

## MARKET TRENDS

# PHOENIX OFFICE

### MARKET DRIVERS

Average asking rental rates grew slightly quarter-over-quarter (QOQ) and by 1.6% year-over-year (YOY), likely driven by increasing operating expenses and the influence of heavily amenitized Class A buildings pushing rates. Premium Class A buildings continue to dominate with average direct rental rates surpassing those of Class B and Class C properties by 30% and 50%, respectively.

Total office leasing activity continued to decelerate throughout 2024 with a QOQ decline of 9%, reaching 1.1M SF. Direct net absorption totaled 8.7K SF in 4Q24, reversing the trend of negative direct net absorption observed since 2Q23. However, the cumulative direct net absorption totaled -2.1M SF for 2024.

Total vacancies currently stand at 24.8%, a 20 basis points (bps) decrease from 3Q24 and a 150 bps YOY increase.

Smaller office buildings (sub 50,000 SF) are showing a vacancy rate of 8.5% YTD. This trend reflects many users opting to downsize their footprint and explore smaller space options due to the ongoing prevalence of remote and hybrid work models, introduced during the Covid-19 pandemic.

YTD sales volume in the Phoenix office market has surpassed 5.6M SF, exceeding the total sales volume of 3.3M SF in 2023.

### NEAR-TERM OUTLOOK

In the near term, upcoming loan maturities will present a potential risk as a significant amount of CMBS debt is set to mature within the next 12 months. This may lead to a resurgence in sales transaction activity and as well as distressed sales throughout 2025 and into 2026.

Limited new construction has helped mediate a supply and demand imbalance but may create a shortage of limited premium office options as construction and financing costs have made it difficult to break ground.

## Market Summary

	4Q24	3Q24	4Q23	YOY Change
Total Vacancy Rate	24.8%	25.0%	23.3%	<b>150 bps</b>
Total Availability Rate	27.0%	26.9%	26.9%	<b>10 bps</b>
Direct Asking Lease Rate	\$30.87	\$369.72	\$364.56	<b>-91.5%</b>
	4Q24	2024	2023	YOY Change
Leased SF	1,128,701	5,830,096	7,263,489	<b>-19.7%</b>
Sold SF	1,502,197	5,633,338	3,340,250	<b>68.7%</b>
Direct Net Absorption	8,732	-2,170,607	-730,936	<b>N/A</b>

↓ **1.1M SF**  
LEASING ACTIVITY

↓ **-980K SF**  
NET ABSORPTION

↑ **24.8%**  
VACANCY RATE

↑ **\$30.87**  
ASKING RENT (AVG)

↓ **403K SF**  
NEW DELIVERIES

Year-Over-Year Trend

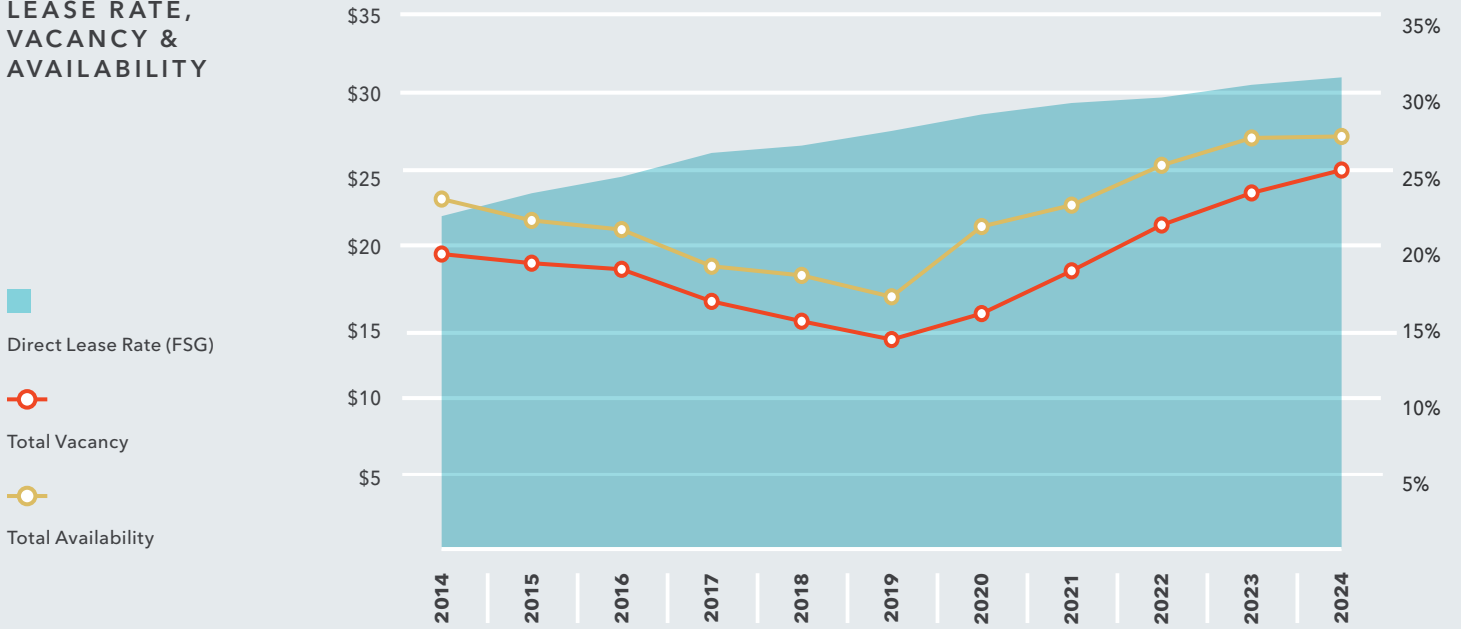
## Market Highlights

**DIRECT NET ABSORPTION** totaled -2.1M SF.

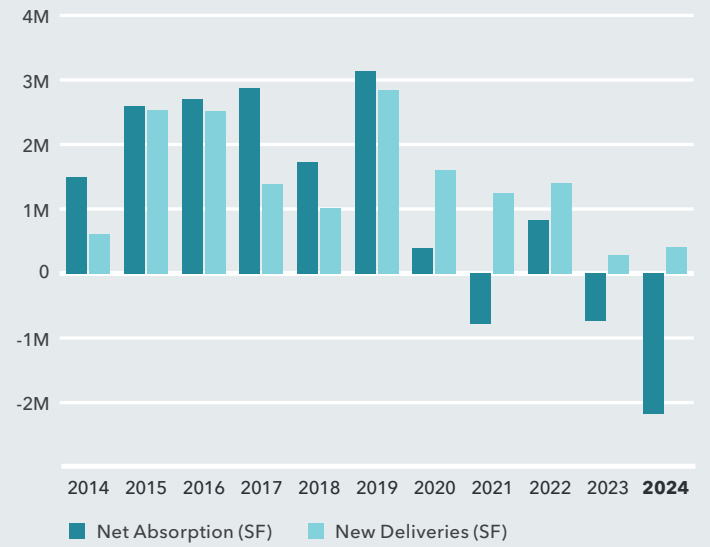
**YTD SALES VOLUME** spanned 5.6M SF, surpassing 2023's total.

**TOTAL VACANCY RATES** grew 150 bps YOY to 24.8%.

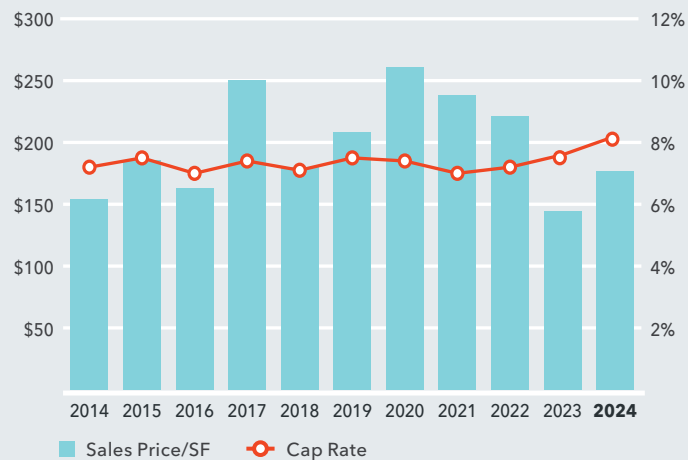
## LEASE RATE, VACANCY & AVAILABILITY



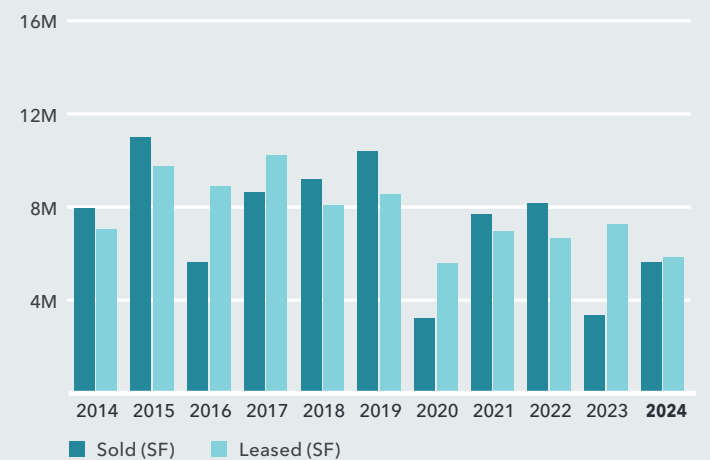
## NET ABSORPTION & NEW DELIVERIES



## AVERAGE SALES PRICE/SF & CAP RATE



## SALE VOLUME & LEASING ACTIVITY



SUBMARKET STATISTICS

Submarket	Total Inventory	Total Vacancy Rate	Sublet Available Rate	Total Available Rate	4Q24 Direct Net Absorption	2024 Direct Net Absorption	SF Under Construction	2024 Construction Completions	4Q24 Leasing Activity	2024 Leasing Activity	Average Direct Rental Rate (F5)
Airport Area	4,964,575	27.7%	11.3%	29.6%	(98,514)	(383,845)	0	0		207,039	\$24.41
South Tempe/Ahwatukee	4,617,841	32.6%	10.4%	33.4%	31,021	(235,267)	0	135,000	56,950	193,464	\$31.03
<b>Airport</b>	<b>9,582,416</b>	<b>30.0%</b>	<b>10.9%</b>	<b>31.4%</b>	<b>(67,493)</b>	<b>(619,112)</b>	<b>0</b>	<b>135,000</b>	<b>111,346</b>	<b>400,503</b>	<b>\$27.90</b>
Downtown	8,077,156	25.0%	4.0%	18.8%	62,970	117,433	0	0	12,689	151,098	\$33.88
Midtown	9,097,412	29.7%	0.6%	34.0%	(74,991)	(420,630)	0	0	136,351	520,469	\$25.82
<b>Central Corridor</b>	<b>17,174,568</b>	<b>27.5%</b>	<b>2.2%</b>	<b>26.8%</b>	<b>(12,021)</b>	<b>(303,197)</b>	<b>0</b>	<b>0</b>	<b>149,040</b>	<b>671,567</b>	<b>\$27.70</b>
44th Street Corridor	2,179,881	24.5%	4.7%	36.8%	(42,276)	(73,594)	0	0	9,346	79,854	\$27.76
Camelback Corridor	8,138,876	21.6%	2.7%	23.7%	(1,624)	142,571	0	0	88,853	552,607	\$39.62
Midtown/Central Phoenix	2,397,838	5.2%	0.6%	6.2%	(9,693)	(14,634)	0	0	30,425	72,144	\$21.28
<b>East Phoenix</b>	<b>12,716,595</b>	<b>19.0%</b>	<b>2.7%</b>	<b>22.7%</b>	<b>(53,593)</b>	<b>54,343</b>	<b>0</b>	<b>0</b>	<b>128,624</b>	<b>704,605</b>	<b>\$34.66</b>
Chandler	7,043,233	28.2%	12.7%	33.5%	(97,658)	(495,063)	119,222	0	26,869	389,864	\$31.05
Gateway Airport/Loop 202	212,530	3.6%	0.0%	4.3%	(2,537)	(74)	26,032	0	0	7,693	\$36.60
Mesa Downtown	593,172	10.3%	0.2%	12.2%	(3,608)	(10,167)	0	0	994	9,943	\$21.64
Mesa East	1,005,811	37.1%	5.1%	40.2%	(5,352)	10,401	0	0	2,061	79,611	\$39.55
Superstition Corridor	2,328,079	14.7%	2.3%	24.6%	(48,491)	(96,439)	0	0	15,903	145,025	\$23.36
Tempe	14,474,807	27.8%	9.0%	30.8%	293,712	17,736	0	0	170,503	969,634	\$34.52
<b>East Valley</b>	<b>25,657,632</b>	<b>26.5%</b>	<b>9.0%</b>	<b>30.7%</b>	<b>136,066</b>	<b>(573,606)</b>	<b>145,254</b>	<b>0</b>	<b>216,330</b>	<b>1,601,770</b>	<b>\$32.84</b>
Paradise Valley	1,708,500	22.5%	0.6%	22.6%	(21,974)	(26,349)	0	0	21,732	171,620	\$32.59
Piestewa Peak Corridor	1,791,496	22.8%	6.9%	24.4%	30,569	(28,867)	0	0	29,335	162,744	\$27.83
<b>North Phoenix</b>	<b>3,499,996</b>	<b>22.6%</b>	<b>3.9%</b>	<b>23.5%</b>	<b>8,595</b>	<b>(55,216)</b>	<b>0</b>	<b>0</b>	<b>51,067</b>	<b>334,364</b>	<b>\$30.45</b>
Arrowhead	714,834	15.5%	3.1%	16.3%	(1,583)	(14,993)	0	0	10,734	45,989	\$31.03
Deer Valley/Airport	5,449,264	29.7%	13.8%	35.6%	(139,520)	(201,485)	0	0	134,569	390,599	\$27.64
North I-17	336,237	9.5%	0.0%	9.5%	1,128	(31,953)	0	0	0	4,312	\$30.00
Northwest Phoenix	4,626,671	30.3%	2.6%	32.6%	(68,484)	(267,591)	0	0	23,177	127,781	\$23.86
<b>Northwest Phoenix</b>	<b>11,127,006</b>	<b>28.4%</b>	<b>8.0%</b>	<b>32.3%</b>	<b>(208,459)</b>	<b>(516,022)</b>	<b>0</b>	<b>0</b>	<b>168,480</b>	<b>568,681</b>	<b>\$25.61</b>
Central Scottsdale	5,108,315	16.5%	2.1%	17.7%	119,946	12,189	0	0	66,204	334,516	\$32.37
N Scottsdale/Carefree	285,707	20.4%	2.4%	15.9%	717	13,063	0	0	3,861	13,105	\$22.49
Scottsdale Airpark	8,379,869	18.3%	4.9%	22.2%	83,051	48,380	0	0	130,042	657,934	\$34.28
Scottsdale South	4,701,347	30.0%	3.3%	30.8%	13,468	(289,261)	0	0	64,377	416,718	\$38.08
<b>Scottsdale</b>	<b>18,475,238</b>	<b>20.8%</b>	<b>3.7%</b>	<b>23.0%</b>	<b>217,182</b>	<b>(215,629)</b>	<b>0</b>	<b>0</b>	<b>264,484</b>	<b>1,422,273</b>	<b>\$35.05</b>
Glendale	1,318,776	26.4%	2.8%	17.4%	4,621	39,547	0	0	22,419	65,494	\$29.24
Loop 303/Surprise	267,118	16.5%	0.0%	14.6%	(2,750)	(2,750)	0	0	5,052	5,052	\$29.89
Southwest Phoenix	1,358,712	7.7%	0.0%	7.7%	0	0	0	0	0	0	\$29.50
West I-10	683,561	18.2%	0.0%	16.0%	(13,416)	22,529	0	0	11,859	55,787	\$35.15
<b>West Phoenix</b>	<b>3,628,167</b>	<b>17.1%</b>	<b>1.0%</b>	<b>13.3%</b>	<b>(11,545)</b>	<b>59,326</b>	<b>0</b>	<b>0</b>	<b>39,330</b>	<b>126,333</b>	<b>\$30.97</b>
<b>Phoenix Totals</b>	<b>101,861,618</b>	<b>24.8%</b>	<b>5.7%</b>	<b>27.0%</b>	<b>8,732</b>	<b>(2,169,113)</b>	<b>145,254</b>	<b>135,000</b>	<b>1,128,701</b>	<b>5,830,096</b>	<b>\$30.87</b>
Class A	57,627,916	30.6%	7.2%	32.3%	83,513	(1,022,618)	119,222	135,000	673,534	3,886,389	\$33.40
Class B	38,371,982	18.3%	3.9%	21.9%	(69,289)	(997,130)	26,032	0	427,000	1,849,349	\$25.79
Class C	5,861,720	9.4%	2.6%	8.8%	(5,492)	(150,908)	0	0	24,699	92,815	\$21.95

**SIGNIFICANT SALE TRANSACTIONS 4Q 2024**

Property	Submarket	SF	Sale Price	\$/SF	Buyer	Seller
24th At Camelback II	Camelback Corridor	306,877	\$97,900,000	\$319.02	Roger Norman	Hines
Camelback Lakes	Camelback Corridor	230,222	\$60,000,000	\$260.62	Circle Road Equities	DRA Advisors
7272 Old Town	Scottsdale South	158,556	\$42,250,000	\$266.47	Ascentris, LLC   George Oliver	Goldman Sachs Asset Mgmt.
Desert Ridge Corporate Center	Paradise Valley	275,208	\$35,000,000	\$127.18	Discount Tire Company, Inc.	Regent Properties
711 - 777 E Missouri Ave - LINK	Camelback Corridor	84,176	\$21,400,000	\$254.23	Providence Real Estate Group	Mainstreet Capital Partners

**SIGNIFICANT LEASE TRANSACTIONS 4Q 2024**

Property	Submarket	SF	Transaction Date	Landlord	Tenant
20410 N 19th Ave	Deer Valley/Airport	57,336	October 2024	Everest Holdings	Chamberlain University of College of Nursing
80 E Rio Salado Pkwy	Tempe	51,973	October 2024	Cousins Properties	Undisclosed
16220 N Scottsdale Rd	Scottsdale Airpark	46,040	December 2024	Artis REIT	Undisclosed
Arrowhead Creekside	Glendale	27956	October 2024	Woodside Health	OSBI
The Commons on Sixteenth	Phoenix	25,662	October 2024	Arsalan Gozini	David Riddiford

**SIGNIFICANT UNDER CONSTRUCTION**

Property	Address	Submarket	SF	Owner	Delivery
Bldg 3	SWC Elliot Rd & McQueen Rd	Chandler	119,222	Gilbert Spectrum Building 3, LLC	1Q25
Building F	SWC Williams Field Rd & Recker Rd	Gateway Airport/Loop 202	26,032	Brody Associates, Inc.	2Q25

\* The Phoenix office inventory base was modified in 3Q 2024 to reflect multi-tenant office buildings 20,000 SF and greater. All historical statistics and trends in this report reflect the change.

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.

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<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>57M SF</b> MANAGEMENT PORTFOLIO SIZE	<b>850+</b> ASSETS UNDER MANAGEMENT	<b>260+</b> CLIENTS SERVED
<b>VALUATION ADVISORY</b>	<b>2,600+</b> 3-YEAR AVERAGE ASSIGNMENTS	<b>43</b> TOTAL APPRAISERS	<b>27</b> WITH MAI DESIGNATIONS

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