

Phoenix, AZ



Quick stats

97.3 msf

Total office market inventory

18.7%

Overall vacancy rate

-1.4 msf

Net absorption

\$330.2M

Total investment sales

\$28.75 psf

Overall average asking rate

Recent large lease deals for corporate occupiers as well as relocating start-ups from California are helping assure a positive outlook for the Phoenix Office Market. While record negative absorption this quarter is stark, relative to the rest of the nation, Phoenix is highly competitive and poised for a strong recovery. Its momentary problems are shared by every major US market, but its advantages are unique.

Economy

While the recovery gains momentum, the scope of the pandemic and stress on the economy is still being absorbed. According to The Milken Institute's recent report, "Best-Performing Cities 2021: Foundations for Growth and Recovery," a reshuffled performance list of cities lifted Phoenix into Tier 1 city status, from 12th place last year to 7th place today. A 2020 UN Global Urban Competitiveness Report counted Arizona's capital among the Top 100 cities in the world, ahead of such powerhouses as Amsterdam. Challenges linger, but things look more promising each passing month. Many workers starting to return to the office may welcome the change from home routines and may also be rethinking

the nature of work and the workplace. With so much restless energy in the economy, the rest of 2021 could begin making up for losses over the past 12 months.

Absorption & vacancy

Vacancy rates throughout the pandemic year held between 16% and 16.8%. Not since the third quarter of 2000 when negative 564 ksf of space was absorbed has a negative absorption figure come close to this quarter's figure of negative 1.4 msf. The second highest positive absorption total in the past two decades, though, was 1.84 msf in the fourth quarter of 2000, the month after the second worst quarter on record. At these extremes, volatility can create sudden opportunities for office investors and occupiers.

In January, Align Technology announced its move from San Jose, CA, to Arizona. The company will join Opendoor and WeWork occupying nearly 40 ksf at The Watermark. In February, network and telecom equipment manufacturer, Viavi Solutions, also left Silicon Valley for flex office space in Scottsdale with plans to establish a manufacturing facility in the Valley.



Rental rates

Camelback Corridor had the highest overall rent, with class A product reaching \$37.98 psf, and overall rents hitting \$33.15 psf. Tempe was the #2 submarket for class A at \$35.56 psf, followed by Mesa at \$33.24 psf. Two of the highest starting rents on leases signed this quarter were for space in newly-opened Watermark. The electronic trading platform, Robinhood as well as Align Technology paid rent in the mid \$40s psf for top-tier offices on Tempe Town Lake adjacent to ASU.

Construction

No new office construction broke ground in the first quarter. However, work continues on several large projects in the pipeline before the pandemic. Two 150 ksf spec buildings at Allred Park Place in Chandler's Price Road tech corridor will deliver by the end of the year. The Park Place development boasts a number of major employers including Voya Financial, Allstate, Toyota Financial and CVS Health.

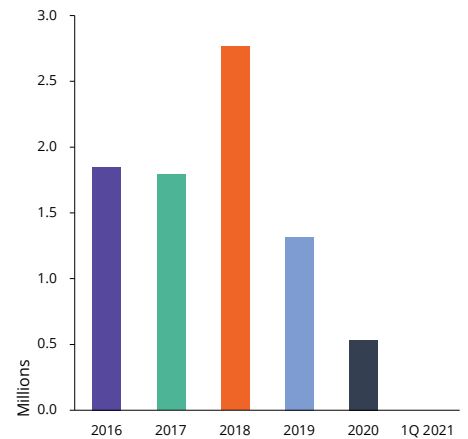
Cranes at the high-profile intersection of E Camelback Road and 44th St

are busy with construction of The Grove, a mixed-use development that will eventually include a hotel, two office buildings, self storage, and the new training facility for the Phoenix Suns basketball team. The first office structure is expected to deliver in September 2022.

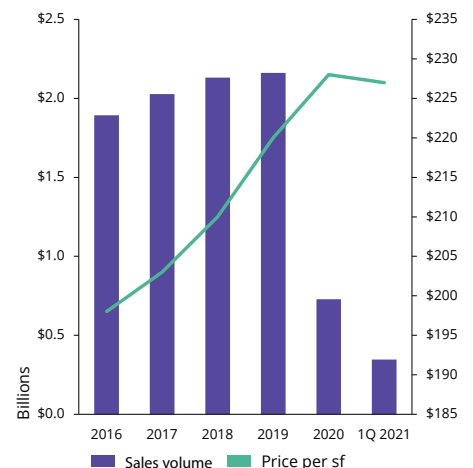
Investment sales

Office investment sales dropped in 2020, falling 52% from the previous year. A recent uptick in activity brought deals worth \$330.2 million. Pricing fell slightly to \$227 psf from its year end peak of \$228 psf. Investors are watching closely to see how office users adjust or whether structural changes in work habits are permanent. Two first quarter deals indicate improved investor confidence from the lows of last year: The sale of Anchor Centre at 22nd St and E Camelback Road for \$103.5 million, or \$311 psf, in January, and the announcement on March 31st that the PetSmart headquarters in Deer Valley was sold for \$110 million, or \$302 psf. These two bookends are a welcome sign the Phoenix Office Market is in fighting shape after the most challenging year.

Under construction



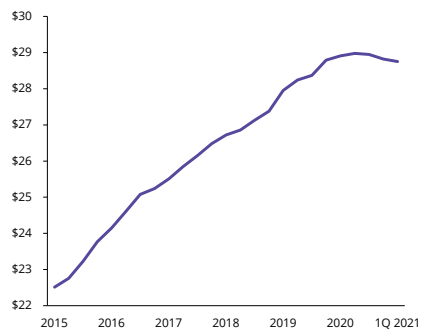
Investment sales



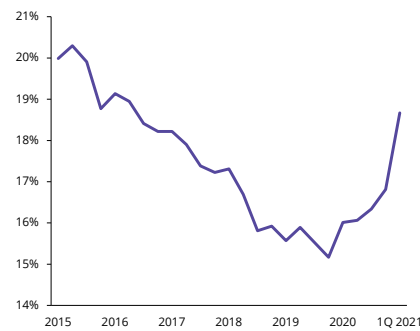
Office market snapshot

Returning office workers are still making adjustments to the new world of work as the end of the pandemic comes into view. A consensus is still pending whether all the changes of the past year will become permanent or not.

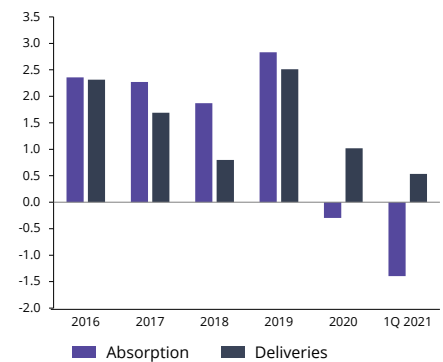
Rental rates



Vacancy rates



Absorption & deliveries



Top leases

	Tenant	Building	Submarket	Square feet	Type
1	Law offices of Snell & Wilmer	1 E Washington St	Downtown	112,138	New / Direct
2	Alliance Bank of Arizona	1 E Washington St	Downtown	97,064	New / Direct
3	Union Bank	1500 N Priest Dr	Tempe	72,715	Renewal / Direct
4	Arrivia	15147 N Scottsdale Rd	Scottsdale Airpark	42,521	New / Sublease
5	Robinhood	410 N Scottsdale Rd	Tempe	34,259	New / Direct

Top sales

	Buyer	Building	Submarket	Square feet	Sale price	Price/sf
1	BPM Real Estate Group	PetSmart HQ	Deer Valley	364,521	\$110,000,000	\$302
2	TerraCap	Anchor Centre	Camelback Corridor	333,284	\$103,500,000	\$311
3	LaSalle	Lotus Project	Chandler	473,516	\$91,000,000	\$192
4	Oak Street Capital	Copper Point Tower	Midtown	252,000	\$64,575,000	\$256
5	Horwitch Group	Raintree Corporate Center I	Scottsdale Airpark	151,943	\$34,000,000	\$224

Market by the numbers

Submarket	Total RBA (SF)	Vacant space direct	Vacant space sublease	Vacancy rate	Absorption class A	Absorption class B	1Q net absorption (SF)	YTD net absorption (SF)	Avg. ask class A (FS)	Avg. ask class B (FS)	Overall avg. ask
Downtown	7,591,063	853,771	109,001	12.7%	(153,593)	18,826	(134,767)	(134,767)	\$32.92	\$26.40	\$29.66
Midtown	9,079,155	1,940,184	132,403	21.4%	5,456	(52,895)	(46,961)	(46,961)	\$25.45	\$22.07	\$23.76
Scottsdale Airpark	8,594,426	1,940,184	161,542	19.5%	(85,419)	(46,390)	(130,992)	(130,992)	\$31.08	\$27.35	\$29.22
Tempe	10,123,285	1,202,307	174,178	13.6%	(74,073)	(83,705)	(150,731)	(150,731)	\$35.56	\$21.96	\$28.76
Airport Area	7,611,932	1,007,565	69,064	14.1%	(20,479)	43,543	23,149	23,149	\$22.66	\$16.84	\$19.75
Camelback Corridor	6,821,532	1,431,040	73,820	22.1%	(74,221)	(32,847)	(107,068)	(107,068)	\$37.98	\$28.31	\$33.15
Central Scottsdale	5,319,067	922,922	27,530	17.9%	(250,677)	(82,215)	(323,400)	(323,400)	\$28.44	\$26.85	\$27.65
Scottsdale South	4,472,271	566,576	27,479	13.3%	(63,276)	(11,464)	(74,740)	(74,740)	\$30.93	\$24.92	\$27.93
Chandler/Gilbert	5,902,145	956,768	94,655	17.8%	15,720	(11,149)	(3,608)	(3,608)	\$26.49	\$25.68	\$26.09
South Tempe/Ahwatukee	5,001,386	868,424	133,964	20.0%	0	(162,990)	(162,990)	(162,990)	\$31.14	\$17.98	\$24.56
44th St Corridor	2,445,481	415,219	40,795	18.6%	(53,619)	11,940	(47,169)	(47,169)	\$27.51	\$26.13	\$26.82
Central Phoenix	1,208,236	72,286	4,000	6.3%	0	(1,679)	(3,152)	(3,152)	\$0.00	\$19.21	\$19.21
Deer Valley/I-17	6,795,859	1,267,498	273,342	22.7%	(11,407)	(20,915)	(27,718)	(27,718)	\$19.97	\$19.86	\$19.92
N Scottsdale/Carefree	255,787	67,025	7,550	29.2%	(4,412)	1,575	1,575	1,575	\$30.00	\$27.21	\$28.61
Paradise Valley	1,643,848	164,046	16,548	11.0%	(4,561)	(12,398)	(14,244)	(14,244)	\$29.84	\$22.59	\$26.22
Piestewa Peak Corridor	1,665,326	307,074	13,635	19.3%	4,368	0	4,368	4,368	\$27.99	\$24.17	\$26.08
Arrowhead/Loop 303/Surprise	853,221	115,871	516	13.6%	(252)	(20,198)	(21,723)	(21,723)	\$23.38	\$25.37	\$24.38
Glendale	1,039,868	111,352	0	10.7%	(36,006)	6,109	(29,897)	(29,897)	\$23.41	\$22.61	\$23.01
NW Phoenix	4,970,800	123,203	10,211	25.2%	38,220	(108,457)	(149,760)	(149,760)	\$24.10	\$19.34	\$21.72
Gateway Airport/Loop 202	420,166	83,792	0	19.9%	0	0	0	0	\$23.09	\$23.65	\$23.37
Mesa	1,589,185	206,721	5,086	13.3%	114,288	(10,267)	116,506	116,506	\$33.24	\$20.35	\$26.80
Superstition Corridor	2,639,539	334,931	5,381	12.9%	(4,078)	(67,754)	(73,606)	(73,606)	\$22.75	\$19.31	\$21.03
SW Phoenix/Outlying	895,857	160,845	0	18.0%	0	0	0	0	\$28.00	\$18.50	\$23.25
West I-10	326,633	54,041	5,473	18.2%	3,578	(3,113)	465	465	\$28.00	\$25.62	\$26.81
Total	97,266,068	15,173,645	1,386,173	18.7%	(654,443)	(646,443)	(1,356,463)	(1,394,649)	\$31.94	\$25.40	\$28.75

*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 30,000 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. Both current and historical data has been adjusted with corrected or updated information, after it was obtained. This may prevent comparison to previously released reports.

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