

Phoenix Office

Market Forecast

Trends

Absorption



Vacancy



Rental Rate



New Construction



Notable Transactions

Circle K Stores, Inc
1130 W Warner Rd, Tempe Southwest
75,000 s.f. leased

Endurance International Group
1500 N Priest Dr, Tempe
72,000 s.f. leased

NPL
19820 N 7th Ave, Deer Valley/Airport
45,000 s.f. leased

Enterprise Rent-A-Car
4100 W Galveston St, Chandler
43,000 s.f. leased

Voya
4800 N Scottsdale Rd, Scottsdale South
26,000 s.f. leased

The Phoenix office real estate market experienced over a million square feet of positive net absorption, strong leasing activity and steady rental rates during the first quarter of 2017. Total vacancy decreased to 15.9%, a 120 basis point decrease from this time last year. The strong local economy and job creation should drive real estate market growth for many quarters to come. The Phoenix unemployment rate sits at 4.5%, only a 10 basis point decrease from the 4.6% recorded this time last year.

The total vacancy level of 15.9% hasn't been seen since the second quarter of 2008. Submarkets in Phoenix with the highest vacancy rates include North Scottsdale/Carefree at 28.3%, Northwest Phoenix at 25.6% and Midtown at 22.7%. Submarkets with the least vacant space include Tempe at 6.6%, Mesa Downtown at 8.0% and Pinal County at 8.4%. Direct net absorption of close to 1.2 million square feet was mostly concentrated in the East Valley submarket cluster. As of the first quarter, over 1.2 million square feet of new construction has been delivered. Another 700,000 square feet of office product is currently under construction, of which 62.4% is Class A space and the remainder is Class B.

Asking rental rates market wide for office properties remained stagnant at \$23.64 per square foot on a full-service basis, with Class A office space going for \$28.44. This represents a 5.3% increase in rates from this time last year. Asking rates are highest in the Scottsdale submarket cluster, where they average \$26.88 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 \$15.00 per square foot.

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Area Review

The average sale price in the first quarter for office investment assets was \$180 per square foot, up from \$170 per square foot this time last year. Average cap rates

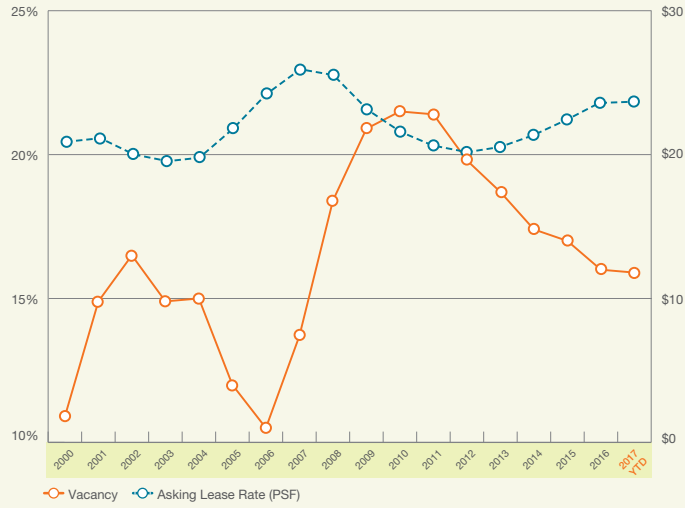
increased from 6.7% at the start of 2016 to 6.9% this quarter. Total dollar volume for office asset sales was over \$200 million from 83 transactions.

Source: CoStar

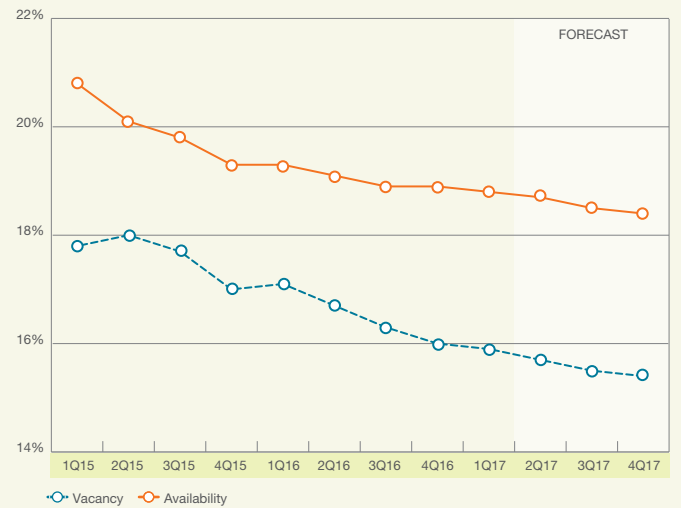
Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	1Q Direct Net Absorption	YTD Direct Net Absorption	1Q Leasing Activity	YTD Leasing Activity	Average NNN Rental Rate
Airport Area	10,735,912	17.1%	20.6%	24.8%	230,242	230,242	31,643	31,643	\$23.52
South Tempe/Ahwatukee	6,405,695	12.7%	13.4%	19.5%	(326)	(326)	26,494	26,494	\$23.28
Airport	17,141,607	15.5%	17.9%	22.8%	229,916	229,916	58,137	58,137	\$23.40
Downtown	10,054,429	11.1%	12.3%	14.8%	(6,614)	(6,614)	18,199	18,199	\$29.04
Midtown	12,010,542	22.2%	22.7%	24.7%	(81,985)	(81,985)	72,087	72,087	\$21.96
Central Corridor	22,064,971	17.2%	18.0%	20.2%	(88,599)	(88,599)	90,286	90,286	\$23.76
44th Street Corridor	3,687,302	14.8%	14.8%	19.5%	(3,812)	(3,812)	25,418	25,418	\$24.84
Camelback Corridor	8,583,772	17.4%	18.3%	20.1%	(40,658)	(40,658)	146,605	146,605	\$30.12
Midtown/Central Phoenix	3,823,546	11.5%	12.3%	16.0%	(2,301)	(2,301)	5,915	5,915	\$18.72
East Phoenix	16,094,620	15.4%	16.1%	19.0%	(46,771)	(46,771)	177,938	177,938	\$26.52
Chandler	8,409,406	19.5%	20.0%	19.4%	121,172	121,172	149,217	149,217	\$24.36
Gateway Airport/Loop 202	1,280,760	15.4%	15.6%	19.2%	16,345	16,345	19,228	19,228	\$24.12
Mesa Downtown	931,228	8.0%	8.0%	9.2%	(2,195)	(2,195)	3,600	3,600	\$15.00
Mesa East	1,970,607	12.3%	12.3%	13.5%	(10,325)	(10,325)	4,440	4,440	\$17.04
Superstition Corridor	4,809,750	15.0%	15.6%	17.9%	63,052	63,052	64,797	64,797	\$19.44
Tempe	10,902,147	6.2%	6.6%	11.4%	887,310	887,310	127,400	127,400	\$24.36
East Valley	28,303,898	12.6%	13.0%	15.3%	1,075,359	1,075,359	368,682	368,682	\$22.68
N Phoenix/Cave Creek	68,926	17.9%	17.9%	12.8%	1,300	1,300	3,488	3,488	\$20.88
Paradise Valley	3,793,133	13.6%	14.3%	17.0%	(39,394)	(39,394)	42,672	42,672	\$23.76
Piestewa Peak Corridor	2,914,756	16.5%	16.9%	20.7%	29,145	29,145	50,268	50,268	\$20.40
North Phoenix	6,776,815	14.9%	15.5%	18.5%	(8,949)	(8,949)	96,428	96,428	\$21.96
Arrowhead	2,702,615	14.0%	14.1%	15.9%	(41,105)	(41,105)	28,461	28,461	\$24.00
Deer Valley/Airport	11,105,131	16.1%	16.1%	15.4%	69,139	69,139	76,100	76,100	\$22.92
North I-17	483,101	17.5%	17.5%	23.9%	(740)	(740)	0	0	\$25.32
Northwest Phoenix	8,444,975	25.6%	25.6%	30.1%	(54,454)	(54,454)	90,354	90,354	\$17.76
Northwest Phoenix	22,735,822	19.4%	19.5%	21.1%	(27,160)	(27,160)	194,915	194,915	\$20.52
Pinal County	776,849	8.4%	8.4%	8.8%	(14,365)	(14,365)	0	0	\$20.28
Central Scottsdale	7,435,609	13.4%	14.1%	15.3%	(14,366)	(14,366)	94,271	94,271	\$24.96
N Scottsdale/Carefree	1,065,670	28.2%	28.3%	28.7%	9,147	9,147	16,323	16,323	\$22.32
Scottsdale Airpark	12,012,086	11.1%	11.6%	16.9%	72,378	72,378	153,780	153,780	\$27.48
Scottsdale South	5,389,195	14.0%	16.4%	23.3%	(18,893)	(18,893)	122,180	122,180	\$29.04
Scottsdale	25,902,560	13.0%	14.0%	18.2%	48,266	48,266	386,554	386,554	\$26.88
Glendale	2,534,882	18.5%	19.1%	19.7%	28,945	28,945	12,504	12,504	\$23.64
Loop 303/Surprise	1,790,047	13.8%	14.4%	15.9%	(21,365)	(21,365)	2,264	2,264	\$23.76
Southwest Phoenix	2,688,174	8.7%	8.7%	9.1%	32,408	32,408	0	0	\$21.12
West I-10	1,465,170	12.9%	13.1%	17.6%	(53,114)	(53,114)	6,697	6,697	\$20.52
West Phoenix	8,478,273	13.4%	13.8%	15.2%	(13,126)	(13,126)	21,465	21,465	\$22.44
Phoenix Total	148,275,415	15.2%	15.9%	18.8%	1,154,571	1,154,571	1,394,405	1,394,405	\$23.64

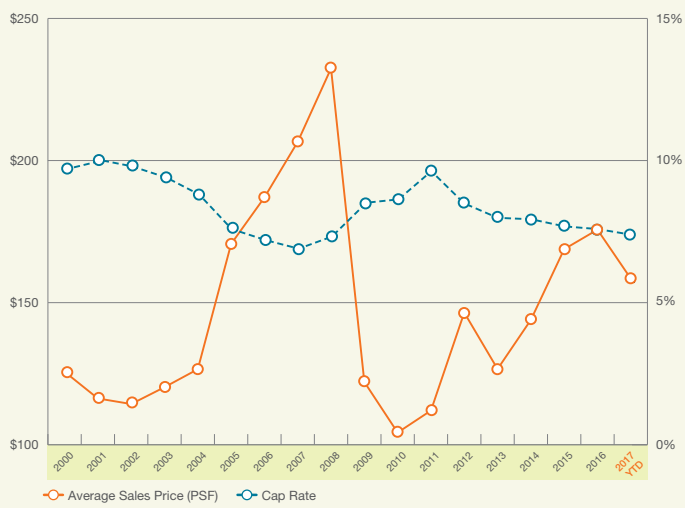
VACANCY VS ASKING LEASE RATE



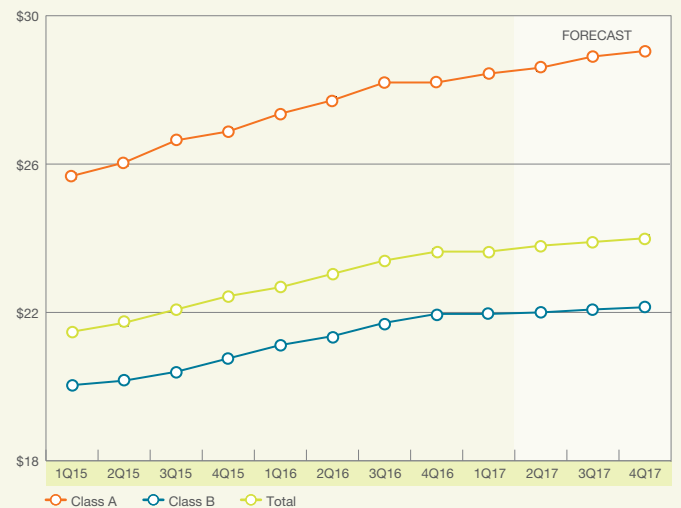
VACANCY VS AVAILABILITY



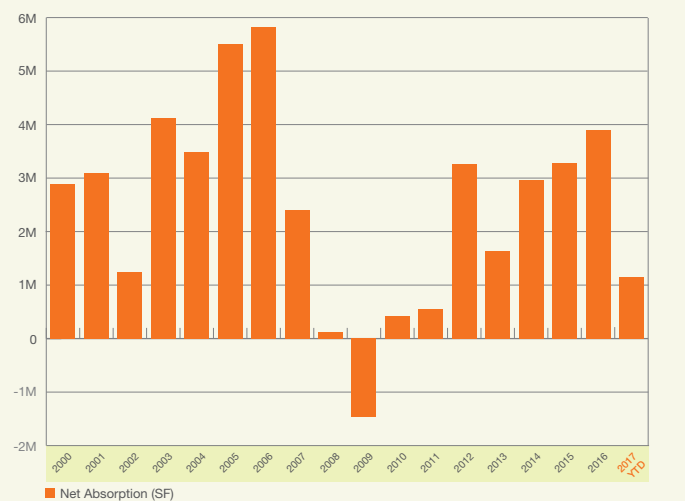
AVERAGE SALES PRICE & CAPITALIZATION RATES



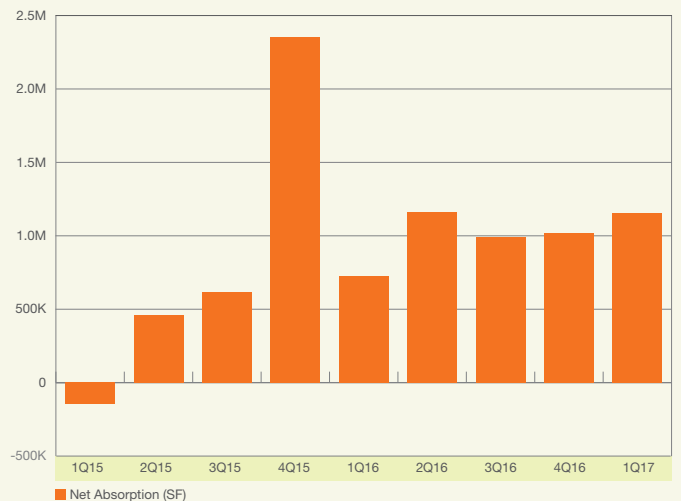
ASKING LEASE RATE



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

Los Angeles
213.880.5250

Long Beach
562.472.0071

Commerce
323.727.1144

Orange County
949.557.5000

Inland Empire
909.764.6500

San Diego
858.509.1200

Carlsbad
760.430.1000

Reno
775.301.1300

Phoenix
602.513.5200

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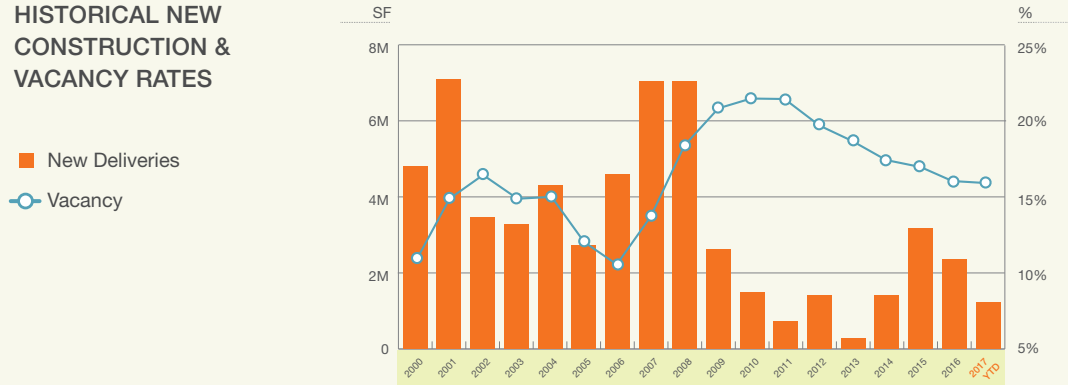
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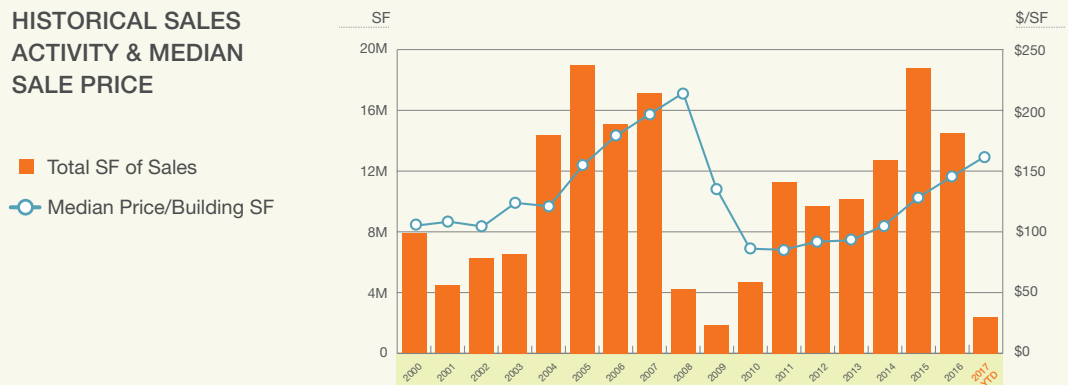
Market Breakdown

	1Q17	4Q16	1Q16	Annual % Change
Vacancy Rate	15.9%	16.0%	17.1%	-7.0%
Availability Rate	18.8%	18.9%	19.3%	-2.6%
Asking Lease Rate	\$23.64	\$23.64	\$22.68	4.3%
Leased SF	1,394,405	2,872,198	2,830,052	-50.7%
Sold SF	2,380,934	5,927,768	3,506,210	-32.1%
Net Absorption	1,154,571	1,015,339	725,461	N/A

HISTORICAL NEW CONSTRUCTION & VACANCY RATES



HISTORICAL SALES ACTIVITY & MEDIAN SALE PRICE



ANNUAL LEASING ACTIVITY & ASKING LEASE RATE

