

PHOENIX OFFICE MARKET

Q4 2021



TRENDLINES

	Q4 2021	Q4 2020	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	3.3	6.3	↓	5.1	↔
NET ABSORPTION (Thousands SF)	600.0	-444.0	↑	303.2	↑
OVERALL VACANCY RATE	15.8%	13.8%	↑	14.2%	↑
OVERALL VACANT SF (MSF)	22.7	19.6	↑	19.8	↑
UNDER CONSTRUCTION (MSF)	1.6	2.6	↓	2.4	↔
ASKING RENT (PSF)	\$28.52	\$27.75	↑	\$26.07	↑
SALES VOLUME (Millions)	\$1,083.3	\$739	↑	\$648.7	↑

Source: Bureau of Labor Statistics, CoStar, Real Capital Analytics, Transwestern

OFFICE OVERVIEW

OFFICE MARKET SHOWS POSITIVE ABSORPTION Q4

While the Phoenix office market softened a bit going into Q4 2021, there are still reasons to be hopeful. The office market showed positive net absorption in Q4 for the first time since the onset of the pandemic. Leasing activity continues to gain momentum, and investment activity saw another strong quarter. Vacancy rates are beginning to recede, though slowly, they are moving in the right direction. Asking rents showed a slight upward trend in the Phoenix MSA, only two submarkets posted a drop in rental rates. Tempe showed a marginal decline in overall rental rates but also posted record breaking rents over \$50/SF in Q4 for the newly completed 100 Mill building. A slowdown in new construction should put less pressure on vacancy rates compared to previous quarters. The highest vacancy rates can still be found in the CBD: Downtown, Midtown and Camelback corridor, as leasing preference shifts to the new Class A product being delivered to the Tempe submarket. The CBD is still expected to rebound, though there may be a delineation between industry types by submarket, with Tempe becoming highly technology centered and the CBD remaining mostly professional services.

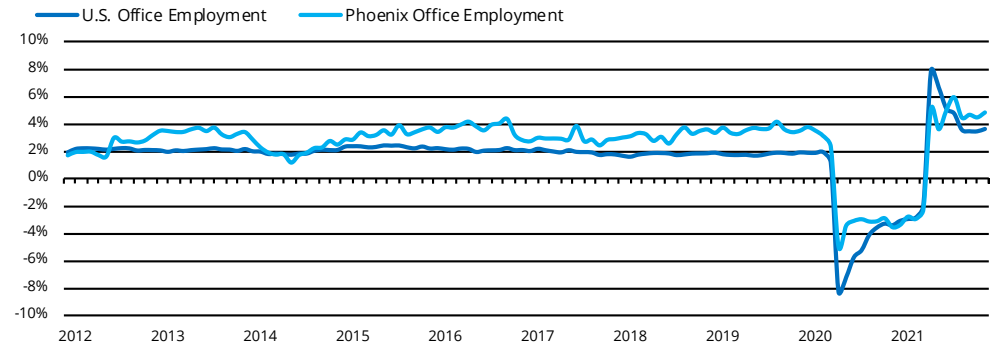


ECONOMY

Inflation a Concern, but Overall Market Strong

- Job growth slumped in the last quarter of 2021, likely due to an uptick in COVID cases. The resurgence in COVID cases muted growth but did not result in a loss of jobs. The Phoenix area has recovered most of the jobs lost in the first few months of the pandemic.
- Overall, Phoenix is still projected to be among the fastest growing job markets in the country for the next decade
- The unemployment rate in Phoenix dipped to 2.8% in November 2021, a level not seen since the months immediately prior to the Great Recession.
- The consumer price index (CPI) which measures the changing price of goods over time, and is a primary indicator of inflation, show that the price of goods has risen about 7.5% in the Phoenix MSA. Inflation is trending higher in states, like Arizona, with a lower overall cost.
- Phoenix has done an excellent job of attracting tech talent, Amazon just announced intentions to grow the technology portion of their business in Tempe by adding 550 new jobs bringing their corporate technology hub to over 5,500 people in the Phoenix area.
- The Taiwan Semiconductor Manufacturing Company (TSMC), with a market value over \$500B, is building a 1,050 acre campus in North Phoenix near Loop 303 and I-17. This will add roughly 1,900 skilled jobs to the Phoenix job market.

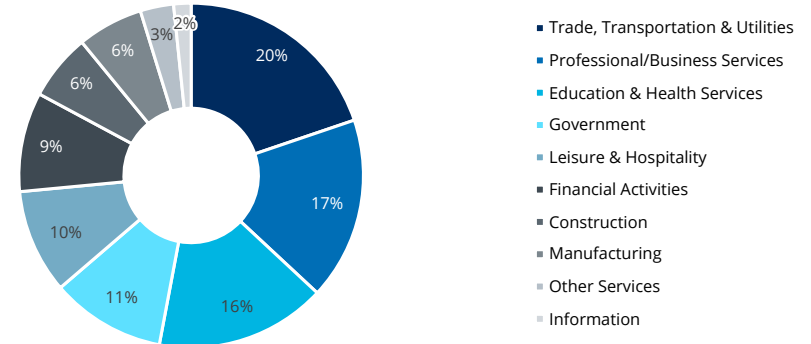
YOY CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

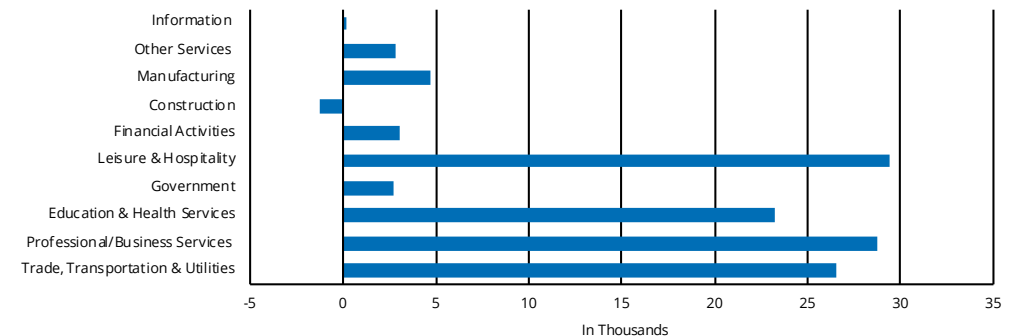
Phoenix | November 2021



Source: Bureau of Labor Statistics, Transwestern

YOY CHANGE IN JOBS BY INDUSTRY

Phoenix | November 2021



Source: Bureau of Labor Statistics, Transwestern

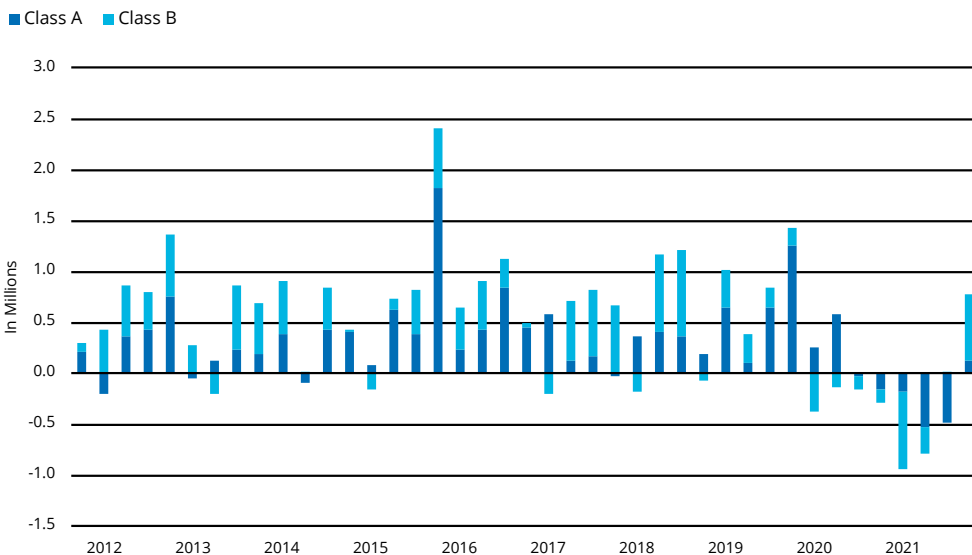


NET ABSORPTION

Positive Net Absorption in Q4

- Phoenix unemployment rate remains near historic lows, but overall job growth slowed in Q4 due to continued COVID anxiety. Despite COVID related uncertainty, the MSA posted positive net absorption for Q4, a sign that employers are growing tired of holding off on making operating decisions.
- The CBD is still posting the most significant negative absorption, mostly due to Chase relocating its base of operations to Tempe. This alone accounts for more than half of the negative absorption for the business district.

NET ABSORPTION BY CLASS



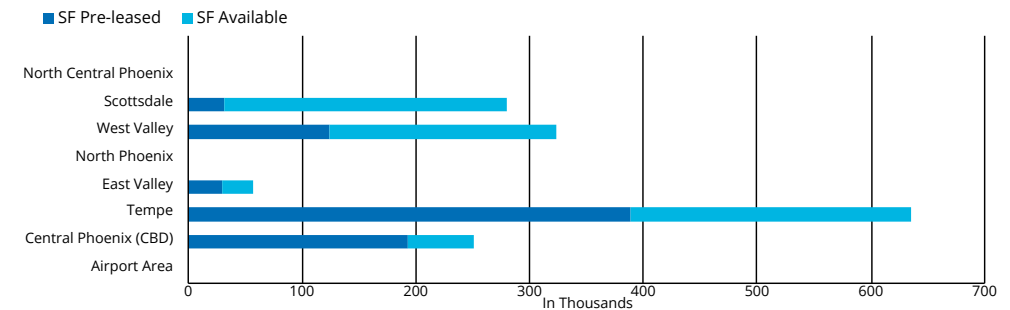
Source: CoStar, Transwestern

UNDER CONSTRUCTION

Construction Starts Slipping, but not Confidence

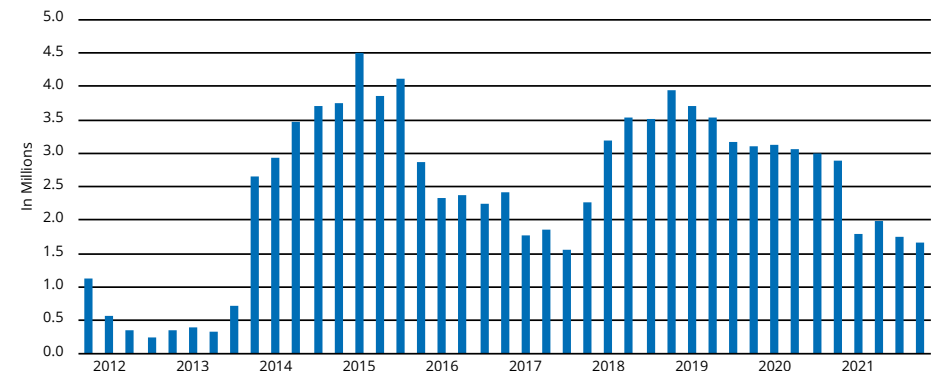
- New construction starts have slowed. Going into the pandemic new construction starts averaged over 3M SF every quarter since Q1 2018. Post pandemic, those numbers have dropped by nearly half.
- About 1.4M SF of new construction is on track to be delivered in the next year, much of it in Tempe and the West Valley.

UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

UNDER CONSTRUCTION



Source: CoStar, Transwestern

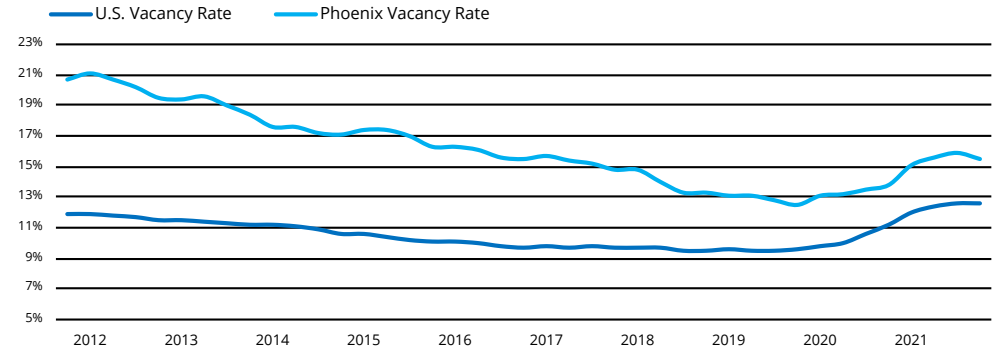


VACANCY

Vacancy Still High, but Moving in the Right Direction

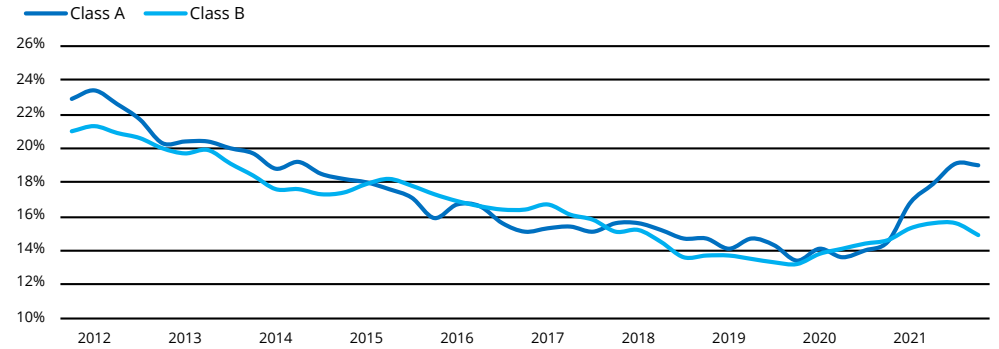
- Vacancy rates are still at the highest level since 2016, though they did drop slightly from 16.1% in Q3 to 15.8% in Q4, 2021. For comparison, vacancy rates were in the 13% range in the two years prior to the pandemic.
- Vacancy increased in just one submarket; East Valley and remained stagnant or dropped in all other submarkets. While sublease space still accounts for more vacancy than it did prior to the pandemic, it seems to have plateaued.
- About half of the new construction coming to the market in 2022 is preleased, but an additional 700K SF of unleased new office space will add some pressure to vacancy rates.

OVERALL VACANCY RATE



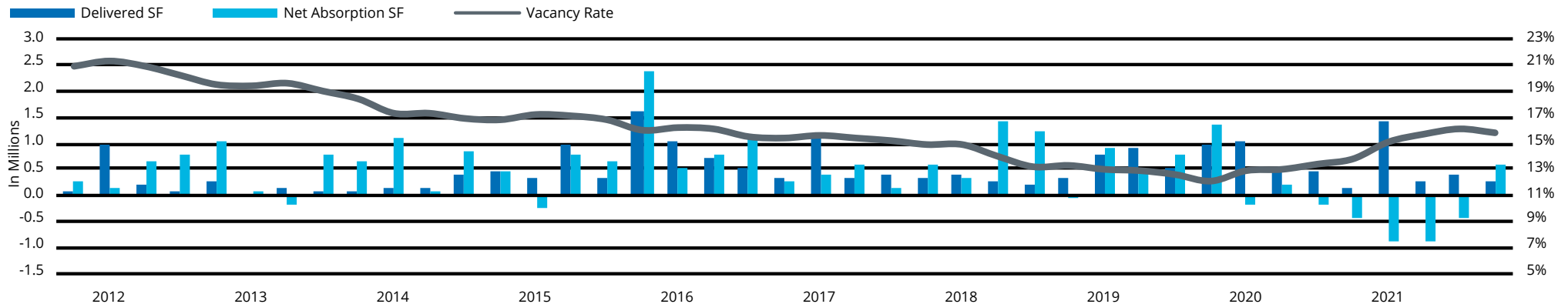
Source: CoStar, Transwestern

OVERALL VACANCY RATE BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

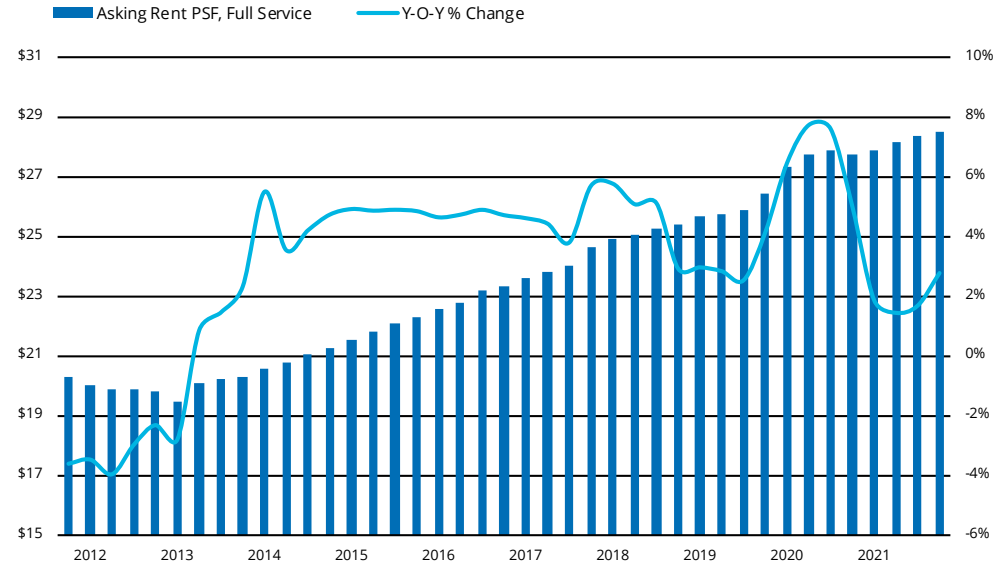


RENTAL RATES

Rates Steady Throughout MSA, Rising in West Valley

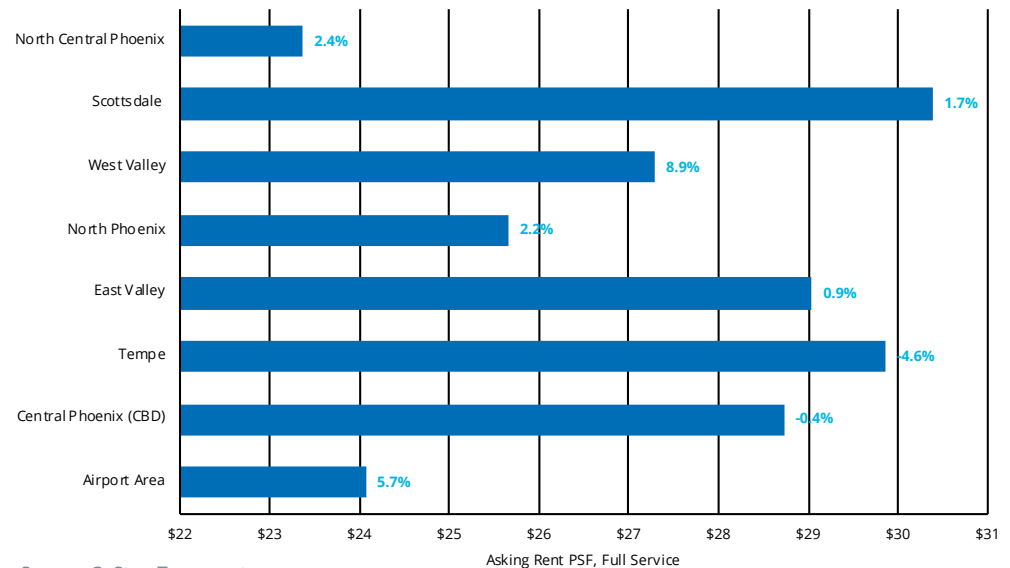
- All suburban submarkets posted increases in asking rents, the largest increase for Q4 was in the West Valley, where average asking rents rose by about 9%, a trend common across all MSA's as companies offer hybrid work options.
- Amazon and Deloitte signed leases in the brand new 100 Mill building in Tempe above \$50/SF, setting records. At the same time, overall asking rents dropped in Tempe which is a good indicator of preference for newly built Class A trophy space.
- Migration to Phoenix is still strong. We expect to see an ongoing transition to a more highly skilled workforce, which will positively impact the commercial real estate sector by initially stabilizing demand and rental rates and putting upward pressure on both over time.

ASKING RENT



Source: CoStar, Transwestern

ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: CoStar, Transwestern

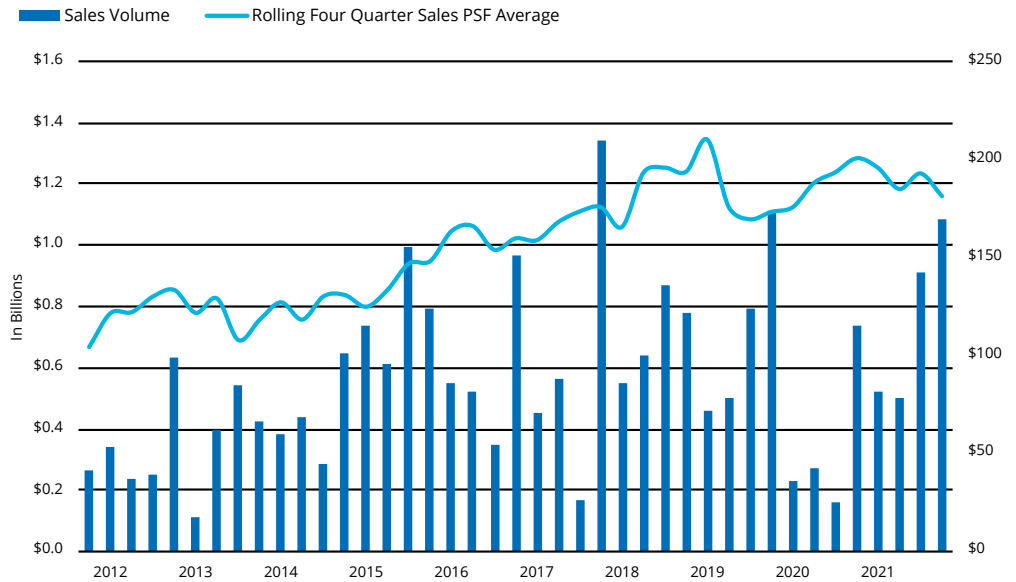


SALES

Investment Dollars Flowing into Phoenix

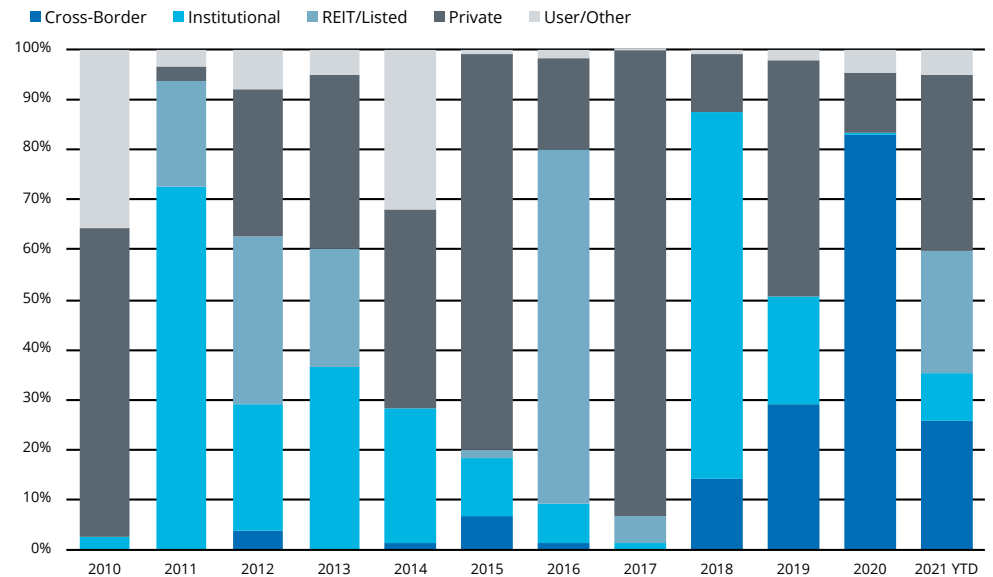
- Q4 closed with just over \$1 billion in office sale transactions, only two other quarters in the past 10-year period have closed over the \$1 billion mark.
- Continued population growth, job growth and the value that Phoenix real estate provides compared to other west coast markets, will keep Phoenix at the top of investors lists for the foreseeable future.

SALES VOLUME



Source: CoStar, Real Capital Analytics, Transwestern

BUYER CAPITAL COMPOSITION



Source: CoStar, Real Capital Analytics, Transwestern



NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
WILLMENG CONSTRUCTION	1702 E Highland Ave	Central Corridor	New	50,913
MORGAN STANLEY	400 E. Rivulon Blvd	Chandler	New	48,624
STEWART TITLE	3131 E. Camelback Rd	Central Corridor	New	33,254
RADNET	3110 N. Central Ave	Central Corridor	New	30,300
BUCHALTER	15279 N. Scottsdale Ave	Scottsdale Airpark	New	18,738

= Transwestern deal

Source: CoStar, Transwestern

NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
101 E. WASHINGTON ST	Downtown	\$150,000,000	307,030	\$489	City Office RIET	RED Development
3133 W. FRYE RD	Chandler	\$102,000,000	250,630	\$407	Macquarie Asset Management	Hines/NY Life Insurance Co
1700 S. PRICE RD	Chandler	\$68,531,119	151,359	\$453	Manulife REIT	Douglas Allred Company
25800 N. NORTERRA PKWY	Deer Valley Airport	\$48,500,000	144,802	\$335	Silver Creek Development	USAA/Metro Commercial Properties
7047 E. GREENWAY PKWY	Scottsdale Airpark	\$37,750,000	109,811	\$344	Yohezawa Miller Company	Starwood Property Trust

= Transwestern deal

Source: CoStar, Real Capital Analytics, Transwestern



MARKET INDICATORS

All Classes of Space | Fourth Quarter 2021

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	Y-O-Y NET ABSORPTION SF	ASKING RENT PSF
AIRPORT AREA/SE PHOENIX	13,026,666	1,573,683	12.1%	15.0%	0	39,887	(433,585)	\$24.07
CENTRAL CORRIDOR	36,179,636	6,697,839	18.5%	19.3%	251,494	187,199	(1,088,156)	\$28.73
TEMPE	18,072,136	2,048,048	11.3%	13.1%	635,526	15,874	(169,030)	\$29.86
EAST VALLEY	17,814,582	2,093,347	11.8%	14.3%	56,358	(1,583)	(275,348)	\$29.04
NORTH PHOENIX	10,626,139	1,647,994	15.5%	19.0%	0	28,448	15,273	\$25.66
WEST VALLEY	9,460,188	714,909	7.6%	8.0%	322,628	92,714	65,705	\$27.29
SCOTTSDALE	24,757,213	3,827,062	15.5%	16.7%	280,060	221,503	227,258	\$30.39
NORTH CENTRAL PHOENIX	12,950,391	2,158,836	16.7%	17.0%	0	(9,620)	(191,743)	\$23.37
TOTAL	142,886,951	20,761,718	13.6%	15.3%	1,546,066	574,422	-1,849,626	\$27.30

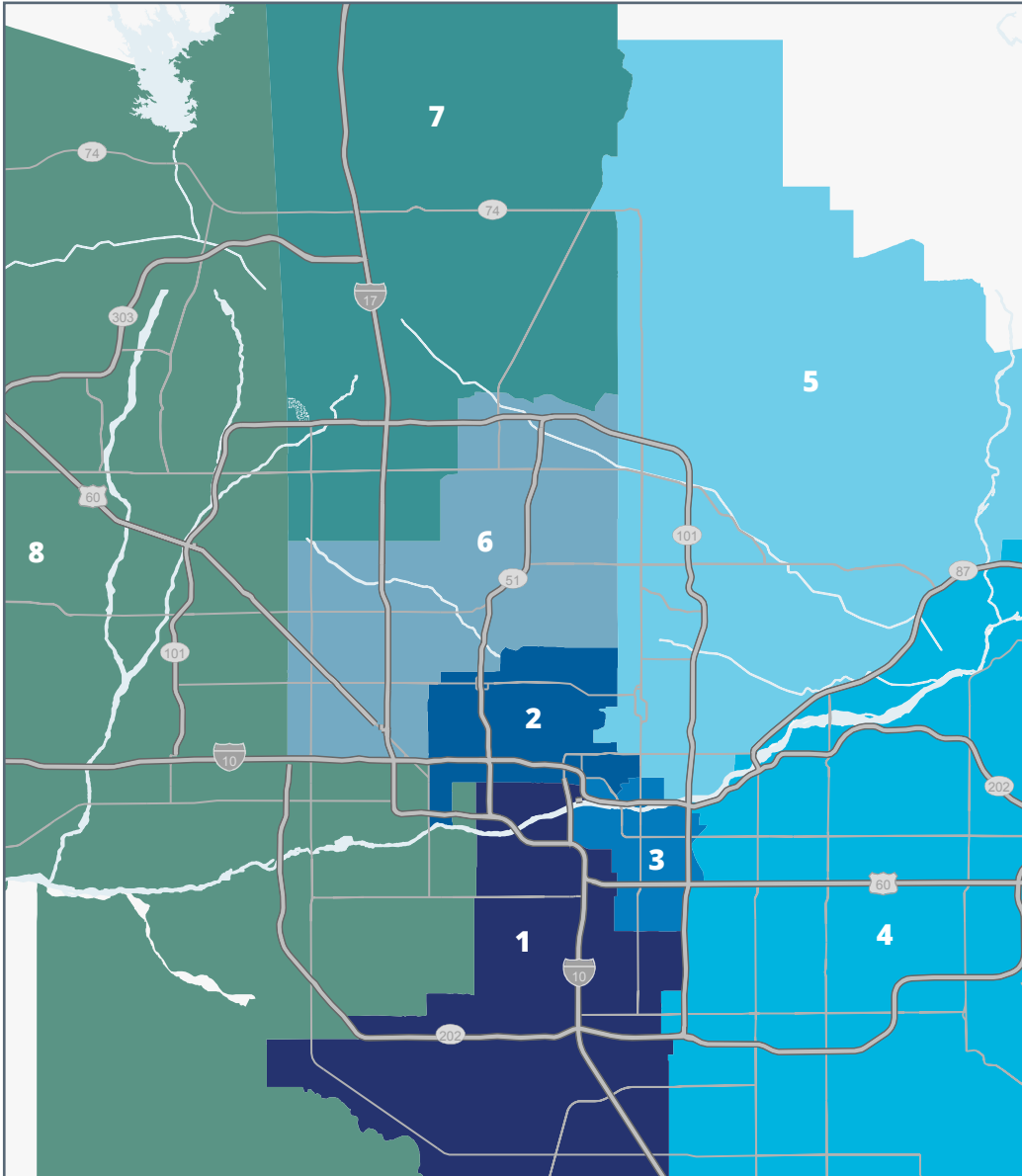
Source: CoStar, Transwestern

MARKET INDICATORS

Class A | Fourth Quarter 2021

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	Y-O-Y NET ABSORPTION SF	ASKING RENT PSF
AIRPORT AREA	2,049,976	306,638	15.0%	15.0%	0	0	(26,377)	\$29.45
CENTRAL CORRIDOR	17,214,817	4,074,379	23.7%	25.0%	251,494	136,839	(1,027,818)	\$31.26
TEMPE	9,008,075	603,428	6.7%	9.5%	635,526	(9,637)	(151,802)	\$36.84
EAST VALLEY	6,439,718	1,220,937	19.0%	25.5%	0	139,113	(242,685)	\$31.81
NORTH PHOENIX	4,547,127	482,716	11.0%	15.8%	0	(1,749)	(246,549)	\$27.27
WEST VALLEY	1,726,206	188,197	11.2%	11.2%	228,628	15,424	(32,577)	\$30.01
SCOTTSDALE	11,971,118	1,876,475	15.7%	17.2%	248,006	83,261	204,174	\$32.43
NORTH CENTRAL PHOENIX	3,194,302	710,599	22.2%	22.2%	0	(65,721)	(153,256)	\$27.10
TOTAL	56,151,339	9,463,369	15.6%	17.7%	1,363,654	297,530	-1,784,632	\$30.77

Source: CoStar, Transwestern



PHOENIX OFFICE SUBMARKETS

- 1** Airport
- 2** Central Phoenix/CBD
- 3** Tempe
- 4** East Valley
- 5** Scottsdale
- 6** North Central Phoenix
- 7** North Phoenix
- 8** West Valley

RESEARCH METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in the Phoenix Metropolitan area. This report includes single tenant, multi-tenant and owner-user properties 10,000 SF and larger, excluding condo and medical office facilities and those properties owned and occupied by a government agency.

FOR MORE INFORMATION

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