

OFFICE MARKET REPORT

Q4 2020

**LEE &
ASSOCIATES**
COMMERCIAL REAL ESTATE SERVICES

PHOENIX, ARIZONA

Phoenix Office Market Holds Steady

The Phoenix office market felt the full impact of the COVID-19 pandemic at the end of 2020. The overall vacancy rose 40 basis point to 16.3% from 15.9%. Sublease space rose from 1.3M square feet to a record 2.63M square feet in 2020 as more companies worked remotely and re-evaluated their true office space needs.

Construction activity remained strong as we finished the year with 2.8M square feet under construction, of which 35% is pre-leased or owner-occupied. Cava soon is still the largest construction project of the year with an expected completion date in early 2021. The only delivery in Q4 was the new Harkins Theater headquarters building in Scottsdale at 65,000 square feet.

Sales volume was down roughly 50% quarter over quarter from the end of last year. Q4 finished with \$582M in volume compared to \$1.1T in Q4 2019. Throughout the fourth quarter, there were 122 sale transactions compared to 141 the year before. The price per foot increased significantly from \$215 to \$251 per square foot. The largest transaction in the quarter was the Grand Phase II, the 358,800 square foot class A building sold for \$187M (\$522 PSF). The second largest transaction was the Park at San Tan which sold for \$65M.



DIRECT VACANCY

16.3%

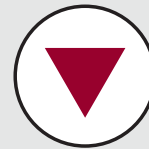
VS. 15.9% IN Q3



Q4 NET ABSORPTION

-269,254 SF

VS. -14,638 SF IN Q3



AVERAGE ASKING RENTS

\$25.33 PSF

VS. \$25.95 PSF IN Q3



UNDER CONSTRUCTION

2,843,236

VS. 2,687,238 IN Q3



SUBLEASE SPACE

2,636,903 SF

VS. 2,549,406 IN Q3

The leasing market had a flurry of activity to end the year. The largest lease was Siemens Technology who renewed at the Allred Cotton Center for 121,768 square feet. The second largest lease transaction of the quarter was the Banner Health, 80,000 square foot build-to-suit at the Riverwalk at Talking Stick. PennyMac entered the market taking 74,625 square feet at 3201 East Elwood in Phoenix.

The structure of many businesses has changed since the still-ongoing COVID-19 pandemic hit early in 2020. Office space has been affected particularly hard as more companies continue to work remotely and reassess their future office needs. Arizona has yet to see a significant decrease for now. Even during the pandemic, many companies continued to announce office-focused expansion plans for the Valley, including Amazon and Zoom.

SALES BY THE NUMBERS: Q4 2020

NO. OF TRANSACTIONS

122

Q3 2020: 85

TOTAL SALES

\$581M

Q3 2020: \$190M

AVERAGE PSF

\$251

Q3 2020: \$198

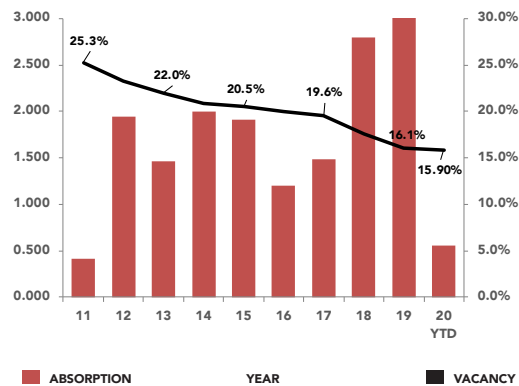
AVERAGE CAP RATE

7.1%

Q3 2020: 7.5%

ABSORPTION/VACANCY

2010 - 2020

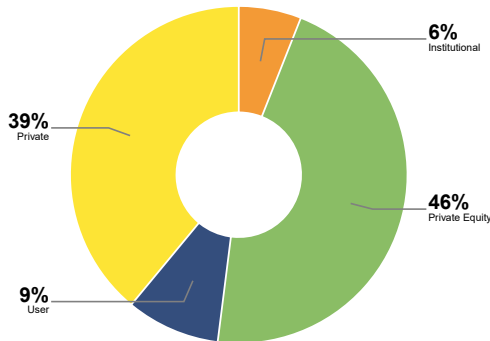


QUARTERLY TREND ANALYSIS

	Q4 2020	Q3 2020	Q2 2020	Q1 2020
Vacancy Rate	16.3%	15.9%	15.8%	16.2%
Availability Rate	20.5%	19.7%	19.3%	19.3%
Asking Lease Rate	\$25.33	\$25.95	\$25.78	\$25.74
Leased SF	1,017,143 SF	920,141 SF	978,833 SF	1,618,568 SF
Sold SF	2,318,033 SF	1,051,299 SF	1,308,833 SF	1,638,225 SF
Net Absorption	-269,254 SF	-14,638 SF	599,629 SF	310,280 SF

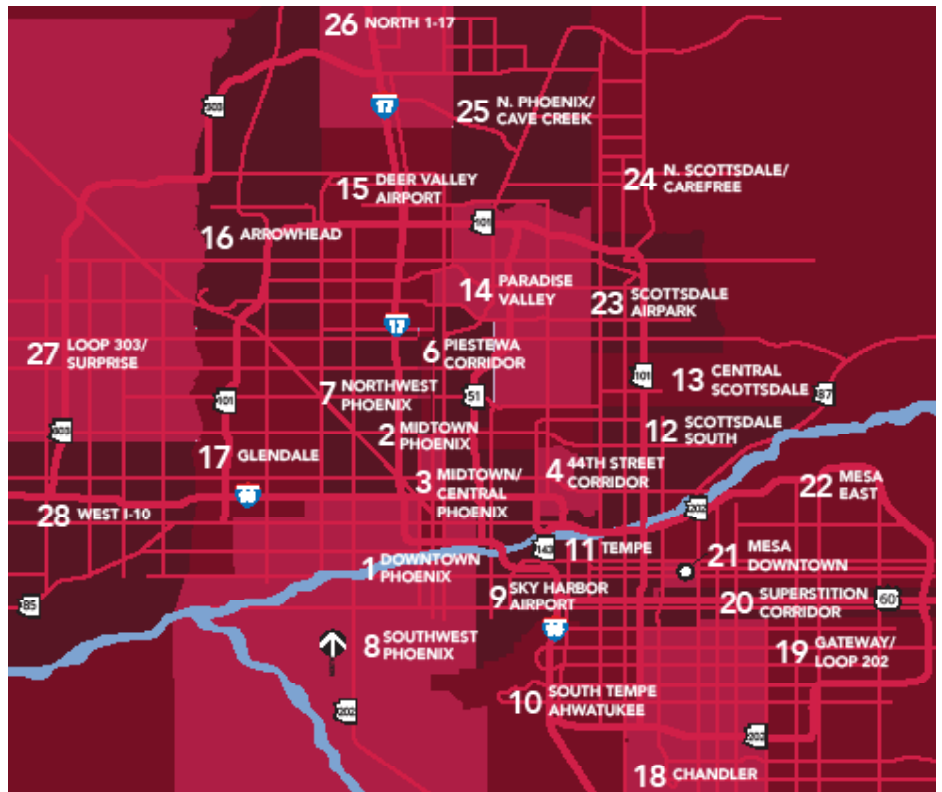
BUYER TYPE

Q4 2020 SALES



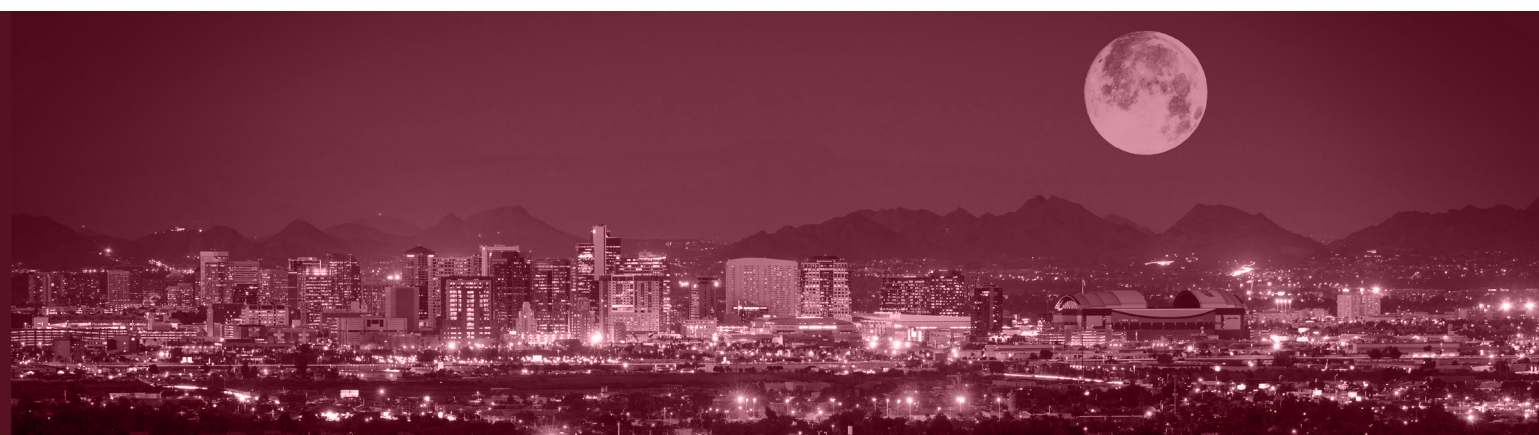
RENTAL RATES

PER YEAR, 2010 - 2020



BUILDING CLASS	INVENTORY TOTAL	VACANCY RATE						NET ABSORPTION		SUBLEASE AVAILABLE			UNDER CONSTRUCTION	ASKING \$/SF RENTS
		DIRECT		SUBLEASE		TOTAL								
		SF	PERCENT	SF	PERCENT	SF	PERCENT	Q4 2020	YTD 2020	VACANT SF	TOTAL SF	PERCENT		
Class A	45,259,719	6,719,164	14.8%	662,351	1.5%	7,381,515	16.3%	(135,305)	674,698	662,351	1,645,793	3.6%	2,753,236	\$31.20
Class B	55,377,955	9,987,770	18.0%	419,867	0.8%	10,407,637	18.8%	(165,299)	(294,387)	419,867	989,023	1.8%	90,000	\$22.32
Class C	5,500,845	623,956	11.3%	1,479	0.0%	625,435	11.4%	31,350	(78,229)	1,479	2,087	0.0%	-	\$15.86
Totals	106,138,519	17,330,890	16.3%	1,083,697	1.0%	18,414,587	17.3%	(269,254)	302,082	1,083,697	2,636,903	2.5%	2,843,236	\$25.33

Office Submarket	Inventory Total	Vacancy Rate						Net Absorption		Sublease Available			Under Construction	Asking FS Rents
		Direct		Sublease		Total								
		SF	Percent	SF	Percent	SF	Percent	Q4 2020	YTD 2020	Vacant SF	Total SF	Percent		
Downtown Phoenix	6,850,172	1,267,868	18.5%	84,110	1.2%	1,351,978	19.7%	(57,845)	(93,945)	84,110	167,674	2.4%	227,113	\$31.08
Midtown Phoenix	9,687,445	2,268,363	23.4%	92,457	1.0%	2,360,820	24.4%	(20,635)	(108,194)	92,457	197,539	2.0%	-	\$24.00
Midtown/Central Phoenix	1,866,571	166,579	8.9%	-	0.0%	166,579	8.9%	(10,895)	(1,192)	-	-	0.0%	-	\$21.12
44th St. Corridor	2,697,204	399,735	14.8%	29,898	1.1%	429,633	15.9%	38,404	(96,463)	29,898	138,211	5.1%	-	\$27.36
Camelback Corridor	7,514,790	1,455,372	19.4%	63,356	0.8%	1,518,728	20.2%	(99,275)	(81,064)	63,356	154,349	2.1%	-	\$34.80
Piestewa Corridor	2,145,752	397,902	18.5%	1,335	0.1%	399,237	18.6%	(25,347)	(72,873)	1,335	9,200	0.4%	-	\$24.60
Northwest Phoenix	6,331,102	1,294,988	20.5%	11,690	0.2%	1,306,678	20.6%	(38,104)	(10,613)	11,690	31,043	0.5%	-	\$20.16
Southwest Phoenix	1,468,196	208,515	14.2%	-	0.0%	208,515	14.2%	-	10,827	-	-	0.0%	-	\$23.64
Sky Harbor Airport	6,992,682	1,197,477	17.1%	49,516	0.7%	1,246,993	17.8%	(56,323)	126,098	49,516	75,416	1.1%	-	\$17.76
S. Tempe/Ahwatukee	5,538,064	960,051	17.3%	1,894	0.0%	961,945	17.4%	21,809	23,445	1,894	17,897	0.3%	-	\$19.56
Tempe	9,518,119	1,281,097	13.5%	105,457	1.1%	1,386,554	14.6%	(102,182)	483,182	105,457	323,040	3.4%	380,125	\$28.44
Scottsdale South	5,591,816	633,239	11.3%	79,042	1.4%	712,281	12.7%	(94,170)	(80,850)	79,042	203,662	3.6%	244,998	\$30.00
Central Scottsdale	5,315,574	718,206	13.5%	52,350	1.0%	770,556	14.5%	68,624	(71,105)	52,350	326,676	6.1%	402,000	\$27.48
Paradise Valley	2,094,609	259,734	12.4%	16,548	0.8%	276,282	13.2%	(309)	(80,803)	16,548	68,016	3.3%	-	\$26.76
Deer Valley Airport	5,776,254	1,243,518	21.5%	208,096	3.6%	1,451,614	25.1%	7,828	(221,489)	208,096	305,069	5.3%	144,000	\$19.44
Arrowhead	1,080,330	98,843	9.1%	-	0.2%	98,843	9.1%	42,895	89,890	-	-	0.2%	-	\$25.08
Glendale	1,792,017	162,818	9.1%	32,800	1.8%	195,618	10.9%	21,893	109,633	32,800	32,800	1.8%	-	\$21.60
Chandler	7,752,335	1,212,737	15.6%	64,569	0.8%	1,277,306	16.5%	(24,875)	429,950	64,569	103,814	1.3%	420,000	\$26.76
Gateway/Loop 202	491,273	89,172	13.0%	-	0.0%	89,172	18.2%	8,560	56,439	-	-	0.0%	-	\$25.92
Superstition Corridor	2,660,948	313,505	11.8%	4,522	0.2%	318,027	12.0%	9,820	(62,716)	4,522	16,023	0.6%	-	\$19.56
Mesa Downtown	670,995	86,499	12.9%	-	0.0%	86,499	12.9%	4,511	(7,732)	-	-	0.0%	-	\$21.48
Mesa East	946,338	56,326	6.0%	11,178	1.2%	67,504	7.1%	5,419	(7,576)	11,178	24,531	2.6%	240,000	\$22.20
Scottsdale Airpark	8,947,487	1,177,045	13.1%	166,596	1.9%	1,343,641	15.0%	(46,742)	(145,013)	166,596	433,660	5.0%	785,000	\$29.28
N. Scottsdale/Carefree	651,451	122,254	18.8%	2,810	0.4%	125,064	19.2%	(2,457)	5,636	2,810	2,810	0.4%	-	\$24.72
N. Phoenix/Cave Creek	13,607	-	0.0%	-	0.0%	-	0.0%	-	-	-	-	0.0%	-	\$12.00
North I-17	300,019	71,143	23.7%	-	0.0%	71,143	23.7%	-	-	-	-	0.0%	-	\$23.64
Loop 303/ Surprise	433,777	33,610	7.7%	-	0.0%	33,610	7.7%	21,682	40,231	-	-	0.0%	-	\$23.40
West I-10	1,009,592	154,294	15.3%	5,473	0.5%	159,767	15.8%	58,460	68,379	5,473	5,473	0.5%	-	\$24.96
TOTALS	106,138,519	17,330,890	16.3%	1,083,697	1.0%	18,414,587	17.3%	(269,254)	302,082	1,083,697	2,636,903	2.5%	2,843,236	\$25.33



* 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.

Q4 2020 TOP OFFICE LEASES

Tenant Name	Property Name	Address	Class	Submarket	SF	Lease
Siemens Technologies	Allred Cotton Center	4025 E. Cotton Center	B	Airport	121,768	Renewal
Banner Health (BTS)	Riverwalk Talking Stick	N. Dobson Rd.	B	Central Scottsdale	80,000	New
PennyMac	N/A	3201 E. Elwood St.	B	Airport	74,625	New
TSMC	Canyon Corporate Ctr. I	2510 W. Dunlap Ave.	A	Northwest Phoenix	46,618	New
Align Technology	The Watermark	410 N. Scottsdale Rd.	A	Tempe	34,186	New

Q4 2020 TOP OFFICE SALES

Property Address	Buyer	Seller	Class	Sales Price	SF	PSF
The Grand - Phase II	APEX Capital Investments	Lincoln Property Company	A	\$187,500,000	358,800	\$522.58
The Park at San Tan (4)	DPC Development Co.	TA Realty Associates	A	\$65,000,000	239,650	\$271.23
9145 E. Pima St.	James D. Franklin	Plexus Worldwide Inc.	A	\$22,000,000	73,060	\$301.12
Portico I & II (2)	Yonezawa Miller Co.	Irgens Partners	B	\$21,680,000	90,975	\$238.31
4950 S. 48th St.	NewStreet Properties	Menlo Equities	B	\$21,000,000	73,377	\$286.19

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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





Cavasson

Under Construction



One Hundred Mill



Playa Del Norte

Building Name	Class	Building Address	Type	Submarket	Total SF	Leased SF	Delivery
Nationwide Cavasson	A	NWC Loop 101 & Hayden Road	O/O	Scottsdale Airpark	460,000	460,000	Q1 2021
One Hundred Mill	A	100 S. Mill Avenue	Spec	Tempe	287,000	126,854	Q4 2021
Scottsdale Entrada	A	6420 E. McDowell Road	Spec	South Scottsdale	244,998	0	Q4 2021
Union - Phase I	A	NEC Riverview Auto Drive	Spec	Mesa East	240,000	19,067	Q1 2021
Wexford	A	850 N. 5th Street	Spec	Downtown	227,113	123,549	Q1 2021
The Edge	A	NWC 90th St & Loop 101	Spec	Central Scottsdale	212,000	0	Q1 2021
Axis Raintree	A	SWC E. Raintree Dr & N. 87th Street	Spec	Scottsdale Airpark	175,000	0	Q1 2021
Allred Park Place Cental - Bldg. 8	A	1375 S Price Road	Spec	Chandler	150,000	0	Q4 2021
Allred Park Place Cental - Bldg. 7	A	1475 S Price Road	Spec	Chandler	150,000	0	Q4 2021
Norterra West - Phase II	A	25800 N. Norterra Parkway	Spec	Deer Valley	144,000	137,100	Q2 2021
Choice Hotels at Cavasson	A	NWC 101 Loop	Spec	Scottsdale Airpark	150,000	150000	Q3 2021
Northrop	A	S. McQueen Road	Spec	Chandler	120,000	60,000	Q1 2021
Nextiva	A	SWC Via de Ventura & Dobson Road	Spec	Central Scottsdale	100,000	50,000	Q1 2021
Playa Del Norte	A	999 E. Playa Del Norte	Spec	Tempe	93,125	0	Q1 2021
Sierra Bloom	B	SE Loop 101 & 90th Street	Spec	Central Scottsdale	90,000	0	Q1 2021
Total					2,843,236	989,470	

Deliveries

Building Name	Class	Building Address	Type	Submarket	Total SF	Leased SF	Delivery
Harkins Headquarters	B	8901 E. McDonald Drive	O/O	Tempe	65,000	65,000	Q4 2020
Total					487,709	287,887	