Vacancy Falls for the Second Consecutive Quarter in Phoenix Medical Offices

▼ 14.1%
Vacancy Rate

▲ 188,171
SF Net Absorption

▼ 162,178
SF Construction

▼ $25.41
Overall Base Rate

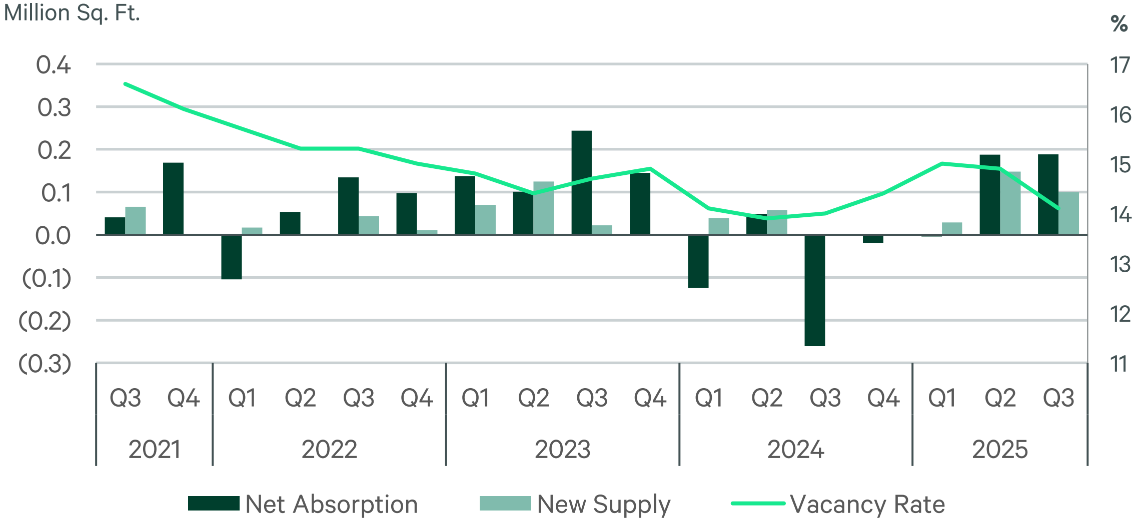
Note: Arrows indicate change from previous quarter.

KEY TAKEAWAYS

- There was 188,171 sq. ft. of positive net absorption to close out the third quarter of 2025.
- The vacancy rate decreased 80 basis points quarter-over-quarter to 14.1%.
- The overall base rent decreased by 0.1% quarter-over-quarter at $25.41 per sq. ft.

Tenant demand remained positive in the Phoenix medical office sector during the third quarter of 2025, as the metro recorded 188,171 sq. ft. of net absorption. Class A product ended the quarter with 206,064 sq. ft. of positive net absorption, while Class B and C product ended the quarter with a combined 17,893 sq. ft. of negative net absorption. One building delivered in the third quarter of 2025 totaling 100,000 sq. ft. Meanwhile, no new projects broke ground during the quarter, which lowered the under-construction total to 162,178 sq. ft. entering the fourth quarter.

FIGURE 1: Supply and Demand



Source: CoStar, Q3 2025.

Availability and Vacancy

In the third quarter of 2025 the vacancy rate fell 80 bps to 14.1%. This rate is also 80 bps below the metro's trailing 4-year average and Q3 2025 marks the largest vacancy decline recorded in the past 4 years. Furthermore, vacancy in medical offices remained 770 bps below the rate recorded in traditional office product.

The Camelback/Piestewa Peak submarket posted the lowest vacancy rate at 10.3%. Tenants looking in Camelback Corridor are often attracted to the area due to its central location and status as one of the premier business districts in the Valley. The West/Northwest Phoenix submarket also recorded a low vacancy rate relative to the metro average at 10.6%, as strong demographic growth continues to stimulate tenant demand in the West Valley. Most of the available space was concentrated in the East Phoenix, Northeast Valley/Scottsdale, and the CBD, where each submarket had a vacancy rate over 16.9%. The East Phoenix submarket registered the highest vacancy rate at 21.3%.

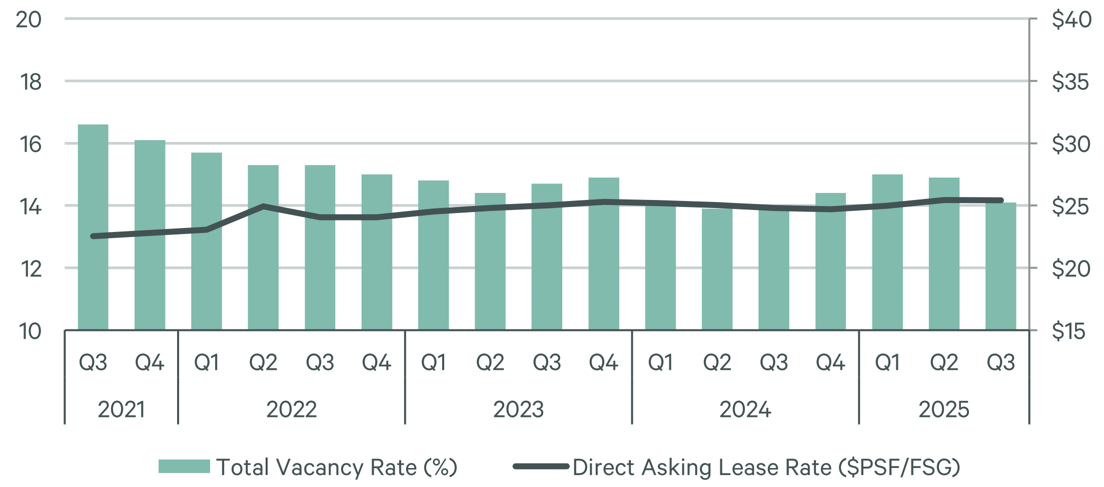
Class B product had the highest vacancy rate landing at 16.1%. Class C product recorded a vacancy rate of 11.4% while Class A medical offices registered the lowest vacancy rate among property tiers at 6.3%, which highlights tenant preferences for high quality space.

Lease Rates

In the third quarter, the overall base rate decreased by $0.03 quarter-over-quarter to $25.41 per sq. ft. Year-over-year lease rates were up $0.61 per sq. ft. across the Valley which marks an increase of 2.5%. The three-year average growth rate was 1.9% to end the third quarter with Class B medical offices posting a growth rate of 2.9% during that time frame.

The Camelback/Piestewa Peak submarket had the highest overall base rate at $30.95 per sq. ft. followed by the Northeast Valley/Scottsdale submarket at $29.45 per sq. ft. The only submarkets with overall asking rates below $24 per sq. ft. were the East Phoenix, Tempe and West/Northwest Phoenix submarkets. Overall, the average asking rate is roughly $0.90 higher than the metro's trailing 4-year average. Asking rents may be poised for further growth in the near-to-mid term as medical office demand in Phoenix continues to strengthen due to the metro's strong demographic and economic growth.

FIGURE 2: Overall Vacancy Rate and Lease Rate



Source: CoStar, Q3 2025.

FIGURE 3: Lease Rates by Class

Source: CoStar, Q3 2025.

Lease Transactions

In the third quarter of 2025, there were three deals recorded above 10,000 sq. ft. Honor Health registered the largest move-in of the quarter, as the company occupied 79,000 sq. ft. of Pima Health & Wellness Center in Scottsdale, which delivered in July. Honor Health is one of Arizona's largest non-profit healthcare systems, as they operate 9 Acute-care hospitals and over 200 primary, specialist and urgent care locations across the state of Arizona. SOAR Health also signed a lease for roughly 10,342 sq. ft. at Copper Point, while Dignity Health committed to 16,941 sq. ft. in Chandler. Overall, there was 190,251 sq. ft. of leasing activity recorded during the third quarter. Steady tenant activity helped propel net absorption into positive territory for two consecutive quarters.

Sales Transactions

In the third quarter, there were 30 sales transactions surpassing $1 million. The largest sale transaction at 3345 S Val Vista Dr. The overall sales price of the property was $23.0 million, totaling $259.97 per sq. ft. The seller of the investment sale was UCPM while the buyer was Rx Health & Science Trust, Inc. The property was 54.8% leased at the time of the sale, and this acquisition was part of a sale leaseback. Of the 30 total transactions throughout the third quarter over $1 million, only 6.7% were part of a portfolio sale while 33.3% were condo sales. The average size of these transactions was 10,257 sq. ft. while the average price per sq. ft. was $238.00. These transactions recorded an average cap rate of 6.4% during the third quarter.

Top Lease Transactions

Tenant	Sq. Ft.	Property
Honor Health	79,000	Pima Health & Wellness Center
Dignity Health	16,941	Chandler Medical Building
SOAR Health	10,342	Copper Point
Family Care Center	6,841	Ironwood Medical Office Building II
Chandelle	5,559	Concentra Office Park
Action Behavior Centers Therapy	4,901	PDR Commercial Center

Source: CoStar, Q3 2025.

Top Sale Transactions

Address	Size (SF)	Sale Price	Price/SF	% Leased
3345 S Val Vista Dr	88,472	$23,000,000	$259.99	54.0
15800 N Litchfield Rd	26,200	$10,400,000	$396.95	100
6306 N 7th St	5,968	$5,000,000	$837.80	100
*525 N 18th St	56,707	$4,018,987	$70.87	100
*555 N 18th St	49,751	$3,415,225	$68.65	72.9

*Part of a Portfolio Sale

Source: CoStar, Q3 2025.

Development Activity

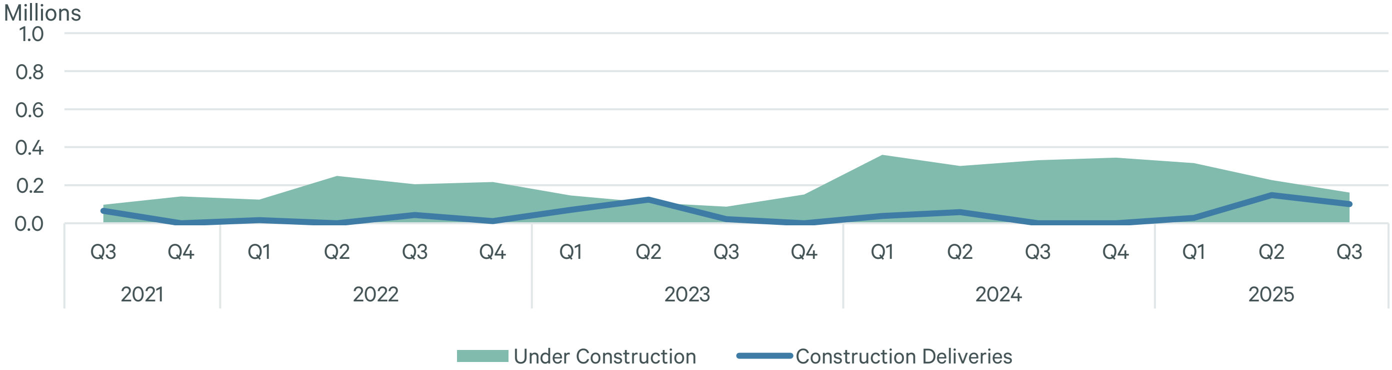
The third quarter of 2025 experienced 100,000 sq. ft. of deliveries. The lone completion for the quarter was Pima Health & Wellness Center in Scottsdale. Honor Health occupied roughly 79% of the building upon completion, while the rest of the space remained available for lease. There were no notable groundbreakings within the quarter, resulting in a decrease in total product under construction entering the fourth quarter. Overall, there was 162,178 sq. ft. under construction in the third quarter which accounts for less than 1% of total stock in the metro and marks the lowest amount of sq. ft. under construction in the market since Q4 2023.

CBRE Economic House View

CBRE has revised its U.S. growth outlook upward, a shift from the more pessimistic view held in the spring. Greater clarity around trade policy and private sector resilience should equate to 1.6% GDP growth this year. Much of this growth should be frontloaded as higher inflation—peaking in the low-3% range by early 2026—creates some headwinds during the latter half of this year. The labor market is flashing important signals such as falling job openings and weak hiring by firms.

Despite the modest growth outlook and expectations for further rate cuts, 10-year Treasury yields are holding steady in the low 4% range. A combination of higher inflation and excessive U.S. debt levels should keep yields near this level through 2027. This environment—with Treasury yields fluctuating between 4% and 4.5% and moderate economic growth—is fostering some recovery in commercial real estate (CRE) capital markets. Investment volumes are on track to exceed 2023 and 2024 levels.

FIGURE 6: Under Construction and Construction Deliveries



Source: CoStar, Q3 2025.

FIGURE 7: Market Statistics by Submarket

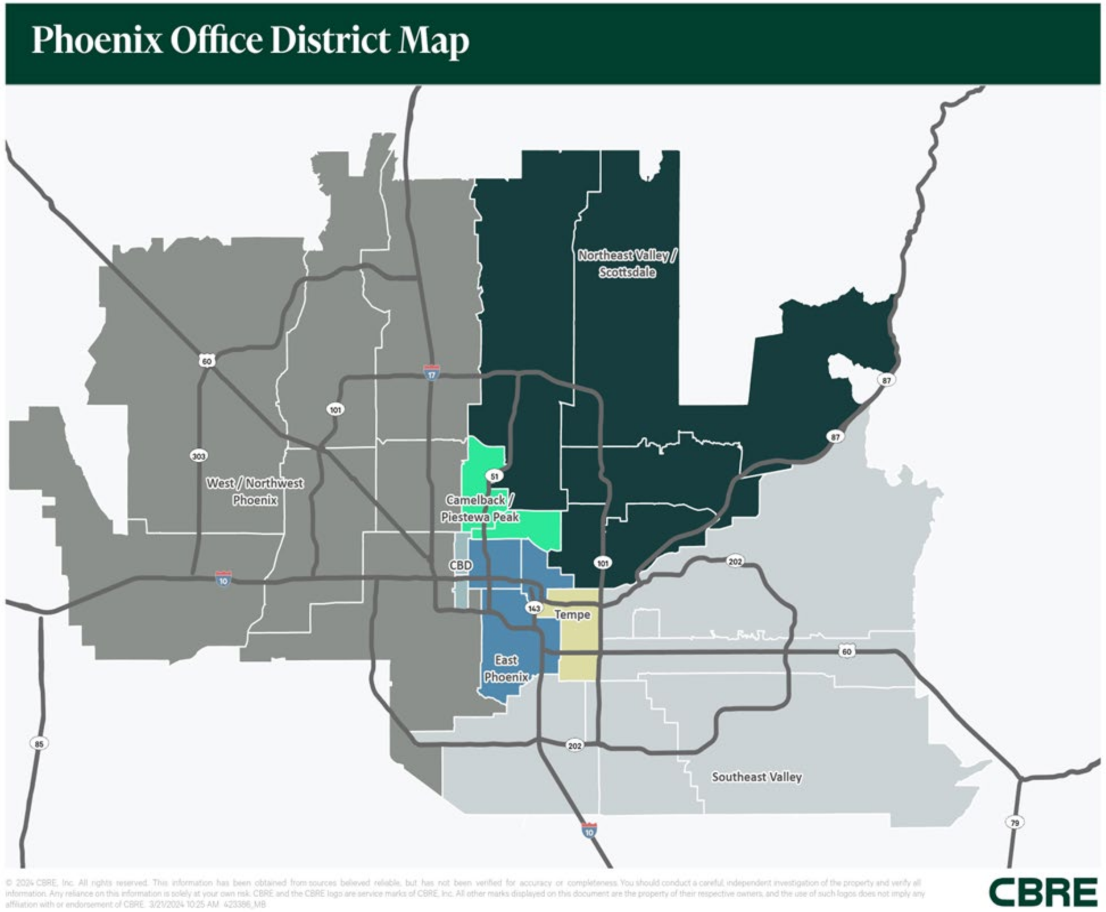
	Net Rentable Area (Sq. Ft.)	Availability	Vacancy	Net Absorption (Sq. Ft.) Q3 2025	Net Absorption (Sq. Ft.) 2025 YTD	Under Construction (Sq. Ft.)	Construction Deliveries (Sq. Ft.)	Overall Base Rate
Camelback/Piestewa Peak	716,355	12.1%	10.3%	1,218	3,332	0	0	$30.95
CBD	1,785,933	17.1%	16.9%	23,100	(1,575)	0	0	$24.96
East Phoenix	1,538,661	22.8%	21.3%	(7,037)	(6,713)	0	0	$23.11
Northeast Valley/Scottsdale	4,759,138	18.6%	17.1%	171,220	56,272	0	100,000	$29.45
Outlying Maricopa County	153,352	13.2%	13.2%	11,734	5,974	0	0	$24.67
Southeast Valley	5,193,585	15.6%	13.7%	68,514	114,584	108,428	0	$24.60
Tempe	410,027	15.0%	13.0%	(11,062)	37,083	0	0	$22.05
West/Northwest Phoenix	7,248,754	13.2%	10.6%	(69,516)	163,269	53,750	0	$23.95
Phoenix Total	21,805,805	15.9%	14.1%	188,171	372,226	162,178	100,000	$25.41

Source: CoStar, Q3 2025.

FIGURE 8: Market Statistics by Class

	Net Rentable Area (Sq. Ft.)	Availability	Vacancy	Net Absorption (Sq. Ft.) Q3 2025	Net Absorption (Sq. Ft.) 2025 YTD	Under Construction (Sq. Ft.)	Construction Deliveries (Sq. Ft.)	Overall Base Rate
Class A	2,692,607	7.4%	6.3%	206,064	398,817	66,000	100,000	$30.12
Class B	15,298,955	17.9%	16.1%	924	49,276	96,178	0	$25.13
Class C	3,814,243	13.5%	11.4%	(18,817)	(75,867)	0	0	$20.56
Phoenix Total	21,805,805	15.9%	14.1%	188,171	372,226	162,178	100,000	$25.41

Source: CoStar, Q3 2025.



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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