Q2 2018

MARKET REPORT | PHOENIX METRO **OFFICE**

LEE & ASSOCIATES
COMMERCIAL REAL ESTATE SERVICES

Phoenix Office Market Continues Positive Momentum

Key Takeaways

* In Relation To Last Quarter

Total Vacancy
18.61%

Q2 Net Absorption
732,248 S.F.

Average Asking Rents
$25.22 PSF

Under Construction
2,715,874 S.F.

Sublease Space
2,061,103 S.F.

The Valley's office market posted a strong quarter as vacancy rates crept down, rental rates and spec construction remain steady, and cap rates are on the decline. Net absorption posted strong numbers totaling 732,248 square feet in Q2.

Over 2.7 million square feet of new construction is underway in the market, which is down 300,000 square feet from Q1. Chandler continues to lead the Valley in construction with just over 1 million square feet still in progress. Tempe, Downtown Phoenix, and the Camelback Corridor, all combined, add up to just under 960,000 square feet under construction. Deliveries in Q2 totaled 280,000 square feet from three office buildings, all from the Southeast valley submarket.

Vacancy in the Phoenix office market fell from 19.39% in Q1 to 18.61% in Q2 as vacancy rates continue to be the lowest since 2008. Office rental rates continue to remain steady at $25.22, dropping just $0.54 from the previous quarter. Tempe continues to hold the title for the lowest vacancy rate in the Valley at 8.1%. Tempe vacancy rates fell 1.3% from the previous quarter. Class B office buildings hold the highest vacancy rate at 20.9%.

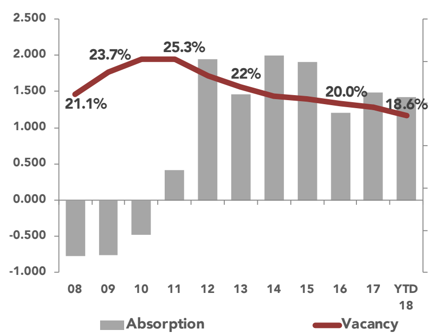
Net absorption in Q2 follows Q1 with its 20th consecutive quarter of positive net absorption at 732,248 square feet. Nearly 1.4 million square feet of office space has already been absorbed this year, which should handily pass last year's absorption of 1.8 million square feet.

Westgate City Center was the largest sale of the second quarter priced at $133 million, or $211.85 per square foot, which is nearly $50 million more than the largest sale in the first quarter. Desert Canyon 300 pulled in the top office lease of the quarter with its tenant, General Dynamics, taking 100,622 square feet. Employment and population growth in Phoenix continues to fly by the nation's average.

The Phoenix office market posted strong and steady numbers in Q2 with the surge of employment opportunities, positive rental rates, and low vacancy rate. As we close down the first half of the year, the Q2 office market portrays favorable statistics for the rest of the year.

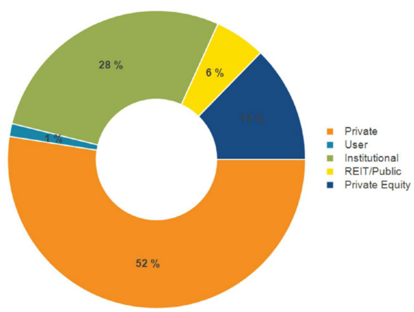
Absorption/Vacancy

2008-2018



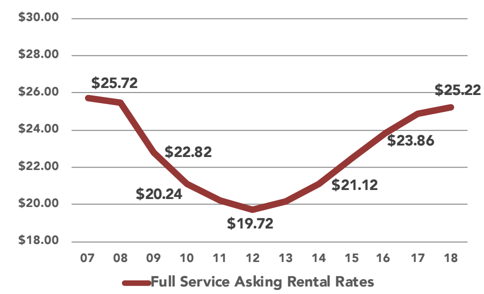
Buyer Type

Q2 2018 Sales



Rental Rates

Per Month, 2008-2018



Sales by the Numbers: Q2 2018

No. of Transactions	Total Sales	Average PSF	Average Cap Rate
150	**$665M**	**$165.57**	**6.70%**
Q1 2018: 115	Q1 2018: $560M	Q1 2018: $164.61	Q1 2018: 6.70%

Q2 2018 Top Office Leases

Tenant Name	Property Name	Address	Class	Submarket	SF	Type
General Dynamics	Desert Canyon 300	2411 W. Peoria Avenue	A	Northwest	149,511	New
Deloitte	The Commons at Rivulon	310 E. Rivulon Blvd.	A	San Tan	102,434	New
Lennar Homes	The Alameda	1665 W. Alameda Drive	B	Airport Area	91,542	New
WellCare Health	Two Gateway	432 N. 44th Street	A	Airport Area	81,306	New
Amazon	The Alameda	1665 W. Alameda Drive	B	Airport Area	53,812	New

Q2 2018 Top Office Sales

Property Address	Buyer	Seller	Class	Sales Price	SF	PSF
Westgate City Center (5 Properties)	YAM Properties	Istar Financial Inc.	A	$133,000,000	627,811	$211.85
2375 E. Camelback Rd.	New York Life Real Estate Investors	Hines	A	$100,000,000	302,209	$330.90
3030 N. 3rd Street (CopperPoint)	Oak Street Capital	Lexington Realty Trust	A	$64,575,000	252,400	$255.84
5601 N. Pima Rd. (2 Properties)	Griffin Capital Essential Asset REIT, Inc.	Ryan Companies US, Inc.	A	$67,000,000	271,085	$247.15
9200 E. Pima Center (2 Properties)	City Office REIT, Inc.	CarVal Investors	A	$56,500,000	271,782	$207.89

Q2 2018 | Phoenix Office Market Statistics

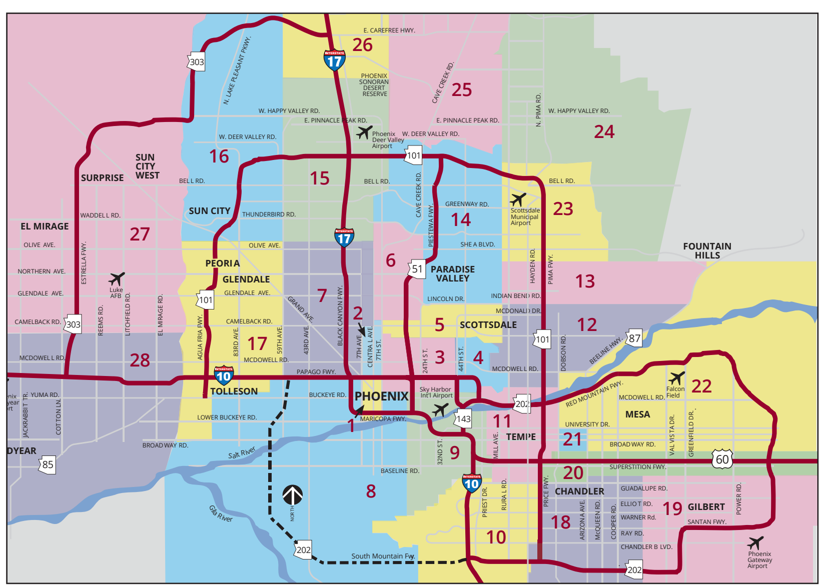
Building Class	Inventory Total	Vacancy Rate: Direct SF	Percent	Sublease SF	Percent	Total SF	Percent	Net Absorption: Q2 2018	YTD 2018	Sublease Available: Vacant SF	Total SF	Percent	Under Construction	Asking FS Rents
Class A	39,983,393	5,937,083	14.8%	667,828	1.7%	6,604,911	16.4%	287,943	535,802	667,828	1,121,584	2.8%		$28.92
Class B	53,965,312	10,470,010	19.5%	749,102	1.4%	11,219,112	20.9%	343,499	724,410	749,102	1,038,644	1.9%		$22.56
Class C	5,906,762	756,498	12.6%	3,130	0.1%	759,628	12.6%	100,806	158,505	8,835	13,579	0.2%	-	$17.64
Building Type Total	**99,855,467**	**17,163,591**	**17.2%**	**1,420,060**	**1.4%**	**18,583,651**	**18.61%**	**732,248**	**1,418,717**	**1,425,765**	**2,173,807**	**2.2%**	**0**	**$25.22**

Office Submarket	Inventory Total	Vacancy Rate: Direct SF	Percent	Sublease SF	Percent	Total SF	Percent	Net Absorption: Q2 2018	YTD 2018	Sublease Available: Vacant SF	Total SF	Percent	Under Construction	Asking FS Rents
1. Downtown Phoenix	7,025,138	884,375	12.9%	141,435	2.0%	1,025,810	14.4%	67,872	207,114	141,435	129,048	1.8%	205,000	$30.24
2. Midtown Phoenix	9,363,747	2,326,243	24.6%	37,512	0.4%	2,363,755	25.0%	43,060	188,117	37,512	90,274	1.0%	-	$22.44
3. Midtown/Central Phoenix	1,978,083	260,855	12.7%	7,921	0.4%	268,776	13.1%	(8,217)	20,668	7,921	7,921	0.8%	-	$17.64
4. 44th St. Corridor	2,633,695	387,274	14.6%	1,700	0.1%	388,974	14.7%	36,766	123,574	1,700	4,700	0.2%	-	$26.64
5. Camelback Corridor	7,424,889	1,213,599	16.3%	99,264	1.3%	1,312,863	17.7%	80,941	(79,284)	99,264	180,494	2.4%	118,500	$31.20
6. Piestewa Corridor	2,228,389	447,043	20.0%	41,674	1.9%	488,717	21.8%	20,660	(209,779)	41,674	41,674	1..9%	-	$20.40
7. Northwest Phoenix	6,383,845	1,597,683	25.0%	24,088	0.4%	1,621,771	25.4%	28,134	(125,407)	24,088	24,088	0.4%	-	$18.96
8. Southwest Phoenix	1,351,112	234,570	17.2%	-	0.0%	234,570	17.2%	34,682	34,682	-	-	0.0%	-	$26.52
9. Sky Harbor Airport	8,709,052	2,012,035	23.1%	561,933	6.4%	2,573,968	29.5%	79,466	316,755	561,933	653,994	7.5%	160,910	$23.04
10. S. Tempe/Ahwatukee	5,066,849	766,486	15.1%	47,685	0.9%	814,171	16.0%	(82,818)	(106,953)	47,685	163,729	3.2%	200,000	$22.32
11. Tempe	6,461,365	523,978	8.1%	3,902	0.1%	527,880	8.1%	180,883	488,941	3,902	116,265	1.8%	636,481	$29.88
12. Scottsdale South	4,903,439	702,255	14.1%	47,442	1.0%	749,697	15.0%	(2,460)	(61,970)	47,442	47,422	2.5%	150,000	$31.44
13. Central Scottsdale	5,166,476	582,600	11.1%	138,294	2.6%	720,894	13.7%	(120,750)	(95,923)	138,294	138,294	3.2%	123,020	$26.04
14. Paradise Valley	2,162,396	336,621	15.6%	47,104	2.2%	383,725	17.7%	(2,802)	(1,358)	47,104	47,104	2.2%		$26.04
15. Deer Valley Airport	5,811,992	1,032,160	17.8%	3,870	0.1%	1,036,030	17.8%	241,329	496,115	3,870	33,372	0.6%	-	$23.40
16. Arrowhead	1,036,961	123,933	12.0%	-	0.0%	123,933	12.0%	(5,299)	(7,729)	-	-	0.0%	-	$24.84
17. Glendale	1,470,396	364,916	24.8%	-	0.0%	364,916	24.8%	37,293	46,587	-	-	0.0%	-	$22.92
18. Chandler	5,804,794	1,204,726	20.8%	104,100	1.8%	1,308,826	22.5%	31,044	174,544	104,100	76,869	1.3%	1,085,228	$24.60
19. Gateway/Loop 202	342,363	37,525	11.0%	4,000	1.2%	41,525	12.1%	12,341	15,321	4,000	9,100	2.7%	-	$23.40
20. Superstition Corridor	2,675,780	363,635	13.6%	2,975	0.1%	366,610	13.7%	(12,662)	(10,467)	2,975	8,975	0.3%	-	$19.80
21. Mesa Downtown	617,019	44,571	7.2%	-	0.0%	44,571	7.2%	10,986	(1,987)	-	8,832	1.4%	-	$15.48
22. Mesa East	526,454	63,051	12.0%	-	0.0%	63,051	12.0%	(1,492)	17,830	-	-	0.0%	-	$16.68
23. Scottsdale Airpark	8,590,651	1,162,466	13.4%	105,161	1.2%	1,267,627	14.6%	75,701	5,435	105,161	278,948	3.2%	36,735	$27.84
24. N. Scottsdale/Carefree	699,755	162,465	20.8%	-	0.0%	162,465	20.8%	(5,834)	(23,233)	-	0	0.0%	-	$22.08
25. N. Phoenix/Cave Creek	13,607	-	-	-	0.0%	-	0.0%	-	-	-	-	0.0%	-	$12.00
26. North I-17	277,665	82,723	29.8%	-	0.0%	82,723	29.8%	(344)	931	-	-	0.0%	-	$24.49
27. Loop 303/Surprise	354,816	69,286	19.5%	0	0.0%	69,286	19.5%	1,706	10,306	-	-	0.0%	-	$22.32
28. West I-10	774,739	176,517	22.8%	-	0.0%	176,517	22.8%	(7,938)	(4,113)	-	-	0.0%	-	$22.80
Phoenix Metro Total	**99,855,467**	**17,163,591**	**17.2%**	**1,420,060**	**1.4%**	**18,583,651**	**18.61%**	**732,248**	**1,418,717**	**1,420,060**	**2,061,103**	**2.1%**	**2,715,874**	**$25.22**

* When innaccurate 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

1. Downtown Phoenix
2. Midtown Phoenix
3. Midtown/Central Phoenix
4. 44th St. Corridor
5. Camelback Corridor
6. Piestewa Corridor
7. Northwest Phoenix
8. Southwest Phoenix
9. Sky Harbor Airport
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

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.

Market report analysis by:
Lee & Associates Arizona

Q2
2018

About Lee & Associates

Now in our 27th 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.

LEE & ASSOCIATES
COMMERCIAL REAL ESTATE SERVICES

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

Follow us on:


SkySong 5


The Offices at Chandler Viridian


Rivulon

Under Construction

Building Name	Class	Building Address	Type	Submarket	Total SF	Leased SF	Delivery
The Grand, Phase II	A	1127 N. Papago Dr., Tempe	Spec	Tempe	352,481		Q2 2019
The Watermark, Phase I	A	410 N. Scottsdale Rd., Tempe	Spec	Tempe	284,000		Q3 2019
Allred Park Place - Bldgs. 15 & 16	A	1650-1700 S. Price Rd., Chandler	Spec	Chandler	270,000		Q2 2019
The Offices at Chandler Viridian	A	3133 W. Frye Rd., Chandler	Spec	Chandler	250,000	56,750	Q3 2018
Block 23 at Cityscape	A	101 E. Washington St., Phoenix	Spec	Downtown Phoenix	205,000		Q2 2019
Discovery Business Campus	B	2190 E. Elliot Rd., Tempe	BTS	S. Tempe/Ahwatukee	200,000	200,000	Q2 2019
Aetna Cotton Center	B	4755 S. 44th Pl., Phoenix	BTS	Airport Area	160,910	160,910	Q3 2018
Chandler Freeway Crossing II	B	2625 W. Geronimo Pl., Chandler	Spec	Chandler	153,370		Q4 2018
SkySong Innovation Center 5	A	1465 N. Scottsdale Rd. Scottsdale	Spec	South Scottsdale	151,318		Q3 2019
Chaparral Commerce Center III	A	5801 N. Pima Rd., Scottsdale	Spec	Central Scottsdale	123,020	61,510	Q1 2019
Camelback Collective	A	2801 E. Camelback Rd., Phoenix	Spec	Camelback Corridor	118,500		Q3 2018
One Chandler	A	350 N. McClintock Dr., Chandler	Spec	Chandler	117,176		Q3 2018
The Commons at Rivulon - Bldg A	A	SEC Pecos Rd. & Gilbert Rd., Gilbert	Spec	Chandler	102,434		Q4 2018
The Commons at Rivulon - Bldg A	A	SEC Pecos Rd. & Gilbert Rd., Gilbert	Spec	Chandler	97,248		Q4 2018

Under Construction (Continued)

Building Name	Class	Building Address	Type	Submarket	Total SF	Leased SF	Delivery
The Reserve at San Tan, Phase 1	A	343 E. Germann Rd., Gilbert	Spec	Chandler	75,000	8,025	Q4 2018
Chauncey Lane	A	SEC Scottsdale Rd. & Chauncey Ln.	Spec	Scottsdale Airpark	36,735	3,746	Q3 2019
Overstreet	A	101 N. Arizona Ave., Chandler	Spec	Chandler	20,000	7,800	Q3 2018
				Total	**2,715,874**	**498,741**	

Deliveries

Building Name	Class	Building Address	Type	Submarket	Total SF	Leased SF	Delivery
RIO 2100, Building 1	A	2100 E. Rio Salado Pkwy., Tempe	BTS	Tempe	150,000	150,000	Q2 2018
Microchip Technology Office	B	2355 W. Chandler Blvd., Chandler	Spec	Chandler	70,000	70,000	Q2 2018
Rivulon	A	161 E. Rivulon Blvd., Gilbert	Spec	Chandler	60,769	60,769	Q2 2018
				Total	**280,769**	**280,769**	