MARKETBEAT

PHOENIX

Office Q3 2022

	YoY Chg	12-Mo. Forecast
23.5% Vacancy Rate	▲	▲
-773K YTD Net Absorption, SF	▲	▼
731K Under Construction, SF	▼	▼
$28.27 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
Q3 2022

	YoY Chg	12-Mo. Forecast
2.3M Phoenix Employment	▲	▲
2.8% Phoenix Unemployment Rate	▼	▲
3.5% U.S. Unemployment Rate	▼	▲

Source: BLS

**Q3 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 Q3 2022, the Phoenix market recorded an employment level of 2.3 million jobs and the unemployment rate decreased from 4.1% in Q3 2021 to 2.8% in Q3 2022. The metro area continues to have tremendous growth, as the number of households increased by 2.4% year-over-year (YOY) to 1.9 million.

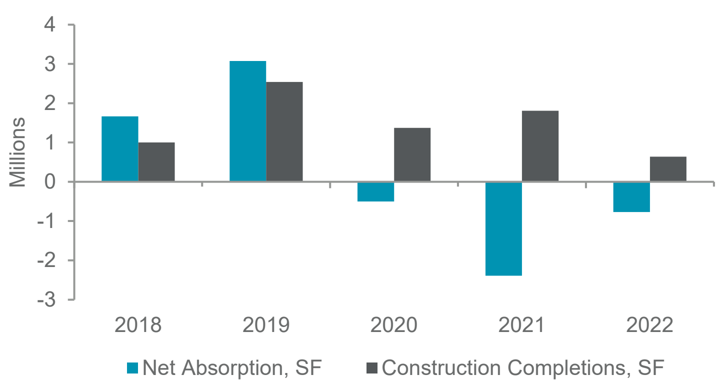
MARKET OVERVIEW

In Q3 of 2022 the overall vacancy rate across the Phoenix metro office market was 23.5%. Of that total, 18.5% was direct vacancy which remained flat, while sublease vacancy increased to 5.0%. The Phoenix metro office market recorded 1.5 million square feet (msf) of gross leasing activity for the quarter, a 32% decrease from Q3 2021, and a 10% decrease from Q2 2022. Class A leasing activity was outpaced by Class B leasing activity for the second quarter in a row.

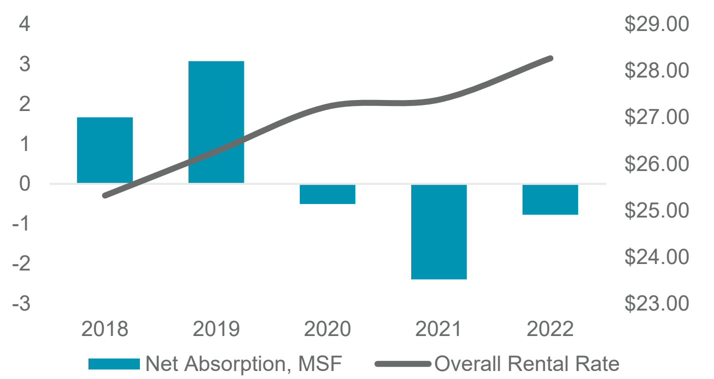
In Q3 2022, the Phoenix market recorded negative absorption of 625,328 square feet (sf) for all building classes. Class A buildings had negative absorption of 399,326 sf, Class B buildings had negative absorption of 217,982 sf, and Class C buildings had negative absorption of 8,020 sf as mid-tier office buildings continue to underperform.

Despite the overall negative absorption in the Phoenix office market, demand remains strong in several established office hubs. Notably, the Camelback Corridor, Scottsdale Airpark and Downtown Phoenix have all recorded positive absorption throughout the first three quarters of 2022. The submarket performing the best in Q3 2022 was Downtown with 81,403 sf of positive absorption, followed by the South Scottsdale submarket with 47,797 sf of positive absorption.

SPACE DEMAND / DELIVERIES



YEARLY ABSORPTION & ASKING RENT



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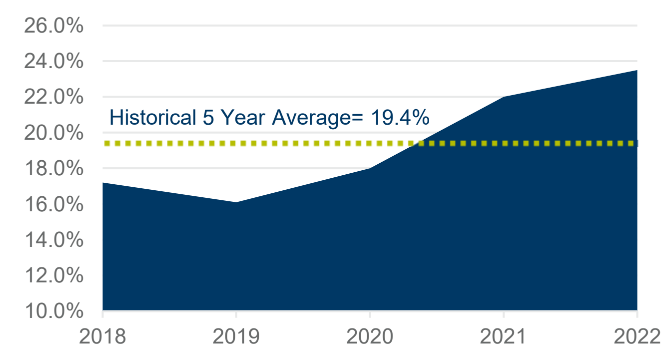
The third quarter of 2022 saw the completion of Scottsdale Entrada, a 248,006 sf premier Class A office building in South Scottsdale, as well as Gen 1 at GSQ, a 103,628 sf Class A office building in the West I-10 submarket. Overall office construction in the Phoenix metro office market has slowed in the latter half of 2022, as just 0.7 msf of leasable space remains under construction throughout the metro area. The Tempe submarket still leads all submarkets with 330,000 sf under construction. However, the largest for-lease project under construction is the 251,494 sf of combined space at The Grove, in the Camelback Corridor submarket, which is scheduled for completion in late 2022.

The overall full-service gross asking rental rate in the Phoenix Metro office market in Q3 2022 increased slightly to $28.27 per square foot (psf) from $27.73 psf in Q2 2022. Tempe was the most expensive submarket at $36.68 psf, followed by the Camelback Corridor at $35.35 psf. Central Phoenix was the least expensive submarket at $18.62 psf.

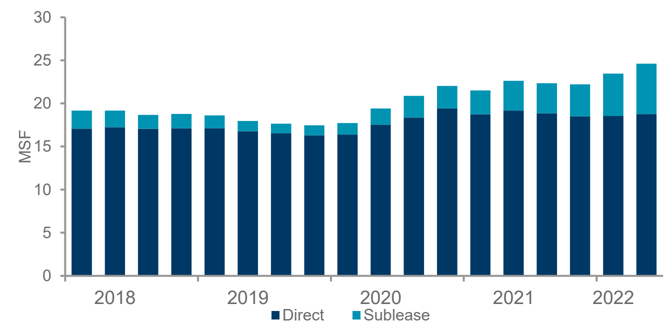
Outlook

- Overall negative net absorption is expected to continue throughout 2022 and into 2023 in the Phoenix office market, as many organizations 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 (Phoenix) and Scottsdale submarkets all have positive net absorption in 2022, while commanding above-average occupancy and rental rates.
- Gross leasing activity slowed for the second straight quarter in Q3 2022. While activity will likely surpass 2020-2021 yearly totals, it is not expected to reach pre-pandemic levels in 2022, as organizations evaluate both their office needs and the overall economy.
- Sublease availabilities increased in Q3 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.

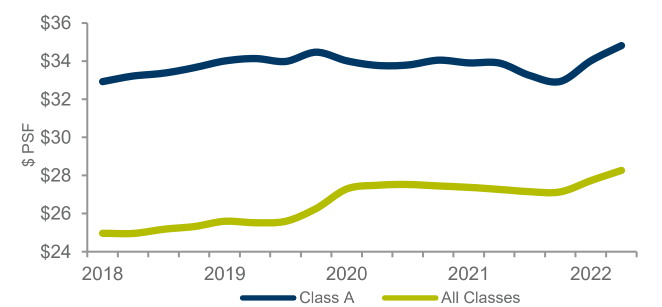
VACANCY RATE



DIRECT VS. SUBLEASE SPACE AVAILABLE COMPARISON



CLASS A ASKING RENT



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PHOENIX

Office Q3 2022

MARKET STATISTICS

SUBMARKET NAME	TOTAL INVENTORY	TOTAL DIRECT VACANCY SF	TOTAL SUBLEASE VACANCY SF	TOTAL OVERALL VACANT RATE	YTD LEASING ACTIVITY	OVERALL NET ABSORPTION Q3	OVERALL NET ABSORPTION YTD	TOTAL UNDER CONSTRUCTION (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)
(1) Arrowhead	480,517	52,474	2,961	11.5%	38,893	-12,003	4,154	-	$27.80
(2) Metrocenter	5,133,050	1,715,697	220,254	37.7%	156,712	-14,709	-197,598	-	$21.28
(3) Glendale 101	753,545	54,124	32,800	11.5%	34,260	-18,585	9,216	-	$26.16
(4) Southwest Phoenix	344,386	-	-	0.0%	-	17,625	17,625	-	-
(5) Piestewa Peak	2,359,658	342,224	74,437	17.7%	185,622	16,793	13,486	-	$26.51
(6) Midtown	9,253,500	2,240,543	103,160	25.3%	520,195	42,270	64,985	-	$23.91
(7) Downtown	6,323,162	1,311,496	41,041	21.4%	245,151	81,403	211,988	-	$31.17
(8) Desert Ridge/Paradise Valley	1,710,549	337,148	38,346	22.0%	101,238	-1,770	-102,458	-	$30.31
(9) Camelback Corridor	6,785,615	1,200,278	94,695	19.1%	571,582	24,656	223,843	251,494	$35.35
(10) Central Phoenix	880,077	74,408	-	8.5%	29,885	-779	10,221	-	$18.62
(11) North Airport/44th Street Corridor	2,589,153	538,221	131,699	25.9%	113,560	-44,274	-16,276	-	$27.68
(12) South Airport	7,495,036	1,381,293	637,315	26.9%	538,870	-312,352	-24,809	-	$24.65
(13) Scottsdale Airpark	9,419,510	1,303,035	319,523	17.2%	785,540	37,406	259,866	150,000	$30.82
(14) Central Scottsdale	4,922,739	798,095	134,137	18.9%	279,810	-66,844	16,934	-	$28.72
(15) South Scottsdale	4,221,286	1,089,809	118,728	28.6%	507,517	47,797	-176,849	-	$33.50
(16) Tempe	8,632,553	1,120,811	734,257	21.5%	347,380	-376,096	-286,161	330,000	$36.68
(17) South Tempe/Ahwatukee	1,898,451	402,879	12,933	21.9%	142,569	-29,611	-36,843	-	$26.16
(18) East Mesa	546,562	74,076	4,461	14.4%	24,658	4,702	26,017	-	$21.03
(19) Superstition Corridor	2,967,731	414,074	31,278	15.0%	167,997	16,448	17,293	-	$22.12
(20) Price/Chandler/Gilbert	8,514,293	1,253,812	1,110,193	27.8%	465,928	-14,525	-414,621	-	$28.51
(21) Deer Valley	5,098,326	978,512	673,825	32.4%	223,649	-3,589	-389,520	-	$26.40
(22) West I-10	317,674	129,023	-	40.6%	28,473	-17,007	-4,570	-	$34.11
(23) Loop 303/Surprise	129,735	14,103	-	10.9%	6,794	-	6,493	-	$30.00
(24) Phoenix-Mesa Gateway/Loop 202	315,172	19,224	-	6.1%	2,581	-2,284	-5,411	-	$27.08
Phoenix CBD	**15,576,662**	**3,552,039**	**144,201**	**23.7%**	**765,346**	**123,673**	**276,973**	**-**	**$26.49**
Phoenix Non-CBD	**75,515,618**	**13,293,320**	**4,371,842**	**23.4%**	**4,753,518**	**-749,001**	**-1,049,968**	**731,494**	**$28.72**
Grand Total	**91,092,280**	**16,845,359**	**4,516,043**	**23.5%**	**5,518,864**	**-625,328**	**-772,995**	**731,494**	**$28.27**

CLASS	TOTAL INVENTORY	TOTAL DIRECT VACANCY SF	TOTAL SUBLEASE VACANCY SF	TOTAL OVERALL VACANT RATE	YTD LEASING ACTIVITY	OVERALL NET ABSORPTION Q3	OVERALL NET ABSORPTION YTD	TOTAL UNDER CONSTRUCTION (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)
Class A	29,157,968	4,578,194	2,381,366	23.9%	1,849,021	-399,326	-256,382	731,494	$34.82
Class B	49,235,999	10,235,758	2,081,779	25.0%	3,004,134	-217,982	-641,140	-	$26.40
Class C	12,698,313	2,031,407	52,898	16.4%	665,709	-8,020	124,527	-	$20.83
Grand Total	**91,092,280**	**16,845,359**	**4,516,043**	**23.5%**	**5,518,864**	**-625,328**	**-772,995**	**731,494**	**$28.27**

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Office Q3 2022

KEY LEASE TRANSACTIONS Q3 2022

PROPERTY	SF	TENANT	TRANSACTION TYPE	CITY	SUBMARKET
9501 E Shea Boulevard	354,888	CVS Caremark	Renewal	Scottsdale	Scottsdale Airpark
Chandler Freeway Crossing	51,419	Cirrus Logic	Direct	Chandler	Price/Chandler/Gilbert
Allred Park Place	50,453	Northrop Grumman	Sublease	Chandler	Price/Chandler/Gilbert
Madison Square	42,686	GSA	Direct	Phoenix	Downtown
Chandler Midway Corporate Center	39,431	GSA	Renewal	Chandler	Price/Chandler/Gilbert

KEY SALES TRANSACTIONS Q3 2022

PROPERTY	SF	BUYER	PRICE	PRICE/$ PSF	CITY	SUBMARKET
Camelback Collective	115,838	Humphreys Capital	$66,350,000	$572.78	Phoenix	Camelback Corridor
Camelback Center	236,553	Bridge Investment Group	$61,800,000	$261.25	Phoenix	Camelback Corridor
The Scottsdale Forum	213,500	Federal Realty Investment Trust	$53,600,000	$251.05	Scottsdale	South Scottsdale
2777 E Camelback Road	109,291	Rosebud Properties	$34,000,000	$311.10	Phoenix	Camelback Corridor

KEY CONSTRUCTION COMPLETIONS Q3 2022

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
Scottsdale Entrada	South Scottsdale	N/A	248,006	Bridge Commercial Real Estate / DPC Development
Gen 1 at GSQ	West I-10	N/A	103,628	Globe Corporation

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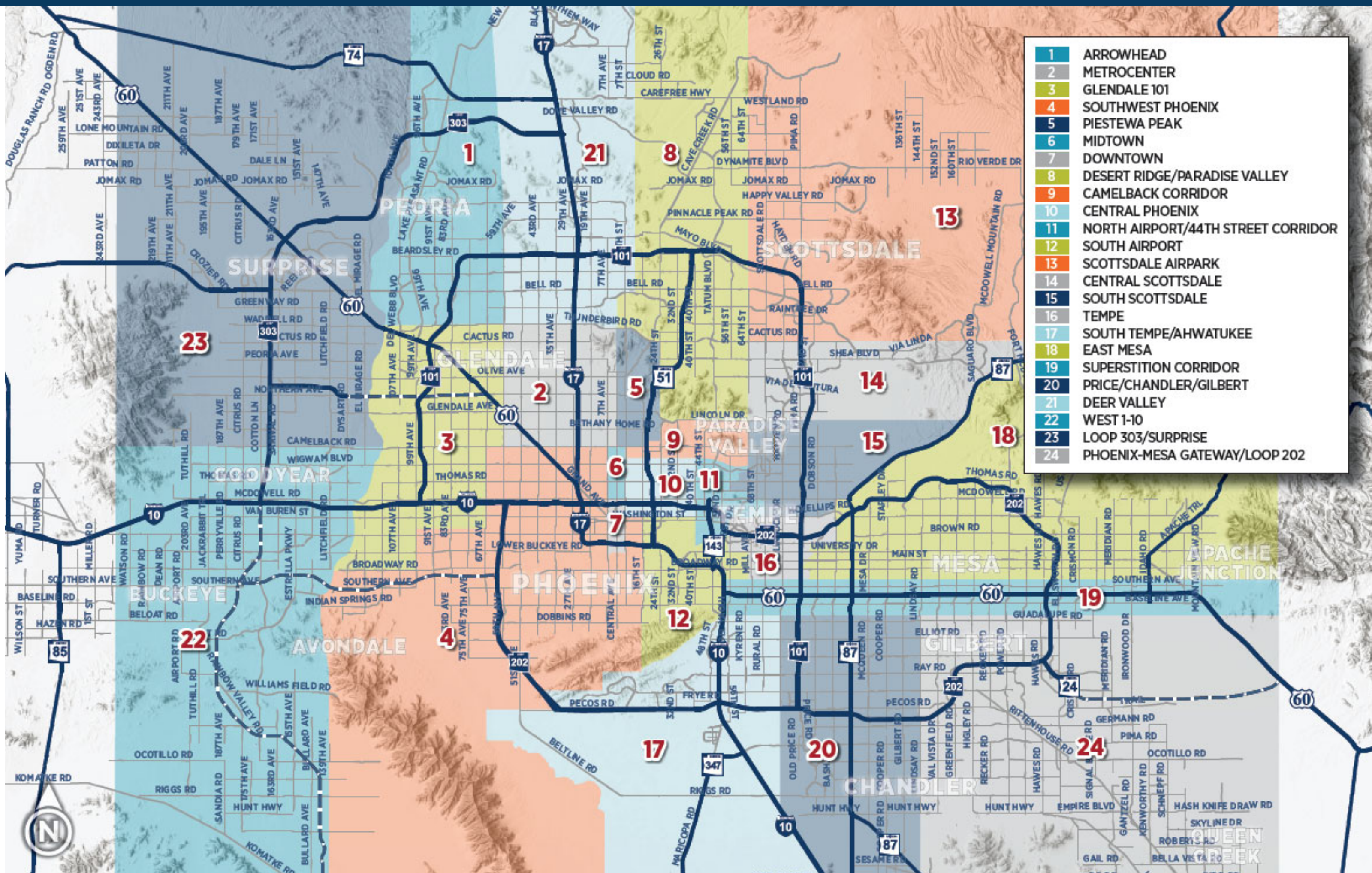
Office Q3 2022

CUSHMAN & WAKEFIELD

Office Submarket Map

Phoenix Metro Area



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