

PHOENIX OFFICE MARKET

Q1 2023



TRENDLINES

	Q1 2023	Q1 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	3.1	3.0	↑	4.6	↔
NET ABSORPTION (Thousands SF)	(203.5)	(795.5)	↑	190.2	↑
OVERALL VACANCY RATE	17.6%	16.1%	↑	14.5%	↓
OVERALL VACANT SF (MSF)	25.1	22.7	↑	20.2	↓
UNDER CONSTRUCTION (MSF)	1.1	1.4	↓	2.4	↓
ASKING RENT, FULL SERVICE (PSF)	\$28.95	\$28.27	↑	\$27.32	↑
SALES VOLUME (Millions)	\$187.2	\$709	↓	\$510.7	↓

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

OFFICE OVERVIEW

CONTINUED UNCERTAINTY

While quarterly data shows slight improvement in office fundamentals for Q1, lingering uncertainty remains abundant in the Phoenix office market. The “perceived value” of office assets have dropped significantly, making debt and equity capital elusive. This is especially concerning for those owners with notes coming due over the next 12 months. Though the market feels a bit volatile right now, we are not seeing an abundance of distress to date and overall sentiment is improving with each passing quarter.

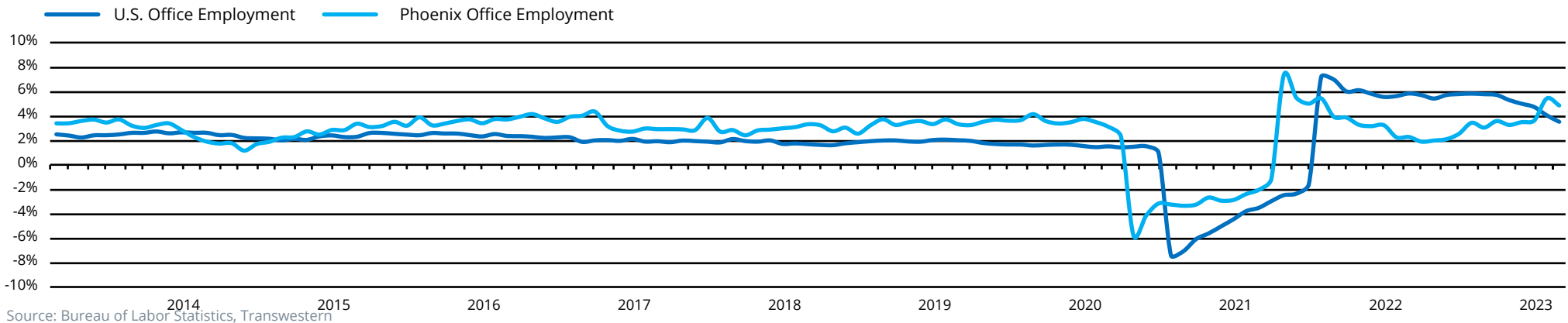


ECONOMY

Not Out of the Recessionary Woods Yet

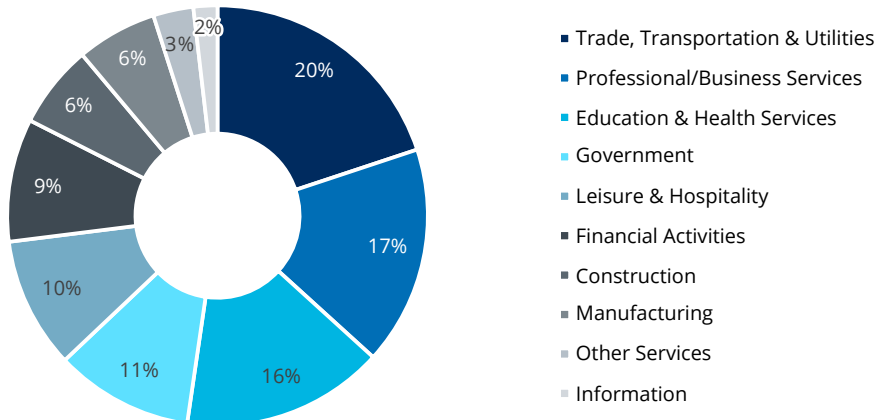
A recession has not unquestioningly developed yet, but the possibility of one remains elevated. In every corner of the market people are waiting to see what happens next, the business community is unsure of how to proceed. One thing is clear however, the Fed has placed enough pressure on the financial system to create extra strain on the banking industry, making them pull back a bit more. The failure of a bank or two is not insignificant, but in the grander scheme and greater good, it may be the financial warning sign that the Fed needed to slow its roll. This could reduce the likelihood of a full-blown recession, though “soft landing” seems more like a pipe dream these days.

YOY CHANGE IN OFFICE JOBS



SHARE OF EMPLOYEES BY INDUSTRY

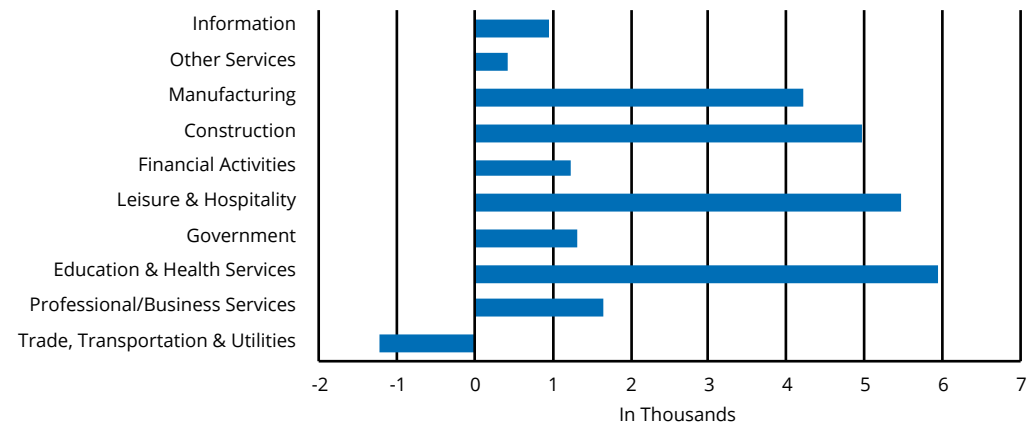
Phoenix | Q1 2023



Source: Bureau of Labor Statistics, Transwestern

YOY CHANGE IN JOBS BY INDUSTRY

Phoenix | Q1 2023



Source: Bureau of Labor Statistics, Transwestern

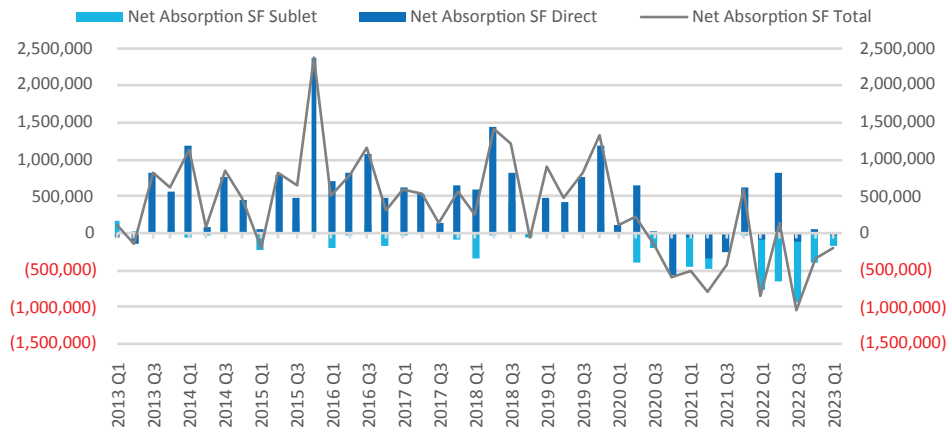


NET ABSORPTION

Quarterly Stabilization, With a Side of Caution

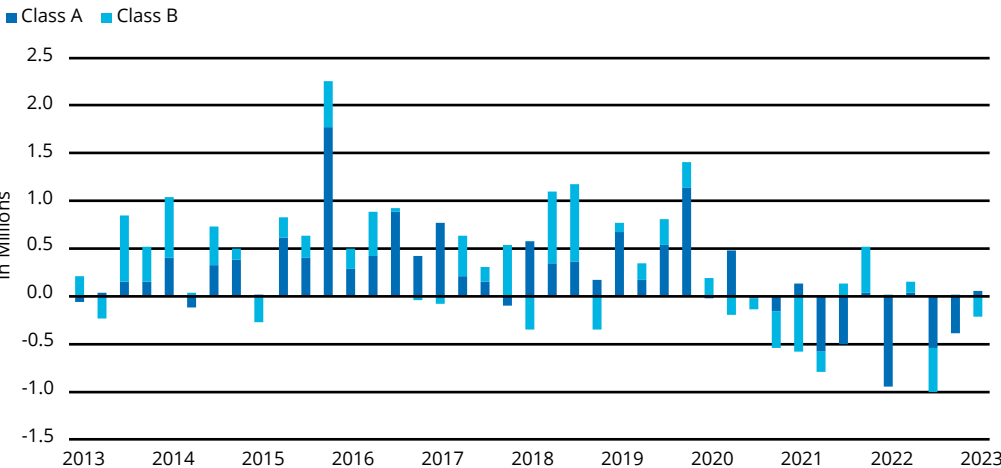
Overall net absorption remained negative in Q1 but most importantly, it did not swing wildly in either direction as it has done every quarter since Q3 2020. Demand seems to be strongest in the Camelback Corridor and East Valley on a quarterly basis but Camelback, West Valley and Scottsdale made the largest annual net absorption gains.

DIRECT VS. SUBLEASE ABSORPTION



Source: CoStar, Transwestern

NET ABSORPTION BY CLASS



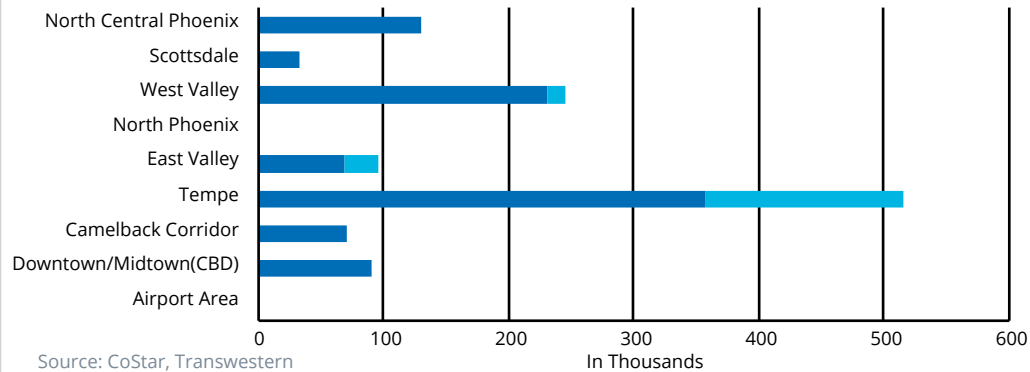
Source: CoStar, Transwestern

UNDER CONSTRUCTION

New Construction Stagnant

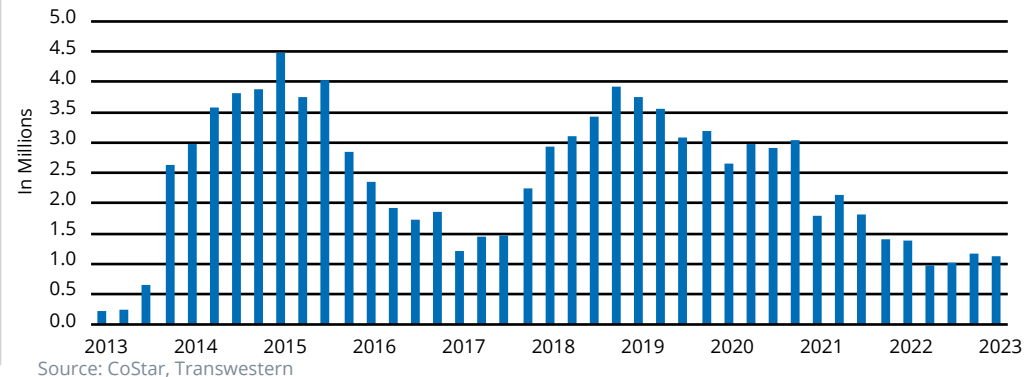
Q1 brought a continued deceleration in new construction. Construction loans are tougher to acquire as lenders are remiss to take on leverage. The current business environment lacks stability, and no one knows what will happen regarding interest rates, the economy, return to work, or even if a project will get off the ground, making banks wary. Currently, just over 1M SF is under construction across the Valley, which is about 40%-60% lower than the average in the 8 quarters leading up to the pandemic.

UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

UNDER CONSTRUCTION



Source: CoStar, Transwestern

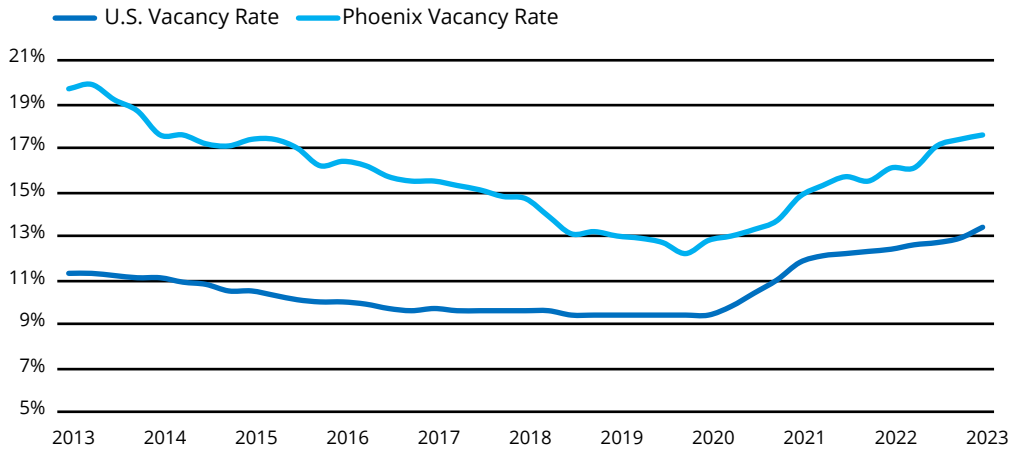


VACANCY

Vacancy Remains High

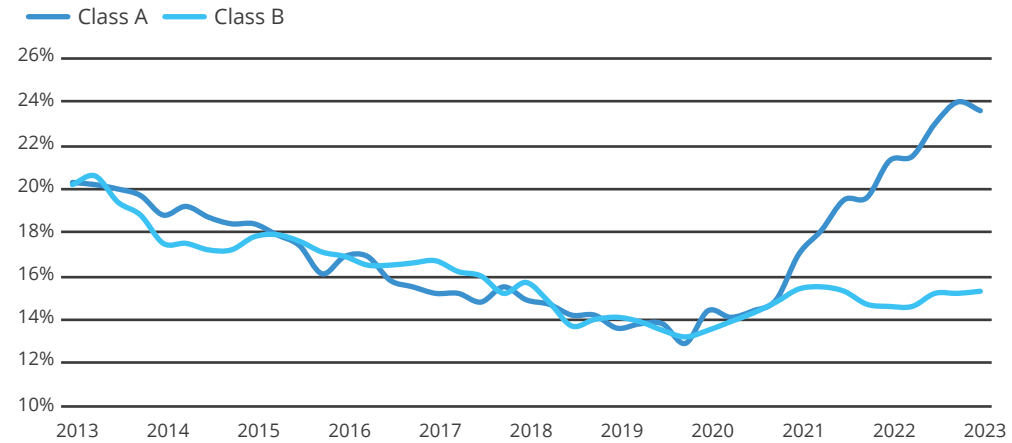
Lease terms are trending longer than they were 1 year ago but despite this positive development, vacancy rates remain stubbornly high as work from home continues to impact business operations. Perhaps a sign of stabilization, the overall vacancy rate for Phoenix posted only a marginal increase in Q1. Vacancy for Class A buildings posted its first decrease since the onset of the pandemic. Meanwhile, Class B posted a minute increase in vacancy for the quarter.

OVERALL VACANCY RATE



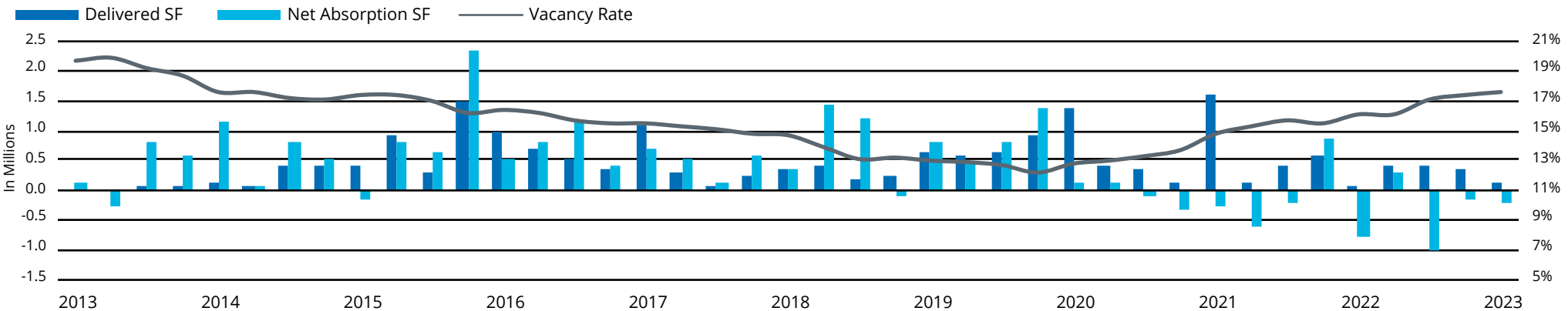
Source: CoStar, Transwestern

OVERALL VACANCY RATE BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

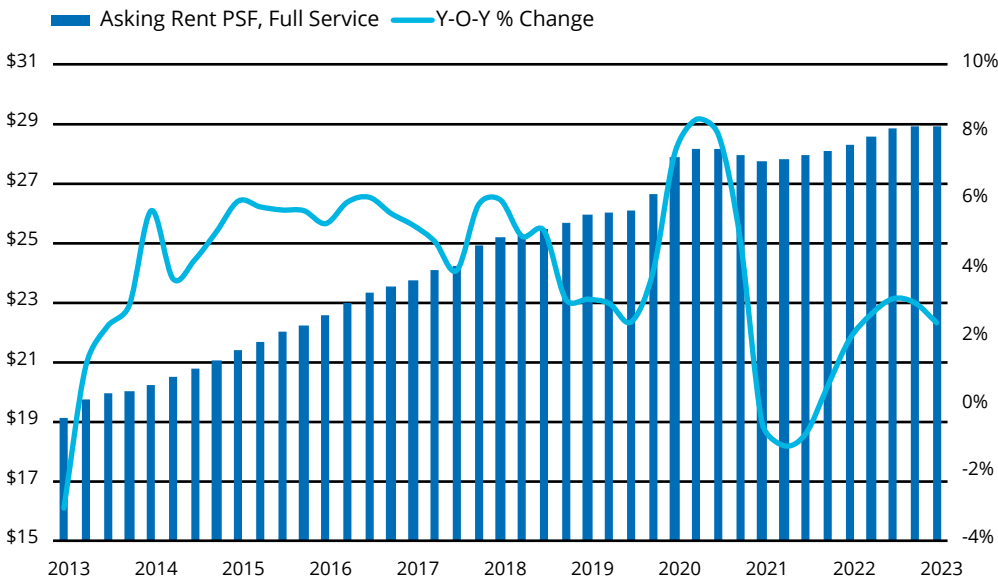


RENTAL RATES

Rate Growth Beginning to Slow

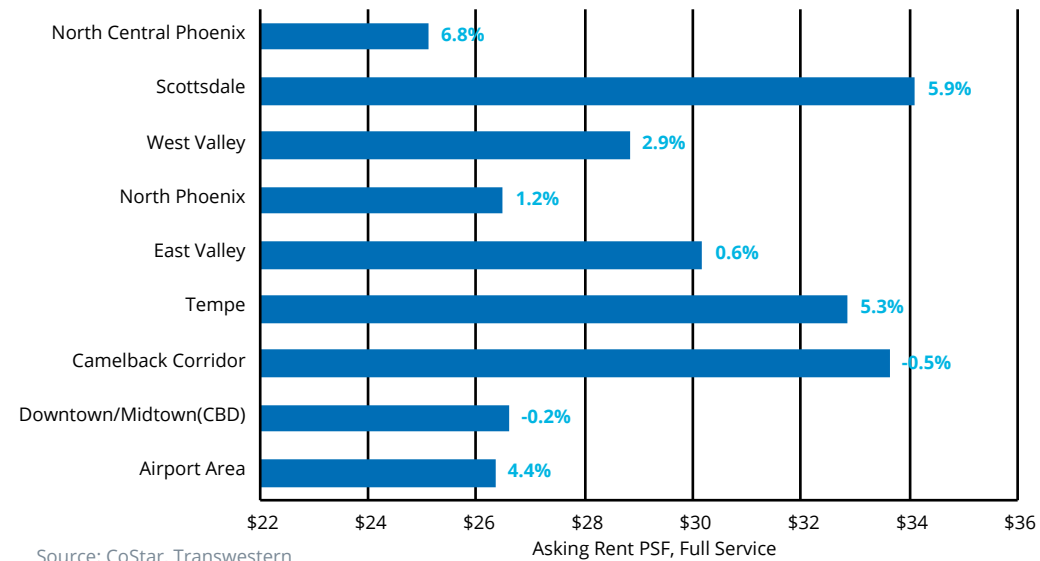
Rental rates are still growing due to a continued rise in operating costs, tenant improvements, and rent abatement which are being passed on to tenants in the form of rent increases. For those tenants in the market for sublease space, downtown Phoenix provides the biggest value. Sublet space can be easily found there with a near 40% discount compared to direct space. We expect to see these trends continue as owners search for clear footing in this uncertain climate.

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
EQUALITY HEALTH	7720 N. Dobson Rd.	Scottsdale	New	149,544
GPS INSIGHT	19001 N. Scottsdale Rd.	Scottsdale	Renewal	55,217
VERKADA	410 N. Scottsdale Rd.	Tempe	Sublease	20,886
PRIVORO	10429 S. 51st St.	Downtown	New	15,122
ASLTI MANAGEMENT	2222-2228 W> Northern Ave.	North Central Phoenix	New	12,570
PROGRESS RESIDENTIAL	7500 N. Dobson Rd.	Scottsdale	Expansion	5,000

= Transwestern deal

Source: CoStar, Transwestern

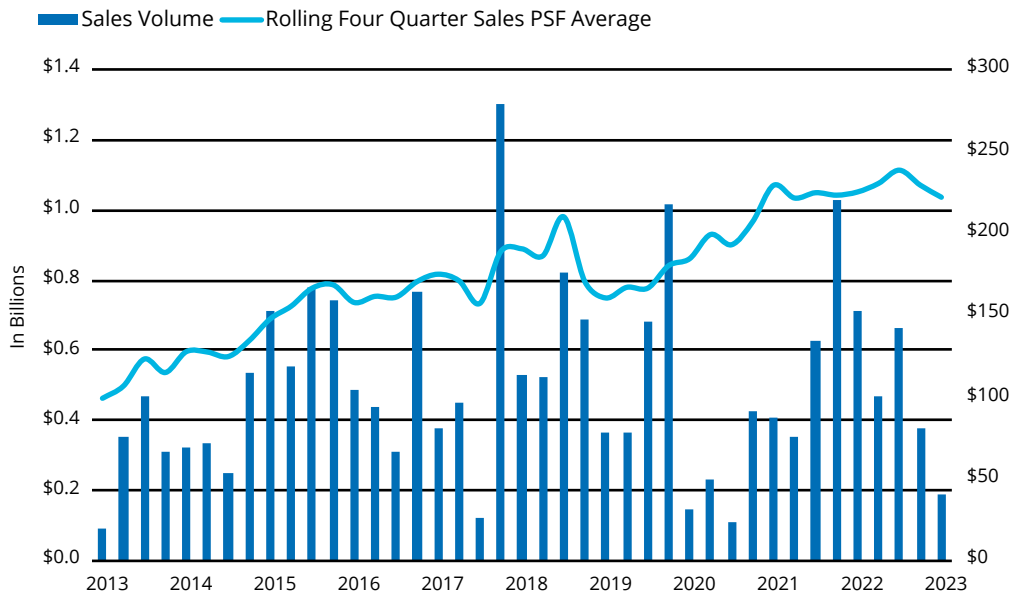


SALES

Office Investment Pause

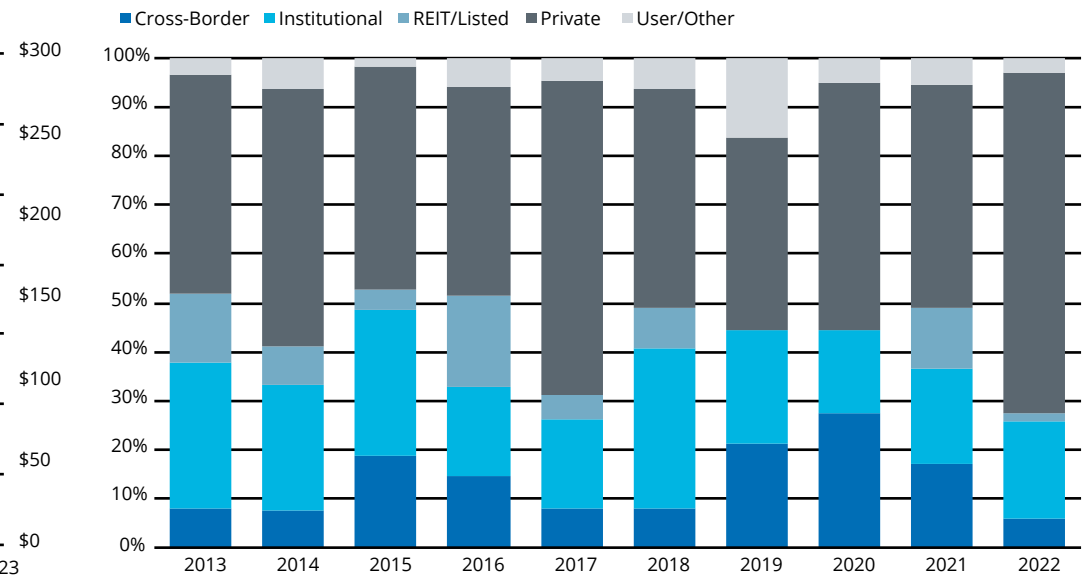
Q1 2023 saw the lowest first quarter office investment numbers since 2020, which is unsurprising given the current lending environment. To date, cap rates have remained relatively stable, something we see changing in coming months as high vacancy, abundant sublet space, and the run up in interest rates catch up. Prices will almost certainly remain flat during this period as buyers and sellers try to traverse the wide disconnect between them.

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
19640 N 31ST AVE	North Phoenix	\$15,000,000	124,170	\$121	Aligned Data Centers	Lynn Morrison, LLC
8901 E MOUNTAIN VIEW RD	Scottsdale	\$19,450,000	107,885	\$180	Caliber Realty Group	The Pollock Financial Group
4100 W GALVESTON ST	East Valley	\$17,200,000	85,797	\$200	United Realty M.T.A., LLC	Alidade Capital
14646 N KIERLAND BLVD	Scottsdale	\$32,000,000	79,537	\$402	Related Development, LLC	Providence Real Estate Group
19601 N BLACK CANYON HWY	North Phoenix	\$5,050,000	46,942	\$108	Adriatik & Ariola Rama	Western Properties Inc.

= Transwestern deal

Source: CoStar, Transwestern



MARKET INDICATORS

All Classes of Space | Q1 2023

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	11,800,705	1,674,785	14.2%	23.6%	0	(175,617)	(977,131)	\$26.34
DOWNTOWN/MIDTOWN (CBD)	24,680,163	4,678,707	19.0%	19.4%	90,000	(67,333)	52,220	\$26.61
CAMELBACK CORRIDOR	12,105,314	2,004,574	16.6%	17.5%	70,000	116,493	447,249	\$33.64
TEMPE	18,865,565	2,603,770	13.8%	19.9%	515,000	(110,136)	(1,215,025)	\$32.86
EAST VALLEY	17,544,170	1,772,886	10.1%	15.3%	95,272	114,935	75,967	\$30.18
NORTH PHOENIX	10,000,148	1,254,417	12.5%	21.2%	0	203	48,547	\$26.49
WEST VALLEY	9,749,691	720,373	7.4%	7.5%	245,337	21,201	272,910	\$28.82
SCOTTSDALE	24,812,808	3,565,237	14.4%	16.5%	32,054	(131,741)	304,972	\$34.11
NORTH CENTRAL PHOENIX	13,344,213	1,950,225	14.6%	16.8%	130,000	41,028	(116,811)	\$25.11
TOTAL	142,902,777	20,224,974	13.6%	17.5%	1,177,663	(190,967)	(1,107,102)	\$29.35

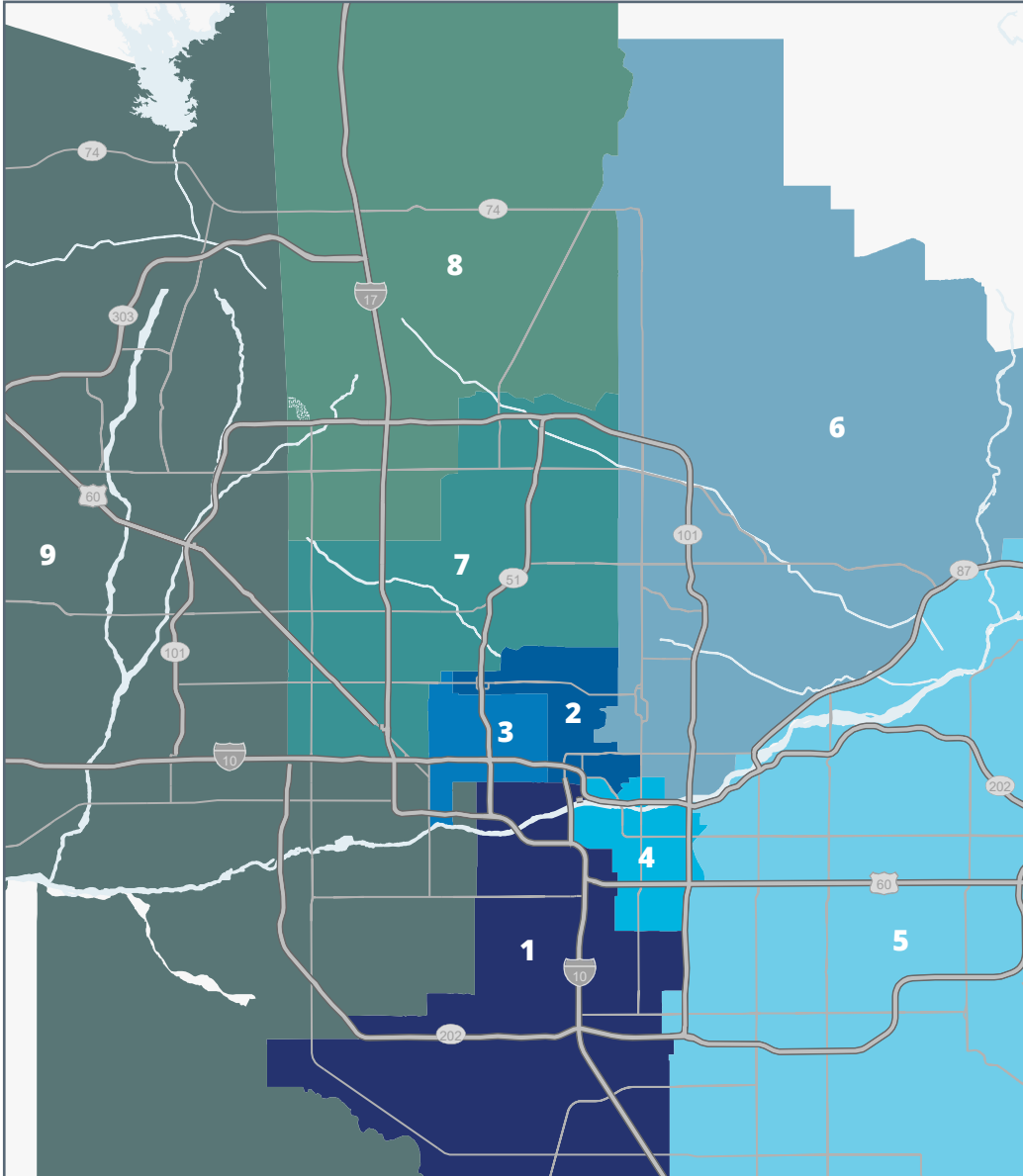
Source: CoStar, Transwestern

MARKET INDICATORS

Class A | Q1 2023

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	515,132	24.5%	52.8%	0	29,033	(635,638)	\$31.28
DOWNTOWN/MIDTOWN (CBD)	10,413,883	2,996,063	28.8%	29.6%	0	(158,009)	(268,140)	\$28.66
CAMELBACK CORRIDOR	7,130,202	1,287,133	18.1%	19.4%	70,000	65,024	480,122	\$37.16
TEMPE	10,069,854	1,175,930	11.7%	19.7%	515,000	94,667	(641,680)	\$38.74
EAST VALLEY	6,148,521	773,017	12.6%	22.8%	0	108,003	197,316	\$34.49
NORTH PHOENIX	4,675,043	573,434	12.3%	23.6%	0	11,075	2,132	\$27.50
WEST VALLEY	1,919,267	229,742	12.0%	12.0%	0	0	236,214	\$30.25
SCOTTSDALE	12,346,949	2,225,751	18.0%	20.3%	0	(48,502)	(72,915)	\$35.55
NORTH CENTRAL PHOENIX	3,070,430	878,852	28.6%	29.3%	0	(42,796)	(119,629)	\$28.49
TOTAL	57,874,031	10,655,054	18.5%	25.5%	585,000	58,495	(822,218)	\$32.46

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

[Jennifer Barili](#)

Senior Researcher and Analyst
Jennifer.Barili@transwestern.com
 602 296 6372

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