

OFFICE MARKET REPORT

Q1 2020

**LEE &
ASSOCIATES**
COMMERCIAL REAL ESTATE SERVICES

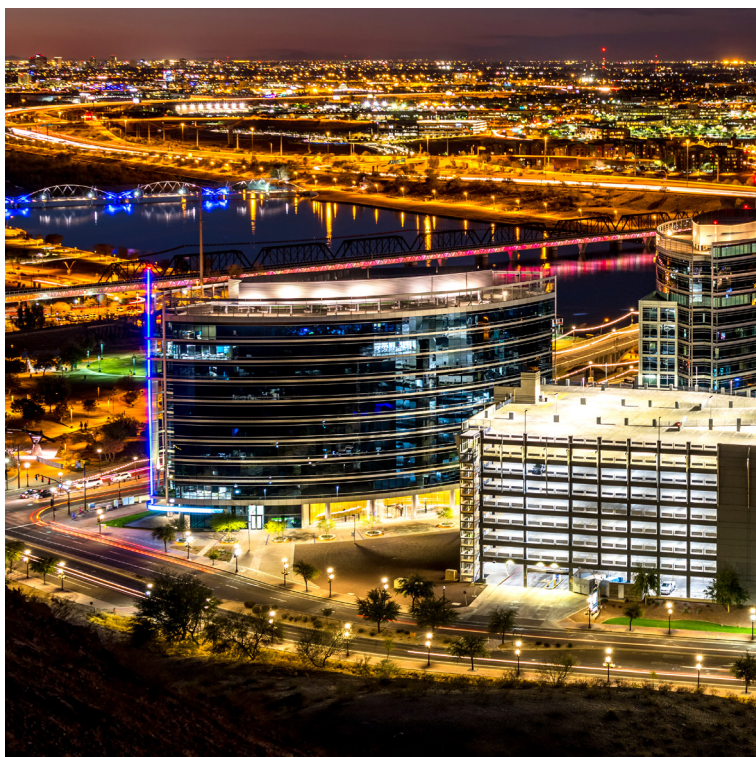
PHOENIX, ARIZONA

COVID-19: BUSINESS UNUSUAL

Due to a strong first 60 days of the first quarter, the Metro Phoenix office market delivered another positive quarter as net absorption closed at 310,280 square feet. Class A developments continued to enter the market, and large national tenants were still flocking to the Valley until COVID-19 affected our daily lives. Office Investment sales and lease activity in Q1 dropped compared to the previous quarter's milestone due to the uncertain future.

443,340 square feet of office space in four buildings was delivered in the quarter highlighted by The Watermark, Phase I. The Class A spec office building in the Tempe submarket has already leased 170,000 square feet to Opendoor and WeWork. The second largest delivery came from Orsett's, The Reserve at San Tan, a 78,826 square foot spec office building in the Chandler submarket. Just over 2.5 million square feet is still under construction with Tempe barely leading the way at 669,991 square feet followed by the Scottsdale Airpark at 650,499 square feet. 50% of all under construction space is pre-leased.

Vacancy rates have not changed significantly over the last three quarters ending at 16.2%. Class A vacancy rates dropped to 15.1% from 15.3%. Asking rates rose \$0.56 from Q4 to Q1 2020 to \$25.74 PSF. The continued



TOTAL VACANCY

16.2%

VS. 16.1% IN Q4



Q1 NET ABSORPTION

310,280 SF

VS. 1,192,386 SF IN Q4



AVERAGE ASKING RENTS

\$25.74 PSF

VS. \$25.18 PSF IN Q4



UNDER CONSTRUCTION

2,557,295

VS. 2,003,737 IN Q4



SUBLEASE SPACE

1,364,662 SF

VS. 1,253,272 IN Q4

rise of average asking rates can be pointed to the quality of new deliveries to the Phoenix market. Nationwide's Cavasson still remains as the largest office project under construction at 460,000 square feet. Phase I is on track to be delivered in Q4 2020.

Fountainhead Corporate Park (2) fetched the highest price of the first quarter at \$61,500,000 (\$204.90 PSF). The 300,193 square foot office project was purchased by JLL Income Property Trust and sold by Harbert Management Corporation in the Tempe submarket. Northridge Capital sold Canyon Corporate Plaza to Taconic Capital Advisors for \$27,000,000, the second largest sale of the quarter in the I-17 submarket.

Amazon signed the largest lease of the first quarter with 93,000 square feet at One Hundred Mill in Tempe. Zip Recruiter signed the second largest lease of the quarter by taking 89,889 square feet at Allred 40 located in the Sky Harbor area. The 2020 Office market will undoubtedly be affected by COVID-19. To what extent, time will tell us.

SALES BY THE NUMBERS: Q1 2020

NO. OF TRANSACTIONS

83

Q4 2019: 136

TOTAL SALES

\$270M

Q4 2019: \$930M

AVERAGE PSF

\$157.62

Q3 2019: \$205.71

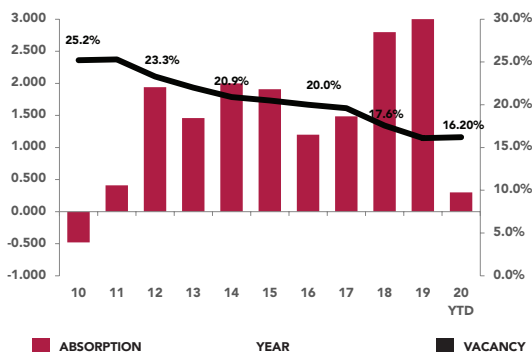
AVERAGE CAP RATE

8%

Q3 2019: 8.1%

ABSORPTION/VACANCY

2010 - 2020 YTD

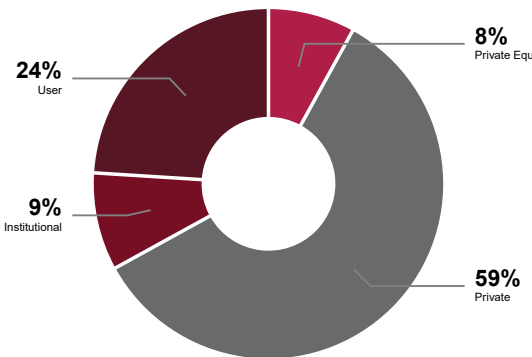


HISTORICAL QUARTERLY BREAKDOWN

2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019
Vacancy Rate	16.2%	16.1%	16.1%	16.6%
Availability Rate	19.3%	19.2%	20.0%	20.3%
Asking Lease Rate	\$25.74	\$25.18	\$25.03	\$24.69
Leased SF	1,624,332 SF	1,777,136 SF	1,536,502 SF	2,281,828 SF
Sold SF	1,628,619 SF	4,525,081 SF	3,500,621 SF	2,643,905 SF
Net Absorption	310,280 SF	1,192,386 SF	978,399 SF	501,177 SF

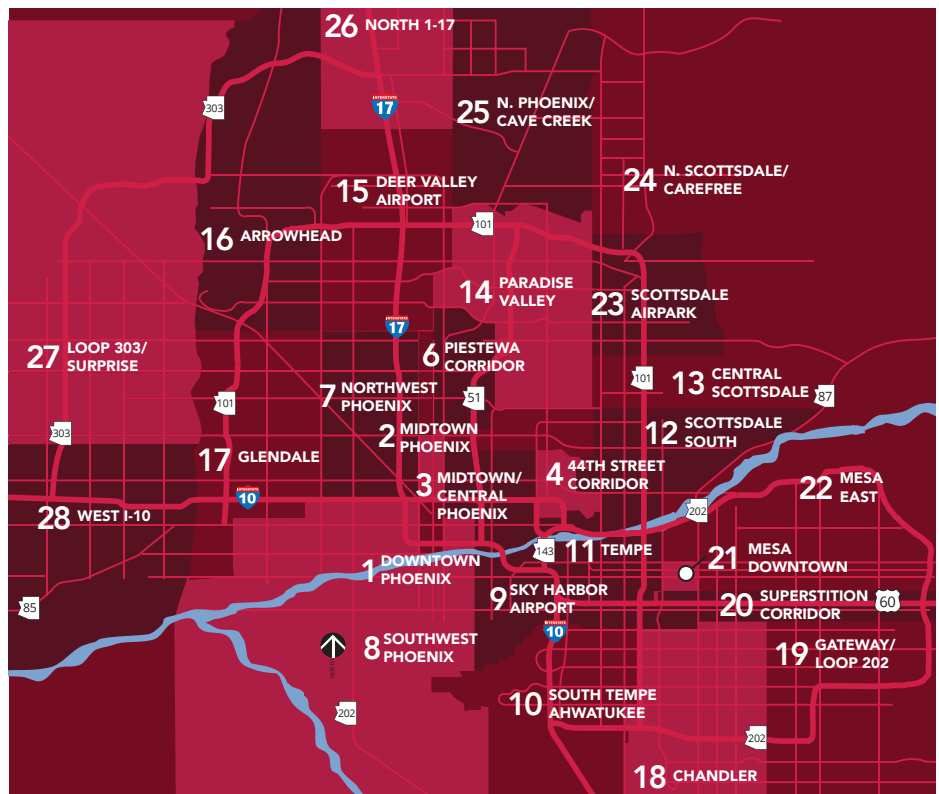
BUYER TYPE

Q1 2020 SALES



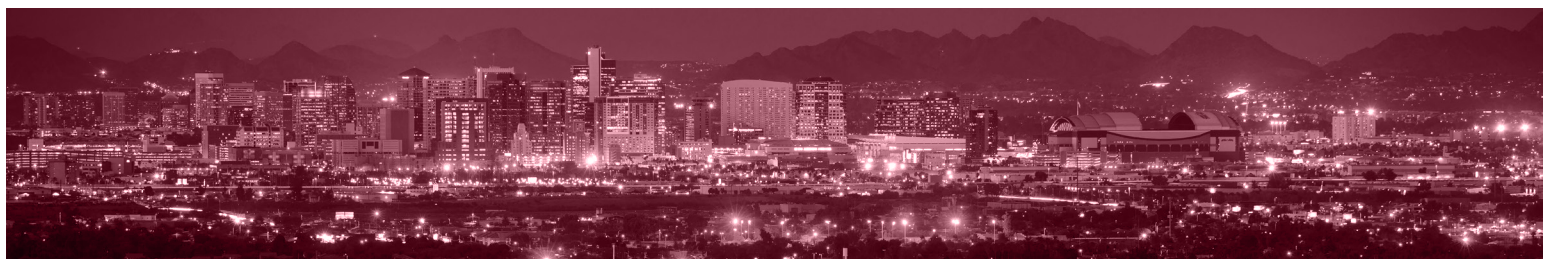
RENTAL RATES

PER MONTH, 2010 - 2020 YTD



BUILDING CLASS	INVENTORY TOTAL	VACANCY RATE						NET ABSORPTION		SUBLEASE AVAILABLE			UNDER CONST.	ASKING FS RENTS
		DIRECT		SUBLEASE		TOTAL								
		SF	%	SF	%	SF	%	Q1 2020	YTD 2020	VACANT SF	TOTAL SF	%		
Class A	44,450,341	6,747,288	15.1%	185,984	0.4%	6,933,272	15.5%	278,621	278,621	185,984	830,288	1.9%	2,402,480	\$30.96
Class B	54,210,839	9,555,395	17.6%	261,358	0.5%	9,816,753	18.1%	43,009	43,009	261,358	529,496	1.0%	154,815	\$22.20
Class C	5,607,109	579,903	10.3%	3,399	0.1%	584,202	10.4%	(11,350)	(11,350)	3,399	4,878	0.1%	-	\$15.48
Totals	104,268,289	16,882,586	16.2%	450,741	0.4%	17,334,227	16.6%	310,280	310,280	450,741	1,364,662	1.3%	2,557,295	\$25.74

Office Submarket	Inventory Total	Vacancy Rate						Net Absorption		Sublease Available			Under Const.	Asking FS Rents
		Direct		Sublease		Total								
		SF	%	SF	%	SF	%	Q1 2020	YTD 2020	Vacant SF	Total SF	%		
Downtown Phoenix	6,786,163	1,253,818	18.5%	61,194	0.9%	1,315,012	19.4%	1,840	1,840	61,194	112,186	1.7%	227,113	\$31.20
Midtown Phoenix	9,622,894	2,252,636	23.4%	10,161	0.1%	2,262,797	23.5%	(9,609)	(9,609)	10,161	168,446	1.8%	-	\$24.00
Midtown/Central Phoenix	1,878,597	151,582	8.1%	1,970	0.1%	153,552	8.2%	36,458	36,458	1,970	1,970	0.1%	-	\$19.44
44th St. Corridor	2,672,516	326,752	12.2%	-	0.0%	326,752	12.2%	6,418	6,418	-	110,900	4.1%	-	\$27.48
Camelback Corridor	7,438,694	1,314,295	17.7%	56,985	0.8%	1,371,280	18.4%	2,147	2,147	56,985	102,647	1.4%	65,000	\$34.92
Piestewa Corridor	2,135,788	338,503	15.8%	3,713	0.2%	342,216	16.0%	(12,346)	(12,346)	3,713	11,578	0.5%	-	\$24.36
Northwest Phoenix	6,151,259	1,338,018	21.8%	29,166	0.5%	1,367,184	22.2%	(25,485)	(25,485)	29,166	30,645	0.5%	-	\$19.32
Southwest Phoenix	1,318,196	219,342	16.6%	-	0.0%	219,342	16.6%	-	-	-	-	0.0%	-	\$23.76
Sky Harbor Airport	6,909,125	1,162,819	16.8%	110,748	1.6%	1,273,567	18.4%	142,221	142,221	110,748	114,243	1.7%	-	\$17.76
S. Tempe/Ahwatukee	5,382,670	839,771	15.6%	1,894	0.0%	841,665	15.6%	34,906	34,906	1,894	14,339	0.3%	-	\$19.08
Tempe	9,083,189	1,194,421	13.1%	10,675	0.1%	1,205,096	13.3%	198,245	198,245	10,675	89,895	1.0%	669,991	\$30.48
Scottsdale South	5,486,587	506,854	9.2%	33,429	0.6%	540,283	9.8%	32,249	32,249	33,429	107,214	2.0%	65,000	\$32.73
Central Scottsdale	5,319,590	685,845	12.9%	22,672	0.4%	708,517	13.3%	(65,881)	(65,881)	22,672	35,894	0.7%	310,000	\$28.56
Paradise Valley	2,098,486	207,392	9.9%	5,846	0.3%	213,238	10.2%	(19,761)	(19,761)	5,846	45,674	1.9%	-	\$26.88
Deer Valley Airport	5,712,963	1,237,473	21.7%	19,793	0.3%	1,257,266	22.0%	(56,130)	(56,130)	19,793	127,697	2.2%	150,000	\$19.92
Arrowhead	1,053,996	114,746	10.9%	-	0.0%	114,746	10.9%	49,274	49,274	-	-	0.0%	-	\$24.72
Glendale	1,562,288	217,797	13.9%	-	0.0%	217,797	13.9%	(28,032)	(28,032)	-	-	0.0%	-	\$21.96
Chandler	7,697,072	1,606,988	20.9%	3,737	0.0%	1,610,725	20.9%	(31,632)	(31,632)	3,737	23,621	0.3%	157,394	\$24.12
Gateway/Loop 202	491,273	69,337	14.1%	-	0.0%	69,337	14.1%	42,274	42,274	-	-	0.0%	-	\$24.72
Superstition Corridor	2,658,840	254,497	9.6%	19,387	0.7%	273,884	10.3%	(17,963)	(17,963)	19,387	26,225	1.0%	-	\$20.52
Mesa Downtown	671,371	74,937	11.2%	-	0.0%	74,937	11.2%	3,831	3,831	-	-	0.0%	-	\$21.60
Mesa East	960,675	55,715	5.8%	-	0.0%	55,715	5.8%	(6,965)	(6,965)	-	9,755	0.0%	238,348	\$18.36
Scottsdale Airpark	8,838,452	1,009,427	11.4%	59,371	0.7%	1,068,798	12.1%	21,190	21,190	59,371	230,081	2.6%	650,449	\$29.88
N. Scottsdale/Carefree	651,451	137,532	21.1%	-	0.0%	137,532	21.1%	(6,832)	(6,832)	-	-	0.0%	24,000	\$24.00
N. Phoenix/Cave Creek	13,607	-	0.0%	-	0.0%	-	0.0%	-	-	-	-	0.0%	-	\$12.00
North I-17	300,019	72,602	24.2%	-	0.0%	72,602	24.2%	1,666	1,666	-	-	0.0%	-	\$23.64
Loop 303/Surprise	381,670	41,565	10.9%	-	0.0%	41,565	10.9%	(2,380)	(2,380)	-	-	0.0%	-	\$22.00
West I-10	990,858	197,922	20.0%	-	0.0%	197,922	20.0%	20,577	20,577	-	1,652	0.2%	-	\$23.64
TOTALS	104,268,289	16,882,586	16.2%	450,741	0.4%	17,333,327	16.6%	310,280	310,280	450,741	1,364,662	1.3%	2,557,295	\$25.74



Q1 2020 TOP OFFICE LEASES

Tenant Name	Property Name	Address	Class	Submarket	SF
Amazon	One Hundred Mill	100 S. Mill Avenue	A	Tempe	93,000
Zip Recruiter	Allred 40	4039 E. Raymond Street	B	Airport	89,889
Axway	Max at Kierland	16620 N. Scottsdale Rd.	A	Airpark	57,783
District Medical Group	Park Central	3141 N. 3rd Avenue	B	Midtown	56,544
Aetna	Allred Park Place	1255 S. Spectrum Blvd.	A	Chandler	50,483

Q1 2020 TOP OFFICE SALES

Property Address	Buyer	Seller	Class	Sales Price	SF
Fountainhead Corp. Park (2)	JLL Income Property Trust	Harbert Management Corp.	A	\$61,500,000	300,193
Canyon Corporate Plaza (3)	Taconic Capital Advisors	Northridge Capital LLC	A	\$27,000,000	302,521
Canyon Village (4)	Patricia & David Moore	Laurus Corp.	A	\$22,000,000	93,840
Rancho Santa Fe Center (6)	Philip & Donna Landry	Holualoa Capital Management	B	\$17,800,000	73,307
Desert Vista Commerce Ctr. (3)	Allred Park Place	1255 S. Spectrum Blvd.	B	\$14,500,000	98,233

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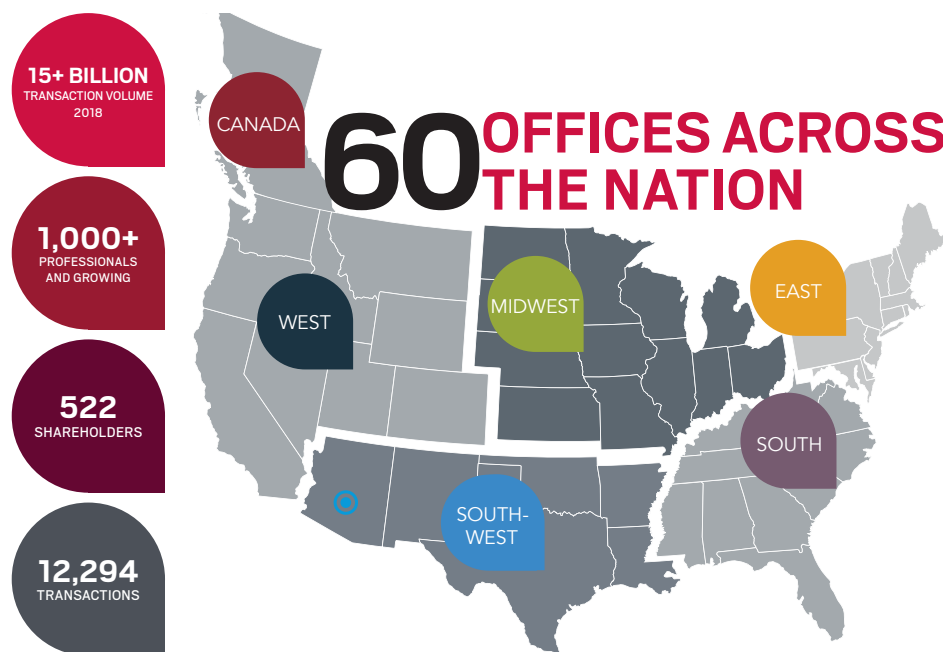
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The Phoenix Office Market Report compiles relevant market data by using a third-party database for the proprietary analysis of specific office properties above 10,000 SF in the Phoenix Metropolitan Area.

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Market report analysis by:
Lee & Associates Arizona





Cavasson



One Hundred Mill



Playa Del Norte

Under Construction

Building Name	Class	Building Address	Type	Submarket	Total SF	Leased SF	Delivery
Nationwide Cavasson	A	NWC Loop 101 & Hayden Road	O/O	Scottsdale Airpark	460,000	460,000	Q4 2020
One Hundred Mill	A	100 S. Mill Avenue	Spec	Tempe	287,000	126,854	Q4 2021
Union	A	NEC Riverview Auto Drive	Spec	Mesa	238,348	19,067	Q1 2021
Wexford	A	850 N. 5th Street	Spec	Downtown	227,113	123,549	Q4 2020
The Edge	A	NWC 90th St & Loop 101	Spec	Central Scottsdale	210,000	0	Q1 2021
Axis Raintree	A	SWC E. Raintree Dr & N. 87th Street	Spec	Scottsdale Airpark	175,000	0	Q4 2020
Novus Innovation Center	A	777 S. Novus Place	Spec	Tempe	169,500	133,905	Q2 2020
Norterra West - Phase II	A	25800 N. Norterra Parkway	Spec	Deer Valley	150,000	137,100	Q2 2021
One Chandler Corporate Center II	A	4100 W. Chandler Boulevard	Spec	Chandler	117,394	0	Q3 2020
Nextiva	A	SWC Via de Ventura & Dobson Road	Spec	Central Scottsdale	100,000	50,000	Q3 2020
Playa Del Norte	A	999 E. Playa Del Norte	Spec	Tempe	93,125	0	Q2 2021
Donor Network	A	2010 W. Rio Salado Parkway	O/O	Tempe	70,000	70,000	Q2 2020
Harkins HQ	B	SW Loop 101 & McDonald Drive	BTS	South Scottsdale	65,000	65,000	Q2 2020
Helios Education Foundation	A	4747 N. 32nd Street	O/O	Camelback Corridor	65,000	65,000	Q2 2020
The Hub	B	2626 S. Hardy Drive	Spec	Tempe	50,366	18,972	Q2 2020
The Collab	A	325 N. Ash Street	Spec	Chandler	40,000	800	Q2 2020
10475 E. Pinnacle Peak Pky.	B	10475 E. Pinnacle Peak Parkway	Spec	North Scottsdale	24,000	24,000	Q3 2020
DC Ranch Commerce Center	B	9112 E. Verde Grove View	Spec	Scottsdale Airpark	15,449	0	Q2 2020

Deliveries

Building Name	Class	Building Address	Type	Submarket	Total SF	Leased SF	Delivery
The Watermark, Phase I	A	410 N. Scottsdale Road	Spec	Tempe	265,000	172,250	Q1 2020
The Reserve at San Tan	A	365 E. Germann Road	Spec	Chandler	78,826	0	Q1 2020
New Square - Phase I	B	180 S. Arizona Avenue	Spec	Chandler	51,000	18,972	Q1 2020
Irgens Perimeter Center	B	17300 N. Perimeter Drive	Spec	Scottsdale Aipark	48,514	24,062	Q1 2020
					443,340	215,2584	