

Real Estate Market Review

# Phoenix Office

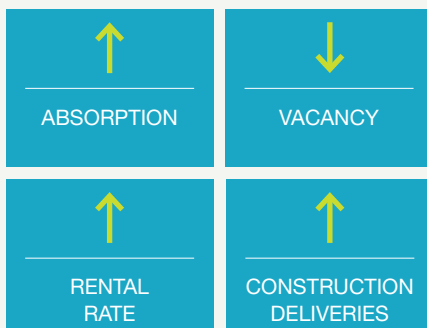
With occupancy demand exceeding 711,000 square feet, leasing activity above 1.4 million square feet, direct vacancy declining more than seven percent from this time last year, and rental rates approaching (but not yet surpassing) levels not seen since the peaks of the previous cycle established a decade ago, it's not overstated to say that the Phoenix office real estate market is in the throes of a renaissance. Concentrated mostly in the retail, finance, and services sector, the Phoenix MSA has proven to be a vibrant, business-friendly local economy with a capacity for strong job creation. Typically, economists consider an economy to be at "full employment" when the unemployment rate reaches five percent, but the Phoenix market (currently at 4.4%) has been experiencing sub-five percent unemployment since November of 2015. Given these trends, black swan events aside, expect continued growth in the Phoenix real estate market in the near to midterm.

The office direct vacancy level of 14.1% marks the lowest vacancy recorded since the first quarter in 2008. Submarkets in Phoenix with the highest direct vacancy rates include Northwest Phoenix at 25.1%, North Scottsdale/Carefree at 22.6%, and Midtown in the Central Corridor at 20.2%. Submarkets with the least vacant space include Tempe at 7.2%, Mesa East at 6.8%, and Mesa downtown at 5.9%. Direct net absorption of more than 489,000 square feet for the quarter was mostly concentrated in the East Valley submarket cluster. Over 300,000 million square feet of new

construction has been delivered this quarter. Another 2.9 million square feet of office product is currently under construction, of which two million square feet is Class A space and the remaining 900,000 square feet is Class B.

Direct asking rental rates market wide for office properties increased for the 15th consecutive quarter, to \$24.72 per square foot on a full-service basis, with Class A office going for \$29.40. This represents a 4.0% increase in rates from this time last year. Interestingly, asking rates (direct) were the highest in the

### Market Forecast Trends



### Notable Lease Transactions

**ASU**

400 E Van Buren Street, Phoenix  
60,000 s.f. leased

**Allstate**

1450 S Spectrum Boulevard, Chandler  
50,311 s.f. leased

**Morgan Stanley**

111 E Rivulon Boulevard, Gilbert  
31,655 s.f. leased

### Notable Office Sales

**D.L. Long Properties**

1850 N. Central Avenue, Phoenix  
485,687 s.f. | \$80.7M or \$166.16/s.f.

**BMA International FZE**

2299 W. Obispo Avenue, Chadler  
180,480 s.f. | \$39M or \$216.09/s.f.

**Orris Family**

9999 N. 90th Street, Scottsdale  
92,562 s.f. | \$30.5M or \$329.51/s.f.

# Area Review

## Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	1Q Net Absorption	YTD Net Absorption	Quarterly Leasing Activity	YTD Leasing Activity	Avg Rental Rate
Airport Area	11,954,951	18.5%	23.2%	16.6%	167,620	167,620	123,468	123,468	\$24.00
South Tempe / Ahwatukee	6,694,781	15.8%	16.5%	13.2%	877	877	47,669	47,669	\$23.28
<b>Airport</b>	<b>18,649,732</b>	<b>17.5%</b>	<b>20.8%</b>	<b>15.4%</b>	<b>168,497</b>	<b>168,497</b>	<b>171,137</b>	<b>171,137</b>	<b>\$23.76</b>
Downtown	10,022,685	10.3%	11.7%	12.8%	168,825	168,825	96,291	96,291	\$30.48
Midtown	11,801,233	20.2%	20.5%	22.5%	125,554	125,554	69,106	69,106	\$22.44
<b>Central Corridor</b>	<b>21,823,918</b>	<b>15.6%</b>	<b>16.4%</b>	<b>18.0%</b>	<b>294,379</b>	<b>294,379</b>	<b>165,397</b>	<b>165,397</b>	<b>\$24.60</b>
44th Street Corridor	3,659,588	13.1%	13.1%	16.7%	84,138	84,138	38,264	38,264	\$26.04
Camelback Corridor	8,528,658	15.9%	17.3%	20.3%	(139,648)	(139,648)	100,457	98,785	\$31.44
Midtown / Central Phoenix	3,894,598	11.3%	11.5%	13.1%	40,240	40,240	30,531	30,531	\$19.20
<b>East Phoenix</b>	<b>16,082,844</b>	<b>14.1%</b>	<b>14.9%</b>	<b>17.7%</b>	<b>(15,270)</b>	<b>(15,270)</b>	<b>169,252</b>	<b>167,580</b>	<b>\$27.96</b>
Chandler	9,135,893	13.7%	14.6%	13.5%	203,445	203,445	253,648	253,648	\$24.48
Gateway Airport / Loop 202	1,428,209	10.5%	11.0%	11.2%	14,399	14,399	18,056	18,056	\$24.72
Mesa Downtown	935,139	5.9%	5.9%	7.9%	(12,973)	(12,973)	1,626	1,626	\$14.28
Mesa East	2,017,536	6.8%	6.8%	7.6%	11,420	11,420	22,507	22,507	\$17.52
Superstition Corridor	4,778,930	10.9%	11.0%	13.6%	(2,397)	(2,397)	59,742	59,742	\$20.16
Tempe	11,388,232	7.2%	7.3%	8.7%	275,407	275,407	98,513	98,513	\$27.00
<b>East Valley</b>	<b>29,683,939</b>	<b>9.9%</b>	<b>10.2%</b>	<b>11.0%</b>	<b>489,301</b>	<b>489,301</b>	<b>454,092</b>	<b>454,092</b>	<b>\$23.88</b>
N Phoenix / Cave Creek	81,281	8.7%	8.7%	8.7%	1,200	1,200	0	0	\$19.92
Paradise Valley	3,696,339	12.9%	13.4%	18.4%	36,068	36,068	39,797	39,797	\$24.36
Piestewa Peak Corridor	2,915,154	24.6%	27.2%	27.9%	(263,898)	(263,898)	12,137	12,137	\$21.60
<b>North Phoenix</b>	<b>6,692,774</b>	<b>19.3%</b>	<b>19.3%</b>	<b>22.4%</b>	<b>(226,630)</b>	<b>(226,630)</b>	<b>51,934</b>	<b>51,934</b>	<b>\$23.04</b>
Arrowhead	2,906,017	14.4%	14.4%	16.9%	13,296	13,296	23,435	23,435	\$25.56
Deer Valley / Airport	11,201,862	12.7%	12.7%	16.6%	280,765	280,765	36,977	36,977	\$21.24
North I-17	488,286	19.2%	19.2%	24.3%	1,275	1,275	2,229	2,229	\$24.36
Northwest Phoenix	8,428,189	25.4%	25.4%	30.0%	(180,870)	(180,870)	102,948	102,948	\$18.48
<b>Northwest Phoenix</b>	<b>23,024,354</b>	<b>17.7%</b>	<b>17.7%</b>	<b>21.7%</b>	<b>114,466</b>	<b>114,466</b>	<b>165,589</b>	<b>165,589</b>	<b>\$21.12</b>
Pinal County	799,794	8.6%	8.6%	10.6%	(1,638)	(1,638)	0	0	\$19.32
Central Scottsdale	7,418,290	9.2%	10.7%	13.8%	52,824	52,824	106,159	106,159	\$25.80
N Scottsdale/Carefree	1,108,888	22.6%	22.6%	29.1%	(60,791)	(60,791)	4,217	4,217	\$22.20
Scottsdale Airpark	11,985,150	11.4%	14.8%	18.7%	(80,575)	(80,575)	83,337	83,337	\$28.20
Scottsdale South	11,413,152	14.7%	15.5%	17.9%	(56,785)	(56,785)	87,351	87,351	\$30.96
<b>Scottsdale</b>	<b>31,925,480</b>	<b>12.0%</b>	<b>14.1%</b>	<b>17.6%</b>	<b>(145,327)</b>	<b>(145,327)</b>	<b>281,064</b>	<b>281,064</b>	<b>\$27.96</b>
Glendale	2,582,960	16.5%	17.3%	19.3%	8,546	8,546	14,667	14,667	\$23.76
Loop 303/Surprise	1,903,568	11.3%	11.3%	13.8%	640	640	6,761	6,761	\$24.24
Southwest Phoenix	2,810,428	10.5%	10.5%	10.7%	6,800	6,800	0	0	\$25.20
West I-10	1,881,172	10.8%	11.1%	13.5%	18,000	18,000	7,607	7,607	\$22.92
<b>West Phoenix</b>	<b>9,178,128</b>	<b>12.4%</b>	<b>12.7%</b>	<b>14.3%</b>	<b>33,986</b>	<b>33,986</b>	<b>29,035</b>	<b>29,035</b>	<b>\$24.12</b>
<b>Phoenix Total</b>	<b>152,282,666</b>	<b>14.1%</b>	<b>15.2%</b>	<b>17.2%</b>	<b>711,764</b>	<b>711,764</b>	<b>1,487,500</b>	<b>1,487,500</b>	<b>\$24.72</b>
Class A	50,336,596	12.7%	14.3%	17.6%	350,737	350,737	659,120	659,120	\$29.40
Class B	89,137,339	15.4%	16.4%	17.9%	250,995	250,995	701,557	701,557	\$20.40
Class C	12,808,731	10.7%	10.8%	11.0%	110,032	110,032	126,823	126,823	\$18.48
<b>Class Total</b>	<b>152,282,666</b>	<b>14.1%</b>	<b>15.2%</b>	<b>17.2%</b>	<b>711,764</b>	<b>711,764</b>	<b>1,487,500</b>	<b>1,487,500</b>	<b>\$24.72</b>

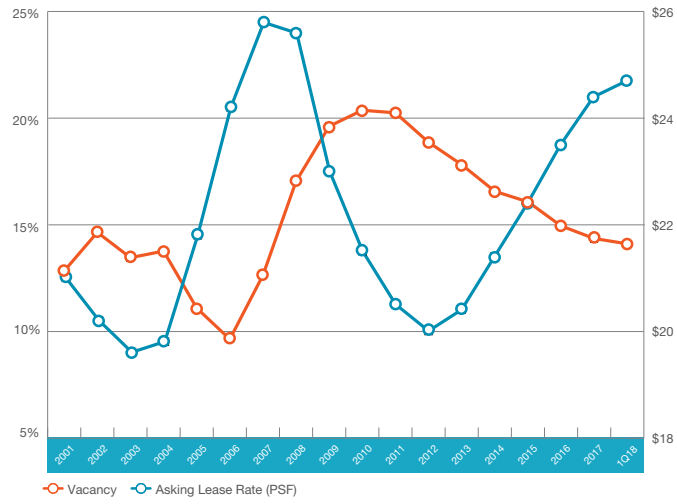
Camelback Corridor this quarter, where they averaged \$31.44 per square foot. Direct asking rates in downtown, the typical price leader, averaged \$30.48 per square foot. By contrast, the Mesa downtown submarket had the lowest rates, reporting an average asking rent of \$14.28 per square foot.

The median sale price in the first quarter for office investment assets was \$137.16 per square foot, up from \$110.00 per square

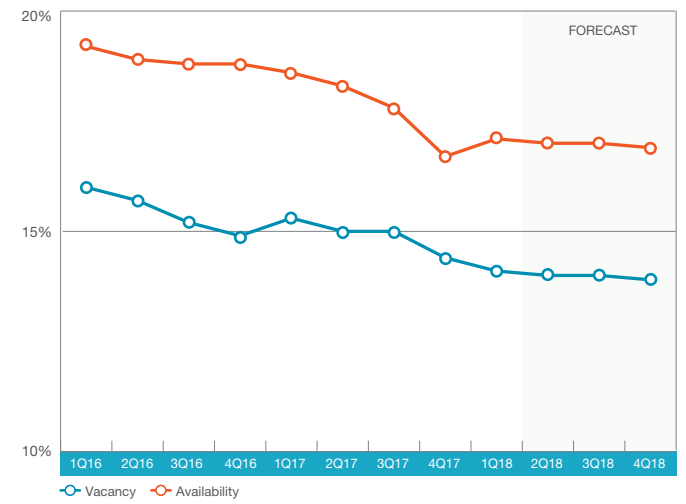
foot this time last year. With a year-over-year decline of 102 basis points, the average cap rate settled at 6.99% in the first quarter of 2018, and total dollar volume for office asset sales was over \$309 million from 22 transactions.

Data Source: CoStar, The Cleveland Fed, BLS

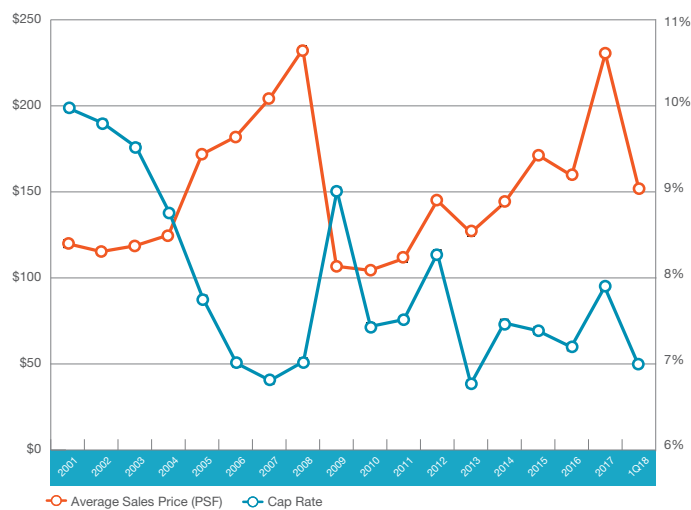
### VACANCY VS ASKING LEASE RATE



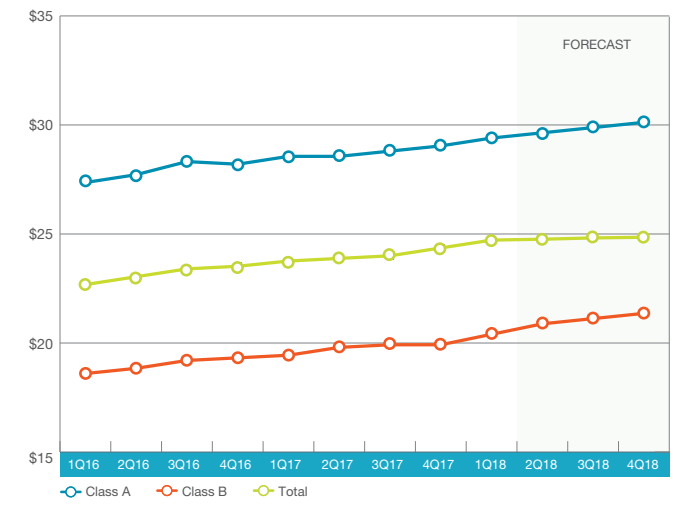
### VACANCY VS AVAILABILITY



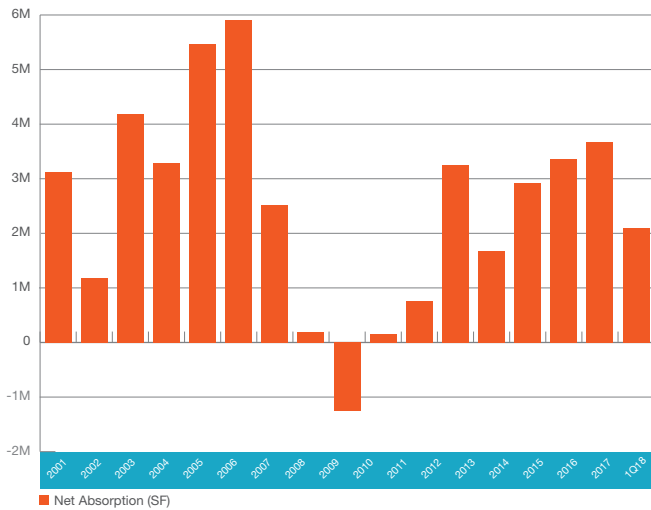
### AVERAGE SALES PRICE & CAPITALIZATION RATES



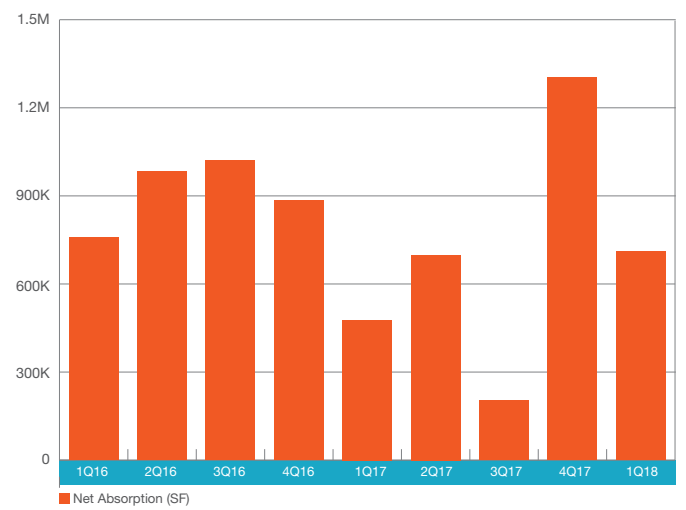
### ASKING LEASE RATE



### 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

El Segundo  
310.807.0880

Commerce  
323.727.1144

Long Beach  
562.472.0071

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

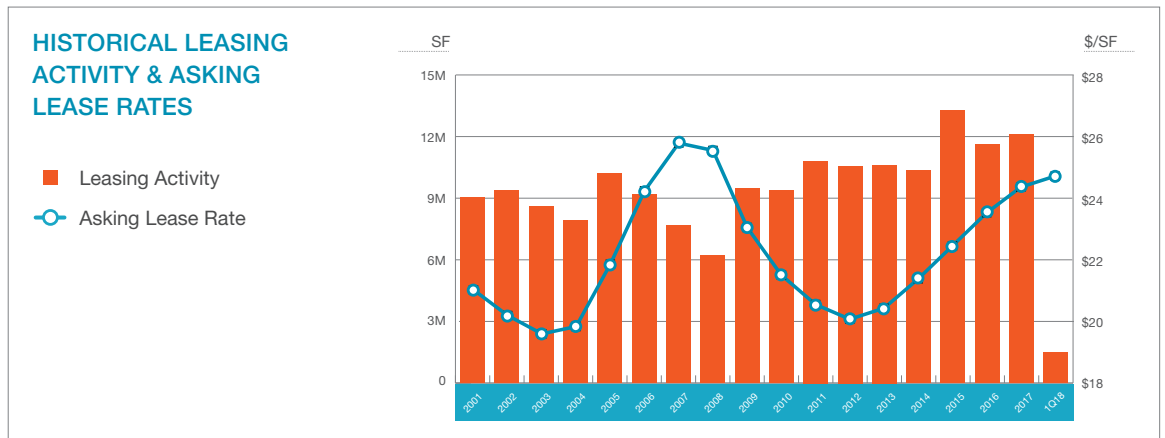
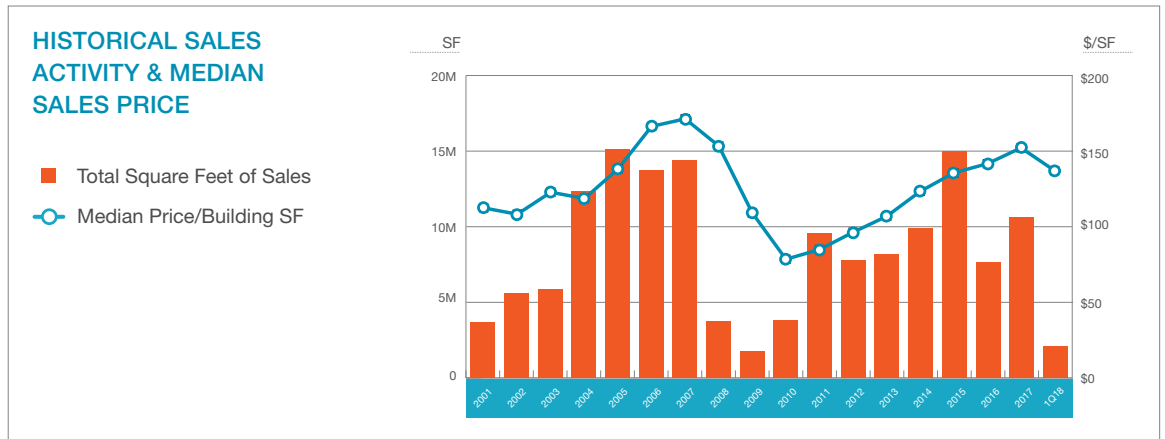
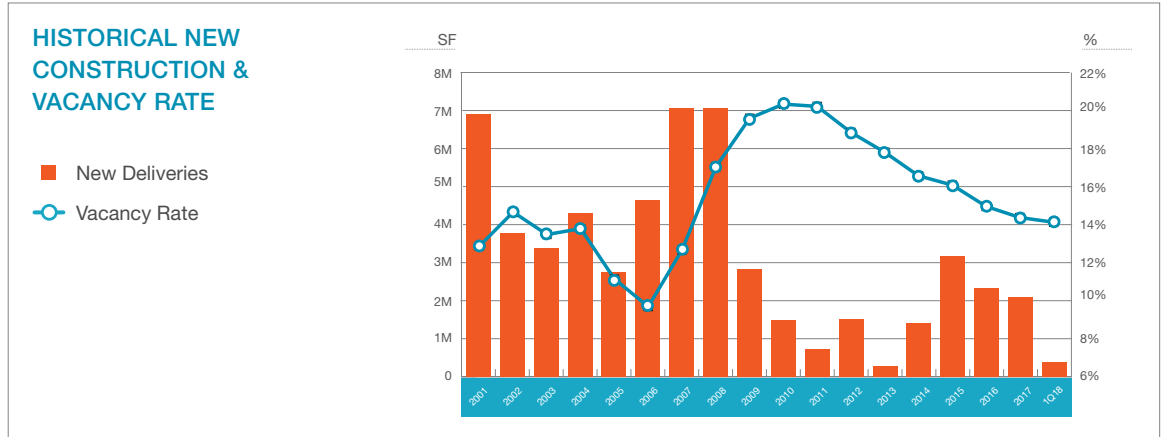
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Designated Broker  
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**Market Breakdown**

	1Q18	4Q17	1Q17	Annual % Change
Vacancy Rate	14.10%	14.40%	15.30%	-7.84%
Availability Rate	17.20%	16.70%	18.50%	-7.03%
Asking Lease Rate	\$24.72	\$24.32	\$23.76	4.04%
Leased SF	1,487,500	2,379,958	2,829,884	-47.44%
Sold SF	2,070,326	3,948,615	2,799,098	-26.04%
Net Absorption	711,764	1,302,934	477,641	N/A



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