



1Q 2020 / Research Report

# Phoenix Office Market

It's a small world after all.

Clearly, a major event happened in the last third of the quarter. Avison Young's house view on the state of national and global economies is expressed most fully at our COVID-19 Resource Centre, and as it relates to commercial real estate and property management.

This, and subsequent, Phoenix reports will stick to the data rather than editorial speculation. What the data shows is that the Phoenix office market started the year with sound fundamentals, even as a tapering of activity had already begun after a record-breaking, sustained run of positive growth in the local market. Phoenix has hard-earned experience with downturns, even severe ones, although this cycle was widely expected to be short and shallow.

Trend lines had already begun to arc slightly downward after 29 quarters of positive, year-over-year rent growth. A clearer assessment isn't possible without more data. Real Estate in

general is a lagging indicator. It is still too early to tell where this market is heading or where buyers, sellers, and developers decide to place or pull decisions based on information, or how occupiers adjust to the new normal.

Our Research Department had already revised long data sets to provide the clearest picture of the Phoenix Office Market. The following is a snapshot just as events began to unfold at the end of March. Avison Young is on top of news, market changes, and fresh opportunities daily. Contact us directly for information regarding latest state of the market.

## Employment

National employment cratered in March. Phoenix is, relatively to other metro areas, at a lower risk for severe long-term labor market shocks. In February, the rate stood at 3.9%, near the record low recorded in 4Q 2019 of 3.7%. In March, UI claims climbed substantially. The state Unemployment rate now stands at 5.5%.

Market  
Inventory



97,668,955 SF

Vacancy  
Rate



14.1%

Net  
Absorption



- 241,547 SF

Construction  
Pipeline



1,136,986 SF

Average Class A  
Asking Rate



\$31.80 SF

# 37.5K

The week ending March 28th, 2020 Maricopa County reported a decrease in employment by 37,433 jobs compared to the same week in 2019 which saw a decrease in employment of 1,134 jobs.

## Absorption & Vacancy

In the Tempe office market, ZipRecruiter at Hayden Ferry Lakeside III, announced significant local layoffs at the end of March. While Open Door, scheduled to occupy 100,807 sf at The Watermark in May, has suspended parts of its residential home-buying business, laying off 35% of its national staff. A culling of businesses unable to adapt or bridge the financial gap is under way, but unexpected growth for certain industries will prompt reconsidered occupier requirements.

The Deer Valley Submarket took the biggest hit as American Express vacated 356,200 sf for a built-to-suit office in the Paradise Valley Submarket.

## Rental Rates

Rental rate growth had begun to soften after ending the decade in record territory. First signs of rental rate growth faltering began in class B office product late February. Steepest dips occurred in class A product in Chandler, falling nearly a quarter over March. The Airport

Area also registered a significant slip in both class A & B properties. Camelback Corridor rates actually rose in 1Q to hit \$37.73 per square foot for class A office.

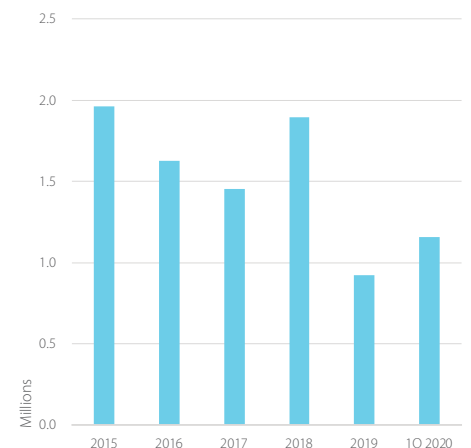
## New Construction

The construction cycle had already paused as expected deliveries came to market & a new wave of construction had yet to start. Of the eight projects over 30,000 sf in progress, three of them will not deliver until 2021, including 100 South Mill, where both Amazon & Deloitte have pre-leased space. No deliveries occurred in 1Q 2020. As Governor Ducey declared construction an "essential" industry, work will continue where viable, but activity in 2Q 2020 will only go forward based on market developments and a better understanding of COVID-19's impact.

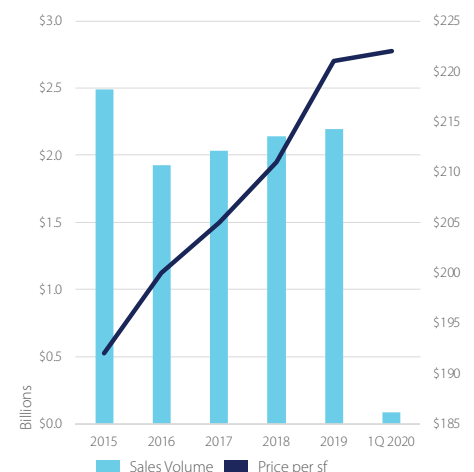
## Investment Sales

No deals came close to 4Q 2019 highs, with early investor pull-back in February. Park Garden at Fountainhead topped sales at \$61.5 million, or \$205 psf. Average overall reached \$222.

## Under Construction



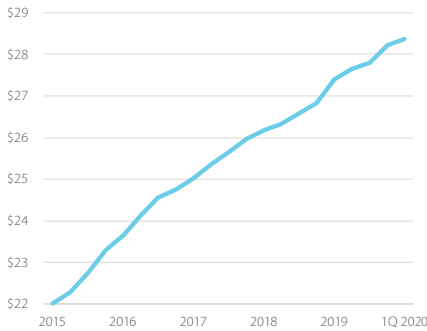
## Investment Sales



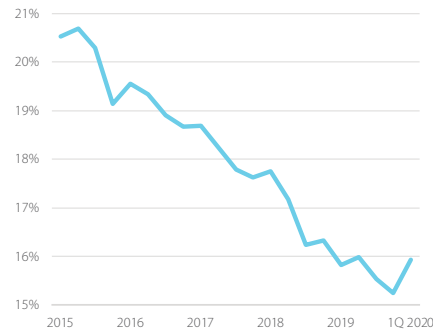
## Office Market Snapshot

It is too soon to tell the full impact of COVID-19 on commercial real estate in Phoenix, but the year began with solid fundamentals and the Metro outlook overall was positive.

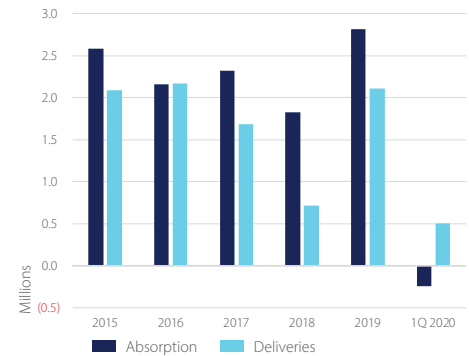
### Rental Rates



### Vacancy Rates



### Absorption & Deliveries



### Top Leases

Tenant	Building	Submarket	Square Feet	Type
Amazon	100 S Mill Ave	Tempe	93,000	Direct
Zip Recruiter	4039 E Raymond St	Airport Area	89,889	Direct
SMS Assist	3137 E Elwood St	Airport Area	31,017	Direct
Deloitte	100 S Mill Ave	Tempe	31,000	Direct
Opentech Alliance	2101 W Peoria Ave	NW Phoenix	24,116	Direct

### Top Sales

Buyer	Building	Submarket	Square Feet	Sale Price	Price/SF
Taconic Capital Advisors	Canyon Corporate Plaza	NW Phoenix	322,592	\$27,000,000	\$84
Patricia & David Moore	Canyon Village	Scottsdale Airpark	93,840	\$22,000,000	\$234
Terry B. Brodtkin & Associates	Desert Vista Commerce Center	South Tempe/Ahwatukee	98,233	\$14,500,000	\$148
Pinnacle Healthcare, inc.	Foothills Gateway Corporate Center	South Tempe/Ahwatukee	68,198	\$11,500,000	\$169
MA Engineers	Promenade at South Mountain	Airport Area	109,481	\$10,175,000	\$93

### Under Construction

Property	Building	Submarket	Square Feet	%Preleased/Owned
100 S Mill Ave	Tempe	4Q 2021	287,000	44.2%
Union- Building A	Mesa	1Q 2021	238,348	8.0%
Axis Raintree	Scottsdale Airpark	4Q 2020	175,000	0.0%
777 Tower at Novus Innovation Corridor	Tempe	2Q 2020	169,500	79.0%
999 E Playa del Norte	Tempe	2Q 2021	93,125	0.0%

## Market By The Numbers\*

Submarket	Total RBA (SF)	Vacant Space Direct	Available Space Sublease	Submarket Vacancy	Absorption Class A	Absorption Class B	1Q Net Absorption (SF)	YTD Net Absorption (SF)	Avg. Ask Class A (FS)	Avg. Ask Class B (FS)
Downtown	7,942,508	859,353	53,894	11.5%	(9,432)	3	(6,250)	(15,987)	\$32.68	\$28.06
Midtown	9,439,820	1,832,048	10,161	19.5%	(26,354)	(4,186)	(4,516)	(7,554)	\$25.39	\$21.80
Scottsdale Airpark	8,489,923	1,095,599	59,371	13.6%	25,380	30,865	36,801	(53,671)	\$31.26	\$28.35
Tempe	9,617,052	775,543	6,578	8.1%	215,683	(136,221)	81,823	(79,331)	\$39.82	\$20.85
Airport Area	7,573,419	998,112	147,759	15.1%	52,470	117,238	169,708	(9,070)	\$22.13	\$16.65
Camelback Corridor	7,034,784	1,201,440	51,427	17.8%	2,909	10,794	(9,031)	(39,489)	\$37.73	\$29.81
Central Scottsdale	5,173,848	540,191	20,550	10.8%	1,752	(37,627)	(56,283)	9,874	\$30.34	\$27.61
Scottsdale South	4,761,009	447,878	29,161	10.0%	55,730	7,622	43,529	(7,870)	\$33.72	\$31.45
Dhandler/Gilbert	6,322,155	857,994	3,737	13.6%	17,202	(72,615)	(67,814)	112,741	\$25.18	\$24.02
South Tempe/Ahwatukee	4,976,496	878,783	0	16.2%	4,816	18,278	35,495	(33,203)	\$31.68	\$19.05
44th St Corridor	2,579,315	501,074	0	18.9%	(6,844)	12,680	13,384	(8,346)	\$28.10	\$24.09
Central Phoenix	1,169,958	70,928	1,970	6.2%	0	35,263	39,245	(9,551)	\$0.00	\$18.49
Deer Valley/I-17	7,967,672	1,363,814	19,793	17.4%	(328,438)	(57,628)	(395,079)	(7,453)	\$21.01	\$19.27
N Scottsdale/Carefree	255,787	67,025	0	26.2%	(6,718)	(6,718)	(6,718)	0	\$28.30	\$26.76
Paradise Valley	1,741,755	171,527	5,846	10.2%	(15,874)	(33,793)	(52,237)	(4,648)	\$29.13	\$22.58
Piestewa Peak Corridor	1,654,480	312,385	3,713	19.1%	(12,479)	8,292	(5,383)	0	\$28.40	\$24.32
Arrowhead/Loop 303/Surprise	847,690	111,514	0	13.2%	0	10,491	10,491	(4,180)	\$21.45	\$25.02
Glendale	1,287,582	128,378	0	10.0%	2,641	62,648	(28,617)	0	\$23.14	\$22.94
NW Phoenix	4,972,245	1,167,848	29,166	24.1%	4,196	(11,988)	(7,792)	10,554	\$23.71	\$18.96
Gateway Airport/Loop 202	379,383	41,716	0	11.0%	(15,073)	16,132	16,132	0	\$23.08	\$24.12
Mesa	1,341,498	89,737	0	6.7%	(1,200)	(10,112)	(10,112)	3,200	\$26.25	\$20.11
Superstition Corridor	2,601,340	181,688	13,758	7.5%	9,815	(2,009)	2,790	0	\$21.95	\$17.74
SW Phoenix/Outlying	745,857	171,672	0	23.0%	0	0	0	(82)	\$28.00	\$18.50
West I-10	295,964	28,736	0	9.7%	4,780	(2,079)	2,701	(1,652)	\$26.46	\$25.15
<b>Total</b>	<b>97,668,955</b>	<b>13,302,830</b>	<b>458,778</b>	<b>14.1%</b>	<b>(241,527)</b>	<b>(126,813)</b>	<b>(241,527)</b>	<b>(161,100)</b>	<b>\$29.98</b>	<b>\$22.03</b>

\*The data contained in this market report is obtained from The CoStar Group, Inc., and is used under licensed permission. The report is based on all Metro-Phoenix markets for office buildings at least 20,000 square feet in size. It includes sublease space only upon the date of availability, and does not include any healthcare space or owner occupied space. Both current and historical data has been adjusted with corrected or updated information, after it was obtained. This may prevent comparison to previously released reports.



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