



3Q 2020 / Research Report

Phoenix Office Market

Market
Inventory



97,614,692 SF

Vacancy
Rate



15.4%

Net
Absorption



-93,657 SF

Construction
Pipeline



2,172,853 SF

Average
Asking Rate



\$28.34 SF

Most sectors of the economy have adjusted to the COVID-19 era. The novelty of staying home has long worn off. Many employers are making permanent hybrid home and office arrangements. “Remote” workers are now considered a “distributed” workforce. Productivity measures show that many tasks can be completed in a focused home environment. The benefits of a common office, though, are also becoming more evident. New hires are missing connections and corporate culture, young employees are missing mentors, and everyone’s mental health is at stake. But people, companies, and even cities adapt.

Metro Phoenix, once characterized as a “sprawling” urban area, might now be considered a “distributed” city, with low density, multiple hub & spoke employment corridors, and a world-class freeway system. It also boasts the nation’s highest number of class A office buildings under four stories, a factor influencing workers’ hesitancy to return to high-rise cities.

Several valley cities — Gilbert, Scottsdale, and Chandler — are among the nation’s top locations for home-based workers by measure of broadband access and speed, income potential, and time saved from commuting. More coastal businesses are relocating or opening satellites in Arizona. The state is projected to emerge from the pandemic in a stronger position than competitor markets, sometime near the end of 2021.

Employment

Current unemployment in Maricopa County stands at 10.3% after spiking to 13.3% in May. This is on par with the overall US unemployment rate; however, Maricopa’s figures are trending downward while the US is on an upward trajectory. A Fall coronavirus increase in the State could curtail this recovery, but efforts were effective to control the virus after a significant spike after stay-at-home orders were lifted in May.

Sublease Up 45%

Available sublease space has increased 45% from 3Q 2019 to 1 msf. That figure rose 25% over 2Q 2020. "Plug and play" subleases that can offer discounted space is competing with landlords for tenants, and generally offer lower direct rental rates and short lease terms, both attractive to tenants. This trend is likely to continue into 2021.



Absorption & Vacancy

While the Metro Phoenix office market experienced a negative absorption of -93,657 at the end of the 3Q, occupancy at completion for projects is well above last year. Unlike prior cycles, overbuilding was tempered by previously damaging cycles. The current vacancy rate for all classes is 15.4%, below the average for the previous decade of 20%. Glendale and SW Phoenix Outlying recorded the biggest drops in vacancy since March, -2.9% and -5% respectively. Tempe had the biggest increase over the same period of 2.8%, from 9.0% to 11.8%.

Rental Rates

Rents for all classes declined slightly to \$28.34 psf. Deer Valley, Sky Harbor, and Mesa submarkets fell the most for class A product, while Camelback Corridor and Arrowhead/Loop 303/Surprise have risen since March. Scottsdale South has the highest class A and B rent averages at \$34.71 and \$30.81 psf respectively.

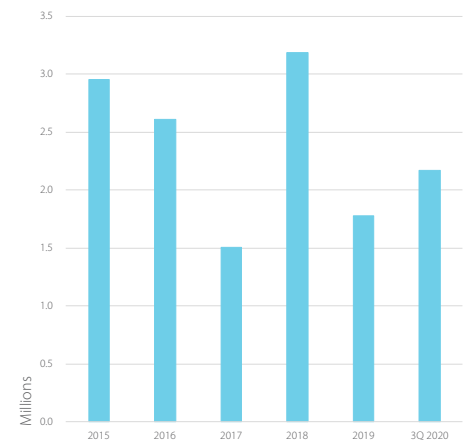
New Construction

2.17 msf is currently under construction across Metro Phoenix. The largest, Cavasson, totals 610,000 sf. Deliveries in the third quarter fell to 480,817 sf, down from a recent peak in 4Q 2019 of 1,029,624 sf. RIO2100 Phase V in Tempe was the quarter's largest at 180,000 sf, with 34.1% occupancy, followed by 777 Tower at Novus Innovation Corridor adjacent to ASU, delivering 169,500 sf at 79% occupancy.

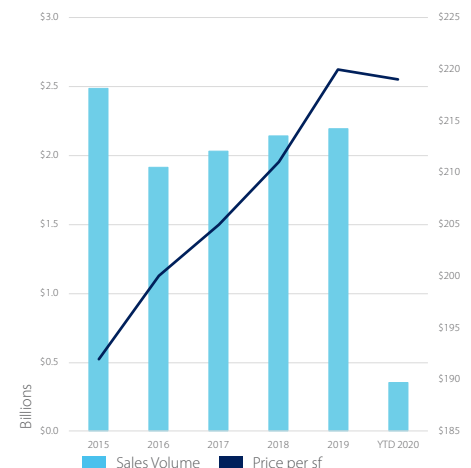
Investment Sales

While sales volume may have tumbled since the beginning of the year, a process already underway prior to the pandemic, albeit at a more gradual pace, price per square foot fell slightly to \$219 psf. The largest transaction occurred at the end of July when Equus Capital Partners sold Scottsdale Gateway I, a 107,049 sf building 96% occupied, for \$27 million to Healthpeak Properties.

Under Construction



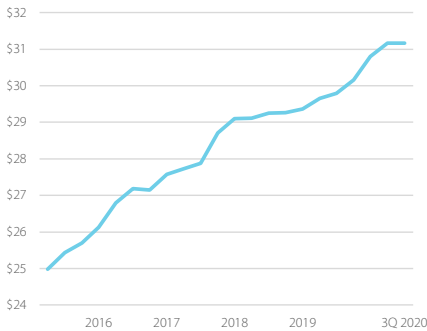
Investment Sales



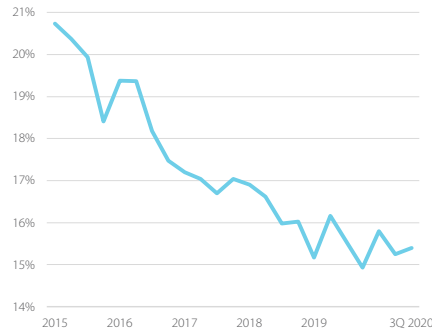
Office Market Snapshot

Phoenix's reputation as a sprawling city is undergoing a reframing. Qualities that may have counted against it before the pandemic, like low density and widely-distributed employment centers, can now be considered benefits.

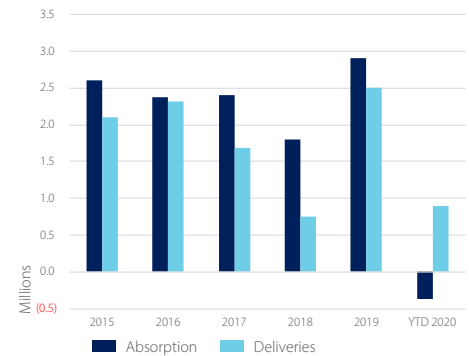
Rental Rates (Class A)



Vacancy Rates



Absorption & Deliveries



Top Leases

Tenant	Building	Submarket	Square Feet	Type
Maximus	Black Canyon Commerce Park	NW Phoenix	62,771	Sublease
TicketMaster	SkySong 2	Scottsdale - SoCR	33,335	Direct
CVO Holding Company	Block 23 at CityScape	Downtown	31,622	Direct
Bright Health Plan	RIO2100 Building 1	Tempe	28,000	Direct
LCD	Pima Northgate	Scottsdale Airpark	23,490	Direct

Top Sales

Tenant	Building	Submarket	Square Feet	Sale Price
Healthpeak Properties	Scottsdale Gateway I	Scottsdale - SoCR	107,049	\$27,000,000
Jonathan Scott & Aaron Sparboe	Paradise Valley Plaza	Paradise Valley & Piestewa Peak	97,000	\$16,744,525
Oxford Life Insurance	Central Park Forest	Midtown	145,210	\$14,962,315
Blueprint Capital	Westmount Plaza	Midtown	60,142	\$4,359,600
Alex Kim	Brown Plaza	Mesa	67,272	\$2,500,000

Under Construction

Property	Submarket	Completion	Total SF	% Preleased/Owned
Cavasson (two buildings)	Scottsdale Airpark	4Q 2021	610,000	100.0%
100 S Mill Ave	Tempe	4Q 2021	287,000	44.2%
Scottsdale Entrada	Scottsdale South	3Q 2021	244,998	0.0%
Union- Building A	Mesa	1Q 2021	238,348	8.0%
The Edge	Central Scottsdale	1Q 2022	212,000	0.0%

Market By The Numbers*

Submarket	Total RBA (SF)	Vacant Space Direct	Available Space Sublease	Submarket Vacancy	Absorption Class A	Absorption Class B	Q3 Net Absorption (SF)	YTD Net Absorption (SF)	Avg. Ask Class A (FS)	Avg. Ask Class B (FS)
Downtown	7,942,508	873,142	110,935	12.4%	10,260	(3,024)	7,236	(55,807)	\$32.87	\$27.71
Midtown	9,077,124	1,744,441	31,150	19.6%	(64,321)	(74,016)	(97,768)	(25,343)	\$25.90	\$22.01
Scottsdale Airpark	8,352,620	1,213,860	119,946	16.0%	(116,156)	(29,263)	(110,058)	(136,382)	\$30.79	\$28.22
Tempe	9,936,020	1,113,161	62,529	11.8%	167,903	(105,818)	59,724	338,809	\$39.61	\$21.65
Airport Area	7,623,131	973,213	149,069	14.7%	8,796	21,942	30,738	83,642	\$22.18	\$16.56
Camelback Corridor	7,006,001	1,263,123	89,755	19.3%	(47,026)	11,560	(35,466)	(42,693)	\$37.98	\$28.73
Central Scottsdale	5,075,470	887,433	30,143	12.9%	(6,092)	(48,890)	(62,086)	(101,919)	\$29.08	\$27.26
Scottsdale South	4,516,856	454,600	12,503	10.3%	(18,403)	(23,471)	(16,292)	(16,472)	\$34.71	\$30.81
Chandler/Gilbert	6,238,192	869,357	600	13.9%	55,021	2,605	55,727	384,655	\$25.83	\$25.74
South Tempe/Ahwatukee	4,965,705	710,801	3,507	14.4%	(9,742)	44,330	34,588	6,499	\$31.68	\$18.29
44th St Corridor	2,579,003	382,180	29,898	16.0%	(40,276)	(17,112)	(54,221)	(72,441)	\$27.31	\$24.21
Central Phoenix	1,169,958	87,208	1,970	7.6%	0	(6,306)	(5,170)	26,175	\$0.00	\$19.05
Deer Valley/I-17	6,985,477	1,126,328	254,392	19.8%	(14,015)	(4,230)	(22,806)	(568,695)	\$20.86	\$19.81
N Scottsdale/Carefree	255,787	69,025	0	27.0%	1,003	1,003	1,003	(14,994)	\$30.00	\$27.12
Paradise Valley	1,676,020	167,191	16,548	11.0%	(17,276)	(15,312)	(37,168)	(66,853)	\$29.40	\$22.24
Piestewa Peak Corridor	1,654,480	313,313	1,335	19.0%	(1,173)	9,765	9,765	(11,873)	\$28.38	\$24.53
Arrowhead/Loop 303/Surprise	853,221	107,541	0	12.6%	(384)	5,046	(274)	7,810	\$21.92	\$24.82
Glendale	1,287,582	91,337	0	7.1%	7,000	(3,941)	3,059	(23,218)	\$23.06	\$23.48
NW Phoenix	4,908,051	1,090,012	39,377	23.0%	(6,893)	127,202	174,248	(48,992)	\$24.41	\$19.32
Gateway Airport/Loop 202	420,166	33,931	0	8.1%	5,190	11,943	11,943	26,201	\$22.89	\$23.50
Mesa	1,346,837	88,559	0	6.6%	(598)	(598)	(598)	(12,176)	\$28.77	\$22.07
Superstition Corridor	2,552,662	265,587	5,381	10.6%	(4,344)	(38,105)	(35,637)	(72,789)	\$21.58	\$16.44
SW Phoenix/Outlying	895,857	160,845	0	18.0%	6,388	0	6,833	10,827	\$28.00	\$18.50
West I-10	295,964	27,737	7,125	11.8%	2,095	(5,473)	(3,378)	(3,425)	\$26.65	\$26.33
Grand Total	97,614,692	14,113,925	1,100,174	15.4%	(90,197)	(146,247)	(93,657)	(372,274)	\$31.17	\$24.56

*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 30,000 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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