

# INVESTMENT FORECAST

Office  
Phoenix Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

2025

## Growing Supply of Labor Supports Employers; Larger Offices Face Investment Hurdles

**Small footprints still a defining feature as firms adapt to flexible work models.** Offices between 10,000 and 50,000 square feet maintained sub-8 percent vacancy ending last year, noticeably below the metro average. At the same time, just 410,000 square feet of new supply is slated for 2025 — far lower than the 2 million square feet delivered annually from 2015 to 2019. This slowdown helps counterbalance the lingering inventory of larger blocks generally exceeding 100,000 square feet, which had elevated sublease availability in prior years. Post-pandemic, a net of 3.6 million square feet of office space has been vacated as major tenants increasingly rightsize, with half vacating in the past 18 months. Yet, Class B/C offices under 50,000 square feet stand out, drawing firms seeking flexibility and functionality. Maricopa County's position as a top population growth market continues to bolster the local workforce, though smaller space-per-employee ratios persist. Ongoing in-migration and corporate expansions underscore an enduring demand trend, placing Phoenix's office sector on a path toward modest improvement.

**Steady pace of sales set a measured tone for 2025.** Overall trading increased from 2023, yet remains below pre-pandemic levels. Sub-\$5 million sales exceeded 30 percent of office transactions in 2024, propelled by private buyers and owner-users who have flexibility in their business plans. Larger assets that changed hands often required deeper price adjustments or value-add strategies due to stricter lending criteria and weak NOI growth. Meanwhile, semiconductor-driven expansions are spotlighting submarkets that may benefit from downtown demand. As 2025 unfolds, pending loan maturities could put older, vacancy-prone assets at risk of distressed sales. Still, core Class A buildings with creditworthy tenants draw steady attention, reflecting flight to quality.

## 2025 MARKET FORECAST

+1.6%



**EMPLOYMENT:** In a modest increase over last year's gain, Phoenix's workforce is forecast to grow by 40,000 jobs in 2025. Office-centric firms will contribute 2,500 roles — half the five-year average.

410,000  
sq. ft.



**CONSTRUCTION:** Rising construction costs and stagnant rents have led to four years of sub-1 percent inventory growth, with this year marking the smallest delivery slate in a decade.

-10 bps



**VACANCY:** Vacancy is projected to dip to 20.1 percent, with significant variation across quality levels. At the start of 2025, the vacancy gap between Class A and B/C properties exceeded 1,000 basis points.

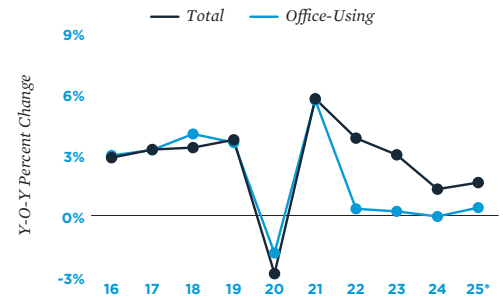
+1.0%



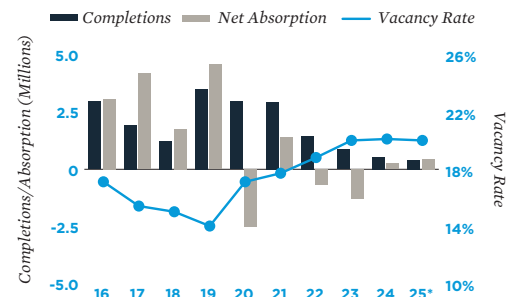
**RENT:** Market rates are projected to grow 1 percent in 2025, reaching \$26.35 per square foot. Still, vacancy over 20 percent will pressure rents in some segments.

**INVESTMENT:** Investors may keep a closer eye on West Phoenix in 2025. Last year, it was one of only four Sun Belt submarkets with over 10 million square feet of stock and a vacancy rate of 7.5 percent or lower.

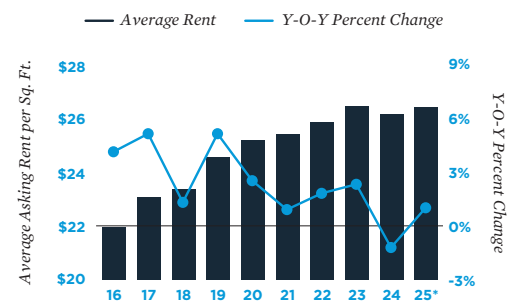
## Employment Trends



## Supply and Demand



## Rent Trends



\* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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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.