

**MARKET TRENDS | PHOENIX**

# OFFICE

**MARKET DRIVERS**

**LEASING ACTIVITY HAS STEADILY INCREASED** over the past year since bottoming out at the start of the Covid-19 pandemic and continues to trend higher at near pre-pandemic levels. Although leasing volume posted at 2.3M SF in Q1, sublease availability peaked to an all-time historic high.

**AS THE INFLOW OF NEW RESIDENTS** to Phoenix continues at a breakneck pace, companies are taking advantage in the growth of the employment pool. Amazon recently announced to create over 500 jobs in the region, including not only positions for warehouse opportunities but also software engineers and business analysts.

**SALES VOLUME** ended Q1 at 3.29M SF which is on par, if not higher, than previous quarters even before the pandemic, reflecting a rise in confidence in the market again. Phoenix has gained increased attention from national investors; the top transaction for Q1 being the Esplanade in Camelback which sold for an estimated \$385M SF to East Coast investors, Monarch Alternative Capital, LP and Tourmaline Capital Partners.

**ECONOMIC OVERVIEW**

**THE PHOENIX LOCAL ECONOMY** remains among the best-performing markets for job growth. The Milken Institute's 2022 Best-Performing Cities list, which ranks cities on a variety of metrics including job creation and wage growth, recently ranked the Phoenix metro 4th in the nation. This is up three spots from 2021 and up from 12th in the nation in 2020.

**ACCORDING TO** the Arizona Office of Economic Opportunity, Phoenix metro's unemployment rate in February decreased 360 basis points YOY to a low 3.1%. This is compared to the state's rate of 3.6% and national rate of 3.8%.

continued on page 3

**Market Summary**

	1Q22	4Q21	1Q21	Annual Change
Vacancy Rate	15.9%	15.4%	15.0%	<b>6.30%</b>
Availability Rate	19.7%	18.9%	18.9%	<b>4.22%</b>
Asking Lease Rate	\$28.68	\$28.56	\$27.84	<b>3.02%</b>
Lease Transactions	2,302,918	2,453,674	2,041,801	<b>12.79%</b>
Sale Transactions	3,288,676	4,157,477	1,472,078	<b>123.40%</b>
Direct Net Absorption	-93,678	904,610	-175,732	<b>N/A</b>

▲ **2.3M**  
LEASING ACTIVITY

▼ **-94K**  
NET ABSORPTION (SF)

▲ **19.7%**  
VACANCY RATE

▲ **\$28.68**  
AVERAGE ASKING RENT

▼ **0**  
NEW DELIVERIES (SF)

YEAR-OVER-YEAR CHANGE

**Market Highlights**

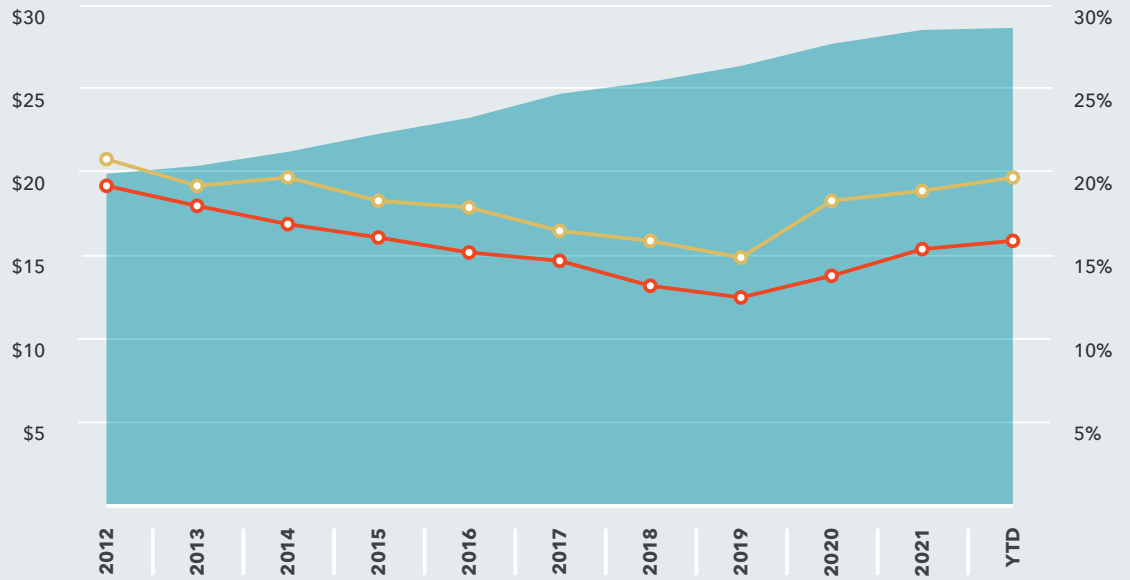
**RENTAL RATES** hit a record high of \$28.68/SF on a full-service basis.

**SUBLEASE ACTIVITY** soared to a new high of 5.5M SF.

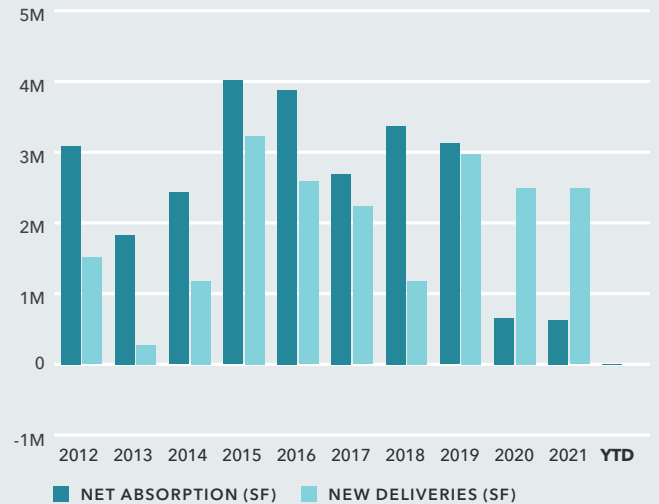
**SALES VOLUME** more than doubled YOY at 3.29M SF.

# Lease Rate, Vacancy & Availability

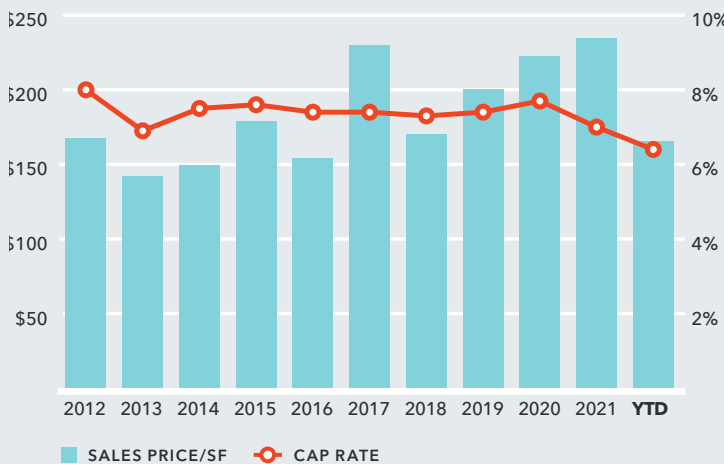
- LEASE RATE (FS)
- TOTAL VACANCY
- TOTAL AVAILABILITY



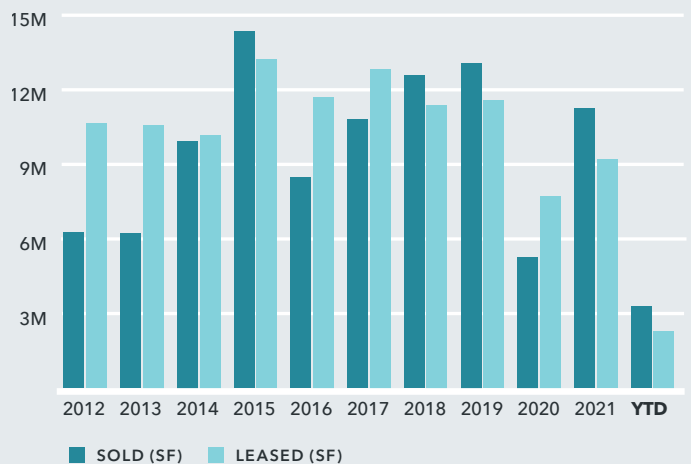
# Net Absorption & New Deliveries



# Average Sales Price/SF & Cap Rate



# Sale Volume & Lease Volume



## SUBMARKET STATISTICS

Submarket	Total Inventory	Total Vacancy Rate	Total Available Rate	1Q Direct Net Absorption	2021 Direct Net Absorption	SF Under Construction	2021 Construction Completions	1Q Leasing Activity	2021 Leasing Activity	Avg Direct Rental Rate (FS)
Airport Area	6,320,936	15.5%	19.4%	(26,283)	32,500	0	0	312,705	127,806	\$22.80
South Tempe/Ahwatukee	7,081,238	16.1%	22.1%	(51,635)	22,340	0	0	55,973	340,956	\$26.28
<b>Airport</b>	<b>13,402,174</b>	<b>15.8%</b>	<b>20.8%</b>	<b>(77,918)</b>	<b>54,840</b>	<b>0</b>	<b>0</b>	<b>368,678</b>	<b>468,762</b>	<b>\$25.08</b>
Downtown	11,105,255	18.8%	20.6%	182,500	(673,078)	0	0	79,106	749,885	\$32.16
Midtown	12,157,191	21.5%	26.6%	(99,621)	(122,931)	0	0	232,538	382,122	\$24.96
<b>Central Corridor</b>	<b>23,262,446</b>	<b>20.2%</b>	<b>23.7%</b>	<b>82,879</b>	<b>(796,009)</b>	<b>0</b>	<b>0</b>	<b>311,644</b>	<b>1,132,007</b>	<b>\$26.88</b>
44th Street Corridor	3,738,255	16.2%	22.0%	(29,599)	41,532	0	0	21,904	144,196	\$28.20
Camelback Corridor	8,518,628	18.4%	20.9%	109,094	(112,054)	251,494	0	251,877	864,873	\$35.40
Midtown/Central Phoenix	4,694,406	6.7%	7.6%	3,776	19,176	0	0	33,119	155,244	\$23.40
<b>East Phoenix</b>	<b>16,951,289</b>	<b>14.7%</b>	<b>17.4%</b>	<b>83,271</b>	<b>(51,346)</b>	<b>251,494</b>	<b>0</b>	<b>306,900</b>	<b>1,164,313</b>	<b>\$32.52</b>
Chandler	11,111,135	18.4%	20.8%	(23,694)	265,334	0	0	91,954	656,570	\$30.84
Gateway Airport/Loop 202	1,608,537	8.9%	11.0%	(10,500)	107,592	26,358	0	27,887	116,650	\$32.88
Mesa Downtown	988,484	8.2%	8.7%	15,603	10,467	0	0	1,440	35,096	\$22.32
Mesa East	3,308,563	13.4%	14.0%	7,299	29,787	0	0	25,022	80,630	\$36.00
Superstition Corridor	5,307,319	11.2%	12.2%	39,871	(19,341)	40,791	0	79,170	344,533	\$23.52
Tempe	18,608,502	13.1%	22.1%	(52,185)	62,076	635,526	0	279,813	953,938	\$30.96
<b>East Valley</b>	<b>40,932,540</b>	<b>14.1%</b>	<b>19.0%</b>	<b>(23,606)</b>	<b>455,915</b>	<b>702,675</b>	<b>0</b>	<b>505,286</b>	<b>2,187,417</b>	<b>\$30.48</b>
N Phoenix/Cave Creek	97,111	1.4%	4.1%	1,330	3,000	0	0	1,330	6,260	\$24.00
Paradise Valley	4,057,937	12.7%	13.7%	(21,531)	(18,740)	0	0	36,212	243,777	\$28.80
Piestewa Peak Corridor	2,886,738	11.9%	13.9%	55,072	102,233	0	0	43,234	211,499	\$24.48
<b>North Phoenix</b>	<b>7,041,786</b>	<b>12.2%</b>	<b>13.7%</b>	<b>34,871</b>	<b>86,493</b>	<b>0</b>	<b>0</b>	<b>80,776</b>	<b>461,536</b>	<b>\$27.00</b>
Arrowhead	3,193,421	11.4%	14.4%	1,499	179,216	44,000	0	15,165	212,062	\$28.44
Deer Valley/Airport	11,493,404	21.5%	26.6%	29,545	187,958	0	0	32,557	221,513	\$26.28
North I-17	630,301	16.1%	20.0%	(5,088)	13,031	0	0	0	2,153	\$27.96
Northwest Phoenix	8,851,941	22.7%	23.8%	84,767	(276,970)	0	0	70,048	288,734	\$21.72
<b>Northwest Phoenix</b>	<b>24,169,067</b>	<b>20.5%</b>	<b>23.8%</b>	<b>110,723</b>	<b>103,235</b>	<b>44,000</b>	<b>0</b>	<b>117,770</b>	<b>724,462</b>	<b>\$24.36</b>
Pinal County	789,350	15.3%	15.3%	5,414	(68,921)	17,128	0	2,327	26,426	26,426
<b>Pinal County</b>	<b>789,350</b>	<b>15.3%</b>	<b>15.3%</b>	<b>5,414</b>	<b>(68,921)</b>	<b>17,128</b>	<b>0</b>	<b>2,327</b>	<b>26,426</b>	<b>26,426</b>
Central Scottsdale	7,829,678	16.2%	17.1%	(49,863)	(6,379)	0	0	128,851	487,222	\$29.64
N Scottsdale/Carefree	1,053,283	15.1%	15.1%	(14,476)	12,412	0	0	14,135	60,034	\$27.00
Scottsdale Airpark	13,243,551	16.3%	22.2%	(39,511)	416,696	32,054	0	303,518	1,083,453	\$32.28
Scottsdale South	6,266,243	17.8%	24.1%	(167,982)	(72,736)	244,094	0	108,641	500,179	\$34.44
<b>Scottsdale</b>	<b>28,392,755</b>	<b>16.6%</b>	<b>20.9%</b>	<b>(271,832)</b>	<b>349,993</b>	<b>276,148</b>	<b>0</b>	<b>555,145</b>	<b>2,130,888</b>	<b>\$32.16</b>
Glendale	2,935,926	13.0%	8.0%	(141)	49,766	0	0	2,890	157,277	\$27.72
Loop 303/Surprise	2,016,213	6.8%	8.0%	511	38,738	0	0	21,368	39,104	\$28.56
Southwest Phoenix	4,522,294	4.5%	4.5%	(14,595)	(6,306)	0	0	0	20,744	\$27.36
West I-10	2,096,123	6.7%	17.2%	(23,255)	52,649	280,642	0	30,134	89,662	\$30.72
<b>West Phoenix</b>	<b>11,570,556</b>	<b>7.5%</b>	<b>8.3%</b>	<b>(37,480)</b>	<b>134,847</b>	<b>280,642</b>	<b>0</b>	<b>54,392</b>	<b>306,787</b>	<b>\$28.80</b>
<b>Phoenix Totals</b>	<b>166,511,963</b>	<b>15.9%</b>	<b>19.7%</b>	<b>(93,678)</b>	<b>269,047</b>	<b>1,572,087</b>	<b>0</b>	<b>2,302,918</b>	<b>8,602,598</b>	<b>\$28.68</b>
Class A	58,306,681	20.7%	26.1%	(482,603)	(324,893)	1,323,742	0	813,221	2,889,609	\$32.52
Class B	92,414,862	14.6%	17.9%	282,937	354,042	218,345	0	954,376	4,543,800	\$25.80
Class C	15,663,340	6.1%	6.7%	105,988	181,629	0	0	62,730	357,735	\$20.64

## NEAR-TERM OUTLOOK

**THE AMOUNT OF SUBLET** availability is still a concern and leasing activity over the next few quarters will need to outperform last year's levels to stabilize the vacancy rates in the market. With the help of Phoenix's

robust job and population growth, the office sector will recover in the long run.

**WHILE MOST** of the 1.6M SF currently under construction is due to complete this year, the development pipeline

is at its lowest levels in over 10 years. This will help keep vacancies from increasing notably in the near future.

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

## TOP SALE TRANSACTIONS FOR 1Q 2022

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
The Esplanade	Camelback Corridor	970,194	\$385,000,000	\$396.83	Monarch Alternative Capital, LP & Tourmaline Capital Partners	LBA Realty & Clarion Ptnrs.
The Alexander & The Jonathan	Chandler	210,710	\$86,500,000	\$410.52	Asana Partners	George Oliver Companies
Woodside Health Medical Office PF.	Portfolio Sale	283,828	\$75,000,000	\$264.24	Altera Development	Woodside Health
West 101 Business Center	Glendale	118,853	\$24,700,000	\$207.82	Nobility Management, LLC	The Humphreys Company
17300 N Perimeter Dr	Scottsdale Airpark	47,322	\$23,516,070	\$496.94	Montecito Medical Real Estate	Irgens Partners

## TOP LEASE TRANSACTIONS FOR 1Q 2022

Property	Submarket	SF	Transaction Date	Landlord	Tenant
4025 S Riverpoint Pkwy	Airport Area	267,962	March 2022	Epic, LLC & Crown Properties, Inc.	Carvana
1415 W 3rd St	Tempe	82,257	January 2022	Diversified Healthcare Trust	Carvana
5615 S Sossaman Rd	Gateway Airport/Loop 202	73,826	March 2022	Cheryl Bailey Living Trust	Undisclosed
CityScape	Downtown	45,996	February 2022	City of Phoenix	Alliance Bank of Arizona
Cavasson	Scottsdale Airpark	38,184	March 2022	Nationwide Mutual	Undisclosed

## TOP UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery Date
One Hundred Mill	100 S Mill Ave	Tempe	287,000	Cousins Properties, Inc.	April 2022
The Grove	4200 & 4300 E Camelback Rd	Camelback Corridor	251,494	RED Development, LLC	September 2022
Scottsdale Entrada	6400 E McDowell Rd	Scottsdale South	248,006	Banyan Residential	July 2022
The Beam on Farmer	433 S Farmer	Tempe	183,526	M.A. Mortenson Company	May 2022
Rural Rd & University Dr	Rural Rd & University Dr	Tempe	165,000	Arizona State University	February 2023

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

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**Commercial  
Brokerage**

**\$10.9B**

TRANSACTION

**49.7M** **43.7M**

SALES SF  
(ANNUAL)

LEASING SF  
(ANNUAL)

**Valuation  
Advisory**

**2,600+**

ASSIGNMENTS  
ANNUALLY

**51/24**

TOTAL NO.

**Asset  
Services**

**62M**

MANAGEMENT

**\$11B**

IN ASSETS UNDER

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