

MARKETBEAT PHOENIX



Office Q2 2022

YoY Chg 12-Mo. Forecast

| | | |
|--|---|---|
| 22.5% Vacancy Rate | ▲ | ▲ |
| -223K YTD Net Absorption, SF | ▼ | ▲ |
| 1.0M Under Construction, PSF | ▼ | ▼ |
| \$27.73 Asking Rent, PSF | ▼ | ▬ |

**In Q1 2022, the office building inventory was re-classified and the submarket boundaries were modified to reflect the modern Phoenix office market.*

ECONOMIC INDICATORS Q2 2022

YoY Chg 12-Mo. Forecast

| | | |
|--|---|---|
| 2.3M Phoenix Employment | ▲ | ▲ |
| 2.7% Phoenix Unemployment Rate | ▼ | ▲ |
| 3.6% U.S. Unemployment Rate | ▼ | ▼ |

Source: BLS

**Q2 data is based on the U.S. Bureau of Labor Statistics, All Employees: Total Nonfarm in Phoenix-Mesa-Scottsdale, AZ (MSA) – seasonally adjusted.*

ECONOMY

In Q2 2022, the Phoenix market recorded an employment level of 2.3 million jobs and the unemployment rate decreased from 5.0% in Q2 2021 to 2.7% in Q2 2022. The metro area continues to have tremendous growth, as the number of households increased by 2.6% year-over-year (YOY) to 1.9 million.

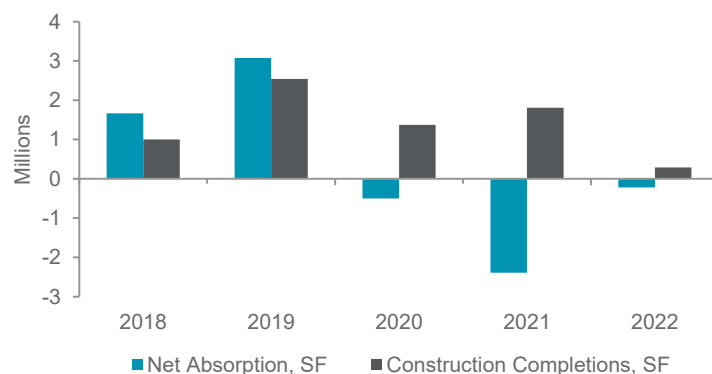
MARKET OVERVIEW

In Q2 of 2022 the overall vacancy rate across the Phoenix metro office market was 22.5%. Of that total, 18.5% was direct vacancy which decreased slightly, while sublease vacancy increased to 4.0%. The Phoenix metro office market recorded 1.7 million square feet (msf) of gross leasing activity for the quarter, a 6% increase over Q2 2021, but a 22% decrease from Q1 2022. Class A leasing activity was outpaced by Class B leasing activity for the first time since 2020.

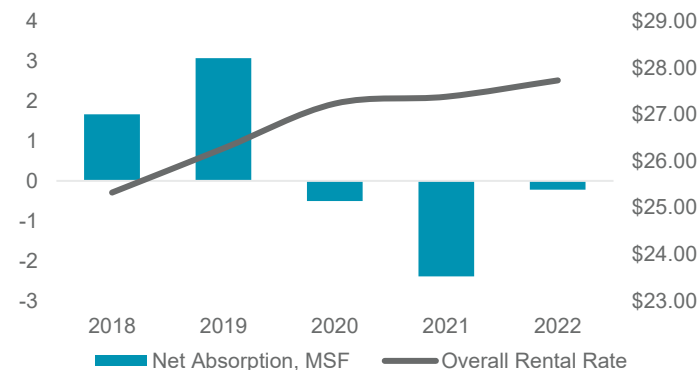
In Q2 2022, the Phoenix market recorded negative absorption of 111,161 square feet (sf) for all building classes. Class A buildings had negative absorption of 23,048 sf, Class B buildings had negative absorption of 135,947 sf, and Class C buildings had positive absorption of 47,834 sf as mid-tier office buildings continue to underperform.

Despite the overall negative absorption in the Phoenix office market, over half of the 24 submarkets experienced positive absorption in Q2 2022. The submarket performing the best in the quarter was Camelback Corridor with 96,428 sf of positive absorption, followed by the Scottsdale Airpark submarket with 84,568 sf of positive absorption. The Price/Chandler/Gilbert submarket recorded the largest negative absorption with 241,165 sf.

SPACE DEMAND / DELIVERIES



YEARLY ABSORPTION & ASKING RENT



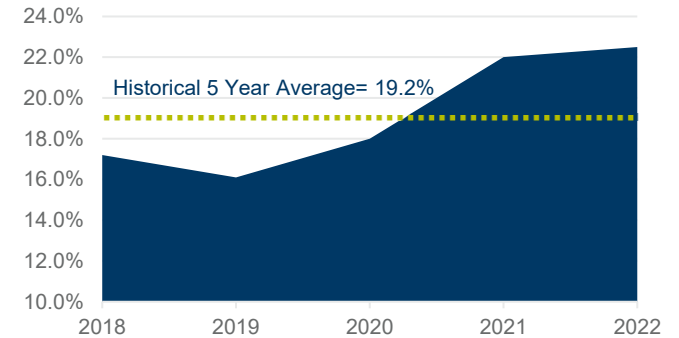
The second quarter of 2022 saw the completion of One Hundred Mill, a 287,000 sf premier Class A office building in Tempe. Overall office construction in the Phoenix metro office market continues strong into mid-year as nearly 1.0 msf of leasable space is currently under construction throughout the metro area. The Tempe submarket still leads all submarkets with 330,000 sf under construction. However, the largest single for-lease project under construction is the 248,000 sf office building, Scottsdale Entrada, in the South Scottsdale submarket, which is scheduled for completion in 2022.

The overall full-service gross asking rental rate in the Phoenix Metro office market in Q2 2022 increased slightly to \$27.73 per square foot (psf) from \$27.36 psf in Q1 2022. Tempe was the most expensive submarket at \$36.95 psf, followed by the Camelback Corridor at \$34.84 psf. Southwest Phoenix was the least expensive submarket at \$18.12 psf.

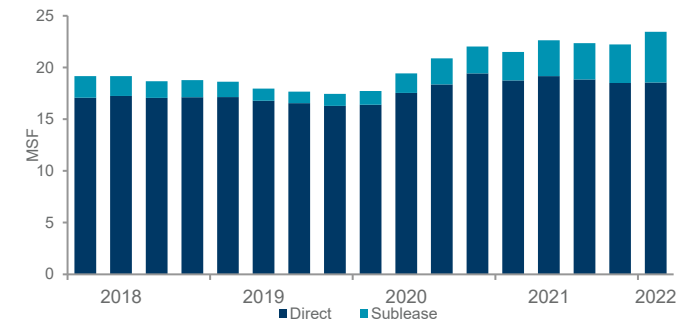
Outlook

- Overall negative net absorption is expected to continue throughout 2022 in the Phoenix office market, as many organizations elect to sublet or downsize their existing space. The Class A office market remains resilient however, as established submarkets continue to be desirable to prospective and existing tenants. The Camelback Corridor (Phoenix), Tempe and Scottsdale submarkets all have positive net absorption in 2022, while commanding above-average occupancy and rental rates.
- Gross leasing activity slowed in Q2 2022, after reaching its highest level since 2019 in Q1 2022. Activity is not expected to reach pre-pandemic levels throughout 2022, as organizations evaluate both their office needs and the overall economy.
- Sublease availabilities increased in Q2 2022 as many tenants with large office footprints elect to sublet in lieu of returning to the office or terminating their lease. Large sublease availabilities are likely to be a continued driver of elevated vacancy rates in the Valley.
- The future of the Phoenix office market remains uncertain, as both occupiers and landlords navigate lingering effects of COVID-19 and shifts in office culture. Despite the uncertainty, several notable office projects have begun or will begin construction in 2022. These projects include the new Central Station, a mixed-use development in downtown Phoenix which is to include 70,000 sf of office space, and Rio Yards, a 450,000 sf multi-building office project in the heart of Tempe.

VACANCY RATE



DIRECT VS. SUBLEASE SPACE AVAILABLE COMPARISON



CLASS A ASKING RENT



MARKET STATISTICS

| SUBMARKET NAME | TOTAL INVENTORY | TOTAL DIRECT VACANCY SF | TOTAL SUBLEASE VACANCY SF | TOTAL OVERALL VACANT RATE | YTD LEASING ACTIVITY | OVERALL NET ABSORPTION Q2 | OVERALL NET ABSORPTION YTD | TOTAL UNDER CONSTRUCTION (SF) | OVERALL AVG ASKING RENT (ALL CLASSES) |
|---|-------------------|-------------------------|---------------------------|---------------------------|----------------------|---------------------------|----------------------------|-------------------------------|---------------------------------------|
| (1) Arrowhead | 480,517 | 41,912 | 1,520 | 9.0% | 32,987 | 16,103 | 16,157 | - | \$27.95 |
| (2) Metrocenter | 5,133,050 | 1,701,739 | 219,336 | 37.4% | 90,652 | -62,297 | -182,722 | - | \$21.21 |
| (3) Glendale 101 | 753,545 | 35,539 | 32,800 | 9.1% | 24,283 | 7,139 | 27,801 | - | \$25.41 |
| (4) Southwest Phoenix | 344,386 | 17,625 | - | 5.1% | - | - | - | - | \$18.12 |
| (5) Piestewa Peak | 2,359,658 | 345,961 | 87,493 | 18.4% | 117,957 | 4,594 | -3,307 | - | \$26.25 |
| (6) Midtown | 9,311,412 | 2,338,023 | 106,101 | 26.2% | 374,670 | -39,925 | -35,436 | - | \$23.65 |
| (7) Downtown | 6,323,162 | 1,368,919 | 65,021 | 22.7% | 148,386 | 19,440 | 130,585 | - | \$30.81 |
| (8) Desert Ridge/Paradise Valley | 1,710,549 | 328,699 | 45,025 | 21.8% | 54,119 | -66,827 | -100,688 | - | \$29.38 |
| (9) Camelback Corridor | 6,785,615 | 1,240,712 | 80,976 | 19.5% | 380,340 | 96,428 | 197,128 | 251,494 | \$34.84 |
| (10) Central Phoenix | 880,077 | 73,629 | - | 8.4% | 29,485 | 1,584 | 11,000 | - | \$17.33 |
| (11) North Airport/44 th Street Corridor | 2,589,153 | 493,947 | 131,699 | 24.2% | 86,096 | 32,144 | 27,998 | - | \$27.78 |
| (12) South Airport | 7,494,490 | 1,493,718 | 212,538 | 22.8% | 366,158 | 78,382 | 287,543 | - | \$24.16 |
| (13) Scottsdale Airpark | 9,469,657 | 1,377,037 | 282,927 | 17.5% | 569,541 | 84,568 | 222,460 | - | \$30.68 |
| (14) Central Scottsdale | 4,922,739 | 771,717 | 93,671 | 17.6% | 202,938 | 41,072 | 83,778 | - | \$29.20 |
| (15) South Scottsdale | 3,973,280 | 859,957 | 148,371 | 25.4% | 446,800 | -55,132 | -224,646 | 248,006 | \$33.24 |
| (16) Tempe | 8,633,741 | 1,084,555 | 394,417 | 17.1% | 230,815 | 65,360 | 89,935 | 330,000 | \$36.95 |
| (17) South Tempe/Ahwatukee | 1,930,293 | 398,232 | 2,771 | 20.8% | 101,454 | -11,862 | -22,034 | - | \$26.27 |
| (18) East Mesa | 546,562 | 78,778 | 4,461 | 15.2% | 9,963 | 7,659 | 21,315 | - | \$21.12 |
| (19) Superstition Corridor | 2,967,731 | 430,522 | 31,278 | 15.6% | 120,414 | 11,917 | 845 | - | \$22.09 |
| (20) Price/Chandler/Gilbert | 8,514,293 | 1,234,535 | 1,114,945 | 27.6% | 333,082 | -241,165 | -400,096 | - | \$28.27 |
| (21) Deer Valley | 5,098,326 | 1,062,606 | 586,142 | 32.3% | 167,455 | -113,606 | -385,931 | - | \$26.36 |
| (22) West I-10 | 214,046 | 8,388 | - | 3.9% | 24,393 | 14,781 | 12,437 | 103,628 | \$28.08 |
| (23) Loop 303/Surprise | 129,735 | 14,103 | - | 10.9% | 6,794 | 2,910 | 6,493 | - | \$30.00 |
| (24) Phoenix-Mesa Gateway/Loop 202 | 315,172 | 16,940 | - | 5.4% | 2,581 | -4,428 | -3,127 | 26,358 | \$26.52 |
| Phoenix CBD | 15,634,574 | 3,706,942 | 171,122 | 24.8% | 523,056 | -20,485 | 95,149 | - | \$26.29 |
| Phoenix Non-CBD | 75,246,615 | 13,110,851 | 3,470,370 | 22.0% | 3,398,307 | -90,676 | -317,661 | 959,486 | \$28.13 |
| Grand Total | 90,881,189 | 16,817,793 | 3,641,492 | 22.5% | 3,921,363 | -111,161 | -222,512 | 959,486 | \$27.73 |

| CLASS | TOTAL INVENTORY | TOTAL DIRECT VACANCY SF | TOTAL SUBLEASE VACANCY SF | TOTAL OVERALL VACANT RATE | YTD LEASING ACTIVITY | OVERALL NET ABSORPTION Q2 | OVERALL NET ABSORPTION YTD | TOTAL UNDER CONSTRUCTION (SF) | OVERALL AVG ASKING RENT (ALL CLASSES) |
|--------------------|-------------------|-------------------------|---------------------------|---------------------------|----------------------|---------------------------|----------------------------|-------------------------------|---------------------------------------|
| Class A | 28,806,334 | 4,369,440 | 1,841,507 | 21.6% | 1,456,724 | -23,048 | 140,597 | 829,500 | \$34.02 |
| Class B | 49,326,395 | 10,417,215 | 1,755,005 | 24.7% | 2,038,538 | -135,947 | -495,823 | 129,986 | \$26.23 |
| Class C | 12,748,460 | 2,031,138 | 44,980 | 16.3% | 426,101 | 47,834 | 132,714 | - | \$20.62 |
| Grand Total | 90,881,189 | 16,817,793 | 3,641,492 | 22.5% | 3,921,363 | -111,161 | -222,512 | 959,486 | \$27.73 |

KEY LEASE TRANSACTIONS Q2 2022

| PROPERTY | SF | TENANT | TRANSACTION TYPE | CITY | SUBMARKET |
|------------------------------|---------|-------------------|------------------|------------|------------------------|
| Chaparral Commerce Center | 133,423 | ON Semiconductor | Direct | Scottsdale | South Scottsdale |
| Liberty Center at Rio Salado | 117,593 | DHL International | Renewal | Tempe | South Airport |
| Galleria | 83,791 | Qwick Media | Direct | Scottsdale | South Scottsdale |
| Cavasson | 80,000 | Meritage Homes | Direct | Scottsdale | Scottsdale Airpark |
| The Commons at Rivulon | 51,217 | Tech Data | Direct | Gilbert | Price/Chandler/Gilbert |

KEY SALES TRANSACTIONS Q2 2022

| PROPERTY | SF | BUYER | PRICE | PRICE/\$ PSF | CITY | SUBMARKET |
|------------------------------|---------|------------------------------|--------------|--------------|------------|------------------------------|
| Paradise Village Office Park | 268,598 | Time Equities | \$43,000,000 | \$160.09 | Phoenix | Desert Ridge/Paradise Valley |
| 7025 Scottsdale | 91,148 | Providence Real Estate Group | \$30,000,000 | \$329.14 | Scottsdale | Central Scottsdale |
| Pima Northgate | 144,959 | Baseline Partners | \$24,200,000 | \$166.94 | Scottsdale | Scottsdale Airpark |
| The Collab | 41,245 | Austin Mater | \$20,200,000 | \$489.76 | Gilbert | Price/Chandler/Gilbert |

KEY CONSTRUCTION COMPLETIONS Q2 2022

| PROPERTY | SUBMARKET | MAJOR TENANT | SF | OWNER/DEVELOPER |
|------------------|-----------|--------------|---------|--------------------------|
| One Hundred Mill | Tempe | Amazon | 287,000 | Cousins Properties/Hines |

JEFF COOLEGGE

Research Manager

Tel: +1 602 224 4448

jeffrey.cooledge@cushwake.com**JARED LEWIS**

Research Analyst

Tel: +1 480 499 0653

jared.lewis@cushwake.com**A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION**

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 50,000 employees in 400 offices and 60 countries. In 2021, the firm had revenue of \$9.4 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow [@CushWake](https://twitter.com/CushWake) on Twitter.

©2022 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.

Office Q2 2022

Office Submarket Map

Phoenix Metro Area

