



Phoenix office market report

Q4 2024

**AVISON
YOUNG**

Phoenix office market trends

24.8%

Vacancy drops from the prior quarter as sublease space decreases.

In recent quarters, the Phoenix office market has struggled to balance its growing supply as demand has shifted toward smaller office spaces, leaving larger suites in downtown and other business hubs increasingly vacant. However, Q4 marked a turning point with the first decline in vacancy in recent quarters. Vacancy rates dropped by a modest 90 basis points from Q3, including several larger leases in the 40,000 to 60,000 square foot range (see page 7 for top transactions).

222,658sf

Q4-24 marks the first quarter of positive net absorption recorded in 3 years.

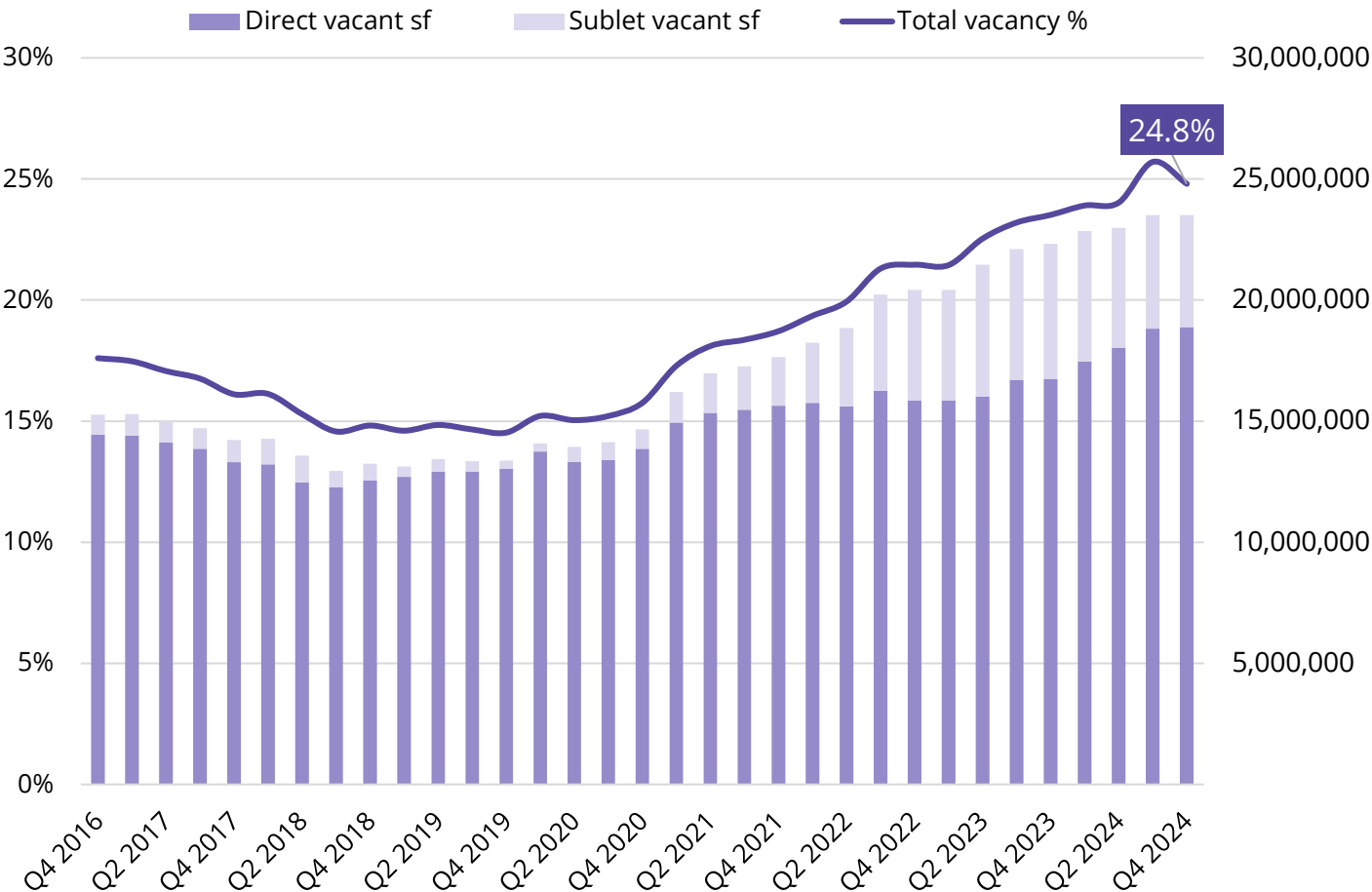
Absorption in Phoenix has shown a positive turn in Q4 2024, following several quarters of negative net absorption. This shift is primarily attributed to increased activity in larger property sizes, which contrasts with the post-pandemic trend. The increase in absorption, particularly in the Northwest Phoenix and East Valley submarkets, signals a potential market turning point, although the long-term outlook remains uncertain.

\$337M

Investment sales pick back up at year-end 2024 as interest rates come down.

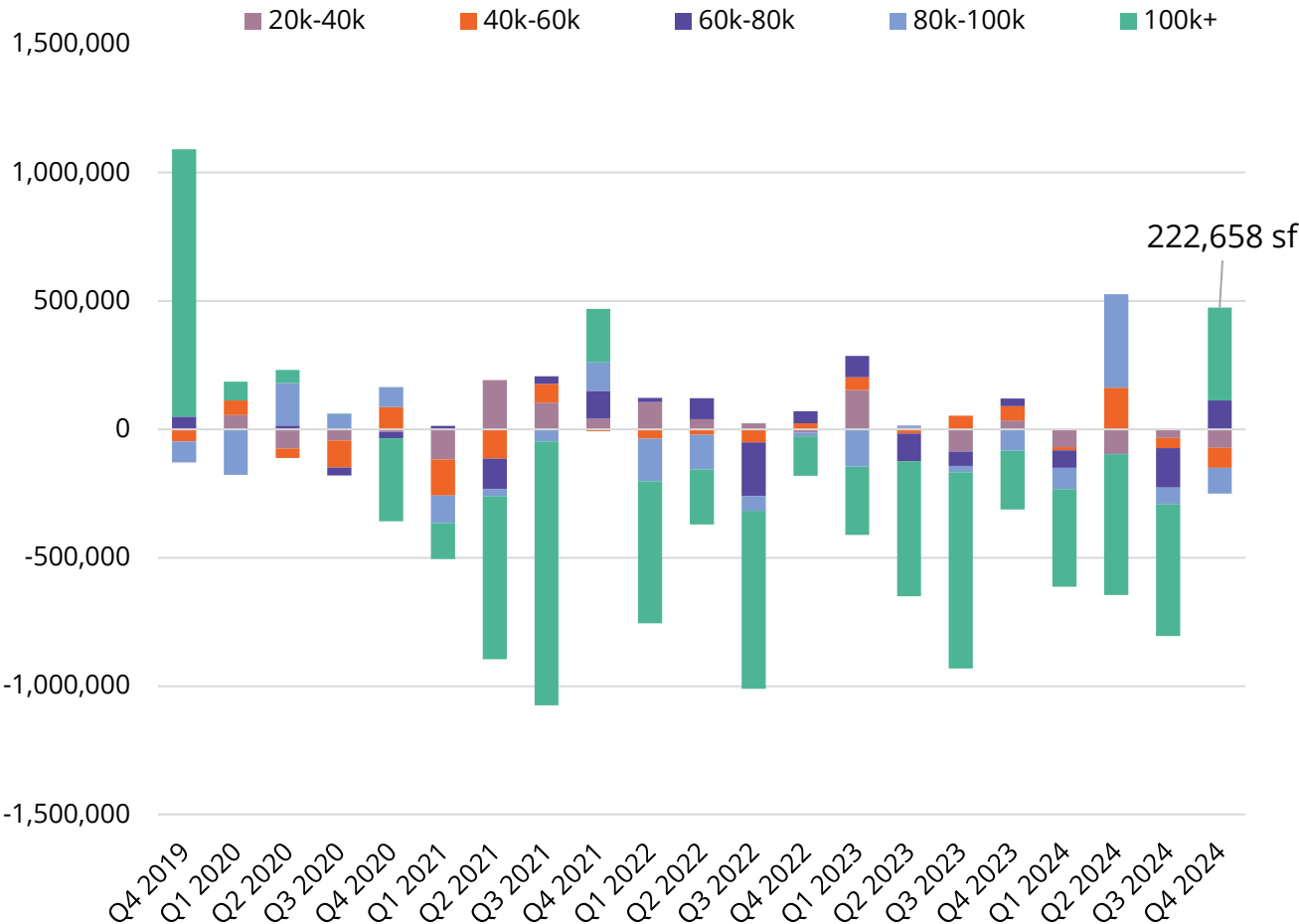
Phoenix office investments totaled \$337 million this quarter, bringing the year-to-date (YTD) total for 2024 to \$945 million, a 133% increase compared to 2023. Key deals include 24th at Camelback II (306,877 SF) for \$97.9 million, 7272 Old Town (158,556 SF) for \$42.3 million and Camelback Lakes (136,450 SF) for \$30.8 million as part of a portfolio. There's a consistent investor interest in properties over 50% leased.

Phoenix office vacancy (%)



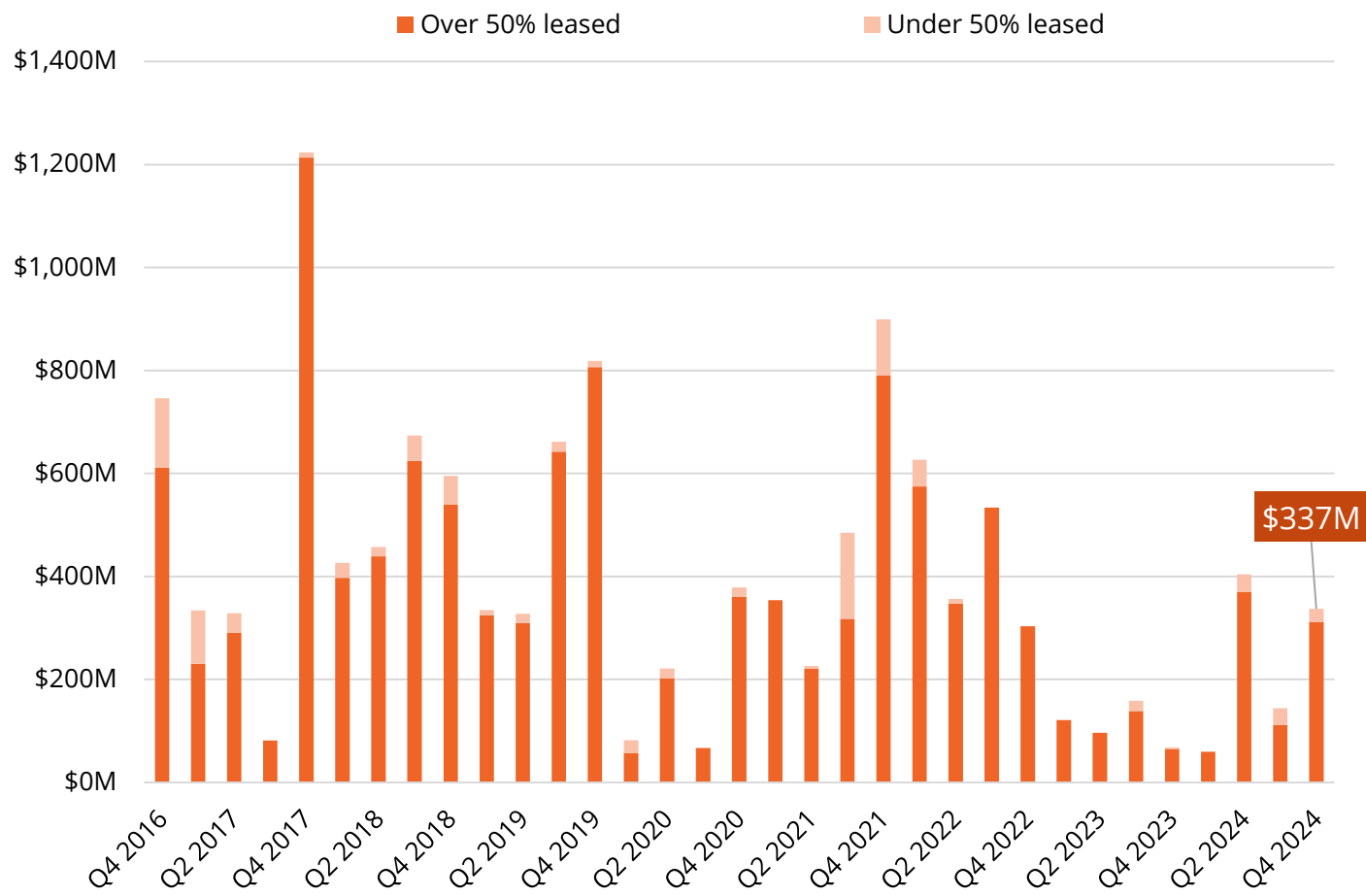
Sublease space in the Phoenix market has shown steady improvement over the past year. From a high of 5.6 million square feet in Q4 2023, vacant sublease space has decreased by 17.9% to 4.6 million square feet in Q4 2024, reflecting gradual absorption and increased market stability.

Phoenix office absorption by property size (sf)



Despite the favorable return-to-office mandates and Phoenix's growing population driving demand for workspaces, it remains unpredictable what will happen in the future. Q4 closed with a net absorption of 222,658 square feet, offering a hopeful sign for the market's recovery, but the trajectory moving forward still holds uncertainties.

Phoenix office total sales volume (\$)



Investment activity saw an uptick in Q4 2024 amid interest rate cuts in September. This trend is expected to accelerate pending more cuts rate cuts in 2025. Additionally, the political climate may further stimulate investments in the coming months, with more favorable conditions for properties leased 50% or more.

Appendix



Phoenix office market activity

Q4 2024 – Top leasing activity

Tenant	Address	Submarket Cluster	Sign date	Size (sf)	Transaction type	Lease type
Chamberlain University College of Nursing	20410 N 19 th Ave	Northwest Phoenix	October 2024	57,336	New Lease	Direct
Barrett Financial Group	2701 E Ryan Rd	East Valley	November 2024	52,608	New Lease	Direct
CliftonLarsonAllen	80 E Rio Salado Pky	East Valley	October 2024	51,973	New Lease	Direct
American Defense Structures	950 W Behrend Dr	Northwest Phoenix	October 2024	45,085	New Lease	Direct

Q4 2024 – Top investment sales activity

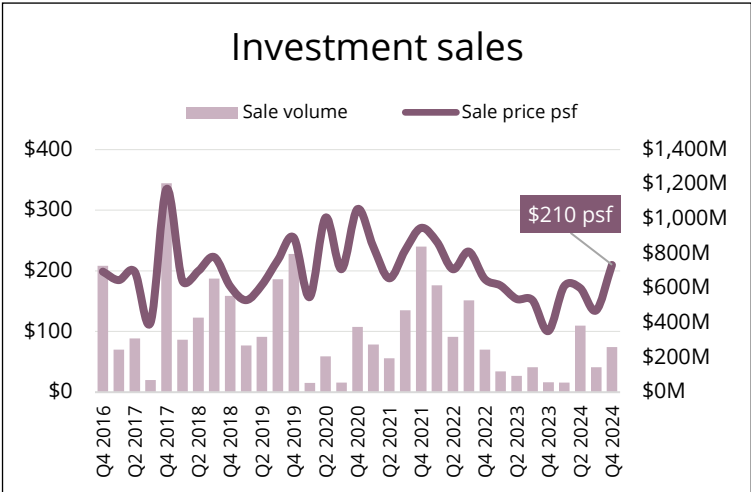
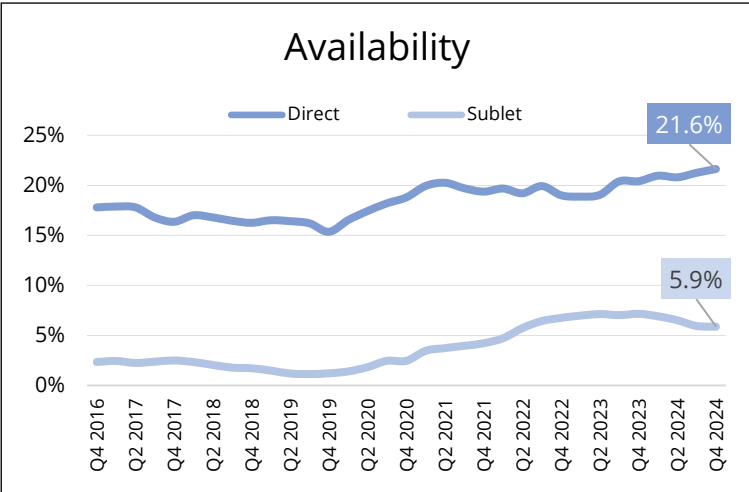
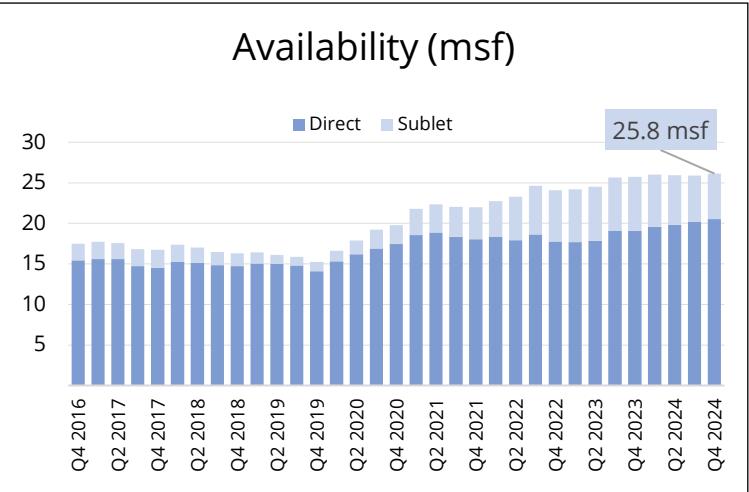
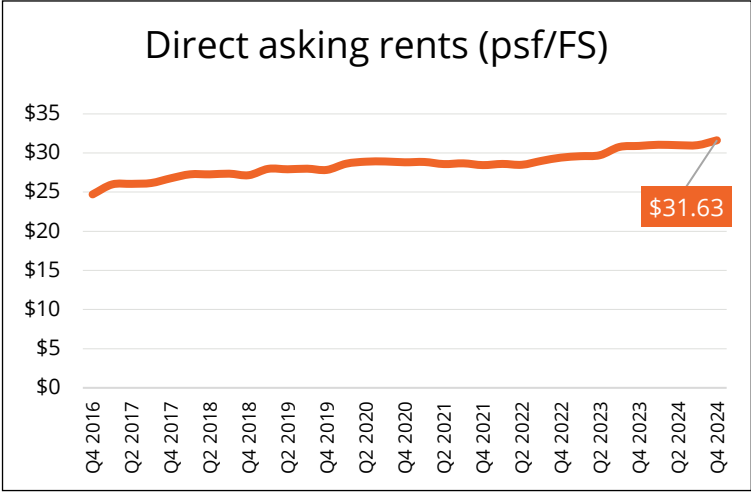
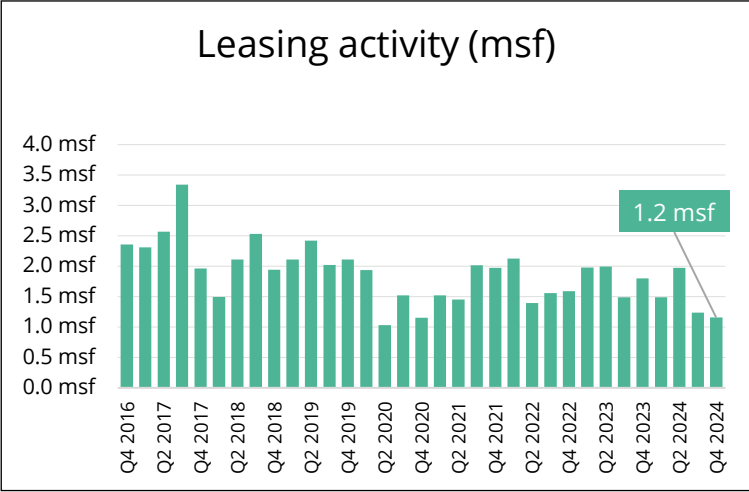
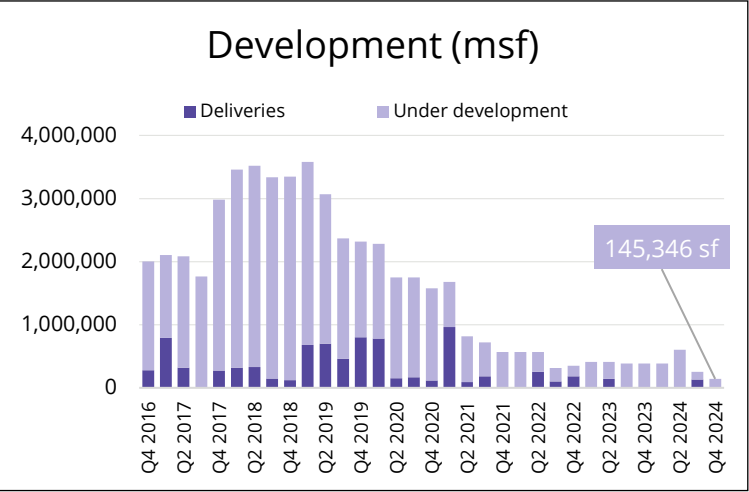
Buyer	Address	Sale date	Building size (sf)	Sale price	Sale price psf	Seller
Roger Norman	2325 E Camelback Rd	October 30, 2024	306,877	\$97.9M	\$319.02	Hines
Ascentris, LLC	7272 E Indian School Rd	December 17, 2024	158,556	\$42.25M	\$266.47	Goldman Sachs Asset Management
Circle Road Equities	2850 E Camelback Rd*	November 22, 2024	136,450	\$30.8M	\$225.71	DRA Advisors
Wentworth Property Company	501 N 44 th St	December 15, 2024	102,305	\$18M	\$175.94	Irgens Partners
LPC Desert West	20022 N 31 st Ave	December 31, 2024	351,600	\$15M	\$42.66	Peakstone Realty Trust

*part of portfolio

Top projects under development

Project Name Address	Submarket Cluster	Delivery date	Building size sf	% Preleased	Developer
Gilbert Spectrum SWC Elliot Rd & McQueen Rd – Bldg 3	East Valley	January 2025	119,222	100%	SunCap Property Group

Phoenix office market indicators

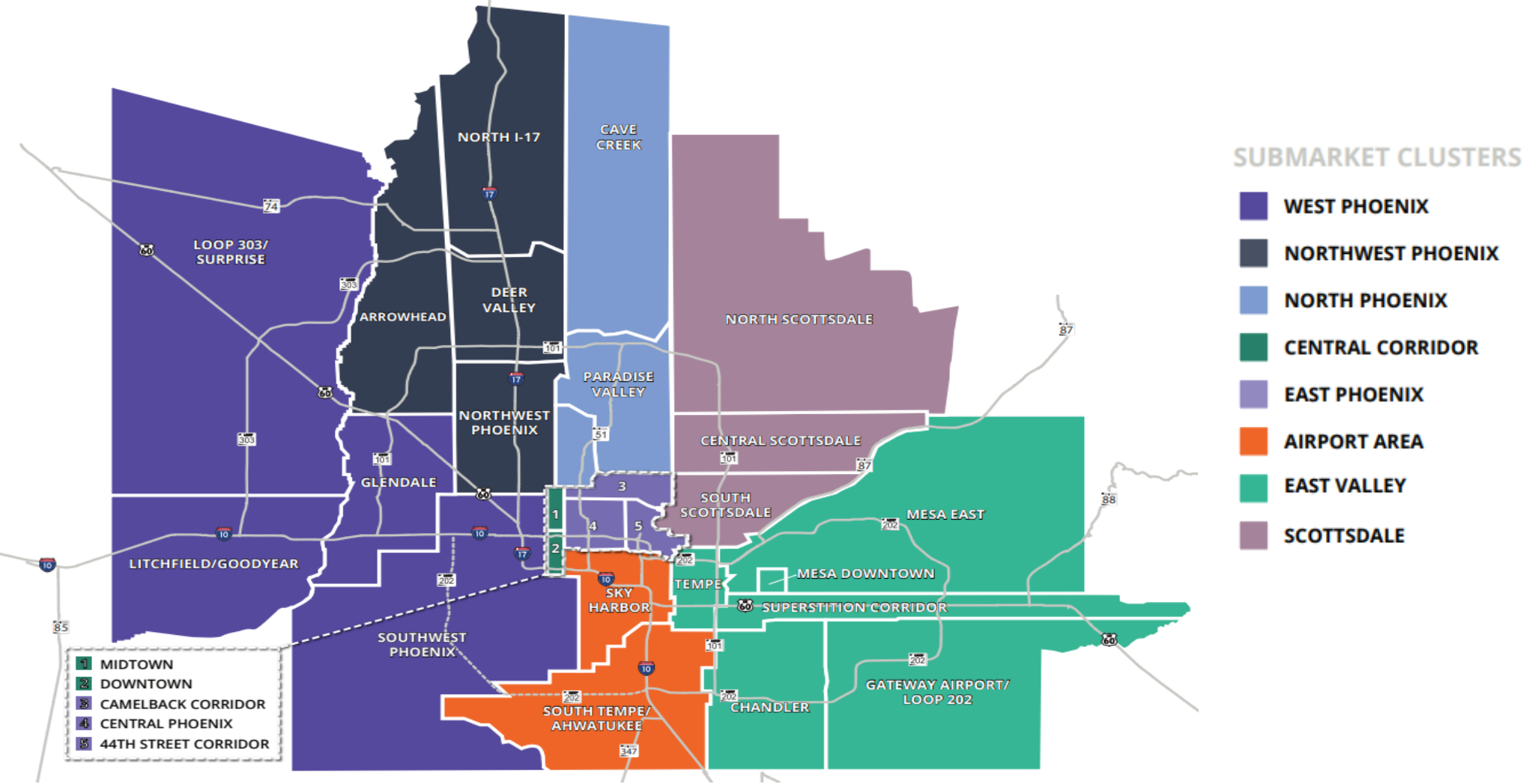


Phoenix office market stats

Submarket cluster	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct availability	Sublet availability	Total availability*	Net absorption sf (Q4)	Net absorption % of inventory (Q4)	Annual direct asking rent psf FS
Airport Area	14,865,790	0	0	23.9%	10.3%	33.1%	60,580	0.41%	\$29.36
Central Corridor	16,461,817	0	0	25.9%	2.5%	28.4%	8,606	0.03%	\$29.49
East Phoenix	10,984,189	0	0	23.8%	2.9%	26.7%	-100,779	-0.32%	\$36.25
East Valley	16,718,342	133,356	119,222	18.6%	9.9%	27.7%	253,284	-0.34%	\$33.13
Northwest Phoenix	9,588,950	0	0	24.9%	9.3%	34.3%	-199,176	-1.89%	\$27.10
North Phoenix	3,565,803	0	0	22.8%	3.5%	26.3%	-15,143	-0.76%	\$29.35
Scottsdale	16,994,377	0	0	18.6%	3.4%	22%	226,831	1.41%	\$32.88
West Phoenix	5,637,787	0	26,124	10.6%	0.7%	11.3%	-11,545	-0.13%	\$30.52
Market total	94,817,055	133,356	145,346	21.6%	5.9%	27.2%	222,658	-0.002%	\$31.63

*Availability rates differ from vacancy rates due to space being listed as available before the current leases' expiration and the pre-leasing of unreleased space.
Survey criteria: Statistics in this report reflect on non-owner-user traditional office properties that are 20k sf and up (unless specified otherwise).

Phoenix office submarket map

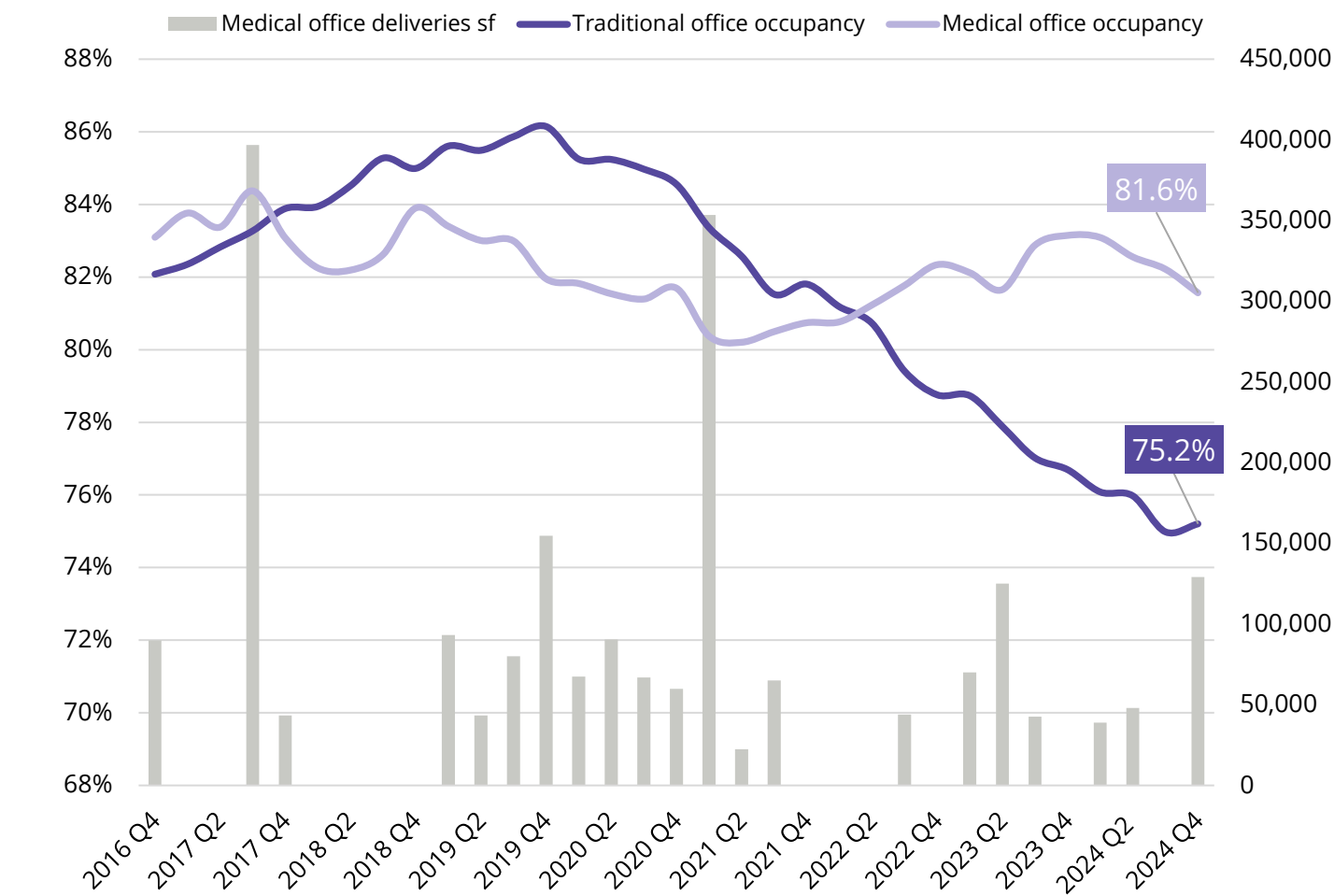


Phoenix medical office market

Let's examine more medical
office trends in the valley.



Phoenix medical office market health

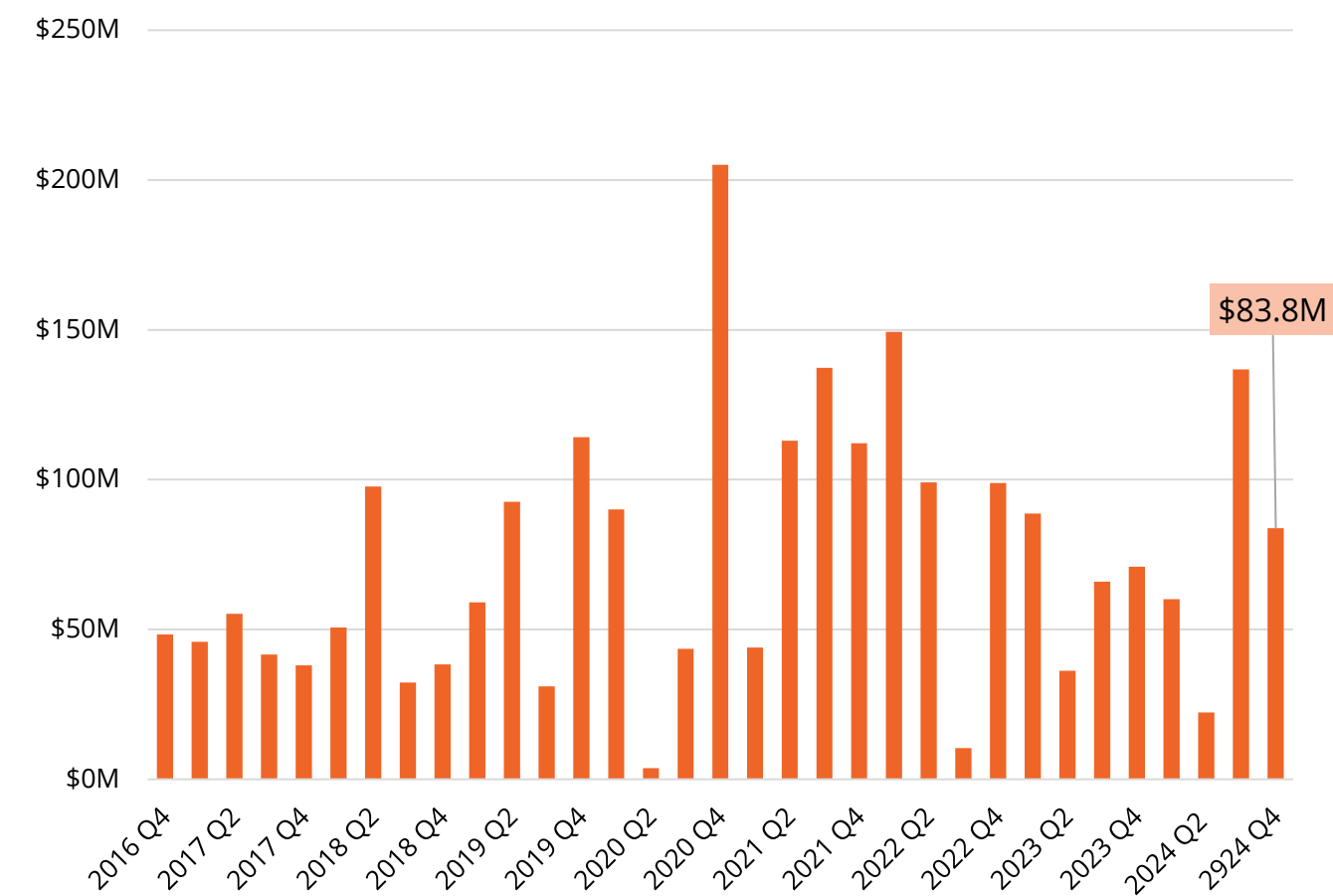


Note: This data reflects non-owner-occupied medical offices over 20k sf in size.

Medical office properties have consistently maintained higher occupancy rates compared to traditional office spaces, driven by the post-pandemic shift in work models and increased demand for healthcare services. However, a recent decline in medical office occupancy has emerged, partly due to nearly 150,000 SF of new inventory delivered to the market in Q4, adding supply and tempering occupancy rates.

See page 14 for new development details.

Phoenix medical office sales volume (\$)



Note: This data reflects non-owner-occupied medical offices over 20k sf in size.

Q4 2024 saw strong investment sales activity in the Phoenix medical office market, slightly down from the previous quarter but still higher than the past two years. Notable deals included Montecito Medical Real Estate’s \$30M acquisition of Chandler Medical Plaza (65,000 SF) and Heitman’s \$26.1M purchase of Deer Valley Medical Tower (81,875 SF). With recent interest rate cuts, investors are returning to the market, driving demand for well-located assets near major healthcare hubs.

See page 14 for transaction details.

Phoenix medical office market activity

Q4 2024 – Top investment sales activity

Buyer	Address	Sale date	Building size (sf)	Sale price	Sale price psf	Seller
Montecito Medical Real Estate	1125 S Alma School Rd – Chandler Medical Plaza	Dec 19, 2024	65,000	\$30M	\$461.54	Webb Management & Investments
Heitman	20414 N 27 th Ave – Deer Valley Medical Tower*	Oct 23, 2024	81,875	\$26.1M	\$319	Woodside Health
Woodside Health	5040 E Shea Blvd – Paradise Valley Plaza*	Nov 13, 2024	33,244	\$7.4M	\$223.46	Jonathan R Scott
Adam Decker	1550 E McKellips Rd – Harris Professional Plaza	Nov 12, 2024	33,575	\$6.18M	\$183.92	Henry Penney

*part of a portfolio sale

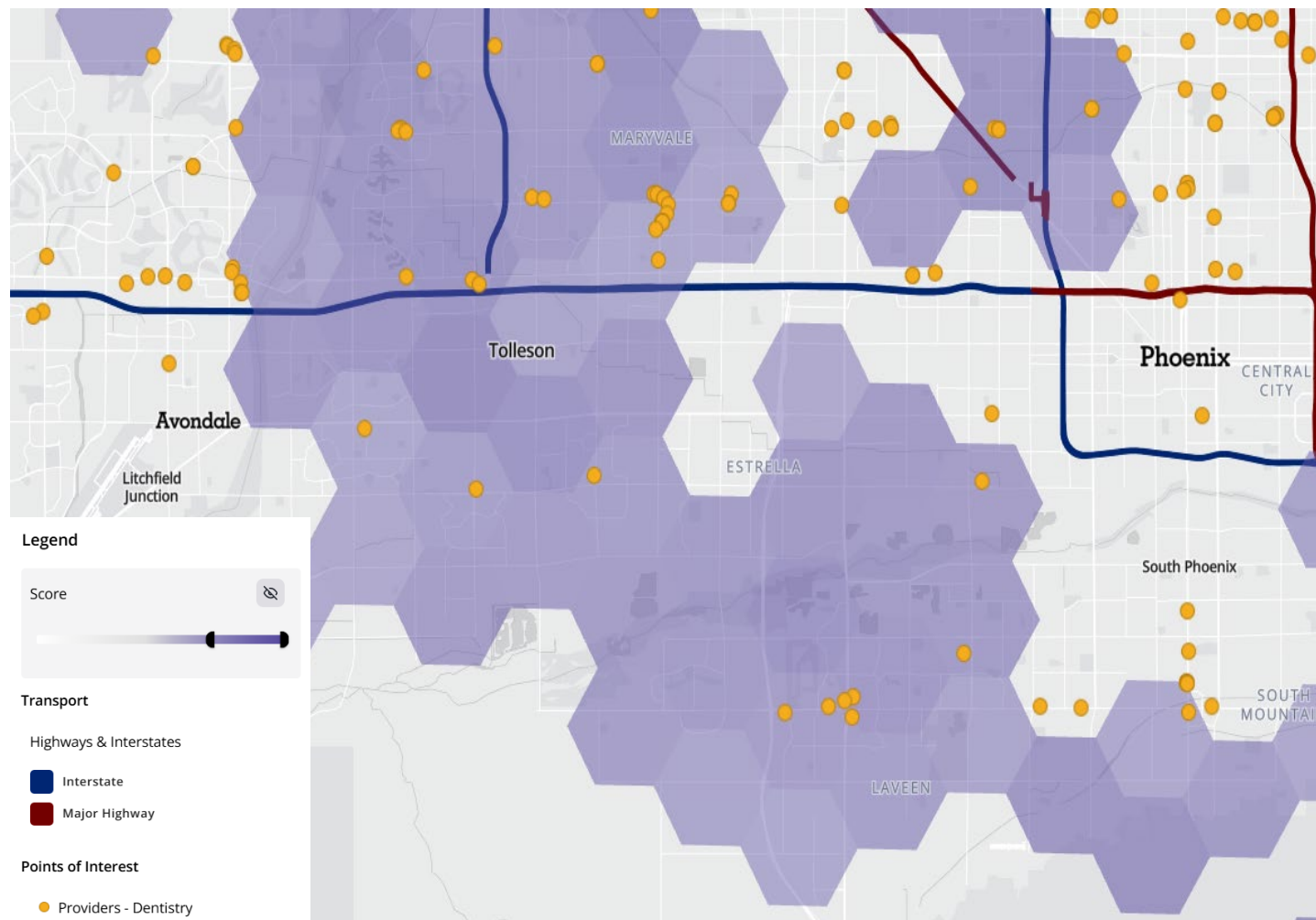
Q4 2024 – Top leasing activity

Tenant	Address	Submarket Cluster	Sign date	Size (sf)	Transaction type	Lease type
<i>Abrazo Health</i>	SWC I-10 & Verrado Way	West Phoenix	October 2024	20,000	New Lease	Direct
<i>Abrazo Health</i>	SWC I-10 & Verrado Way	West Phoenix	October 2024	20,000	New Lease	Direct
<i>Unknown</i>	1910 S Stapley Dr	East Valley	November 2024	14,850	New Lease	Direct
<i>Unknown</i>	6116 E Arbor Ave	East Valley	November 2024	13,618	New Lease	Direct

Top projects under development

Project Name Address	Submarket Cluster	Delivery date	Building size sf	% Preleased	Developer
Pima Center 8435 N Pima Center Pky	Scottsdale	March 2025	100,000	79.0%	Boldt
Rancho Santa Fe Phase II 13028 W Rancho Santa Fe Blvd	West Phoenix	January 2025	30,000	50%	Unknown

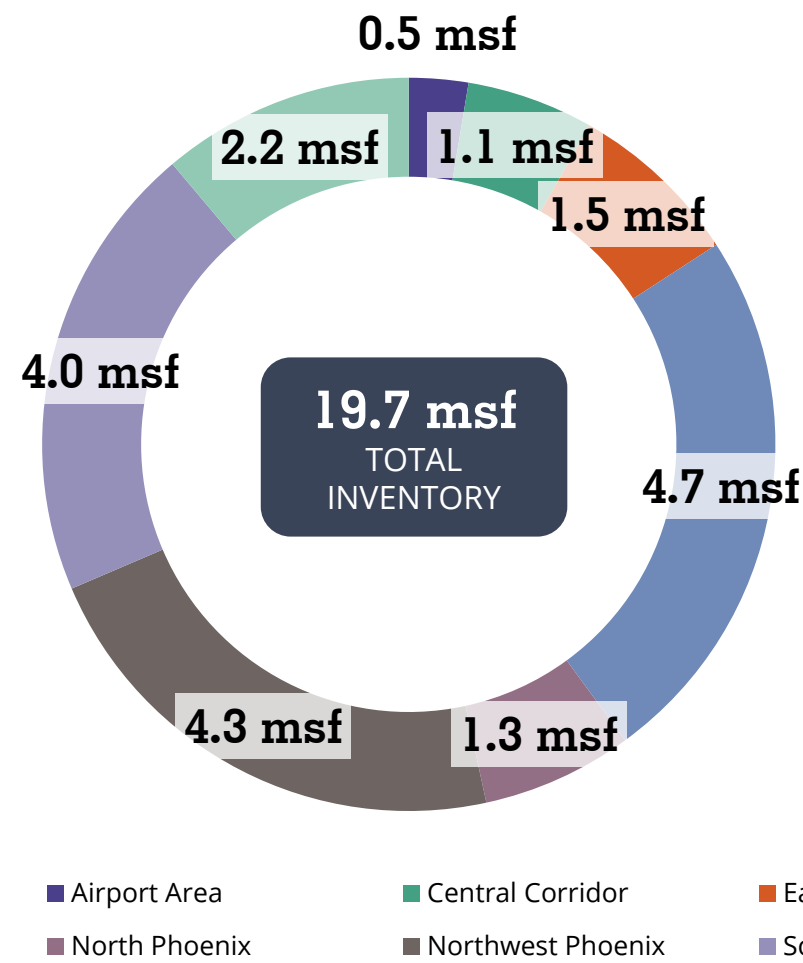
Phoenix market – dentistry opportunity areas



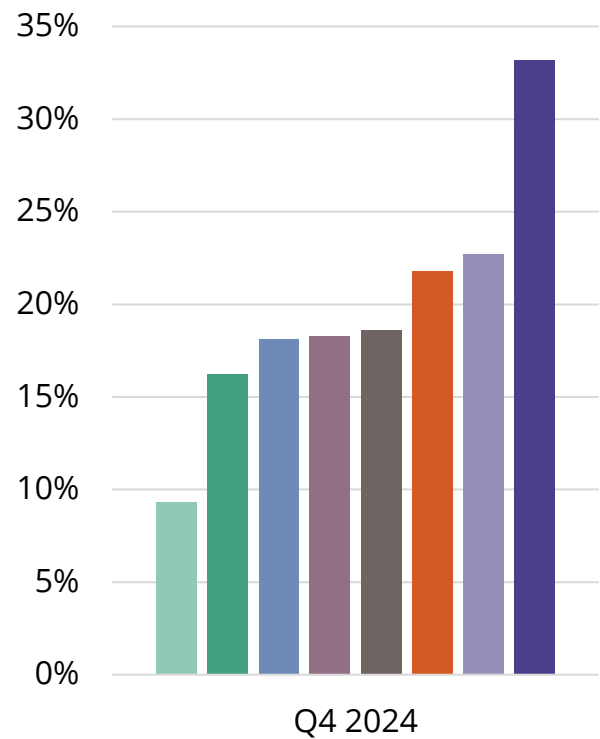
Dentistry is often a highly competitive industry, but the Avant Healthcare Intelligence tool by Avison Young has identified areas with significant unmet demand by analyzing current practices, demographics, and other key factors. Southwest Phoenix (Goodyear/Tolleson) emerges as a promising area for new practices. The map highlights existing practices in yellow, while dark purple areas indicate regions with unmet demand, signaling opportunities for growth and expansion.

Our legend highlights high score areas (dark purple) = high unmet demand.

Phoenix medical office submarkets



TOTAL VACANCY



Non-owner user medical office inventory is primarily concentrated in the East Valley, Northwest Phoenix, and Scottsdale submarkets, near major medical centers such as:

- **Scottsdale:** HonorHealth Scottsdale Shea & HonorHealth Scottsdale Osborn, Abrazo Scottsdale
- **Northwest Phoenix:** Banner Boswell & Banner Thunderbird, Abrazo Arrowhead, Dignity Health - Arizona General
- **East Valley:** Banner Desert, Dignity Health Chandler, Dignity Health Mesa

In Q4, the West Phoenix submarket was the most competitive, with a vacancy rate below 10% and 2.2 million square feet of inventory over 20,000 SF.

Note: This data reflects non-owner-occupied medical offices over 20k sf in size.

Office insights glossary of terms

Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

Office rents and concessions

- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as full service (FS)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as full service (FS)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an office suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

Capital markets

- **Investment volume:** office sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

For more market insights and
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