



Q1  
2018

MARKET  
REPORT

PHOENIX METRO  
**OFFICE**



**LEE &  
ASSOCIATES**

COMMERCIAL REAL ESTATE SERVICES



# Phoenix Office Market Records Lowest Vacancy Rate In Ten Years

## Key Takeaways

\* In Relation To Last Quarter



Total Vacancy  
**19.39%**



YTD Net Absorption  
**686,469 S.F.**



Average Asking Rents  
**\$25.47 PSF**



Under Construction  
**2,839,908 S.F.**



Sublease Space  
**2,538,998 S.F.**

Asking rents and new construction are on the rise, while vacancy continues to creep down in the Valley's office market. It has been a long and gradual recovery, but Phoenix continues to reap the benefits of strong market fundamentals.

New construction is up to 2.8 million square feet with Chandler/Gilbert leading the way. This Southeast Valley submarket saw four new projects break ground in Q1, and now has ten office buildings under construction for a total of 1.2 million square feet. 24.5% of Phoenix's under construction office product is already leased, leaving 2.1 million feet of spec space to continue to attract national tenants.

Vacancy continued to slowly creep down in Q1 from 19.66% to 19.39% across the Valley. Of the major office submarkets, Tempe sits the lowest at 9.4%, followed by Central Scottsdale at 9.6%. Vacancy has been on a steady decline since its peak of 25.3% after the recession, and the first quarter of 2018 marked the lowest vacancy rate in Phoenix since 2008.

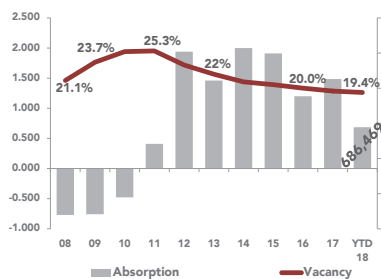
Net absorption recorded its 19th consecutive quarter of positive gains with 686,469 square feet absorbed. That is down from the 958,100 square absorbed in Q4 2017, but up from the modest 216,037 square feet in Q3 2017. The market is on pace in 2018 to surpass the 1.8 million square feet absorbed last year.

New data released this quarter shows that Phoenix is well ahead of national averages for both job and population growth. From 2016-2017, Arizona's population increased by 1.6% and employment increased by 12.6%, well ahead the national averages of 0.7% and 9.3% respectively. Roughly 30,000 new jobs have been created in the Valley already this year compared to the 60,000 for all of 2017.

Looking forward, Phoenix hopes to continue to attract corporate headquarters, technology, healthcare, and financial companies. National companies are finding Phoenix has deep and talented labor pool that is continually growing. These forces are rebranding the region into a vibrant place for professionals to live and employers to hire.

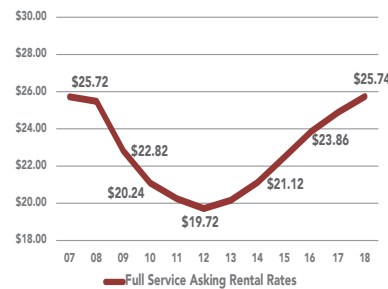
## Absorption/Vacancy

in SF, 2008-2018



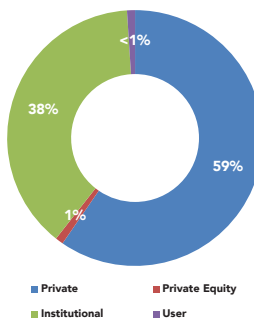
## Rental Rates

per month, 2008-2018



## Buyer Type

Q1 2018 Sales



## Economic Indicators

as of Q1 2018

### Unemployment

U.S.	Down to 4.0%
Arizona	Down to 4.3%
Phoenix Metro	Down to 4.1%

Consumer Price Index	Up to 2.7%
U.S. GDP	Up to 3.5%

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

## Sales by the Numbers: Q1 2018

No. of Transactions

**115**

Q4 2017: 95

Total Sales

**\$560,260,457**

Q4 2017: \$1.35B

Average PSF

**\$164.61**

Q4 2017: \$298.86

Average Cap Rate

**6.70%**

Q4 2017: 6.81%

## Q1 2018 Top Office Leases

### Tenant Name

Allstate  
PayPal  
First Solar  
McKesson  
ASU - Thunderbird School of Global Management

### Property Name

Allred Park Place Central  
90 Mountain View II  
Papago Gateway Center  
Chapparal Commerce Center III  
One Arizona Center

### Address

1450 S. Spectrum Blvd.  
9999 N. 90th St.  
350 W. Washington St.  
5801 N. Pima Rd.  
400 E. Van Buren St.

### Class

A  
B  
A  
A  
A

### Submarket

Chandler  
Central Scottsdale  
Tempe  
Scottsdale South  
Downtown

### SF

100,622  
92,562  
81,385  
61,510  
60,203

### Type

Sublease  
Renewal  
Renewal  
New  
New

## Q1 2018 Top Office Sales

### Property Address

1850 N. Central Ave.  
2299 W. Obispo Ave.  
9999 N. 90th St.  
8990 W. Glendale Ave.  
20401 N. 29th Ave.

### Buyer

D.L. Long Properties  
Arch Street Capital Advisors  
Orris Family  
Sentinel Real Estate Corporation  
Taconic Capital Advisors

### Seller

McCarthy Cook & Co.  
Everest Holdings  
Bahrain Mumtalakat Holding Co.  
Artis REIT  
Cohen Equities NY

### Class

A  
B  
B  
A  
B

### Sales Price

\$80,700,000  
\$39,000,000  
\$30,500,000  
\$19,067,000  
\$18,528,730

### SF

485,687  
180,480  
92,562  
106,418  
138,540

### PSF

\$166.16  
\$216.09  
\$329.51  
\$179.17  
\$133.74

# Q1 2018 | Phoenix Office Market Stats

Building Class	Inventory	Vacancy Rate						Net Absorption		Sublease Available			Under	Asking
	Total	Direct SF	Percent	Sublease SF	Percent	Total SF	Percent	Q1 2018	YTD 2018	Vacant SF	Total SF	Percent	Construction	FS Rents
Class A	39,374,916	6,084,568	15.5%	503,748	1.3%	6,588,316	16.7%	247,859	247,859	503,748	1,215,353	2.9%	2,255,628	\$30.22
Class B	53,854,140	11,091,705	20.6%	799,886	1.5%	11,889,946	22.1%	380,911	380,911	799,886	1,168,552	2.1%	584,280	\$22.92
Class C	6,397,019	833,798	13.0%	8,835	0.1%	842,633	13.2%	57,699	57,699	8,835	13,579	0.2%	-	\$17.74
Building Type Total	99,626,075	18,010,071	18.1%	1,312,469	1.3%	19,320,895	19.39%	686,469	686,469	1,312,469	2,397,484	2.4%	2,839,908	\$25.47

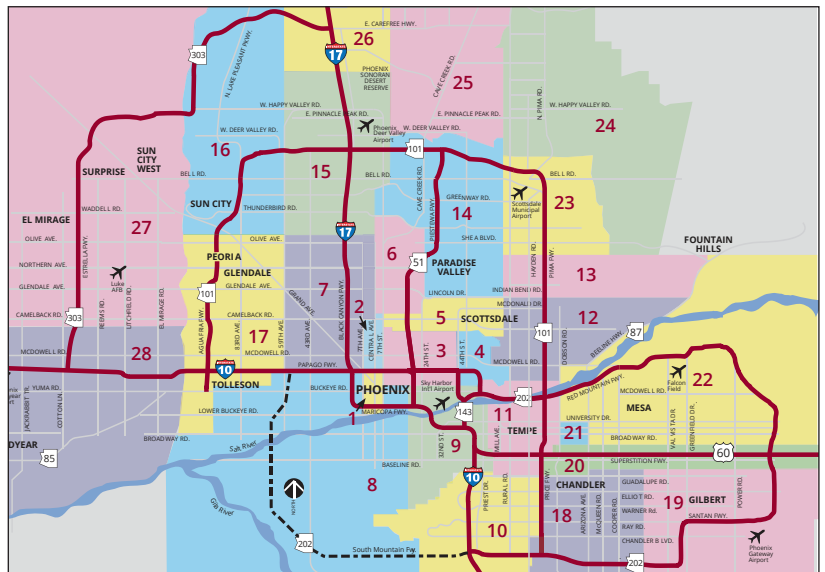
Office Submarket	Inventory	Vacancy Rate						Net Absorption		Sublease Available			Under	Asking
	Total	Direct SF	Percent	Sublease SF	Percent	Total SF	Percent	Q1 2018	YTD 2018	Vacant SF	Total SF	Percent	Construction	FS Rents
1. Downtown Phoenix	6,993,050	957,597	13.7%	138,285	2.0%	1,095,882	15.7%	139,242	139,242	138,285	142,785	2.0%	205,000	\$30.22
2. Midtown Phoenix	9,375,685	2,315,247	24.7%	36,126	0.4%	2,351,373	25.1%	145,057	145,057	36,126	138,543	1.5%	-	\$22.46
3. Midtown/Central Phoenix	1,868,978	224,319	12.0%	9,177	0.5%	233,496	12.5%	28,885	28,885	9,177	17,111	0.9%	-	\$18.40
4. 44th St. Corridor	2,506,732	423,640	16.9%	2,100	0.1%	425,740	17.0%	86,808	86,808	2,100	10,369	0.4%	-	\$26.22
5. Camelback Corridor	7,905,806	1,324,112	16.7%	112,073	1.4%	1,436,185	18.2%	(160,225)	(160,225)	112,073	188,470	2.3%	118,500	\$31.98
6. Piestewa Corridor	2,228,389	656,364	29.5%	39,965	1.8%	696,329	31.2%	(230,439)	(230,439)	39,965	52,805	2.4%	-	\$22.24
7. Northwest Phoenix	6,203,962	1,713,622	27.6%	24,088	0.4%	1,737,710	28.0%	(153,541)	(153,541)	24,088	173,836	2.8%	-	\$18.89
8. Southwest Phoenix	1,351,112	269,252	19.9%	-	0.0%	269,252	19.9%	-	-	-	-	0.0%	-	\$26.49
9. Sky Harbor Airport	8,686,968	2,091,501	24.1%	561,933	6.5%	2,653,434	30.5%	237,289	237,289	561,933	658,185	7.4%	160,910	\$23.48
10. S. Tempe/Ahwatukee	5,042,842	676,063	13.4%	33,376	0.7%	709,439	14.1%	(24,135)	(24,135)	33,376	147,234	2.7%	200,000	\$22.63
11. Tempe	6,335,558	595,982	9.4%	7,276	0.1%	603,258	9.5%	308,058	308,058	7,276	100,038	1.4%	786,481	\$34.10
12. Scottsdale South	4,861,846	720,564	14.8%	26,673	0.5%	747,237	15.4%	(59,510)	(59,510)	26,673	120,025	2.5%	-	\$31.42
13. Central Scottsdale	5,166,283	493,460	9.6%	106,684	2.1%	600,144	11.6%	24,827	24,827	106,684	145,943	2.8%	133,020	\$26.20
14. Paradise Valley	2,075,039	353,837	17.1%	17,854	0.9%	371,691	17.9%	1,444	1,444	17,854	60,393	2.9%	-	\$25.11
15. Deer Valley Airport	5,843,952	1,269,838	21.7%	7,521	0.1%	1,277,359	21.9%	254,786	254,786	7,521	43,425	0.7%	-	\$23.19
16. Arrowhead	1,037,173	136,162	13.1%	-	0.0%	136,162	13.1%	(2,430)	(2,430)	-	-	0.0%	-	\$24.22
17. Glendale	1,604,044	367,809	22.9%	-	0.0%	367,809	22.9%	9,294	9,294	-	-	0.0%	-	\$22.19
18. Chandler	5,659,318	1,148,671	20.3%	68,476	1.2%	1,217,147	21.5%	143,500	143,500	68,476	16,952	0.3%	1,215,997	\$26.28
19. Gateway/Loop 202	342,363	53,866	15.7%	-	0.0%	53,866	15.7%	2,980	2,980	-	5,100	1.5%	-	\$22.78
20. Superstition Corridor	2,562,046	366,055	14.3%	2,373	0.1%	368,428	14.4%	2,195	2,195	2,373	8,975	0.4%	-	\$19.74
21. Mesa Downtown	612,592	55,557	9.1%	-	0.0%	55,557	9.1%	(12,973)	(12,973)	-	8,832	1.4%	-	\$15.54
22. Mesa East	537,280	61,559	11.5%	-	0.0%	61,559	11.5%	19,322	19,322	-	-	0.0%	-	\$16.84
23. Scottsdale Airport	8,738,002	1,285,559	14.7%	118,489	1.4%	1,402,403	16.0%	(70,266)	(70,266)	118,489	358,563	4.1%	20,000	\$27.82
24. N. Scottsdale/Carefree	646,644	127,485	19.7%	-	0.0%	127,485	19.7%	(17,399)	(17,399)	-	0	0.0%	-	\$22.88
25. N. Phoenix/Cave Creek	13,607	-	0.0%	-	0.0%	-	0.0%	-	-	-	-	0.0%	-	\$12.00
26. North I-17	277,665	82,379	29.7%	-	0.0%	82,379	29.7%	1,275	1,275	-	-	0.0%	-	\$24.49
27. Loop 303/Surprise	352,666	70,992	20.1%	0	0.0%	70,992	20.1%	8,600	8,600	-	-	0.0%	-	\$22.30
28. West I-10	796,473	168,579	21.2%	-	0.0%	168,579	21.2%	3,825	3,825	-	-	0.0%	-	\$22.66
Phoenix Metro Total	99,626,075	18,010,071	18.1%	1,312,469	1.3%	19,320,895	19.39%	686,469	686,469	1,312,469	2,397,584	2.4%	2,839,908	\$25.74

\* 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

- 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 Airport
- N. Scottsdale/Carefree
- N. Phoenix/Cave Creek
- North I-17
- Loop 303/Surprise
- 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.

© Copyright 2018 Lee & Associates Arizona. All rights reserved.

**Market report analysis by:**  
Lee & Associates Arizona



# Q1 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.



COMMERCIAL REAL ESTATE SERVICES

3200 East Camelback Road, Suite 100  
Phoenix, Arizona 85018  
602.956.7777 | [www.learizona.com](http://www.learizona.com)

Follow us on:





## Q1 2018 | Phoenix Office Market Report | Under Construction | Deliveries



**The Watermark**



**The Offices at Chandler Viridian**



**Rivulon**

### Under Construction

Building Name	Class	Building Address	Type	Submarket	Total SF	Leased SF	Delivery
Camelback Collective	A	2801 E. Camelback Rd., Phoenix	Spec.	Camelback Corridor	118,500		Q3 2018
Chapparal Commerce Center III	A	5801 N. Pima Rd., Scottsdale	Spec	Central Scottsdale	123,020	61,510	Q3 2018
The Grove at McCormick	A	SEC Hayden Rd. & McCormick Pkwy., Scottsdale	Spec	Central Scottsdale	10,000		Q2 2018
Allred Park Place - Bldgs. 15 & 16	A	1650-1700 S. Price Rd., Chandler	Spec	Chandler	270,000		Q4 2018
One Chandler	A	650 N. McClintock Dr., Chandler	Spec	Chandler	117,176		Q3 2018
Overstreet	A	101 N. Arizona Ave., Chandler	Spec	Chandler	20,000		Q2 2018
Rivulon	A	161 E. Rivulon Blvd., Gilbert	Spec	Chandler	60,769		Q2 2018
The Commons at Rivulon - Bldg. A	A	SEC Pecos Rd. & Gilbert Rd., Gilbert	Spec	Chandler	97,248		Q4 2018
The Commons at Rivulon - Bldg. B	A	SEC Pecos Rd. & Gilbert Rd., Gilbert	Spec	Chandler	102,434		Q4 2018
The Offices at Chandler Viridian	A	3133 W. Frye Rd., Chandler	Spec	Chandler	250,000	55,000	Q4 2018
Microchip Technology Office	B	2355 W. Chandler Blvd., Chandler	BTS	Chandler	70,000	70,000	Q2 2018
The Reserve at San Tan, Phase I	A	343 E. Germann Rd., Gilbert	Spec	Chandler	75,000		Q4 2018
Chandler Freeway Crossing II	B	2625 W. Geronimo Pl., Chandler	Spec	Chandler	153,370		Q3 2018
Block 23 at Cityscape	A	101 E. Washington St., Phoenix	Spec	Downtown Phoenix	205,000		Q2 2019
RIO 2100, Building I	A	2100 E. Rio Salado Pkwy., Tempe	BTS	Tempe	150,000	150,000	Q2 2018
The Grand, Phase II	A	1127 N. Papago Dr., Tempe	Spec	Tempe	352,481		Q1 2019
The Watermark, Phase I	A	410 N. Scottsdale Rd., Tempe	Spec	Tempe	284,000		Q1 2019

## Under Construction (Continued)

Building Name	Class	Building Address	Type	Submarket	Total SF	Leased SF	Delivery
Chauncey Lane	A	SEC Scottsdale Rd. & Chauncey Ln., Scottsdale	Spec	Scottsdale Airpark	20,000		Q2 2018
Discovery Business Campus	B	2190 E. Elliot Rd., Tempe	BTS	S. Tempe/Ahwatukee	200,000	200,000	Q2 2018
Aetna Cotton Center	B	4755 S. 44th Pl.	BTS	Airport Area	160,910	160,910	Q3 2018
<b>Total</b>					<b>2,839,908</b>	<b>697,420</b>	

## Deliveries

Building Name	Class	Building Address	Type	Submarket	Total SF	Leased SF	Delivery
The Stearman	A	2425 S. Stearman Dr., Chandler	Spec	Chandler	67,218		Q1 2018
Rivulon (1)	A	111 E. Rivulon Blvd., Gilbert	Spec	Chandler	60,000	53,715	Q1 2018
Liberty Center at Rio Salado - IV	A	1870 W. Rio Salado Pkwy., Tempe	BTS	Airport Area	235,000	235,000	Q1 2018
<b>Total</b>					<b>362,218</b>	<b>288,715</b>	