

PHOENIX OFFICE MARKET

Q4 2024



TRENDLINES

	Q4 2024	Q4 2023	ONE-YEAR TREND	FIVE-YEAR AVERAGE	12-MONTH FORECAST
Unemployment Rate	3.5	0.0	↓	0.2	↔
Net Absorption (Thousands SF)	150.2	(237.9)	↑	(254.6)	↑
Overall Vacancy Rate	20.8%	19.6%	↑	16.8%	↓
Overall Vacant Sf (MSF)	22.5	19.9	↑	18.6	↓
Under Construction (MSF)	0.2	0.5	↔	1.4	↔
Asking Rent (PSF)	\$30.10	\$29.35	↑	\$28.50	↔
Sales Volume (Millions)	\$414.0	\$107	↑	\$382.5	↑

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

OFFICE MARKET OVERVIEW

First Positive Net Absorption Recorded in 9 Quarters

The Phoenix office market's slow churn through the post-pandemic market continued into Q4 of 2024, marking another set toward a slow recovery. 2024 brought several quarters of mixed data, with the volatility making it difficult to predict where the market was heading in the near-term future. Yet Q4 has been perceived as a step in the right direction for the market, a statement brought to life by the recorded 150,200 square feet of positive net absorption. A positive figure has not been shown since Q4 of 2022 or the last 9 quarters. This positive momentum is accompanied by a decrease in the overall vacancy rate from its near-record high level, as well as sales volume doubling, all happening on a quarter-over-quarter basis.

The Federal Reserve's rate cuts last year have played a significant role in the Q4 surge of investment volume. The Fed began their easing cycle with a bold 50 bps reduction in September, followed by additional cuts of 25 bps in both November and December. These cumulative reductions, totaling 100 bps, mark the most aggressive monetary easing since 2009. These actions have led to a more favorable environment for investors, which have boosted total sales volume, surpassing Q3's total by \$206 million and finalizing at \$413 million.



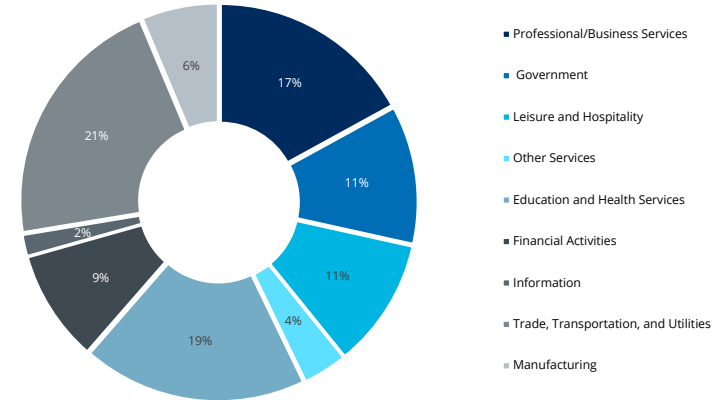
ECONOMY

Unemployment Continues to Rise

- The unemployment rate in the Phoenix metro area increased by 10 bps over the past quarter, rising from 3.4% to 3.5%. This small quarterly increase is not alarming as it follows a decrease of 20 bps that occurred in Q3. However, a juxtaposition can be seen when considering the longer-term trend, as unemployment has been slowly rising since August 2023, increasing by 190 bps.
- Education and health services remain one of the top industries in Phoenix, consistently showing yearly gains in total employment. Over the past six months, the industry achieved a 6% increase in total employment
- Professional and Business Services remain nearly unchanged as a slight increase of 1% can be seen for job growth in the industry. The same can be said for the hospitality industry and manufacturing. On the other hand, financial employers have increased jobs by 2%.

SHARE OF EMPLOYEES BY INDUSTRY

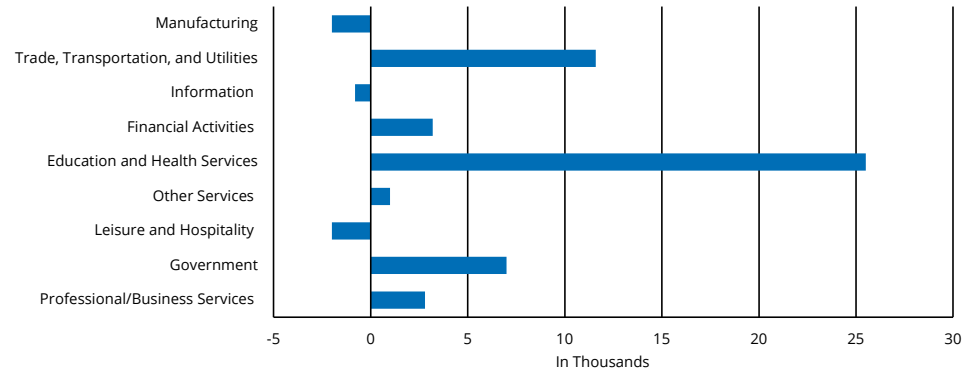
Phoenix | February 2024



Source: Bureau of Labor Statistics, Transwestern

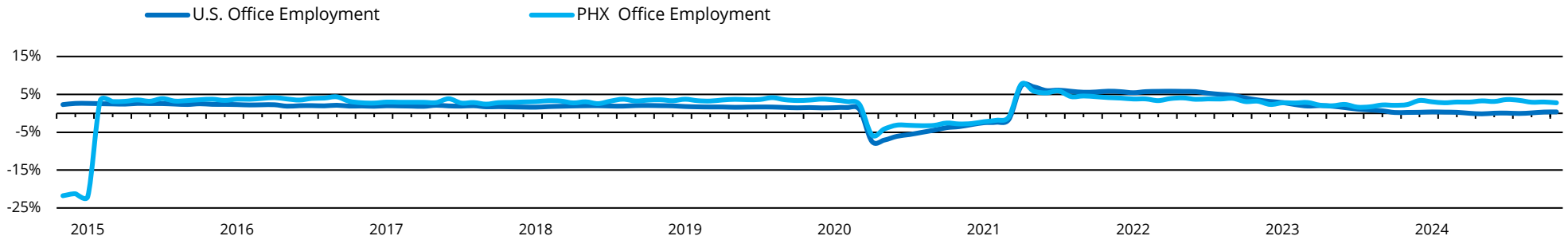
Y-O-Y CHANGE IN JOBS BY INDUSTRY

Phoenix



Source: Bureau of Labor Statistics, Transwestern

Y-O-Y CHANGE IN OFFICE JOBS



Source: Bureau of Labor Statistics, Transwestern

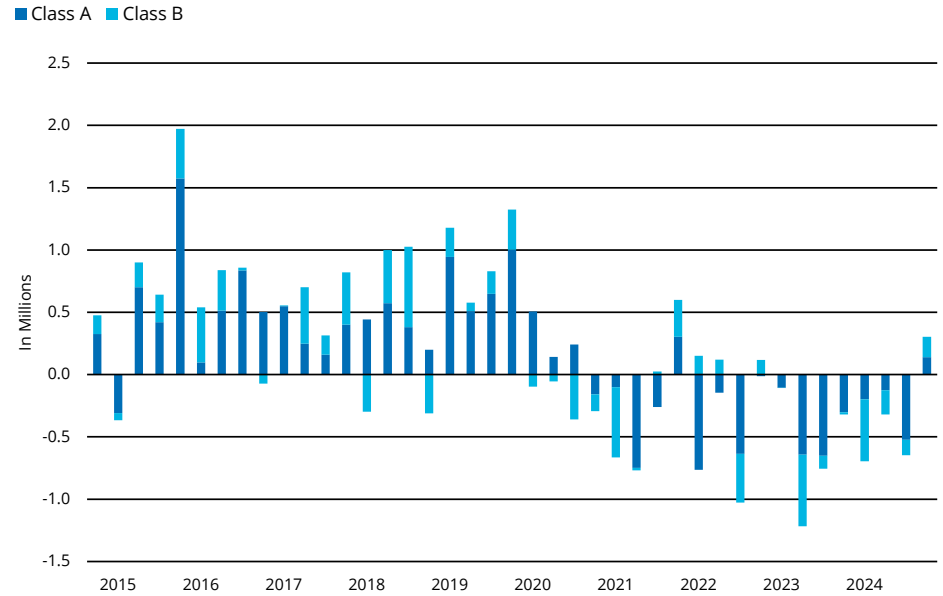


NET ABSORPTION

Positive Net Absorption for First Time in 2 Year Absence

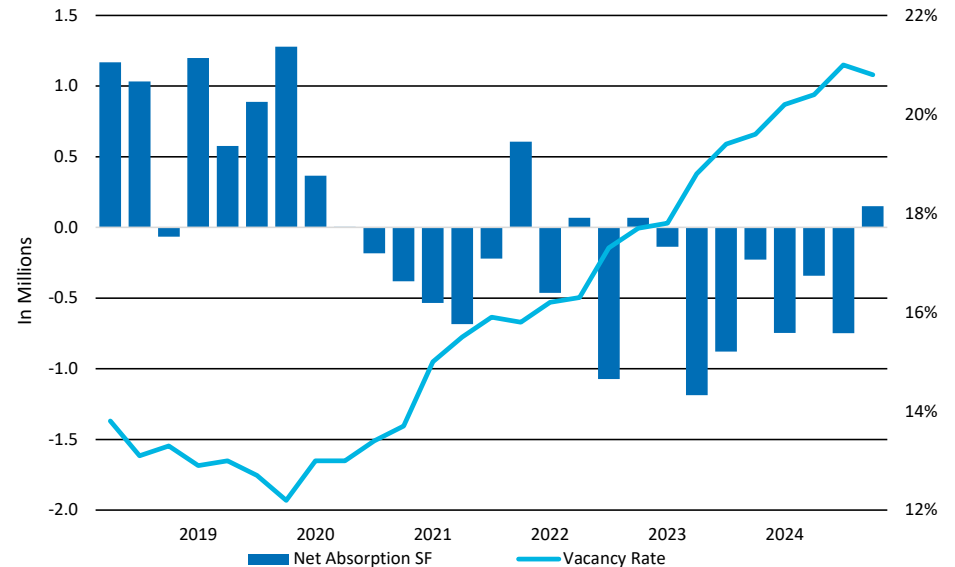
- With a positive net absorption of 105,202, Q4 marks the first time the market has experienced positive absorption in the past two years. The previous two occurrences both took place in 2022, each recording a similar figure of roughly 70,000. While one quarter is not enough to signify a shift in the market, a comparison of the annual data from 2023 to 2024 shows a positive decrease of 30%. Although the 2024 total remains largely negative at 1.7 million square feet, the progressive step is still noticeable, as it dropped from 2.4 million square feet in 2023.
- The Scottsdale and Tempe submarkets stood out as the top performers in terms of net absorption per square foot. Scottsdale recorded a positive 286,482 square feet, while Tempe recorded 245,280 square feet. On the other end of the spectrum, the North Phoenix and East Valley submarkets struggled, with North Phoenix recording a negative 178,277 square feet of absorption, and East Valley recording a negative 234,275 square feet.

NET ABSORPTION BY CLASS



Source: CoStar, Transwestern

NET ABSORPTION & VACANCY Q4 2024



Source: CoStar, Transwestern

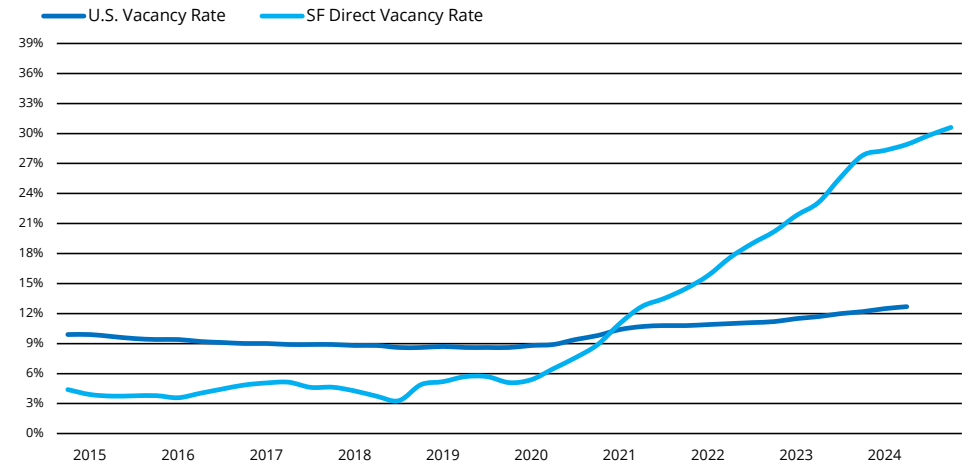


VACANCY

Vacancy Rate Pivots in the Right Direction

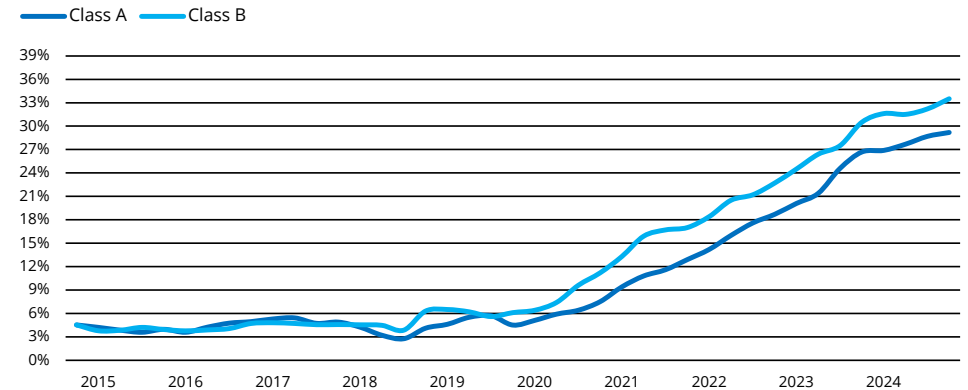
- Vacancy in the Phoenix market has been steadily rising post-pandemic, climbing 8.8% since Q1 2020. During this increase, vacancy nearly reached its peak in Q3, falling just 40 basis points short of the all-time high recorded in Q2 2011, with a vacancy rate of 21% in Q3 2024. However, for the first time in 20 quarters, the rate has pivoted with a slight decrease resting at 20.8% and is predicted to follow this path going into 2025.
- Scottsdale boasts the highest office inventory among all submarkets, with 24.7 million square feet of space. Despite this surplus, it stands out with the second lowest vacancy rate in the market at 17.4%. The West Valley submarket record the lowest rate at 15.4%.
- The SE Phoenix/Airport Area and Downtown/Midtown submarkets have been hit the hardest, each recording a vacancy rate of 26%. This is 7% higher than the combined average of the other submarkets.

OVERALL VACANCY RATE



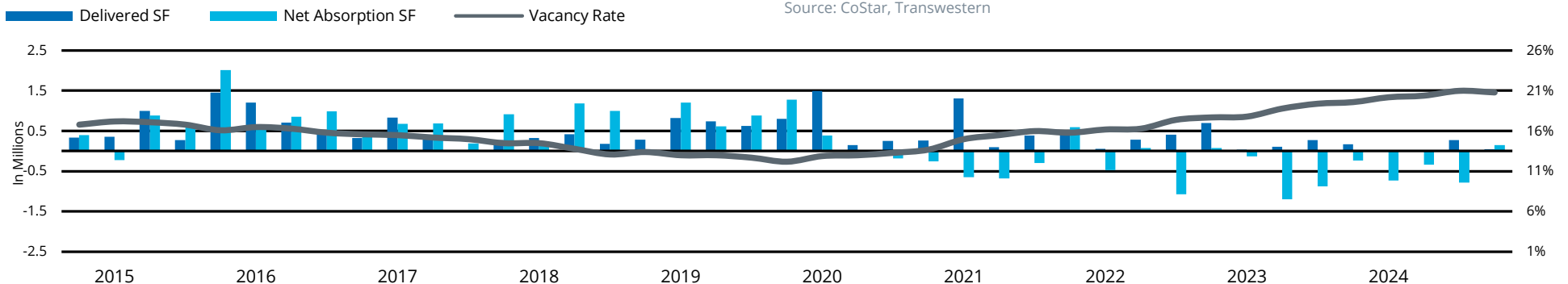
Source: CoStar, Transwestern

OVERALL VACANCY RATE BY CLASS



Source: CoStar, Transwestern

DELIVERY IMPACT ON KEY INDICATORS



Source: CoStar, Transwestern

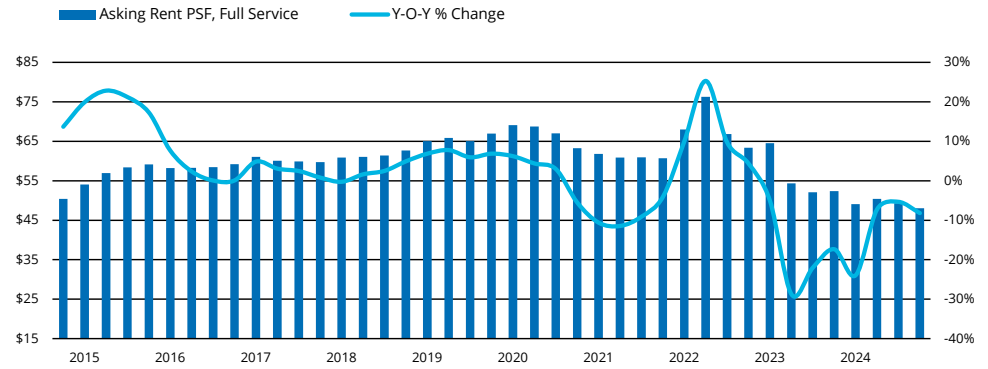


LEASING AND RENTAL RATES

Rental Rates Remain Stable

- Over the past year, rental rates have remained stable, with minimal fluctuations. Rates have hovered around \$30 throughout 2023 and continued into 2024. Historically, rates have seen steady improvement, rising from \$26 in 2019 to approximately \$29 by the end of 2022.
- Class A Asking rents remain only slightly higher than class-wide rates. Residing at \$32.40 at the end of Q4.
- The Camelback Corridor submarket recorded the highest average Class A full service asking rent in the Phoenix metro, with a recorded rate of \$36.70 for the area. Followed closely by the Tempe submarket with an average asking rate of \$36.40.

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
OSBI	7200 West Bell Rd	Arrowhead	Renewal	27,956
Industrious	201 E Washington St	Downtown	New	26,053
Assured Partners	14614 N Kierland Blvd	Scottsdale Airpark	Sublease	25,558
NexMetro	2575 East Camelback Rd	Camelback Corridor	New	20,803
nfocus	2355 E Camelback Rd	Camelback Corridor	New	15,802

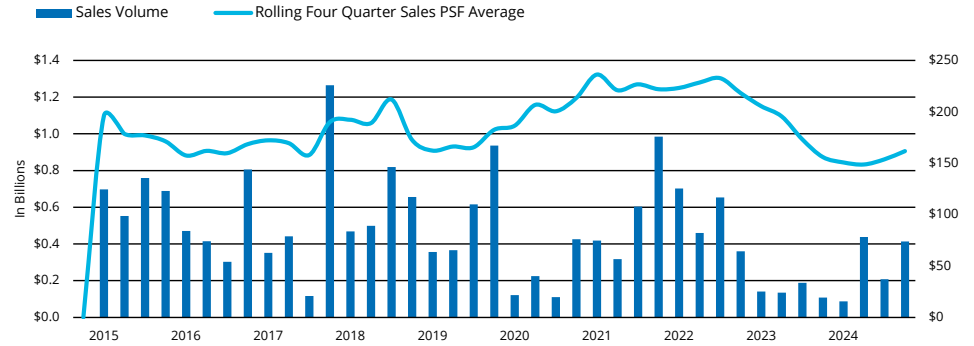


SALES

Sales Volume Surge

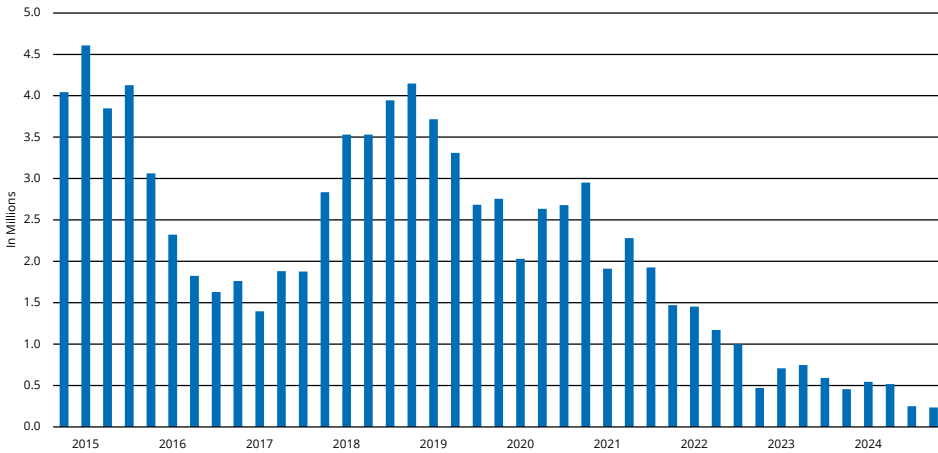
- Driven primarily by the Federal rate cuts in the latter half of 2024, total sales volume surged this quarter, reaching nearly \$414 million. For the year, 2024 was carried by strong performances in both Q2 and Q4, each delivering similar figures. This helped boost the total sales volume to \$1.2 billion, more than doubling the roughly \$570 million recorded in 2023.

SALES VOLUME



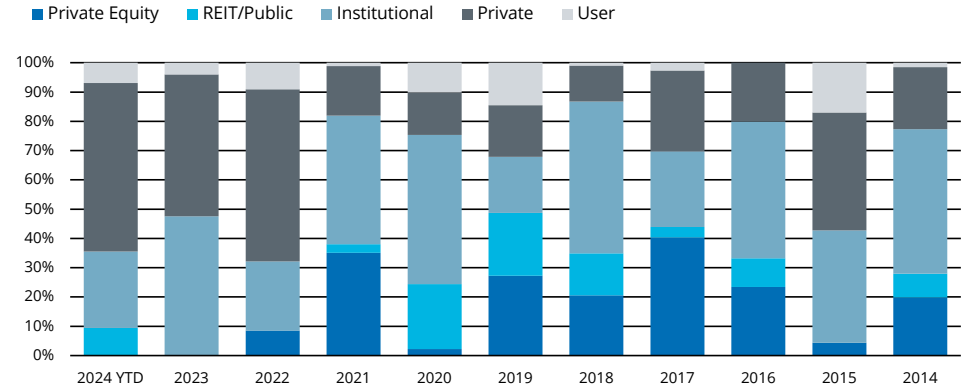
Source: CoStar, Transwestern

UNDER CONSTRUCTION



Source: CoStar, Transwestern

BUYER CAPITAL COMPOSITION



Source: CoStar, Transwestern

NOTABLE SALES

ADDRESS	SUBMARKET	SALES PRICE	BUILDING SF	PRICE PSF	BUYER	SELLER
2325 E Camelback Rd	Camelback Corridor	\$97,900,000	306,877	\$319	Roger Norman	Hines
7272 E Indian School Rd	South Scottsdale	\$42,250,000	165,220	\$255	Ascentris, LLC	Goldman Sachs Asset Management
2850 E Camelback Rd	Camelback Corridor	\$30,798,047	136,450	\$225	Circle Road Equities	DRA Advisors
20 E Thomas Rd	Midtown	\$23,700,000	548,938	\$43	U-Haul Holding Company	Bank of America Corporation



MARKET INDICATORS

All Classes of Space | Q4 2024

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	11,415,609	2,220,469	19.5%	26.6%	0	81,473	(342,898)	\$27.80
DOWNTOWN/MIDTOWN (CBD)	20,619,083	5,174,164	25.1%	26.0%	0	34,700	(364,485)	\$27.52
CAMELBACK CORRIDOR	12,847,496	2,183,261	17.0%	19.0%	0	(47,823)	78,412	\$34.61
TEMPE	18,607,771	3,315,925	17.8%	24.5%	0	245,280	331,727	\$32.27
EAST VALLEY	17,074,550	2,546,904	14.9%	19.8%	145,254	(234,275)	(473,728)	\$28.91
NORTH PHOENIX	10,170,114	1,080,245	10.6%	17.5%	0	(178,277)	138,719	\$27.30
WEST VALLEY	5,680,498	805,952	14.2%	15.4%	88,000	22,724	(62,810)	\$30.62
SCOTTSDALE	24,663,001	3,546,421	14.4%	17.4%	100,000	286,482	(175,866)	\$33.36
NORTH CENTRAL PHOENIX	13,279,633	2,378,296	17.9%	19.3%	0	(78,266)	(329,570)	\$26.14
TOTAL	131,822,884	22,620,282	17.2%	20.8%	333,254	150,202	(1,200,499)	\$30.10

Source: CoStar, Transwestern

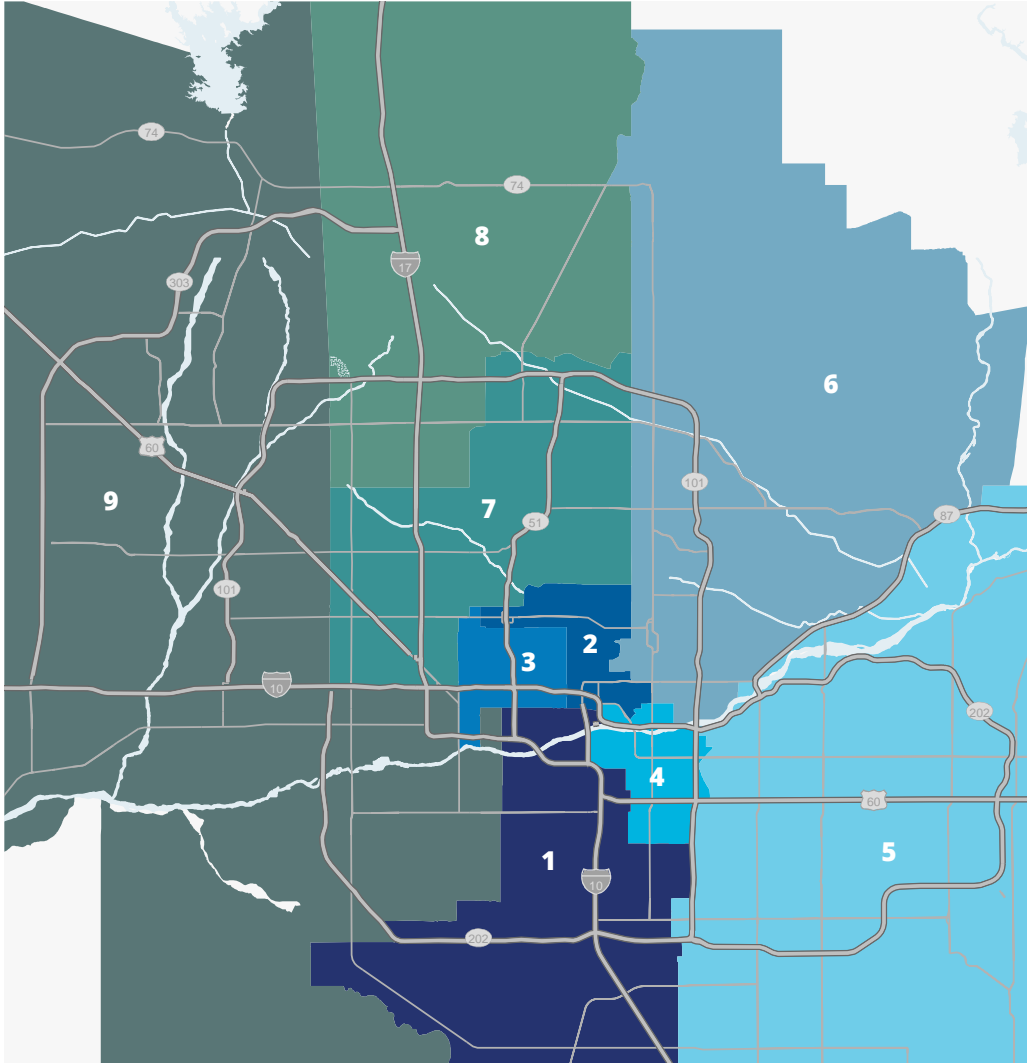


MARKET INDICATORS

Classes A | Q4 2024

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	3,959,853	987,690	25.0%	44.6%	0	(12,893)	56,511	\$31.53
DOWNTOWN/MIDTOWN (CBD)	13,480,669	4,432,697	32.9%	33.9%	0	39,633	(249,253)	\$27.90
CAMELBACK CORRIDOR	8,966,312	1,621,095	18.1%	20.7%	0	(67,893)	101,142	\$36.69
TEMPE	11,038,365	1,976,541	17.9%	27.6%	0	275,231	407,628	\$36.40
EAST VALLEY	6,853,831	1,362,692	19.9%	25.3%	119,222	(89,648)	228,101	\$31.65
NORTH PHOENIX	4,659,228	793,535	17.0%	26.6%	0	134,262	78,254	\$27.85
WEST VALLEY	1,033,752	302,491	29.3%	30.6%	0	7,809	32,523	\$30.60
SCOTTSDALE	12,852,884	2,541,322	19.8%	24.6%	100,000	185,814	(167,507)	\$35.13
NORTH CENTRAL PHOENIX	3,917,643	1,086,034	27.7%	31.6%	0	(68,181)	(77,204)	\$29.72
TOTAL	65,601,742	14,657,313	22.3%	28.1%	219,222	404,134	410,195	\$32.39

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 Phoenix. 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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