



Phoenix

Q3 2017 / Quarterly Office Market Report

Market Facts

- 
13.7%
 Class A Vacancy
- 
16.2%
 Class B Vacancy
- 
\$29.25
 Class A Average Asking Rate
- 
\$22.43
 Class B Average Asking Rate
- 
\$147
 Average Sale Price/Square Foot
- 
6.6%
 Office Average CAP Rate

Market Overview

The Phoenix office market grew to 175 million square feet (msf) and the third quarter overall vacancy rate dropped to 14.9%, 40 basis points lower than fourth quarter 2016. Average rental rates increased steadily to \$23.91 per square foot (psf) in the third quarter, up from \$22.95 psf year-over-year. Year-to-date absorption continues to be strongly positive, with 1.7 msf absorbed, of which 257,979 sf was in the third quarter. Quarterly absorption has been positive since second quarter 2015. These strong market fundamentals are unsurprising, given that since August 2016 Phoenix has gained 59,900 jobs and unemployment fell by 50 basis points. Leisure and hospitality employment increased 5.4%, the strongest rate of any industry; financial activities employment increased 2.7%, and professional and business services increased 0.8%.

Top Leases

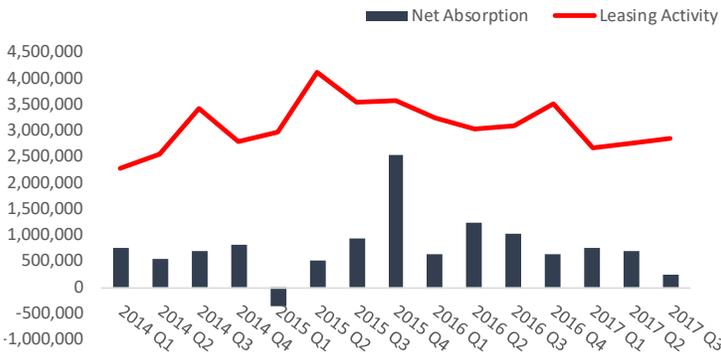
Tenant	Building	Submarket	Square Feet	Type
MUFG Union Bank	1101 W. Washington St.	Tempe	173,055	New
Consumer Cellular	17500 N. Black Canyon Hwy.	Deer Valley/Airport	163,607	New
Liberty Mutual	2290 E. Yeager Dr.	Chandler	102,121	New
Wells Fargo	2501 S. Price Rd.	Chandler	81,896	New
Centenne	1665 W. Alameda Dr.	Airport Area	75,211	New

Top Sales

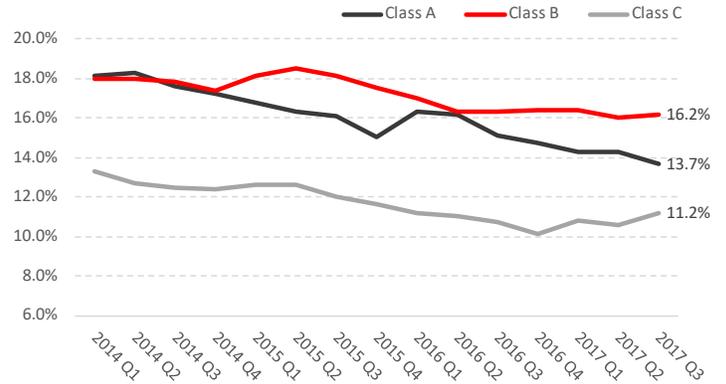
Buyer	Building	Submarket	Square Feet	Sale Price	Price/SF
CBRE Global Investors	11416 W. Meeker Blvd.	Loop 303/Surprise	72,000	\$37,282,498	\$518
Barker Pacific	1201 S. Alma School Rd.	Superstition Corridor	309,983	\$23,000,000	\$74
EverWest RE Partners	7001 N. Scottsdale Rd.	Central Scottsdale	90,893	\$22,400,000	\$246
Roxborough Group	8377 E. Hartford Dr.	Scottsdale Airpark	106,000	\$20,650,000	\$195
Crescendo Commercial	4530 E. Ray Rd.	South Tempe	53,310	\$12,093,838	\$227

Market Snapshot

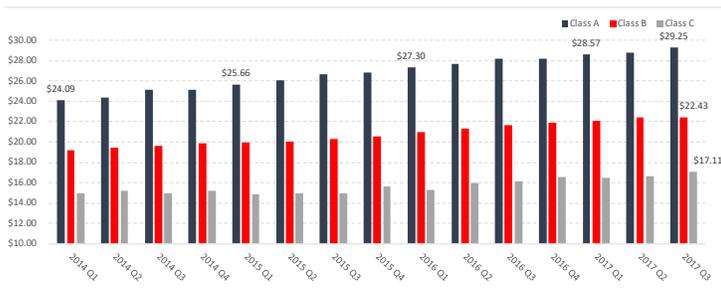
Historical Net Absorption & Leasing Activity



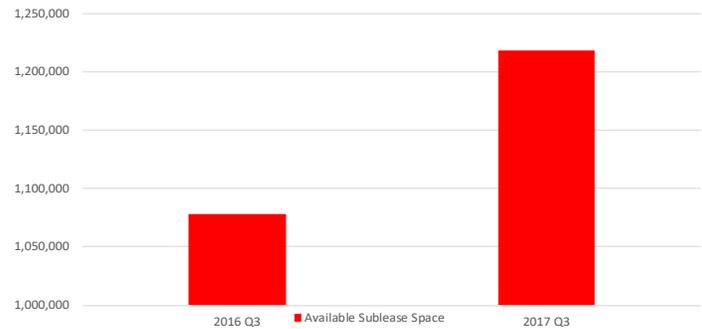
Historical Vacancy



Historical Asking Rental Rate (FSG)



Total Available Sublease Space in the Market



Economic growth is projected to remain strong through 2020, according to the University of Arizona Economic and Business Research Center, continuing strong economic growth trends. Personal income will grow at least 6.3% annually and non-farm employment will increase 2.6%. Wages in the Phoenix Metro Area increased more than anywhere else in the United States in the past year, according to U.S. Bureau of Labor Statistics data. From July 2016 to July 2017, hourly wages grew 7.6%. Phoenix officials categorize more than 20,000 of the approximate 60,000 jobs added were in “advanced” fields.

With its low costs of doing business and the affordable real estate market, Phoenix continues to attract tech businesses relocating from the West Coast; i.e., the Galvanize building near 7th Street and Buckeye Road. This repurposed warehouse is now home to almost 80 tech companies and a technology school. In 2012 there were 67 tech companies in Phoenix; now in 2017 Phoenix boasts almost 300. This includes large companies such as Uber and Quicken Loans who are moving thousands of jobs to downtown Phoenix, while smaller Silicon Valley tech companies are opening a second office.

Northwest Phoenix was the most active submarket in the third quarter of 2017, recording nearly 116,000 sf of positive absorption, 45% of the market’s positive absorption. The Camelback Corridor had the highest average asking rent at \$31.19 psf, while Downtown Mesa and Southwest Phoenix reported the lowest vacancy rates, all at or below 3.7%. Of the eight submarkets with over 10 msf, the Tempe submarket is the healthiest, with Class B vacancy at 15.3%, Class C vacancy at 10.9%, Class A vacancy at 6.7%, and the second highest average rental rate of \$28.09 psf. The largest lease of the third

quarter occurred in Tempe, with MUFG Union Bank acquiring 173,055 sf at 1101 Washington Street for \$34.00 psf.

1.6 msf of new office product was delivered in the Phoenix market through third quarter 2017, with 61.2% leased and nearly 1.5 msf currently under construction in the region, with 53.3% preleased. There are four projects under construction with 150,000 sf: the 15-story Watermark Phase I Tower is located at 410 N. Scottsdale Road and will add 253,000 sf of office space to the market in late 2018; the Offices at Chandler Viridian is under construction at 3111 W. Frye Road, scheduled for completion in September 2018, 22.4% of its 246,000 sf preleased; the 235,000 sf Liberty Center Building IV will be completed in early 2018 at 1870 W. Rio Salado Parkway, with Centene Corporation occupying the entire building; and Freedom Financial’s new 150,000 sf office at 2100 E. Rio Salado Parkway scheduled for completion in Spring 2018.

Sales activity slowed in the third quarter. It appears that most value-add office deals have already been sold while the remaining sellers are aggressive with pricing, contributing to the market slowdown. The largest sale was 14416 W. Meeker Boulevard., a 72,000 sf medical office building which sold for \$37.28 million, or approximately \$518 psf. Total square footage volume was down 27.6% from second quarter and dollar volume dipped 41.6%, and the price psf declined 22.9%.

Other large sales in the third quarter included: 1201 S. Alma School Road, which was purchased for \$23 million (\$74 psf); 7001 N. Scottsdale Road, a 90,893 sf office building which sold for \$22.4 million (\$246 psf); and the 106,000 sf 8377 E. Hartford Drive property, sold for \$20.7 million (\$195 psf).



Market By The Numbers

Market	Total RBA (SF)	Vacancy Space Direct	Vacancy Space Sublease	Vacancy Rate Class A	Vacancy Rate Class B	Vacancy Rate Class C	Available Space Direct	Available Space Sublease	Net Absorption (SF)	Avg. Ask Total (FS)	Avg. Ask Class A (FS)
44th St	3,948,730	322,077	2,100	18.9%	16.1%	5.2%	557,929	5,970	53,558	\$24.80	\$26.80
Airport Area	11,185,651	434,405	0	21.4%	24.1%	6.7%	1,885,623	590,849	6,143	\$24.08	\$26.55
Arrowhead	4,238,958	544,494	15,008	19.0%	20.5%	20.5%	495,938	15,008	13,135	\$23.23	\$27.89
Camelback Corridor	9,058,145	1,489,436	103,095	19.5%	17.3%	4.8%	1,274,943	85,835	15,777	\$31.19	\$35.59
Central Phoenix	5,142,572	532,382	11,365	-	11.8%	8.6%	520,457	11,365	26,059	\$18.59	-
Central Scottsdale	8,720,325	851,337	62,931	6.4%	12.9%	4.1%	815,043	57,837	97,023	\$25.14	\$27.42
Chandler	10,344,372	1,525,976	55,167	9.9%	17.6%	11.2%	1,235,760	55,167	41,861	\$24.40	\$28.28
Deer Valley/Airport	11,953,809	1,781,381	9,012	5.7%	20.2%	8.9%	1,424,461	9,012	-24,825	\$22.05	\$26.11
Downtown	10,495,915	1,292,280	105,275	16.0	9.5%	14.8%	1,071,968	62,409	-28,031	\$30.21	\$32.28
Downtown Mesa	1,483,213	111,003	1,100	-	3.7%	4.8%	111,003	1,100	6,657	\$13.96	-
East Mesa	3,496,793	328,553	5,960	-	8.2%	11.9%	323,646	5,960	24,576	\$16.94	-
Gateway/Airport/Loop 302	2,586,152	276,505	11,299	10.3%	11.3%	4.8%	255,621	11,299	53,367	\$24.63	\$29.66
Glendale	3,123,730	492,656	17,952	11.6%	19.8%	9.1%	471,715	17,952	64,333	\$24.18	\$27.21
Loop 303/Surprise	2,372,815	290,062	7,434	0.0%	15.8%	6.5%	186,883	7,434	34,884	\$22.59	-
Midtown	13,033,427	2,670,106	33,200	22.1%	22.9%	8.5%	2,513,612	30,952	15,681	\$21.82	\$24.97
North Interstate I-17	743,982	137,679	2,772	-	18.9%	0.0%	137,679	2,772	-7,868	\$24.33	-
North Phoenix	119,658	8,835	0	-	8.9%	0.0%	8,835	0	4,026	\$19.51	-
North Scottsdale	1,871,814	20	0	-	20.7%	13.2%	363,652	0	222	\$20.35	-
NW Phoenix	10,653,920	2,292,012	902	19.3%	27.3%	14.3%	2,210,407	902	115,522	\$18.05	\$22.56
Paradise Valley	4,637,049	610,946	24,962	15.8%	12.6%	13.5%	598,766	24,962	25,903	\$23.64	\$27.98
Piestewa Peak Corridor	3,453,113	529,660	24,164	8.3%	20.2%	6.5%	505,648	24,164	7,037	\$20.94	\$26.33
Pinal County	1,573,419	142,411	0	-	10.2%	6.7%	142,411	0	12,890	\$17.03	-
Scottsdale Airport	12,870,900	1,343,573	98,795	12.0%	10.5%	6.2%	1,239,572	93,984	-29,913	\$27.49	\$30.55
South Scottsdale	6,795,630	950,653	72,428	18.7%	14.6%	11.0%	845,014	33,475	-91,121	\$28.98	\$32.81
South Tempe	7,357,180	1,065,728	17,138	1.8%	14.9%	32.2%	702,980	17,138	-257,194	\$23.27	\$25.79
Southwest Outlying	188,560	0	0	-	0.0%	0.0%	0	0	3,200	-	-
Southwest Phoenix	3,156,885	284,351	0	13.0%	3.3%	12.5%	284,351	0	1,120	\$22.49	\$26.00
Superstition Corridor	6,181,186	766,818	15,617	25.6%	10.8%	13.3%	739,828	15,617	55,042	\$19.61	\$23.34
Tempe	12,107,379	1,225,048	55,718	6.7%	15.3%	10.9%	954,598	28,583	17,609	\$28.09	\$34.44
West I-10	1,976,051	224,549	8,432	-	8.6%	25.7%	224,549	8,432	1,306	\$20.18	-
Total	174,871,333	22,524,936	761,826	13.7%	16.2%	11.5%	22,102,892	1,218,178	257,979	\$23.91	\$29.25



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