



Q3
2019

MARKET
REPORT

PHOENIX METRO
OFFICE

Q3 2019 | Phoenix Office Market Overview

Key Takeaways

* Compared To Last Quarter

↓ Total Vacancy
16.1%

↑ Q2 Net Absorption
1,018,799 SF

↑ Average Asking Rents
\$25.03 PSF

↓ Under Construction
SF 1,756,969

↓ Sublease Space
1,258,926 SF

Phoenix's Office Market erupted for another strong quarter as vacancy rates dropped, rental rates remained level, and net absorption skyrocketed compared to last quarter. Total sales volume almost doubled in the quarter and cap rates still stand in the low 7's.

Net absorption in Q3 increased substantially over Q2 with more than 1M SF occupied. With just over 2.6M SF already absorbed in 2019, the outlook for the remainder of the year looks promising and the demand for Class A office space should continue to rise.

Just over 1.7 million SF of new product is currently being built in the Valley while deliveries in the quarter totaled 696,795 SF. The largest completion of the quarter came from The Grand, Phase II, a 345,795 SF spec office building in the Tempe submarket. The second largest delivery of Q3 came from SkySong Innovation Center 5, a Class A office building located in the South Scottsdale submarket. The final two building deliveries of the quarter were The Commons at Rivulon, with a combined total of almost 200,000 SF. Of the four deliveries in the quarter, three are listed by Lee & Associates.

Vacancy rates dropped to 16.1% from 16.2% in Q2 of 2019. Class A vacancy rates stayed the same, but asking rates rose by \$0.30 from last quarter to \$25.03 PSF.

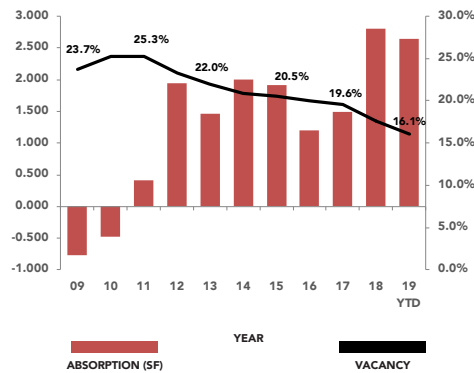
The Camelback Corridor, Downtown Phoenix, and South Scottsdale saw an average asking price of \$31.68/SF FSG. Chandler, Scottsdale Airport, and the Tempe submarket average asking rate was \$26.76/SF FSG. The influx of Class A office buildings around the Valley are starting to see more similar rates throughout the various submarkets.

Block 23 at Cityscape (280,399 SF) is now the largest office building under construction and is expected to be completed by the end of 2019. 17 North Corporate Center, a 150,000 SF spec office building, is the largest new development to enter the market. Helios Education Foundation in the Camelback Corridor and Harkins in the Scottsdale South submarket are the two BTS under construction.

The largest sale of the quarter came from the FBI Regional Headquarters at \$92,250,000, (\$438.86 PSF). The 210,202 SF office building was purchased by NGP Management LLC and sold by Artis REIT in the Deer Valley submarket. Crow Holdings sold two of their buildings in the quarter, Esplanade III and Northsight Corporate Center. Both sales totaled \$111,726,000. Choice Hotels signed the largest lease of the quarter by taking 150,000 SF at Cavasson in North Scottsdale. Of the five largest lease transactions of the quarter, Lee & Associates was responsible for four of them.

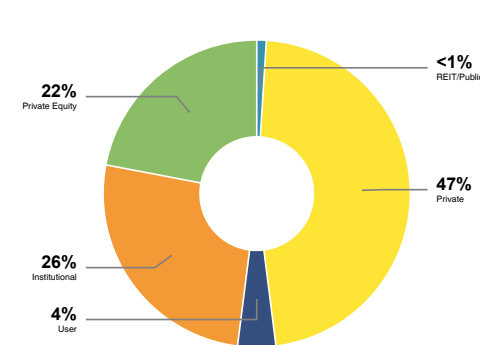
Absorption/Vacancy

2009 - 2019 YTD



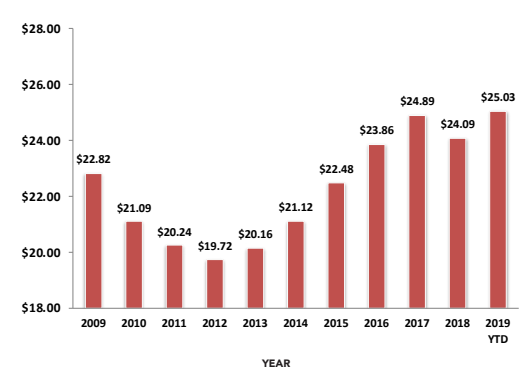
Buyer Type

Q2 2019 Sales



Rental Rates

Per Month, 2009 - 2019 YTD



Sales by the Numbers: Q3 2019

No. of Transactions

111

Q2 2019: 103

Total Sales

\$738M

Q2 2019: \$443M

Average PSF

\$209.54

Q2 2019: \$185.19

Average Cap Rate

7.4%

Q2 2019: 7.28%

Q3 2019 Top Office Leases

Tenant Name	Property Name	Address	Class	Submarket	SF
Choice Hotels	Cavasson	NWC Hayden & Loop 101	A	Scottsdale	150,000
Northrop Grumman	Gilbert Spectrum	S. McQueen Road	A	Chandler	120,512
Opendoor	The Watermark	410 N. Scottsdale Road	A	Tempe	100,810
Deloitte	Rivulon	300 E. Rivulon Boulevard	A	Chandler	97,248
Fair Financial Corp.	Two Renaissance Square	40 N. Central Avenue	A	Downtown	39,397

Q3 2019 Top Office Sales

Property Address	Buyer	Seller	Class	Sales Price	SF	PSF
21711 N. 7th St.	NGP Management LLC	Artis REIT	A	\$92,250,000	210,202	\$438.86
2415 E. Camelback Rd.	Transwestern	Crow Holdings	A	\$60,250,000	218,387	\$275.85
14400 N. 87th St.	CIM Group LP	Crow Holdings	B	\$51,476,000	136,862	\$376.12
1130 N. Alma School Rd.	Innovatus Capital Partners LLC	Lincoln Property Company	A	\$44,565,228	153,134	\$291.02
5801 N. Pima Rd.	Griffin Capital	Ryan Companies	A	\$37,700,000	124,879	\$301.89

Q3 2019 | Phoenix Office Market Statistics

Building Class	Inventory Total	Vacancy Rate				Net Absorption				Sublease Available			Under Construction	Asking FS Rents
		Direct SF	Percent	Sublease SF	Percent	Total SF	Percent	Q2 2019	YTD 2019	Vacant SF	Total SF	Percent		
Class A	42,705,794	6,566,128	15.4%	319,691	0.7%	6,902,017	16.2%	754,721	1,488,384	319,691	765,117	1.8%	1,384,006	\$30.00
Class B	54,513,170	9,432,749	17.3%	399,959	0.7%	9,816,510	18.0%	217,286	1,053,498	399,959	489,892	0.9%	372,963	\$23.64
Class C	5,786,178	561,744	9.5%	3,399	0.1%	565,143	10.6%	46,792	98,478	3,399	3,917	0.1%	-	\$15.84
Building Type Total	103,005,142	16,560,621	16.1%	723,049	0.7%	17,283,670	16.9%	1,018,799	2,640,360	723,049	1,258,926	1.2%	1,756,969	\$25.03

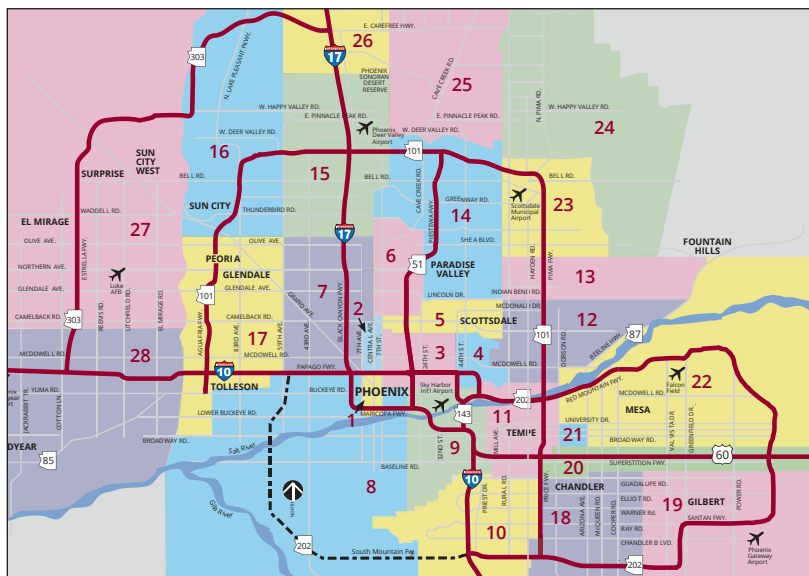
Office Submarket	Inventory Total	Vacancy Rate				Net Absorption				Sublease Available			Under Construction	Asking FS Rents
		Direct SF	Percent	Sublease SF	Percent	Total SF	Percent	Q3 2019	YTD 2019	Vacant SF	Total SF	Percent		
1. Downtown Phoenix	6,843,494	1,208,269	17.7%	105,830	1.5%	1,314,099	19.2%	(31,310)	(168,345)	105,830	200,124	2.9%	280,399	\$30.48
2. Midtown Phoenix	9,524,582	2,125,682	22.3%	36,130	0.4%	2,161,812	22.7%	235,016	335,437	36,130	161,543	1.7%	-	\$23.88
3. Midtown/Central Phoenix	1,928,846	207,605	10.8%	0	0.0%	207,605	10.8%	25,453	15,308	-	-	0.0%	-	\$19.32
4. 44th St. Corridor	2,671,644	352,585	13.2%	7,340	0.3%	359,925	13.5%	12,118	17,420	7,340	24,385	0.9%	-	\$26.40
5. Camelback Corridor	7,441,517	1,257,128	16.9%	94,717	1.3%	1,351,845	18.2%	37,946	68,403	94,717	117,624	1.6%	65,000	\$33.00
6. Piestewa Corridor	2,154,672	379,687	17.6%	2,378	0.1%	382,065	17.7%	(4,989)	30,125	2,378	2,378	0.1%	-	\$24.12
7. Northwest Phoenix	6,162,125	1,508,579	24.5%	31,118	0.5%	1,539,697	25.0%	31,024	(15,534)	31,118	32,618	0.5%	150,000	\$19.08
8. Southwest Phoenix	1,305,322	221,182	16.9%	-	0.0%	221,182	16.9%	4,500	6,000	-	-	0.0%	-	\$24.36
9. Sky Harbor Airport	7,048,567	1,287,724	18.3%	148,027	2.1%	1,435,751	20.4%	102,988	308,313	148,027	148,027	2.1%	-	\$18.00
10. S. Tempe/Ahwatukee	5,307,217	810,333	15.3%	20,566	0.4%	830,899	15.7%	31,816	222,658	20,566	36,292	0.7%	-	\$19.32
11. Tempe	9,316,527	941,671	10.1%	16,745	0.2%	958,416	10.3%	47,498	431,180	16,745	77,224	0.8%	859,333	\$29.40
12. Scottsdale South	5,207,719	601,351	11.5%	46,004	0.9%	647,355	12.4%	134,552	301,880	46,004	59,676	1.1%	65,000	\$31.56
13. Central Scottsdale	5,259,570	652,280	12.4%	55,918	1.1%	708,198	13.5%	(55,408)	2,451	55,918	53,668	1.3%	-	\$27.72
14. Paradise Valley	2,098,486	203,193	9.7%	13,649	0.7%	216,842	10.3%	47,165	129,796	13,649	26,089	1.2%	-	\$25.44
15. Deer Valley Airport	5,568,967	1,045,335	18.8%	7,578	0.1%	1,052,913	18.9%	25,167	16,181	7,578	7,578	0.1%	-	\$20.28
16. Arrowhead	1,028,964	123,388	11.8%	3,677	0.4%	127,065	12.2%	(38,007)	(26,088)	3,677	3,677	0.4%	-	\$24.00
17. Glendale	1,560,008	197,874	12.7%	-	0.0%	197,874	12.7%	15,841	35,973	-	-	0.0%	-	\$22.20
18. Chandler	7,214,947	1,722,395	23.9%	10,929	0.2%	1,733,324	24.0%	144,828	500,540	10,929	23,337	0.3%	287,220	\$22.44
19. Gateway/Loop 202	431,273	61,669	14.3%	-	0.0%	61,669	14.3%	77,752	96,937	-	-	0.0%	-	\$24.48
20. Superstition Corridor	2,554,299	218,354	8.5%	4,555	0.2%	222,909	8.7%	(12,783)	94,892	4,555	4,555	0.2%	-	\$20.04
21. Mesa Downtown	622,965	47,113	7.6%	-	0.0%	47,113	7.6%	(13,988)	(12,517)	-	-	0.0%	-	\$15.00
22. Mesa East	495,841	38,493	7.6%	-	0.0%	38,493	7.6%	(1,475)	2,455	-	-	0.0%	-	\$15.24
23. Scottsdale Airpark	8,955,906	954,493	10.7%	116,101	1.3%	1,070,594	12.0%	158,801	133,325	116,101	278,344	3.1%	96,017	\$28.44
24. N. Scottsdale/Carefree	583,451	128,992	22.1%	-	0.0%	128,992	22.1%	6,980	21,140	-	-	0.0%	24,000	\$24.12
25. N. Phoenix/Cave Creek	13,607	-	0.0%	-	0.0%	-	0.0%	-	-	-	-	0.0%	-	\$12.00
26. North I-17	300,019	73,072	24.4%	-	0.0%	73,072	24.4%	2,844	12,760	-	-	0.0%	-	\$24.96
27. Loop 303/Surprise	374,429	39,588	10.6%	-	0.0%	39,588	10.6%	(8,575)	(7,777)	-	-	0.0%	-	\$22.44
28. West I-10	1,030,178	152,586	14.8%	1,787	0.2%	154,373	15.0%	43,045	87,447	1,787	1,787	0.2%	-	\$22.32
Phoenix Metro Total	103,005,142	16,560,621	16.1%	723,049	0.7%	17,283,670	16.9%	1,018,799	2,640,360	723,049	1,258,926	1.2%	1,826,969	\$25.03

* 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

- 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



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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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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 strong local ownership combined with a powerful platform from the national Lee & Associates network.



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