

MARKETBEAT PHOENIX

Office Q2 2021



YoY
Chg

12-Mo.
Forecast

22.3%

Vacancy Rate



-1.9M

YTD Net Absorption, SF



1.7M

Under Construction, PSF



\$27.69

Asking Rent, PSF



ECONOMIC INDICATORS Q2 2021

YoY
Chg

12-Mo.
Forecast

2.1M

Phoenix
Employment



6.2%

Phoenix
Unemployment Rate



5.9%

U.S.
Unemployment Rate



Source: BLS

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

ECONOMY

In Q2 2021, the Phoenix market recorded an employment level of 2.1 million jobs. The unemployment rate decreased from 6.4% in Q1 2021 to 6.2% in Q2 2021.

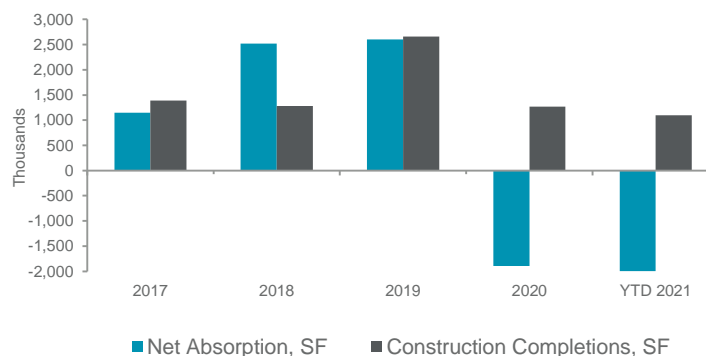
MARKET OVERVIEW

In Q2 of 2021 the office vacancy rate across the Phoenix metro office market has risen to 22.3%. While vacancy has increased, the office market is seeing an increase in occupier demand in Q2 2021. The Phoenix Metro office market recorded 908,000 square feet of gross leasing activity for the quarter, an increase from 730,000 sf in Q1 2021.

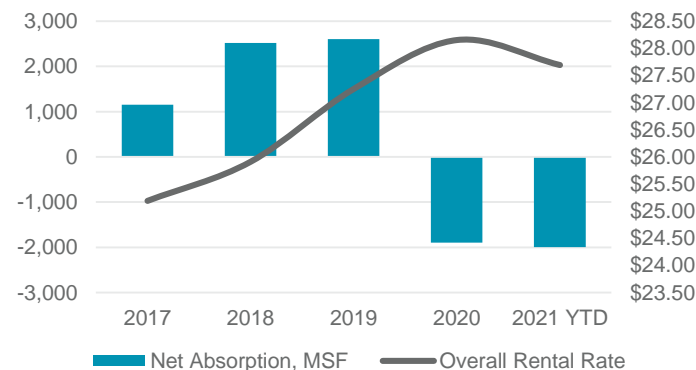
In Q2 2021, the Phoenix market recorded negative absorption of 1,253,052 sf for all building classes. In the quarter, all building classes recorded negative absorption. Class A buildings had negative absorption of 856,068 sf, Class B buildings had negative absorption of 333,440 sf, and Class C buildings had negative absorption of 63,544 sf.

Of the 22 office submarkets in the Phoenix metro, five experienced positive absorption in Q2 2021. The submarket performing the best in the quarter was the Deer Valley Corridor submarket with 8,798 sf of positive absorption. The South Airport submarket recorded the largest negative absorption in the quarter with 428,983 sf.

SPACE DEMAND / DELIVERIES



YEARLY ABSORPTION & ASKING RENT





In Q2 2021, the market delivered approximately 93,125 sf of new product across the Phoenix metro. This is due to 999 E Playa del Norte delivering in the North Tempe submarket. Q2 2021 contained no deliveries in the CBD area as the suburban submarkets continue to dominate the development pipeline.

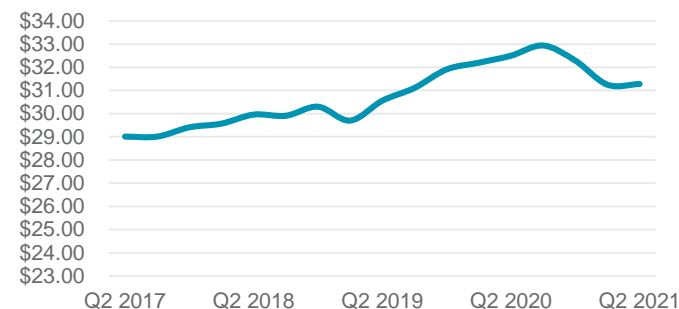
Construction in the Phoenix metro office market remained strong in Q2 2021, with approximately 1.7 msf of space currently under construction. The North Tempe submarket leads all submarkets with 467,000 sf under construction. The largest for-lease project under construction is the 287,000 sf office building, 100 Mill, in the North Tempe submarket.

The overall full-service gross asking rental rate in the Phoenix Metro office market in Q2 2021 rose to \$27.69 per square foot (psf) from \$27.44 psf, in Q1 2021. The South Scottsdale submarket was the most expensive submarket at \$35.76 psf. The Black Canyon Corridor was the least expensive at \$17.37 psf.

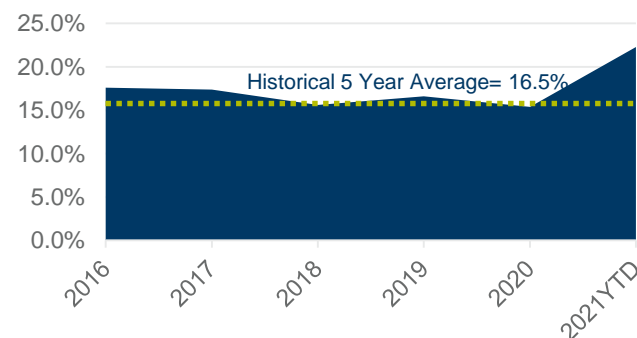
Outlook

- Continued increase in space listed as sublease, available.
- With less deals in the market for space, owners are getting more competitive in the form of concessions. This is being seen in increased free rent and tenant improvement allowances being offered throughout the market.
- Increased demand for turnkey space & spec suites in the current market as tenants appear either out of time or not wanting to deal with hassle of building out space.
- Large user activity is still slow as tenants wait for vaccine and COVID-19 climate to improve. The busiest sector of the market is under 20,000 RSF, likely due to many of those tenants being either local or regional companies, as opposed to national corporations.

CLASS A RATE



VACANCY RATE





MARKET STATISTICS

SUBMARKET NAME	TOTAL INVENTORY	TOAL DIRECT VACANCY SF	TOTAL SUBLEASE VACANCY SF	TOTAL OVERALL VACANT RATE	YTD LEASING ACTIVITY	OVERALL NET ABSORPTION Q2	OVERALL NET ABSORPTION YTD	TOTAL UNDER CONSTRUCTION (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)
(1) Downtown	7,113,440	1,692,486	118,494	25.5%	254,508	(84,715)	(128,087)	-	\$31.97
(2) Midtown	9,625,904	2,392,563	162,459	26.5%	101,147	(68,804)	(167,763)	-	\$23.67
(3) Camelback Corridor	6,730,310	1,426,394	171,834	23.7%	157,887	(35,963)	(131,190)	181,494	\$35.66
(4) 44th Street/East Phoenix	2,758,647	532,028	170,001	25.4%	18,705	(17,411)	(68,964)	-	\$26.55
(5) Central Phoenix	2,073,126	128,265	-	6.2%	34,826	6,430	4,346	-	\$21.67
(6) Piestewa Peak	2,463,768	509,270	29,494	21.9%	68,579	(35,074)	(18,740)	-	\$25.20
(7) North Phoenix	1,857,552	229,668	46,140	14.8%	26,926	1,696	8,100	-	\$27.15
(8) Scottsdale Airpark	9,612,579	1,681,603	260,621	20.2%	279,139	(50,269)	119,180	150,000	\$29.47
(9) Central Scottsdale	4,930,793	1,020,655	92,206	22.6%	93,390	(8,274)	(100,354)	-	\$28.00
(10) South Scottsdale	4,174,707	782,147	135,371	22.0%	81,378	(113,492)	(202,703)	242,940	\$35.76
(11) South Tempe	2,215,362	284,906	59,405	15.5%	17,077	(9,371)	(30,252)	-	\$21.43
(12) Mesa	1,096,334	137,545	46,271	16.8%	37,933	(20,081)	(64,944)	238,347	\$23.96
(13) Chandler/Gilbert	8,551,223	1,553,391	351,067	22.3%	189,477	(66,735)	(165,489)	300,000	\$26.50
(14) West County	513,512	66,934	8,446	14.7%	7,276	4,743	(1,283)	103,628	\$24.24
(15) Metrocenter	4,457,577	1,638,586	18,037	37.2%	27,121	(136,428)	(160,161)	-	\$20.67
(16) Black Canyon Corridor	597,983	105,954	-	17.7%	5,700	(28,234)	(22,534)	-	\$17.37
(17) Deer Valley Corridor	4,688,755	801,023	208,272	21.5%	24,457	8,798	122,246	-	\$24.49
(18) North Tempe	12,167,315	1,962,375	328,582	18.8%	182,131	(157,933)	(370,942)	467,000	\$31.97
(19) Arrowhead	915,185	63,149	-	6.9%	13,316	(6,897)	661	-	\$27.34
(20) Superstition Corridor	2,015,564	300,845	4,451	15.1%	65,662	(14,030)	(66,285)	-	\$20.81
(21) Glendale	1,181,048	160,374	-	13.6%	18,626	7,975	(48,492)	-	\$20.95
(22) South Airport	2,601,801	450,532	502,145	36.6%	16,283	(428,983)	(500,751)	-	\$22.02
Phoenix CBD	16,739,344	4,085,049	280,953	26.1%	355,655	(153,519)	(295,850)	-	\$26.92
Phoenix Non-CBD	75,603,141	13,835,644	2,432,343	21.5%	1,365,889	(1,099,533)	(1,698,551)	1,683,409	\$27.93
Grand Total	92,342,485	17,920,693	2,713,296	22.3%	1,721,544	(1,253,052)	(1,994,401)	1,683,409	\$27.69

CLASS	TOTAL INVENTORY	TOAL DIRECT VACANCY SF	TOTAL SUBLEASE VACANCY SF	TOTAL OVERALL VACANT RATE	YTD LEASING ACTIVITY	OVERALL NET ABSORPTION Q2	OVERALL NET ABSORPTION YTD	TOTAL UNDER CONSTRUCTION (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)
Class A	41,301,950	7,250,113	1,803,972	21.9%	859,074	(856,068)	(887,676)	1,579,781	\$31.28
Class B	44,691,668	9,652,500	892,912	23.6%	778,527	(333,440)	(862,179)	103,628	\$25.50
Class C	6,348,867	1,018,080	16,412	16.3%	83,943	(63,544)	(244,546)	-	\$21.79
Grand Total	92,342,485	17,920,693	2,713,296	22.3%	1,721,544	(1,253,052)	(1,994,401)	1,683,409	\$27.69



KEY LEASE TRANSACTIONS Q2 2021

PROPERTY	SF	TENANT	TRANSACTION TYPE	CITY	SUBMARKET
Marina Heights	372,741	Carvana	Sublease	Tempe	North Tempe
CityScape	116,565	Snell & Wilmer	Direct	Phoenix	Downtown
The Grove	60,000	Sendoso	Direct	Phoenix	Camelback Corridor
Rio West	51,789	Carvana	Direct	Tempe	North Tempe
Block 23	45,288	Western Alliance Bank	Direct	Phoenix	Downtown

KEY SALES TRANSACTIONS Q2 2021

PROPERTY	SF	BUYER	PRICE	PRICE/\$ PSF	CITY	SUBMARKET
The Mesa Tower	311,132	Camco Investment Group	\$39,500,000	\$126.96	Mesa	Superstition Corridor
The ARC	180,110	Cypress Office Properties	\$37,000,000	\$205.43	Mesa	Superstition Corridor
Ascend at Chandler Airport	130,642	Silver Creek Development	\$34,235,000	\$262.05	Chandler	Chandler/Gilbert
Northrop Grumman	120,294	Silver Creek Development	\$43,100,000	\$358.29	Gilbert	Chandler/Gilbert

KEY CONSTRUCTION COMPLETIONS Q2 2021

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
Playa Del Norte	North Tempe	N/A	93,125	Irgens

JEFF COOLEDGE

Research Manager

Tel: +1602 224 4448

jeffrey.cooledge@cushwake.com

RACE CARTER

Research Analyst

Tel: +1602 229 5842

race.carter@cushwake.com

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Office Submarket Map

Phoenix Metro Area

