

A woman in a white blazer and sunglasses stands on a balcony, looking out at several modern glass skyscrapers in Phoenix. The buildings are tall and feature intricate glass facades. The sky is clear and blue.

**AVISON
YOUNG**

Phoenix Office Insight Report

Q2 2021

AVANT
by AVISON YOUNG

Key takeaways



Economic conditions

- Reopening efforts have enabled the Phoenix unemployment rate to rebound from a high of 13.5 percent in April 2020 to **6.0 percent** in April 2021.
- Post-COVID office-using job losses totaled **3.2 percent** compared with leisure and hospitality job losses that totaled 13.2 percent, underscoring the disproportionate impact the pandemic had on the discretionary segments of the local economy.



Office demand

- Leasing activity is on the mend as office workers return and the economy reopens. Post-pandemic leasing activity has decreased by **30.8 percent** compared with the prior 20-year annual level.
- Healthcare-related companies remain a dominant driver of office demand; however, tech companies Robinhood and Arrivia accounted for two of the top five largest deals to date in 2021.



Office supply

- Vacancy totaled **16.2 percent** in Q2 2021. While elevated compared with historical levels, the aftermath of the Global Financial Crisis caused the Phoenix vacancy to surpass 21.0 percent from 2010 and 2011.
- The sublease market accounts for **1.9 msf** of vacant space.
- **9.4 msf** of office space is under construction and proposed.

Key takeaways



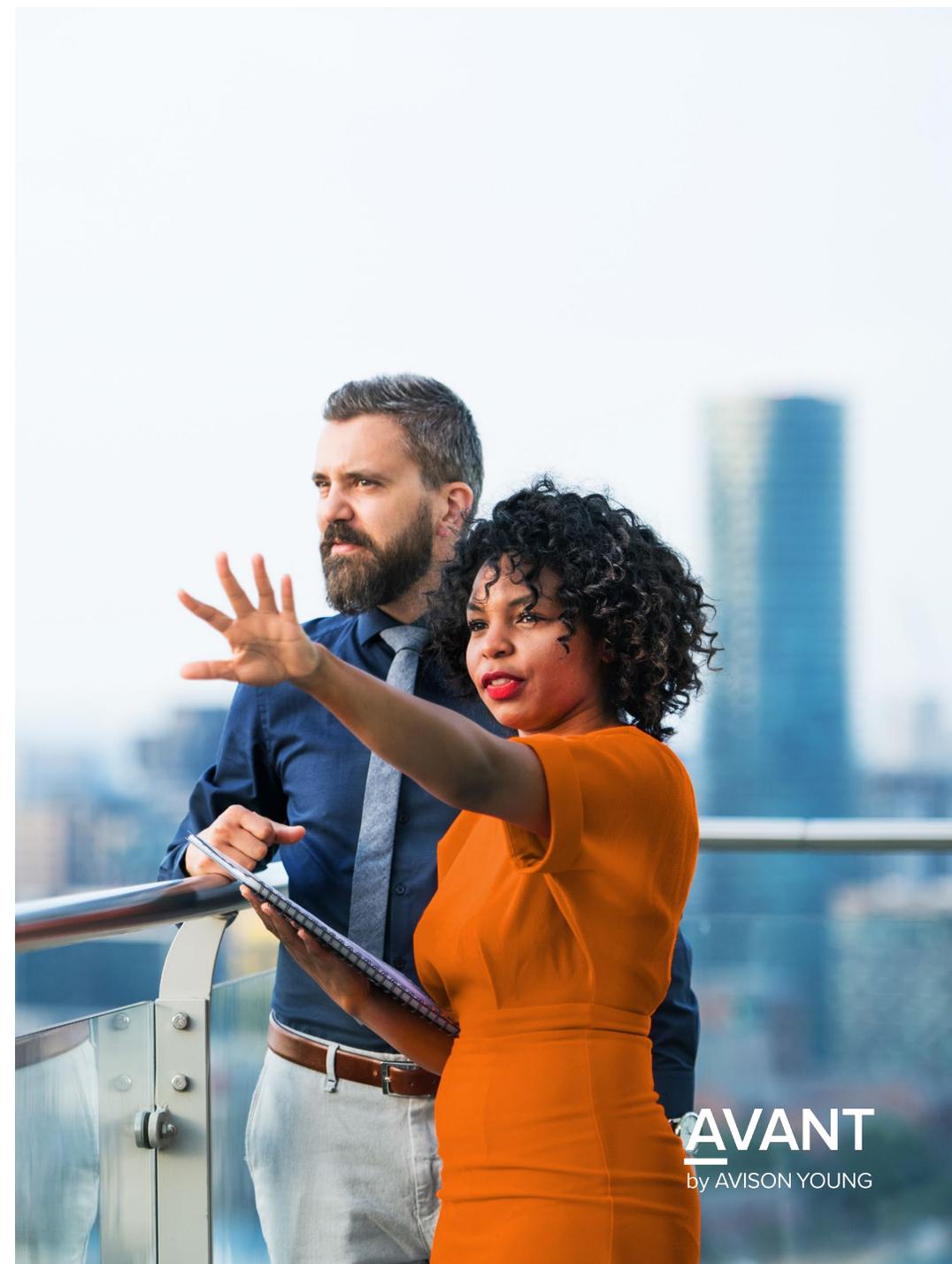
Pricing trends

- Asking rents have remained steady, decreasing by **0.5 percent** over the past two years as landlords prompted tenant commitments through concessions packages and favorable lease provisions while keeping base rents relatively steady.
- Demand is rising as the economy reopens and tenants that postponed their long-term occupancy strategies re-enter the market.



Capital markets

- Deal volume is returning to pre-COVID levels. Nearly **\$1.2B** of Phoenix offices have been sold since the beginning of 2021, an increase of **48.2 percent** compared with the same period one year ago.
- Asset pricing has increased by **10.3 percent** from December 2019 to Q2 2021 as previously sidelined investors return to the market.



01.

Economic and demographic trends

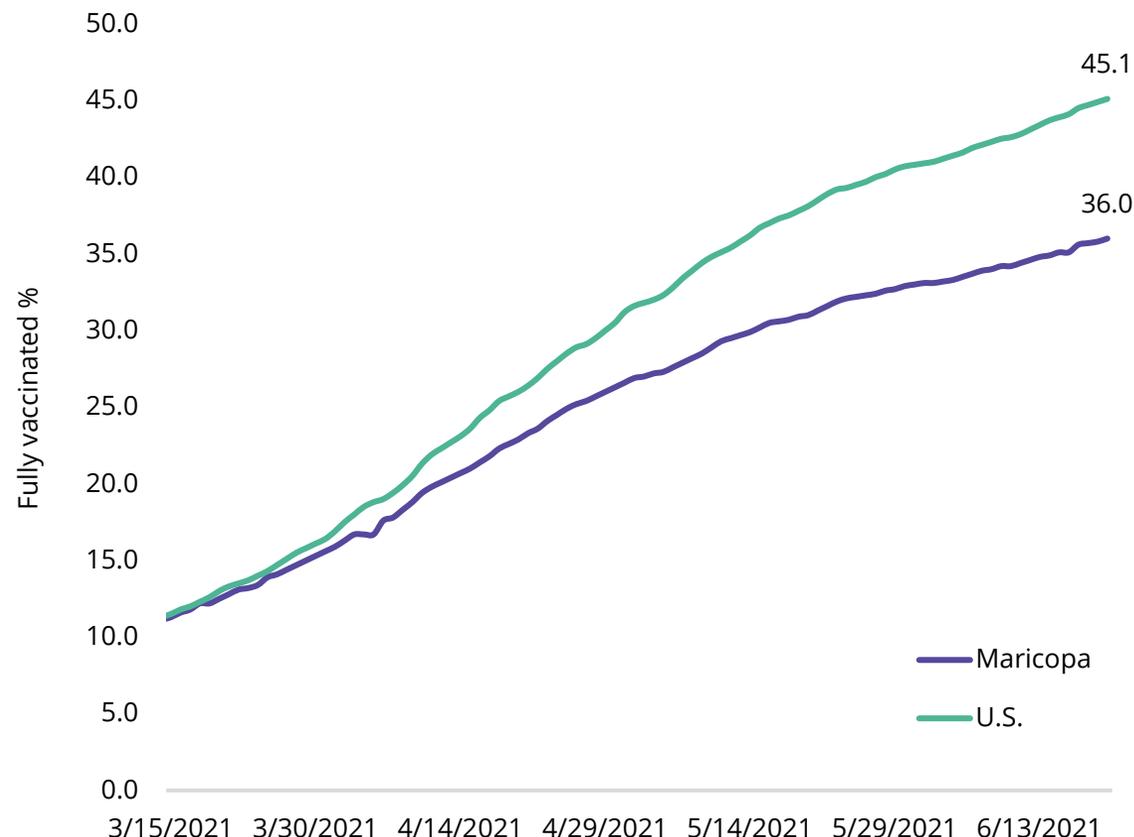
The pandemic immediately shocked the Phoenix economy, but there are signs of a recovery as the city reopens.

Vaccination rates

36.0%

Share of total Phoenix population that is fully vaccinated

Phoenix's full vaccination rate trails the U.S. average. However, Arizona avoided back-and-forth opening and closing efforts, enabling it to reopen sooner than other states. As a result, the economy is poised for a quicker recovery than vaccination rates would otherwise indicate.



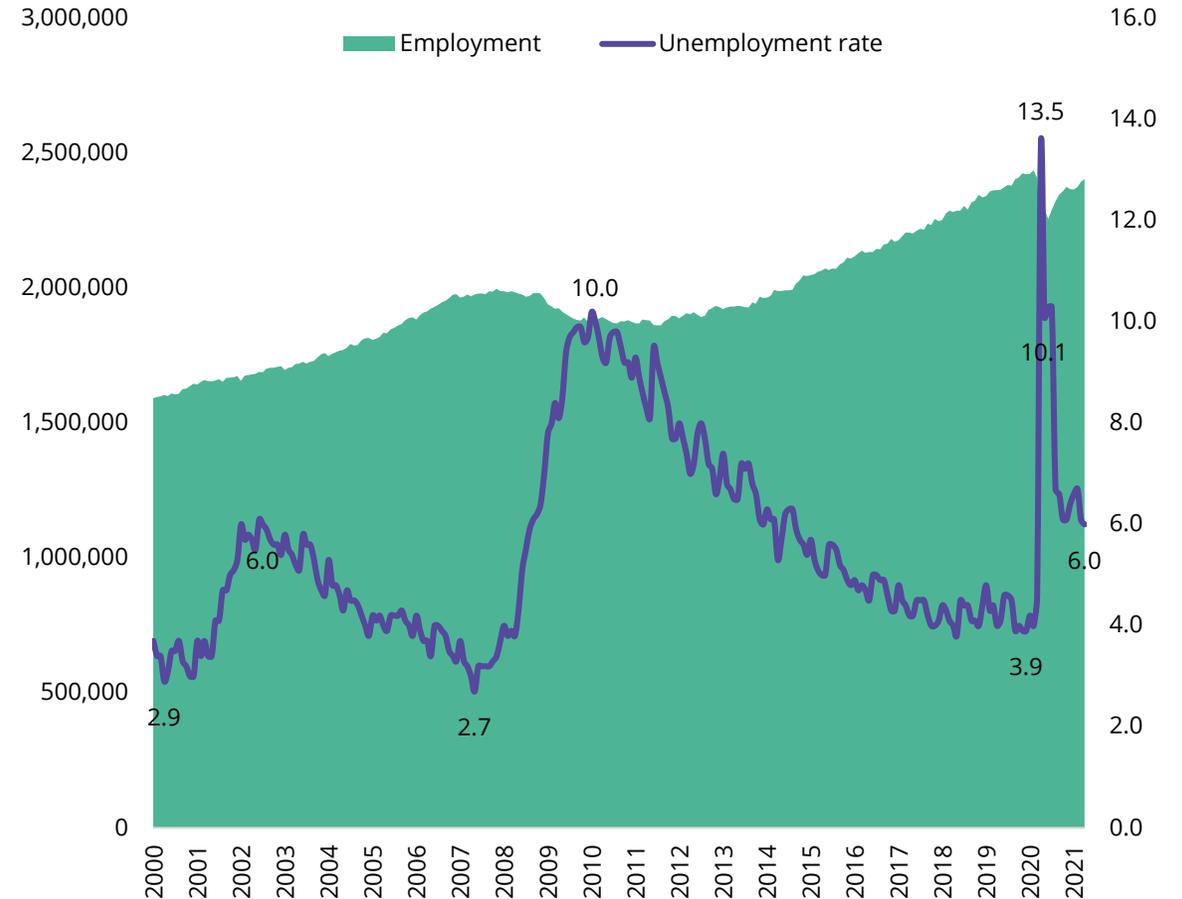
Source: CDC

Employment and unemployment rate

6.0%

Phoenix unemployment rate as of April 2021

The employment rate of 6.0% as of April 2021 has approached the post-2000 average of 5.6%. The pandemic temporarily eliminated 288,000 jobs between February 2020 and May 2020, though reopening efforts enabled the economy to recover 256,000 jobs from May 2020 to April 2021.



Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Office-using job gains and losses

-3.2%

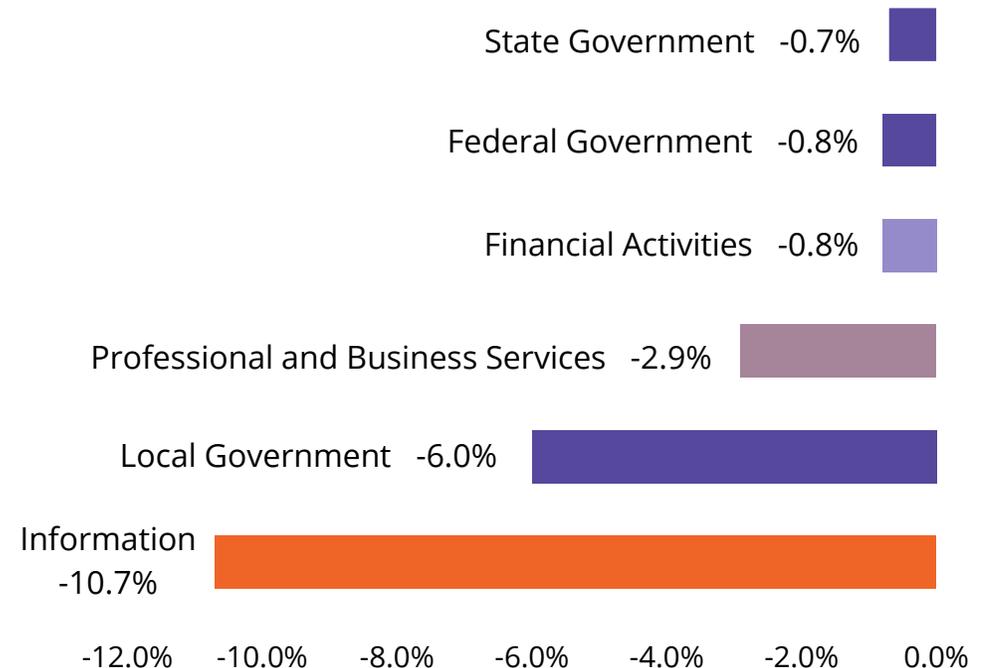
Change in office-using employment during the pandemic

Phoenix MSA job losses amounted to 10.6% since the start of the pandemic, though office-using jobs contracted by just 3.2%. This recession's impact on the labor market has been less severe than the global financial crisis, when job losses totaled 13.3%.

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Total change in Phoenix MSA* job gains/(losses)

February 2020 to April 2021



Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics



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Office occupier conditions

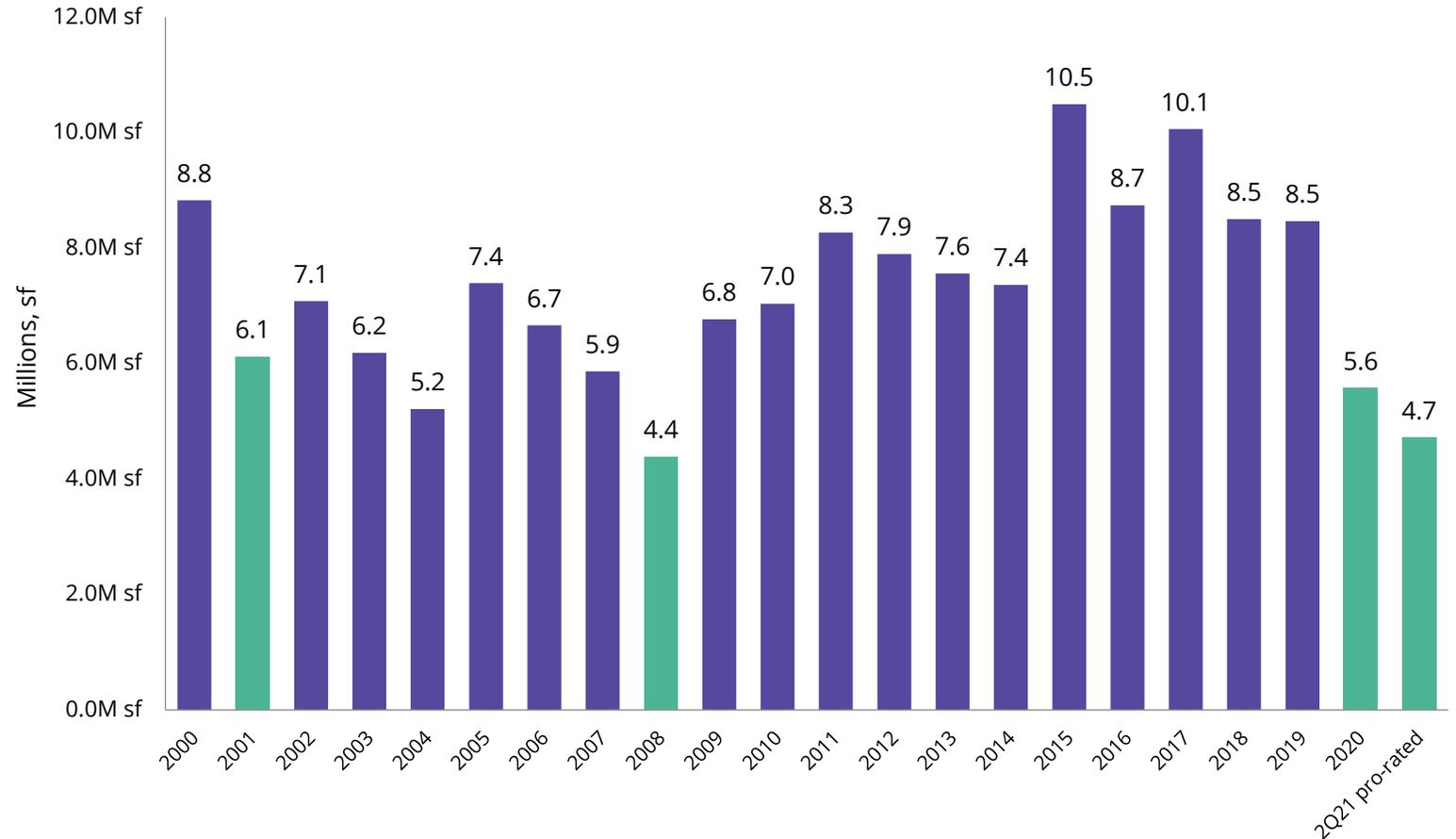
Demand has been temporarily disrupted as employers navigate an unprecedented market environment.

Office leasing activity

-30.8%

2020 to pro-rated 2021 vs. prior 20-year annual average leasing activity

Only during the Global Financial Crisis has leasing activity in Phoenix been this muted. This slowdown has been attributable to the unprecedented change in office occupiers' workplace strategies and the 2020 recession.



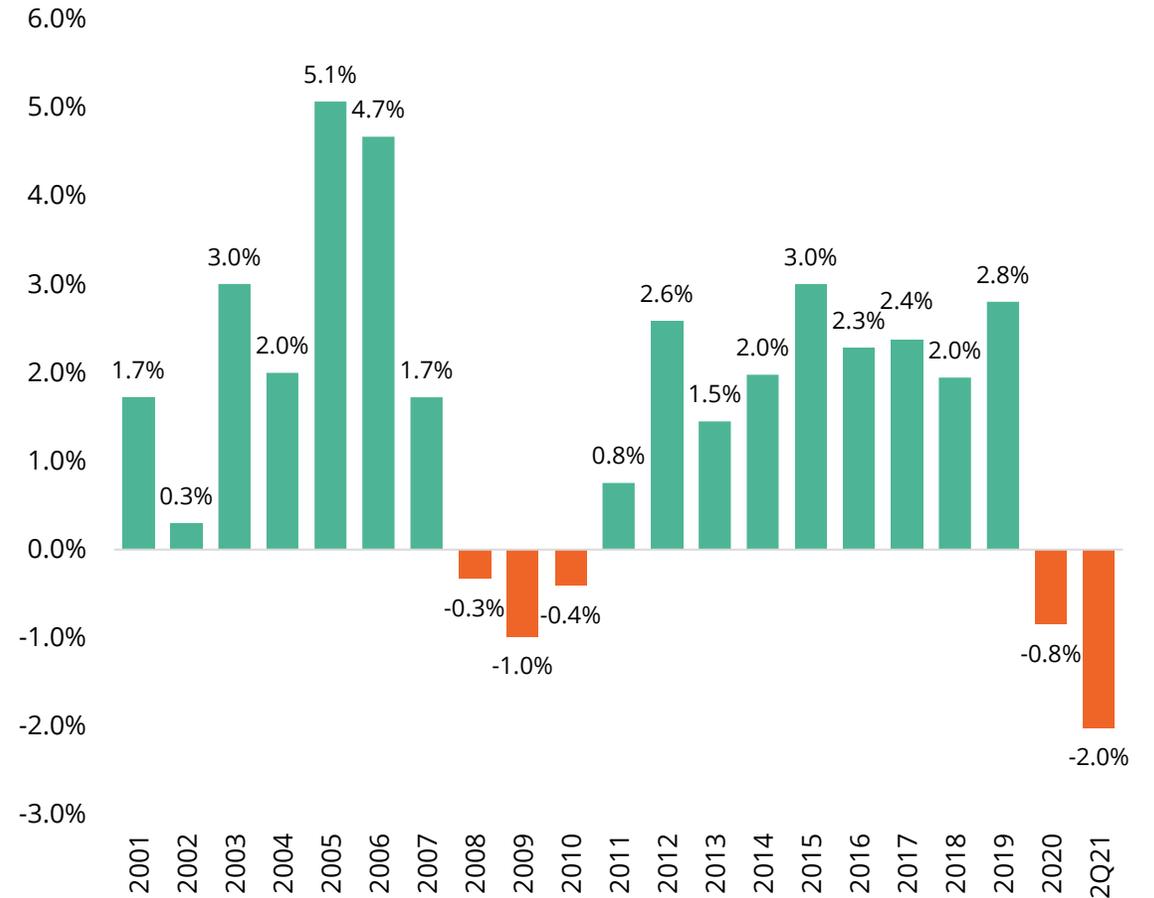
Source: AVANT by Avison Young

Absorption

-2.8%

Net absorption as a percentage of inventory, 2020 through Q2 2021

Negative absorption from 2020 to Q2 2021 has totaled 2.8 million sf, totaling -2.8% of the existing stock. This negative absorption surpasses the early 2000s recession (+2.0%) and the Global Financial Crisis (-1.7%).



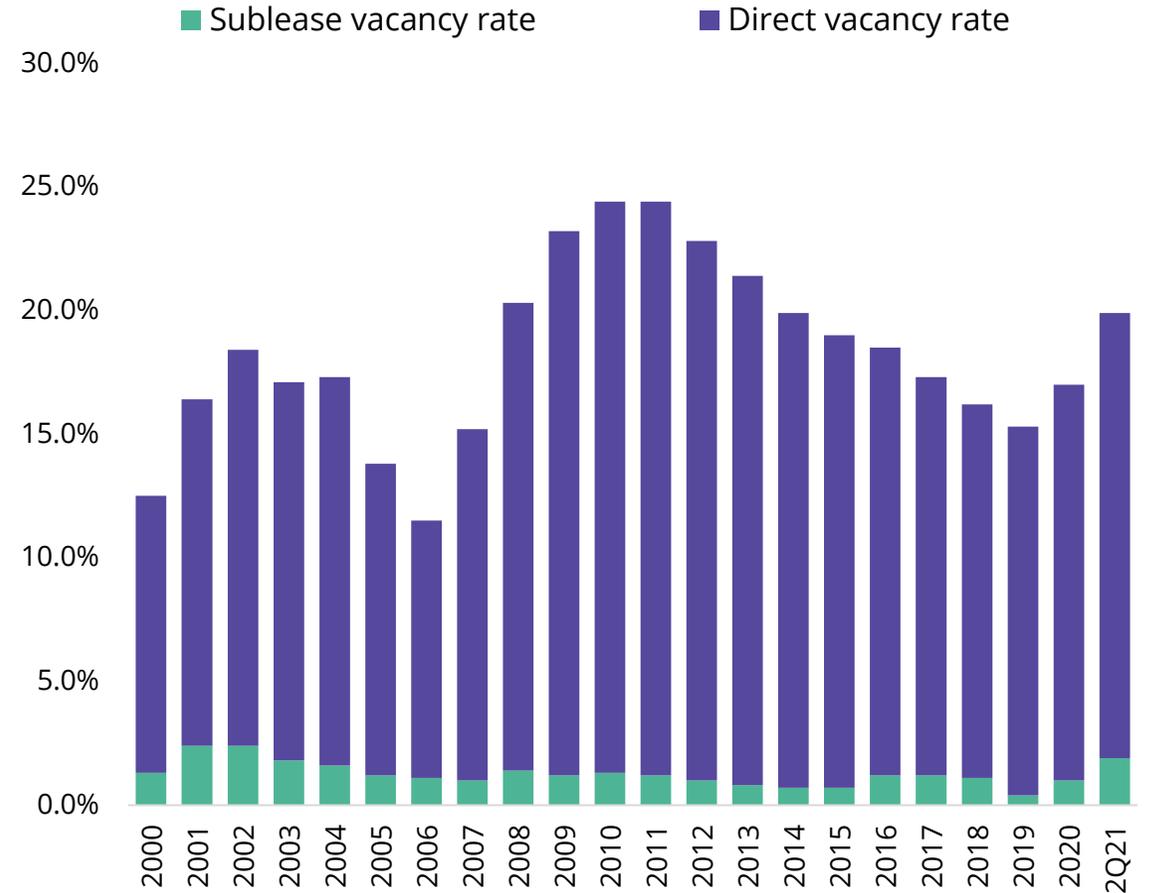
Source: AVANT by Avison Young

Vacancy rate

19.9%

Rising Phoenix vacancy as of Q2 2021

The Q2 2021 total vacancy rate is elevated but remains like the post-2000 average of 18.2%. Further vacancy additions could be stemmed by elevated demand by out of state companies. These office occupiers are likely to expand their operations in Phoenix as they seek lower real estate and business operating costs and access to talent.



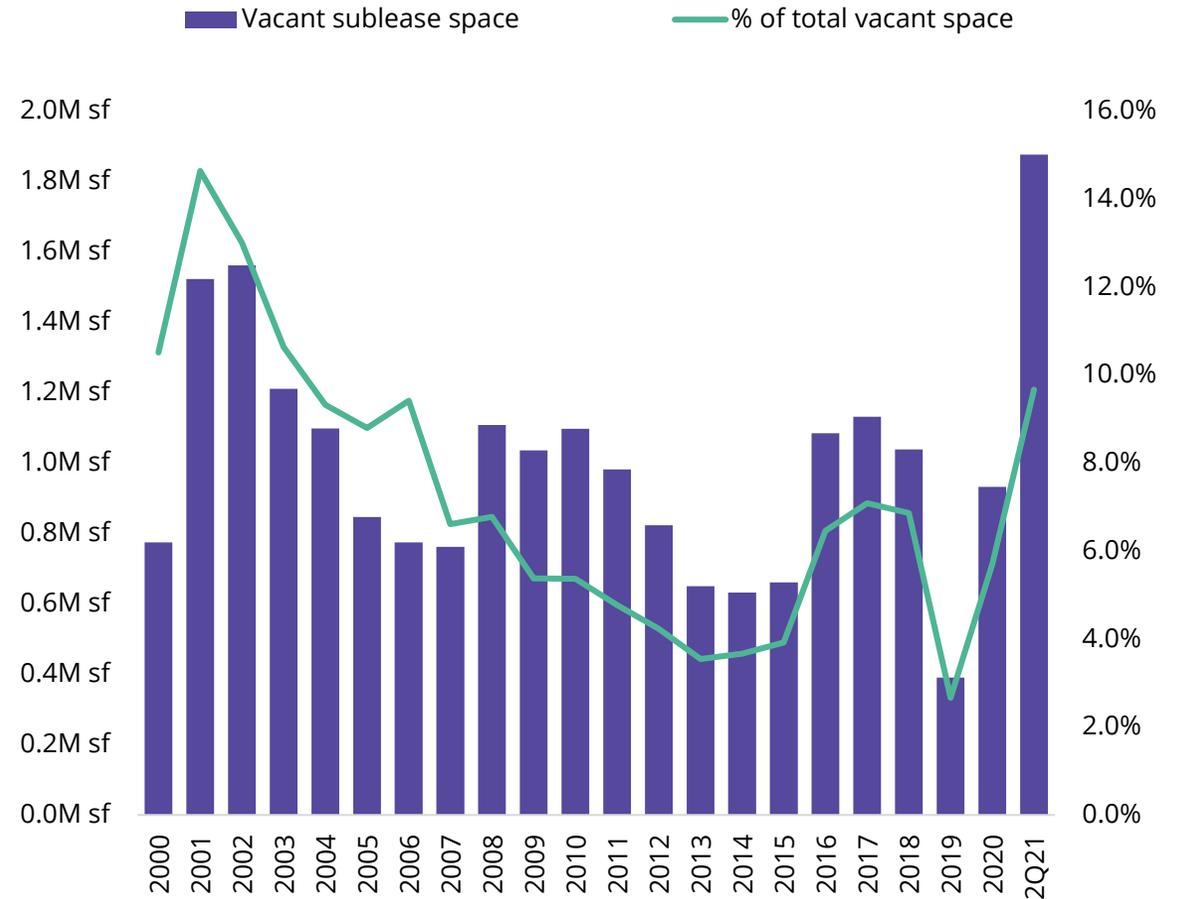
Source: AVANT by Avison Young

Vacant sublease space

1.9 msf

Elevated levels of sublease vacant space

The share of sublease-to-total vacant space of 9.7% has surpassed the peak of 6.8% from the Global Financial Crisis but has not reached the peak of 14.6% from the Dot-com recession. However, this shift in current office usage space strategies has caused a fundamental shift and superseded all previous levels of sublease vacancy.



Source: AVANT by Avison Young

Asking rents

-0.5%

Year-to-date change in Phoenix asking rents

Asking rents remained unchanged quarter-over-quarter in June 2021, signaling the drop in rent is subsiding. Demand is picking up as office occupiers return to work and tenants that postponed their real estate decisions re-enter the market.



Source: AVANT by Avison Young, CoStar

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Phoenix office development pipeline

57 properties

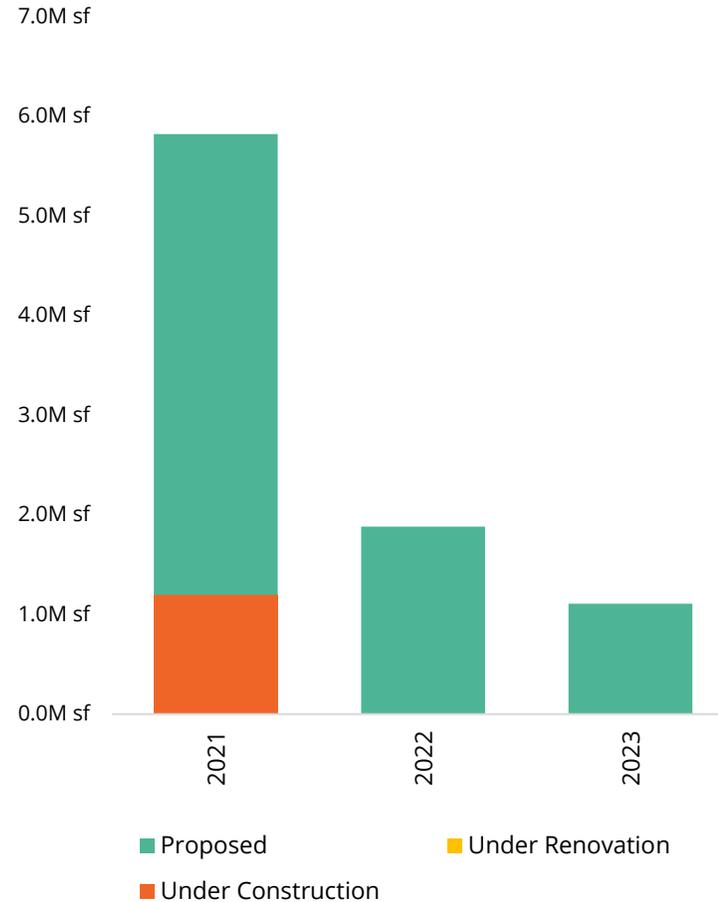
proposed or under construction

9.4 msf

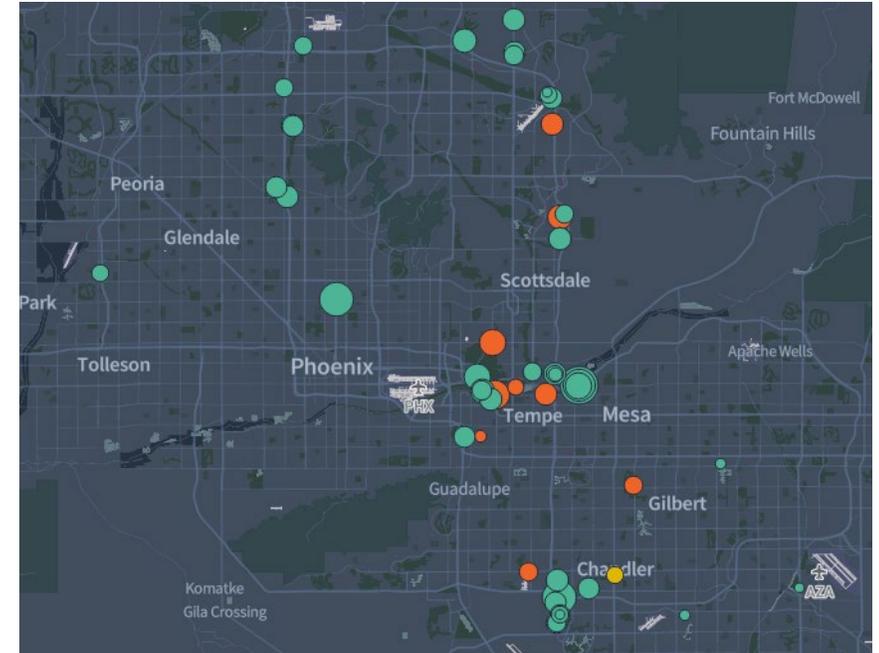
proposed or under construction

8.8%

share of office inventory



Source: AVANT by Avison Young



03.

Capital market conditions

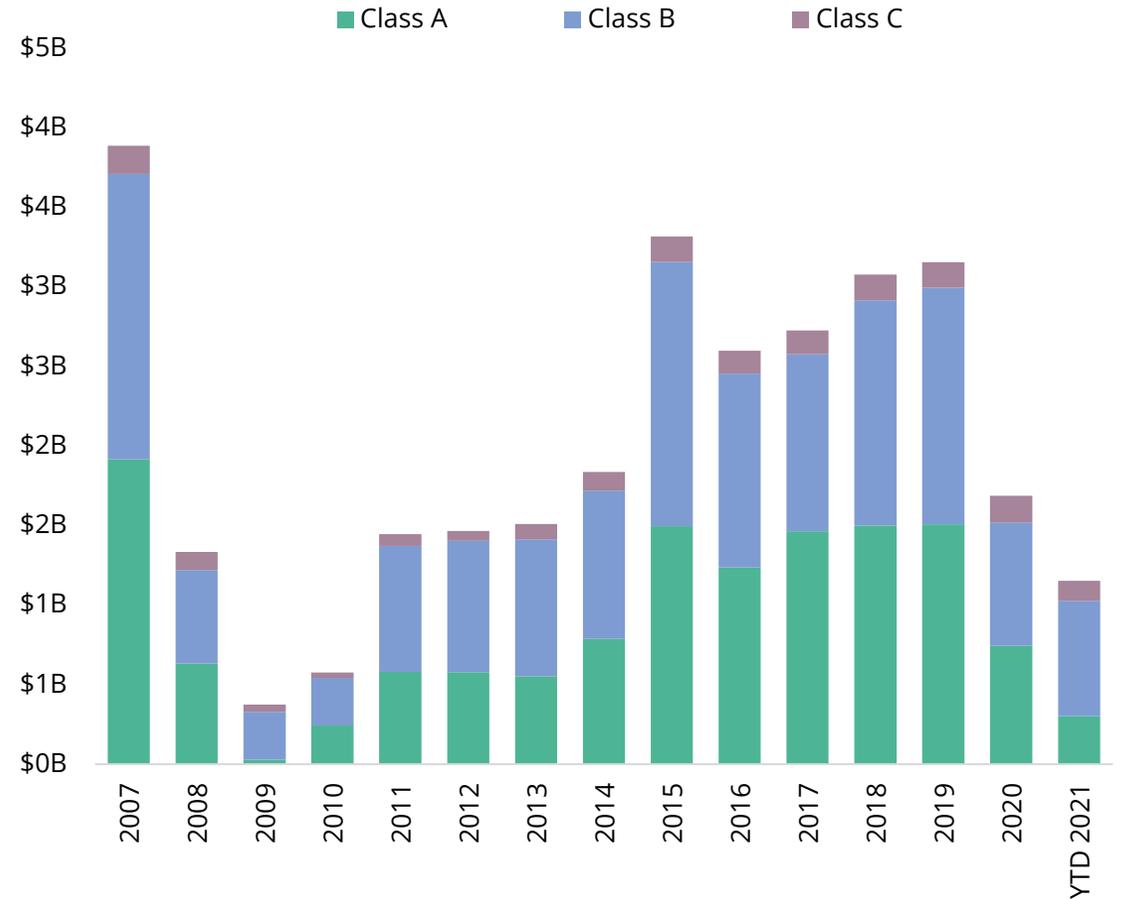
Pent-up investor demand temporarily sidelined by the pandemic over the past year has the acquisition spigot open again.

Office investment dollar volume

\$2.8B

Phoenix office dollar volume 2020 to present

Post-COVID annualized sales volume remains 32.9% below the prior five-year average on the heels of a weak 2020 (\$1.7B).



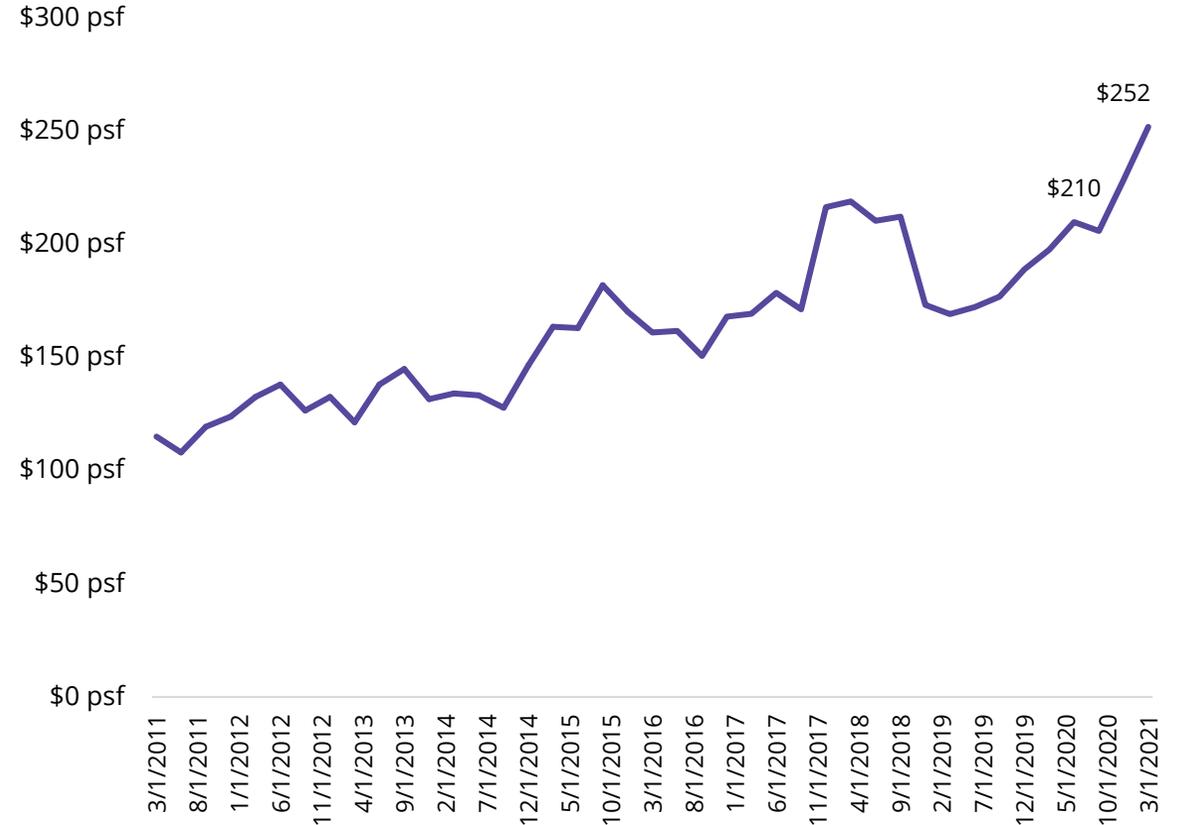
Source: AVANT by Avison Young, Costar, RCA

Office asset pricing

+ 16.7%

Phoenix office pricing from June 2020 to present

Asset pricing has escalated since the onset of the pandemic as investors that were temporarily sidelined have increasingly reinvestigated acquisition opportunities. This pricing has trended only incrementally upward in recent months, indicating a potential stabilization.



Source: AVANT by Avison Young, RCA

Looking forward



Here's what we can expect

- Maricopa County **employment is projected to increase by 5.9% through 2022** per the Office of Economic Opportunity, underscoring strengthening economic fundamentals.
- **Several technology firms have signed new leases in 2021.** This trend is likely to continue as out of state firms find value in operating in Phoenix. One representative tech firm that recently signed a new lease was San Francisco-based Robinhood, which could have a trickle-down effect on other Silicon Valley and global tech firms.
- **Asset pricing is positioned to remain elevated but should stabilize** as investors recognize the sizable gap between cap rates and benchmark yields and the market's positive economic momentum.
- Office demand has returned albeit at levels that do not surpass the pre-COVID period. **Vacancy should remain elevated, and rents may not escalate in the near term** as office occupiers continue to navigate their space utilization strategies.



Get in touch



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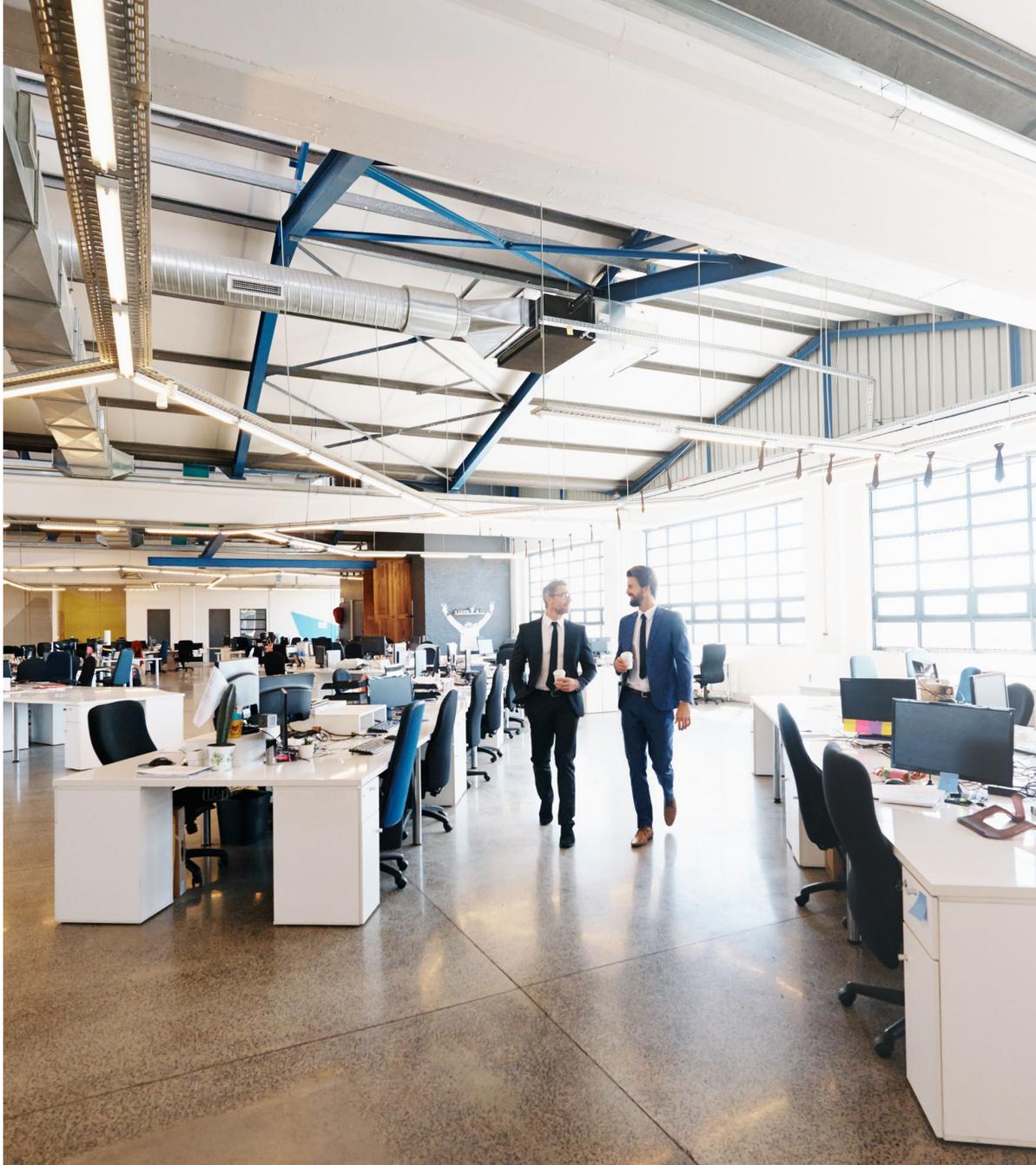
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Let's talk

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