

# Phoenix

## Office Market Report First Quarter 2019

### Quick Stats

**3.1%**

Employment increase from  
February 2018 to February 2019.

**15.3%**

Office space vacancy in first  
quarter 2019.

**\$29.01**

Per square foot Class A office  
space average asking rental rate.

**986 K**

Square feet net absorption in first  
quarter 2019.

**\$313 M**

Total sales volume in first quarter  
2019.

## Office Market Posts Strongest 1st Quarter in Years

If there are jobs and office space, they will come. The Metro Phoenix office market posted its strongest first quarter in seven years, boosted by the nation's second largest increase in non-farm employment (3.1%) from February 2018 to February 2019. The demand for office space was spurred by gains in construction, education, health services and manufacturing. Metro Phoenix added approximately 64,000 new jobs in that time. The Tempe and South Tempe/Ahwatukee submarkets led the way in the first quarter, which boasted 986,327 sf of net absorption. The Valley's largest leases for the quarter were for properties in Chandler, Phoenix and Tempe. The Valley's office space vacancy in the first quarter was 15.3%. Vacancy is expected to remain in that range even as speculative projects come online with space to lease.

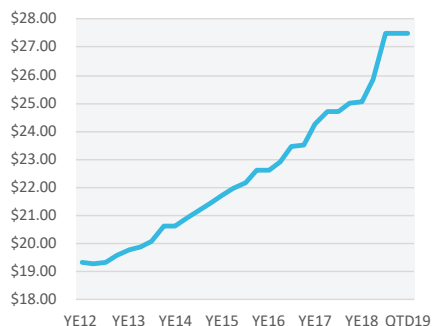
### Rental Rates

Average asking rental rates for Class A office space checked in at \$29.01 per square foot (psf) in the first quarter. Asking average rental rates were highest in Tempe (\$38.94 psf). The Camelback Corridor was next (\$35.77 psf) followed by the Scottsdale South Submarket (\$32.96 psf), the Downtown Phoenix Submarket (\$32.79 psf) and Chandler (\$31.64 psf).

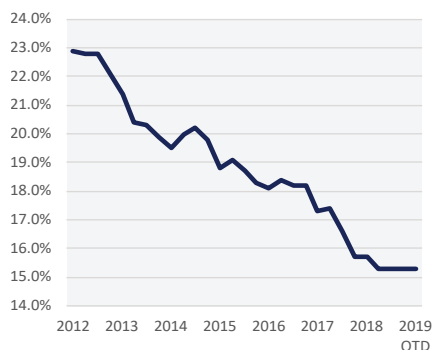
### Vacancy

Vacancy for the quarter was 15.3%, 400 basis points (bps) lower than 4Q 2018. With more than 660,000 sf delivered the first quarter, Tempe led the way with the lowest submarket vacancy rate of 6.5% for the major regions with a net absorption of 310,683 sf. South Tempe/Ahwatukee had a vacancy rate of 11.9% (355,558 sf net absorption), Chandler had a vacancy rate of 10.6% (215,639 sf net absorption), and the Airport Area had a vacancy rate of 18.2% (173,185 sf net absorption).

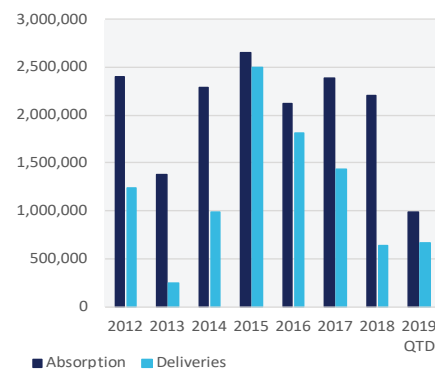
## Rental Rates



## Vacancy Rates



## Absorption & Deliveries



## Top Leases

Tenant	Building	Submarket	Square Feet	Type
Voya Financial	Allred Park Place Building 16	Chandler	151,359	Direct
Transperfect	Thistle Landing	Phoenix	71,000	Direct
WeWork	The Watermark	Tempe	68,968	Direct
Caris Life Sciences	Papago Gateway	Tempe	38,640	Direct
Limelight	SkySong V	Scottsdale	38,000	Direct

## Top Sales

Buyer	Building	Submarket	Square Feet	Sale Price	Price/SF
Viola Lordsmeer LP	The Alameda	Tempe	236,188	\$71,500,000	\$303
Ryan Companies 1, Inc.	Phoenix Corporate Tower	Downtown	457,893	\$42,340,000	\$92
Sperry Commercial	2020 on Central	Downtown	247,645	\$23,888,888	\$96
Madison Marquette	Stonecreek Point	Paradise Valley	110,766	\$17,850,000	\$161
Iron Point Partners, LLC	4000 Tower at City Square	Midtown	299,562	\$17,676,559	\$59

## Top Projects Under Construction

Property	Submarket	Completion	Total SF	% Preleased/Owned
The Grand at Papago Park Phase II	Tempe	3Q19	345,795	0.0%
The Watermark Phase I	Tempe	3Q19	265,000	0.0%
Block 23 At Cityscape	Downtown	3Q19	228,402	10.0%
I.D.E.A. Tempe Phase I	Tempe	1Q20	185,833	64.6%
Rio 2100 Phase V	Tempe	4Q19	165,000	3.0%

## Trends to Watch

The Phoenix market sees continued growth in population, inventory and coworking space for first quarter. However, vacancy continues to decrease.



**#1 in Population Growth**  
Phoenix-Mesa-Scottsdale metro gained 96,268 people in the last 12-month period, with an average gain of 263 per day.



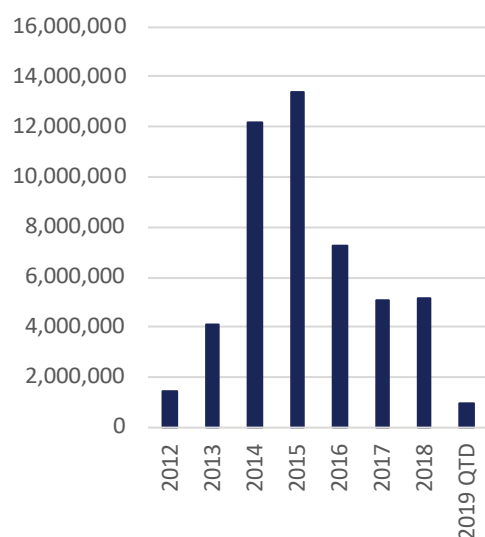
**Vacancy Decrease Continues**  
Despite continued office inventory additions, vacancy dropped to its lowest rate in the first quarter since second quarter 2008.



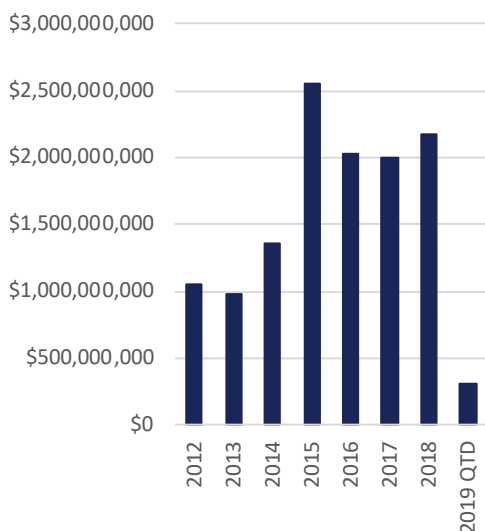
**Coworking Growth Continues**  
Coworking spaces double Phoenix footprint in only two years with WeWork, Industrious and Novel Coworking dominating the market.

**The Metro Phoenix office market posted its strongest first quarter in seven years, boosted by the nation's second largest employment increase from February 2018 to February 2019.**

### Under Construction



### Investment Sales



### Leasing

First quarter net absorption was strongest in the South Tempe/ Ahwatukee with 355,558 sf and the Tempe submarkets with 310,683 sf. Also posting six-figure numbers were Chandler with 215,639 sf and the Airport Area with 173,185 sf. Voya Financial took 151,359 sf at Allred Park Place Building 16 in Chandler for the largest lease in the first quarter.



**Allred Park Place Building 16**

Voya plans to employ more than 1,000 workers in the space. Transperfect leased 71,000 sf at Thistle Landing in Phoenix; WeWork took 68,968 sf at The Watermark in Tempe; Caris Life Sciences leased 38,640 sf at Papago Gateway in Tempe; and Limelight took 38,000 sf at SkySong V in Scottsdale.

### Construction

The Tempe Submarket kicks off the first quarter as the leader in office construction projects. Leading the way is The Grand at Papago Park Phase II. At 345,795 sf, it is scheduled to deliver the third quarter of this year.



**The Grand at Papago Park Phase II**

Right behind is The Watermark Phase I, also in Tempe. At 265,000 sf, it is also scheduled to deliver in the third quarter. Block 23 at Cityscape snaps the Tempe streak. The Fry's-anchored mixed-use project is set to deliver the third quarter of this year at 228,402 sf. I.D.E.A. Tempe Phase I (1Q20, 185,833 sf) and Rio 2100 Phase V (4Q19, 165,000 sf), both in Tempe, round out the Top 5.

### Investment Sales

Sales volume for the first quarter was \$313 million. Viola Lordsmeer LP paid \$71.5 million (\$303 psf; 236,188 sf) for The Alameda in Tempe.



**The Alameda**

In the next largest sales of the quarter Ryan Companies 1, Inc. purchased Phoenix Corporate Tower in Downtown Phoenix for \$42.3 million (\$92 psf; 457,893 sf); Sperry Commercial bought 2020 on Central also in Downtown Phoenix for \$23.88 million (\$96 psf; 247,645 sf); Madison Marquette purchased Stonecreek Point in Paradise Valley for \$17.85 million (\$161 psf; 110,766 sf); and Iron Point Partners, LLC purchased 4000 Tower at City Square in Midtown for \$17.68 million (\$59 psf; 299,562).



## 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 Corridor	2,752,547	404,357	2,586	14.8%	-21,619	17,121	-4,498	-60	\$27.71	\$22.79
Airport Area	7,314,065	1,148,631	165,957	18.2%	12,142	161,043	173,185	164,718	\$26.58	\$20.57
Arrowhead	600,362	83,012	3,677	14.4%	0	-18,824	-18,824	-16,161	\$26.00	\$24.32
Camelback Corridor	7,067,579	1,278,613	65,929	19.0%	123,818	-15,656	108,162	66,591	\$35.77	\$25.41
Central Scottsdale	5,113,296	614,100	57,758	13.1%	-7,307	-14,986	-22,293	-35,409	\$28.71	\$26.14
Chandler	5,912,135	763,290	0	10.6%	213,719	1,920	215,639	263,965	\$31.64	\$25.97
Deer Valley/Airport	7,324,487	742,538	9,067	10.3%	-7,672	-5,023	-12,695	32,185	\$23.60	\$23.72
Downtown	7,453,894	919,246	89,651	13.5%	-36,270	-7,623	-36,928	-56,265	\$32.79	\$29.76
Gateway Airport/Loop 202	151,000	0	46,228	30.6%	2,284	536	2,820	2,820	\$27.50	\$29.50
Glendale	1,360,536	130,622	0	9.6%	-19,595	2,773	-16,822	-16,822	\$25.77	\$24.50
Loop 303/Surprise	197,899	25,737	0	13.0%	-	-52	-52	-52	-	\$24.00
Mesa Downtown	570,641	58,190	0	10.2%	-	-26,322	-28,668	-25,836	-	\$19.62
Mesa East	180,319	6,857	0	3.8%	-	-	-864	714	-	\$17.39
Midtown	9,026,004	2,167,643	28,577	25.2%	100,143	-30,370	69,773	67,819	\$25.80	\$21.21
Midtown/Central Phoenix	1,389,958	164,512	2,365	12.0%	-	-23,095	-22,614	-22,972	-	\$19.46
N Scottsdale/Carefree	316,993	68,648	0	21.7%	-	9,073	9,073	9,073	-	\$27.88
North Interstate-17	251,350	65,218	0	25.9%	-	0	0	0	-	\$25.00
NW Phoenix	5,364,764	1,461,028	42,920	28.0%	-1,143	-184,254	-191,092	-186,094	\$23.01	\$18.89
Paradise Valley	1,859,539	269,705	12,210	15.2%	54,221	1,655	58,346	62,204	\$28.49	\$21.37
Piestewa Peak Corridor	1,944,064	398,971	9,244	21.0%	-4,101	28,992	24,891	34,208	\$26.54	\$23.76
Pinal County	55,592	0	0	0.0%	-	0	0	0	-	\$13.00
Scottsdale Airpark	8,520,399	1,238,825	181,744	16.7%	-14,615	16,058	1,443	-47,124	\$30.91	\$27.73
Scottsdale South	3,670,171	413,035	51,944	12.7%	-1,380	1,852	472	-10,487	\$32.96	\$31.33
South Tempe/Ahwatukee	5,336,227	587,442	25,345	11.9%	314,181	47,736	355,558	370,707	\$31.23	\$22.94
Southwest Outlying	92,646	0	0	0.0%	-	0	0	0	-	-
Southwest Phoenix	1,485,634	173,512	0	11.7%	0	0	0	0	\$28.87	\$26.86
Superstition Corridor	2,271,869	236,108	9,330	10.8%	-18,079	31,176	13,097	3,312	\$24.86	\$19.34
Tempe	9,778,515	596,720	7,945	6.5%	229,604	81,079	310,683	290,471	\$38.94	\$22.55
West I-10	311,525	71,944	0	17.1%	-9,410	7,945	-1,465	-1,465	\$27.00	\$26.30
<b>Total</b>	<b>97,674,010</b>	<b>14,088,504</b>	<b>812,477</b>	<b>15.3%</b>	<b>908,921</b>	<b>82,754</b>	<b>986,327</b>	<b>938,080</b>	<b>\$29.01</b>	<b>\$23.57</b>

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 25,000 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.



Platinum member

avisonyoung.com

