

MARKET TRENDS

PHOENIX OFFICE

MARKET DRIVERS

LEASING ACTIVITY slowed considerably in the fourth quarter, down approx. 20% YOY, dropping to a 15-year record low. Smaller sized office product has shown a stronger resilience in terms of demand. While the broader market has experienced a consistent increase in vacancies over the last three years, buildings smaller than 50K SF have seen a reduction in their average vacancy rates since the pandemic began.

ALTHOUGH RENT GROWTH has slowed since early 2022 due to rising vacancies and weaker tenant demand, Phoenix rents across the valley have held strong as one of the best-performing markets in the country, recording almost 3% increase over the past 12 months.

ECONOMIC INSTABILITY, combined with rising interest rates has resulted in a significant decrease in investment activities over the past few quarters, hitting a 10-year record low at year-end posting at 5M SF in 2023, compared to 10.6M SF in 2022.

ECONOMIC OVERVIEW

PHOENIX METRO'S unemployment rate in November increased 40 basis points YOY to 3.5% but decreased 40 basis points month-over-month from 3.9% in October, according to the Arizona Office of Economic Opportunity. This is compared to the state's unadjusted rate of 4.0%.

THE NUMBER OF COMPANIES MOVING to metro Phoenix is noteworthy, but the diversity of industries has helped sustain the region's long-term stability. The businesses that Phoenix is attracting have evolved, and the market has emerged as a hub for advanced manufacturing, aerospace, logistics, and technology.

NEAR TERM OUTLOOK

THE CONTINUOUS RISE OF VACANCIES and availabilities throughout the next year is expected. As leases expire, many businesses will likely downsize their footprints given lower office utilization rates with the hybrid work model. Furthermore, the economic uncertainty presents further headwinds, potentially leading tenants to rethink committing to large and long-term leases.

THE ECONOMIC OUTLOOK for the Phoenix market is positive in the long run, despite expectations of slower growth compared to previous periods. The region's job market, population, and income are all forecasted to grow at rates exceeding the national average, though at a moderated pace.

Market Summary

	4Q23	3Q23	4Q22	Annual Change
Vacancy Rate	17.9%	17.9%	16.5%	8.21%
Availability Rate	20.6%	20.4%	19.2%	7.11%
Asking Lease Rate	\$30.36	\$30.12	\$29.52	2.85%
Lease Transactions	1,613,891	2,097,792	2,012,574	-19.81%
Sale Transactions	1,050,721	1,435,925	1,702,770	-38.29%
Direct Net Absorption	302,233	-323,281	57,926	N/A

4Q 2023

↓ **1.61M SF**
LEASING ACTIVITY

↑ **302K SF**
NET ABSORPTION

↑ **17.9%**
VACANCY RATE

↑ **\$30.36**
ASKING RENT (AVG)

↓ **150K SF**
NEW DELIVERIES

Year-Over-Year Trend

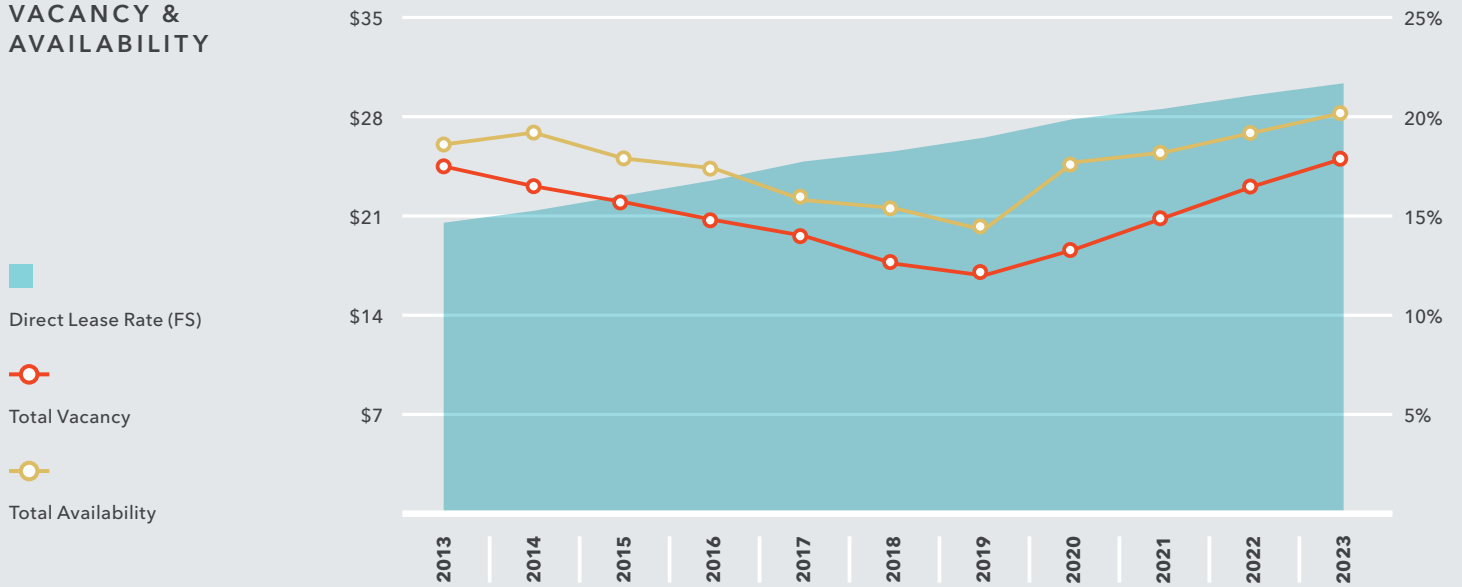
Market Highlights

AVAILABILITY RATES hover near record highs at 20.2%.

LEASING ACTIVITY dropped to a 15-year low at 1.6M SF in 4Q.

SALES VOLUME fell to a 10-year low at 5M SF in 2023.

LEASE RATE, VACANCY & AVAILABILITY

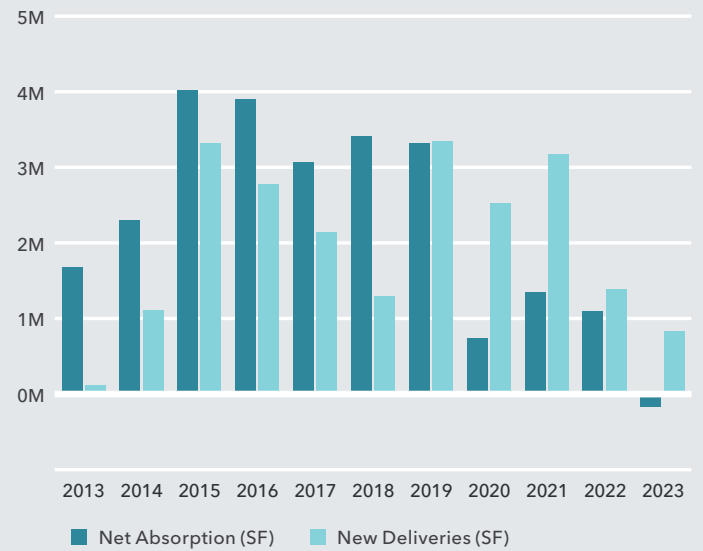


BIGGEST SALE OF THE QUARTER

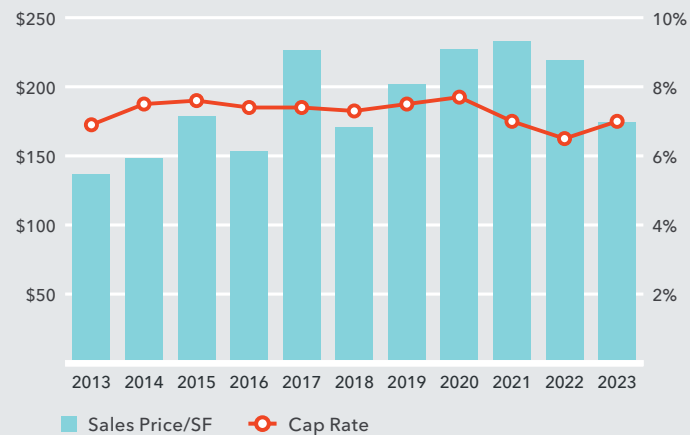
14350 N 87th St, Scottsdale



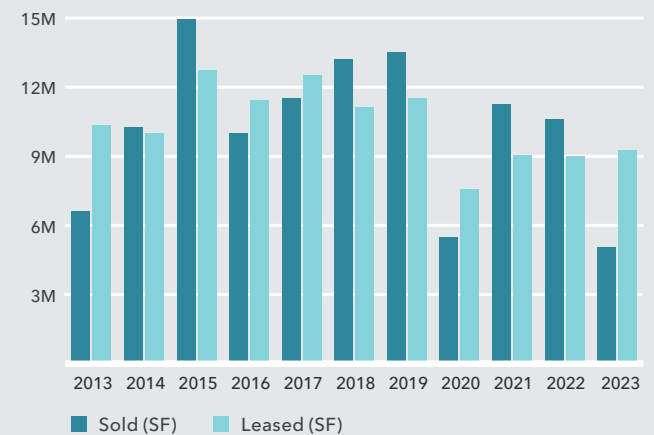
NET ABSORPTION & NEW DELIVERIES



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	2023 Direct Net Absorption	SF Under Construction	2023 Construction Completions	4Q Leasing Activity	2023 Leasing Activity	Average Direct Rental Rate (FS)
Airport Area	5,135,152	22.6%	15.3%	23.8%	85,877	102,760	0	0	164,670	350,750	\$23.16
South Tempe/Ahwatukee	6,589,259	24.0%	10.8%	26.8%	24,053	62,892	135,000	0	65,658	437,650	\$28.32
Airport	11,724,411	23.4%	12.8%	25.5%	109,930	165,652	135,000	0	230,328	788,400	\$26.40
Downtown	10,952,012	21.9%	1.4%	22.4%	(130,695)	(172,560)	0	0	27,423	201,238	\$31.92
Midtown	12,473,359	20.4%	0.8%	24.5%	28,859	55,660	0	0	75,294	592,253	\$25.92
Central Corridor	23,425,371	21.1%	1.0%	23.5%	(101,836)	(116,900)	0	0	102,717	793,491	\$27.72
44th Street Corridor	3,735,469	16.5%	4.4%	23.6%	51,401	35,314	0	0	14,338	165,226	\$28.80
Camelback Corridor	9,038,597	21.0%	2.2%	20.0%	16,672	(161,097)	0	70,000	109,765	606,657	\$37.56
Midtown/Central Phoenix	4,831,454	6.6%	0.7%	8.5%	(9,270)	154,657	13,246	90,000	12,824	129,075	\$24.96
East Phoenix	17,605,520	16.1%	2.3%	17.6%	58,803	28,874	13,246	160,000	136,927	900,958	\$33.00
Chandler	11,248,152	18.1%	10.7%	23.5%	(23,357)	(123,046)	119,222	0	182,944	540,138	\$32.16
Gateway Airport/Loop 202	1,671,266	4.7%	0.6%	9.6%	62,800	110,238	130,032	78,202	30,524	97,283	\$35.28
Mesa Downtown	974,215	19.8%	0.1%	24.1%	140	(37,636)	0	0	678	10,527	\$21.84
Mesa East	3,448,017	17.1%	1.3%	19.0%	(25,769)	(151,920)	0	52,000	13,048	233,001	\$36.96
Superstition Corridor	5,375,223	13.0%	2.6%	15.6%	(1,531)	(16,263)	0	0	67,956	322,738	\$25.32
Tempe	19,958,971	24.7%	7.7%	27.7%	(143,519)	(621,603)	298,356	260,442	179,300	1,072,061	\$33.84
East Valley	42,675,844	19.9%	6.9%	23.6%	(131,236)	(840,230)	547,610	390,644	474,450	2,275,748	\$32.88
N Phoenix/Cave Creek	97,111	3.2%	0.0%	3.2%	(1,768)	(1,768)	0	0	3,434	4,551	\$25.44
Paradise Valley	4,505,788	14.1%	0.4%	14.9%	(1,597)	(42,424)	0	0	85,873	226,073	\$32.28
Piestewa Peak Corridor	2,916,031	13.6%	3.7%	16.8%	1,505	(10,505)	0	0	28,266	153,865	\$26.40
North Phoenix	7,518,930	13.8%	1.7%	15.5%	(1,860)	(54,697)	0	0	117,573	384,489	\$30.12
Arrowhead	3,412,344	11.1%	1.9%	11.1%	10,244	(12,616)	0	0	64,748	217,643	\$29.88
Deer Valley/Airport	11,632,096	16.3%	7.2%	21.2%	128,969	164,552	0	0	49,069	301,471	\$27.24
North I-17	738,769	3.6%	0.3%	17.6%	29,337	109,808	0	0	153	31,582	\$30.84
Northwest Phoenix	8,845,807	20.1%	3.3%	23.3%	(30,745)	157,012	0	0	49,276	519,879	\$23.04
Northwest Phoenix	24,629,016	16.6%	4.9%	20.4%	137,805	418,756	0	0	163,246	1,070,575	\$25.32
Pinal County	894,076	4.9%	0.0%	4.6%	8,910	(22,672)	14,329	0	5,790	64,968	-
Central Scottsdale	7,941,547	16.9%	3.8%	17.7%	(27,721)	26,716	0	80,000	95,931	868,381	\$31.56
N Scottsdale/Carefree	1,090,171	16.2%	1.1%	18.7%	(32,257)	(31,729)	0	0	2,271	55,503	\$25.08
Scottsdale Airpark	13,218,154	16.8%	4.6%	21.4%	90,509	141,900	98,000	182,054	144,370	971,015	\$33.72
Scottsdale South	6,649,020	18.5%	4.0%	21.1%	166,090	117,514	0	0	89,114	731,526	\$37.32
Scottsdale	28,898,892	17.2%	4.1%	20.2%	196,621	254,401	98,000	262,054	331,686	2,626,425	\$33.84
Glendale	3,008,146	14.1%	0.4%	11.8%	14,120	(32,561)	116,000	35,935	16,501	128,220	\$30.36
Loop 303/Surprise	2,029,053	9.2%	0.9%	9.6%	19,241	(8,390)	0	0	19,760	73,978	\$31.20
Southwest Phoenix	4,031,869	3.1%	0.0%	3.2%	0	19,674	0	0	0	500	\$26.88
West I-10	2,035,697	9.8%	0.2%	10.9%	(8,265)	14,490	141,773	0	14,913	151,213	\$34.20
West Phoenix	11,104,765	8.4%	0.3%	8.1%	25,096	(6,787)	257,773	35,935	51,174	353,911	\$30.96
Phoenix Totals	168,476,825	17.9%	2.6%	20.6%	302,233	(173,603)	1,065,958	848,633	1,613,891	9,258,965	\$30.36
Class A	62,648,631	26.2%	7.1%	29.6%	(115,058)	(926,535)	444,356	397,442	644,096	3,083,823	\$33.48
Class B	90,501,833	14.3%	3.3%	17.0%	341,371	671,868	621,602	435,191	795,538	4,534,872	\$27.00
Class C	15,126,882	4.9%	1.3%	4.9%	75,920	83,848	0	0	67,972	528,221	\$23.28

TOP SALE TRANSACTIONS 4Q 2023

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
14350 N 87th St	Scottsdale Airpark	138,693	\$26,500,000	\$191.07	Providence Real Estate Group	New York Life Investments
16552 N 90th St - Bldg B	Scottsdale Airpark	128,998	\$15,929,760	\$123.49	Envita Medical Centers of America	Strategic Office Partners
200 E Van Buren St	Downtown	245,513	\$14,500,000	\$59.06	Stenson Tamaddon	ViaWest Group
Paradise Valley Professional Campus	Paradise Valley	57,694	\$13,000,000	\$225.33	Mcfarlane Investment Group	Cypress West Realty Mgmt, Inc.
5222 E Baseline Rd	Superstition Corridor	62,480	\$12,000,000	\$192.06	Woodside Health	Founders Properties

TOP LEASE TRANSACTIONS 4Q 2023

Property	Submarket	SF	Transaction Date	Landlord	Tenant
3150 S 48th St	Airport Area	136,194	October 2023	Menlo Equities	Peckham
Gilbert Spectrum - Bldg 3	Chandler	119,222	October 2023	SunCap Property Group	Northrop Grumman
NWC Northrop Blvd & Germann Rd	Chandler	90,195	November 2023	US Capitol	Wedgewood Pharmacy
433 S Farmer Ave	Tempe	41,164	November 2023	M.A. Mortensen Company	Undisclosed
4100 W Galveston St	South Tempe/Ahwatukee	25,981	November 2023	United Realty M.T.A., LLC	Trinity Air Medical

TOP UNDER CONSTRUCTION

Property	Address	Submarket	SF	Owner	Delivery
Novus Place - 777 Tower	Rural Rd & University Dr	Tempe	165,000	Arizona State University	3Q 2024
Viasat	8240 S River Pkwy	South Tempe/Ahwatukee	135,000	Levine Investments LP	1Q 2024
Tempe Vale - Bldg 2	1295 W Rio Salado Pkwy	Tempe	133,356	Verde Investments, Inc.	2Q 2024
Gilbert Spectrum - Bldg 3	SWC Elliot Rd & McQueen Rd	Chandler	119,222	SunCap Property Group	3Q 2024
One Scottsdale Medical	20159 N Scottsdale Rd	Scottsdale Airpark	98,000	Ryan Companies	2Q 2024

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



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

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COMMERCIAL
BROKERAGE

\$12B

TRANSACTION
VOLUME ANNUALLY

32.1M

ANNUAL
SALES SF

41.2M

ANNUAL
LEASING SFASSET
SERVICES

53M

MANAGEMENT
PORTFOLIO SF

771+

ASSETS UNDER
MANAGEMENT

250+

ASSET SERVICES
CLIENTSVALUATION
ADVISORY

2,800+

ASSIGNMENTS
ANNUALLY

42

TOTAL
APPRAISERS

23

WITH MAI
DESIGNATIONS