



# Phoenix

## Q2 2017 / Quarterly Office Market Report

### Market Facts

**14.3%**  
Class A Vacancy

**16.0%**  
Class B Vacancy

**\$28.75**  
Class A  
Average Asking Rate

**\$22.38**  
Class B  
Average Asking Rate

### Market Overview

The Phoenix office market grew to 173.7 million square feet (msf) and the second quarter overall vacancy rate dropped to 14.8%, 80 basis points lower than second quarter 2016. Average rental rates increased steadily to \$23.82 per square foot (psf) in the second quarter, up from \$22.71 psf year-over-year. Year-to-date absorption continues to be strongly positive, with 1.5 msf absorbed, of which, 711,613 sf was in the second quarter. Quarterly absorption has been positive since second quarter 2015. These strong market fundamentals are unsurprising, given that since May 2016 Phoenix has gained 64,700 jobs and unemployment fell by 10 basis points. Financial Activities employment increased 4.9%, the strongest rate of any industry. Tech job growth in the Phoenix MSA ranks third in the country, according to ZipRecruiter, further driving the need for office space.

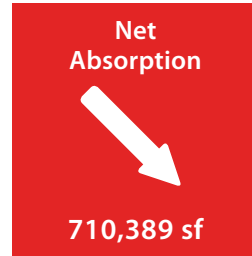
Chandler was the most active submarket in the second quarter of the year, recording nearly 400,000 sf of positive absorption, 56% of the market's positive absorption. The Camelback Corridor had the highest average asking rent at \$30.75, while the Southeast Valley and Pinal County reported the lowest vacancy rates, all at or below 9.0%. Of the eight submarkets with over 10 msf, the Scottsdale Airpark submarket is the healthiest, with Class B vacancy at 9.7%, Class A vacancy at 12.4%, and the highest average rental rate of \$27.16 psf.

1.6 msf of new office product was delivered in the Phoenix market through mid-year 2017, with 45.5% leased. Over 1 msf of office space is currently under construction in the region, with 41.8% preleased.

Strong sales activity continued into the second quarter. The largest sale was 3131 & 3133 Camelback, two office buildings totaling 295,401 sf, sold for \$81.75 million, or approximately \$277 psf, with a reported cap rate of 5.5%. Although square footage volume was down 26.8% from first quarter, dollar volume dipped only 8.2%, while the price psf increased 24.7%. As vacancy rates drop and rents continue to rise, investors will be increasingly willing to pay higher prices. Several large sales in the second quarter included: 20225 N. Scottsdale Road purchased by Discount Tire, the current Tenant, for \$40 million (\$255/psf); 111 W. Monroe St., a 255,556 SF office building sold for \$29.8 million (117/psf); and Healthcare Trust of America completed the purchase of 11-medical office properties in California and Arizona for \$150 million (\$254/psf), which includes the 168,000 sf McAuley Medical Center (500 W. Thomas) located on the St. Joseph's Hospital and Medical Center campus in Downtown Phoenix.

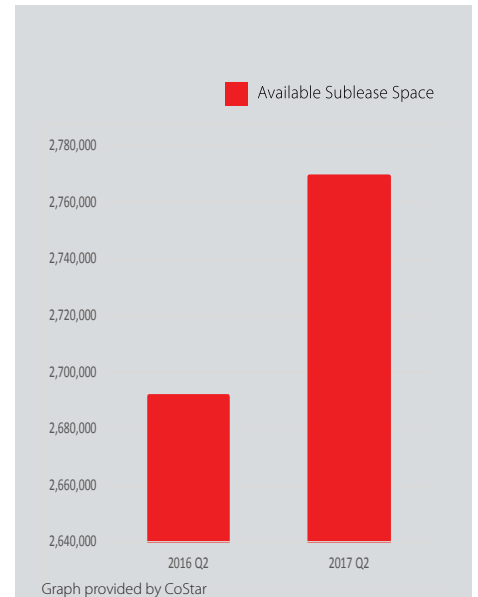
### Market Snapshot

Employment gains continue to support the strengthening fundamentals in the Phoenix office market, inspiring steady construction and investment. While the pipeline has not recovered to pre-recession highs, recent deliveries are nearly half preleased.

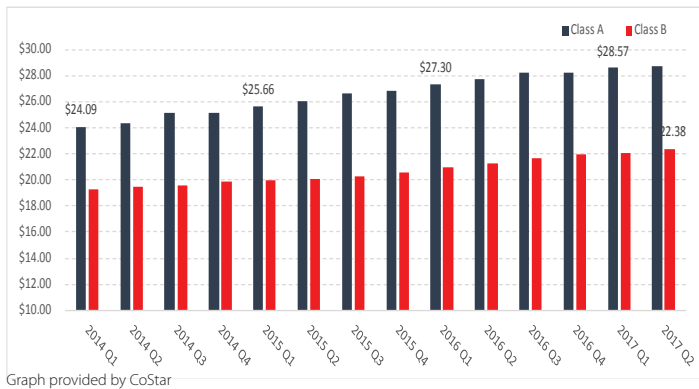


The largest office sale of 2Q was 3131 & 3133 Camelback, two office buildings totaling 295,401 sf, sold for \$81.75 million, or approximately \$277 psf, with a reported cap rate of 5.5%.

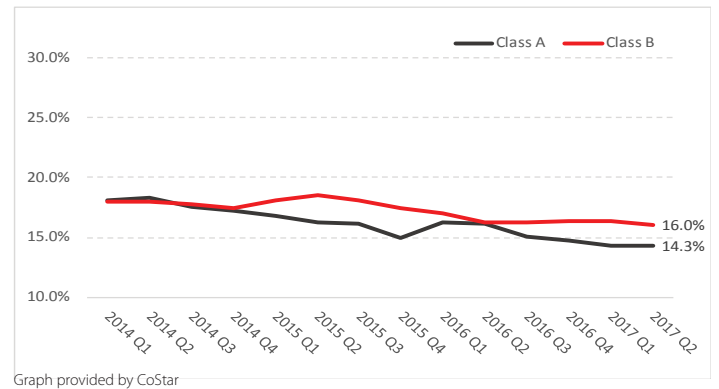
### Total Available Sublease Space in the Market



### Historical Asking Rental Rate (FSG)



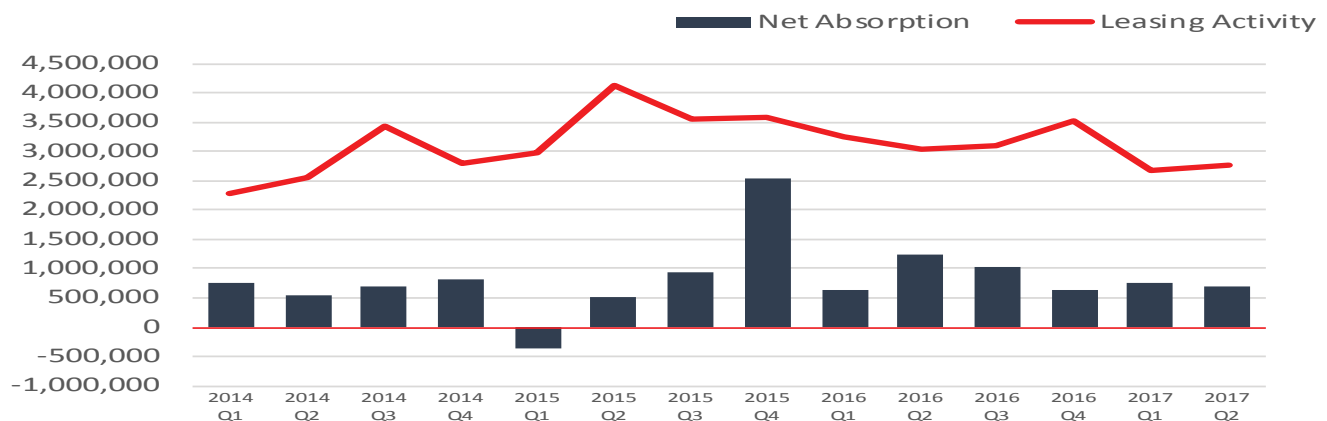
### Historical Vacancy



### Market By The Numbers

Market	Total RBA (SF)	Vacancy Space		Vacancy Rate		Available Space		Net Absorption (SF)	Avg. Ask Total (FS)	Avg. Ask Class A (FS)
		Direct	Sublease	Class A	Class B	Direct	Sublease			
44th St	3,941,602	564,998	5,970	21.0%	11.1%	483,102	5,970	3,220	\$24.48	\$26.28
Airport Area	11,163,847	1,933,329	362,840	21.6%	21.6%	1,904,872	362,840	-7,246	\$24.25	\$26.63
Arrowhead	4,228,490	558,582	8,970	17.5%	11.7%	530,725	8,970	10,952	\$23.29	\$27.94
Camelback Corridor	9,048,911	1,492,113	107,732	19.7%	17.2%	1,361,814	73,766	35,997	\$30.75	\$35.31
Central Phoenix	5,130,573	552,581	16,725	-	12.9%	537,170	16,725	32,322	\$18.35	-
Central Scottsdale	8,692,139	929,074	58,693	6.7%	14.2%	810,192	58,693	-4,316	\$24.89	\$27.77
Chandler	10,121,793	1,501,987	59,762	10.6%	17.6%	1,452,821	59,762	397,993	\$24.47	\$28.29
Deer Valley/Airport	11,895,041	1,686,342	9,012	14.2%	0.1%	1,450,274	9,012	25,161	\$22.27	\$26.13
Downtown	10,425,852	1,330,753	54,896	15.9%	10.2%	1,173,295	54,896	-46,702	\$29.57	\$32.17
Downtown Mesa	1,483,155	118,360	400	8.0%	0.0%	114,392	400	12,160	\$14.34	-
East Mesa	3,505,398	352,785	6,304	-	9.9%	318,318	6,304	14,462	\$16.55	-
Gateway/Airport/Loop	2,584,934	336,092	5,079	10.3%	13.5%	302,110	5,079	-5,168	\$24.54	\$30.05
Glendale	3,117,048	555,501	19,440	13.7%	22.4%	502,698	19,440	18,645	\$23.32	\$27.36
Loop 303	2,346,670	298,746	7,434	0.0%	16.5%	294,612	7,434	17,955	\$22.69	-
Midtown	12,985,132	2,772,182	60,399	24.1%	22.8%	2,552,908	60,399	32,085	\$21.92	\$24.78
North Phoenix	119,658	12,861	0	-	12.9%	12,861	0	-536	\$19.51	-
North Scottsdale	1,869,314	366,714	0	0.0%	20.9%	361,737	0	21,286	\$20.81	-
NW Phoenix	10,636,940	2,396,481	6,961	24.6%	27.7%	2,325,736	6,961	-5,913	\$17.60	\$22.10
Paradise Valley	4,790,379	672,379	37,453	20.6%	11.6%	621,309	35,866	-65,102	\$23.21	\$27.33
Piestewa Peak Corridor	3,444,672	529,327	31,034	9.6%	20.3%	510,768	20,771	-2,565	\$20.60	\$26.31
Pinal County	1,538,740	139,066	0	-	9.7%	137,866	0	-4,109	\$16.94	\$18.55
Scottsdale Airport	12,862,182	1,337,162	75,293	12.4%	9.7%	1,247,181	57,973	14,552	\$27.16	\$29.87
South Scottsdale	6,794,087	825,859	79,858	12.8%	12.6%	762,960	79,858	73,739	\$28.53	\$31.58
South Tempe	7,391,294	818,405	35,686	2.0%	13.2%	782,784	35,686	76,769	\$23.17	\$23.50
Southwest Outlying	188,560	3,200	0	1.7%	0.0%	3,200	0	0	-	-
Southwest Phoenix	3,155,475	285,471	0	13.0%	3.1%	285,471	0	-16,876	\$20.54	\$25.00
Superstition Corridor	6,200,616	818,788	30,501	24.6%	12.5%	740,618	30,501	45,209	\$19.54	\$23.26
Tempe	12,113,422	1,223,578	67,645	6.7%	15.3%	1,159,700	66,445	36,242	\$26.56	\$32.93
West I-10	1,946,875	222,031	12,256	-	8.8%	215,358	10,653	1,397	\$20.43	-
<b>Total</b>	<b>173,722,799</b>	<b>24,634,747</b>	<b>1,160,343</b>	<b>14.3%</b>	<b>16.0%</b>	<b>22,956,852</b>	<b>1,094,404</b>	<b>711,613</b>	<b>\$23.82</b>	<b>\$28.75</b>

### Historical Net Absorption & Leasing Activity



Graph provided by CoStar

### Top Leases

Tenant	Building	Submarket	Square Feet	Type
Freedom Financial	2100 E Rio Salado Pky	Tempe	150,000	New
Quicken Loans Inc	1 N Central Ave	Downtown	149,273	New
Department of Economic Security	4000 N Central Ave	Midtown	147,983	Renewal
CSAA Insurance	2411 W Peoria Ave	Northwest Phoenix	51,411	New
Upgrade Inc	2 N Central Ave	Downtown	37,790	New

### Top Sales\*

Building	Buyer	Submarket	Square Feet	Sale Price	Price/SF
20225 N Scottsdale Rd	Discount Tire	Scottsdale Airpark	157,566	\$40,180,000	\$255
111 W Monroe St	GEM Realty Properties	Downtown	255,556	\$29,820,000	\$117
8600 S Science Dr	Gramercy Property Trust Inc	South Tempe	123,863	\$27,600,000	\$223
1616 W 17th St	Spirit Realty Capital	Airport Area	111,349	\$21,130,000	\$190
10400 N 25th Ave	Macfarlan Capital Partners	Northwest Phoenix	109,332	\$16,925,000	\$155

\*Single-Building Sales



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