

MARKET TRENDS | PHOENIX

OFFICE

MARKET DRIVERS

LEASING VOLUME PICKED UP since last quarter and increased YOY as well, although the market continued to experience a weakened demand in the second quarter when compared to pre-pandemic activity. Sublease availability nearly doubled year-over-year, reaching an all-time high of approximately 4.5M SF, a number the market has never experienced.

ALTHOUGH THE CONSTRUCTION PIPELINE has delivered a record high volume year-to-date, the Phoenix office market can benefit from the slower pace of construction of the past couple years which will reduce the risk of significantly higher vacancies. However, the new supply coming online will still outpace the slow demand in the next year.

INVESTORS HAVE SOUGHT OUT SINGLE TENANT PROPERTIES net leased by strong credit tenants, as well as medical offices that offer stability and safety among the uncertainty surround the current climate.

ECONOMIC OVERVIEW

PHOENIX METRO'S UNEMPLOYMENT RATE in May decreased 39 basis point year-over-year to 6.2%, according to the Arizona Office of Economic Opportunity. This is compared to the state's rate of 6.7%.

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. The sharp drop in employment was temporary, and the Phoenix economy has recovered at a relatively swift pace, gaining back approximately 75% of the lost jobs from the previous year.

Market Summary

	2Q 2021	1Q 2021	2Q 2020	Annual Change
Vacancy Rate	15.3%	14.9%	13.1%	16.51%
Availability Rate	19.9%	18.9%	16.5%	20.81%
Asking Lease Rate	\$28.08	\$27.84	\$27.72	1.30%
Lease Transactions	1,906,365	1,895,926	1,426,012	33.69%
Sale Transactions	2,596,007	1,621,175	1,056,177	145.79%
Direct Net Absorption	212,134	-461,965	781,480	N/A

▲ 1.9M
LEASING ACTIVITY
▲ 212K
NET ABSORPTION (SF)
▲ 15.3%
VACANCY RATE
▲ \$28.08
AVERAGE ASKING RENT
▼ 278.59K
NEW DELIVERIES (SF)
YEAR-OVER-YEAR CHANGE

Market Highlights

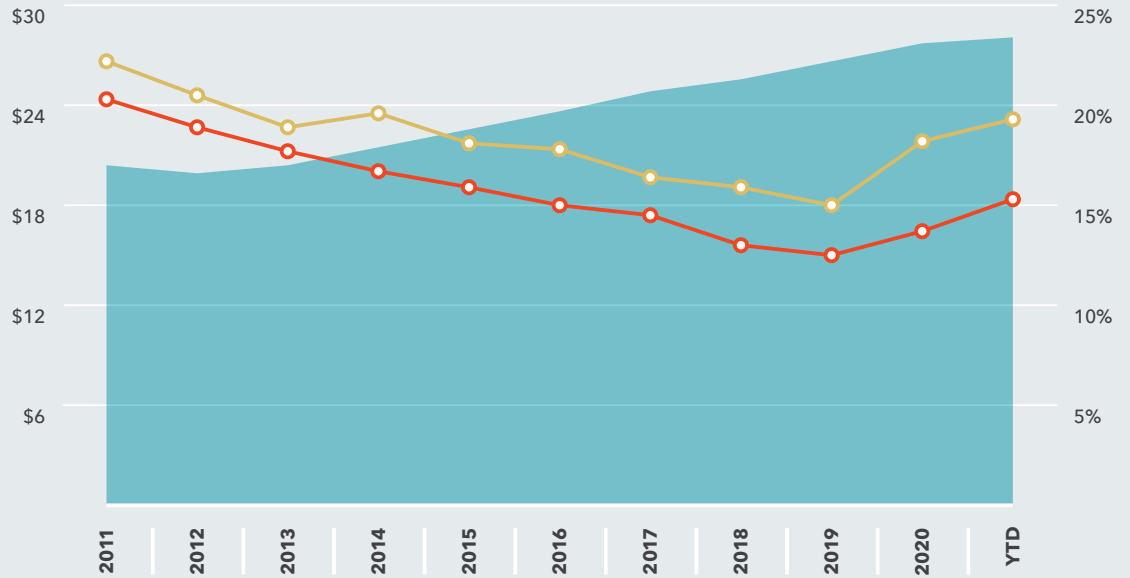
SUBLEASE AVAILABILITY continued to climb to a record high of 4.5M SF

RENTAL RATES reached a record high of \$28.08 PSF on a full-service basis.

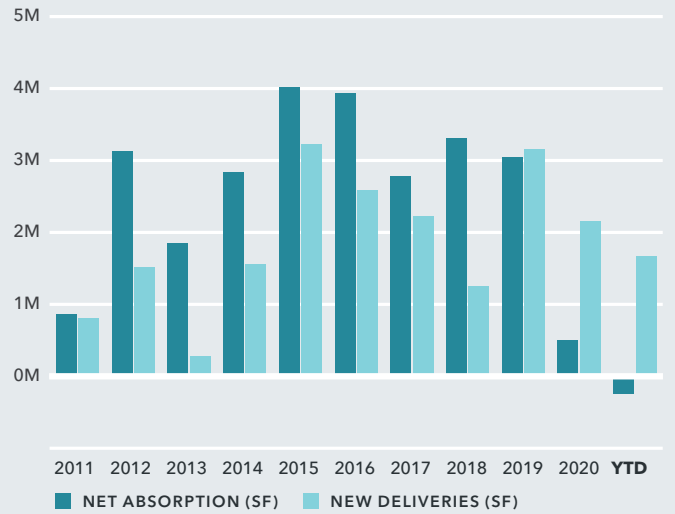
SALE TRANSACTION volume more than doubled YOY to 2.6M SF

Lease Rate, Vacancy & Availability

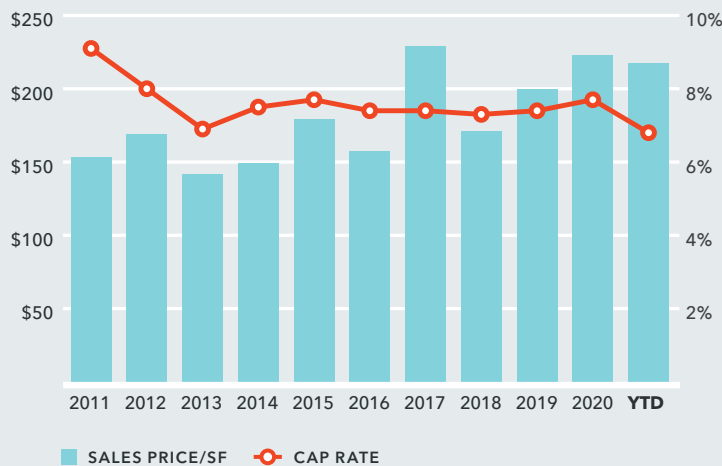
- LEASE RATE (FS)
- TOTAL VACANCY
- TOTAL AVAILABILITY



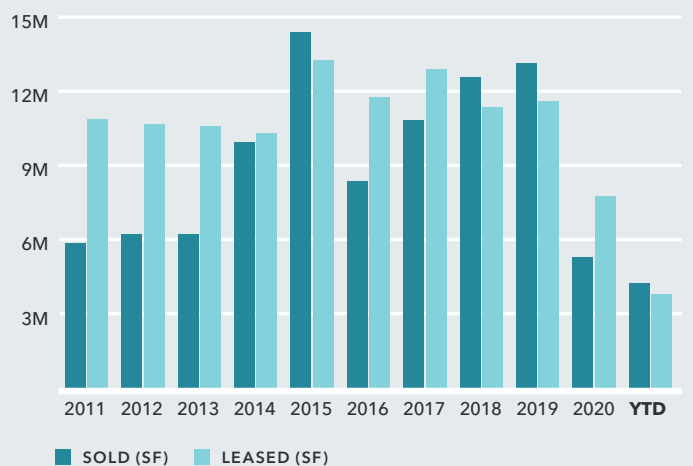
Net Absorption & New Deliveries



Average Sales Price/SF & Cap Rate



Sale Volume & Lease Volume



SUBMARKET STATISTICS

Submarket	Total Inventory	Total Vacancy Rate	Sublease Available Rate	Total Available Rate	2Q Direct Net Absorption	YTD Direct Net Absorption	SF Under Construction	YTD Construction Completions	2Q Leasing Activity	YTD Leasing Activity	Avg Direct Rental Rate (FS)
Airport Area	6,455,517	17.1%	8.7%	24.5%	(100,689)	(66,332)	0	0	32,840	52,089	\$22.56
South Tempe/Ahwatukee	7,202,928	16.4%	3.1%	20.9%	(28,192)	(53,892)	0	0	46,775	95,516	\$26.04
Airport	13,658,445	16.7%	5.8%	22.6%	(128,881)	(120,224)	0	0	79,615	147,605	\$24.48
Downtown	11,153,864	15.3%	1.4%	23.4%	(12,103)	(41,469)	0	227,113	184,156	466,145	\$32.16
Midtown	12,253,458	20.4%	1.8%	23.0%	(20,188)	(43,893)	0	0	51,411	152,407	\$24.48
Central Corridor	23,407,322	18.0%	1.6%	23.2%	(32,291)	(85,362)	0	227,113	235,567	618,552	\$27.36
44th Street Corridor	3,887,306	14.6%	3.9%	18.9%	(1,926)	8,592	0	0	35,166	62,286	\$28.56
Camelback Corridor	9,041,781	20.0%	1.8%	26.8%	(4,723)	(153,442)	263,766	0	180,980	281,302	\$34.56
Midtown/Central Phoenix	4,764,959	7.5%	1.3%	8.4%	41,543	21,279	0	0	23,444	71,310	\$22.68
East Phoenix	17,694,046	15.4%	2.1%	20.1%	34,894	(123,571)	263,766	0	239,590	414,898	\$32.04
Chandler	11,346,047	13.3%	3.2%	17.3%	72,560	137,424	365,000	120,294	160,182	281,724	\$30.00
Gateway Airport/Loop 202	1,721,177	9.0%	0.4%	14.7%	79,404	116,750	56,000	48,500	64,432	128,660	\$30.24
Mesa Downtown	999,426	8.6%	0.0%	9.9%	14,942	21,486	0	0	4,400	15,566	\$21.96
Mesa East	3,230,483	8.4%	1.3%	8.5%	25,737	152,991	0	238,349	37,726	40,380	\$31.80
Superstition Corridor	5,332,428	14.2%	0.5%	16.6%	51,117	(67,510)	0	22,040	98,450	163,697	\$23.40
Tempe	18,757,256	12.6%	4.9%	21.4%	78,663	45,730	470,526	93,125	192,503	415,219	\$31.20
East Valley	41,386,817	12.4%	3.3%	18.1%	322,423	406,871	891,526	522,308	557,693	1,045,246	\$29.52
N Phoenix/Cave Creek	97,111	5.8%	0.0%	4.4%	0	0	0	0	4,768	4,768	\$24.60
Paradise Valley	4,056,457	11.9%	1.4%	14.9%	29,792	308	0	13,934	41,360	112,229	\$28.56
Piestewa Peak Corridor	2,930,017	13.5%	0.2%	15.4%	28,968	77,683	0	0	43,497	99,047	\$23.76
North Phoenix	7,083,585	12.5%	0.9%	15.0%	58,760	77,991	0	13,934	89,625	216,044	\$26.16
Arrowhead	3,089,052	12.5%	0.7%	14.3%	117,004	109,409	0	128,000	56,057	115,799	\$26.88
Deer Valley/Airport	13,521,516	15.8%	3.2%	19.8%	(8,945)	126,287	0	144,000	64,444	83,369	\$25.56
North I-17	498,015	17.2%	1.1%	31.2%	0	17,070	0	0	0	2,153	\$24.36
Northwest Phoenix	8,915,869	22.9%	0.4%	25.5%	(121,934)	(300,592)	0	0	24,291	96,534	\$20.76
Northwest Phoenix	26,024,452	17.9%	1.9%	21.3%	(13,875)	(47,826)	0	272,000	144,792	297,855	\$23.28
Pinal County	789,571	9.6%	0.0%	14.1%	(43,301)	(18,571)	17,128	0	3,665	8,165	-
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Central Scottsdale	7,735,453	17.6%	2.3%	20.4%	(4,948)	(311,882)	100,000	0	143,258	257,173	\$28.44
N Scottsdale/Carefree	1,058,395	16.7%	1.9%	20.9%	(8,425)	(4,124)	0	0	5,365	7,766	\$27.24
Scottsdale Airpark	13,123,575	18.3%	4.1%	22.7%	25,530	159,984	150,000	635,111	242,476	476,576	\$31.32
Scottsdale South	6,334,893	16.3%	2.9%	25.6%	(62,096)	(210,069)	244,998	0	87,547	167,763	\$33.12
Scottsdale	28,252,316	17.6%	3.3%	22.7%	(49,939)	(366,091)	494,998	635,111	478,646	909,278	\$30.84
Glendale	2,909,916	14.9%	1.3%	14.6%	55,718	26,261	0	0	30,888	58,863	\$28.08
Loop 303/Surprise	2,002,610	7.1%	0.0%	8.2%	8,548	22,209	0	0	6,422	22,104	\$27.72
Southwest Phoenix	4,488,609	4.5%	0.0%	4.4%	(9,631)	(20,079)	0	0	11,670	11,670	\$27.36
West I-10	2,074,237	8.9%	0.7%	17.9%	9,709	(3,119)	248,628	0	28,192	49,620	\$29.04
West Phoenix	11,475,372	8.4%	0.5%	10.1%	64,344	25,272	248,628	0	77,172	142,257	\$28.20
Phoenix Totals	169,771,926	15.3%	2.6%	19.9%	212,134	(251,511)	1,916,046	1,670,466	1,906,365	3,799,900	\$28.08
Class A	58,500,546	17.8%	3.7%	24.9%	(106,945)	(26,462)	1,657,918	1,457,992	556,648	1,284,365	\$32.28
Class B	96,331,449	15.1%	2.3%	19.0%	179,272	(261,497)	258,128	212,474	1,109,024	2,039,041	\$25.20
Class C	14,902,870	6.3%	0.1%	6.7%	139,807	36,448	0	0	70,410	176,885	\$20.28

NEAR-TERM OUTLOOK

ALTHOUGH THERE IS STILL A DEGREE OF UNCERTAINTY about the pandemic's long-term effect on office space use, the wide distribution of vaccines and slow return to the office has created some optimism in the market towards the road to recovery.

RENT REDUCTIONS are expected to persist in the coming quarters as the growing share of available space, both direct and sublet, will limit the ability for landlords to raise rents. 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.

DATA SOURCE: COSTAR, AZ COMMERCE, ARIZONA LABOR OF STATISTICS

TOP SALE TRANSACTIONS FOR 2Q 2021

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
Northrop Grumman	Chandler	120,294	\$43,100,000	\$358.29	Silver Creek Development	SunCap Property Group
The Mesa Tower	Superstition Corridor	311,132	\$39,500,000	\$126.96	Camco Investment Group	Barker Pacific Group
The ARC	Superstition Corridor	180,083	\$37,000,000	\$205.46	Cypress Office Properties	Buchanan Street Partners
Ascend at Chandler Airport Center - Bldg C	Chandler	130,642	\$34,235,000	\$262.05	Silver Creek Development	Irgens Partners
Arrowhead Executive Center	Arrowhead	99,062	\$18,200,000	\$183.72	Woodside Health	Holualoa Companies

TOP LEASE TRANSACTIONS FOR 2Q 2021

Property	Submarket	SF	Transaction Date	Landlord	Tenant
1201 S 7th Ave	Downtown	71,000	May-21	Cornerstone Property Services	ConnectionsAZ
4300 E Camelback Rd	Camelback Corridor	60,000	Jun-21	RED Development, LLC	Undisclosed
101 E Washington St	Downtown	57,438	May-21	RED Development, LLC	Western Alliance Bank
Rio West	Tempe	51,789	May-21	Oaktree Capital Management	Carvana
1325 N Fiesta Blvd	Chandler N/Gilbert	42,111	Jun-21	Maricopa County Arizona	Undisclosed

TOP UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery Date
Allred Park Place Central	1375 & 1475 S Price Rd	Chandler	300,000	Douglas Allred Company	Oct-21
One Hundred Mill	100 S Mill Ave	Tempe	287,000	Cousins Properties, Inc.	Oct-21
Scottsdale Entrada	6400 E McDowell Rd	Scottsdale South	244,998	Banyan Residential	Nov-21
The Beam on Farmer	433 S Farmer	Tempe	183,526	M.A. Mortenson Company	May-22
The Grove	4300 E Camelback Rd	Camelback Corridor	181,494	RED Development, LLC	Sep-22

DATA SOURCE: COSTAR

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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

**Asset
Services**

70M
MANAGEMENT
PORTFOLIO SF

\$12B
IN ASSETS UNDER
MANAGEMENT

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