Q2 2019

MARKET REPORT | PHOENIX METRO OFFICE

LEE & ASSOCIATES

COMMERCIAL REAL ESTATE SERVICES

Q2 2019 | Phoenix Office Market Overview

Key Takeaways

*** Compared To Last Quarter**

Total Vacancy
16.2%

Q2 Net Absorption
245,609 SF

Average Asking Rents
$24.73 PSF

Under Construction
SF 2,065,316

Sublease Space
1,319,583 SF

The Valley's Office Market continues its positive momentum halfway through the year. Vacancy rates stood still, rental rates barely changed, and cap rates are on the decline. Net absorption fell off from the huge first quarter.

Over 2M square feet of new construction is underway in the market, which is just down from the previous quarter. Tempe now has over 1M square feet of office space under construction, with The Grand still leading the way. Downtown Phoenix, Scottsdale, and Chandler submarkets add up to just over 930,000 square feet under construction. Deliveries in the quarter totaled 546,390 square feet from three spec buildings.

Vacancy in the Phoenix market didn't move at all from Q1 to Q2. Class A vacancy rates rose ever so slightly to 15.4% from 14.6%. Office rental rates continue to remain steady at $24.73, rising just $0.04 from the previous quarter. Tempe holds the lowest vacancy rate in Phoenix at 7.3%, while absorbing 78,887 square feet. South Scottsdale absorbed the most space in the second quarter at 166,945 square feet.

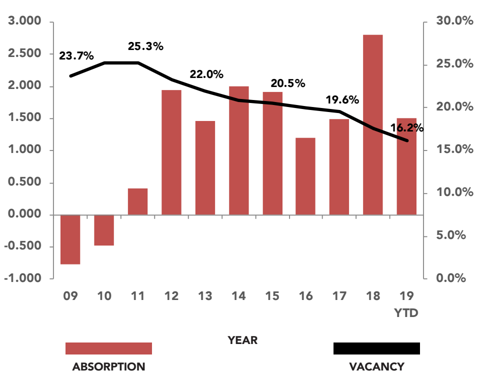
Novus Innovation Center is the largest new development to enter the market and just broke ground in Tempe with its expected size to total 169,500 square feet. The spec office building is scheduled to be completed in the second quarter of 2020.

Papago Park Center was the largest sale of the quarter priced at $52,400,000, or $244.51 per square foot, which is $19M less than the largest sale in the first quarter. The next largest sale of the quarter came from Camelback Lakes (4). The four combined buildings sold for $47,500,000 by AEW Capital Management. The Union pulled in the top office lease of the quarter with its tenant, WageWorks, taking 150,000 square feet in the Tempe submarket.

The Phoenix office market posted strong and steady numbers in the second quarter with positive rental rates and a low vacancy rate. As we officially break the halfway point of the year, the final two quarters of the year should yield favorable statistics.

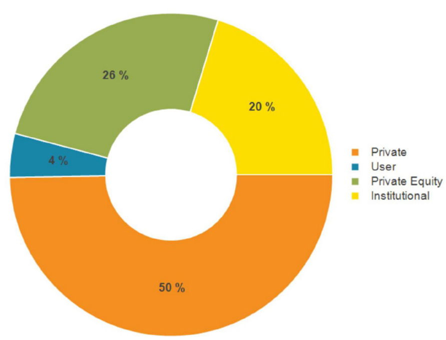
Absorption/Vacancy

2009 - 2019 YTD



Buyer Type

Q2 2019 Sales



Rental Rates

Per Month, 2009 - 2019 YTD

Sales by the Numbers: Q2 2019

No. of Transactions	Total Sales	Average PSF	Average Cap Rate
103	**$443M**	**$185.19**	**7.28%**
Q1 2019: 113	Q1 2019: $448M	Q1 2019: $156.16	Q1 2019: 7.36%

Q2 2019 Top Office Leases

Tenant Name	Property Name	Address	Class	Submarket	SF	Lease
WageWorks	Union	NEC Riverview Auto Drive	A	Tempe	150,000	New
WeWork	Block 23	101 E. Washington Street	A	Downtown	91,524	New
TransPerfect	Thistle Landing	4809 E. Thistle Landing Drive	B	Tempe	71,006	New
CarMax	1515 Corporate Center	1515 W. 14th Street	B	Tempe	62,239	New
Arizona St. University	SkySong 5	1465 N. Scottsdale Road	A	S. Scottsdale	50,000	New

Q2 2019 Top Office Sales

Property Address	Buyer	Seller	Class	Sales Price	SF	PSF
Papago Park Center	Menlo Equities	Greenwood & McKenzie	A	$52,400,000	214,303	$244.51
Camelback Lakes (4)	DRA Advisors LLC	AEW Capital Management	B	$47,500,000	229,901	$206.61
350 N. McClintock Dr.	Gramercy Capital Corp.	Van Trust Real Estate LLC	A	$25,210,000	117,394	$214.75
14500 N. Northsight Blvd.	BH Properties LLC	Invesco Advisers, Inc.	A	$23,800,000	120,040	$198.27
2411 W. Peoria Ave.	Drawbridge Realty Management	Bridge Investment Group	A	$22,500,000	149,211	$150.79

Q2 2019 | Phoenix Office Market Statistics

Building Class	Inventory	Vacancy Rate						Net Absorption		Sublease Available			Under	Asking
	Total	Direct SF	Percent	Sublease SF	Percent	Total SF	Percent	Q2 2019	YTD 2019	Vacant SF	Total SF	Percent	Construction	FS Rents
Class A	42,201,644	6,491,340	15.4%	381,486	0.9%	6,872,826	16.3%	(25,536)	805,068	381,486	720,760	1.7%	-	$29.64
Class B	53,609,411	9,387,430	18.2%	387,944	0.7%	9,775,374	18.2%	227,555	654,711	387,944	595,424	1.1%	-	$24.48
Class C	5,864,980	615,568	10.5%	3,399	0.1%	618,967	10.6%	43,590	46,892	3,399	3,399	0.1%	-	$15.36
Building Type Total	**101,676,035**	**16,494,338**	**16.2%**	**772,829**	**0.8%**	**17,267,167**	**16.9%**	**245,609**	**1,506,671**	**772,829**	**1,319,583**	**1.3%**	**0**	**$24.73**

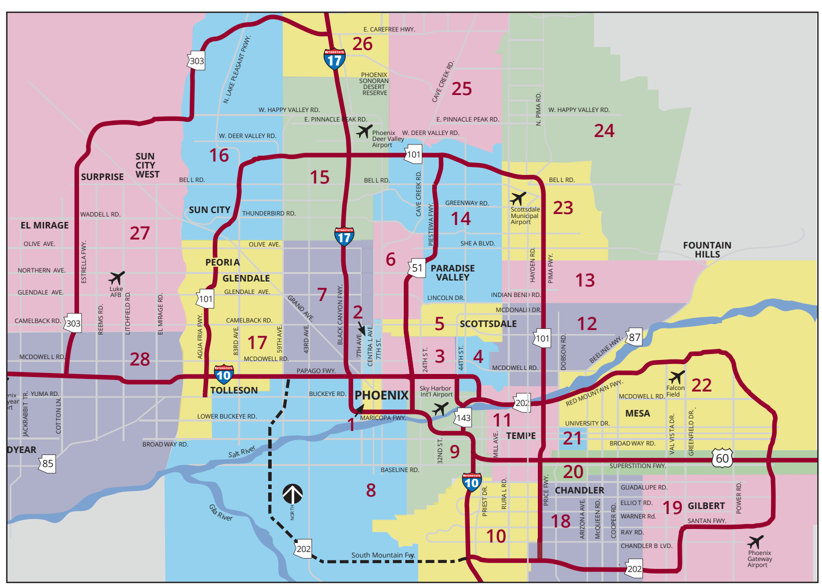
Office Submarket	Inventory	Vacancy Rate						Net Absorption		Sublease Available			Under	Asking
	Total	Direct SF	Percent	Sublease SF	Percent	Total SF	Percent	Q2 2019	YTD 2019	Vacant SF	Total SF	Percent	Construction	FS Rents
1. Downtown Phoenix	6,829,320	1,178,174	17.3%	104,615	1.5%	1,282,789	18.8%	(19,109)	(137,035)	104,615	197,298	2.9%	280,399	$30.60
2. Midtown Phoenix	9,329,591	2,320,214	24.9%	34,242	0.4%	2,354,456	25.2%	(4,940)	118,033	34,242	151,645	1.6%	-	$23.76
3. Midtown/Central Phoenix	1,928,127	233,058	12.1%	0	0.0%	233,058	12.1%	(19,953)	10,145	-	-	0.0%	-	$18.36
4. 44th St. Corridor	2,672,742	362,608	13.6%	9,435	0.4%	372,043	13.9%	(31,139)	5,302	9,435	26,480	1.0%	-	$26.40
5. Camelback Corridor	7,474,140	1,309,575	17.5%	80,216	1.1%	1,389,791	18.6%	(80,505)	30,457	80,216	117,275	1.6%	-	$33.24
6. Piestewa Corridor	2,345,091	389,561	16.6%	6,021	0.3%	395,582	16.9%	17,155	41,368	6,021	6,021	0.3%	-	$23.40
7. Northwest Phoenix	6,179,724	1,526,384	24.7%	31,118	0.5%	1,557,502	25.2%	53,559	(33,339)	31,118	31,118	0.5%	-	$18.60
8. Southwest Phoenix	1,305,322	225,682	17.3%	-	0.0%	225,682	17.3%	1,500	1,500	-	-	0.0%	-	$24.96
9. Sky Harbor Airport	7,050,226	1,384,843	19.6%	152,123	2.2%	1,536,966	21.8%	(35,599)	166,425	152,123	218,645	3.1%	-	$18.84
10. S. Tempe/Ahwatukee	5,259,574	727,672	13.8%	40,745	0.8%	768,417	14.6%	(55,267)	305,568	40,745	44,748	0.9%	-	$18.60
11. Tempe	8,821,921	641,661	7.3%	11,663	0.1%	653,324	7.4%	78,887	390,648	11,663	63,273	0.7%	1,135,128	$25.80
12. Scottsdale South	5,054,542	588,853	11.6%	41,736	0.8%	630,589	12.5%	166,945	165,469	41,736	67,119	3.0%	216,318	$31.08
13. Central Scottsdale	5,253,219	604,469	11.5%	59,397	1.1%	663,866	12.6%	48,052	52,957	59,397	70,298	1.3%	-	$27.96
14. Paradise Valley	2,063,389	273,700	13.3%	13,649	0.7%	287,349	13.9%	25,915	74,561	13,649	13,649	0.7%	-	$25.68
15. Deer Valley Airport	5,568,926	1,074,637	19.3%	3,443	0.1%	1,078,080	19.4%	10,665	(8,986)	3,443	3,443	0.1%	-	$20.04
16. Arrowhead	1,043,249	96,008	9.2%	3,677	0.4%	99,685	9.6%	15,857	11,919	3,677	3,677	0.4%	-	$24.00
17. Glendale	1,549,577	213,715	13.8%	-	0.0%	213,715	13.8%	27,402	20,132	-	-	0.0%	-	$22.20
18. Chandler	6,768,132	1,478,921	21.9%	68,667	1.0%	1,547,588	22.9%	(76,684)	138,216	68,667	9,821	1.0%	369,508	$22.68
19. Gateway/Loop 202	301,673	17,544	5.8%	-	0.0%	17,544	5.8%	11,878	11,462	-	-	0.0%	-	$22.44
20. Superstition Corridor	2,484,789	199,900	8.0%	6,506	0.3%	206,406	8.3%	89,819	107,275	6,506	30,275	1.2%	-	$20.04
21. Mesa Downtown	623,071	33,125	5.3%	-	0.0%	33,125	5.3%	(4,864)	(1,471)	-	8,832	1.4%	-	$13.80
22. Mesa East	495,841	37,018	7.5%	-	0.0%	37,018	7.5%	12,421	3,930	-	-	0.0%	-	$16.92
23. Scottsdale Airpark	8,983,923	1,136,697	12.7%	105,576	1.2%	1,242,273	13.9%	10,514	(19,793)	105,576	253,406	2.8%	63,963	$29.04
24. N. Scottsdale/Carefree	583,451	135,972	23.3%	-	0.0%	135,972	23.3%	(6,601)	14,160	-	-	0.0%	-	$23.64
25. N. Phoenix/Cave Creek	13,607	-	0.0%	-	0.0%	-	0.0%	-	-	-	-	0.0%	-	$12.00
26. North I-17	300,019	75,916	25.3%	-	0.0%	75,916	25.3%	4,265	9,916	-	-	0.0%	-	$24.72
27. Loop 303/Surprise	376,579	31,013	8.2%	-	0.0%	31,013	8.2%	4,987	798	-	-	0.0%	-	$23.04
28. West I-10	1,030,178	197,418	19.2%	-	0.4%	197,418	19.2%	449	44,402	-	-	0.0%	-	$22.80
Phoenix Metro Total	**101,676,035**	**16,494,338**	**16.2%**	**772,829**	**0.8%**	**17,267,167**	**16.9%**	**245,609**	**1,506,671**	**772,829**	**1,319,583**	**1.3%**	**2,065,316**	**$24.74**

* 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



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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.

Market report analysis by:
Lee & Associates Arizona

Q2
2019

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.

LEE & ASSOCIATES
COMMERCIAL REAL ESTATE SERVICES

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

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