

MARKET TRENDS | PHOENIX

# OFFICE

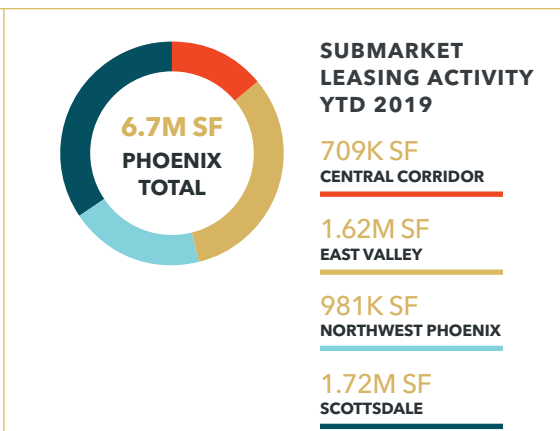
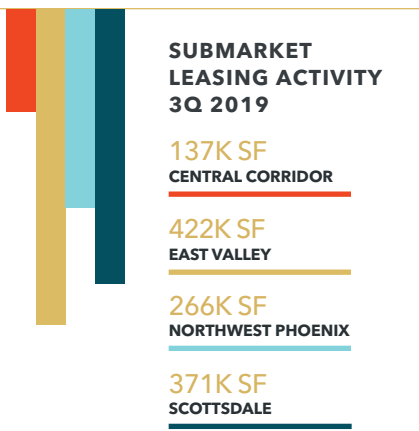
3RD QUARTER  
2019

- ▲ ABSORPTION
- ◀▶ VACANCY
- ▲ RENTAL RATE
- ▲ CONSTRUCTION DELIVERIES

By any measure, the Phoenix office market is thriving and performing at the highest levels, with record breaking stats across the board at the end of the third quarter. Asking rental rates held firm from second quarter's post-recession record high, which had marked the 30th consecutive quarter of positive rent growth.

The overall county's vacancy rate hit a record low in the third quarter, which subsequently led to occupancy rates hitting a record high at levels the market hasn't experienced in over 10 years. Availability rates have not wavered much in the past few quarters and hold steady at nearly the post-recession record low. Both leasing and sales activity were strong in the third quarter and development activity has ramped up in the past few years, projecting to reach a post-recession record high in deliveries by the end of this year. With such solid fundamentals, Phoenix continues to attract the attention of office investors and users alike, as strong growth in office-using employment continues to drive the demand for office space. Population growth, a large and growing talented labor pool, diverse economy, and an attractive cost of living and doing business have helped to strengthen the value of the metro. Overall employment growth remains positive, as the Phoenix unemployment rate currently stands at 4.3% as of July, now 600 basis points lower than the peak high of 10.3% in November 2009. Over the past four quarters, the Phoenix metro added over 64,000 jobs as well as maintained its position as one of the top markets in the country for job growth over the last several years.

The third quarter office vacancy level reached a new post-recession record low of 13.1%, down 20 basis points from second quarter and also below this time last year which posted at 13.4%. Vacancies are currently at the cyclical low and the market hasn't experienced this since 2007 when it posted at 13.5%. Submarket clusters with the least vacant space include West Phoenix at 8.5%, followed by East Valley at 10.6%. Submarkets in Phoenix with the highest vacancy rates include the Central Corridor at 16.2% and North Phoenix which posted a vacancy rate of 17.4%. There was a total of approximately 946,000 s.f. absorbed in the third quarter, an increase from last quarter and slightly below this time last year. The net absorption was mostly concentrated in the East Valley, Central Corridor, and Scottsdale submarket clusters, averaging about 237,000 s.f. in each region. A factor contributing to the recent vacancy



**3Q 2019 MARKET HIGHLIGHTS**

**RENTAL RATES** continue to climb at a record high of \$26.52 psf FS

**VACANCY** hit a post-recession record low at 13.1%

**CONSTRUCTION** activity is ramping up, projecting to reach a new high of 3.7M s.f. to deliver by year's end

compression and robust rent growth has been a relative lack of new spec supply in the development pipeline. While deliveries have remained below the historical average, speculative construction is starting to ramp up in Phoenix. The increase in development is welcomed and will result in some much-needed relief, as demand has consistently outpaced new supply. Approximately 2.4 million s.f. of new construction has been delivered this year thus far, with another 1.5 million s.f. to be completed by year end totaling 3.7M s.f., which would mark this a post-recession record high.

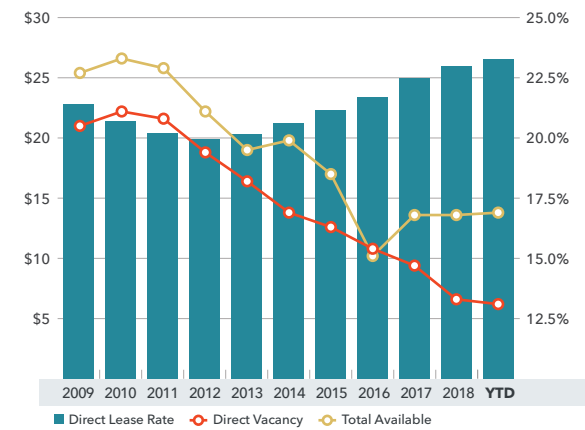
Steady vacancy compression has led to one of the country's healthiest rent gains over the last several years. Average asking rental rates for office properties county wide held steadfast at the post-recession record high from second quarter at \$26.52 psf on a full-service basis, which was the 30th consecutive quarter of increasing rental rates. Class A space in the third quarter stayed firm at the all-time high of \$31.20, while Class B rates surpassed the previous quarter's record high of \$24.00 to \$24.24 psf. Direct asking rates in the Camelback Corridor were the highest, averaging \$32.76 psf. By contrast, the N Phoenix/Cave Creek submarket had the lowest rates, reporting an average asking rent of \$16.44 psf. Despite consistent rent appreciation, Phoenix maintains its position as an affordable office market. The relative affordability of Phoenix could continue to attract tenants looking to set up or expand operations in the western part of the US without paying the premium rents in coastal markets.

In terms of sales, investors are increasingly gaining confidence in the Phoenix office market. Strong growth in office-using employment, steady increasing rent trends and a rising local economy have played a large part for institutional investors to buy into the market. Transaction volume has ticked up this quarter posting at 3 million s.f., an increase when compared to the last two quarters, which averaged a little over 2 million s.f. each quarter. The average sale price for Phoenix office assets was again another record high in the market, with the exception of one other quarter in 2017, at \$206 psf. A notable transaction that took place in the third quarter was the sale of Waypoint Campus, acquired by Innovatus Capital Partners in August. Totalling four buildings and almost half a million s.f., the project is the highest-priced office sale of the year.

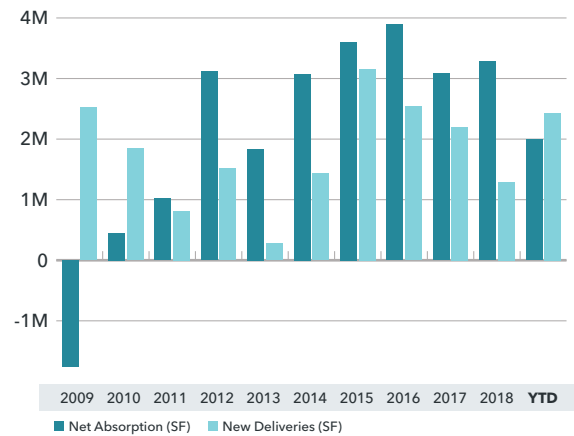
## Market Breakdown

	3Q 2019	2Q 2018	3Q 2018	Annual % Change
Vacancy Rate	13.1%	13.3%	13.4%	-2.24%
Availability Rate	16.9%	16.6%	16.5%	2.42%
Asking Lease Rate	\$26.52	\$26.52	\$25.68	3.27%
Leased SF	1,586,928	2,632,722	3,531,996	-55.07%
Sold SF	3,090,000	2,322,018	3,501,121	-11.74%
Net Absorption	936,078	404,509	1,008,631	N/A

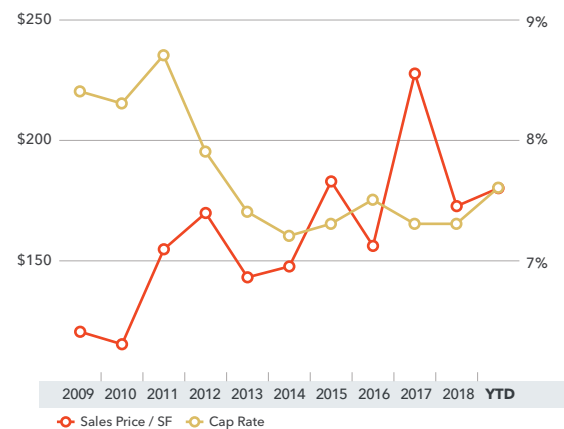
### LEASE RATE, VACANCY & AVAILABILITY



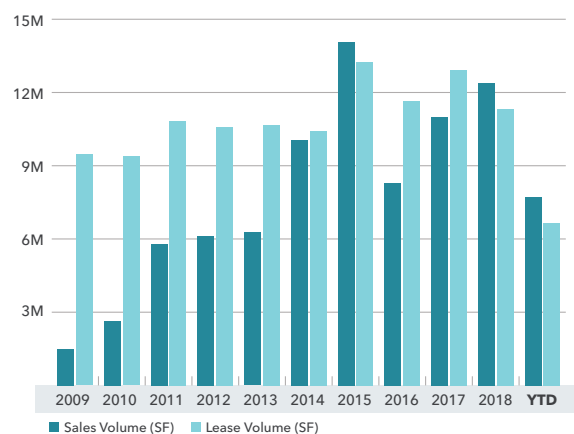
### NET ABSORPTION & NEW DELIVERIES



### AVERAGE SALE PRICE & CAP RATES

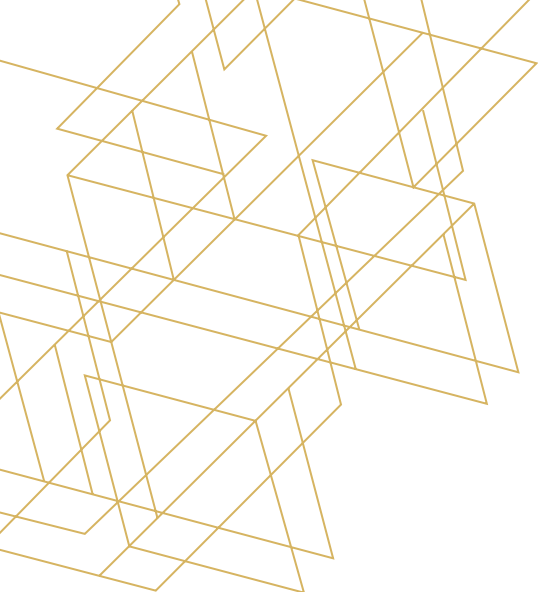


### SALES VOLUME VS. LEASE VOLUME



**PHOENIX SUBMARKET STATISTICS**

Submarket	Total Inventory	Total Vacancy Rate	Total Available Rate	3Q Direct Net Absorption	YTD Direct Net Absorption	SF Under Construction	YTD Construction Completions	3Q Leasing Activity	YTD Leasing Activity	Rental Rate
Airport Area	9,722,688	16.2%	18.8%	87,692	199,044	0	0	124,590	263,306	\$22.68
South Tempe/Ahwatukee	7,110,082	12.9%	18.1%	(62,512)	142,889	117,394	172,076	77,211	349,673	\$24.96
<b>Airport</b>	<b>16,832,770</b>	<b>14.8%</b>	<b>18.5%</b>	<b>25,180</b>	<b>341,933</b>	<b>117,394</b>	<b>172,076</b>	<b>201,801</b>	<b>612,979</b>	<b>\$23.64</b>
Downtown	10,158,607	13.8%	18.3%	(15,096)	(150,002)	507,399	0	84,507	344,692	\$32.16
Midtown	12,101,794	18.2%	21.8%	244,658	347,983	0	144,300	52,669	363,858	\$24.36
<b>Central Corridor</b>	<b>22,260,401</b>	<b>16.2%</b>	<b>20.2%</b>	<b>229,562</b>	<b>197,981</b>	<b>507,399</b>	<b>144,300</b>	<b>137,176</b>	<b>708,550</b>	<b>\$27.36</b>
44th Street Corridor	3,824,730	11.8%	17.1%	8,823	9,041	0	22,661	11,712	56,702	\$26.76
Camelback Corridor	9,119,236	16.6%	20.6%	23,061	(1,447)	65,000	0	85,323	418,562	\$32.76
Midtown/Central Phoenix	4,847,856	8.1%	10.7%	41,682	2,447	0	0	9,391	84,466	\$21.48
<b>East Phoenix</b>	<b>17,791,822</b>	<b>13.3%</b>	<b>17.2%</b>	<b>73,566</b>	<b>10,041</b>	<b>65,000</b>	<b>22,661</b>	<b>106,426</b>	<b>559,730</b>	<b>\$29.76</b>
Chandler	10,549,775	17.2%	17.0%	82,163	515,861	169,826	977,767	251,900	751,658	\$26.52
Gateway Airport/Loop 202	1,512,701	9.8%	20.9%	102,079	94,113	95,000	129,600	20,507	137,325	\$28.56
Mesa Downtown	926,929	8.4%	6.9%	(13,988)	(43,174)	0	0	41,760	48,017	\$18.96
Mesa East	2,021,805	6.6%	7.6%	(4,007)	5,325	0	0	3,976	22,204	\$18.60
Superstition Corridor	4,830,312	7.7%	12.5%	(1,521)	105,900	0	0	50,630	249,439	\$21.48
Tempe	15,052,349	7.6%	15.8%	55,324	428,688	833,693	559,295	52,760	416,350	\$32.04
<b>East Valley</b>	<b>34,893,871</b>	<b>10.6%</b>	<b>15.2%</b>	<b>220,050</b>	<b>1,106,713</b>	<b>1,098,519</b>	<b>1,666,662</b>	<b>421,533</b>	<b>1,624,993</b>	<b>\$27.96</b>
N Phoenix/Cave Creek	81,281	3.7%	5.9%	0	2,400	0	0	0	2,400	\$16.44
Paradise Valley	3,705,669	11.1%	15.6%	69,580	76,575	0	0	64,308	178,626	\$25.32
Piestewa Peak Corridor	2,937,635	15.3%	20.0%	(8,784)	14,585	0	0	48,829	122,231	\$24.24
<b>North Phoenix</b>	<b>6,724,585</b>	<b>12.8%</b>	<b>17.4%</b>	<b>60,796</b>	<b>93,560</b>	<b>0</b>	<b>0</b>	<b>113,137</b>	<b>303,257</b>	<b>\$24.72</b>
Arrowhead	2,937,862	13.7%	16.3%	(19,896)	(9,081)	35,794	22,700	33,700	154,345	\$26.64
Deer Valley/Airport	11,159,363	10.9%	16.1%	30,754	24	150,000	0	66,592	242,556	\$24.72
North I-17	510,640	17.0%	22.7%	4,190	14,106	0	0	0	11,714	\$25.32
Northwest Phoenix	8,639,378	22.6%	27.1%	14,726	(94,265)	0	0	165,803	572,733	\$19.44
<b>Northwest Phoenix</b>	<b>23,247,243</b>	<b>15.8%</b>	<b>20.4%</b>	<b>29,774</b>	<b>(89,216)</b>	<b>185,794</b>	<b>22,700</b>	<b>266,095</b>	<b>981,348</b>	<b>\$22.08</b>
<b>Pinal County</b>	<b>816,637</b>	<b>7.8%</b>	<b>7.9%</b>	<b>7,597</b>	<b>4,728</b>	<b>0</b>	<b>0</b>	<b>750</b>	<b>2,750</b>	<b>\$20.04</b>
Central Scottsdale	7,609,903	12.2%	15.2%	(22,158)	30,416	0	21,657	117,194	515,692	\$27.60
N Scottsdale/Carefree	1,080,339	15.9%	21.9%	14,415	41,237	24,000	0	7,736	20,967	\$24.48
Scottsdale Airpark	12,426,892	12.1%	16.5%	136,623	(181,761)	80,568	0	160,432	647,711	\$29.76
Scottsdale South	5,933,190	12.2%	13.8%	132,958	300,707	65,000	274,338	85,161	539,204	\$31.32
<b>Scottsdale</b>	<b>27,050,324</b>	<b>12.3%</b>	<b>15.8%</b>	<b>261,838</b>	<b>190,599</b>	<b>169,568</b>	<b>295,995</b>	<b>370,523</b>	<b>1,723,574</b>	<b>\$29.28</b>
Glendale	2,905,344	12.9%	11.4%	7,724	32,873	195,000	64,152	14,900	35,926	\$26.76
Loop 303/Surprise	1,933,435	9.1%	11.9%	(21,703)	(5,701)	86,000	0	5,550	13,728	\$25.80
Southwest Phoenix	4,346,420	5.5%	5.6%	4,500	22,844	0	0	0	16,581	\$26.76
West I-10	2,081,872	8.2%	7.0%	46,767	88,855	0	45,000	10,457	74,603	\$25.68
<b>West Phoenix</b>	<b>11,267,071</b>	<b>8.5%</b>	<b>8.4%</b>	<b>37,288</b>	<b>138,871</b>	<b>281,000</b>	<b>109,152</b>	<b>30,907</b>	<b>140,838</b>	<b>\$26.28</b>
Class A	53,412,788	14.0%	18.9%	641,653	1,053,742	1,737,006	1,745,844	580,776	2,919,743	\$31.20
Class B	91,789,404	13.7%	17.2%	224,088	799,775	727,668	687,702	998,482	3,471,438	\$24.24
Class C	15,655,612	6.4%	8.2%	79,910	141,693	0	0	69,090	266,838	\$19.68
<b>Phoenix Total</b>	<b>160,884,724</b>	<b>13.1%</b>	<b>16.9%</b>	<b>945,651</b>	<b>1,995,210</b>	<b>2,424,674</b>	<b>2,433,546</b>	<b>1,648,348</b>	<b>6,658,019</b>	<b>\$26.52</b>



## Notable Sale Transactions

**INNOVATUS CAPITAL PARTNERS** Waypoint Campus, Tempe  
426,951 s.f. | \$107.65M or \$252/s.f.

**SCANLANKEMPERBARD COMPANIES** 101 & 251 N 1st Ave, Downtown  
520,514 s.f. | \$92.75M or \$178/s.f.

**NGP MANAGEMENT, LLC** 21711 N 7th St, Deer Valley/Airport  
210,202 s.f. | \$92.3M or \$439/s.f.

## Notable Lease Transactions

**WAGeworks** NEC Riverview Auto Dr, Tempe  
150,000 s.f. leased

**DELOITTE** 300 E Rivulon, Chandler  
97,248 s.f. leased

**COX COMMUNICATIONS** 950 W Behrend Dr, Deer Valley/Airport  
31,016 s.f. leased



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The information in this report was composed by the Kidder Mathews Research Group.

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### COMMERCIAL BROKERAGE

<b>20M</b>	<b>ANNUAL SALES SF</b>	<b>420+</b>	<b>NO. OF BROKERS</b>
<b>\$9B</b>	<b>ANNUAL TRANSACTION VOLUME</b>	<b>40M</b>	<b>ANNUAL LEASING SF</b>

### VALUATION ADVISORY

<b>1,600+</b>	<b>APPRAISALS ANNUALLY</b>	<b>39/24</b>	<b>TOTAL NO. APPRAISERS/MAI'S</b>
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### PROPERTY MANAGEMENT

<b>70M+</b>	<b>MANAGEMENT PORTFOLIO SF</b>
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