

MARKET TRENDS | PHOENIX

OFFICE

MARKET DRIVERS

ALTHOUGH LEASING VOLUME picked up over the last year, the office market experienced a weakened demand in the second quarter, down almost 37% since Q1. Sublease availability reached an all-time high of approximately 6.1M SF, nearly triple the amount since the start of the pandemic, a number the market has never experienced.

THE CONSTRUCTION PIPELINE has slowed this year and new deliveries are expected to be lower in volume when compared to the last few years, expecting to end the year at 2M SF of projects coming online. The Phoenix office market can benefit from the slower pace of construction 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.

OFFICE INVESTMENT in the Phoenix market has generally been in line with recent trends, however, sales volume dipped YOY to 1.7M SF. Investors continue to seek out single tenant properties net leased by strong credit tenants, as well as medical offices that offer stability and safety among the uncertainty surrounding the onset of the foreseeable recession.

ECONOMIC OVERVIEW

ACCORDING to the Arizona Office of Economic Opportunity, Phoenix metro's unemployment rate in May decreased 200 basis points YOY to a 20-year record low of 2.9%. This is compared to the state's rate of 3.2% and national rate of 3.6%.

THE PHOENIX local economy remains among the best-performing markets for job growth and was recently ranked 4th in the nation for best performing metro. Additionally, the market has welcomed many new residents into the labor force. From July 2020 to July 2021, Phoenix reported the largest numeric

continued on page 3

Market Summary

	2Q22	1Q21	2Q21	Annual Change
Vacancy Rate	16.1%	15.9%	15.4%	4.65%
Availability Rate	19.8%	19.1%	19.5%	1.64%
Asking Lease Rate	\$28.92	\$28.68	\$28.08	2.99%
Lease Transactions	1,708,153	2,703,471	2,138,909	-20.14%
Sale Transactions	1,697,740	3,313,652	2,176,383	-21.99%
Direct Net Absorption	858,349	-92,607	102,079	N/A

▼ 1.7M
LEASING ACTIVITY

▲ 858K
NET ABSORPTION (SF)

▲ 16.1%
VACANCY RATE

▲ \$28.92
AVERAGE ASKING RENT

▲ 728K
NEW DELIVERIES (SF)

YEAR-OVER-YEAR CHANGE

Market Highlights

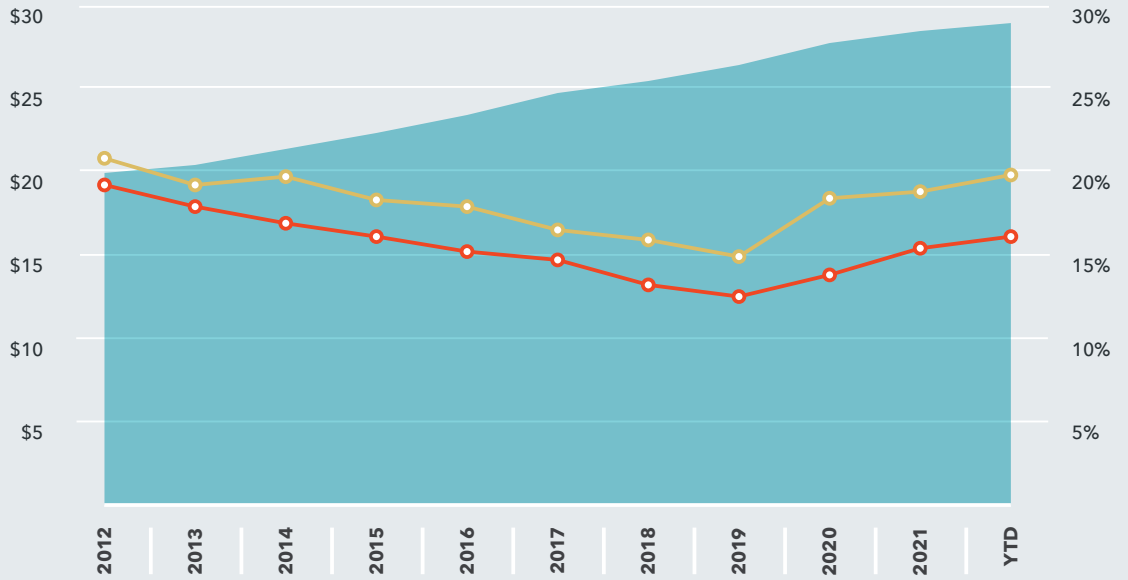
RENTAL RATES hit a record high of \$28.92/SF on a full-service basis

SUBLEASE ACTIVITY soared to a new high of 6.2M SF

AVG PRICE PER SF decreased YOY ending at \$200/SF

Lease Rate, Vacancy & Availability

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

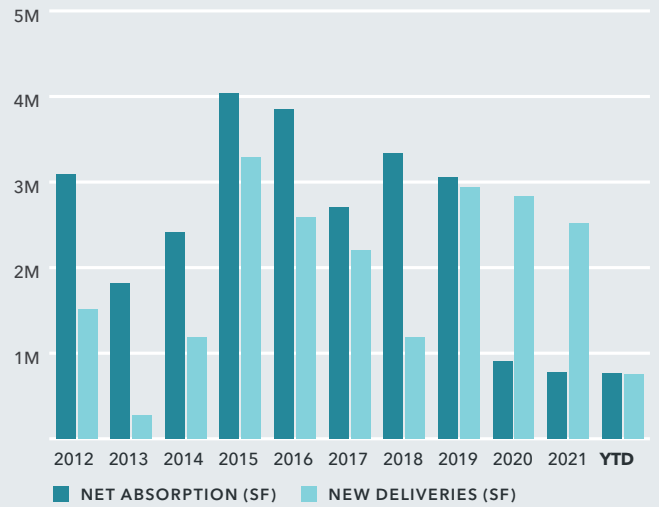


BIGGEST SALE OF THE QUARTER

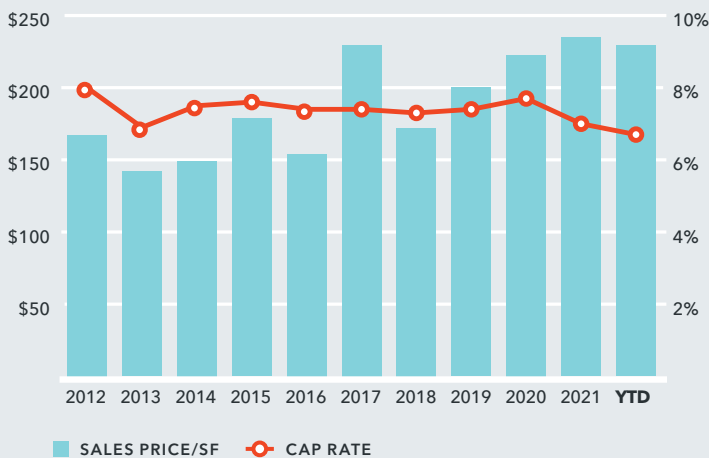
Alred Broadway Center



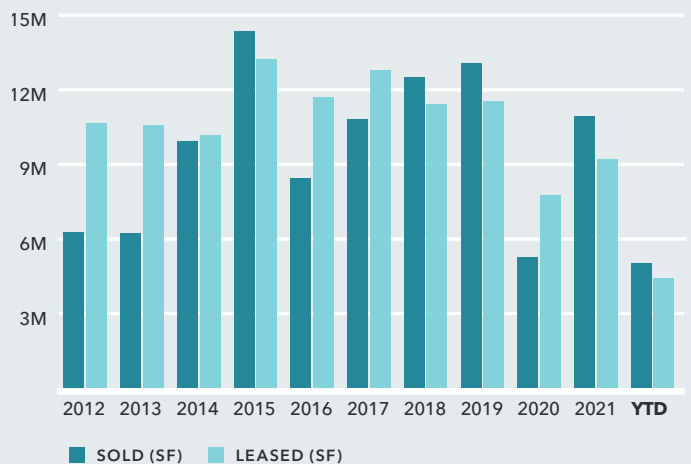
Net Absorption & New Deliveries



Average Sales Price/SF & Cap Rate



Sale Volume & Lease Volume



SUBMARKET STATISTICS

Submarket	Total Inventory	Total Vacancy Rate	Sublet 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	6,256,194	15.9%	8.7%	18.7%	(69,644)	(95,927)	0	0	16,689	333,615	\$22.92
South Tempe/Ahwatukee	7,033,814	17.7%	3.1%	20.5%	46,283	(5,352)	0	0	57,488	113,461	\$26.28
Airport	13,290,008	16.8%	5.8%	19.7%	(23,361)	(101,279)	0	0	74,177	447,076	\$25.08
Downtown	10,955,492	18.9%	1.4%	20.6%	16,011	195,808	0	0	15,971	116,140	\$32.40
Midtown	12,167,082	21.5%	1.8%	27.2%	51,227	(80,282)	0	0	156,075	410,918	\$24.84
Central Corridor	23,122,574	20.2%	1.6%	24.0%	67,238	115,526	0	0	172,046	527,058	\$27.00
44th Street Corridor	3,738,255	16.1%	3.9%	19.2%	(23,779)	(53,378)	0	0	20,926	42,830	\$28.20
Camelback Corridor	8,436,478	17.7%	1.8%	20.3%	82,721	200,072	251,494	0	165,941	453,378	\$35.16
Midtown/Central Phoenix	4,715,034	7.4%	1.3%	8.6%	(41,191)	(34,200)	0	0	7,691	40,810	\$24.48
East Phoenix	16,889,767	14.5%	2.1%	16.8%	17,751	112,494	251,494	0	194,558	537,018	\$32.28
Chandler	11,062,697	18.1%	3.2%	20.4%	248,665	227,621	125,000	0	146,711	261,212	\$31.20
Gateway Airport/Loop 202	1,608,537	9.0%	0.4%	10.1%	(983)	(11,483)	26,032	0	24,452	62,696	\$33.00
Mesa Downtown	988,484	6.1%	0.0%	12.9%	21,307	36,910	0	0	4,552	7,092	\$22.44
Mesa East	3,325,263	13.0%	1.3%	29.1%	9,017	16,316	516,000	16,000	11,639	36,661	\$37.92
Superstition Corridor	5,593,694	12.6%	0.5%	13.8%	38,330	91,550	20,791	30,000	70,003	172,050	\$24.36
Tempe	19,004,832	13.5%	4.9%	23.6%	147,534	99,922	498,526	287,000	112,675	458,511	\$30.96
East Valley	41,583,507	14.2%	3.3%	21.1%	463,870	460,836	1,186,349	333,000	370,032	998,222	\$31.32
N Phoenix/Cave Creek	97,111	1.4%	0.0%	4.1%	0	1,330	0	0	0	1,330	\$23.76
Paradise Valley	4,437,405	12.6%	1.4%	13.8%	(37,684)	(57,246)	0	0	16,109	62,139	\$29.16
Piestewa Peak Corridor	2,875,543	10.7%	0.2%	13.8%	23,593	77,332	0	0	29,617	79,536	\$25.56
North Phoenix	7,410,059	11.7%	0.9%	13.6%	(14,091)	21,416	0	0	45,726	143,005	\$27.72
Arrowhead	3,193,421	9.9%	0.7%	12.7%	49,620	51,119	44,000	0	58,737	82,722	\$28.68
Deer Valley/Airport	11,484,166	22.8%	3.2%	27.0%	(113,857)	(84,312)	0	0	77,070	231,138	\$26.28
North I-17	629,556	15.5%	1.1%	19.4%	5,501	413	0	0	717	5,737	\$28.20
Northwest Phoenix	8,825,372	24.0%	0.4%	24.8%	65,400	150,924	0	0	81,634	164,303	\$21.84
Northwest Phoenix	24,132,515	21.3%	1.9%	24.1%	6,664	118,144	44,000	0	218,158	483,900	\$24.48
Pinal County	806,478	14.7%	0.0%	14.2%	19,028	24,442	0	17,128	5,975	8,302	-
Pinal County	806,478	14.7%	0.0%	14.2%	19,028	24,442	0	17,128	5,975	8,302	-
Central Scottsdale	7,826,359	14.5%	2.3%	16.8%	104,518	61,403	0	0	76,778	210,159	\$29.88
N Scottsdale/Carefree	1,080,838	15.8%	1.9%	16.6%	15,875	12,231	0	10,832	5,981	20,116	\$25.92
Scottsdale Airpark	13,213,046	15.4%	4.1%	20.3%	204,718	145,128	32,054	150,000	272,297	598,852	\$32.40
Scottsdale South	6,511,158	21.3%	2.9%	21.4%	(16,726)	(175,437)	0	244,094	162,284	274,504	\$34.80
Scottsdale	28,631,401	16.5%	3.3%	19.5%	308,385	43,325	32,054	404,926	517,340	1,103,631	\$32.28
Glendale	2,935,926	13.4%	1.3%	6.7%	(12,069)	(17,210)	0	0	56,627	59,517	\$28.68
Loop 303/Surprise	2,031,213	7.2%	0.0%	7.9%	(5,421)	(4,910)	0	0	23,779	38,347	\$28.68
Southwest Phoenix	4,509,172	4.5%	0.0%	4.5%	868	(13,727)	0	0	0	0	\$27.96
West I-10	2,096,123	5.3%	0.7%	15.1%	29,487	6,685	395,642	0	29,735	65,548	\$30.96
West Phoenix	11,572,434	7.4%	0.5%	7.6%	12,865	(29,162)	395,642	0	110,141	163,412	\$29.16
Phoenix Totals	167,438,743	16.1%	2.6%	19.8%	858,349	765,742	1,909,539	755,054	1,708,153	4,411,624	\$28.92
Class A	58,934,627	21.0%	3.7%	27.2%	592,409	113,407	1,547,648	531,094	551,578	1,462,680	\$32.64
Class B	92,692,434	14.7%	2.3%	17.5%	214,408	490,581	361,891	167,128	963,861	2,190,544	\$25.92
Class C	15,643,770	6.0%	0.1%	6.0%	21,532	120,922	0	0	91,955	165,855	\$21.72

change in its population compared to other U.S. cities with 50,000 people or more, adding 13,224 new residents.

NEAR-TERM OUTLOOK

MANY COMPANIES in the valley have started to map out their "return-to-office" plan, and office space is still

needed among tenants as going completely remote is not an option for many. Companies are trying to find the work-life balance for their employees, thus continuing the trend of migrating to the suburban market closer to where their workers live.

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 2Q 2022

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
Allred Broadway Center	Airport Area	175,000	\$52,500,000	\$300.00	Ascent Real Estate Advisors	Nikola Corporation
PVOP III	Paradise Valley	268,598	\$43,000,000	\$160.09	Time Equities, Inc.	Lincoln Property Company
Tempe Commerce Park	South Tempe/Ahwatukee	160,313	\$37,500,000	\$233.92	EverWest Real Estate Investros	CIM Group
7025 N Scottsdale Rd	Central Scottsdale	91,148	\$30,000,000	\$329.14	Providence Real Estate Group	C-III Capital Partners
Pima Northgate	Scottsdale Airpark	144,959	\$24,200,000	\$166.94	Baseline Partners	Miller Global Properties, LLC

TOP LEASE TRANSACTIONS FOR 2Q 2022

Property	Submarket	SF	Transaction Date	Landlord	Tenant
Chaparral Commerce Center	Scottsdale South	133,423	June 2022	Salt River Development Co.	ON Semiconductor
Galleria	Scottsdale South	83,791	May 2022	Jasper Ridge Partners	Qwick Media
Cavasson	Scottsdale Airpark	70,000	June 2022	Nationwide Mutual	Meritage Homes
The Commons at Rivulon	Chandler	51,728	May 2022	Nationwide Realty Investors	TechData
AERO Scottsdale	Scottsdale Airpark	46,871	May 2022	Global Mutual	Cruise

TOP UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery Date
Union - Bldg 3	NEC Riverview Auto Dr	Mesa East	480,000	Harvard Investments	December 2022
The Grove	4200 & 4300 E Camelback Rd	Camelback Corridor	251,494	RED Development, LLC	September 22
The Beam on Farmer	433 S Farmer	Tempe	183,526	M.A. Mortenson Company	August 2022
Rural Rd & University Dr	Rural Rd & University Dr	Tempe	165,000	Arizona State University	February 2023
Rio Yards - Bldg A	SWC McClintock Dr & E Rio Salado Pkwy	Tempe	150,000	Arizona Board of Regents	September 2022

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.

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

ERIC PAULSEN

Regional President, Brokerage

Southern California & Arizona

eric.paulsen@kidder.com

LIC N° 01001040

602.513.5200

**Commercial
Brokerage**

\$10.9B

TRANSACTION

49.7M **43.7M**

SALES SF
(ANNUAL)

LEASING SF
(ANNUAL)

**Valuation
Advisory**

2,600+

ASSIGNMENTS
ANNUALLY

46/24

TOTAL NO.
APPRAISERS/MAI'S

**Asset
Services**

62M

MANAGEMENT
PORTFOLIO SF

\$11B

IN ASSETS UNDER
MANAGEMENT

KIDDER.COM

km Kidder
Mathews

This information supplied herein is from sources we deem reliable. It is provided without any representation, warranty or guarantee, expressed or implied as to its accuracy. Prospective Buyer or Tenant should conduct an independent investigation and verification of all matters deemed to be material, including, but not limited to, statements of income and expenses. CONSULT YOUR ATTORNEY, ACCOUNTANT, OR OTHER PROFESSIONAL ADVISOR.