

# OFFICE MARKET REPORT

Q4 2019

PHOENIX, ARIZONA

## Phoenix's Office Market Closed 2019 with Great Numbers

The Valley's office market closed 2019 with great numbers as it posted key gains in almost all key metrics. Vacancy rates did not change and asking rates rose throughout the market. Net absorption for the quarter blossomed, as did Q3, and total sales in Q4 topped out at \$930M with 136 total transactions.

A total of 785,232 square feet of office space was delivered in the quarter in 4 new Class A buildings with over 2 million square feet still under construction. The largest deliveries of the quarter came from two spec office buildings totaling 466,232 square feet. Block 23 at CityScape, the largest delivery of the quarter, is located in the Downtown Phoenix submarket with a size of 280,399 square feet. The other large delivery of the quarter was I.D.E.A. Phase I, a 185,833 square foot Class A building located in the Tempe submarket. Tempe leads the market in most space under construction at 731,500 square feet followed by the Scottsdale Airpark at 731,017 square feet.

Vacancy rates did not move in Q4 compared to Q3 at 16.1%. Class A vacancy rates dropped to 15.3% from 15.4%. Average asking rates rose \$0.15 from Q3 to \$25.18 PSF. South Scottsdale saw a huge increase in average asking rates as jumping up to \$35.32 PSF, compared to last quarter's number of \$31.56 PSF.



TOTAL VACANCY

**16.1%**

VS. 16.1% IN Q3



Q4 NET ABSORPTION

**1,192,386 SF**

VS. 978,399 SF IN Q3



AVERAGE ASKING RENTS

**\$25.18 PSF**

VS. \$25.03 PSF IN Q3



UNDER CONSTRUCTION

**2,003,737 SF**

VS. 1,756,969 IN Q3



SUBLEASE SPACE

**1,253,272 SF**

VS. 1,258,926 IN Q3

Nationwide Cavasson is now the largest office project (O/O) under construction at 460,000 square feet and the Phase I is expected to be delivered early 2020.

Biltmore Center (3) was the largest sale of the fourth quarter at \$212,000,000 (\$328.44 PSF). The 635,409 square foot office complex was purchased by Partners Group AG in partnership with ViaWest and sold by Alliance Bernstein L.P. in the Camelback Corridor submarket. Lincoln Property Company sold The Grand Phase I to Susquehanna Holdings Company for \$90,000,000 (\$422.48 PSF) the second largest sale of the quarter. The Class A 213,026 square foot office building is located in the Tempe submarket.

DoorDash signed the largest lease of the fourth quarter by taking 345,795 square feet at The Grand, Phase II in Tempe. WeWork took 91,524 square feet at Block 23, located in Downtown Phoenix. The 2019 Phoenix office sector is pointing to another strong year and healthy market conditions in 2020 seem imminent.

SALES BY THE NUMBERS: Q4 2019

NO. OF TRANSACTIONS

**136**

Q3 2019: 111

TOTAL SALES

**\$930M**

Q3 2019: \$738M

AVERAGE PSF

**\$205.71**

Q3 2019: \$209.54

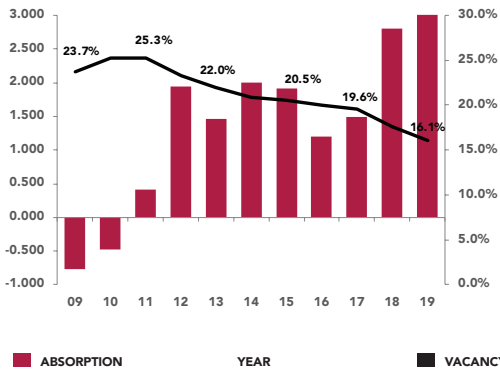
AVERAGE CAP RATE

**8.1%**

Q3 2019: 7.3%

ABSORPTION/VACANCY

2009 - 2019 YTD

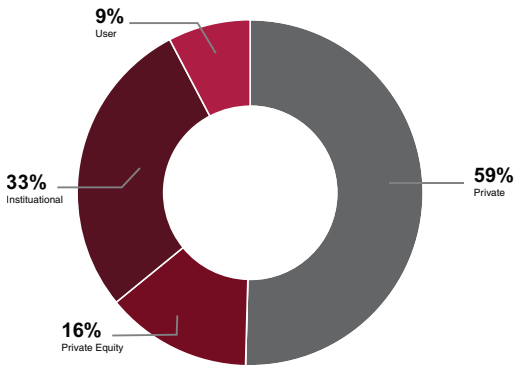


2019 QUARTERLY MARKET BREAKDOWN

	2019	Q4	Q3	Q2	Q1
Vacancy Rate		16.1%	16.1%	16.6%	16.9%
Availability Rate		19.2%	20.0%	20.3%	20.9%
Asking Lease Rate		\$25.18	\$25.03	\$24.69	\$24.60
Leased SF		1,777,136 SF	1,536,502 SF	2,281,828 SF	2,012,425 SF
Sold SF		4,525,081 SF	3,500,651 SF	2,643,905 SF	3,336,734 SF
Net Absorption		1,192,386 SF	978,399 SF	501,177 SF	1,235,630 SF

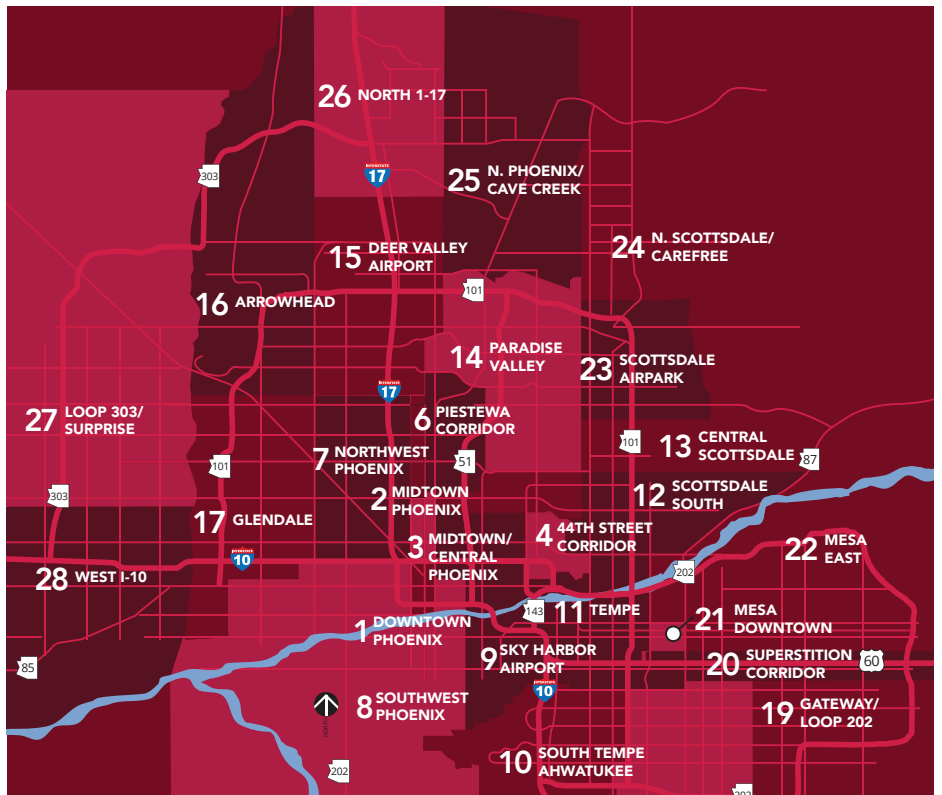
BUYER TYPE

Q4 2019 SALES



RENTAL RATES

PER MONTH, 2009 - 2019 YTD



BUILDING CLASS	INVENTORY TOTAL	VACANCY RATE						NET ABSORPTION		SUBLEASE AVAILABLE			UNDER CONST.	ASKING FS RENTS
		DIRECT		SUBLEASE		TOTAL		Q4 2019	YTD 2019	VACANT SF	TOTAL SF	%		
		SF	%	SF	%	SF	%							
<b>Class A</b>	43,547,959	6,650,870	15.3%	211,787	0.5%	6,862,657	15.8%	1,070,793	2,615,600	211,787	734,633	1.7%	1,799,774	\$30.12
<b>Class B</b>	53,897,285	9,371,887	17.4%	305,391	0.6%	9,677,278	18.0%	163,375	1,259,892	305,391	511,922	0.9%	203,963	\$23.64
<b>Class C</b>	5,724,281	569,880	9.5%	3,399	0.1%	573,279	10.6%	(41,782)	32,100	3,399	6,717	0.1%	-	\$15.48
<b>Totals</b>	<b>103,169,525</b>	<b>16,592,637</b>	<b>16.1%</b>	<b>520,577</b>	<b>0.5%</b>	<b>17,113,214</b>	<b>16.6%</b>	<b>1,192,386</b>	<b>3,907,592</b>	<b>520,577</b>	<b>1,253,272</b>	<b>1.2%</b>	<b>2,003,737</b>	<b>\$25.18</b>

OFFICE SUBMARKET	INVENTORY TOTAL	VACANCY RATE						NET ABSORPTION		SUBLEASE AVAILABLE			UNDER CONST.	ASKING FS RENTS
		DIRECT		SUBLEASE		TOTAL		Q4 2019	YTD 2019	VACANT SF	TOTAL SF	%		
		SF	%	SF	%	SF	%							
<b>Downtown Phoenix</b>	6,671,083	1,266,002	19.0%	116,265	1.7%	1,382,267	20.7%	252,633	59,806	116,265	197,455	3.0%	-	\$30.36
<b>Midtown Phoenix</b>	9,538,258	2,224,206	23.3%	40,667	0.4%	2,264,873	23.7%	(103,061)	176,934	40,667	133,482	1.4%	-	\$23.88
<b>Midtown/Central Phoenix</b>	1,921,711	189,003	9.8%	3,043	0.2%	192,046	10.0%	(7,856)	7,955	3,043	3,043	0.2%	-	\$18.96
<b>44th St. Corridor</b>	2,671,644	337,226	12.6%	4,173	0.2%	341,399	12.8%	18,367	35,787	4,173	21,218	0.8%	-	\$26.76
<b>Camelback Corridor</b>	7,439,770	1,349,213	18.1%	38,346	0.5%	1,387,559	18.7%	(37,514)	32,689	38,346	71,574	1.0%	65,000	\$33.24
<b>Piestewa Corridor</b>	2,154,672	341,275	15.8%	2,378	0.1%	343,653	15.9%	38,412	68,537	2,378	3,713	0.2%	-	\$24.00
<b>Northwest Phoenix</b>	6,163,699	1,312,064	21.3%	31,118	0.5%	1,343,182	21.8%	196,515	180,981	31,118	35,418	0.5%	-	\$18.72
<b>Southwest Phoenix</b>	1,318,196	219,342	16.6%	-	0.0%	219,342	16.6%	-	6,000	-	-	0.0%	-	\$23.76
<b>Sky Harbor Airport</b>	6,881,604	1,283,786	18.7%	107,002	1.6%	1,390,788	20.2%	44,963	353,276	107,002	92,759	1.3%	-	\$18.00
<b>S. Tempe/Ahwatukee</b>	5,307,217	863,032	16.3%	5,166	0.1%	868,198	16.4%	(37,299)	185,359	5,166	20,103	0.4%	-	\$19.20
<b>Tempe</b>	9,214,879	960,148	10.4%	6,541	0.1%	966,689	10.5%	31,770	550,510	6,541	104,878	1.1%	731,500	\$28.44
<b>Scottsdale South</b>	5,468,975	567,857	10.4%	20,829	0.4%	588,686	10.8%	45,995	360,549	20,829	81,563	1.5%	65,000	\$35.52
<b>Central Scottsdale</b>	5,245,150	621,851	11.9%	8,332	0.2%	630,183	12.0%	64,274	72,451	8,332	23,061	0.4%	100,000	\$27.72
<b>Paradise Valley</b>	2,098,486	191,944	9.1%	9,389	0.4%	201,333	9.6%	15,509	145,305	9,389	43,424	2.1%	-	\$26.04
<b>Deer Valley Airport</b>	5,708,652	1,181,530	20.7%	19,793	0.3%	1,201,323	21.0%	136,812	156,311	19,793	121,644	2.1%	-	\$19.32
<b>Arrowhead</b>	1,053,996	156,465	14.8%	3,677	0.3%	160,142	15.2%	(7,676)	(33,764)	3,677	3,677	0.3%	-	\$24.72
<b>Glendale</b>	1,562,288	189,765	12.1%	-	0.0%	189,765	12.1%	20,088	44,082	-	-	0.0%	-	\$22.20
<b>Chandler</b>	7,437,976	1,486,321	20.0%	10,929	0.1%	1,497,250	20.1%	603,562	1,102,595	10,929	20,370	0.3%	287,220	\$22.68
<b>Gateway/Loop 202</b>	491,273	109,242	22.2%	2,369	0.5%	111,611	22.7%	10,058	106,995	2,369	2,369	0.5%	-	\$24.72
<b>Superstition Corridor</b>	2,554,233	235,847	9.2%	18,564	0.7%	254,411	10.0%	(32,095)	63,390	18,564	20,061	0.8%	-	\$19.80
<b>Mesa Downtown</b>	611,371	72,468	11.9%	-	0.0%	72,468	11.9%	(36,949)	(37,872)	-	-	0.0%	-	\$21.48
<b>Mesa East</b>	495,443	38,321	7.7%	-	0.0%	38,321	7.7%	172	2,627	-	-	0.0%	-	\$15.24
<b>Scottsdale Airpark</b>	8,720,073	974,250	11.2%	70,209	0.8%	1,044,459	12.0%	(3,053)	159,460	70,209	251,673	2.9%	731,017	\$28.92
<b>N. Scottsdale/Carefree</b>	651,451	130,911	20.1%	-	0.0%	130,911	20.1%	(1,919)	19,221	-	-	0.0%	24,000	\$24.24
<b>N. Phoenix/Cave Creek</b>	13,607	-	0.0%	-	0.0%	-	0.0%	-	-	-	-	0.0%	-	\$12.00
<b>North I-17</b>	300,019	74,268	24.8%	-	0.0%	74,268	24.8%	(1,196)	11,564	-	-	0.0%	-	\$23.76
<b>Loop 303/Surprise</b>	381,670	39,588	10.4%	-	0.0%	39,588	10.4%	-	12,223	-	-	0.0%	-	\$23.16
<b>West I-10</b>	1,092,129	176,712	16.2%	1,787	0.2%	178,499	16.3%	(18,126)	64,621	1,787	1,787	0.2%	-	\$22.80
<b>TOTALS</b>	<b>103,169,525</b>	<b>16,592,637</b>	<b>16.1%</b>	<b>520,577</b>	<b>0.5%</b>	<b>17,113,214</b>	<b>16.6%</b>	<b>1,192,386</b>	<b>3,907,592</b>	<b>520,577</b>	<b>1,253,272</b>	<b>1.2%</b>	<b>2,003,737</b>	<b>\$25.18</b>

\* 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 2019 TOP OFFICE LEASES**

Tenant Name	Property Name	Address	Class	Submarket	SF
DoorDash	The Grand, Phase II	1033 W. Roosevelt Way	A	Tempe	345,795
WeWork	Block 23	101 E. Washington St.	A	Downtown	91,524
Toyota Financial Services	Allred Park Place	1650 S. Price Road	A	Chandler	63,000
WeWork	U.S. Bank Center	101 N. 1st Avenue	A	Downtown	53,000
Department of Child Safety	The Mesa Tower	1201 S. Alma School Rd.	A	Mesa	49,207

**Q4 2019 TOP OFFICE SALES**

Property Address	Buyer	Seller	Class	Sales Price	SF
Biltmore Center (3)	Partners Group AG	Alliance Bernstein L.P.	A	\$212,000,000	635,409
The Grand Phase I	Susquehanna Holdings Company	Lincoln Property Company	A	\$90,000,000	213,026
Phoenix Gateway Center (3)	Bridge Investment Group	Lowe Enterprises / Alecta RE	A	\$85,750,000	428,555
Henkel Corporate Center	Stockdale Capital Partners	Henkel Corporation	A	\$65,000,000	372,000
The HUB	Insight Enterprises, Inc.	Walton Street Capital, LLC	A	\$47,900,000	298,704

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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:**  
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