

PHOENIX OFFICE MARKET

Q4 2022



TRENDLINES

	Q4 2022	Q4 2021	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	3.3	3.3	↔	4.8	↔
NET ABSORPTION (Thousands SF)	-352.6	581.6	↓	160.0	↓
OVERALL VACANCY RATE	17.5%	15.7%	↑	14.5%	↔
OVERALL VACANT SF (MSF)	25.2	22.4	↑	20.2	↔
UNDER CONSTRUCTION (MSF)	1.2	1.4	↓	2.4	↓
ASKING RENT, FULL SERVICE (PSF)	\$28.91	\$28.04	↑	\$27.07	↔
SALES VOLUME (Millions)	\$347.8	\$1,047	↓	\$569.8	↓

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

OFFICE OVERVIEW

ROUGH WATERS AHEAD, BUT SOME REASON FOR HOPE

The bad news: vacancy and sublease space continue to tick up and a recession seems increasingly likely. The good news: a recession might just be a silver lining for the office market. A down economy may swing the remote work “power pendulum” back toward employers. A bit of financial insecurity can provide encouragement for employees to return to the office. This scenario could spell a return to office and the beginning of a slow uptake in office space. It’s not likely to provide any immediate gratification though, as some companies will wait and see how deep a recession might go before pulling the trigger on expanding their office footprint.

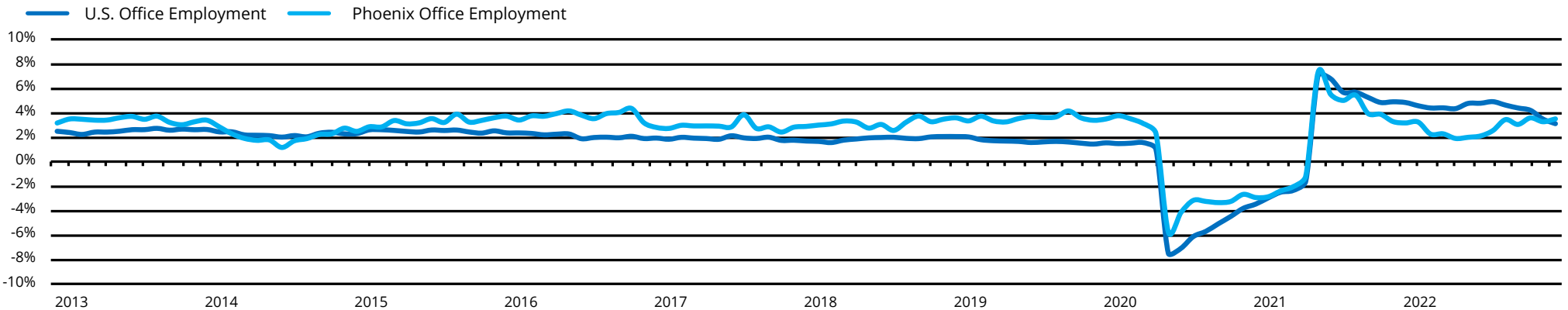


ECONOMY

Recession Looking Likely

The yield curve, our greatest predictor of a coming recession, is currently showing the deepest inversion in 40 years. With a recession looking more and more likely, how poised is Phoenix to weather the storm? Positive economic and job growth along with continued in-migration are all positives that may help insulate the Valley from feeling the deepest impact of a recession. In-migration slowed compared to the previous 3 years but remained above national averages, Arizona is still among the top 10 states welcoming new residents. Remote vs. in-office work is still a touchy subject in many organizations and continues to impact many levels of business, though this seems to be building toward resolution, whether forced by employee will or employer will. 2023 will likely see many companies adopting formal policies on in-office, hybrid, or remote work to increase operating efficiencies while weathering an economic downturn.

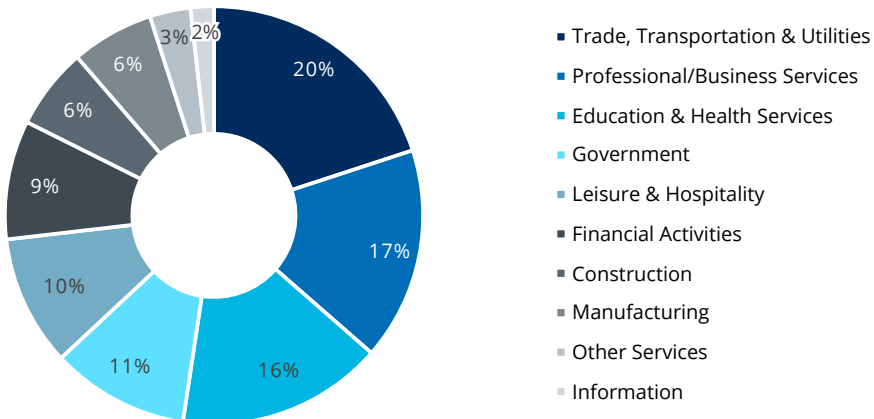
YOY CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

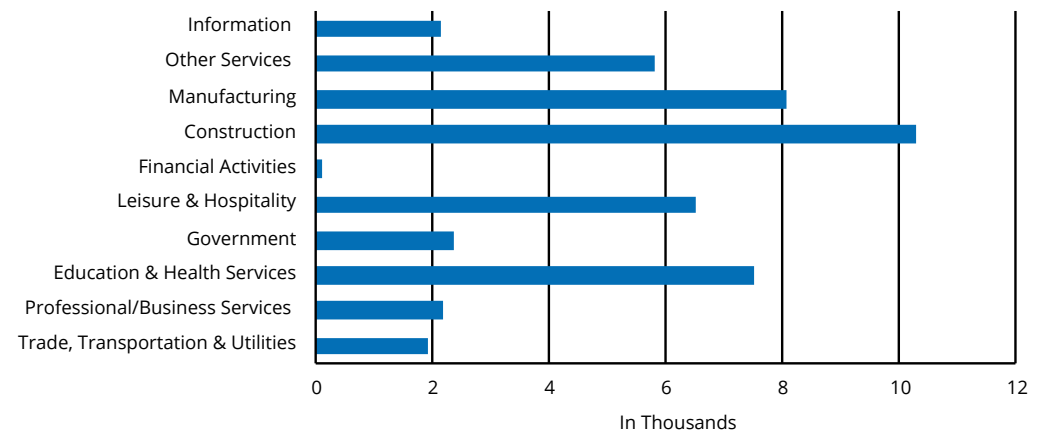
Phoenix | November 2022



Source: Bureau of Labor Statistics, Transwestern

YOY CHANGE IN JOBS BY INDUSTRY

Phoenix | November 2022



Source: Bureau of Labor Statistics, Transwestern

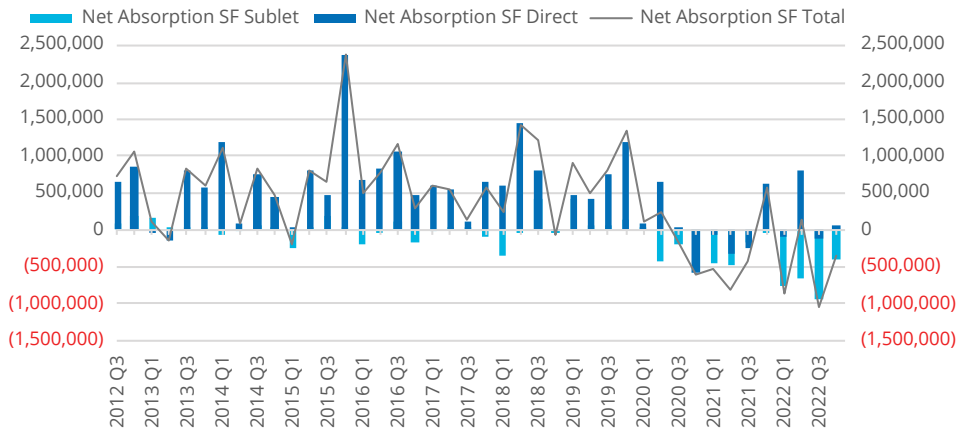


NET ABSORPTION

Companies Continue to Downsize, but Not Like They Did in Q3

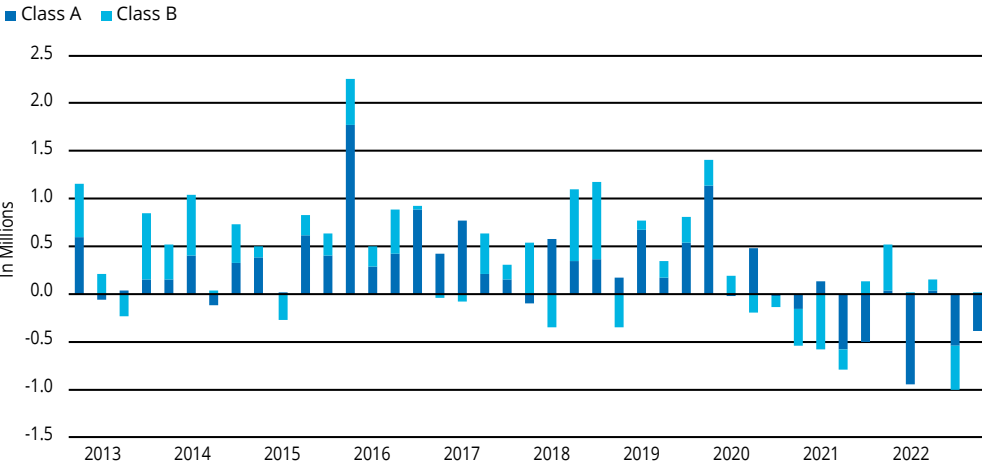
Net absorption remained in the red in Q4, but the numbers were nowhere near as bleak as Q3. Tempe was hardest hit both on a Y-O-Y basis (-1.2M SF) and a Q-O-Q basis (-660K SF). For as long as it makes better financial sense for companies to downsize their space, pause or prepare, companies will do so, especially in the face of a looming recession. This, however, does not mean the end of office, just the start of choppy waters.

DIRECT VS. SUBLEASE ABSORPTION



Source: CoStar, Transwestern

NET ABSORPTION BY CLASS



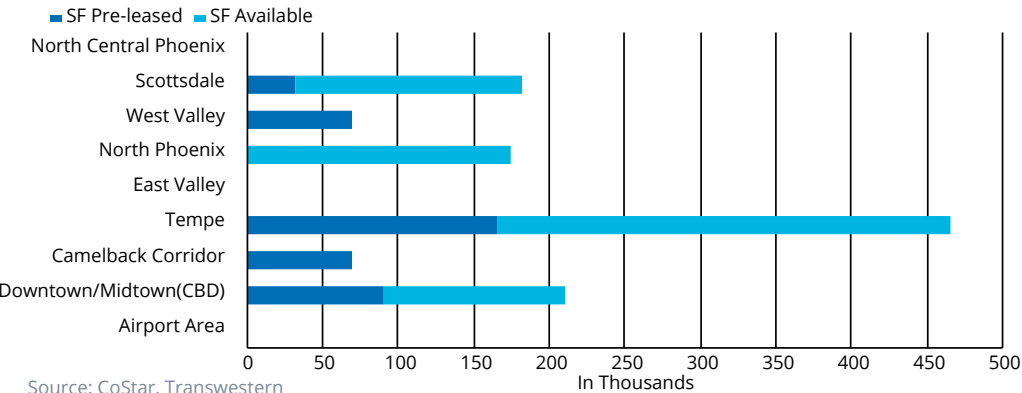
Source: CoStar, Transwestern

UNDER CONSTRUCTION

North Phoenix is the Area to Watch

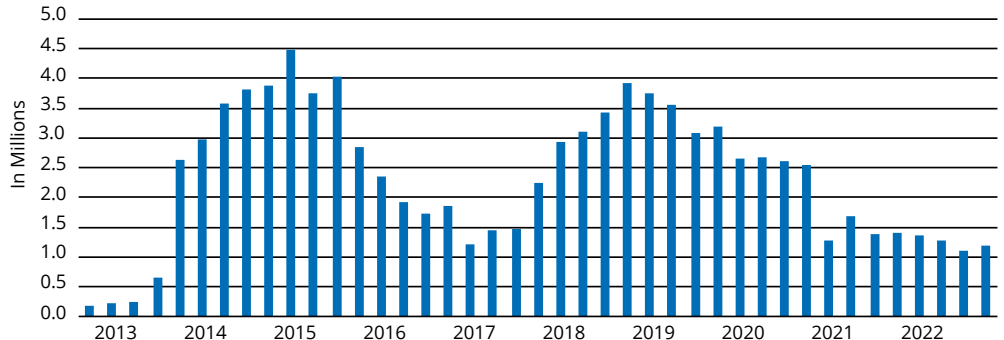
As the office market struggles to find its footing, so does the office development market. Few projects have moved into the construction phase, and most are on hold while the commercial real estate market finds something resembling stability. The obvious flight to quality we have seen the past several quarters still exists in pockets, but with most new "trophy" space now fully leased and a potential recession around the corner, headwinds are noticeable. The one area to watch is North Phoenix, both for conversions to industrial and possible new development. The submarket currently has the highest vacancy, but also incredible investment by TSMC and its suppliers. As the companies launch operationally, the need for back-office support will grow in tandem.

UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

UNDER CONSTRUCTION



Source: CoStar, Transwestern

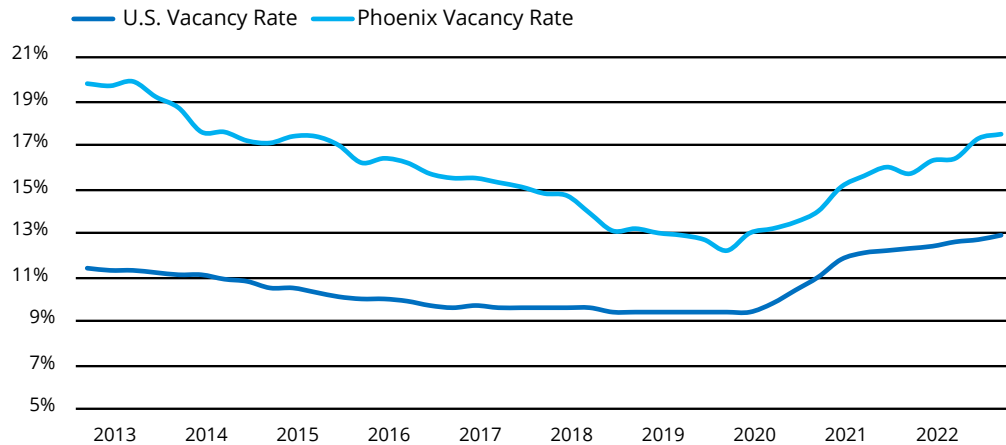


VACANCY

Phoenix Named #1 for Largest Increase in Sublease Space

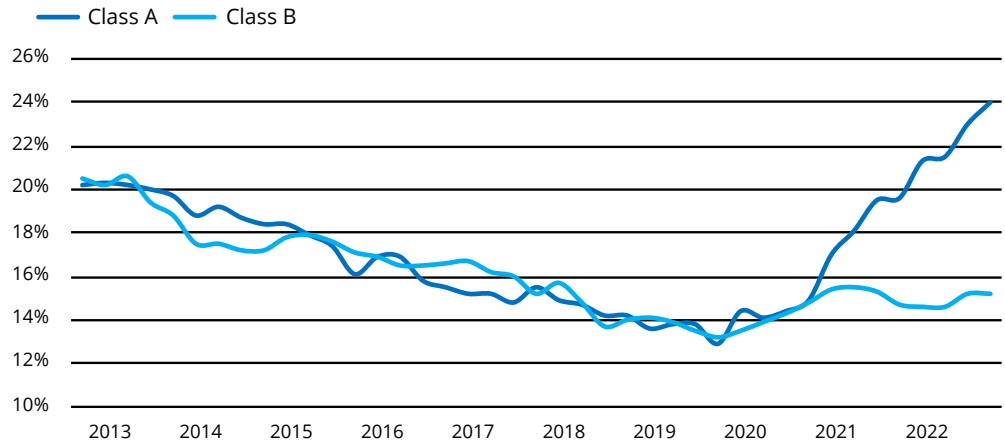
In November, CoStar released the Top 30 Markets with the "Biggest Gains in Sublease Space," which Phoenix unfortunately topped. According to the report, sublease space in Phoenix surpassed 7M SF, including both occupied and unoccupied space, representing 3.7% of the total office market. Across submarkets, office vacancy ranged from about 7.6% in the West Valley to around 22.4% in North Phoenix, where there are multiple vacant buildings along the I-17/Loop 101 corridor.

OVERALL VACANCY RATE



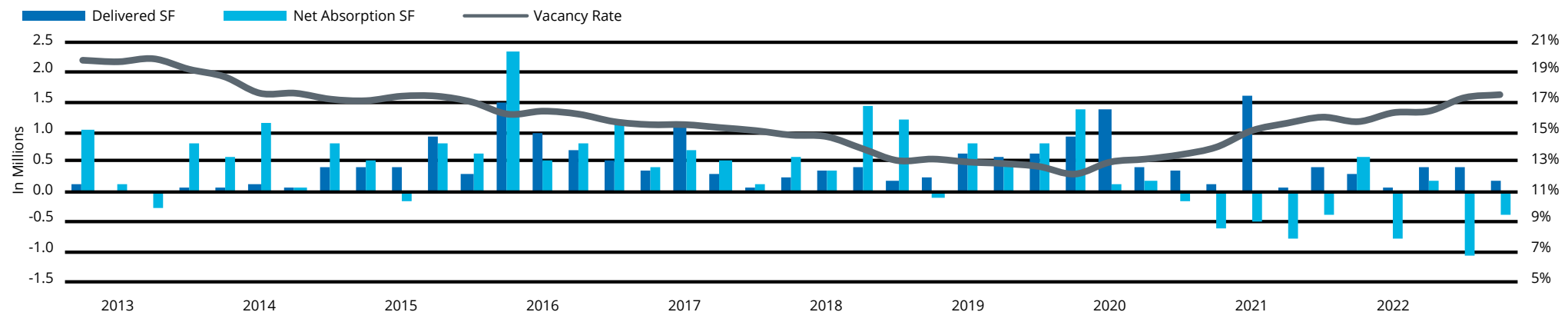
Source: CoStar, Transwestern

OVERALL VACANCY RATE BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

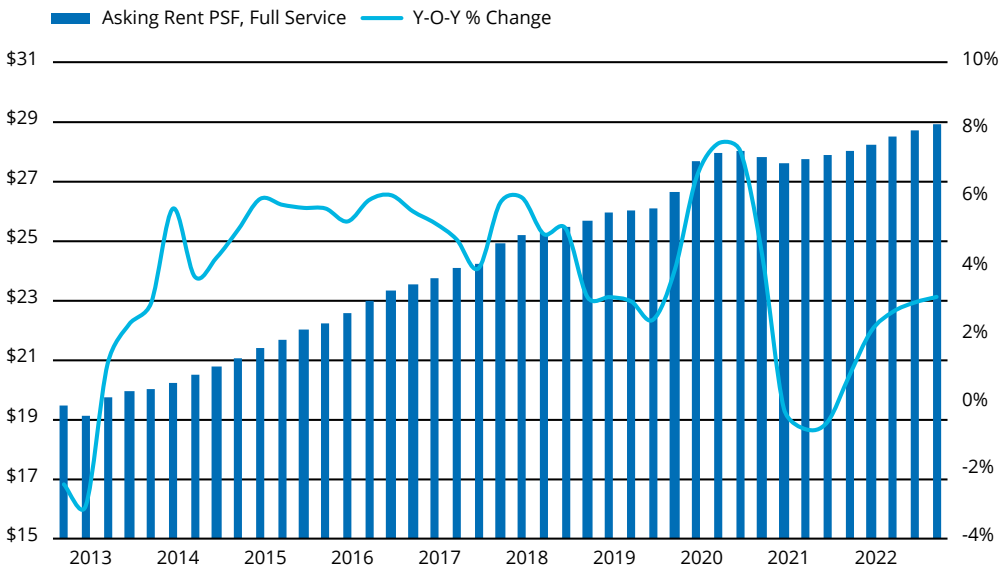


RENTAL RATES

Possible Rocky Times Coming for Rate Growth

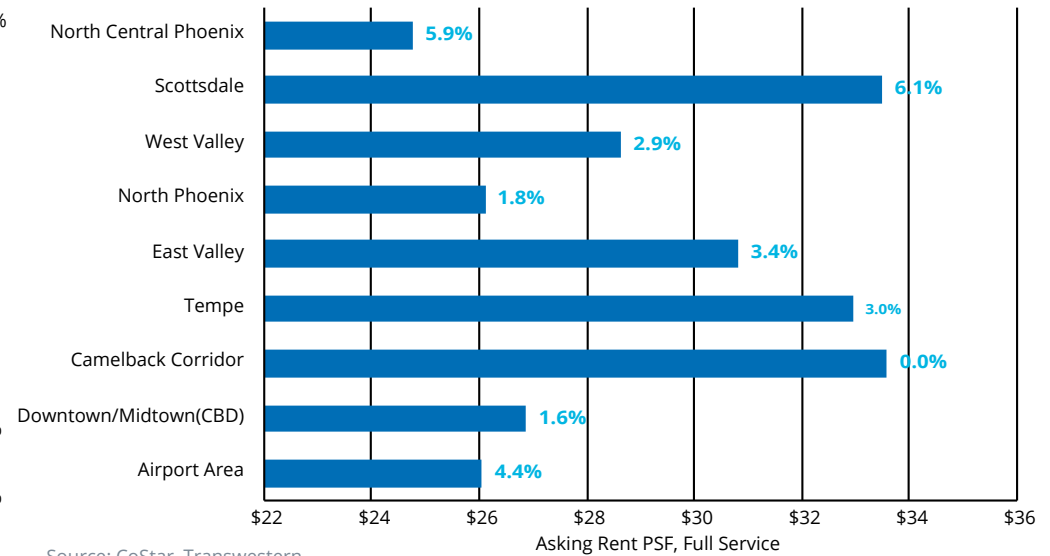
Strong economic and job growth in Q4 provided an environment where rates not only remained strong across all submarkets but rose despite soaring vacancy. Rental growth will be tested in coming quarters as the economic machine slows and gives way to a possible recession and the financial impact of empty space comes into clearer focus.

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
THE RALEY'S COMPANIES	2650 W. Geronimo Pl	East Valley	New	49,732
QUARLES & BRADY	2 N. Central Ave	Downtown	New	19,699
PROVIRO	10429 S. 51st St	Tempe	New	10,460
CLOVERLEAF NETWORKS	9112 E. Verde Grove	Scottsdale	New	8,230
KOLBE CORPORATION	2398 E. Camelback Rd	Camelback Corridor	New	7,025

= Transwestern deal

Source: CoStar, Transwestern

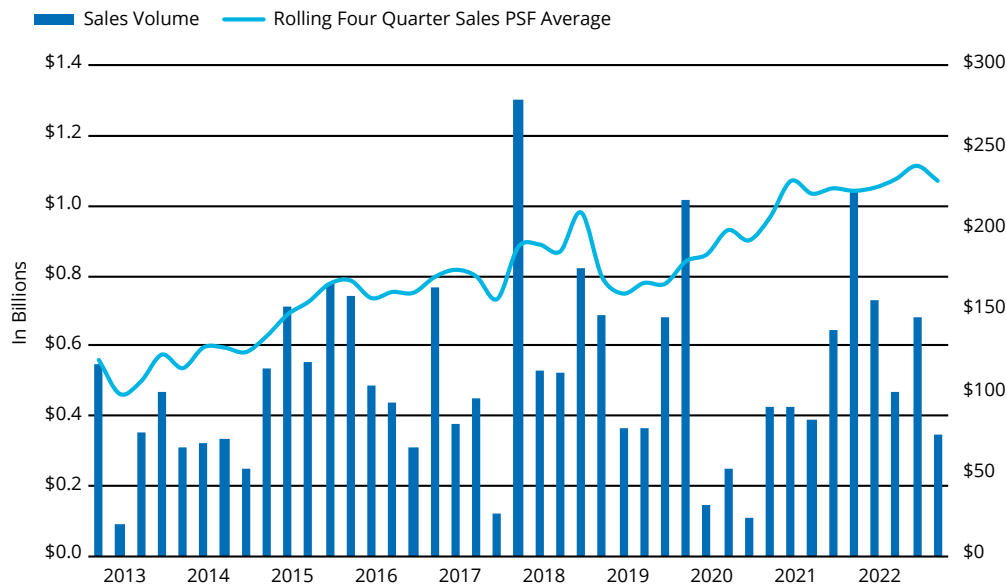


SALES

Office Investment Dropped Significantly on Y-O-Y Basis

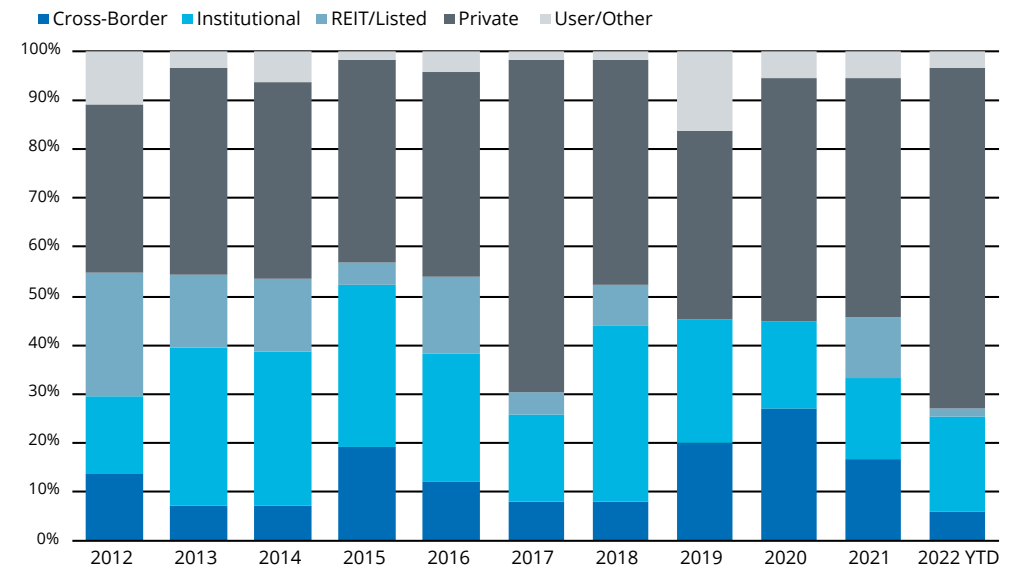
Q4 has notoriously been a strong quarter for office sales across the Phoenix market. In comparison, Q4 2022 was a bit lethargic. While not the slowest quarter for office sales over the past several quarters, it paled in comparison, with a nearly 70% drop over Q4 2021's office sales volume. This is the result of both economic slowing and financial preparations for a recession, as well as the continued volatility of the Fed rate. We see this remaining the case for as long as the Fed continues its unpredictable run-up of interest rates.

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
5225 N. SCOTTSDALE RD	Scottsdale	\$5,900,000	11,928	\$495	BMD Properties, LP	Diversified Partners, LLC
207 E. MCDOWELL RD	Midtown	\$5,050,000	13,150	\$384	Exeter Management, LLC	AKG 207 McDowell LLC
6225 N. 24TH ST	Camelback Corridor	\$14,550,000	41,982	\$347	Crowne Point Equity, LLC	McCarthy/MRL Properties AZ, LLC
8040 E. GELDING DR	Scottsdale	\$3,450,000	10,420	\$331	Sonoran Plastic Holdings	Six Degrees Real Estate Holdings
2501 S. PRICE RD	East Valley	\$109,075,336	463,658	\$235	Aligned Data Centers	Southwest Value Partners Enterprises

= Transwestern deal

Source: CoStar, Transwestern



MARKET INDICATORS

All Classes of Space | Q4 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	11,814,246	1,668,082	14.1%	22.1%	0	(22,756)	(912,081)	\$26.06
DOWNTOWN/MIDTOWN (CBD)	24,716,361	4,705,914	19.0%	19.5%	210,000	(166,254)	52,220	\$26.88
CAMELBACK CORRIDOR	12,323,744	2,074,872	16.8%	17.9%	70,000	31,950	151,076	\$33.59
TEMPE	18,561,006	2,520,525	13.6%	19.7%	465,000	(660,803)	(1,228,312)	\$32.95
EAST VALLEY	17,797,417	1,767,031	9.9%	15.6%	0	12,960	(170,611)	\$30.82
NORTH PHOENIX	10,296,349	1,400,426	13.6%	22.4%	175,000	235,957	(265,195)	\$26.11
WEST VALLEY	9,857,964	710,420	7.2%	7.6%	69,000	88,747	256,785	\$28.64
SCOTTSDALE	25,220,533	3,688,800	14.6%	16.3%	181,854	18,430	(184,660)	\$33.50
NORTH CENTRAL PHOENIX	13,295,823	2,048,017	15.4%	17.1%	0	112,145	(191,770)	\$24.77
TOTAL	143,883,443	20,584,087	13.8%	17.6%	1,170,854	(349,624)	(2,492,548)	\$29.26

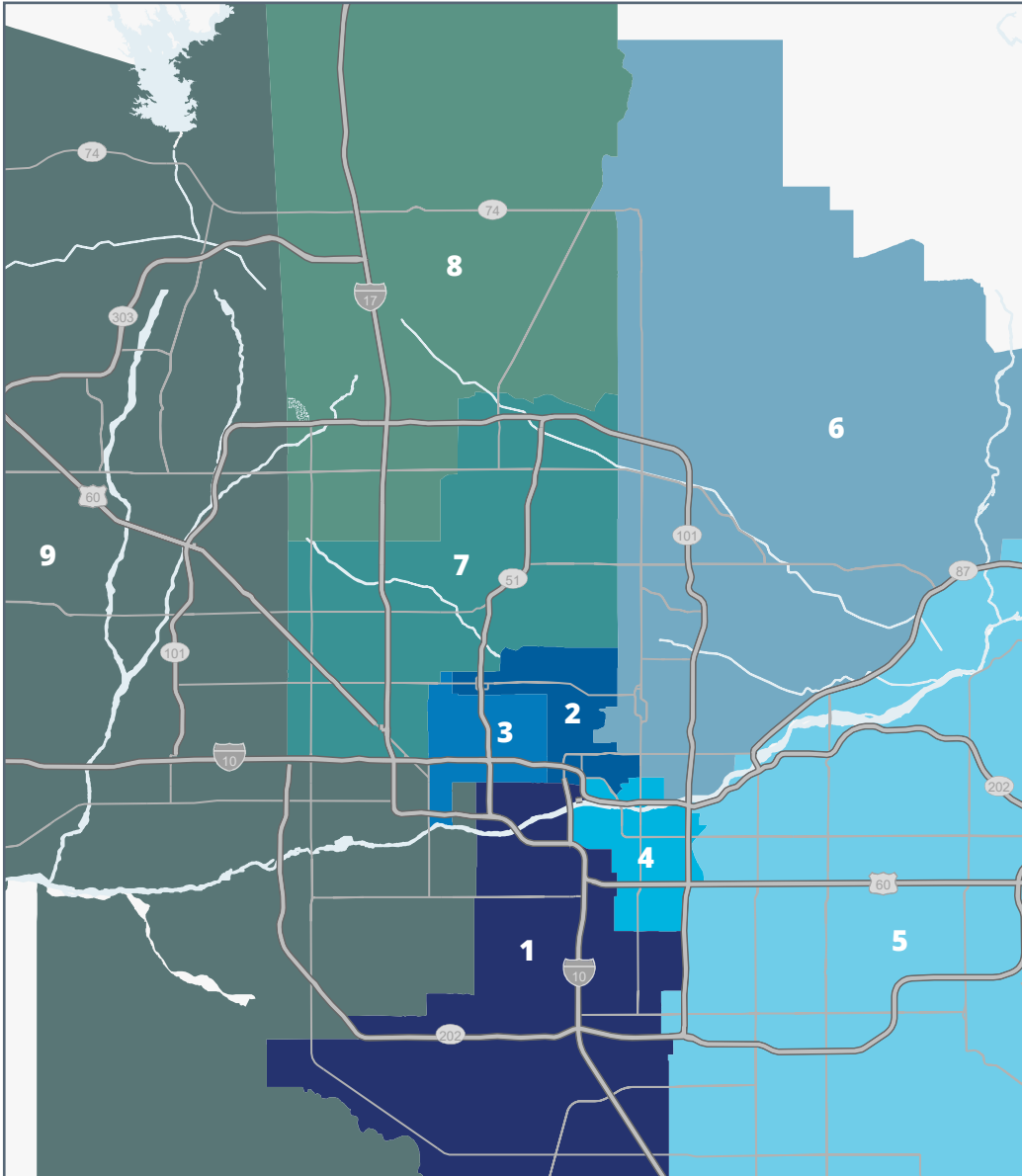
Source: CoStar, Transwestern

MARKET INDICATORS

Class A | Q4 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	2,099,882	544,165	25.9%	54.2%	0	(10,882)	(673,928)	\$30.73
DOWNTOWN/MIDTOWN (CBD)	10,907,317	2,992,282	27.4%	28.2%	0	(158,250)	(159,427)	\$28.97
CAMELBACK CORRIDOR	7,036,802	1,286,021	18.3%	19.6%	7,000	62,026	207,571	\$36.95
TEMPE	9,786,629	1,238,809	12.7%	21.4%	465,000	(365,044)	(880,540)	\$39.19
EAST VALLEY	6,238,065	809,739	13.0%	24.4%		117,143	115,589	\$34.57
NORTH PHOENIX	4,641,591	560,713	12.1%	24.0%	0	(24,549)	(319,028)	\$27.52
WEST VALLEY	1,919,267	229,742	12.0%	12.0%	0	87,162	(2,847)	\$30.25
SCOTTSDALE	12,436,228	2,342,604	18.8%	20.7%	0	(148,452)	(43,308)	\$35.14
NORTH CENTRAL PHOENIX	3,048,826	852,112	27.9%	28.1%	0	52,259	(238,474)	\$28.19
TOTAL	58,114,607	10,856,187	18.7%	25.8%	472,000	(388,587)	(1,994,392)	\$32.39

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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