

### Market Facts

**↓ 14.0%**  
Class A Vacancy

**↓ 14.5%**  
Class B Vacancy

**↓ \$30.52**  
Class A Average Asking Rate

**↓ \$22.82**  
Class B Average Asking Rate

**↑ \$168**  
Average Sale  
Price/Square Foot

**↑ 6.9%**  
Office Average CAP Rate

### Market Overview

The Phoenix office market grew to nearly 180 million square feet (msf) while the second quarter 2018 combined vacancy rate dropped to 13.5%, 70 basis points lower than first quarter 2018. The Average rental rate reached \$25.09 per square foot (psf) in the second quarter, up 6.4% year-over-year. Quarterly absorption increased in the second quarter of 2018, with 1,217,456 sf, compared to 307,020 msf in the first quarter of 2018. Quarterly absorption has been positive every quarter since second quarter 2015. These strong market fundamentals are expected, given that Phoenix gained 57,000 jobs between May 2017 and May 2018. During that period, the top three industries with employment increases were information technology 6.5%, the strongest rate of any industry; construction 5.9% and manufacturing 4.2%.

### Top Leases

Tenant	Building	Submarket	Square Feet	Type
General Dynamics	Desert Canyon Corporate Campus	Northwest Phoenix	149,211	Direct
Deloitte	Rivulon	Chandler	102,434	Direct
Lennar Homes	Fountainhead Corporate Park	Airport Area	90,000	Direct
CareFirst Health	Phoenix Gateway Center	44th Street Corridor	81,306	Direct
Regus	Val Vista Crossings	Superstition Corridor	59,418	Direct

### Top Sales

Buyer	Building	Submarket	Square Feet	Sale Price	Price/SF
NY Life Real Estate Investors	24th at Camelback	Camelback Corridor	302,209	\$100,000,000	\$331
Wentworth Property Company	Chase Tower <i>*foreclosure sale</i>	Downtown	723,922	\$78,800,000	\$109
Oak Street Real Estate Capital	Copper Point Tower	Midtown	252,400	\$64,575,000	\$156
Griffin Capital Essential Asset REIT	Chaparral Commerce Center - A	South Scottsdale	135,585	\$33,510,504	\$247
Griffin Capital Essential Asset REIT	Chaparral Commerce Center - B	South Scottsdale	135,500	\$33,489,496	\$247



### Market Snapshot

Economic growth is projected to remain strong through 2022, according to the University of Arizona Economic and Business Research Center. Personal income should grow 6.4% annually. Non-farm employment is predicted to increase approximately 2.2%. Nationally, Phoenix ranks first for small business wage growth from June 2017 to June 2018, according to the PayChex/IHS Markit Employment Watch Report, up 5.1%. Arizona also had the largest wage gains in the nation with a 4.6% bump averaging \$25.42 per hour, although still lower than the national average hourly wage of \$26.65.

With a lower cost of doing business, strong employment base, and an attractive real estate market, Phoenix continues to appeal to technology companies relocating from the West Coast including 58,128 sf occupied by Galvanize, Inc. near 7th Street and Buckeye Road. This repurposed warehouse is now home to almost 120 tech companies and a technology school. In 2012 there were 67 tech companies in Phoenix; Phoenix boasted almost 300 in 2017, and currently 309 software companies and 69 satellite offices out-of-state software companies are now based in Arizona. This includes large companies such as Uber, Nikola Motor Company, and Quicken Loans leading to thousands of jobs to Downtown Phoenix, while smaller Silicon Valley tech companies are opening second offices.

Deer Valley/Airport was the most active submarket in the second quarter of 2018, recording 266,000 sf positive

absorption, equaling 22% of the market's positive absorption. Net absorption more than doubled from first quarter 2018, to 1,217,456 sf. The Tempe submarket had the highest average asking rent at \$38.91 psf, but the North Phoenix Submarket reported the lowest vacancy rates of 3.0%. Of the eight submarkets with over 10 msf, the Tempe Submarket is the healthiest, with the lowest combined vacancy of 6.4% for Class A through Class C offices. The largest lease of the second quarter occurred in the Northwest Phoenix Submarket, with General Dynamics acquiring 149,211 sf at 2411 W. Peoria Avenue.

684,338 sf of new office product was delivered in the Phoenix market through second quarter 2018, with 67.2% leased. Of the 3.1 msf currently under construction, 28.8% has been preleased. There are nine office projects over 150,000 sf under construction: The Grand at Papago Park Phase II, located at 1127 N. Papago Drive will add 352,481 sf to the market in May 2019; the 15-story Watermark Phase I Tower at 410 N. Scottsdale Road will add 265,000 sf of office space to the market in July 2019; Offices at Chandler Viridian is under construction at 3133 W. Frye Road, scheduled for completion in October 2018; in May 2019 Block 23 at Cityscape will deliver 228,000 sf at 101 E. Washington Street; the 200,000 sf Building C at Discovery Business Campus will deliver in April 2019 at 2190 E. Elliot Road; I.D.E.A. Tempe Phase I will add 183,560 sf to the market in January 2020; Chandler Freeway Crossing II Building 6 will add 153,370 sf to the market in January 2019 at 2625 W. Geronimo Place; and



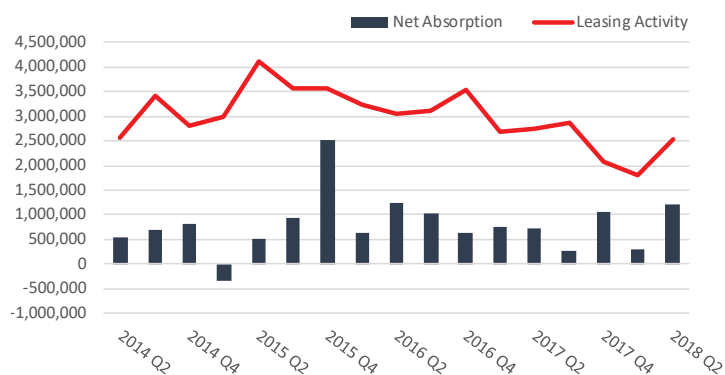
Allred Park Place South Building 15 is adding 120,000 sf at 1650 S. Price Road and 150,000 sf at Building 16, 1700 S. Price Road in April 2019.

Sales activity increased in the second quarter and dollar volume was up 12.6% from first quarter 2018's figure. Total square footage sales volume was up 41.1% from first quarter 2018. The largest sale was 24th at Camelback, a 302,209 sf complex, which sold for \$100 million, or approximately \$331 psf. Other large sales in the second quarter included: The Chase Tower foreclosure sale, purchased for \$78.8 million (\$109 psf); Copper Point Tower, a 252,400 sf office property which sold for \$64.6 million (\$156 psf); and the 135,585 sf Chaparral Commerce Center - A, which sold for \$33.5 million (\$247 psf).

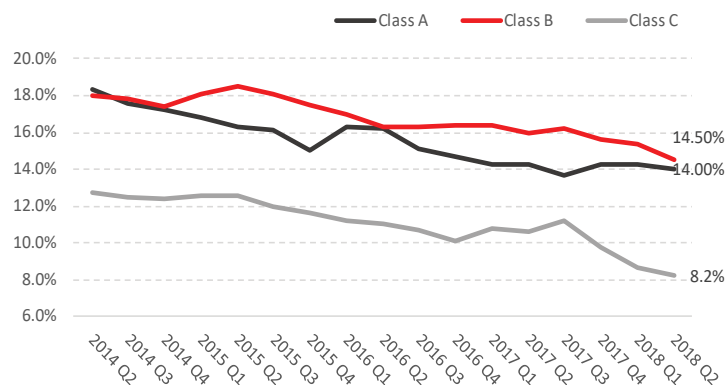


24th at Camelback

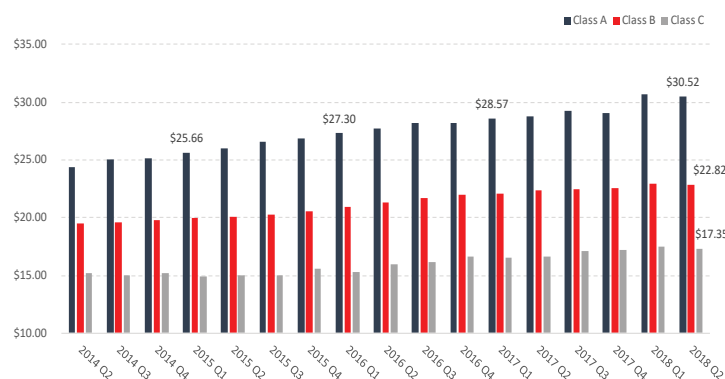
### Historical Net Absorption & Leasing Activity



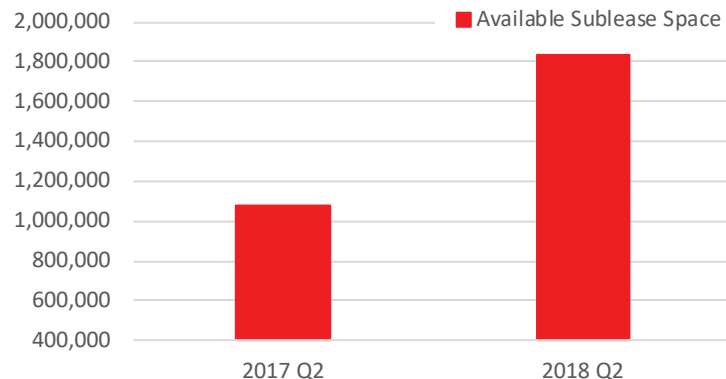
### Historical Vacancy



### Historical Asking Rental Rate (FSG)



### Total Available Sublease Space in the Market



## Market By The Numbers

Submarket	Total RBA (SF)	Vacant Space Direct	Available Space Sublease	Submarket Vacancy	Absorption Class A	Absorption Class B	Net Absorption (SF)	YTD Net Absorption	Avg. Ask Class A (FS)	Avg. Ask Class B (FS)
44th St	4,064,103	492,362	1,700	11.4%	12,541	20,199	35,492	75,549	\$27.08	\$25.42
Airport Area	12,322,126	2,131,662	561,933	21.9%	-19,402	82,910	83,642	311,976	\$29.90	\$23.08
Arrowhead	4,371,904	492,166	4,706	11.4%	21,868	-2,183	23,858	84,234	\$27.61	\$25.62
Camelback Corridor	9,482,195	1,382,080	117,979	15.8%	50,021	27,078	38,032	-139,194	\$36.45	\$24.37
Central Phoenix	5,258,457	494,342	7,921	9.6%	-	-23,657	-240	52,358	-	\$20.28
Central Scottsdale	8,722,404	884,388	142,326	11.8%	-124,508	28,073	-94,884	-88,030	\$28.68	\$24.03
Chandler	10,693,713	1,459,076	120,678	14.8%	-68,794	107,453	28,575	201,566	\$29.03	\$24.04
Deer Valley/Airport	11,952,930	1,231,904	3,870	10.3%	144,434	125,477	266,060	554,628	\$25.57	\$23.31
Downtown	10,635,900	1,086,313	148,948	11.6%	81,567	120,756	197,621	99,610	\$34.00	\$29.26
Downtown Mesa	1,481,659	66,097	0	4.5%	-	-2,485	22,587	16,012	-	\$16.22
East Mesa	3,529,247	264,510	0	7.5%	-	-21,210	-10,284	32,585	-	\$19.13
Gateway/Airport/Loop 202	2,644,992	225,058	15,187	9.1%	6,483	9,047	15,530	36,435	\$29.68	\$24.76
Glendale	3,350,900	446,742	20,605	13.9%	8,267	52,357	71,928	68,491	\$28.22	\$25.29
Loop 303/Surprise	2,455,632	276,671	0	11.3%	0	-7,563	-7,347	9,230	-	\$23.94
Midtown	12,957,475	2,443,475	41,012	19.2%	39,602	12,351	35,380	150,765	\$25.54	\$20.54
North Interstate-17	746,292	133,317	0	17.9%	-	4,344	4,344	216	-	\$23.80
North Phoenix	136,413	4,026	0	3.0%	-	4,410	4,410	5,610	-	\$19.53
North Scottsdale	1,944,638	322,882	0	16.6%	-	21,286	-29,218	78,582	-	\$21.20
NW Phoenix	10,765,677	2,201,798	29,501	20.7%	27,128	-110,924	-24,898	-205,273	\$22.92	\$17.68
Paradise Valley	4,688,200	507,922	49,104	11.9%	-22,984	18,175	827	56,579	\$28.33	\$22.19
Piestewa Peak Corridor	3,457,046	551,872	42,758	17.2%	36,985	10,243	54,354	-153,547	\$26.50	\$20.62
Pinal County	1,586,390	133,867	0	8.4%	-	-6,161	-13,484	-9,660	-	\$18.75
Scottsdale Airport	13,227,499	1,339,544	400,638	13.2%	20,356	50,234	76,671	-307,931	\$30.92	\$24.62
South Scottsdale	7,097,384	896,065	47,442	13.3%	-19,758	29,296	14	-66,262	\$33.32	\$29.77
South Tempe	7,555,870	890,232	52,230	12.5%	200	97,406	233,307	205,168	\$28.05	\$22.55
Southwest Outlying	193,560	8,885	0	4.6%	-	2,450	-2,450	-8,885	-	\$21.55
Southwest Phoenix	3,280,612	244,535	0	7.5%	0	4,210	47,926	69,037	\$28.87	\$26.21
Superstition Corridor	6,325,626	781,981	7,020	12.5%	33,643	-36,424	-16,856	144,646	\$23.34	\$19.94
Tempe	12,581,331	799,676	9,460	6.4%	136,834	37,581	189,331	556,493	\$38.91	\$23.27
West I-10	2,374,051	259,090	8,642	11.3%	-	-12,831	-12,772	-1,567	-	\$25.35
<b>Total</b>	<b>179,884,226</b>	<b>22,452,538</b>	<b>1,833,660</b>	<b>13.5%</b>	<b>364,483</b>	<b>641,898</b>	<b>1,217,456</b>	<b>1,829,421</b>	<b>\$30.52</b>	<b>\$22.82</b>



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