

MARKETBEAT

Phoenix

Office Q2 2019



PHOENIX OFFICE

Economic Indicators

| | Q2 18 | Q2 19 | 12-Month Forecast |
|----------------------|--------|--------|-------------------|
| Phoenix Employment | 2,095k | 2,157k | ▲ |
| Phoenix Unemployment | 4.1% | 4.3% | ▲ |
| U.S. Unemployment | 3.9% | 3.6% | ▼ |

*Q2 data is based on the U.S. Bureau of Labor Statistics, All Employees: Total Nonfarm in Phoenix-Mesa-Scottsdale, AZ (MSA).

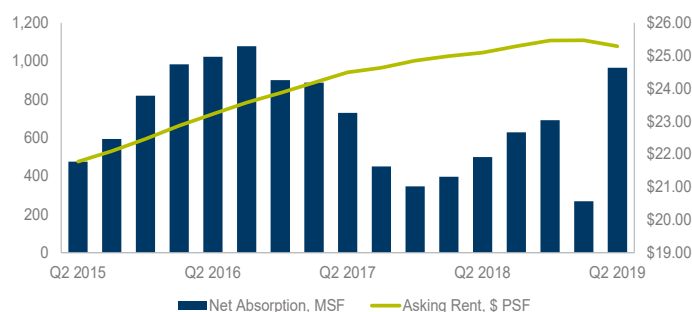
Market Indicators (Overall, All Classes)

| | Q2 18 | Q2 19 | 12-Month Forecast |
|-------------------------|---------|---------|-------------------|
| Vacancy | 16.1% | 15.3% | ▼ |
| Net Absorption (sf) | 786k | 872k | ▲ |
| Under Construction (sf) | 2.8M | 1.9M | ▼ |
| Average Asking Rent* | \$25.28 | \$26.25 | ▲ |

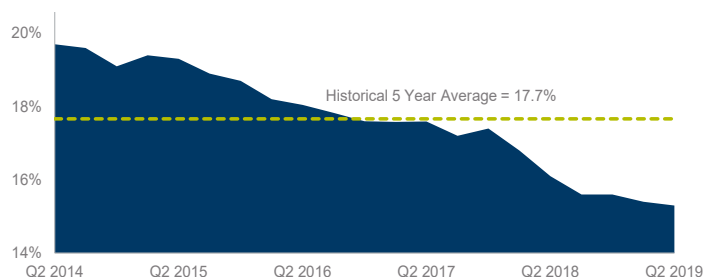
*Rental rates reflect overall gross asking \$psf/year.

**Not reflective of U.S. MarketBeat tables.

Overall Net Absorption/Overall Asking Rent 4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The Metro Phoenix economy continues to improve, adding 62,200 jobs year-over-year through the second quarter of 2019. During the same period, the unemployment rate increased from 4.1% to 4.3% as job seekers move to Phoenix. According to Bureau of Labor Statistics, the Phoenix metropolitan statistical area added 14,300 office sector jobs through the second quarter. The three sectors that make up office employment are: business & professional services, information/technology and financial activities.

Market Overview

In the second quarter of 2019, vacancy in the Metro Phoenix office market fell to 15.3%. This marks the lowest vacancy rate since the first quarter of 2008, when it stood at 15.9%. The rate dropped 10 basis points (bps) quarter-over-quarter and 80 bps year-over-year.

The Metro Phoenix office market experienced positive occupancy growth and absorbed more than 872,000 square feet (sf) during the second quarter of 2019. This marked the 24th straight quarter of positive absorption since the third quarter of 2013. More than half (16) of Metro Phoenix's 22 office submarkets experienced occupancy gains in the second quarter of 2019. The Price Corridor submarket led the way with 227,000 sf of net absorption, due in large part to Northern Trust and Voya Financial occupying 200,000 sf and 151,000 sf within the Discovery Business Campus and Allred Park Place respectively. The Tempe submarket experienced notable occupancy growth for the second consecutive quarter with +215,400 sf, as Freedom Financial occupied 150,000 sf of the newly delivered Rio 2100. Five of the 22 submarkets in the Metro Phoenix office market experienced negative absorption during the second quarter of 2019. South I-10/Ahwatukee submarket had -78,085 sf of absorption, with United Health Group vacating 71,000 sf at Thistle Landing. The largest vacancy occurred in the Price Corridor submarket with Education Management vacating 100,000 sf in Allred Park Place Central. Across the market, Class A (472,000 sf), B (336,000 sf) and C (63,000 sf) office buildings all recorded positive absorption.

Construction in the Metro Phoenix office market remained active during the second quarter of 2019, with 1.9 million square feet (msf) of inventory currently under construction. The Tempe North submarket currently has 965,600 sf under construction, or 50% of the total office square footage under construction across Metro Phoenix. The Downtown submarket currently has 321,900 sf followed by Price Corridor with 153,300 sf under construction. The three submarkets combined account for 1.4 msf under construction, or 25% of the total under construction inventory.

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Cushman & Wakefield is tracking 13 under construction projects, 12 spec builds and one build-to-suit (bts). We project nine of the 13 under construction buildings will deliver by the end of 2019 and add over 1.9 msf of new inventory. Seven of the eight Class A projects under construction are spec buildings. Tempe North has four Class A spec projects, which will make up the entirety of the submarket's total new inventory. Scottsdale South has one Class A building under construction totaling 151,000 sf of new inventory, the only project under construction in the submarket.

During the second quarter of 2019, five projects delivered, adding 744,300 sf of new inventory of which 89.3% was preleased. The second of two bts phases for Freedom Financial at Rio 2100 delivered 150,000 sf. Discovery Business Campus delivered a second phase, a bts project, adding 200,000 sf. The first phase delivered in the fourth quarter of 2015.

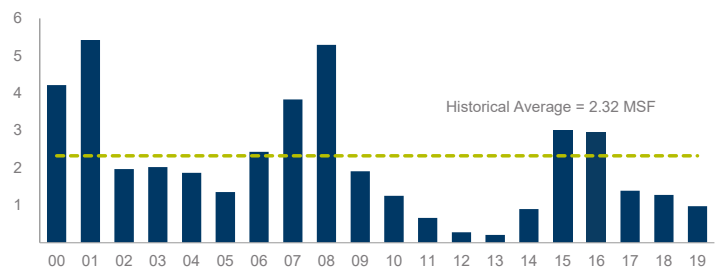
The overall rent in the Metro Phoenix office market increased to \$26.25 per-square-foot (psf) on an annual full-service basis in the second quarter of 2019. This marks a \$0.92 psf gain from first quarter of 2019 and a \$1.25 psf increase from the second quarter of 2018. The 44th Street submarket led with an 11% increase in overall asking rents, increasing from \$23.15 to \$26.02 quarter-over-quarter. Scottsdale Airpark was second with an 8% increase in overall asking rents, increasing from the first quarter of 2019 (\$27.14) to the second quarter of 2019 (\$29.63). Camelback Corridor and Scottsdale South continue to lead the market in highest rental rates at \$34.55 and \$31.80, respectively. Glendale/Peoria (\$17.93) and West Phoenix (\$19.98) remain the least expensive office submarkets.

Outlook

- The second half of 2019 will see over 1.2 msf of new inventory added to the market, the most deliveries since before the 2008-2009 recession. Those buildings and occupancy at delivery will be closely watched to gauge market health and price other speculative office buildings.
- Seven of the eight Class A projects under construction are spec builds, three of which will be delivered to the Tempe North submarket by the end of fourth quarter 2019. Tempe North will dominate Class A spec construction to the end of 2019.
- Vacancy rates dropped 10 bps to 15.3% in the second quarter of 2019, dropping 30 bps more than all of 2018. The vacancy will continue to drop as Arizona's low unemployment rate and favorable outlook should sustain through 2020.
- Camelback Corridor Class A direct rental rates remain the strongest in the Metro Phoenix office market reaching \$34.55 on an annual full-service basis in the second quarter of 2019. This is expected to continue through the remainder of 2019 and into 2020.

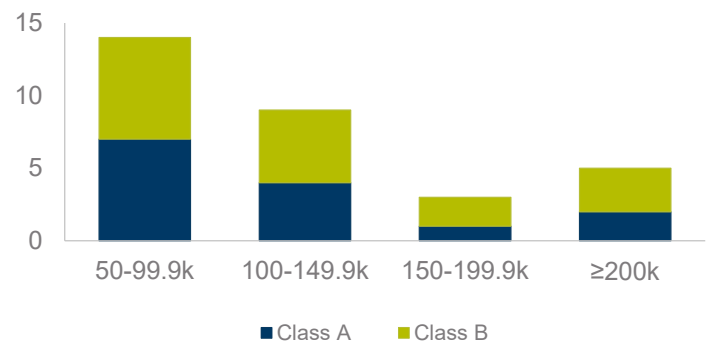
New Supply

NEW INVENTORY TO DELIVER IN 2019 IS 58% BELOW THE HISTORICAL AVERAGE



Large Block Space

CONTIGUOUS BLOCKS OF AVAILABLE SPACE



Class A Rate

METRO PHOENIX CLASS A ASKING RENT INCREASED OVER THE TRAILING 4 QUARTERS



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| SUBMARKET | TOTAL BLDGS | INVENTORY | SUBLET VACANT | DIRECT VACANT | VACANCY RATE | Q2 NET ABSORPTION | 2019 NET ABSORPTION | UNDER CONSTRUCTION | OVERALL AVG ASKING RENT | DIRECT ASKING RENT |
|------------------------|--------------|-------------------|----------------|-------------------|--------------|-------------------|---------------------|--------------------|-------------------------|--------------------|
| Downtown | 42 | 7,302,788 | 94,941 | 1,052,310 | 15.7% | 40,301 | 40,301 | 328,402 | \$29.83 | \$31.03 |
| Midtown | 82 | 10,561,369 | 45,977 | 2,212,933 | 21.4% | 62,586 | 68,586 | 0 | \$22.75 | \$23.81 |
| CBD Total | 124 | 17,864,157 | 140,918 | 3,265,243 | 19.1% | 102,887 | 108,887 | 328,402 | \$25.36 | \$26.36 |
| 44th Street Corridor | 42 | 3,493,052 | 27,232 | 468,032 | 14.2% | -21,310 | -15,206 | 0 | \$26.02 | \$28.43 |
| Arrowhead | 23 | 1,446,587 | 6,650 | 60,757 | 4.7% | 585 | 2,215 | 0 | \$23.70 | - |
| Camelback Corridor | 72 | 7,375,697 | 78,409 | 1,233,947 | 17.8% | -22,080 | 50,783 | 0 | \$34.55 | \$37.28 |
| Chandler/Gilbert/202 | 45 | 3,075,594 | 0 | 876,209 | 28.5% | 170,461 | 65,099 | 169,826 | \$30.24 | \$21.05 |
| Deer Valley | 72 | 7,768,297 | 3,443 | 921,744 | 11.9% | 17,794 | 11,568 | 150,000 | \$24.70 | \$25.50 |
| East-Central Phoenix | 43 | 1,928,669 | 0 | 218,350 | 11.3% | 26,787 | -3,234 | 0 | \$20.05 | \$24.50 |
| Glendale/Peoria | 14 | 827,799 | 0 | 57,002 | 6.9% | 10,352 | 10,352 | 0 | \$17.93 | \$23.62 |
| Mesa | 24 | 1,219,383 | 10,816 | 61,613 | 5.9% | 69,441 | 82,321 | 0 | \$20.25 | \$28.25 |
| Metrocenter | 65 | 4,589,312 | 1,952 | 1,358,211 | 29.6% | 16,797 | -112,490 | 0 | \$20.47 | \$26.50 |
| N Phoenix/Desert Ridge | 35 | 2,397,186 | 13,649 | 292,626 | 12.8% | 16,226 | 50,179 | 0 | \$25.04 | \$31.35 |
| Piestewa Peak Corridor | 32 | 2,010,074 | 6,021 | 354,060 | 17.9% | 43,128 | 52,267 | 0 | \$23.54 | \$30.86 |
| Price Corridor | 62 | 6,800,259 | 73,044 | 540,465 | 9.0% | 226,892 | 348,321 | 153,370 | \$29.68 | \$30.09 |
| Scottsdale Airpark | 144 | 10,130,483 | 68,820 | 1,554,006 | 16.0% | -18,536 | -173,827 | 48,514 | \$29.63 | \$33.37 |
| Scottsdale Central | 67 | 5,254,354 | 61,625 | 570,569 | 12.0% | -49,562 | -83,056 | 0 | \$28.65 | \$26.41 |
| Scottsdale South | 38 | 4,215,063 | 37,468 | 589,249 | 14.9% | 183,640 | 193,124 | 151,318 | \$31.80 | \$26.00 |
| Sky Harbor | 54 | 4,842,419 | 45,121 | 926,861 | 20.1% | -39,779 | -30,930 | 0 | \$22.62 | \$23.99 |
| South I-10/Ahwatukee | 56 | 3,091,790 | 36,368 | 408,292 | 14.4% | -78,085 | -69,978 | 0 | \$21.11 | \$33.08 |
| Superstition Corridor | 44 | 2,464,319 | 6,506 | 316,628 | 13.1% | 15,943 | 12,249 | 0 | \$21.08 | \$27.31 |
| Tempe North | 100 | 11,600,894 | 112,520 | 849,113 | 8.3% | 170,023 | 373,666 | 956,628 | \$27.64 | \$30.81 |
| West Phoenix | 36 | 1,665,697 | 0 | 285,828 | 17.2% | 25,174 | -3,412 | 0 | \$19.98 | \$27.31 |
| Suburban Total | 1,068 | 86,196,928 | 589,644 | 11,943,562 | 14.5% | 763,891 | 760,011 | 1,629,656 | \$26.36 | \$31.35 |

| CLASS | TOTAL BLDGS | INVENTORY | SUBLET VACANT | DIRECT VACANT | VACANCY RATE | Q2 NET ABSORPTION | 2019 NET ABSORPTION | UNDER CONSTRUCTION | OVERALL AVG ASKING RENT | DIRECT ASKING RENT |
|--------------------|--------------|--------------------|----------------|-------------------|--------------|-------------------|---------------------|--------------------|-------------------------|--------------------|
| Class A | 273 | 43,441,730 | 360,335 | 5,543,663 | 13.6% | 472,820 | 618,873 | 1,565,174 | \$30.56 | \$31.51 |
| Class B | 739 | 53,381,328 | 330,614 | 8,713,421 | 16.9% | 336,655 | 218,247 | 392,884 | \$23.91 | \$24.08 |
| Class C | 180 | 7,238,027 | 39,613 | 951,721 | 13.7% | 63,303 | 128,756 | 0 | \$19.30 | \$19.33 |
| Grand Total | 1,192 | 104,092,444 | 730,562 | 15,188,275 | 15.3% | 872,778 | 965,876 | 1,958,058 | \$26.63 | \$26.25 |

*Not reflective of U.S. MarketBeat tables

CUSHMAN & WAKEFIELD HAS RE-CLASSIFIED THE COMPETITIVE BUILDING INVENTORY AND CHANGED THE SUBMARKET BOUNDARIES. ASKING RENTS CONVERTED TO FULL SERVICE. THE AIRPORT SUBMARKET IS NOW CALLED SKY HARBOR. NET ABSORPTION IS THE NET CHANGE IN PHYSICALLY OCCUPIED SPACE BETWEEN THE CURRENT PERIOD AND THE PREVIOUS PERIOD.

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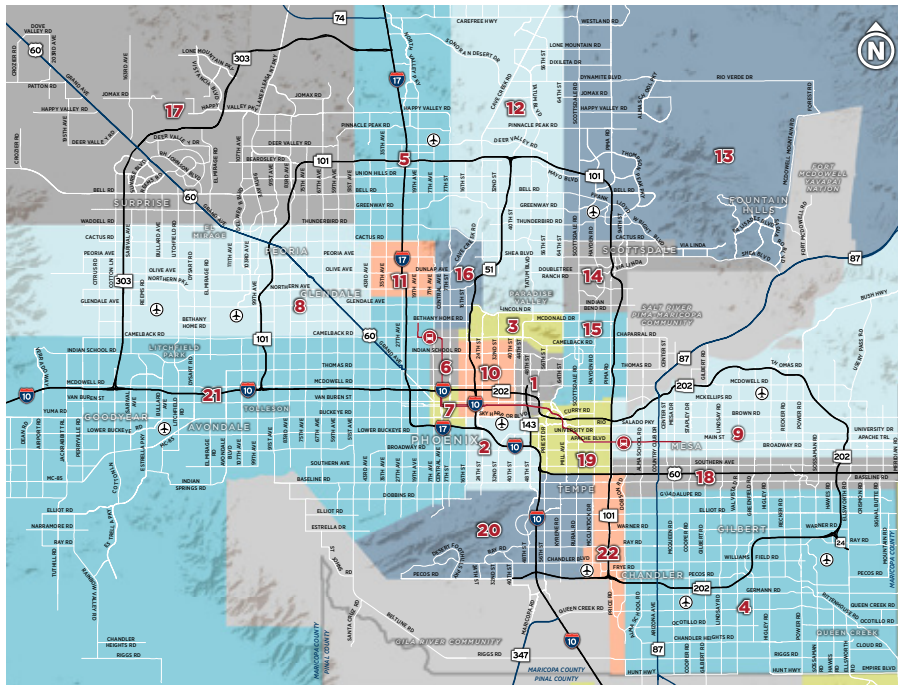
Key Lease Transactions Q2 2019

| PROPERTY | SF | TENANT | TRANSACTION TYPE | SUBMARKET |
|---------------------------|--------|--------------------------|------------------|----------------------|
| Block 23 at CityScape | 90,576 | WeWork | New Lease | Downtown |
| Thistle Landing | 71,006 | TransPerfect | New Lease | South I-10/Ahwatukee |
| SkySong Innovation Center | 50,000 | Arizona State University | New Lease | Scottsdale South |
| Reserve at San Tan | 40,440 | Ascend Learning | New Lease | Chandler/Gilbert/202 |
| One Thomas | 30,573 | Door Dash | New Lease | Midtown |

Key Sales Transactions Q2 2019

| PROPERTY | SF | SELLER/BUYER | PRICE/PSF | SUBMARKET |
|-------------------------------|---------|--|--------------------|--------------------|
| Camelback Lakes | 229,901 | AEW Capital Management/DRA Advisors | \$47,500,000/\$207 | Camelback Corridor |
| Desert Canyon 300 | 149,211 | Bridge Investment Group/Drawbridge Realty Management | \$22,500,000/\$151 | Metrocenter |
| Northsight Financial Center | 120,040 | Investco Advisors/BH Properties | \$23,800,000/\$198 | Scottsdale Airpark |
| One Chandler Corporate Center | 117,394 | VanTrust Real Estate/Gramercy Capital | \$25,210,000/\$215 | Price Corridor |
| Clarendon Place | 91,353 | Brentwood Capital/Millicec Group | \$13,650,000/\$149 | Midtown |

OFFICE SUBMARKETS



- 1 - 44th Street Corridor
- 2 - Sky Harbor*
- 3 - Camelback Corridor
- 4 - Chandler/Gilbert/202
- 5 - Deer Valley
- 6 - Midtown
- 7 - Downtown
- 8 - Glendale/Peoria
- 9 - Mesa
- 10 - East-Central Phoenix
- 11 - Metrocenter
- 12 - N Phoenix/Desert Ridge
- 13 - Scottsdale Airpark
- 14 - Scottsdale Central
- 15 - Scottsdale South
- 16 - Piestewa Peak Corridor
- 17 - Arrowhead
- 18 - Superstition Corridor
- 19 - Tempe North
- 20 - South I-10/Ahwatukee
- 21 - West Phoenix
- 22 - Price Corridor

*The Airport Submarket is now called Sky Harbor

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