

MARKET TRENDS

PHOENIX OFFICE

MARKET DRIVERS

AVAILABILITY RATES broke past 20% in Q3, a 10-year record high. The amount of available sublease space has steadily climbed since the pandemic, now representing 4.5% of the total office inventory in the Valley. The average lease size has shrunk about 10% following the pandemic in recent years, as firms continue to right size their footprints.

CONSTRUCTION IN THE OFFICE SECTOR has been minimal over the past few years, which has prevented additional supply to the market's inventory. Developers have faced tighter lending standards for construction financing, and new construction starts have been impacted because of this.

HIGHER INTEREST RATES coupled with economic uncertainty has driven investment activity to an all-time low in terms of number of transactions in Q3, and it is expected to slow for the remainder of the year. Investors may be holding out and waiting to see if properties turn over to banks and default, to take advantage of the discounted prices.

ECONOMIC REVIEW

THE PHOENIX MARKET continues to excel as one of the nation's top performing markets for employment growth. Thanks to a diversified employment base across multiple industries, the labor market now has 150k+ more jobs than pre-pandemic; the fourth-largest gain in the nation.

ACCORDING TO THE ARIZONA Office of Economic Opportunity, Phoenix metro's unemployment rate in August increased 10 basis points YOY to 4% but decreased 20 basis points month-over-month from 4.2% in July. This is compared to the state's unadjusted rate of 4.6% and national rate of 3.9%.

NEAR TERM OUTLOOK

ALONG WITH MOST other major markets across the nation, the Phoenix office market continues to navigate through an extended period of demand disruption. Vacancies and availabilities are expected to continue to increase throughout the next year as many businesses are now also taking precaution with the recent economic downturn.

THE FLOOD OF SUBLEASE AVAILABILITIES, which has more than doubled in volume since the pandemic, reflects the ongoing challenges companies face as they reassess and evaluate their footprints. Moving forward, there may be less of a correlation between employment growth and occupied office space, which will weigh on the upward pressure of availability and vacancy rates.

Market Summary

| | 3Q23 | 2Q23 | 3Q22 | Annual Change |
|-----------------------|-----------|-----------|-----------|---------------|
| Vacancy Rate | 17.8% | 17.3% | 16.2% | 9.88% |
| Availability Rate | 20.7% | 19.9% | 19.1% | 8.24% |
| Asking Lease Rate | \$30.12 | \$30.00 | \$29.28 | 2.87% |
| Lease Transactions | 1,974,776 | 2,340,514 | 2,041,801 | -3.28% |
| Sale Transactions | 1,313,229 | 1,182,455 | 2,480,915 | -47.07% |
| Direct Net Absorption | -303,581 | -137,439 | 114,382 | N/A |

1.97M SF
LEASING ACTIVITY

-303K SF
NET ABSORPTION

17.8%
VACANCY RATE

\$30.12
ASKING RENT (AVG)

297K SF
NEW DELIVERIES

Year-Over-Year Trend

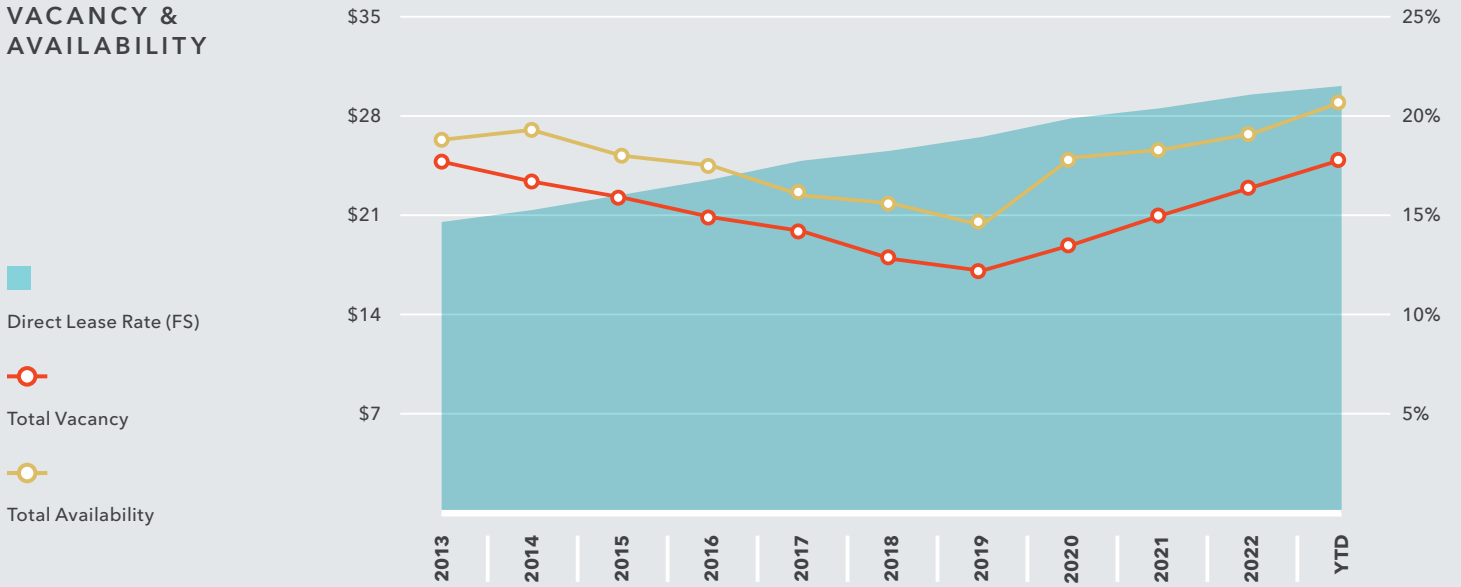
Market Highlights

AVAILABILITY RATES reached a 10-year record high of 20.7%.

LEASING ACTIVITY remains low, falling QOQ and YOY, posting 1.9M SF.

SALES VOLUME fell almost 50% YOY to 1.3M SF.

LEASE RATE, VACANCY & AVAILABILITY

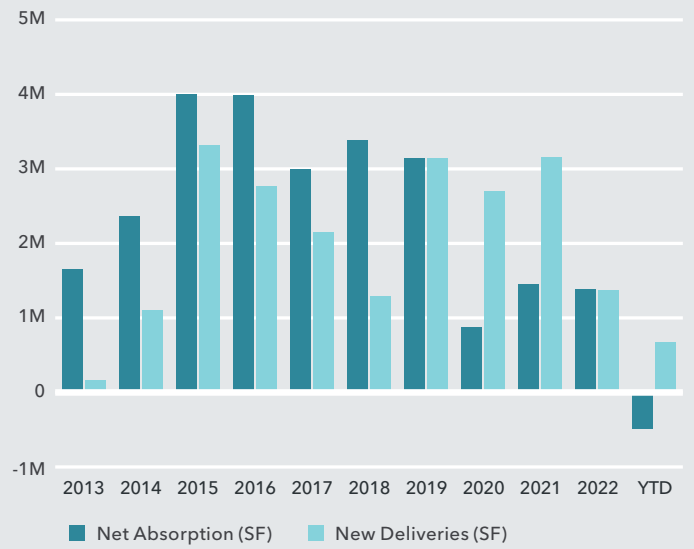


BIGGEST SALE OF THE QUARTER

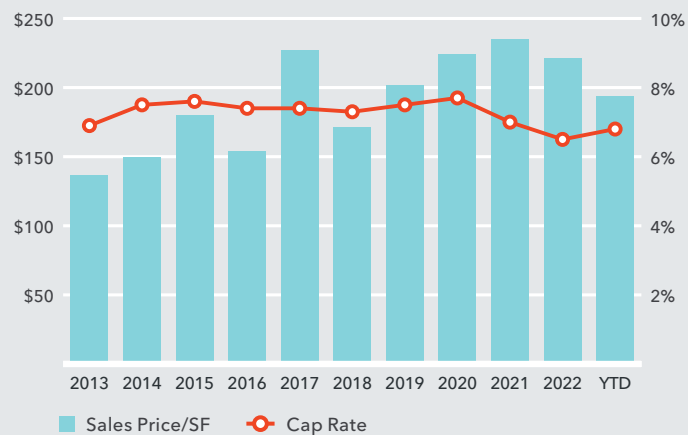
*3131 & 3133 Camelback
Phoenix, AZ*



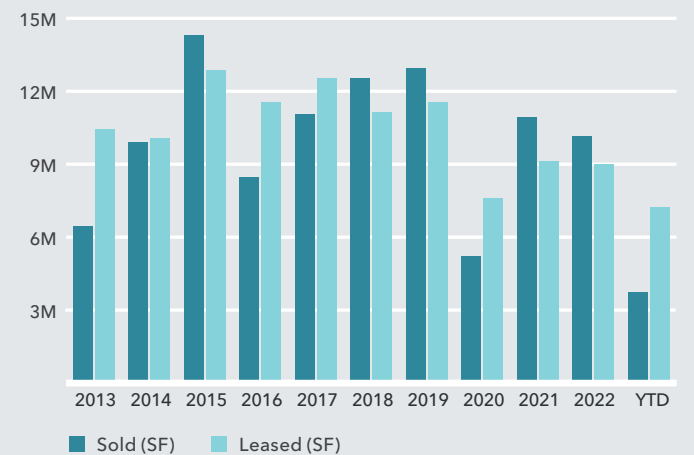
NET ABSORPTION & NEW DELIVERIES



AVERAGE SALES PRICE/SF & CAP RATE



SALE VOLUME & LEASING ACTIVITY



SUBMARKET STATISTICS

| Submarket | Total Inventory | Total Vacancy Rate | Sublet Available Rate | Total Available Rate | 3Q 2023 Direct Net Absorption | YTD Direct Net Absorption | SF Under Construction | YTD Construction Completions | 3Q 2023 Leasing Activity | YTD Leasing Activity | Average Direct Rental Rate (F5) |
|--------------------------|--------------------|--------------------|-----------------------|----------------------|-------------------------------|---------------------------|-----------------------|------------------------------|--------------------------|----------------------|---------------------------------|
| Airport Area | 5,268,372 | 23.3% | 17.3% | 30.4% | 28,322 | 66,852 | 0 | 0 | 46,092 | 193,773 | \$23.28 |
| South Tempe/Ahwatukee | 7,699,667 | 20.2% | 12.1% | 20.9% | 28,430 | 38,839 | 135,000 | 0 | 127,979 | 375,238 | \$28.32 |
| Airport | 12,968,039 | 21.5% | 12.0% | 24.7% | 56,752 | 105,691 | 135,000 | 0 | 174,071 | 569,011 | \$26.16 |
| Downtown | 10,999,362 | 21.0% | 1.7% | 22.0% | (62,802) | (41,865) | 0 | 0 | 44,859 | 173,815 | \$32.16 |
| Midtown | 12,467,125 | 20.5% | 0.6% | 24.6% | (4,194) | 26,801 | 0 | 0 | 131,165 | 491,534 | \$25.80 |
| Central Corridor | 23,466,487 | 20.7% | 1.1% | 23.4% | (66,996) | (15,064) | 0 | 0 | 176,024 | 665,349 | \$27.48 |
| 44th Street Corridor | 3,734,542 | 18.6% | 5.0% | 24.3% | (9,919) | (16,087) | 0 | 0 | 79,578 | 137,350 | \$28.80 |
| Camelback Corridor | 8,967,753 | 21.9% | 2.9% | 22.2% | (60,182) | (177,769) | 40,000 | 70,000 | 61,681 | 471,156 | \$36.60 |
| Midtown/Central Phoenix | 4,784,520 | 6.5% | 0.7% | 7.6% | 189,461 | 160,839 | 13,246 | 90,000 | 30,866 | 116,251 | \$25.44 |
| East Phoenix | 17,486,815 | 17.0% | 2.7% | 18.6% | 119,360 | (33,017) | 53,246 | 160,000 | 172,125 | 724,757 | \$32.16 |
| Chandler | 11,514,561 | 17.3% | 10.3% | 21.1% | 2,277 | (104,490) | 0 | 0 | 115,168 | 325,665 | \$32.16 |
| Gateway Airport/Loop 202 | 1,745,367 | 8.4% | 0.8% | 11.6% | 14,461 | 49,048 | 130,032 | 78,202 | 17,453 | 71,149 | \$35.16 |
| Mesa Downtown | 984,215 | 20.6% | 0.1% | 23.9% | (13,035) | (37,776) | 0 | 0 | 2,008 | 9,849 | \$21.96 |
| Mesa East | 3,457,719 | 16.3% | 1.0% | 18.1% | 10,436 | (126,151) | 0 | 52,000 | 65,433 | 211,699 | \$29.16 |
| Superstition Corridor | 5,384,920 | 13.2% | 2.7% | 15.9% | 33,406 | (17,368) | 13,838 | 0 | 53,192 | 242,214 | \$26.16 |
| Tempe | 19,945,233 | 23.8% | 7.5% | 28.2% | (550,232) | (478,197) | 297,972 | 260,329 | 145,781 | 724,290 | \$33.72 |
| East Valley | 43,032,015 | 19.4% | 6.7% | 23.2% | (502,687) | (734,934) | 441,842 | 390,531 | 399,035 | 1,584,866 | \$32.40 |
| N Phoenix/Cave Creek | 97,111 | 1.4% | 0.0% | 4.9% | 0 | 0 | 0 | 0 | 1,117 | 1,117 | \$25.80 |
| Paradise Valley | 4,511,910 | 13.9% | 0.2% | 15.4% | (47,801) | (40,827) | 0 | 0 | 37,434 | 131,512 | \$31.68 |
| Piestewa Peak Corridor | 2,915,602 | 13.7% | 3.7% | 16.1% | (26,264) | (12,010) | 0 | 0 | 25,903 | 110,125 | \$26.16 |
| North Phoenix | 7,524,623 | 13.7% | 1.6% | 15.6% | (74,065) | (52,837) | 0 | 0 | 64,454 | 242,754 | \$29.76 |
| Arrowhead | 3,400,552 | 11.4% | 1.6% | 11.7% | (34,795) | (22,860) | 0 | 0 | 37,419 | 130,545 | \$30.48 |
| Deer Valley/Airport | 12,366,457 | 18.3% | 6.3% | 23.4% | 73,888 | 35,583 | 0 | 0 | 68,537 | 252,402 | \$27.12 |
| North I-17 | 738,769 | 8.0% | 0.3% | 13.4% | 50,168 | 80,471 | 0 | 0 | 36,648 | 44,097 | \$30.60 |
| Northwest Phoenix | 8,858,594 | 19.6% | 2.2% | 23.8% | (26,147) | 187,757 | 0 | 0 | 117,597 | 4,550,319 | \$23.16 |
| Northwest Phoenix | 25,364,372 | 17.6% | 4.6% | 21.7% | 63,114 | 280,951 | 0 | 0 | 260,201 | 877,363 | \$25.80 |
| Pinal County | 894,076 | 5.9% | 0.0% | 3.4% | (26,882) | (31,582) | 0 | 0 | 41,361 | 59,178 | - |
| Central Scottsdale | 7,932,953 | 17.0% | 3.4% | 16.7% | 69,002 | 54,437 | 0 | 80,000 | 167,028 | 724,110 | \$31.08 |
| N Scottsdale/Carefree | 1,090,346 | 12.9% | 0.8% | 15.9% | (20,769) | 528 | 0 | 0 | 8,183 | 38,232 | \$25.20 |
| Scottsdale Airpark | 13,055,230 | 15.9% | 4.2% | 22.3% | 202,221 | 11,363 | 248,000 | 32,054 | 299,666 | 819,735 | \$34.68 |
| Scottsdale South | 6,660,992 | 20.2% | 3.5% | 21.5% | (10,528) | (48,576) | 0 | 0 | 114,036 | 623,367 | \$37.32 |
| Scottsdale | 28,739,521 | 17.1% | 3.7% | 20.3% | 239,926 | 17,752 | 248,000 | 112,054 | 588,913 | 2,205,444 | \$34.32 |
| Glendale | 3,005,769 | 14.0% | 0.1% | 9.4% | (71,489) | (46,681) | 20,000 | 35,935 | 19,701 | 111,719 | \$30.24 |
| Loop 303/Surprise | 2,039,347 | 10.0% | 0.7% | 10.1% | (60,669) | (27,631) | 0 | 0 | 18,566 | 47,818 | \$30.96 |
| Southwest Phoenix | 4,031,869 | 3.1% | 0.0% | 3.2% | 19,173 | 19,674 | 0 | 0 | 0 | 500 | \$26.64 |
| West I-10 | 2,040,068 | 9.4% | 0.1% | 9.5% | 882 | 22,755 | 83,773 | 0 | 60,325 | 133,181 | \$33.36 |
| West Phoenix | 11,117,053 | 8.5% | 0.2% | 7.3% | (112,103) | (31,883) | 103,773 | 35,935 | 98,592 | 293,218 | \$30.60 |
| Phoenix Totals | 170,593,001 | 17.8% | 4.3% | 20.7% | (303,581) | (494,923) | 981,861 | 698,520 | 1,974,776 | 7,221,940 | \$30.12 |
| Class A | 62,958,887 | 25.6% | 7.1% | 29.7% | (607,241) | (823,498) | 395,972 | 397,329 | 848,803 | 2,875,398 | \$33.12 |
| Class B | 91,531,097 | 14.7% | 3.1% | 16.5% | 284,543 | 350,938 | 585,889 | 285,191 | 1,059,617 | 4,031,840 | \$27.00 |
| Class C | 15,782,516 | 5.2% | 1.5% | 5.0% | 21,901 | 421 | 0 | 0 | 66,356 | 312,239 | \$23.52 |

TOP SALE TRANSACTIONS 3Q 2023

| Property | Submarket | SF | Sale Price | \$/SF | Buyer | Seller |
|-----------------------|--------------------------|---------|--------------|----------|-------------------------------|-----------------------|
| 3131 & 3133 Camelback | Camelback Corridor | 297,680 | \$72,100,000 | \$242.21 | Reliance Management | LPC Desert West |
| 14416 W Meeker Blvd | Loop 303/Surprise | 71,515 | \$33,250,000 | \$464.94 | Montecito Medical Real Estate | Banner Health |
| 8501 N Scottsdale Rd | Central Scottsdale | 143,653 | \$26,500,000 | \$184.47 | Reliance Management | LPC Desert West |
| 37200 N Gantzel Rd | Gateway Airport/Loop 202 | 61,302 | \$23,300,000 | \$380.09 | Hammes Partners | The Plaza Companies |
| 17851 N 85th St | Scottsdale Airpark | 93,000 | \$12,500,000 | \$134.41 | Reliance Management | Furst Properties, LLC |

TOP LEASE TRANSACTIONS 3Q 2023

| Property | Submarket | SF | Transaction Date | Landlord | Tenant |
|----------------------|-----------------------|--------|------------------|----------------------------|------------------------------|
| 7350 N Dobson Rd | Central Scottsdale | 70,347 | August 2023 | Farallon Capital Mgmt, LLC | Open Network Exchange |
| 350 N McClintock Dr | South Tempe/Ahwatukee | 58,697 | July 2023 | Strategic Office Partners | Undisclosed |
| 1233 S Spectrum Blvd | Chandler | 46,225 | September 2023 | Douglas Allred Company | Undisclosed |
| 850 N 5th St | Downtown | 34,421 | September 2023 | City of Phoenix | National Institute of Health |
| 15150 W Park Pl | West I-10 | 28,841 | July 2023 | Globe Corporation | Spaces. |

TOP UNDER CONSTRUCTION

| Property | Address | Submarket | SF | Owner | Delivery |
|--------------------------|--------------------------|-----------------------|---------|--------------------------|----------|
| Rural Rd & University Dr | Rural Rd & University Dr | Tempe | 165,000 | Arizona State University | 4Q23 |
| 18655 Claret Dr | 18655 Claret Dr | Scottsdale Airpark | 150,000 | Nationwide Mutual | 4Q23 |
| Viasat | 8240 S River Pkwy | South Tempe/Ahwatukee | 135,000 | Levine Investments LP | 4Q23 |
| Tempe Vale - Bldg 2 | 1295 W Rio Salado Pkwy | Tempe | 132,972 | Verde Investments, Inc. | 2Q24 |
| One Scottsdale Medical | 20159 N Scottsdale Rd | Scottsdale Airpark | 98,000 | Ryan Jones Company | 3Q24 |

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.

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

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|-----------------------------|---|--|---------------------------------------|
| COMMERCIAL BROKERAGE | <i>\$12B</i> TRANSACTION VOLUME ANNUALLY | <i>32.1M</i> ANNUAL SALES SF | <i>41.2M</i> ANNUAL LEASING SF |
| ASSET SERVICES | <i>53M</i> MANAGEMENT PORTFOLIO SF | <i>771+</i> ASSETS UNDER MANAGEMENT | <i>250+</i> ASSET SERVICES CLIENTS |
| VALUATION ADVISORY | <i>2,800+</i> ASSIGNMENTS ANNUALLY | <i>41</i> TOTAL APPRAISERS | <i>23</i> WITH MAI DESIGNATIONS |

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