

FIGURES | PHOENIX OFFICE MARKET | Q1 2025

# Phoenix Posts Lowest Quarterly Vacancy Since Q2 2022

▼ 22.1%

Vacancy Rate

▼ 369,460

SF Net Absorption

► 424,747

SF Construction

▼ \$30.00

FSG / Lease Rate

Note: Arrows indicate change from previous quarter.

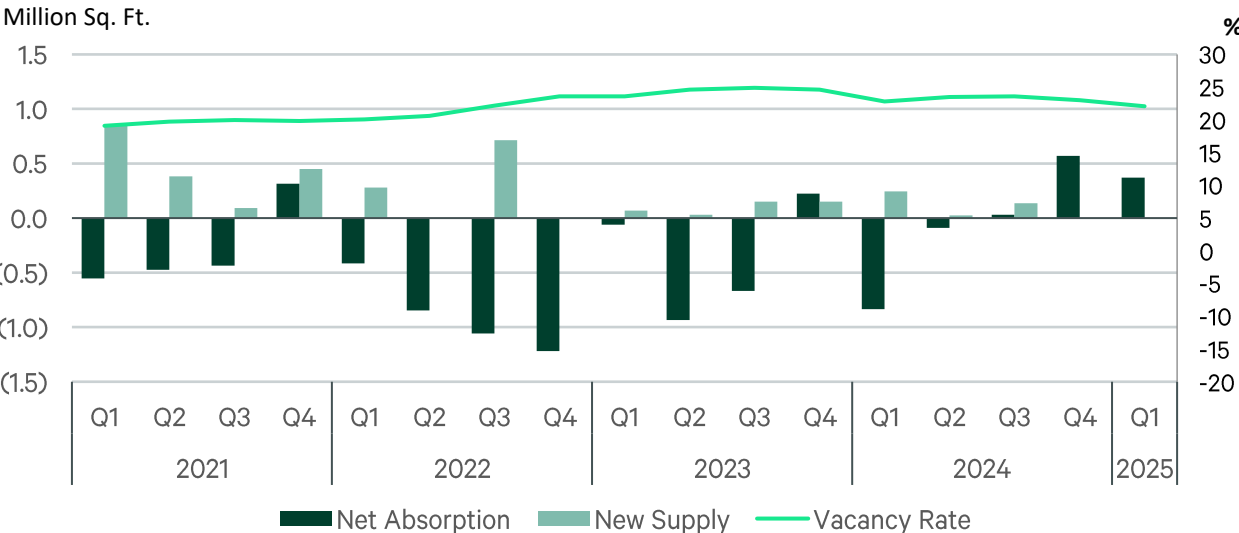
KEY TAKEAWAYS

- Phoenix experienced 369,460 sq. ft. of positive net absorption in Q1 2025.
- The vacancy rate decreased quarter-over-quarter by 90 bps, finishing at 22.1%.
- The average full-service gross direct asking lease rate decreased 4.7% year-over-year to \$30.00 per sq. ft.

The first quarter of 2025 posted 369,460 sq. ft. of positive net absorption. Class A and Class B products both ended the quarter with positive quarterly absorption, finishing with 70,285 sq. ft. and 357,127 sq. ft. of positive absorption, respectively. While the quarter-over-quarter decrease in the asking lease rate by \$1.13 represents large drop, Phoenix has maintained a strong growth rate relative to its 3-year average at 1.2%. There were zero new deliveries or starts in Q1. However, Gilbert Spectrum – Bldg 3, which is fully preleased by Northrop Grumman, and The Grove – 4210 Bldg are expected to deliver in Q2 2025.

*\*CBRE updated the statistical office inventory in Q1 2024. Due to modified methodology, historical statistical data, including vacancy rates, may not align with previously published reports.*

FIGURE 1: Supply and Demand



Source: CBRE Research, Q1 2025.

## Availability and Vacancy

In the first quarter of 2025, the availability rate finished at 25.3%, while the vacancy rate ended at 22.1%. While strong Class B leasing contributed to a majority of the drop in vacancy, this was also a result of removing nearly 200k sq. ft. of vacant space from the office base at Park at 25<sup>th</sup>, which is going through a conversion. Class B vacancy had the most significant decrease quarter-over-over, falling 120 bps to 23.2%.

The Northeast Valley submarket once again recorded the lowest vacancy rate concluding the quarter at a rate of 17.0%. The Camelback/Piestewa Peak submarket registered the second lowest vacancy rate, finishing the quarter at 19.7%. The West / Northwest Valley submarket recorded the largest decrease in vacancy, falling 330 bps to 25.6%. In combination with the removal of Park at 25<sup>th</sup>, this submarket saw three new deals over 10,000 sq. ft. , totaling 97,373 sq. ft., in previously vacant space. All other submarkets recorded vacancy rates greater than 20.9% with East Phoenix having the highest at 29.0%.

*\*CBRE updated the statistical office inventory in Q1 2024. Due to modified methodology, historical statistical data, including vacancy rates, may not align with previously published reports.*

## Sublease Space

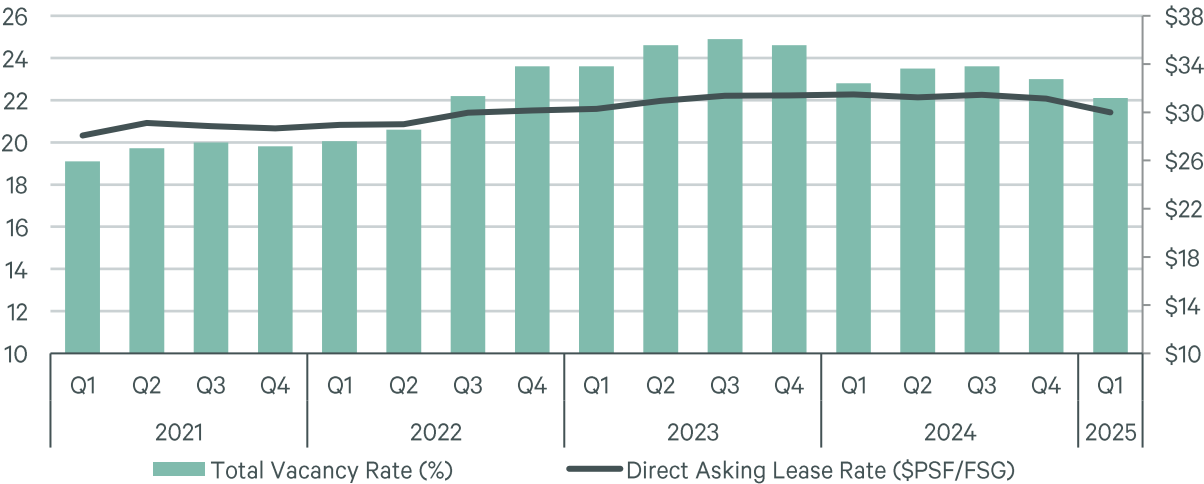
Available sublease space increased 123,194 sq. ft compared to Q4 2024. However, vacant sublease space has decreased 82,184 sq. ft. in the same amount of time. There is currently 5,654,263 sq. ft. of sublease space on the market, of which 77.4% is vacant. The largest sublease availability added to the market in the first quarter was the Equality Health building at Riverwalk Arizona (146,351 sq. ft.). Of all the recorded move-outs above 10,000 sq. ft., 9 of 18 were taken as vacant subleases.

## Lease Rates

In the first quarter, the average full-service gross (FSG) asking lease rate decreased to \$30.00 per sq. ft. Year-over-year lease rates were down \$1.48 per sq. ft. across the Valley. The 3-year average growth rate for Metro Phoenix stayed positive at 1.2% to end the first quarter. The submarket with the highest asking rate at the end of the first quarter was Camelback / Piestewa Peak, finishing at \$38.61 per sq. ft. Class B asking lease rates dropped \$1.23 per sq. ft., while Class A & C rates stayed relatively stable.

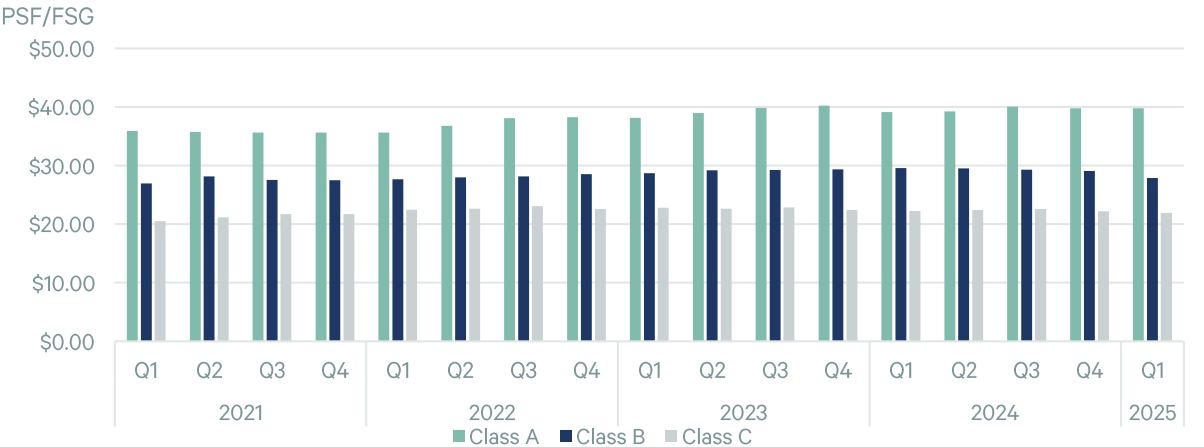
*\*CBRE recently audited and updated our Office inventory to align closer with National Research standards in Q1 2024. This resulted in the change of total SF compared to previous reports*

FIGURE 2: Overall Vacancy Rate and Lease Rate



Source: CBRE Research, Q1 2025.

FIGURE 3: Lease Rates by Class



Source: CBRE Research, Q1 2025.

## Development Activity

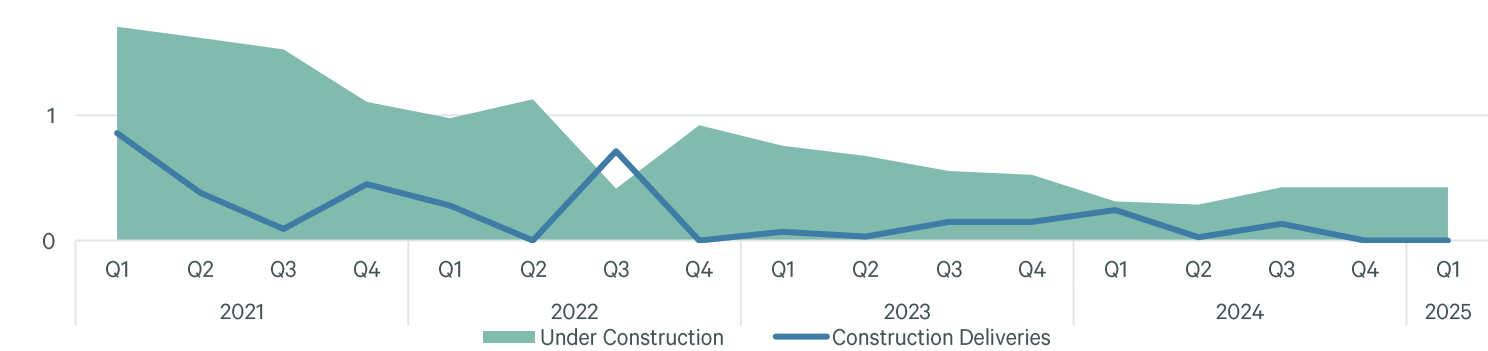
There was once again zero ground-breakings or delivered general office buildings in the fourth quarter, keeping the valley-wide under construction total at 424,747 sq. ft. There are still questions surrounding the construction of new multi-tenanted buildings, with zero construction starts over the last two quarters. However, with continuing increases in return-to-office mandates, both from government and corporate users, demand for updated, amenity-rich spaces is expected to increase in 2025.

## Outlook

The first quarter of 2025 grew the trend of positive momentum for both office leasing and sales going into 2025. After seeing tentativeness surrounding the presidential election, Phoenix saw the sale of 6 general office buildings over \$5,000,000 in the final six weeks, totaling \$92,855,000. With return-to-offices mandates growing exponentially across all users, there is continued evidence that Phoenix is trending upwards. CBRE is tracking 66 tenants in the market of 20,000 sq. ft. or more, totaling 2.7M sq. ft. of activity, 1.6M sq. ft. of which are in the proposal stage or in active lease negotiations.

Despite the drop in lease rates in Q1, Phoenix has withheld its reputation as a consistent market. Over a 3-year period, rental rates have risen on average 1.2% per year with vacancy rates only increasing 0.7% per year. The last two quarters confirms Phoenix has seen the bottom in office leasing and sales, with confidence that the volume can return to pre-pandemic level by the end of 2025.

FIGURE 6: Under Construction and Construction Deliveries  
Millions



Source: CBRE Research, Q1 2025.

FIGURE 7: Market Statistics by Submarket

	Net Rentable Area (Sq. Ft.)	Availability	Vacancy	Net Absorption (Sq. Ft.)		Under Construction (Sq. Ft.)	Construction Deliveries (Sq. Ft.)	Avg Dir Asking Lease Rate (\$PSF/FSG)
				Q1 2025	2025 YTD			
Tempe	12,257,529	24.3%	20.9%	131,355	131,355	0	0	\$36.41
Northeast Valley/Scottsdale	22,216,462	20.8%	17.0%	136,653	136,653	265,525	0	\$33.35
Southeast Valley	17,001,642	26.2%	23.3%	41,546	41,546	119,222	0	\$29.34
Central Business District	15,456,219	29.0%	25.6%	(3,996)	(3,996)	0	0	\$27.94
East Phoenix	11,988,292	30.5%	29.0%	(30,460)	(30,460)	0	0	\$25.71
Camelback/Piestewa Peak	9,962,488	23.4%	19.7%	(37,946)	(37,946)	40,000	0	\$38.61
West/Northwest Phoenix	16,538,211	24.9%	21.6%	132,308	132,308	0	0	\$24.20
Phoenix Total	105,420,843	25.3%	22.1%	369,460	369,460	424,747	0	\$30.00

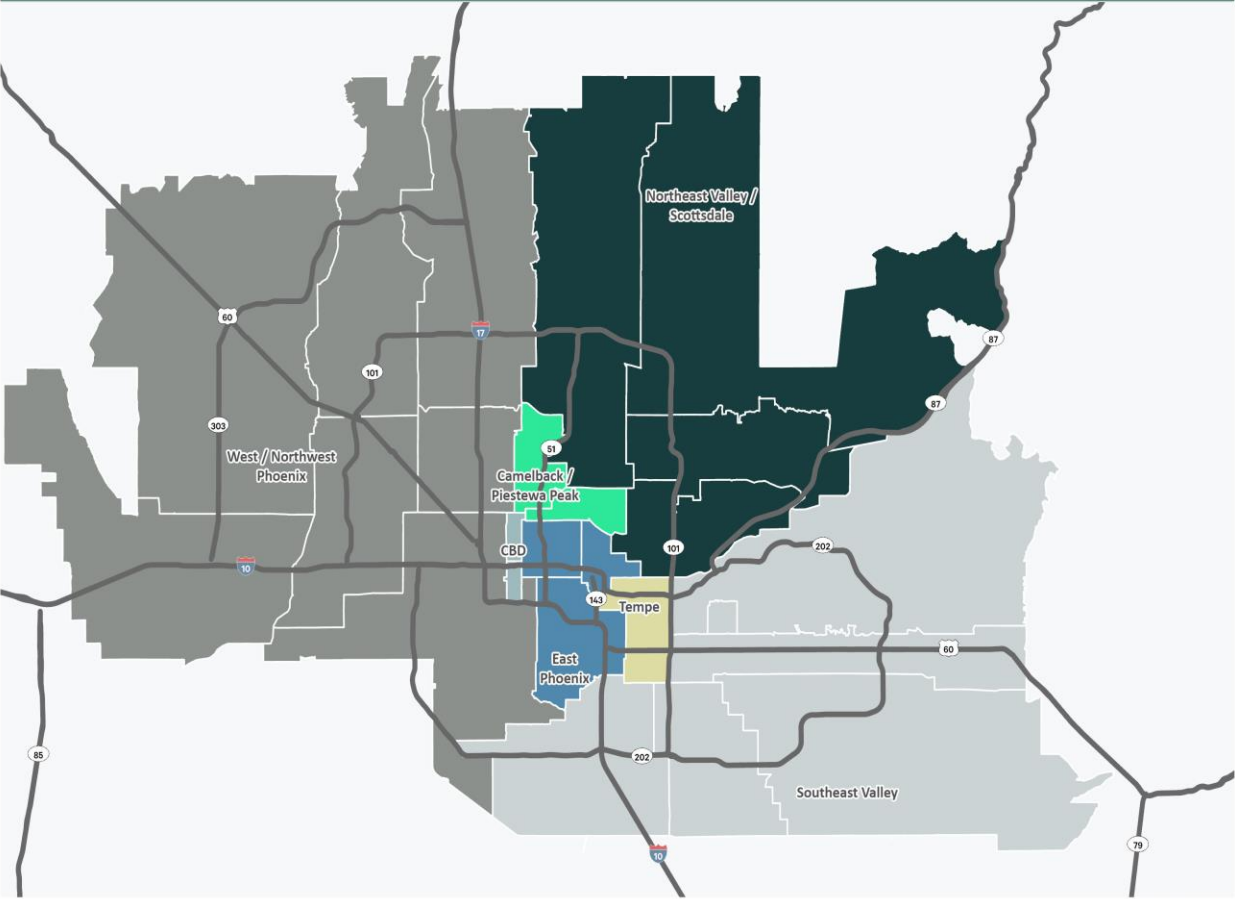
Source: CBRE Research, Q1 2025.

FIGURE 8: Market Statistics by Class

	Net Rentable Area (Sq. Ft.)	Availability	Vacancy	Net Absorption (Sq. Ft.)		Under Construction (Sq. Ft.)	Construction Deliveries (Sq. Ft.)	Avg Dir Asking Lease Rate (\$PSF/FSG)
				Q1 2025	2025 YTD			
Class A	26,053,017	26.2%	22.8%	70,285	70,285	265,525	0	\$39.80
Class B	66,203,715	26.6%	23.2%	357,127	357,127	159,222	0	\$27.87
Class C	13,164,111	16.8%	15.0%	57,952	57,952	0	0	\$21.90
Phoenix Total	105,420,843	25.3%	22.1%	485,364	485,364	424,747	0	\$30.00

Source: CBRE Research, Q1 2025.

# Phoenix Office District Map



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## 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 20,000 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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