MARKETBEAT

PHOENIX

Office Q1 2023

	YoY Chg	12-Mo. Forecast
25.0% Vacancy Rate	▲	▲
-969K YTD Net Absorption, SF	▼	▼
326K Under Construction, SF	▼	▼
$28.84 Asking Rent, PSF	▲	—

ECONOMIC INDICATORS Q1 2023

	YoY Chg	12-Mo. Forecast
2.4M Phoenix Employment	▲	▼
3.4% Phoenix Unemployment Rate	▲	▲
3.5% U.S. Unemployment Rate	▼	▲

Source: BLS

**Q1 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 Q1 2023, the Phoenix market recorded an employment level of 2.4 million jobs and the unemployment rate increased slightly from 3.0% in Q1 2022 to 3.4% in Q1 2023. The metro area continues to have tremendous growth, as the number of households increased by 1.7% year-over-year (YOY) to 1.9 million.

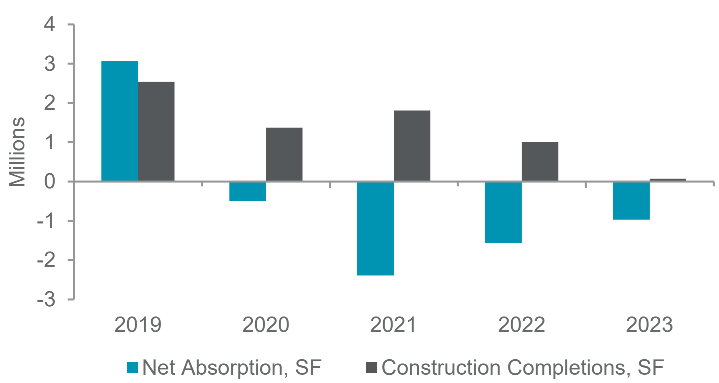
MARKET OVERVIEW

The first quarter 2023 the overall vacancy rate across the Phoenix metro office market was 25.0%. Of that total, 19.8% was direct vacancy which increased slightly from the previous quarter, while sublease vacancy remained flat at 5.3%. The Phoenix metro office market recorded 1.2 million square feet (msf) of gross leasing activity for the quarter, a 42% decrease from Q1 2022, and a 15% decrease from Q4 2022. Despite an overall quarter-over-quarter slowdown, the premier office submarkets of Camelback Corridor and Tempe recorded increased leasing activity.

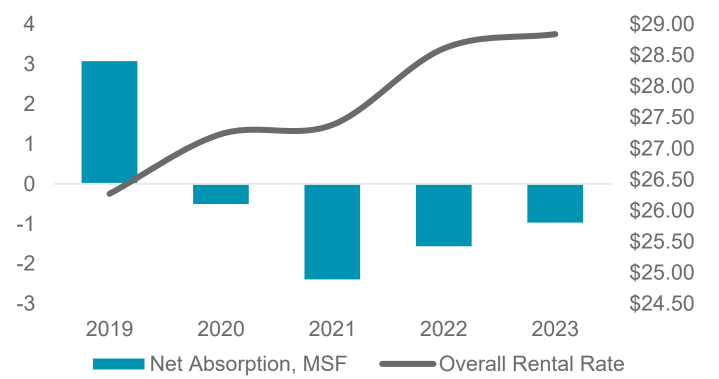
The Phoenix market recorded negative absorption of 969,236 square feet (sf) for all building classes in Q1 2023. Class A buildings had negative absorption of 206,076 sf, Class B buildings had negative absorption of 702,651 sf, and Class C buildings had negative absorption of 60,509 sf as mid-tier office buildings continue to underperform.

Despite the overall negative absorption in the Phoenix office market, demand remains strong in several established office hubs, including the Camelback Corridor, which has not recorded a quarter of negative absorption since 2021. South Scottsdale also continued its streak of positive absorption, netting three positive quarters in a row.

SPACE DEMAND / DELIVERIES



YEARLY ABSORPTION & ASKING RENT



MARKETBEAT

PHOENIX

Office Q1 2023

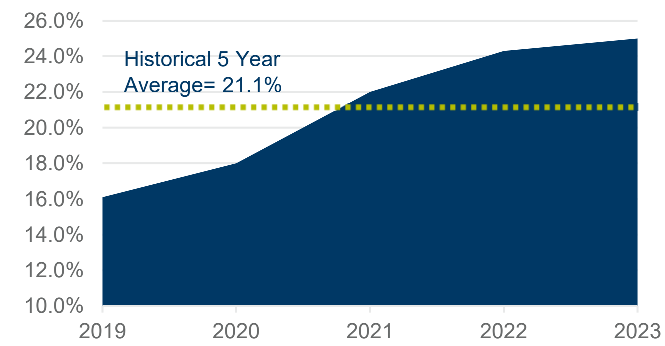
The first quarter of 2023 recorded the completion of The Grove, a 70,000 sf Class A office building in the Camelback Corridor submarket, which was fully pre-leased by Banner Health. Overall office construction in the Phoenix metro office market continues to slow in 2023, as just 0.3 msf of leasable space remains under construction throughout the metro area. The Tempe and Scottsdale Airpark submarkets lead all others with 150,000 sf under construction in each, followed by Phoenix-Mesa Gateway/Loop 202 with 26,358 sf.

The overall full-service gross asking rental rate in the Phoenix Metro office market in Q1 2023 increased slightly to $28.84 per square foot (psf) from $28.61 psf in Q4 2022. Tempe was the most expensive submarket at $36.09 psf, followed by South Scottsdale at $35.47 psf. Central Phoenix was the least expensive submarket at $20.24 psf.

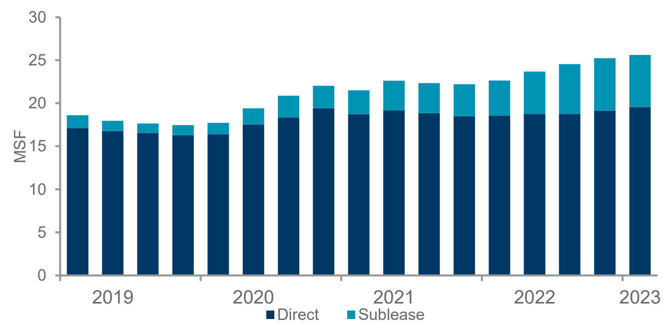
Outlook

- Overall negative net absorption is expected to continue throughout 2023 in the Phoenix office market, as many businesses elect to sublet or downsize their existing space. The premier Class A office market remains resilient however, as high-quality properties in established submarkets continue to be desirable to prospective and existing tenants. The Camelback Corridor Class A submarket in particular commands the region's highest rental rates, the highest quarterly net absorption, and the lowest vacancy rate of any Class A submarket over 500,000 sf.
- Gross leasing activity slowed for the fourth straight quarter in Q1 2023, hitting its lowest level since Q1 2021. We expect activity to be weakened through the first half of 2023 as companies evaluate both their office needs and the overall economy.
- Sublease availabilities decreased in Q1 2023, albeit slightly, for the first time since 2019. This was driven by sublease availabilities expiring and rolling into direct availabilities, as well as the likelihood of tenants having the desire to make their office space available for sublet in a post-pandemic environment have already done so.
- The future of the Phoenix office market remains uncertain, as both occupiers and landlords navigate the long-term shifts in office culture. Despite the uncertainty, several notable office projects remain underway in 2023. 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.

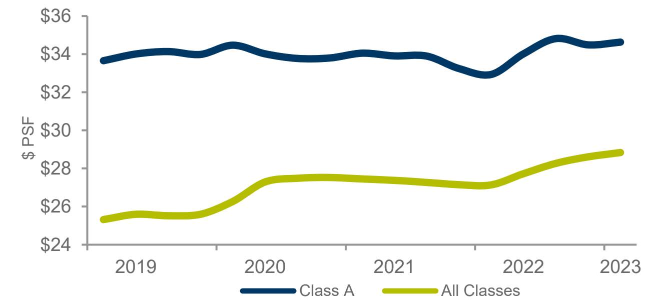
VACANCY RATE



DIRECT VS. SUBLEASE SPACE AVAILABLE COMPARISON



CLASS A ASKING RENT



MARKETBEAT

PHOENIX

Office Q1 2023

CUSHMAN & WAKEFIELD

MARKET STATISTICS

SUBMARKET NAME	TOTAL INVENTORY	TOTAL DIRECT VACANCY SF	TOTAL SUBLEASE VACANCY SF	TOTAL OVERALL VACANT RATE	YTD LEASING ACTIVITY	OVERALL NET ABSORPTION Q1	OVERALL NET ABSORPTION YTD	TOTAL UNDER CONSTRUCTION (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)
(1) Arrowhead	480,517	63,099	3,241	13.8%	11,524	-13,590	-13,590	-	$29.26
(2) Metrocenter	5,094,426	1,718,808	142,627	36.5%	60,208	-4,973	-4,973	-	$21.90
(3) Glendale 101	753,545	45,963	3,512	6.6%	6,264	2,506	2,506	-	$26.06
(4) Southwest Phoenix	313,743	28,500	-	9.1%	-	-28,500	-28,500	-	-
(5) Piestewa Peak	2,359,658	335,721	95,868	18.3%	58,301	9,118	9,118	-	$27.45
(6) Midtown	9,272,468	2,662,669	67,925	29.4%	80,347	-405,368	-405,368	-	$24.86
(7) Downtown	6,096,049	1,350,281	32,029	22.7%	51,841	-4,450	-4,450	-	$31.76
(8) Desert Ridge/Paradise Valley	1,710,549	378,039	24,563	23.5%	19,210	-28,914	-28,914	-	$30.75
(9) Camelback Corridor	7,037,109	1,310,458	88,069	19.9%	175,777	107,246	107,246	-	$35.32
(10) Central Phoenix	880,077	106,175	-	12.1%	22,241	9,478	9,478	-	$20.24
(11) North Airport/44th Street Corridor	2,589,153	566,484	167,822	28.4%	15,202	-77,183	-77,183	-	$27.15
(12) South Airport	7,446,982	1,516,001	1,035,575	34.3%	52,777	-185,021	-185,021	-	$25.89
(13) Scottsdale Airpark	9,419,510	1,380,363	331,135	18.2%	77,902	-105,821	-105,821	150,000	$31.92
(14) Central Scottsdale	4,922,739	789,609	152,442	19.1%	102,376	-13,729	-13,729	-	$28.99
(15) South Scottsdale	4,221,286	1,032,680	83,951	26.5%	90,989	4,813	4,813	-	$35.47
(16) Tempe	8,813,553	1,418,545	725,030	24.3%	162,542	-131,677	-131,677	150,000	$36.09
(17) South Tempe/Ahwatukee	1,898,451	420,154	11,606	22.7%	21,303	5,907	5,907	-	$26.67
(18) East Mesa	546,562	73,714	4,461	14.3%	-	-6,994	-6,994	-	$21.31
(19) Superstition Corridor	2,968,170	438,900	42,715	16.2%	73,340	-37,931	-37,931	-	$23.90
(20) Price/Chandler/Gilbert	8,514,293	1,246,293	1,126,916	27.9%	109,062	-47,958	-47,958	-	$28.59
(21) Deer Valley	5,098,325	987,996	662,585	32.4%	18,138	-451	-451	-	$26.50
(22) West I-10	317,674	107,211	-	33.7%	8,406	10,458	10,458	-	$34.29
(23) Loop 303/Surprise	129,735	14,103	-	10.9%	-	-	-	-	$30.00
(24) Phoenix-Mesa Gateway/Loop 202	315,172	45,636	-	14.5%	3,420	-26,202	-26,202	26,358	$29.71
Phoenix CBD	**15,368,517**	**4,012,950**	**99,954**	**26.8%**	**132,188**	**-409,818**	**-409,818**	**-**	**$27.18**
Phoenix Non-CBD	**75,831,229**	**14,024,452**	**4,702,118**	**24.7%**	**1,088,982**	**-559,418**	**-559,418**	**326,358**	**$29.30**
Grand Total	**91,199,746**	**18,037,402**	**4,802,072**	**25.0%**	**1,221,170**	**-969,236**	**-969,236**	**326,358**	**$28.84**

CLASS	TOTAL INVENTORY	TOTAL DIRECT VACANCY SF	TOTAL SUBLEASE VACANCY SF	TOTAL OVERALL VACANT RATE	YTD LEASING ACTIVITY	OVERALL NET ABSORPTION Q1	OVERALL NET ABSORPTION YTD	TOTAL UNDER CONSTRUCTION (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)
Class A	29,363,349	5,273,287	2,371,990	26.0%	458,454	-206,076	-206,076	300,000	$34.63
Class B	49,207,351	10,723,073	2,372,904	26.6%	577,521	-702,651	-702,651	26,358	$27.15
Class C	12,629,046	2,041,042	57,178	16.6%	185,195	-60,509	-60,509	-	$21.11
Grand Total	**91,199,746**	**18,037,402**	**4,802,072**	**25.0%**	**1,221,170**	**-969,236**	**-969,236**	**326,358**	**$28.84**

MARKETBEAT

PHOENIX

Office Q1 2023

CUSHMAN & WAKEFIELD

CLASS A MARKET STATISTICS

SUBMARKET NAME	TOTAL INVENTORY	TOTAL DIRECT VACANCY SF	TOTAL SUBLEASE VACANCY SF	TOTAL OVERALL VACANT RATE	YTD LESING ACTIVITY	OVERALL NET ABSORPTION Q1	OVERALL NET ABSORPTION YTD	TOTAL UNDER CONSTRUCTION (SF)	OVERALL AVG ASKING RENT (CLASS A)
(1) Arrowhead	333,334	51,363	3,241	16.4%	2,981	-13,278	-13,278	-	$29.73
(2) Metrocenter	313,818	227,010	-	72.3%	-	-	-	-	$27.00
(3) Glendale 101	480,696	45,963	3,512	10.3%	6,264	2,506	2,506	-	$26.06
(4) Southwest Phoenix	-	-	-	-	-	-	-	-	-
(5) Piestewa Peak	651,662	70,618	66,052	21.0%	23,925	-21,047	-21,047	-	$31.75
(6) Midtown	1,355,542	322,253	19,380	25.2%	31,653	-38,950	-38,950	-	$29.52
(7) Downtown	3,368,571	743,912	6,433	22.3%	3,480	-2,968	-2,968	-	$35.01
(8) Desert Ridge/Paradise Valley	605,115	129,095	9,486	22.9%	3,707	-35,497	-35,497	-	$35.90
(9) Camelback Corridor	3,416,131	541,170	28,560	16.7%	97,628	151,437	151,437	-	$43.48
(10) Central Phoenix	-	-	-	-	-	-	-	-	-
(11) North Airport/44th Street Corridor	1,094,832	182,298	153,020	30.6%	4,955	-43,787	-43,787	-	$27.47
(12) South Airport	1,203,392	270,319	471,778	61.7%	-	-94,943	-94,943	-	$25.20
(13) Scottsdale Airpark	3,823,047	715,225	194,326	23.8%	31,277	-32,444	-32,444	150,000	$34.75
(14) Central Scottsdale	724,508	134,531	14,827	20.6%	24,472	-17,198	-17,198	-	$34.57
(15) South Scottsdale	1,691,505	377,090	13,487	23.1%	46,173	9,006	9,006	-	$39.63
(16) Tempe	6,202,895	795,331	525,076	21.3%	149,311	-94,384	-94,384	150,000	$40.01
(17) South Tempe/Ahwatukee	-	-	-	-	-	-	-	-	-
(18) East Mesa	-	-	-	-	-	-	-	-	-
(19) Superstition Corridor	311,178	31,135	-	10.0%	20,331	20,331	20,331	-	$25.95
(20) Price/Chandler/Gilbert	2,583,569	484,496	439,301	35.8%	12,297	5,140	5,140	-	$32.84
(21) Deer Valley	1,099,926	60,835	423,511	44.0%	-	-	-	-	$28.48
(22) West I-10	103,628	90,643	-	87.5%	-	-	-	-	$35.00
(23) Loop 303/Surprise	-	-	-	-	-	-	-	-	-
(24) Phoenix-Mesa Gateway/Loop 202	-	-	-	-	-	-	-	-	-
Phoenix CBD	**4,724,113**	**1,066,165**	**25,813**	**23.1%**	**35,133**	**-41,918**	**-41,918**	**-**	**$33.47**
Phoenix Non-CBD	**24,639,236**	**4,207,122**	**2,346,177**	**26.6%**	**423,321**	**-164,158**	**-164,158**	**300,000**	**$34.91**
Grand Total	**29,363,349**	**5,273,287**	**2,371,990**	**26.0%**	**458,454**	**-206,076**	**-206,076**	**300,000**	**$34.63**

CLASS B MARKET STATISTICS

SUBMARKET NAME	TOTAL INVENTORY	TOTAL DIRECT VACANCY SF	TOTAL SUBLEASE VACANCY SF	TOTAL OVERALL VACANT RATE	YTD LEASING ACTIVITY	OVERALL NET ABSORPTION Q1	OVERALL NET ABSORPTION YTD	TOTAL UNDER CONSTRUCTION (SF)	OVERALL AVG ASKING RENT (CLASS B)
(1) Arrowhead	126,164	8,018	-	6.4%	8,543	1,208	1,208	-	$26.50
(2) Metrocenter	2,808,499	974,589	141,148	39.7%	41,079	-60,683	-60,683	-	$21.46
(3) Glendale 101	175,912	-	-	0.0%	-	-	-	-	-
(4) Southwest Phoenix	-	-	-	-	-	-	-	-	-
(5) Piestewa Peak	1,092,899	195,014	29,816	20.6%	23,576	31,804	31,804	-	$27.75
(6) Midtown	5,995,847	1,924,208	48,545	32.9%	43,900	-360,128	-360,128	-	$24.92
(7) Downtown	2,015,387	516,754	25,596	26.9%	31,194	-9,540	-9,540	-	$27.97
(8) Desert Ridge/Paradise Valley	664,583	218,414	6,610	33.9%	10,203	2,479	2,479	-	$29.19
(9) Camelback Corridor	3,109,455	715,659	56,859	24.8%	72,824	-48,799	-48,799	-	$32.71
(10) Central Phoenix	159,580	13,458	-	8.4%	-	-	-	-	-
(11) North Airport/44th Street Corridor	1,150,745	348,563	11,120	31.3%	10,247	-20,045	-20,045	-	$27.38
(12) South Airport	5,564,130	1,178,939	550,126	31.1%	16,108	-96,326	-96,326	-	$26.26
(13) Scottsdale Airpark	4,942,495	593,322	115,580	14.3%	39,550	-39,263	-39,263	-	$29.51
(14) Central Scottsdale	3,505,702	637,265	137,615	22.1%	73,650	1,468	1,468	-	$28.82
(15) South Scottsdale	2,300,748	587,820	70,464	28.6%	41,643	5,447	5,447	-	$34.54
(16) Tempe	2,462,316	596,014	199,954	32.3%	11,061	-35,791	-35,791	-	$30.23
(17) South Tempe/Ahwatukee	1,616,278	380,293	11,606	24.2%	18,927	5,912	5,912	-	$27.43
(18) East Mesa	176,476	46,303	-	26.2%	-	-	-	-	$23.12
(19) Superstition Corridor	1,414,854	201,180	41,176	17.1%	16,610	-71,160	-71,160	-	$26.78
(20) Price/Chandler/Gilbert	5,457,666	601,054	687,615	23.6%	93,277	5,722	5,722	-	$25.18
(21) Deer Valley	3,878,255	921,633	239,074	29.9%	16,723	-451	-451	-	$26.18
(22) West I-10	214,046	16,568	-	7.7%	8,406	10,458	10,458	-	$30.41
(23) Loop 303/Surprise	129,735	14,103	-	10.9%	-	-	-	-	$30.00
(24) Phoenix-Mesa Gateway/Loop 202	245,579	33,902	-	13.8%	-	-24,963	-24,963	-	$32.00
Phoenix CBD	**8,011,234**	**2,440,962**	**74,141**	**31.4%**	**75,094**	**-369,668**	**-369,668**	**-**	**$25.55**
Phoenix Non-CBD	**41,196,117**	**8,282,111**	**2,298,763**	**25.7%**	**502,427**	**-332,983**	**-332,983**	**-**	**$27.59**
Grand Total	**49,207,351**	**10,723,073**	**2,372,904**	**26.6%**	**577,521**	**-702,651**	**-702,651**	**-**	**$27.15**

MARKETBEAT

PHOENIX

Office Q1 2023

CLASS C MARKET STATISTICS

SUBMARKET NAME	TOTAL INVENTORY	TOTAL DIRECT VACANCY SF	TOTAL SUBLEASE VACANCY SF	TOTAL OVERALL VACANT RATE	YTD LEASING ACTIVITY	OVERALL NET ABSORPTION Q1	OVERALL NET ABSORPTION YTD	TOTAL UNDER CONSTRUCTION (SF)	OVERALL AVG ASKING RENT (CLASS C)
(1) Arrowhead	21,019	3,718	-	17.7%	-	-1,520	-1,520	-	$30.00
(2) Metrocenter	1,972,109	517,209	1,479	26.3%	19,129	55,710	55,710	-	$19.22
(3) Glendale 101	96,937	-	-	0.0%	-	-	-	-	-
(4) Southwest Phoenix	313,743	28,500	-	9.1%	-	-28,500	-28,500	-	-
(5) Piestewa Peak	615,097	70,089	-	11.4%	10,800	-1,639	-1,639	-	$20.12
(6) Midtown	1,921,079	416,208	-	21.7%	4,794	-6,290	-6,290	-	$21.38
(7) Downtown	712,091	89,615	-	12.6%	17,167	8,058	8,058	-	$25.33
(8) Desert Ridge/Paradise Valley	440,851	30,530	8,467	8.8%	5,300	4,104	4,104	-	$24.16
(9) Camelback Corridor	511,523	53,629	2,650	11.0%	5,325	4,608	4,608	-	$23.16
(10) Central Phoenix	720,497	92,717	-	12.9%	22,241	9,478	9,478	-	$20.24
(11) North Airport/44th Street Corridor	343,576	35,623	3,682	11.4%	-	-13,351	-13,351	-	$20.29
(12) South Airport	679,460	66,743	13,671	11.8%	36,669	6,248	6,248	-	$18.47
(13) Scottsdale Airpark	653,968	71,816	21,229	14.2%	7,075	-34,114	-34,114	-	$24.16
(14) Central Scottsdale	692,529	17,813	-	2.6%	4,254	2,001	2,001	-	$23.00
(15) South Scottsdale	229,033	67,770	-	29.6%	3,173	-9,640	-9,640	-	$21.98
(16) Tempe	148,342	27,200	-	18.3%	2,170	-1,502	-1,502	-	$25.00
(17) South Tempe/Ahwatukee	282,173	39,861	-	14.1%	2,376	-5	-5	-	$19.59
(18) East Mesa	370,086	27,411	4,461	8.6%	-	-6,994	-6,994	-	$18.68
(19) Superstition Corridor	1,242,138	206,585	1,539	16.8%	36,399	12,898	12,898	-	$18.34
(20) Price/Chandler/Gilbert	473,058	160,743	-	34.0%	3,488	-58,820	-58,820	-	$27.63
(21) Deer Valley	120,144	5,528	-	4.6%	1,415	-	-	-	$25.00
(22) West I-10	-	-	-	-	-	-	-	-	-
(23) Loop 303/Surprise	-	-	-	-	-	-	-	-	-
(24) Phoenix-Mesa Gateway/Loop 202	69,593	11,734	-	16.9%	3,420	-1,239	-1,239	-	$23.00
Phoenix CBD	**2,633,170**	**505,823**	**-**	**19.2%**	**21,961**	**1,768**	**1,768**	**-**	**$22.02**
Phoenix Non-CBD	**9,995,876**	**1,535,219**	**57,178**	**15.9%**	**163,234**	**-62,277**	**-62,277**	**-**	**$20.68**
Grand Total	**12,629,046**	**2,041,042**	**57,178**	**16.6%**	**185,195**	**-60,509**	**-60,509**	**-**	**$21.11**

MARKETBEAT

PHOENIX

Office Q1 2023

KEY LEASE TRANSACTIONS Q1 2023

PROPERTY	SF	TENANT	TRANSACTION TYPE	CITY	SUBMARKET
Riverwalk Arizona	123,952	Equality Health	Sublet	Scottsdale	Central Scottsdale
Renaissance Square	62,271	General Services Administration	Renewal	Phoenix	Downtown
The Watermark	53,405	MUFG Bank	Direct	Tempe	Tempe
Mach One	48,090	Titan Solar	Sublet	Chandler	Price/Chandler/Gilbert
Allred Park Place	47,745	Northrop Grumman	Renewal	Chandler	Price/Chandler/Gilbert

KEY SALES TRANSACTIONS Q1 2023

PROPERTY	SF	BUYER	PRICE	PRICE/$ PSF	CITY	SUBMARKET
Chandler Corporate Center I & II	136,728	Zeitlin Capital	$22,000,000	$160.90	Chandler	South Tempe/Ahwatukee
Scottsdale Gateway II	107,885	Caliber Realty Group	$19,450,000	$180.28	Scottsdale	Central Scottsdale
Mesquite Corporate Center	79,537	The Related Group	$32,000,000	$402.33	Scottsdale	Scottsdale Airpark
The Grove	70,000	Virtus Real Estate Capital	$48,500,000	$692.86	Phoenix	Camelback Corridor

KEY CONSTRUCTION COMPLETIONS Q1 2023

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
The Grove	Camelback Corridor	Banner Health	70,000	RED Development

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MARKETBEAT

PHOENIX

Office Q1 2023

Office Submarket Map

Phoenix Metro Area