



Q4  
2015

MARKET  
REPORT

PHOENIX  
**OFFICE**



# Phoenix Office Sector Finishes 2015 in Best Position in Years

The Phoenix office sector took a strong turn to finish Q4 in solid fashion. The year started off slowly but picked up momentum as the year progressed and accelerated the pace into the final months. Most all major indicators were positive for the quarter and for the year, including; vacancy, absorption, asking rental rates, construction and deliveries to inventory. The improving economy, lower unemployment and a growing population have contributed to the momentum driving the office market.

Overall vacancy has dropped to 19.5%, a decrease of 70-basis points from Q3 and the lowest vacancy rate in over seven years. Quarterly absorption settled at 1,876,435 SF and is the highest net absorption since Q1 2006. Absorption for 2015 came in at 3,358,813 SF. The fourth quarter's strong performance represents nearly 56% of the yearly total.

Building completions this quarter totaled 1,474,553 SF and 3,560,159 SF. In Tempe, several large projects such as the 375,000 SF Marina Heights, Building D (which is part of the much larger State Farm campus)

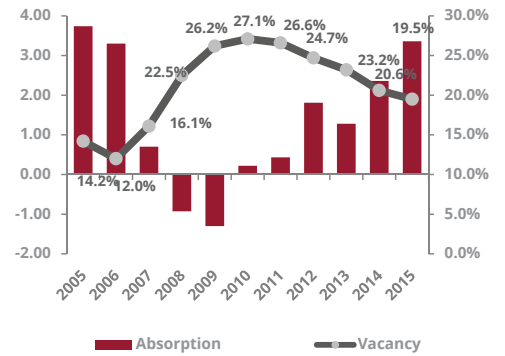
delivered as well as its neighbor on Rio Salado Parkway, Hayden Ferry Lakeside III, which delivered 264,235 SF to inventory. Also notable was the Scottsdale Quarter, Phase III which added 169,189 SF to the Scottsdale Airport submarket.

Collectively, rental rates continued to increase modestly, settling at a combined total of \$22.92 per SF (full-service). The Airport Area, Scottsdale Airport and Scottsdale South submarkets saw the most increases, while the Glendale and Tempe submarkets declined slightly.

In the largest lease transaction for the quarter, AAA leased 206,155 SF at 5353 W. Bell Rd., Glendale, while second place was for 116,982 SF at Centrica (a former big box retail location-turned back office space) 1550 W. Southern Ave., Mesa. It was leased by Santander Consumer USA. The largest sale transaction for the quarter was LBA Realty's purchase of 4 high-rise buildings totaling 906,376 SF at Camelback Esplanade for \$244,857,628 or \$270.15 per SF.

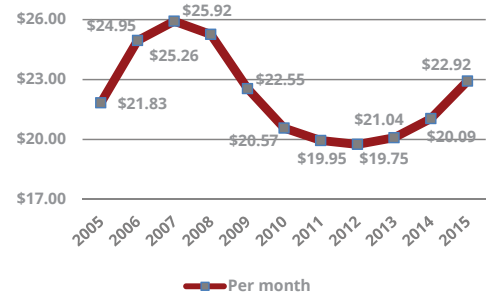
## Absorption/Vacancy

in SF, 2005-2015



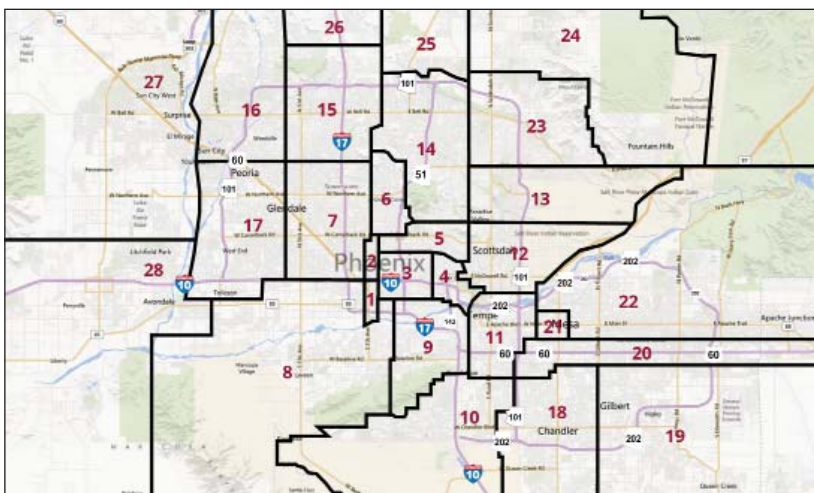
## Rental Rates

Per month, 2005-2015



## Top Office Construction Projects

Project	Address	Major Tenant(s)	Building SF	Delivery
Marina Heights (4)	300 Rio Salado Pkwy., Tempe	State Farm	1,704,000 SF	2016-17
The Alameda	1665 W. Alameda Dr., Tempe	Spec.	235,000 SF	Q1 2016
Mach One (2)	200 E. Yeager Dr., Chandler	Spec.	210,000 SF	Q1 2016
Norterra West	25700 N. Norterra Pkwy., Phoenix	Spec.	149,209 SF	Q2 2016
Skysong 4	1355 N. Scottsdale Rd., Scottsdale	Spec.	145,000 SF	Q3 2016



## Phoenix Office Submarket Map

1. Downtown Phoenix
2. Midtown Phoenix
3. East Phoenix
4. 44th St. Corridor
5. Camelback Corridor
6. Piastewa 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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## Q4 2015 | Phoenix Office Submarket Data

Office Submarkets	Total Inventory	Vacancy Rate Total SF	Q4 2015	Net Absorption Q4 2015	YTD 2015	Under Construction	Building Completions Q4 2015	YTD 2015	Asking FS Rate	Change from Q3
1. Downtown Phoenix	6,297,448	1,051,209	16.7%	65,132	13,810	-	-	-	\$26.58	2.3%
2. Midtown Phoenix	9,654,388	2,180,453	22.6%	283,876	354,429	-	-	-	\$21.41	2.0%
3. East Phoenix	1,644,001	223,008	13.6%	23,461	78,061	-	-	-	\$16.13	0.1%
4. 44th St. Corridor	2,896,217	401,473	14.9%	19,580	113,319	25,200	-	-	\$23.57	-1.1%
5. Camelback Corridor	7,943,615	1,618,843	20.4%	(3,212)	86,568	-	-	-	\$28.11	2.8%
6. Piastewa Corridor	2,093,873	523,870	25.0%	18,242	14,704	-	-	-	\$18.34	1.2%
7. Northwest Phoenix	4,993,438	1,200,711	24.0%	173,202	171,179	-	-	-	\$18.02	0.7%
8. Southwest Phoenix	821,231	251,829	30.7%	4,700	4,700	-	-	-	\$22.46	-1.1%
9. Airport Area	5,488,988	1,345,912	24.5%	58,546	85,481	235,000	96,000	252,027	\$22.10	4.3%
10. South Tempe/Ahwatukee	5,590,047	887,753	15.9%	73,467	144,740	-	150,000	246,649	\$21.31	1.0%
11. Tempe	3,466,483	308,437	8.9%	682,341	631,370	1,704,000	747,235	747,235	\$26.64	-3.3%
12. Scottsdale South	3,634,070	341,722	9.7%	5,107	64,325	145,000	-	-	\$26.21	4.3%
13. Central Scottsdale	5,025,732	798,184	15.9%	54,324	85,065	-	70,000	70,000	\$23.28	0.0%
14. Paradise Valley	2,142,411	480,759	22.4%	15,385	105,986	-	-	-	\$22.30	-0.4%
15. Deer Valley Airport	3,962,527	869,941	22.0%	64,784	232,706	149,209	-	-	\$20.92	1.8%
16. Arrowhead	796,939	153,733	19.3%	16,213	45,154	-	-	-	\$20.71	0.0%
17. Glendale	1,364,231	270,797	20.1%	(4,870)	49,204	-	-	-	\$19.80	-5.9%
18. Chandler	3,816,803	757,675	20.3%	139,719	719,957	315,571	242,109	1,935,059	\$25.50	0.5%
19. Gateway Airport/Loop 202	490,850	135,080	27.5%	26,347	34,887	-	-	-	\$24.87	-0.2%
20. Superstition Corridor	2,065,340	606,590	29.4%	13,525	4,559	-	-	140,000	\$19.57	0.2%
21. Mesa Downtown	360,601	7,875	2.2%	584	34,455	-	-	-	\$19.16	0.4%
22. Mesa East	87,984	11,576	13.2%	-	1,020	-	-	-	\$12.76	0.0%
23. Scottsdale Airpark	8,192,771	1,589,229	19.4%	153,256	254,651	39,750	169,189	169,189	\$25.79	3.5%
24. N. Scottsdale/Carefree	347,176	193,202	55.6%	(6,496)	4,066	-	-	-	\$22.23	-0.4%
25. N. Phoenix/Cave Creek	13,607	-	-	-	-	-	-	-	\$12.00	0.0%
26. North I-17	150,909	82,130	54.4%	-	3,403	-	-	-	\$19.87	0.0%
27. Loop 303/Surprise	410,900	96,394	23.5%	(6,064)	4,396	-	-	-	\$21.54	-0.2%
28. West I-10	548,682	64,130	11.7%	5,286	16,618	-	-	-	\$22.49	3.7%
<b>Phoenix Metro Total</b>	<b>84,301,262</b>	<b>16,452,515</b>	<b>19.5%</b>	<b>1,876,435</b>	<b>3,358,813</b>	<b>2,613,730</b>	<b>1,474,533</b>	<b>3,560,159</b>	<b>\$22.92</b>	<b>2.0%</b>

### By Building Type

Class A	36,745,975	6,647,521	18.1%	1,521,531	2,550,540	2,289,921	1,274,424	2,735,454	\$26.46	1.8%
Class B	44,110,648	9,282,277	21.0%	319,646	749,925	323,809	200,109	824,705	\$20.55	2.4%
Class C	3,444,639	522,717	15.2%	35,258	58,348	-	-	-	\$15.01	0.6%
<b>Building Type Total</b>	<b>84,301,262</b>	<b>16,452,515</b>	<b>19.5%</b>	<b>1,876,435</b>	<b>3,358,813</b>	<b>2,613,730</b>	<b>1,474,533</b>	<b>3,560,159</b>	<b>\$22.92</b>	<b>2.0%</b>

Note: Approximately one dozen buildings were reclassified to other submarkets for geographic accuracy thereby changing some individual submarket data from previous reports. When inaccurate or newly updated information is discovered, it is incorporated into current reporting which may negate comparison to previously published reports.

## Q4 2015 Top Office Leases

Tenant Name	Property Name	Address	Class	Submarket	SF	Type
AAA	5353 West Bell Road	5353 W. Bell Rd., Glendale	B	Deer Valley Airport	206,155	New
Santander Consumer USA	Centrica	1550 W. Southern Ave.	B	Superstition Corridor	116,982	New
Cenlar FSB	Plumwood, Bldg. A	8160 S. Hardy Dr., Tempe	B	S. Tempe/Ahwaktukee	65,580	New
Veterans Administration	Camelback Medical Plaza	5040 N. 15th Ave., Phoenix	B	Northwest Phoenix	25,000	New
BMO Harris Bank	Central Arts Plaza	1850 N. Central Ave., Phoenix	A	Midtown	19,896	New

## Q4 2015 Top Office Sales

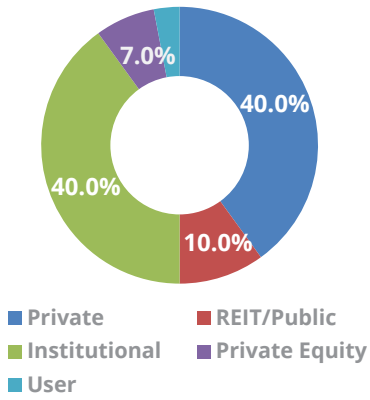
Property Address	Buyer	Seller	Class	Sales Price	SF	PSF
2425-2575 W. Camelback Rd., Phoenix	LBA Realty	Metlife, Inc.	A	\$244,857,628 *	906,376	\$270.15
500 N. 5th St., Phoenix	Parallel Capital Partners	Equity Commonwealth	A	\$100,354,023 *	782,315	\$128.27
5353 W. Bell Rd., Glendale	GI Partners	California State Auto Assoc.	B	\$44,350,000	206,155	\$215.13
4835 E. Cactus Rd. Phoenix	Buchanan Street Partners	Presson Corp.	A	\$37,400,000	198,534	\$188.38
175 N. 1st Ave., Phoenix	Lincoln Property Co.	Hansji Corp.	B	\$18,677,853 *	142,711	\$130.88

\*Allocated office portion of larger transaction.



## Office Buyer Type

Q4 2015 Sales



## Economic Indicators

as of Q4 2015

### Unemployment

U.S.	Down to 4.9%
Arizona	Down to 6.0%
Phoenix Metro	Down to 5.2%

U.S. Consumer Price Index	Down 0.0%
Gross Domestic Product (GDP)	Up to 3.9%

Source: Bureau of Labor Statistics, Bureau of Economic Analysis of the U.S. Dept. of Commerce.

## About Lee & Associates

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