



Q4
2017

MARKET
REPORT

PHOENIX METRO
OFFICE



LEE &
ASSOCIATES

COMMERCIAL REAL ESTATE SERVICES

A Strong Finish To A Year Of Uncertainty, Positive Signs On The Horizon

Key Takeaways

- 958,100 square feet of positive net absorption this quarter, bringing the total for 2017 to 1,833,318 square feet.
- Record setting 18th consecutive quarter of positive net absorption.
- Vacancy rate remained flat at 19.6%, despite vacancies slightly rising on a national level due to increased supply.
- New construction in the office sector increased to 2,284,970 square, led by Tempe and Chandler with 1.6 million square feet under construction.

The Phoenix Office market ended the year strong with 958,100 square feet of absorption in the 4th quarter, up from 216,037 in third quarter. This is the 18th consecutive quarter that the Phoenix market has seen positive net absorption, a new record for the market. 2017 ended the year with 1,833,318 square feet of absorption total, and 19.6% overall vacancy rate.

Leasing this quarter can be characterized more in terms of volume, rather than deal size. The largest lease executed this quarter was 58,000 square feet, compared to the three leases over 130,000 square

feet from last quarter. Four out of the five largest leases executed occurred in Class B properties, and that segment grew from 35,000 to 430,000 square feet of absorption from last quarter to this quarter.

Sales for office assets in Phoenix were very strong this quarter. Part of this can be attributed to out of state, primarily coastal, investors looking for investments in Arizona to place capital. However, the purchase of Marina Heights for \$930,000,000 by local JDM Partners and New York-based Transwestern Investment Group made headlines as the largest real estate transaction ever in the state of Arizona. This demand should help to drive down cap rates for sought after office assets in the Phoenix market.

New construction continued to increase, and 271,000 square feet of new product was delivered in Q4. The two new buildings delivered were McKesson's build-to-suit in the South Scottsdale submarket, giving that submarket a very strong quarter while hurting their previous Central Scottsdale location. Chandler saw the biggest increase in new construction with three new office buildings breaking ground for over 450,000 square feet, all of which are being built on a spec basis. Suburban, boutique projects

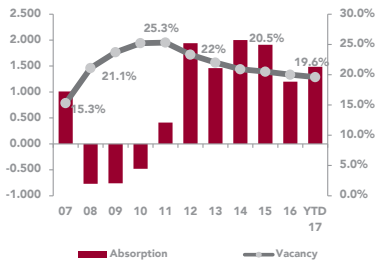
also broke ground in Scottsdale with The Grove at McCormick Ranch and Chauncey Lane in the Scottsdale Airport submarket.

On a macroeconomic level, 2017 can be characterized as a year of uncertainty on the national level that may have led office users to take a wait and see approach. Towards the end of the year there was more clarity on economic policies, especially changes to the tax code, that are expected to have a major impact on leasing heading into 2018. Both nationally and locally, unemployment dropped to 4.1%, the Consumer Price Index rose, and U.S. GDP rose 0.7%. All good signs for local and national office market.

The Phoenix office market continues to compete with other major cities in an effort to draw in new companies. For years, it has been a significant goal for the Valley's economic development leaders to bring in new business and diversify the economy here. That effort may be paying off after a 2017 that saw Phoenix submarkets like Tempe become some of the fastest growing cities in the country. The increased demand nationally for a business-friendly environment, high-quality of life, and strong labor pool can lead to sustainable growth for the Valley and its office market.

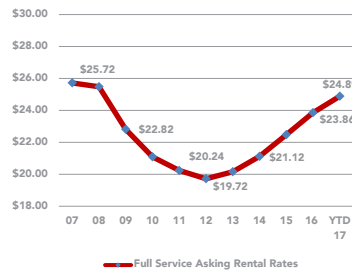
Absorption/Vacancy

in SF, 2007-2017



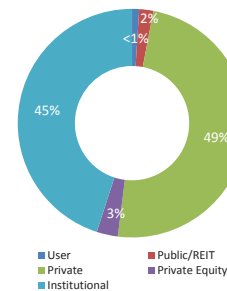
Rental Rates

per month, 2007-2017



Buyer Type

Q4 2017 Sales



Economic Indicators

as of Q4 2017

Unemployment

U.S.	Down to 4.1%
Arizona	Down to 4.5%
Phoenix Metro	Down to 4.1%

Consumer Price Index	Up to 2.5%
U.S. GDP	Up to 3.3%

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

Sales by the Numbers: Q4 2017

No. of Transactions

95

Q3 2017: 98

Total Sales

\$1,358,878,644

Q3 2017: \$411.1M

Average PSF

\$298.86

Q3 2017: \$157.34

Average Cap Rate

6.81%

Q3 2017: 7.99%

Q4 2017 Top Office Leases

Tenant Name	Property Name	Address	Class	Submarket	SF	Type
Envision	Missouri Falls	645 E. Missouri Ave.	A	Midtown	58,103	New
Cognizant	WayPoint 4	1130 N. Alma School Rd.	B	Tempe	50,693	New
Waste Management	Union Hills Office Plaza	2550 W. Union Hills Dr.	B	Deer Valley	47,568	New
CEC Educational Services	Allred Airport Center II	2200 E. Germann Rd.	B	Chandler	46,846	New
Orbital ATK	Allred Park Place Central	1233 S. Spectrum Blvd.	B	Chandler	46,225	Expansion

Q4 2017 Top Office Sales

Property Address	Buyer	Seller	Class	Sales Price	SF	PSF
300-600 E. Rio Salado Pky.	JDM Partners/Transwestern	Ryan Companies	A	\$930,000,000	2,024,139	\$459.45
4150-4250 N. Drinkwater Blvd.	GLL Real Estate Partners	Transwestern	A	\$68,933,000	226,112	\$304.86
1600 & 1700 N. Desert Dr.	City Office REIT	WDP Partners	B	\$33,300,000	162,748	\$204.61
118-250 N. 7th Ave. & 800-850 W. Adams St.	KBS Strategic Opportunity REIT II	Broadreach Capital Partners	A	\$33,290,000	310,886	\$107.08
16552 N. 90th St. & 16425 N. Pima Rd.	iStar Financial	RAIT Financial Trust	A	\$26,609,880	255,237	\$208.24

Q4 2017 | Phoenix Office Market Stats

Office Submarkets	Inventory Total	Vacancy Rate				Net Absorption				Sublease Available			Under Construction	Asking FS Rents
		Direct SF	Percent	Sublease SF	Percent	Total SF	Percent	Q4 2017	YTD 2017	Vacant SF	Total SF	Percent		
1. Downtown Phoenix	7,574,892	1,082,843	14.3%	108,912	1.4%	1,191,755	15.7%	112,571	(12,799)	108,912	153,114	2.0%	205,000	\$30.19
2. Midtown Phoenix	9,145,539	2,467,684	27.0%	39,046	0.4%	2,506,730	27.4%	(43,498)	(85,110)	39,046	157,649	1.7%	-	\$22.12
3. Midtown/Central Phoenix	1,962,350	266,558	13.6%	9,177	0.5%	275,735	14.1%	(19,647)	(12,486)	9,177	18,367	0.9%	-	\$17.63
4. 44th St. Corridor	2,506,732	510,448	20.4%	2,100	0.1%	512,548	20.4%	59,233	14,516	2,100	10,369	0.4%	-	\$25.88
5. Camelback Corridor	7,426,556	1,159,623	15.6%	87,237	1.2%	1,246,860	16.8%	250,359	293,297	87,237	153,227	2.1%	118,090	\$30.41
6. Piestewa Corridor	2,203,861	431,038	19.6%	34,852	1.6%	465,890	21.1%	1,175	14,663	34,852	34,852	1.6%	-	\$21.23
7. Northwest Phoenix	6,215,195	1,570,244	25.3%	14,725	0.2%	1,584,969	25.5%	21,578	65,850	14,725	168,920	2.7%	-	\$18.96
8. Southwest Phoenix	1,351,112	269,252	19.9%	-	0.0%	269,252	19.9%	(27,123)	(28,814)	-	-	0.0%	-	\$26.19
9. Sky Harbor Airport	8,378,354	2,047,724	24.4%	536,237	6.4%	2,583,961	30.8%	80,431	95,391	536,237	592,273	7.1%	235,000	\$23.56
10. S. Tempe/Ahwatukee	4,874,404	653,717	13.4%	23,046	0.5%	676,763	13.9%	(18,407)	158,644	23,046	105,466	2.2%	-	\$22.39
11. Tempe	6,340,446	851,282	13.4%	53,140	0.8%	904,422	14.3%	43,933	159,826	53,140	101,729	1.6%	755,662	\$28.97
12. Scottsdale South	4,831,906	671,751	13.9%	15,976	0.3%	687,727	14.2%	397,531	274,194	15,976	74,654	1.5%	10,000	\$31.00
13. Central Scottsdale	5,151,337	545,669	10.6%	73,152	1.4%	618,821	12.0%	(63,977)	133,184	73,152	105,861	2.1%	100,000	\$25.89
14. Paradise Valley	2,160,277	392,213	18.2%	16,428	0.8%	408,641	18.9%	(28,921)	(10,862)	16,428	23,933	1.1%	-	\$24.90
15. Deer Valley Airport	5,889,811	1,528,326	25.9%	6,249	0.1%	1,534,575	26.1%	(17,698)	157,871	6,249	68,175	1.2%	-	\$21.64
16. Arrowhead	1,051,334	137,556	13.1%	-	0.0%	137,556	13.1%	(43,922)	(13,666)	-	-	0.0%	-	\$23.45
17. Glendale	1,687,126	379,393	22.5%	-	0.0%	379,393	22.5%	(696)	29,362	-	-	0.0%	-	\$22.18
18. Chandler	5,544,739	1,210,556	21.8%	29,520	0.5%	1,240,076	22.4%	91,517	299,610	29,520	304,979	5.5%	841,218	\$24.19
19. Gateway/Loop 202	342,363	53,866	15.7%	2,980	0.9%	56,846	16.6%	(1,252)	(30,112)	2,980	8,080	2.4%	-	\$22.78
20. Superstition Corridor	2,675,779	391,600	14.6%	6,319	0.2%	397,919	14.9%	60,317	178,525	6,319	12,319	0.5%	-	\$19.59
21. Mesa Downtown	632,708	42,584	6.7%	-	0.0%	42,584	6.7%	(2,285)	8,290	-	8,832	1.4%	-	\$15.43
22. Mesa East	526,658	79,681	15.1%	-	0.0%	79,681	15.1%	(6,845)	10,719	-	-	0.0%	-	\$17.09
23. Scottsdale Airpark	8,507,783	1,160,120	13.6%	104,890	1.2%	1,263,365	14.8%	48,089	105,695	104,890	430,021	4.9%	20,000	\$27.51
24. N. Scottsdale/Carefree	661,037	113,776	17.2%	-	0.0%	113,776	17.2%	77,453	78,428	-	0	0.0%	-	\$21.30
25. N. Phoenix/Cave Creek	13,607	-	0.0%	-	0.0%	-	0.0%	-	-	-	-	0.0%	-	\$12.00
26. North I-17	277,665	83,654	30.1%	-	0.0%	83,654	30.1%	2,816	(3,930)	-	-	0.0%	-	\$24.62
27. Loop 303/Surprise	352,666	73,414	20.8%	6,178	1.8%	79,592	22.6%	(897)	3,834	6,178	6,178	1.8%	-	\$22.09
28. West I-10	822,473	141,735	17.2%	-	0.0%	141,735	17.2%	(13,735)	(50,802)	-	-	0.0%	-	\$20.16
Phoenix Metro Total	99,108,710	18,316,307	18.5%	1,170,164	1.2%	19,484,826	19.66%	958,100	1,833,318	1,170,164	2,538,998	2.6%	2,284,970	\$24.88

By Building Type

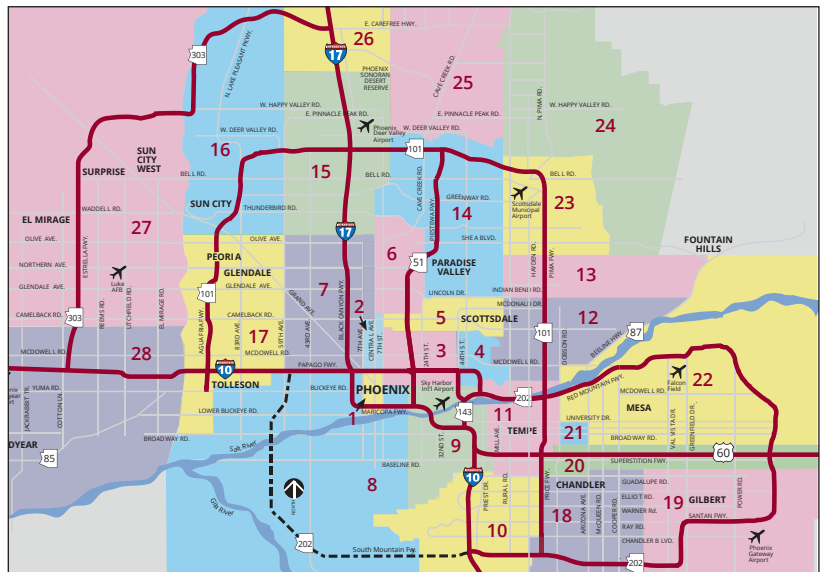
Class A	38,458,170	6,012,533	15.6%	363,969	0.9%	6,376,502	16.6%	421,530	1,092,366	363,969	1,266,931	3.3%	2,284,970	\$28.69
Class B	54,731,917	11,440,934	20.9%	797,357	1.5%	12,236,646	22.4%	430,097	633,523	797,357	1,257,229	2.3%	-	\$22.58
Class C	5,918,623	862,840	14.6%	8,838	0.1%	871,678	14.7%	106,473	107,429	8,838	14,838	0.3%	-	\$16.80
Building Type Total	99,108,710	18,316,307	18.5%	1,170,164	1.2%	19,484,826	19.66%	958,100	1,833,318	1,170,164	2,538,998	2.6%	2,284,970	\$24.88

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

* Net absorption is calculated by the net change in physically occupied space between the current period and the previous period based on our competitive building inventory.

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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Market report analysis by:
Lee & Associates Arizona



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Now in our 26th 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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