Phoenix Medical Office Posted Six Consecutive Quarters of Positive Demand

▼ 11.9%	▲ 26.9	▶ 0.0	▼ 375.1	▼ $31.84
Vacancy Rate	KSF Net Absorption	KSF Construction Delivered	KSF Under Construction	Avg. Direct Asking Rate (FSG/YR)

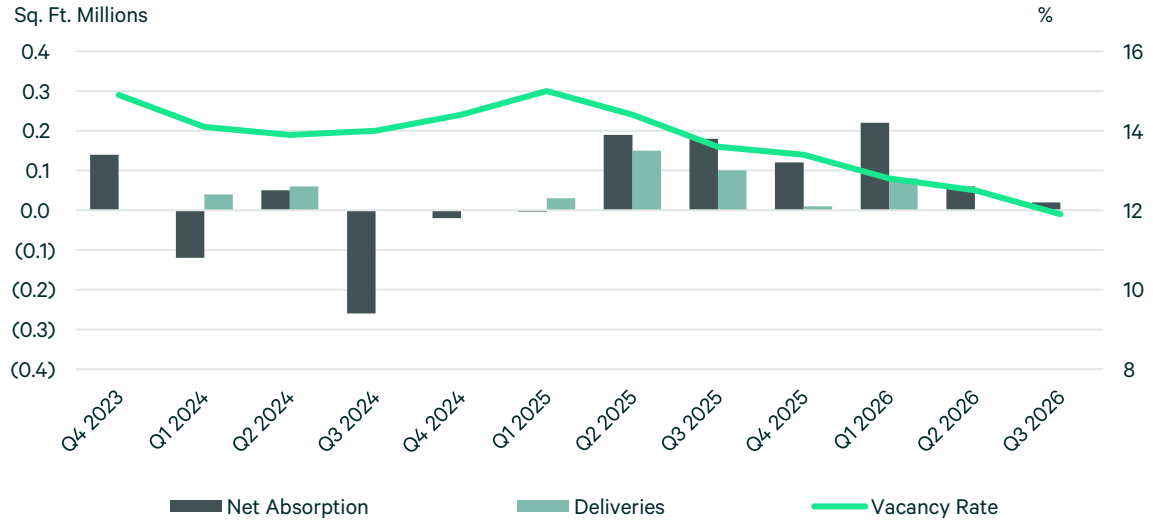
Note: Arrows indicate change from previous quarter.

Market Overview

In Q3 2026, the market combined further occupancy gains with a sudden slowdown in leasing activity. Net absorption decreased quarter-over-quarter, falling from 59,000 sq. ft. in Q2 2026 to 27,000 sq. ft. However, vacancy fell 60 basis points (bps) to 11.9% while availability declined 100 bps to 14.0%. Asking rents edged down slightly from $31.94 per sq. ft. to $31.84 per sq. ft., even as the construction pipeline remained active, with 375,000 sq. ft. under construction across six properties and no deliveries in the quarter. Additionally, leasing volume pulled back sharply, dropping from 250,000 sq. ft. in Q2 2026 to 50,000 sq. ft. in Q3 2026.

Despite the recent slowdown in leasing, Phoenix medical office fundamentals have remained strong. The market has posted six consecutive quarters of positive net absorption since Q2 2025 with vacancy falling by 250 bps during that span. At 11.9%, medical office vacancy was nearly 700 bps lower than traditional office product, signifying the demand for medical space in the Valley. Of the 375,000 sq. ft. underway, only 28.8% was available for lease, limiting supply side pressure in the near-to-mid term. The rapidly evolving economy in the Phoenix metro will likely continue to drive population growth, which will further elevate demand for medical services and space demand for the foreseeable future.

Figure 1: Historical Net Absorption, Deliveries, and Vacancy



Source: CBRE Research, Q3 2026

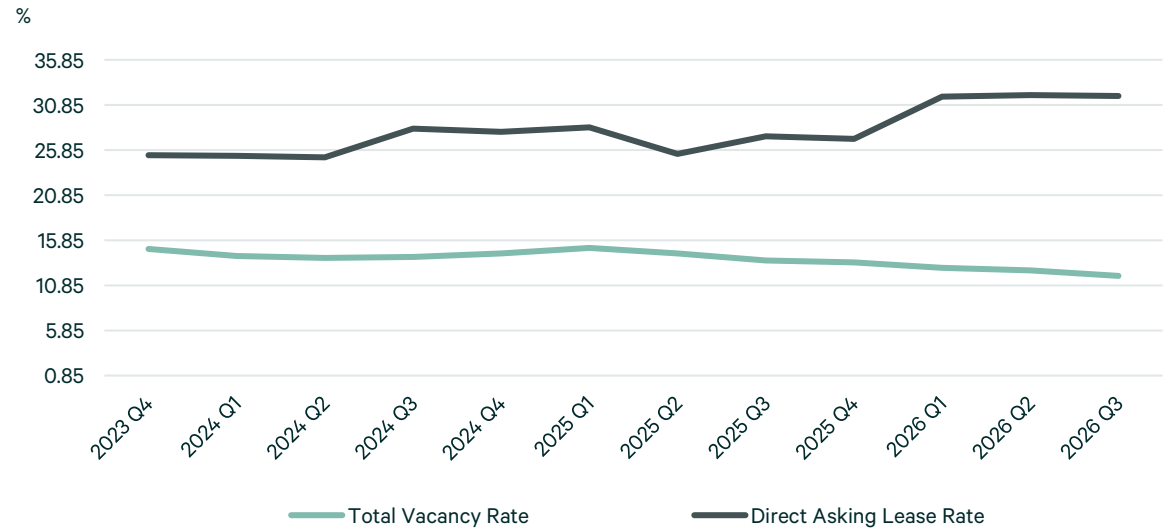
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Availability and Vacancy

In Q3 2026, the market vacancy rate ended the quarter at 11.9%, down 60 basis points quarter-over-quarter from 12.5% and 170 bps year-over-year from 13.6%. This marked a continuation of the tightening that followed the elevated vacancy levels earlier in the period, including 15.0% in Q1 2025.

Submarket performance remained differentiated, with Tempe posting the lowest overall vacancy at 6.3%, followed by Outlying Maricopa County at 8.7% and West / Northwest Phoenix at 9.5%. Southeast Valley and Camelback / Piestewa Peak recorded moderate vacancy at 10.4% and 11.4%, while CBD and Northeast Valley / Scottsdale were higher at 13.8% and 14.7%. East Phoenix, at 18.4%, was the only submarket at or above 15.0% and held a large share of the available space, with 295,000 sq. ft. of direct vacancy, and it was also the highest-vacancy submarket.

Figure 2: Overall Vacancy Rate and Lease Rate



Source: CBRE Research, Q3 2026

Lease Rates

In Q3 2026, the overall average asking rent was $31.84 per sq. ft., compared with $41.03 per sq. ft. for Class A space. Overall rents in the quarter edged down from $31.94 per sq. ft. quarter-over-quarter but remained above the $27.36 per sq. ft. level recorded in Q3 2025. Overall Class B and C rates registered at $32.83 per sq. ft and $25.79 per sq. ft., respectively.

Submarket pricing in Q3 2026 showed wide dispersion, with West / Northwest Phoenix and Southeast Valley posting the highest Class A average asking rents at $43.50 per sq. ft. and $42.88 per sq. ft., respectively, and Northeast Valley / Scottsdale close behind at $38.00 per sq. ft. Premium Class B space also achieved elevated rents, led by Outlying Maricopa County at $40.25 per sq. ft., Southeast Valley at $40.17 per sq. ft., and Northeast Valley / Scottsdale at $35.90 per sq. ft., while more moderate Class B levels in CBD at $29.91 per sq. ft., Camelback / Piestewa Peak at $29.00 per sq. ft., Tempe at $26.59 per sq. ft., and East Phoenix at $25.64 per sq. ft. illustrated the breadth of pricing options. Class C product generally priced lower, ranging from $18.93 per sq. ft. in the CBD to $31.13 per sq. ft. in Northeast Valley / Scottsdale and $27.11 per sq. ft. in West / Northwest Phoenix.

Figure 3: Average Direct Asking Rate by Class



Source: CBRE Research, Q3 2026

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Lease Transactions

Market-wide leasing activity in Q3 2026 slowed markedly from Q1 2026 and Q2 2026 and from the 2025 pace. Total leasing reached 49,000 sq. ft. in Q3 2026, down from 208,000 sq. ft. in Q2 2026 quarter-over-quarter and from 129,000 sq. ft. in Q3 2025 year-over-year. Across calendar 2025, total leasing activity summed to 657,000 sq. ft.

At the submarket level in Q3 2026, leasing activity was concentrated in West / Northwest Phoenix and Southeast Valley, which stood out as the most active areas. Positive leasing was also recorded in Northeast Valley / Scottsdale, East Phoenix, and Camelback / Piestewa Peak, although demand there remained comparatively modest. West / Northwest Phoenix posted 28,000 sq. ft. of leasing, Southeast Valley totaled 12,000 sq. ft. across Class A and Class B space, Northeast Valley / Scottsdale reached 6,000 sq. ft., East Phoenix accounted for 2,000 sq. ft., and Camelback / Piestewa Peak saw 1,000 sq. ft.

Figure 4: Key Lease Transactions

Tenant	Sq. Ft. Leased	Transaction Type	Address	Submarket
Hospital Development of West Phoenix	13,000	New Lease	13555 W McDowell Rd	West / Northwest Phoenix
Soar Health	12,000	New Lease	13555 W McDowell Rd	West / Northwest Phoenix
PCH Partners	9,000	New Lease	2700 W Frye Rd	Southeast Valley
Valley Ent	6,000	Renewal	9097 E Desert Cove Dr	Northeast Valley / Scottsdale
Urban Aesthetics Gilbert	3,000	New Lease	3275 S Mercy Rd	Southeast Valley
Hanger Prosthetics & Orthotics West	3,000	Renewal	13065 W Mcdowell Rd	West / Northwest Phoenix
Valley Ent	2,000	Renewal	926 E Mcdowell Rd	East Phoenix

Source: CBRE Research, Q3 2026

Investment Sale Activity

Phoenix medical office investment sales totaled $144.13 million in Q3 2026, down 25.4% quarter-over-quarter from $193.26 million in Q2 2026 but up 225.7% year-over-year from $44.25 million in Q3 2025. Year-to-date 2026 volume was $454.05 million.

In Q3 2026, private buyers accounted for 87.1% of Phoenix medical office investment sales volume, while institutional buyers represented 12.9%; there was no cross-border, public or user/other activity. The largest transaction was the sale of Chandler Center Commons, a 120,516 sq. ft. asset in the Southeast Valley, for $30.50 million ($253.08 per sq. ft.), followed by Edwards Professional Plaza I & II in Northeast Valley / Scottsdale at $25.50 million for 81,601 sq. ft. ($312.50 per sq. ft.). Top sales also included Surprise Office Center at $13.40 million for 54,735 sq. ft. ($244.36 per sq. ft.), 14674 West Mountain View Boulevard at $13.20 million for 41,000 sq. ft. ($321.95 per sq. ft.) and Simon Medical Plaza at $12.30 million for 32,000 sq. ft. ($382.81 per sq. ft.), while Surgery Center of Gilbert recorded $10.70 million for 13,957 sq. ft. at $765.21 per sq. ft.

Figure 5: Key Sales

Property	Submarket	Buyer	Sales Price	Size (SF)	Price Per SF
Chandler Center Commons	Southeast Valley	RBC Dev Co	$30.5M	120,516	$253.08
Edwards Professional Plaza I & II	Northeast Valley / Scottsdale	Albany Road RE Partners	$25.5M	81,601	$312.50
Surprise Office Center	West / Northwest Phoenix	Woodside Health	$13.4M	54,735	$244.36
14674 West Mountain View Boulevard	West / Northwest Phoenix	Woodside Health	$13.2M	41,000	$321.95
Simon Medical Plaza	West / Northwest Phoenix	TPG Real Estate	$12.3M	32,000	$382.81
Surgery Center of Gilbert	Southeast Valley	Lincoln Property Co	$10.7M	13,957	$765.21

Source: MSCI Real Capital Analytics, Q3 2026

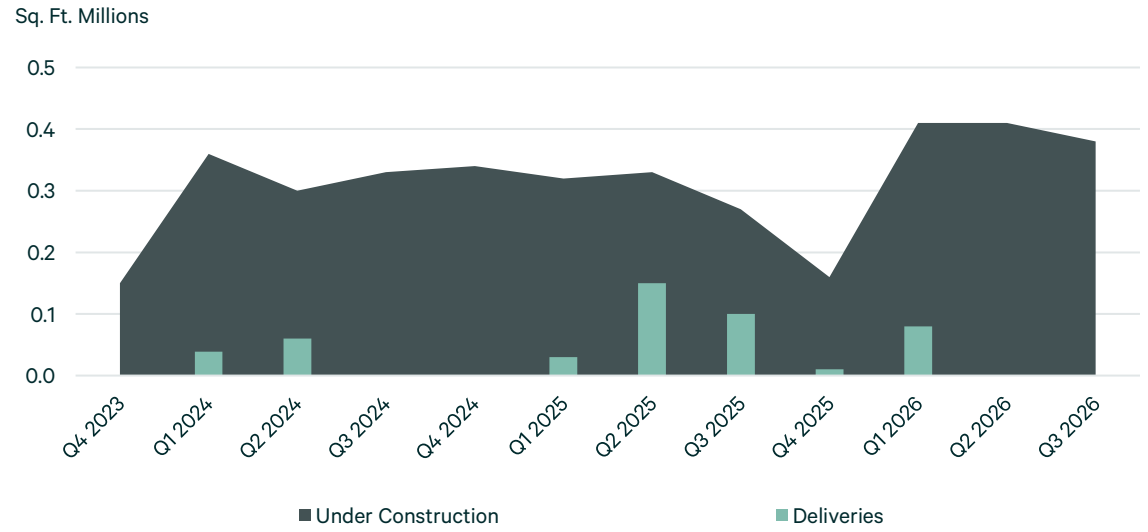
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Construction Activity

In Q3 2026, under construction space measured 375,000 sq. ft. Of the total pipeline, only 108,000 sq. ft. was available for lease, suggesting supply side pressure should be mild. Construction in the quarter was concentrated in Northeast Valley / Scottsdale and West / Northwest Phoenix, with these submarkets recording 152,000 sq. ft. and 135,000 sq. ft. underway, respectively.

Other submarkets with projects underway included Southeast Valley, where Terraza Medical Village totaled 88,061 sq. ft. under construction. Across the market, Banner Health Center Plus (120,000 sq. ft.) and Terraza Medical Village (88,061 sq. ft.) were the largest medical office projects underway.

Figure 6: Construction Activity



Source: CBRE Research, Q3 2026

Economic Overview

Notable challenges persist, from elevated energy costs and interest rates to lingering geopolitical and technological uncertainties. Despite these concerns, the U.S. economy remains on track to grow by over 2% during 2026, supported by impressive AI-driven business investment. Also, a generally stable labor market continues to underpin consumer activity, providing a cushion against other risks.

The final months of 2026 could prove pivotal. While economic growth supports healthy CRE occupier market fundamentals, the investment side of the market must contend with 5% Treasury yields. Signals from the Federal Reserve, inflation data, and global fixed-income markets suggest rates will remain elevated for the foreseeable future. A key upside catalyst would be a de-escalation in the U.S./Iran conflict, which could ease inflation and provide the Fed with more flexibility.

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Market Statistics by Class

Figure 7: Metro Market Statistics by Class

Property Class	Net Rentable Area (SF)	Total Vacancy (%)	Total Availability (%)	Direct Availability (%)	Sublease Availability (%)	Avg. Direct Asking Rate ($/SF FSG/yr)	Current Quarter Net Absorption (SF)	YTD Net Absorption (SF)	Deliveries (SF)	Under Construction (SF)
Class A	2.76M	7.7	9.7	8.7	1.0	41.03	(79,000)	-	-	375,000
Class B	15.21M	13.2	15.3	14.6	0.6	32.83	114,000	355,000	-	-
Class C	3.81M	9.6	12.1	12.0	0.1	25.79	(8,000)	49,000	-	-
Total	**21.77M**	**11.9**	**14.0**	**13.4**	**0.6**	**31.84**	**27,000**	**404,000**	**-**	**375,000**

Source: CBRE Research, Q3 2026

Market Statistics by Submarket

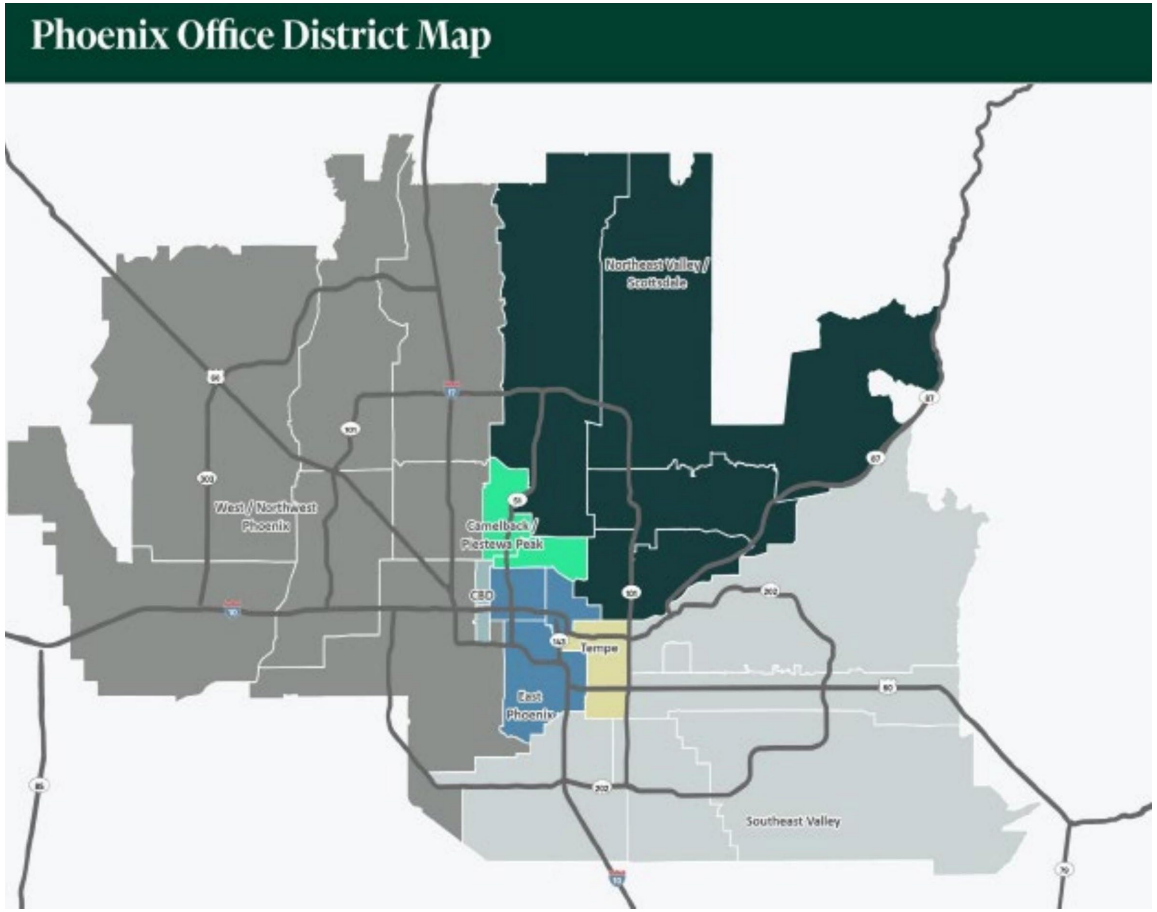
Figure 8

Submarket	Net Rentable Area (SF)	Total Vacancy (%)	Total Availability (%)	Direct Availability (%)	Sublease Availability (%)	Avg. Direct Asking Rate	Class A Asking Rent ($/SF FSG/yr)	Current Quarter Net Absorption (SF)	YTD Net Absorption (SF)	Deliveries (SF)	Under Construction (SF)
CBD	1.79M	13.8	14.4	14.4	-	28.81	-	12,000	5,000	-	-
Camelback / Piestewa Peak	747,000	11.4	14.1	12.5	1.6	23.36	-	(12,000)	(9,000)	-	-
East Phoenix	1.61M	18.4	20.1	20.1	-	24.42	-	(2,000)	76,000	-	-
Northeast Valley / Scottsdale	4.74M	14.7	17.6	17.0	0.6	35.14	38.00	(16,000)	92,000	-	152,000
Outlying Maricopa County	153,000	8.7	8.7	8.7	-	40.25	-	10,000	7,000	-	-
Southeast Valley	5.19M	10.4	12.4	11.7	0.7	36.99	42.88	(10,000)	94,000	-	88,000
Tempe	410,000	6.3	7.3	7.3	-	25.32	-	2,000	15,000	-	-
West / Northwest Phoenix	7.14M	9.5	11.8	11.1	0.7	28.76	43.50	43,000	24,000	-	135,000
Total	**21.77M**	**11.9**	**14.0**	**13.4**	**0.6**	**31.84**	**41.03**	**27,000**	**304,000**	**-**	**375,000**

Source: CBRE Research, Q3 2026

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Market Area Overview



Definitions

Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant. Availability Rate: Total Available Sq. Ft. divided by the net rentable area. Average Asking Lease Rate: A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage. Net Rentable Area: The total floor area sq. ft. of the building, typically taken at the "drip line" of the building. Gross Activity: All sale and lease transactions completed within a specified time period. Excludes investment sale transactions. Gross Lease Rate: Rent typically includes real property taxes, building insurance, and major maintenance. Net Absorption: The change in Occupied Sq. Ft. from one period to the next. Occupied Sq. Ft.: Building Area not considered vacant. Vacancy Rate: Total Vacant Sq. Ft. divided by the total Building Area. Vacant Sq. Ft.: Space that can be occupied within 30 days

Survey Criteria

Includes all office buildings with a medical secondary type 10,000 sq. ft. and greater in size in Phoenix metro. Buildings which have begun construction as evidenced by site excavation or foundation work.

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