



TRANSWESTERN

REAL ESTATE
SERVICES

Phoenix Office Report

Q2 2024



Trendlines

	Q2 2024	ONE YEAR AGO	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
Unemployment Rate	2.7%	3.1%	↑	4.5%	↓
Net Absorption (Thousands SF)	(666.3)	(1287.1)	↑	(155.0)	↑
Overall Vacancy Rate	20.0%	18.3%	↑	15.4%	↓
Overall Vacant SF (MSF)	26.2	23.9	↑	19.9	↓
Under Construction (MSF)	0.2	0.6	↓	1.5	↔
Asking Rent, Full Service (PSF)	\$29.42	\$28.95	↑	\$27.68	↑
Sales Volume (Millions)	\$334.30	\$191	↑	\$490.90	↑

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

OFFICE OVERVIEW

Vacancy continues to climb in Phoenix due to tight financial conditions, a slowdown in job growth, and the prominence of hybrid work as many large corporate occupiers have reduced their footprints. Vacancy rose 1.7% year-over-year to 20% in Q2 2024 and has risen every quarter since 2020 Q2. Despite the overall negative sentiment toward office, there remains strong demand for well-located, high-quality offices under 10,000 square feet in amenity-rich buildings.

The office sector's overall weakening demand and high sublease availability, particularly in larger and older office spaces, has put downward pressure on rents. Over the past year, average asking rents increased by only 1.6%, a significant drop from the over 5% gains recorded 12 to 18 months earlier. The increase in rent abatements and tenant improvement allowances have also concealed a more significant decline in rent growth. The rapid expansion of building amenities in top-tier properties in the Camelback Corridor, Scottsdale, or Tempe, coupled with demand for quality spaces, will increase Class A rents and demand in the coming quarters.

As anticipated, sales volume remained below the historical quarterly average at \$334 million in Q2 2024 due to high interest rates, economic uncertainty, and a lack of debt defaults on quality assets. The most notable sale in Q2 2024 was 24th at Camelback, located at 2375 E Camelback Rd in the Biltmore area, which sold for \$86.1 million in an all-cash deal to Columbus Properties, a foreign-based family office. The sale, Phoenix's largest office transaction since 2022, represents a significant shift in the profile of office buyers. The market is now seeing a move away from institutional entities towards private wealth investors, who often use all-cash transactions or private money lenders to purchase high-quality assets at a discount.



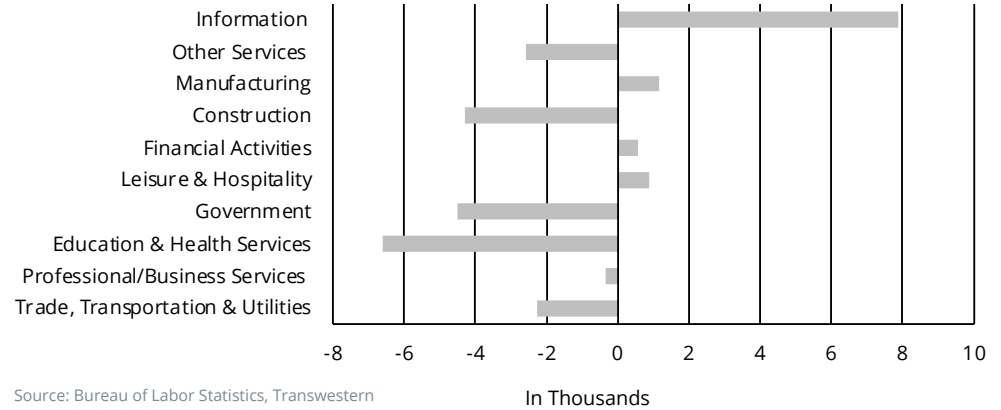
ECONOMY

OFFICE USING EMPLOYMENT GROWTH SLOWS IN PHOENIX

- Phoenix non-farm job growth over the past year totals 27,500 jobs, or 0.6%. Job gains were driven by a 7.9% year-over-year increase in the information sector.
- Phoenix office-using employment increased by 3,900 jobs over the past three months. Phoenix office-using employment now stands at 1.4 million jobs, which is 7.1% above the pre-pandemic peak.
- As of May 2024, the Phoenix unemployment rate is 2.3%, compared to the national unemployment rate of 4.0%.
- Phoenix office-using employment has increased by 8.3% since early 2020, while national office-using employment has increased by 6.3%.
- Phoenix's labor market has 223,300 more jobs than before the pandemic, making it the third-largest gain in the nation. Phoenix will continue to attract office users due to its strong population growth, diverse economy, and highly educated workforce.
- During the June Federal Reserve meeting, the Fed unanimously voted to hold policy rates steady for the seventh consecutive time, leaving the Fed Funds Target Rate unchanged at 5.25% to 5.50%. The Fed is still expecting to cut rates at some point in 2024.

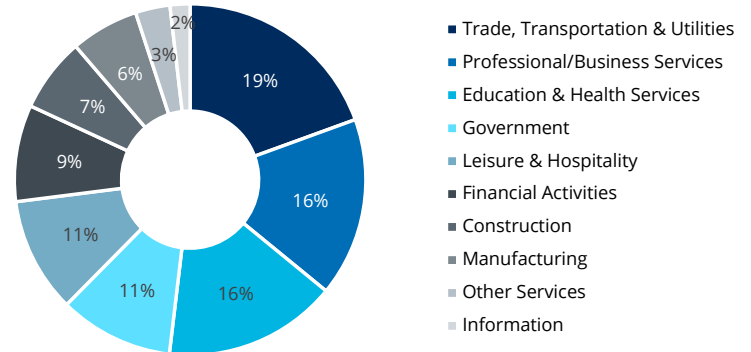
Y-O-Y Change in Jobs by Industry

Phoenix MSA | Q2 2024



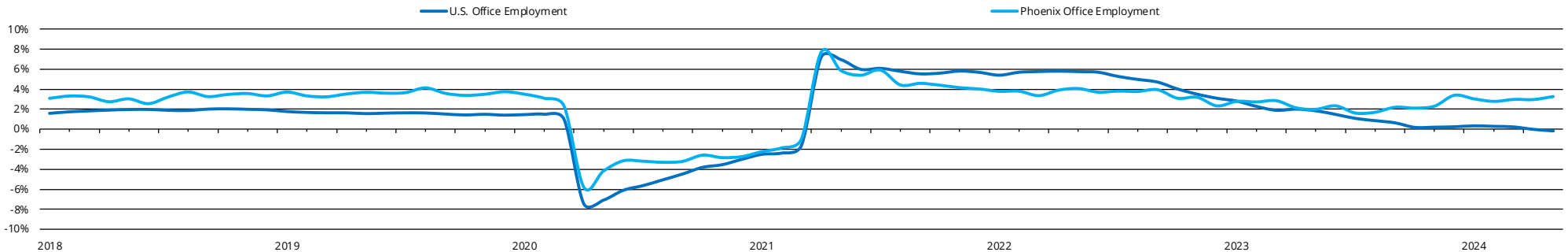
Share of Employees by Industry

Phoenix MSA | Q2 2024



Y-O-Y Change in Office Jobs

Phoenix MSA | Q2 2024



Source: Bureau of Labor Statistics, Transwestern



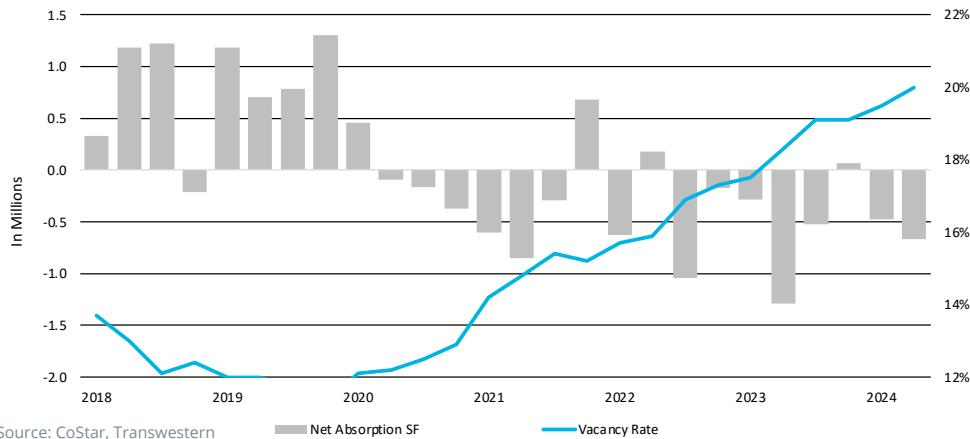
NET ABSORPTION, OCCUPANCY, & LEASING

HIGH VACANCY, NEGATIVE ABSORPTION, AND SLOW LEASING ACTIVITY

- Net absorption regressed for the second consecutive quarter, at negative 666,341 SF. Downtown/Midtown and Tempe had the most negative net absorption.
- Dutch Bros signed a new to market lease for 136,246 SF at 1930 W Rio Salado Parkway in Tempe and was the largest deal of Q2 2024. Other large occupiers were WillScot Mobile Mini Holdings Corp, leasing 89,716 SF in Scottsdale, and Fennemore renewing their lease for 47,474 SF in the Camelback Corridor.
- Vacancy is at an all-time high, at 20%, or 26.2 million SF.

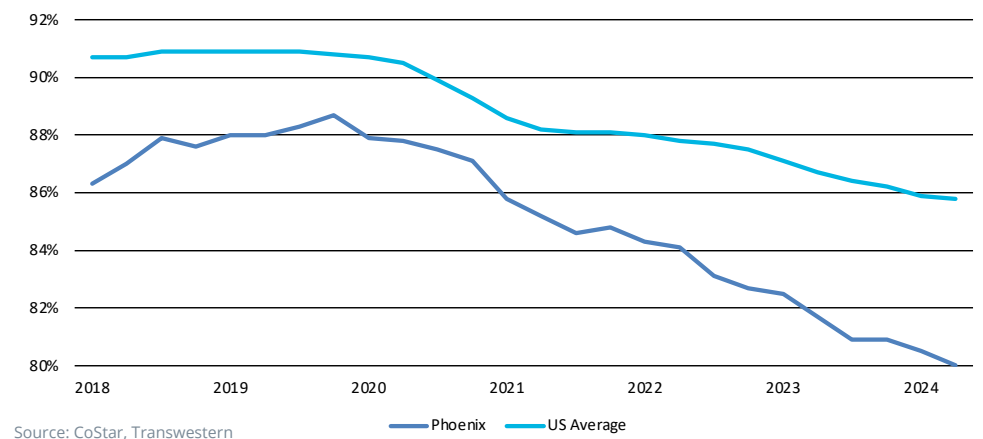
- Phoenix's office occupancy is 80%, while the U.S. city average is 85.8%.
- Net absorption has been negative in Phoenix in 12 of the last 15 quarters. Hybrid work and slow than normal office-using employment have disrupted tenant demand.
- Due to the record-high availability of sublease space, some occupiers might opt to assume another tenant's lease to save on costs.
- Phoenix leasing activity will remain slower than the historical quarterly average due to a slowdown in hiring and overall economic growth. Occupiers will continue to downsize and seek high-quality space in the latter half of 2024.

Net Absorption & Vacancy



Source: CoStar, Transwestern

Phoenix vs U.S. Occupancy Rate



Source: CoStar, Transwestern

Notable Leases

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
Dutch Bros	1930 W Rio Salado Pky	Tempe	New	136,246
WillScot Mobile Mini Holdings Corp	6400 E McDowell Rd	Scottsdale	New	89,716
Fennemore	2394 E Camelback Rd	Camelback Corridor	Renewal	47,474
LPL Financial	500 E Rio Salado Pky	Tempe	New	42,467
Colliers Engineering & Design	4742 N 24th St	Camelback Corridor	New	35,741
Pulte Homes 	222 S Mill Ave	Tempe	New	32,992

= Transwestern deal | Source: CoStar, Transwestern



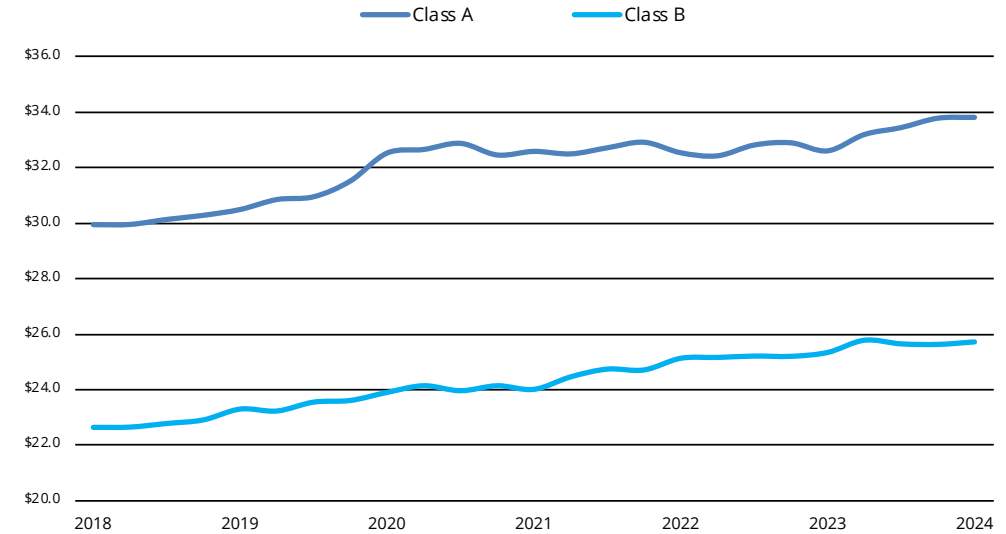
RENTS

STAGNANT RENT GROWTH AND INCREASED CONCESSIONS

- Rent growth made little movement over the past year in Class A & Class B:
 - Asking rents in Class A properties increased to \$32.86 per SF, up 0.1% from a year ago.
 - Asking rents in Class B properties increased to \$24.44 per SF, up 1.5% from a year ago.
- The Camelback corridor is asking an average of \$35 per SF, up 3.8% from a year ago and 5.4% from early 2020.
- Tempe is asking an average of \$34.83 per SF, up 0.9% from a year ago and 11.5% from early 2020.
- Scottsdale is asking an average of \$34.37 per SF, down 0.1% from a year ago, but up 17.2% from early 2020.
- Overall asking rents increased 1.6% year-over-year and 8.9% since early 2020 despite historically weak demand. This is the result of increased rent abatements and higher tenant improvement allowances rather than slashing asking rents.

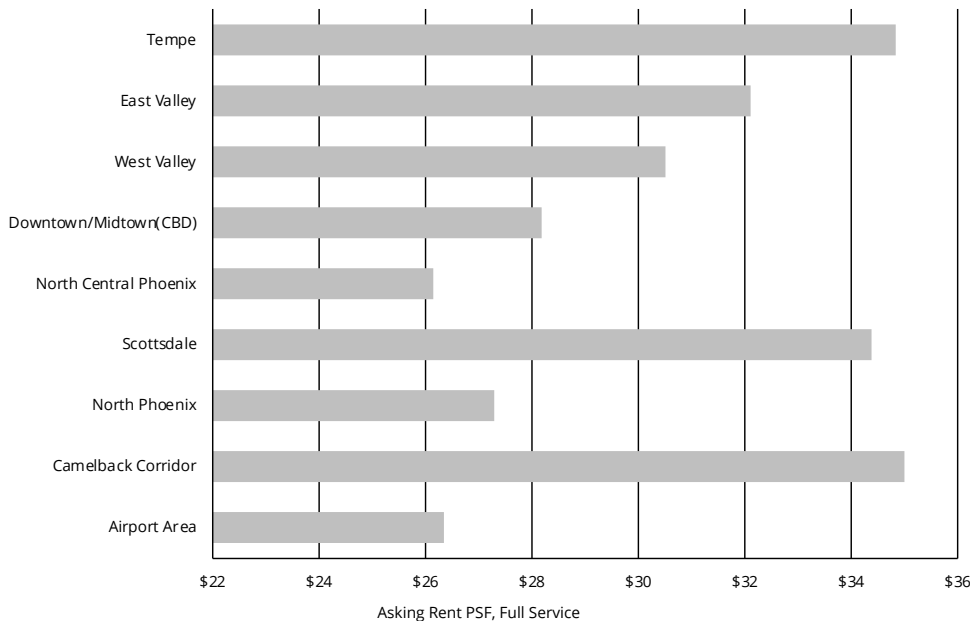
Asking Rent

Class A & Class B



Source: CoStar, Transwestern

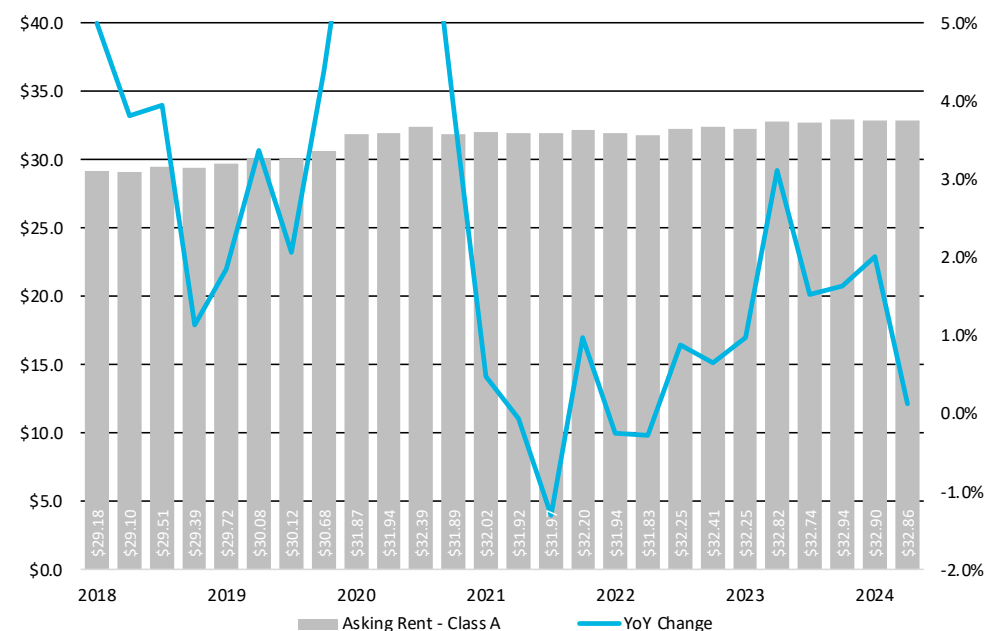
Asking Rents by Submarket



Source: CoStar, Transwestern

Asking Rent & Y-O-Y Change

Class A



Source: CoStar, Transwestern



CAPITAL MARKETS

PRIVATE INVESTORS WILL DRIVE SALES DESPITE NEGATIVE SENTIMENT

- Q2 2024 recorded \$334 million of sales volume, a 106% increase from Q1 2024, but 31.9% below the five-year quarterly average.
- Overall negative sentiment surrounding office properties has sparked interest from ‘contrarian’ private investors who often use all-cash transactions or private money lenders to purchase high-quality assets at a discount.
- The most notable sale in Q2 2024 was 24th at Camelback, located at 2375 E Camelback Rd in the Biltmore area, which sold for \$86.1 million in an all-cash deal to Columbus Properties, a foreign-based family office.
- 433 S Farmer Ave, a five-story, 180,910-square-foot office building in Tempe featuring the state’s first exposed Cross Laminated Timber (CLT) construction—which utilizes young trees and combines layers of natural timber for an eco-friendly building approach—was sold for \$56.2 million to Breakwater Property Partners. The property was 35% leased at the time of the sale.

Notable Sales

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
2375 E Camelback Rd	Camelback Corridor	\$86,100,000	308,827	\$279	Columbus Properties, Inc.	New York Life Investments
433 S Farmer Ave	Tempe	\$56,200,000	180,910	\$310	Breakwater Property Partners	M.A. Mortenson Company
4141 N Scottsdale Rd	Scottsdale	\$26,050,000	162,227	\$161	George Oliver Companies	Palisades Capital Realty Advisors
3200 N Central Ave	North Central Phoenix	\$24,470,000	349,627	\$70	Younan Company	DPC Development Companies
1825 E Buckeye Rd	Airport Area	\$16,080,000	196,911	\$82	Mark Heymann	Blackstone

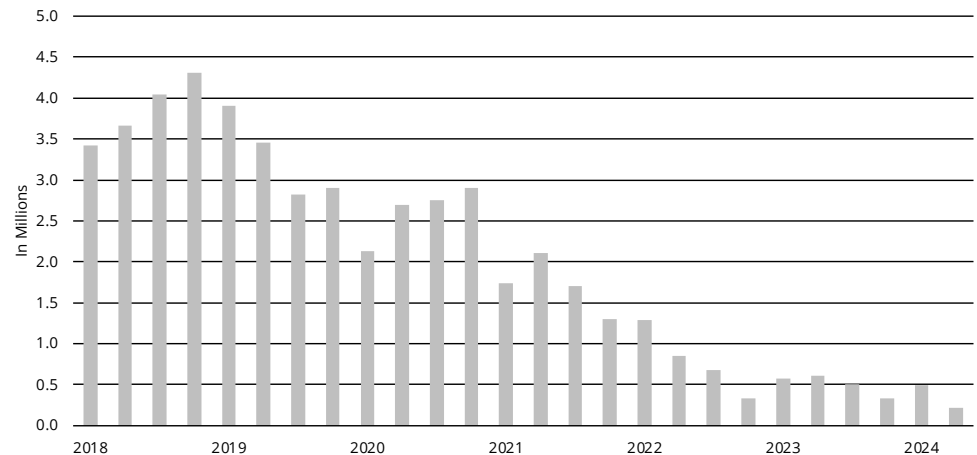
= Transwestern deal | Source: CoStar, Real Capital Analytics, Transwestern

UNDER CONSTRUCTION

DECLINE IN NEW CONSTRUCTION AS CAUTION PREVAILS AMONG LENDERS

- New construction continues to decline from its peak in Q4 2018 of 4.3 million SF. There is currently 214,800 SF under construction, in just one building—One Scottsdale. One Scottsdale is a modern, Class A development a few miles north of the Kierland Commons and is set to be delivered in 2025.
- With just one building under construction, supply-side pressure is essentially non-existent. ‘Newer’, Class A properties with walkable amenities in highly desirable areas will outperform the competition.
- Lenders remain cautious and apprehensive about the economy, interest rates, and the future trajectory of office space. Construction activity will continue to be muted in future quarters.

Under Construction



Source: CoStar, Transwestern



FOR MORE INFORMATION

Carter Clemmensen

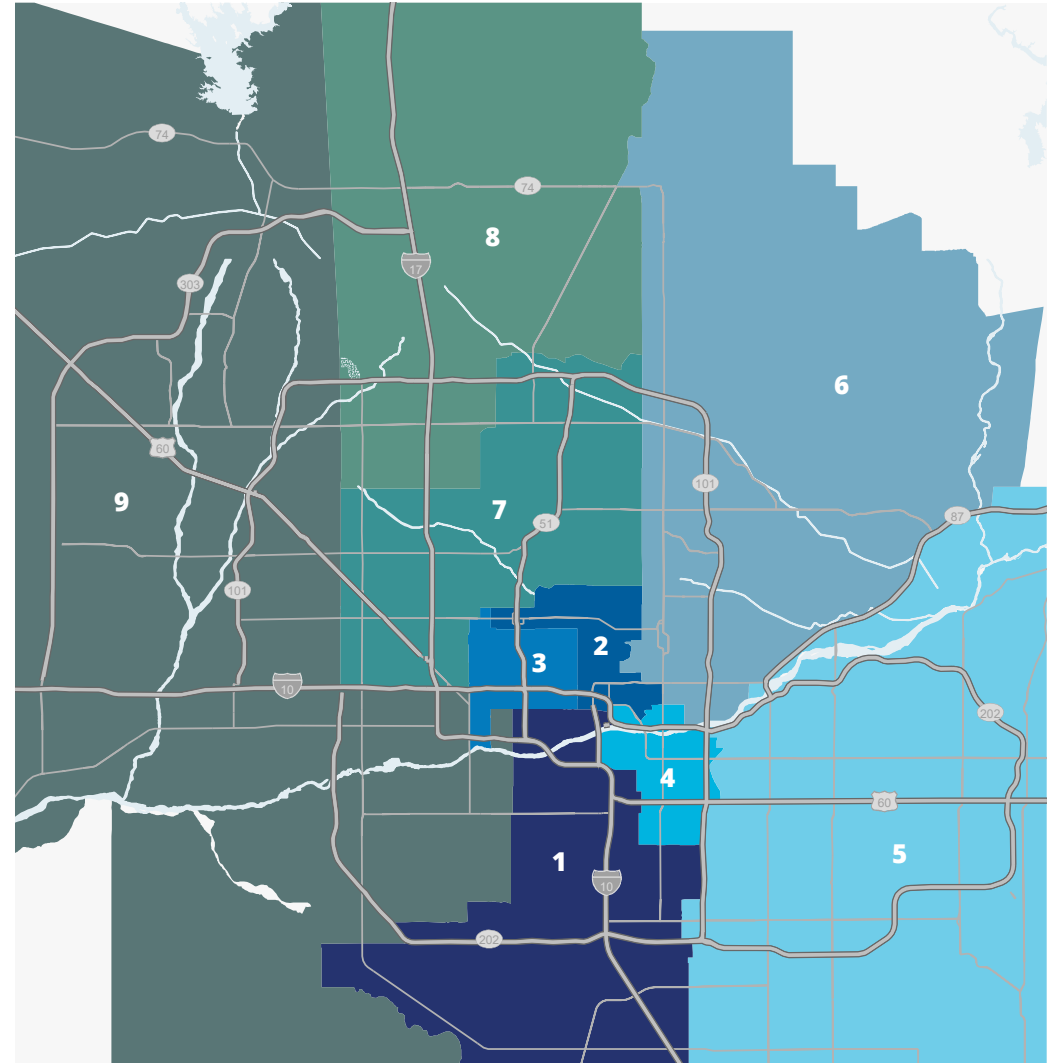
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RESEARCH METHODOLOGY

The information in this report is a compilation of single- and multi-tenant office properties 10,000 SF and larger in Phoenix. Medical offices and government-owned buildings are excluded from analysis.

ABOUT TRANSWESTERN

The privately held Transwestern companies have been delivering a higher level of personalized service and innovative real estate solutions since 1978. Through an integrated, customized approach that begins with fresh ideas, the firm drives value for clients across commercial real estate services, development, and investment management. Operating from 33 U.S. office, Transwestern extends its platform capabilities globally through strategic alliance partners whose unique geographic, cultural, and business expertise fuels creative solutions. Learn more at transwestern.com.



PHOENIX OFFICE SUBMARKETS

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