

MARKETBEAT PHOENIX

Office Q4 2019



YoY
Chg

12-Mo.
Forecast

14.4%

Vacancy Rate



1.2M

Net Absorption, SF



1.7M

Under Construction, SF



\$27.10

Asking Rent, PSF



**Q4 data is based on the U.S. Bureau of Labor Statistics, All Employees: Total Nonfarm in Phoenix-Mesa-Scottsdale, AZ (MSA).*

ECONOMIC INDICATORS Q4 2019

YoY
Chg

12-Mo.
Forecast

2,189K

Phoenix
Employment



4.3%

Phoenix
Unemployment Rate



3.6%

U.S.
Unemployment Rate



Source: BLS

ECONOMY OVERVIEW

The Metro Phoenix economy continues to improve, adding 55,000 jobs year-over-year (YOY) through the fourth quarter of 2019. During the same period, the unemployment rate remained at 4.3%. According to the Bureau of Labor Statistics, the Phoenix metropolitan statistical area added 10,500 office sector jobs through the fourth quarter. The three sectors that make up office employment are: business & professional services, information/technology and financial activities.

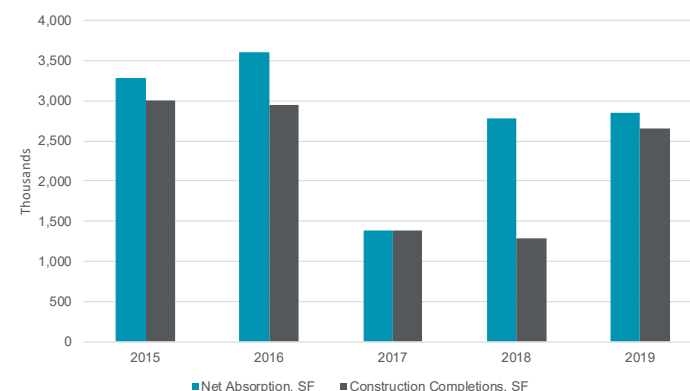
DEMAND

In the fourth quarter of 2019, vacancy in the Metro Phoenix office market stood at 14.4%. This marks the lowest vacancy rate since the fourth quarter of 2007, when it was 14.3%. The rate dropped 50 basis points (bps) quarter-over-quarter and 120 bps YOY. The Metro Phoenix office market continues to experience robust demand in the fourth quarter of 2019, absorbing 1.2 million square feet (msf). This brings the 2019 total absorption to 2.8 msf and marks the eighth largest net gain for a single year since 1999. The largest net gain for any single year posted was 4.2 msf in 2005. In the fourth quarter of 2019, all building classes (A-C) posted positive occupancy growth lead by Class A (+660,032 sf), followed by Class B (+517,074 sf) and Class C (+5,497 sf).

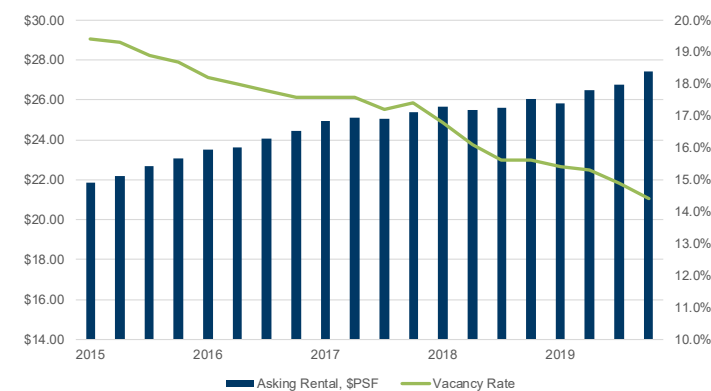
PRICING

The overall rent in the Metro Phoenix office market increased to \$27.10 per-square-foot (psf) on an annual full-service basis in the fourth quarter of 2019. This marks a \$0.55 psf increase from the third quarter of 2019 and a \$1.27 psf increase from the fourth quarter of 2018. Tempe North recorded the largest increase in overall rental rates, increasing from \$27.70 to \$31.16 psf from the third quarter of 2019 to the fourth quarter of 2019. The North Phoenix/Desert Ridge submarket recorded the second largest increase with a \$1.50 increase in overall asking rates, increasing from

SPACE DEMAND/DELIVERIES



OVERALL VACANCY & ASKING RENT



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\$25.48 to \$26.98 psf from the third quarter to the fourth quarter of 2019. Camelback Corridor and Scottsdale South continue to lead the market in highest rental rates at \$35.02 and \$31.48, respectively. Glendale/Peoria (\$18.15) and West Phoenix (\$19.73) remain the least expensive office submarkets.

SUPPLY

Construction in the Metro Phoenix office market remained strong in the fourth quarter of 2019, with 1.7 msf of new space currently under construction. The Scottsdale Airpark submarket currently has 667,000 sf under construction which accounts for 40% of the total office square footage under construction for the entire market. The largest project under construction is the 460,000 sf build-to-suit (bts) for Nationwide at Cavasson. Cushman & Wakefield is tracking 13 projects under construction, 10 speculative builds and three bts. Cushman & Wakefield predicts six of the 13 under projects will deliver by the end of the first quarter of 2020, adding 547,000 sf of new inventory. The remaining seven projects under construction will complete by the end of 2020, adding 1.1 msf to the Metro Phoenix office market.

During the fourth quarter of 2019, six projects delivered, adding 1.1 msf of new inventory of which 57.4% was pre-leased. The fourth quarter of 2019 the strongest quarter of new inventory delivered for the entire year, up 48% from the third quarter of 2019 and consisted of 43% of the annual square footage delivered. The Grand at Papago Park Phase II, the largest project to deliver, added 346,000 sf to the Tempe North submarket followed by Block 23 at Cityscape, which added 280,000 sf to the Downtown submarket. Five of the six completed projects were Class A and all six projects were speculative buildings, which was the largest amount of speculative buildings to deliver all year.

OUTLOOK

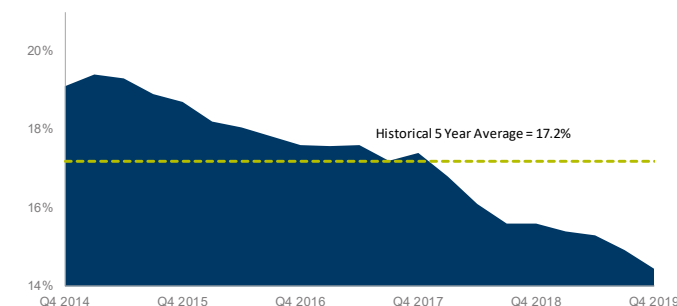
- Vacancy rates dropped considerably during 2019, finishing at 14.4%, declining 120 bps from the fourth quarter of 2018. The vacancy rate is anticipated to continue to drop in 2020. Arizona's strong employment growth and favorable outlook should yield considerable growth in population and GDP, which outpaces the country.
- Demand for coworking space dominated the office landscape in 2019 with the occupancy of four large scale spaces. WeWork, Serendipity Labs and Workuity all added 245,000 sf to the coworking footprint in the market, opening the door for more coworking space in 2020.
- Class A construction continues to dominate with nearly 1.1 msf of Class A projects currently under construction, while Class B only accounts for roughly 510,000 sf of the total construction square footage expected to be completed in 2020. With additional projects expected to start construction, Class A office space is set to dominate the new inventory in 2020, 2021 and beyond.

CLASS A RATE

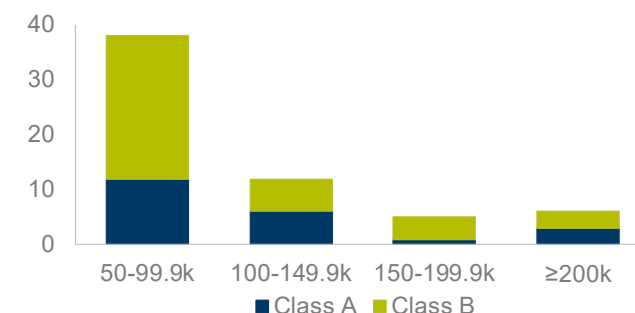
METRO PHOENIX CLASS A ASKING RENT INCREASED OVER THE TRAILING 4 QUARTERS



OVERALL VACANCY



CONTINUOUS BLOCKS OF AVAILABLE SPACE



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MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANT RATE	CURRENT QTR Overall Net Absorption	YTD OVERALL ABSORPTION	UNDER CONSTRUCTION (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)	OVERALL AVG ASKING RENT (CLASS A)
Downtown	7,676,607	120,638	1,141,238	16.4%	273,078	212,175	0	\$30.48	\$32.10
Midtown	10,561,369	54,372	2,033,617	19.8%	46,973	356,336	0	\$23.36	\$27.23
CBD Total	18,237,976	175,010	3,174,855	18.4%	320,051	568,511	0	\$26.30	\$30.43
44th Street Corridor	3,493,052	4,173	355,943	10.3%	8,291	15,975	0	\$26.57	\$28.27
Arrowhead	1,446,587	6,650	81,761	6.1%	-12,579	-18,789	0	\$23.97	\$26.00
Camelback Corridor	7,343,074	39,066	1,300,397	18.2%	-47,775	56,999	0	\$35.02	\$38.35
Chandler/Gilbert/202	3,275,276	7,192	799,428	24.6%	120,661	340,036	162,113	\$25.17	\$28.66
Deer Valley	7,918,297	19,793	938,533	12.1%	-14,788	128,429	0	\$24.90	\$27.00
East-Central Phoenix	1,928,669	6,551	200,232	10.7%	-833	33,575	0	\$21.13	0
Glendale/Peoria	827,799	0	55,400	6.7%	-21,123	11,954	0	\$18.15	\$24.50
Mesa	1,219,383	0	60,691	5.0%	23,797	128,391	0	\$21.21	0
Metrocenter	4,589,312	31,118	1,295,120	28.9%	101,430	-78,565	0	\$20.60	\$23.76
N Phoenix/Desert Ridge	2,397,186	9,389	260,498	11.3%	21,995	62,849	0	\$26.98	\$30.09
Piestewa Peak Corridor	2,010,074	2,378	348,712	17.5%	6,972	61,258	0	\$24.67	\$27.00
Price Corridor	6,905,705	3,737	917,815	13.3%	-74,787	115,593	161,753	\$29.73	\$31.05
Scottsdale Airpark	10,178,997	82,250	1,339,964	14.0%	75,420	34,140	667,054	\$30.06	\$31.51
Scottsdale Central	5,254,354	8,332	586,686	11.3%	20,897	-45,880	0	\$28.84	\$30.10
Scottsdale South	4,366,381	16,561	565,264	13.3%	70,611	389,334	65,000	\$31.48	\$34.52
Sky Harbor	4,842,419	95,098	838,828	19.3%	83,324	7,126	0	\$22.81	\$26.31
South I-10/Ahwatukee	3,091,790	5,166	299,068	9.8%	40,339	70,448	0	\$20.96	\$28.00
Superstition Corridor	2,464,319	1,555	266,686	10.9%	-15,415	67,142	0	\$21.17	\$26.43
Tempe North	12,211,689	112,192	686,557	6.5%	451,845	882,345	594,333	\$31.16	\$36.67
West Phoenix	1,665,697	1,787	256,315	15.5%	24,270	24,314	0	\$19.73	\$27.05
Suburban Total	87,430,060	452,988	11,453,898	13.6%	862,552	2,286,674	1,650,253	\$27.33	\$32.33

CLASS	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANT RATE	CURRENT QTR Overall Net Absorption	YTD OVERALL ABSORPTION	UNDER CONSTRUCTION (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)
Class A	44,786,000	222,097	5,551,048	12.9%	660,032	1,915,458	1,387,607	\$31.91
Class B	53,644,009	402,999	8,071,982	15.8%	517,074	800,379	262,646	\$24.25
Class C	7,238,027	2,902	1,005,723	13.9%	5,497	139,348	0	\$18.61
Grand Total	105,668,036	627,998	14,628,753	14.4%	1,182,603	2,855,185	1,650,253	\$27.10

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KEY LEASE TRANSACTIONS Q4 2019

PROPERTY NAME	SUBMARKET	TENANT	SQUARE FOOTAGE	TYPE
The Grand at Papago Park Phase II	Tempe North	DoorDash	345,795	New Lease
NWC Loop 101	Scottsdale Airpark	Choice Hotels	150,000	New Lease
The Watermark	Tempe North	Opendoor	100,807	New Lease
Allred Park Place South	Price Corridor	Toyota Financial Services	63,000	New Lease
555 N 18th St	Midtown	Stockbridge	27,858	New Lease

*Renewals not included in leasing statistics

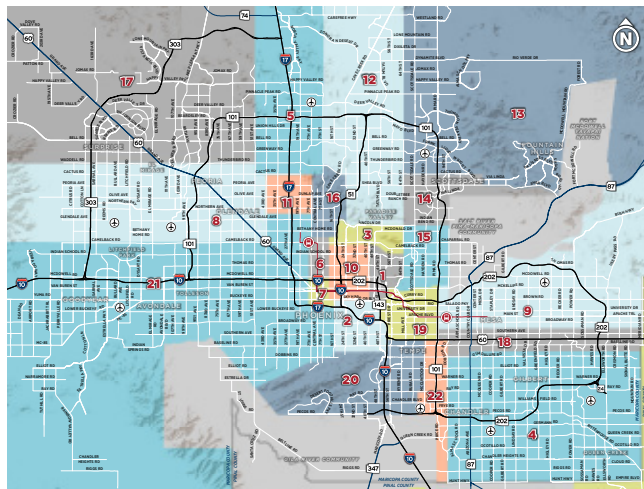
KEY SALES TRANSACTIONS Q4 2019

PROPERTY NAME	SUBMARKET	SELLER/BUYER	SQUARE FOOTAGE	PRICE/ \$PSF
Henkel Corporate Center	Scottsdale Airpark	Henkel Corporation/Stockdale Captial Partners	372,000	\$65,000,000/\$175
2600 Tower	Midtown	Adler Realty Investments/Townline Homes Inc.	323,607	\$30,750,000/\$95
The Hub	Chandler/Gilbert/202	Walton Street Capital/Insight Enterprises	298,704	\$47,900,000/\$160
Biltmore Center II	Camelback Corridor	Alliance Bernstein/Partners Group AG	288,435	\$94,734,111/\$328
Three Gateway	44th Street Corridor	Lowe Enterprises/Bridge Investments Group	222,118	\$45,749,231/\$206

KEY CONSTRUCTION COMPLETIONS YTD 2019

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
The Grand at Papago Park Center Phase II	Tempe North	DoorDash	345,795	Lincoln Property Company
Block 23 at Cityscape	Downtown	WeWork	280,399	RED Development
The Watermark	Tempe North	Opendoor	265,000	Fenix Development

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

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