

INVESTMENT FORECAST

Office
Phoenix Metro Area

IPA
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ADVISORS

2026

Professional Services and Coworking Drive the Fastest Vacancy Compression in the Sun Belt

Evolving tenant base supports recovery. Demand for space is firming as hiring moves from back-office roles toward higher-skilled positions. In 2025, Phoenix led the nation in job gains across finance, insurance, and administrative support sectors, reflecting a deepening need for office space. Technology growth is further shaping space requirements, illustrated by industrial AI firm Cognite relocating from Norway. As these companies adjust to hybrid work, many are using coworking locations as satellite offices, with the metro's flex inventory more than doubling since 2024 to over 3 million square feet. These dynamics fueled one of the steepest vacancy declines among Sun Belt markets last year, and record enrollment at Arizona State University should continue to draw firms seeking skilled talent. Office hubs in Scottsdale, Tempe, and Chandler are poised to anchor this momentum as they offer lower costs and strong workforce access. Downtown Phoenix and the Camelback corridor may lag, given their legacy tenant mixes and older inventories, though a slower pace of move-outs points to stabilizing conditions.

Suburban tightening draws renewed investment. Trading activity was building into late 2025 and may continue to grow as fundamentals improve and lending conditions ease. North Scottsdale is expected to remain a key target due to its upscale, amenity-rich inventory, with the area's Class A vacancy falling by more than 400 basis points last year — one of the steepest declines in the country. The South Tempe-Chandler corridor may also see sustained investor interest, given its proximity to the metro's CBD and a growing semiconductor hub anchored by Intel. Positive net absorption of Class B/C space in the area for the first time in five years, supported by renewals from large users like Progressive and steady small-format leasing, may sustain the appeal of well-located, older assets.

2026 MARKET FORECAST

+0.7%



Employment: Despite modest overall job growth of roughly 17,000 positions in 2026, Phoenix's traditionally office-using sector is expected to remain among the 10 fastest-growing nationally.

450,000
sq. ft.



Construction: Completions will remain near all-time lows, led by Sprouts and Republic Services opening new headquarters, while most other projects are medical offices under 100,000 square feet.

-50 bps



Vacancy: The metro's vacancy rate is expected to fall for a second straight year to 18.5 percent, its lowest level since 2021. Even so, it remains about 250 basis points above the 2015-2019 average.

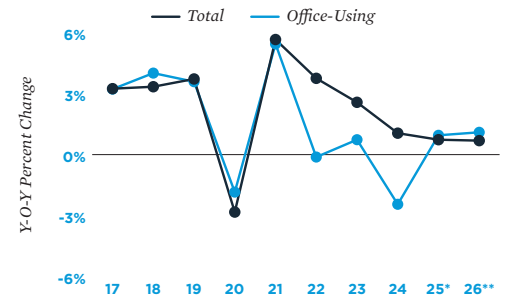
+2.3%



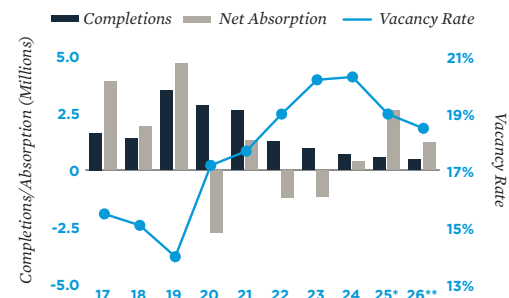
Rent: Asking-rent growth is set to improve gradually as market conditions firm. Phoenix's average rate is projected to reach \$26.90 per square foot, standing about 7 percent above its 2020 mark.

INVESTMENT: Arizona's unique allowance of nonlawyer law-firm ownership attracted AI-native entrant Eudia and KPMG in 2025, which may gradually lift office leasing as more firms seek flexible, integrated legal models.

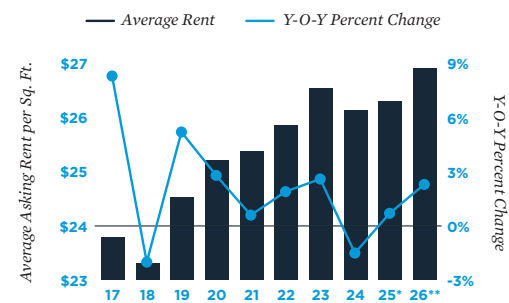
Employment Trends



Supply and Demand



Rent Trends



* Estimate ** Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Office

Alan L. Pontius

Senior Managing Director, National Division Leader
Tel: (415) 963-3000 | apontius@ipausa.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 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.