MARKETBEAT

PHOENIX

Office Q3 2021

CUSHMAN & WAKEFIELD

	YoY Chg	12-Mo. Forecast
22.9% Vacancy Rate	▲	▲
-2.2M YTD Net Absorption, SF	▼	▲
1.3M Under Construction, PSF	▼	▼
$27.62 Asking Rent, PSF	▼	—

ECONOMIC INDICATORS Q3 2021

	YoY Chg	12-Mo. Forecast
2.2M Phoenix Employment	▲	▲
5.9% Phoenix Unemployment Rate	▼	▼
5.2% U.S. Unemployment Rate	▼	▼

Source: BLS

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

ECONOMY

In Q3 2021, the Phoenix market recorded an employment level of 2.2 million jobs. The unemployment rate decreased from 6.2% in Q2 2021 to 5.9% in Q3 2021.

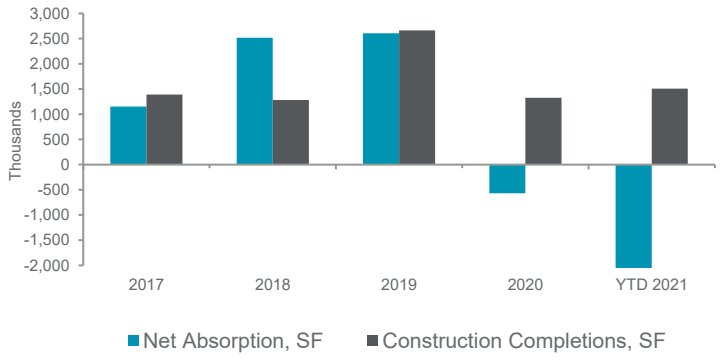
MARKET OVERVIEW

In Q3 of 2021 the office vacancy rate across the Phoenix metro office market has risen to 22.9%. While vacancy has increased, the office market is continuing to see an increase in occupier demand in Q3 2021. The Phoenix Metro office market recorded 2.3 million square feet (msf) of gross leasing activity for the quarter, an increase from 1.3 msf in Q2 2021. The increase in activity was led by Class A buildings for the second consecutive quarter.

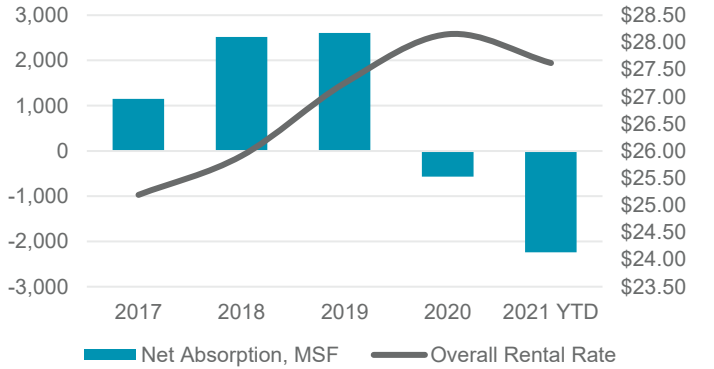
In Q3 2021, the Phoenix market recorded negative absorption of 382,073 square feet (sf) for all building classes. In the quarter, all building classes recorded negative absorption. Class A buildings had negative absorption of 201,885 sf, Class B buildings had negative absorption of 121,481 sf, and Class C buildings had negative absorption of 58,707 sf.

Of the 22 office submarkets in the Phoenix metro, seven experienced positive absorption in Q3 2021. The submarket performing the best in the quarter was the Central Scottsdale submarket with 198,910 sf of positive absorption, followed by the Scottsdale Airpark submarket with 46,254 sf of positive absorption. The Chandler/Gilbert submarket recorded the largest negative absorption in the quarter with 228,196 sf.

SPACE DEMAND / DELIVERIES



YEARLY ABSORPTION & ASKING RENT



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In Q3 2021, the market delivered approximately 388,347 sf of new product across the Phoenix metro. This is due to UNION Building 1 delivering in the Mesa submarket and the Choice Hotels International tech HQ in the Scottsdale Airpark submarket. The third quarter of 2021 saw 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 Q3 2021, but activity is beginning to taper as existing office projects are completed. There is approximately 1.3 msf of space currently under construction throughout the metro area. 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.

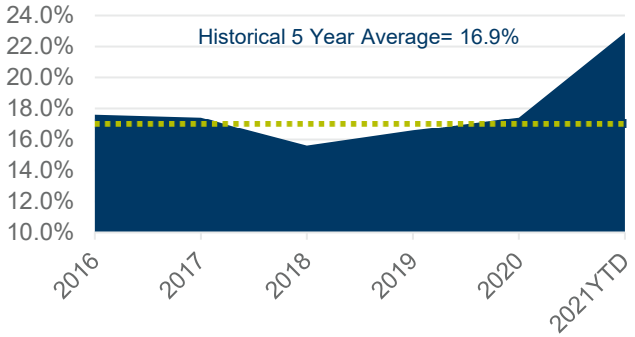
The overall full-service gross asking rental rate in the Phoenix Metro office market in Q3 2021 decreased slightly to $27.62 per square foot (psf) from $27.69 psf, in Q2 2021. The Camelback Corridor submarket was the most expensive submarket at $35.93 psf. The Black Canyon Corridor was the least expensive at $17.38 psf.

Outlook

- Negative absorption experienced in Q3 2021 for the fifth quarter in a row, however positive absorption occurred throughout all CBD and Scottsdale submarkets as the strongest submarkets show signs of recovery.
- Sublease availabilities remain high despite increased leasing activity. Q3 2021 leasing activity at highest level since Q4 2019 and is expected to remain strong.
- 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



MARKETBEAT

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Office Q3 2021

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MARKET STATISTICS

SUBMARKET NAME	TOTAL INVENTORY	TOAL DIRECT VACANCY SF	TOTAL SUBLEASE VACANCY SF	TOTAL OVERALL VACANT RATE	YTD LEASING ACTIVITY	OVERALL NET ABSORPTION Q3	OVERALL NET ABSORPTION YTD	TOTAL UNDER CONSTRUCTION (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)
(1) Downtown	6,389,518	1,641,403	150,257	28.0%	302,685	42,656	(108,767)	-	$31.53
(2) Midtown	9,625,904	2,362,835	164,788	26.3%	184,931	11,903	(149,604)	-	$23.83
(3) Camelback Corridor	6,730,310	1,512,958	152,441	24.7%	377,899	(98,343)	(224,977)	181,494	$35.93
(4) 44th Street/East Phoenix	2,758,647	542,634	152,204	25.2%	57,605	(10,199)	(79,163)	-	$26.38
(5) Central Phoenix	2,073,126	153,154	-	7.4%	54,434	(27,461)	(20,543)	-	$20.82
(6) Piestewa Peak	2,463,768	492,487	27,133	21.1%	187,379	2,110	(10,156)	-	$25.78
(7) North Phoenix	1,857,552	238,059	40,294	15.0%	72,462	(5,081)	13,503	-	$28.46
(8) Scottsdale Airpark	9,762,579	1,595,496	353,854	20.0%	772,917	46,254	179,333	-	$29.58
(9) Central Scottsdale	4,930,793	808,081	55,542	17.5%	410,265	198,910	138,766	-	$28.49
(10) South Scottsdale	4,174,707	786,731	121,043	21.7%	250,430	24,182	(181,343)	242,940	$35.83
(11) South Tempe	2,217,458	297,916	1,751	13.5%	101,557	28,186	8,856	-	$21.64
(12) Mesa	1,334,681	371,708	50,732	31.7%	59,814	(1,957)	(66,901)	-	$23.13
(13) Chandler/Gilbert	8,573,558	1,566,996	533,765	24.5%	402,174	(228,196)	(346,993)	300,000	$26.88
(14) West County	513,512	64,994	10,145	14.6%	24,302	(6,757)	(5,809)	103,628	$24.43
(15) Metrocenter	4,457,577	1,619,971	38,201	37.2%	88,334	(28,757)	(174,846)	-	$20.74
(16) Black Canyon Corridor	597,983	110,964	-	18.6%	12,861	0	(27,544)	-	$17.38
(17) Deer Valley Corridor	4,688,755	829,062	258,212	23.2%	39,661	(71,677)	44,267	-	$24.44
(18) North Tempe	12,167,315	1,918,394	471,794	19.6%	933,299	(140,300)	(500,567)	467,000	$30.54
(19) Arrowhead	915,185	67,544	-	7.4%	24,581	(4,395)	(3,734)	-	$27.12
(20) Superstition Corridor	2,015,564	365,290	4,451	18.3%	136,062	(64,401)	(130,730)	-	$21.27
(21) Glendale	1,181,048	142,825	32,800	14.9%	53,266	(15,623)	(63,745)	-	$19.13
(22) South Airport	2,601,801	477,687	505,320	37.8%	18,065	(33,127)	(530,490)	-	$22.23
Phoenix CBD	**16,015,422**	**4,004,238**	**315,045**	**27.0%**	**487,616**	**54,559**	**(258,371)**	**-**	**$26.80**
Phoenix Non-CBD	**76,015,919**	**13,962,951**	**2,809,682**	**22.1%**	**4,077,367**	**(436,632)**	**(1,982,816)**	**1,295,062**	**$27.88**
Grand Total	**92,031,341**	**17,967,189**	**3,124,727**	**22.9%**	**4,564,983**	**(382,073)**	**(2,241,187)**	**1,295,062**	**$27.62**

CLASS	TOTAL INVENTORY	TOAL DIRECT VACANCY SF	TOTAL SUBLEASE VACANCY SF	TOTAL OVERALL VACANT RATE	YTD LEASING ACTIVITY	OVERALL NET ABSORPTION Q3	OVERALL NET ABSORPTION YTD	TOTAL UNDER CONSTRUCTION (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)
Class A	41,690,397	7,326,806	2,268,743	23.0%	2,416,585	(201,885)	(1,103,031)	1,191,434	$30.86
Class B	43,992,077	9,609,707	846,521	23.8%	1,895,504	(121,481)	(873,344)	103,628	$25.58
Class C	6,348,867	1,030,676	9,463	16.4%	252,894	(58,707)	(264,812)	-	$21.46
Grand Total	**92,031,341**	**17,967,189**	**3,124,727**	**22.9%**	**4,564,983**	**(382,073)**	**(2,241,187)**	**1,295,062**	**$27.62**

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KEY LEASE TRANSACTIONS Q3 2021

PROPERTY	SF	TENANT	TRANSACTION TYPE	CITY	SUBMARKET
1330 W Southern Ave	100,000	Amazon	Direct	Tempe	North Tempe
The Circuit	44,603	Peloton	Sublet	Tempe	North Tempe
Mesa Corporate Center	41,917	Maricopa County	Direct	Mesa	Mesa
Two Renaissance Square	39,144	Upgrade, Inc.	Direct	Phoenix	Downtown
3131 Camelback	33,245	Stewart Title	Direct	Phoenix	Camelback Corridor

KEY SALES TRANSACTIONS Q3 2021

PROPERTY	SF	BUYER	PRICE	PRICE/$ PSF	CITY	SUBMARKET
Fountainhead Office Plaza	445,957	Shorenstein Properties	$117,500,000	$237.87	Tempe	North Tempe
Rio2100	300,000	Strategic Office Partners	$132,000,000	$440.00	Tempe	North Tempe
Gainey Ranch Corporate Center	200,000	Dansons, Inc.	$39,000,000	$195.00	Scottsdale	Central Scottsdale
CASA	181,138	Macquarie Asset Management	$56,500,000	$311.92	Phoenix	Piestewa Peak

KEY CONSTRUCTION COMPLETIONS Q3 2021

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
UNION – Building I	Mesa	N/A	238,347	Harvard Investments
Cavasson – Choice Hotels	Scottsdale Airpark	Choice Hotels	150,000	Nationwide Insurance

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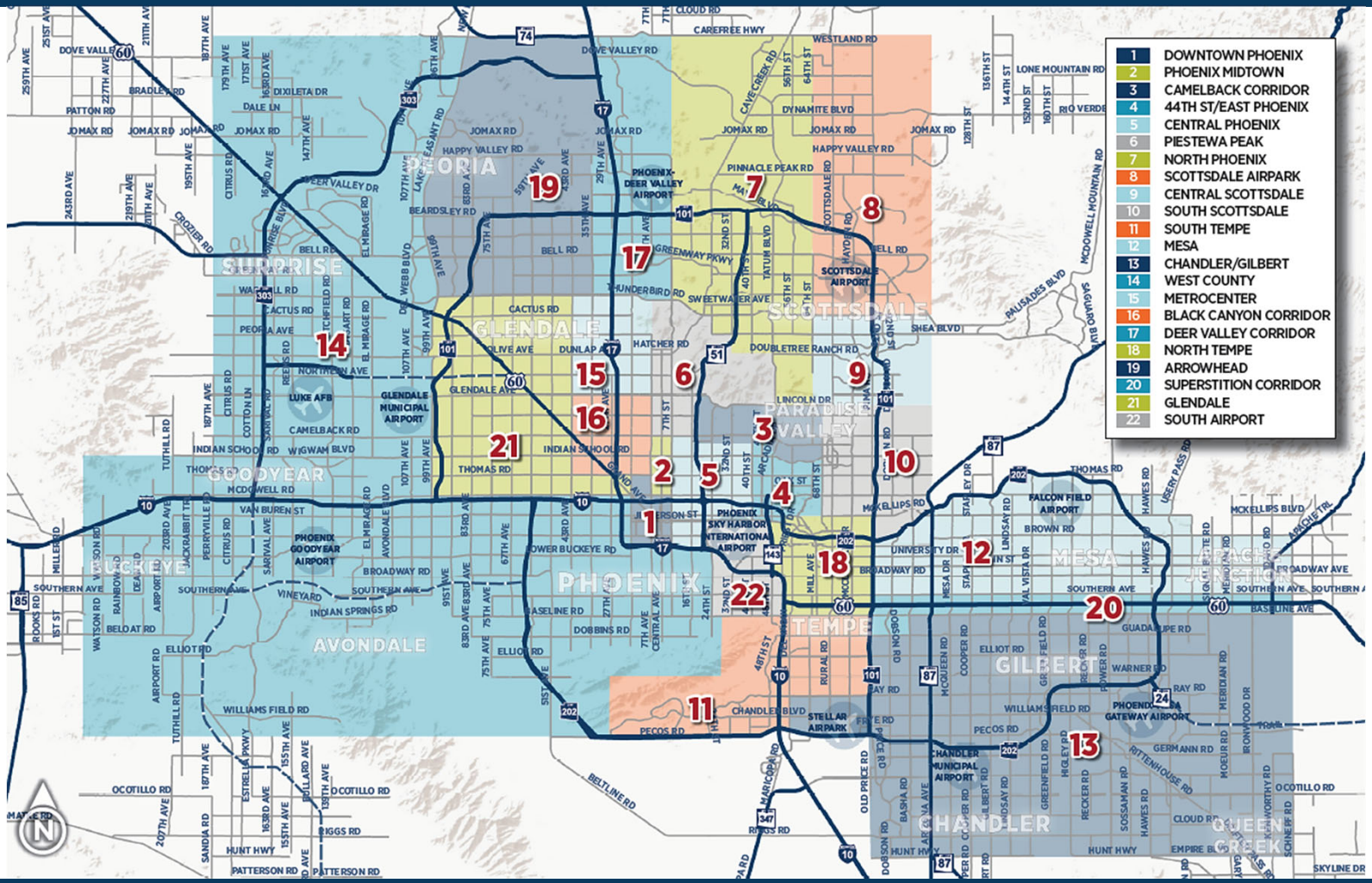
Office Submarket Map

Phoenix Metro Area



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