

Phoenix Office

Market Forecast

Trends

Absorption	↑
Vacancy	↓
Rental Rate	↑
New Construction	↑

Notable Transactions

- Oscar's
615 S River Dr, Tempe
94,000 s.f. leased

- Bank of America
14636 N Scottsdale Rd, Scottsdale Airpark
93,000 s.f. leased

- Willis Towers Watson
1144 W Washington St, Tempe
91,000 s.f. leased

- Northern Trust
2140 E Elliot Rd, South Tempe/Ahwatukee
75,000 s.f. leased

- Direct Energy Marketing
1401 S 52nd St, Tempe Northwest
64,000 s.f. leased

The Phoenix office market experienced strong leasing activity, high net absorption, and rising rental rates during the second quarter. Office vacancy decreased to 15.9%, a result of over 1.2 million square feet of positive net absorption and over 1.7 million square feet of leasing activity this quarter. The strong local economy and job creation should drive real estate market growth for many quarters to come. The Phoenix unemployment rate sits at 4.8%, a 40 basis point decrease from the 5.2% recorded this time last year.

The overall office vacancy level of 15.9% represents the strongest start to a year since the second quarter in 2008. Submarkets in Phoenix with the highest direct vacancy rates include North Scottsdale/Carefree at 37.3%, North I-17 at 25.9% and Northwest Phoenix at 22.8%. Submarkets with the least vacant space include Pinal County at 8.8%, Tempe at 9.3%, and Scottsdale South at 9.5%. Direct net absorption of over 1.2 million square feet was mostly concentrated in the East Valley submarket cluster. The second quarter saw close to half a million square feet of new construction delivered. Another 1.6 million square feet of office product is currently under construction, of which 1.3 million square feet is Class A space and the remaining 300,000 square feet is Class B.

Asking rental rates market wide for office properties increased for the 14th consecutive quarter, to \$22.92 per square foot on a full-service basis, with Class A office going for \$27.72. This represents a 4.9% increase in rates from the second quarter of 2015. Asking rates remain highest in the Camelback Corridor, where they average \$29.76 per square foot and are growing steadily each quarter. By contrast, the lowest rates are found in the Mesa Downtown submarket, which reported an average asking rent of \$15.36 per square foot.

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Area Review

Investment sales trends were off to a slow start for the year, mirroring the national trend. The average sale price in the second quarter for office investment assets was \$177 per square foot, up from \$132 per square foot in the first quarter.

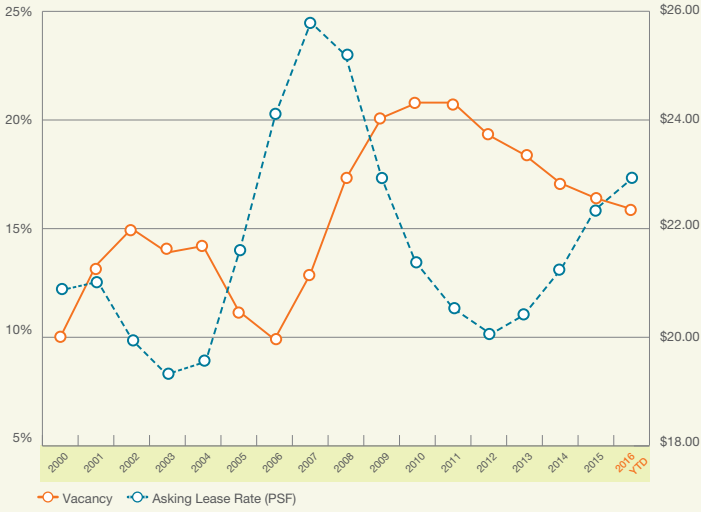
Average cap rates decreased from 8.0% in the first quarter to 7.8% this quarter. Total dollar volume for office asset sales was \$407 million from 45 transactions.

Source: CoStar

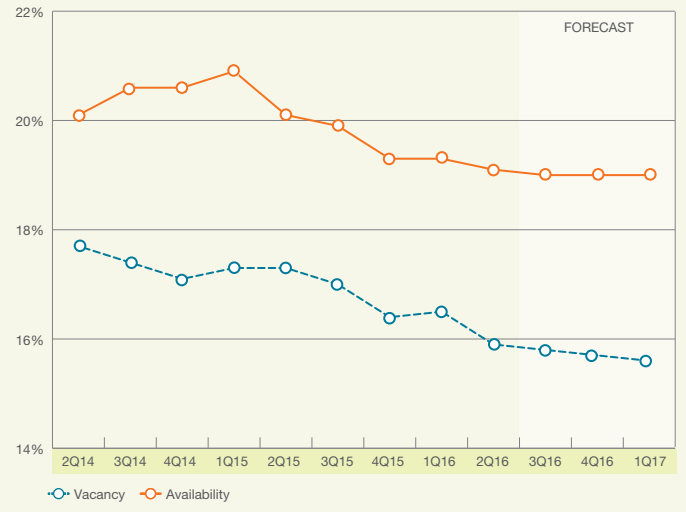
Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	2Q Direct Net Absorption	YTD Direct Net Absorption	2Q Leasing Activity	YTD Leasing Activity	Average NNN Rental Rate
Airport Area	10,266,976	16.9%	17.3%	25.4%	(22,240)	(52,671)	91,728	156,530	\$22.56
South Tempe/Ahwatukee	6,293,176	15.9%	16.8%	21.7%	13,978	(78,057)	140,892	226,096	\$22.56
Airport	16,560,152	16.5%	17.1%	24.0%	(8,262)	(130,728)	232,620	382,626	\$22.56
Downtown	9,905,849	10.8%	12.1%	13.9%	31,601	72,910	81,223	137,854	\$27.12
Midtown	12,146,902	20.6%	21.1%	23.6%	12,896	53,436	111,574	239,646	\$21.24
Central Corridor	22,052,751	16.2%	17.0%	19.3%	44,497	126,346	192,797	377,500	\$22.68
44th Street Corridor	3,696,995	15.4%	16.5%	17.7%	(94,007)	(114,302)	18,966	206,506	\$24.00
Camelback Corridor	8,918,686	18.5%	19.7%	23.2%	77,706	107,718	154,956	252,340	\$29.76
Midtown/Central Phoenix	3,820,720	11.9%	12.5%	16.5%	20,061	27,117	58,471	90,899	\$17.64
East Phoenix	16,436,401	16.2%	17.3%	20.4%	3,760	20,533	232,393	549,745	\$26.28
Chandler	7,940,137	19.1%	19.4%	17.9%	143,779	79,129	64,264	274,270	\$23.52
Gateway Airport/Loop 202	1,241,641	15.8%	16.0%	18.6%	18,461	29,221	10,327	32,271	\$23.76
Mesa Downtown	941,257	9.7%	9.7%	11.7%	(7,384)	10,502	1,815	3,238	\$15.36
Mesa East	1,942,477	12.8%	13.0%	13.7%	(10,562)	3,141	18,870	27,083	\$16.80
Superstition Corridor	4,728,775	17.1%	18.0%	20.4%	24,427	209,791	75,258	158,539	\$19.20
Tempe	9,587,006	9.3%	9.4%	13.2%	547,410	843,308	91,839	272,004	\$23.64
East Valley	26,381,293	14.2%	14.6%	16.1%	716,131	1,175,092	262,373	767,405	\$21.84
N Phoenix/Cave Creek	68,926	18.7%	18.7%	18.7%	1,151	9,322	0	1,300	\$20.76
Paradise Valley	3,729,371	15.5%	16.2%	18.0%	(9,137)	12,557	67,979	131,387	\$23.16
Piestewa Peak Corridor	2,943,990	17.2%	17.6%	19.9%	38,864	51,822	44,347	71,797	\$18.96
North Phoenix	6,742,287	16.2%	16.9%	18.8%	30,878	73,701	112,326	204,484	\$21.24
Arrowhead	2,684,065	13.7%	13.9%	16.8%	12,701	87,622	45,028	82,991	\$22.92
Deer Valley/Airport	11,024,510	16.9%	17.5%	18.2%	68,085	84,277	104,372	271,085	\$22.56
North I-17	482,318	25.9%	25.9%	32.1%	1,978	1,419	4,372	6,000	\$22.80
Northwest Phoenix	8,232,399	22.8%	22.9%	28.9%	9,504	153,701	53,403	126,220	\$17.16
Northwest Phoenix	22,423,292	18.9%	19.2%	22.3%	92,268	327,019	207,175	486,296	\$20.04
Pinal County	795,671	8.8%	8.8%	8.8%	11,340	10,380	0	10,747	\$19.44
Central Scottsdale	7,434,142	13.1%	13.7%	17.7%	115,496	160,164	89,751	193,993	\$23.40
N Scottsdale/Carefree	1,148,893	37.3%	37.3%	37.5%	23,940	17,792	12,571	33,743	\$21.72
Scottsdale Airpark	11,994,970	15.6%	15.7%	15.2%	117,932	75,769	257,501	526,074	\$26.40
Scottsdale South	5,253,351	9.5%	12.1%	15.7%	64,603	30,163	76,659	193,390	\$27.72
Scottsdale	25,831,356	14.6%	15.4%	17.0%	321,971	283,888	436,482	947,200	\$25.32
Glendale	2,456,865	20.2%	20.2%	19.6%	19,269	33,921	15,383	24,846	\$22.44
Loop 303/Surprise	1,790,047	13.3%	13.6%	15.3%	8,967	7,494	7,261	18,901	\$23.76
Southwest Phoenix	2,685,233	12.9%	12.9%	11.9%	(8,905)	(5,866)	0	26,522	\$20.16
West I-10	1,324,927	11.9%	12.4%	12.8%	(2,940)	(14,538)	13,204	22,711	\$24.36
West Phoenix	8,257,072	15.0%	15.2%	15.1%	16,391	21,011	35,848	92,980	\$22.32
Phoenix Total	145,480,275	15.9%	16.5%	19.1%	1,228,974	1,907,242	1,712,014	3,818,983	\$22.92

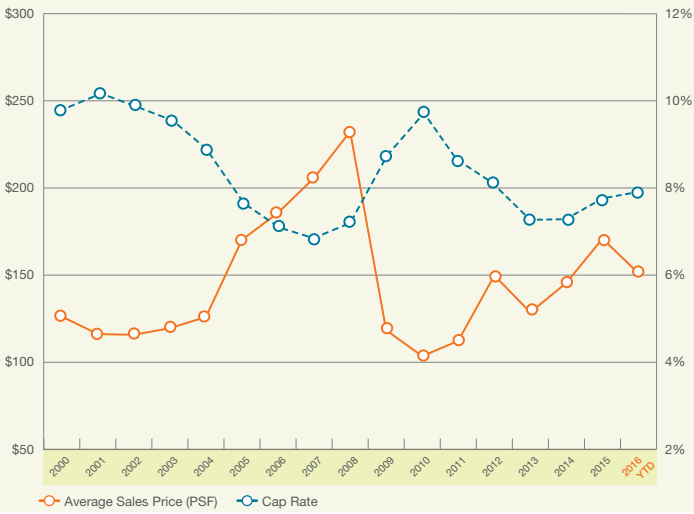
VACANCY VS ASKING LEASE RATE



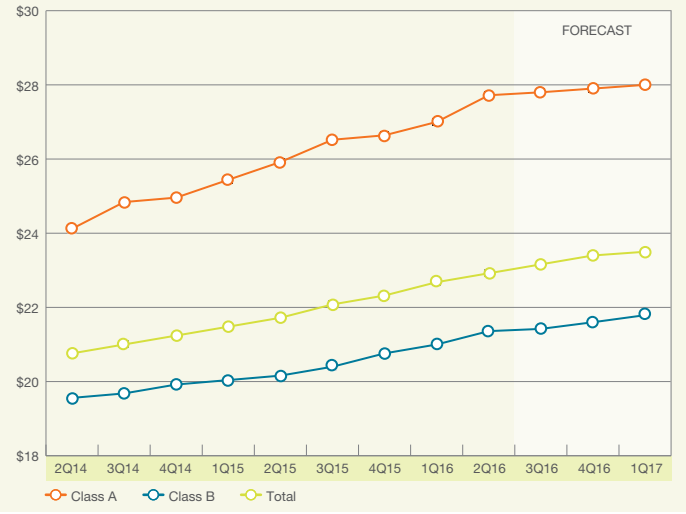
VACANCY VS AVAILABILITY



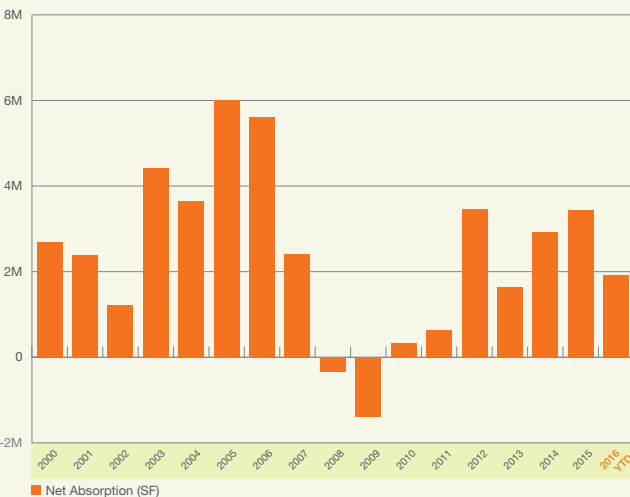
AVERAGE SALES PRICE & CAPITALIZATION RATES



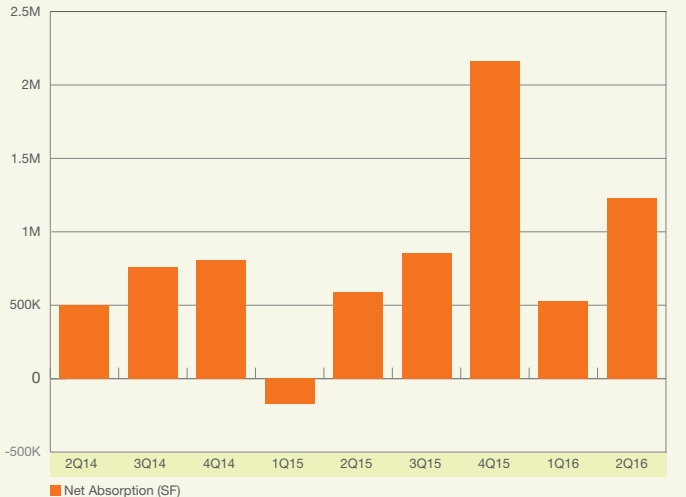
ASKING LEASE RATE



NET ABSORPTION - HISTORICAL



NET ABSORPTION - QUARTERLY



Offices

Seattle
206.296.9600

Bellevue
425.454.7040

South Seattle
206.248.7300

Tacoma
253.722.1400

Olympia
360.705.2800

Portland
503.221.9900

San Francisco
415.229.8888

Redwood Shores
650.769.3600

Silicon Valley
408.970.9400

Sacramento
916.751.3600

San Diego
858.509.1200

Orange County
949.557.5000

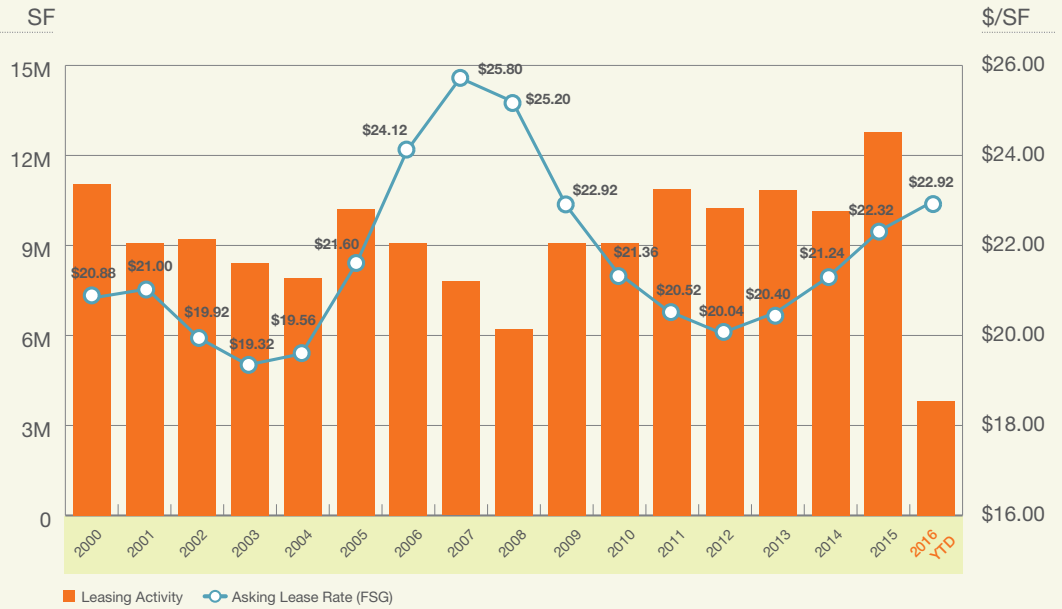
Phoenix
602.513.5200

Reno
775.301.1300

Market Breakdown

	2Q 2016	1Q 2016	2Q 2015	Annual % Change
Vacancy Rate	15.9%	16.5%	17.3%	-8.1%
Availability Rate	19.1%	19.3%	20.1%	-5.5%
Asking Lease Rate	\$22.92	\$22.68	\$21.72	5.5%
Leased SF	1,712,014	2,106,969	3,695,721	-53.7%
Sold SF	2,512,682	3,341,915	3,554,141	-29.3%
Net Absorption	1,228,974	525,922	586,340	N/A

HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES

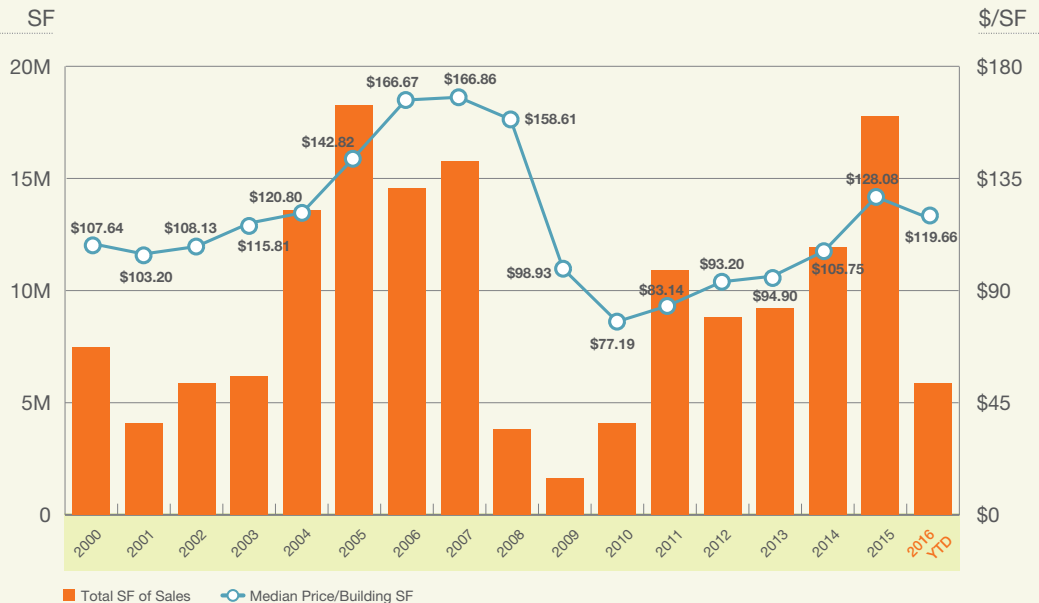


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