



TRANSWESTERN

PHOENIX OFFICE MARKET

Q3 2024



TRENDLINES

	Q3 2024	ONE YEAR AGO	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
UNEMPLOYMENT RATE	3.9%	3.8%	↑	4.4	↓
NET ABSORPTION (Thousands SF)	(748.8)	(878.5)	↑	(215.3)	↑
OVERALL VACANCY RATE	21.0%	19.4%	↑	16.4%	↓
OVERALL VACANT SF (MSF)	27.8	25.7	↑	21.5	↓
UNDER CONSTRUCTION (MSF)	0.1	0.6	↓	1.5	↔
ASKING RENT, FULL SERVICE (PSF)	\$30.37	\$29.90	↑	\$28.93	↑
SALES VOLUME (Millions)	\$221.5	\$264	↓	\$479.8	↑

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

OFFICE OVERVIEW

Vacancy in Phoenix’s office market continues to rise, driven by sluggish job growth in office-using sectors and widespread space reductions due to remote work. Vacancy has climbed over 8.8% since late 2019, with more than 5 million SF vacated since the onset of the pandemic. Despite the overall negative sentiment toward office, there remains strong demand for well-located and high-quality offices in amenity-rich buildings.

Weakened tenant demand and high sublease availability, especially in larger and older office spaces, are putting downward pressure on rents in Phoenix. While average asking rents rose by 1.6% over the past year to \$30.37 per SF, this is a sharp decline from the over 4% increases seen just 12 to 18 months ago. Higher tenant improvement (TI) allowances and increased rent abatements are also concealing deeper declines in effective rents. 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 in premium markets. On the other hand, the outlook for Class B demand and rent growth remains pessimistic.

Office sales volume in Phoenix remained muted in Q3 2024, with just \$221 million in transactions in the quarter, a 67% decline from the 2021/2022 average. Private investors and owner/users still dominate the market, often relying on all-cash deals to acquire discounted, high-quality assets. Smaller transactions under \$5 million have also surged, making up over 30% of total sales since early 2023. The largest deal of Q3 2024 was Samuel & Co Inc’s acquisition of the 366,513 SF office building at 9501 E Shea Blvd for \$71.5 million or \$195.08/SF, built in 1975 and fully occupied by CVS Health Corporation. The sale proceeds were used to repay \$55 million on J.P. Morgan’s senior mortgage and \$8 million on a mezzanine loan.



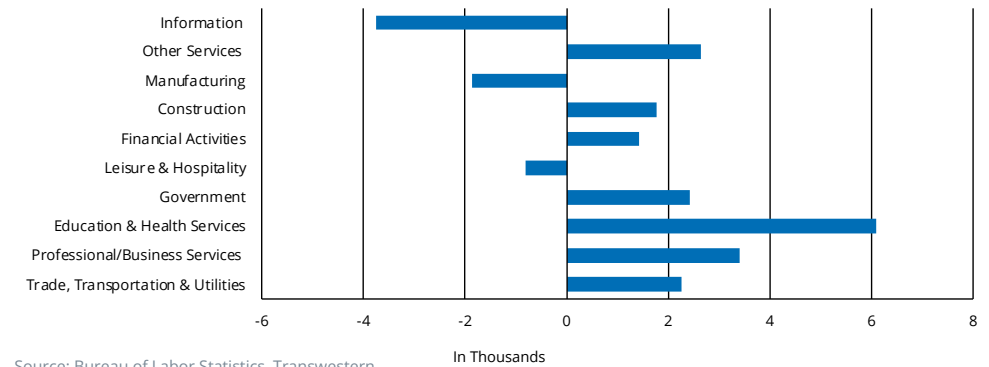
ECONOMY

Office Using Employment Growth Slows in Phoenix

- Phoenix non-farm job growth over the past year totals 54,600 jobs, or 2.3%. Job gains were driven by a 6.1% year-over-year increase in the education & health services sector.
- Phoenix office-using employment decreased by 200 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 3.9%, compared to the national unemployment rate of 4.2%.
- Phoenix office-using employment has increased by 17.9% since early 2020, while national office-using employment has increased by 13.7%.
- Large educational institutions like Arizona State University and the University of Arizona play a key role in strengthening the Phoenix's talent pool.
- Major corporate investments include Taiwan Semiconductor Manufacturing Company (TSMC), which is expanding to a \$65 billion investment with three fabs, and Intel's \$20 billion expansion at its Chandler campus, both contributing significantly to job creation and attracting related businesses to the region.
- At the September 18th meeting, the Federal Reserve lowered interest rates by a half percentage point to a range between 4.75%-5%, marking the first reduction since 2020.

Y-O-Y CHANGE IN JOBS BY INDUSTRY

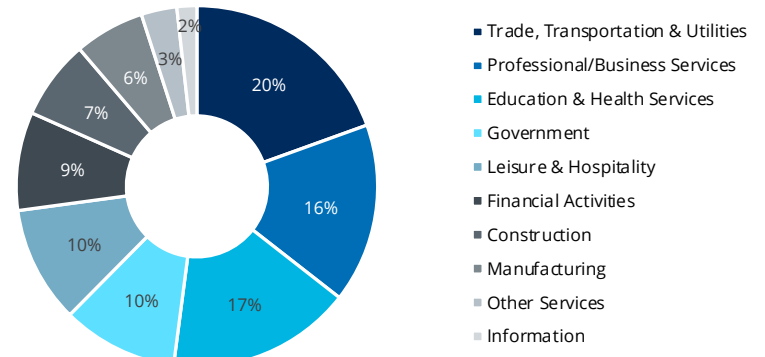
Phoenix | August 2024



Source: Bureau of Labor Statistics, Transwestern

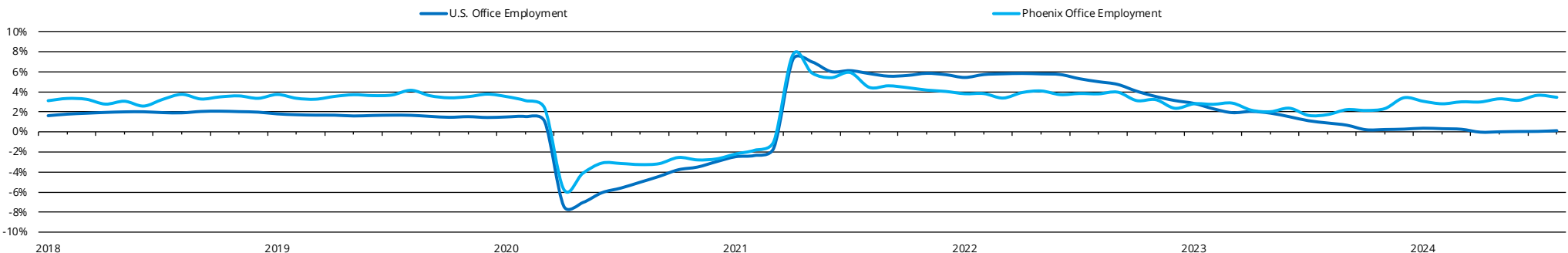
SHARE OF EMPLOYEES BY INDUSTRY

Phoenix | August 2024



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern



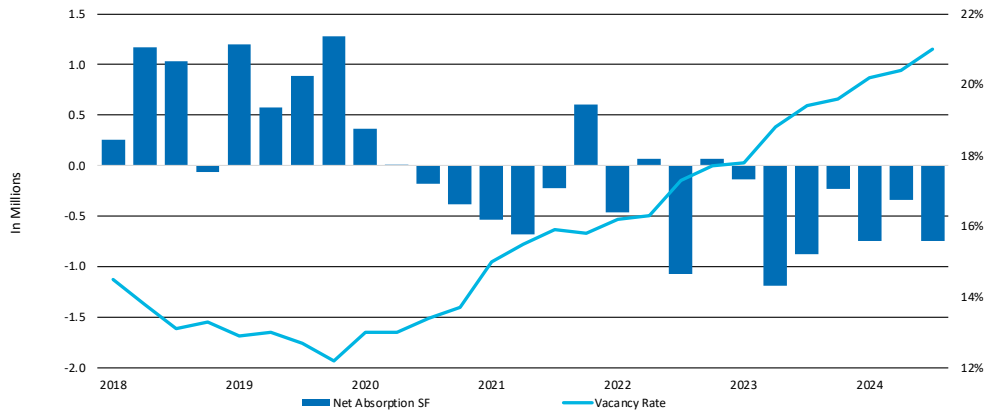
NET ABSORPTION, OCCUPANCY, AND LEASING

Negative Absorption and Soaring Sublease Availability

- Net absorption regressed for the seventh consecutive quarter, at negative 748,845 SF. Scottsdale and Downtown/Midtown had the most negative net absorption.
- Move.com occupying 5601 N Pima Rd in a sublease was the largest deal of Q3 2024. Other large occupiers were Kimley-Horn for 34,771 SF at 2046 Riverview Auto Dr and Arizona Coll for 27,026 SF at 4425 W Olive Ave.
- Vacancy is at an all-time high, at 21%, or 27.7 million SF.
- Phoenix's office occupancy is 79%, while the U.S. city average is 85.8%.

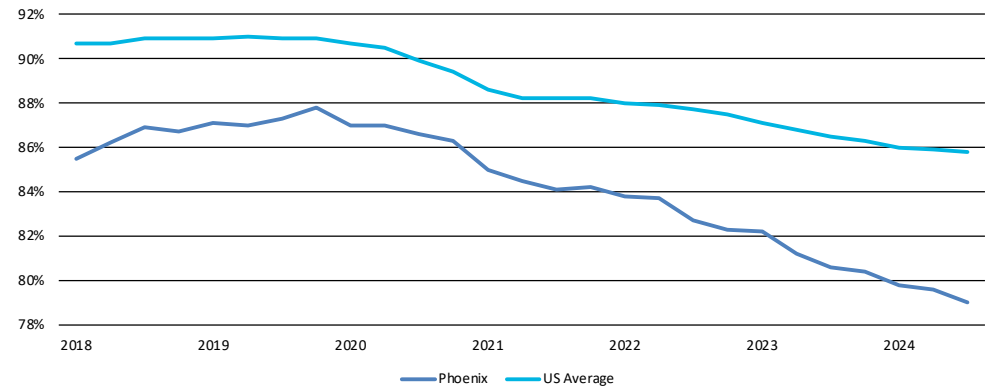
- Net absorption has been negative in Phoenix in eight of the last ten quarters. Hybrid work and slow than normal office-using employment have disrupted tenant demand.
- Sublease availability has surged to 7.0 million SF, tripling the historical average, as post-COVID hybrid work models have led many companies to put large blocks of space on the market, particularly from regional offices. Due to the record-high availability of sublease space, some occupiers might opt to assume another tenant's lease to save on costs.
- Looking ahead, the Phoenix office market is poised for stronger demand as many blue-chip firms announce return-to-office plans and anticipated interest rate cuts will stimulate demand and growth.

NET ABSORPTION & VACANCY



Source: CoStar, Transwestern

PHOENIX VS U.S. OCCUPANCY RATE



Source: CoStar, Transwestern

NOTABLE LEASES

TENANT	ADDRESS	SUBMARKET	TYPE	SF LEASED
MOVE.COM	5601 N Pima Rd	Scottsdale	Sublease	65,655
KIMLEY-HORN	2046 Riverview Auto Dr	Mesa	Direct	34,771
ARIZONA COLL	4425 W Olive Ave	North Phoenix	Direct	27,026
HONEYWELL	1150 W Grove Pky	Tempe	Direct	22,923
MCCARTHY LAW	9200 E Pima Center Dr	Scottsdale	Direct	20,047

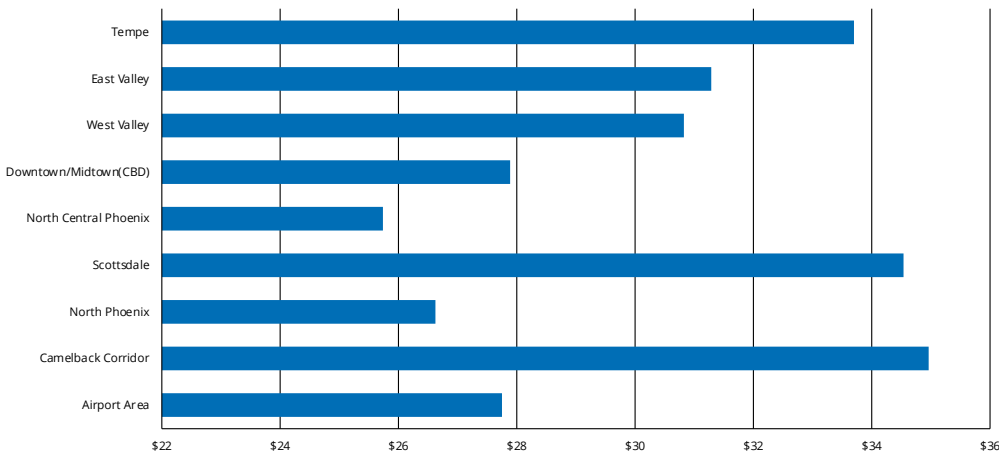


RENTS

Rent Growth Moderates Amid Rising Vacancies and Increased Tenant Incentives

- Rent growth in Phoenix has slowed since early 2022 due to rising vacancies and weaker tenant demand, though the metro still posted a 1.6% increase in average asking rents over the past year:
 - Asking rents in Class A properties increased to \$33.55 per SF, up 1.9% from a year ago.
 - Asking rents in Class B properties increased to \$26.07 per SF, up 3.6% from a year ago.
- The Camelback corridor is asking an average of \$34.96 per SF, up 4.7% from a year ago and 6.1% from early 2020. Camelback Corridor leads all submarkets.
- Tempe is asking an average of \$33.70 per SF, which has held steady from a year ago but is up 1.6% from early 2020.
- Scottsdale is asking an average of \$34.54 per SF, down 0.4% from a year ago and 12.3% from early 2020.
- To attract tenants, many property owners have increased tenant improvement (TI) allowances rather than reducing asking rates, particularly in premium submarkets like the Camelback Corridor, Scottsdale, and Tempe, where TI allowances can reach up to \$100/SF.
- Rent growth is expected to remain modest, around 1% annually through 2025, with downward pressure from increased sublease competition and potential new owners offering lower rents after purchasing properties at discounts.

ASKING RENTS BY SUBMARKET

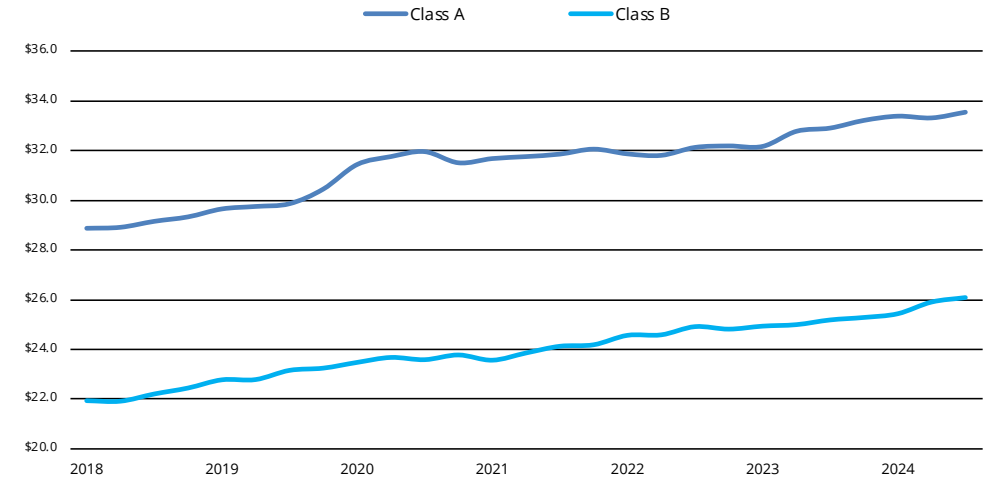


Source: CoStar, Transwestern

Asking Rent PSF, Full Service

ASKING RENT

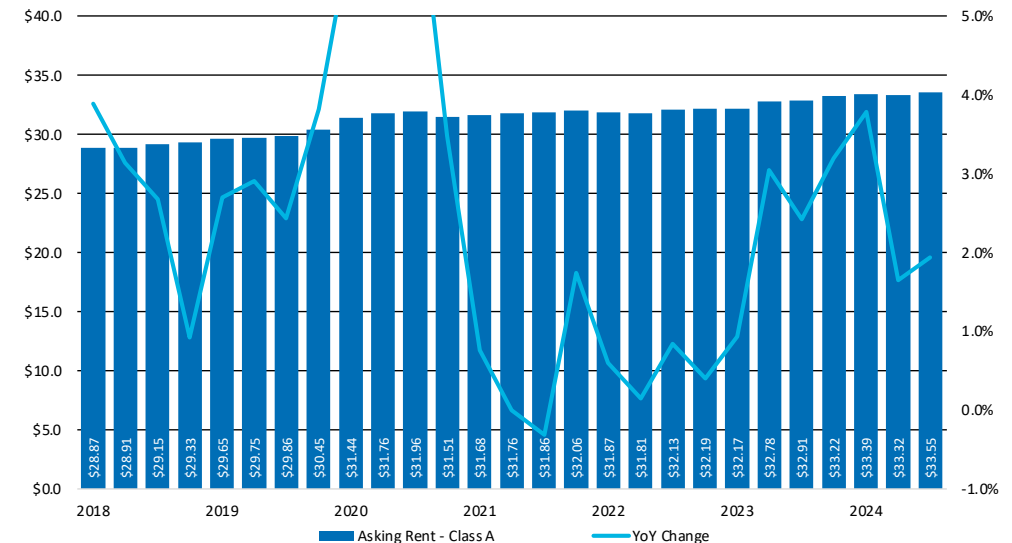
Class A & Class B



Source: CoStar, Transwestern

ASKING RENT & Y-O-Y CHANGE

Class A



Source: CoStar, Transwestern



CAPITAL MARKETS

Q3 2024 Sales Slump in Phoenix as Buyers Target Discounted Class A Assets

- Q3 2024 recorded \$221 million of sales volume, a 47% decrease from Q2 2024, and 54% below the five-year quarterly average.
- Challenging investment conditions, including negative NOI growth and tighter lending, have muted transaction activity.
- Larger deals focus on value-add and opportunistic strategies, with Class A assets trading at notable discounts. For example, Columbus Properties purchased 24th at Camelback in Q2 2024 for \$86.1 million in an all-cash deal, a 14% decline from its 2018 sale price.
- There is interest from ‘contrarian’ private investors who often use all-cash transactions or private money lenders to purchase high-quality assets at a discount.
- The largest deal of Q3 2024 was Samuel & Co Inc’s acquisition of the 366,513 SF office building at 9501 E Shea Blvd for \$71.5 million or \$195.08/SF, built in 1975 and fully occupied by CVS Health Corporation. The sale proceeds were used to repay \$55 million on J.P. Morgan’s senior mortgage and \$8 million on a mezzanine loan.

NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
9501 E SHEA BLVD	Scottsdale	\$71,500,000	366,513	\$195	Samuel & Co Inc	Net Lease Office Properties
2512 W DUNLAP AVE	N Central Phoenix	\$12,360,000	182,000	\$68	Caliber Companies	ViaWest Group
2411 W ROSE GARDEN LN	North Phoenix	\$12,000,000	67,280	\$178	Michael Godbehere	Schitzer Investment Corp
1444 W AUTO DR	Airport Area	\$11,500,000	17,412	\$660	Door Christian Fellowship Church	Kohr Roer Griffith LLC
9977 N 90TH ST	Scottsdale	\$11,000,000	91,082	\$121	West Coast Capital Partners	Regent Properties

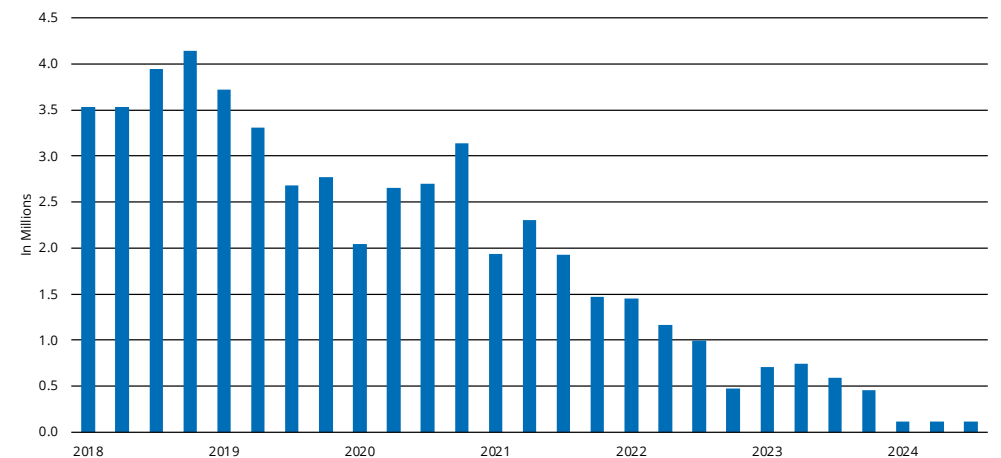
= Transwestern deal | Source: CoStar, Real Capital Analytics, Transwestern

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 119,222 SF under construction, in just one building—Gilbert Spectrum.
- Supply-side pressure is essentially non-existent. Existing ‘newer’, Class A properties with walkable amenities in highly desirable areas will continue to outperform the competition.
- New office construction in Phoenix has slowed significantly due to weaker tenant demand, higher development costs, and limited construction financing. Construction activity will continue to be muted in future quarters.

UNDER CONSTRUCTION



Source: CoStar, Transwestern



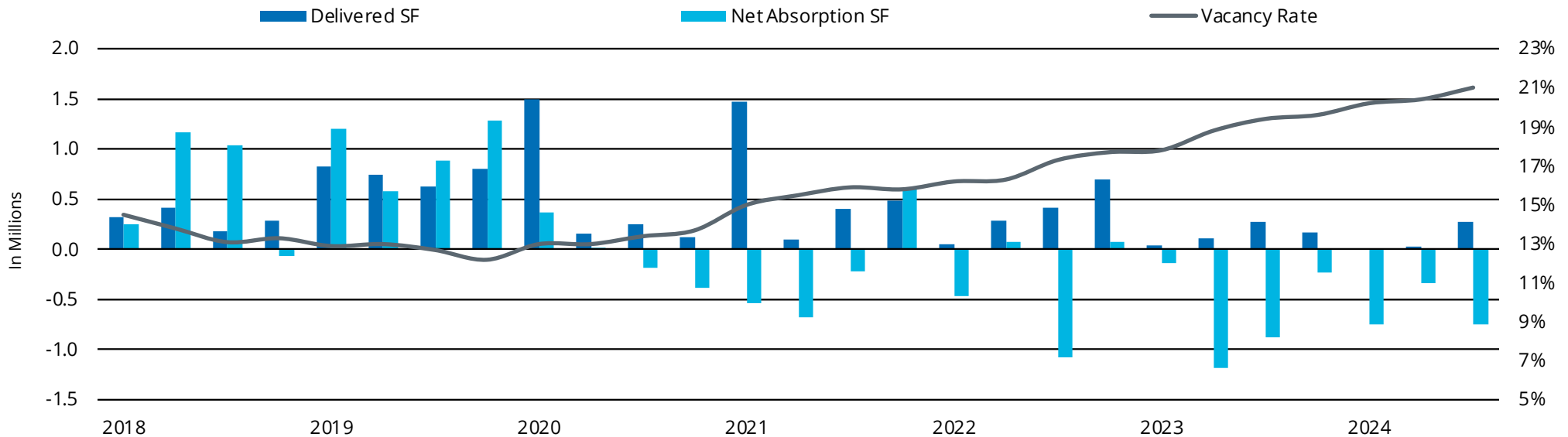
MARKET INDICATORS

All Classes of Space

SUBMARKET	INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	OVERALL VACANCY RATE	SF UNDER CONSTRUCTION	NET ABSORPTION SF	Y-O-Y NET ABSORPTION SF	ASKING RENT PSF
AIRPORT AREA/SE PHOENIX	11,488,301	3,174,574	19.5%	27.6%	0	61,222	(500,345)	\$27.75
DOWNTOWN/MIDTOWN (CBD)	20,592,561	5,172,773	25.1%	26.2%	0	(139,927)	(608,035)	\$27.89
CAMELBACK CORRIDOR	12,840,493	2,158,014	16.8%	18.6%	0	(27,155)	237,022	\$34.96
TEMPE	18,850,384	3,460,855	18.4%	25.5%	0	(72,685)	(298,146)	\$33.70
EAST VALLEY	17,100,064	2,298,049	13.4%	18.4%	119,222	(83,241)	(265,269)	\$31.28
NORTH PHOENIX	10,636,034	895,952	8.4%	15.1%	0	(99,536)	26,144	\$26.62
WEST VALLEY	5,484,541	773,516	14.1%	15.4%	0	19,252	(13,532)	\$30.82
SCOTTSDALE	24,607,034	3,807,490	15.5%	18.6%	0	(327,220)	(483,330)	\$34.54
NORTH CENTRAL PHOENIX	13,284,730	2,322,378	17.5%	18.8%	0	(79,555)	(271,958)	\$25.74
TOTAL	134,884,142	24,063,601	16.5%	20.5%	119,222	(748,845)	(2,177,449)	\$30.37

Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern



FOR MORE INFORMATION

Carter Clemmensen

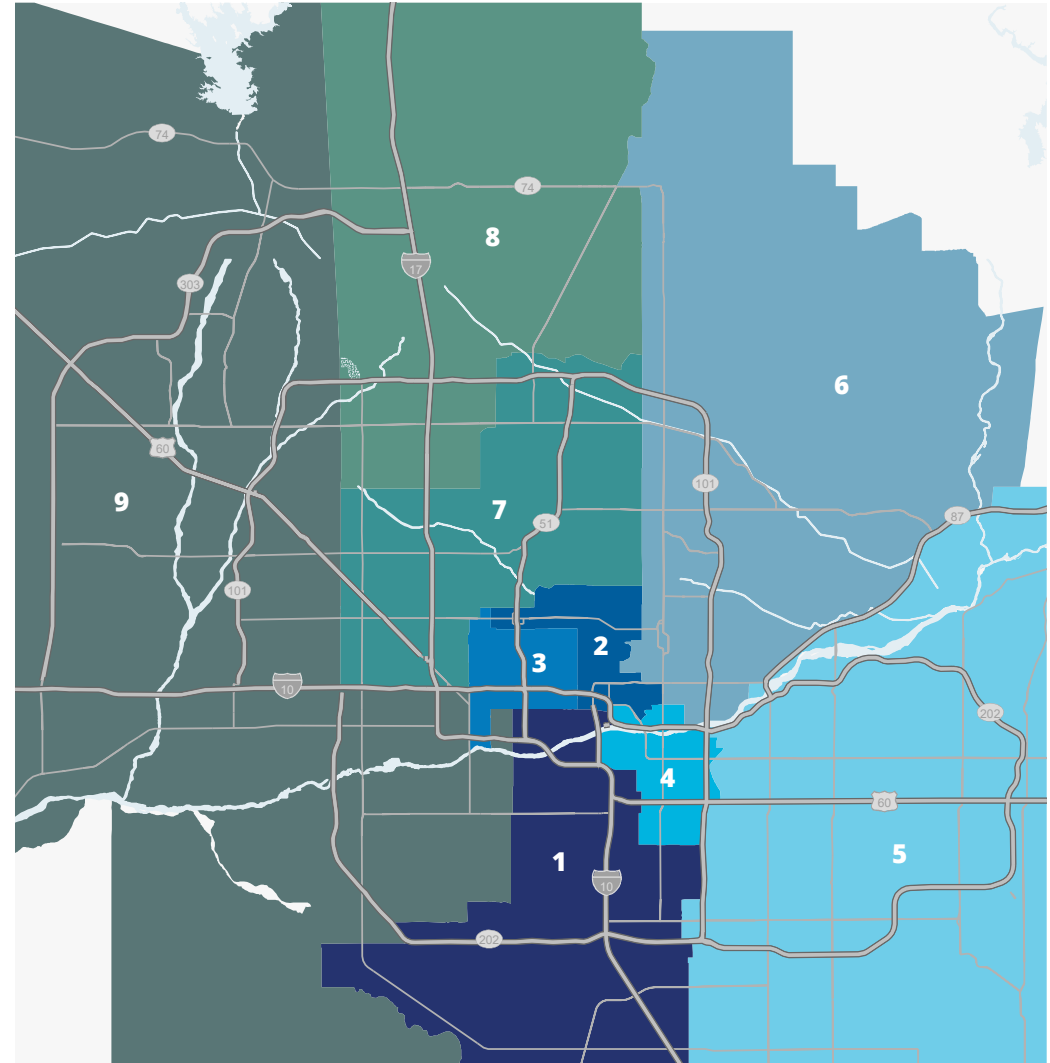
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RESEARCH METHODOLOGY

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