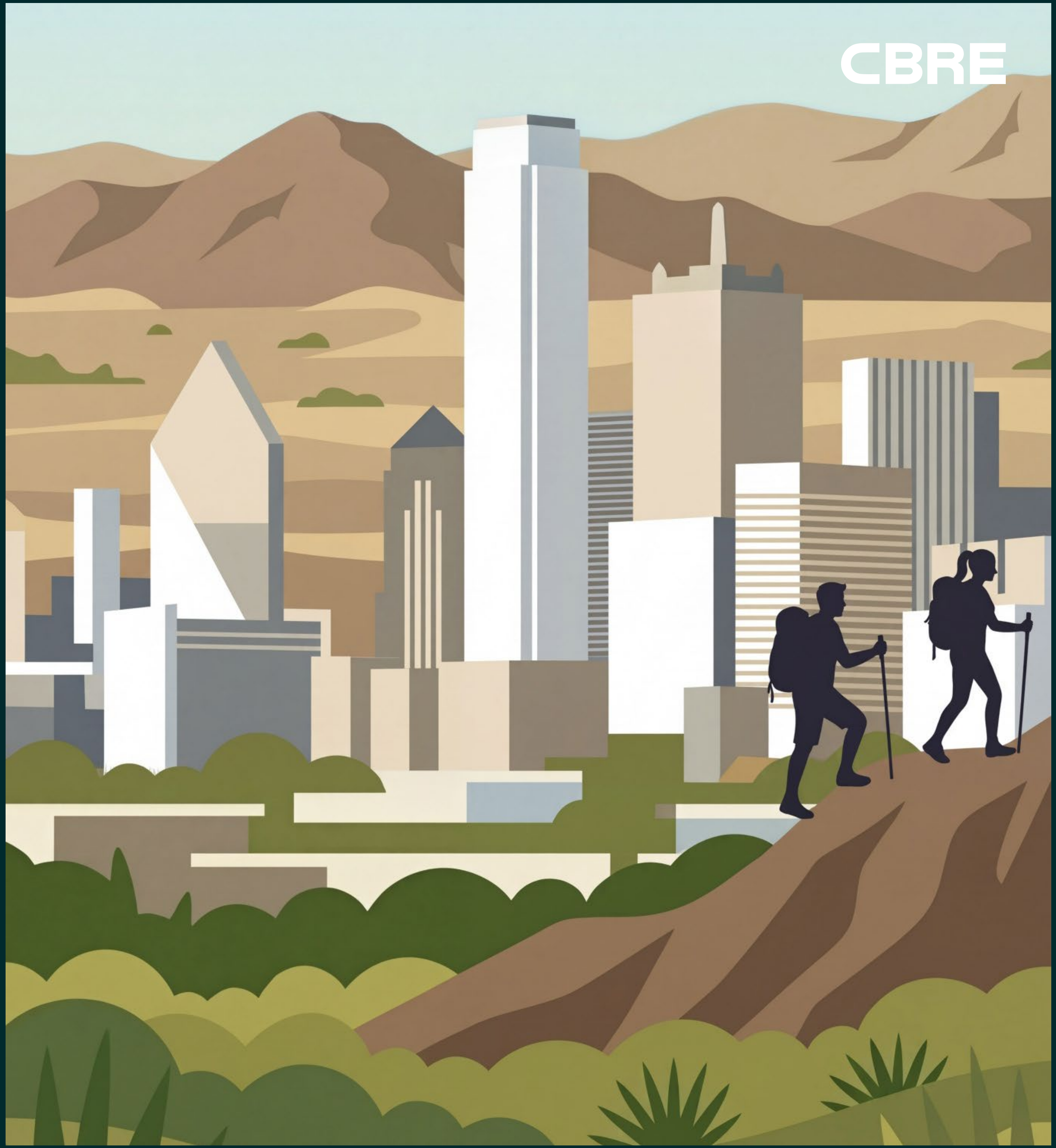
Intelligent Investment

# 2026 U.S. Real Estate Market Outlook Midyear Review

REPORT

PHOENIX

CBRE RESEARCH
AUGUST 2026



# 2026 Phoenix Market Mid Year Outlook

Phoenix's strong fundamentals, led by TSMC's expansion, net migration, and diversifying industries, are driving historic absorption and tightening vacancy across all property sectors in 2026

The Phoenix metro is expecting employment and population growth in 2026, but at a slower pace than in the years immediately following the pandemic. Net migration from California and other high-cost regions remains a driver for housing demand and the growth of the labor force. TSMC's expanded $100B+ plan and Intel's Fab 52 are anchoring high wage jobs and supplier in-migration, which should bolster the region's leasing and hiring for years to come.

While persistent inflation and high debt levels will make consumers more price sensitive, the local economy's ongoing diversification into expanding advanced technology, manufacturing and bioscience will keep Phoenix well positioned for future growth.

**Phoenix MSA Employment Address**


Source: Oxford Economics

# Industrial & Logistics Market Outlook

## 01

### Manufacturing and data center growth to drive demand as the labor market becomes more advanced

Manufacturing users, including TSMC and LG, are attracting supply chain occupiers into the Valley. Additionally, the growing presence of data centers is prompting suppliers to establish advanced manufacturing operations nearby. Phoenix is well prepared to support this broad-based expansion through private user investment in the power grid and economic programs designed to incentivize corporate investment. Local educational institutions are partnering directly with companies to develop the high-skilled workforce that advanced industrial users require. CBRE's Econometric Advisors forecast a net gain of approximately 600 manufacturing and distribution workers through year-end 2026, suggesting expanding demand and leasing in the near-term..

## 02

### Midsized products will see a pick-up in activity

Two years of elevated construction activity has delivered significant new industrial products to the Valley, and the pipeline remains highly active. These deliveries resulted in a historic surge in vacant product, but with over $300B in investment commitments from blue- chip companies, this product has been absorbed at an equally historic rate. Preleasing and built-to-suit activity reflects the strong flight-to-quality trend, which has spurred the current development pipeline. Owner-user purchases and major facility commitments are absorbing a share of this new supply, but speculative space across multiple size ranges remains available, giving tenants continued optionality heading into the second half of 2026. Vacancy has been steadily declining to 9.6% in the first half of 2026, representing a 70 bsp decline from Q1 2026 and a 260 bps decline year over year.

## 03

### Rents will continue to rise despite an elevated pipeline, supported by strong renewals and owner-user demand

Although an elevated construction pipeline typically suppresses rents, strong renewal pricing, an uptick in owner-user purchases, and a surge in major user facilities have pushed rents higher and are insulating landlords from pricing pressure. Rents have reached $1.09 NNN in the first half of 2026, up 2.8% quarter-over-quarter and 0.9% year-over-year. CBRE Econometric Advisors projects 1.8% rent growth in Phoenix during the second half of 2026, more than triple the 0.5% rent growth projected for the US. While the pace of rent growth is slowing, tenants should expect continued increases through year end. Built-to-suit activity is expected to increase in 2026, as major manufacturing users typically seek ownership stakes in their facilities — reducing speculative vacancy and sustaining upward pressure on asking rents.

# Key Takeaways

### For Owners

— 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 record year of owner user purchases have set the stage for landlords to continue increasing rents.

— New considerations are becoming increasingly relevant for landlords as they determine the direction of future development.. Manufacturing built-to-suit requirements are trickling into the Valley as distribution and warehouse requirements seeing greater need for on-site office space and an increased preference for locations near blue-collar amenities and benefits.

### For Occupiers

— Tenants will continue to have a variety of options in the market as the development pipeline remains robust into H2. However, declining rents are unlikely to follow, given strong renewal pricing, rising owner-user purchases, and an 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 stabilize. 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 an 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

### Tenant activity remains concentrated in high-quality suburban locations, driven by aerospace and defense expansion

Tenant activity remains focused on high-quality suburban locations, with Camelback Corridor/Piestewa and Tempe continuing to lead leasing as occupiers relocate from the urban core. Aerospace and defense (A&D) companies remain a durable demand driver — firms including Virgin Galactic, and Airbus continue to expand, supported by defense spending contracts, operating costs well below competing metros, a deep university pipeline, and aggressive state incentives. The flight to quality in suburban campuses outside of the Downtown core is expected to persist through the remainder of 2026, as tenants look to relocate to more suburban locations.

## 02

### Class a supply is tightening rapidly with minimal new construction, creating spillover demand into the broader market

Class A vacancy fell to19.4% in the first half of 2026 — its lowest since Q2 2022 and a 690 bps drop from the Q4 2023 peak. However, prime vacancy is much tighter at 11.5% due to a lack of new construction in the pipeline. Phoenix ranked fifth-lowest for prime vacancy in the U.S. in Q3 2025, trailing only Miami, Chicago, Philadelphia, and Manhattan. As prime availability shrinks, spillover demand is moving into the remaining Class A inventory, tightening the broader market. Prime availability sits at 13.4% compared to the 23.9% availability rate across all Class A product. CBRE Econometric Advisors projects that the overall vacancy rate across the market will decline by 40 basis points by the end of 2026 and could decline an additional 100 bps by the end of 2027.

## 03

### Prime rents will continue to rise as absorption deepens and limited supply gives landlords growing pricing power

Class A rents sit at $41.66 per sq.ft., nearly $12.00 more than Class B product, with Prime rents coming in just below $54.00 per sq.ft. Rents are expected to continue increasing with CBRE's Econometric Advisors forecasting asking rent growth of 2.7[JC14.1]% this year. Landlords with capital — whether through spec suites or competitive TI packages — will have a clear leasing advantage as construction costs rise. As the prime/non-prime pricing gap widens, well-located suburban landlords are increasingly able to hold firm on pricing and pull back on concessions and the spread between Class A and Class B & C asking rents will continue to widen as premium space becomes scarcer. Tenants with flexibility on quality will find Class B & C options at a discount, but prime space will continue to see upward pressure through year-end..

# Key Takeaways

### For Owners

- Occupiers increasingly value the ability to trust that owners can finance the deal terms they are negotiating. 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 competitive TI packages to finance rising construction costs.
- 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 occupiers continue to work to get employees back to the office.

### For Tenants

- Tenants looking for high-quality office space at a discount will face narrower options. 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.
- Occupiers considering relocations should carefully assess ownership groups that can finance the buildout of new space if they relocate. The rise in moving and buildout costs may also make the economics of renewal more favorable, unless owners can provide substantial incentives, including TI and free rent.

# Retail Market Outlook

## 01

**Phoenix will sustain its position as one of the nation's top retail markets, driven by strong demographics and diverse tenant demand**

While macroeconomic headwinds may moderate the pace of national rent growth, the strong economic and demographic tailwinds in Phoenix should sustain the Valley's outperformance. Tenant demand remains broad-based, led by expansion from grocery, discount, off-price, and experiential retailers. Restaurant activity is expected to remain strong, particularly within high-traffic suburban corridors in high-growth submarkets, including Buckeye, Queen Creek, Goodyear, Litchfield Park, and Surprise.

## 02

**New development is concentrated in high-growth peripheral submarkets, with speculative availability remaining very limited**

New construction remains focused on emerging peripheral submarkets where population growth is outpacing retail supply. Areas like Buckeye, Queen Creek, Goodyear, Litchfield Park, and Surprise continue to attract developer attention and will remain primary targets through 2026. Despite increased construction activity in recent quarters, pre-leasing discipline remains strong — of the 3.2 million sq. ft. currently under construction across the metro,83.9% of space is already preleased. Older buildings in lower-income areas continue to account for a disproportionate share of total vacancies, with approximately half of available space located in properties built in the 1980s and 1990s, despite those buildings representing only a third of total inventory

## 03

**Phoenix will continue to outperform national retail rent growth benchmarks, with tight vacancy supporting landlord leverage**

Average asking rents increased 2.4% over the past year, and CBRE's Econometric Advisors forecast the same growth rate through year-end 2026, matching the prior year's pace. Phoenix's strong property fundamentals — a resilient labor market, rising incomes, and robust demographic growth — are expected to allow the Valley to exceed national trends. Minimal speculative supply and tight vacancy continue to limit high-quality expansion options for tenants in affluent, high-traffic locations, reinforcing landlord pricing power across well-positioned assets.

# Key Takeaways

### For Owners

- Tight vacancy and sustained tenant demand are providing continued leverage to push rents in well-located centers. Phoenix's position among the top retail rent growth markets in the U.S. is expected to hold as macro headwinds are more than offset by strong local fundamentals.
- Repositioning strategies focused on necessity-based, experiential, and service-oriented tenants will outperform as the flight-to-quality dynamic reshapes merchandising across the market.

### For Occupiers

- Minimal speculative supply and robust demand are limiting high-quality expansion options, particularly in affluent submarkets and growing corridors. Tenants seeking premium locations should move early to avoid being priced out as the cycle tightens further.
- Restaurants and experiential retailers will find the strongest opportunities in high-growth peripheral submarkets. Discount, off-price, and grocery operators are well-positioned given prevailing consumer price sensitivity — but all categories should plan for continued landlord discipline on rents and lease terms.

# Multifamily Market Outlook

## 01

### Phoenix leads the nation in multifamily absorption, driven by sustained population and employment growth

Phoenix posted the highest multifamily absorption in the country in Q1 2026 at 7,156 units, and the highest cumulative absorption over the past four quarters at 21,421 units. Strong population growth and unprecedented employment investment are sustaining this demand — Metro Phoenix is projected to add approximately 422,000 jobs from 2025 through 2035, and the population is forecast to surpass 6 million by 2034. More than $200 billion in current facilities investments, including TSMC, Amkor, ASM International, Intel, LG, Mayo Clinic, Banner Health, HonorHealth, and Axon, will fuel continued employment growth over the near term.

## 02

### The development pipeline is declining sharply, setting the stage for sustained supply-demand equilibrium through 2027.

The multifamily development pipeline is projected to fall to approximately 15,400 units in 2026, a 27% decrease from 2025 deliveries. The pullback accelerates further in 2027, with only approximately 9,200 units projected — a 57% decline from 2025 levels. This sharp contraction in future supply, combined with record absorption, is creating increasingly favorable conditions for landlords and reinforcing the market's long-term fundamentals.

## 03

### A widening rent-vs.-Own gap and strong affordability relative to peer markets will drive continued rent growth

The cost to purchase a median-priced home in the first half of 2026 was more than double the metro's average rent, creating a powerful economic incentive for renting that continues to fuel multifamily demand. The Phoenix rent-to-income ratio fell to 19.3% in 2026, making it one of the most affordable large multifamily markets in the country. Average household income in Phoenix grew 13.0% from 2023 to 2025 — the fourth-highest rate among the 25 largest U.S. metros — supporting residents' ability to absorb moderate rent increases. These fundamentals position Phoenix to deliver stronger rent performance than many high-supply peer markets through 2026 and beyond.

# Key Takeaways

**For Owners**

— Occupiers increasingly value the ability to trust that owners can finance the deal terms they are negotiating. 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 competitive TI packages to finance rising construction costs.

— 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 occupiers continue to work to get employees back to the office.

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*All data attributed to CBRE Econometric Advisors in this report is sourced from the CBRE Econometric Advisors Q1 2026 Forecast, published May 2026.*



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