

PHOENIX OFFICE MARKET

Q2 2023



TRENDLINES

	Q2 2023	Q2 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	3.0	3.1	↓	4.6	↑
NET ABSORPTION (Thousands SF)	(1,233.3)	249.5	↑	190.2	↑
OVERALL VACANCY RATE	19.7%	17.2%	↑	14.5%	↑
OVERALL VACANT SF (MSF)	20.2	19.0	↑	20.2	↑
UNDER CONSTRUCTION (MSF)	0.7	0.9	↓	2.4	↓
ASKING RENT, FULL SERVICE (PSF)	\$30.08	\$29.23	↑	\$27.32	↑
SALES VOLUME (Millions)	\$168.3	\$468	↓	\$510.7	↓

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

OFFICE OVERVIEW

ROUGH WATERS FOR OFFICE

A continued commitment to work from home, especially for national companies interested in shrinking office footprints, brought a rough Q2 for office. Building owners, particularly, are feeling the pressure as occupancy has dropped in many buildings, loans are maturing, and financing options are sparse. The coming quarters look to have some inherent volatility to match interest rates and the ongoing return-to-work battle.

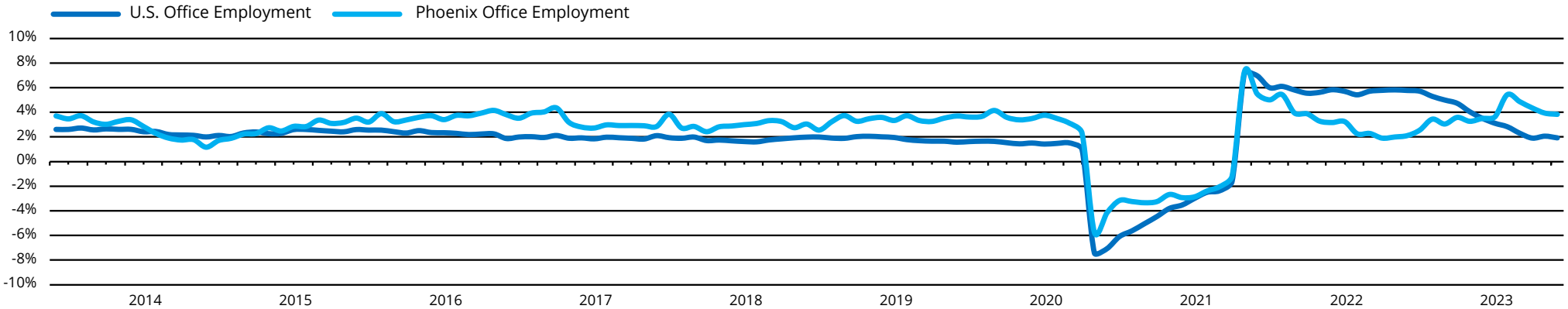


ECONOMY

Buoyed by Manufacturing

The labor market posted strong growth and employment remained strong across the region. Wage growth, which started to recede last quarter, made a solid rebound, but local inflation persisted well above the national average and offset the wage gains. Manufacturing growth is providing ample opportunity for Phoenicians to upskill into much better paying jobs, and housing prices are coming down slowly, which are both stabilizing factors for the local economy. In-migration has leveled off but still is above national averages. Economic growth is expected to slow but not stall, which could keep the strongest grips of recession away from the local market.

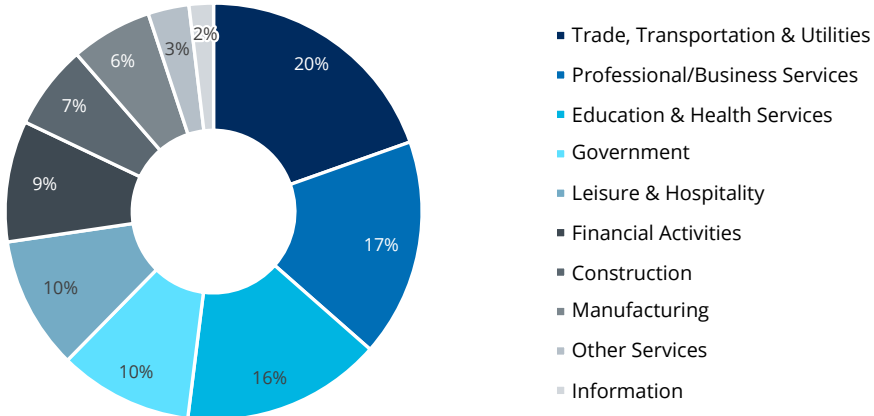
YOY CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

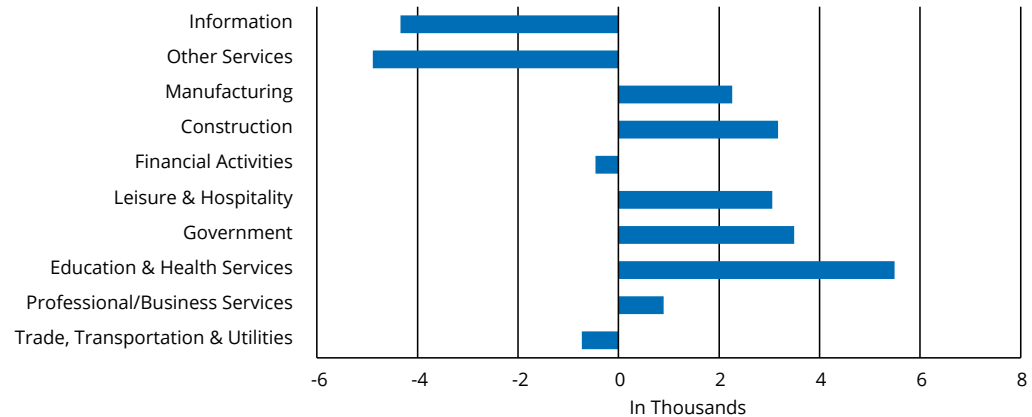
Phoenix | Q2 2023



Source: Bureau of Labor Statistics, Transwestern

YOY CHANGE IN JOBS BY INDUSTRY

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Source: Bureau of Labor Statistics, Transwestern

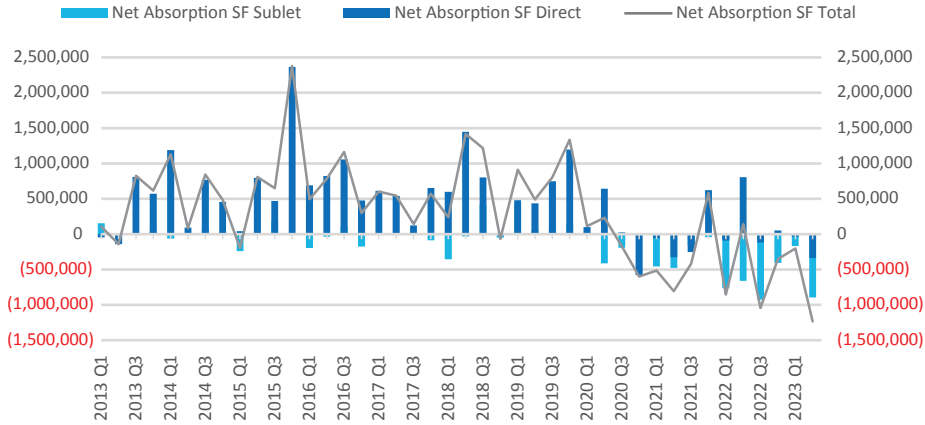


NET ABSORPTION

Toughest Quarter Yet

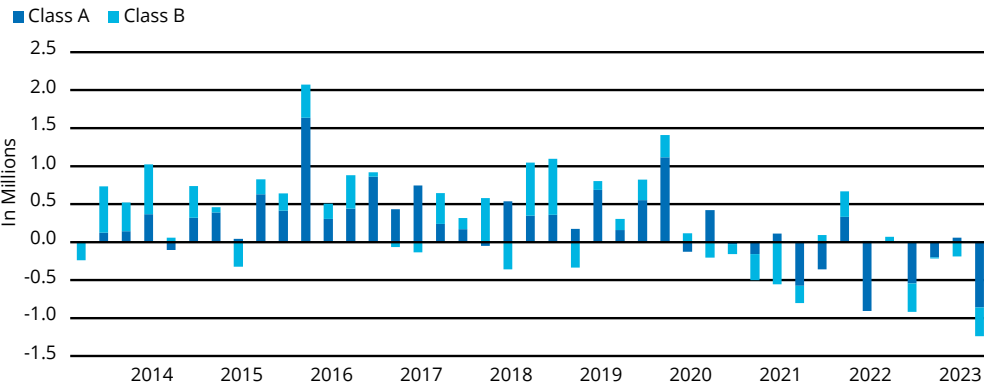
As companies continue to reassess their office needs, negative net absorption stacked up decisively for Q2, coming in just over -1.2M SF. Two primary trends exist within the office landscape; a flight to quality, where companies are using amenities and location to bolster desirability, or office-using companies who are scaling back their physical space, either in the same building or smaller Class B buildings. This is reflected with more than 2/3 of the negative absorption residing in Class A buildings.

DIRECT VS. SUBLEASE ABSORPTION



Source: CoStar, Transwestern

NET ABSORPTION BY CLASS



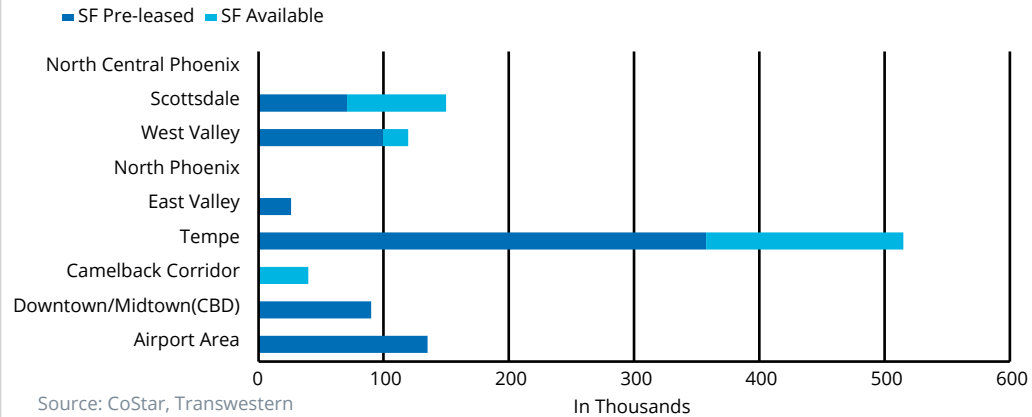
Source: CoStar, Transwestern

UNDER CONSTRUCTION

Downward Trend

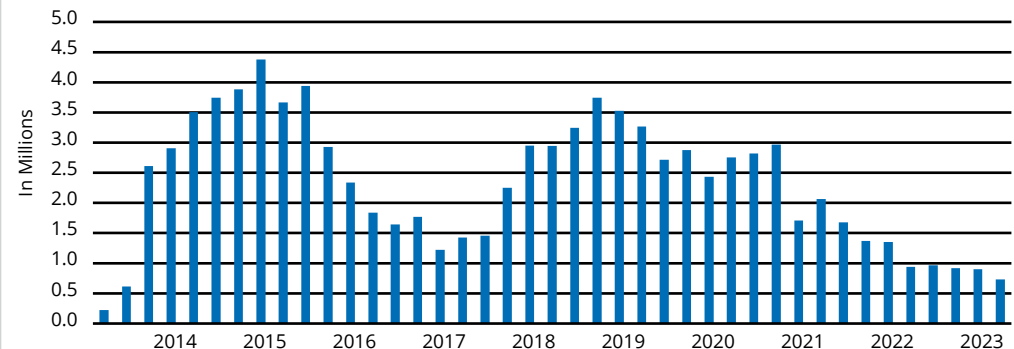
Q2 saw a continued upheaval in the lending environment which greatly impacted construction starts. The amount of office product under construction is at its lowest level since 2013, with just over 700K SF currently under construction. Starts are likely to remain sluggish for the foreseeable future as office finds its new identity in this post-COVID, work-from-home era.

UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

UNDER CONSTRUCTION



Source: CoStar, Transwestern

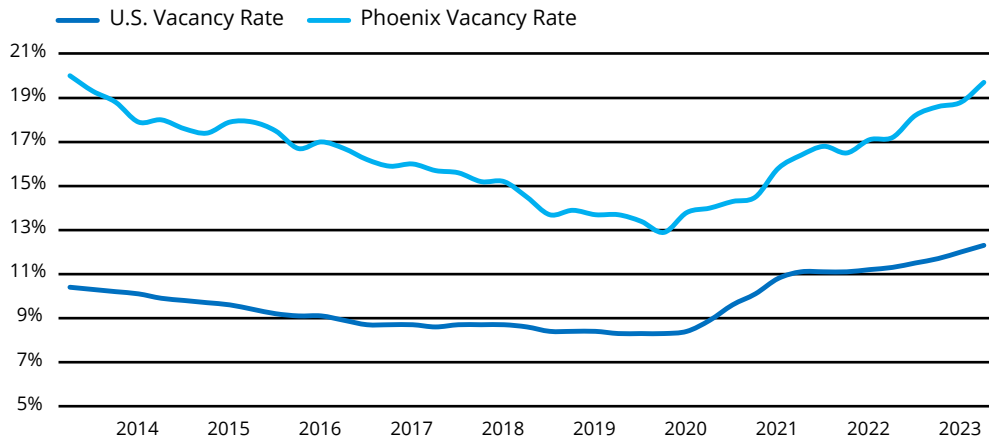


VACANCY

Vacancy Rising

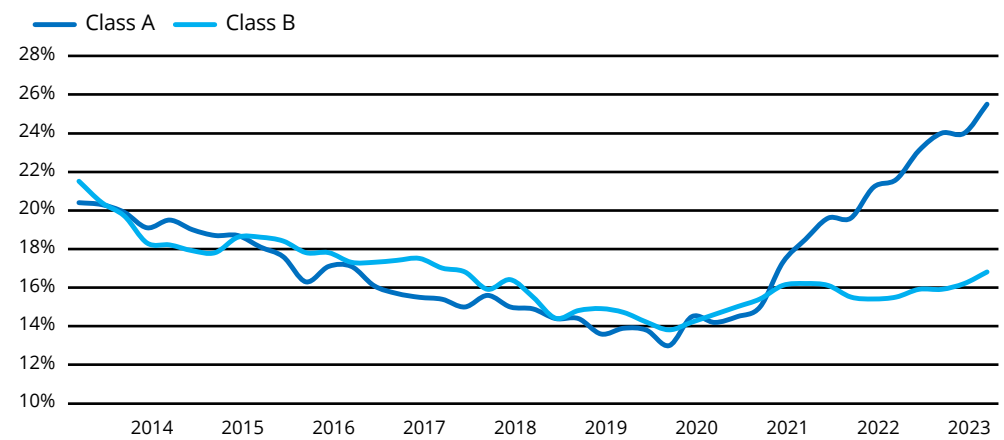
Vacancy continues to rise, Class A vacancy hit the 25% mark for Q2. Most submarket vacancy rates are hovering between 11%-15%, the one exception is the Downtown core, which is sitting above 20% for both direct and total vacancy. Two submarkets struggling with the largest onslaught of sublet vacancy are: the Airport Area and North Phoenix. Both areas are above 10% and being targeted for innovative redevelopment. Vacancy is likely to continue rising through the remainder of 2023 into early next year as the economy struggles to find its footing.

OVERALL VACANCY RATE



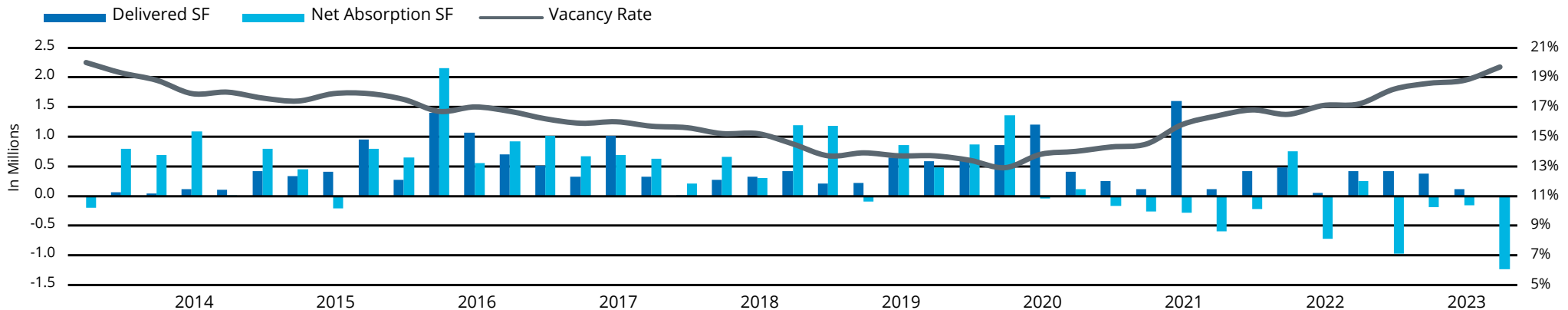
Source: CoStar, Transwestern

OVERALL VACANCY RATE BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

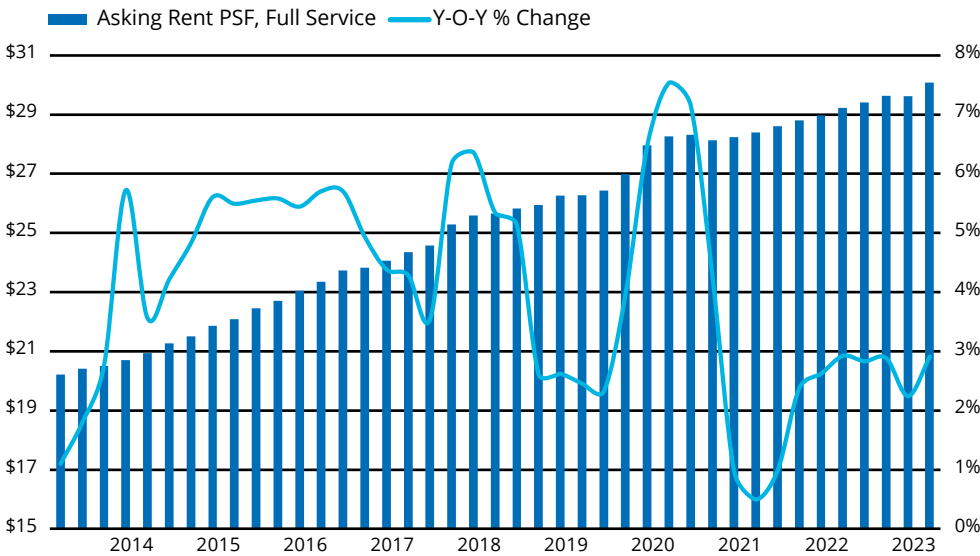


RENTAL RATES

Rates Stabilize

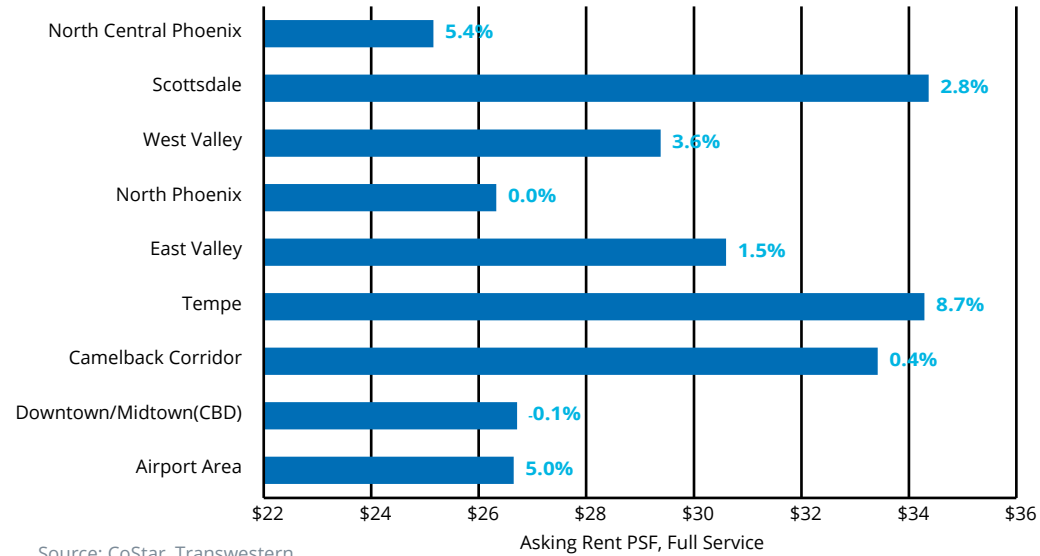
Rental rates have stabilized, posting very slight increases for most submarkets. After a rental rate decrease last quarter, Tempe rebounded in Q2 with an average rate increase over 8%. Rates will increasingly become a source of contention in negotiations over the coming quarters.

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
KIMLEY-HORN	1661 E. Camelback Rd	Camelback Corridor	New	78,668
IMAGINE LEARNING	100 S. Mill Ave	Tempe	New	31,660
CONCORD SOFTWARE LEASING	4343 N Scottsdale Rd	Scottsdale	New	27,647
CP SKIN HEALTH GROUP	4110 N. Scottsdale Rd	Scottsdale	Sublease	18,491
SUNWEST FEDERAL CREDIT UNION	5323 N. 99th Ave	West Valley	New	18,995
RICOH	5670 W. Chandler Blvd	East Valley	New	12,574

= Transwestern deal

Source: CoStar, Transwestern

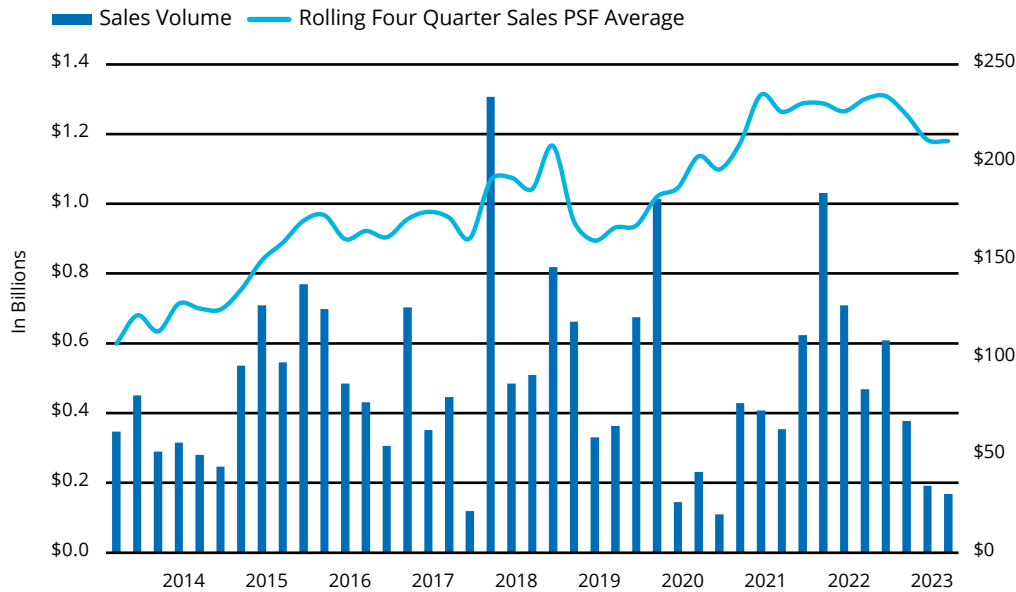


SALES

Office Sales in a Free Fall

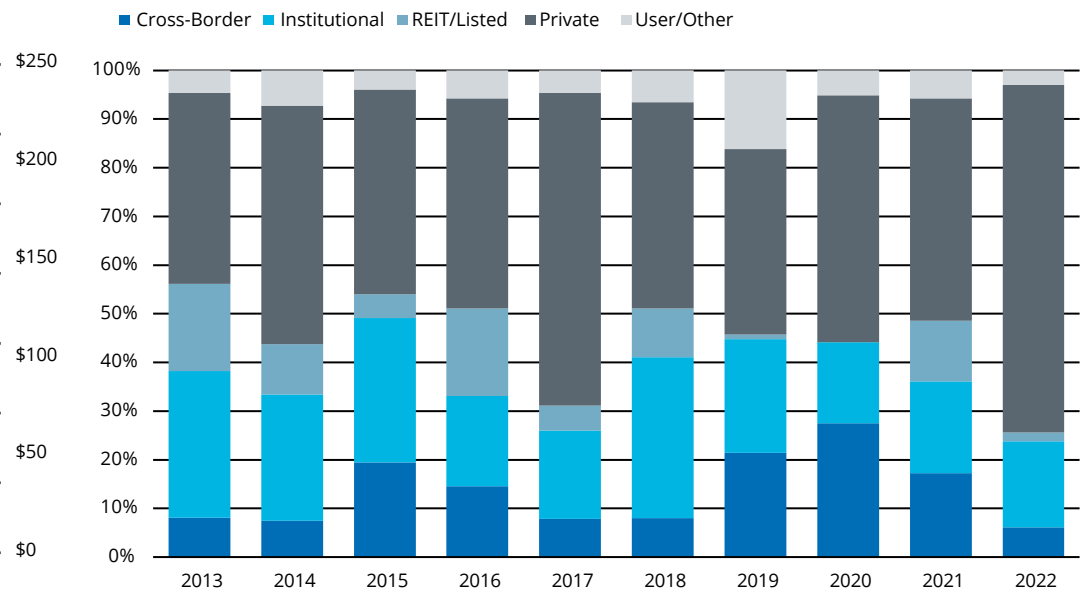
Another quarter of instability in the lending environment, in conjunction with shrinking office footprints, has been a continued paralyzing force for office product. Prices have dropped substantially and are showing no signs of rebounding in the near term. Office recovery will be slow-going as companies reassess, but the best scenario for office would be a move away from continued monetary tightening.

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
4110 N. SCOTTSDALE RD	Scottsdale	\$44,000,000	109,968	\$400	Providence Real Estate Group	The Goldman Sachs Group
8160 S. HARDY DR	Tempe	\$13,928,360	94,916	\$147	Russell Wagstaff	DWS
4520 N. CENTRAL AVE	Downtown/Midtown	\$9,500,000	88,800	\$107	Phoenix Union High School District	Native American Connections
45 W. JEFFERSON ST	Downtown/Midtown	\$6,900,000	67,144	\$103	Sunrise Capital Investors	LPC Desert West
800 W. ADAMS ST	Downtown/Midtown	\$6,400,000	31,842	\$201	Maricopa County Regional School District	Pacific Oak/Verus 800 Adams, LLC

= Transwestern deal

Source: CoStar, Transwestern



MARKET INDICATORS

All Classes of Space | Q2 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	11,260,644	1,505,665	13.4%	24.4%	0	(62,393)	(768,877)	\$26.65
DOWNTOWN/MIDTOWN (CBD)	21,214,773	4,560,483	21.5%	22.2%	90,000	60,415	(173,550)	\$27.12
CAMELBACK CORRIDOR	12,026,674	2,243,363	18.7%	20.0%	40,000	(287,778)	42,016	\$33.42
TEMPE	18,758,780	2,477,774	13.2%	20.7%	365,000	(191,656)	(1,363,623)	\$34.29
EAST VALLEY	17,018,437	2,000,981	11.8%	17.3%	26,032	(256,735)	(166,434)	\$30.60
NORTH PHOENIX	9,697,489	1,234,689	12.7%	22.9%	0	(170,976)	37,406	\$26.33
WEST VALLEY	5,370,779	674,739	12.6%	13.0%	61,708	12,179	218,881	\$29.68
SCOTTSDALE	24,310,278	3,754,689	15.4%	18.3%	150,000	(411,567)	(410,177)	\$34.37
NORTH CENTRAL PHOENIX	13,284,744	1,921,785	14.5%	16.3%	0	(22,857)	140,911	\$25.26
TOTAL	132,942,598	20,374,168	14.9%	19.5%	732,740	(1,331,368)	(2,443,447)	\$29.75

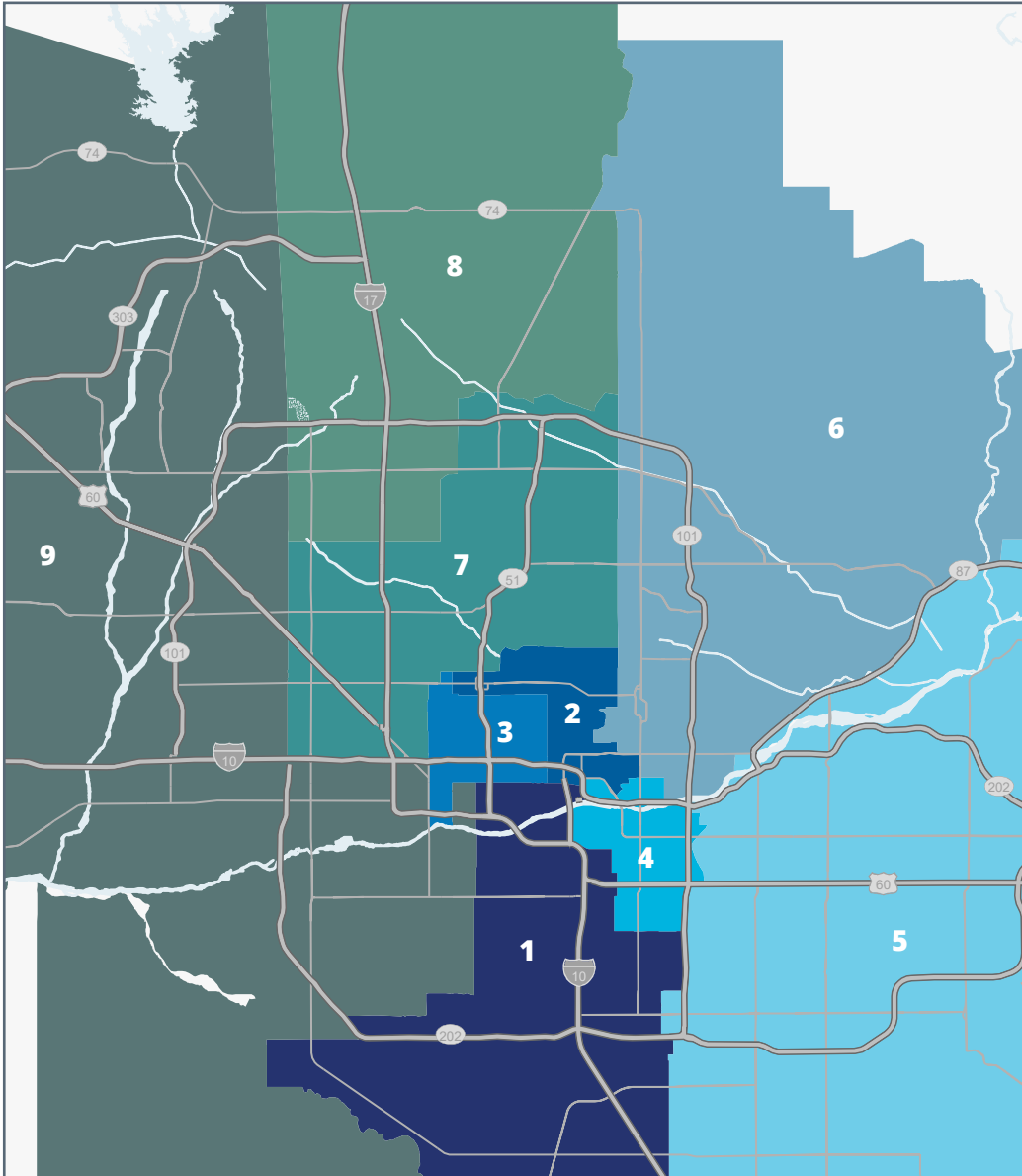
Source: CoStar, Transwestern

MARKET INDICATORS

Class A | Q2 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	2,104,570	1,052,065	21.7%	50.0%	0	57,519	(353,299)	\$30.14
DOWNTOWN/MIDTOWN (CBD)	10,624,553	2,491,558	27.7%	28.8%	0	27,179	(303,298)	\$28.76
CAMELBACK CORRIDOR	7,270,089	1,418,040	19.5%	21.3%	0	(170,017)	178,554	\$37.13
TEMPE	10,261,328	1,251,886	12.2%	22.2%	365,000	(231,823)	(826,919)	\$40.12
EAST VALLEY	5,948,430	880,416	14.8%	26.0%	0	(172,178)	69,901	\$29.26
NORTH PHOENIX	4,679,293	520,388	11.1%	24.8%	0	(56,498)	8,637	\$27.25
WEST VALLEY	876,874	221,872	25.3%	25.3%	0	6,120	213,969	\$30.33
SCOTTSDALE	12,308,863	2,428,333	19.7%	23.3%	0	(351,070)	(453,927)	\$34.98
NORTH CENTRAL PHOENIX	3,070,431	856,817	27.9%	29.3%	0	33,222	(30,926)	\$28.51
TOTAL	57,144,431	11,121,375	20.0%	27.9%	365,000	(857,546)	(1,497,308)	\$31.83

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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