

Q3
2016

MARKET
REPORT

PHOENIX METRO
OFFICE



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Tech, Creative Firms Contribute to Sector Lease Activity

The maturing Phoenix office market continues its upward path posting key gains in most all metrics. A sector on its proverbial heels just four years ago has rebounded steadily to erase many of the losses seen in the past downturn. In that time, over 19 million SF of office space had been built with 9 million SF coming on line in 2007-2008, just when the market began its freefall. It took until 2014 to finally show strong absorption figures to mitigate all the construction from a few years ago. At the time, the sky-is-falling crowd said the office sector would never recover to its former glory. We haven't seen the level of activity that dominated the market back then, but what we have seen is a re-emergence in the sector and the definition of what office space is.

The office sector has shifted to a different dynamic with new metrics on what a healthy market entails. There is an on-the-fly, minimalist and creative approach to using office space. No longer

do the old models of PSF per employee meet current requirements for the new office space. New types of users, industries such as tech and creative services, which seek younger workers, are now dictating the new rules in employee attraction and engagement. Additionally, what constitutes office space can now be found in a restored warehouse, church or former big box retail store. The opportunities in today's market are boundless and offer both traditional and non-traditional users a choice of opportunities to house their businesses.

The Valley's office sector posted a 40-basis point vacancy drop to 18.6% from Q2 and it's the lowest rate since Q1 2008. That's over eight straight years of mostly upward movement for the sector. Absorption was on pace with last quarter's figures showing slight improvement to 845,748 SF. That puts absorption year-to-date at 2,165,062 SF. If lease activity is strong in the fourth quarter, the sector should set a record

for yearly net absorption going back to 2006.

Average asking rental rates, for the second quarter in a row, improved to 1.6% overall. Submarkets showing the greatest increases⁽¹⁾ are South Scottsdale with 5.6% followed by Arrowhead at 4.9% and Downtown Phoenix at 4.1%.

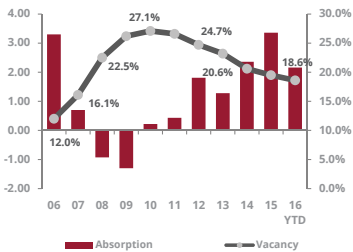
Overall construction is up this quarter to nearly 2 million SF. The Tempe submarket leads all others with nearly half the total posting 909,191 SF. Deliveries this quarter included two built-to-suit buildings (State Farm's Marina Heights-Building A and Arizona DES) and one spec building (Liberty Center III) for a total of 585,777 SF.

In the largest lease transaction for the quarter, Carvana took 135,663 SF at Liberty Center, 1930 W. Rio Salado Pkwy., Tempe. The top sales transaction for the quarter was Crown Realty's \$40.4 million purchase of Four Gateway, 444 N. 44th St., Phoenix.

(1) The Mesa East submarket showed a 57.7% increase this quarter only reflected by one building in a small submarket showing asking rates significantly higher than the past quarter. It is not indicative of overall submarket market strength.

Absorption/Vacancy

in SF, 2006-2016



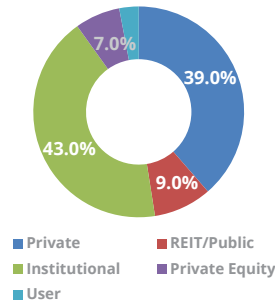
Rental Rates

Per month, 2006-2016



Buyer Type

Q3 16 Sales



Economic Indicators

as of Q3 2016

Unemployment

U.S.	Down 4.9%
Arizona	Down 6.0%
Phoenix Metro	Down 5.0%

Consumer Price Index

U.S. GDP	Up 0.2%
	Up 1.4%

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

Sales by the Numbers: Q3 2016

No. of Transactions

134

Q2 16: 143

Total Sales

\$370.2M

Q2 16: \$228.6M

Average PSF

\$181.92

Q2 16: \$146.06

Average Cap Rate

7.25%

Q2 16: 8.21%

Q3 2016 Top Office Leases

Tenant Name	Property Name	Address	Class	Submarket	SF	Type
Carvana	Liberty Center at Rio Salado III	1930 W. Rio Salado Pkwy, Tempe	A	Airport Area	135,663	New
CBRE	Esplanade IV	2575 E. Camelback Rd., Phoenix	A	Camelback Corridor	73,080	New
Union Bank	Papago Buttes Corporate Plaza	1500 N. Priest Dr., Tempe	A	Tempe	72,715	New
Alliance Residential	Esplanade II	2525 E. Camelback Rd., Phoenix	A	Camelback Corridor	47,211	New
OnTrac	Continuum Business & Tech Park	2501 S. Price Rd., Chandler	B	Chandler	42,394	New

Q3 2016 Top Office Sales

Property Address	Buyer	Seller	Class	Sales Price	SF	PSF
444 N. 44th St., Phoenix	Crown Realty	VanTrust Real Estate, Inc.	A	\$40,400,000	138,240	\$292.25
7272 E. Indian School Rd., Scottsdale	Goldman, Sachs & Co.	Lowe Enterprises Invest.	A	\$40,050,000	155,459	\$257.62
1550 W. Southern Ave., Mesa	Marton Grossman	The 601W Companies	B	\$32,500,000	116,982	\$277.82
15111 N. Pima Rd., II, Scottsdale	Tea-Land Scottsdale, LLC	ViaWest Properties, LLC	A	\$32,100,000	149,992	\$214.01
1550 W. Southern Ave., Mesa*	The 601W Companies	Phoenix Rising Invest., LLC	B	\$30,000,000	116,982	\$256.45

*The seller of this property immediately resold the property for \$32.5M. That sale appears two lines above

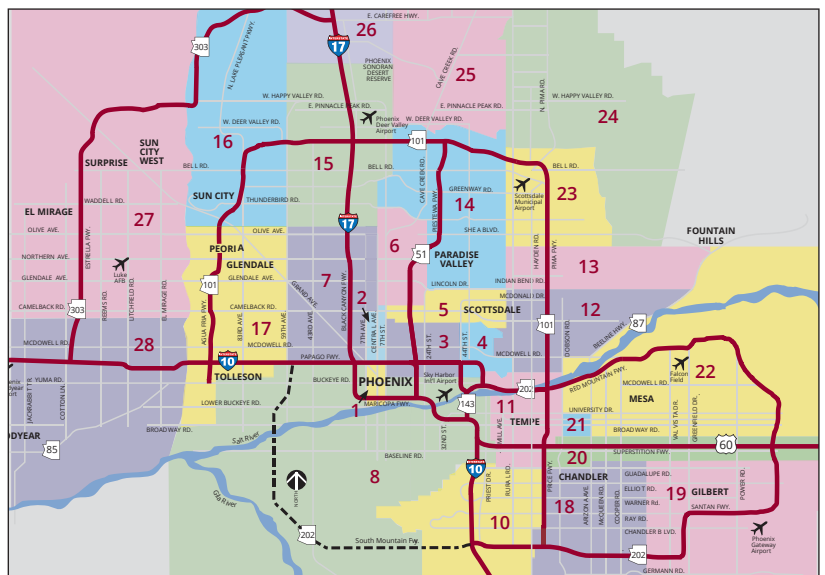
Q3 2016 | Phoenix Office Market Stats

Office Submarkets	Total Inventory	Vacancy Rate		Net Absorption		Under Construction	Building Completions		Asking FS Rate	Change from Q2
		Total SF	Q3 2016	Q3 2016	YTD 2016		Q3 2016	YTD 2016		
1. Downtown Phoenix	6,600,390	1,006,620	15.3%	1,157	29,873	122,220	-	-	\$28.34	4.1%
2. Midtown Phoenix	9,630,094	2,255,421	23.4%	49,680	12,681	-	-	-	\$21.66	1.0%
3. East Phoenix	1,644,001	249,306	15.2%	(22,004)	(32,415)	-	-	-	\$16.81	1.4%
4. 44th St. Corridor	2,922,962	515,036	17.6%	26,522	(96,397)	-	-	25,200	\$24.28	0.1%
5. Camelback Corridor	7,952,311	1,487,154	18.7%	142,037	127,704	-	-	-	\$30.14	1.1%
6. Piestewa Corridor	2,066,137	457,071	22.1%	12,507	64,674	-	-	-	\$19.07	2.9%
7. Northwest Phoenix	4,972,757	1,202,171	24.0%	(52,164)	18,811	-	-	-	\$18.59	1.5%
8. Southwest Phoenix	824,733	248,385	30.1%	7,150	3,444	-	-	-	\$22.63	1.7%
9. Airport Area	5,190,251	1,268,820	24.4%	(42,496)	(55,717)	89,889	135,663	370,663	\$23.20	1.2%
10. South Tempe/Ahwatukee	5,545,282	803,811	14.5%	48,056	115,268	-	-	-	\$22.38	0.0%
11. Tempe	4,959,879	402,984	8.1%	509,088	1,185,343	909,191	370,000	1,919,866	\$29.14	0.4%
12. Scottsdale South	3,641,439	366,713	10.1%	11,749	(36,528)	145,000	-	145,000	\$29.50	5.6%
13. Central Scottsdale	5,017,896	697,596	13.9%	81,375	118,506	-	-	-	\$24.22	1.9%
14. Paradise Valley	2,104,319	440,213	20.9%	(5,329)	40,546	-	-	-	\$23.61	-0.9%
15. Deer Valley Airport	4,111,736	919,432	22.4%	10,206	114,755	150,000	-	-	\$22.59	1.0%
16. Arrowhead	796,449	149,181	19.0%	(17,300)	2,302	-	-	-	\$21.99	4.9%
17. Glendale	1,349,972	234,559	17.4%	3,965	18,238	-	-	-	\$22.26	-0.4%
18. Chandler	4,014,514	878,059	21.9%	22,057	162,374	290,785	80,114	313,973	\$25.63	0.3%
19. Gateway Airport/Loop 202	492,760	124,413	25.2%	5,508	10,667	-	-	-	\$24.82	-3.0%
20. Superstition Corridor	2,066,073	416,244	20.1%	25,664	190,346	-	-	-	\$20.08	1.5%
21. Mesa Downtown	360,601	7,875	2.2%	-	-	-	-	-	\$19.16	0.0%
22. Mesa East	87,984	12,649	14.4%	(4,000)	(1,073)	-	-	-	\$18.91	57.7%
23. Scottsdale Airpark	8,243,022	1,476,358	17.9%	29,061	153,567	271,000	-	39,750	\$27.17	0.5%
24. N. Scottsdale/Carefree	315,743	143,629	45.5%	15,528	34,717	-	-	-	\$23.45	-0.5%
25. N. Phoenix/Cave Creek	13,607	-	0.0%	-	-	-	-	-	\$12.00	0.0%
26. North I-17	150,908	74,444	49.3%	(3,700)	7,685	-	-	-	\$20.63	0.1%
27. Loop 303/ Surprise	410,900	104,591	25.5%	(5,578)	(8,197)	-	-	-	\$21.00	0.0%
28. West I-10	549,917	80,242	14.6%	(2,991)	(16,112)	-	-	-	\$23.97	1.0%
Phoenix Metro Total	86,036,637	16,022,977	18.6%	845,748	2,165,062	1,978,085	585,777	2,814,452	\$24.19	1.6%
By Building Type										
Class A	38,932,441	6,798,450	17.5%	744,131	1,275,783	1,222,663	505,663	2,581,798	\$27.89	1.7%
Class B	44,358,302	8,726,255	19.6%	100,502	892,575	755,402	80,114	232,654	\$21.59	1.3%
Class C	2,745,894	498,272	18.1%	1,115	(3,296)	-	-	-	\$17.94	0.0%
Building Type Total	86,036,637	16,022,977	18.6%	845,748	2,165,062	1,978,065	585,777	2,814,452	\$24.19	1.6%

When inaccurate or newly updated information is discovered, it is incorporated into current reporting which may negate comparison to previously published market reports.

Phoenix Office Submarket Map

- Downtown Phoenix
- Midtown Phoenix
- East Phoenix
- 44th St. Corridor
- Camelback Corridor
- Piestewa Corridor
- Northwest Phoenix
- Southwest Phoenix
- Airport Area
- S. Tempe/Ahwatukee
- Tempe
- Scottsdale South
- Central Scottsdale
- Paradise Valley
- Deer Valley Airport
- Arrowhead
- Glendale
- Chandler
- Gateway/Loop 202
- Superstition Corridor
- Mesa Downtown
- Mesa East
- Scottsdale Airpark
- N. Scottsdale/Carefree
- N. Phoenix/Cave Creek
- North I-17
- Loop 303/ Surprise
- West I-10



About This Report

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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.

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Now in its 25th year, Lee & Associates Arizona specializes in providing exceptional commercial brokerage services to the industrial, office, land and investment sectors of the Phoenix commercial real estate market. The Phoenix office was established in 1991 and is now recognized as one of the most successful brokerage firms in the state. Each of our 57 nationwide Lee & Associates offices has a strong local ownership combined with a powerful platform from the national Lee & Associates network.



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