



TRANSWESTERN

REAL ESTATE
SERVICES

PHOENIX OFFICE MARKET

Q3 2023



TRENDLINES

	Q3 2023	Q3 2022	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	4.0	3.8	↑	4.6	↑
NET ABSORPTION (Thousands SF)	(426.9)	(90.5)	↑	243.6	↑
DIRECT VACANCY RATE	15.4%	14.5%	↑	13.8%	↑
DIRECT VACANT SF (MSF)	20.8	19.5	↑	18.2	↑
UNDER CONSTRUCTION (MSF)	0.6	0.7	↓	2.0	↓
ASKING RENT, FULL SERVICE (PSF)	\$30.20	\$29.42	↑	\$28.17	↑
SALES VOLUME (Millions)	\$197.6	\$603	↓	\$470.2	↓

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

OFFICE OVERVIEW

SIGNS OF BUILDING DEMAND

FY 2023 was a record-breaking year for new international business prospects, much of the interest in Phoenix has been in the form of advanced manufacturing, but it will positively impact office demand down the road. We expect that Phoenix will continue to command interest from international companies moving forward due to big corporate investments made over the past couple of years coupled with relatively low environmental risk, and a stable economy.

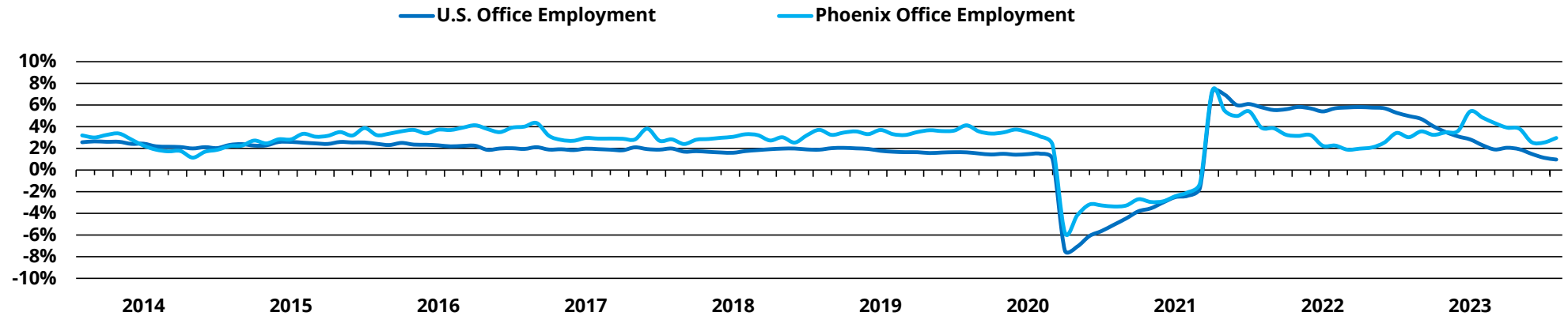


ECONOMY

Mixed Bag for Q3

Despite the drama of soaring inflation and those persistently rising interest rates, the U.S. economy once again flexed its muscles and grew 3.2% between July and September, a bit of a surprise to economic forecasters. Even with the jump in interest rates, the economy seems to have a continued resistance to the recession rumors, so far. Households are still spending, gas prices are still rising, interest rates held steady in the most recent Fed meeting and the holidays are nearly upon us. The forecast is for a strong spending season, but the Fed has hinted that interest rates have not completed their upward trajectory, so the crystal ball remains decidedly foggy.

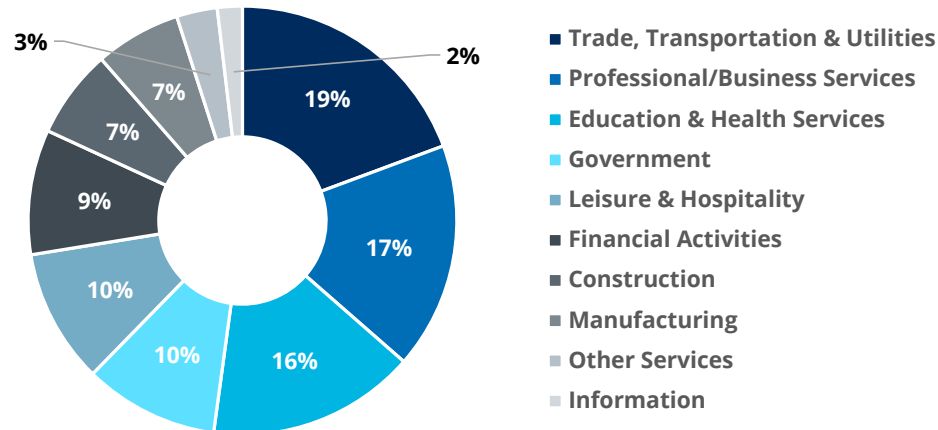
YOY CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

SHARE OF EMPLOYEES BY INDUSTRY

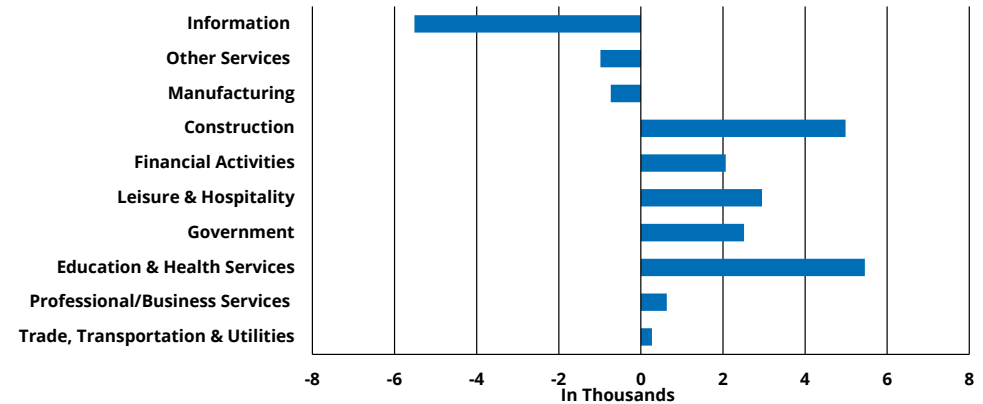
Phoenix | Q3 2023



Source: Bureau of Labor Statistics, Transwestern

YOY CHANGE IN JOBS BY INDUSTRY

Phoenix | Q3 2023



Source: Bureau of Labor Statistics, Transwestern

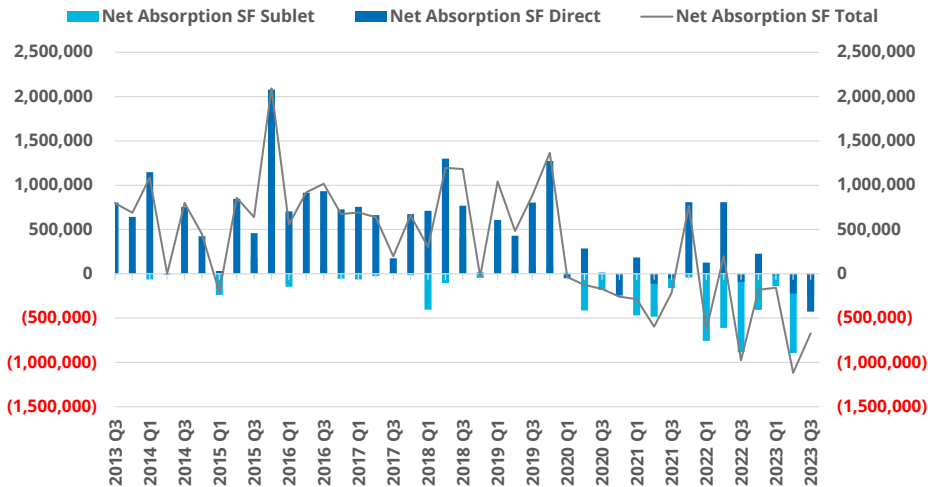


NET ABSORPTION

The Struggle Continues

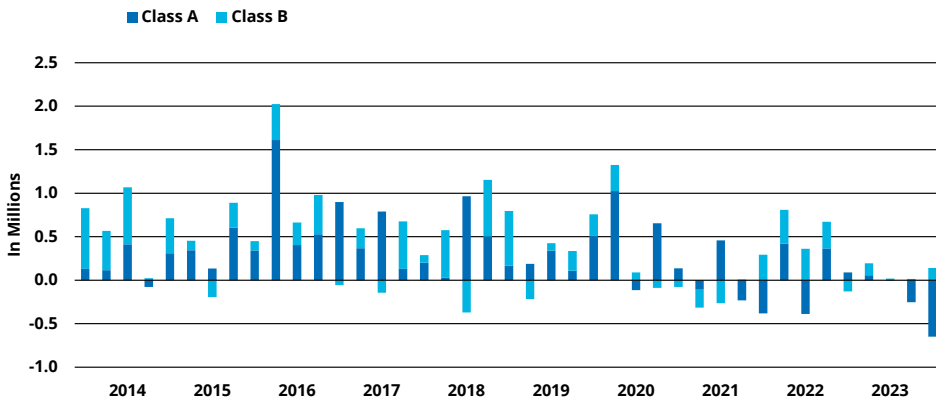
Class A office space continues to be the main driver of negative net absorption, which deepened this quarter to around -425,000 SF. Two large blocks of space totaling just under 390,000 SF at Tempe’s Fountainhead Heights building park hit the market in Q3. These spaces are currently under renovation and targeting Q1 2024 occupancy for incoming tenants.

DIRECT VS. SUBLEASE ABSORPTION



Source: CoStar, Transwestern

NET ABSORPTION BY CLASS



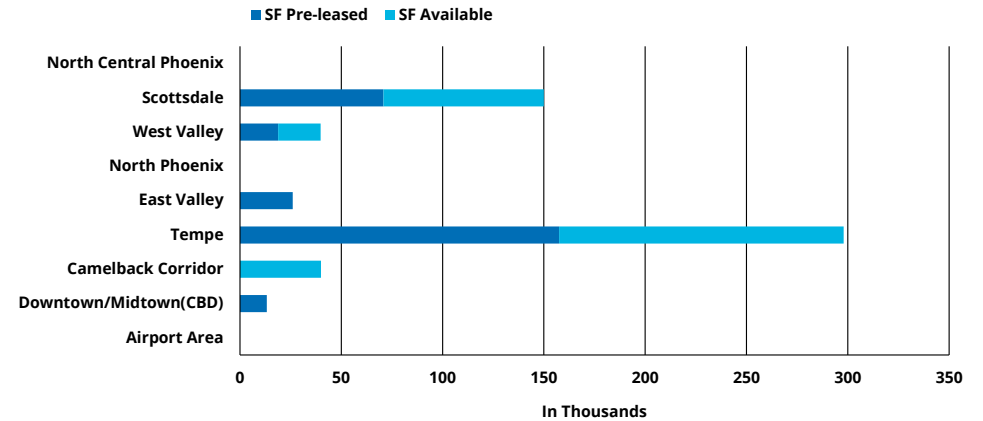
Source: CoStar, Transwestern

UNDER CONSTRUCTION

Construction Sluggish

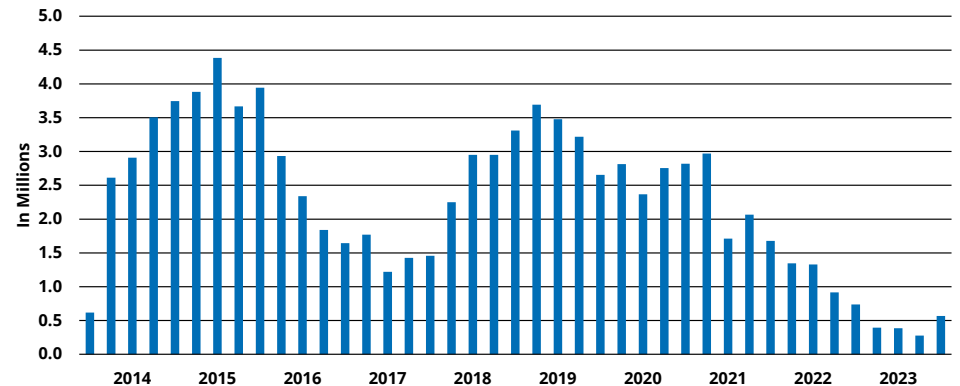
Upheaval remained in the Q3 lending world which seriously influenced the start of new construction. The unpredictable nature of interest rates and tighter lending rules have made it challenging for office projects to move from the drawing board to actual construction. Additionally, continued resistance to traditional office structure, means we’re in a bit of a stalemate. Everyone’s on the edge, waiting to see where the chips will fall in terms of compromising.

UNDER CONSTRUCTION BY SUBMARKET



Source: CoStar, Transwestern

UNDER CONSTRUCTION



Source: CoStar, Transwestern

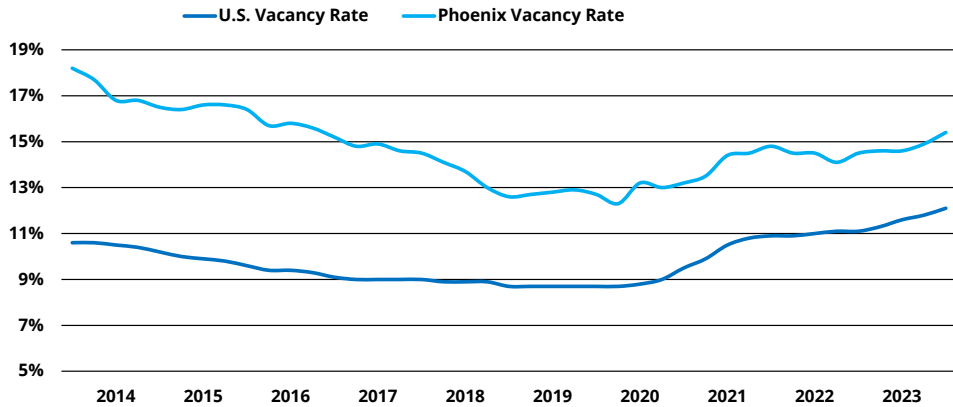


VACANCY

Vacancy Volatility

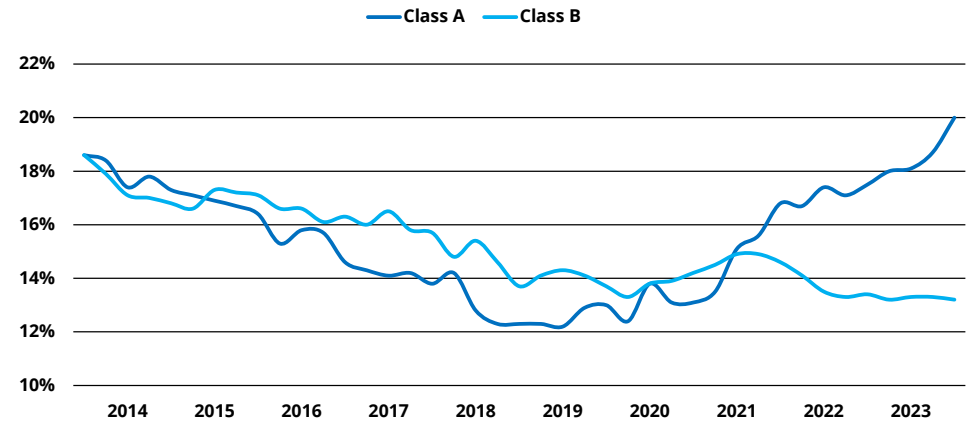
Vacancy rose again in Q3, overall vacancy was most pronounced in the urban core areas of Downtown, Tempe and Camelback Corridor. Class A office vacancy dominated in the West Valley and North Central Phoenix where those rates rose above 30% for the quarter. Airport Area saw the highest level of Class A sublease vacancy, a clear sign of continued uncertainty for companies.

OVERALL VACANCY RATE



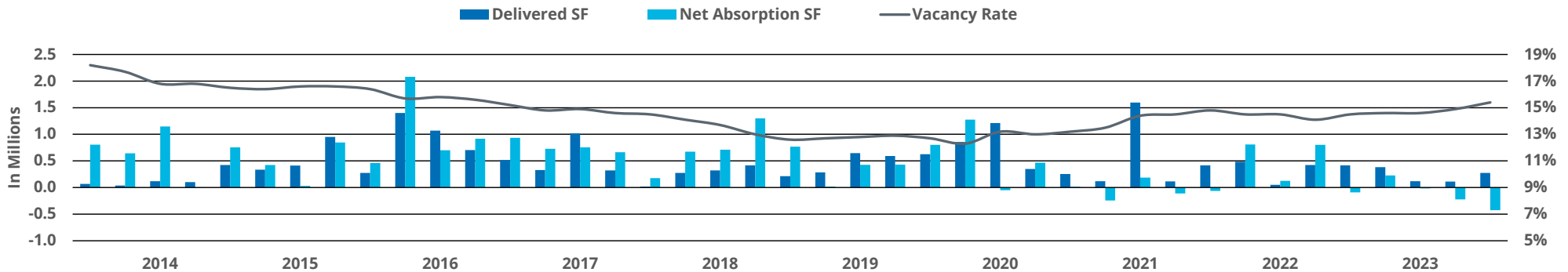
Source: CoStar, Transwestern

OVERALL VACANCY RATE BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

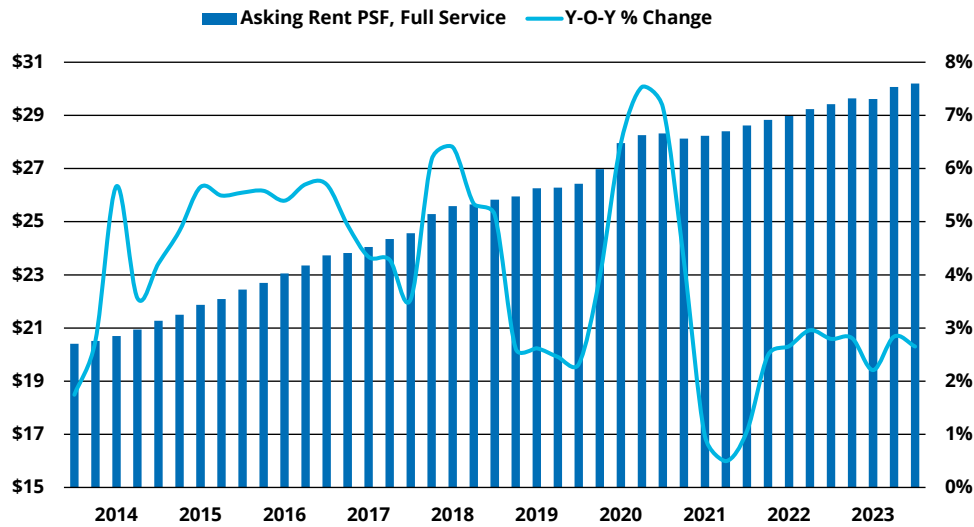


RENTAL RATES

Rental Rates Anticlimactic

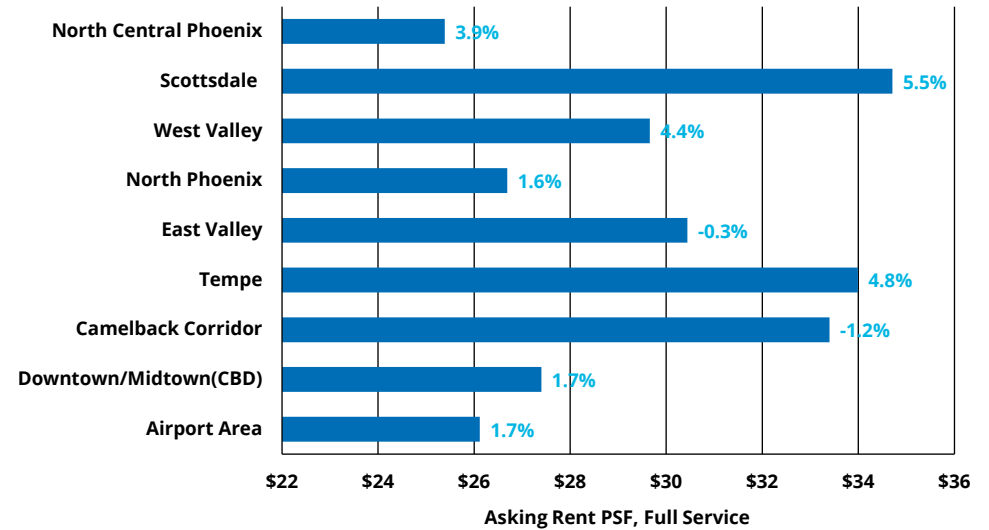
Market rates were decidedly stable in Q3, though the market average inched above \$30/SF. Any Y-O-Y changes by submarket were negligible enough in both directions that nothing really stood out or bubbled to the top. About 99% of office leases were under 50,000 SF and of that, about half were leases under 5,000 SF, showing a continued preference for more efficient office footprints.

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
GLOBALTRANZ	7350 N. Dobson Rd.	Scottsdale	Sublease	70,347
UNITED HEALTHCARE SERVICES	9801 N. Metro Pkwy	North Central Phoenix	New Lease	34,481
NATIONAL INSTITUTE OF HEALTH	850 N. 5th St	Downtown/Midtown	New Lease	34,421
AMERICOR	7350 N. Dobson Rd.	Scottsdale	New Lease	9,957
AMERICAN GLASS PROFESSIONALS	4710 E. Elwood St	Airport Area	New Lease	8,734

= Transwestern deal

Source: CoStar, Transwestern

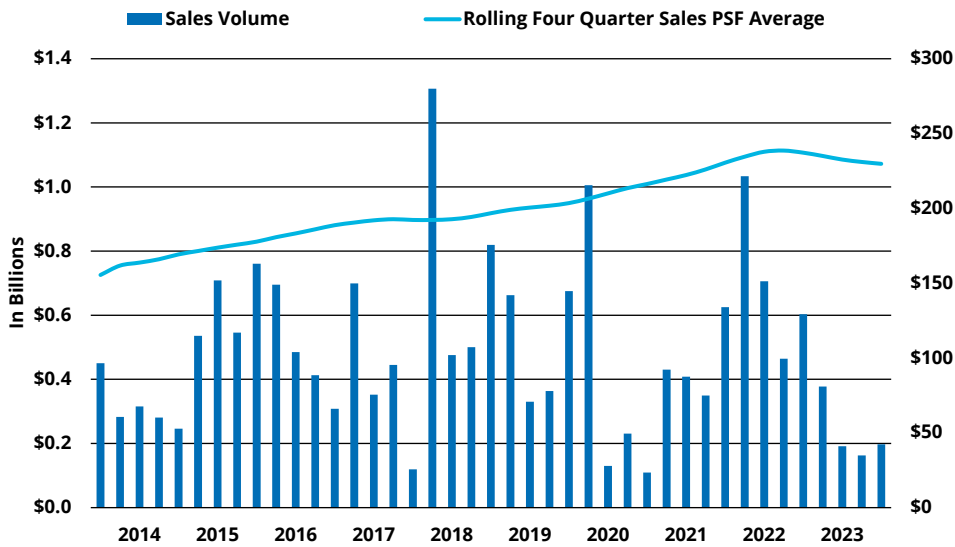


SALES

Office Sales Constrained

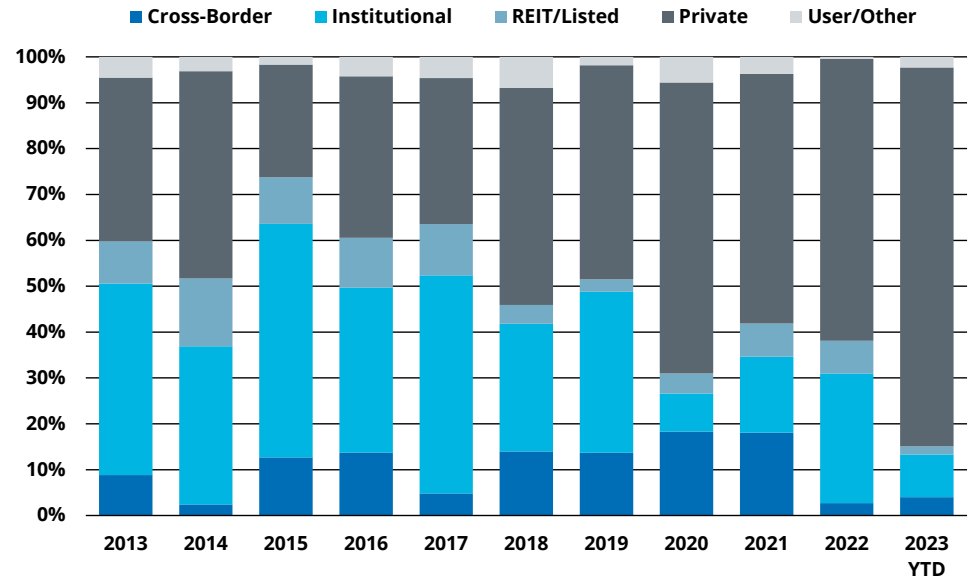
Buyers and sellers continue to be at odds on pricing, with neither side wanting to make concessions to get deals over the finish line. With tighter lending and unfriendly interest rates, investment activity continued to be incredibly stifled in Q3. The good news in Phoenix is that we are not yet seeing the distressed sales that every doomsday foreteller has been prognosticating over the past 18 months.

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
400 E. VAN BUREN ST	Downtown/Midtown	\$19,984,142	345,568	\$58	Reliance Management	Parallel Capital Partners
3131 E. CAMELBACK RD	Camelback Corridor	\$48,670,477	198,567	\$245	Reliance Management	LPC Desert West
3030 N. CENTRAL AVE	Downtown/Midtown	\$11,628,000	180,981	\$64	Cotterkey Investments	Omninet Capital
8501 N SCOTTSDALE RD	Scottsdale	\$26,500,000	143,653	\$184	Reliance Management	LPC Desert West
17851 N. 85TH ST	Scottsdale	\$12,500,000	93,000	\$134	Reliance Management	Furst Properties

= Transwestern deal

Source: CoStar, Transwestern



MARKET INDICATORS

All Classes of Space | Q3 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	12,258,143	1,416,103	11.6%	21.5%	0	48,053	(173,997)	\$26.12
DOWNTOWN/MIDTOWN (CBD)	21,283,714	4,602,430	21.6%	22.8%	13,246	60,415	(173,550)	\$27.40
CAMELBACK CORRIDOR	12,140,010	2,317,744	19.1%	21.8%	40,000	(74,411)	(171,829)	\$33.40
TEMPE	18,702,198	3,155,871	16.9%	24.6%	297,972	(546,646)	(1,452,953)	\$33.99
EAST VALLEY	17,390,479	2,017,230	11.6%	17.3%	26,032	(24,981)	(196,977)	\$30.44
NORTH PHOENIX	11,060,196	769,043	10.9%	17.9%	0	27,092	280,248	\$26.69
WEST VALLEY	5,435,985	788,430	14.5%	15.0%	39,773	(65,452)	49,580	\$29.66
SCOTTSDALE	24,261,279	3,523,792	14.5%	17.4%	150,000	230,852	(296,782)	\$34.71
NORTH CENTRAL PHOENIX	13,244,106	2,014,735	15.2%	17.5%	0	(119,382)	71,371	\$25.39
TOTAL	135,776,110	20,605,378	15.1%	19.5%	567,023	(464,460)	(2,064,889)	\$29.76

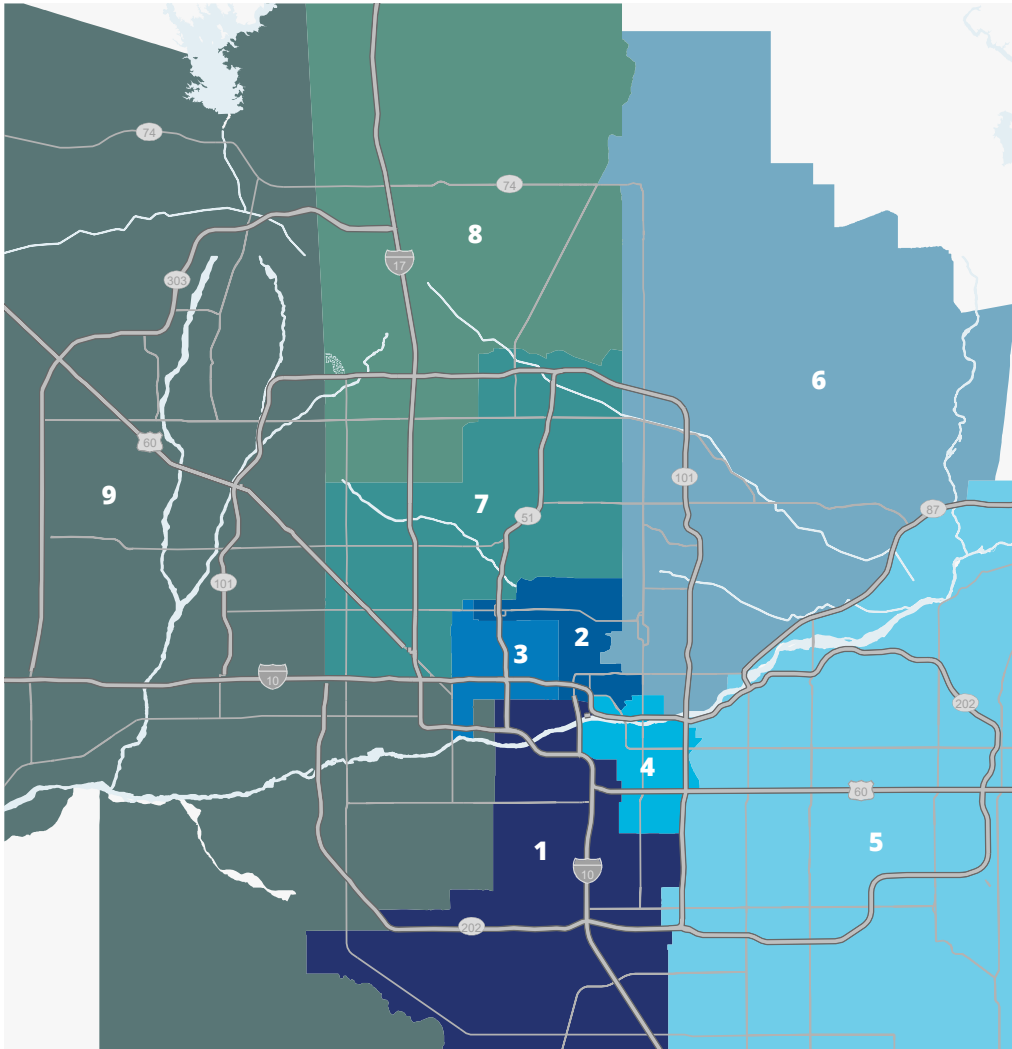
Source: CoStar, Transwestern

MARKET INDICATORS

Class A | Q3 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	2,104,599	465,562	22.1%	50.4%	0	(7,949)	52,916	\$29.40
DOWNTOWN/MIDTOWN (CBD)	10,632,944	3,016,347	28.4%	30.3%	0	(74,789)	(453,449)	\$29.61
CAMELBACK CORRIDOR	7,270,634	1,520,874	20.9%	24.7%	0	(102,834)	(94,066)	\$36.07
TEMPE	10,286,171	1,835,559	17.8%	27.9%	150,000	(460,424)	874,446	\$41.02
EAST VALLEY	6,086,647	982,365	16.1%	26.8%	0	(45,092)	(3,226)	\$33.12
NORTH PHOENIX	6,037,803	487,104	8.6%	16.5%	0	2,821	97,046	\$27.78
WEST VALLEY	882,593	312,726	35.4%	35.4%	0	(90,854)	1,876	\$29.86
SCOTTSDALE	12,125,247	2,169,475	17.9%	21.0%	0	181,289	(307,477)	\$35.69
NORTH CENTRAL PHOENIX	2,933,693	907,135	30.9%	33.0%	0	(50,644)	(62,172)	\$28.65
TOTAL	58,360,331	11,697,147	22.0%	29.6%	150,000	(648,476)	105,894	\$32.36

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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