OFFICE COMMERCIAL UPDATE

COMMERCIAL CORNER

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The Phoenix metro office market is rebounding at a gradual pace. Net absorption (i.e. job growth), the most important measure of a commercial market's health, hit 2.5 million square feet for the year 2014 – matching the 25-year average. The increase in net absorption is substantial compared to prior years with room for further growth to reach above average levels. The office sector has seen slower net absorption rates for two key reasons: First, employers simply have shown more caution hiring new staff. Secondly, many companies have increased the density of their spaces while encouraging more open and collaborative layouts versus adding more space. Net absorption rates have remained at average levels during Q1 2015 and Q2 2015, although this year is proving to be progressing overall.

Vacancy rates currently stand at 20.9% across the Valley which is considerably less than the 27.1% experienced in the depth of the Great Recession. Vacancy rates of 15%-18% are widely considered an equilibrium point (neither a landlord or tenant favored market), whereas 12% is the lowest vacancy dipped in the height of the previous cycle.

A closer look across Phoenix metro shows the health of the market varying widely from submarket to submarket.

Tempe and South Scottsdale continue to be the hottest office submarkets in the Valley. Class A rents for these submarkets have reached the low $30's per square feet and vacancy rates sit at 11% and 12% respectively. These urban areas have attracted technology-based companies such as Zenefits and Yodle who crave energy and walkable amenities. Downtown Phoenix and Chandler have also attracted strong tenants and boast sub 15% vacancy rates. Conversely, vacancy rates are nearly 30% in the midtown submarket and outer freeway locations. Rental rates start as low as $18 – $20 per square feet for these areas giving office tenants more choices for quality space.

As in any cycle, new construction comes first in the form of build-to-suit requirements followed by developers taking a risk on speculative office buildings. Today, the Valley has 4.5 million square feet of office space under construction. More than half of that space, 2.5 million square feet, is allocated solely for State Farm on Tempe Town Lake and Wells Fargo in Chandler. The other 2 million square feet under construction are speculative projects such as SkySong 3, Hayden Ferry Lakeside 3, and Liberty Center – all of which have leased successfully.

With an improving leasing market, investors continue to show confidence in Phoenix metro. Class A assets in desirable submarkets are highly sought after due to increased occupancy trends and continued expectations for rent growth. Across the Valley, Class B building prices have climbed steadily, however, at a lesser rate than Class A buildings.

The Phoenix metro office sector is looking bright. Job growth consistently is on the rise as well as further development plans to attract more thriving companies to our Valley.

Andrew Cheney will be a host speaker at our upcoming Commercial Seminar on Friday, August 28.

FIND OUT MORE AND RESERVE YOUR SEAT

Andrew Cheney represents Class A office tenants and landlords throughout Phoenix and the United States. Andrew can be reached at (602) 954-3769 or visit his website at www.coppolacheney.com.