

Phoenix Office

Market Forecast

Trends

Absorption



Vacancy



Rental Rate



New Construction



Notable Transactions

Quicken Loans Inc.
1 N Central Avenue, Downtown
150,000 s.f. leased

Department of Economic Security
4000 N Central, Midtown
148,000 s.f. leased

CSAA Insurance
2411 W Peoria Avenue, Northwest Phoenix
51,000 s.f. leased

Upgrade Inc.
2 N Central Avenue, Downtown
38,000 s.f. leased

Web.com Group, Inc.
1355 N Scottsdale Road, Scottsdale South
36,500 s.f. leased

The Phoenix office real estate market experienced over 600,000 square feet of positive net absorption, leasing activity was nearly two million square feet, and rental rates continued to increase during the second quarter of 2017. Total vacancy decreased to 16%, a 70 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 4.3%, a 10 basis point decrease from the 4.4% recorded this time last year.

The total vacancy level of 16% hasn't been seen since the second quarter of 2008. Submarkets in Phoenix with the highest vacancy rates include North Scottsdale/Carefree at 28.6%, Northwest Phoenix at 26.1%, and Midtown at 23.1%. Submarkets with the least vacant space include Mesa Downtown at 6.7%, Pinal County at 8.5% and Southwest Phoenix at 9.7%. Total net absorption of 601,360 square feet was mostly concentrated in the East Valley submarket cluster. As of the second quarter, over 1.54 million square feet of new construction has been delivered. Another 987,117 square feet of office product is currently under construction, of which 93% is Class A space and the remainder is Class B.

Asking rental rates market wide for office properties increased to \$23.88 per square foot on a full-service basis, with Class A office space going for \$28.32. This represents a 4.19% increase in rates from this time last year. Asking rates are highest in the Scottsdale submarket cluster, where they average \$26.64 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 \$14.88 per square foot.

→ Continued, page 2

Area Review

The average sale price in the second quarter for office assets was \$173.14 per square foot, up from \$166.81 per square foot this time last year. Average cap rates increased from 7.35% from this time last year to 8.04% this quarter. Total dollar

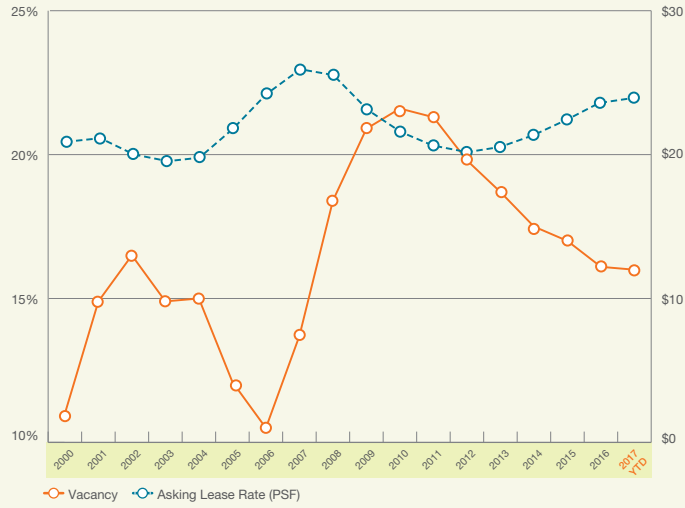
volume for office asset sales was over \$361.6 million from 38 transactions.

Source: CoStar

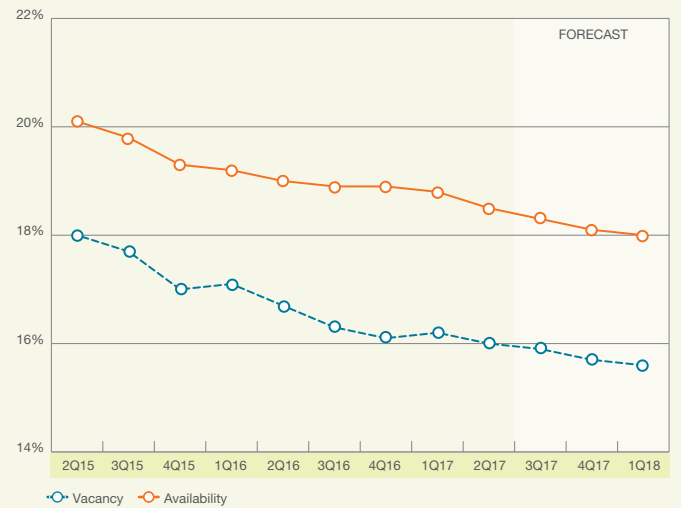
Submarket Statistics

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	10,825,801	17.7%	21.1%	25.2%	(7,510)	255,053	40,858	93,861	\$23.64
South Tempe/Ahwatukee	6,520,364	11.3%	11.9%	19.0%	93,464	132,342	63,483	133,868	\$23.04
Airport	17,346,165	17.6%	17.6%	22.9%	85,954	387,395	104,341	227,729	\$23.40
Downtown	9,954,332	13.0%	13.5%	13.4%	(35,292)	12,025	273,293	343,056	\$29.28
Midtown	12,042,925	22.6%	23.1%	24.7%	36,576	(80,170)	230,486	356,705	\$21.96
Central Corridor	21,997,257	18.2%	18.8%	19.6%	1,284	(68,145)	503,779	699,761	\$24.24
44th Street Corridor	3,657,674	14.8%	14.8%	17.3%	1,191	(5,552)	42,307	90,457	\$24.72
Camelback Corridor	8,596,456	17.1%	18.3%	20.8%	35,644	3,847	104,271	315,329	\$29.40
Midtown/Central Phoenix	3,818,691	12.2%	12.3%	17.1%	17,453	(6,084)	29,158	37,763	\$18.84
East Phoenix	16,072,821	15.4%	16.2%	19.1%	54,288	(7,789)	175,736	443,549	\$26.16
Chandler	8,533,027	16.6%	17.3%	18.4%	326,664	413,892	73,152	349,110	\$24.48
Gateway Airport/Loop 202	1,385,437	12.8%	13.2%	14.8%	14,067	33,139	34,976	63,327	\$24.00
Mesa Downtown	930,208	6.7%	6.7%	7.8%	12,185	9,990	4,576	13,254	\$14.88
Mesa East	1,988,478	10.3%	10.3%	10.5%	44,046	30,235	43,554	56,435	\$17.16
Superstition Corridor	4,849,846	13.3%	13.9%	15.5%	54,759	131,032	84,922	190,145	\$19.44
Tempe	11,054,362	10.8%	11.4%	12.9%	(13,471)	498,043	109,821	258,945	\$27.48
East Valley	28,741,358	12.9%	13.4%	14.7%	438,250	1,116,331	351,001	931,216	\$24.00
N Phoenix/Cave Creek	68,926	18.7%	18.7%	18.7%	(538)	762	0	3,488	\$21.00
Paradise Valley	3,819,014	14.8%	15.6%	17.9%	(44,257)	(63,068)	90,759	146,536	\$24.00
Piestewa Peak Corridor	2,915,151	16.6%	17.7%	20.8%	1,612	16,003	36,025	141,099	\$21.24
North Phoenix	6,803,091	15.6%	16.5%	19.2%	(43,183)	(46,303)	126,784	291,123	\$22.56
Arrowhead	2,769,611	14.1%	14.4%	18.0%	(15,114)	(60,573)	49,185	86,523	\$24.12
Deer Valley/Airport	11,132,500	14.3%	14.3%	14.9%	49,172	204,852	64,781	211,626	\$22.20
North I-17	483,101	19.4%	19.4%	23.8%	(11,673)	(9,741)	5,725	5,725	\$24.72
Northwest Phoenix	8,465,141	26.0%	26.1%	30.3%	(8,231)	(91,210)	53,960	150,422	\$17.76
Northwest Phoenix	22,850,353	18.7%	18.8%	21.2%	14,154	43,328	173,651	454,296	\$20.40
Pinal County	776,849	8.5%	8.5%	10.9%	(1,022)	(15,507)	1,700	1,700	\$20.04
Central Scottsdale	7,464,080	11.7%	12.3%	15.3%	(7,852)	102,183	153,346	410,987	\$25.08
N Scottsdale/Carefree	1,081,039	28.6%	28.6%	30.1%	6,301	4,449	6,753	26,381	\$22.08
Scottsdale Airpark	11,921,549	10.9%	11.7%	17.2%	(9,625)	79,678	150,373	343,490	\$26.76
Scottsdale South	5,395,705	13.5%	14.9%	21.7%	64,203	10,607	124,289	322,316	\$29.28
Scottsdale	25,862,373	12.4%	13.3%	18.2%	53,027	196,917	434,761	1,103,174	\$26.64
Glendale	2,476,690	20.7%	21.4%	19.4%	10,939	(16,608)	14,924	40,696	\$23.76
Loop 303/Surprise	1,790,047	13.0%	13.6%	14.8%	12,887	(7,654)	16,826	19,090	\$23.16
Southwest Phoenix	2,701,296	9.7%	9.7%	9.7%	(27,122)	5,286	0	0	\$21.12
West I-10	1,465,170	12.0%	12.5%	17.2%	1,904	(42,580)	14,357	29,971	\$20.76
West Phoenix	8,433,203	14.0%	14.5%	14.9%	(1,392)	(61,556)	46,107	89,757	\$22.32
Phoenix Total	148,883,470	15.2%	16.0%	18.7%	601,360	1,544,671	1,917,860	4,242,305	\$23.88

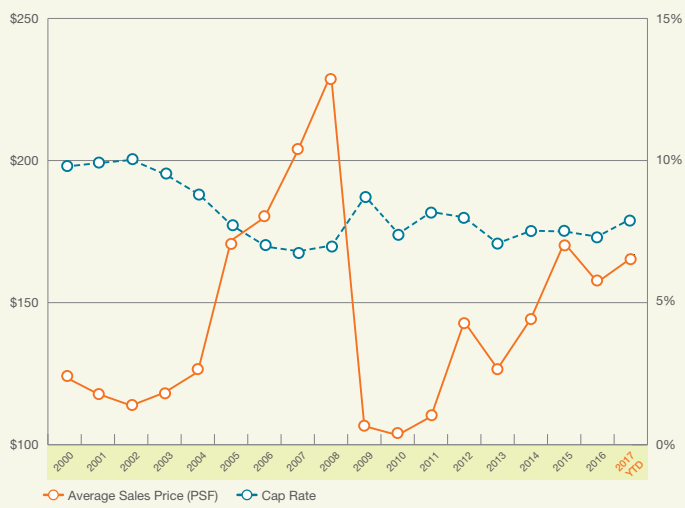
VACANCY VS ASKING LEASE RATE



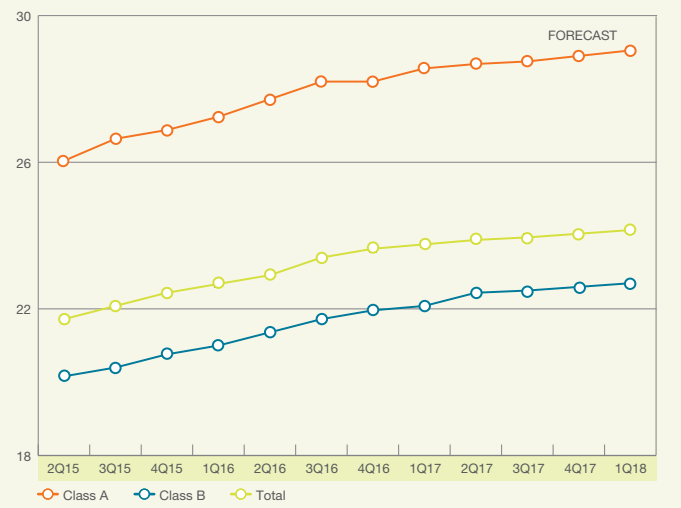
VACANCY VS AVAILABILITY



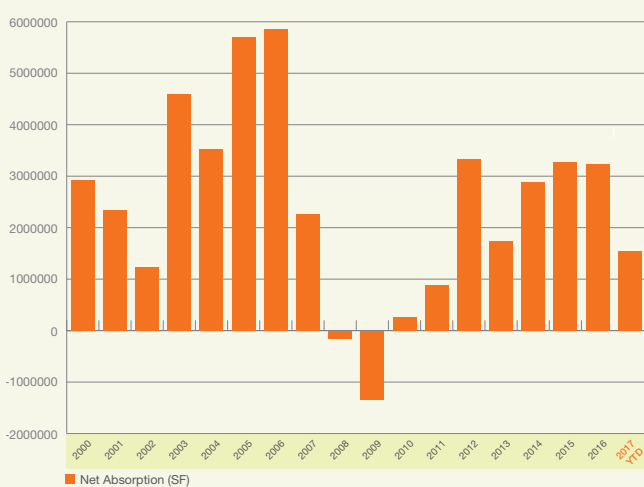
AVERAGE SALES PRICE & CAPITALIZATION RATES



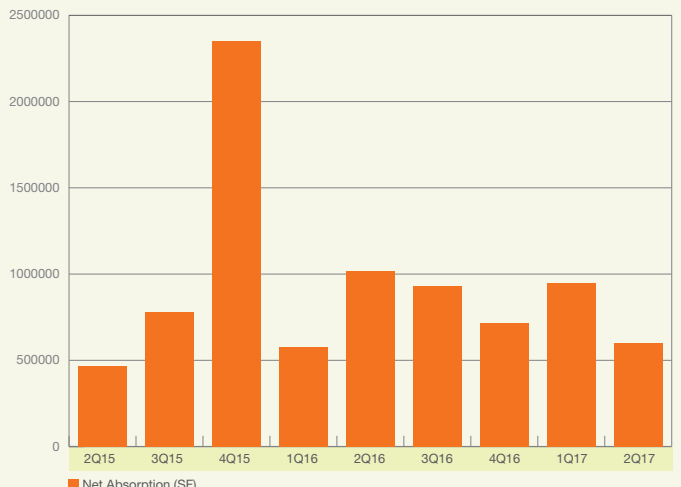
ASKING LEASE RATE



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

Contact

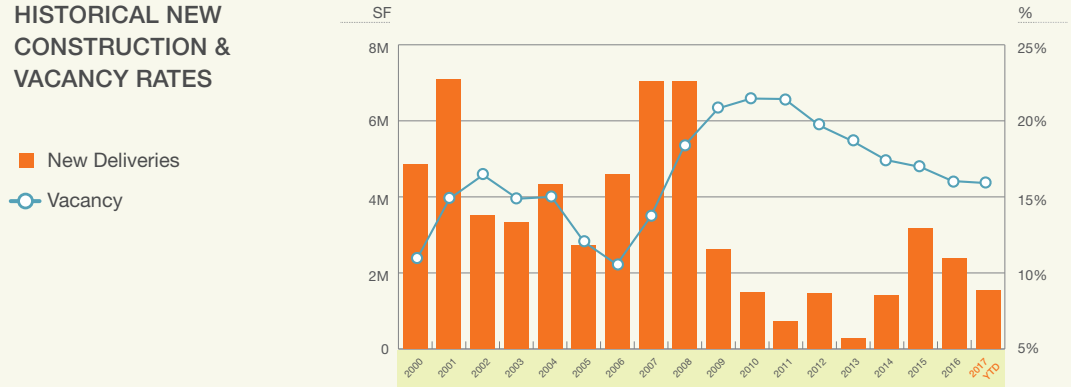
Mark Read
Executive VP, Brokerage
Southwest
949.557.5000
mread@kiddermathews.com

Designated Broker
Mark Read | LIC #00572743

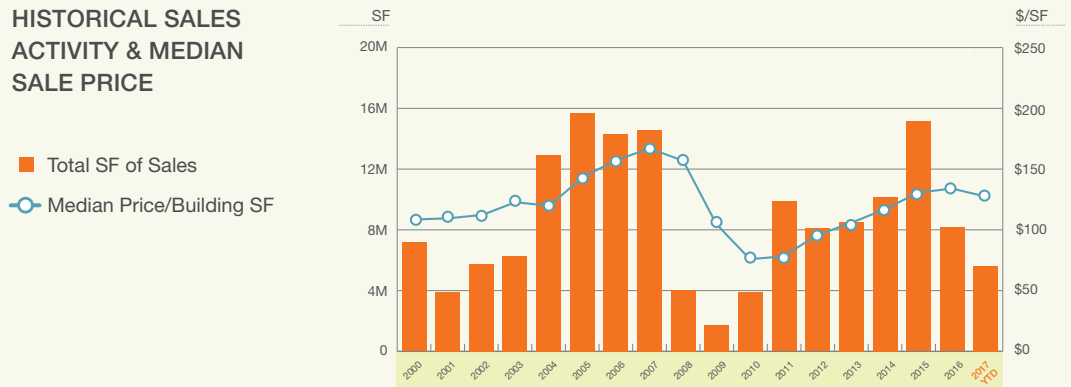
Market Breakdown

	2Q17	1Q17	2Q16	Annual % Change
Vacancy Rate	16.0%	16.2%	16.7%	-4.19%
Availability Rate	18.7%	18.8%	19.0%	-1.58%
Asking Lease Rate	\$23.88	\$23.76	\$22.92	4.19%
Leased SF	1,917,860	2,326,387	2,741,784	-30.05%
Sold SF	2,715,851	2,923,410	1,296,358	109.50%
Net Absorption	601,360	945,782	1,016,844	N/A

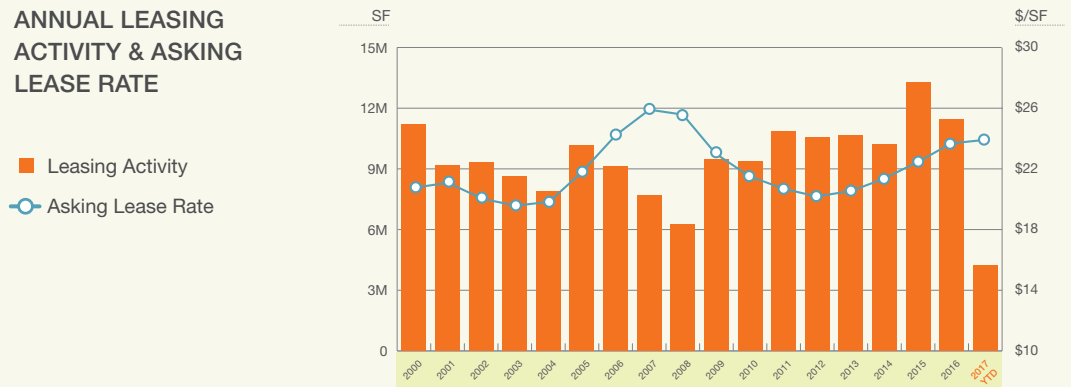
HISTORICAL NEW CONSTRUCTION & VACANCY RATES



HISTORICAL SALES ACTIVITY & MEDIAN SALE PRICE



ANNUAL LEASING ACTIVITY & ASKING LEASE RATE



This information supplied herein is from sources we deem reliable. It is provided without any representation, warranty or guarantee, expressed or implied as to its accuracy. Prospective Buyer or Tenant should conduct an independent investigation and verification of all matters deemed to be material, including, but not limited to, statements of income and expenses. CONSULT YOUR ATTORNEY, ACCOUNTANT, OR OTHER PROFESSIONAL ADVISOR.