



TRANSWESTERN

REAL ESTATE
SERVICES

PHOENIX OFFICE MARKET

Q3 2022



TRENDLINES

	Q3 2022	Q3 2021	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	3.4	5.7	↓	4.9	↔
NET ABSORPTION (Thousands SF)	(1,032.3)	(802.1)	↓	262.9	↓
OVERALL VACANCY RATE	17.3%	15.6%	↑	14.3%	↑
OVERALL VACANT SF (MSF)	20.5	20.4	↔	18.7	↔
UNDER CONSTRUCTION (MSF)	1.1	2.0	↓	2.5	↔
ASKING RENT, FULL SERVICE (PSF)	\$29.29	\$28.28	↑	\$26.82	↑
SALES VOLUME (Millions)	\$676.2	\$388	↑	\$545.1	↓

Source: Bureau of Labor Statistics, CoStar, Real Capital Analytics, Transwestern

OFFICE OVERVIEW

NET ABSORPTION TANKS TO A NEW ALL TIME LOW

Companies trying to hedge bets on what may be coming, resulted in office tenants playing it very safe in Q3, opting for smaller footprints putting added pressure on already high vacancy rates. Phoenix ended the quarter with over 1M SF of negative net absorption, a new record. If companies are changing spaces, it's generally to downsize the square footage and increase the aesthetics in-office to lure employees to return. Bottom line is that smaller spaces and shorter lease terms still rule in the market. Door Dash and PennyMac are offering significant portions of their space for sublease and 267,962 SF of space subleased earlier this year by Carvana was returned to the market in Q3.

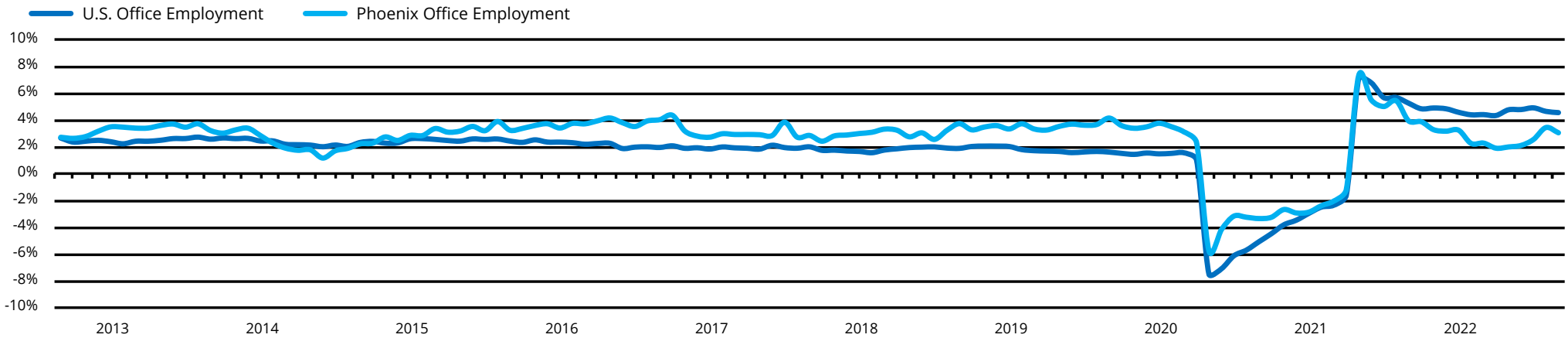


ECONOMY

Economy is Softening as Anticipated

Strong employment and a growing semiconductor industry are bright spots in the Phoenix economy. Housing prices are dropping rapidly and rents for multifamily have plateaued, a sign that the increasing price of debt is indeed cooling the economy down. Gas prices remain high and moving into the holiday season it is unlikely Phoenicians will get much relief at the pump through the remainder of the year. People are sitting on money, anticipating a coming rough patch. The question everyone is asking is, how far is too far for the Fed?

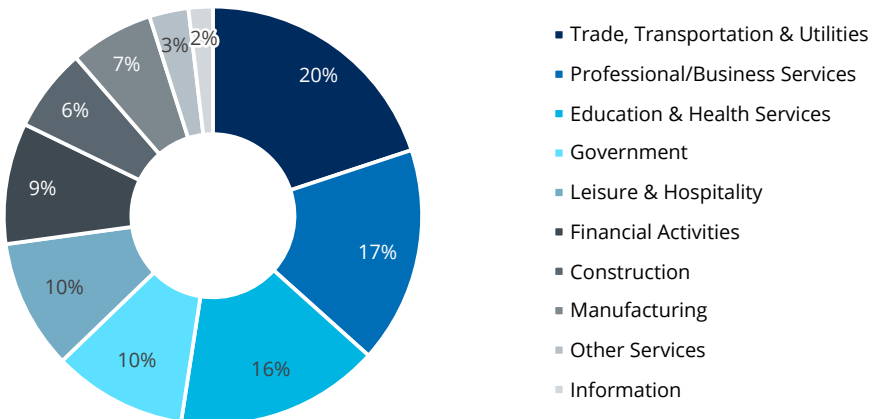
YOY CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

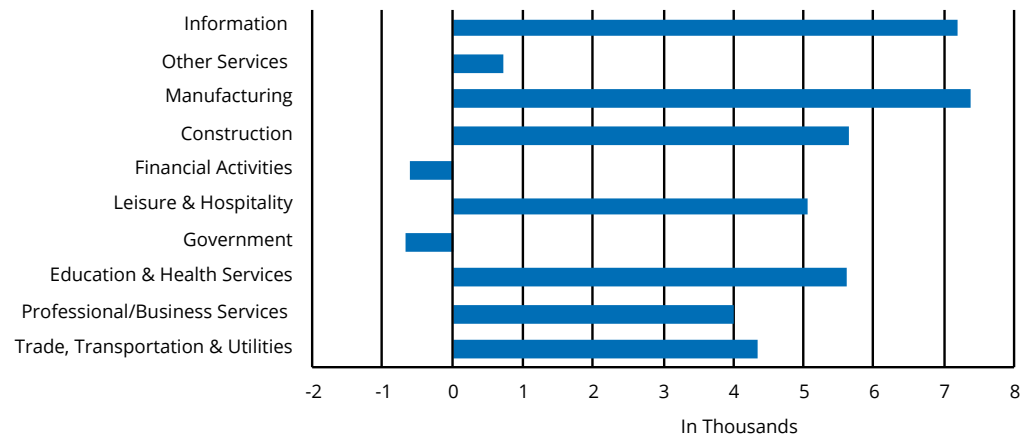
Phoenix | August 2022



Source: Bureau of Labor Statistics, Transwestern

YOY CHANGE IN JOBS BY INDUSTRY

Phoenix | August 2022



Source: Bureau of Labor Statistics, Transwestern

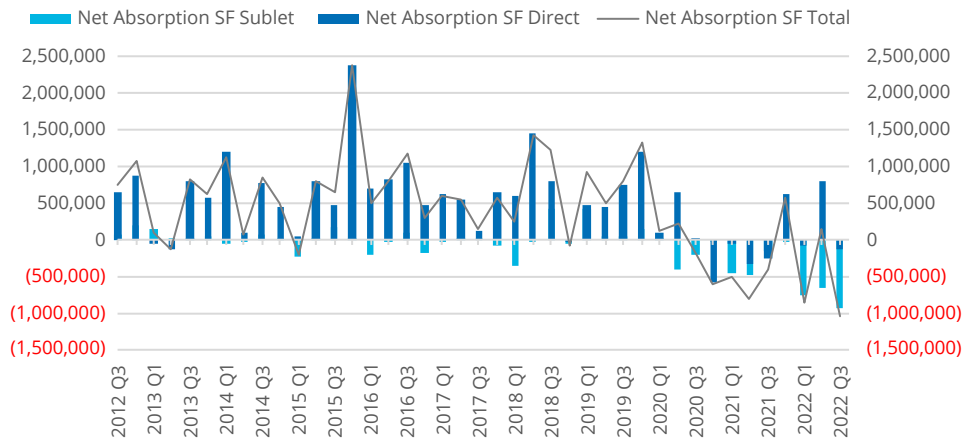


NET ABSORPTION

Sublease Space Remains High

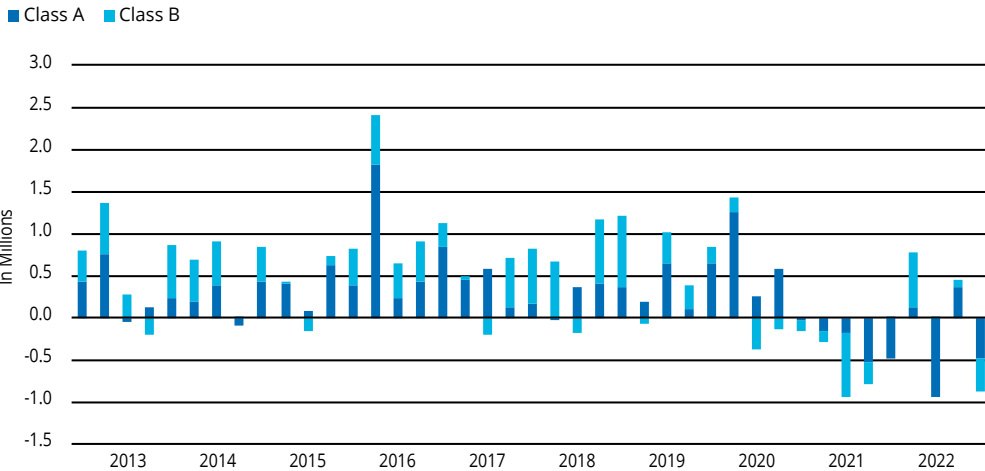
Net absorption slid past -1M SF, a first in Phoenix since record keeping began. Most of what is hitting the market is sublease space, which is likely to remain the case as work from home continues to weaken the office market. This will continue to be a story of perseverance for the office market. We expect to see robust innovation in luring employees back to the office as well as how we visualize and adapt empty office space into a viable product for this period.

DIRECT VS. SUBLEASE ABSORPTION



Source: CoStar, Transwestern

NET ABSORPTION BY CLASS



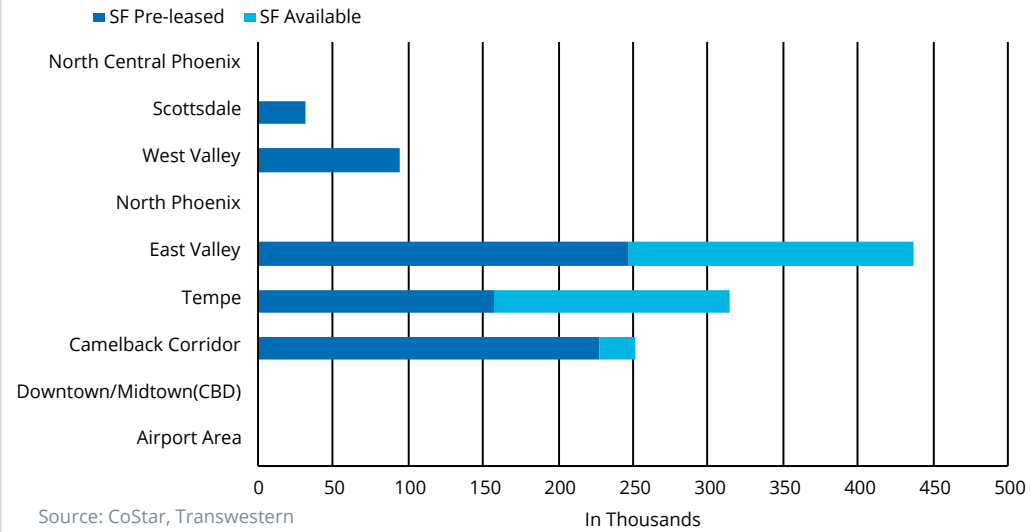
Source: CoStar, Transwestern

UNDER CONSTRUCTION

New Construction Stagnates

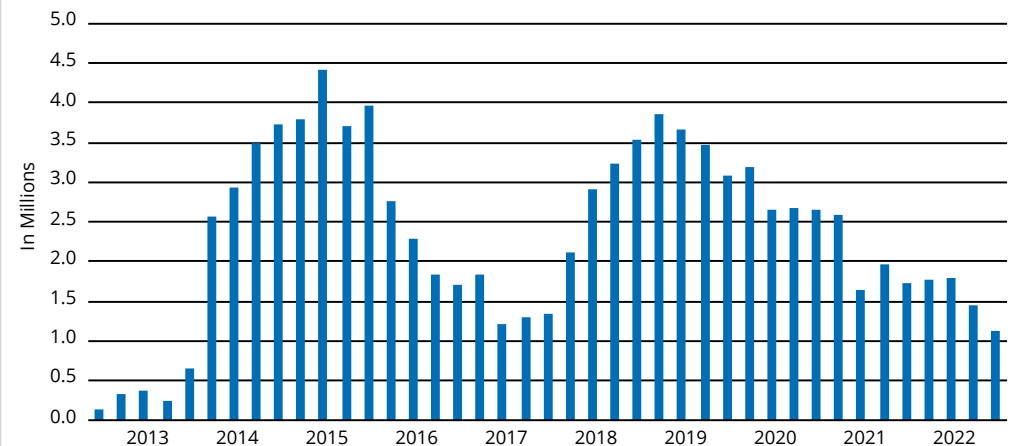
As expected with an economic slowdown, construction of new office product has stalled across the valley. The few projects that had begun going into this year will continue, but expect to see a slowing or pause on most new starts.

UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

UNDER CONSTRUCTION



Source: CoStar, Transwestern

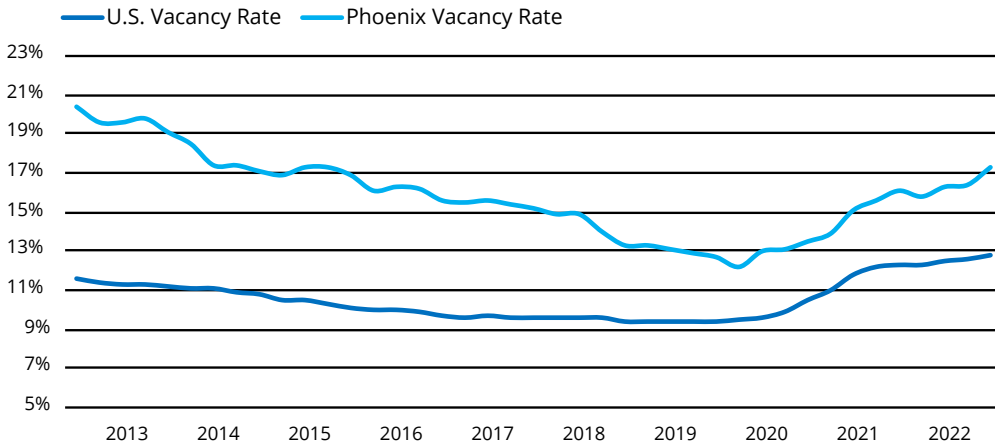


VACANCY

Vacancy Rate Jumps in Q3

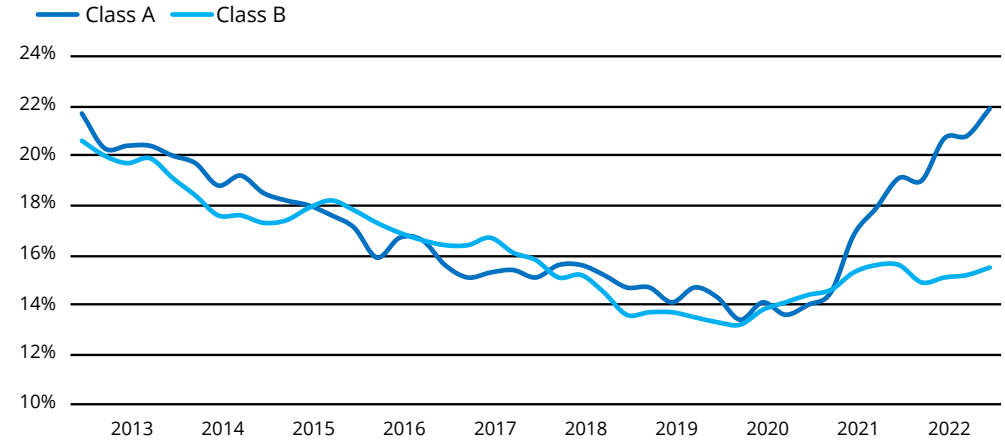
After remaining relatively stable through the previous year, the vacancy rate jumped a percent in Q3. Sublease space continues to flow onto the market at a record pace which is the main driver of rising vacancy and falling net absorption. Rising interest rates will likely intensify this trend in coming quarters until stability returns to the economy. Currently, companies and consumers alike are stashing money where they can in the event of a major downturn.

OVERALL VACANCY RATE



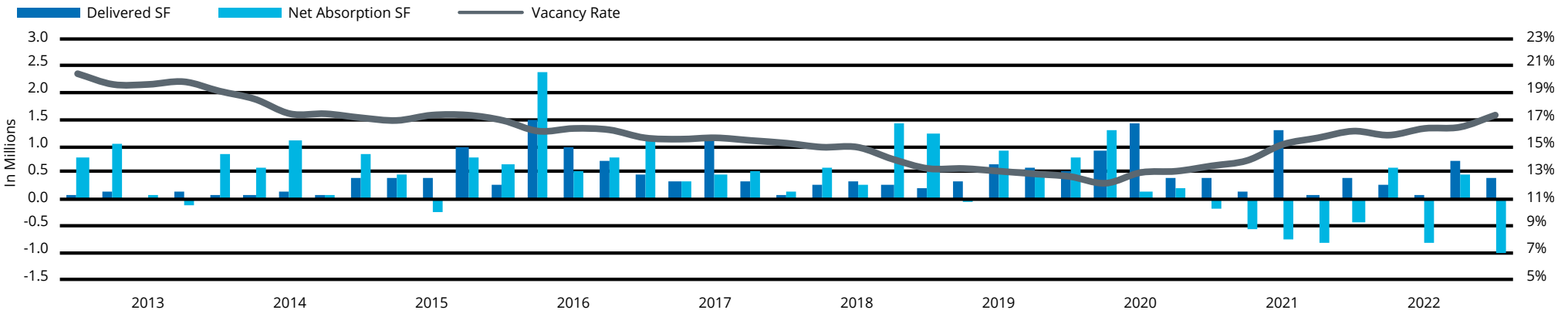
Source: CoStar, Transwestern

OVERALL VACANCY RATE BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

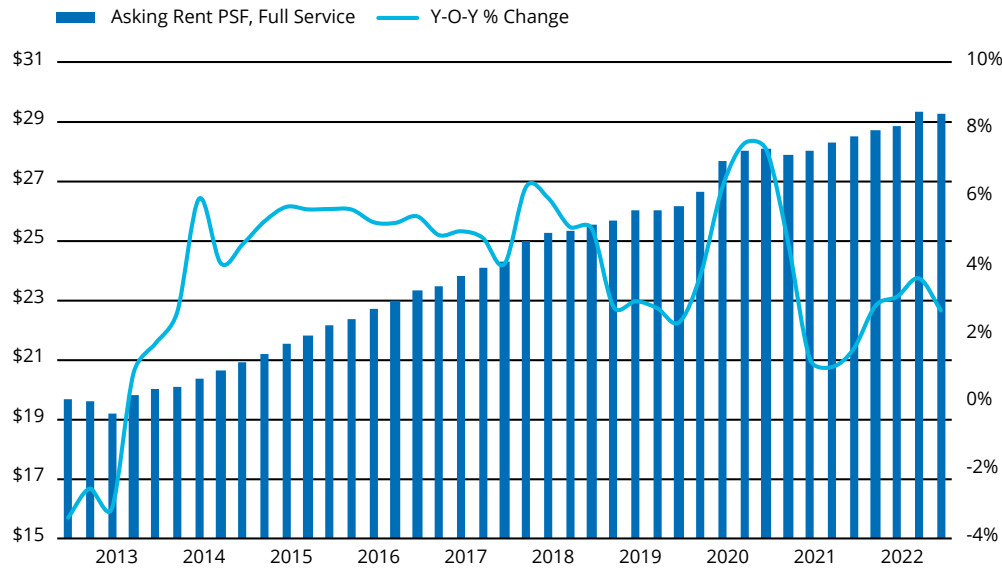


RENTAL RATES

Rate Growth Still Occurring, but Slowing

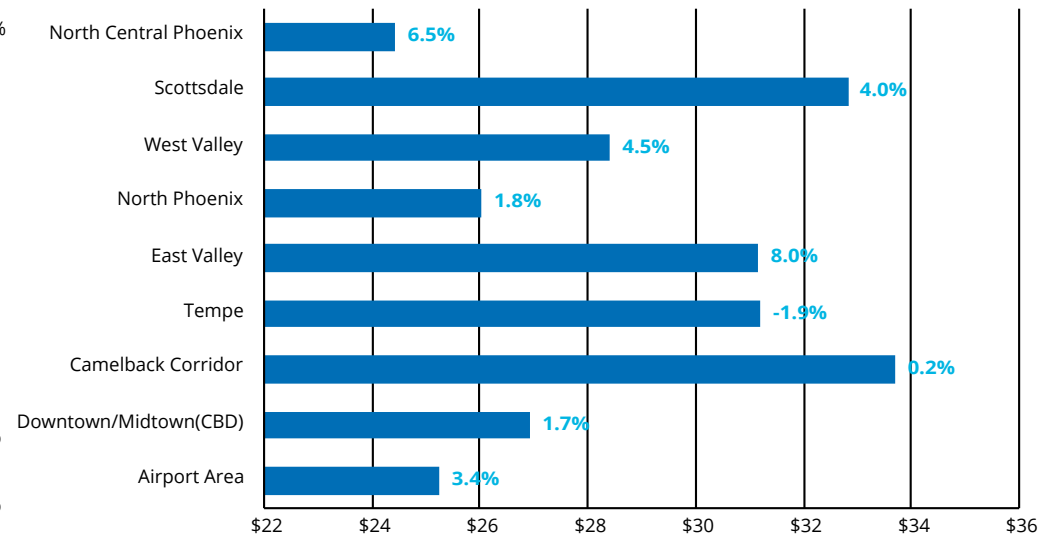
Nearly all submarkets saw positive rental rate growth but the rate at which rents are increasing is slowing across most of the valley. Rates are dropping quickest in Tempe which is likely more of a correction from incredible rental growth posted across Tempe office assets in 2020.

ASKING RENT



Source: CoStar, Transwestern

ASKING RENTS BY SUBMARKET AND Y-O-Y GROWTH



Source: CoStar, Transwestern

NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
CIRRUS LOGIC	2625 W. Geronimo Pl	East Valley	New	64,877
NORTHROP GRUMMAN	1700 S. Price Rd	East Valley	Sublease	50,453
SUPER STAR CAR WASH	960 E. Behrend Dr	North Phoenix	New	23,960
TRANSDEV	3540 E. Baseline Rd	East Valley	New	15,773
FEED CORPORATION	40 N. Central Ave	Downtown	New	13,951
PACIFIC WORKPLACES	3838 N. Central	Downtown	New	13,148

T = Transwestern deal

Source: CoStar, Transwestern

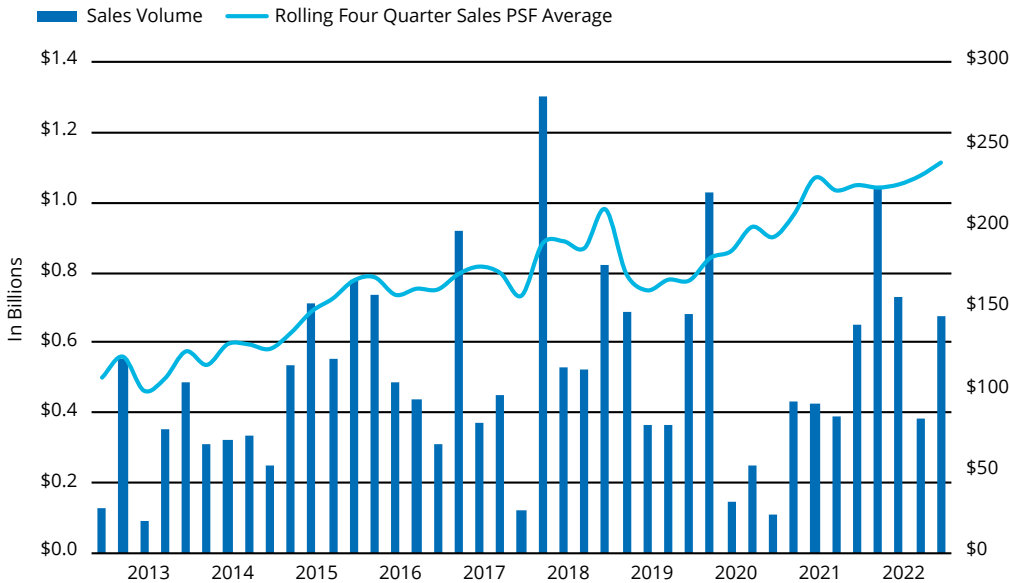


SALES

Office Investment Remains Strong

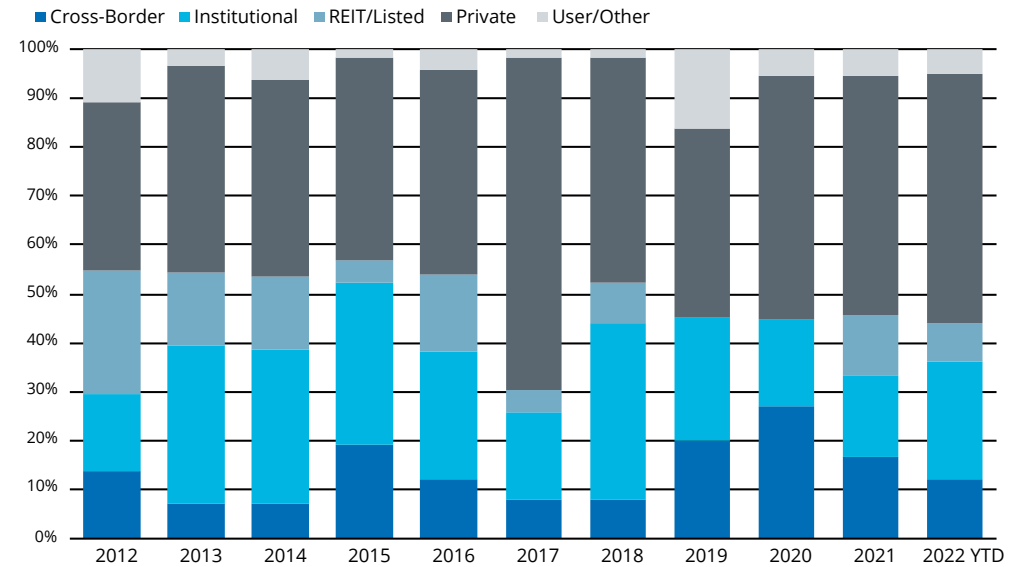
Despite increasing interest rates, office deals remained strong in Q3. Private investors are the biggest buyers of Phoenix office product, which follows the general trend nationwide. Much of the investment action is focused in Camelback Corridor, Tempe, Downtown and Chandler, while the West Valley is seeing mostly medical office investment.

SALES VOLUME



Source: CoStar, Real Capital Analytics, Transwestern

BUYER CAPITAL COMPOSITION



Source: CoStar, Real Capital Analytics, Transwestern

NOTABLE SALES

TENANT	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
2801 E. CAMELBACK	Camelback Corridor	66,350,00	115,838	\$573	Humphreys Capital	LaPour Partners
7010 E. COCHISE DR	Scottsdale	\$5,250,000	12,267	\$428	Attis Investments	Ingrassia Fisher & Lorenz, P.C.
1901 N. SCOTTSDALE	Scottsdale	\$9,000,000	21,340	\$422	White Mountain Estse LLC	Walter L. Brown
365 E. GERMANN RD	East Valley	\$29,430,000	78,729	\$374	West Valley Properties	Orsett Properties
355 E. GERMANN RD	East Valley	\$23,668,496	69,640	\$340	West Valley Properties	Orsett Properties

= Transwestern deal

Source: CoStar, Transwestern



MARKET INDICATORS

All Classes of Space | Q3 2022

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	Y-O-Y NET ABSORPTION SF	ASKING RENT PSF
AIRPORT AREA/SE PHOENIX	13,033,672	1,943,873	14.9%	22.2%	0	(613,271)	(910,966)	\$25.26
DOWNTOWN/MIDTOWN (CBD)	24,847,968	4,452,404	17.9%	18.7%	0	19,850	294,990	\$26.94
CAMELBACK CORRIDOR	12,139,452	1,962,938	16.1%	17.0%	251,494	15,888	273,575	\$33.71
TEMPE	18,557,950	2,241,353	12.1%	16.1%	315,000	(384,046)	(493,402)	\$32.07
EAST VALLEY	17,734,064	1,870,155	10.5%	15.9%	437,032	(56,072)	(202,138)	\$31.17
NORTH PHOENIX	10,623,297	1,701,492	16.0%	23.3%	0	(2,103)	(484,366)	\$26.04
WEST VALLEY	9,692,749	804,567	8.3%	8.7%	94,000	99,212	234,172	\$28.42
SCOTTSDALE	25,154,657	3,776,318	15.0%	16.3%	32,054	(37,373)	473,862	\$32.82
NORTH CENTRAL PHOENIX	13,518,275	2,083,013	15.4%	17.9%	0	(65,054)	(349,757)	\$24.44
TOTAL	145,302,084	20,836,113	14.0%	17.3%	1,129,580	(1,022,969)	(1,164,030)	\$28.99

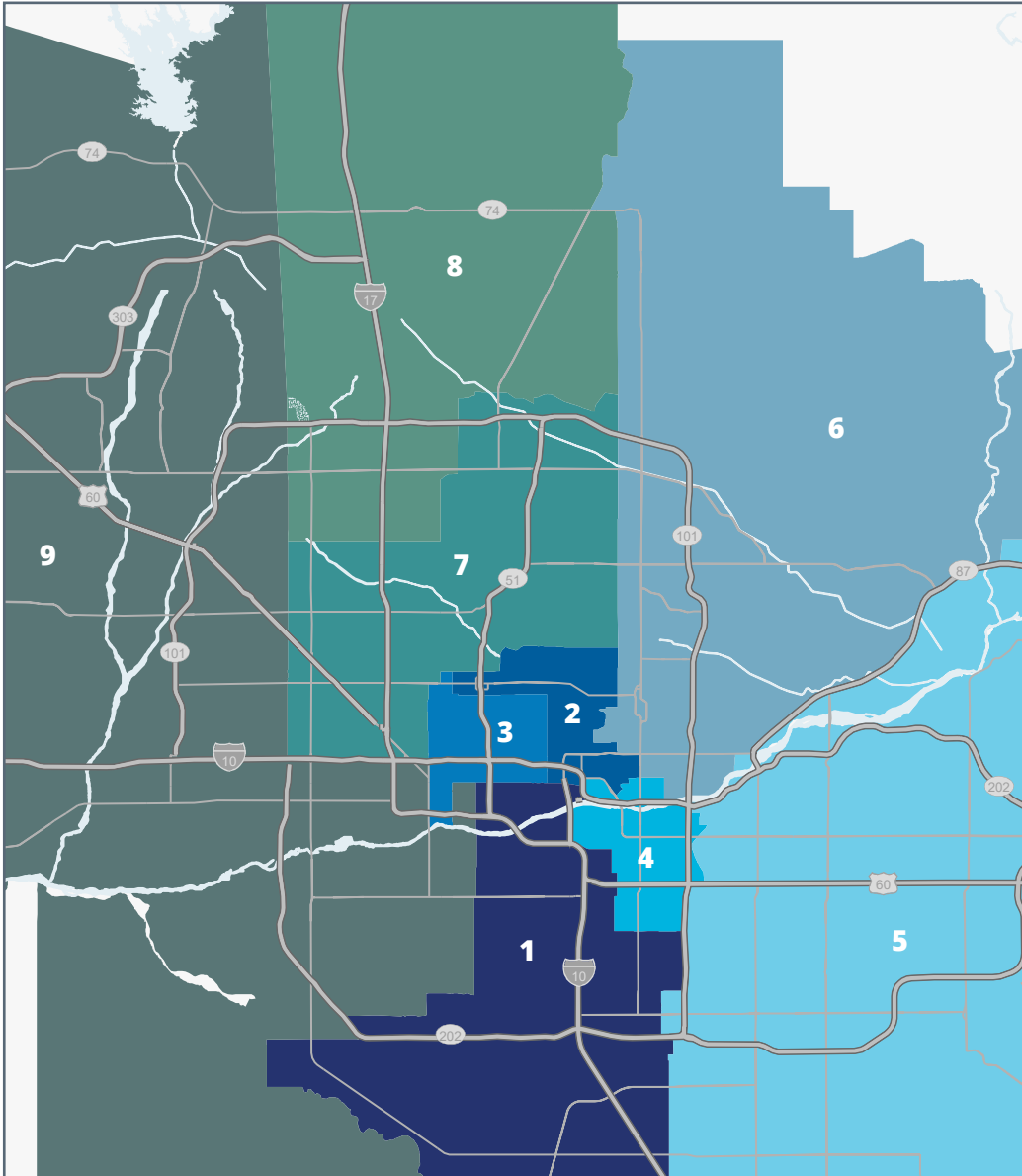
Source: CoStar, Transwestern

MARKET INDICATORS

Class A | Q3 2022

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	UNDER CONSTRUCTION SF	NET ABSORPTION SF	Y-O-Y NET ABSORPTION SF	ASKING RENT PSF
AIRPORT AREA	2,106,400	533,382	25.3%	47.3%	0	(454,031)	83,505	\$30.57
DOWNTOWN/MIDTOWN (CBD)	10,650,643	2,680,396	25.2%	25.9%	0	7,601	(520,920)	\$29.01
CAMELBACK CORRIDOR	6,852,146	1,201,924	17.5%	19.1%	251,494	44,753	253,277	\$36.87
TEMPE	9,495,068	959,618	10.1%	16.1%	315,000	(294,158)	(488,478)	\$38.88
EAST VALLEY	6,227,169	946,302	15.2%	26.4%	0	12,262	115,589	\$34.64
NORTH PHOENIX	4,534,109	460,027	10.1%	21.7%	0	79,184	(308,213)	\$27.24
WEST VALLEY	1,919,267	315,384	16.4%	16.5%	273,628	123,447	(2,847)	\$29.93
SCOTTSDALE	12,294,643	2,286,405	18.5%	19.7%	0	(17,851)	(43,308)	\$34.77
NORTH CENTRAL PHOENIX	3,048,826	797,447	26.2%	29.8%	0	(80,872)	(333,472)	\$27.94
TOTAL	57,128,271	10,180,885	18.3%	24.7%	840,122	(579,665)	(1,244,867)	\$32.21

Source: CoStar, Transwestern



PHOENIX OFFICE SUBMARKETS

- 1** Airport
- 2** Camelback Corridor
- 3** Central Phoenix/CBD
- 4** Tempe
- 5** East Valley
- 6** Scottsdale
- 7** North Central Phoenix
- 8** North Phoenix
- 9** West Valley

RESEARCH METHODOLOGY

The information in this report is the result of a compilation of information on office properties located in the Phoenix Metropolitan area. This report includes single tenant, multi-tenant and owner-user properties 10,000 SF and larger, excluding condo and medical office facilities and those properties owned and occupied by a government agency.

FOR MORE INFORMATION

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