MARKET REPORT

RETAIL 3Q/26

Phoenix Metro Area

Marcus & Millichap

2026 FORECAST

EMPLOYMENT

36,000 Jobs will be created

1.5% Increase Y-O-Y

CONSTRUCTION

2,800,000 Sq. ft. will be added

1.4% Inventory increase Y-O-Y

VACANCY

5.2% Vacancy rate

30 BPS increase Y-O-Y

RENT

$20.80 Average asking rent by year-end

3.2% Increase Y-O-Y

National Net Absorption Leader Still Sees Some Strain in Shop Space

Consumer pressures test smaller tenants. Major retailers continue to lease new supply and selectively backfill larger spaces in Phoenix, while demand for smaller formats has slowed. Vacancy at properties over 20,000 square feet fell roughly 30 basis points year-over-year to about 5 percent in June, whereas the rate at smaller buildings rose around 60 basis points to near 4 percent. This weakness likely reflects pressure on thin-margin tenants, such as fast-food and restaurant operators, that are particularly sensitive to shifts in discretionary spending. As a result, shop-space demand is expected to hinge on the strength of consumer spending, shaped partly by gasoline prices and hiring activity.

Vacancy stays historically tight. Multi- and single-tenant vacancy rates both stood more than 100 basis points below their past 10-year averages in June, despite diverging trends. Multi-tenant vacancy fell 60 basis points year-over-year to 7.1 percent but remained above the U.S. rate, as the segment has received the bulk of new supply. Yet first-half groundbreakings fell to a five-year low, which could aid backfilling once the current pipeline clears. Meanwhile, single-tenant vacancy stayed below the U.S. rate despite rising 30 basis points annually to 4.4 percent, with minimal single-tenant construction likely to limit further increases.

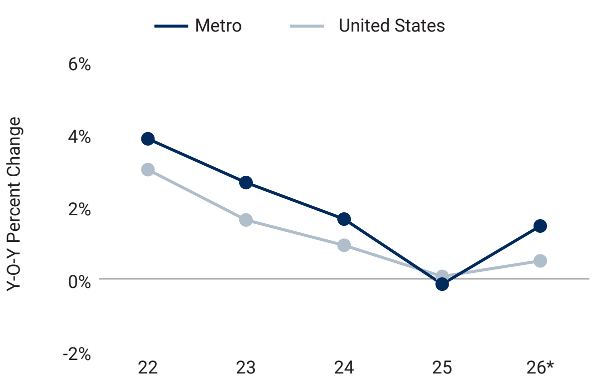
Employment

Among major markets, Phoenix ranked fourth in net hiring gains year-to-date through June, adding roughly 23,000 jobs. Health care and social assistance led the expansion with about 10,000 positions, while professional and business services contributed approximately 8,300 roles. After the metro recorded net job losses in 2025, this turnaround marks a substantial improvement and may support retail spending through year-end, particularly in the faster-growing outer suburbs of the East and West valleys.

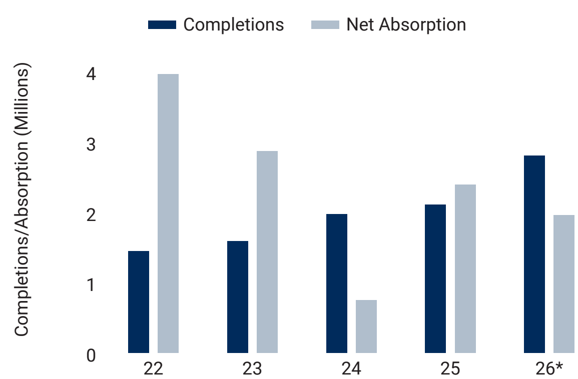
Construction

Phoenix will maintain one of the country's fastest supply growth rates in 2026, with this year's pace trailing only Austin. Yet nearly 90 percent of incoming space is committed, limiting vacancy pressure. New supply mostly consists of small pads and large power centers in outer suburbs. In Buckeye, the Verrado Marketplace and nearby Buckeye Commons projects total nearly 1 million square feet. They began opening in phases this spring and are anchored by national tenants such as Target and Home Depot.

EMPLOYMENT TRENDS



CONSTRUCTION TRENDS



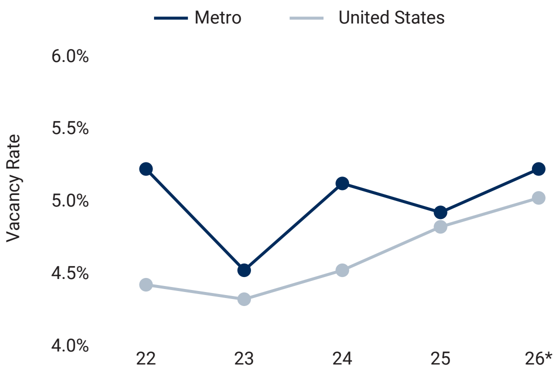
* Forecast

Sources: BLS; CoStar Group, Inc.

Vacancy

Phoenix recorded approximately 1.1 million square feet of net absorption in the first half of 2026, the highest among major markets and underscoring resilient retailer demand. Despite this strength, vacancy still increased by 20 basis points over the same span, and continued tenant turnover may lift the rate modestly through year-end. Nevertheless, year-end vacancy is projected to remain about 110 basis points below its past decade average, a margin exceeded only by Las Vegas among major metros.

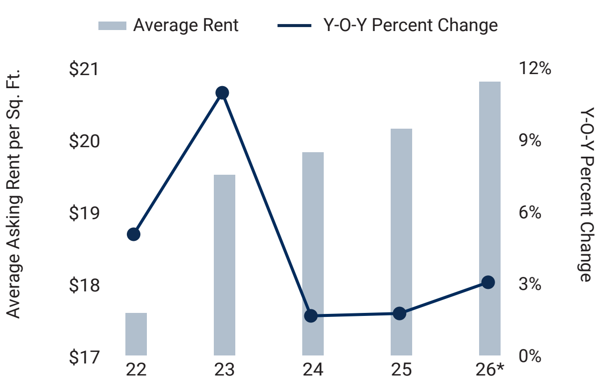
VACANCY TRENDS



Rent

Rent growth is expected to firm as vacancy remains tight relative to long-term norms. Gains should be strongest at newer properties, where post-2000 inventory has kept vacancy below 3 percent. Small retail pads within this cohort, particularly those leased to national tenants, continued to command rents near $60 per square foot in 2026. By year-end, the average asking rent will be roughly 30 percent above its 2019 level, compared with a 20 percent increase nationally, sustaining mark-to-market opportunities.

RENT TRENDS



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

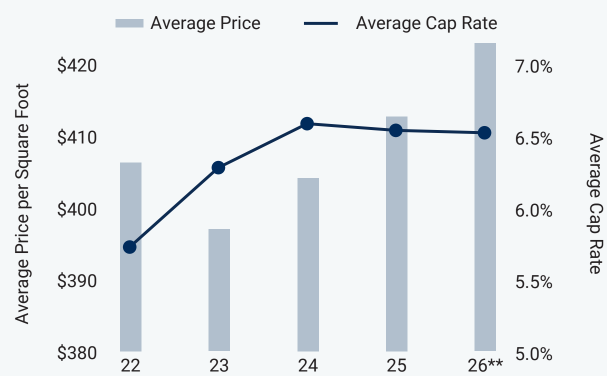
INVESTMENT HIGHLIGHTS

- After a slowdown in the first quarter of 2026, sales activity rebounded in the second quarter, led largely by private investors pursuing triple-net assets. Although trailing-12-month deal flow remains below the 2021 and 2022 peaks, activity aligns with the pre-pandemic norm, signaling continued market liquidity. With consumers facing many challenges, affluent trade areas in the East Valley and North Phoenix may attract broader investor interest. In contrast, West Valley investors focus more on newer assets along high-growth corridors.

- Investors seeking high-visibility pads and strip centers may remain active along Bell Road in Northwest Phoenix, one of the metro's busiest corridors, where traffic exceeds 60,000 vehicles per day in some sections. The submarket also has the metro's lowest vacancy rate, under 3 percent, and limited construction restricts competition. The area's sizable older population may offer a more defensive demand profile, as retirement income and accumulated wealth leave spending less tied to employment swings.

- The recent completion of additional Interstate 10 lanes between U.S. 60 and Ray Road may enhance the appeal of nearby retail assets by improving access through Chandler and the East Valley. As a key commuter route for expanding southeast suburbs, the corridor should support demand for restaurants and convenience retailers adjacent to interchanges. Greater highway capacity may also strengthen nearby employment centers, while the area's higher-income households provide an established base of local spending.

SALES TRENDS



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