OFFICE
MARKET REPORT

LEE & ASSOCIATES
COMMERCIAL REAL ESTATE SERVICES

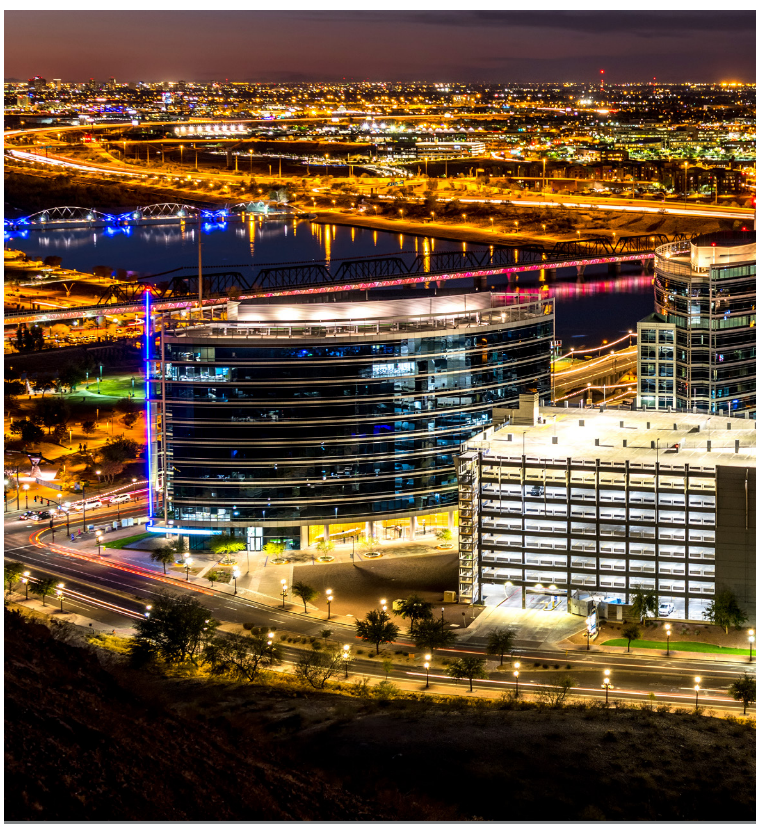
Q3 2020 PHOENIX, ARIZONA

Phoenix Office Market Feels Impact of Pandemic

The Phoenix Office Market was experiencing growth in all aspects before the onset of the pandemic. Phoenix saw the first quarter of negative absorption in more than six years as most tenants and landlords take a wait and see approach, leaving the market in a standstill position. The overall vacancy only rose ten basis points from 15.8% to 15.9% and net absorption was flat for the quarter at -14,638 SF. Rental rates remained steady with a small increase to an average of $25.95/SF FSG.

Construction activity remained steady with 2,687,238 SF underway at the end of the quarter. The largest building continues to be Nationwide's 460,000 SF Cavasson development which will be 100% occupied by Nationwide. The second largest building under construction is One Hundred Mill the 287,000 SF project in Downtown Tempe.

Sublease space continued to rise as tenants grapple with changing dynamics and continue to reassess their future office needs. Since the first quarter sublease space has increased from 1.3M SF to over 2.5M SF and is at the highest peak ever.



TOTAL VACANCY
15.9%
VS. 15.8% IN Q2

Q2 NET ABSORPTION
-14,638 SF
VS. 555,675 SF IN Q2

AVERAGE ASKING RENTS
$25.95 PSF
VS. $25.78 PSF IN Q2

UNDER CONSTRUCTION
2,687,238
VS. 2,607,295 IN Q2

SUBLEASE SPACE
2,549,406 SF
VS. 2,011,145 IN Q2

Sales volume saw a significant decrease in Q3 dropping from $268M to $190M. The number of sales rebounded from Q2 up from 65 to 88. The three largest sales of the quarter came from Scottsdale with the top spot going to Scottsdale Gateway I at $27M and $252.22/SF.

The largest lease of Q3 was a 65,931 SF build-to-suit for Banner Health in Chandler, followed by CVO leasing 31,622 SF at Block 23.

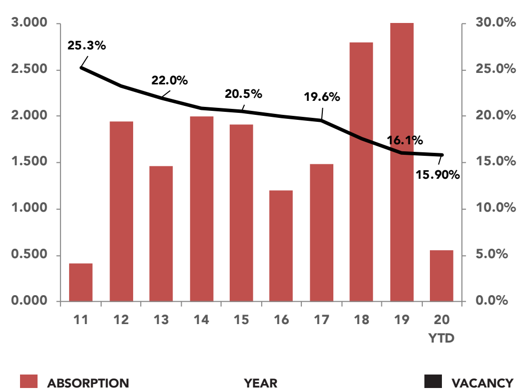
Despite the ongoing pandemic, the Phoenix Office Market looks to end the year strong relying on market fundamentals, low cost of living an educated workforce and abusiness-friendly environment to lead us into the new year.

SALES BY THE NUMBERS: Q3 2020

NO. OF TRANSACTIONS	TOTAL SALES	AVERAGE PSF	AVERAGE CAP RATE
85	**$190M**	**$198**	**7.5%**
Q2 2020: 65	Q2 2020: $268M	Q2 2020: $195.71	Q2 2020: 7.7%

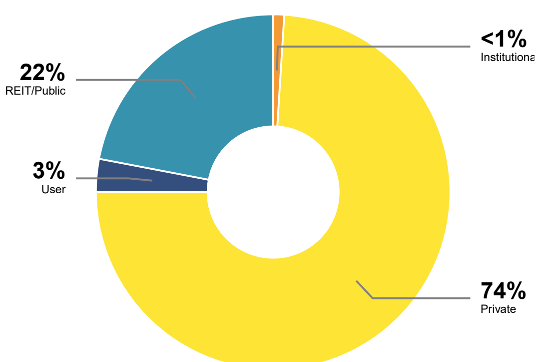
ABSORPTION/VACANCY

2010 - 2020 YTD



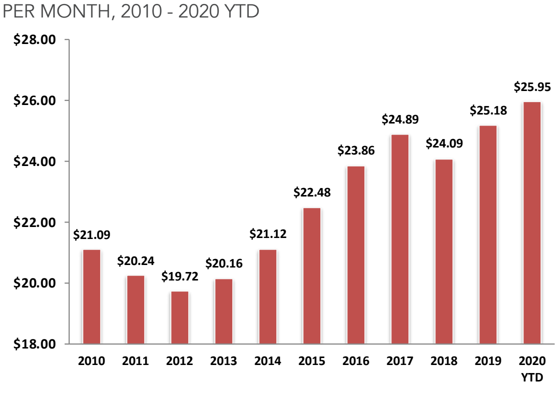
BUYER TYPE

Q3 2020 SALES



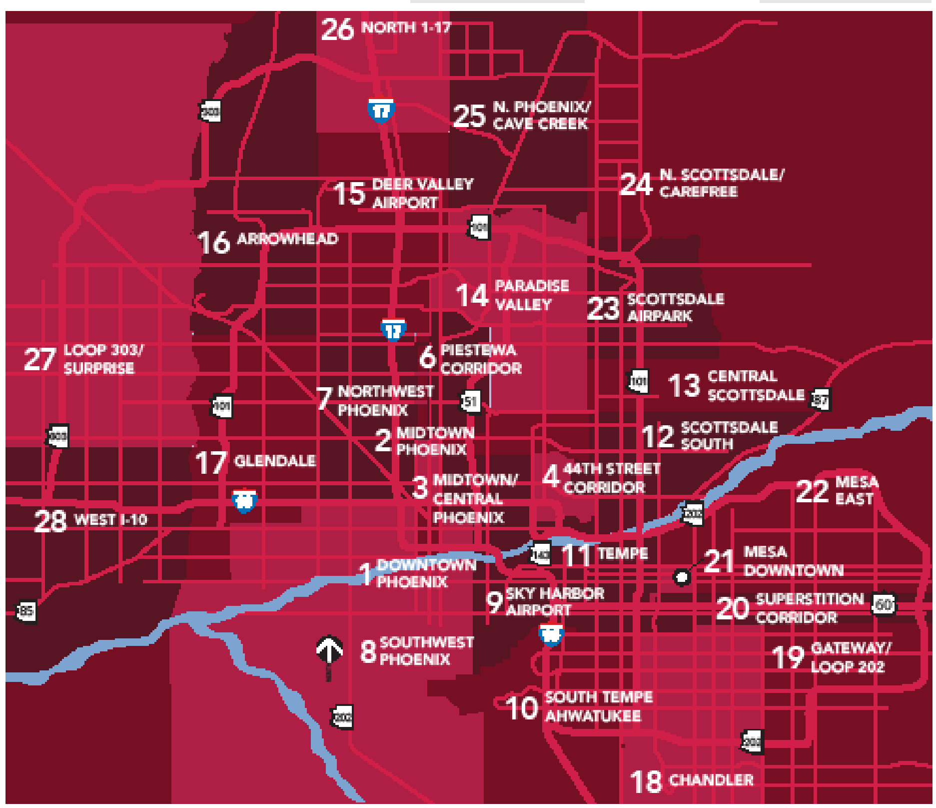
RENTAL RATES

PER MONTH, 2010 - 2020 YTD



HISTORICAL QUARTERLY BREAKDOWN

	Q3 2020	Q2 2020	Q1 2020	Q4 2019
Vacancy Rate	15.9%	15.8%	16.2%	16.1%
Availability Rate	19.7%	19.3%	19.3%	19.2%
Asking Lease Rate	$25.95	$25.78	$25.74	$25.18
Leased SF	920,141 SF	978,833 SF	1,618,568 SF	2,301,602 SF
Sold SF	1,051,299 SF	1,308,833 SF	1,638,225 SF	5,115,301 SF
Net Absorption	-14,638 SF	599,629 SF	310,280 SF	1,192,386 SF



BUILDING CLASS	INVENTORY TOTAL	VACANCY RATE						NET ABSORPTION		SUBLEASE AVAILABLE			UNDER CONSTRUCTION	ASKING FS RENTS
		DIRECT		SUBLEASE		TOTAL								
		SF	PERCENT	SF	PERCENT	SF	PERCENT	Q3 2020	YTD 2020	VACANT SF	TOTAL SF	PERCENT		
Class A	45,197,025	6,417,743	14.1%	585,638	1.3%	7,003,381	15.4%	(10,636)	810,203	585,638	1,575,730	3.5%	2,508,238	$31.32
Class B	54,955,736	9,713,443	17.7%	488,527	0.9%	10,201,970	18.6%	68,709	(129,088)	488,527	972,197	1.8%	179,000	$22.32
Class C	5,626,547	681,511	12.1%	1,479	0.0%	682,990	12.1%	(72,711)	(109,579)	1,479	1,479	0.1%	-	$15.86
Totals	105,779,308	16,812,697	15.9%	1,075,644	1.0%	17,888,341	16.9%	(14,638)	571,536	1,075,644	2,549,406	2.4%	2,687,238	$25.95

OFFICE SUBMARKET	INVENTORY TOTAL	VACANCY RATE						NET ABSORPTION		SUBLEASE AVAILABLE			UNDER CONSTRUCTION	ASKING FS RENTS
		DIRECT		SUBLEASE		TOTAL								
		SF	PERCENT	SF	PERCENT	SF	PERCENT	Q3 2020	YTD 2020	VACANT SF	TOTAL SF	PERCENT		
Downtown Phoenix	6,832,409	1,210,023	17.7%	96,148	1.4%	1,306,171	19.1%	23,532	(36,100)	96,148	173,882	2.5%	227,113	$32.16
Midtown Phoenix	9,678,331	2,291,961	23.7%	47,776	0.5%	2,339,737	24.2%	(168,803)	(87,559)	47,776	187,662	1.9%	-	$24.00
Midtown/Central Phoenix	1,866,571	166,032	8.9%	-	0.0%	166,032	8.9%	(16,231)	9,703	-	-	0.0%	-	$19.80
44th St. Corridor	2,697,204	438,139	16.2%	29,898	1.1%	468,037	17.4%	(87,070)	(134,867)	29,898	138,211	5.1%	-	$26.88
Camelback Corridor	7,521,434	1,312,185	17.4%	88,607	1.2%	1,400,792	18.6%	(24,713)	18,211	88,607	155,198	2.1%	-	$34.44
Piestewa Corridor	2,135,764	376,061	17.6%	1,335	0.1%	377,396	17.7%	(15,119)	(47,526)	1,335	9,200	0.4%	-	$24.72
Northwest Phoenix	6,192,787	1,256,884	20.3%	40,856	0.7%	1,297,740	21.0%	179,155	27,491	40,856	40,856	0.7%	-	$20.16
Southwest Phoenix	1,468,196	208,515	14.2%	-	0.0%	208,515	14.2%	6,833	10,827	-	-	0.0%	-	$23.64
Sky Harbor Airport	7,021,645	1,142,085	16.3%	153,986	2.2%	1,296,071	18.5%	67,617	182,421	153,986	174,109	2.5%	-	$17.76
S. Tempe/Ahwatukee	5,400,061	864,466	16.0%	6,461	0.1%	870,927	16.1%	26,159	(2,748)	6,461	22,464	0.4%	-	$18.84
Tempe	9,535,577	1,178,915	12.4%	57,412	0.6%	1,236,327	13.0%	140,723	585,364	57,412	327,881	3.4%	380,125	$30.96
Scottsdale South	5,573,685	540,584	9.7%	83,628	1.5%	624,212	11.2%	26,124	13,320	83,628	191,706	3.4%	65,000	$33.24
Central Scottsdale	5,317,531	727,737	13.7%	54,627	1.0%	782,365	14.7%	(71,984)	(139,729)	54,628	314,972	5.9%	402,000	$27.72
Paradise Valley	2,100,748	260,822	10.9%	16,548	0.7%	277,370	11.6%	(48,620)	(80,494)	16,548	78,970	3.3%	-	$26.76
Deer Valley Airport	5,737,603	1,251,346	21.8%	193,607	3.4%	1,444,953	25.2%	(34,728)	(229,317)	193,607	297,078	5.2%	144,000	$19.32
Arrowhead	1,080,330	141,828	13.1%	1,680	0.2%	143,508	13.3%	(14,003)	46,905	1,680	1,680	0.2%	-	$25.08
Glendale	1,776,017	168,711	9.5%	32,800	1.8%	201,511	11.3%	15,706	87,740	32,800	34,094	1.9%	-	$22.56
Chandler	7,716,888	1,172,181	15.2%	38,616	0.5%	1,210,797	15.7%	128,468	454,825	38,616	59,778	0.8%	420,000	$26.64
Gateway/Loop 202	491,273	63,642	13.0%	-	0.0%	63,642	13.0%	7,568	47,969	-	-	0.0%	-	$25.08
Superstition Corridor	2,658,948	323,325	12.2%	5,132	0.2%	328,457	12.4%	(36,728)	(72,536)	5,132	9,584	0.4%	-	$19.56
Mesa Downtown	670,996	91,011	13.6%	-	0.0%	91,011	13.6%	(18,415)	(12,243)	-	-	0.0%	-	$21.96
Mesa East	946,338	61,745	6.5%	-	0.0%	61,745	6.5%	(6,894)	(12,995)	-	9,755	1.0%	240,000	$22.56
Scottsdale Airpark	8,946,472	1,106,813	12.4%	116,591	1.3%	1,223,404	13.7%	(89,471)	(98,271)	116,591	312,391	3.5%	785,000	$29.04
N. Scottsdale/Carefree	651,451	119,797	18.4%	2,810	0.4%	122,607	18.8%	7,637	8,093	2,810	2,810	0.4%	24,000	$24.72
N. Phoenix/Cave Creek	13,607	-	0.0%	-	0.0%	-	0.0%	-	-	-	-	0.0%	-	$12.00
North I-17	300,019	71,143	23.7%	-	0.0%	71,143	23.7%	1,459	4,584	-	-	0.0%	-	$23.64
Loop 303/Surprise	433,777	55,292	12.7%	-	0.0%	55,292	12.7%	(2,301)	18,549	-	-	0.0%	-	$22.92
West I-10	1,013,646	211,454	20.9%	7,125	0.7%	218,579	21.6%	(10,539)	9,919	7,125	7,125	0.7%	-	$23.76
TOTALS	105,779,308	16,812,697	15.9%	1,075,643	1.0%	17,888,341	16.9%	(14,638)	571,536	1,075,644	2,549,406	2.4%	2,687,238	$25.95

* When inaccurate or newly updated information is discovered, it is incorporated into current reporting which may negate comparison to previously published market reports. Net absorption is calculated by the net change in physically occupied space between the current period and the previous period based on our competitive building inventory.

Q3 2020 TOP OFFICE LEASES

Tenant Name	Property Name	Address	Class	Submarket	SF	Lease
Banner Health	Alma 202	1125 S Alma School Rd	A	San Tan	65,931	New
CVO Holding Company LLC	Block 23	101 E Washinton St	A	Downtown	31,622	New
Jewish Family & Child Services	1840 N 95th Ave	1840 N 95th Ave	B	Glendale	26,661	New
Inform DX	Workspace Cotton Center	4207 E Cotton Center Blvd	B	Tempe	24,900	Renewal
Ategriity Specialty Insurance	Pima Northgate	14000 N Pima Rd	A	Scottsdale	23,490	New

Q3 2020 TOP OFFICE SALES

Property Address	Buyer	Seller	Class	Sales Price	SF	PSF
Scottsdale Gateway I	Healthpeak Properties, Inc.	Equus Capital Partners, Ltd	B	$27,000,000	107,049	$252.22
Signature Office Suites	8585 E Hartford Dr	Harold Hutton Trust	B	$6,850,000	29,797	$ 229.89
Perimeter Parkview II	Melcor Development	Mark IV Capital, Inc	B	$5,100,000	24,154	$211.15
Westmount Place	Daniel Duffins	Boyd Watterson Asset Mgmt	B	$4,360,000	57,912	$75.28
The Alamos Buildings	Paul A Erskine Family Trust	North Mesa Management LLC	B	$3,800,000	21,731	$174.87

ABOUT LEE & ASSOCIATES

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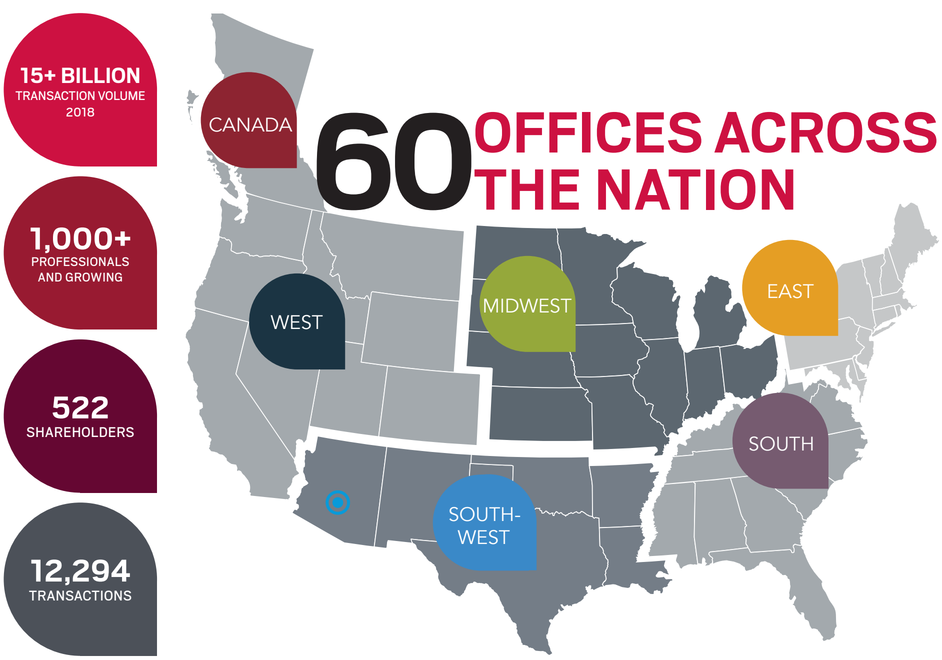

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The Phoenix Office Market Report compiles relevant market data by using a third-party database for the proprietary analysis of specific office properties above 10,000 SF in the Phoenix Metropolitan Area.

Market report analysis by:
Lee & Associates Arizona

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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 East	240,000	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	212,000	0	Q1 2021
Axis Raintree	A	SWC E. Raintree Dr & N. 87th Street	Spec	Scottsdale Airpark	175,000	0	Q4 2020
Allred Park Place Cental	A	1375 S Price Road	Spec	Chandler	150,000	0	Q4 2021
Allred Park Place Cental	A	1475 S Price Road	Spec	Chandler	150,000	0	Q4 2021
Norterra West - Phase II	A	25800 N. Norterra Parkway	Spec	Deer Valley	144,000	137,100	Q2 2021
Choice Hotels at Cavasson	A	NWC 101 Loop	Spec	Scottsdale Airpark	150,000	150000	Q3 2021
Northrop	A	S. McQueen Road	Spec	Chandler	120,000	60,000	Q1 2021
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
Sierra Bloom	B	SE Loop 101 & 90th Street	Spec	Central Scottsdale	90,000	0	Q4 2020
Harking HQ	B	SW Loop 101 & McDonald Drive	BTS	South Scottsdale	65,000	65,000	Q2 2020
10475 E. Pinnacle Peak Pky.	B	10475 E. Pinnacle Peak Parkway	Spec	North Scottsdale/ Carefree	24,000	24,000	Q3 2020
				Total	2,687,238	1,215,750	

Deliveries

Building Name	Class	Building Address	Type	Submarket	Total SF	Leased SF	Delivery
Novus Innovation Center	A	777 S. Novus Place	Spec	Tempe	169,500	133,905	Q2 2020
One Chandler Corporate Center II	A	4100 W. Chandler Boulevard	Spec	Chandler	117,394	0	Q3 2020
Donor Network	A	2010 W. RIo Salado Parkway	O/O	Tempe	70,000	70,000	Q2 2020
Helios Eduation 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
DC Ranch Commerce Center	B	9112 E. Verde Grove View	Spec	Scottsdale Airpark	15,449	0	Q2 2020
				Total	487,709	287,887	

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