

2Q 2020 / Research Report

Phoenix Office Market

Market
Inventory



97,641,811 SF

Vacancy
Rate



14.4%

Net
Absorption



-13,575 SF

Construction
Pipeline



1,705,733 SF

Average Class A
Asking Rate



\$30.85 SF

With every state and even their cities implementing lockdowns differently over the past three months, data indicators are not following historical interpretations. This holds true for Phoenix and the Pandemic's impact on the office market.

For the office market, a small flow of deals continued into the 2nd quarter on momentum from complex deals already in process. Opportunistic strategies began emerging this quarter as tenants, landlords, and investors looked to reposition themselves whether in more favorable submarkets or industries that exhibited advantages in the new era. A spike in 1031 Exchange deals also indicated repositioning tactics as market trends became more difficult to discern.

Arizona's lockdown came later than many peer markets. Office occupiers have spent the quarter mainly negotiating safe return to work protocols. At the beginning of 3Q 2020, Arizona is experiencing increased infection rates and more strictly enforced guidelines. Full return

to work depends on multiple factors including practical childcare or back-to-school solutions for working parents.

On the upside, while rent growth and sales volume has slowed, sale prices per square foot continue to rise. The workforce is adapting, particularly in Phoenix which ranks first in the nation for ease of remote work and affordability. The State overall is well positioned for rapid change with decentralized, low-rise inventory, a tech-forward business culture, and a history of economic resilience.

Employment

The labor market trough, so far, was reached in April, when state and national UI systems were overwhelmed. A slight return to positive gains as Governor Ducey negotiated reopening strategies began in mid-May, however, COVID-19 cases saw a considerable increase in the weeks that followed. Metro Phoenix's unemployment rate of 8.3% is double the same period last year, but considerably lower than the national rate of 13%.

1.7 MSF

Despite delays caused by the Pandemic, construction has continued on 1.7 msf of projects around the valley. The largest projects underway this quarter are in the Tempe and Mesa submarkets.

Absorption & Vacancy

After 19 straight quarters of positive absorption, the Phoenix Office Market slowed in 2Q with -13,575 sf absorbed. Prior to the Pandemic, transaction velocity was slowing somewhat after a protracted cycle of positive gains with a number of large deliveries adding excess space to the market. Two-thirds of Metro Phoenix submarkets reported negative absorption this quarter. A drop in absorption was expected before the Coronavirus, but space planners must now reconsider how to accommodate returning workers safely. Vacancy rate overall stands at 14.4% with class A product ticking downward to 15.1% as buyers flock to quality.

Rental Rates

Rents overall have held fairly steady despite the Pandemic. A few submarkets took significant hits in 2Q, while others have improved slightly. Both class A & B rents in Chandler dived 20.1% and 17.8% respectively. The Airport Area also suffered rent setbacks, with a three month drop of 12.5% in

class A and 20% for class B properties. Scottsdale South recorded rent gains of 3.5% to \$35.55 psf thanks to the submarket's courting bioscience firms.

New Construction

Construction, while considered an essential business in Arizona, during the COVID-19 crisis, has continued but is muted. Projects already underway carried on, however not much, if any, new groundbreaking has happened. Currently, 1.7 msf is under construction in the Valley. The largest project is still 100 S. Mill Ave. in Tempe scheduled for delivery in 4Q 2021.

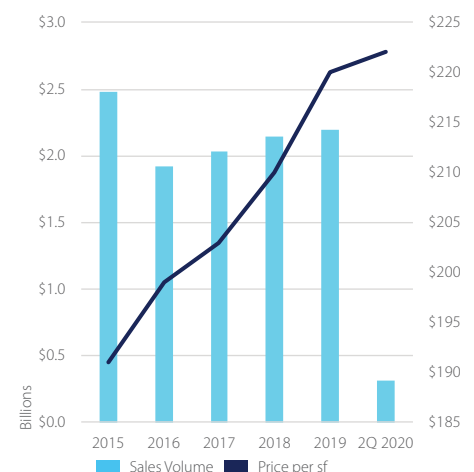
Investment Sales

Recovery is a matter of perspective. 2Q 2020 investment sales were 25% of the 4Q 2019 figure, as \$225.4 million worth of transactions were reported. While not confidence building yet, it is a marked improvement from the 1Q 2020 figure of 9.8%. Wells Fargo Gainey Center was the biggest non-portfolio sale at \$43.5 million.

Under Construction



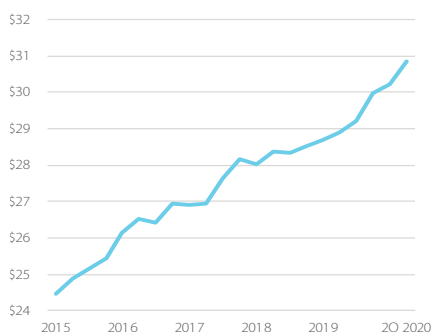
Investment Sales



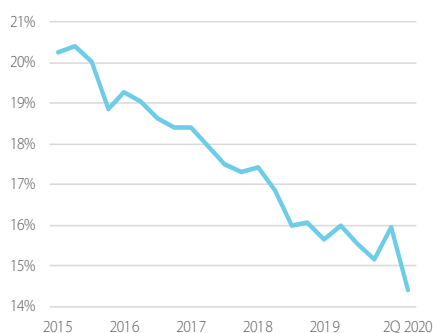
Office Market Snapshot

States are reopening with mixed results. Arizona has shown improved performance from April's depths, yet increasing COVID-19 cases push out recovery and stabilization.

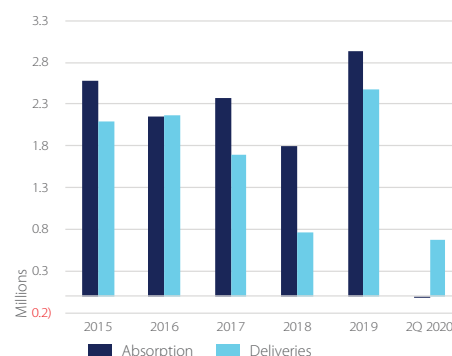
Class A Rental Rates



Vacancy Rates



Absorption & Deliveries



Top Leases

Tenant	Building	Submarket	Square Feet	Type
Black Canyon Conference Center	9440 N 25th Dr	Northwest Phoenix	59,802	Renewal
Morgan Stanley	2100 E Rio Salado Pky	Tempe	44,248	Direct
Central Office Co-Working	1001 N Central Ave	Downtown	28,232	Direct
Hownd	1840 E Guadalupe Rd	Tempe	20,040	Direct
Carrington Mortgage	585 N Juniper Dr	South Tempe/Ahwatukee	17,431	Direct

Top Sales

Buyer	Building	Submarket	Square Feet	Sale Price	Price/SF
Orr Partners	2160-2190 E Elliot Rd (portfolio)	South Tempe/Ahwatukee	154,157	\$64,500,000	\$418
Ascent Real Estate Partners	Wells Fargo Gainey Center	Central Scottsdale	140,756	\$43,500,000	\$309
Rainbow Investment Co.	Perimeter Parkview Corporate Center	Scottsdale Airpark	104,956	\$30,025,000	\$286
Providence Real Estate Group	Mesquite Corporate Center	Scottsdale Airpark	79,537	\$19,471,000	\$243
Exeter Property Group	92 Mountain View	Central Scottsdale	116,200	\$19,200,000	\$165

Under Construction

Property	Completion	Submarket	Square Feet	% Preleased/Owned
100 S Mill Ave	4Q 2021	Tempe	287,000	44.2%
Union- Building A	1Q 2021	Mesa	238,348	8.0%
The Edge	1Q 2021	Central Scottsdale	210,000	0.0%
Axis Raintree	4Q 2020	Scottsdale Airpark	175,000	0.0%
777 Tower at Novus Innovation Corridor	3Q 2020	Tempe	169,500	79.0%

Market By The Numbers*

Submarket	Total RBA (SF)	Vacant Space Direct	Available Space Sublease	Submarket Vacancy	Absorption Class A	Absorption Class B	2Q Net Absorption (SF)	YTD Net Absorption (SF)	Avg. Ask Class A (FS)	Avg. Ask Class B (FS)
Downtown	7,942,508	898,201	110,935	12.7%	(56,796)	3	(56,793)	(66,687)	\$31.95	\$27.64
Midtown	9,077,127	1,725,492	24,160	19.3%	29,686	46,295	75,981	67,368	\$25.94	\$21.92
Scottsdale Airpark	8,452,521	1,121,195	69,391	14.1%	(20,273)	(14,613)	(23,904)	(112,188)	\$31.39	\$28.63
Tempe	9,749,310	984,733	99,065	11.1%	264,099	(88,253)	177,721	1,090,359	\$39.79	\$24.38
Airport Area	7,610,073	1,041,190	89,450	14.9%	54,832	37,548	46,997	210,222	\$22.25	\$16.88
Camelback Corridor	7,044,874	1,198,612	94,712	18.4%	(6,821)	(7,023)	(13,844)	(27,556)	\$38.03	\$28.38
Central Scottsdale	5,178,436	588,359	26,192	11.9%	30,271	(36,073)	(10,030)	612,664	\$30.29	\$27.42
Scottsdale South	4,376,465	443,263	23,168	10.7%	(48,040)	17,858	(30,182)	(13,468)	\$35.55	\$31.59
Chandler/Gilbert	6,233,534	912,169	4,337	14.7%	247,928	67,121	315,049	293,545	\$27.74	\$25.08
South Tempe/Ahwatukee	4,974,097	734,822	1,894	14.8%	3,724	(33,246)	(40,426)	99	\$31.68	\$18.85
44th St Corridor	2,579,003	360,645	2,587	14.1%	(25,701)	(6,814)	(32,515)	(29,766)	\$28.24	\$23.85
Central Phoenix	1,219,075	80,896	1,970	6.8%	0	(10,743)	(9,968)	26,192	\$0.00	\$19.24
Deer Valley/I-17	7,034,188	1,137,581	249,044	19.7%	(10,396)	(22,513)	(37,116)	(442,731)	\$21.00	\$19.36
N Scottsdale/Carefree	255,787	67,025	0	26.2%	0	(3,003)	(3,003)	(6,718)	\$0.00	\$27.05
Paradise Valley	1,595,951	145,242	16,548	10.1%	10,323	15,579	25,902	(30,450)	\$29.78	\$22.55
Piestewa Peak Corridor	1,654,480	307,321	1,335	18.7%	0	(11,924)	(11,924)	(21,627)	\$29.00	\$24.45
Arrowhead/Loop-303/Surprise	847,690	115,384	0	13.6%	(86)	(4,050)	(4,690)	119,184	\$21.70	\$24.64
Glendale	1,287,582	128,378	0	10.0%	0	0	0	(30,086)	\$26.01	\$23.22
NW Phoenix	4,908,765	1,172,618	29,166	24.5%	(64,837)	(53,638)	(118,475)	(29,984)	\$24.82	\$19.45
Gateway Airport/Loop-202	379,383	36,837	0	9.7%	(1,874)	(1,874)	(1,874)	14,258	\$23.18	\$24.06
Mesa	1,341,498	89,737	0	6.7%	0	0	0	(10,112)	\$28.93	\$19.93
Superstition Corridor	2,593,543	247,202	6,178	9.8%	13,669	(47,066)	(33,397)	1,720	\$26.16	\$17.14
SW Phoenix/Outlying	745,857	167,678	0	22.5%	3,994	0	3,994	3,994	\$28.00	\$18.50
West I-10	295,964	29,832	1,652	10.6%	(1,652)	(1,096)	(2,748)	(47)	\$27.00	\$25.16
Total	97,641,811	13,798,628	851,784	14.4%	227,992	(226,633)	(13,575)	(144,113)	\$30.85	\$22.40

*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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