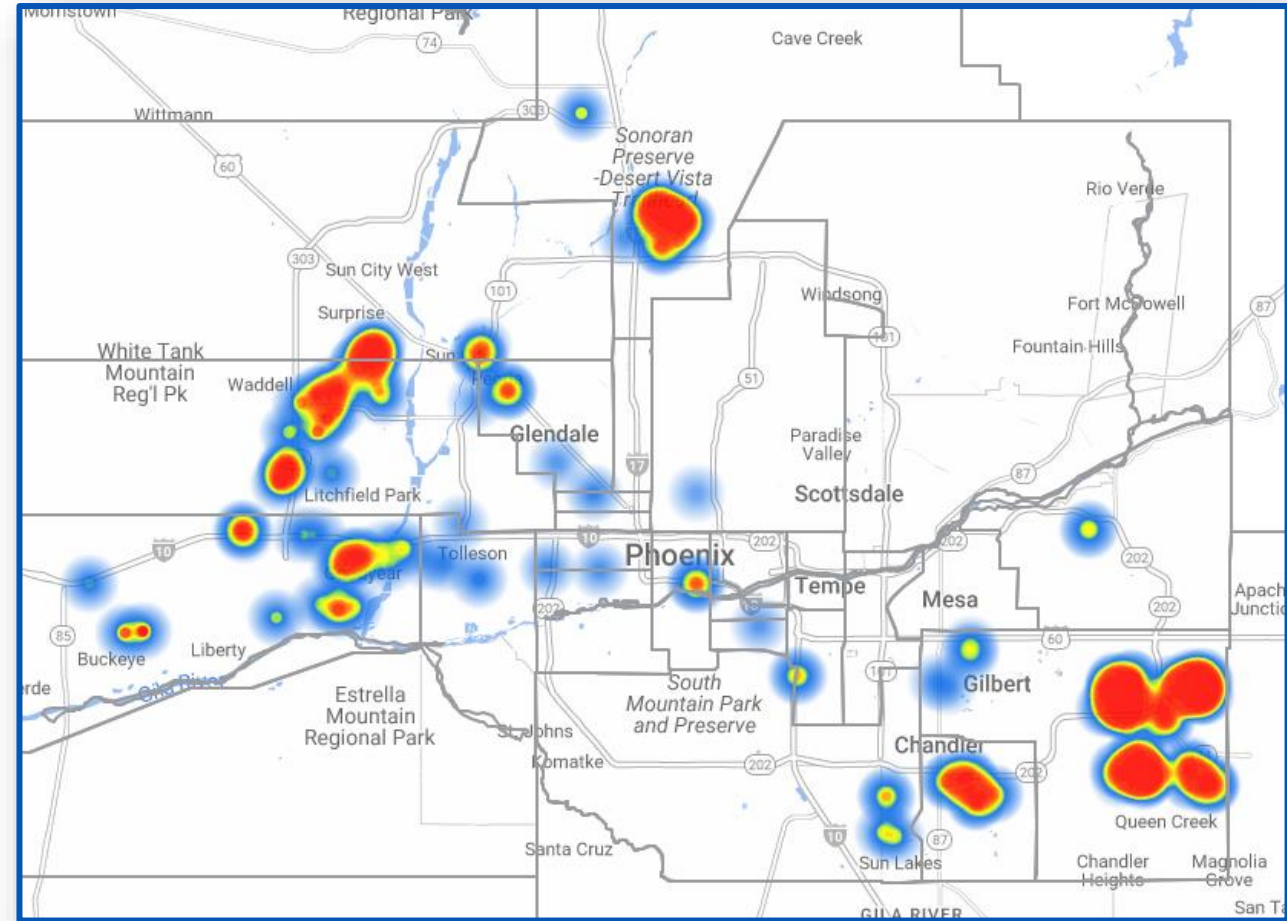
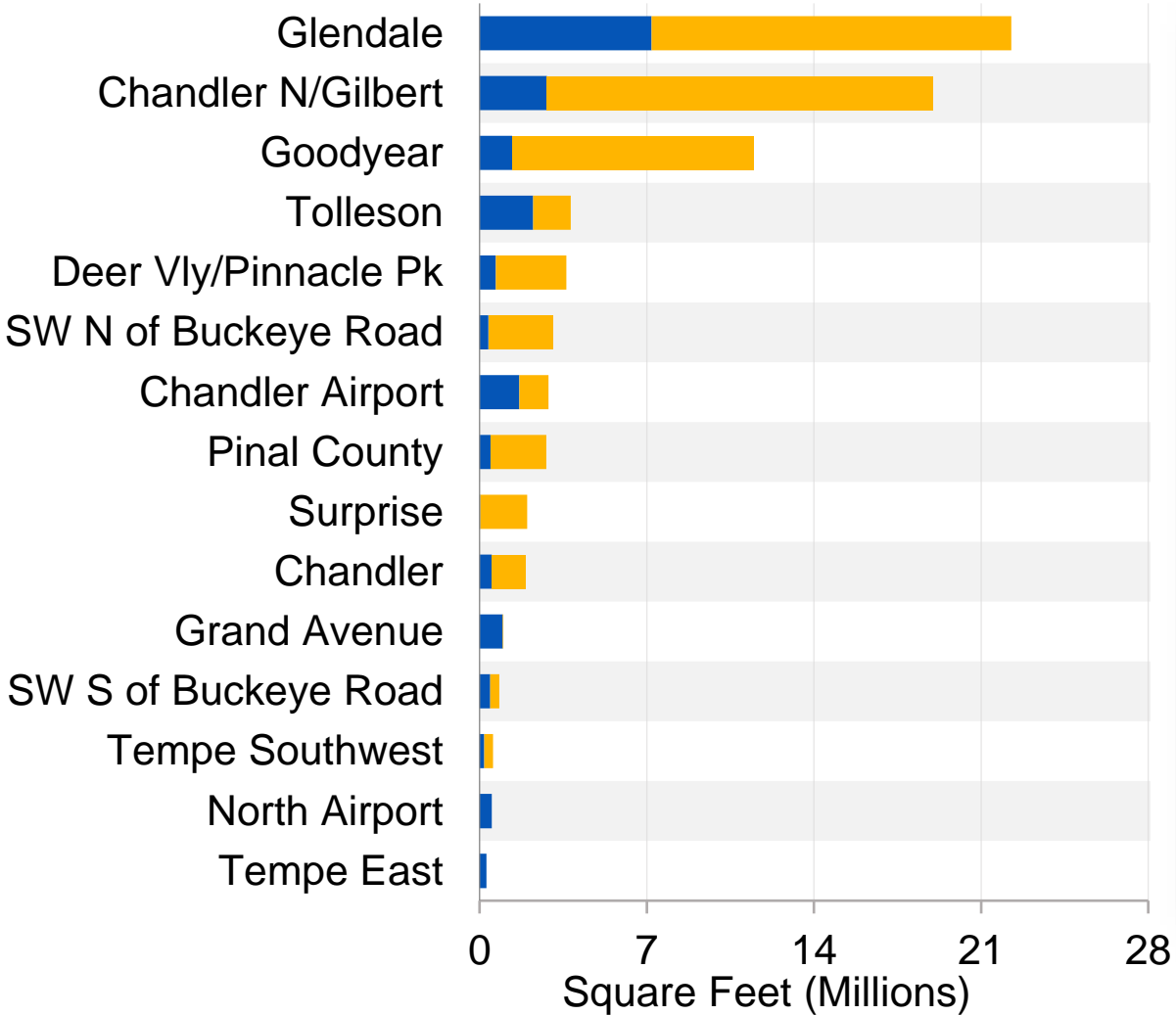
Phoenix Industrial Supply and Demand Trends



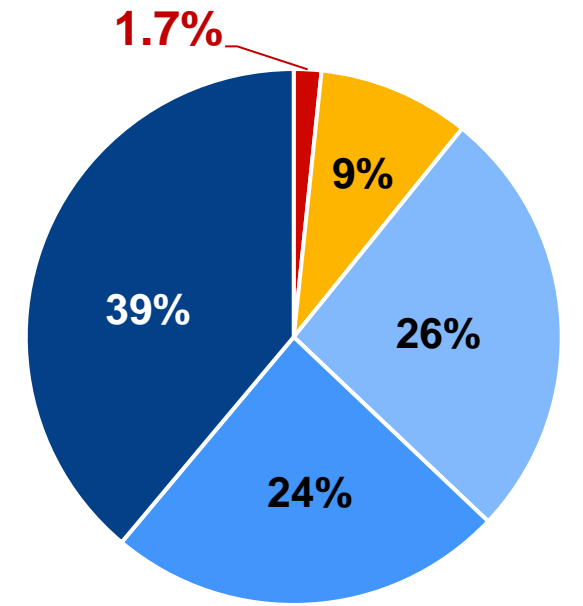
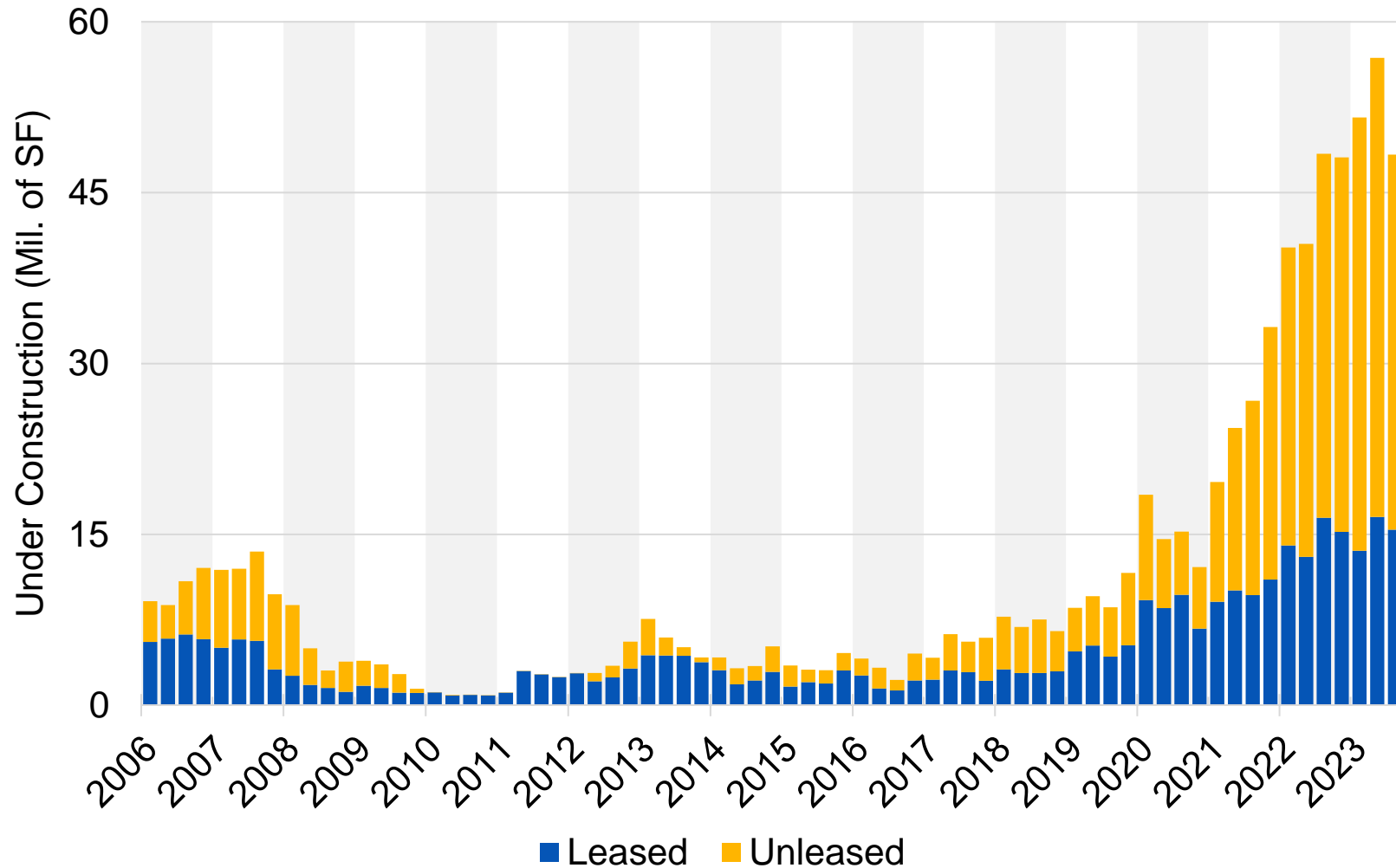
Source: CoStar, 2026 Q2

Phoenix Industrial Under Construction Hotspots

■ 12-Month Delivered ■ Under Construction



Industrial Space Under Construction in Phoenix

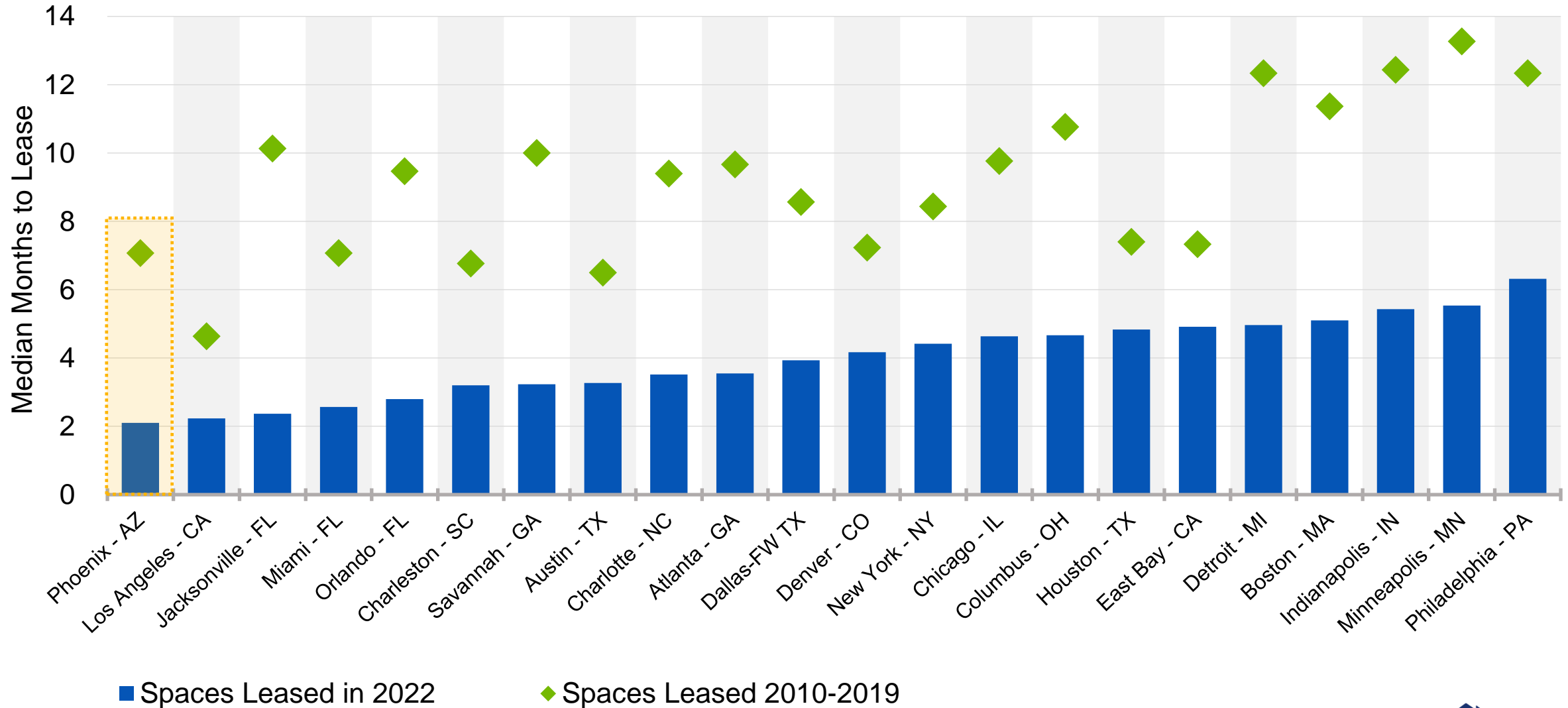


Building Size in Square Feet

- Less Than 50k
- 50k - 99k
- 100k - 249k
- 250k - 499k
- 500k+

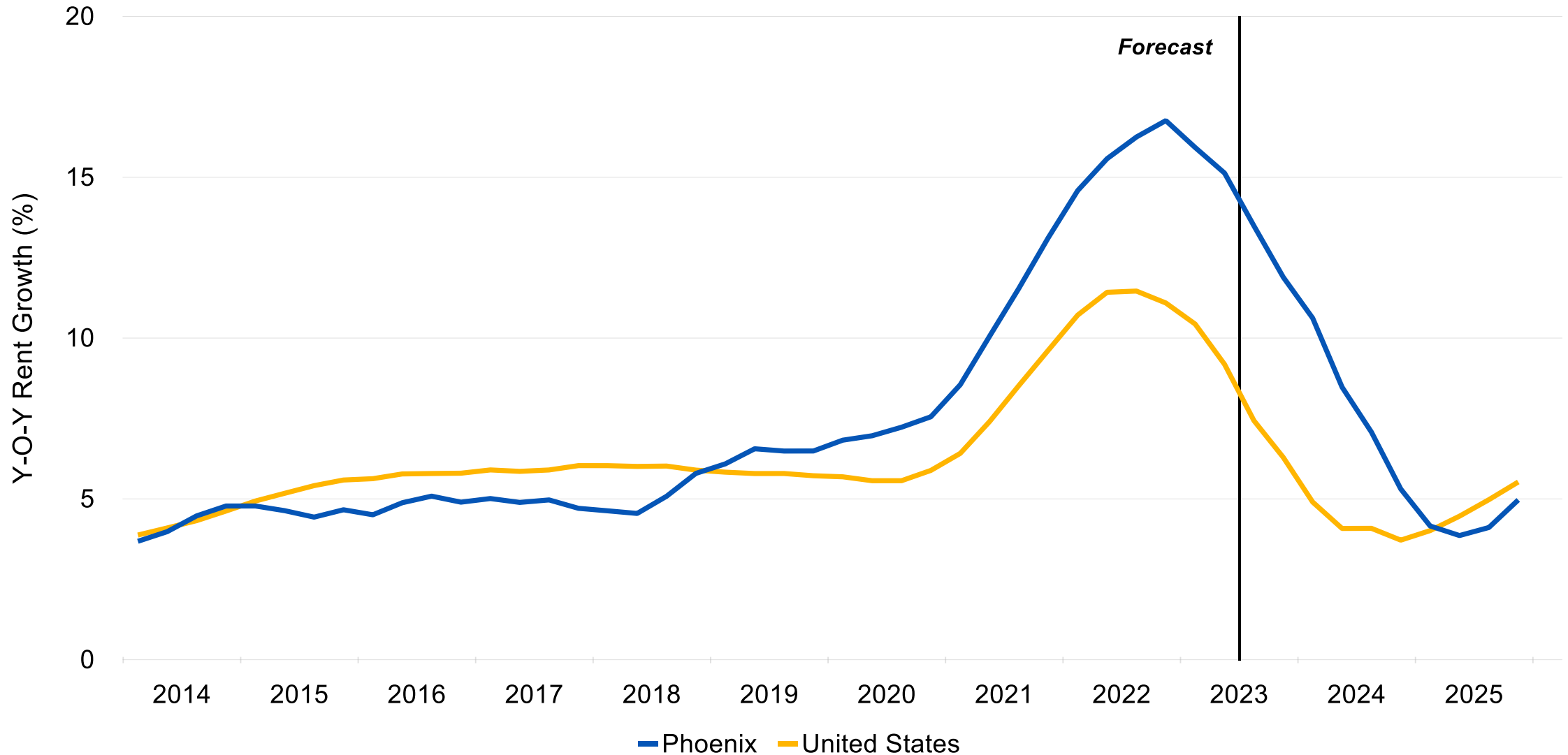


Median Months To Lease For Industrial Spaces Under 50,000 SF



Source: CoStar

Phoenix Industrial Rent Growth Outpacing U.S. Average

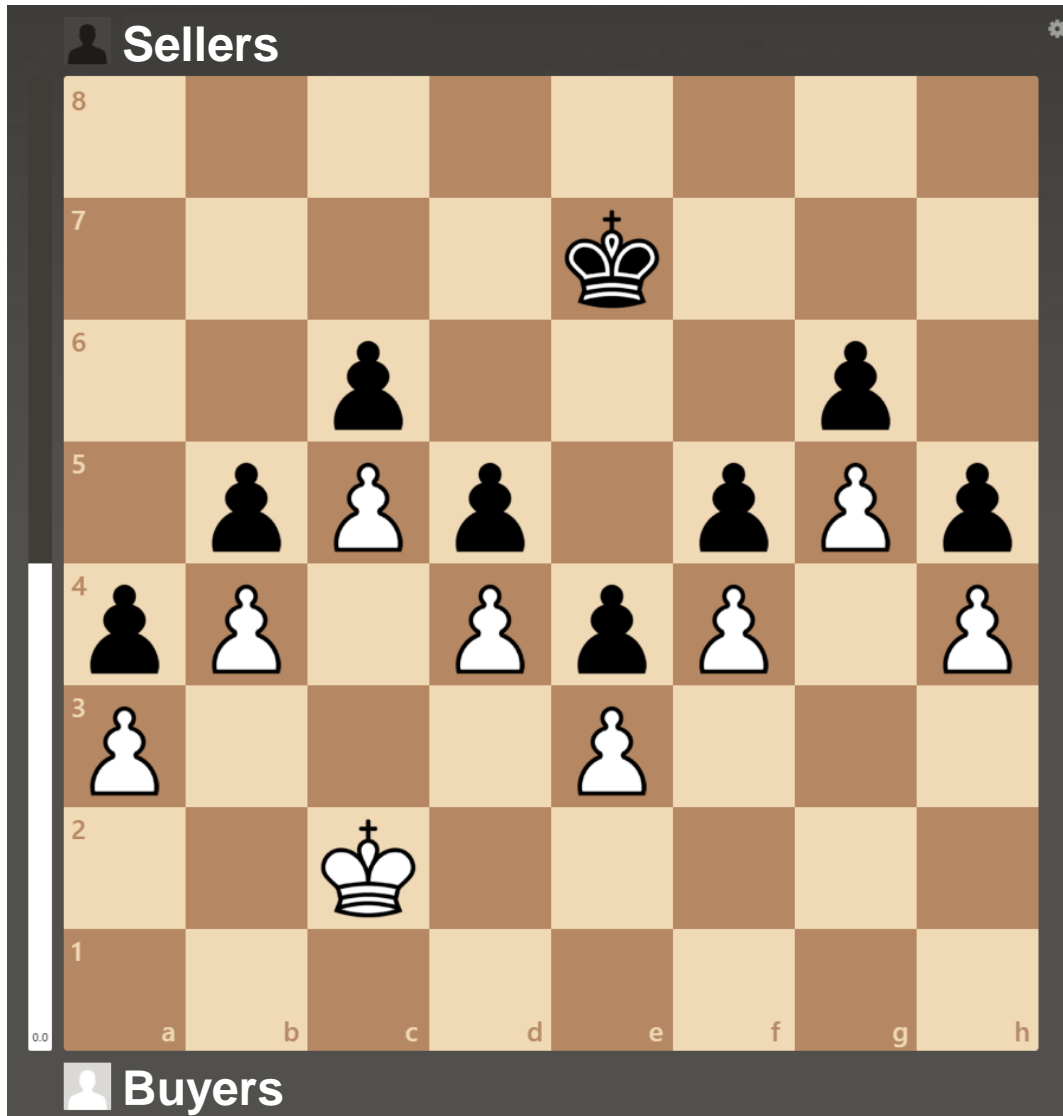


Source: CoStar, 2025 Q4



Phoenix Investment Market Outlook

Commercial Real Estate Investment Market Faces Stalemate



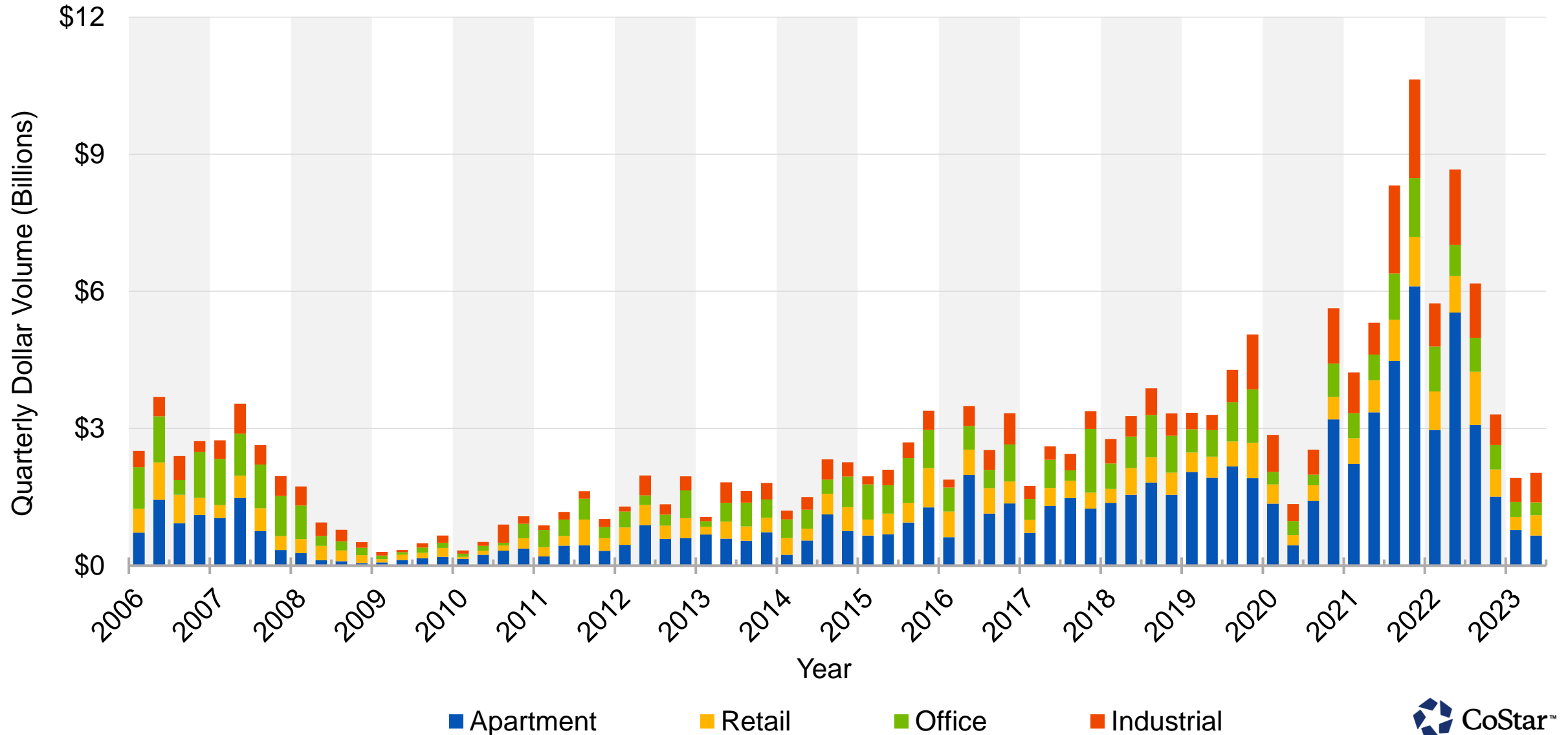
Headwinds:

- Elevated Commercial Mortgage Rates
- Tighter Lending Standards & Underwriting
- Economic Uncertainty/Potential Recession

Tailwinds:

- Dry Powder Waiting for Opportunities
- Fed Pausing – Interest Rate Stabilization
- Phoenix's Positive Long-Term Outlook

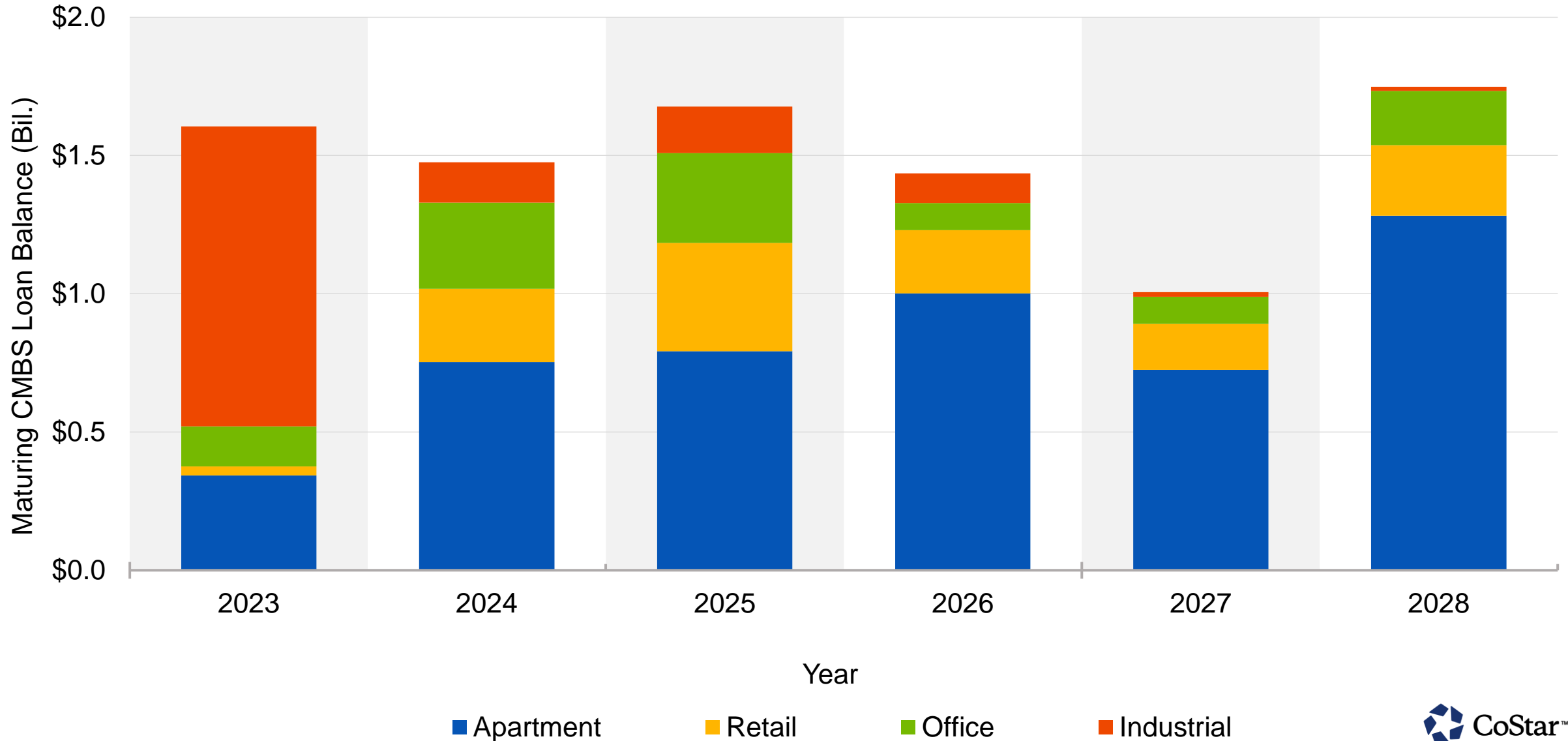
Phoenix Quarterly Investment Dollar Volume by Property Type



Source: CoStar, 23Q2



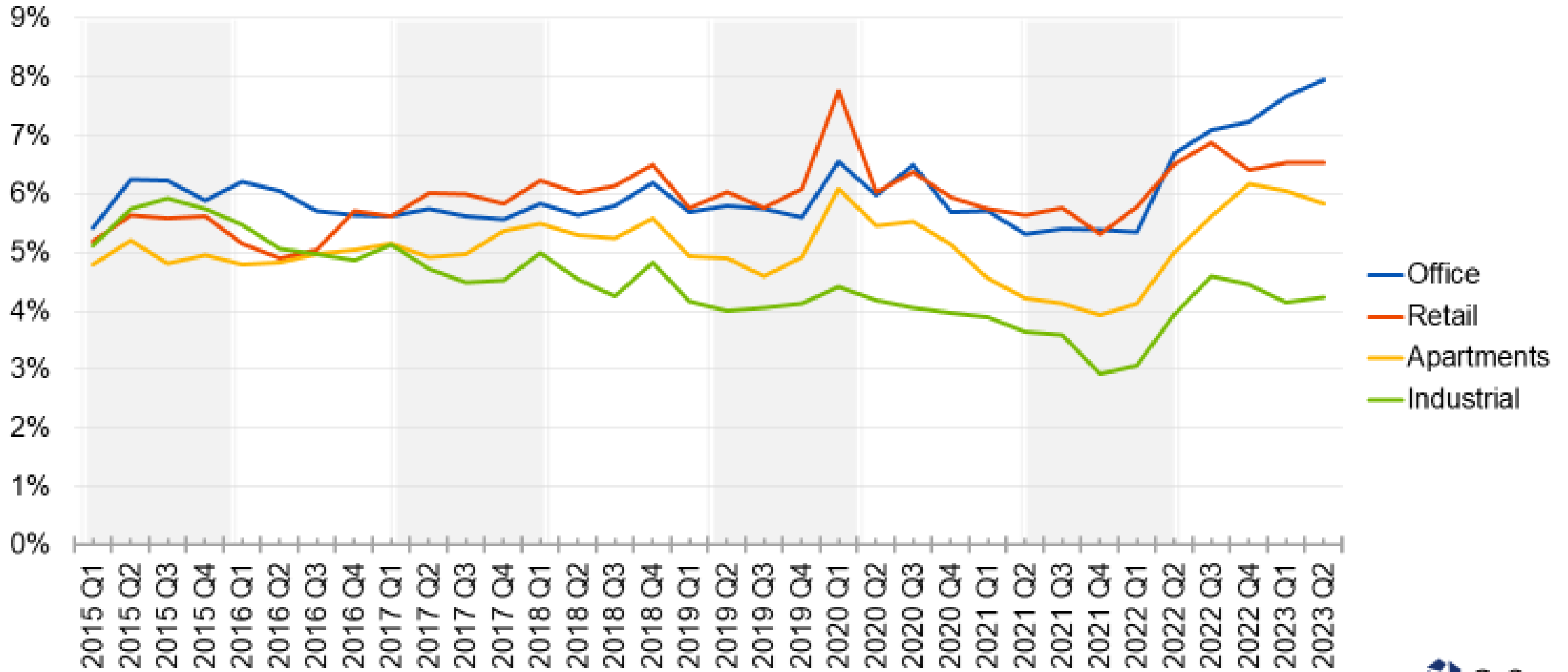
CMBS Loan Set for Maturity in Phoenix Over Next Few Years



Source: CoStar, September 2023

Public Markets Imply Rising Cap Rates

NAREIT-Implied Cap Rate Trend by Property Type



Wrap Up and Key Considerations Moving Forward

- **Phoenix Is Better Positioned to Weather an Economic Disruption**
- **Apartments Digesting Record Supply Pipeline – Tepid 2023/24 Expected**
- **Retail Conditions Continue to Tighten, But May Be Approaching Limit**
- **Office Recovery Faces Challenges - Key Considerations by Size & Quality**
- **Spec Delivery Surge to Soften Industrial Fundamentals Over Near Term**

Thank You!



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