Kidder Mathews

3Q 2021

MARKET TRENDS | PHOENIX

OFFICE

MARKET DRIVERS

LEASING ACTIVITY HAS STEADILY ACCELERATED since the start of the Covid-19 pandemic in 2Q 2020 and is on pace to finish the year at pre-pandemic levels. Although leasing volume picked up in the recent quarters, sublease availability reached an all-time historic high of approximately 4.8M SF. While some companies have become secure again in moving forward to lease more space, other tenants that are now permanently remote have relinquished office space, thus the concurrent rise in leasing activity and sublease availability.

WITH THE INCREASE OF MOVE-OUTS over the past year due to the pandemic, coupled with the addition of speculative office space in the past two years, vacancies have risen more than 200 basis points since Q4 2019.

AFTER A YEAR AND A HALF of waiting to see how things shake out, investors and developers have regained confidence in the market which has contributed to an increase of sales activity in the past few months. Buyers have sought out single tenant properties net leased by strong credit tenants, as well as medical offices that offer stability.

ECONOMIC OVERVIEW

ACCORDING TO THE ARIZONA OFFICE of Economic Opportunity, Phoenix metro's unemployment rate in August decreased 24 basis point YOY to 4.2%. This is compared to the state's rate of 6.2% and national rate of 5.2%.

THE LOCAL ECONOMY IN PHOENIX has been one of the most resilient throughout the country during the pandemic and maintains its place among the best-performing markets for job growth. The competitive advantage and growth drivers such as affordability and job prospects are stronger than ever.

Market Summary

	3Q 2021	2Q 2021	3Q 2020	Annual Change
Vacancy Rate	15.9%	15.5%	13.6%	**17.03%**
Availability Rate	19.9%	19.7%	17.8%	**11.92%**
Asking Lease Rate	$28.32	$28.08	$27.84	**1.72%**
Lease Transactions	2,226,627	2,088,355	1,995,284	**11.59%**
Sale Transactions	3,415,276	2,624,560	762,837	**347.71%**
Direct Net Absorption	-290,646	58,186	27,957	**N/A**

▲ 2.2M
LEASING ACTIVITY

▲ -290K
NET ABSORPTION (SF)

▲ 15.9%
VACANCY RATE

▲ $28.32
AVERAGE ASKING RENT

▼ 273K
NEW DELIVERIES (SF)

YEAR-OVER-YEAR CHANGE

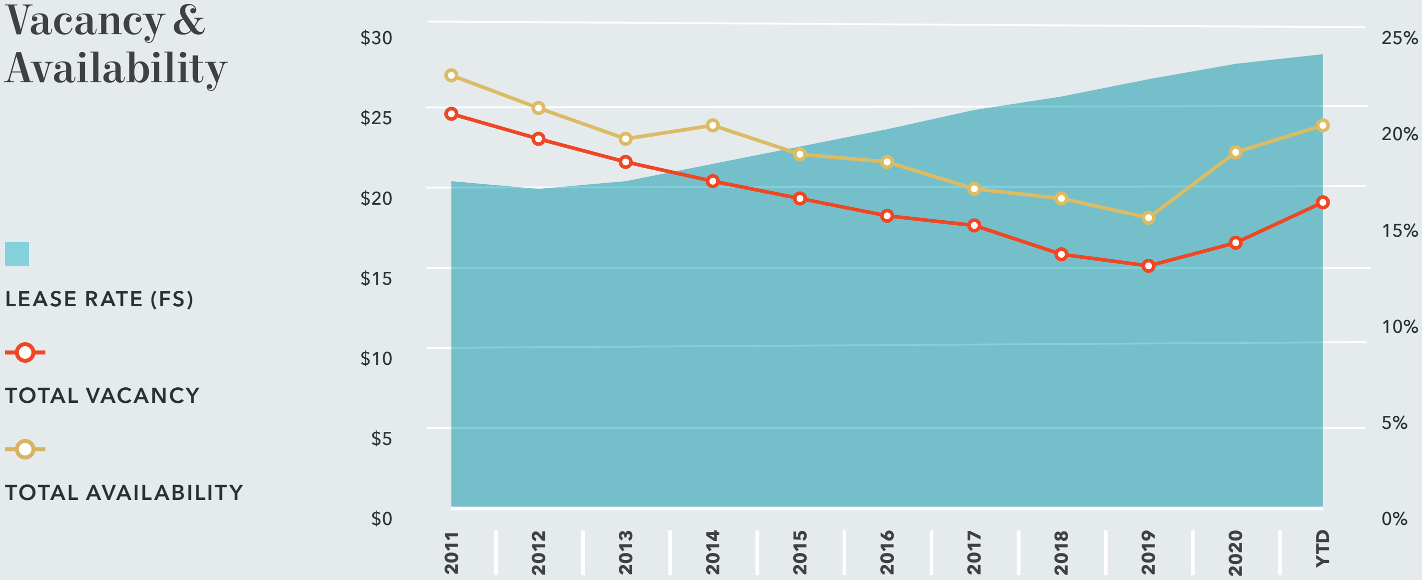
Market Highlights

SUBLEASE AVAILABILTY reached a record high of 4.8M SF

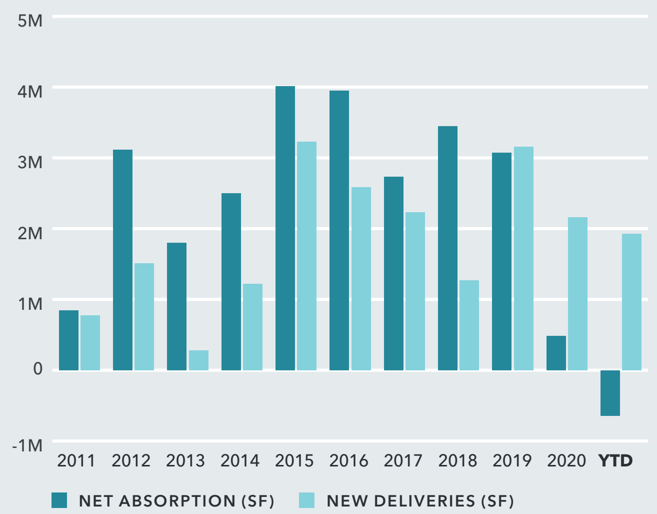
RENTAL RATES hit a record high of $28.32/SF on a full-service basis.

SALE TRANSACTION volume more than tripled YOY to 3.4M SF

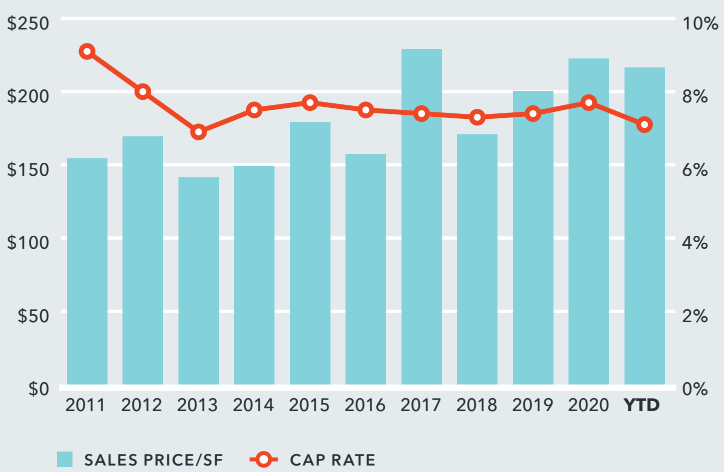
Lease Rate, Vacancy & Availability



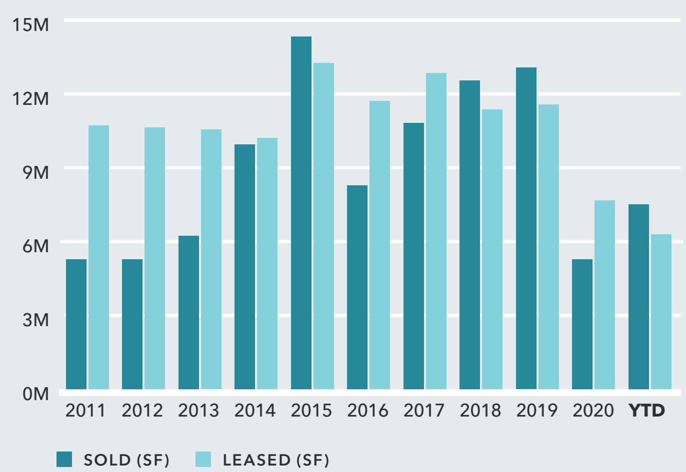
Net Absorption & New Deliveries



Average Sales Price/SF & Cap Rate



Sale Volume & Lease Volume



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	Avg Direct Rental Rate (FS)
Airport Area	6,313,008	14.6%	23.2%	99,111	72,066	0	0	32,866	81,304	$22.80
South Tempe/Ahwatukee	7,096,033	15.7%	24.7%	65,728	10,346	0	0	113,005	200,082	$25.80
Airport	**13,409,041**	**15.2%**	**24.0%**	**164,839**	**82,412**	**0**	**0**	**145,871**	**281,386**	**$24.60**
Downtown	11,125,770	21.6%	22.1%	(722,545)	(760,258)	0	227,113	94,265	672,918	$31.68
Midtown	12,276,104	20.9%	23.2%	(61,710)	(104,643)	0	24,019	81,453	248,612	$24.36
Central Corridor	**23,401,874**	**21.2%**	**22.7%**	**(784,255)**	**(864,901)**	**0**	**251,132**	**175,718**	**921,530**	**$26.76**
44th Street Corridor	3,735,487	14.2%	19.2%	35,550	44,142	0	0	32,178	107,890	$28.68
Camelback Corridor	9,040,028	20.7%	25.7%	(86,756)	(240,198)	251,494	0	269,067	550,369	$34.80
Midtown/Central Phoenix	4,764,956	7.4%	7.7%	4,791	26,070	0	0	42,479	126,289	$22.32
East Phoenix	**17,540,471**	**15.7%**	**19.4%**	**(46,415)**	**(169,986)**	**251,494**	**0**	**343,724**	**784,548**	**$32.28**
Chandler	11,507,796	15.9%	17.8%	113,771	133,207	150,000	335,294	184,568	470,280	$30.84
Gateway Airport/Loop 202	1,590,426	8.8%	14.9%	17,928	96,938	82,358	48,500	11,332	105,099	$31.80
Mesa Downtown	988,484	7.5%	9.1%	9,976	33,142	0	0	3,235	18,801	$21.60
Mesa East	3,284,116	8.6%	9.0%	(4,931)	148,060	0	238,349	17,267	69,935	$31.44
Superstition Corridor	5,317,926	14.0%	14.5%	23,515	(44,189)	10,791	42,040	132,644	291,190	$24.12
Tempe	18,718,762	13.1%	21.2%	46,589	55,295	470,526	93,125	272,956	688,878	$31.56
East Valley	**41,407,510**	**13.3%**	**17.9%**	**206,848**	**422,453**	**713,675**	**757,308**	**622,002**	**1,644,183**	**$30.24**
N Phoenix/Cave Creek	97,111	2.7%	4.4%	3,000	3,000	0	0	0	4,768	$25.80
Paradise Valley	4,056,473	11.2%	14.8%	38,908	33,932	0	13,934	38,549	159,530	$28.68
Piestewa Peak Corridor	2,951,115	13.3%	16.6%	8,219	85,841	0	0	41,130	163,822	$23.76
North Phoenix	**7,104,699**	**12.0%**	**15.4%**	**50,127**	**122,773**	**0**	**13,934**	**79,679**	**328,120**	**$26.40**
Arrowhead	3,089,465	12.0%	13.5%	27,258	142,120	0	128,413	44,904	161,680	$27.00
Deer Valley/Airport	11,501,499	19.5%	23.7%	(42,816)	83,471	0	144,000	30,316	115,284	$25.80
North I-17	498,015	16.8%	30.2%	2,070	19,140	0	0	0	2,153	$25.08
Northwest Phoenix	8,787,643	23.2%	25.5%	(112,142)	(361,017)	0	0	99,532	219,812	$21.12
Northwest Phoenix	**23,876,622**	**19.8%**	**23.2%**	**(125,630)**	**(116,286)**	**0**	**272,413**	**174,752**	**498,929**	**$23.52**
Pinal County	789,571	15.4%	16.7%	(46,030)	(64,601)	17,128	0	0	25,026	-
Pinal County	**789,571**	**15.4%**	**16.7%**	**(46,030)**	**(64,601)**	**17,128**	**0**	**0**	**25,026**	**-**
Central Scottsdale	7,738,346	15.8%	17.7%	125,332	(186,550)	100,000	0	100,856	372,083	$28.80
N Scottsdale/Carefree	1,058,395	13.7%	16.2%	31,896	27,772	0	0	15,094	22,860	$27.36
Scottsdale Airpark	13,079,826	17.3%	23.8%	96,866	248,715	150,000	635,111	300,880	832,741	$31.56
Scottsdale South	6,101,213	16.9%	24.5%	14,151	(192,454)	248,006	0	189,053	360,284	$34.08
Scottsdale	**27,977,780**	**16.7%**	**22.0%**	**268,245**	**(102,517)**	**498,006**	**635,111**	**605,883**	**1,587,968**	**$31.56**
Glendale	2,924,514	16.2%	8.8%	(40,622)	(12,679)	0	0	42,210	101,073	$27.72
Loop 303/Surprise	2,002,610	6.8%	8.2%	8,787	30,996	0	0	8,283	32,359	$28.20
Southwest Phoenix	4,524,632	4.2%	5.3%	13,773	(6,306)	0	0	0	11,670	$27.36
West I-10	2,079,809	6.8%	16.5%	39,687	36,568	322,628	0	28,505	78,125	$29.52
West Phoenix	**11,531,565**	**8.2%**	**8.7%**	**21,625**	**48,579**	**322,628**	**0**	**78,998**	**223,227**	**$28.32**
Phoenix Totals	**167,039,133**	**15.9%**	**19.9%**	**(290,646)**	**(642,074)**	**1,802,931**	**1,929,898**	**2,226,627**	**6,294,917**	**$28.32**
Class A	58,362,599	19.2%	24.9%	(691,186)	(710,790)	1,498,654	1,607,992	647,289	2,090,555	$32.52
Class B	93,714,113	15.5%	18.9%	340,106	(71,994)	304,277	277,887	1,129,395	3,219,620	$25.44
Class C	14,866,749	5.7%	6.7%	31,007	111,283	0	0	104,003	292,673	$20.88

NEAR-TERM OUTLOOK

ALTHOUGH THERE IS STILL A DEGREE OF UNCERTAINTY about the pandemic's long-term effect on office space use, decision makers seem to be more comfortable making long-term leasing decisions again which will gain a steady momentum of positive growth into the coming quarters.

THE AFFORDABILITY OF THE PHOENIX MARKET will continue to attract tenants looking to relocate to the west coast without having to pay the premiums when compared to the nearby coastal markets. Rent reductions are expected in the near future as the growing share of available space, both direct and sublet, will limit the ability for landlords to raise rents.

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

TOP SALE TRANSACTIONS FOR 3Q 2021

Property	Submarket	SF	Sale Price	$/SF	Buyer	Seller
Rio 2100	Tempe	300,000	$132,000,000	$440.00	Strategic Office Partners	The Boyer Company
Fountainhead Office Plaza	Tempe	445,957	$117,500,000	$263.48	Shorenstein Properties, LLC	KBS REIT II, Inc.
CASA	Piestewa Peak Corridor	181,138	$56,500,000	$311.92	Macquarie Asset Management Inc. & GLL Real Estate Partners Inc.	George Oliver Companies
Gainey Ranch Corporate Center II	Central Scottsdale	200,000	$39,000,000	$195.00	Danson, Inc.	Nationwide Realty Investors
Blue Cross/Blue Shield Portfolio	Northwest Phoenix	217,065	$37,250,000	$171.61	West Coast Capital Partners	Anthem, Inc.

TOP LEASE TRANSACTIONS FOR 3Q 2021

Property	Submarket	SF	Transaction Date	Landlord	Tenant
Warner Crossing	Tempe Southwest	102,434	July 2021	JDM Partners, LLC	TSYS *renewal
The Grove	Camelback Corridor	69,999	September 2021	RED Development, LLC	Banner Health
615 S River Dr	Tempe	44,603	July 2021	Strategic Office Partners	Peloton Interactive, Inc.
Mesa Corporate Center	Superstition Corridor	41,917	September 2021	Hale Johnston Enterprises, Inc.	Maricopa County
Scottsdale Landing	Scottsdale Airpark	40,893	August 2021	Wentworth Property Company	SmartRent

TOP UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery Date
One Hundred Mill	100 S Mill Ave	Tempe	287,000	Cousins Properties, Inc.	October 21
Scottsdale Entrada	6400 E McDowell Rd	Scottsdale South	248,006	Banyan Residential	January 22
The Beam on Farmer	433 S Farmer	Tempe	183,526	M.A. Mortenson Company	May 2022
The Grove	4300 E Camelback Rd	Camelback Corridor	181,494	RED Development, LLC	September 22
Allred Park Place Central - Bldg 8	1375 S Price Rd	Chandler	150,000	Douglas Allred Company	October 21

DATA SOURCE: COSTAR

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Commercial Brokerage
$8B TRANSACTION
23M SALES SF
42M LEASING SF

Valuation Advisory
1,800+ ASSIGNMENTS
39/20 TOTAL NO.

Asset Services
70M MANAGEMENT
$12B IN ASSETS UNDER

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