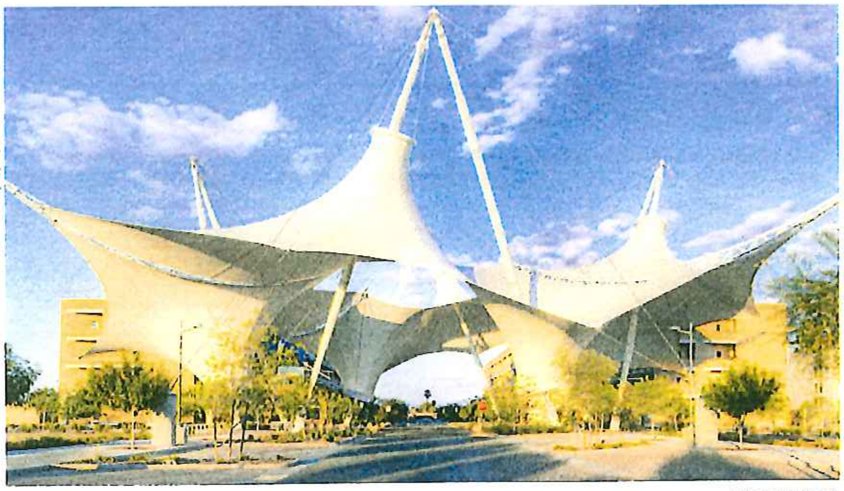


FILE PHOTO

The $70 million sale of SkySong in Scottsdale was one of the biggest office transactions in the Valley last year.

NOTEBOOK

Valley office market improving, but still a long way from normal

The metro Phoenix office market is making progress, but overall vacancies were still high, and absorption – the true measure of performance – finished the year well below everyone's expectations.

In fact, the 1.2 million square feet of absorption in 2013 was down by more than one-third compared with 2012. Absorption reflects how much rentable space was filled vs. vacated within a certain period.

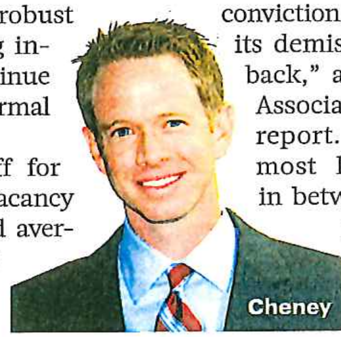
"We beat the 1 million (square foot) benchmark figure, showing we are growing, but at an anemic pace," Andrew Cheney, a Phoenix office broker with Lee & Associates, wrote in an e-newsletter last week. "Until we see robust job growth and strong in-migration, we will continue to have slower-than-normal office absorption."

Competition is stiff for tenants, as the office vacancy rate (23.2 percent) and average rental rate ($20.66 per square foot) for the fourth quarter were virtually flat from a year earlier, according to Lee & Associates' quarterly reports. The only exceptions are a few submarkets: downtown Phoenix, Tempe, Chandler and south Scottsdale.

"Once our marketwide vacancy dips below 20 percent, the playing field will begin to change," Cheney said.

But considering all the big projects announced last year – State Farm Insurance, GoDaddy and Infusionsoft, to name a few – the 2014 outlook for the office market is positive.

"Many commercial real estate experts have pointed to a resurgent Phoenix office market with the same conviction as they pronounced its demise just a few years back," according to Lee & Associates' fourth-quarter report. "The answer is most likely somewhere in between. That's a good place to be considering where this sector was a few short years ago."



Cheney