

MARKET TRENDS | PHOENIX

OFFICE

MARKET DRIVERS

LEASING ACTIVITY slowed substantially since the start of the pandemic and the market continued to experience a weakened demand in the first quarter, down 33% from the same time last year. Sublease availability more than doubled year-over-year, as it reached an all-time high of approximately 4.1M SF, the most amount of sublet space on the market in over 15 years.

WHILE MANY OFFICE TENANTS are slowly learning to navigate some of the initial challenges that they faced due to the tumultuous effects of COVID-19, they continue to have to reevaluate their space needs as the office culture will inevitably evolve. Employees will continue to work from home, possibly return to the office, or a hybrid of both, which will affect the future size requirements for employers.

AVERAGE ASKING RENTAL RATES remain at record high prices, despite the slowdown experienced in the market. However, rental rates in the Phoenix office market are more affordable than most large metros and as such, the market will benefit from those businesses leaving or expanding outside of nearby expensive metros.

ECONOMIC OVERVIEW

PHOENIX LOST FEWER JOBS (on a percentage basis) than any other large metropolitan area and maintains its place among the best-performing markets for job growth. A recent study by EMSI placed the Phoenix Metro as the top ranked county in the nation based on the ability to attract and retain quality workers and other economic-development factors.

PHOENIX METRO'S UNEMPLOYMENT RATE in January increased 1 basis point month-over-month to 6.7%, according to the Arizona Labor of Statistics Office of Economic Opportunity. This is compared to the state's rate of 7%. Phoenix lost about 240,000 jobs in the start of the pandemic, but the sharp job losses were temporary with about 60% of those job losses recovered.

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Market Summary

	1Q 2021	4Q 2020	1Q 2020	Annual Change
Vacancy Rate	14.9%	13.6%	13.0%	14.62%
Availability Rate	19.5%	18.2%	15.4%	26.62%
Asking Lease Rate	\$27.84	\$27.72	\$27.36	1.75%
Lease Transactions	1,772,095	1,696,805	2,644,627	-32.99%
Sale Transactions	1,241,197	1,941,784	1,523,168	-18.51%
Direct Net Absorption	-465,781	-311,533	-84,008	N/A

▼ 1.77M
LEASING ACTIVITY
▼ -466K
NET ABSORPTION (SF)
▲ 14.9%
VACANCY RATE
▲ \$27.84
AVERAGE ASKING RENT
▲ 1.41M
NEW DELIVERIES (SF)
YEAR-OVER-YEAR CHANGE

Market Highlights

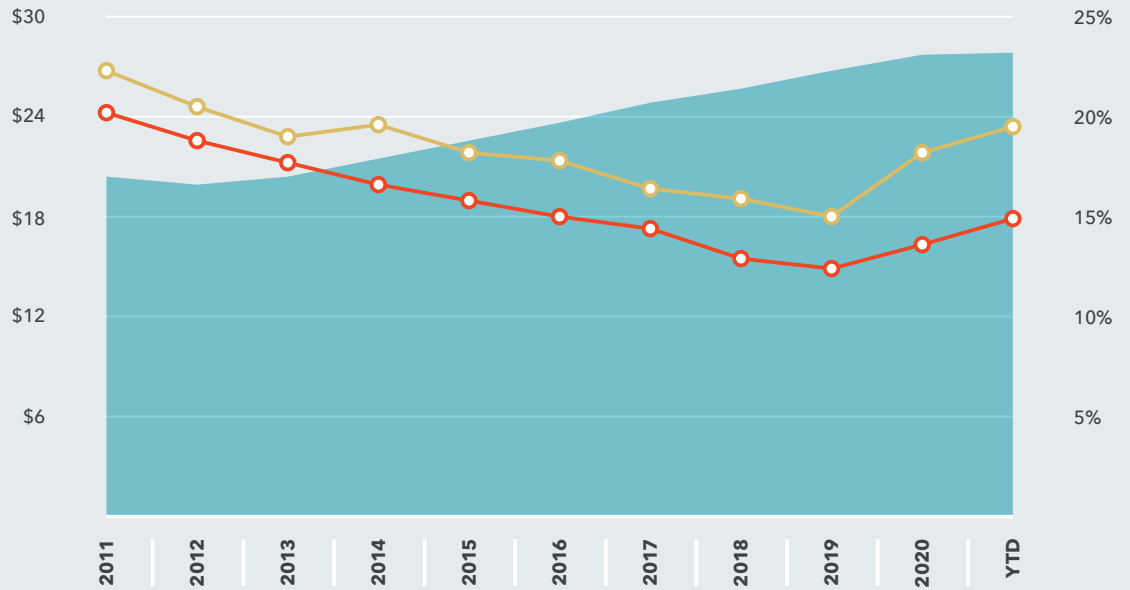
RENTAL RATES posted a record high of \$27.48 PSF on a full-service basis.

SUBLEASE AVAILABILITY reached an all-time high of approximately 4.1M SF

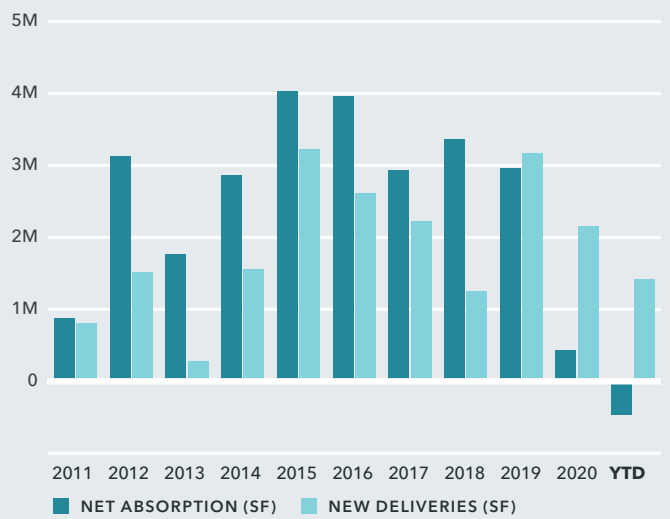
NEW DELIVERIES posted at 1.4M SF, a post-recession record high

Lease Rate, Vacancy & Availability

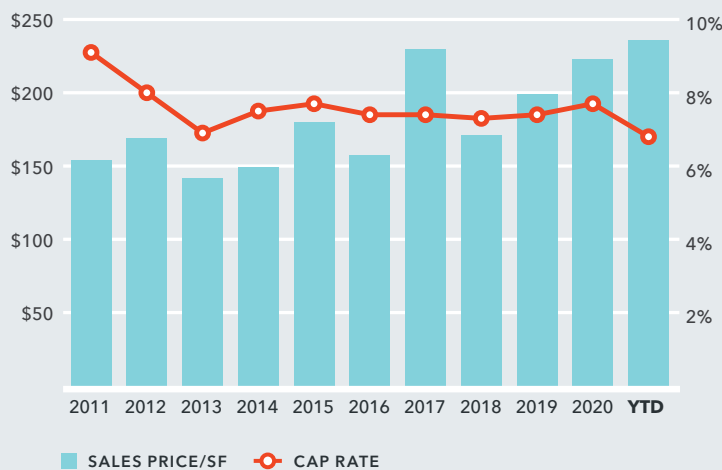
- LEASE RATE (FS)
- TOTAL VACANCY
- TOTAL AVAILABILITY



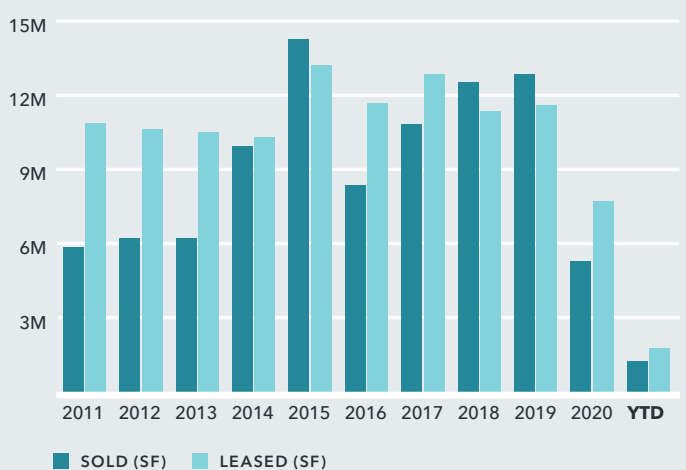
Net Absorption & New Deliveries



Average Sales Price/SF & Cap Rate



Sale Volume & Lease Volume



SUBMARKET STATISTICS

Submarket	Total Inventory	Total Vacancy Rate	Sublease Available Rate	Total Available Rate	1Q Direct Net Absorption	2020 Direct Net Absorption	SF Under Construction	YTD Construction Completions	1Q Leasing Activity	2020 Leasing Activity	Avg Direct Rental Rate (FS)
Airport Area	9,851,500	13.8%	5.8%	23.8%	41,616	107,994	0	0	35,419	458,487	\$20.40
South Tempe/Ahwatukee	7,375,928	16.1%	3.1%	18.4%	(25,700)	25,956	0	0	45,182	254,607	\$24.84
Airport	17,227,428	14.8%	4.6%	21.5%	15,916	133,950	0	0	80,601	713,094	\$24.00
Downtown	11,041,040	15.2%	1.5%	23.8%	(30,066)	(91,307)	0	227,113	281,989	197,961	\$31.44
Midtown	12,245,408	20.5%	2.0%	23.8%	(34,237)	(107,078)	0	0	88,526	396,416	\$24.12
Central Corridor	23,286,448	18.0%	1.8%	23.8%	(64,303)	(198,385)	0	227,113	370,515	594,377	\$27.36
44th Street Corridor	3,887,106	14.5%	4.0%	19.4%	12,643	(128,671)	0	0	25,216	117,538	\$27.00
Camelback Corridor	9,059,632	20.0%	2.1%	27.4%	(151,485)	(89,141)	263,766	0	81,186	410,846	\$33.84
Midtown/Central Phoenix	4,746,922	8.5%	1.4%	9.5%	(23,142)	31,801	0	0	46,166	89,819	\$22.56
East Phoenix	17,693,660	15.7%	2.3%	20.8%	(161,984)	(186,011)	263,766	0	152,568	618,203	\$31.68
Chandler	11,377,767	12.3%	0.9%	15.8%	61,761	456,629	365,000	120,000	123,142	433,480	\$30.84
Gateway Airport/Loop 202	1,698,677	12.5%	0.5%	14.3%	37,346	(465)	22,500	26,000	64,228	110,875	\$30.36
Mesa Downtown	999,426	10.0%	0.0%	10.3%	7,524	(13,159)	0	0	11,166	22,150	\$21.72
Mesa East	3,231,930	9.1%	5.8%	14.2%	128,905	(19,243)	0	240,000	2,654	70,456	\$32.16
Superstition Corridor	5,312,841	14.7%	0.5%	16.3%	(95,993)	(156,294)	0	22,040	65,247	188,124	\$23.28
Tempe	14,959,129	11.4%	3.5%	17.1%	(36,541)	416,738	380,125	0	206,546	473,766	\$32.16
East Valley	37,579,770	11.9%	2.2%	16.0%	103,002	684,206	767,625	408,040	472,983	1,298,851	\$30.24
N Phoenix/Cave Creek	97,111	5.8%	0.0%	7.6%	0	(5,660)	0	0	0	0	\$21.96
Paradise Valley	4,038,736	12.3%	1.8%	15.1%	(27,614)	220,930	0	0	43,179	178,053	\$27.96
Piestewa Peak Corridor	2,930,017	14.9%	0.5%	16.2%	37,082	(63,392)	0	0	52,775	142,655	\$24.24
North Phoenix	7,065,864	13.3%	1.2%	15.5%	9,468	151,878	0	0	95,954	320,708	\$26.28
Arrowhead	2,947,011	13.0%	0.3%	13.5%	(14,441)	75,388	128,000	0	55,462	133,855	\$26.16
Deer Valley/Airport	13,496,508	15.8%	3.2%	19.1%	135,232	(464,931)	0	144,000	18,925	172,205	\$25.68
North I-17	498,015	16.1%	0.4%	22.1%	17,070	(6,875)	0	0	0	17,579	\$24.24
Northwest Phoenix	8,914,414	21.5%	0.4%	24.4%	(178,658)	6,573	0	0	70,067	383,860	\$20.40
Northwest Phoenix	25,855,948	17.4%	1.8%	20.4%	(40,797)	(389,845)	128,000	144,000	144,454	707,499	\$23.28
Pinal County	789,571	4.1%	0.0%	8.9%	24,730	5,487	0	0	0	49,085	0
Pinal County	789,571	4.1%	0.0%	8.9%	24,730	5,487	0	0	0	49,085	0
Central Scottsdale	7,735,590	16.2%	2.7%	21.5%	(314,765)	(99,134)	100,000	0	105,845	386,601	\$27.84
N Scottsdale/Carefree	1,071,339	16.3%	1.2%	20.6%	4,301	(10,992)	0	0	2,401	25,316	\$26.28
Scottsdale Airpark	13,111,952	18.3%	3.9%	23.4%	135,865	(117,809)	150,000	635,111	212,549	549,790	\$30.12
Scottsdale South	6,328,197	15.2%	3.5%	25.3%	(153,373)	(25,093)	244,998	0	74,911	458,594	\$32.40
Scottsdale	28,247,078	17.0%	3.4%	23.2%	(327,972)	(253,028)	494,998	635,111	395,706	1,420,301	\$30.60
Glendale	2,889,577	11.5%	1.5%	11.5%	(29,457)	160,574	0	0	26,175	113,936	\$26.16
Loop 303/Surprise	2,002,610	7.7%	0.0%	8.9%	25,478	37,281	0	0	18,159	90,119	\$27.60
Southwest Phoenix	4,488,609	4.3%	0.0%	4.7%	(10,448)	34,628	0	0	0	28,864	\$27.36
West I-10	2,006,397	9.4%	0.7%	12.4%	(9,414)	87,342	20,000	0	16,980	71,671	\$27.36
West Phoenix	11,387,193	7.6%	0.5%	8.5%	(23,841)	319,825	20,000	0	61,314	304,590	\$27.60
Phoenix Totals	169,132,960	14.9%	2.4%	19.5%	(465,781)	268,077	1,674,389	1,414,264	1,774,095	6,026,708	\$27.84
Class A	58,349,068	16.9%	3.5%	24.1%	89,728	973,931	1,338,889	1,366,224	665,190	2,126,469	\$32.40
Class B	95,957,880	14.8%	2.0%	18.5%	(445,701)	(589,205)	335,500	48,040	875,301	3,583,006	\$24.96
Class C	14,781,973	7.3%	0.1%	7.3%	(109,808)	(130,645)	0	0	102,119	317,233	\$19.68

NEAR-TERM OUTLOOK

THE WIDE DISTRIBUTION of vaccines and the remaining COVID-19 restrictions being lifted statewide has created some optimism in the market, as the road to an eventual economic recovery becomes more of a realistic possibility in the long term.

DEMAND FOR LARGER blocks of space may decline as companies continue to evaluate their space needs and reduce their office footprint while many employees continue to work from home.

AN INCREASE in vacancies and availabilities will add rent pressures over the next coming quarters. Sublease availabilities will also put pressure on rents since these spaces are offered at a discounted rate when compared to direct marketed space.

TOP SALE TRANSACTIONS FOR 1Q 2021

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
Petsmart Corporate HQ	Deer Valley/Airport	365,672	\$110,000,000	\$300.82	BPM Real Estate Group	VEREIT, Inc.
Anchor Centre	Camelback Corridor	333,284	\$103,500,000	\$310.55	TerraCap Management, LLC	KBS Reit III, Inc.
Raintree Corporate Center I	Scottsdale Airpark	149,424	\$34,000,000	\$227.54	Held Properties	ViaWest Group
Koll Cotton Center	Central Scottsdale	140,756	\$43,500,000	\$309.05	Ascent Real Estate Advisors	Principal Financial Group, Inc.
Ortho Arizona	Gateway Airport/Loop 202	49,318	\$23,646,000	\$479.46	Flagler Investment Holdings, LLC	OrthoArizona

TOP LEASE TRANSACTIONS FOR 1Q 2021

Property	Submarket	SF	Transaction Date	Landlord	Tenant
CityScape	Downtown	97,064	February 2021	City of Phoenix	Alliance Bank of Arizona
Papago Buttes Corporate Plaza	Tempe	72,715	March 2021	Principal Financial Group, Inc.	Union Bank
CityScape	Downtown	67,746	February 2021	City of Phoenix	Undisclosed
The Park at SanTan	Chandler	44,439	January 2021	DPC Development Companies	Pearson
Scottsdale Quarter	Scottsdale Airpark	42,521	February 2021	O'Connor Capital Partners	Undisclosed

TOP UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery Date
One Hundred Mill	100 S Mill Ave	Tempe	287,000	Cousins Properties, Inc.	October 2021
Scottsdale Entrada	6400 E McDowell Rd	Scottsdale South	244,998	Banyan Residential	November 2021
The Grove	4300 E Camelback Rd	Camelback Corridor	181,494	RED Development, LLC	September 2022
Allred Park Place Central - Bldg 8	1375 S Price Rd	Chandler	150,000	Douglas Allred Company	October 2021
Allred Park Place Central - Bldg 8	1475 S Price Rd	Chandler	150,000	Douglas Allred Company	September 2021

DATA SOURCE: COSTAR

Kidder Mathews is the largest, independent commercial real estate firm on the West Coast, with 900 real estate professionals and staff in 21 offices in Washington, Oregon, California, Nevada, and Arizona. We offer a complete range of brokerage, appraisal, property management, consulting, project and construction management, and debt equity finance services for all property types.

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

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**Commercial
Brokerage**

\$8B
TRANSACTION
VOLUME (ANNUAL)

23M
SALES SF
(ANNUAL)

42M
LEASING SF
(ANNUAL)

**Valuation
Advisory**

1,800+
ASSIGNMENTS
ANNUALLY

40/19
TOTAL NO.
APPRAISERS/MAI'S

**Property
Management**

70M+
MANAGEMENT
PORTFOLIO SF

\$12B+
IN ASSETS UNDER
MANAGEMENT

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