

Phoenix

Office Market Report Fourth Quarter 2019

Quick Stats

56.5 K

New employment gains in Metro
Phoenix from November 2018 to
November 2019

13.5%

Office space vacancy in
fourth quarter 2019

\$31.02

Per square foot class A office
space average asking rental rate

2.4 M

Square feet net
deliveries in 2019

\$2.25 B

Total sales volume for 2019

Riding the Wave

The past decade has been a story of impressive recovery from a crushing recession while managing to avoid the mistakes of prior cycles that led to overbuilding. The Phoenix Office Market ends the decade in record-setting territory. The biggest challenge now is riding the wave and sustaining healthy momentum.

The epicenter of the office market continues to drift eastward from the CBD toward Scottsdale, Tempe and Chandler, although recent efforts to improve older stock in more traditional business submarkets like Downtown, Midtown, and The Camelback Corridor are helping slow the eastward flow. These efforts include adding housing stock nearer to the urban core as well as improving amenities like the new downtown Fry's grocery store. ASU's contribution to reinvigorating downtown with its satellite campus and collaboration with the city on a new 30-acre biomedical campus has been critical.

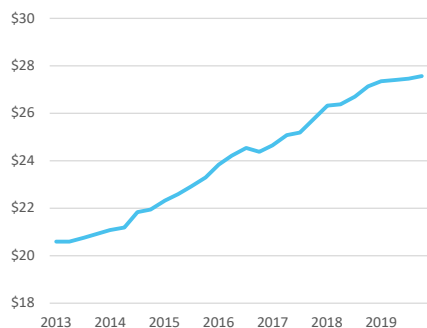
The growth of the Price Road Tech Corridor in Chandler has helped alleviate space

pressures nearer the ASU campus and the new Loop 202 South Mountain Freeway creates better access options in and out of the Southeast Valley. On the far east end of Elliott Road near Phoenix-Mesa Gateway Airport, a number of tech giants have projects underway that will further expand tech office product in the area.

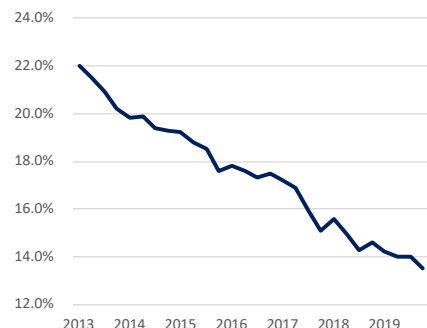
Employment

Employment growth of 2.6% over the past 12 months in Phoenix puts it in 9th place nationally, adding 56,500 jobs, right behind Austin, TX. 8 of 11 employment categories made gains with only mining & logging, information, and government sectors registering losses. Construction, while evidently strong, still has not recovered fully from the recession. The sector's momentum has slowed recently, but filling positions for qualified workers remains a challenge. Office-using employment, a combination of subsectors, grew by 1.8% in 2019 and a number of local employers have announced operation expansions that will add jobs to payrolls through 2020.

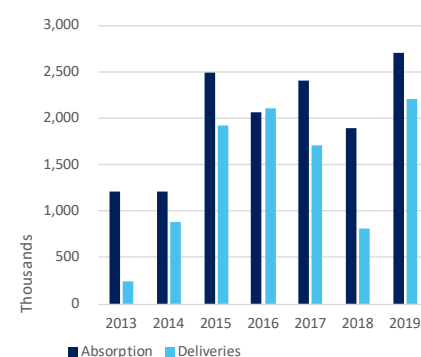
Rental Rates



Vacancy Rates



Absorption & Deliveries



Top Leases

Tenant	Building	Submarket	Square Feet	Type
DoorDash	The Grand II at Papago Park	Tempe	345,795	Direct
Opendoor	The Watermark Phase I	Tempe	100,807	Direct
Toyota Financial Services	1650 S Price Road	Chandler	63,000	Direct
Aetna	1255 S Spectrum Blvd.	Chandler	50,483	Direct

Top Sales

Buyer	Building	Submarket	Square Feet	Sale Price	Price/SF
Partners Group	Biltmore Financial Center	Camelback Corridor	658,982	\$212,000,000	\$330
Bridge Investment Group	Phoenix Gateway Center	44th St Corridor	434,000	\$85,750,000	\$198
Stockdale Capital Partners	Henkel Corporate Center	Scottsdale Airpark	354,000	\$65,000,000	\$184
Wilshire Capital Partners	The Pain Center	Camelback Corridor	184,818	\$54,500,000	\$295
Velocis	Kierland One	Scottsdale Airpark	175,441	\$52,435,000	\$299

Top Projects Under Construction

Property	Submarket	Completion	Total SF	% Preleased/Owned
NWC Loop 101 & Hayden Road	Scottsdale Airpark	4Q 2020	460,000	100.0%
The Watermark Phase I	Tempe	1Q 2020	265,000	64.0%
Wexford	Downtown	4Q 2020	227,000	54.4%
The Union	Tempe	1Q 2021	225,000	66.7%
I.D.E.A. Tempe Phase I	Tempe	1Q 2020	185,833	64.6%

Trends to Watch

Automation continues to reshape the nature of office work. A recent Wall Street Journal article noted the decline in number of administrative assistants. As voice recognition technology improves & more tasks can be handled on mobile devices, even the once vital executive assistant's role is slowly but surely diminishing.



Cloud Cover

As more businesses move to cloud-based information retrieval, workers are better able to operate remotely & less space is required for records-keeping.



Falling Employment

While most employment sectors have recovered from the recession, change in employment for administrative assistants continues downward, falling 40% since 2000.

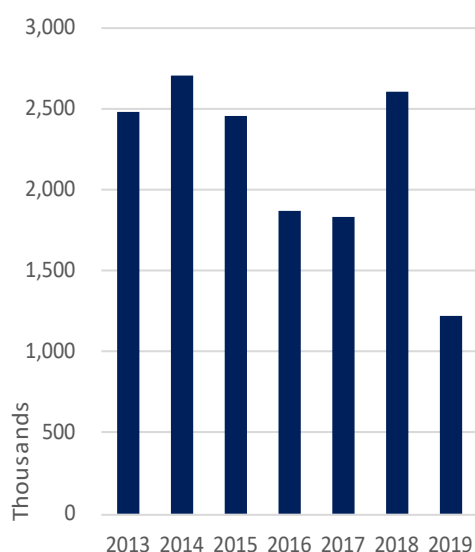


Third Party Providers

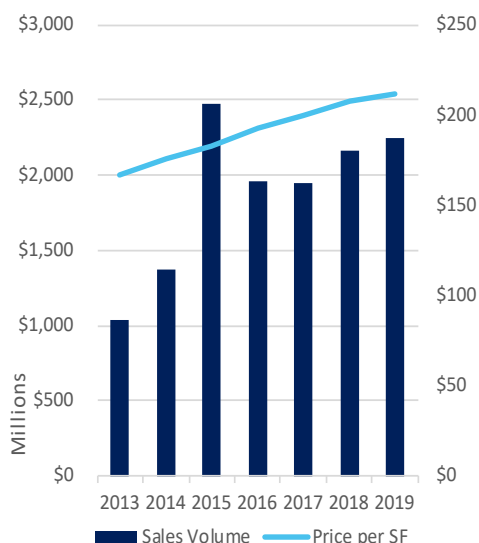
The rise of Salesforce has made certain administrative & sales functions redundant. Other on-demand services are emerging that will further displace traditional administrative roles.

Demand is highest in the Southeast Valley with an average of 11.7% vacancy with the Valley's tightest submarket, Tempe, down to 4.5%.

Under Construction



Investment Sales



Absorption & Vacancy

Overall vacancy rates continue to trend downward as absorption maintains a steady clip and new deliveries continue to rise. The Metro Phoenix 4Q vacancy rate stands at 13.5%. Demand is highest in the Southeast Valley with an average of 11.7% vacancy with the Valley's tightest submarket, Tempe, down to 4.5%. Net absorption of 279 ksf in Chandler was the quarter's strongest single submarket, but negative absorption in surrounding submarkets tempered results for the Southeast Valley cluster. The best performing absorption overall occurred in the smallest cluster, the Northwest Valley. The three submarkets that comprise the cluster achieved positive absorption of 207,982 ksf.

Doordash, the meal delivery app, made headlines in November with the announcement the firm would occupy the entire newly-built 346,800 sf Grand at Papago Park, Phase II.



The Grand at Papago Park, Phase II

Rental Rates

Rents are rising steadily with an overall average of \$27.59 psf, up 2.3% over 4Q 2018 although the rate of growth is slowing down to 3.5% YoY from a decade's peak of 8.1% in 2Q 2016. The highest Class A office rents were recorded in South Scottsdale at \$34.42 psf, in large part due to tech & financial firm move-ins at the newly-delivery of SkySong 5.

New Construction

The Scottsdale Airpark Submarket rivals Tempe for inventory & desirability, although it took a tremendous hit in the downturn. Tempe still has the Valley's most new construction activity, but developers are looking north along Highway 101 for expansion and new construction. Scottsdale Airpark currently has about 731,000 sf of office under construction, including the new Nationwide Insurance Campus at Cavasson, a 134-acre project in partnership with Grayhawk Development that will ultimately total 1.8 msf of office, apartments, hotel, and retail space. In October, 2020, Axis Raintree, a class A 175,000 sf office project, is slated for delivery marking the first speculative offering in the submarket since Block M at Scottsdale Quarter in 2015.



Axis Raintree in Scottsdale

Investment Sales

The year's biggest transaction landed on Christmas Eve when Partners Group & ViaWest Group acquired Biltmore Financial Center, a trio of towers at Camelback Road and 24th Street for \$212 million or \$330 psf. It's the biggest transaction since Transwestern purchased the 5-building Marina Heights portfolio in December 2017 for \$930 million or \$458 psf. In October, Townline Ventures acquired Phoenix Gateway Center, a 439,600 sf class A campus immediately northeast of Sky Harbo for \$45.1 million or \$203 psf.

Market By The Numbers*

Submarket	Total RBA (SF)	Vacant Space Direct	Available Space Sublease	Submarket Vacancy	Absorption Class A	Absorption Class B	Q4 Net Absorption (SF)	YTD Net Absorption	Avg. Ask Class A (FS)	Avg. Ask Class B (FS)
44th St Corridor	2,563,266	365,880	4,173	14.4%	10,159	(1,680)	8,479	14,687	\$27.90	\$23.30
Airport Area	7,742,900	1,284,114	144,450	16.6%	25,179	33,248	22,048	328,111	\$25.79	\$20.20
Arrowhead/Loop 303/ Surprise	804,170	114,674	3,677	14.3%	0	(2,368)	(2,368)	(24,003)	-	\$24.72
Camelback Corridor	7,146,291	1,287,832	37,402	17.4%	(46,114)	17,064	(29,050)	(23,964)	\$36.86	\$27.90
Central Scottsdale	5,229,976	564,083	8,332	10.8%	(14,168)	44,785	32,175	34,827	\$30.13	\$27.11
Chandler/Gilbert	6,162,392	904,239	10,929	14.7%	349,628	(72,039)	277,589	654,108	\$33.70	\$25.56
Downtown	8,015,967	1,034,499	120,638	12.9%	236,194	12,526	248,720	115,261	\$31.91	\$28.89
Gateway Airport/ Loop 202	267,319	45,720	7,533	19.9%	-	(3,644)	(3,644)	(26,421)	-	\$24.86
Glendale	1,316,542	77,709	0	5.9%	3,773	2,763	33,450	6,536	\$26.12	\$24.50
Mesa	819,440	70,588	0	8.6%	-	(9,861)	(6,292)	(37,122)	-	\$22.78
Midtown	8,579,592	1,762,409	17,347	20.7%	69,101	(61,414)	(47,755)	129,614	\$25.67	\$20.91
Midtown/Central Phoenix	1,403,862	108,417	3,043	7.9%	-	(8,207)	(11,348)	24,912	-	\$18.48
N Scottsdale/Carefree	0	0	0	0.0%	0	0	0	0	-	-
North I-17/Deer Valley/ Airport	6,928,145	807,235	19,793	11.9%	146,087	(19,455)	126,632	170,663	\$23.57	\$20.26
NW Phoenix	5,222,231	1,218,194	31,118	23.9%	6,357	172,002	180,314	43,390	\$23.12	\$19.31
Paradise Valley	1,969,256	174,391	9,389	9.3%	13,199	7,811	21,660	157,612	\$29.25	\$20.11
Piestewa Peak Corridor	1,767,715	309,135	2,378	17.6%	15,708	34,609	50,317	62,050	\$27.00	\$24.15
Pinal County	76,810	0	0	0.0%	0	0	0	0	-	-
Scottsdale Airpark	8,992,049	1,061,005	68,177	12.6%	(24,323)	42,418	18,095	203,061	\$31.94	\$28.68
Scottsdale South	4,164,860	307,178	16,561	7.8%	41,703	20,668	64,468	246,187	\$34.42	\$30.32
South Tempe/Ahwatukee	5,313,828	759,976	0	14.3%	(18,441)	(29,580)	(48,021)	167,256	\$32.20	\$23.12
Southwest Phoenix/ Outlying	812,116	171,672	0	21.1%	0	0	0	0	\$28.00	-
Superstition Corridor	2,580,714	191,851	14,432	8.0%	(6,093)	(32,336)	(38,429)	46,921	\$25.94	\$18.59
Tempe	10,046,436	452,956	2,444	4.5%	27,969	(16,237)	14,022	397,332	\$38.50	\$22.82
West I-10	456,463	45,139	1,787	10.3%	(790)	416	(374)	(161)	\$26.82	\$24.46
Total	98,773,157	13,181,756	523,603	13.5%	2,232,728	485,964	923,342	2,708,278	\$31.02	\$23.45

*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.


avisonyoung.com
