



Phoenix

Q4 2017 / Quarterly Office Market Report

Market Facts

↑ 14.3%
Class A Vacancy

↓ 15.6%
Class B Vacancy

↓ \$29.10
Class A Average Asking Rate

↑ \$22.59
Class B Average Asking Rate

↑ \$325
Average Sale
Price/Square Foot

↑ 6.7%
Office Average CAP Rate

Market Overview

The Phoenix office market grew to over 175 million square feet (msf) and the fourth quarter overall vacancy rate dropped to 14.3%, 90 basis points lower than fourth quarter 2016. Average rental rate growth reached \$23.87 per square foot (psf) in the fourth quarter, up from \$22.99 psf year-over-year. Annual absorption continues to be strong, with 2.8 msf absorbed, of which 1.1 msf was in the fourth quarter. Quarterly absorption has been positive every quarter since second quarter 2015. These strong market fundamentals are unsurprising, given that November 2016 to year end 2017 Phoenix has gained 66,000 jobs sending unemployment falling 40 basis points. Construction employment increased 8.3%, the strongest rate of any industry; education and health services employment increased 4.2%, and leisure and hospitality increased 3.9%.

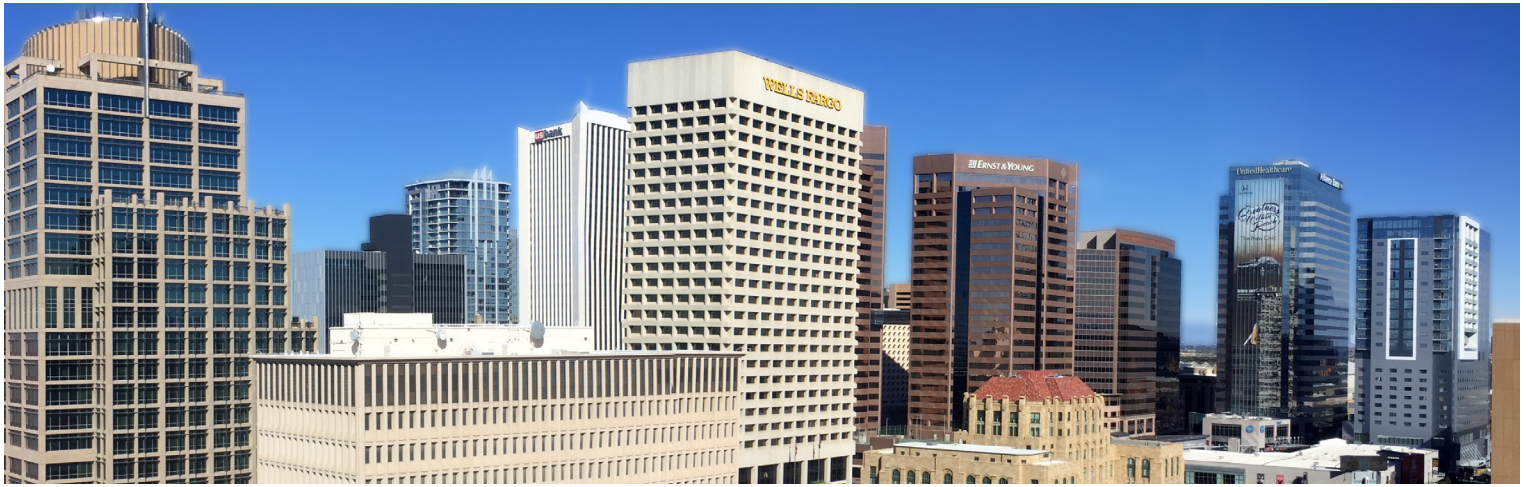
Top Leases

Tenant	Building	Submarket	Square Feet	Type
Texacle	3201 E. Elwood Street	Airport Area	77,132	Sublease
Waste Management	2550 W. Union Hills Drive	Deer Valley/Airport	47,586	Direct
Bridgepoint Education	7360 S. Kyrene Road	Southwest Tempe	38,688	Direct
DoorDash	1661 E. Camelback Road	Camelback Corridor	22,489	Direct
Melt Media	2120 E. Rio Salado Parkway	Tempe	21,441	Direct

Top Sales

Buyer	Building	Submarket	Square Feet	Sale Price	Price/SF
Transwestern Investment Group	State Farm Campus	Tempe	2,118,000	\$928,000,000	\$438
GLL RE Partners	Lincoln Town Center	Scottsdale South	223,605	\$69,100,000	\$309
Equus Capital Partners	McDowell Mountain Business Park	Scottsdale Airport	254,878	\$53,200,000	\$209
Everest Holdings	Deer Valley Office Park	Deer Valley/Airport	176,095	\$23,600,000	\$134
Holualoa Cos	Park Central	Downtown Phoenix	343,419	\$23,000,000	\$67

Market Snapshot



Economic growth is projected to remain strong through 2021, according to the University of Arizona Economic and Business Research Center. Personal income will grow 6.1% annually and non-farm employment will increase 2.1%. Wages in the Phoenix Metro Area increased more than anywhere else in the United States in the past year, according to U.S. Bureau of Labor Statistics data. From November 2016 to November 2017, hourly wages grew 5.6%. Phoenix officials assert more than 20,000 of the approximate 60,000 jobs added were in “advanced” fields such as healthcare, technology, manufacturing, and financial services.

With its low costs of doing business and the affordable real estate market, Phoenix continues to attract tech businesses relocating from the West Coast; i.e., the Galvanize building near 7th Street and Buckeye Road. This repurposed warehouse is now home to almost 80 tech companies and a technology school. In 2012 there were 67 tech companies in Phoenix; in 2017 Phoenix boasts almost 300. This includes large companies such as Uber and Quicken Loans who are moving thousands of jobs to downtown Phoenix, while smaller Silicon Valley tech companies are opening second offices.

South Scottsdale was the most active submarket in the fourth quarter of 2017, recording nearly 423,000 sf of positive absorption, 40% of the Phoenix market’s positive absorption. The Camelback Corridor had the highest average asking rent at \$30.37 psf, while downtown Mesa and Pinal county reported the lowest vacancy rates, all at or below 7.9%. Of the eight submarkets with over 10 msf, the Deer Valley/Airport Submarket is the healthiest, with the lowest combined vacancy of 10.0% for Class A through Class C. The

largest lease of the fourth quarter occurred in the Airport Area submarket, with Texacle acquiring 77,132 sf at 3201 E. Elwood Street.



View of South Scottsdale

1.9 msf of new office product was delivered in the Phoenix market through fourth quarter 2017, with 74.5% leased, 29.9% preleased, and over 2.0 msf currently under construction in the region. There are six office projects under construction with 150,000 sf: The Grand at Papago Park Phase II, located at 1127 N Papago Drive, will add 352,481 sf to the market in Spring 2019; the 15-story Watermark Phase I Tower is located at 410 N. Scottsdale Road and will add 253,000 sf of office space to the market in early 2019; the Offices at Chandler Viridian is under construction at 3133 W. Frye Road, scheduled for completion in September 2018, 21.9% of its 249,000 sf preleased; in May 2019, Block 23 at Cityscape will deliver 240,000 sf at 101 E Washington St; the 235,000

sf Liberty Center Building IV will be completed in early 2018 at 1870 W. Rio Salado Parkway, with Centene Corporation occupying the entire building; and Freedom Financial's new 150,000 sf office at 2100 E. Rio Salado Parkway scheduled for completion in Spring 2018.

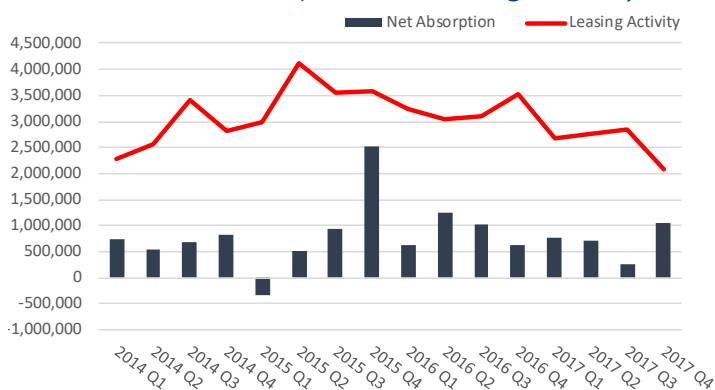
Sales activity surged in the fourth quarter and dollar volume was 281.3% of third quarter's figure. Buyers were willing to pay a premium, with the average price per square foot increasing 120.7%. Total square footage volume was up 89.8% from third quarter, as several large business parks transacted. The largest sale was the State Farm Campus, a 2,118,000-sf complex which sold for \$928 million, or approximately \$438 psf.

Other large sales in the third quarter included: Lincoln Town Center, purchased for \$69.1 million (\$309 psf); McDowell Mountain Business Park, a 254,878-sf office property which sold for \$53.2 million (\$209 psf); and the 176,095 sf Deer Valley Office Park, which sold for \$23.6 million (\$134 psf).

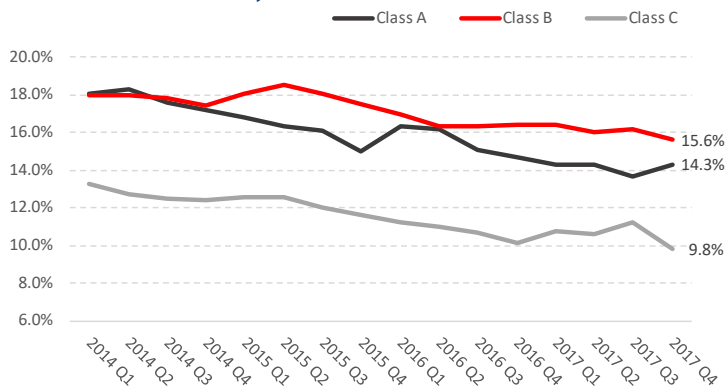


State Farm Campus

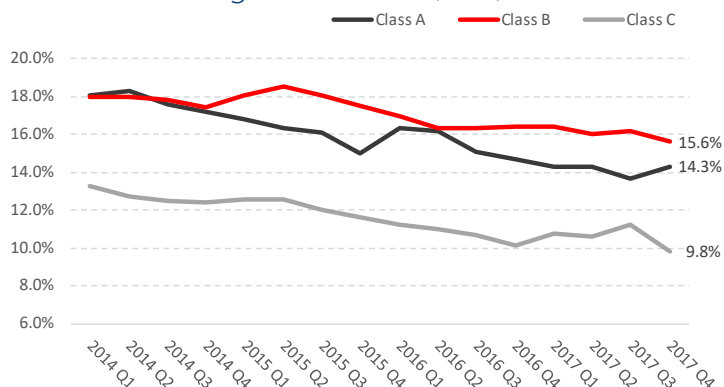
Historical Net Absorption & Leasing Activity



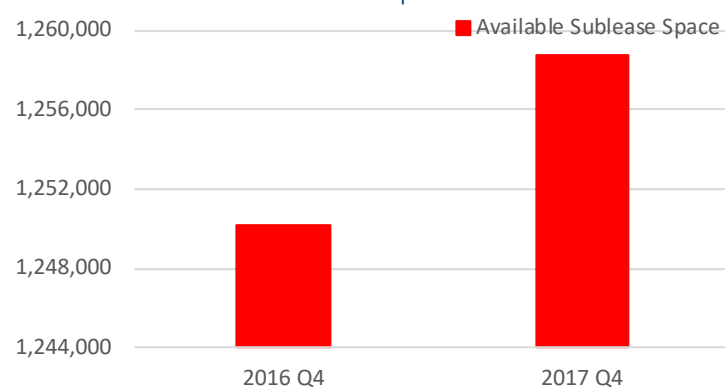
Historical Vacancy



Historical Asking Rental Rate (FSG)



Total Available Sublease Space in the Market



Market By The Numbers

Market	Total RBA (SF)	Vacancy Space Direct	Vacancy Space Sublease	Vacancy Rate Class A	Vacancy Rate Class B	Vacancy Rate Class C	Available Space Direct	Available Space Sublease	Net Absorption (SF)	Avg. Ask Total (F\$)	Avg. Ask Class A (F\$)
44th St	3,954,150	591,873	2,100	20.0%	14.2%	7.2%	578,876	2,100	28,829	\$25.23	\$26.86
Airport Area	11,440,100	2,146,122	536,237	21.1%	25.0%	10.2%	2,031,312	536,237	71,406	\$23.82	\$26.33
Arrowhead	4,325,260	575,506	0	33.3%	11.1%	19.1%	500,553	0	-30,504	\$23.59	\$27.64
Camelback Corridor	9,048,079	1,243,081	97,165	15.5%	15.8%	5.1%	1,188,341	97,165	250,103	\$30.37	\$35.03
Central Phoenix	5,138,238	535,594	18,177	-	12.1%	8.8%	528,394	18,177	-9,524	\$19.03	-
Central Scottsdale	8,634,832	781,183	79,952	10.6%	10.3%	1.6%	750,873	79,952	-9,459	\$25.51	\$27.87
Chandler	10,393,885	1,494,236	41,304	10.0%	16.8%	10.1%	1,242,871	41,304	88,916	\$23.85	\$27.53
Deer Valley/Airport	11,922,527	1,778,641	7,787	5.6%	20.4%	6.8%	1,269,057	7,787	-2,775	\$22.20	\$26.17
Downtown	10,409,124	1,191,321	116,425	16.8%	8.2%	9.8%	992,485	116,425	112,117	\$30.02	\$32.15
Downtown Mesa	1,479,988	82,314	0	-	2.5%	8.5%	82,314	0	17,279	\$15.70	-
East Mesa	3,486,046	285,535	5,960	-	7.4%	10.0%	276,171	5,960	40,126	\$17.11	-
Gateway/Airport/Loop 202	2,637,481	261,136	10,678	17.7%	10.2%	5.3%	255,999	10,678	59,221	\$24.38	\$29.66
Glendale	3,121,625	469,515	17,106	11.6%	18.4%	10.0%	458,710	17,106	-2,484	\$23.45	\$27.94
Loop 303/Surprise	2,462,350	308,418	7,434	0.0%	16.4%	10.3%	301,281	7,434	-18,356	\$22.48	-
Midtown	12,712,170	2,548,891	39,046	23.4%	22.4%	4.5%	2,290,883	39,046	-26,270	\$22.04	\$25.01
North Interstate-17	746,292	133,533	0	-	17.9%	0.0%	133,533	0	6,918	\$24.25	-
North Phoenix	124,058	8,436	0	-	8.1%	0.0%	8,436	0	399	\$19.00	-
North Scottsdale	1,872,438	271,634	0	-	14.9%	11.6%	271,634	0	97,358	\$20.25	-
NW Phoenix	10,586,113	2,095,351	14,975	22.2%	25.2%	11.7%	2,035,734	14,975	108,058	\$18.25	\$22.62
Paradise Valley	4,652,285	605,586	28,714	17.2%	12.1%	11.8%	593,260	28,714	17,773	\$23.53	\$28.02
Piestewa Peak Corridor	3,453,370	498,294	70,350	12.0%	20.1%	6.7%	477,528	34,852	-19,610	\$21.77	\$26.50
Pinal County	1,576,859	124,207	0	-	9.1%	5.4%	124,207	0	18,204	\$17.12	-
Scottsdale Airport	12,868,465	1,624,593	109,090	17.7%	9.2%	3.0%	1,540,721	100,198	-291,315	\$27.63	\$30.85
South Scottsdale	7,025,541	841,826	21,038	13.3%	14.2%	7.2%	819,240	18,476	422,902	\$29.54	\$33.26
South Tempe	7,454,716	1,095,439	24,136	1.0%	15.4%	32.2%	782,478	24,136	-24,597	\$23.18	\$27.45
Southwest Outlying	188,560	0	0	-	0.0%	0.0%	0	0	0	-	-
Southwest Phoenix	3,204,399	322,238	0	13.0%	6.3%	12.1%	322,238	0	-27,829	\$24.19	\$28.87
Superstition Corridor	6,155,481	664,783	10,587	23.6%	9.7%	7.7%	649,207	10,587	105,065	\$19.86	\$23.33
Tempe	12,122,268	1,154,707	58,700	5.9%	15.1%	9.6%	798,478	42,877	67,359	\$27.11	\$34.06
West I-10	1,976,051	219,516	4,582	-	8.7%	22.8%	219,516	4,582	8,883	\$20.74	-
Total	175,172,751	23,953,509	1,321,543	14.3%	15.6%	9.8%	21,524,330	1,258,768	1,058,193	\$23.87	\$29.10



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