

MARKET TRENDS

PHOENIX OFFICE

MARKET DRIVERS

LEASING ACTIVITY slowed considerably in the fourth quarter, down 35% from the same time last year dropping to a new record low in almost 15 years. Demand is strongest in regions such as Downtown, Tempe, and Chandler. Although these areas command some of the highest rents in the market, businesses are now targeting prime office buildings to attract and retain employees.

DESPITE THE SLOW RECOVERY of the office market, rents in Phoenix have rebounded more quickly than in many major metros. However, the continuous record levels of availability in sublease space are softening rent gains in key submarkets such as Downtown and Chandler.

CONSTRUCTION STARTS in the office market have slowed significantly in the past couple years, recording at a 10-year low with just 1.3M SF in the construction pipeline. The development slowdown will help reduce any supply-side risk in the near future.

SALES VOLUME IN 4Q posted at a 50% decrease YOY, drawing early speculation that the rise in the local interest rates and upcoming recession could have a negative impact on investments moving forward into the new year.

ECONOMIC REVIEW

ACCORDING TO the Arizona Office of Economic Opportunity, Phoenix metro's unemployment rate in November increased 20 basis points YOY to 3%. This is compared to the state's adjusted rate of 4.1% and national rate of 3.7%.

THE AFFORDABILITY and diverse job prospects in the Valley have attracted many living in more dense and expensive cities. The labor market remains strong, although job growth is expected to decelerate in the coming year while population growth will continue to be one of the top in the nation.

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Market Summary

	4Q22	3Q22	4Q21	Annual Change
Vacancy Rate	16.9%	16.6%	15.4%	9.44%
Availability Rate	20.4%	19.9%	18.9%	7.64%
Asking Lease Rate	\$29.52	\$29.16	\$28.56	3.36%
Lease Transactions	1,587,189	1,930,607	2,465,110	-35.61%
Sale Transactions	1,917,211	2,632,268	3,892,272	-50.74%
Direct Net Absorption	137,592	126,886	890,146	N/A

↓ 1.6M SF
LEASING ACTIVITY

↑ 137K SF
NET ABSORPTION

↑ 16.9%
VACANCY RATE

↑ \$29.52
ASKING RENT (AVG)

↓ 192K SF
NEW DELIVERIES

Year-Over-Year Trend

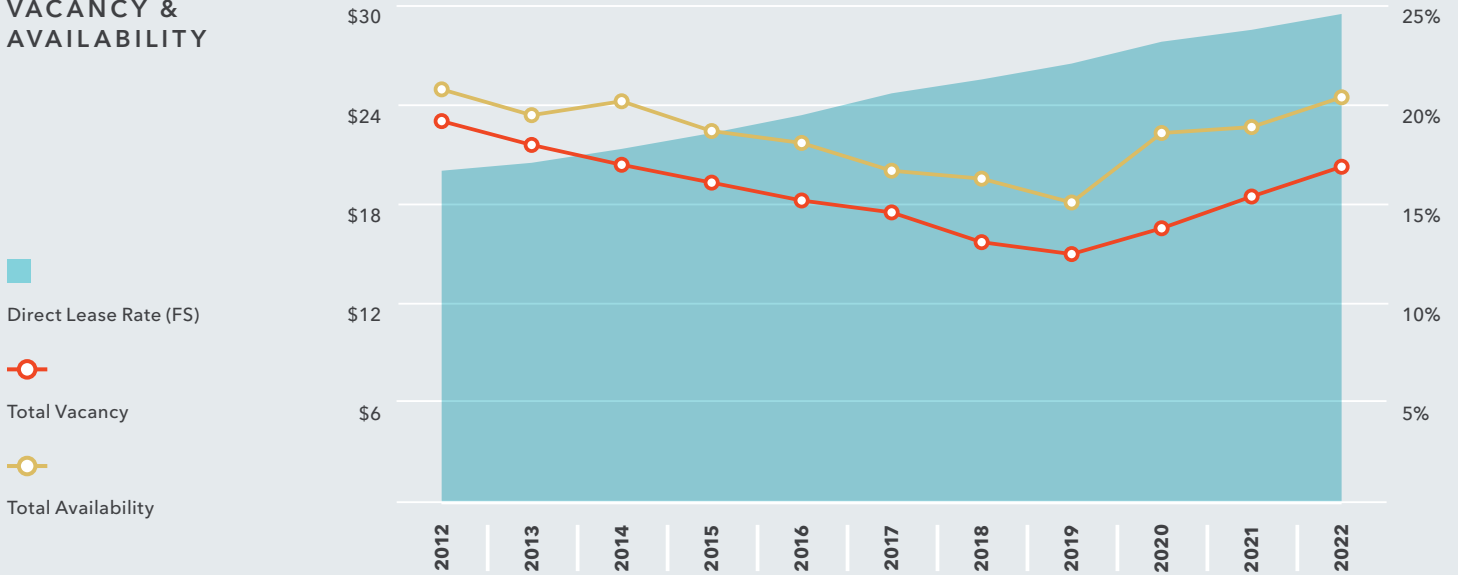
Market Highlights

RENTAL RATES hit a record high of \$29.46/SF on a full-service basis.

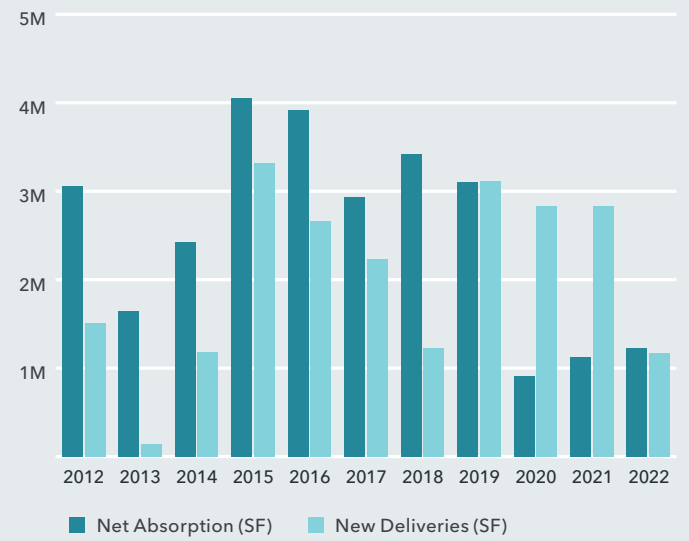
LEASING ACTIVITY fell to a 15-year low at 8.5M SF in 2022

SALES AVG PSF dropped YOY posting at \$219/SF

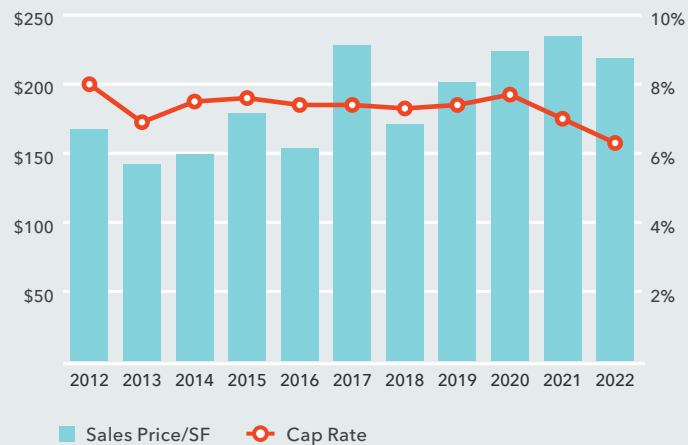
LEASE RATE, VACANCY & AVAILABILITY



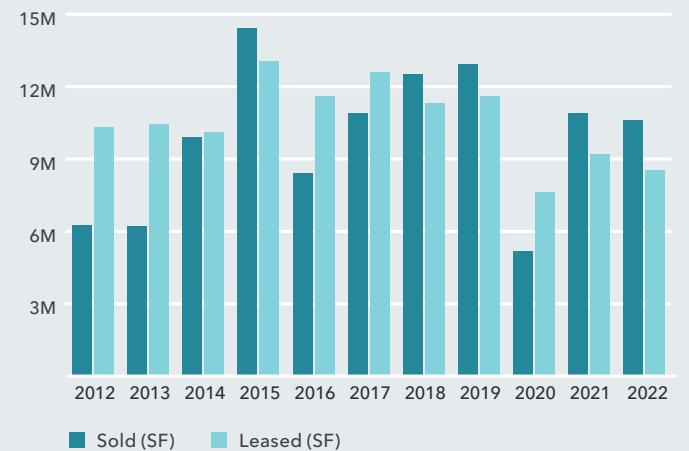
NET ABSORPTION & NEW DELIVERIES



AVERAGE SALES PRICE/SF & CAP RATE



SALE VOLUME & LEASING ACTIVITY



SUBMARKET STATISTICS

Submarket	Total Inventory	Total Vacancy Rate	Sublet Available Rate	Total Available Rate	4Q Direct Net Absorption	2022 Direct Net Absorption	SF Under Construction	2022 Construction Completions	4Q Leasing Activity	2022 Leasing Activity	Average Direct Rental Rate (FS)
Airport Area	5,341,725	21.0%	8.7%	23.0%	5,870	(48,685)	0	0	69,875	483,850	\$23.88
South Tempe/Ahwatukee	6,848,051	22.2%	3.1%	20.6%	(13,730)	(300,086)	0	0	76,678	250,201	\$26.88
Airport	12,189,776	21.7%	5.8%	21.6%	(7,860)	(348,771)	0	0	146,553	734,051	\$26.16
Downtown	10,913,895	19.6%	1.4%	21.3%	(154,783)	109,930	120,000	0	38,308	257,276	\$32.76
Midtown	12,142,431	21.2%	1.8%	26.6%	(68,630)	(76,973)	0	0	113,114	731,278	\$24.96
Central Corridor	23,056,326	20.4%	1.6%	24.1%	(223,413)	32,957	120,000	0	151,422	988,554	\$26.16
44th Street Corridor	3,683,540	17.8%	3.9%	21.2%	18,416	(73,978)	0	0	43,294	101,575	\$28.32
Camelback Corridor	8,640,204	17.9%	1.8%	19.5%	45,266	298,429	70,000	181,494	153,825	846,534	\$35.64
Midtown/Central Phoenix	4,672,506	7.9%	1.3%	8.4%	(8,408)	(58,510)	90,000	0	22,254	86,203	\$23.64
East Phoenix	16,996,250	15.1%	2.1%	16.8%	55,274	165,941	160,000	181,494	219,373	1,034,312	\$32.16
Chandler	11,141,110	17.1%	3.2%	21.5%	85,792	372,205	0	0	105,197	748,440	\$31.68
Gateway Airport/Loop 202	1,608,536	6.9%	0.4%	8.1%	33,286	25,298	45,000	0	1,498	136,440	\$33.48
Mesa Downtown	988,484	17.0%	0.0%	19.6%	(41,814)	(71,457)	0	0	2,006	11,930	\$22.08
Mesa East	3,297,304	14.2%	1.3%	18.4%	(854)	(2,530)	46,095	16,000	15,501	60,161	\$35.28
Superstition Corridor	5,630,609	10.9%	0.5%	12.9%	53,651	207,738	10,000	40,791	88,008	355,296	\$25.32
Tempe	19,186,471	19.2%	4.9%	28.5%	(270,195)	(313,155)	615,000	183,526	89,730	747,089	\$32.76
East Valley	41,852,514	16.6%	3.3%	22.7%	(140,134)	218,099	716,095	240,317	301,940	2,059,356	\$31.68
N Phoenix/Cave Creek	97,111	1.4%	0.0%	2.5%	0	1,330	0	0	3,369	4,699	\$24.24
Paradise Valley	4,434,214	13.2%	1.4%	14.6%	(16,913)	(95,520)	0	0	57,862	185,597	\$30.96
Piestewa Peak Corridor	2,914,280	10.0%	0.2%	13.2%	6,906	116,915	0	16,672	28,797	164,506	\$26.04
North Phoenix	7,445,605	11.8%	0.9%	13.9%	(10,007)	22,725	0	16,672	90,028	354,802	\$29.40
Arrowhead	3,382,702	10.1%	0.7%	11.7%	3,496	88,981	0	44,000	17,702	160,106	\$29.52
Deer Valley/Airport	11,095,596	22.3%	3.2%	28.3%	279,190	225,201	175,000	0	71,866	400,844	\$26.16
North I-17	684,000	17.8%	1.1%	23.7%	(23,561)	15,534	0	42,346	13,133	20,936	\$31.80
Northwest Phoenix	8,871,142	21.6%	0.4%	21.7%	61,236	197,509	0	0	165,638	462,909	\$22.20
Northwest Phoenix	24,033,440	20.2%	1.9%	23.4%	320,361	527,225	175,000	86,346	268,339	1,044,795	\$24.96
Pinal County	806,478	2.7%	0.0%	7.2%	(3,787)	121,983	0	17,128	3,556	11,858	-
Central Scottsdale	7,829,345	15.4%	2.3%	17.9%	(3,711)	29,288	0	0	103,949	463,836	\$30.24
N Scottsdale/Carefree	1,107,586	15.4%	1.9%	17.8%	26,617	18,588	0	10,832	8,209	38,982	\$24.84
Scottsdale Airpark	13,160,651	14.7%	4.1%	21.6%	(21,419)	317,135	181,854	160,000	177,356	1,083,375	\$34.44
Scottsdale South	6,512,084	19.3%	2.9%	21.6%	75,442	(64,085)	0	244,094	75,928	461,160	\$35.28
Scottsdale	28,609,666	16.0%	3.3%	20.5%	76,929	300,926	181,854	414,926	365,442	2,047,353	\$33.36
Glendale	2,990,709	12.7%	1.3%	7.3%	23,960	33,619	0	0	11,677	84,825	\$27.12
Loop 303/Surprise	2,034,351	8.5%	0.0%	10.0%	(15,328)	(30,861)	0	0	14,607	67,791	\$30.96
Southwest Phoenix	4,528,798	3.2%	0.0%	3.2%	57,209	43,482	0	0	0	0	\$27.24
West I-10	2,244,594	9.2%	0.7%	10.9%	4,388	134,574	69,000	228,628	14,252	114,578	\$31.80
West Phoenix	11,798,452	7.7%	0.5%	6.9%	70,229	180,814	69,000	228,628	40,536	267,194	\$29.76
Phoenix Total	166,788,507	16.9%	4.3%	20.4%	137,592	1,221,899	1,421,949	1,185,511	1,587,189	8,542,275	\$29.52
Class A	60,441,186	23.8%	3.7%	28.9%	(121,185)	(76,267)	879,800	881,742	394,845	2,722,096	\$32.88
Class B	90,622,439	14.4%	2.3%	17.2%	205,481	983,064	542,149	205,423	933,086	4,431,233	\$26.28
Class C	15,515,456	4.6%	0.1%	5.8%	53,296	232,756	0	0	48,865	262,230	\$29.52

NEAR-TERM OUTLOOK

THE FLIGHT to high-quality office space is a trend that will continue into the coming year. Companies are prioritizing employee proximity and focusing on plug-and-play buildings with attractive amenities.

THE PHOENIX METRO had the highest inflation rate in 2022 among the nation's metro areas, although it experienced its first decrease

in 14 months to 12.1% from 13% previously, while the national rate for October was 7.7%. The Phoenix market enters 2023 with cautious optimism, as inflation is expected to ease in the new year and interest rate increases may soften.

TOP SALE TRANSACTIONS 4Q 2022

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
Promenade Corporate Center	Scottsdale Airpark	480,716	\$56,500,000	\$117.53	Cardone Capital	Goldman Sachs & Co. LLC / Lincoln Prop. Co.
Kierland II	Scottsdale Airpark	234,983	\$47,000,000	\$200.01	Admiral Capital Group	LBA Realty
Take Charge America National HQ	Deer Valley/Airport	118,977	\$22,000,000	\$184.91	Mack Real Estate Group, LLC	Take Charge America, Inc.
6225 North 24th St	Camelback Corridor	86,451	\$14,550,000	\$168.30	Crowne Point Equity LLC	Mccarthy Buildings Co., Inc.
Black Canyon Comm.Park - Bldg A	Northwest Phoenix	62,771	\$11,200,000	\$178.43	Skold Family Trust	Helix Properties

TOP LEASE TRANSACTIONS 4Q 2022

Property	Submarket	SF	Transaction Date	Landlord	Tenant
Chandler Freeway Crossing I	Chandler	59,337	October 2022	Mark IV Capital, Inc.	The Raley's Companies
Blackhawk Corporate Center	Deer Valley/Airport	49,732	December 2022	Northgate Office, LLC	Undisclosed
Broadway Business Center	Airport Area	37,574	December 2022	Whiterabbit.ai	Undisclosed
City Square	Midtown	27,902	November 2022	Barker Pacific Group	Undisclosed
Black Canyon Tower	Northwest Phoenix	20,124	October 2022	Mikhail Holdings Ltd.	Minico Insurance Agency

TOP UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery
Rio Yards	SWC McClintock Dr & Rio Salado Pky	Tempe	450,000	Wentworth Property Company	July 2023
17 North Corporate Ctr - Lot 3/4	N 23rd Ave	Deer Valley/Airport	175,000	Ryan Companies US, Inc.	May 2023
Rural Rd & University Dr	Rural Rd & University Dr	Tempe	165,000	Arizona State University	February 2023
One Scottsdale - Phase III	Scottsdale Rd	Scottsdale Airpark	149,800	DMB Associates, Inc.	April 2023
34 E Jackson - Phase II	34 E Jackson	Downtown	120,000	Clearinghouse CDFI	August 2023

Data Source: CoStar, AZ Commerce, Arizona Labor of Statistics, AZ Big Media



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COMMERCIAL BROKERAGE	\$10.9B TRANSACTION VOLUME ANNUALLY	49.7M ANNUAL SALES SF	43.7M ANNUAL LEASING SF
ASSET SERVICES	52M MANAGEMENT PORTFOLIO SF	875+ ASSETS UNDER MANAGEMENT	270+ ASSET SERVICES CLIENTS
VALUATION ADVISORY	2,600+ ASSIGNMENTS ANNUALLY	48 TOTAL APPRAISERS	25 WITH MAI DESIGNATIONS

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