

# MARKETBEAT PHOENIX



Office Q4 2022

YoY Chg 12-Mo. Forecast

**24.3%**

Vacancy Rate



**-1.6M**

YTD Net Absorption, SF



**396K**

Under Construction, SF



**\$28.61**

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 Q4 2022

YoY Chg 12-Mo. Forecast

**2.3M**

Phoenix Employment



**3.3%**

Phoenix Unemployment Rate



**3.7%**

U.S. Unemployment Rate



Source: BLS

*\*Q4 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 Q4 2022, the Phoenix market recorded an employment level of 2.3 million jobs and the unemployment rate decreased slightly from 3.5% in Q4 2021 to 3.3% in Q4 2022. The metro area continues to have tremendous growth, as the number of households increased by 2.3% year-over-year (YOY) to 1.9 million.

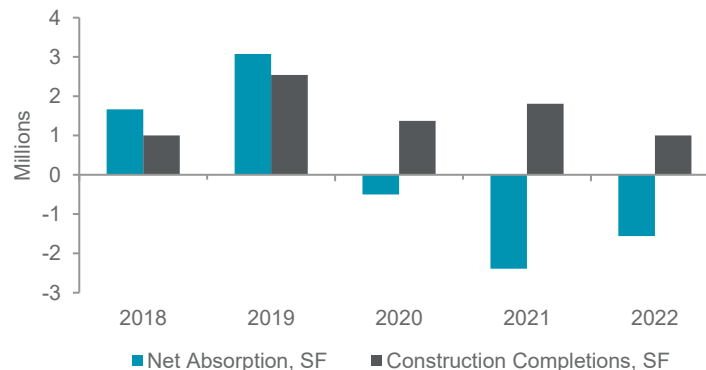
## MARKET OVERVIEW

The fourth quarter 2022 the overall vacancy rate across the Phoenix metro office market was 24.3%. Of that total, 19.1% was direct vacancy which increased slightly from the previous quarter, while sublease vacancy also increased slightly to 5.3%. The Phoenix metro office market recorded 1.4 million square feet (msf) of gross leasing activity for the quarter, a 20% decrease from Q4 2021, and a 5% decrease from Q3 2022. Class A leasing activity was outpaced by Class B leasing activity for the third quarter in a row.

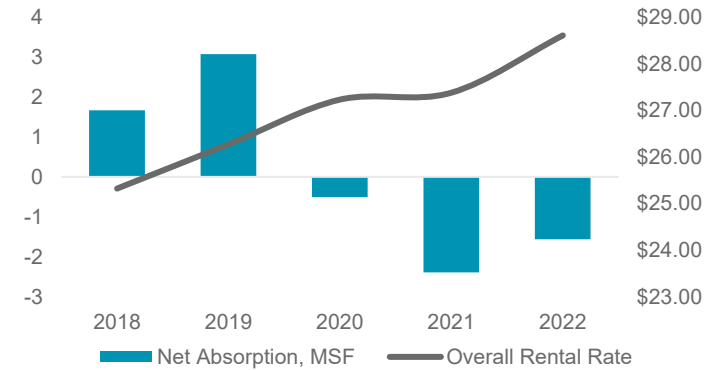
The Phoenix market recorded negative absorption of 851,910 square feet (sf) for all building classes in Q4 2022. Class A buildings had negative absorption of 564,330 sf, Class B buildings had negative absorption of 1,126,897 sf, and Class C buildings had positive absorption of 128,153 sf as mid-tier 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 and Scottsdale Airpark. Notably, the Camelback Corridor recorded the most positive absorption of any submarket without a single quarter of negative absorption. The submarket performing the best in Q4 2022 was South Scottsdale with 80,398 sf of positive absorption.

## SPACE DEMAND / DELIVERIES



## YEARLY ABSORPTION & ASKING RENT



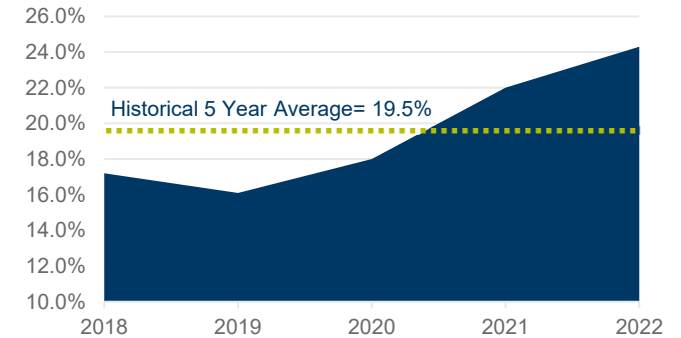
The fourth quarter of 2022 recorded the completion of The Beam on Farmer, a 183,526 sf premier Class A office building in Tempe, as well as The Grove, a 181,494 sf Class A office building in the Camelback Corridor submarket. Overall office construction in the Phoenix metro office market has slowed in the latter half of 2022, as just 0.4 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 Camelback Corridor with 70,000 sf.

The overall full-service gross asking rental rate in the Phoenix Metro office market in Q4 2022 increased slightly to \$28.61 per square foot (psf) from \$28.27 psf in Q3 2022. Tempe was the most expensive submarket at \$36.01 psf, followed by the Camelback Corridor at \$35.32 psf. Central Phoenix was the least expensive submarket at \$18.62 psf.

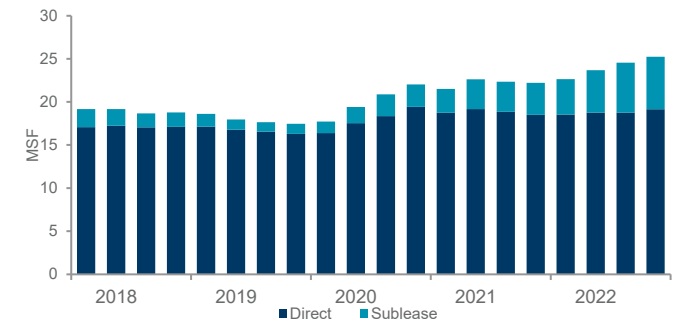
### Outlook

- Overall negative net absorption is expected to continue into 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, Downtown and Scottsdale Airpark submarkets have positive net absorption in 2022, while commanding above-average occupancy and rental rates.
- Gross leasing activity slowed for the third straight quarter in Q4 2022. While activity has surpassed 2020-2021 yearly totals, it did not reach pre-pandemic levels in 2022, as companies evaluate both their office needs and the overall economy.
- While sublease availabilities increased in Q4 2022, they did so at a lower rate than the prior four quarters, as tenants with the desire to make their office space available for sublet in a post-pandemic environment have likely already done so.
- 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 started 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.

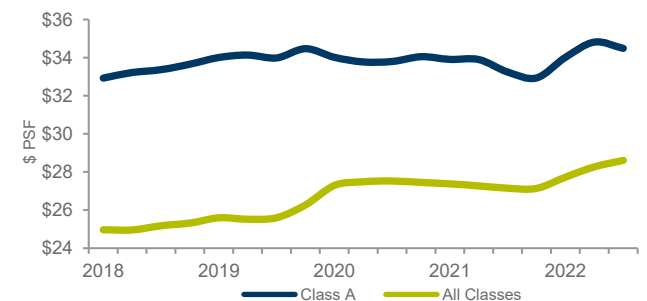
### VACANCY RATE



### 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 Q4	OVERALL NET ABSORPTION YTD	TOTAL UNDER CONSTRUCTION (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)
(1) Arrowhead	480,517	49,789	2,961	11.0%	43,641	2,685	6,839	-	\$27.69
(2) Metrocenter	5,133,050	1,804,786	142,627	37.9%	266,482	-56,944	-254,542	-	\$21.65
(3) Glendale 101	753,545	48,469	36,312	11.3%	36,766	2,143	11,359	-	\$26.16
(4) Southwest Phoenix	344,386	-	-	0.0%	-	-	17,625	-	-
(5) Piestewa Peak	2,359,658	358,097	82,610	18.7%	238,083	-35,404	-21,918	-	\$27.37
(6) Midtown	9,272,468	2,295,417	74,688	25.6%	779,378	-26,402	38,583	-	\$24.32
(7) Downtown	6,323,162	1,423,889	29,846	23.0%	248,530	-146,209	65,779	-	\$31.59
(8) Desert Ridge/Paradise Valley	1,710,549	356,491	17,197	21.8%	174,740	-1,167	-103,538	-	\$30.01
(9) Camelback Corridor	6,967,109	1,352,505	83,268	20.6%	732,994	19,525	243,368	70,000	\$35.32
(10) Central Phoenix	880,077	115,653	-	13.1%	30,557	-41,245	-31,024	-	\$18.62
(11) North Airport/44 <sup>th</sup> Street Corridor	2,589,153	536,321	120,802	25.4%	158,799	12,797	-3,479	-	\$28.02
(12) South Airport	7,446,982	1,347,376	1,019,179	31.8%	508,868	-484,131	-508,940	-	\$25.78
(13) Scottsdale Airpark	9,419,510	1,381,450	285,479	17.7%	908,003	-53,843	226,319	150,000	\$31.46
(14) Central Scottsdale	4,922,739	827,209	133,062	19.5%	430,156	-75,774	-27,645	-	\$29.40
(15) South Scottsdale	4,221,286	998,305	129,834	26.7%	560,307	80,398	-96,451	-	\$33.94
(16) Tempe	8,813,553	1,405,439	738,802	24.3%	402,347	-109,139	-395,300	150,000	\$36.01
(17) South Tempe/Ahwatukee	1,898,451	427,505	10,162	23.1%	175,161	-21,855	-58,698	-	\$26.24
(18) East Mesa	546,562	66,720	4,461	13.0%	28,761	7,356	33,373	-	\$21.11
(19) Superstition Corridor	2,967,731	406,551	39,522	15.0%	236,528	-3,505	13,788	-	\$22.02
(20) Price/Chandler/Gilbert	8,514,293	1,082,399	1,201,203	26.8%	628,586	70,150	-334,218	-	\$28.43
(21) Deer Valley	5,098,326	987,545	662,585	32.4%	264,212	-2,490	-392,010	-	\$26.46
(22) West I-10	317,674	117,669	-	37.0%	35,995	11,354	6,784	-	\$34.12
(23) Loop 303/Surprise	129,735	14,103	-	10.9%	6,794	-	6,493	-	\$30.00
(24) Phoenix-Mesa Gateway/Loop 202	315,172	19,434	-	6.2%	15,741	-210	-5,621	26,358	\$27.20
<b>Phoenix CBD</b>	<b>15,595,630</b>	<b>3,719,306</b>	<b>104,534</b>	<b>24.5%</b>	<b>1,027,908</b>	<b>-172,611</b>	<b>104,362</b>	<b>-</b>	<b>\$26.99</b>
<b>Phoenix Non-CBD</b>	<b>75,830,058</b>	<b>13,703,816</b>	<b>4,710,066</b>	<b>24.3%</b>	<b>5,883,521</b>	<b>-679,299</b>	<b>-1,667,436</b>	<b>396,358</b>	<b>\$29.03</b>
<b>Grand Total</b>	<b>91,425,688</b>	<b>17,423,122</b>	<b>4,814,600</b>	<b>24.3%</b>	<b>6,911,429</b>	<b>-851,910</b>	<b>-1,563,074</b>	<b>396,358</b>	<b>\$28.61</b>

CLASS	TOTAL INVENTORY	TOTAL DIRECT VACANCY SF	TOTAL SUBLEASE VACANCY SF	TOTAL OVERALL VACANT RATE	YTD LEASING ACTIVITY	OVERALL NET ABSORPTION Q4	OVERALL NET ABSORPTION YTD	TOTAL UNDER CONSTRUCTION (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)
Class A	29,520,462	5,215,293	2,383,328	25.7%	2,255,580	-336,405	-564,330	370,000	\$34.49
Class B	49,206,913	10,211,397	2,379,732	25.6%	3,788,439	-517,929	-1,126,897	26,358	\$26.96
Class C	12,698,313	1,996,432	51,540	16.1%	867,410	2,424	128,153	-	\$20.74
<b>Grand Total</b>	<b>91,425,688</b>	<b>17,423,122</b>	<b>4,814,600</b>	<b>24.3%</b>	<b>6,911,429</b>	<b>-851,910</b>	<b>-1,563,074</b>	<b>396,358</b>	<b>\$28.61</b>



## KEY LEASE TRANSACTIONS Q4 2022

PROPERTY	SF	TENANT	TRANSACTION TYPE	CITY	SUBMARKET
Desert Canyon 300	149,211	Maximus, Inc.	Renewal	Phoenix	Metrocenter
Veterans Administration	114,526	Department of Veteran Affairs	Renewal	Phoenix	Midtown
Indianola Square	66,906	Mind 24-7	Direct	Phoenix	Central Phoenix
NAU North Valley Campus	66,743	Northern Arizona University	Renewal	Phoenix	Deer Valley
Pima Center	44,853	Rancho Solano Prep School	Direct	Scottsdale	Central Scottsdale

## KEY SALES TRANSACTIONS Q4 2022

PROPERTY	SF	BUYER	PRICE	PRICE/\$ PSF	CITY	SUBMARKET
Continuum Business & Technology Park	463,658	Aligned Data Centers	\$109,075,336	\$235.25	Chandler	Price/Chandler/Gilbert
Promenade Corporate Center	256,308	Cardone Capital	\$56,500,000	\$220.44	Scottsdale	Scottsdale Airpark
Kierland II	234,983	Admiral Capital Group	\$47,000,000	\$200.01	Scottsdale	Scottsdale Airpark
Take Charge America National HQ	118,977	Mack Real Estate Group	\$22,000,000	\$184.91	Phoenix	Deer Valley

## KEY CONSTRUCTION COMPLETIONS Q4 2022

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
The Beam on Farmer	Tempe	Mortenson	183,526	M. A. Mortenson Company
The Grove	Camelback Corridor	Sendoso	181,494	RED Development

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