

OFFICE MARKET REPORT - PHOENIX

Q3 2021

PHOENIX, ARIZONA

OFFICE MARKET EYEING RECOVERY

The Phoenix Office Market has shown stabilization by posting 178,254 square feet of positive net absorption after four quarters of being negative. Rental rates have remained flat while vacancy has dropped. Sublease additions have begun to slow as the pandemic's impact on the market appears to have passed the peak.

Rental rates have remained steady despite the rise of sublease space offered at a significantly discounted rental rate. The average rental rate stayed flat at \$25.21 PSF compared to \$25.43 PSF in the previous quarter.

In Q3 2021, the market delivered 450,000 square feet of new product. Allred Park Place delivered two new speculative buildings in the Chandler submarket totalling 300,000 square feet and Nextiva finished their new 100,000 square foot headquarters in Scottsdale.

Increased confidence from national investors contributed to a significant escalation in sales volume. The third quarter posted \$823M in overall sales volume compared with \$178M in Q3 2020, a 79% increase year over year. The number of transactions also saw an increase recording 156 transactions in Q3 compared to only 86 in the same quarter last year.



DIRECT VACANCY

17.8%

VS. 18% IN Q2



NET ABSORPTION

178,254 SF

VS. -107,902 SF IN Q2



AVERAGE ASKING RENTS

\$25.21 PSF

VS. \$25.43 PSF IN Q2



UNDER CONSTRUCTION

2,088,255 SF

VS. 1,634,906 IN Q2



SUBLEASE SPACE

4,321,213 SF

VS. 4,130,902 IN Q2

Leasing activity remained active posting increases in both square feet and number of transactions. Q3 2021 recorded 433 direct transactions and 1.7M square feet of space, compared to 323 transactions of 1.3M square feet in Q3 2020. Both of the largest transactions of the quarter were completed at CityScape in the downtown submarket. Snell and Wilmer leased 116,000 square feet and Alliance Bank of Arizona leased 97,064 square feet.

It appears the Phoenix Office Market has seen the worst effects of the pandemic with rental rates remaining steady, sublease space plateauing, and both net absorption and leasing activity increasing.

With Arizona's unemployment rate decreasing, nation leading net migration, and numerous out of state companies recently completing moves or signing new deals to relocate to Phoenix all indicators are pointing to 2022 being an overall positive year .

SALES BY THE NUMBERS: Q3 2021

NO. OF TRANSACTIONS

156

Q2 2021: 161

TOTAL SALES VOLUME

\$823M

Q2 2021: \$605M

AVERAGE PSF

\$205.10

Q2 2021: \$194

AVERAGE CAP RATE

7.2%

Q2 2021: 7.3%

ABSORPTION/VACANCY

2011- 2021 YTD

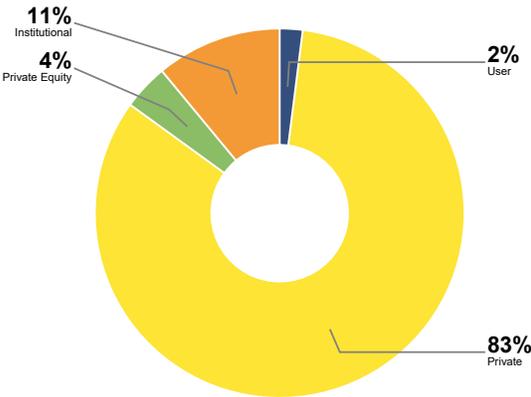


QUARTERLY TREND ANALYSIS

	Q3 2021	Q2 2021	Q1 2021	Q4 2020
Vacancy Rate	17.8%	18.0%	17.3%	16.3%
Availability Rate	20.3%	21.3%	21.1%	20.7%
Asking Lease Rate	\$25.21	\$25.43	\$25.13	\$25.33
Leased SF	1,687,183 SF	1,382,395 SF	1,495,426 SF	1,222,104 SF
Sold SF	3,989,757 SF	3,029,776 SF	2,071,534 SF	2,094,602 SF
Net Absorption	178,254 SF	-107,920 SF	-550,501 SF	-269,254 SF

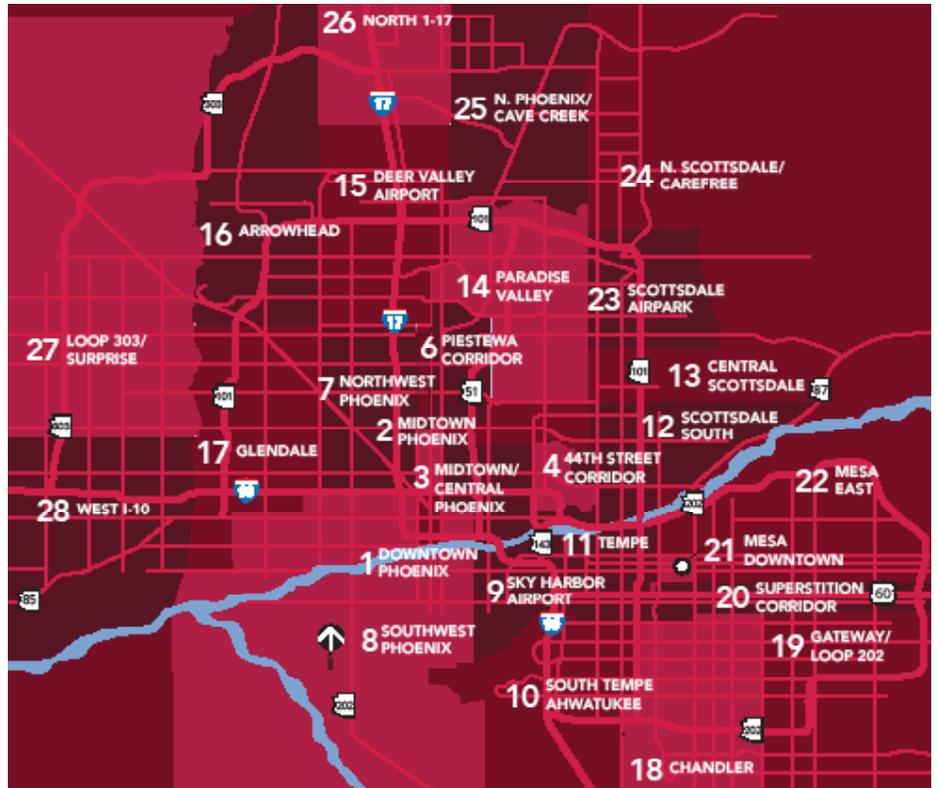
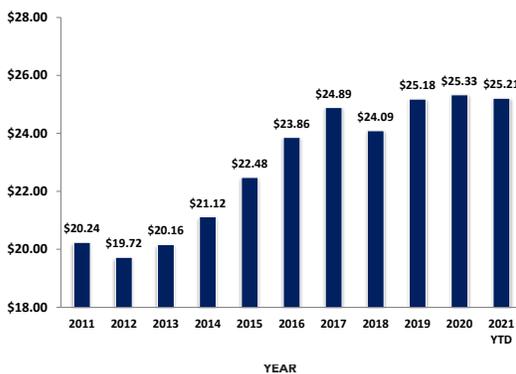
BUYER TYPE

Q3 2021 SALES



RENTAL RATES

PER YEAR, 2011 - 2021 YTD



BUILDING CLASS	INVENTORY TOTAL	VACANCY RATE						NET ABSORPTION		SUBLEASE AVAILABLE			UNDER CONSTRUCTION	ASKING FS RENTS
		DIRECT		SUBLEASE		TOTAL		Q3 2021	YTD 2021	VACANT SF	TOTAL SF	PERCENT		
		SF	PERCENT	SF	PERCENT	SF	PERCENT							
Class A	45,613,790	8,183,839	17.9%	1,224,491	2.7%	9,408,330	20.6%	40,179	14,692	1,224,491	2,233,839	4.9%	2,088,255	\$31.56
Class B	55,368,725	10,525,225	19.0%	855,840	1.5%	11,381,065	20.6%	136,799	(491,251)	855,840	2,004,080	3.6%	-	\$22.92
Class C	5,717,308	560,770	9.8%	1,479	0.0%	562,249	9.8%	1,276	39,637	1,479	83,294	1.5%	-	\$16.92
Totals	106,699,823	19,269,834	17.8%	2,081,810	2.0%	21,351,644	19.8%	178,254	(436,922)	2,081,810	4,321,213	4.0%	2,088,255	\$25.21

OFFICE SUBMARKET	INVENTORY TOTAL	VACANCY RATE						NET ABSORPTION		SUBLEASE AVAILABLE			UNDER CONSTRUCTION	ASKING FS RENTS
		DIRECT		SUBLEASE		TOTAL		Q3 2021	YTD 2021	VACANT SF	TOTAL SF	PERCENT		
		SF	PERCENT	SF	PERCENT	SF	PERCENT							
Downtown Phoenix	6,304,225	1,525,604	24.2%	100,146	1.6%	1,625,750	25.8%	(529)	(39,673)	100,146	162,076	2.6%	853,349	\$31.68
Midtown Phoenix	9,698,472	2,367,254	24.4%	92,973	1.0%	2,460,227	25.4%	(73,952)	(112,891)	92,973	210,390	2.2%	-	\$24.48
Midtown/Central Phoenix	1,884,306	110,062	5.8%	-	0.0%	110,062	5.8%	1,037	56,517	-	-	0.0%	-	\$19.32
44th St. Corridor	2,564,542	422,789	16.5%	40,795	1.6%	463,584	18.1%	31,152	(23,054)	40,795	166,802	6.5%	-	\$28.32
Camelback Corridor	7,391,597	1,696,117	22.9%	47,497	0.6%	1,743,614	23.6%	(103,328)	(240,745)	47,497	122,966	1.7%	265,754	\$35.40
Piestewa Corridor	2,166,850	305,364	14.1%	12,388	0.6%	317,752	14.7%	39,543	92,538	12,388	35,925	1.7%	-	\$23.76
Northwest Phoenix	6,235,704	1,567,163	25.1%	11,690	0.2%	1,578,853	25.3%	(93,614)	(331,205)	11,690	31,043	0.5%	-	\$20.52
Southwest Phoenix	1,468,219	178,821	12.2%	-	0.0%	178,821	12.2%	13,773	(6,306)	-	-	0.0%	-	\$25.32
Sky Harbor Airport	4,563,665	667,229	14.6%	251,364	5.5%	918,593	20.1%	(86,529)	(113,574)	251,364	674,906	14.8%	-	\$18.48
S. Tempe/Ahwatukee	5,388,169	927,706	17.2%	133,964	2.5%	1,061,670	19.7%	52,446	(7,412)	133,964	209,255	3.9%	-	\$21.12
Tempe	12,139,344	1,883,540	15.5%	321,338	2.6%	2,204,878	18.2%	53,344	62,153	321,338	947,234	7.8%	470,526	\$26.04
Scottsdale South	5,354,241	861,190	16.1%	106,898	2.0%	968,088	18.1%	7,135	(227,951)	106,898	129,816	2.4%	244,998	\$33.12
Central Scottsdale	5,332,726	917,680	17.2%	40,367	0.8%	958,047	18.0%	125,671	(196,351)	40,367	91,800	1.6%	-	\$28.56
Paradise Valley	2,077,791	223,624	10.8%	-	0.0%	223,624	10.8%	22,446	50,044	-	21,877	1.1%	-	\$27.96
Deer Valley Airport	5,933,321	1,332,821	22.5%	253,496	4.3%	1,586,317	26.7%	(47,774)	(13,200)	253,496	353,718	6.0%	-	\$20.40
Arrowhead	1,097,152	86,548	7.9%	14,041	1.3%	100,589	9.2%	18,641	12,295	14,041	14,041	1.3%	-	\$25.80
Glendale	1,842,887	337,831	18.3%	32,800	1.8%	370,631	20.1%	(46,059)	(16,416)	32,800	32,800	1.8%	-	\$24.00
Chandler	8,082,932	1,340,031	16.6%	403,583	5.0%	1,743,614	21.6%	133,653	140,432	403,583	435,233	5.4%	-	\$26.52
Gateway/Loop 202	451,891	75,487	16.7%	-	0.0%	75,487	16.7%	(24,452)	28,185	-	-	0.0%	-	\$24.96
Superstition Corridor	2,678,983	368,574	13.8%	-	0.0%	368,574	13.8%	19,101	(61,026)	-	8,634	0.3%	-	\$21.00
Mesa Downtown	670,995	66,942	10.0%	-	0.0%	66,942	10.0%	4,664	19,557	-	-	0.0%	-	\$21.36
Mesa East	1,238,524	159,862	12.9%	23,906	1.9%	183,768	14.8%	(2,664)	134,813	23,906	34,183	2.8%	-	\$28.68
Scottsdale Airpark	9,601,020	1,538,743	16.0%	189,091	2.0%	1,727,834	18.0%	54,886	277,313	189,091	633,041	6.6%	150,000	\$30.48
N. Scottsdale/Carefree	638,507	91,209	14.3%	-	0.0%	91,209	14.3%	32,444	31,045	-	-	0.0%	-	\$24.48
N. Phoenix/Cave Creek	13,607	-	0.0%	-	0.0%	-	0.0%	-	-	-	-	0.0%	-	\$12.00
North I-17	369,533	75,927	20.5%	-	0.0%	75,927	20.5%	2,070	1,802	-	-	0.0%	-	\$23.88
Loop 303/Surprise	433,777	33,416	7.7%	-	0.0%	33,416	7.7%	3,142	194	-	-	0.0%	-	\$24.00
West I-10	1,076,843	108,300	10.1%	5,473	0.5%	113,773	10.6%	42,007	45,994	5,473	5,473	0.5%	103,628	\$26.52
TOTALS	106,699,823	19,269,834	17.8%	2,081,810	2.0%	21,351,644	19.8%	178,254	(436,922)	2,081,810	4,321,213	4.0%	2,088,255	\$25.21



Q3 2021 TOP OFFICE LEASES

Tenant Name	Property Name	Address	Class	Submarket	SF	Lease
Snell & Wilmer	CityScape	1 E. Washington St.	A	Downtown	116,000	New
Alliance Bank of Arizona	CityScape	1 E. Washington St.	A	Downtown	97,064	New
Union Bank	Papago Buttes Corp. Plaza	1500 N. Priest Dr.	A	Tempe	72,715	Renewal
Peloton	The Circuit	615 S. River Dr.	B	Tempe	44,603	New
Tri Pointe	Chandler 202	2525 W. Frye Rd.	B	Chandler	22,619	New

Q3 2021 TOP OFFICE SALES

Property Address	Buyer	Seller	Class	Sales Price	SF	PSF
2114 S. Freedom Way (2)	Strategic Office Partners	The Boyer Company	A	\$132,000,000	300,000	\$440.00
7878 N. 16th St. (CASA)	GLL RE Partners	George Oliver Companies	B	\$56,500,000	181,138	\$311.92
8877 N. Gainey Ctr. Dr.	Dansons, Inc.	Nationwide Realty Investors	A	\$39,000,000	200,000	\$195.00
8220 N. 23rd Ave. (2)	West Coast Capital Ptr.	Blue Cross & Blue Shield	B	\$37,250,000	229,934	\$162.00
Papago Arroyo (3)	Southwest Value Partners	KDI Investments	B	\$33,750,000	279,503	\$120.75

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The Phoenix Office Market Report compiles relevant market data by using a third-party database for the proprietary analysis of specific office properties above 10,000 SF in the Phoenix Metropolitan Area.

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