

## MARKET TRENDS

# PHOENIX OFFICE

### MARKET DRIVERS

Leasing activity fell for the fourth consecutive quarter, down roughly 35% year-over-year (YOY), resulting in the lowest period of activity since 4Q20. Total vacancies continue to rise and now stand at 18%, a 30-basis point (bps) increase quarter-over-quarter (QOQ). Smaller office product, in particular offices under 50k SF, are generating consistent tenant demand. Vacancy rates for sub 50k SF office product have remained steady over the last two years sitting between 8.7% and 9.8%.

Despite the rising vacancies and weaker tenant demand, Phoenix average rental across the valley have held strong resulting in a 3.7% gain YOY.

2023 resulted in a 10-year record low of 5.4M SF of office properties trading hands due to economic uncertainty and rising interest rates. Sales volume fell again by 8% to 1.2M SF from the 1.3M SF reported in 1Q23.

### ECONOMIC REVIEW

According to the Arizona Office of Economic Opportunity, Phoenix metro's unemployment rate in February increased 10 bps YOY to 3.3%. This is compared to the state's unemployment rate of 4.1% and national rate of 3.9%.

The Phoenix metro continues to excel as one of the nation's top performing markets for employment growth. The Bureau of Labor Statistics' preliminary data for February 2024 shows total nonfarm employment throughout the metro area grew 2.2% YOY.

### ECONOMIC REVIEW

Vacancy and availability rates are expected to rise throughout 2024 due to upcoming lease expirations and weakening office fundamentals. It is anticipated that businesses will likely downsize their office footprint with the growing popularity of hybrid work models coupled with economic uncertainty. Demand should remain strong for smaller office suites, as over 60% of all 1Q24 office lease transactions ranged from 1-5k SF.

Despite recent challenges, the economic outlook for the Phoenix market remains positive in the long run. Forecasts expect the region's population, job market and personal income to grow, but at a moderated pace when compared to prior years.

## Market Summary

	1Q24	4Q23	1Q23	YOY Change
Total Vacancy Rate	18.0%	17.7%	16.5%	<b>150 bps</b>
Total Availability Rate	21.0%	20.2%	19.1%	<b>190 bps</b>
Direct Asking Lease Rate	\$30.60	\$30.36	\$29.52	<b>3.67%</b>

	1Q24	2023 Total	1Q23	YOY Change
Leased SF	1,952,908	10,070,143	3,029,805	<b>-35.5%</b>
Sold SF	1,156,880	5,455,640	1,258,455	<b>-8.1%</b>
Total Net Absorption	-605,782	-20,306	41,889	<b>N/A</b>

↓ **2.0M SF**  
LEASING ACTIVITY

↓ **-605K SF**  
NET ABSORPTION

↑ **18.0%**  
VACANCY RATE

↑ **\$30.60**  
ASKING RENT (AVG)

↓ **39K SF**  
NEW DELIVERIES

Year-Over-Year Trend

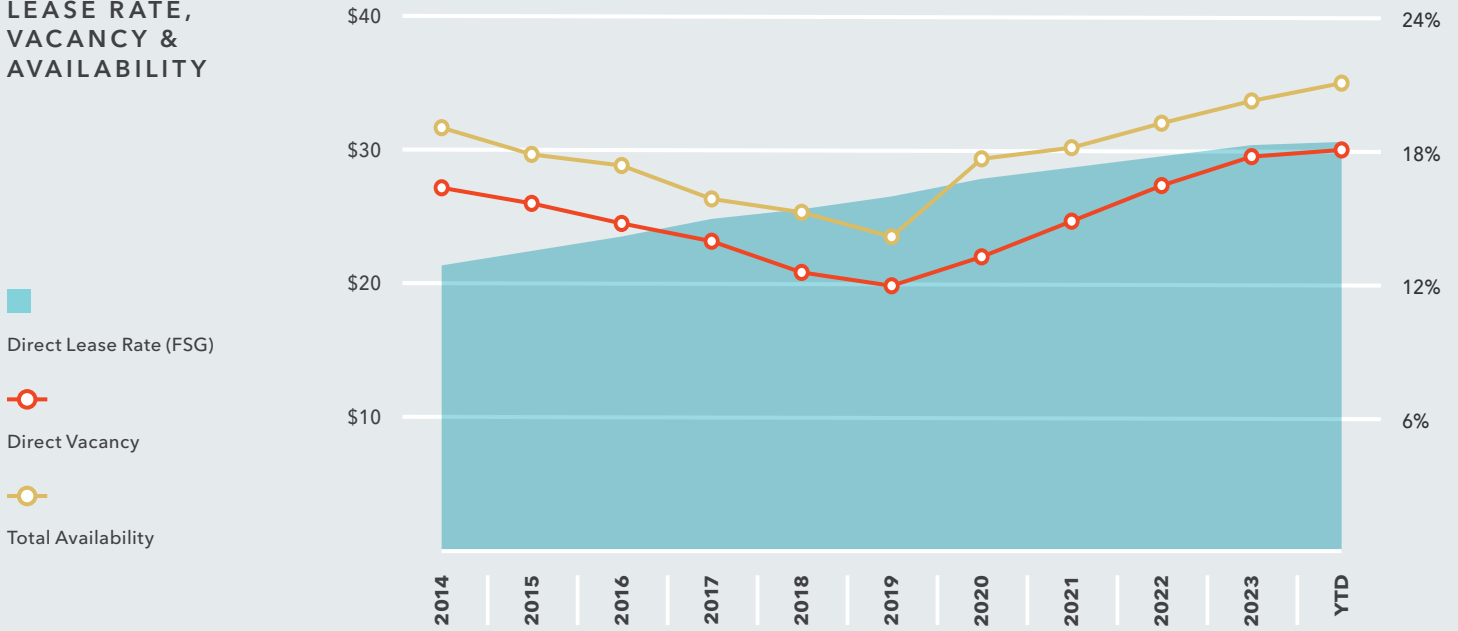
## Market Highlights

**AVAILABILITY RATES** continue to grow, currently at 21%

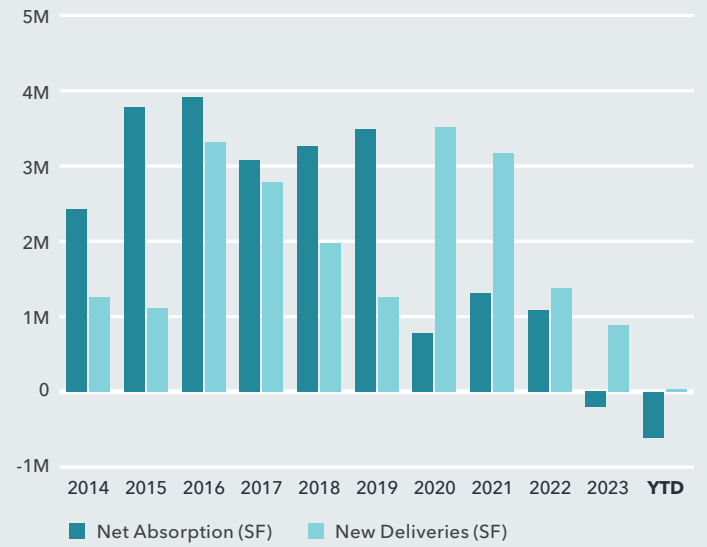
**LEASING ACTIVITY** fell 35% YOY to 1.95M SF

**SALES VOLUME** fell 8% YOY to 1.2M SF

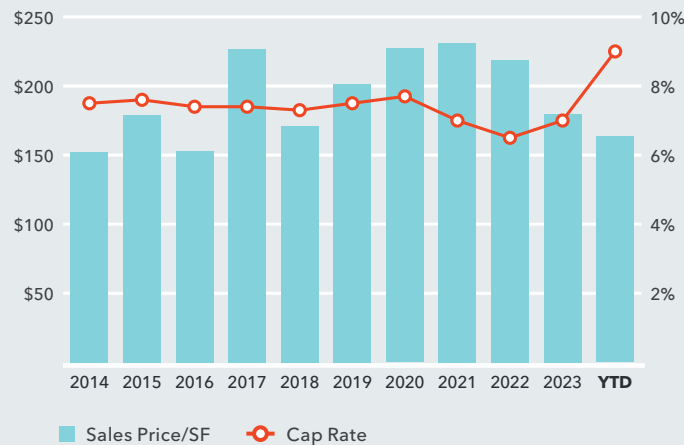
### LEASE RATE, VACANCY & AVAILABILITY



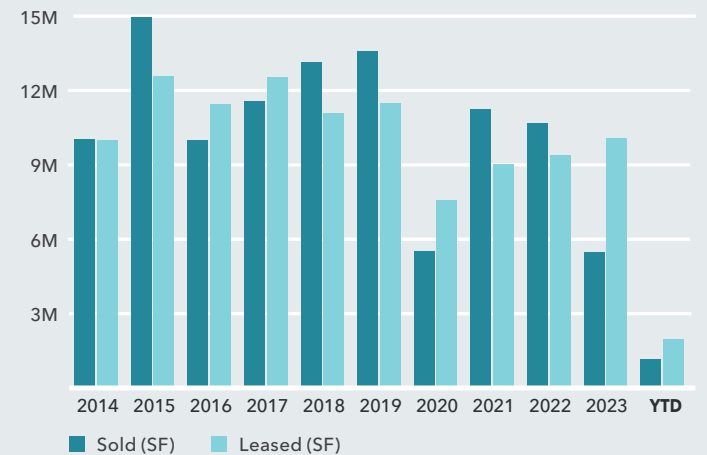
### NET ABSORPTION & NEW DELIVERIES



### AVERAGE SALES PRICE/SF & CAP RATE



### SALE VOLUME & LEASING ACTIVITY



SUBMARKET STATISTICS

Submarket	Total Inventory	Total Vacancy Rate	Sublet Available Rate	Total Available Rate	1Q24 Direct Net Absorption	YTD Direct Net Absorption	SF Under Construction	YTD Construction Completions	1Q24 Leasing Activity	YTD Leasing Activity	Average Direct Rental Rate (FS)
Airport Area	5,358,969	23.9%	14.6%	26.3%	(125,317)	(125,317)	0	0	21,145	21,145	\$23.52
South Tempe/Ahwatukee	6,649,762	24.9%	10.1%	28.7%	(187,410)	(187,410)	0	0	107,000	107,000	\$28.44
<b>Airport</b>	<b>12,008,731</b>	<b>24.5%</b>	<b>12.1%</b>	<b>27.6%</b>	<b>(312,727)</b>	<b>(312,727)</b>	<b>0</b>	<b>0</b>	<b>128,145</b>	<b>128,145</b>	<b>\$26.40</b>
Downtown	10,625,083	23.6%	1.3%	23.6%	(111,385)	(111,385)	0	0	17,146	17,146	\$32.76
Midtown	12,486,299	20.1%	0.7%	24.9%	14,165	14,165	0	0	154,846	154,846	\$26.16
<b>Central Corridor</b>	<b>23,111,382</b>	<b>21.7%</b>	<b>1.0%</b>	<b>24.3%</b>	<b>(97,220)</b>	<b>(97,220)</b>	<b>0</b>	<b>0</b>	<b>171,992</b>	<b>171,992</b>	<b>\$28.08</b>
44th Street Corridor	3,873,527	16.8%	4.7%	23.3%	(19,892)	(19,892)	0	0	20,770	20,770	\$28.68
Camelback Corridor	9,085,037	19.6%	2.5%	20.5%	167,715	167,715	40,000	0	86,067	86,067	\$37.32
Midtown/Central Phoenix	4,918,881	7.2%	0.7%	9.1%	(27,885)	(27,885)	0	0	14,446	14,446	\$25.08
<b>East Phoenix</b>	<b>17,877,445</b>	<b>15.6%</b>	<b>2.5%</b>	<b>18.0%</b>	<b>119,938</b>	<b>119,938</b>	<b>40,000</b>	<b>0</b>	<b>121,283</b>	<b>121,283</b>	<b>\$32.76</b>
Chandler	11,246,348	18.6%	10.1%	25.1%	(108,679)	(108,679)	119,222	0	163,684	163,684	\$32.28
Gateway Airport/Loop 202	1,739,600	8.2%	0.9%	8.1%	(8,218)	(8,218)	62,832	39,000	37,410	37,410	\$35.04
Mesa Downtown	974,215	7.0%	0.1%	9.6%	124,760	124,760	0	0	4,112	4,112	\$22.32
Mesa East	3,416,929	15.9%	1.4%	16.7%	27,901	27,901	0	0	29,434	29,434	\$36.96
Superstition Corridor	5,378,987	12.5%	2.2%	17.3%	(19,135)	(19,135)	0	0	96,507	96,507	\$26.28
Tempe	20,030,583	25.9%	7.4%	27.7%	(281,441)	(281,441)	298,356	0	228,182	228,182	\$34.56
<b>East Valley</b>	<b>42,786,662</b>	<b>20.3%</b>	<b>6.5%</b>	<b>23.6%</b>	<b>(264,812)</b>	<b>(264,812)</b>	<b>480,410</b>	<b>39,000</b>	<b>559,329</b>	<b>559,329</b>	<b>\$33.36</b>
N Phoenix/Cave Creek	97,111	3.2%	0.0%	3.2%	0	0	0	0	0	0	\$25.44
Paradise Valley	4,529,476	14.7%	0.3%	14.5%	(29,691)	(29,691)	0	0	370,752	370,752	\$32.04
Piestewa Peak Corridor	2,916,031	14.4%	3.7%	17.3%	(23,763)	(23,763)	0	0	20,860	20,860	\$26.64
<b>North Phoenix</b>	<b>7,542,618</b>	<b>14.4%</b>	<b>1.6%</b>	<b>15.4%</b>	<b>(53,454)</b>	<b>(53,454)</b>	<b>0</b>	<b>0</b>	<b>391,612</b>	<b>391,612</b>	<b>\$30.12</b>
Arrowhead	3,422,216	9.0%	1.8%	10.2%	46,561	46,561	0	0	30,313	30,313	\$30.48
Deer Valley/Airport	11,903,231	15.0%	6.8%	21.3%	(4,744)	(4,744)	0	0	47,340	47,340	\$27.60
North I-17	738,769	10.6%	0.5%	11.4%	(50,954)	(50,954)	0	0	2,490	2,490	\$30.48
Northwest Phoenix	8,884,484	20.6%	2.8%	23.5%	(67,820)	(67,820)	0	0	52,502	52,502	\$23.04
<b>Northwest Phoenix</b>	<b>24,948,700</b>	<b>16.0%</b>	<b>4.5%</b>	<b>20.3%</b>	<b>(76,957)</b>	<b>(76,957)</b>	<b>0</b>	<b>0</b>	<b>132,645</b>	<b>132,645</b>	<b>\$25.56</b>
<b>Pinal County</b>	<b>894,214</b>	<b>2.6%</b>	<b>0.0%</b>	<b>5.2%</b>	<b>1,997</b>	<b>1,997</b>	<b>14,400</b>	<b>0</b>	<b>1,777</b>	<b>1,777</b>	<b>\$18.60</b>
Central Scottsdale	8,004,255	17.0%	3.9%	19.0%	(38,295)	(38,295)	100,000	0	119,365	119,365	\$32.76
N Scottsdale/Carefree	1,120,526	15.7%	1.9%	16.8%	14,485	14,485	0	0	12,202	12,202	\$24.36
Scottsdale Airpark	13,322,905	15.9%	5.3%	22.2%	92,709	92,709	167,384	0	220,200	220,200	\$33.48
Scottsdale South	6,623,781	18.6%	4.6%	23.3%	(20,712)	(20,712)	0	0	48,009	48,009	\$38.76
<b>Scottsdale</b>	<b>29,071,467</b>	<b>16.8%</b>	<b>4.6%</b>	<b>21.3%</b>	<b>48,187</b>	<b>48,187</b>	<b>267,384</b>	<b>0</b>	<b>399,776</b>	<b>399,776</b>	<b>\$34.44</b>
Glendale	3,009,016	16.9%	1.3%	11.9%	(6,804)	(6,804)	20,000	0	24,114	24,114	\$29.64
Loop 303/ Surprise	2,029,053	9.2%	0.7%	10.4%	(5,407)	(5,407)	0	0	3,671	3,671	\$30.96
Southwest Phoenix	4,031,795	3.1%	0.0%	3.2%	0	0	0	0	0	0	\$26.88
West I-10	2,060,232	8.0%	0.3%	10.3%	41,477	41,477	141,773	0	18,564	18,564	\$34.68
<b>West Phoenix</b>	<b>11,130,096</b>	<b>8.9%</b>	<b>0.6%</b>	<b>8.2%</b>	<b>29,266</b>	<b>29,266</b>	<b>161,773</b>	<b>0</b>	<b>46,349</b>	<b>46,349</b>	<b>\$30.84</b>
<b>Phoenix Totals</b>	<b>169,371,315</b>	<b>18.0%</b>	<b>4.5%</b>	<b>21.0%</b>	<b>(605,782)</b>	<b>(605,782)</b>	<b>963,967</b>	<b>39,000</b>	<b>1,952,908</b>	<b>1,952,908</b>	<b>\$30.60</b>
Class A	63,729,634	27.0%	7.0%	30.8%	(498,576)	(498,576)	653,740	0	1,041,530	1,041,530	\$33.48
Class B	90,434,763	13.8%	3.3%	16.8%	(59,767)	(59,767)	310,227	39,000	850,669	850,669	\$26.76
Class C	15,023,439	4.9%	1.1%	5.1%	(47,439)	(47,439)	0	0	60,709	60,709	\$22.80

**SIGNIFICANT SALE TRANSACTIONS 1Q 2024**

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
The Corridors Office Park 9377 E Bell Rd	Deer Valley/Airport	164,235	\$32,925,000	\$200.47	The Voit Company	Marble Bridge Funding Group Inc
3925-3945 E Broadway Rd	Scottsdale Airpark	84,725	\$21,250,000	\$250.81	TPG Angelo Gordon & Co., L.P.	Healthpeak Prop, Inc.
6309 E Baywood Ave	Airport Area	136,998	\$17,450,000	\$127.37	Government Inv. Ptns.	Pat Simone Charitable Foundation
2525 W Townley Ave	Mesa East	30,417	\$15,400,000	\$506.30	Newstreet Properties	Cypress West Realty Mgmt., Inc.
	Northwest Phoenix	99,918	\$15,225,000	\$152.37	The Valley COM Inv.	West Coast Capital Ptns.

**SIGNIFICANT LEASE TRANSACTIONS 1Q 2024**

Property	Submarket	SF	Transaction Date	Landlord	Tenant
5353 E City N Dr	Paradise Valley	250,000	February 2024	U.S. Realty Advisors	Republic Services
NWC Tatum Blvd & Cactus Rd	Paradise Valley	76,655	March 2024	RED Development	Fender
155 E Rivulon Blvd	Chandler	75,000	January 2024	Nationwide Realty Investors	Isagenix
8605 E Raintree Dr	Scottsdale Airpark	34,148	January 2024	Trammell Crow Company	Pulte
16220 N Scottsdale Rd	Scottsdale Airpark	25,169	January 2024	Artis REIT	Lucid Private Offices

**SIGNIFICANT UNDER CONSTRUCTION**

Property	Address	Submarket	SF	Owner	Delivery
Novus Place - 777 Tower	Rural Rd & University Dr	Tempe	165,000	Arizona State University	3Q24
Tempe Vale - Bldg 2	1295 W Rio Salado Pkwy	Tempe	133,356	Verde Investments, Inc.	2Q24
Gilbert Spectrum - Bldg 3	SWC Elliot Rd & McQueen Rd	Chandler	119,222	SunCap Property Group	3Q24
Pima Center	8435 N Pima Center Pky	Central Scottsdale	100,000	Boldt	2Q25
One Scottsdale Medical	20159 N Scottsdale	Scottsdale Airpark	98,000	Ryan Companies	3Q24

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



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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  
 602.513.5200  
 eric.paulsen@kidder.com  
 LIC N° 01001040

<b>COMMERCIAL BROKERAGE</b>	<b>\$10B</b> 3-YEAR AVERAGE TRANSACTION VOLUME	<b>31.7M</b> ANNUAL SALES SF	<b>42.4M</b> ANNUAL LEASING SF
<b>ASSET SERVICES</b>	<b>51M SF</b> MANAGEMENT PORTFOLIO SIZE	<b>750+</b> ASSETS UNDER MANAGEMENT	<b>250+</b> CLIENTS SERVED
<b>VALUATION ADVISORY</b>	<b>2,600+</b> 3-YEAR AVERAGE ASSIGNMENTS	<b>43</b> TOTAL APPRAISERS	<b>25</b> WITH MAI DESIGNATIONS

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