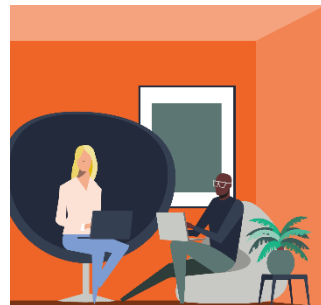
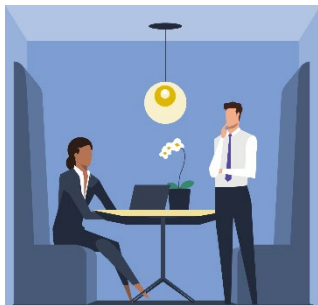


Office

Still truckin' along — despite challenges, the Phoenix office market shows surprising resilience.

The Phoenix office market continues to try to reinvent itself and determine what it will be moving forward. On the positive side class A rents continue to rise, building amenities are being enhanced, and demand for space is not as muted as other major cities, with our direct vacancy sitting at 10-year averages. On the downside, sublease vacancy hit an all-time high, and class B and C space is seeing rents drop, and some buildings trying to repurpose their use with demand not expected for the foreseeable future. Phoenix continues to be stronger and in a better position than other major US cities, but the questions around employees returning to the office and companies' long-term space needs continue to impact office buildings substantially more than other property types.

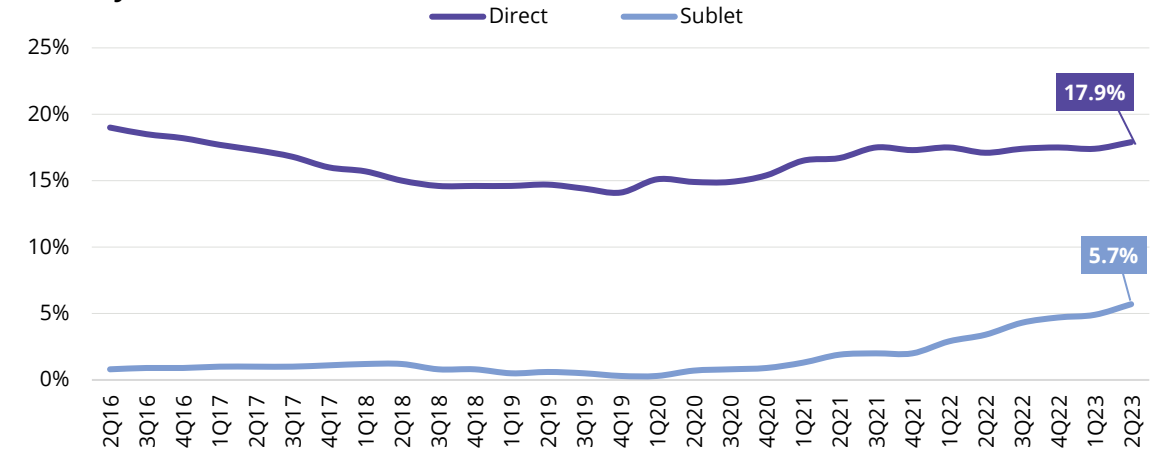
Source: [Phoenix Office Market Report Q2 2023](#)



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Vacancy rates



*Values reflect data on office properties 20 ksf and above.

Trends to focus on:

Increased vacancy (focus on increases in sublet availabilities)

Office vacancy continues to climb in the Valley, reaching a 10-year high in Q2. The primary driver of the increase in total vacancy was the continued surge in sublease space across the Phoenix metro.

Sublet vacancy ended the quarter at an all-time high of 5.7% - the highest on record & 339% higher than the decade's moving average of 1.3%.

Historically low volume of investment sales

Sales volume for office space in Phoenix has dropped 59.7% year-over-year.

Phoenix has averaged a quarterly transaction volume of \$435.5m during the past decade, with Q2 down 67.1% compared to the 10-year moving average – finishing the quarter at \$143.3m in total transaction volume.

For more market info and insights, visit avisonyoung.com
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Industrial

Here’s our take on some of the most prevalent real estate trends in the Phoenix industrial market.

After several quarters of record absorption, declining vacancy rates, and nearly three consecutive years of rising rental rates, the market experienced a notable decrease in absorption, a slight increase in vacancy, and a modest decline in rents as compared to Q1 2023. Certainly, one quarter does not make a trend; however, the shift in some of the industrial market’s key performance indicators is a break from recent trends.

Source: [Phoenix Industrial Market Report Q2 2023](#)

Trends to focus on:

Rent growth

1st in the nation in rent growth over the past 12 months – with rent increasing 13.5% over the past year (340 basis points over the next closest market, which is Atlanta at 10.1%).

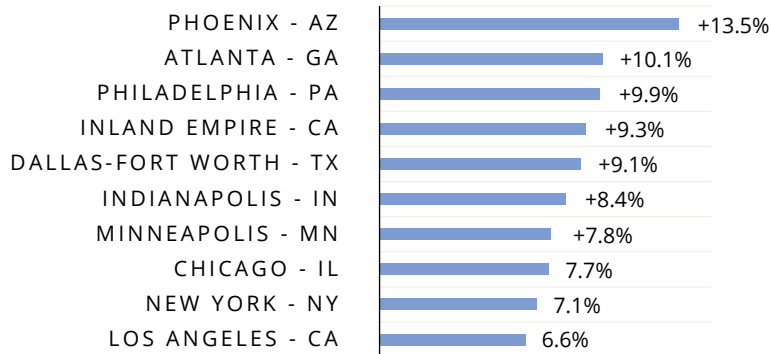
Absorption

4th in the nation in total net absorption with 17.5 msf in the past 12 months. In the 8 quarters prior to Q2, Phoenix industrial averaged 6.1 msf of positive absorption.

Construction pipeline

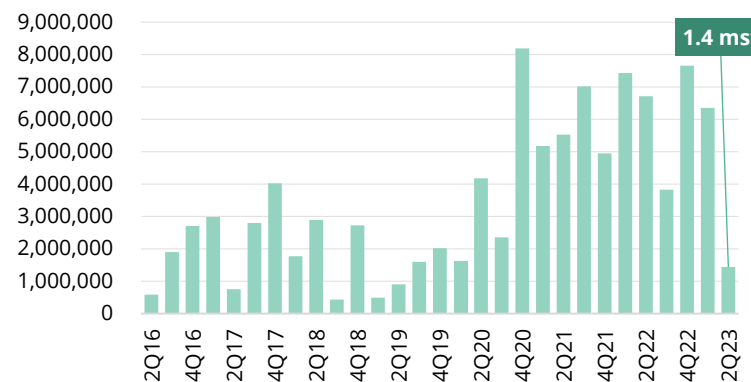
2nd highest in the nation behind DFW, with 27.8 msf delivered in the past year and 57.7 msf under construction.

Rent growth compared to other top markets (% increase YOY)

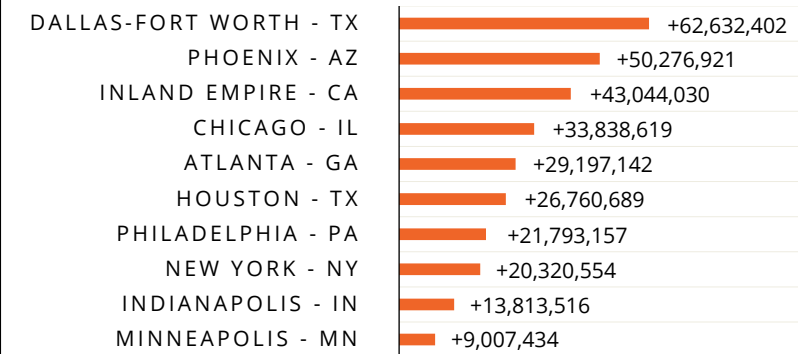


*Values reflect data on industrial properties 5 ksf and above.

Quarterly net absorption (SF)



Under construction compared to other top markets (SF)



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Retail

Retail development activity has experienced a tremendous rebound following the lull experienced during the pandemic.

The Phoenix retail market continues to exhibit resounding strength and resiliency. For 3 years, vacancy has been declining, rates have risen, and the development community is working hard to provide high-quality space in exciting new projects. Despite rising rates and costs, new construction and existing space are performing at a very high level. Finding quality space continues to be a challenge for expanding tenants.

Source: [Phoenix Retail Market Report Q2 2023](#)

Trends to focus on:

Low vacancy

Phoenix retail posts 10th consecutive quarterly decrease in total vacancy rate in Q2-setting decade low of 5.3%. (for retail 10 ksf+).

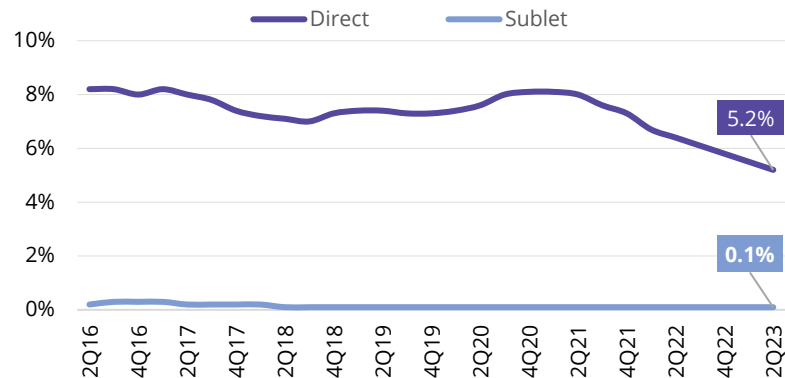
Rising rents

1st in the country for rent growth for markets with over 200 msf of retail inventory, 8.6% growth in rent over the past 12 months, and 230 basis points over the next highest market, which is Atlanta at 6.3%. The Phoenix metro rate averaged \$23.47 psf.

New deliveries

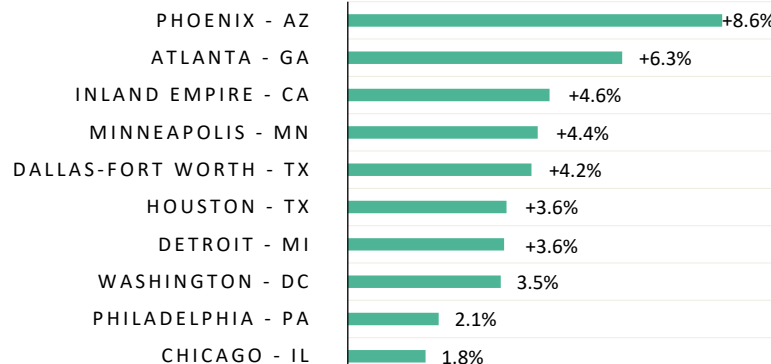
#3 in space delivered over the past 12 months (2 msf) & #4 for most retail space under construction (2.3 msf).

Vacancy rates

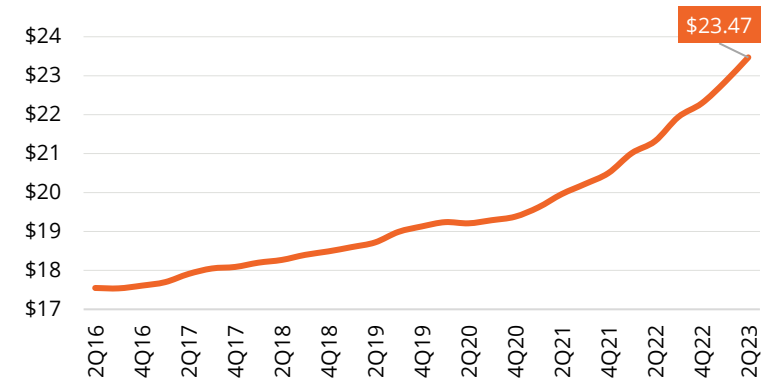


*Values reflect data on industrial properties 10 ksf and above.

Rent growth compared to other top markets (% increase YOY)



Retail rents



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