

# Phoenix

## Office Market Report 4th Quarter 2018

### Quick Stats

**103.6 K**

New employment gains from November 2017 to November 2018.

**-82.3 K**

Square feet of negative office absorption in the fourth quarter with a total of 2.3 msf of positive absorption in 2018

**15.7%**

Vacancy was unchanged from third to fourth quarter 2018.

**2.7 M**

Square feet of office space under construction.

**\$25.06 PSF**

Gross asking rates increased 0.3% in fourth quarter 2018.

### Phoenix Office Market Continues Momentum into 2019.

Phoenix employment grew 4.2% in the 12-month period leading up to November 2018. This rate was the second highest among all metros nationwide. The Phoenix area gained 86,000 new jobs in the period, up from approximately 60,000 in the previous 12-month period. The largest sector increase was professional and business services jobs, which grew 5.6% annually. An influx of qualified employment seekers and the attractive and conducive business environment continues to prompt companies to relocate or expand their operations in the Phoenix Metro Area.

#### Rental Rates

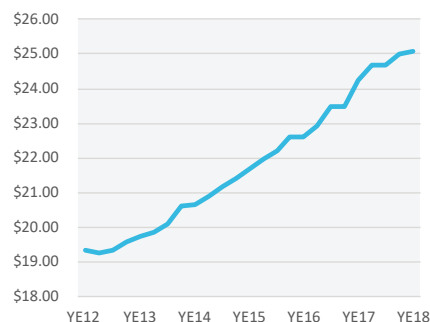
Asking rents increased 3.4% in the year preceding fourth quarter 2018 but slowed to 0.3% from third to fourth quarter. Rents ended 2018 at a ten-year high, breaking a \$25.00 average asking rate. The Loop 303/Surprise, Piestewa Peak Corridor, Superstition Corridor and West I-10 Submarkets have experienced the largest rate increases from third quarter as Class B rents grew 1.6% market-wide and up to 11.2% in the Piestewa Peak Corridor. Rent

growth is most pronounced in the East Valley, particularly in Downtown Tempe, Chandler and Gilbert primarily due to the large amount of new Class A construction in these submarkets. Cost increases have slowed in new construction, stabilizing rents in new inventory.

#### Vacancy

Vacancy peaked at 25.1% in 2011, but decreased to 15.7% by third quarter 2018, where it remains in the fourth quarter. Two submarkets are notable for improving vacancy: the Superstition Corridor dropped 540 bps and North Scottsdale declined 390 bps. Nine of 30 submarkets in both urban and suburban areas saw worsening conditions for vacancy. The largest vacancy increases were in the Loop 303/Surprise Submarket, increasing 540 bps to 19.7%, and in the Camelback Corridor Submarket, increasing 280 bps to 20.2%. The amount of available sublease space increased 4.0% in the fourth quarter to just over 1.2 msf. Sublease absorption was strongest in the Airport Area Submarket.

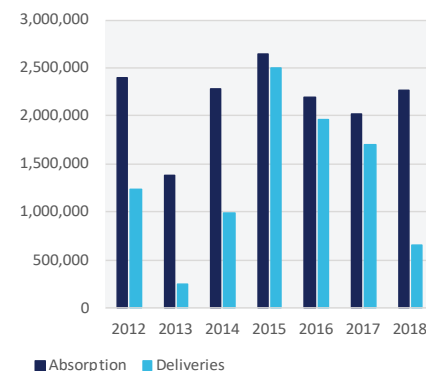
## Rental Rates



## Vacancy Rates



## Absorption & Deliveries



## Top Leases

Tenant	Building	Submarket	SF	Type
Allstate Insurance Co.	Park Place	Chandler	117,000	Direct
Deloitte	The Commons at Rivulon Building B	Chandler	102,000	Direct
Care1st Health Plan Arizona	Phoenix Gateway Center II	44th Street	81,300	Direct
Cascade Financial Services	The HUB	Chandler	52,608	Direct
Metromile	Park Bridge at Fountainhead	Airport Area	28,391	Direct

## Top Sales

Buyer	Building	Submarket	SF	Sale Price	Price/SF
Viola Lordsmeer LP	Chase Tower	Downtown	723,922	\$96,598,425	\$133
Oaktree Capital Management	Raintree Corporate Center Phase III & IV	Scottsdale Airpark	334,889	\$91,700,000	\$274
El Dorado Missouri Asset LLC	Missouri Falls	Piestewa Peak Corridor	190,419	\$41,400,000	\$217
VWP EVB 200 Office LLC	PNI Phoenix Center	Downtown	240,076	\$37,650,000	\$157
Alidade Papago Spectrum	Papago Spectrum Office Building	Tempe	159,261	\$34,000,000	\$213

## 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%
Block 23 At Cityscape	Downtown	3Q19	228,402	10.0%
Discovery Business Campus	South Tempe	2Q19	200,000	20.0%
I.D.E.A. Tempe Phase I	Airport Area	1Q20	185,833	64.6%

## Trends to Watch

Professional and business services sector employment began increasing in 2010 and grew through 2018. Sector growth is expected to continue in 2019.



3.9%  
Unemployment rate decreased 60 bps from January 2018.



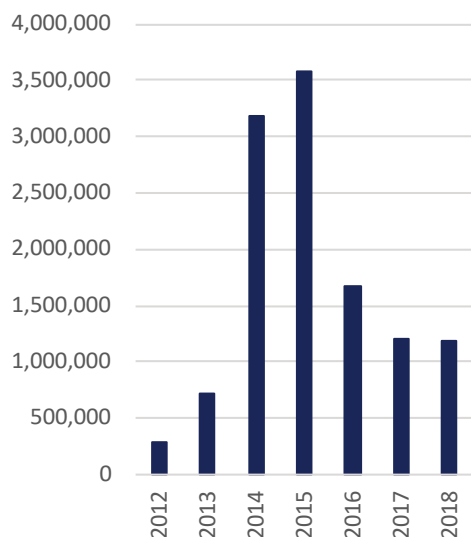
19.1% to 15.7%  
Vacancy decreased 340 bps and has generally trended downward since first quarter 2016.



5.6%  
Professional and business services employment increased year-over-year.

The Phoenix economy continues to expand as financial services, software and technology companies take advantage of low business costs and a quality workforce.

### Under Construction



### Investment Sales



### Leasing

Fourth quarter absorption was negative 82,391 sf; however, 2018 finished with a net gain of 2,264,029 sf. The Scottsdale Airport Submarket recorded the greatest amount of positive absorption in the region in the fourth quarter with 127,571 sf, and the Chandler Submarket was second again with 100,040 sf. However, the Airport Area led all submarkets for the year with 872,322 sf being absorbed in 2018.



#### Park Place Building

The largest lease of the quarter was Allstate Insurance Co. signing for 117,000 sf in Chandler at Park Place in the Price Road corridor. In second, Deloitte US preleased 102,000 sf at the The Commons at Rivulon Building B, with space for 2,500 workers. In the Phoenix Gateway Center II building in the 44th Street Submarket, Care1st Health Plan Arizona leased 81,300 sf, moving from 2355 E. Camelback, which facilitated the hiring of an additional 250 employees.

### Coworking usage continues to expand.

Two new coworking companies joined the office space trend in Phoenix. Industrious opened its second location in the fourth quarter in Scottsdale, taking 33,000 sf. WeWork announced it will open its first Phoenix location in the Esplanade. The company leased 54,000 sf at 2425 E. Camelback Road and plans to open an additional location in the third quarter of 2019. In the East

Valley, Workuuty will open its second operation leasing a 20,000 sf location at 3133 W. Frye Road in January 2019. The proliferation of coworking options in Phoenix is indicative of the increased demand from tenants, amid Phoenix's burgeoning startup scene.

### Construction

2018 closed with nearly 2.7 msf under construction in the office market. The Chandler Submarket accounts for 26.2% of the square footage under construction. Strong preleasing has captured 25.6% of the square footage under construction by the end of the fourth quarter. The Grand at Papago Park Phase II, projected to deliver 345,795 sf to Tempe in mid-2019, is the largest project under construction. Tempe is also home to the 265,000 sf Watermark Phase I, scheduled to be completed in fourth quarter 2019.

### Investment Sales

2018 volume exceeded 2017 by 8.5%, with office sales totaling \$581 million in the fourth quarter, bringing annual volume to \$2.4 billion.



#### Chase Tower

The Chase Tower, as part of a two-property portfolio that also included a parking garage, accounted for \$96.6 million of the portfolio at \$133 psf and was the largest sale in fourth quarter. This 38-story Class A office in the Downtown Submarket was 100% leased at the time of sale. Sales volume in 2018 exceeded totals in six of the past seven years.

## 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	2,877,398	399,012	4,286	14.0%	80,229	-5,072	72,998	94,445	\$27.53	\$25.85
Airport Area	9,435,851	1,747,698	214,304	20.8%	-19,619	-9,124	-19,743	872,322	\$26.70	\$23.55
Arrowhead	649,164	70,472	2,114	11.2%	0	913	913	14,015	\$26.00	\$24.47
Camelback Corridor	7,268,099	1,332,426	134,323	20.2%	-92,508	8,717	-83,791	-166,471	\$36.13	\$26.79
Central Phoenix	1,739,986	179,497	2,365	10.5%	-	7,467	29,593	20,604	-	\$19.84
Central Scottsdale	5,277,556	589,287	86,640	12.8%	43,398	-219,028	-173,945	-59,125	\$29.74	\$25.11
Chandler	5,936,391	867,320	110	14.6%	50,146	48,473	100,040	439,873	\$31.33	\$25.04
Deer Valley/Airport	7,667,379	733,257	6,280	9.6%	-55,814	-33,763	-89,577	423,082	\$25.31	\$23.41
Downtown	7,713,204	936,125	67,824	13.0%	-83,619	-80,804	-165,123	219,063	\$33.47	\$28.63
Downtown Mesa	656,396	29,522	0	4.5%	-	7,150	7,150	-6,737	-	\$16.65
East Mesa	261,539	21,957	0	8.4%	-	2,182	6,392	17,042	-	\$21.39
Gateway/Airport/Loop 202	324,072	14,132	46,764	18.8%	-7,000	-200	-7,200	-14,271	\$27.50	\$22.58
Glendale	1,408,823	214,701	0	15.2%	1,564	10,728	12,292	16,926	\$24.83	\$24.50
Loop 303/Surprise	247,453	48,836	0	19.7%	-	20,939	20,939	26,715	-	\$24.83
Midtown	8,951,604	2,111,993	30,087	23.9%	-4,310	66,006	61,696	131,844	\$25.87	\$21.65
North Interstate-17	272,282	65,218	0	24.0%	-	2,573	2,573	2,229	-	\$24.79
North Scottsdale	383,946	73,177	397	19.2%	-	15,245	15,245	-11,364	-	\$23.92
NW Phoenix	5,505,372	1,329,569	13,856	24.4%	-58,805	2,210	-51,095	-110,871	\$23.08	\$18.61
Paradise Valley	1,923,250	302,170	51,868	18.6%	-696	16,154	15,861	-50,333	\$29.10	\$21.43
Piestewa Peak Corridor	2,026,801	396,372	39,534	21.5%	-2,995	4,978	2,233	-1,868	\$26.95	\$21.68
Pinal County	76,810	0	0	0.0%	-	0	0	0	-	\$13.00
Scottsdale Airport	9,040,547	1,057,534	411,167	16.2%	156,963	-29,392	127,571	-289,920	\$31.26	\$27.42
South Scottsdale	4,241,174	619,177	28,906	15.3%	18,466	-3,764	14,702	8,507	\$33.94	\$29.72
South Tempe	5,361,619	760,710	48,048	15.9%	0	-35,773	-23,718	323,216	\$31.54	\$22.89
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	\$26.86
Superstition Corridor	2,448,297	284,076	10,504	12.0%	4,954	-2,422	2,532	-2,944	\$24.08	\$19.14
Tempe	8,428,491	409,187	12,798	4.9%	10,884	37,014	49,333	342,132	\$39.71	\$22.42
West I-10	421,162	71,484	0	17.0%	0	-10,262	-10,262	-8,764	\$27.00	\$26.47
<b>Total</b>	<b>102,231,855</b>	<b>14,838,421</b>	<b>1,212,175</b>	<b>15.7%</b>	<b>41,238</b>	<b>-178,855</b>	<b>-82,391</b>	<b>2,264,029</b>	<b>\$30.86</b>	<b>\$23.53</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 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.


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