

MARKETBEAT

Phoenix

Office Q3 2019



PHOENIX OFFICE

Economic Indicators

| | Q3 18 | Q3 19 | 12-Month Forecast |
|----------------------|--------|--------|-------------------|
| Phoenix Employment | 2,118k | 2,172k | ▲ |
| Phoenix Unemployment | 4.1% | 4.3% | ▼ |
| U.S. Unemployment | 3.8% | 3.7% | ▲ |

*Q3 data is based on the U.S. Bureau of Labor Statistics, All Employees: Total Nonfarm in Phoenix-Mesa-Scottsdale, AZ (MSA).

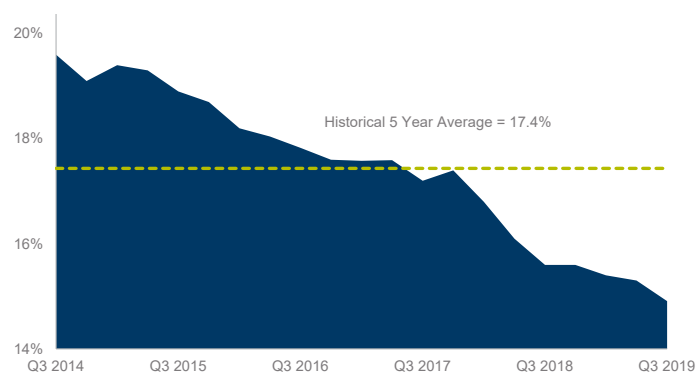
Market Indicators (Overall, All Classes)

| | Q3 18 | Q3 19 | 12-Month Forecast |
|-------------------------|---------|---------|-------------------|
| Vacancy | 15.6% | 14.9% | ▼ |
| Net Absorption (sf) | 494k | 530k | ▼ |
| Under Construction (sf) | 3.1M | 1.9M | ▼ |
| Overall Rate | \$25.43 | \$26.55 | ▲ |

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



Overall Vacancy



Economy

The Metro Phoenix economy continues to improve, adding 54,300 jobs year-over-year (YOY) through the third quarter of 2019.

During the same period, the unemployment rate increased from 4.1% to 4.3%. According to Bureau of Labor Statistics, the Phoenix metropolitan statistical area added 7,000 office sector jobs through the third quarter. The three sectors that make up office employment are: business & professional services, information/technology and financial activities.

Market Overview

In the third quarter of 2019, vacancy in the Metro Phoenix office market fell to 14.9%. This marks the lowest vacancy rate since the first quarter of 2008, when it stood at 15.9%. The rate dropped 40 basis points (bps) quarter-over-quarter and 70 bps YOY.

The Metro Phoenix office market absorbed 531,000 square feet (sf) during the third quarter of 2019. This brings 2019 net absorption to 1.7 million square feet (msf). This marked the 25th 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 third quarter of 2019. The Scottsdale Airpark submarket led the way with 132,000 sf of net absorption, due in large part to Republic Services expanding their lease by an additional 41,000 sf and Paramount Mortgage occupying 32,000 sf at Northsight Corporate Center and Raintree Corporate Center respectively. The Deer Valley submarket experienced the second largest occupancy growth with 131,000 sf. This can be attributed to Farmers Insurance occupying a Phase II build-to-suit (bts) project at 17 North Corporate Center. Six of the 22 submarkets in the Metro Phoenix office market experienced negative absorption during the third quarter of 2019. Price Corridor submarket had -158,000 sf of absorption. The main cause for the large negative absorption can be attributed to the addition of 153,000 sf of new inventory in the submarket at Chandler Freeway Crossing II, which delivered vacant. Across the market, Class A (539,300 sf) and Class C (5,700 sf) office buildings recorded positive absorption while Class B (-14,000 sf) recorded negative absorption.

Construction in the Metro Phoenix office market remained robust in the third quarter of 2019, with 1.9 msf of product currently under construction. The Tempe North submarket currently has 1.1 msf under construction, or 61% of the total office square footage under construction across the Metro Phoenix market. The Chandler/Gilbert/202 submarket currently has 361,000 sf followed by the Downtown submarket with 228,000 sf under construction.

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Cushman & Wakefield is tracking 14 under construction projects, 13 speculative builds and one bts. We project five of the 14 under construction projects will deliver by the end of 2019 and will add just over one msf of new inventory. All nine of the Class A projects are speculative buildings. Tempe North has four Class A speculative projects, which will make up roughly 957,000 sf of the submarket's total new inventory. Scottsdale South has one Class B building under construction totaling 65,000 sf, this is the only bts project in the entire market.

During the third quarter of 2019, four projects delivered, adding 548,000 sf of new inventory of which 47.4% was preleased. The fifth building at SkySong Innovation Center delivered 151,000 sf in Scottsdale South, while the sixth building at Chandler Freeway Crossing II delivered 153,000 sf in the Price Corridor submarket. Phase II of 17 North Corporate Center was the only bts project that delivered in the third quarter of 2019.

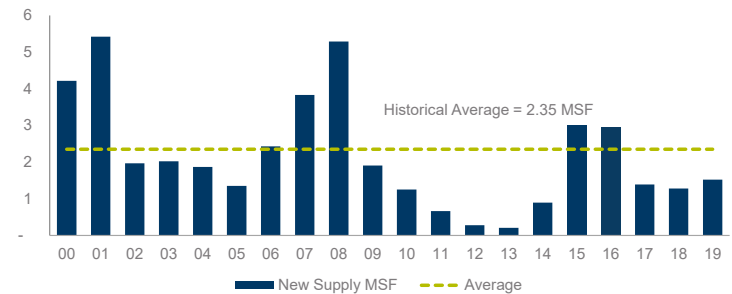
The overall rent in the Metro Phoenix office market increased to \$26.55 per-square-foot (psf) on an annual full-service basis in the third quarter of 2019. This marks a \$0.08 psf drop from second quarter of 2019 and a \$1.12 psf increase from the third quarter of 2018. The Piestewa Peak submarket led with an 3.2% increase in overall asking rents, increasing from \$23.54 to \$24.31 quarter-over-quarter. Sky Harbor was second with an 2.9% increase in overall asking rents, increasing from the second quarter of 2019 (\$22.36) to the third quarter of 2019 (\$23.03). Camelback Corridor and Scottsdale South continue to lead the market in highest rental rates at \$34.08 and \$31.19, respectively. Glendale/Peoria (\$18.33) and West Phoenix (\$19.80) remain the least expensive office submarkets.

Outlook

- One year ago, in the third quarter of 2018, Cushman and Wakefield reported vacancy rates would fall below 15% by the end of 2019. One year later, the Metro Phoenix Office Market vacancy stands at 14.9% and is expected to continue to drop in the fourth quarter of 2019.
- Price Corridor (\$29.45) and Piestewa Peak Corridor (\$24.31) submarkets saw the largest gains in rental rates year-over-year. Both submarkets recorded a 14% increase in overall rental rents signaling strengthening activity in each submarket.
- Although Class B absorption was negative during the third quarter of 2019, it is still reporting over 323,000 sf of positive absorption for the year. With five Class B buildings under construction, totaling 365,000 sf, negative absorption could be limited to this single quarter in 2019.
- Tempe North continues to lead the way with new construction and inventory. Four of the five projects under construction in the submarket are Class A projects. Three of the five projects are expected to be completed by the end of 2019, adding nearly 780,000 sf of new inventory to the submarket.

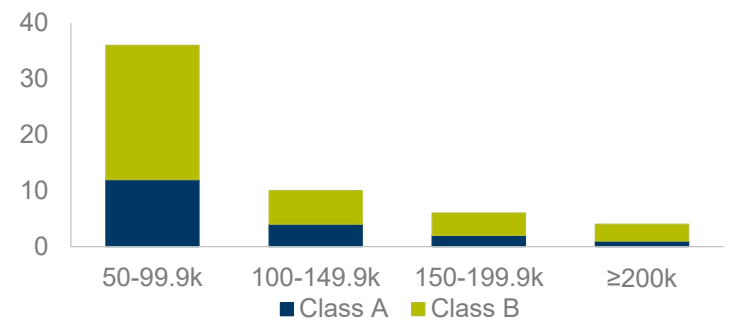
New Supply

NEW INVENTORY TO DELIVER IN 2019 IS 35% 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 | DIRECT VACANT | SUBLET VACANT | VACANCY RATE | Q3 NET ABSORPTION | 2019 NET ABSORPTION | UNDER CONSTRUCTION | OVERALL AVG ASKING RENT | DIRECT ASKING RENT |
|------------------------|--------------|-------------------|-------------------|----------------|--------------|-------------------|---------------------|--------------------|-------------------------|--------------------|
| Downtown | 43 | 7,402,788 | 1,106,650 | 123,423 | 16.6% | -82,822 | 21,919 | 228,402 | \$30.83 | \$31.39 |
| Midtown | 82 | 10,561,369 | 2,088,175 | 45,977 | 20.2% | 124,758 | 183,946 | - | \$23.55 | \$23.84 |
| CBD Total | 125 | 17,964,157 | 3,194,825 | 169,400 | 18.7% | 41,936 | 205,865 | 228,402 | \$26.26 | \$26.57 |
| 44th Street Corridor | 42 | 3,493,052 | 343,270 | 25,137 | 10.5% | 22,890 | 88,761 | - | \$26.33 | \$26.27 |
| Arrowhead | 23 | 1,446,587 | 69,182 | 6,650 | 5.2% | -8,425 | 2,215 | - | \$23.95 | \$24.10 |
| Camelback Corridor | 71 | 7,343,074 | 1,138,605 | 92,251 | 16.8% | 53,991 | 51,937 | - | \$34.08 | \$34.77 |
| Chandler/Gilbert/202 | 45 | 3,075,594 | 860,919 | 7,192 | 28.2% | 8,098 | 65,099 | 369,508 | \$25.91 | \$25.92 |
| Deer Valley | 73 | 7,918,297 | 935,960 | 7,578 | 11.9% | 131,649 | 11,568 | - | \$24.74 | \$24.74 |
| East-Central Phoenix | 43 | 1,928,669 | 203,194 | 2,756 | 10.7% | 12,400 | -3,234 | - | \$20.70 | \$20.45 |
| Glendale/Peoria | 14 | 827,799 | 34,277 | - | 4.1% | 22,725 | 10,352 | - | \$18.33 | \$18.36 |
| Mesa | 24 | 1,219,383 | 53,831 | - | 4.4% | 18,598 | 82,321 | - | \$20.10 | \$19.53 |
| Metrocenter | 65 | 4,589,312 | 1,425,716 | 1,952 | 31.1% | -67,505 | -112,490 | - | \$19.74 | \$19.73 |
| N Phoenix/Desert Ridge | 35 | 2,397,186 | 301,951 | 13,649 | 13.2% | -9,325 | 50,179 | - | \$25.48 | \$26.05 |
| Piestewa Peak Corridor | 32 | 2,010,074 | 355,684 | 2,378 | 17.8% | 2,019 | 52,267 | - | \$24.31 | \$24.34 |
| Price Corridor | 63 | 6,953,629 | 688,965 | 82,485 | 11.1% | -157,941 | 348,321 | - | \$29.45 | \$29.45 |
| Scottsdale Airpark | 144 | 10,130,483 | 1,462,863 | 41,597 | 14.9% | 132,547 | -188,008 | 80,568 | \$29.83 | \$30.80 |
| Scottsdale Central | 67 | 5,254,354 | 565,146 | 50,769 | 11.7% | 16,279 | -83,056 | - | \$28.74 | \$29.15 |
| Scottsdale South | 39 | 4,366,381 | 614,968 | 37,468 | 14.9% | 125,599 | 193,124 | 65,000 | \$31.19 | \$31.73 |
| Sky Harbor | 54 | 4,842,419 | 976,225 | 41,025 | 21.0% | -45,268 | -30,930 | - | \$23.03 | \$23.21 |
| South I-10/Ahwatukee | 56 | 3,091,790 | 328,384 | 16,189 | 11.1% | 100,087 | -69,978 | - | \$21.37 | \$21.53 |
| Superstition Corridor | 44 | 2,464,319 | 235,353 | 17,473 | 10.3% | 70,308 | 12,249 | - | \$21.58 | \$21.60 |
| Tempe North | 100 | 11,600,894 | 784,451 | 120,348 | 7.8% | 56,834 | 373,666 | 1,126,128 | \$27.70 | \$28.54 |
| West Phoenix | 36 | 1,665,697 | 280,585 | 1,787 | 17.0% | 3,456 | -3,412 | - | \$19.80 | \$19.79 |
| Suburban Total | 1,070 | 86,618,993 | 11,659,529 | 568,684 | 14.1% | 489,016 | 1,424,122 | 1,633,120 | \$26.63 | \$26.85 |

| CLASS | TOTAL BLDGS | INVENTORY | DIRECT VACANT | SUBLET VACANT | VACANCY RATE | Q3 NET ABSORPTION | 2019 NET ABSORPTION | UNDER CONSTRUCTION | OVERALL AVG ASKING RENT | DIRECT ASKING RENT |
|--------------------|--------------|--------------------|-------------------|----------------|--------------|-------------------|---------------------|--------------------|-------------------------|--------------------|
| Class A | 275 | 43,743,048 | 5,293,919 | 386,273 | 13.0% | 539,305 | 604,692 | 1,496,499 | \$31.11 | \$31.57 |
| Class B | 740 | 53,602,075 | 8,593,750 | 332,886 | 14.5% | -14,077 | 323,368 | 365,023 | \$24.20 | \$24.43 |
| Class C | 180 | 7,238,027 | 966,685 | 18,925 | 4.1% | 5,724 | 128,756 | - | \$17.76 | \$17.84 |
| Grand Total | 1,195 | 104,583,150 | 14,854,354 | 738,084 | 14.9% | 530,952 | 1,672,582 | 1,861,522 | \$26.55 | \$26.79 |

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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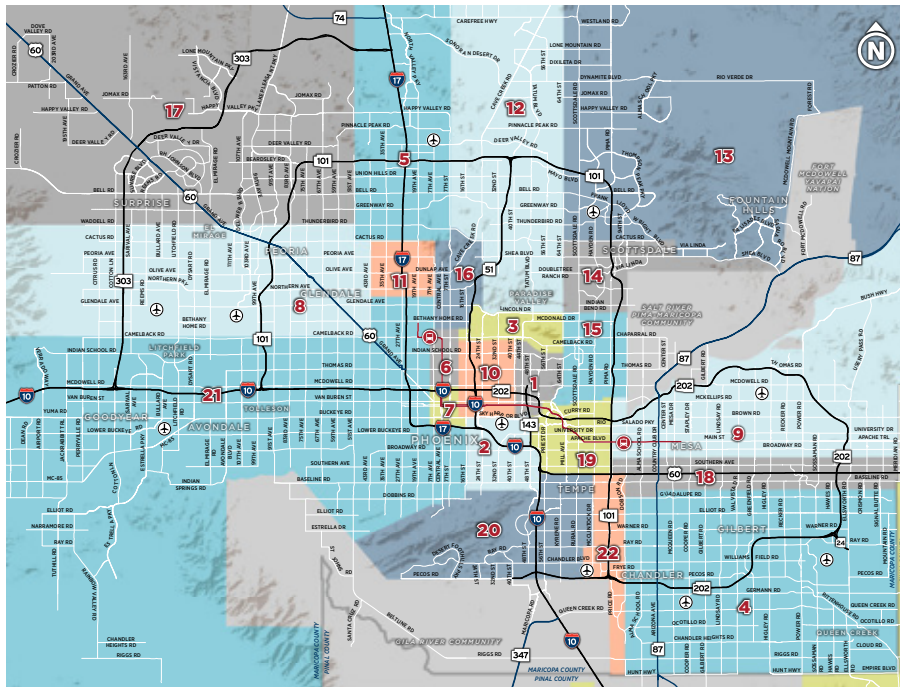
Key Lease Transactions Q3 2019

| PROPERTY | SF | TENANT | TRANSACTION TYPE | SUBMARKET |
|-------------------------------|---------|--------------------|------------------|----------------------|
| Union Bldg A | 150,000 | WageWorks | New Lease | Mesa |
| The Commons at Rivulon Bldg A | 48,624 | Deloitte | New Lease | Chandler/Gilbert/202 |
| The Commons at Rivulon Bldg A | 48,624 | Deloitte | New Lease | Chandler/Gilbert/202 |
| 950 W Behrend Dr - Bldg B | 31,016 | Cox Communications | New Lease | Deer Valley |
| 207 N Mesa Dr | 30,657 | Montessori School | New Lease | Mesa |

Key Sales Transactions Q3 2019

| PROPERTY | SF | SELLER/BUYER | PRICE/PSF | SUBMARKET |
|--------------------|---------|---|----------------------|--------------------|
| U.S. Bank Center | 373,013 | Varde Partners/Black Salmon Capital | \$66,466,954 / \$178 | Downtown |
| Esplanade III | 218,387 | Crow Holdings/Transwestern | \$60,250,000 / \$276 | Camelback Corridor |
| FBI Regional HQ | 210,202 | Artis Real Estate Investment Trust/NGP Management | \$92,250,000 / \$439 | Deer Valley |
| WayPoint 4 | 153,134 | Lincoln Property Company/Innovatus Capital Partners | \$44,565,228 / \$291 | Mesa |
| Black Canyon Tower | 147,731 | Fenway Properties/Mikhail Holdings | \$20,100,000 / \$136 | Metrocenter |

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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