Kidder Mathews

4Q 2021

MARKET TRENDS | **PHOENIX**

OFFICE

MARKET DRIVERS

LEASING ACTIVITY HAS GRADUALLY INCREASED over the past year and the market saw positive growth in activity from 2020. Although leasing volume picked up in the recent quarters, sublease availability reached an all-time historic high. The difference in operation strategies among office occupiers have contributed to mixed demand and as a result, the market will need time to recover from the negative impact of the pandemic.

DISCOUNTED RENTS AND HIGHER VACANCIES have created opportunities for tenants who couldn't find space or were previously priced out of highly desirable submarkets like Tempe and Scottsdale. Several California-based companies have also joined the tenant pool and have inked new leases since the pandemic, including PennyMac and Align Technology.

INVESTMENT LEVELS slowed dramatically in 2020 but activity picked up in 2021, especially the second half, reflecting a rise in confidence in the market again. Sales volume ended the year at almost the same levels of 2019, and more than doubled in Q4 when compared to the beginning of the year in Q1. This increase in activity helped drive prices to a record high range of $231/SF on an annual basis.

ECONOMIC OVERVIEW

THE PHOENIX LOCAL ECONOMY has been one of the most resilient during the pandemic and is among the best-performing markets for job growth. Phoenix lost over 200,000 jobs in the start of the pandemic, but the sharp job losses were temporary. By September 2021, the market fully recovered those job losses and total employment surpassed the pre-pandemic level.

ACCORDING TO the Arizona Office of Economic Opportunity, Phoenix metro's unemployment rate in November decreased 330 basis points YOY to a low 2.8%. This is compared to the state's rate of 4.7% and national rate of 4.2%.

continued on page 3

Market Summary

	2021	2020	2019	Annual Change
Vacancy Rate	15.6%	13.7%	12.5%	**13.87%**
Availability Rate	18.9%	18.3%	14.8%	**3.28%**
Asking Lease Rate	$28.44	$27.72	$26.52	**2.60%**
Lease Transactions	8,602,598	7,681,385	11,592,377	**11.99%**
Sale Transactions	11,102,904	5,275,461	13,142,511	**110.46%**
Direct Net Absorption	269,047	531,569	3,133,912	**N/A**

▲ 8.6M
LEASING ACTIVITY

▲ 269K
NET ABSORPTION (SF)

▲ 15.6%
VACANCY RATE

▲ $28.44
AVERAGE ASKING RENT

▲ 2.38M
NEW DELIVERIES (SF)

YEAR-OVER-YEAR CHANGE

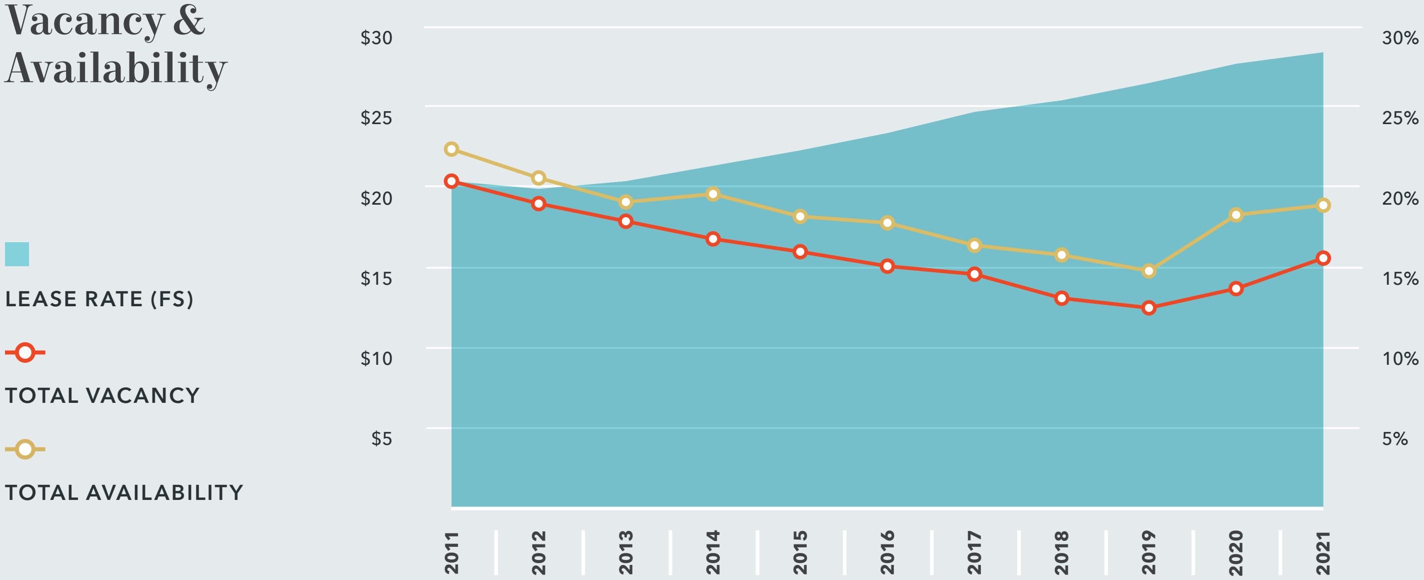
Market Highlights

SUBLEASE AVAILABILTY soared to a new high of 4.9M SF.

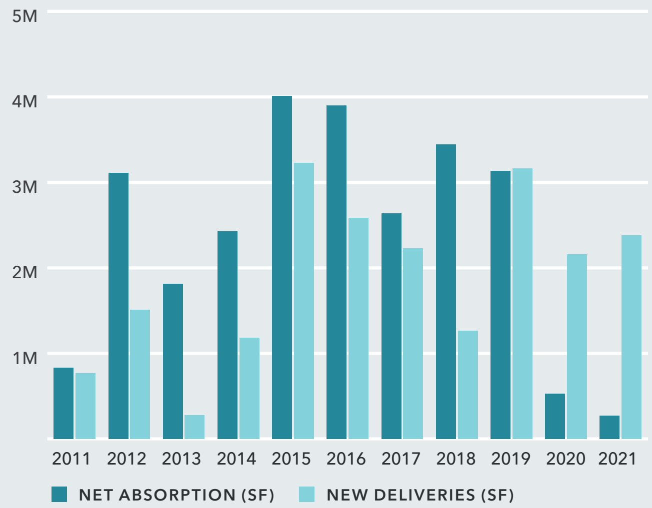
RENTAL RATES hit a record high of $28.44/SF on a full-service basis.

SALE PRICES increased to a new record of $231.55/SF.

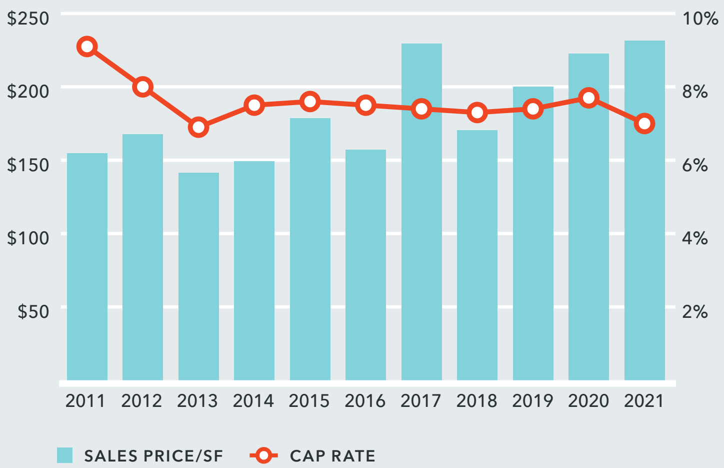
Lease Rate, Vacancy & Availability



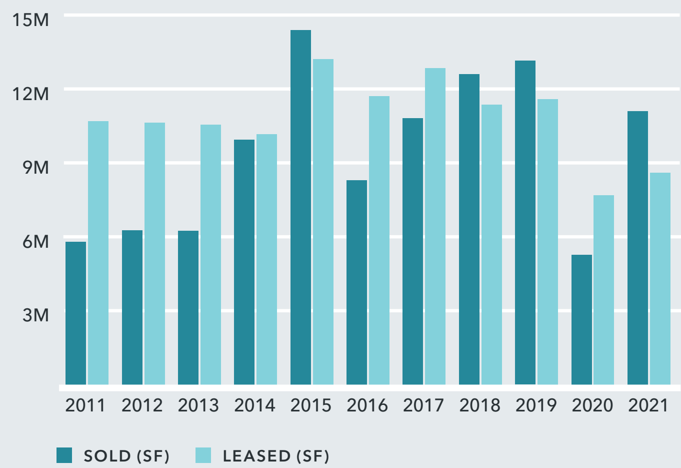
Net Absorption & New Deliveries



Average Sales Price/SF & Cap Rate



Sale Volume & Lease Volume



SUBMARKET STATISTICS

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	4Q Direct Net Absorption	2021 Direct Net Absorption	SF Under Construction	2021 Construction Completions	4Q Leasing Activity	2021 Leasing Activity	Avg Direct Rental Rate (FS)
Airport Area	6,314,065	10.2%	14.2%	23.5%	37,670	32,500	0	0	21,025	127,806	$22.80
South Tempe/Ahwatukee	7,095,299	13.7%	15.6%	20.2%	11,994	22,340	0	0	126,507	340,956	$26.04
Airport	**13,409,364**	**12.0%**	**14.9%**	**21.8%**	**49,664**	**54,840**	**0**	**0**	**147,532**	**468,762**	**$24.84**
Downtown	11,114,300	19.9%	20.8%	21.8%	83,561	(673,078)	0	227,113	36,127	749,885	$32.04
Midtown	12,121,954	20.6%	21.4%	23.9%	(20,972)	(122,931)	0	24,019	119,792	382,122	$24.24
Central Corridor	**23,236,254**	**20.3%**	**21.2%**	**22.9%**	**62,589**	**(796,009)**	**0**	**251,132**	**155,919**	**1,132,007**	**$26.76**
44th Street Corridor	3,735,487	13.2%	14.3%	18.1%	(2,610)	41,532	0	0	34,719	144,196	$27.60
Camelback Corridor	8,538,222	19.1%	19.7%	22.4%	124,035	(112,054)	251,494	0	303,893	864,873	$34.80
Midtown/Central Phoenix	4,764,866	6.8%	7.4%	7.5%	(6,894)	19,176	0	0	26,561	155,244	$23.16
East Phoenix	**17,038,575**	**14.3%**	**15.1%**	**17.3%**	**114,531**	**(51,346)**	**251,494**	**0**	**365,173**	**1,164,313**	**$32.28**
Chandler	11,501,344	12.5%	16.6%	17.0%	116,174	265,334	0	485,294	160,594	656,570	$30.96
Gateway Airport/Loop 202	1,595,507	8.1%	8.2%	15.1%	8,769	107,592	82,358	48,500	4,096	116,650	$32.28
Mesa Downtown	988,484	9.8%	9.8%	8.8%	(22,675)	10,467	0	0	16,295	35,096	$21.60
Mesa East	3,306,852	11.0%	12.1%	13.1%	(118,273)	29,787	0	238,349	10,695	80,630	$35.76
Superstition Corridor	5,125,741	11.6%	11.8%	12.7%	30,866	(19,341)	40,791	42,040	76,226	344,533	$23.76
Tempe	18,710,202	11.2%	12.9%	23.0%	3,254	62,076	635,526	93,125	170,112	953,938	$31.68
East Valley	**41,228,130**	**11.4%**	**13.5%**	**18.6%**	**18,115**	**455,915**	**758,675**	**907,308**	**438,018**	**2,187,417**	**$30.84**
N Phoenix/Cave Creek	97,111	2.7%	2.7%	5.9%	0	3,000	0	0	1,492	6,260	$23.16
Paradise Valley	4,057,937	12.0%	12.2%	13.6%	(53,262)	(18,740)	0	13,934	82,711	243,777	$29.16
Piestewa Peak Corridor	2,951,319	12.4%	13.2%	16.0%	16,392	102,233	0	0	43,381	211,499	$23.52
North Phoenix	**7,106,367**	**12.0%**	**12.5%**	**14.5%**	**(36,870)**	**86,493**	**0**	**13,934**	**127,584**	**461,536**	**$26.76**
Arrowhead	3,202,551	11.3%	11.7%	12.4%	37,096	179,216	0	180,713	36,561	212,062	$26.88
Deer Valley/Airport	11,494,723	15.7%	18.9%	23.2%	46,953	187,958	15,191	144,802	106,229	221,513	$25.80
North I-17	627,356	14.4%	15.4%	19.3%	(3,771)	13,031	0	0	0	2,153	$26.28
Northwest Phoenix	8,856,108	21.9%	22.1%	24.7%	84,046	(276,970)	0	0	51,476	288,734	$21.24
Northwest Phoenix	**24,180,738**	**19.0%**	**19.0%**	**22.2%**	**164,324**	**103,235**	**15,191**	**325,515**	**194,266**	**724,462**	**$23.64**
Pinal County	790,468	15.9%	15.9%	15.9%	(4,320)	(68,921)	17,128	0	1,400	26,426	-
Pinal County	**790,468**	**15.9%**	**15.9%**	**15.9%**	**(4,320)**	**(68,921)**	**17,128**	**0**	**1,400**	**26,426**	**-**
Central Scottsdale	7,839,847	12.9%	15.7%	17.5%	179,347	(6,379)	0	100,000	106,337	487,222	$29.16
N Scottsdale/Carefree	1,068,801	14.6%	14.6%	18.0%	(14,199)	12,412	0	0	6,013	60,034	$27.12
Scottsdale Airpark	13,233,809	15.5%	16.7%	24.9%	17,231	416,696	32,054	785,110	228,303	1,083,453	$31.80
Scottsdale South	6,127,722	13.1%	14.5%	22.9%	111,634	(72,736)	248,006	0	118,564	500,179	$33.48
Scottsdale	**28,270,179**	**14.2%**	**15.9%**	**22.1%**	**294,013**	**349,993**	**280,060**	**885,110**	**459,217**	**2,130,888**	**$31.56**
Glendale	2,935,926	12.8%	14.0%	7.1%	62,445	49,766	13,000	0	56,204	157,277	$28.08
Loop 303/Surprise	2,002,610	6.3%	7.0%	8.9%	7,742	38,738	0	0	2,200	39,104	$28.56
Southwest Phoenix	4,522,294	4.2%	4.2%	4.0%	0	(6,306)	0	0	9,074	20,744	$27.36
West I-10	2,081,027	5.4%	5.6%	15.4%	16,081	52,649	322,628	0	11,537	89,662	$30.60
West Phoenix	**11,541,857**	**7.0%**	**7.4%**	**7.7%**	**86,268**	**134,847**	**335,628**	**0**	**79,015**	**306,787**	**$28.80**
Phoenix Totals	**167,039,133**	**15.9%**	**15.6%**	**19.9%**	**(290,646)**	**(642,074)**	**1,802,931**	**1,929,898**	**2,226,627**	**6,294,917**	**$28.32**
Class A	58,364,729	16.7%	19.2%	25.2%	168,341	(324,893)	1,363,654	1,908,793	689,950	2,889,609	$32.76
Class B	92,840,878	13.7%	14.9%	18.0%	535,463	354,042	264,522	400,187	1,112,805	4,543,800	$25.44
Class C	15,382,141	6.4%	6.5%	7.2%	30,260	181,629	0	0	55,365	357,735	$20.64

NEAR-TERM OUTLOOK

WITH THE REMOVAL of COVID-19 restrictions on Arizona businesses and a rise in vaccinations that have encouraged employees to return to the office, leasing volume continues to trend higher and we expect a road to recovery in the coming year.

ALTHOUGH THERE IS STILL a degree of uncertainty about the pandemic's long-term effect on office space use, decision makers have become more comfortable making long-term leasing decisions again which will gain a steady momentum of positive growth into the coming quarters.

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

TOP SALE TRANSACTIONS FOR 2021

Property	Submarket	SF	Sale Price	$/SF	Buyer	Seller
Block 23 at CityScape	Downtown	307,030	$150,000,000	$488.55	City Office REIT, Inc.	RED Development, LLC
Rio 2100 Phase II & III	Tempe	300,000	$132,000,000	$440.00	Strategic Office Partners	The Boyer Company
Fountainhead Office Plaza	Tempe	442,192	$117,500,000	$265.72	Shorenstein Properties, LLC	KBS REIT II, Inc.
PetSmart HQ Complex	Deer Valley/Airport	365,672	$110,000,000	$300.82	BPM Real Estate Group	VEREIT, Inc.
Allred Park Place	Chandler	271,359	$106,000,000	$390.63	Manulife US Real Estate Investment Trust	Douglas Allred Company

TOP LEASE TRANSACTIONS FOR 2021

Property	Submarket	SF	Transaction Date	Landlord	Tenant
CityScape	Downtown	116,000	March 2021	City of Phoenix Real Estate Division	Snell & Wilmer
8320 S Hardy Dr	Tempe Southwest	102,434	July 2021	JDM Partners, LLC	TSYS
CityScape	Downtown	97,064	February 2021	City of Phoenix Real Estate Division	Alliance Bank of Arizona
Papago Buttes Corporate Plaza	Tempe	72,715	Marh 2021	Principal Financial Group, Inc.	Union Bank
The Grove	Camelback Corridor	70,000	September 2021	RED Development, LLC	Banner Health

TOP UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery Date
One Hundred Mill	100 S Mill Ave	Tempe	287,000	Cousins Properties, Inc.	January 2022
Scottsdale Entrada	6400 E McDowell Rd	Scottsdale South	248,006	Banyan Residential	January 2022
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 2022
Rural Rd & University Dr	Rural Rd & University Dr	Tempe	165,000	Arizona State University	February 2023

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, asset services, consulting, project and construction management, and debt equity finance services for all property types.

Commercial Brokerage	$8B TRANSACTION	23M SALES SF	42M LEASING SF
Valuation Advisory	1,800+ ASSIGNMENTS	45/23 TOTAL NO.	
Asset Services	64M MANAGEMENT	$11B IN ASSETS UNDER	

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

GARY BARAGONA
Director of Research
415.229.8925
gary.baragona@kidder.com

SOUTHERN CA & SOUTHWEST

MARK READ
Regional President, Brokerage
mark.read@kidder.com
LIC N° 00572743

ERIC PAULSEN
Regional President, Brokerage
eric.paulsen@kidder.com
LIC N° 01001040

602.513.5200

KIDDER.COM

Kidder Mathews