OFFICE
MARKET REPORT

LEE & ASSOCIATES
COMMERCIAL REAL ESTATE SERVICES

Q2 2021

PHOENIX, ARIZONA

PHOENIX OFFICE MARKET SEES IMPROVEMENT

Following an impressive run of 21 consecutive quarters of positive net absorption, the Phoenix Office Market ended Q2 2021 posting -107,902 square feet of net absorption, making it the fourth consecutive quarter of negative absorption. While many office tenants are adapting to the challenges faced due to the pandemic, they continue to reevaluate their office needs. Sublease space continues to increase and finished Q2 2021 at a record 4.13 million square feet.

Sales volume trended up recording $605M for Q2 2021, a 15% increase from the previous quarter. The largest sale transaction for Q2 2021 was the 120,294 square foot Northrop Grumman built-to-suit at 1715 N. McQueen Road for $43M, second was the Mesa Tower at 1201 S. Alma School Road at $39.5M. The average price per square foot dropped 11% from $220/PSF to $194/PF with cap rates holding steady a 6.9%

Minimal product delivered to the market at midyear with only 237,125 square feet completed in Q2. The largest delivery was Norterra West Phase II at 25800 N. Norterra Parkway. The 144,000 square foot facility was 91% leased at completion. The second building delivering in the quarter was Playa Del Norte, a 93,125 square foot spec building developed by Irgens located at 999 E. Playa Del Norte.

DIRECT VACANCY
18%
VS. 17.7% IN Q1

Q1 NET ABSORPTION
-107,902 SF
VS. -550,501 SF IN Q1

AVERAGE ASKING RENTS
$25.43 PSF
VS. $25.13 PSF IN Q1

UNDER CONSTRUCTION
1,634,906
VS. 1,499,170 IN Q1

SUBLEASE SPACE
4,130,902 SF
VS. 3,665,765 IN Q1

Leasing activity increased from this time last year posting 1,391,864 square feet compared with 1,100,540 square feet in Q2 2020. The largest lease of Q2 2021 was signed by Carvana taking a 372,741 full building sublease at State Farm's Marina Heights in Tempe, followed by Connection AZ taking 71,000 square feet at 1201 S. 7th Street in Phoenix.

As the Phoenix Office Market looks to get back on track in a post pandemic era the lasting effect continue to slow the recovery. Keep an eye on the steady increase in sublease space as it should add pressure on rents in the coming months.

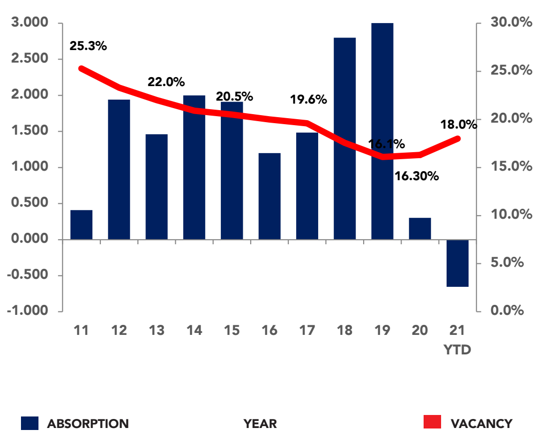
Phoenix with its low cost of living, talented labor pool and pro business environment will continues to be seen as a top tier market for businesses relocating and expanding.

SALES BY THE NUMBERS: Q2 2021

NO. OF TRANSACTIONS	TOTAL SALES	AVERAGE PSF	AVERAGE CAP RATE
161	$605M	$194	7.3%
Q1 2021: 132	Q1 2021: $510M	Q1 2021: $220	Q1 2021: 6.9%

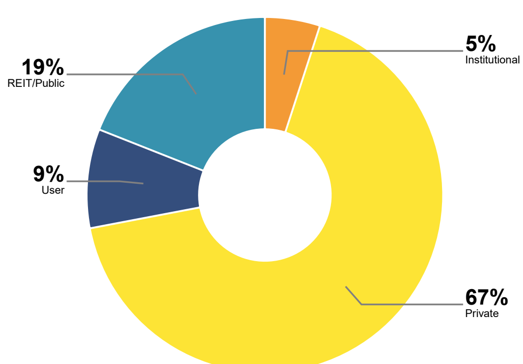
ABSORPTION/VACANCY

2011- 2021 YTD



BUYER TYPE

Q1 2021 SALES

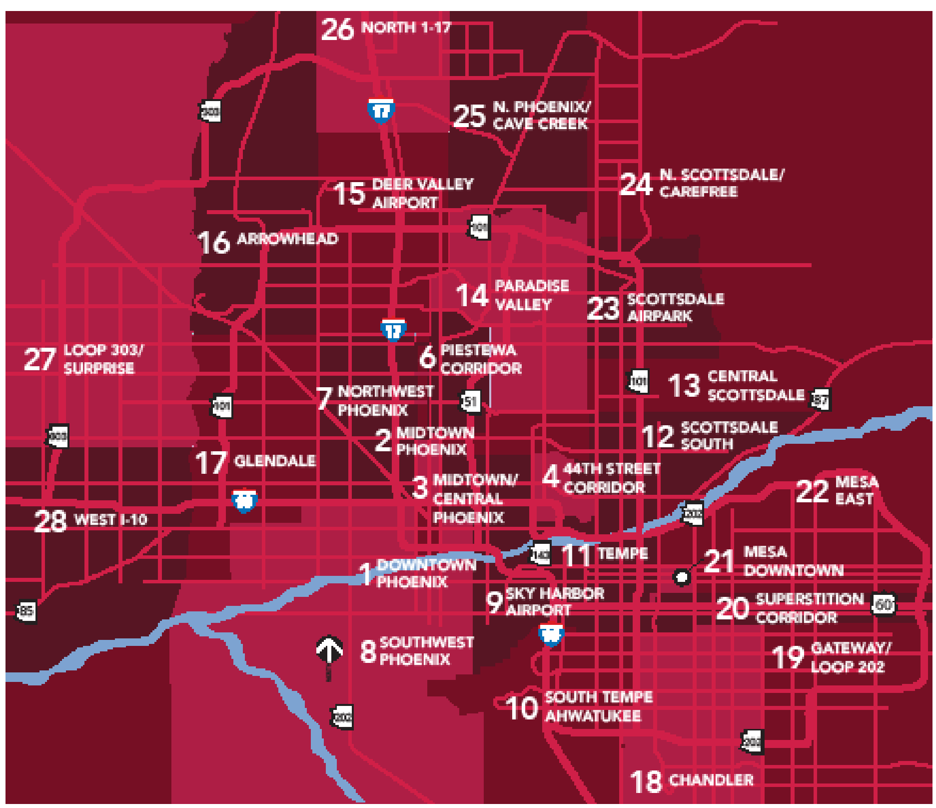


RENTAL RATES

PER YEAR, 2011 - 2021 YTD

QUARTERLY TREND ANALYSIS

	Q2 2021	Q1 2021	Q4 2020	Q3 2020
Vacancy Rate	18.0%	17.3%	16.3%	15.9%
Availability Rate	21.3%	21.1%	20.7%	19.8%
Asking Lease Rate	$25.43	$25.13	$25.33	$25.78
Leased SF	1,382,395 SF	1,495,426 SF	1,222,104 SF	1,310,697 SF
Sold SF	3,120,668 SF	2,071,534 SF	2,094,602 SF	996,862 SF
Net Absorption	-107,920 SF	-550,501 SF	-269,254 SF	-14,638 SF



BUILDING CLASS	INVENTORY TOTAL	VACANCY RATE						NET ABSORPTION		SUBLEASE AVAILABLE			UNDER CONSTRUCTION	ASKING FS RENTS
		DIRECT		SUBLEASE		TOTAL								
		SF	PERCENT	SF	PERCENT	SF	PERCENT	Q2 2021	YTD 2021	VACANT SF	TOTAL SF	PERCENT		
Class A	46,766,891	8,092,553	17.3%	1,294,445	2.8%	9,386,998	20.1%	(95,949)	(20,811)	1,294,445	2,153,031	4.6%	1,634,906	$31.68
Class B	55,887,214	10,773,944	19.3%	700,578	1.3%	11,474,522	20.5%	(87,043)	(621,822)	700,578	1,976,392	3.5%	-	$22.68
Class C	5,687,766	642,558	11.3%	1,479	0.0%	644,037	11.3%	75,090	(13,030)	1,479	1,479	0.0%	-	$16.20
Totals	108,341,871	19,509,055	18.0%	1,996,502	1.8%	21,505,557	19.8%	(107,902)	(655,663)	1,996,502	4,130,902	3.8%	1,634,906	$25.43

OFFICE SUBMARKET	INVENTORY TOTAL	VACANCY RATE						NET ABSORPTION		SUBLEASE AVAILABLE			UNDER CONSTRUCTION	ASKING FS RENTS
		DIRECT		SUBLEASE		TOTAL								
		SF	PERCENT	SF	PERCENT	SF	PERCENT	Q2 2021	YTD 2021	VACANT SF	TOTAL SF	PERCENT		
Downtown Phoenix	7,185,674	1,525,075	21.2%	167,724	2.3%	1,692,799	22.8%	(9,778)	(39,144)	167,724	198,144	2.8%	-	$32.28
Midtown Phoenix	9,674,881	2,293,302	1.1%	105,588	1.1%	2,398,890	24.7%	(22,974)	(38,939)	105,588	219,086	2.3%	-	$24.24
Midtown/Central Phoenix	1,884,309	111,099	5.9%	-	0.0%	111,099	5.9%	50,798	55,480	-	-	0.0%	-	$19.08
44th St. Corridor	2,697,404	453,941	16.8%	40,795	1.5%	494,736	18.3%	(22,578)	(54,206)	40,795	152,204	1.5%	-	$28.56
Camelback Corridor	7,393,229	1,592,789	21.5%	65,791	0.9%	1,658,580	22.4%	1,551	(137,417)	65,791	158,617	2.1%	-	$35.04
Piestewa Corridor	2,145,752	344,907	16.1%	6,000	0.3%	350,907	16.4%	29,991	52,995	6,000	6,000	0.3%	-	$23.76
Northwest Phoenix	6,382,324	1,583,970	24.8%	11,690	0.2%	1,595,660	25.0%	(120,672)	(288,982)	11,690	31,043	0.5%	-	$20.28
Southwest Phoenix	1,432,196	192,594	13.4%	-	0.0%	192,594	13.4%	(20,079)	(20,079)	-	-	0.0%	-	$25.08
Sky Harbor Airport	4,777,631	755,372	15.8%	222,973	4.7%	978,345	20.5%	(98,908)	(64,557)	222,973	561,593	11.8%	150,000	$17.52
S. Tempe/Ahwatukee	5,495,064	980,152	17.8%	133,964	2.4%	1,114,116	20.3%	(30,177)	(59,858)	133,964	225,258	4.1%	-	$21.60
Tempe	12,144,509	1,936,884	15.9%	244,540	2.0%	2,181,424	18.0%	37,291	8,809	244,540	920,156	7.6%	470,526	$25.44
Scottsdale South	5,626,229	868,325	15.4%	91,134	1.6%	959,459	17.1%	(88,266)	(235,086)	91,134	169,054	3.0%	244,998	$33.24
Central Scottsdale	5,330,743	1,043,351	19.6%	57,228	1.1%	1,100,579	20.6%	(16,448)	(322,022)	57,228	87,768	1.6%	100,000	$28.02
Paradise Valley	2,077,791	235,802	11.3%	4,964	0.2%	240,766	11.6%	31,222	37,866	4,964	42,591	2.0%	265,754	$27.36
Deer Valley Airport	5,934,145	1,285,047	21.7%	248,762	4.2%	1,533,809	25.8%	(12,513)	34,574	248,762	372,469	5.9%	-	$19.92
Arrowhead	1,225,152	105,199	8.6%	-	0.0%	105,199	8.6%	15,253	(6,356)	-	-	0.0%		$25.32
Glendale	1,828,289	291,772	16.0%	32,800	1.8%	324,572	17.8%	51,289	29,643	32,800	32,800	1.8%	-	$23.04
Chandler	7,903,304	1,258,684	15.9%	305,795	3.9%	1,564,479	19.8%	(54,799)	6,779	305,795	377,514	4.8%	300,000	$27.12
Gateway/Loop 202	539,491	51,035	9.5%	-	0.0%	51,035	9.5%	59,535	86,637	-	-	0.0%	-	$25.32
Superstition Corridor	2,737,941	397,731	14.5%	2,170	0.1%	399,901	14.6%	22,052	(78,313)	2,170	16,772	0.6%	-	$20.52
Mesa Downtown	670,995	71,606	10.7%	-	0.0%	71,606	10.7%	11,280	14,893	-	-	0.0%	-	$21.72
Mesa East	1,184,891	157,198	13.3%	14,776	1.2%	171,974	14.5%	9,177	137,477	14,776	25,053	2.1%	-	$29.28
Scottsdale Airpark	9,611,866	1,593,629	16.6%	232,256	2.4%	1,825,885	19.0%	61,413	222,427	232,256	527,228	5.5%	-	$30.36
N. Scottsdale/Carefree	638,507	123,653	19.4%	-	0.0%	123,653	19.4%	(3,461)	(1,399)	-	-	0.0%	-	$25.32
N. Phoenix/Cave Creek	13,607	-	0.0%	-	0.0%	-	0.0%	-	-	-	-	0.0%	-	$12.00
North I-17	300,019	69,073	23.0%	-	0.0%	69,073	23.0%	-	2,070	-	-	0.0%	-	$23.88
Loop 303/Surprise	433,777	36,558	8.4%	-	0.0%	36,558	8.4%	(322)	(2,942)	-	-	0.0%	-	$24.00
West I-10	1,072,151	150,307	14.0%	7,552	0.7%	157,859	14.7%	12,221	3,987	7,552	7,552	0.7%	103,628	$25.68
TOTALS	108,341,871	19,509,055	18.0%	1,996,502	1.8%	21,505,557	19.8%	(107,902)	(655,663)	1,996,502	4,130,902	3.8%	1,634,906	$25.43

* 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.

Q2 2021 TOP OFFICE LEASES

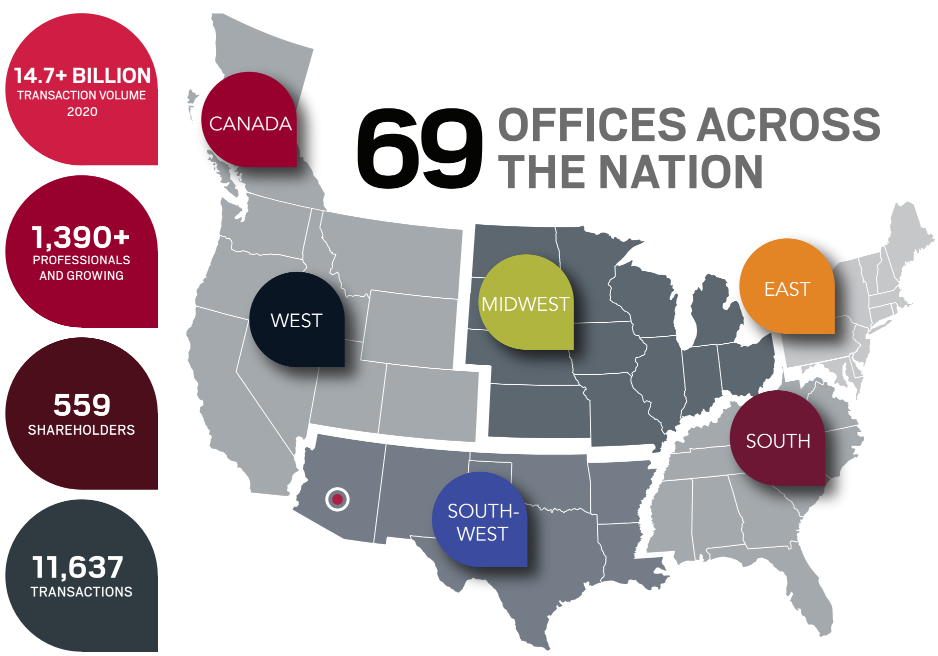
Tenant Name	Property Name	Address	Class	Submarket	SF	Lease
Carvana	Marina Heights - State Farm	500 E. Rio Salado Pky.	A	Tempe	372,741	New
Connections AZ	Phoenix Memorial Center	1201 S. 7th Ave.	B	Downtown	71,000	Renewal
Sendoso	The Grove	4300 E. Camelback Rd.	A	Camelback	60,000	New
Western Alliance Bank	Block 23 at CityScape	101 E. Washington	A	Downtown	57,438	New
Carvana	1621 Building	1621 W. Rio Solado Pkwy.	B	Tempe	51,789	New

Q2 2021 TOP OFFICE SALES

Property Address	Buyer	Seller	Class	Sales Price	SF	PSF
1715 N. McQueen Rd.	SCD Elliot LLC	Suncap Gilbert Building V, LLC	A	$43,100,000	120,294	$358.29
1201 S. Alma School Rd.	MW-G Mesa Tower LLC	1201 Partners LLC	A	$39,500,000	311,132	$126.96
1811 E. Northtrop Blvd.	Silver Creek Development	Irgens	B	$34,325,000	130,642	$262.05
8377 E. Hartford Dr.	Rainbow Investment Co.	KB Ventures	A	$30,175,000	104,956	$287.50
1840 S. Stapley	Cypless Stapley Property LLC	Buchanan Street Partners	A	$18,607,764	90,566	$205.46

ABOUT LEE & ASSOCIATES

Lee & Associates Arizona has specialized in providing exceptional brokerage services to the industrial, office, retail, multifamily, investment and land sectors of the Phoenix, Arizona commercial real estate market. The Phoenix office was established in 1991 and is now recognized as one of the most successful brokerage firms in Arizona. Every principal broker is an owner of the Phoenix office, which means each broker is personally driven to support the success of the company by delivering excellent results for their clients. Each of the North American offices, along with our European partnership with London-based Gerald Eve, has a strong local ownership combined with a powerful international platform from the Lee & Associates network.



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.

Market report analysis by:
Lee & Associates Arizona

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Cavasson

One Hundred Mill

Playa Del Norte

Under Construction

Building Name	Class	Building Address	Type	Submarket	Total SF	Leased SF	Delivery
One Hundred Mill	A	100 S. Mill Avenue	Spec	Tempe	287,000	160,331	Q4 2021
Scottsdale Entrada	A	6420 E. McDowell Road	Spec	South Scottsdale	244,998	0	Q4 2021
The Beam on Farmer	A	433 S. Farmer Avenue	Spec	Tempe	183,526	0	Q2 2022
The Grove	A	4300 E. Camelback Road	Spec	Camelback Corridor	183,482	60,000	Q3 2022
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
Choice Hotels at Cavasson	A	NWC 101 Loop	BTS	Scottsdale Airpark	150,000	150,000	Q3 2021
Gen 1 at GSQ	A	15150 W Park Place	Spec	West I-10	103,628	0	Q2 2022
Nextiva	A	9451 E. Via De Ventura	BTS	Central Scottsdale	100,000	50,000	Q2 2021
The Grove	A	4200 E. Camelback Road	Spec	Camelback Corridor	82,272	0	Q3 2022
				Total	**1,634,906**	**420,331**	

Q1 Deliveries

Building Name	Class	Building Address	Type	Submarket	Total SF	Leased SF	Delivery
Nationwide Cavasson	A	18700 N. Hayden Road	O/O	Scottsdale Airpark	460,000	282,500	Q1 2021
Union - Phase I	A	NEC Riverview Auto Drive	Spec	Mesa East	240,000	240,000	Q1 2021
Wexford	A	850 N. 5th Street	Spec	Downtown	227,113	123,549	Q1 2021
Axis Raintree	A	8605 E. Raintree Drive	Spec	Scottsdale Airpark	175,111	0	Q1 2021
Northrop	A	SWC McQueen Rd. & Elliot Rd.	BTS	Chandler	120,000	120,000	Q1 2021
				Total	**1,222,224**	**766,049**	

Q2 Deliveries

Building Name	Class	Building Address	Type	Submarket	Total SF	Leased SF	Delivery
Norterra West - Phase II	A	25800 N. Norterra Parkway	Spec	Deer Valley	144,000	81,059	Q2 2021
Playa Del Norte	A	999 E. Playa Del Norte	Spec	Tempe	93,125	0	Q2 2021
				Total	**237,125**	**81,059**	