



Phoenix office market report

Q1 2024

**AVISON
YOUNG**

Phoenix office market trends

25.3%

Total Vacancy Rate (%)

The Phoenix office market has witnessed a steady increase in vacancy rates, reaching a high of 25.3% at the beginning of 2024, consisting of 19.4% direct vacancy and 5.9% sublet vacancy. Amidst the ongoing post-pandemic struggle, direct vacancies continue to fluctuate in an upward direction. Notably, sublet vacancies have surged nearly fifteenfold from 0.4% in Q1 2020 to 5.9% in Q1 2024, meaning there's been a significant increase in sublet space. The submarkets closer to Downtown Phoenix are contributing greatly to these heightened vacancy rates as large contiguous spaces and high-rise buildings remain available.

\$30.85

Direct asking rents (\$ psf)

Despite rising vacancies and increasing company downsizing due to the hybrid work-from-home culture, asking rents in the Phoenix office market continued to climb. In Q1 2024, Class B rents experienced a modest increase from \$26.80 in Q3 2023 to \$26.93 per square foot. Class A asking rents showed a year-over-year increase of 3.3% from \$32.17 in Q1 2023 to \$33.24 in Q1 2024.

These increases resulted in an overall \$30.85 per square foot asking rent in Q1 2024, making a \$0.76 increase from Q1 2023 at \$30.09.

\$108.6M

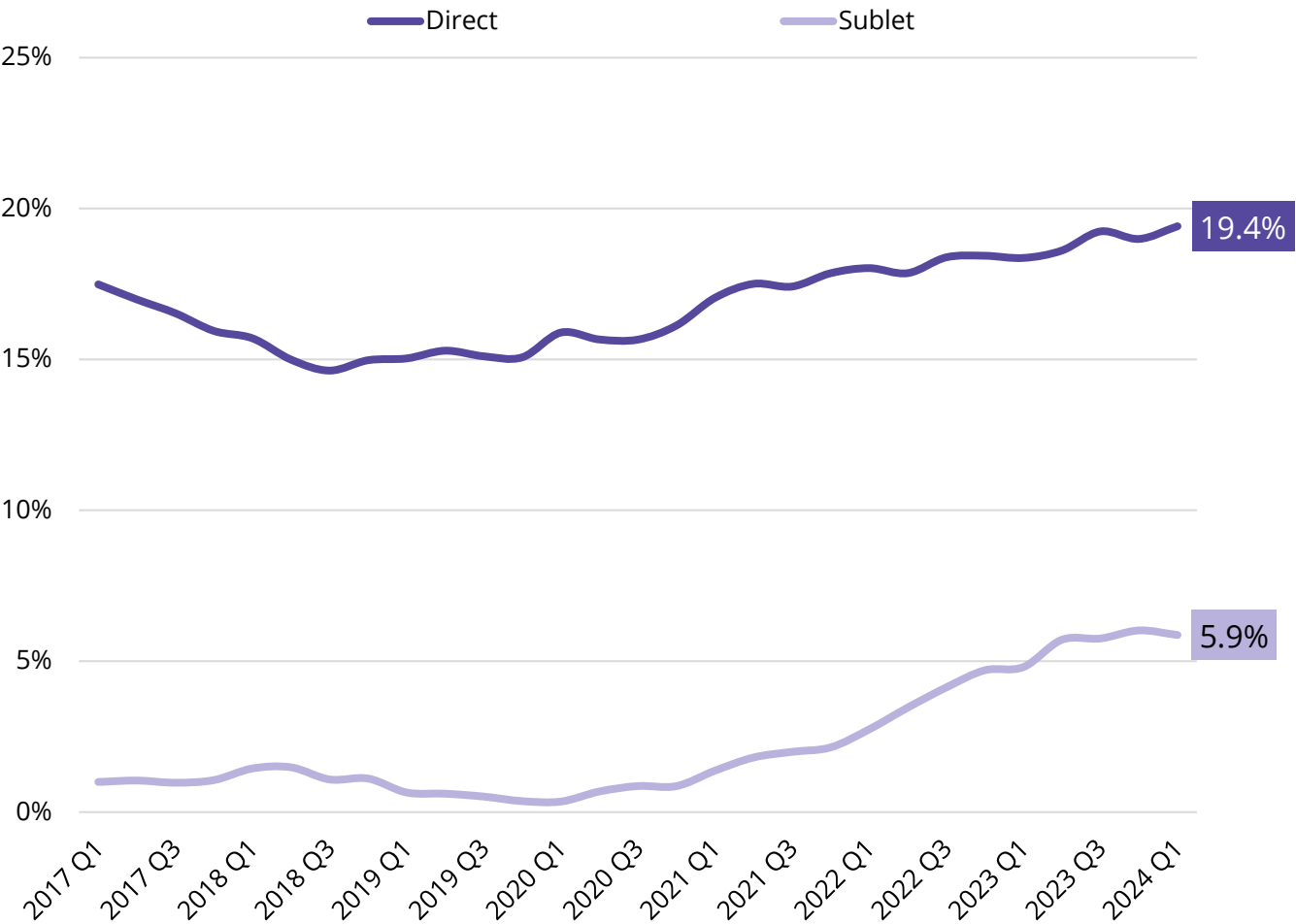
Sales Volume* (\$)

In Q1 2024, Phoenix witnessed investment sales surpassing \$108 million in traditional office and medical office properties exceeding 20,000 square feet. Notably, medical office investment sales, excluding owner-user properties, reached \$52.8 million, representing 48% of the quarter's total performance. Despite recent lows in traditional office property sales volume, the medical office sector shines as a standout in the market, emphasizing the continued resiliency of this property type.

***Includes medical office sales.**

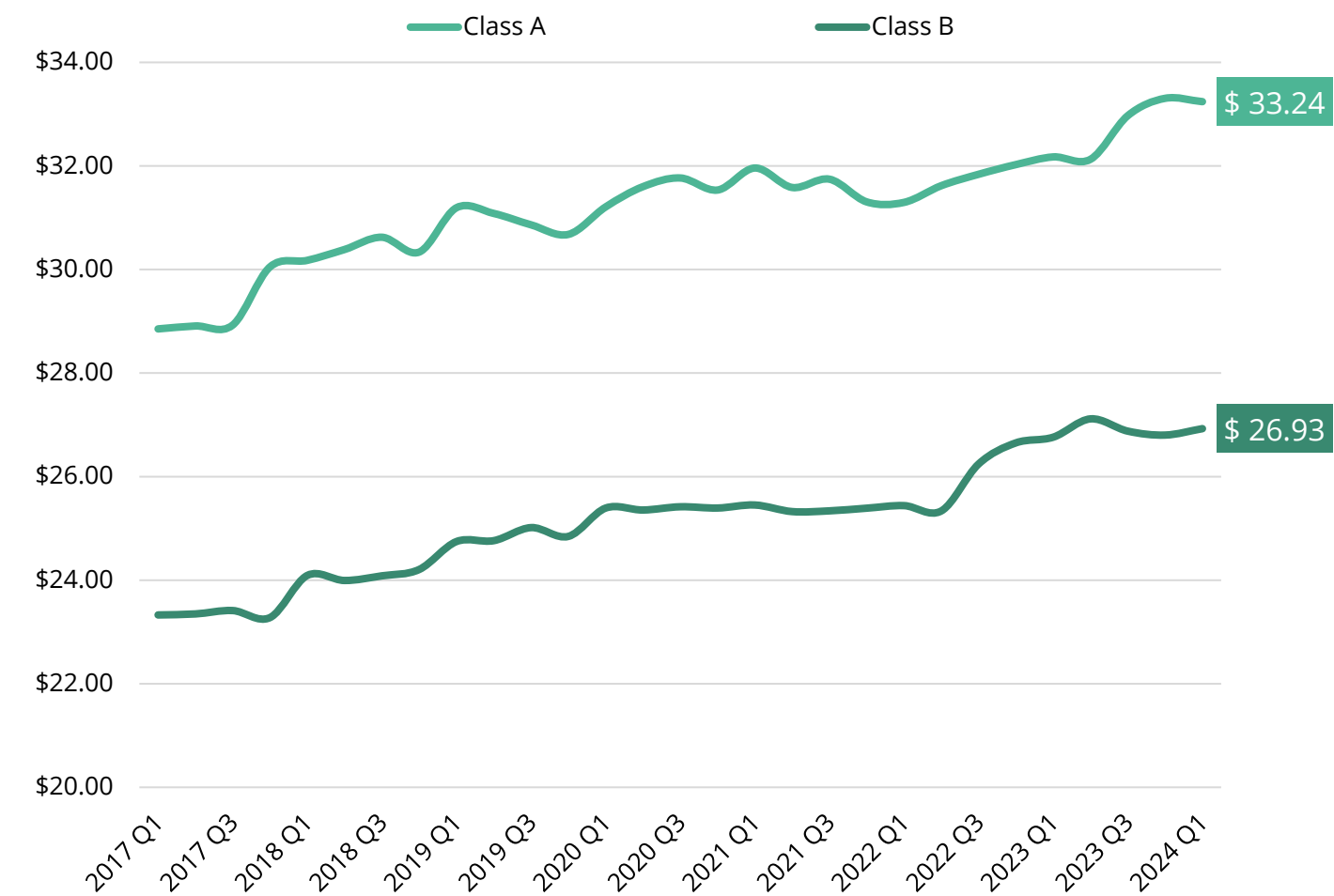
Survey criteria: Statistics in this report reflect on non-owner-user traditional office properties that are 20k sf and up (unless specified otherwise).

Phoenix office: Direct and sublet vacancy (%)



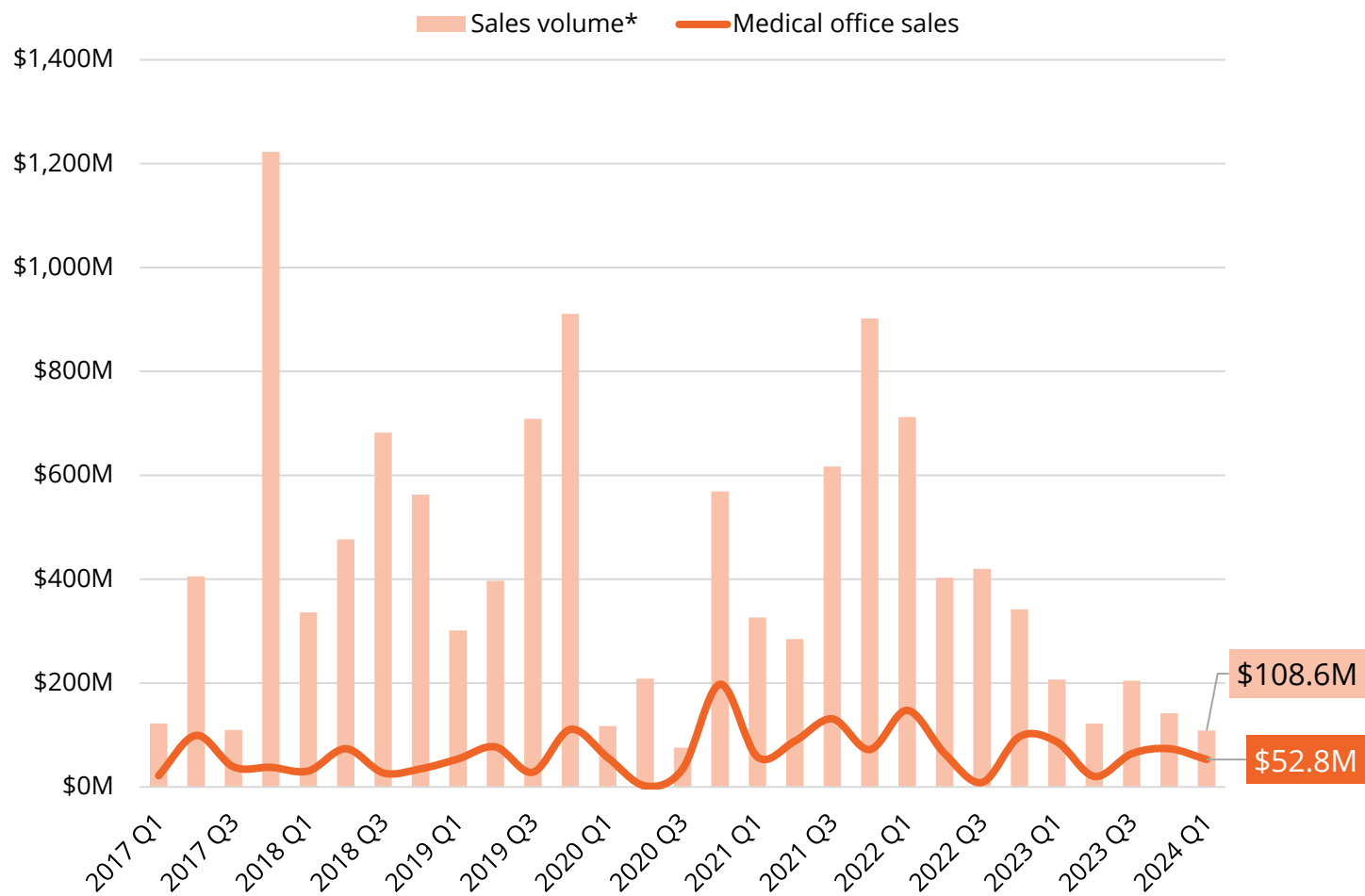
Amidst the ongoing post-pandemic challenges, the Phoenix office market witnesses a steady rise in vacancy rates, hitting 25.3% in early 2024, driven by a surge in sublet vacancies, notably from 0.4% in Q1 2020 to 5.9% in Q1 2024, with submarkets near downtown Phoenix contributing significantly.

Phoenix office: FS asking rents (\$/sf)



Despite rising vacancies and increasing company downsizing due to the hybrid work-from-home culture, asking rents in the Phoenix office market continued to climb. Class B rents modestly increased in the last year while Class A rents showed a year-over-year increase of 3.3% from Q1 2023 to \$33.24 in Q1 2024.

Phoenix office: Sales volume (\$)



*Differs from investment sales on page 8 as this statistic includes medical office sales.

In Q1 2024, Phoenix saw traditional and medical office investment sales exceeding \$108 million in total, with medical office properties making the bulk of this volume at \$52.8 million, showcasing the resilience and attractiveness of this subsector amidst a downturn in traditional office sales.

Appendix



Phoenix office market activity

Q1 2024 – Top leasing activity

Tenant	Address	Submarket	Sign date	Size (sf)	Transaction type	Lease type
Isagenix	155 E Rivulon Blvd	Chandler	January 2024	75,000	Direct	Renewal
Pulte	8605 E Raintree Dr	Scottsdale Airpark	January 2024	49,870	Direct	New Growth and Renewal
Verigon	14415 S 50 th St	Chandler	March 2024	40,997	Direct	New Lease
Lucid Private Offices – Coworking	16220 N Scottsdale Rd	Scottsdale Airpark	January 2024	25,169	Direct	New Lease

Q1 2024 – Top investment sales activity

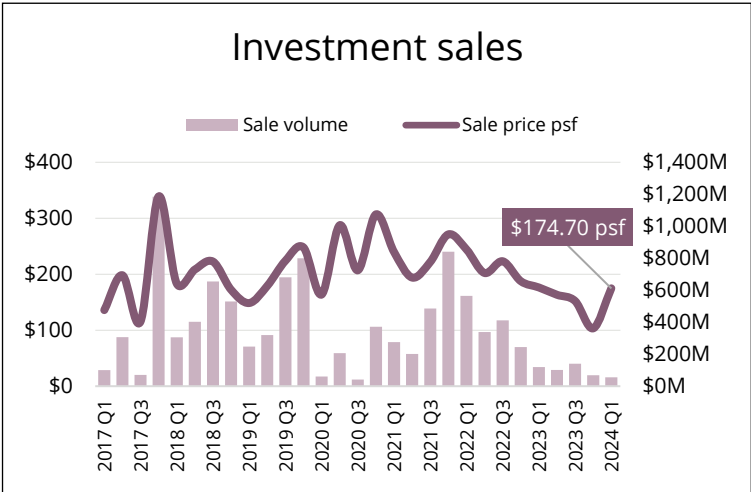
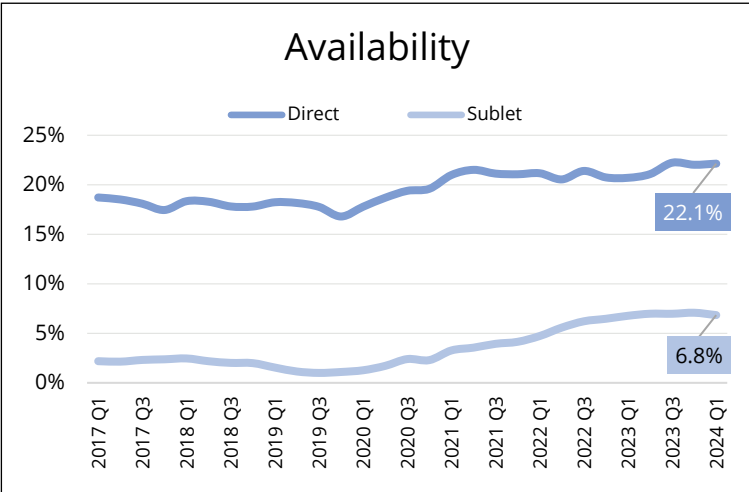
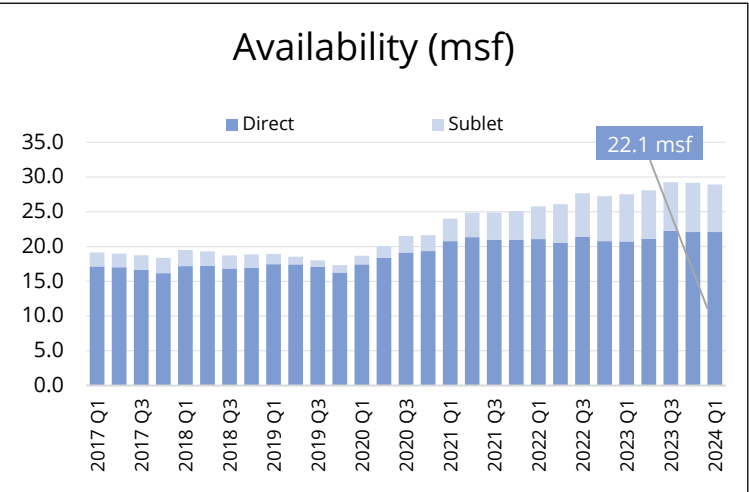
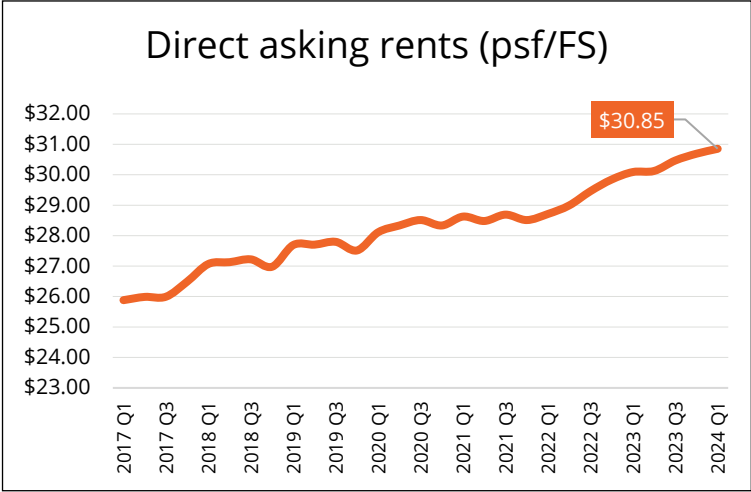
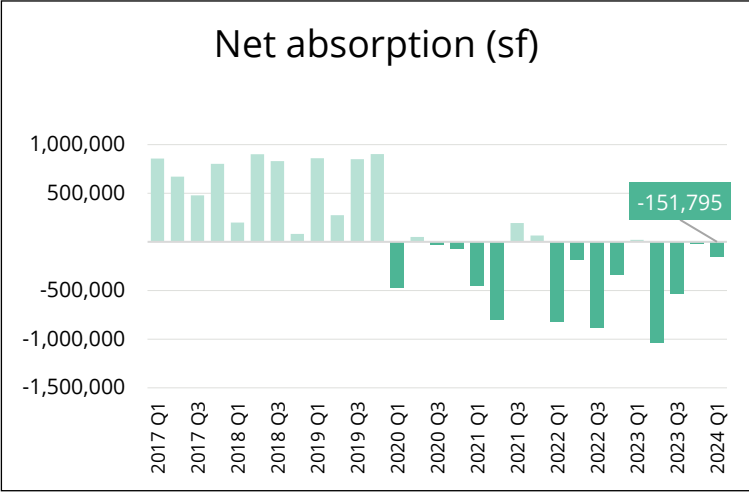
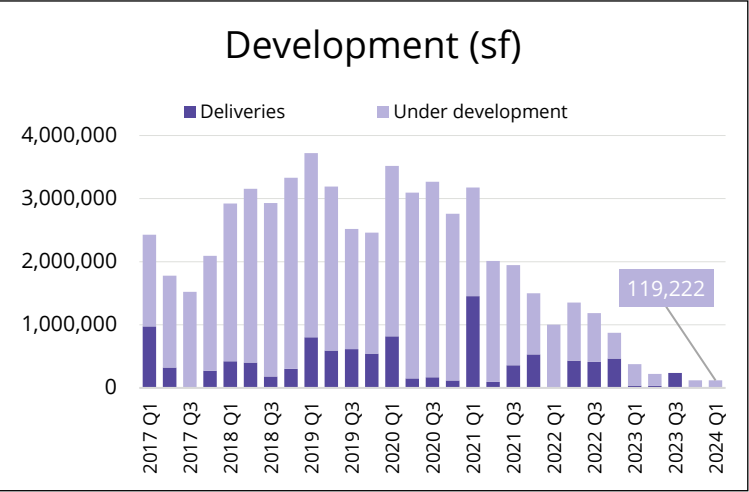
Buyer	Address	Sale date	Building size (sf)	Sale price	Sale price psf	Seller
TPG Angelo Gordon & Co., L.P.	9377 E Bell Rd*	March 2024	84,725	\$21.3M	\$250.81	Healthpeak Properties, Inc.
Newstreet Properties	6309 E Baywood Ave*	March 2024	30,417	\$15.4M	\$506.30	Cypress West Realty Management
The Valley COM Investments	2525 W Townley Ave	January 2024	99,918	\$15.2M	\$152.37	West Coast Capital Partners
Woodside Capital Partners	5651 W Talavi Blvd*	January 2024	153,332	\$9.3M	\$60.82	Regent Properties

* Medical office property

Top projects under development

Project Name Address	Submarket	Delivery date	Building size sf	% Preleased	Developer
Novus Place Rural Rd & University Dr	Tempe	July 2024	165,000	95.5%	Catellus Development Corporation
Tempe Vale 1295 W Rio Salado Pky – Bldg 2	Tempe	April 2024	133,356	0%	Verde Investments
Gilbert Spectrum SWC Elliot Rd & McQueen Rd – Bldg 3	Chandler	August 2024	119,222	100%	SunCap Property Group

Phoenix office market indicators



Phoenix office market stats

Submarket	Existing inventory sf	Deliveries sf (YTD)	Under development sf	Direct availability	Sublet availability	Total availability*	Net absorption sf (YTD)	Net absorption % of inventory (YTD)	Annual direct asking rent psf FS
Chandler	12,938,159	-	119,222	19.5%	13.5%	31.9%	-155,887	-1.20%	\$ 32.82
Airport (Sky Harbor)	10,530,748	-	-	27.3%	13.0%	39.6%	-385,898	-3.66%	\$ 30.42
Tempe	10,213,285	-	-	18.0%	7.2%	25.2%	9,194	0.09%	\$ 38.46
Scottsdale Airpark	9,835,153	-	-	18.7%	7.2%	25.3%	25,580	0.26%	\$ 34.05
Central & South Scottsdale	9,318,390	-	-	16.7%	4.0%	20.8%	-70,135	-0.75%	\$ 34.25
Midtown	8,267,598	-	-	31.4%	1.0%	32.4%	38,760	0.47%	\$ 26.30
North Phoenix	7,898,304	-	-	21.1%	9.7%	30.8%	389,572	4.93%	\$ 27.65
Camelback Corridor	7,128,434	-	-	19.9%	3.1%	23.0%	159,566	2.24%	\$ 37.78
Downtown	5,023,971	-	-	34.8%	2.1%	36.8%	-62,588	-1.25%	\$ 30.31
NW Phoenix	4,844,123	-	-	23.9%	5.8%	29.7%	13,280	0.27%	\$ 22.44
Central Phoenix	4,449,249	-	-	24.6%	3.9%	28.5%	-25,060	-0.56%	\$ 30.92
Piestewa Peak & Paradise Valley	4,020,167	-	-	19.8%	3.0%	22.8%	-40,474	-1.01%	\$ 29.57
Mesa	3,854,271	-	-	18.7%	3.5%	22.2%	-69,601	-1.81%	\$ 24.98
SW Valley	1,380,426	-	-	16.6%	.4%	17.0%	21,896	1.59%	\$ 31.36
Market total	99,702,178	-	119,222	22.1%	6.8%	28.7%	-151,795	-0.15%	\$30.85

*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.

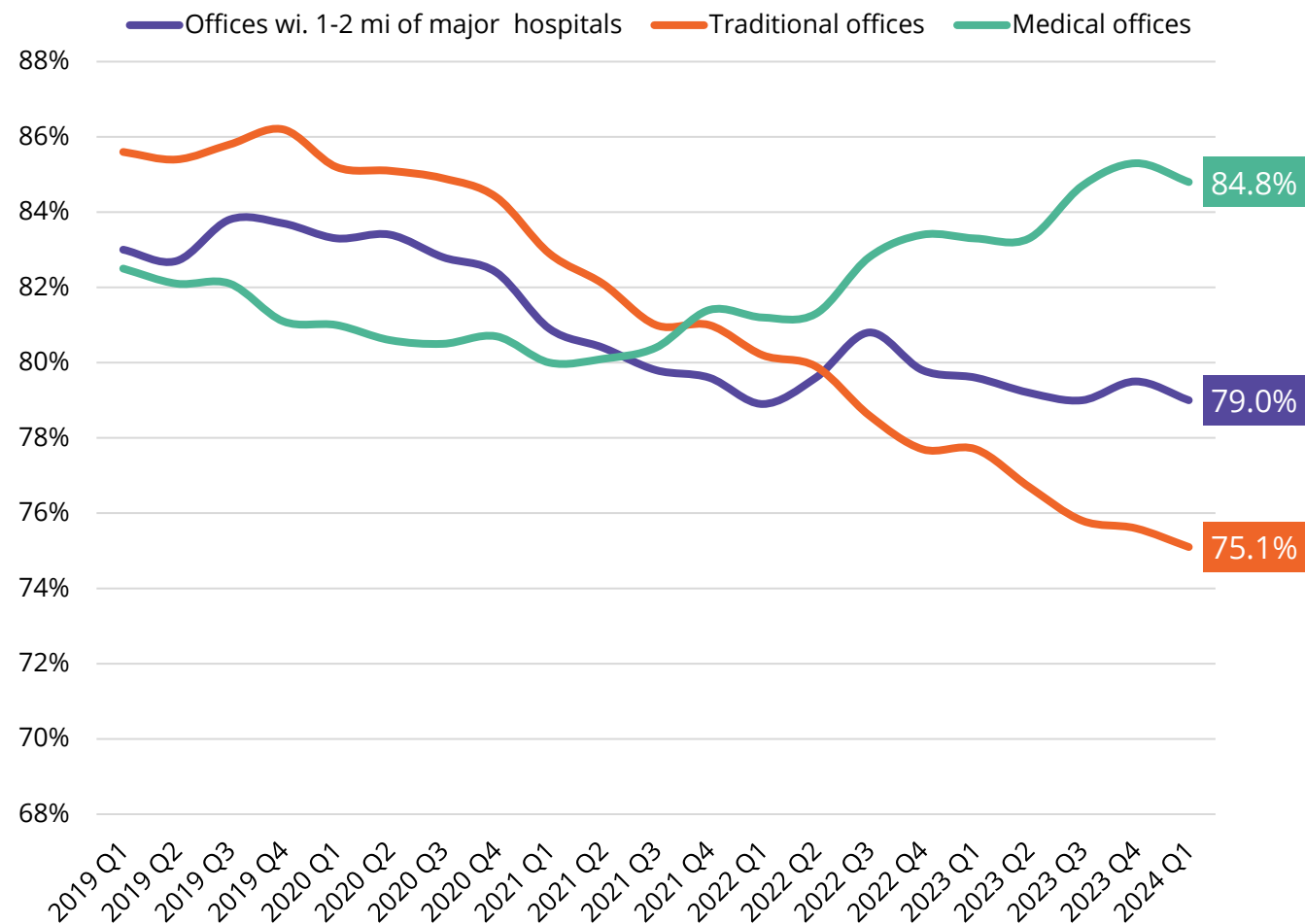
Phoenix medical office market

Let's examine medical office trends in the valley.

Note: This section continues to focus on properties 20k sf and above that are not owner-occupied.



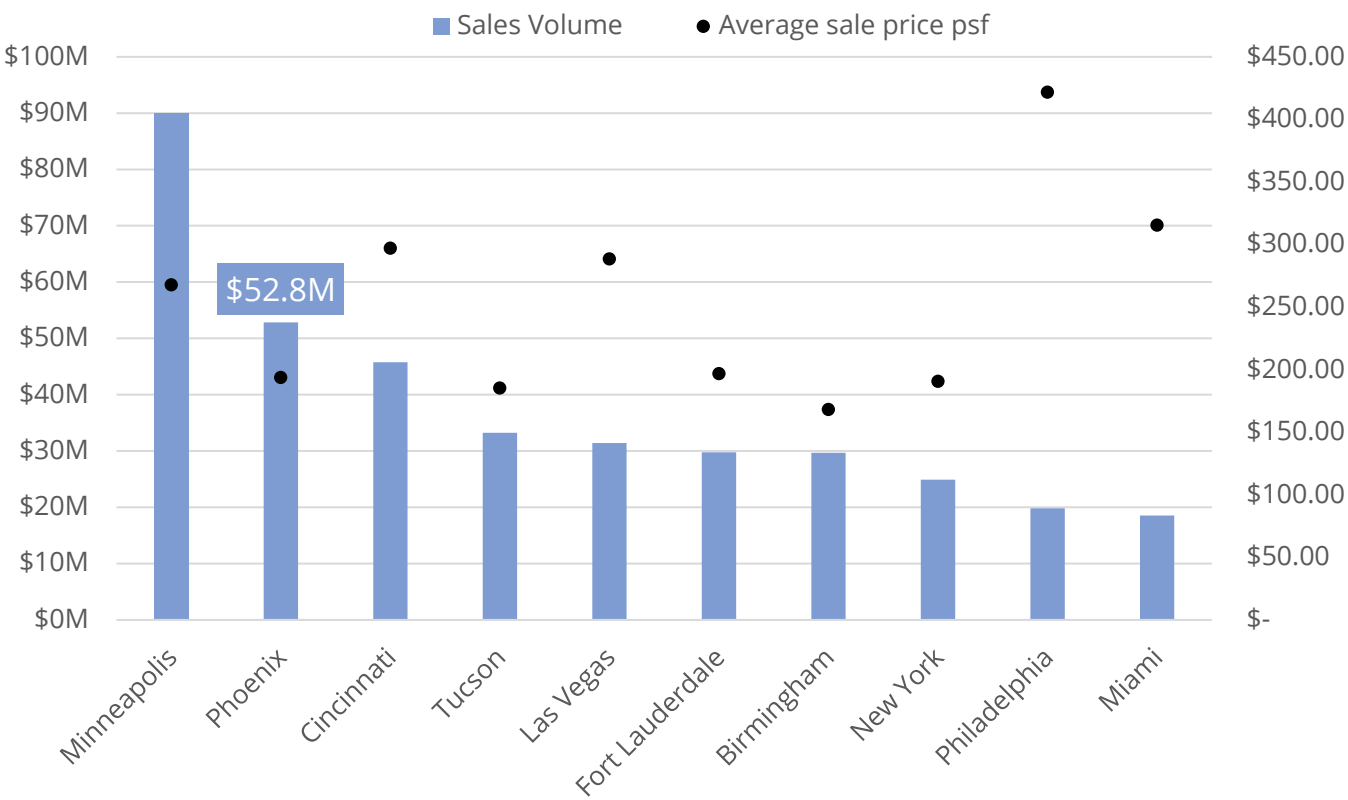
Phoenix office occupancy (%)



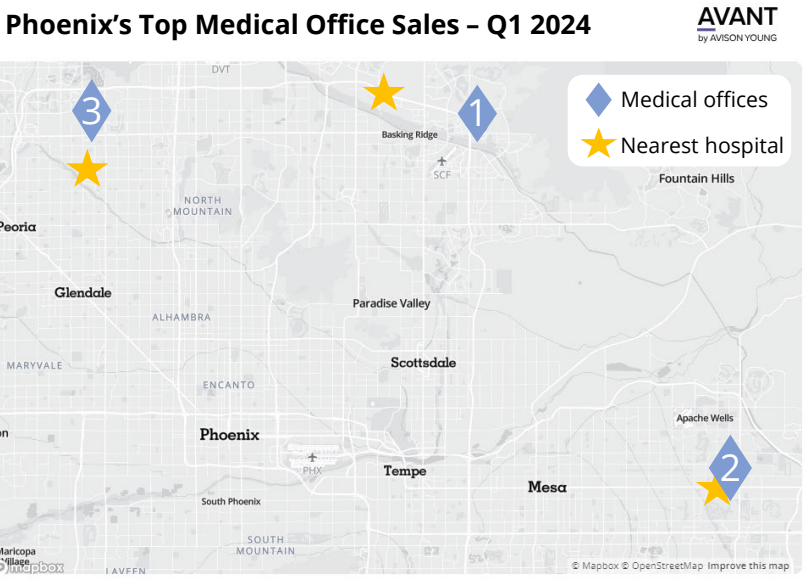
Note: Purple line includes both traditional and medical office spaces.

Following the pandemic, the national office market shifted due to health concerns and remote work. While companies faced challenges returning to in-office work, the medical office sector thrived. In Phoenix, medical office occupancies rose from 81% in Q1 2020 to 84.8% in Q1 2024, contrasting with a decline in traditional office occupancy from 85.2% to 75.1%. Both traditional and medical offices around major Phoenix hospitals saw relatively stable occupancy, emphasizing the enduring appeal of office properties near medical centers.

National medical office investment sales (\$)

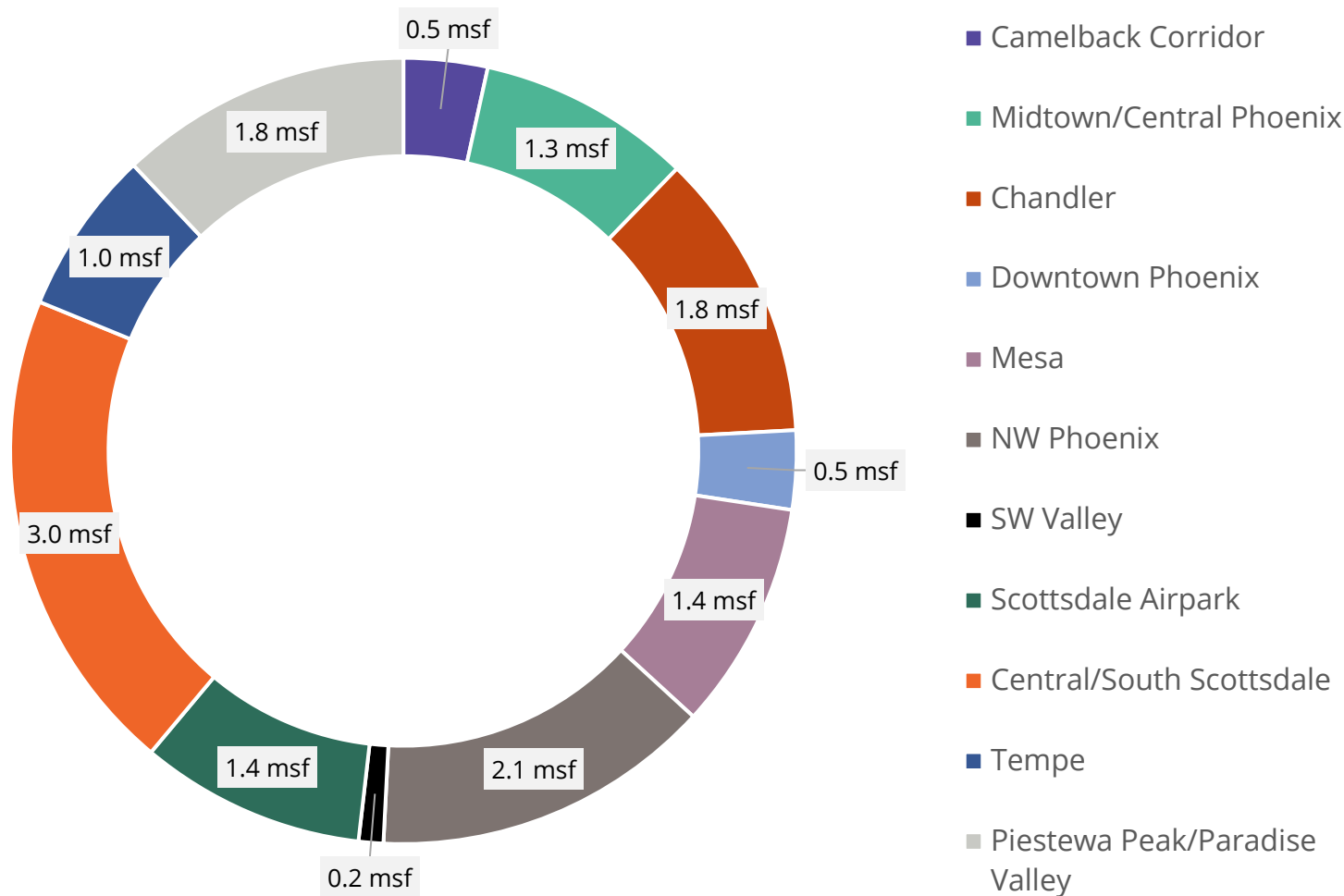


Phoenix continues to rank among the top 5 markets for medical office investment sales as of Q1 2024, signaling its growing appeal for research and medical practices. Notably, three out of the five top office sale deals in Q1 2024 were in the medical office sector, all strategically located near major health centers and hospitals.



- 1 9377 E Bell Rd**
\$21.3M – 84,725 SF
- 2 6309 E Baywood Ave**
\$15.4M – 30,417 SF
- 3 5651 W Talavi Blvd**
\$9.3M – 153,332 SF

Phoenix medical office inventory (msf)



Most non-owner user medical office inventory facilities are concentrated around key medical centers. Some of these key medical centers include:

HonorHealth Scottsdale Shea Medical Center (Central Scottsdale)

HonorHealth Scottsdale Osborn Medical Center (South Scottsdale)

Banner Boswell Medical Center and Banner Thunderbird Medical Center (NW Phoenix)

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

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