



Q4
2016

MARKET
REPORT

PHOENIX METRO
OFFICE



LEE &
ASSOCIATES®
COMMERCIAL REAL ESTATE SERVICES

Maturing Office Market Provides Stability, Opportunities

The Phoenix office sector finished the year in solid form as the market finds its equilibrium.

Though absorption for the year is down slightly from last, 2016 was the third-largest increase in net absorption in a decade. The pace of new construction is strong, but not overheated, adding to the sense of market maturity after a long slog through the Great Recession. This speaks to the solid market fundamentals present in the Valley to begin with: a young, dynamic workforce, lower cost of doing business, motivated economic development groups and solid population increases. These factors have helped make the Valley's office sector more stable, rather than the perceived boom-or-bust mentality for which Phoenix has been known for decades.

Perceptions and reality are both evolving about the Valley. New energy from out-of-state companies (many from Silicon Valley) have begun to transform the market according to Chris Camacho, CEO of Greater Phoenix Economic Council (GPEC). He sees the region's entrepreneurial ecosystem as thriving.

He also says these companies are also changing the Valley's physical infrastructure.

With this newer breed of office user entering the market, it poses challenges and opportunities for landlords and tenants to think creatively about how to best make the best decisions regarding space requirements. Most office users are now planning less square footage per employee. Since 2012, when the average was 225 SF per worker, it is now only 151 SF per person, according to a recent CoreNet Global report. With these lower space requirements, many companies have given back space they no longer require. This means increasing pressure for landlords as more tenants are needed to meet occupancy goals.

Vacancy remained steady at 18.6% from last quarter, but is down 90-basis points from the beginning of the year when vacancy was 19.5%. Over 3.5 million SF of deliveries were added to inventory this year. New construction remained strong as nearly 2.7 million SF is currently under construction. Most new building activity is centered in Tempe, Airport Area and Chandler.

Net absorption posted at 519,391 SF for the quarter and 2.9M SF for 2016.

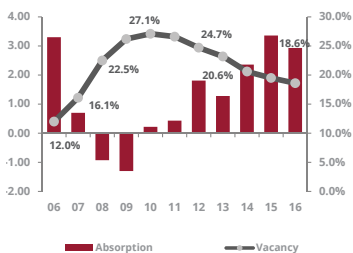
Asking rents increased by an average of 0.6%. Arrowhead and Paradise Valley submarkets have posted the highest gains. Concessions still remain and tenant improvements continue to be generous in select submarkets. Leasing activity remained in historically modest territory, but is down by a third compared with 2015.

The largest lease transaction of the quarter was ADP leasing 225,000 SF at the former US Airways Operations Center at 111 W. Rio Salado Pkwy., Tempe. The largest sales transaction in Q4 was the sale of Renaissance Square, 2 and 40 N. Central Ave., Phoenix for \$151.3M. Price per SF was calculated at \$156.65. Both buildings comprise 965,508 SF.

The future of the Valley's office sector appears to be on solid footing. There is stronger than expected population growth, a stable legislative agenda and a modest regulatory climate. These factors appeal to outside firms seeking a new place to call home and the Valley seems to be rolling out the red carpet.

Absorption/Vacancy

in SF, 2006-2016



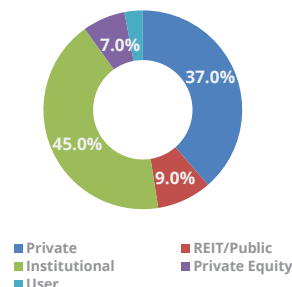
Rental Rates

Per month, 2006-2016



Buyer Type

Q4 16 Sales



Economic Indicators

as of Q4 2016

Unemployment

U.S.	Down to 4.6%
Arizona	Down to 5.0%
Phoenix Metro	Down to 4.5%

Consumer Price Index

U.S. GDP	Up 0.2%
	Up 2.2%

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

Sales by the Numbers: Q4 2016

No. of Transactions

125

Q3 16: 128

Total Sales

\$572.8M

Q3 16: \$366.3M

Average PSF

\$165.18

Q3 16: \$177.25

Average Cap Rate

7.27%

Q3 16: 7.31%

Q4 2016 Top Office Leases

Tenant Name	Property Name	Address	Class	Submarket	SF	Type
ADP	Former U.S. Airways HQ	111 W. Rio Salado Pkwy., Tempe	A	Tempe	225,000	New
Carvana	Liberty Center at Rio Salado III	1930 W. Rio Salado Pkwy., Tempe	A	Airport Area	67,774	New
The Advisor Group	20 E. Thomas Rd., Phoenix	20 E. Thomas Rd., Phoenix	A	Midtown	65,783	New
Amazon	Nexus@ASU Research Park	8600 S. Science Dr., Tempe	A	S. Tempe/Ahwatukee	64,892	Expansion
Orbital ATK	Allred Park Place Central 10	122 S. Spectrum Blvd., Chandler	B	Chandler	46,225	New

Q4 2016 Top Office Sales

Property Address	Buyer	Seller	Class	Sales Price	SF	PSF
2-40 N. Central Ave., Phoenix	Oaktree Capital Management	Hines REIT, Inc.	A	\$151,250,000	965,508	\$156.65
3100-3200 W. Ray Rd., Chandler	City Office REIT, Inc.	Columbia Property Trust	A	\$58,500,000	266,531	\$219.49
3200 N. Central Ave., Phoenix	Bridge Investment Group, LLC	EverWest Real Estate Ptrs.	A	\$49,000,000	344,958	\$142.05
5090 N. 40th St., Phoenix	City Office REIT, Inc.	Lowe Enterprises Inv. Mgmt.	B	\$42,600,000	175,835	\$242.27
2211 S. 47th St., Phoenix	Cole REIT	Lexington Realty Trust	B	\$32,000,000	176,402	\$181.40

Q4 2016 | Phoenix Office Market Stats

Office Submarkets	Total Inventory	Vacancy Rate		Net Absorption		Under Construction*	Building Completions		Asking FS Rate	Change from Q3
		Total SF	Q4 2016	Q4 2016	YTD 2016		Q4 2016	YTD 2016		
1. Downtown Phoenix	6,678,453	1,035,465	15.5%	(7,849)	22,024	-	122,220	122,220	\$28.42	0.3%
2. Midtown Phoenix	9,630,094	2,271,095	23.6%	(15,674)	(2,993)	67,650	-	-	\$22.26	2.8%
3. East Phoenix	1,644,001	203,966	12.4%	45,340	12,925	-	-	-	\$16.95	0.8%
4. 44th St. Corridor	2,922,270	501,880	17.2%	13,156	(83,241)	-	-	25,200	\$24.57	1.2%
5. Camelback Corridor	7,996,541	1,520,588	19.0%	(33,434)	94,270	-	-	-	\$29.16	-3.3%
6. Piestewa Corridor	2,066,137	472,647	22.9%	6,724	62,244	-	-	-	\$19.78	3.7%
7. Northwest Phoenix	4,974,217	1,263,847	25.4%	(61,676)	(42,865)	-	-	-	\$19.13	2.9%
8. Southwest Phoenix	824,733	220,213	26.7%	28,172	31,616	-	-	-	\$22.29	-1.5%
9. Airport Area	5,190,251	1,336,101	25.7%	(87,267)	(142,428)	810,792	-	370,663	\$23.37	0.7%
10. South Tempe/Ahwatukee	5,774,137	894,770	15.5%	86,704	53,232	-	-	-	\$22.82	2.0%
11. Tempe	5,410,199	726,672	13.4%	94,232	1,575,083	908,583	585,429	2,505,295	\$28.04	-3.7%
12. Scottsdale South	3,697,877	526,366	14.2%	(29,018)	(68,312)	166,606	145,000	145,000	\$29.83	1.1%
13. Central Scottsdale	5,017,896	663,349	13.2%	34,247	152,753	271,000	-	-	\$24.57	1.4%
14. Paradise Valley	2,104,319	364,550	17.3%	45,713	86,259	-	-	-	\$24.58	4.1%
15. Deer Valley Airport	4,111,736	887,084	21.6%	32,348	147,103	150,000	-	-	\$22.84	1.1%
16. Arrowhead	796,449	126,170	15.8%	25,261	27,563	-	-	-	\$23.29	5.9%
17. Glendale	1,349,972	210,032	15.6%	24,527	60,765	-	-	-	\$21.35	-4.1%
18. Chandler	4,017,931	798,877	19.9%	78,182	243,987	290,785	-	313,973	\$25.59	-0.7%
19. Gateway Airport/Loop 202	492,075	126,477	25.7%	(2,064)	8,603	17,611	-	-	\$25.32	2.0%
20. Superstition Corridor	2,115,043	428,808	20.3%	(12,564)	151,582	-	-	-	\$19.82	-1.3%
21. Mesa Downtown	360,601	5,543	1.5%	2,332	2,332	-	-	-	\$19.16	0.0%
22. Mesa East	87,984	12,649	14.4%	-	6,927	-	-	-	\$18.91	0.0%
23. Scottsdale Airpark	8,239,453	1,177,863	14.3%	207,426	452,062	-	-	39,750	\$27.52	1.3%
24. N. Scottsdale/Carefree	315,743	123,383	39.1%	25,127	73,949	-	-	-	\$23.55	0.4%
25. N. Phoenix/Cave Creek	13,607	-	0.0%	-	-	-	-	-	\$12.00	0.0%
26. North I-17	150,908	74,106	49.1%	338	8,103	-	-	-	\$20.62	-0.1%
27. Loop 303/Surprise	410,900	90,499	22.0%	14,092	5,895	-	-	-	\$21.00	0.0%
28. West I-10	549,917	75,226	13.7%	5,016	(11,096)	-	-	-	\$23.58	1.7%
Phoenix Metro Total	86,943,444	16,138,226	18.6%	519,391	2,928,342	2,683,027	852,649	3,522,101	\$24.34	0.6%

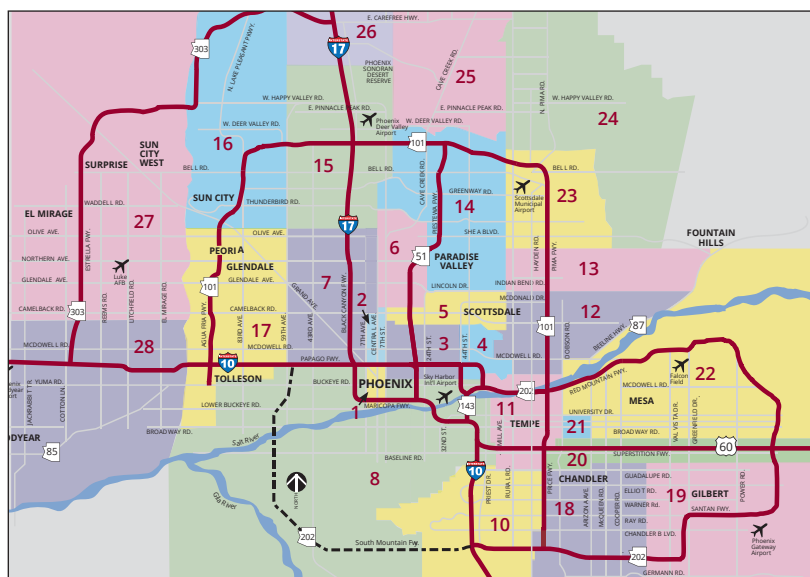
By Building Type

Class A	39,648,543	6,671,452	17.0%	455,227	1,973,415	1,312,055	280,663	2,717,461	\$27.84	-0.2%
Class B	44,448,801	8,872,695	19.6%	42,182	935,241	1,370,972	571,986	804,640	\$21.75	0.7%
Class C	2,846,100	594,079	14.6%	21,982	19,686	-	-	-	\$18.02	0.4%
Building Type Total	86,943,444	16,138,226	18.6%	519,391	2,928,342	2,683,027	852,649	3,522,101	\$24.34	0.6%

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

The information contained herein has been obtained from third-party sources believed to be reliable; however, Lee & Associates Arizona has not independently verified its accuracy. Lee & Associates makes no representations, guarantees, or express or implied warranties of any kind regarding the accuracy or completeness of the information and details provided herein, including but not limited to the implied warranty of suitability and fitness for a particular purpose.

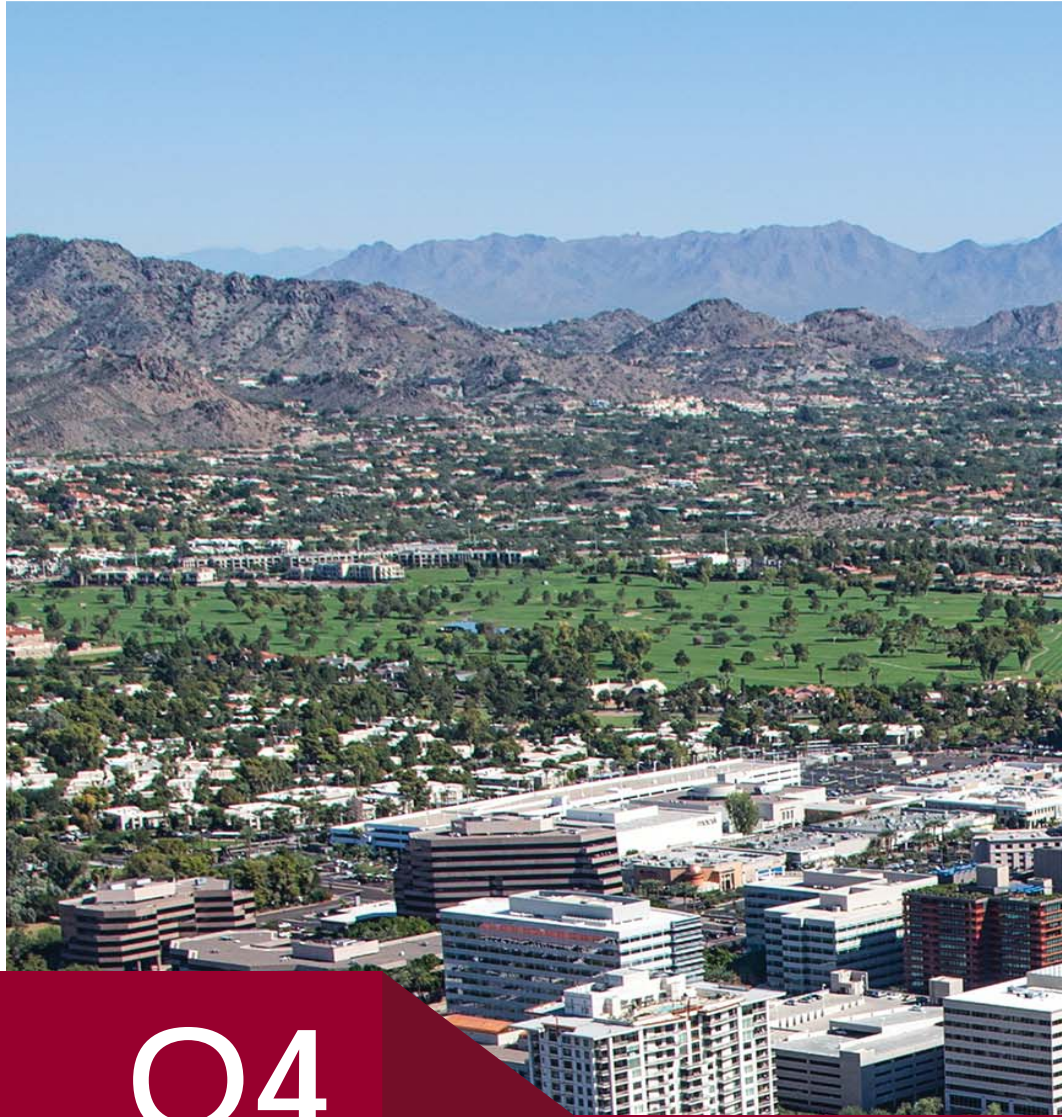
Interested parties should perform their own due diligence regarding the accuracy of the information. The information provided herein, including any sale or lease terms, is being provided subject to errors, omissions, changes of price or conditions, prior sale or lease, and withdrawal without notice by third-party data source providers.

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.

© Copyright 2016, 2017 Lee & Associates Arizona. All rights reserved.

Market report analysis by:

Matt DePinto, Senior Research Analyst



Q4 2016

About Lee & Associates

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.



COMMERCIAL REAL ESTATE SERVICES

3200 East Camelback Road, Suite 100
Phoenix, Arizona 85018
602.956.7777 | www.leeazona.com

Follow us on:

