



Q2  
2017

MARKET  
REPORT

PHOENIX METRO  
**OFFICE**



LEE &  
ASSOCIATES

COMMERCIAL REAL ESTATE SERVICES



# Office Sector Continues Modest Pace Through Mid-Year

The Phoenix office market posted modest gains in Q2 after a more robust Q1. The pace in this sector has been slow and steady with occasional speed bumps. This is in contrast to the fast pace of the office market that crashed in 2008. Many believe the unsustainable growth during that period led to a longer recovery, which ended two years ago, but has had a continued affect on this sector.

Another factor affecting the office market is growing sublease space. While on the surface sublease vacancies are running at historical norms, total available subleases are at 2.2% of total inventory. This illustrates a growing issue as those tenants, while still in the space, will be vacating at a later date, adding pressure to building lease inventories even further.

Lease activity and rental rates were muted this quarter as overall market momentum seems to have slowed to a crawl. This comes at a time when the office sector continues to be in transition. Changes in requirements,

flight to quality, and a changing workforce have all contributed to a more complex leasing environment. Still, the Valley's fundamentals are strong, showing continued growth and investment. Hi-tech, banking, and medical firms are expanding and relocating to the area. A strong, educated workforce continues to lure these companies away from higher cost of living cities in California and states back east.

On a positive note, continued growth in speculative construction is in full swing. Several new projects including; Camelback Collective at 118,090 SF (Camelback Corridor submarket), Block 23 at 220,000 SF (Downtown submarket), The Watermark at 253,181 SF (Tempe submarket) and Rivulon with two buildings totaling 120,000 SF in Gilbert (Chandler submarket). These projects are an example of new building trends featuring Class A amenities, location, and flexible hi-tech work environments.

Overall Phoenix office vacancy has posted 18.8% for the quarter, down one basis-point

over Q1. A total net absorption of 353,628 SF for Q2 was posted and a total of 1,215,290 SF year-to-date. Tempe posted the highest increase for the year at 505,059 SF. Midtown Phoenix posted the highest negative net absorption for the year at -79,961 SF.

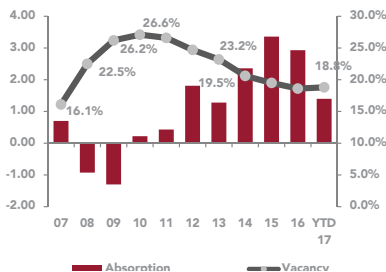
Asking rental rates moved modestly up by 0.7% over Q1. Downtown Phoenix, Scottsdale South and Camelback Corridor submarkets have the highest asking rents.

In the largest sale for the quarter, Goldman Sachs & Co. purchased a two-building, 295,401 SF Class A office building at 3131 E. Camelback Rd., Phoenix for \$81,750,000 SF or \$276.74 per SF.

The largest lease transaction for the quarter was Freedom Financial's commitment for 300,000 SF at Rio 2100, 2100 E. Rio Salado Pkwy., Tempe. The company is expected to occupy half the space in Q2 2018 and the other half in 2019. Construction is expected to begin construction in Q3 2017.

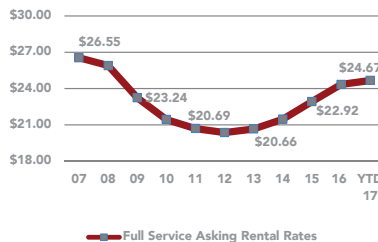
## Absorption/Vacancy

in SF, 2007-2017



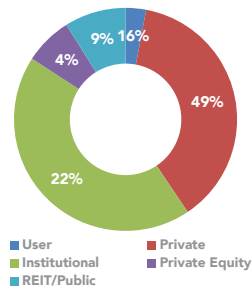
## Rental Rates

per month, 2007-2017



## Buyer Type

Q2 2017 Sales



## Economic Indicators

as of Q2 2017

### Unemployment

U.S.	Down to 4.4%
Arizona	Down to 4.8%
Phoenix Metro	Down to 4.3%

Consumer Price Index	Up 0.1%
U.S. GDP	Up 1.4%

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

## Sales by the Numbers: Q2 2017

No. of Transactions

**125**

Q1 2017: 130

Total Sales

**\$535.4M**

Q1 2017: \$570.1M

Average PSF

**\$167.99**

Q1 2017: \$154.48

Average Cap Rate

**7.19%**

Q1 2017: 7.51%

## Q2 2017 Top Office Leases

Tenant Name	Property Name	Address	Class	Submarket	SF	Type
Freedom Financial	Rio 2100	2100 E. Rio Salado Pkwy., Tempe	A	Tempe	300,000	New
Quicken Loans, Inc.	One North Central	1 N. Central Ave., Phoenix	A	Downtown	149,273	New
Dept. of Econ. Security	4000 Tower-City Square	4000 N. Central Ave., Phoenix	B	Midtown	147,983	Renewal
CSAA Insurance	Desert Canyon Corp. Campus	2411 W. Peoria Ave., Phoenix	A	Northwest Phoenix	51,411	New
Upgrade, Inc.	One Renaissance Square	2 N. Central Ave., Phoenix	A	Downtown	37,790	New

## Q2 2017 Top Office Sales

Property Address	Buyer	Seller	Class	Sales Price	SF	PSF
3131 E. Camelback Rd., Phoenix (2)	Goldman Sachs & Co.	Illinois Teachers Retirement	A	\$81,750,000	295,401	\$276.74
4722-4742 N. 24th St., Phoenix (2)	Regent Properties, Inc.	McCarthy Cook & Co.	A	\$66,400,000	322,406	\$205.95
20225 N. Scottsdale Rd., Scottsdale	Discount Tire	Holualoa Cos.	A	\$40,180,000	157,566	\$255.00
15880-16100 N. Greenway Hayden Loop (3)	Kramer-Wilson Co., Inc.	William K. Perry Farms	B	\$37,500,000	181,238	\$206.91
111 W. Monroe St., Phoenix	GEM Realty Properties	Rialto Capital Management	B	\$29,820,000	255,556	\$116.89

## Q2 2017 | Phoenix Office Market Stats

Office Submarkets	Inventory	Vacancy Rate						Sublease Available		Net Absorption		Under	Asking
	Total	Direct SF	Percent	Sublease SF	Percent	Total SF	Percent	Total SF	Percent	Q2 2017	YTD 2017	Construction	FS Rents
1. Downtown Phoenix	6,601,575	1,045,282	15.8%	54,896	0.8%	1,139,733	16.7%	121,196	1.8%	39,555	44,892	246,174	\$30.24
2. Midtown Phoenix	9,607,484	2,334,096	24.3%	59,107	0.6%	2,393,203	24.9%	131,092	1.4%	19,461	(79,961)	25,312	\$22.35
3. East Phoenix	1,647,601	220,508	13.4%	7,619	0.5%	228,127	13.8%	28,980	1.7%	(7,407)	(19,927)	-	\$17.01
4. 44th St. Corridor	2,892,648	514,922	17.8%	2,100	0.1%	517,022	17.9%	7,369	0.3%	3,266	3,669	-	\$24.35
5. Camelback Corridor	7,918,151	1,418,204	17.9%	107,732	1.4%	1,525,936	19.3%	204,964	2.6%	24,977	(854)	118,090	\$29.56
6. Piestewa Corridor	2,064,204	455,731	22.1%	5,582	0.3%	461,313	22.3%	5,582	0.3%	5,130	11,334	-	\$20.19
7. Northwest Phoenix	4,982,310	1,445,428	29.0%	1,211	0.1%	1,446,639	29.0%	153,166	3.1%	5,177	(49,440)	-	\$18.70
8. Southwest Phoenix	824,733	187,389	22.7%	-	0.0%	187,389	22.7%	-	0.0%	-	8,701	-	\$23.59
9. Sky Harbor Airport	5,497,577	1,378,215	25.1%	187,076	3.4%	1,565,291	28.5%	187,076	3.4%	(28,713)	68,677	235,000	\$23.61
10. S. Tempe/Ahwatukee	5,836,539	726,510	12.4%	34,686	0.6%	761,196	13.0%	85,526	1.5%	95,393	134,271	-	\$23.27
11. Tempe	5,868,576	655,449	11.2%	57,426	1.0%	712,875	12.1%	131,200	2.2%	8,757	505,059	253,181	\$32.06
12. Scottsdale South	3,697,182	468,702	12.7%	71,230	1.9%	539,932	14.6%	124,452	3.4%	50,287	(13,566)	-	\$30.04
13. Central Scottsdale	5,017,910	524,387	10.5%	45,845	0.9%	570,232	11.4%	63,698	1.3%	(26,935)	91,463	371,000	\$25.51
14. Paradise Valley	2,148,651	400,491	18.6%	17,031	0.8%	417,522	19.4%	34,435	1.6%	(25,816)	(64,206)	-	\$24.68
15. Deer Valley Airport	4,262,532	816,565	19.2%	-	0.0%	816,565	19.2%	136,926	3.2%	39,465	220,519	-	\$23.81
16. Arrowhead	796,449	108,253	13.6%	-	0.0%	108,253	13.6%	11,000	1.3%	12,490	17,917	-	\$22.80
17. Glendale	1,349,972	246,163	18.2%	-	0.0%	246,163	18.2%	-	0.0%	5,205	(36,131)	-	\$22.67
18. Chandler	4,373,509	939,140	21.8%	33,907	0.8%	973,047	22.2%	136,804	3.1%	94,695	179,160	153,310	\$25.54
19. Gateway/Loop 202	429,992	90,124	21.0%	-	0.0%	90,124	21.0%	-	0.0%	9,120	27,826	-	\$25.84
20. Superstition Corridor	2,118,337	373,273	17.6%	29,201	1.4%	402,474	19.0%	29,201	1.4%	6,372	26,334	-	\$20.13
21. Mesa Downtown	360,601	5,543	1.5%	-	0.0%	5,543	1.5%	2,196	0.6%	-	-	-	\$18.71
22. Mesa East	87,984	8,649	9.8%	-	0.0%	8,649	9.8%	-	0.0%	4,000	4,000	-	\$21.00
23. Scottsdale Airpark	8,243,553	1,014,980	12.3%	69,665	0.8%	1,084,645	13.2%	305,772	3.7%	17,000	125,862	-	\$27.31
24. N. Scottsdale/Carefree	323,794	135,767	41.9%	-	0.0%	135,767	41.9%	-	0.0%	(9,951)	(12,384)	-	\$23.66
25. N. Phoenix/Cave Creek	13,607	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	-	-	\$12.00
26. North I-17	151,742	74,162	48.9%	-	0.0%	74,162	48.9%	-	0.0%	(330)	(56)	-	\$23.72
27. Loop 303/Surprise	410,900	80,410	19.6%	6,178	1.5%	86,588	21.1%	6,178	1.5%	5,338	6,537	-	\$23.40
28. West I-10	549,917	49,802	9.1%	6,749	1.2%	56,551	10.3%	12,682	2.3%	7,092	15,594	-	\$24.57
<b>Phoenix Metro Total</b>	<b>88,078,030</b>	<b>15,718,145</b>	<b>17.8%</b>	<b>797,241</b>	<b>0.9%</b>	<b>16,554,941</b>	<b>18.8%</b>	<b>1,919,495</b>	<b>2.2%</b>	<b>353,628</b>	<b>1,215,290</b>	<b>1,402,067</b>	<b>\$24.86</b>

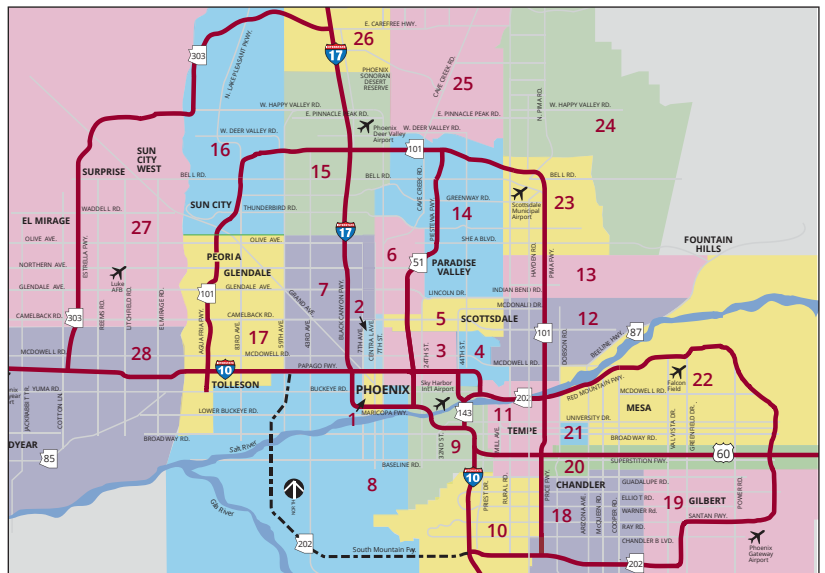
### By Building Type

Class A	40,812,265	6,158,478	16.0%	351,561	0.9%	6,750,848	16.9%	1,162,389	2.8%	49,711	675,684	1,350,581	\$28.22
Class B	44,610,640	9,179,806	20.2%	445,680	1.0%	9,420,965	21.2%	757,106	1.7%	282,989	475,582	51,486	\$22.37
Class C	2,655,125	379,861	14.3%	-	0.0%	383,128	14.3%	-	0.0%	20,928	64,024	-	\$15.15
<b>Building Type Total</b>	<b>88,078,030</b>	<b>15,718,145</b>	<b>17.8%</b>	<b>797,241</b>	<b>0.9%</b>	<b>16,554,941</b>	<b>18.8%</b>	<b>1,919,495</b>	<b>2.2%</b>	<b>353,628</b>	<b>1,215,290</b>	<b>1,402,067</b>	<b>\$24.86</b>

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

- Downtown Phoenix
- Midtown Phoenix
- East Phoenix
- 44th St. Corridor
- Camelback Corridor
- Piestewa Corridor
- Northwest Phoenix
- Southwest Phoenix
- Airport Area
- S. Tempe/Ahwatukee
- Tempe
- Scottsdale South
- Central Scottsdale
- Paradise Valley
- Deer Valley Airport
- Arrowhead
- Glendale
- Chandler
- Gateway/Loop 202
- Superstition Corridor
- Mesa Downtown
- Mesa East
- Scottsdale Airpark
- N. Scottsdale/Carefree
- N. Phoenix/Cave Creek
- North I-17
- Loop 303/Surprise
- West I-10





## About This Report

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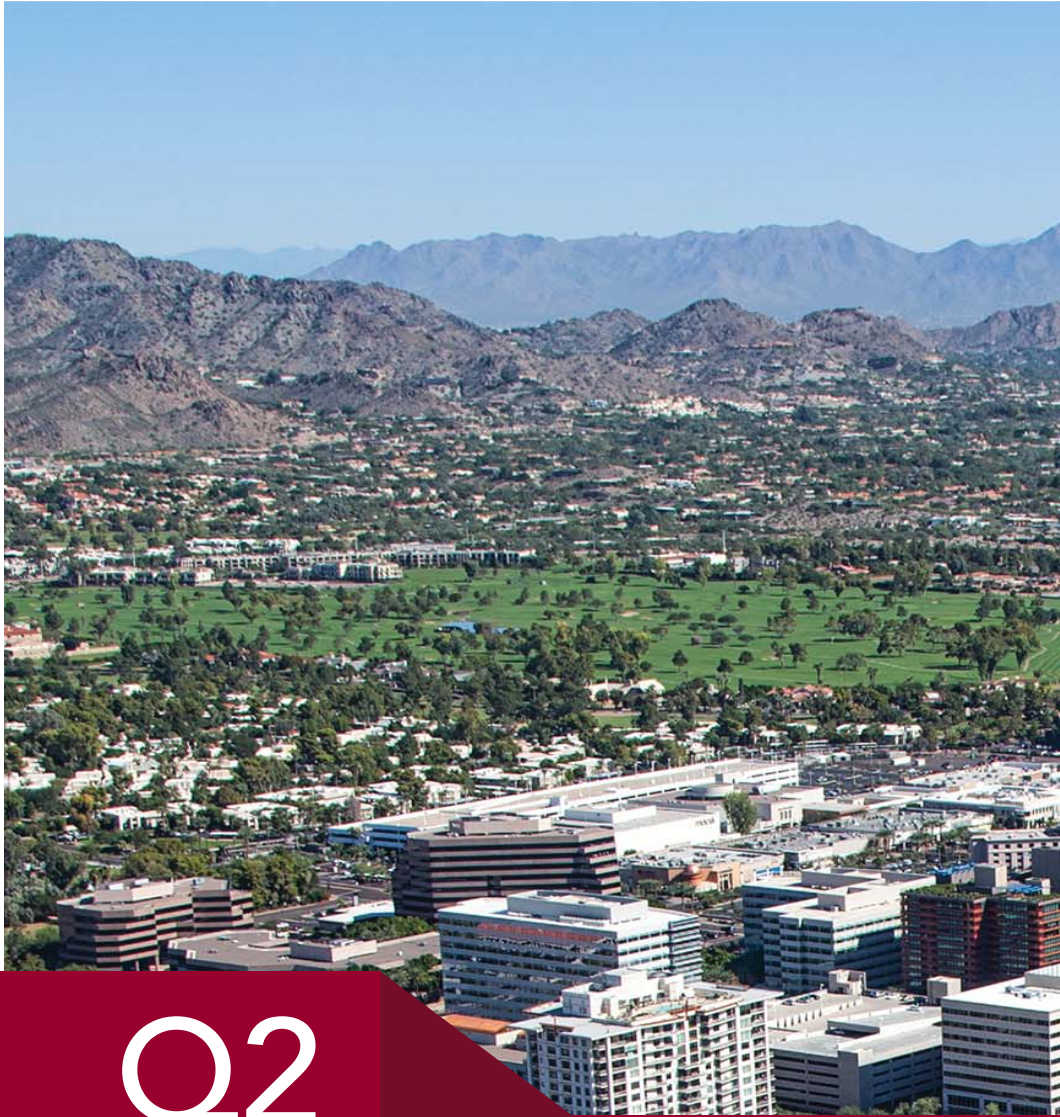
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The Phoenix Office Market Report compiles relevant market data by using a third-party database for the proprietary analysis of specific office properties above 10,000 SF in the Phoenix Metropolitan Area.

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### Market report analysis by:

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# Q2 2017

## About Lee & Associates

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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