

INVESTMENT FORECAST

Retail
Phoenix

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2026

Retailers, Investors Follow Suburban Household Formation as Older Stock Works Through Turnover

Low vacancy positions growing nodes for new supply. Well-leased deliveries and resilient backfilling marked Phoenix as just one of eight major markets where vacancy declined last year. Key growth corridors continued to outperform as retailers followed rooftops and repeat-trip spending. Vacancy in Buckeye, Goodyear, Gilbert, and Queen Creek dropped below 3 percent last year and dipped under 1 percent in select nodes, reflecting tight conditions that should keep deliveries here well received. Leasing by necessity- and convenience-oriented retailers is expected to sustain low availability in these areas, highlighted by ALDI's plan to open 10 Phoenix-area stores in 2026. In contrast, vacancy pressures have been greater in older areas such as Mesa and Glendale, and outlying nodes like Casa Grande, where anchor turnover drove rates above 6 percent. Even so, limited construction in these areas is likely to contain further vacancy expansion and support gradual backfilling as owners reposition recently vacated space.

Capital targets expanding suburbs. Sales velocity strengthened in late 2025 as private buyers stayed active and institutions returned selectively, with investment focused on daily-needs retail along high-traffic corridors. In North Phoenix, the Deer Valley area should remain a key target, supported by TSMC's ongoing expansion and by December zoning changes that enable additional industrial capacity and thousands of new homes. Limited retail supply growth further adds to the area's appeal, as North Phoenix has accounted for just 5 percent of metro completions over the past five years. Net-lease investors seeking lower entry costs may favor West Phoenix, particularly along Interstate 10, where single-tenant vacancy under 2 percent ranks as the lowest among Western U.S. submarkets with at least 10 million square feet of inventory.

2026 MARKET FORECAST

+1.2%



Employment: Employment gains are expected to pick up from last year, with about 29,000 jobs created. Ongoing growth in office-using sectors should continue to lift household income profiles.

1,800,000
sq. ft.



Construction: Completions in 2026 will edge lower, though remain slightly above the past decade average. Nearly 80 percent of the pipeline is pre-leased, as most projects are build-to-suit.

-10 bps



Vacancy: Well-leased new supply and fewer planned big-box store closures are expected to help vacancy ease to 4.9 percent, standing 150 basis points below the past-decade average.

+2.5%

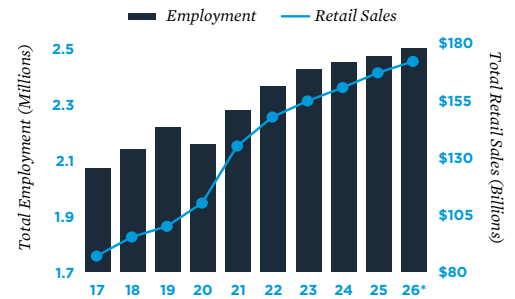


Rent: After avoiding rent declines over the past two years, the metro will rank among the top 10 major markets for rent growth in 2026, with the average asking rate reaching \$20.68 per square foot.

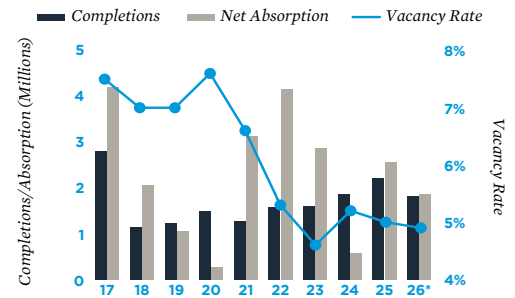
INVESTMENT:

In Laveen, two proposed shopping center projects with major entertainment components could lift destination-driven visits and draw investors to nearby retail assets, supported by vacancy near 2 percent.

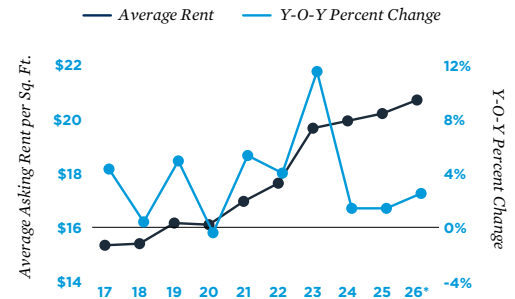
Economic Trends



Supply and Demand



Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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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 January 2026. 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 office 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.