Kidder Mathews

MARKET TRENDS

PHOENIX *OFFICE*

2Q 2023

MARKET DRIVERS

LEASING ACTIVITY picked up slightly in the past couple quarters, although still 15%-20% below pre-pandemic levels. Smaller office buildings are seeing more activity in contrast to larger ones, as local businesses seek space with smaller footprints.

THE AMOUNT of available sublease space soared to an all-time high of approx. 7.5M SF. Representing 3.8% of the total office inventory in the Valley, the sublease availability rate ranks Phoenix in the top five markets as most affected in the nation, including markets of at least 100M SF of inventory.

ALTHOUGH OVERALL OFFICE investment activity has slowed over recent years, investors who are active seem to gravitate toward medical office buildings. MOB sales have made up almost 40% of the transaction volume in the first half of 2023.

ECONOMIC REVIEW

ACCORDING TO the Arizona Office of Economic Opportunity, Phoenix metro's unemployment rate in May remained unchanged YOY at 3.3% but increased 40 basis points month-over-month from 2.9% in April compared to the state's unadjusted rate of 3.2% and national rate of 3.9%.

THE DIVERSITY of industries and number of companies moving to the Phoenix metro has helped sustain the region's long-term stability. The labor market remains strong, climbing to third in the nation for job growth as of May. Solid job gains with accelerated wage increases help to keep unemployment rates low.

NEAR TERM OUTLOOK

THE TRANSITION of hybrid work in the long term has affected office users to reevaluate their footprints in terms of size requirements. It is expected that the trend to downsize and cut footprints to reduce overhead space will continue into the second half of the year.

THE PHOENIX OFFICE MARKET will continue to face challenges throughout the second half of the year. Although the development pipeline remains modest, vacancies are still expected to rise in the coming quarters.

Market Summary

	2Q23	1Q23	2Q22	Annual Change
Vacancy Rate	17.8%	17.0%	15.8%	**12.58%**
Availability Rate	20.6%	19.6%	19.0%	**8.34%**
Asking Lease Rate	$29.88	$29.52	$29.04	**2.89%**
Lease Transactions	2,137,467	2,844,867	2,155,060	**-0.82%**
Sale Transactions	1,135,193	1,243,211	2,776,176	**-59.11%**
Direct Net Absorption	-357,719	-86,693	937,489	**N/A**

↓ *2.1M SF*
LEASING ACTIVITY

↓ *-357K SF*
NET ABSORPTION

↑ *17.8%*
VACANCY RATE

↑ *$29.88*
ASKING RENT (AVG)

↓ *157K SF*
NEW DELIVERIES

Year-Over-Year Trend

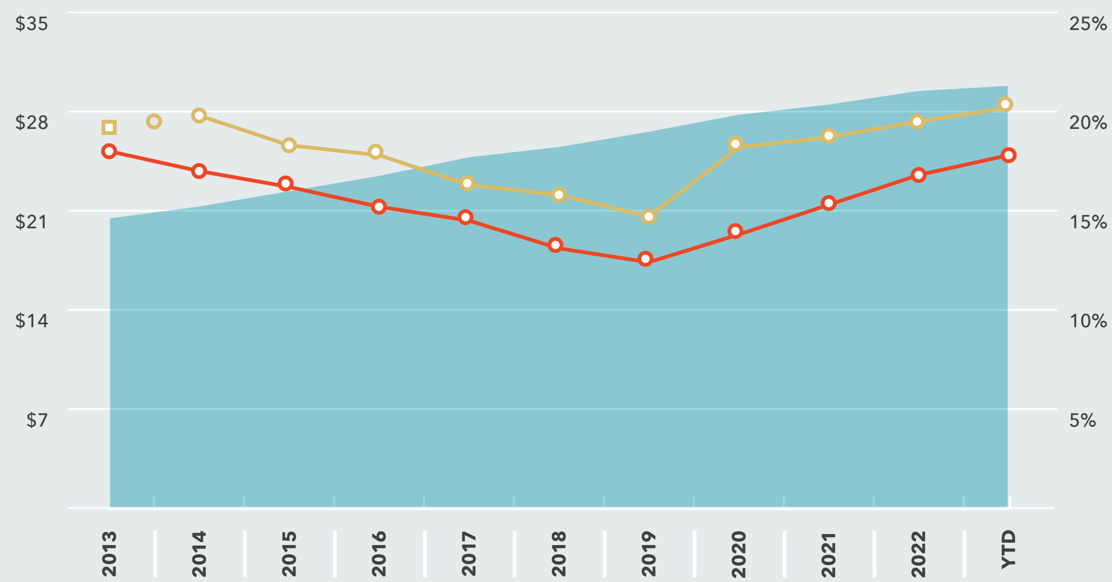
Market Highlights

SUBLEASE AVAILABILTY hit an all-time high of 7.5M SF

RENTAL RATES reached a record high of $29.88/SF on a full-service basis

SALES VOLUME fell almost 60% YOY to 1.1M SF

LEASE RATE, VACANCY & AVAILABILITY

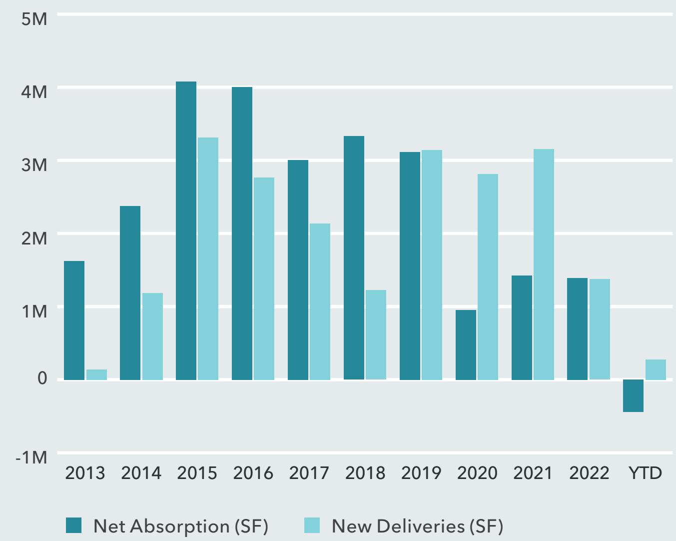


Direct Lease Rate (FS)

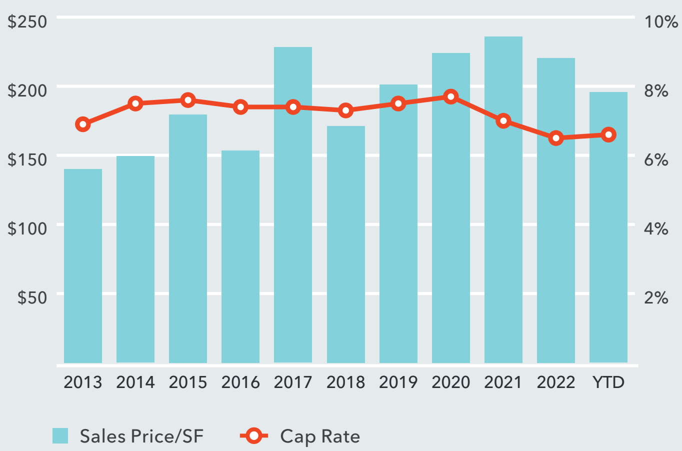
Total Vacancy

Total Availability

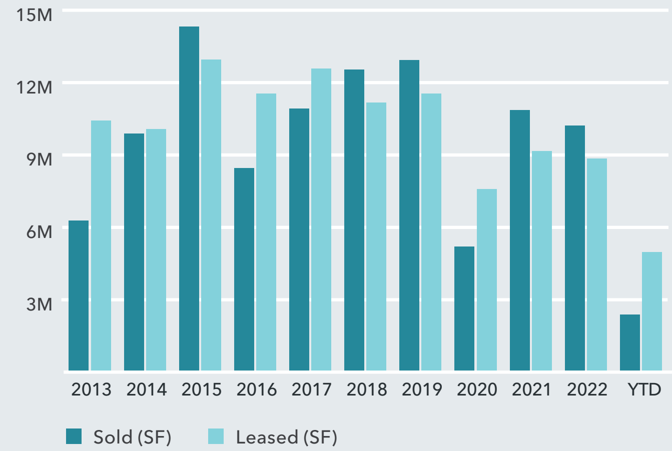
NET ABSORPTION & NEW DELIVERIES



AVERAGE SALES PRICE/SF & CAP RATE



SALE VOLUME & LEASING ACTIVITY



SUBMARKET STATISTICS

Submarket	Total Inventory	Total Vacancy Rate	Sublet Available Rate	Total Available Rate	2Q 2023 Direct Net Absorption	YTD Direct Net Absorption	SF Under Construction	YTD Construction Completions	2Q 2023 Leasing Activity	YTD Leasing Activity	Average Direct Rental Rate (FS)
Airport Area	5,220,809	24.5%	8.7%	27.2%	101,460	(13,457)	0	0	51,377	141,433	$23.28
South Tempe/Ahwatukee	6,829,187	24.9%	3.1%	24.3%	(43,238)	9,085	135,000	0	122,692	243,477	$28.80
Airport	**12,049,996**	**24.7%**	**5.8%**	**25.5%**	**58,222**	**(4,372)**	**135,000**	**0**	**174,069**	**384,910**	**$26.76**
Downtown	10,950,352	19.5%	1.4%	19.9%	39,877	20,937	0	0	76,246	128,956	$31.80
Midtown	12,466,555	20.8%	1.8%	24.7%	36,214	12,461	0	0	86,898	318,637	$25.08
Central Corridor	**23,416,907**	**20.2%**	**1.6%**	**22.4%**	**76,091**	**33,398**	**0**	**0**	**163,144**	**447,593**	**$26.88**
44th Street Corridor	3,664,616	18.4%	3.9%	22.0%	16,420	(6,168)	0	0	23,899	57,044	$28.68
Camelback Corridor	8,922,064	19.6%	1.8%	20.3%	(244,697)	(108,536)	40,000	70,000	181,735	407,104	$35.52
Midtown/Central Phoenix	4,705,018	8.8%	1.3%	9.7%	(24,665)	(35,867)	90,000	0	31,494	82,800	$24.48
East Phoenix	**17,291,698**	**16.4%**	**2.1%**	**17.8%**	**(252,942)**	**(150,571)**	**130,000**	**70,000**	**237,128**	**546,948**	**$31.92**
Chandler	11,115,743	18.3%	3.2%	23.1%	(127,946)	(108,593)	0	0	52,748	199,994	$32.28
Gateway Airport/Loop 202	1,668,943	9.0%	0.4%	12.6%	9,866	25,191	152,032	56,202	25,661	50,056	$34.92
Mesa Downtown	988,484	19.9%	0.0%	22.1%	(3,010)	(27,766)	0	0	4,023	7,841	$22.08
Mesa East	3,432,466	16.0%	1.3%	20.5%	(135,948)	(148,135)	0	52,000	58,353	134,798	$29.64
Superstition Corridor	5,431,090	12.7%	0.5%	14.7%	(9,040)	(63,355)	0	0	87,753	179,376	$27.12
Tempe	19,520,203	20.2%	4.9%	28.0%	111,426	11,151	515,000	0	197,698	464,769	$33.96
East Valley	**42,156,929**	**17.9%**	**3.3%**	**23.6%**	**(154,652)**	**(311,507)**	**667,032**	**108,202**	**426,236**	**1,036,834**	**$32.52**
N Phoenix/Cave Creek	97,111	4.8%	0.0%	9.5%	0	0	0	0	0	0	$25.80
Paradise Valley	4,497,606	13.4%	1.4%	14.3%	(44,940)	(19,081)	0	0	50,270	79,546	$31.44
Piestewa Peak Corridor	2,915,602	11.2%	0.2%	15.0%	(746)	13,381	0	0	42,076	82,383	$25.92
North Phoenix	**7,510,319**	**12.4%**	**0.9%**	**14.5%**	**(45,686)**	**(5,700)**	**0**	**0**	**92,346**	**161,929**	**$29.52**
Arrowhead	3,399,589	10.2%	0.7%	11.3%	23,644	4,106	0	0	45,411	90,186	$29.76
Deer Valley/Airport	10,987,675	23.2%	3.2%	25.8%	(42,726)	(37,905)	0	0	62,843	182,091	$26.52
North I-17	697,969	15.2%	1.1%	21.0%	18,646	30,303	0	0	7,449	7,449	$31.80
Northwest Phoenix	8,898,534	19.2%	0.4%	22.7%	104,742	205,819	0	0	149,274	335,174	$22.92
Northwest Phoenix	**23,983,767**	**19.6%**	**1.9%**	**22.5%**	**104,306**	**202,323**	**0**	**0**	**264,977**	**614,900**	**$25.32**
Pinal County	**894,076**	**2.9%**	**0.0%**	**7.3%**	**6,482**	**(4,700)**	**0**	**0**	**6,245**	**15,965**	**-**
Central Scottsdale	7,947,745	19.3%	2.3%	18.8%	(28,758)	(36,568)	0	80,000	129,628	567,459	$30.48
N Scottsdale/Carefree	1,119,010	10.7%	1.9%	13.1%	27,684	21,875	0	0	10,481	23,275	$24.72
Scottsdale Airpark	13,080,295	16.9%	4.1%	22.1%	(152,835)	(199,796)	248,000	32,054	329,536	498,296	$34.56
Scottsdale South	6,638,996	19.7%	2.9%	20.1%	(59,332)	(38,048)	0	0	208,914	518,474	$37.32
Scottsdale	**28,786,046**	**18.0%**	**3.3%**	**20.4%**	**(213,241)**	**(252,537)**	**248,000**	**112,054**	**678,559**	**1,607,504**	**$34.08**
Glendale	3,025,729	11.0%	1.3%	4.2%	45,504	10,247	35,935	0	59,402	89,199	$27.72
Loop 303/Surprise	2,029,155	7.1%	0.0%	9.3%	15,652	31,448	0	0	21,566	26,439	$30.60
Southwest Phoenix	4,007,557	3.6%	0.0%	3.9%	501	501	0	0	0	0	$26.52
West I-10	2,248,966	9.0%	0.7%	9.9%	2,044	7,058	83,773	0	13,795	50,113	$32.52
West Phoenix	**11,311,407**	**7.3%**	**0.5%**	**6.2%**	**63,701**	**49,254**	**119,708**	**0**	**94,763**	**165,751**	**$29.88**
Phoenix Total	**167,401,145**	**17.8%**	**2.6%**	**20.6%**	**(357,719)**	**(444,412)**	**1,299,740**	**290,256**	**2,137,467**	**4,982,334**	**$29.88**
Class A	60,986,229	25.0%	3.7%	29.7%	(272,727)	(315,516)	635,000	115,000	555,751	1,702,134	$33.00
Class B	91,035,869	15.2%	2.3%	17.1%	(31,313)	(95,773)	664,740	159,256	1,157,921	2,284,670	$27.12
Class C	15,189,621	4.8%	0.1%	5.3%	(53,679)	(33,123)	0	0	107,211	231,984	$22.32

TOP SALE TRANSACTIONS 2Q 2023

Property	Submarket	SF	Sale Price	$/SF	Buyer	Seller
4110 N Scottsdale Rd	Scottsdale South	109,968	$44,000,000	$400.12	Providence Real Estate Group	The Goldman Sachs Group, Inc.
Luhrs Tower & Parking Garage	Downtown	224,146	$20,400,000	$91.01	Sunrise Capital Investors	LPC Desert West
8160 S Hardy Dr	South Tempe/Ahwatukee	94,916	$13,928,360	$146.74	Russell Wagstaff	DWS
1330 W Southern Ave	Tempe	150,000	$13,350,000	$89.00	Mainstreep Capital Partners	Angelo, Gordon & Co.
4520 N Central Ave	Midtown	88,800	$9,500,000	$106.98	Phoenix Union High School District	Native American Connections

TOP LEASE TRANSACTIONS 2Q 2023

Property	Submarket	SF	Transaction Date	Landlord	Tenant
14400 N 87th St	Scottsdale Airpark	133,634	April 2023	CIM Group, LP	Undisclosed
1661 E Camelback Rd	Camelback Corridor	78,668	May 2023	Fenway Properties	Kimley-Horn
9440 N 25th Ave	Northwest Phoenix	51,391	May 2023	Arrow Development Corp.	Undisclosed
1130 N Alma School Rd	Mesa East	50,379	April 2023	Innovatus Capital Partners	Undisclosed
201 E Washington St	Downtown	42,860	April 2023	Sumitomo Corp. of Americas	Uber

TOP UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery
Tempe Landing - Phase I	W Rio Salado Pkwy	Tempe	200,000	Verde Investments, Inc.	3Q23
Rural Rd & University Dr	Rural Rd & University Dr	Tempe	165,000	Arizona State University	3Q23
Rio Yards - Bldg A	1337 E Rio Salado Pkwy	Tempe	150,000	Wentworth Property Company	3Q23
18615 Claret Dr	18615 Claret Dr	Scottsdale Airpark	150,000	Nationwide Mutual	4Q23
Viasat	8240 S River Pkwy	South Tempe/Ahwatukee	135,000	Levine Investments LP	4Q23

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

Kidder Mathews is the largest, independent commercial real estate firm on the West Coast, with 900 real estate professionals and staff in 20 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	$12B TRANSACTION VOLUME ANNUALLY	32.1M ANNUAL SALES SF	41.2M ANNUAL LEASING SF
ASSET SERVICES	53M MANAGEMENT PORTFOLIO SF	771+ ASSETS UNDER MANAGEMENT	250+ ASSET SERVICES CLIENTS
VALUATION ADVISORY	2,600+ ASSIGNMENTS ANNUALLY	46 TOTAL APPRAISERS	23 WITH MAI DESIGNATIONS

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

GARY BARAGONA
Vice President of Research
415.229.8925
gary.baragona@kidder.com

ERIC PAULSEN
Regional President, Brokerage
Southern California & Arizona
602.513.5200
eric.paulsen@kidder.com
LIC N° 01001040