



Phoenix

Q1 2018 / Quarterly Office Market Report

Market Facts

➔ **14.3%**
Class A Vacancy

⬇️ **15.4%**
Class B Vacancy

⬆️ **\$30.64**
Class A Average Asking Rate

⬆️ **\$22.90**
Class B Average Asking Rate

⬇️ **\$164**
Average Sale
Price/Square Foot

⬆️ **6.8%**
Office Average CAP Rate

Market Overview

The Phoenix office market grew to nearly 179 million square feet (msf) and the first quarter 2018 overall combined vacancy rate slightly dropped to 14.2%, ten basis points lower than fourth quarter 2017. Average rental rate growth reached \$24.90 per square foot (psf) in the first quarter, up 7.4% year-over-year. Quarterly absorption weakened in the first quarter of 2018, with 307,020 sf, compared to 1.1 msf in the fourth quarter of 2017. However, quarterly absorption has been positive every quarter since second quarter 2015. These strong market fundamentals are expected, given that Phoenix gained 61,000 jobs between February 2017 and February 2018. Construction employment increased 9.2%, the strongest rate of any industry; information technology increased 7.1% and manufacturing increased 5.6%.

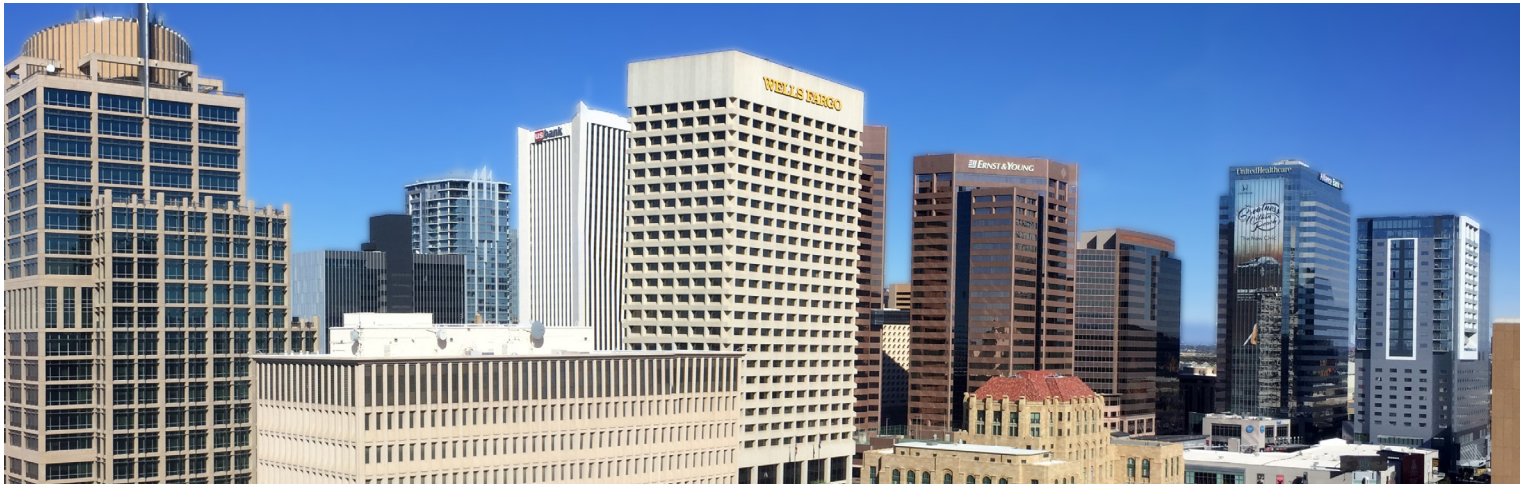
Top Leases

Tenant	Building	Submarket	Square Feet	Type
Allstate	1450 S Spectrum Blvd	Chandler	100,622	Sublease
McKesson	5801 N Pima Rd	South Scottsdale	61,510	Direct
Arizona State University	400 E Van Buren St	Downtown	60,203	Direct
Ready Logistics	4615 E Elwood St	Airport Area	51,105	Direct
Morgan Stanley	111 E Rivulon Blvd	Chandler	31,655	Direct

Top Sales

Buyer	Building	Submarket	Square Feet	Sale Price	Price/SF
D.L. Long Properties	Central Arts Plaza	Midtown	485,687	\$80,700,000	\$166
Arch Street Capital Advisors LLC	El Dorado Tech Center	Chandler	180,480	\$39,000,000	\$216
Regent Properties, Inc.	Squaw Peak Corporate Center II	Piestewa Peak Corridor	165,748	\$38,348,927	\$272
Buchtel Realty Investors, LLC	90 Mountain View II	Central Scottsdale	92,562	\$30,500,000	\$330
Regent Properties, Inc.	The Summit	Piestewa Peak Corridor	125,076	\$29,938,629	\$282

Market Snapshot



Economic growth is projected to remain strong through 2021, according to the University of Arizona Economic and Business Research Center. Personal income should grow 6.7% annually and non-farm employment will increase approximately 2.1%. Nationally, Phoenix ranks first for small-business wage growth from March 2017 to March 2018, according to the PayChex/IHS Markit Employment Watch Report, up 5.4%. Arizona also had the largest wage gains in the nation with a 4.7% bump averaging \$25.11 per hour, compared to the national average hourly wage of \$22.44.

With the low cost of doing business and the attractive real estate market, Phoenix continues to attract technology companies relocating from the West Coast including 58,128 sf occupied by Galvanize, Inc. near 7th Street and Buckeye Road. This repurposed warehouse is now home to almost 80 tech companies and a technology school. In 2012 there were 67 tech companies in Phoenix; Phoenix boasted almost 300 in 2017, and currently 309 software companies and 69 satellite offices of non-Arizona software companies are now based in Arizona. This includes large companies such as Uber and Quicken Loans who are moving thousands of jobs to Downtown Phoenix, while smaller Silicon Valley tech companies are opening second offices.

Tempe was the most active submarket in the first quarter of 2018, recording 318,000 sf positive absorption, equaling 104% of the market's positive absorption. Net absorption was subdued thanks to 359,213 sf negative

absorption in sublease spaces. The Camelback Corridor had the highest average asking rent at \$31.96 psf, while the Southwest Outlying Submarket reported the lowest vacancy rates of 3.4%. Of the eight submarkets with over 10 msf, the Tempe Submarket is the healthiest, with the lowest combined vacancy of 7.2% for Class A through Class C offices. The largest lease of the first quarter occurred in the Chandler Submarket, with Allstate acquiring 100,622 sf at 1450 S. Spectrum Boulevard.

519,556 sf of new office product was delivered in the Phoenix market through first quarter 2018, with 80.1% leased, and 29.4% of the nearly 3.0 msf currently under construction preleased. There are nine office projects under construction totaling almost two msf: The Grand at Papago Park Phase II, located at 1127 N Papago Drive will add 352,481 sf to the market in Spring 2019; the 15-story Watermark Phase I Tower at 410 N. Scottsdale Road will add 264,000 sf of office space to the market in early 2019; Offices at Chandler Viridian is under construction at 3133 W. Frye Road, scheduled for completion in September 2018, with 21.8% of its 249,000 sf preleased; in May 2019 Block 23 at Cityscape will deliver 240,000 sf at 101 E Washington Street; the 200,000 sf Building C at Discovery Business Campus will deliver in April 2019 at 2190 E Elliot Road; a 160,910 sf building, that should be completed in September 2018, is under construction at 4755 S 44th Place; Chandler Freeway Crossing II Building 6 will add 153,370 sf to the market in August 2018 at 2625 W Geronimo Place; Allred Park Place South Building

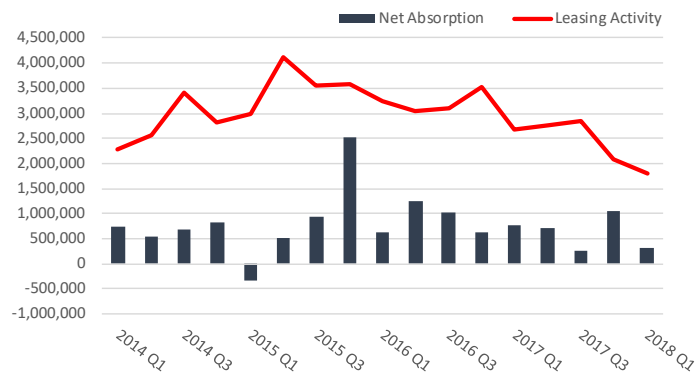
16 is adding 150,000 sf at 1700 S Price Road in April 2019; and Freedom Financial's new 150,000 sf office at 2100 E. Rio Salado Parkway is scheduled for completion before Summer 2018.

Sales activity slowed in the first quarter and dollar volume was down 58.5% from the fourth quarter's 2017 figure. Total square footage sales volume was down 13.3% from fourth quarter 2017. The largest sale was Central Arts Plaza, a 485,687 sf complex, which sold for \$80.7 million, or approximately \$166 psf. Other large sales in the third quarter included: El Dorado Tech Center, purchased for \$39 million (\$216 psf); Squaw Peak Corporate Center II, a 165,748 sf office property which sold for \$38.3 million (\$272 psf); and the 92,562 sf 90 Mountain View II, which sold for \$30.5 million (\$330 psf).

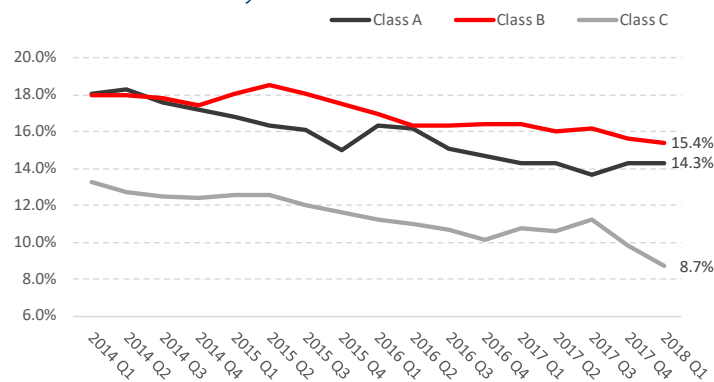


Central Arts Plaza

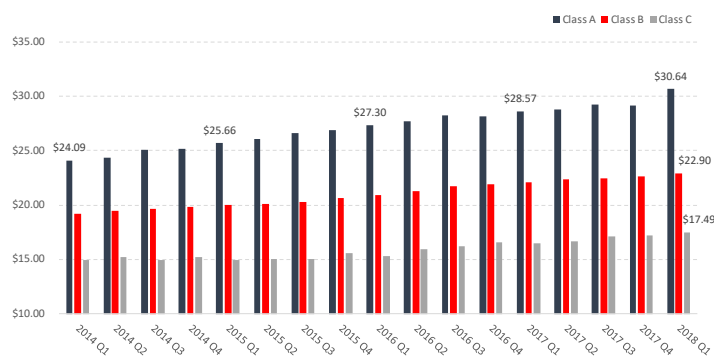
Historical Net Absorption & Leasing Activity



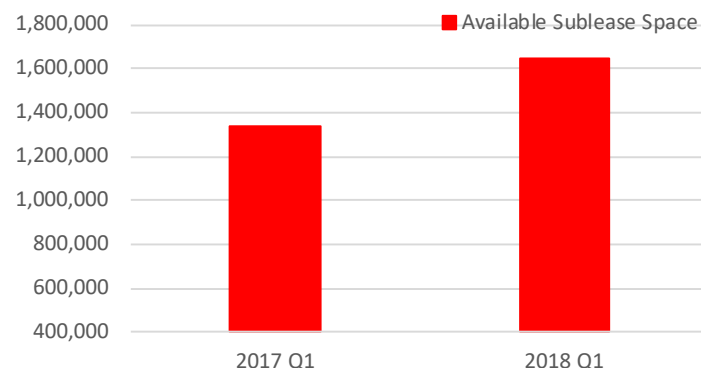
Historical Vacancy



Historical Asking Rental Rate (FSG)



Total Available Sublease Space in the Market



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	3,943,517	494,964	2,100	12.6%	15,532	75,775	96,909	96,909	\$27.26	\$24.95
Airport Area	12,300,042	2,215,304	561,933	22.6%	219,384	4,620	228,334	228,334	\$26.33	\$23.52
Arrowhead	4,370,246	539,258	0	12.3%	-94	24,884	39,848	39,848	\$27.56	\$25.30
Camelback Corridor	9,481,314	1,422,003	124,569	16.3%	-172,257	4,817	-177,226	-177,226	\$36.18	\$24.63
Central Phoenix	5,236,600	518,280	7,921	10.1%	-	-6,092	39,419	39,419	-	\$20.50
Central Scottsdale	8,730,360	744,456	116,875	9.9%	-23,755	31,105	6,854	6,854	\$29.01	\$23.82
Chandler	10,553,851	1,407,267	16,614	14.1%	85,941	79,643	172,991	172,991	\$29.02	\$24.34
Deer Valley/Airport	11,970,493	1,493,213	7,521	12.5%	-1,790	286,155	288,368	288,368	\$26.31	\$22.85
Downtown	10,614,882	1,171,438	145,798	12.4%	119,155	16,689	127,779	127,779	\$34.05	\$28.34
Downtown Mesa	1,479,701	88,661	0	6.0%	-	-15,227	-6,575	-6,575	-	\$16.71
East Mesa	3,525,259	254,226	0	7.2%	-	10,365	42,869	42,869	-	\$18.30
Gateway/Airport/Loop 202	2,640,054	239,634	11,775	9.5%	0	20,905	20,905	20,905	\$29.95	\$24.24
Glendale	3,233,843	479,523	20,605	15.5%	-5,596	15,940	-4,637	-4,637	\$27.94	\$24.50
Loop 303/Surprise	2,464,700	279,268	1,256	11.4%	0	6,841	16,577	16,577	-	\$23.70
Midtown	12,952,127	2,426,626	36,126	19.0%	25,443	108,013	115,985	115,985	\$25.30	\$20.74
North Interstate-17	746,292	137,661	0	18.4%	-	-4,128	-4,128	-4,128	-	\$24.26
North Phoenix	136,413	8,436	0	6.2%	-	1,200	1,200	1,200	-	\$19.53
North Scottsdale	1,899,663	298,902	0	15.7%	-	-51,561	-50,851	-50,851	-	\$21.16
NW Phoenix	10,645,287	2,261,559	30,851	21.5%	-104,016	-101,453	-172,084	-172,084	\$23.13	\$18.02
Paradise Valley	4,660,333	537,060	17,854	11.9%	16,276	46,250	69,685	69,685	\$27.74	\$21.21
Piestewa Peak Corridor	3,454,579	759,389	41,049	24.2%	-51,447	-225,619	-267,292	-267,292	\$26.50	\$21.20
Pinal County	1,575,495	120,383	0	7.6%	-	1,369	3,824	3,824	-	\$19.25
Scottsdale Airport	13,119,617	1,454,729	402,522	14.2%	-325,106	-70,545	-399,587	-399,587	\$30.83	\$24.03
South Scottsdale	7,098,022	901,502	26,673	13.1%	-23,486	-40,720	-66,276	-66,276	\$33.78	\$29.65
South Tempe	7,533,303	1,102,419	50,636	15.3%	-4,494	-21,285	-24,939	-24,939	\$28.15	\$23.00
Southwest Outlying	188,560	6,435	0	3.4%	-	0	-6,435	-6,435	-	-
Southwest Phoenix	3,269,578	308,427	0	9.4%	6,800	-4,210	21,111	21,111	\$28.87	\$26.41
Superstition Corridor	6,329,612	808,819	5,746	12.9%	7,135	-158,861	-134,990	-134,990	\$23.31	\$19.62
Tempe	12,439,883	884,075	11,076	7.2%	148,120	151,503	318,177	318,177	\$38.87	\$23.34
West I-10	2,366,151	233,335	10,227	10.3%	-	10,446	11,205	11,205	-	\$24.92
Total	178,959,777	23,597,252	1,649,727	14.2%	-68,255	196,819	307,020	307,020	\$30.64	\$22.90



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