

# OFFICE MARKET REPORT - PHOENIX

Q1 2024

PHOENIX, ARIZONA

## GREATER PHOENIX OFFICE MARKET

During the first quarter of 2024, the Phoenix Office Market continued to navigate trends hampering the sector over recent years. Among these was a noticeable adjustment in demand for office spaces, partly due to the ongoing shift towards remote and hybrid work models. In the initial quarter of 2024, there was negative absorption of 500,000 square feet, contributing to a direct vacancy rate of 18.4%. Despite this, rental rates displayed a positive trend, witnessing a 5.32% increase compared to Q1 of last year. This upward trajectory in rental rates stands out as a positive aspect amid the shifts observed in the market.

Sublease space remained stagnant in the quarter, staying at around 6.7 million square feet, representing 6.1% of the market. Tempe remains the frontrunner in sublease space availability with 1.2 million square feet, followed by Chandler with 1.1 million square feet, and the Scottsdale Airpark with 628,000 square feet.

The region's speculative construction pipeline has experienced a notable slowdown, reaching its lowest point since 2011. High interest rates and financial instability have acted as significant barriers to development efforts. Currently, only three office projects are underway in the Phoenix area, signaling a cautious approach within the real estate sector. However, amidst this decline in construction activity, there is a silver lining: the low numbers serve as a safeguard for Metro Phoenix against overbuilding.



### DIRECT VACANCY

**18.4%**

VS. 17.8% IN Q4



### NET ABSORPTION

**(497,019 SF)**

VS. 68,616 IN Q4



### AVERAGE ASKING RENTS

**\$29.86 PSF**

VS. \$29.56 PSF IN Q4



### UNDER CONSTRUCTION

**387,578 SF**

VS. 252,578 SF IN Q4



### TOTAL SUBLEASE SPACE

**6,760,552 SF**

VS. 6,879,069 IN Q4

3131 & 3133 EAST CAMELBACK ROAD  
OWNED BY RELIANCE MANAGEMENT



Continued elevated interest rates and reduced occupancy continue to hinder sales momentum. Sales for the quarter totaled \$208 million, reflecting a 29 percent drop compared to the same period in 2023 and a significant decrease from the \$861 million achieved in the first quarter of 2022.

The Phoenix office market encounters hurdles amid shifting work patterns, evidenced by a notable surge in vacancy rates and negative net absorption. The pace of constructing new office spaces has notably decelerated, primarily attributed to elevated interest rates and instability in the capital market. Despite this, the state maintains a business-friendly atmosphere marked by favorable tax policies, simplified regulations, and incentives aimed at attracting companies to set up their operations.

SALES BY THE NUMBERS: Q1 2024

NO. OF TRANSACTIONS

58

(Q4 2023: 72)

TOTAL SALES VOLUME

\$208M

(Q4 2023: \$289M)

AVERAGE PSF

\$164/SF

(Q4 2023: \$192/SF)

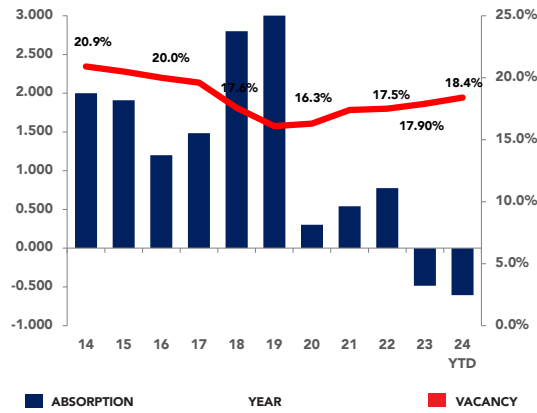
AVERAGE CAP RATE

6.7%

(Q4 2023: 7.3%)

ABSORPTION/VACANCY

2014 - 2024 YTD

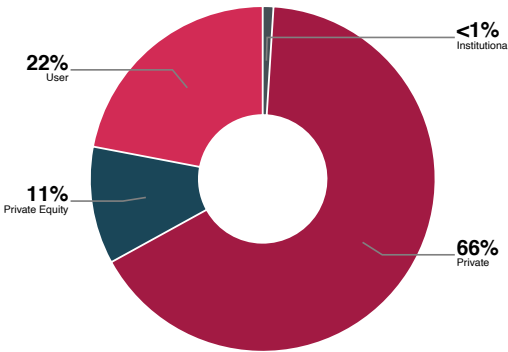


QUARTERLY TREND ANALYSIS

	Q1 2024	Q4 2023	Q3 2023	Q2 2023
Vacancy Rate	18.4%	17.8%	17.9%	17.6%
Availability Rate	20.7%	20.1%	20.6%	20%
Asking Lease Rate	\$29.86	\$29.56	\$28.64	\$28.79
Leased SF	1,249,522 SF	1,355,716 SF	1,466,151 SF	1,588,090 SF
Sold SF	1,258,031 SF	1,475,057 SF	1,811,503 SF	1,232,885 SF
Net Absorption	(607,461) SF	68,616 SF	(355,027) SF	(137,097) SF

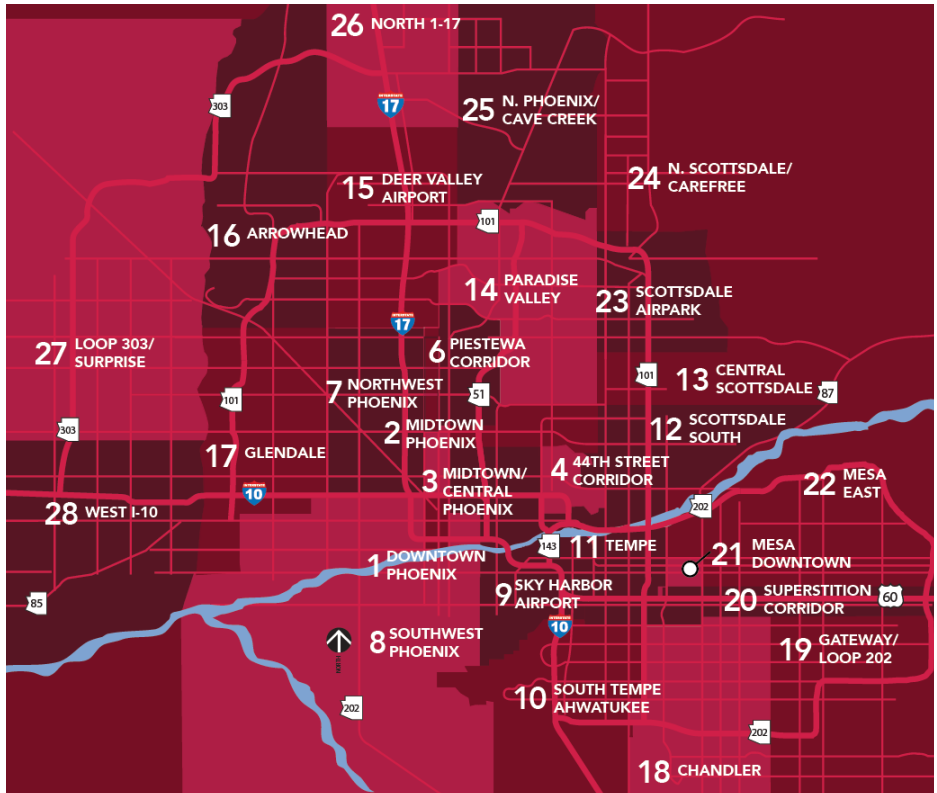
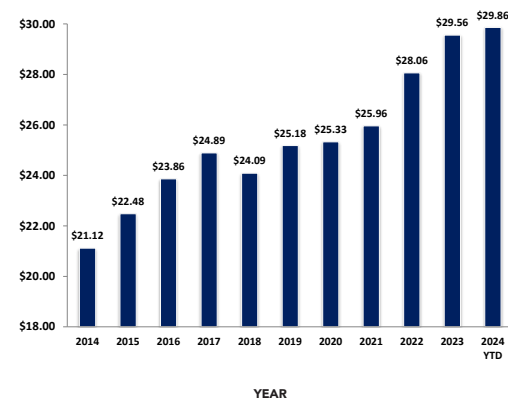
BUYER TYPE

Q1 2024 SALES



RENTAL RATES (FULL SERVICE)

PER YEAR, 2014 - 2024 YTD



# PHOENIX OFFICE MARKET | Q1 2024

BUILDING CLASS	INVENTORY TOTAL	VACANCY RATE						NET ABSORPTION		SUBLEASE AVAILABLE			UNDER CONSTRUCTION	ASKING FS RENTS
		DIRECT		SUBLEASE		TOTAL		Q1 2024	YTD 2024	VACANT SF	TOTAL SF	PERCENT		
		SF	PERCENT	SF	PERCENT	SF	PERCENT							
<b>Class A</b>	49,452,369	11,553,746	23.3%	3,481,647	7.0%	15,035,393	30.3%	(350,937)	(350,937)	3,481,647	4,008,752	8.1%	387,578	\$32.76
<b>Class B</b>	53,666,480	8,130,109	15.1%	1,827,149	3.4%	9,957,258	18.6%	(124,701)	(124,701)	1,827,149	2,517,890	4.7%	-	\$24.24
<b>Class C</b>	6,067,784	347,628	5.7%	147,551	2.4%	592,395	8.1%	(21,381)	(21,381)	147,551	147,551	9.2%	-	\$19.56
<b>Totals</b>	109,186,633	20,031,483	18.4%	5,456,347	5.0%	25,585,046	23.4%	(497,019)	(497,019)	5,456,347	6,760,552	6.1%	387,578	\$29.86

OFFICE SUBMARKET	INVENTORY TOTAL	VACANCY RATE						NET ABSORPTION		SUBLEASE AVAILABLE			UNDER CONSTRUCTION	ASKING FS RENTS
		DIRECT		SUBLEASE		TOTAL		Q1 2024	YTD 2024	VACANT SF	TOTAL SF	PERCENT		
		SF	PERCENT	SF	PERCENT	SF	PERCENT							
<b>Downtown Phoenix</b>	6,086,074	1,647,033	27.1%	110,111	1.8%	1,757,144	28.9%	(111,375)	(111,375)	110,111	119,384	2.0%	-	\$32.28
<b>Midtown Phoenix</b>	10,017,810	2,358,685	23.5%	81,849	0.8%	2,440,534	24.4%	32,584	32,584	81,849	81,849	0.8%	-	\$26.04
<b>Midtown/Central Phoenix</b>	1,952,221	206,571	10.6%	-	0.0%	206,571	10.6%	(15,321)	(15,321)	-	-	-	-	\$23.40
<b>44th St. Corridor</b>	2,718,691	496,584	18.3%	81,016	3.0%	577,600	21.2%	(19,892)	(19,892)	81,016	162,322	6.0%	-	\$28.56
<b>Camelback Corridor</b>	7,892,164	1,487,054	18.0%	191,246	2.4%	1,678,300	21.3%	171,036	171,036	191,246	215,218	2.7%	-	\$37.80
<b>Piestewa Corridor</b>	2,161,197	290,667	13.4%	95,284	4.4%	385,951	17.9%	(18,134)	(18,134)	95,284	98,284	4.5%	-	\$26.16
<b>Northwest Phoenix</b>	6,484,162	1,331,821	20.5%	169,641	2.6%	1,501,462	23.2%	(86,036)	(86,036)	169,641	252,225	3.9%	-	\$22.08
<b>Southwest Phoenix</b>	1,433,253	103,950	7.3%	-	0.0%	103,950	7.3%	-	-	-	-	-	-	\$25.80
<b>Sky Harbor Airport</b>	3,647,933	502,361	13.8%	776,939	21.3%	1,279,300	35.1%	(123,236)	(123,236)	776,939	784,443	21.5%	-	\$18.72
<b>S. Tempe/Ahwatukee</b>	5,021,681	1,095,334	21.8%	413,337	8.2%	1,508,671	30.0%	(171,213)	(171,213)	413,337	670,569	13.4%	-	\$26.28
<b>Tempe</b>	13,433,077	3,379,710	25.2%	1,271,957	9.5%	4,651,667	34.6%	(141,671)	(141,671)	1,271,957	1,271,957	8.8%	268,356	\$35.52
<b>Scottsdale South</b>	5,836,932	1,005,662	17.2%	183,016	3.1%	1,188,678	20.4%	-	-	183,016	294,997	5.1%	-	\$38.64
<b>Central Scottsdale</b>	5,573,113	952,542	17.1%	173,586	3.1%	1,126,128	20.2%	(50,016)	(50,016)	173,586	195,385	3.5%	-	\$31.08
<b>Paradise Valley</b>	2,560,659	465,026	18.2%	17,952	0.7%	482,978	18.9%	1,565	1,565	17,952	12,950	0.5%	-	\$31.92
<b>Deer Valley Airport</b>	5,000,122	519,107	10.4%	544,695	10.9%	1,063,802	21.3%	10,927	10,927	544,695	607,016	12.1%	-	\$22.08
<b>Arrowhead</b>	1,257,105	125,608	10.0%	20,951	1.7%	146,559	11.7%	29	29	20,951	22,282	1.8%	-	\$28.44
<b>Glendale</b>	1,972,386	404,326	20.5%	40,306	2.0%	444,632	22.5%	7,083	7,083	40,306	40,306	2.0%	-	\$22.20
<b>Chandler</b>	8,203,464	1,192,214	14.5%	812,863	9.9%	2,005,077	24.4%	(67,598)	(67,598)	812,863	1,138,304	13.9%	119,222	\$28.44
<b>Gateway/Loop 202</b>	612,015	54,981	9.0%	-	0.0%	54,981	9.0%	16,404	16,404	-	-	-	-	\$29.04
<b>Superstition Corridor</b>	2,865,372	268,738	9.4%	104,448	3.6%	373,186	13.0%	(24,542)	(24,542)	104,448	84,573	3.0%	-	\$23.40
<b>Mesa Downtown</b>	670,995	65,449	9.8%	972	0.1%	66,421	9.9%	(1,771)	(1,771)	972	972	0.1%	-	\$21.84
<b>Mesa East</b>	1,333,380	419,933	31.5%	36,287	2.7%	456,220	34.2%	(20,112)	(20,112)	36,287	46,369	3.5%	-	\$35.65
<b>Scottsdale Airport</b>	9,877,095	1,327,352	13.4%	298,734	3.0%	1,626,086	16.5%	114,040	114,040	298,734	628,398	6.4%	-	\$33.36
<b>N. Scottsdale/Carefree</b>	621,595	76,667	12.3%	19,065	3.1%	95,732	15.4%	6,313	6,313	19,065	19,065	3.1%	-	\$22.32
<b>N. Phoenix/Cave Creek</b>	13,607	-	-	-	-	-	0.0%	-	-	-	-	-	-	\$0.00
<b>North I-17</b>	537,801	68,900	12.8%	2,447	0.5%	71,347	13.3%	(50,954)	(50,954)	2,447	4,039	0.8%	-	\$25.68
<b>Loop 303/Surprise</b>	435,380	44,817	10.3%	-	0.0%	44,817	10.3%	3,394	3,394	-	-	-	-	\$32.52
<b>West I-10</b>	1,280,579	140,391	11.0%	9,645	0.8%	150,036	11.7%	41,477	41,477	9,645	9,645	0.2%	-	\$32.52
<b>TOTALS</b>	109,186,633	20,031,483	18.4%	5,456,347	5.0%	25,585,046	23.4%	(497,019)	(497,019)	5,456,347	6,760,552	6.1%	387,578	\$29.86



\* When inaccurate or newly updated information is discovered, it is incorporated into current reporting which may negate comparison to previously published market reports. Net absorption is calculated by the net change in physically occupied space between the current period and the previous period based on our competitive building inventory.

## Q1 2024 TOP OFFICE LEASES

Tenant Name	Property Name	Address	Class	Submarket	SF	Lease
Republic Services	High Street	5353 E. City North Dr.	A	North Phoenix	250,000	New
Isagenix	Rivulon	155 E. Rivulon Blvd.	A	Chandler	75,000	Renewal
Pulte Homes	Axis on Raintree	8605 E. Raintree Dr.	A	Scotts. Airpark	49,875	New
LPL Holdings	Marina Heights	500 E. Rio Salado Pkwy.	A	Tempe	43,917	Sublease
Pulte Homes	Tempe Gateway	222 S. Mill Ave.	A	Tempe	34,049	New

## Q1 2024 TOP OFFICE SALES

Property Address	Buyer	Seller	Class	Sales Price	SF	PSF
4050 E. Cotton Center (7)	G.W. Williams Co.	TerraCap Management	B	\$38,000,000	228,605	\$116.23
1925 W. Pinnacle Peak(4)	Voit Company	Marble Bridge Capital	B	\$32,925,000	164,235	\$200.47
9377 E. Bell Road	TPG Angelo Gordon	HealthPeak Properties	B	\$21,250,000	84,725	\$250.81
3925 & 3945 E. Broadway	Government Inv. Partners	Pat Simone Charitable	B	\$17,450,000	136,998	\$127.37
6309 E. Baywood Ave.	Newstreet Properties	Cypress West Realty	B	\$15,400,000	30,417	\$506.30

## ABOUT LEE & ASSOCIATES

Lee & Associates Arizona has specialized in providing exceptional brokerage services to the industrial, office, retail, multifamily, investment and land sectors of the Phoenix, Arizona commercial real estate market. The Phoenix office was established in 1991 and is now recognized as one of the most successful brokerage firms in Arizona. Every principal broker is an owner of the Phoenix office, which means each broker is personally driven to support the success of the company by delivering excellent results for their clients. Each of the North American offices, along with our European partnership with London-based Gerald Eve, has a strong local ownership combined with a powerful international platform from the Lee & Associates network.

The information contained herein has been obtained from third-party sources believed to be reliable; however, Lee & Associates Arizona has not independently verified its accuracy. Lee & Associates makes no representations, guarantees, or express or implied warranties of any kind regarding the accuracy or completeness of the information and details provided herein, including but not limited to the implied warranty of suitability and fitness for a particular purpose.

Interested parties should perform their own due diligence regarding the accuracy of the information. The information provided herein, including any sale or lease terms, is being provided subject to errors, omissions, changes of price or conditions, prior sale or lease, and withdrawal without notice by third-party data source providers.

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.

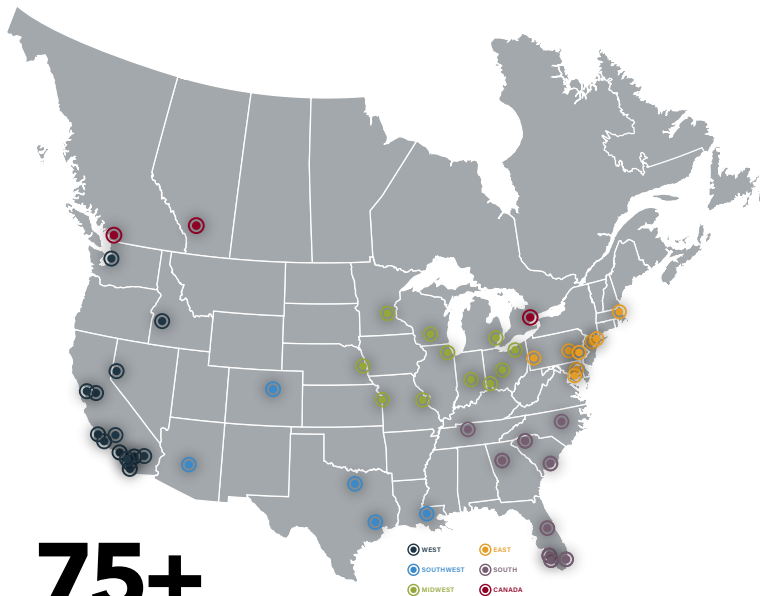
© Copyright 2024 Lee & Associates Arizona. All rights reserved.

**Market report analysis by:**  
Chris McChesney - Lee & Associates Arizona

**\$32+**  
BILLION TRANSACTION  
VOLUME 2022

**1,500+**  
PROFESSIONALS  
AND GROWING

**108%**  
INCREASE IN BROKERED  
SALE & LEASE  
CONSIDERATION  
OVER 5 YEARS



**75+**  
OFFICES ACROSS NORTH AMERICA