

Phoenix

Office Market Report 3rd Quarter 2018

Quick Stats

37.4 K

Net employment gain from
August 2017 to August 2018.

1.073 M

Square feet of positive office
space absorption.

15.7%

Vacancy decreased by 90 basis
points from second quarter
2018.

2.8 M

Square feet of office space
under construction.

\$24.99 PSF

Gross asking rates increased by
1.2% in third quarter 2018.

Phoenix is Positioned for Long-Term Growth.

Phoenix continues to attract an array of companies and new residents seeking employment. This has led to a diverse economy that is well-positioned for long-term growth. On average, the number of jobs has increased 1.3% annually in the past ten years, ahead of the population growth at 1.2%. The technology sector is growing as companies relocate to Phoenix for the lower cost of doing business and its qualified workforce.

Rental Rates

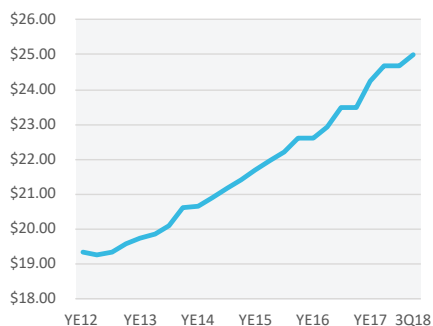
The Phoenix market's average asking rate ended the quarter at \$24.99 per square foot (psf), up 6.3% year-over-year. Due to rapidly increasing rental rates in recent years, many tenants have experienced sticker shock as leases have come up for renewal. Some are being priced out of their desired market altogether. The East Mesa, Airport Area and Glendale Submarkets have experienced the largest rate increases from second quarter as newly built product delivered 236,131 square feet. Over the past two years asking rates have increased 44.3% in East Mesa

and 37.1% in Tempe as a result of new Class A product now available. These were the fastest growing rates in Phoenix. The rate of growth is expected to stabilize across the market as new projects are leased.

Vacancy

Vacancy decreased 90 bps from second quarter 2018 to 15.7% in third quarter, its lowest rate since vacancy peaked at 25.1% in 2011. The greatest vacancy improvements were in Loop 303/ Surprise with 1,230 bps and the Airport Area with 630 bps. Eight of 30 submarkets, which are mostly suburban areas, saw worsening conditions for vacancy. The largest vacancy increases were in the Gateway/Airport/Loop 202 Submarket, increasing 690 bps to 16.6%, and in the Paradise Valley Submarket, increasing 320 bps to 19.5%. The amount of available sublease space fell 19.7% in the third quarter to just over 1.1 msf as demand from relocating companies increased. Major sublease absorption in the Airport Area led all submarkets.

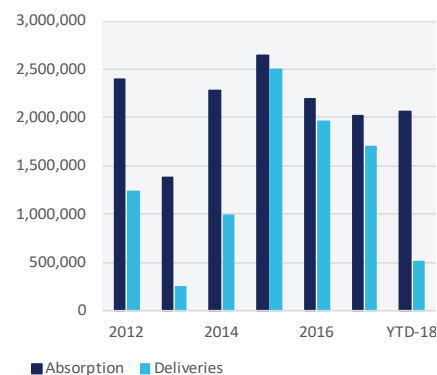
Rental Rates



Vacancy Rates



Absorption & Deliveries



Top Leases

Tenant	Building	Submarket	SF	Type
Becton, Dickinson and Co.	I.D.E.A	Airport Area	120,000	Direct
Vet's First Choice	Northgate Business Center	Deer Valley/Airport	100,222	Direct
P.F. Chang's China Bistro	Perimeter Parkview Corporate Center	Scottsdale Airport	53,599	Direct
Cognizant	Waypoint	Tempe	51,270	Direct
Paychex	Arizona Business Park	Deer Valley/Airport	47,306	Direct

Top Sales

Buyer	Building	Submarket	SF	Sale Price
RS Phoenix Portfolio LLC	Liberty Center at Rio Salado & LPT-Vanguard	Airport Area & Scottsdale Airpark	805,746	\$255,000,000
JDM Partners, LLC	Phase I - Norterra West	Deer Valley/Airport	149,208	\$48,000,000
El Dorado Holdings, Inc.	Missouri Falls	Midtown	190,419	\$41,400,000
CapRidge Partners	The Scottsdale Forum	South Scottsdale	213,501	\$40,750,000
BPM Real Estate Group	Consumer Cellular At Deer Valley	Deer Valley/Airport	163,607	\$39,250,000

Top Projects Under Construction

Property	Submarket	Completion	SF	% Preleased/Owned
The Grand at Papago Park Phase II	Tempe	2Q19	345,795	0.0%
The Watermark Phase I	Tempe	3Q19	265,000	0.0%
The Offices at Chandler Viridian	Chandler	4Q18	249,584	30.6%
Block 23 At Cityscape	Downtown	3Q19	228,402	10.0%
Discovery Business Campus	South Tempe	2Q19	200,000	20.0%

Trends to Watch

Professional and business services have increased, while the unemployment rate remains the same.



4.5%

The unemployment rate has remained flat from January 2018.



19.1% to 15.7%

Vacancy decreased 90 bps and has generally trended downward since first quarter 2016.

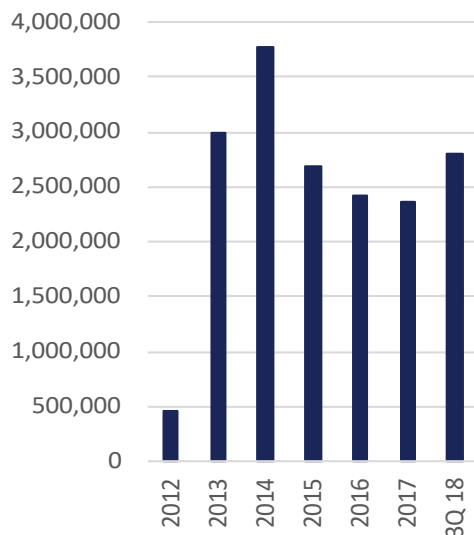


3.9%

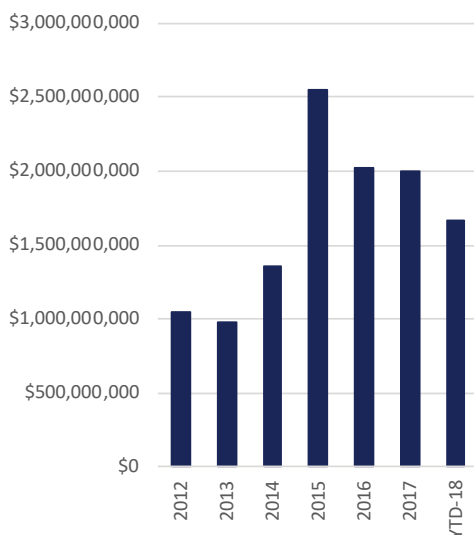
Professional and business services have increased year-over-year.

Phoenix has proven its attraction to new residents seeking employment while companies continue to relocate to the market for the lower cost of doing business and its qualified workforce.

Under Construction



Investment Sales



Leasing

Absorption remains strong in the third quarter, recording 1,072,699 sf, bringing the year-to-date total to 2,064,740 sf. The Airport Area Submarket greatly outpaced the rest of the region in the third quarter with 592,431 sf, followed by the Chandler Submarket with 242,200 sf.



I.D.E.A. Building

The largest lease of the quarter was in the I.D.E.A. building, which is a new multitenant building now under construction in Tempe, where Becton, Dickinson & Co. leased 120,000 sf for their Peripheral Intervention division.

Coworking usage continues to expand.

Providers of coworking space continue to be attracted to the Phoenix office market. Early coworking companies include CO+HOOTS, Seed Spot, Galvanize, Deskhub, and Workuity which have now been joined by several others. The newest being Serendipity Labs Inc. taking 31,000 sf in the Camelback Collective and planning to add eight new locations in the Phoenix area in the next four years. Novel Coworking has purchased 2828 N. Central Avenue for its operations, adding 104,106 sf to its substantial national inventory. Workuity also added

another location consisting of 20,000 sf of space on the ground floor of Chandler Viridian.

Construction

At the end of third quarter, the office market had nearly 2.8 msf under construction. The Chandler Submarket accounts for 34.9% of the square footage under construction. Weak preleasing has only captured 12.0% of the square footage under construction by end of third quarter. The largest project under development is The Grand at Papago Park Phase II projecting to deliver 345,795 sf in mid-2019 that has not been preleased. The second largest is the 265,000 sf Watermark Phase I, also in Tempe.

Investment Sales

2018 is on pace to exceed 2017 volume with office sales totaling \$743 million in the third quarter, bringing year-to-date volume to \$1.7 billion.



Liberty Center at Rio Salado

The largest sale of the quarter was the Liberty Center at Rio Salado consisting of five buildings located in the Airport Area Submarket, purchased by Los Angeles based Oaktree Capital for \$255 million (\$315 psf). The two- to three-story multitenant buildings were 100% occupied at the time of sale with notable credit tenants including Bridgeway Health Solutions, Centene Corporation and DHL. Pending office sales will push year-end totals above 2017 and 2016.

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	2,800,667	421,594	1,700	15.1%	-36,484	-2,883	-39,367	24,743	\$27.63	\$27.04
Airport Area	9,353,748	1,688,412	213,035	20.8%	106,459	498,472	592,431	892,065	\$26.38	\$23.42
Arrowhead	649,164	65,439	8,060	11.3%	0	16,704	16,704	13,102	\$26.00	\$24.84
Camelback Corridor	7,269,206	1,159,227	105,231	17.4%	397	-40,925	-40,528	-60,691	\$36.43	\$26.69
Central Phoenix	1,740,190	209,090	2,365	12.2%	-	15,345	-41,054	-8,989	-	\$19.30
Central Scottsdale	5,298,035	484,092	71,158	10.5%	91,491	44,616	136,107	59,552	\$29.01	\$24.79
Chandler	5,929,711	967,470	0	16.3%	167,963	71,813	242,200	339,833	\$31.38	\$24.35
Deer Valley/Airport	7,776,090	636,266	3,346	8.4%	-5,985	99,682	93,697	512,659	\$25.69	\$23.05
Downtown	7,739,497	781,702	67,824	11.0%	89,983	7,376	98,559	384,186	\$33.58	\$27.47
Downtown Mesa	656,396	36,672	0	5.6%	-	2,825	2,825	-13,887	-	\$16.07
East Mesa	261,539	28,349	0	10.8%	-	0	10,837	10,650	-	\$23.50
Gateway/Airport/Loop 202	324,072	14,132	39,564	16.6%	-	-22,392	-22,392	-7,071	-	\$22.87
Glendale	1,408,823	226,993	0	16.1%	-4,122	-3,431	-7,553	4,634	\$24.83	\$24.50
Loop 303/Surprise	197,899	28,392	0	14.3%	-	24,318	24,318	30,467	-	\$22.32
Midtown	9,051,236	2,194,013	29,876	24.6%	-21,751	45,556	30,109	175,400	\$25.65	\$20.90
North Interstate-17	272,282	67,791	0	24.9%	-	0	0	-344	-	\$24.79
North Scottsdale	383,946	88,819	0	23.1%	-	1,738	1,738	-26,609	-	\$23.75
NW Phoenix	5,493,195	1,289,215	26,629	24.0%	19,452	65,633	72,842	-59,776	\$23.00	\$18.25
Paradise Valley	1,919,435	318,920	55,080	19.5%	-42,086	-21,185	-60,525	-66,194	\$28.58	\$21.42
Piestewa Peak Corridor	1,838,382	376,438	43,007	22.8%	0	41,751	40,501	-114,113	\$26.50	\$20.64
Pinal County	76,810	0	0	0.0%	-	0	0	0	-	\$13.00
Scottsdale Airport	8,978,568	1,168,806	394,562	17.4%	-181,729	18,387	-163,342	-429,909	\$30.93	\$25.67
South Scottsdale	7,119,001	808,081	49,097	12.0%	50,361	9,349	86,329	19,960	\$33.09	\$29.48
South Tempe	5,361,213	785,318	41,777	15.4%	1,747	61,291	69,397	246,934	\$31.54	\$22.61
Southwest Outlying	92,646	0	0	0.0%	-	0	0	0	-	-
Southwest Phoenix	1,594,543	173,512	0	10.9%	0	0	0	34,682	\$28.87	\$28.87
Superstition Corridor	2,627,508	449,300	7,022	17.4%	25,444	-17,797	7,647	-164,686	\$23.98	\$18.65
Tempe	8,428,994	448,854	6,124	5.4%	-71,344	29,213	-42,434	292,799	\$39.32	\$23.63
West I-10	421,162	61,222	0	14.5%	-4,296	9,723	5,805	1,498	\$27.00	\$25.76
Total	102,186,131	14,783,726	1,165,457	15.7%	185,500	939,146	1,072,699	2,064,740	\$30.67	\$23.16

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