



Q1
2017

MARKET
REPORT

PHOENIX METRO
OFFICE



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COMMERCIAL REAL ESTATE SERVICES

Office Sector Performance Mixed at Start of New Year

The Phoenix office market has begun the year with some positive data as well as indications that market activity is beginning to slow. Net absorption was up over Q4 2016. There was a substantial amount of deliveries added to inventory in Q1. Consequently, some new deliveries increased vacancy levels causing an overall rise by 30-basis points this quarter.

Rental rates continue to inch forward. The trend is for rental rates to rise modestly through 2017. Subleases continued to grow as more and more tenants are giving back space as many companies downsize. Although not at historical highs, sublease indicators have inched up each quarter since Q4 2012.

Space consolidation by major companies is another noteworthy factor in the office landscape. Firms such as State Farm, Wells Fargo, American Express and JPMorgan Chase are opting to develop suburban office campuses, which has caused leased space

scattered in dozens of buildings around town, to be vacated in favor of new massive built-to-suit projects. JP Morgan Chase just announced plans to develop 67 acres at Discovery Business Park in Tempe and will move some jobs away from its corporate offices in Downtown Phoenix and elsewhere around the Valley. These gleaming projects act as high-visibility beacons to lure workers to these modern campuses and away from limited-use, traditional office space.

The Phoenix office sector posted a vacancy of 18.9%, 30-basis points higher than last quarter due to an increased level of vacant spec deliveries to inventory. Total deliveries for the quarter posted at 1,412,462 SF with the most activity in Tempe. Construction activity this quarter was down considerably due to last quarter's completions. A total of 1,018,761 SF is currently being constructed across the Valley.

Absorption for the quarter increased over Q4 2016 to 801,183 SF, with most

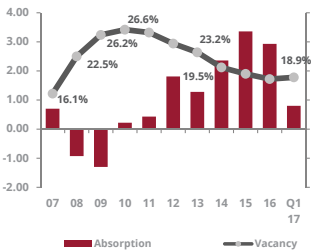
activity in Tempe, Deer Valley and Chandler submarkets. Aside from these stronger submarkets, absorption was negative in eleven submarkets compared with just eight last quarter. Leasing activity was down this quarter with fewer leases for less space; however gross absorption was strong this quarter which could indicate future quarters with stronger activity to come. Asking rental rates increased overall by 1.4% to \$24.67, full service. Downtown Phoenix, Camelback Corridor, Tempe and Central Scottsdale have the highest asking rates among submarkets.

In the largest lease transaction for the quarter, Wells Fargo took 115,394 SF at Continuum Business & Tech Park, 2501 S. Price Rd., Chandler. This is in addition to its already substantial presence in Chandler.

In the largest sales transaction for Q1, Lincoln Property purchased a 104,531 SF property at 2777 E. Camelback Rd., Phoenix for \$24,500,000. Price per SF was posted at \$234.95.

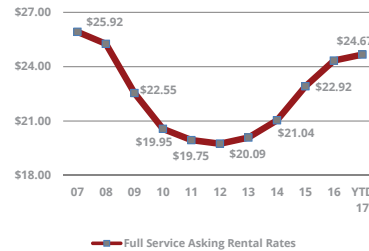
Absorption/Vacancy

in SF, 2007-2017



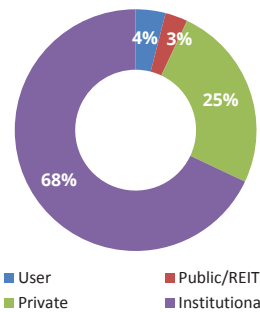
Rental Rates

per month, 2007-2017



Buyer Type

Q1 17 Sales



Economic Indicators

as of Q1 2017

Unemployment

U.S.	Down to 4.7%
Arizona	Steady at 5.0%
Phoenix Metro	Down to 4.5%

Consumer Price Index

U.S. GDP Up 0.2%

U.S. GDP Up 2.2%

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

Sales by the Numbers: Q1 2017

No. of Transactions

149

Q4 2016: 155

Total Sales

\$246.8M

Q4 2016: \$446.3M

Average PSF

\$140.15

Q4 2016: \$165.17

Average Cap Rate

7.16%

Q4 2016: 7.12%

Q1 2017 Top Office Leases

Tenant Name	Property Name	Address	Class	Submarket	SF	Type
Wells Fargo	Continuum Business & Tech Park	2501 S. Price Rd., Chandler	B	Chandler	115,394	New
NPL	North Loop 101 Business Center	19820 N. 7th Ave., Phoenix	A	Deer Valley Airport	74,594	New
Endurance Int'l Group	Papago Buttes Corporate Center	1500 N. Priest Dr., Tempe	A	Tempe	71,618	New
Marsh & McLennan	Corporate Parkway North	16404 N. Black Canyon Hwy., Phoenix	B	Deer Valley Airport	34,536	Renew
Indeed	Galleria Corporate Center	4343 N. Scottsdale Rd., Scottsdale	A	Scottsdale South	24,398	New

Q1 2017 Top Office Sales

Property Address	Buyer	Seller	Class	Sales Price	SF	PSF
2777 E. Camelback Rd., Phoenix	Lincoln Property Co.	DRA Advisors, LLC	A	\$24,560,000	104,531	\$234.95
6900 E. Camelback Rd., Scottsdale	WRM Hayden Investments, LLC	West Coast Capital Partners	B	\$21,825,000	136,500	\$159.89
8260-8312 S. Hardy Dr., Tempe (2)	Younan Properties, Inc.	LNR Partners, LLC	B	\$18,480,000	138,180	\$133.74
5551 W. Talavi Blvd., Glendale	Alaska USA Fed. Credit Union	West Coast Capital Partners	B	\$17,245,000	185,000	\$93.22
2700-2702 N. 3rd St., Phoenix (2)	Americo Real Estate Co.	Presson Advisory, LLC	B	\$14,443,650	129,280	\$111.65

Q1 2017 | Phoenix Office Market Stats

Office Submarkets	Total Inventory	Vacancy Rate Total SF	Q1 2017	Net Absorption Q1 2017	YTD 2017	Under Construction	Building Completions Q1 2017	YTD 2017	Asking FSG Rental Rate	Change from Q4
1. Downtown Phoenix	6,704,411	1,116,086	16.6%	46,663	46,663	-	-	-	\$29.83	5.0%
2. Midtown Phoenix	9,644,870	2,397,261	24.9%	(80,019)	(80,019)	-	-	-	\$22.12	-0.6%
3. East Phoenix	1,660,857	220,720	13.3%	(8,520)	(8,520)	-	-	-	\$17.74	4.7%
4. 44th St. Corridor	2,892,626	530,788	18.3%	(10,097)	(10,097)	-	-	-	\$24.34	-0.9%
5. Camelback Corridor	7,917,957	1,558,610	19.7%	(66,235)	(66,235)	118,090	-	-	\$29.71	1.9%
6. Piestewa Corridor	2,064,993	466,443	22.6%	6,504	6,504	-	-	-	\$19.78	0.0%
7. Northwest Phoenix	4,980,744	1,404,968	28.2%	(7,769)	(7,769)	-	-	-	\$18.52	-3.2%
8. Southwest Phoenix	824,733	187,389	22.3%	8,701	8,701	-	-	-	\$23.57	5.7%
9. Sky Harbor Airport	5,405,885	1,481,907	27.4%	67,172	67,172	324,889	215,634	215,634	\$23.70	1.4%
10. South Tempe/Ahwatukee	5,781,371	889,918	15.4%	(4,658)	(4,658)	-	-	-	\$23.13	1.4%
11. Tempe	5,715,922	569,092	10.0%	520,188	520,188	152,540	756,043	756,043	\$29.30	4.5%
12. Scottsdale South	3,697,182	590,219	16.0%	(63,853)	(63,853)	-	-	-	\$29.20	-2.1%
13. Central Scottsdale	5,018,366	680,399	13.6%	(31,146)	(31,146)	271,000	-	-	\$25.12	2.2%
14. Paradise Valley	2,147,620	391,706	18.2%	(38,390)	(38,390)	-	-	-	\$23.97	-2.5%
15. Deer Valley Airport	4,278,904	856,030	20.0%	213,054	213,054	-	150,000	150,000	\$23.26	1.8%
16. Arrowhead	812,821	120,743	14.9%	9,427	9,427	-	-	-	\$23.24	-0.2%
17. Glendale	1,349,972	212,414	15.5%	(2,382)	(2,382)	-	-	-	\$22.99	7.7%
18. Chandler	4,310,509	1,007,742	23.4%	96,465	96,465	152,242	290,785	290,785	\$25.48	-0.2%
19. Gateway Airport/Loop 202	429,992	99,244	23.1%	18,706	18,706	-	-	-	\$24.76	-3.0%
20. Superstition Corridor	2,118,189	408,846	19.3%	19,962	19,962	-	-	-	\$20.15	1.6%
21. Mesa Downtown	376,973	5,543	1.5%	4,000	4,000	-	-	-	\$19.72	2.9%
22. Mesa East	87,984	12,649	14.4%	-	-	-	-	-	\$20.63	9.1%
23. Scottsdale Airpark	8,238,461	1,127,035	13.7%	93,472	93,472	-	-	-	\$27.72	0.7%
24. N. Scottsdale/Carefree	315,743	125,816	39.8%	(2,433)	(2,433)	-	-	-	\$23.26	-1.2%
25. N. Phoenix/Cave Creek	13,607	-	0.0%	-	-	-	-	-	\$12.00	0.0%
26. North I-17	151,742	73,832	48.7%	2,672	2,672	-	-	-	\$25.09	21.7%
27. Loop 303/Surprise	410,900	91,926	22.4%	1,199	1,199	-	-	-	\$23.47	5.4%
28. West I-10	549,917	66,726	12.1%	8,500	8,500	-	-	-	\$24.62	4.4%
Phoenix Metro Total	87,903,251	16,694,052	18.9%	801,183	801,183	1,018,761	1,412,462	1,412,462	\$24.67	1.4%

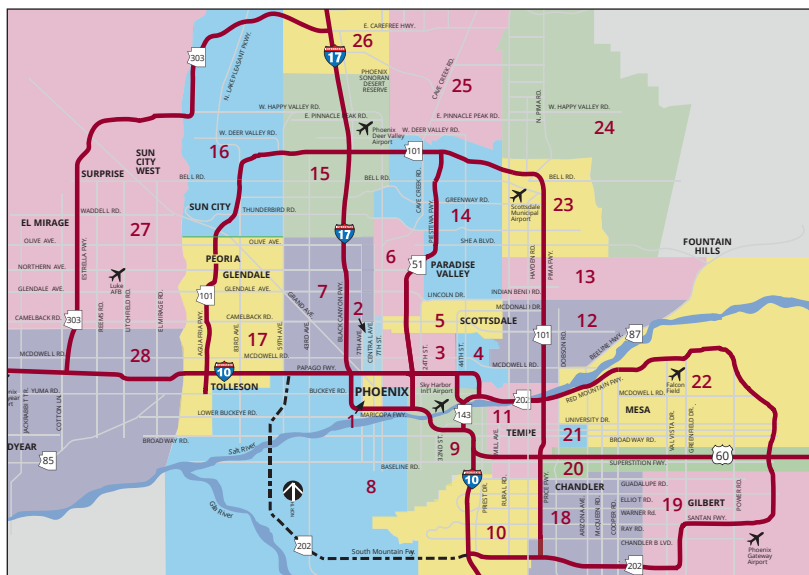
By Building Type

Class A	40,624,785	6,905,240	17.3%	599,081	599,081	776,332	806,055	806,055	\$28.20	1.3%
Class B	44,576,689	9,440,761	21.2%	157,990	157,990	242,429	606,407	606,407	\$22.03	1.3%
Class C	2,701,777	348,051	12.9%	44,112	44,112	-	-	-	\$18.66	3.5%
Building Type Total	87,903,251	16,694,052	18.9%	801,183	801,183	1,018,761	1,412,462	1,412,462	\$24.67	1.4%

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

1. Downtown Phoenix
2. Midtown Phoenix
3. East Phoenix
4. 44th St. Corridor
5. Camelback Corridor
6. Piestewa Corridor
7. Northwest Phoenix
8. Southwest Phoenix
9. Airport Area
10. S. Tempe/Ahwatukee
11. Tempe
12. Scottsdale South
13. Central Scottsdale
14. Paradise Valley
15. Deer Valley Airport
16. Arrowhead
17. Glendale
18. Chandler
19. Gateway/Loop 202
20. Superstition Corridor
21. Mesa Downtown
22. Mesa East
23. Scottsdale Airpark
24. N. Scottsdale/Carefree
25. N. Phoenix/Cave Creek
26. North I-17
27. Loop 303/Surprise
28. West I-10



About This Report

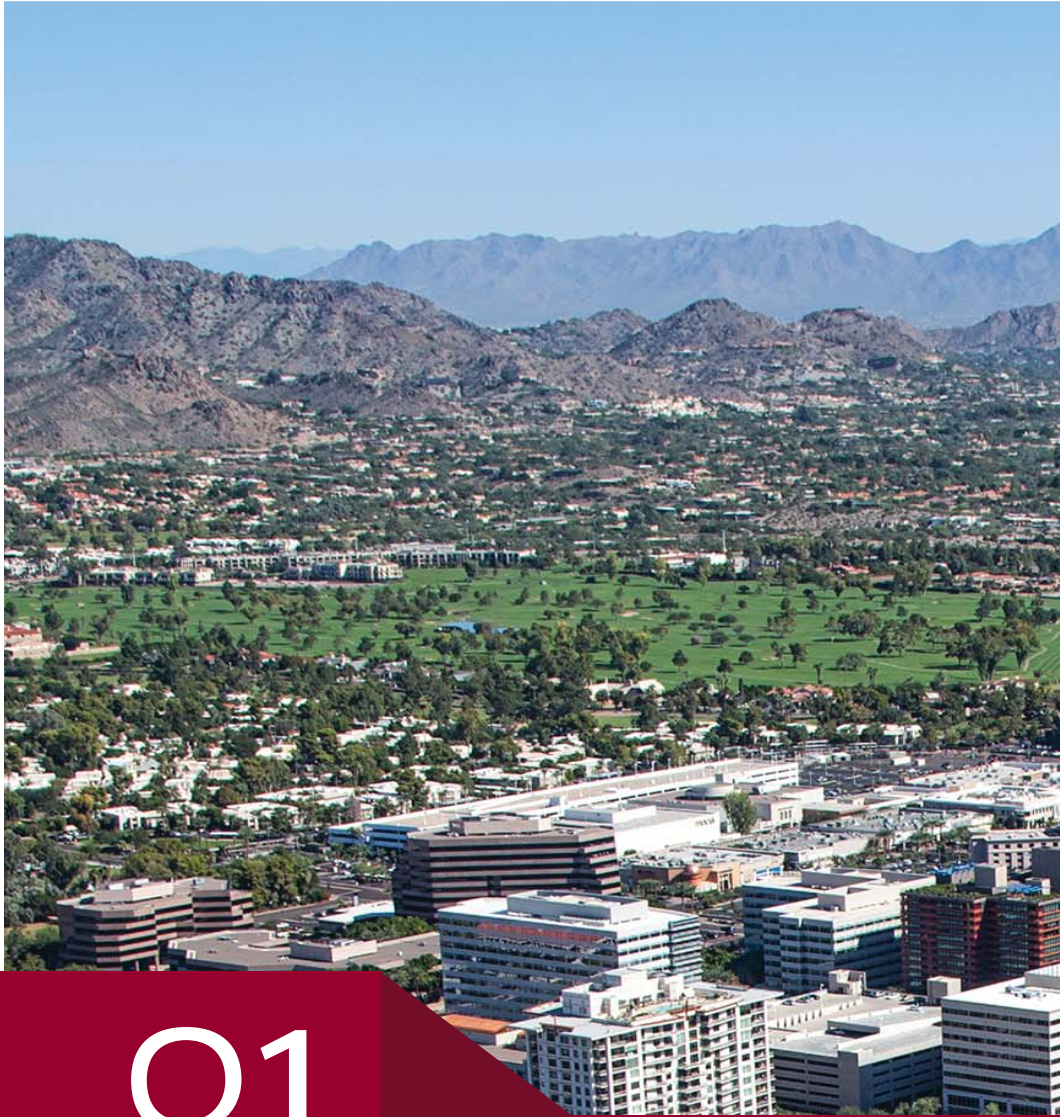
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The Phoenix Office Market Report compiles relevant market data by using a third-party database for the proprietary analysis of specific office properties above 10,000 SF in the Phoenix Metropolitan Area.

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Now in 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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Rivulon



Camelback Collective

Under Construction

Building Name	Class	Building Address	Type	Submarket	Total SF	Delivery
Allred 40	B	4039 E. Raymond St., Phoenix	Spec.	Airport Area	89,889	Q2 2017
Liberty Center at Rio Salado IV	A	1870 W. Rio Salado Pkwy., Tempe	Spec.	Airport Area	235,000	Q1 2018
Camelback Collective	A	2801 E. Camelback Rd., Phoenix	Spec.	Camelback Corridor	118,090	Q3 2018
McKesson (2)	A	Pima Rd. & Jackrabbit Rd., Scottsdale	BTS	Central Scottsdale	271,000	Q2 2018
Overstreet	A	101 N. Arizona Ave., Chandler	Spec.	Chandler	32,242	Q1 2018
Rivulon (2)	A	111-161 E. Rivulon Blvd., Gilbert	Spec.	Chandler	120,000	Q4 2017
Waypoint 4	B	1130 N. Alma School Rd., Mesa	Spec.	Tempe	152,540	Q2 2017
Total					1,018,761	

Under Renovation

Building Name	Class	Building Address	Type	Submarket	Total SF	Delivery
411 S. 1st St.	B	411 S. 1st St., Phoenix	Renovation	Downtown	26,174	Q4 2017
The Quad	B	6200-6350 E. Thomas Rd., Phoenix	Renovation	Scottsdale South	167,345	Q2 2017
Central Palm Plaza	B	2005 N. Central Ave., Phoenix	Renovaton	Midtown	67,650	Q3 2017
Total					261,169	

Deliveries

Building Name	Class	Building Address	Type	Submarket	Total SF	Delivered
Allred Broadway Center	B	4141 E. Broadway Rd., Phoenix	Spec.	Airport Area	215,634	Q1 2017
The Hub Chandler	B	2701 E. Ryan Rd., Chandler	Spec.	Chandler	290,785	Q1 2017
Farmers Insurance	A	24000 N. Farmers Way, Phoenix	BTS	Deer Valley Airport	150,000	Q1 2017
Marina Heights- Bldg E	A	600 E Rio Salado Pky., Tempe	BTS	Tempe	443,000	Q2 2017
The Grand at Papapo Park	A	1101 W. Washington St., Tempe	Spec	Tempe	213,055	Q1 2017
Rio 2100	B	2120 E. Rio Salado Pkwy., Tempe	Spec.	Tempe	99,988	Q1 2017
Total					1,412,462	