

# MARKETBEAT PHOENIX



Office Q4 2021

YoY Chg      12-Mo. Forecast

**22.5%**  
Vacancy Rate



**-2.5M**  
YTD Net Absorption, SF



**1.0M**  
Under Construction, PSF



**\$27.35**  
Asking Rent, PSF



## ECONOMIC INDICATORS Q4 2021

YoY Chg      12-Mo. Forecast

**2.2M**  
Phoenix  
Employment



**4.5%**  
Phoenix  
Unemployment Rate



**4.2%**  
U.S.  
Unemployment Rate



Source: BLS

\*Q4 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 Q4 2021, the Phoenix market recorded an employment level of 2.2 million jobs and the unemployment rate decreased from 5.9% in Q3 2021 to 4.5% in Q4 2021. The metro area continues to have tremendous growth, as the number of households increased by 2.4% year-over-year (YOY) to 1.8 million.

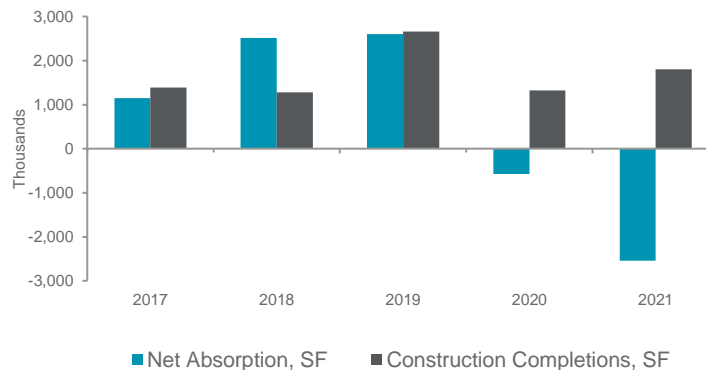
## MARKET OVERVIEW

In Q4 of 2021 the office vacancy rate across the Phoenix metro office market dropped slightly to 22.5%. While vacancy has decreased, the office market continued significant occupier demand in Q4 2021. The Phoenix metro office market recorded 1.8 million square feet (msf) of gross leasing activity for the quarter, and 6.6 msf for the year. The increase in activity was led by Class A buildings for the fourth consecutive quarter.

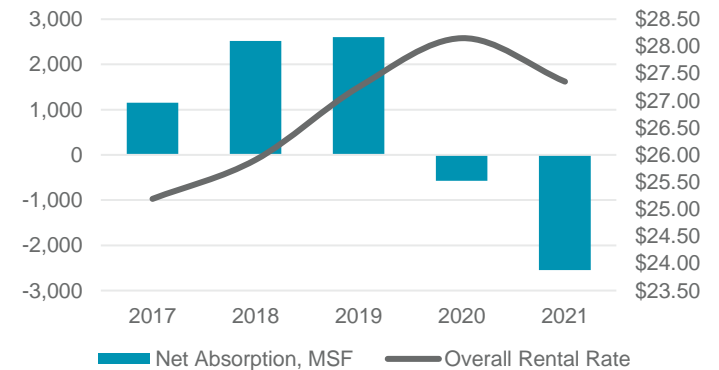
In Q4 2021, the Phoenix market recorded positive absorption of 109,969 square feet (sf) for all building classes, led by the downtown submarket. Class A buildings had positive absorption of 133,768 sf, Class B buildings had positive absorption of 58,966 sf, and Class C buildings had negative absorption of 82,765 sf as Phoenix continues to show signs of the “flight to quality”. Sublease availabilities have stabilized at around 3.4% of total vacancies.

Of the 22 office submarkets in the Phoenix metro, fourteen experienced positive absorption in Q4 2021. The submarket performing the best in the quarter was the Downtown submarket with 126,071 sf of positive absorption, followed by the Chandler/Gilbert submarket with 97,809 sf of positive absorption. The Midtown Phoenix submarket recorded the largest negative absorption in the quarter with 83,016 sf.

## SPACE DEMAND / DELIVERIES



## YEARLY ABSORPTION & ASKING RENT



In Q4 2021, the market delivered approximately 300,000 sf of new product across the Phoenix metro. This is due to the Allred Park Place Buildings 7 & 8 delivering in the Chandler/Gilbert submarket at 150,000 sf each. The fourth quarter of 2021 saw no deliveries in the CBD area as the suburban submarkets continue to dominate the development pipeline.

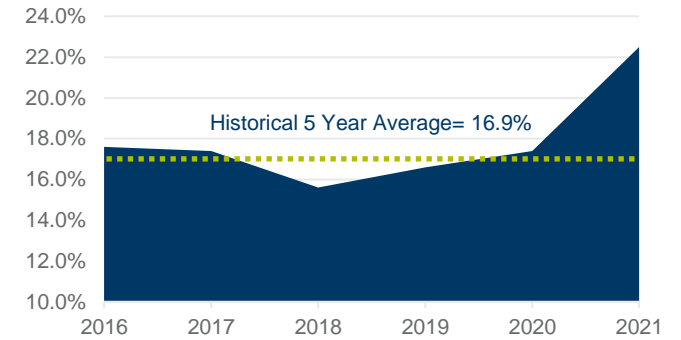
Construction in the Phoenix metro office market remained strong throughout 2021, but activity is beginning to taper as existing office projects are completed. There is less than 1.0 msf of leasable space currently under construction throughout the metro area. The North Tempe submarket leads all submarkets 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 Q4 2021 decreased slightly to \$27.35 per square foot (psf) from \$27.62 psf in Q3 2021. The Camelback Corridor submarket was the most expensive submarket at \$35.76 psf. The Black Canyon Corridor was the least expensive at \$17.37 psf.

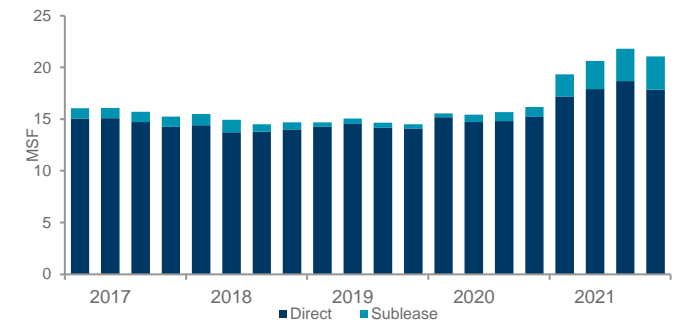
## Outlook

- Positive absorption was experienced in Q4 2021 for the first time in six quarters. Though this small gain did little to offset the first three negative quarters of 2021, the office market is showing signs of a post-pandemic rebound. The three Scottsdale submarkets continue to outpace the metro area as tenants remain keenly interested in the East Valley.
- Gross leasing activity in Q4 2021 lagged the pace of Q3, but is close to pre-pandemic levels. Activity was led by the North Tempe and Scottsdale Airpark submarkets, each with over 1 million sf of activity on the year. Class A office leasing in particular accounted for over 70% of yearly activity in the upscale North Tempe submarket.
- Sublease availabilities remain high versus historical market averages, but appear to have plateaued. Most large tenants who are willing to sublet their leased space have already made that space available to potential subtenants.
- Large user activity remains somewhat subdued as tenants continue to understand more about the evolving information surrounding the numerous COVID-19 variants, and the affect they will have on the physical workforce.

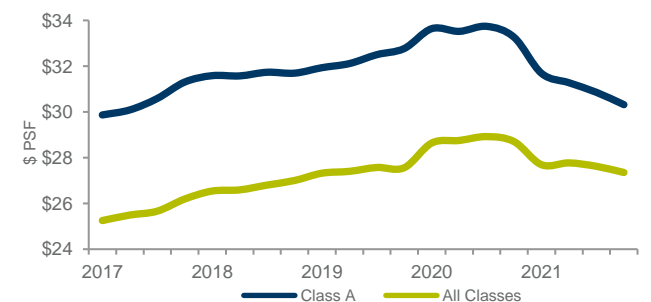
## VACANCY RATE



## DIRECT VS. SUBLEASE SPACE AVAILABLE COMPARISON



## CLASS A ASKING RENT



## MARKET STATISTICS

SUBMARKET NAME	TOTAL INVENTORY	TOAL DIRECT VACANCY SF	TOTAL SUBLEASE VACANCY SF	TOTAL OVERALL VACANT RATE	YTD LEASING ACTIVITY	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION	UNDER CONSTRUCTION (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)
(1) Downtown	6,351,968	1,468,370	150,257	25.5%	368,171	126,071	-683,738	-	\$29.41
(2) Midtown	9,655,071	2,384,753	153,899	26.3%	371,382	-83,016	-189,715	-	\$23.56
(3) Camelback Corridor	6,734,383	1,514,529	137,286	24.5%	483,669	-22,940	-251,167	181,494	\$35.76
(4) 44th Street/East Phoenix	2,625,124	511,027	163,324	25.7%	116,970	12,491	-66,672	-	\$26.31
(5) Central Phoenix	1,999,354	93,039	-	4.7%	115,891	59,479	39,572	-	\$18.58
(6) Piestewa Peak	2,463,768	399,185	62,228	18.7%	292,730	17,192	11,002	-	\$24.48
(7) North Phoenix	1,857,552	255,614	33,893	15.6%	108,899	-11,154	2,349	-	\$28.33
(8) Scottsdale Airpark	9,770,543	1,499,385	354,136	19.0%	1,043,903	26,619	253,179	-	\$28.95
(9) Central Scottsdale	5,077,662	838,032	132,771	19.1%	597,624	-67,006	81,591	-	\$28.55
(10) South Scottsdale	4,238,810	718,616	131,240	20.0%	511,314	4,881	-163,089	242,940	\$35.70
(11) South Tempe	2,480,805	548,082	4,522	22.3%	159,884	-29,700	-20,689	-	\$22.23
(12) Mesa	1,334,681	384,519	45,646	32.2%	76,109	-7,725	-74,626	-	\$23.31
(13) Chandler/Gilbert	9,084,215	1,720,799	546,010	25.0%	644,685	97,809	-228,401	-	\$26.81
(14) West County	513,512	55,406	8,446	12.4%	27,049	11,287	5,478	103,628	\$24.50
(15) Metrocenter	4,509,439	1,581,022	38,201	35.9%	122,061	29,517	-144,484	-	\$20.91
(16) Black Canyon Corridor	597,983	97,856	-	16.4%	22,808	13,108	-14,436	-	\$17.37
(17) Deer Valley Corridor	4,918,391	857,945	242,782	22.4%	62,744	8,784	53,051	-	\$24.44
(18) North Tempe	12,301,021	1,894,274	421,778	18.8%	1,083,938	-64,553	-472,170	467,000	\$31.12
(19) Arrowhead	1,099,702	152,532	56,289	19.0%	30,655	-66,277	-70,011	-	\$23.68
(20) Superstition Corridor	2,082,651	305,615	-	14.7%	189,788	19,031	-75,496	-	\$22.91
(21) Glendale	1,201,369	114,933	32,800	12.3%	105,147	12,060	-36,983	-	\$19.22
(22) South Airport	2,601,801	449,340	502,145	36.6%	57,129	24,011	-498,968	-	\$22.48
<b>Phoenix CBD</b>	<b>16,007,039</b>	<b>3,853,123</b>	<b>304,156</b>	<b>26.0%</b>	<b>739,553</b>	<b>43,055</b>	<b>-873,453</b>	<b>-</b>	<b>\$25.45</b>
<b>Phoenix Non-CBD</b>	<b>77,492,766</b>	<b>13,991,750</b>	<b>2,913,497</b>	<b>21.8%</b>	<b>5,852,997</b>	<b>66,914</b>	<b>-1,670,970</b>	<b>995,062</b>	<b>\$27.91</b>
<b>Grand Total</b>	<b>93,499,805</b>	<b>17,844,873</b>	<b>3,217,653</b>	<b>22.5%</b>	<b>6,592,550</b>	<b>109,969</b>	<b>-2,544,423</b>	<b>995,062</b>	<b>\$27.35</b>

CLASS	TOTAL INVENTORY	TOAL DIRECT VACANCY SF	TOTAL SUBLEASE VACANCY SF	TOTAL OVERALL VACANT RATE	YTD LEASING ACTIVITY	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION	TOTAL UNDER CONSTRUCTION (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)
Class A	42,045,707	7,261,003	2,304,246	22.7%	3,400,270	133,768	-853,867	891,434	\$30.32
Class B	45,113,078	9,530,151	903,944	23.1%	2,719,969	58,966	-1,375,451	103,628	\$25.70
Class C	6,341,020	1,053,719	9,463	16.8%	472,311	-82,765	-315,105	-	\$20.92
<b>Grand Total</b>	<b>93,499,805</b>	<b>17,844,873</b>	<b>3,217,653</b>	<b>22.5%</b>	<b>6,592,550</b>	<b>109,969</b>	<b>-2,544,423</b>	<b>995,062</b>	<b>\$27.35</b>



## KEY LEASE TRANSACTIONS Q4 2021

PROPERTY	SF	TENANT	TRANSACTION TYPE	CITY	SUBMARKET
Chaparral Commerce Center	124,879	Early Warning Services	Direct	Scottsdale	South Scottsdale
Continuum Business & Technology Park	94,063	Mr. Cooper	Renewal/Downsize	Chandler	Chandler/Gilbert
Tempe 4	65,580	Cenlar FSB	Renewal	Tempe	South Tempe
Parkway Fountains	50,913	Willmeng Construction	Direct	Phoenix	Central Phoenix
The Commons at Rivulon	48,624	Morgan Stanley	Direct	Gilbert	Chandler/Gilbert

## KEY SALES TRANSACTIONS Q4 2021

PROPERTY	SF	BUYER	PRICE	PRICE/\$ PSF	CITY	SUBMARKET
Block 23 at CityScope	307,030	City Office REIT, Inc.	\$150,000,000	\$488.55	Phoenix	Downtown
The Offices at Chandler Viridian	250,630	Macquarie Asset Management	\$102,000,000	\$406.97	Chandler	Chandler/Gilbert
Kierland One	175,577	Admiral Capital Group	\$58,000,000	\$330.34	Scottsdale	Scottsdale Airpark
Norterra West II	144,802	Silver Creek Development	\$48,500,000	\$334.94	Scottsdale	Deer Valley Corridor

## KEY CONSTRUCTION COMPLETIONS Q4 2021

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
Allred Park Place – Building 7	Chandler/Gilbert	N/A	150,000	Douglas Allred Company
Allred Park Place – Building 8	Chandler/Gilbert	N/A	150,000	Douglas Allred Company

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Office Q4 2021

## Office Submarket Map

Phoenix Metro Area

