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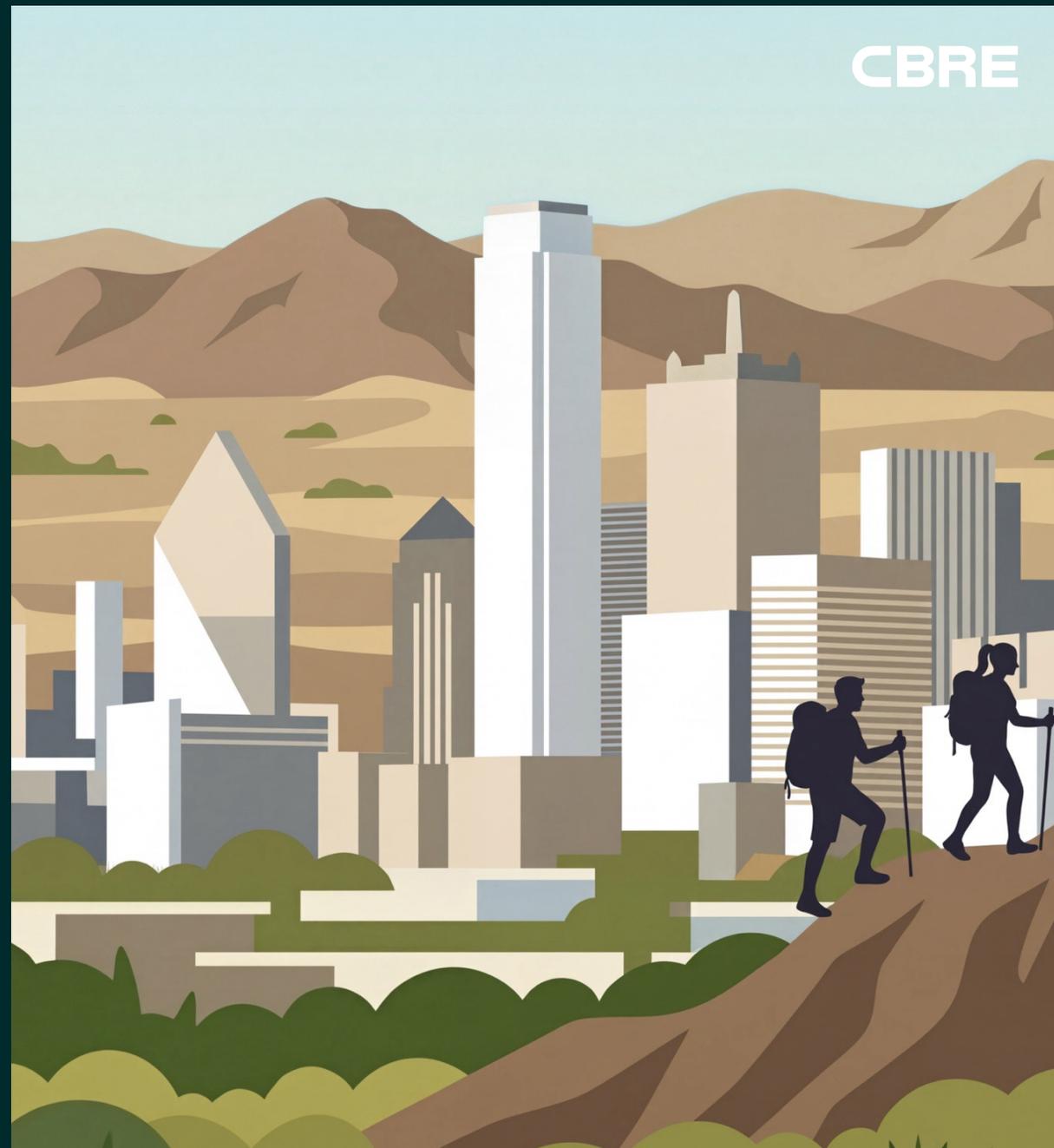
2026 U.S. Real Estate Market Outlook

REPORT

PHOENIX

CBRE RESEARCH
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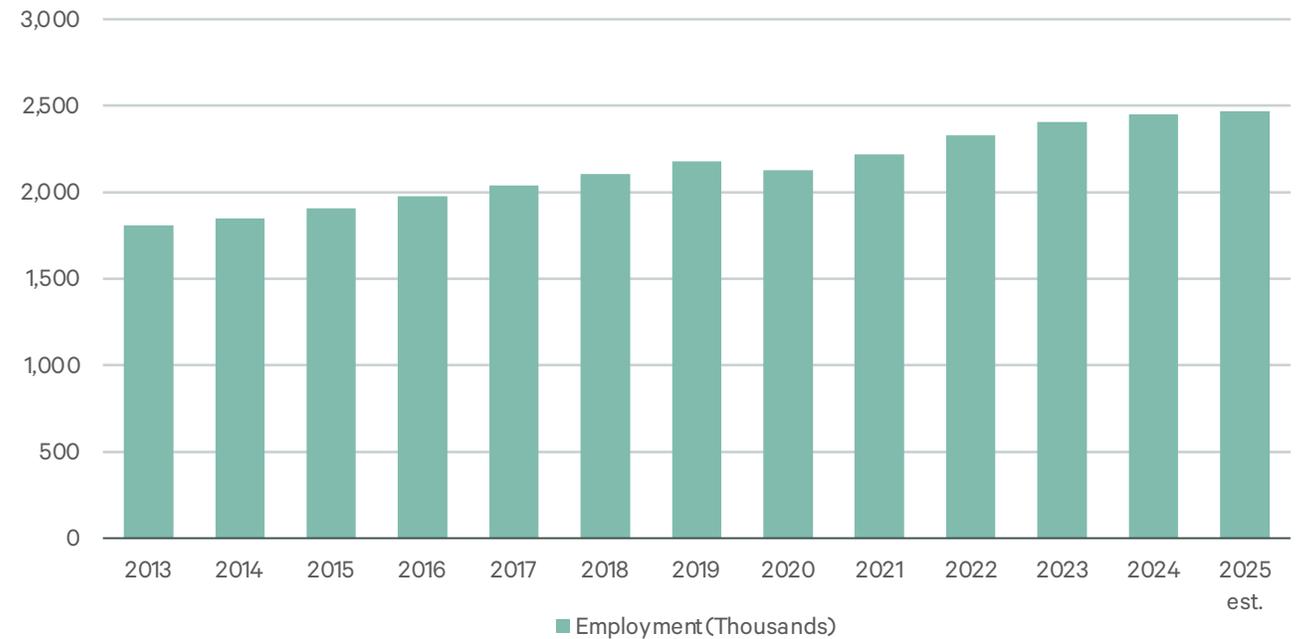
Phoenix Market Outlook

Phoenix is well positioned to weather headwinds as the local economy is rapidly evolving and growing

The Phoenix metro is expected to continue to see employment and population growth in 2026; however, at a more moderate level than it experienced coming out of the pandemic. The Phoenix economy should experience a modest acceleration fueled by net migration, growing labor markets, and growth in education. Phoenix continues to rank among the national leaders in net migration from California and other high-cost regions which remains a driver for housing demand and the growth of the labor force. Additionally, TSMC's expanded \$100B+ plan and Intel's Fab 52 are anchoring high wage jobs and supplier in-migration to the region. These programs will continue to bolster the flow of capital, in the form of leasing and hiring for years to come.

While employment and consumer spending persist, escalating inflation, debt burdens, and cost pressures will tighten household budgets, driving increased price sensitivity. However, Phoenix may be able to weather these headwinds better than most markets. The local economy's ongoing diversification into expanding advanced technology, manufacturing and bioscience will keep Phoenix well positioned to withstand potential downside macroeconomic conditions.

Phoenix MSA Employment Address



Source: Oxford Economics

Industrial & Logistics Market Outlook

01

MANUFACTURING TENANTS WILL DRIVE DEMAND AS THE LABOR MARKET BECOMES MORE ADVANCED

Major users like TSMC and LG will continue to draw in companies who support their supply chains. The large presence of data centers also pressured suppliers to begin producing more advanced goods in proximity to those users. Phoenix is prepared to support this expansion through private investment into the power grid as well as economic programs to incentivize corporate investment. Local education institutions working directly with companies to create programs necessary to support the growing high-tech industries will bolster the development of high-skilled workers and advancement of the labor market. Blue collar workers will be redefined by their specialized knowledge and practices relevant to the companies that require more advanced labor. CBRE's Economic Advisors short-term forecast calls for an overall increase of 600 manufacturing and distribution workers through year-end 2026.

02

MIDSIZED PRODUCTS WILL SEE A PICK-UP IN ACTIVITY

Spaces larger than 300,000 sq. ft. have become scarcer with large, corporate tenants leasing those spaces in 2025 to support their expanding footprint in the Valley. With less volatility in the macroeconomic landscape, those midsize users can expect to encounter less risk when scaling up their operations in 2026. The uptick in manufacturing users the market expects see will support this growth in activity of these spaces as they will be seeking space for materials storage near their factories.

03

THE MODERNIZATION OF THE INDUSTRIAL SUPPLY CHAIN WILL CONTINUE TO DRIVE THE MARKET

As third-party logistics companies are starting to provide more high-tech goods needed to support data centers and advanced manufacturing. Users will start to see less lead time on products they need to scale business to compete with the growing pressure to reshore their operations. This demand will absorb some of the new space that has been delivered in the last few years, as shell buildings are waiting for lower TI costs to begin retrofitting properties with amenities these advanced manufacturing users are chasing.

Key Takeaways

FOR OWNERS

- While an increase in availability due to the construction pipeline over the last two years would typically put downward pressure on rents, the upswing in Major User facilities, strong renewals, and a speculative record year of Owner User purchases have caused rents to continue to increase, further protecting landlords from softening pricing.
- Landlords may need to consider more factors than ever when determining whether they should break ground on a site. Manufacturing built-to-suit requirements are trickling into the valley as distribution and warehouse requirements are noticing more of a need for on-site office space and an increased preference for locations nearby blue-collar amenities and benefits.

FOR TENANTS

- Tenants will continue to have a variety of options in the market as the robust development pipeline continues to be built out; however, declining rents is unlikely to follow due to strong renewal pricing, increasing owner user purchase, and the upswing in major user facilities. Many tenants will likely renew this year as third party logistics and manufacturing companies are expected to remain in their current spaces whilst macroeconomic factors level out. While the pace of rent growth is slowing, rents will continue to increase.
- Built-to-suit opportunities will become more common in 2026. Major manufacturing users typically require ownership stake in their buildings, so this will help lower vacancy on speculative development and be a factor in tenants still experiencing growth in asking rents.

Office Market Outlook

01

PRIME OFFICE BUILDINGS WILL CONTINUE TO OUTPERFORM THE REST OF THE MARKET

In the third quarter of 2025, Phoenix had the fifth-lowest prime vacancy rate in the U.S. trailing only Miami, Chicago, Philadelphia, and Manhattan. The lack of new construction combined with the current low vacancy rate in prime buildings should continue to drive pricing upward, at a modest level, in well located properties.

02

FUNDAMENTALS IMPROVE ACROSS THE BOARD

Market fundamentals are continuing to improve, with the office sector on the path to recovery. Vacancies should continue to decline into 2026 and absorption is expected to remain positive as demand levels appear to be stabilizing. As the availability of high-quality space continues to decline, asking rents are expected to continue to rise from highs set in 2025; CBRE's Economic Advisors forecast calls for a 1.5% increase in 2026

03

CLASS A PRODUCT SEPARATING FROM CLASS B & C PRODUCT

The spread between asking rents for Class A product and Class B & C product will continue to rise as high quality class A space becomes less available. In 2025, Class A vacancy reached its lowest level since Q2 2022, falling to 20.8%, a 550 bps drop from the peak of 26.3% in Q4 2023. For 2025, Class A product has accounted for over 80% of the nearly 1,152,000 sq. ft. of positive absorption the market has experienced. As prime vacancy continues to tighten, the remainder of Class A product will also see spillover demand which should help the market work through the remaining class A vacancy.

04

LEASE RATES SHOULD REACH NEW HIGH WATERMARKS

Lease rates will likely surpass the high watermarks set in 2025 as the growth rate in asking rents continues to accelerate. Desirable submarkets like Camelback Corridor/Piestewa and Tempe should continue to lead the pack as tenants increasingly look to relocate office space from the urban core to suburban locations.

Key Takeaways

FOR OWNERS

- Landlords with capital will continue to win deals, whether that be in the form of spec suites that can meet the timeline of fast-moving requirements or are able to offer competitive TI packages to finance rising construction costs, tenants need to be able to trust that owners can finance the deals they are negotiating on.
- Landlords that offer food and beverage options, state of the art amenity spaces, cost effective parking, and other services will also be more competitive as employers are still grappling with getting employees back to the office.

FOR TENANTS

- The spread for Tenants looking for high quality office or space at a discount will continue to widen. Class A space in desirable submarkets will continue to see pricing increase; however, tenants looking for a discount will be able to find multiple options for class B & C space throughout the region.
- Tenants will be seeking deals with ownership groups that are able to finance the buildout of new space if they are going to relocate. The rise in moving costs and buildout costs are causing many companies to reconsider making any major changes to their office space if there is not a significant portion of the cost covered by the landlord.

Retail Market Outlook

01

PHOENIX WILL REMAIN A TOP RENT GROWTH MARKET IN THE US

As of Q3 2025 Phoenix ranked among the Top-five rent growth retail markets in the United States. Heading into the new year, a slowdown in the macroeconomy is expected that may impact consumer spending nationwide and could moderate the explosive rent growth observed over the past few years. However, the strong economic and demographic tailwinds in the Phoenix metro should help the Valley maintain its status as one of the nation's better performing markets.

02

DEVELOPMENT FOCUS WILL REMAIN ON PERIPHERAL SUBMARKETS

Development remains focused on emerging peripheral submarkets with strong population growth and limited retail offerings. Areas such as Buckeye, Queen Creek, Goodyear, Litchfield Park and Surprise have been development hotspots and will continue to be targeted by developers taking advantage of the population growth in these submarkets.

03

SUPPLY PRESSURE WILL REMAIN MINIMAL IN THE PHOENIX METRO

Although construction activity has ramped up in recent quarters, most developers often have commitments from their anchor and junior anchor tenants before construction, while much of their shop space is preleased. Of the 3.7 million square feet under construction in the Phoenix metro, only 12.2% is listed as available for lease.

04

HIGH QUALITY EXPANSION OPTIONS FOR TENANTS ARE LIMITED

Minimal speculative supply additions coupled with robust tenant demand have limited expansion options for tenants looking to grow their presence in the Valley. Older buildings in lower income areas account for a disproportionate share of vacancies. About half of the space available for lease in the Phoenix metro are in properties built in the 1980's and 1990's, despite only comprising a third of the existing inventory.

Key Takeaways

FOR OWNERS

- Owners will continue to be able to command high rents in desirable locations as Phoenix was a Top 5 rent growth market in the US with average asking rents increasing 4.9% over the last year. CBRE's Economic Advisors forecast calls for 1.3% rent growth in 2026, a slowdown from the 3.9% growth and 2.1% growth in 2024 and 2025 respectively. However, despite the slowdown, it is likely Phoenix will remain among the top rent growth markets in the US, as tight vacancy and robust tenant demand provide landlords leverage to increase rental rates. The metro's strong property fundamentals coupled with a resilient labor market, rising incomes and robust demographic growth should help the Valley exceed national trends.

FOR TENANTS

- Tenant demand is expected to remain positive, driven by expansion from grocery, discount, off-price, and experiential retailers. Restaurants will also likely remain active, especially in high-traffic suburban corridors in growing submarkets like Buckeye, Queen Creek, Goodyear, Litchfield Park and Surprise. Although net absorption is expected to remain positive, the figure may not truly indicate the magnitude of tenant demand in the market, as minimal spec development and tight vacancies limit expansion opportunities for tenants looking for higher-quality retail space in affluent locations.

Multifamily Market Outlook

01

STRONG EMPLOYMENT & POPULATION GROWTH

Strong population growth and unprecedented employment investments in Phoenix will drive multifamily demand and continued high absorption in 2026. Metro Phoenix is projected to add ±400,000 jobs from 2024 through 2033 and the population is projected to pass 6 million by 2033 (University of Arizona Forecast Project). More than \$200 billion in current facilities investments will fuel employment growth over the next two years including TSMC, LG, Mayo Clinic, Amkor, Intel.

02

RENT VS OWN DELTA DRIVES DEMAND

The cost to buy a median-priced house in Q3 2025 was more than double the Metro's average rent. The widening gap between average rent and single-family homeownership costs in Phoenix underscores the need for quality multifamily housing.

03

LOW RENT-TO-INCOME RATIO

The Phoenix rent-to-income ratio dropped to 19.7% in Q3 2025, making the metro one of the most affordable large multifamily markets in the United States.

04

RECORD ABSORPTION & DECREASING PIPELINE

Metro Phoenix posted record multifamily absorption in 2024 (±27,000 units) and through three quarters of 2025, the market is on-track to surpass the 2024 total. The multifamily development pipeline is projected to drop to ±16,000 units in 2026, a ±25% decrease from 2025 deliveries. Multifamily development drops even further in 2027 with only ±7,000 units projected in the pipeline – a ±67% decrease from 2025..

Key Takeaways

- Population and job growth are the backbone of multifamily demand in Phoenix.
- Relative rent affordability will continue to attract new residents to the region.
- The cost difference between renting and owning has never been higher, creating barriers to ownership and fueling multifamily demand.
- Current supply is being absorbed quickly, and future pipeline deliveries drop off a cliff.
- Phoenix multifamily fundamentals positioned to outperform compared to other high supply markets.

Contacts

Explore additional insights at
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Market Leadership

Vanessa Williams

Sr. Managing Director
vanessa.williams@cbre.com

Cathy Teeter

Managing Director
cathy.teeter@cbre.com

Local Research

Zach DiSalvo

Associate Research Director
zach.disalvo@cbre.com

Carlos Pietri

Senior Research Analyst
carlos.Pietri@cbre.com

Josh Paul

Research Analyst
josh.paul1@cbre.com

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