

Q2  
2015

MARKET  
REPORT

PHOENIX  
**OFFICE**



## Q2 2015 | Phoenix Office Market Overview

The Phoenix office market continues at a steady, positive pace in Q2. The sector now would never be confused with the overheated office market seen back in 2005-2007. Calmer heads seem to be prevailing this time. Although several submarkets are considered very hot. Much of the leasing and building activity is happening in those areas in the East Valley, most notably Tempe and Chandler.

Downtown Tempe with its glass skyscrapers, shopping and a large university presence has drawn big players with new projects, mostly around Tempe Town Lake. Zenefits, a San Francisco-based human resources company moved some operations to the Valley a few years ago to Scottsdale. The company just expanded again by signing for 162,808 SF in Hayden Ferry Lakeside III, the final phase of the spec. office project at the gateway entrance to Tempe. Their lease takes the building to near 80% occupancy. With the addition of State Farm's 2.1M SF Marina Heights project next door and more high-rise buildings under construction by year's end, the Tempe market is responding to the demand of young companies who want to be in a unique areas featuring urban lifestyle amenities.

While Tempe and Chandler are the new growth hotspots, a trend across the Valley and nationally is the need for less space by tenants as new collaborative workplaces shift away from traditional offices and cubicles to conversation centers and project hubs which do away with

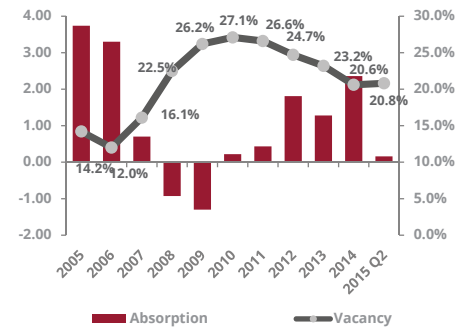
personal space needs of individual workers thereby greatly reducing space requirements. Also, today's companies have a variety of different work venues to choose from rather than traditional office space such as retail, warehouse or showroom space (which can be leased for less money).

Another continuing positive sign for the market is the addition of more speculative office construction. Developers are finding the demand is strong for high-quality, unique projects. And, while money is relatively inexpensive to borrow, banks have also loosened up enough to allow projects to go through without a major tenant to secure funding. These banks know that even in a market with 20-plus percent vacancy, companies will still upgrade, or flee to quality for the right product. Additionally, large tracts of contiguous office space can be a rare find in key submarkets.

A concern for the market is a high-degree of functional obsolescence that has kept tenants from leasing up existing product. Much of the product from the 1980's and 1990's is in suburban park configurations and don't provide the right amenities or prestige companies are hoping to leverage. And, tenant improvements can only go so far. Thus, the move to new projects continues. The next area to look for is Class B activity as key properties have been repositioning themselves in the market and will appeal to a core subset of the market. The

## Absorption/Vacancy

in SF, 2005-2015



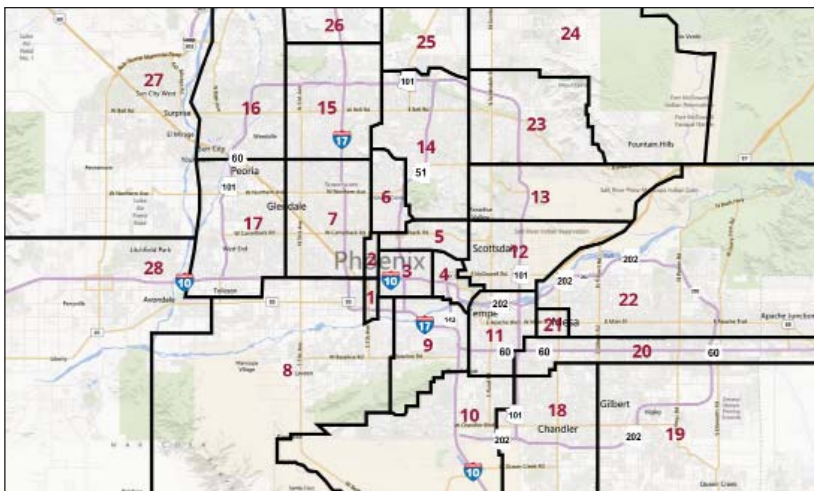
Midtown Phoenix market is already capitalizing on this with over 400,000 SF of major leases in newly remodeled Class B buildings so far this year.

The Phoenix office sector vacancy rate dropped 20-basis points to 20.8% from last quarter. There was only 162,882 SF of market absorption and 452,565 YTD. These totals indicate a slower than average pace, but are lower too because of new additions to inventory. Leasing activity has improved over last quarter is but is below historic averages.

As mentioned earlier, building activity remains strong at nearly 4.6M SF compared with last quarter's 4.4M SF total. There was 1.3M SF of new office deliveries to the market in Q2. Overall asking full-service lease rates was \$22.05.

## Top 5 Office Construction Projects

Project	Address	Major Tenant(s)	Building SF	Delivery
Marina Heights (5)	300 Rio Salado Pkwy., Tempe	State Farm	2,108,000 SF	Q4 2015
Rivulon (2)	155-175 E. Rivulon Blvd., Gilbert	Isagenix	275,000 SF	Q3 2015
Hayden Ferry Lakeside III	40 E. Rio Salado Pkwy, Tempe	Zenefits	264,235 SF	Q4 2015
Ocotillo Corporate Campus	2700 S. Price Rd., Chandler	Wells Fargo	205,000 SF	Q2 2015
Mach One (2)	200 E. Yeager Dr., Chandler	Spec.	200,000 SF	Q1 2016



## Phoenix Office Submarket Map

1. Downtown Phoenix
2. Midtown Phoenix
3. East Phoenix
4. 44th St. Corridor
5. Camelback Corridor
6. Piestewa Corridor
7. Northwest Phoenix
8. Southwest Phoenix
9. Airport Area
10. S. Tempe/Ahwatukee
11. Tempe
12. Scottsdale South
13. Central Scottsdale
14. Paradise Valley
15. Deer Valley Airport
16. Arrowhead
17. Glendale
18. Chandler
19. Gateway/Loop 202
20. Superstition Corridor
21. Mesa Downtown
22. Mesa East
23. Scottsdale Airport
24. N. Scottsdale/Carefree
25. N. Phoenix/Cave Creek
26. North I-17
27. Loop 303/Surprise
28. West I-10

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The Lee & Associates 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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## Q2 2015 | Phoenix Office Submarket Data

Office Submarkets	Total Inventory	Vacancy Rate Total SF	Q2 2015	Net Absorption Q2 2015	YTD 2015	Under Construction	Building Completions Q2 2015	YTD2014	Asking FS Rate	Change from Q1
1. Downtown Phoenix	6,343,249	1,013,826	16.0%	(21,803)	(2,243)	-	-	-	\$25.61	0.8%
2. Midtown Phoenix	9,638,022	2,514,485	26.1%	107,587	20,397	-	-	-	\$20.99	3.6%
3. East Phoenix	1,654,821	303,179	18.3%	(9,801)	2,978	-	-	-	\$15.93	-1.9%
4. 44th St. Corridor	4,621,311	575,980	12.5%	31,245	80,637	-	-	-	\$23.69	4.2%
5. Camelback Corridor	7,970,250	1,693,686	21.3%	10,061	11,725	-	-	-	\$25.88	1.7%
6. Piastewa Corridor	2,091,553	544,101	26.0%	(3,565)	5,527	-	-	-	\$17.76	0.5%
7. Northwest Phoenix	4,993,438	1,438,623	28.8%	(100,232)	(66,733)	-	-	-	\$17.54	4.7%
8. Southwest Phoenix	831,382	256,529	30.9%	10,151	10,151	-	-	-	\$20.59	-0.1%
9. Airport Area	5,313,315	1,397,677	26.3%	(207,190)	(183,253)	459,452	156,027	156,027	\$20.85	0.2%
10. South Tempe/Ahwatukee	5,062,613	702,204	13.0%	(27,728)	95,501	-	-	96,649	\$20.77	2.5%
11. Tempe	2,448,760	242,029	9.9%	10,199	25,894	2,820,687	-	-	\$18.52	-5.3%
12. Scottsdale South	3,620,144	378,008	10.4%	54,799	28,039	-	-	-	\$24.37	2.8%
13. Central Scottsdale	4,994,850	822,123	16.5%	(1,088)	(28,219)	70,000	-	-	\$23.30	0.6%
14. Paradise Valley	2,142,333	521,515	21.9%	31,114	65,230	-	-	-	\$22.66	-1.5%
15. Deer Valley Airport	3,962,647	939,734	23.7%	119,708	181,629	-	-	-	\$20.46	1.6%
16. Arrowhead	796,939	168,147	21.1%	21,848	30,740	-	-	-	\$20.51	-2.7%
17. Glendale	1,349,972	268,949	19.9%	47,325	65,947	-	-	-	\$21.05	0.9%
18. Chandler	2,763,325	631,313	22.8%	69,890	81,891	1,071,162	995,189	1,292,950	\$24.70	0.9%
19. Gateway Airport/Loop 202	490,850	169,896	34.6%	(5,636)	71	-	-	-	\$25.30	4.6%
20. Superstition Corridor	3,048,808	933,422	30.6%	(21,022)	(91,161)	-	140,000	140,000	\$18.72	1.6%
21. Mesa Downtown	360,601	8,459	2.3%	8,033	32,323	-	-	-	\$19.73	1.6%
22. Mesa East	87,984	11,576	13.2%	(5)	1,020	-	-	-	\$24.73	0.0%
23. Scottsdale Airpark	8,072,652	1,582,128	19.6%	28,559	93,315	169,189	-	-	\$24.82	0.3%
24. N. Scottsdale/Carefree	357,996	206,109	57.6%	354	(8,841)	-	-	-	\$21.94	0.9%
25. N. Phoenix/Cave Creek	13,607	-	-	-	-	-	-	-	\$12.00	0.0%
26. North I-17	150,909	83,617	54.4%	3,403	-	-	-	-	\$20.10	-2.1%
27. Loop 303/Surprise	410,900	100,754	24.5%	4,255	-	-	-	-	\$21.55	0.1%
28. West I-10	570,783	78,164	13.7%	2,421	-	-	-	-	\$21.44	0.5%
<b>Phoenix Metro Total</b>	<b>84,164,014</b>	<b>17,586,233</b>	<b>20.8%</b>	<b>162,882</b>	<b>452,565</b>	<b>4,590,490</b>	<b>1,291,216</b>	<b>1,685,626</b>	<b>\$22.05</b>	<b>1.3%</b>

### By Building Type

Class A	36,090,293	7,117,056	19.7%	131,470	298,745	4,166,490	1,018,081	1,114,730	\$25.30	2.0%
Class B	44,598,339	9,913,926	22.0%	21,950	124,550	424,000	273,135	570,896	\$19.86	0.4%
Class C	3,475,382	555,251	15.8%	9,462	29,270	-	-	-	\$14.35	-4.3%
<b>Building Type Total</b>	<b>84,164,014</b>	<b>17,586,233</b>	<b>20.8%</b>	<b>162,882</b>	<b>452,565</b>	<b>4,590,490</b>	<b>1,291,216</b>	<b>1,685,626</b>	<b>\$22.05</b>	<b>1.3%</b>

## Q2 2015 Top Office Leases

Property Name	Address	Tenant Name	Class	Submarket	Lease SF	Type
Phoenix Plaza, Tower I	2901 N. Central Ave., Phoenix	Banner Health	A	Midtown Phoenix	140,000	New
Phoenix Plaza, Tower II	2901 N. Central Ave., Phoenix	Banner Health	A	Midtown Phoenix	121,219	New
Allred Park Place Central, Bldg. 4	1450 S. Spectrum Blvd., Chandler	Infusionsoft	A	Chandler	100,622	New
Black Canyon Commerce Park, B	2133 W. Peoria Ave., Phoenix	Progrexion	B	Northwest Phoenix	52,771	New
Mesa Financial Plaza	1201 S. Alma School Rd., Mesa	AZ Dept. of Child Safety	A	Superstition Corridor	46,401	New

## Q2 2015 Top Office Sales

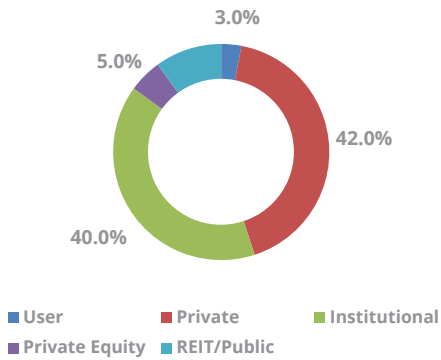
Property Address	Buyer	Seller	Class	Sales Price	SF	PSF
1 N. Central Ave., Phoenix	Parallel Capital/Angelo Gordon	Mitsubishi Estate New York	A	\$93,750,000	410,053	\$228.63
410 N. 44th St., Phoenix	Lowe Enterprises	Oaktree Capital	A	\$75,700,000	437,603	\$172.99
3200 E. Camelback Rd., Phoenix	Lincoln Property Co.	DPC Devel./Bridge Invest.	A	\$58,000,000	259,730	\$223.31
3202 W. Behrend Dr., Phoenix	Griffin Capital Esential REIT	Police/Fire Retirement Detroit	B	\$33,500,000*	213,361	\$157.01
8075 S. River Pkwy., Tempe	Bruce Karsh	Piedmont Partnershp	B	\$24,600,000	133,225	\$184.65

\*Allocated office portion of larger transaction.



## Office Buyer Type

Q2 15 Sales



## Economic Indicators

as of Q2 2015

### Unemployment

U.S.	Down to 5.3%
Arizona	Down to 6.0%
Phoenix Metro	Up to 6.0%

U.S. Consumer Price Index (CPI)	Up 0.5%
Gross Domestic Product (GDP)	Down 1.5%

Source: Bureau of Labor Statistics, Arizona Dept. of Economic Security, Eller College of Management, University of Arizona

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