

# Phoenix Office

## Market Forecast

Trends

|                  |   |
|------------------|---|
| Absorption       | ↑ |
| Vacancy          | ↓ |
| Rental Rate      | ↑ |
| New Construction | ↑ |

## Notable Transactions

- OnTrac  
2501 S Pirce Rd, Chandler  
42,000 s.f. leased

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- Zenreach  
2390 E Camelback Rd, Camelback Corridor  
30,000 s.f. leased

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- Service Master  
20410 N 19th Ave, Deer Valley/Airport  
29,000 s.f. leased

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- Eide Bailly, LLP  
1850 N Central Ave, Midtown  
21,000 s.f. leased

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- AZ Department of Child Services  
965 E Van Buren St, Goodyear  
21,000 s.f. leased

The Phoenix office real estate market experienced strong leasing activity, high net absorption, and rising rental rates during the third quarter. Total vacancy decreased to 15.9%, a result of over 1.2 million square feet of positive net absorption and over 1.5 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 5.4%, a 20 basis point decrease from the 5.6% recorded this time last year.

The overall office vacancy level of 15.9% marks the lowest vacancy recorded since the second quarter in 2008. Submarkets in Phoenix with the highest direct vacancy rates include North Scottsdale/Carefree at 35.5%, North I-17 at 24.9% and Northwest Phoenix at 22.0%. Submarkets with the least vacant space include Pinal County and Tempe, both at 8.2%, and Scottsdale South at 9.4%. Direct net absorption of over 1.2 million square feet was mostly concentrated in the East Valley submarket cluster. As of the third quarter over 1.8 million square feet of new construction has been delivered this year. Another 1.8 million square feet of office product is currently under construction, of which 937,000 SF is Class A space and the remaining 897,000 SF is Class B.

Asking rental rates market wide for office properties increased for the 16th consecutive quarter, to \$23.16 per square foot on a full-service basis, with Class A office going for \$28.20. This represents a 12.2% increase in rates from this time last year. Asking rates remain highest in the Camelback Corridor, where they average \$30.00 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 \$15.48 per square foot.

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# Area Review

The average sale price in the third quarter for office investment assets was \$179 per square foot, up from \$168 per square foot in the second quarter. Average cap rates decreased from 7.7%

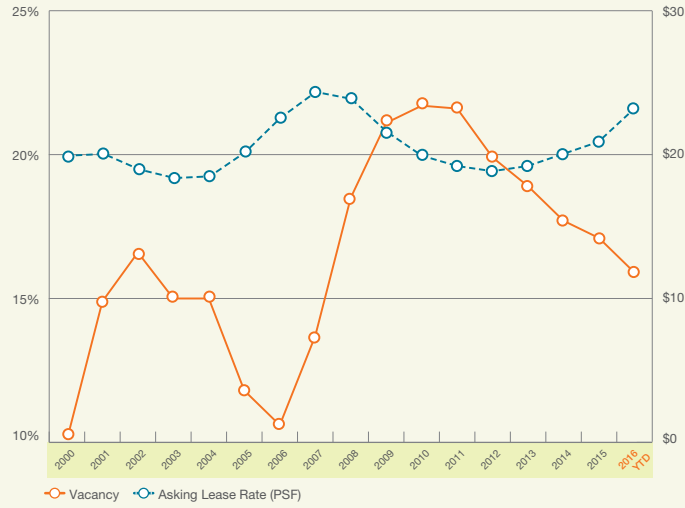
in the second quarter to 7.4% this quarter. Total dollar volume for office asset sales was \$307 million from 64 transactions.

Source: CoStar

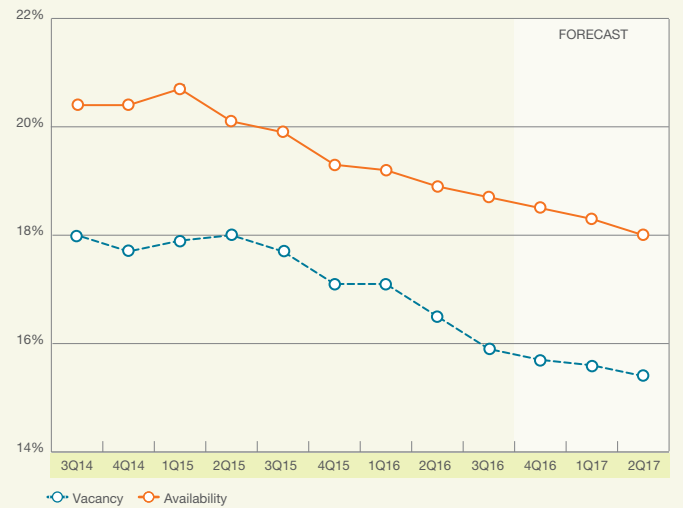
## Submarket Statistics

| Submarket                | Total Inventory    | Direct Vacancy Rate | Total Vacancy Rate | Total Available Rate | 3Q Direct Net Absorption | YTD Direct Net Absorption | 3Q Leasing Activity | YTD Leasing Activity | Average NNN Rental Rate |
|--------------------------|--------------------|---------------------|--------------------|----------------------|--------------------------|---------------------------|---------------------|----------------------|-------------------------|
| Airport Area             | 9,977,279          | 16.7%               | 17.9%              | 24.5%                | 38,322                   | 5,681                     | 76,262              | 273,489              | \$22.68                 |
| South Tempe/Ahwatukee    | 6,082,809          | 12.4%               | 13.3%              | 18.7%                | 48,830                   | 136,582                   | 79,742              | 446,558              | \$22.44                 |
| <b>Airport</b>           | <b>16,060,088</b>  | <b>15.1%</b>        | <b>16.2%</b>       | <b>22.3%</b>         | <b>87,152</b>            | <b>142,263</b>            | <b>156,004</b>      | <b>720,047</b>       | <b>\$22.56</b>          |
| Downtown                 | 9,953,374          | 10.7%               | 11.9%              | 14.3%                | 7,002                    | 83,391                    | 15,479              | 169,974              | \$27.12                 |
| Midtown                  | 12,150,327         | 20.8%               | 21.3%              | 24.7%                | 48,912                   | 91,642                    | 43,564              | 304,679              | \$21.48                 |
| <b>Central Corridor</b>  | <b>22,103,701</b>  | <b>16.2%</b>        | <b>17.0%</b>       | <b>20.0%</b>         | <b>55,914</b>            | <b>175,033</b>            | <b>59,043</b>       | <b>474,653</b>       | <b>\$22.92</b>          |
| 44th Street Corridor     | 3,698,714          | 14.6%               | 15.2%              | 17.6%                | 23,068                   | (84,996)                  | 9,462               | 218,956              | \$24.12                 |
| Camelback Corridor       | 8,905,046          | 17.2%               | 18.2%              | 20.7%                | 120,972                  | 208,045                   | 322,680             | 620,938              | \$30.00                 |
| Midtown/Central Phoenix  | 3,832,560          | 12.8%               | 13.5%              | 17.5%                | (35,190)                 | (11,102)                  | 22,920              | 117,212              | \$17.76                 |
| <b>East Phoenix</b>      | <b>16,436,320</b>  | <b>15.6%</b>        | <b>16.4%</b>       | <b>19.3%</b>         | <b>108,850</b>           | <b>111,947</b>            | <b>355,062</b>      | <b>957,106</b>       | <b>\$26.40</b>          |
| Chandler                 | 8,039,492          | 18.0%               | 18.3%              | 17.1%                | 144,512                  | 229,880                   | 84,806              | 359,076              | \$23.88                 |
| Gateway Airport/Loop 202 | 1,253,255          | 16.5%               | 16.7%              | 20.8%                | (3,683)                  | 22,620                    | 3,848               | 36,119               | \$23.64                 |
| Mesa Downtown            | 931,228            | 10.0%               | 10.0%              | 11.9%                | (2,687)                  | 6,720                     | 2,400               | 4,543                | \$15.48                 |
| Mesa East                | 1,910,477          | 11.4%               | 11.4%              | 12.4%                | 10,954                   | 15,110                    | 8,331               | 39,984               | \$16.92                 |
| Superstition Corridor    | 4,747,296          | 16.9%               | 17.3%              | 20.6%                | 7,187                    | 218,011                   | 31,468              | 206,915              | \$19.32                 |
| Tempe                    | 10,148,800         | 8.2%                | 8.5%               | 12.7%                | 602,025                  | 1,457,937                 | 158,612             | 535,467              | \$24.48                 |
| <b>East Valley</b>       | <b>27,030,548</b>  | <b>13.3%</b>        | <b>13.6%</b>       | <b>15.7%</b>         | <b>758,308</b>           | <b>1,950,278</b>          | <b>289,465</b>      | <b>1,182,104</b>     | <b>\$22.44</b>          |
| N Phoenix/Cave Creek     | 68,926             | 17.9%               | 17.9%              | 17.9%                | 538                      | 9,860                     | 0                   | 1,300                | \$20.64                 |
| Paradise Valley          | 3,732,566          | 14.1%               | 14.9%              | 16.8%                | 62,499                   | 76,004                    | 42,537              | 180,066              | \$23.16                 |
| Piestewa Peak Corridor   | 2,915,181          | 16.8%               | 17.4%              | 19.5%                | 9,543                    | 64,059                    | 54,711              | 144,799              | \$19.56                 |
| <b>North Phoenix</b>     | <b>6,716,673</b>   | <b>15.3%</b>        | <b>16.0%</b>       | <b>18.0%</b>         | <b>72,580</b>            | <b>149,923</b>            | <b>97,248</b>       | <b>326,165</b>       | <b>\$21.36</b>          |
| Arrowhead                | 2,684,442          | 14.2%               | 14.4%              | 17.8%                | (21,192)                 | 72,804                    | 22,134              | 111,377              | \$23.28                 |
| Deer Valley/Airport      | 11,022,738         | 16.9%               | 17.3%              | 17.9%                | (9,214)                  | 89,936                    | 74,980              | 346,065              | \$22.56                 |
| North I-17               | 482,318            | 24.9%               | 24.9%              | 28.8%                | (2,199)                  | 6,311                     | 12,581              | 27,237               | \$22.68                 |
| Northwest Phoenix        | 8,389,030          | 22.0%               | 22.1%              | 29.0%                | 62,758                   | 211,393                   | 41,306              | 176,557              | \$17.40                 |
| <b>Northwest Phoenix</b> | <b>22,578,528</b>  | <b>18.7%</b>        | <b>18.9%</b>       | <b>22.2%</b>         | <b>30,153</b>            | <b>380,444</b>            | <b>151,001</b>      | <b>661,236</b>       | <b>\$20.16</b>          |
| <b>Pinal County</b>      | <b>792,289</b>     | <b>8.2%</b>         | <b>8.2%</b>        | <b>7.7%</b>          | <b>4,897</b>             | <b>15,277</b>             | <b>14,417</b>       | <b>25,164</b>        | <b>\$19.08</b>          |
| Central Scottsdale       | 7,426,017          | 14.3%               | 14.6%              | 17.6%                | (37,224)                 | 126,876                   | 104,615             | 325,671              | \$23.88                 |
| N Scottsdale/Carefree    | 1,131,752          | 35.5%               | 35.6%              | 34.8%                | 8,010                    | 25,802                    | 30,334              | 64,077               | \$22.56                 |
| Scottsdale Airport       | 11,986,335         | 14.2%               | 14.7%              | 15.2%                | 155,061                  | 232,928                   | 164,193             | 799,844              | \$26.64                 |
| Scottsdale South         | 5,165,213          | 9.4%                | 10.6%              | 15.7%                | (19,157)                 | 26,501                    | 42,491              | 293,646              | \$28.80                 |
| <b>Scottsdale</b>        | <b>25,709,317</b>  | <b>14.2%</b>        | <b>14.8%</b>       | <b>16.9%</b>         | <b>106,690</b>           | <b>412,107</b>            | <b>341,633</b>      | <b>1,483,238</b>     | <b>\$25.92</b>          |
| Glendale                 | 2,456,882          | 20.4%               | 20.4%              | 19.4%                | (5,057)                  | 28,864                    | 23,063              | 48,951               | \$22.20                 |
| Loop 303/Surprise        | 1,790,047          | 13.6%               | 14.1%              | 15.7%                | (4,802)                  | 2,692                     | 16,494              | 37,099               | \$23.52                 |
| Southwest Phoenix        | 2,685,233          | 11.9%               | 11.9%              | 11.9%                | 28,423                   | 22,557                    | 0                   | 26,522               | \$20.28                 |
| West I-10                | 1,341,138          | 11.3%               | 11.8%              | 11.9%                | 11,112                   | (7,498)                   | 16,122              | 53,687               | \$22.80                 |
| <b>West Phoenix</b>      | <b>8,273,300</b>   | <b>14.7%</b>        | <b>14.9%</b>       | <b>15.0%</b>         | <b>29,676</b>            | <b>46,615</b>             | <b>55,679</b>       | <b>166,259</b>       | <b>\$21.96</b>          |
| <b>Phoenix Total</b>     | <b>145,700,764</b> | <b>15.3%</b>        | <b>15.9%</b>       | <b>18.7%</b>         | <b>1,254,220</b>         | <b>3,383,887</b>          | <b>1,519,552</b>    | <b>5,995,972</b>     | <b>\$23.16</b>          |

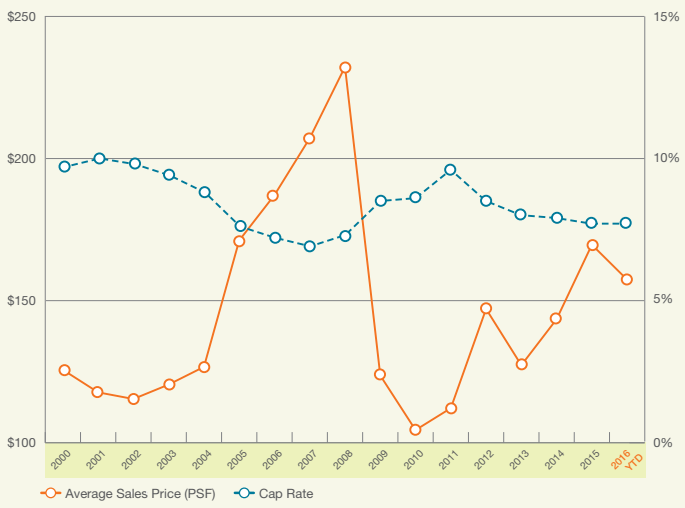
### VACANCY VS ASKING LEASE RATE



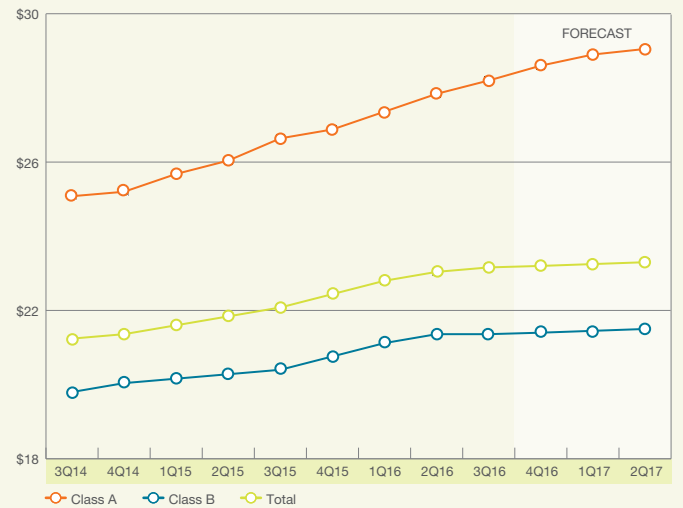
### VACANCY VS AVAILABILITY



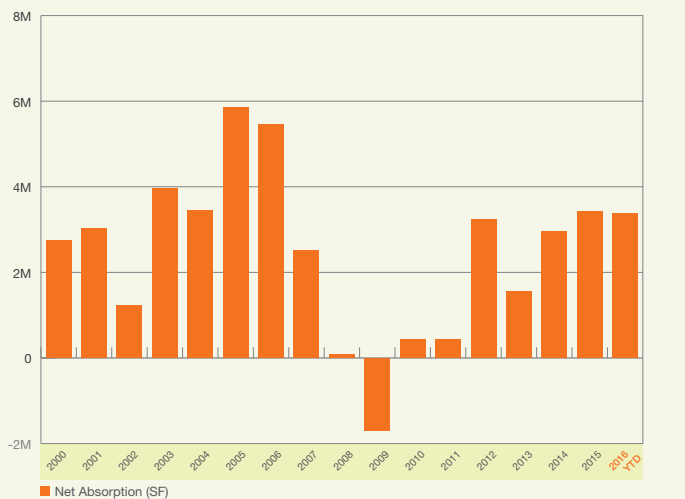
### AVERAGE SALES PRICE & CAPITALIZATION RATES



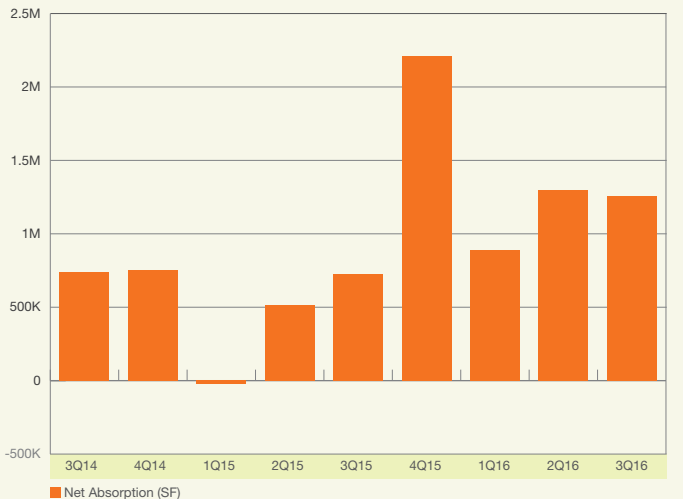
### ASKING LEASE RATE



### 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  
916.970.9700

Roseville  
916.751.3600

Orange County  
949.557.5000

San Diego  
858.509.1200

Carlsbad  
760.430.1000

Reno  
775.301.1300

Phoenix  
602.513.5200

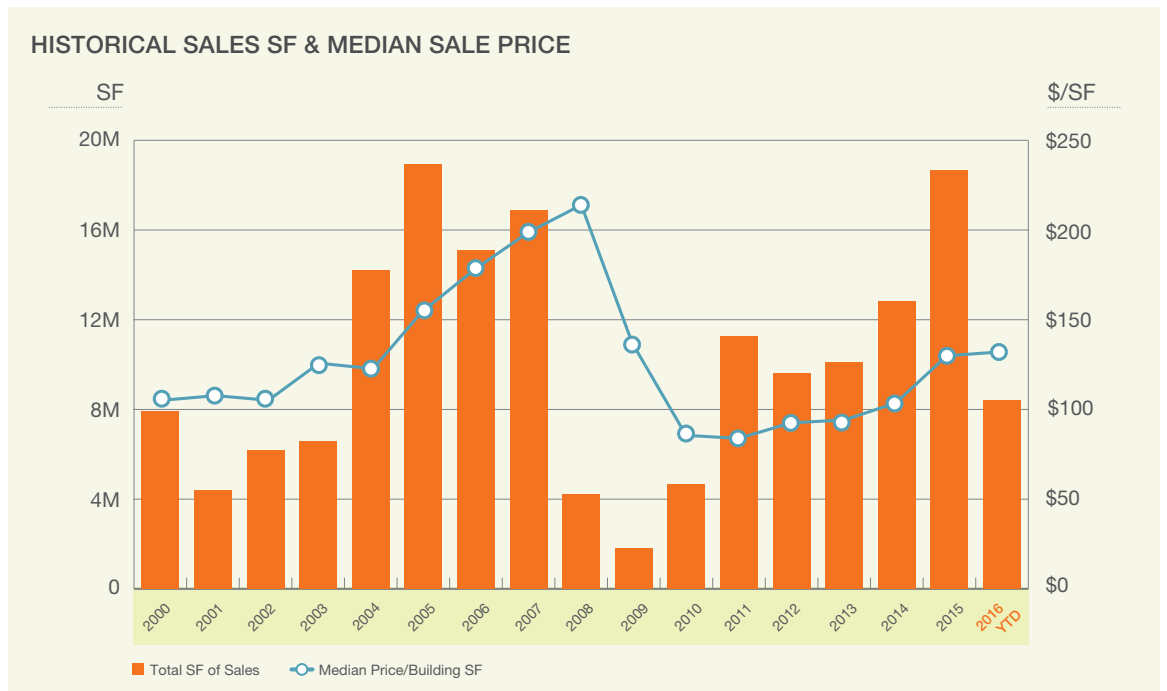
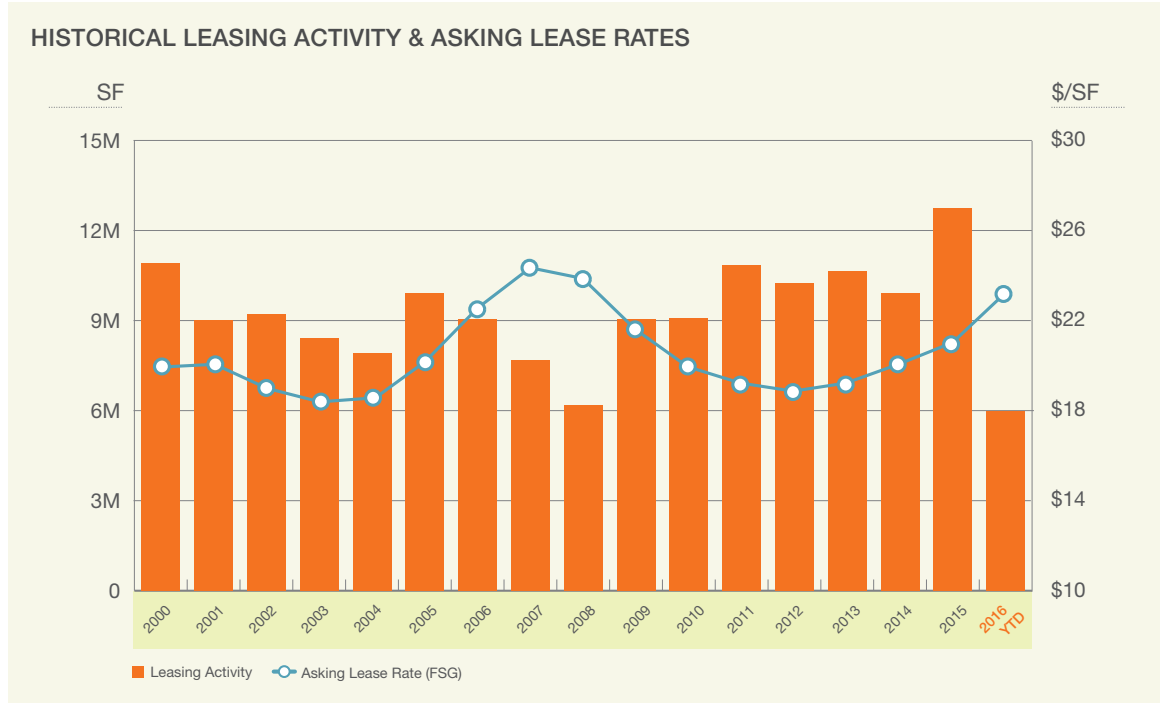
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**Market Breakdown**

|                   | 3Q 2016   | 2Q 2016   | 3Q 2015   | Annual % Change |
|-------------------|-----------|-----------|-----------|-----------------|
| Vacancy Rate      | 15.9%     | 16.5%     | 17.7%     | -10.2%          |
| Availability Rate | 18.7%     | 18.9%     | 19.9%     | -6.0%           |
| Asking Lease Rate | \$23.16   | \$21.12   | \$20.64   | 12.2%           |
| Leased SF         | 1,519,552 | 2,181,656 | 3,231,126 | -53.0%          |
| Sold SF           | 1,789,920 | 3,089,915 | 4,975,197 | -64.0%          |
| Net Absorption    | 1,254,220 | 1,294,704 | 726,142   | N/A             |



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