

# INVESTMENT FORECAST

Office  
Phoenix Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

2025

## Phoenix Retail Benefits From Job Gains and Industrial Expansions, Despite Select Vacancy Upticks

**The market remains resilient amid shifting vacancy trends.** The metro should stay in the top 10 markets nationally for job growth, while its fourth-ranked population expansion in 2024 continues to drive consumer demand. Despite closures from 99 Cents Only, Conn's Home Plus and Big Lots, vacancy is still below the long-term average. North Phoenix and North Scottsdale saw vacancy decline in 2024. Benefiting from affordability and freeway connectivity, the former areas also posted rent gains exceeding 10 percent and improved multi-tenant occupancy. At the same time, large-scale manufacturing investments — Intel's CHIPS Act-backed expansion, Pentagon Technologies' \$50 million Mesa facility and SEALSQ's Phoenix base — are bolstering employment and retail spending power. While vacancy did increase in the East Valley and West Phoenix in 2024, a well-leased construction pipeline should help Phoenix retain its reputation as one of the nation's more resilient markets.

**A measured slowdown in Phoenix retail trading sets the tone for 2025.** Deal flow fell 20 percent last year, as higher debt costs tempered activity among REITs and institutional buyers. That said, several Phoenix submarkets bucked that trend. The Red Mountain-Mesa area claimed a fifth of local deals, while Anthem and Apache Junction each doubled their annual activity, fueled by freeway connectivity and residential expansion. Private investors remained active in the \$1 million to \$5 million range, especially for multi-tenant triple-net strip centers, with North Phoenix capturing the bulk of these deals thanks to some of the metro's highest rent growth. Although buyer-seller expectation gaps persist, East Valley expansions, including new data centers and offices for firms like Terraline, could create selective investment opportunities in 2025.

### 2025 MARKET FORECAST

+1.6%



**EMPLOYMENT:** Phoenix's job growth will improve from last year, but stay below its long-term average of 2.7 percent. Local firms add 40,000 jobs on net by the end of December.

1,900,000  
sq. ft.



**CONSTRUCTION:** Annual supply additions will reach the highest total since 2017. Most of the projects proposed or under construction this year are under 30,000 square feet.

+50 bps



**VACANCY:** Vacancy elevates to 5.5 percent this year — up 90 basis points since hitting its lowest point on record in 2023. Still, this year's rate remains well below the 8.1 percent long-term average.

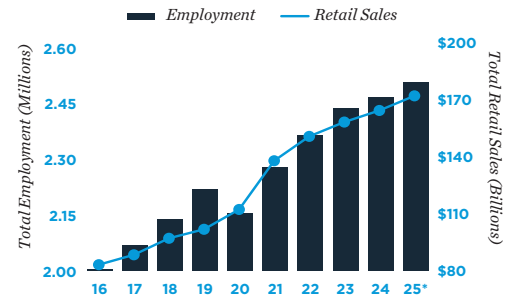
-0.5%



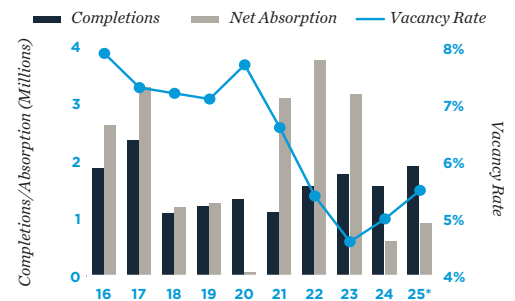
**RENT:** Elevated vacancy pulls down the average asking rent for the second time in the last decade. Yet at \$19.50 per square foot, the metric will still be 21 percent higher than the 2019 mark.

**INVESTMENT:** Gulfstream's new \$130 million support center at Mesa Gateway Airport, set to add hundreds of jobs in 2025, could spark increased demand for dining and service-based retail assets in the area.

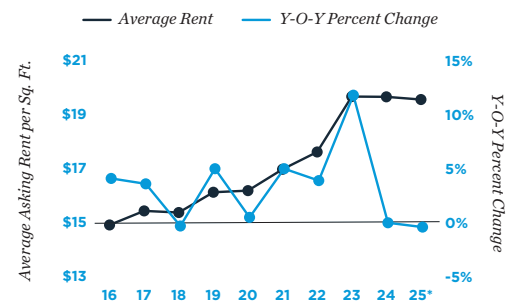
#### Economic Trends



#### Supply and Demand



#### Rent Trends



\* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

Phoenix Office:

**James K. Crawley**

Regional Manager

2398 East Camelback Road, Suite 300

Phoenix, AZ 85016

Tel: (602) 687-6700 | james.crawley@marcusmillichap.com

Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2024. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guarantee regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.