MARKETBEAT

PHOENIX

Office Q2 2023

	YoY Chg	12-Mo. Forecast
26.1% Vacancy Rate	▲	▲
-2.1M YTD Net Absorption, SF	▼	▼
626K Under Construction, SF	▼	▼
$28.89 Asking Rent, PSF	▲	—

ECONOMIC INDICATORS Q2 2023

	YoY Chg	12-Mo. Forecast
2.4M Phoenix Employment	▲	▲
3.0% 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 2023, the Phoenix market recorded an employment level of 2.4 million jobs and the unemployment rate decreased slightly from 3.2% in Q2 2022 to 3.0% in Q2 2023. The metro area continues to have tremendous growth, as the number of households increased by 2.0% year-over-year (YOY) to 1.9 million.

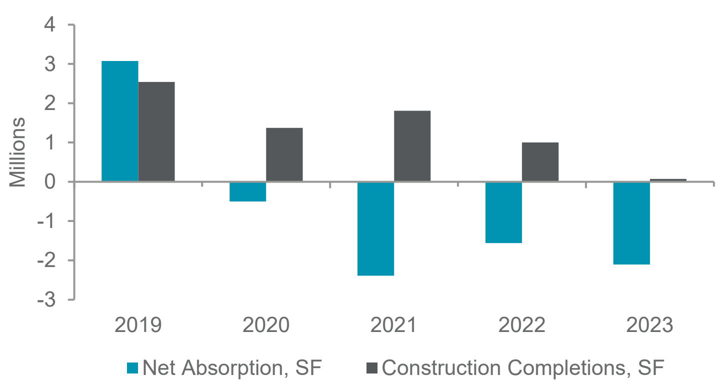
MARKET OVERVIEW

In the second quarter of 2023, the overall vacancy rate across the Phoenix metro office market was 26.1%. Of that total, 20.1% was direct vacancy which increased slightly from the previous quarter, while sublease vacancy increased more significantly to 6.0%. The Phoenix metro office market recorded 1.8 million square feet (msf) of gross leasing activity for the quarter, a 5% increase from Q2 2022, and a 35% increase from Q1 2023. The highest levels of activity were recorded in the Camelback Corridor and Scottsdale Airpark submarkets – with both posting the highest quarterly square footage leased since Q1 2022.

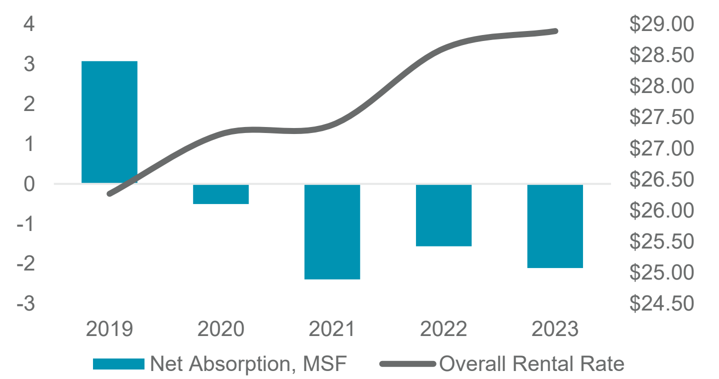
The Phoenix market recorded negative absorption of 1,141,839 square feet (sf) for all building classes in Q2 2023. Class A buildings had negative absorption of 541,905 sf, Class B buildings had negative absorption of 652,043 sf, and Class C buildings had positive absorption of 52,109 sf as large, mid-tier office buildings continue to struggle.

Despite the overall negative absorption in the Phoenix office market, demand remains strong in some established office hubs around the valley, including the Camelback Corridor, one of a small handful of submarkets to record positive absorption through the first half of the year.

SPACE DEMAND / DELIVERIES



YEARLY ABSORPTION & ASKING RENT



MARKETBEAT

PHOENIX

Office Q2 2023

CUSHMAN & WAKEFIELD

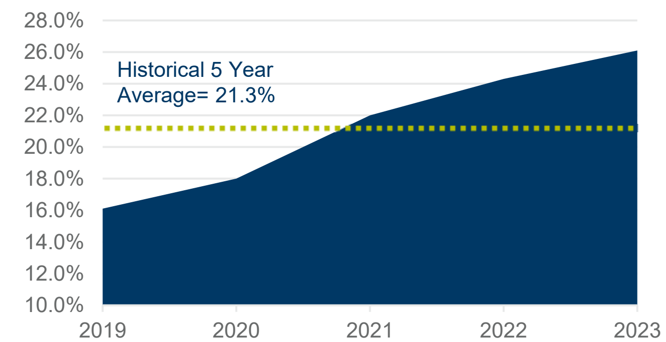
Overall office construction in the Phoenix metro office market remains subdued in 2023, as just 0.6 msf of leasable space is currently under construction throughout the metro area. The Tempe submarket leads all others with 450,000 sf currently under construction, followed by Scottsdale Airpark with 150,000 sf and Phoenix-Mesa Gateway/Loop 202 with 26,358 sf.

The overall full-service gross asking rental rate in the Phoenix Metro office market in Q2 2023 increased slightly to $28.89 per square foot (psf) from $28.84 psf in Q1 2023. Tempe remains the most expensive submarket at $36.72 psf, followed closely by Camelback Corridor at $36.24 psf. Central Phoenix was the least expensive submarket at $20.51 psf.

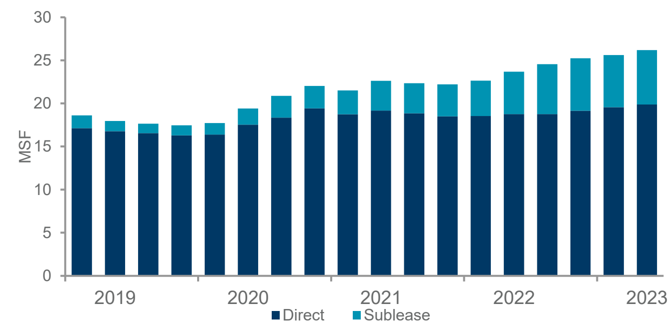
Outlook

- 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 YTD net absorption, and the lowest vacancy rate of any Class A submarket over 500,000 sf.
- While absorption is trending downward, gross leasing activity increased significantly in Q2 2023, to its highest quarterly level in over a year. However, we expect activity to be weakened through the remainder of 2023 as companies evaluate both their office needs and the overall economy.
- Subleasing remains an attractive option for tenants wishing to vacate or downsize to save costs. Sublease availabilities increased over 4% quarter-over-quarter in Q2 2023, adding over 250,000 sf to the market. This oversupply of sublet space combined with weakness in the leasing markets will remain a challenge for office investors and landlords.
- 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

PHOENIX

Office Q2 2023

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	55,014	14,602	14.5%	21,430	-3,276	-16,866	-	$30.45
(2) Metrocenter	5,094,426	1,673,939	142,627	35.7%	127,658	44,555	39,582	-	$22.06
(3) Glendale 101	753,545	47,261	-	6.3%	28,771	2,214	4,720	-	$28.97
(4) Southwest Phoenix	313,743	28,500	-	9.1%	-	-	-28,500	-	-
(5) Piestewa Peak	2,331,964	320,274	99,701	18.0%	121,764	8,083	20,732	-	$27.82
(6) Midtown	9,272,468	2,738,128	52,989	30.1%	177,472	-73,671	-479,039	-	$25.15
(7) Downtown	6,096,049	1,300,766	54,167	22.2%	82,894	3,254	-1,196	-	$31.63
(8) Desert Ridge/Paradise Valley	1,710,549	396,676	13,833	24.0%	47,763	-7,907	-36,821	-	$31.23
(9) Camelback Corridor	7,037,109	1,370,882	105,902	21.0%	374,572	-78,257	28,989	-	$36.24
(10) Central Phoenix	880,077	121,877	-	13.8%	26,072	-15,902	-6,224	-	$20.51
(11) North Airport/44th Street Corridor	2,589,153	579,949	234,501	31.5%	42,556	-80,144	-157,327	-	$27.20
(12) South Airport	7,446,982	1,422,982	1,030,929	33.0%	197,218	72,665	-112,356	-	$25.23
(13) Scottsdale Airpark	9,419,510	1,522,224	387,660	20.3%	430,595	-218,164	-323,985	150,000	$32.00
(14) Central Scottsdale	4,922,739	787,682	240,015	20.9%	325,062	-85,804	-99,375	-	$28.50
(15) South Scottsdale	4,221,286	1,056,455	103,202	27.5%	270,858	-43,026	-38,213	-	$35.97
(16) Tempe	8,822,439	1,609,782	846,462	27.8%	338,515	-312,669	-444,346	450,000	$36.72
(17) South Tempe/Ahwatukee	1,898,583	351,293	77,860	22.6%	130,414	2,607	8,514	-	$25.74
(18) East Mesa	546,562	80,751	-	14.8%	7,486	-2,576	-9,570	-	$21.14
(19) Superstition Corridor	2,968,171	412,979	80,919	16.6%	161,352	-12,000	-50,214	-	$24.55
(20) Price/Chandler/Gilbert	8,514,293	1,411,636	1,165,987	30.3%	198,781	-204,414	-252,372	-	$29.14
(21) Deer Valley	5,098,325	960,105	786,104	34.3%	53,523	-148,018	-148,469	-	$26.47
(22) West I-10	317,674	105,864	2,593	34.1%	16,671	-1,246	9,212	-	$34.41
(23) Loop 303/Surprise	129,735	17,371	-	13.4%	1,784	-3,268	-3,268	-	$29.44
(24) Phoenix-Mesa Gateway/Loop 202	315,172	30,511	-	9.7%	23,062	15,125	-11,077	26,358	$31.85
Phoenix CBD	**15,368,517**	**4,038,894**	**107,156**	**27.0%**	**260,366**	**-70,417**	**-480,235**	**-**	**$27.24**
Phoenix Non-CBD	**75,812,554**	**14,364,007**	**5,332,897**	**26.0%**	**2,945,907**	**-1,071,422**	**-1,627,234**	**626,358**	**$29.35**
Grand Total	**91,181,071**	**18,402,901**	**5,440,053**	**26.1%**	**3,206,273**	**-1,141,839**	**-2,107,469**	**626,358**	**$28.89**

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	29,372,235	5,407,565	2,779,617	27.9%	1,034,439	-541,905	-747,981	300,000	$34.40
Class B	49,207,484	11,005,820	2,627,447	27.7%	1,796,184	-652,043	-1,354,602	326,358	$27.25
Class C	12,601,352	1,989,516	32,989	16.0%	375,650	52,109	-4,886	-	$21.30
Grand Total	**91,181,071**	**18,402,901**	**5,440,053**	**26.1%**	**3,206,273**	**-1,141,839**	**-2,107,469**	**626,358**	**$28.89**

MARKETBEAT

PHOENIX

Office Q2 2023

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 Q2	OVERALL NET ABSORPTION YTD	TOTAL UNDER CONSTRUCTION (SF)	OVERALL AVG ASKING RENT (CLASS A)
(1) Arrowhead	333,334	47,141	14,602	18.5%	8,406	-7,139	-20,417	-	$30.92
(2) Metrocenter	313,818	227,010	-	72.3%	-	-	-	-	$27.00
(3) Glendale 101	480,696	47,261	-	9.8%	28,771	2,214	4,720	-	$28.92
(4) Southwest Phoenix	-	-	-	-	-	-	-	-	-
(5) Piestewa Peak	651,662	60,197	72,246	20.3%	30,901	4,227	-16,820	-	$32.05
(6) Midtown	1,355,542	349,349	550	25.8%	35,093	-8,266	-47,216	-	$29.90
(7) Downtown	3,368,571	746,066	30,071	23.0%	32,018	-25,792	-28,760	-	$35.12
(8) Desert Ridge/Paradise Valley	605,115	120,049	5,366	20.7%	15,105	13,166	-22,331	-	$36.05
(9) Camelback Corridor	3,416,131	608,096	53,844	19.4%	154,022	-92,210	59,227	-	$43.50
(10) Central Phoenix	-	-	-	-	-	-	-	-	-
(11) North Airport/44th Street Corridor	1,094,832	194,354	153,020	31.7%	16,175	-12,056	-55,843	-	$27.72
(12) South Airport	1,203,392	270,319	464,666	61.1%	20,149	7,112	-87,831	-	$26.50
(13) Scottsdale Airpark	3,823,047	721,963	276,104	26.1%	139,930	-88,516	-120,960	150,000	$34.91
(14) Central Scottsdale	724,508	156,154	3,523	22.0%	35,776	-10,319	-27,517	-	$34.74
(15) South Scottsdale	1,691,505	339,766	13,235	20.9%	91,671	37,576	46,582	-	$40.31
(16) Tempe	6,211,781	844,230	726,095	25.3%	301,315	-249,918	-344,302	150,000	$40.03
(17) South Tempe/Ahwatukee	-	-	-	-	-	-	-	-	-
(18) East Mesa	-	-	-	-	-	-	-	-	-
(19) Superstition Corridor	311,178	38,088	-	12.2%	26,318	-6,953	13,378	-	$25.95
(20) Price/Chandler/Gilbert	2,583,569	504,491	435,989	36.4%	93,319	-16,683	-11,543	-	$33.49
(21) Deer Valley	1,099,926	49,305	530,306	52.7%	-	-95,265	-95,265	-	$28.48
(22) West I-10	103,628	83,726	-	80.8%	5,470	6,917	6,917	-	$35.00
(23) Loop 303/Surprise	-	-	-	-	-	-	-	-	-
(24) Phoenix-Mesa Gateway/Loop 202	-	-	-	-	-	-	-	-	-
Phoenix CBD	**4,724,113**	**1,095,415**	**30,621**	**23.8%**	**67,111**	**-34,058**	**-75,976**	**-**	**$33.48**
Phoenix Non-CBD	**24,648,122**	**4,312,150**	**2,748,996**	**28.6%**	**967,328**	**-507,847**	**-672,005**	**300,000**	**$34.62**
Grand Total	**29,372,235**	**5,407,565**	**2,779,617**	**27.9%**	**1,034,439**	**-541,905**	**-747,981**	**300,000**	**$34.40**

MARKETBEAT

PHOENIX

Office Q2 2023

CUSHMAN & WAKEFIELD

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 Q2	OVERALL NET ABSORPTION YTD	TOTAL UNDER CONSTRUCTION (SF)	OVERALL AVG ASKING RENT (CLASS B)
(1) Arrowhead	126,164	3,537	-	2.8%	13,024	4,481	5,689	-	$24.25
(2) Metrocenter	2,808,499	925,441	141,148	38.0%	91,935	49,148	-11,535	-	$21.56
(3) Glendale 101	175,912	-	-	0.0%	-	-	-	-	-
(4) Southwest Phoenix	-	-	-	-	-	-	-	-	-
(5) Piestewa Peak	1,092,899	199,137	27,455	20.7%	65,255	-1,696	30,042	-	$27.55
(6) Midtown	5,995,847	1,964,055	52,439	33.6%	123,159	-56,889	-417,017	-	$25.14
(7) Downtown	2,015,387	473,381	21,596	24.6%	32,723	23,250	13,710	-	$27.60
(8) Desert Ridge/Paradise Valley	664,583	235,871	-	35.5%	24,515	-10,847	-8,368	-	$30.12
(9) Camelback Corridor	3,109,455	711,112	52,058	24.5%	208,223	9,348	-39,451	-	$33.96
(10) Central Phoenix	159,580	13,458	-	8.4%	-	-	-	-	-
(11) North Airport/44th Street Corridor	1,150,745	343,979	77,799	36.7%	20,036	-62,095	-82,140	-	$27.27
(12) South Airport	5,564,130	1,090,348	552,592	29.5%	136,340	61,125	-35,201	-	$25.26
(13) Scottsdale Airpark	4,942,495	740,436	110,105	17.2%	270,138	-141,639	-180,902	-	$29.56
(14) Central Scottsdale	3,505,702	610,256	236,492	24.2%	286,259	-72,026	-70,400	-	$28.33
(15) South Scottsdale	2,300,748	648,498	89,967	32.1%	174,049	-80,181	-74,734	-	$35.18
(16) Tempe	2,462,316	746,731	120,367	35.2%	20,352	-71,130	-106,921	300,000	$31.71
(17) South Tempe/Ahwatukee	1,616,410	333,403	77,860	25.4%	108,882	-19,364	-13,452	-	$26.07
(18) East Mesa	176,476	43,278	-	24.5%	3,025	3,025	3,025	-	$23.27
(19) Superstition Corridor	1,414,855	204,240	79,180	20.0%	48,213	-41,064	-112,224	-	$27.09
(20) Price/Chandler/Gilbert	5,457,666	743,830	729,998	27.0%	100,174	-185,159	-179,437	-	$26.25
(21) Deer Valley	3,878,255	905,096	255,798	29.9%	50,242	-52,577	-53,028	-	$26.13
(22) West I-10	214,046	22,138	2,593	11.6%	11,201	-8,163	2,295	-	$32.41
(23) Loop 303/Surprise	129,735	17,371	-	13.4%	1,784	-3,268	-3,268	-	$29.44
(24) Phoenix-Mesa Gateway/Loop 202	245,579	30,224	-	12.3%	6,655	3,678	-21,285	26,358	$31.85
Phoenix CBD	**8,011,234**	**2,437,436**	**74,035**	**31.3%**	**155,882**	**-33,639**	**-403,307**	**-**	**$25.63**
Phoenix Non-CBD	**41,196,250**	**8,568,384**	**2,553,412**	**27.0%**	**1,640,302**	**-618,404**	**-951,295**	**326,358**	**$27.69**
Grand Total	**49,207,484**	**11,005,820**	**2,627,447**	**27.7%**	**1,796,184**	**-652,043**	**-1,354,602**	**326,358**	**$27.25**

MARKETBEAT

PHOENIX

Office Q2 2023

CUSHMAN & WAKEFIELD

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 Q2	OVERALL NET ABSORPTION YTD	TOTAL UNDER CONSTRUCTION (SF)	OVERALL AVG ASKING RENT (CLASS C)
(1) Arrowhead	21,019	4,336	-	20.6%	-	-618	-2,138	-	$30.00
(2) Metrocenter	1,972,109	521,488	1,479	26.5%	35,723	-4,593	51,117	-	$19.65
(3) Glendale 101	96,937	-	-	0.0%	-	-	-	-	-
(4) Southwest Phoenix	313,743	28,500	-	9.1%	-	-	-28,500	-	-
(5) Piestewa Peak	587,403	60,940	-	10.4%	25,608	5,552	7,510	-	$20.44
(6) Midtown	1,921,079	424,724	-	22.1%	19,220	-8,516	-14,806	-	$21.50
(7) Downtown	712,091	81,319	2,500	11.8%	18,153	5,796	13,854	-	$25.41
(8) Desert Ridge/Paradise Valley	440,851	40,756	8,467	11.2%	8,143	-10,226	-6,122	-	$24.16
(9) Camelback Corridor	511,523	51,674	-	10.1%	12,327	4,605	9,213	-	$23.09
(10) Central Phoenix	720,497	108,419	-	15.0%	26,072	-15,902	-6,224	-	$20.51
(11) North Airport/44th Street Corridor	343,576	41,616	3,682	13.2%	6,345	-5,993	-19,344	-	$21.46
(12) South Airport	679,460	62,315	13,671	11.2%	40,729	4,428	10,676	-	$18.49
(13) Scottsdale Airpark	653,968	59,825	1,451	9.4%	20,527	11,991	-22,123	-	$24.58
(14) Central Scottsdale	692,529	21,272	-	3.1%	3,027	-3,459	-1,458	-	$23.00
(15) South Scottsdale	229,033	68,191	-	29.8%	5,138	-421	-10,061	-	$21.99
(16) Tempe	148,342	18,821	-	12.7%	16,848	8,379	6,877	-	$24.62
(17) South Tempe/Ahwatukee	282,173	17,890	-	6.3%	21,532	21,971	21,966	-	$19.43
(18) East Mesa	370,086	37,473	-	10.1%	4,461	-5,601	-12,595	-	$18.00
(19) Superstition Corridor	1,242,138	170,651	1,739	13.9%	86,821	36,017	48,632	-	$18.58
(20) Price/Chandler/Gilbert	473,058	163,315	-	34.5%	5,288	-2,572	-61,392	-	$27.39
(21) Deer Valley	120,144	5,704	-	4.7%	3,281	-176	-176	-	$27.00
(22) West I-10	-	-	-	-	-	-	-	-	-
(23) Loop 303/Surprise	-	-	-	-	-	-	-	-	-
(24) Phoenix-Mesa Gateway/Loop 202	69,593	287	-	0.4%	16,407	11,447	10,208	-	-
Phoenix CBD	**2,633,170**	**506,043**	**2,500**	**19.3%**	**37,373**	**-2,720**	**-952**	**-**	**$22.15**
Phoenix Non-CBD	**9,968,182**	**1,483,473**	**30,489**	**15.2%**	**338,277**	**54,829**	**-3,934**	**-**	**$20.87**
Grand Total	**12,601,352**	**1,989,516**	**32,989**	**16.0%**	**375,650**	**52,109**	**-4,886**	**-**	**$21.30**

PHOENIX

Office Q2 2023

CUSHMAN & WAKEFIELD

KEY LEASE TRANSACTIONS Q2 2023

PROPERTY	SF	TENANT	TRANSACTION TYPE	CITY	SUBMARKET
8220 N 23rd Avenue	170,668	Blue Cross Blue Shield	Renewal	Phoenix	Metrocenter
Northsight Corporate Center	133,634	Vanguard	Direct	Scottsdale	Scottsdale Airpark
Camelback Arboleda	78,668	Kimley-Horn	Direct	Phoenix	Camelback Corridor
The Offices at Chandler Viridian	73,853	Array Technologies	Renewal	Chandler	Price/Chandler/Gilbert
Galleria	58,477	TikTok	Direct	Scottsdale	South Scottsdale

KEY SALES TRANSACTIONS Q2 2023

PROPERTY	SF	BUYER	PRICE	PRICE/$ PSF	CITY	SUBMARKET
1330 W Southern Avenue	150,000	Mainstreet Capital Partners	$13,350,000	$89.00	Tempe	South Airport
Scottsdale Financial Center I	109,968	Providence Real Estate Group	$44,000,000	$400.12	Scottsdale	South Scottsdale
Arizona Business Park	107,482	ATLAS	$4,900,000	$45.59	Phoenix	Deer Valley
Luhrs Tower	67,144	Sunrise Capital Investors	$6,900,000	$102.76	Phoenix	Downtown

KEY CONSTRUCTION COMPLETIONS Q2 2023

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
CCS Presentation Systems HQ	East Mesa	CCS Presentation Systems	36,000	Byxbee Development Partners

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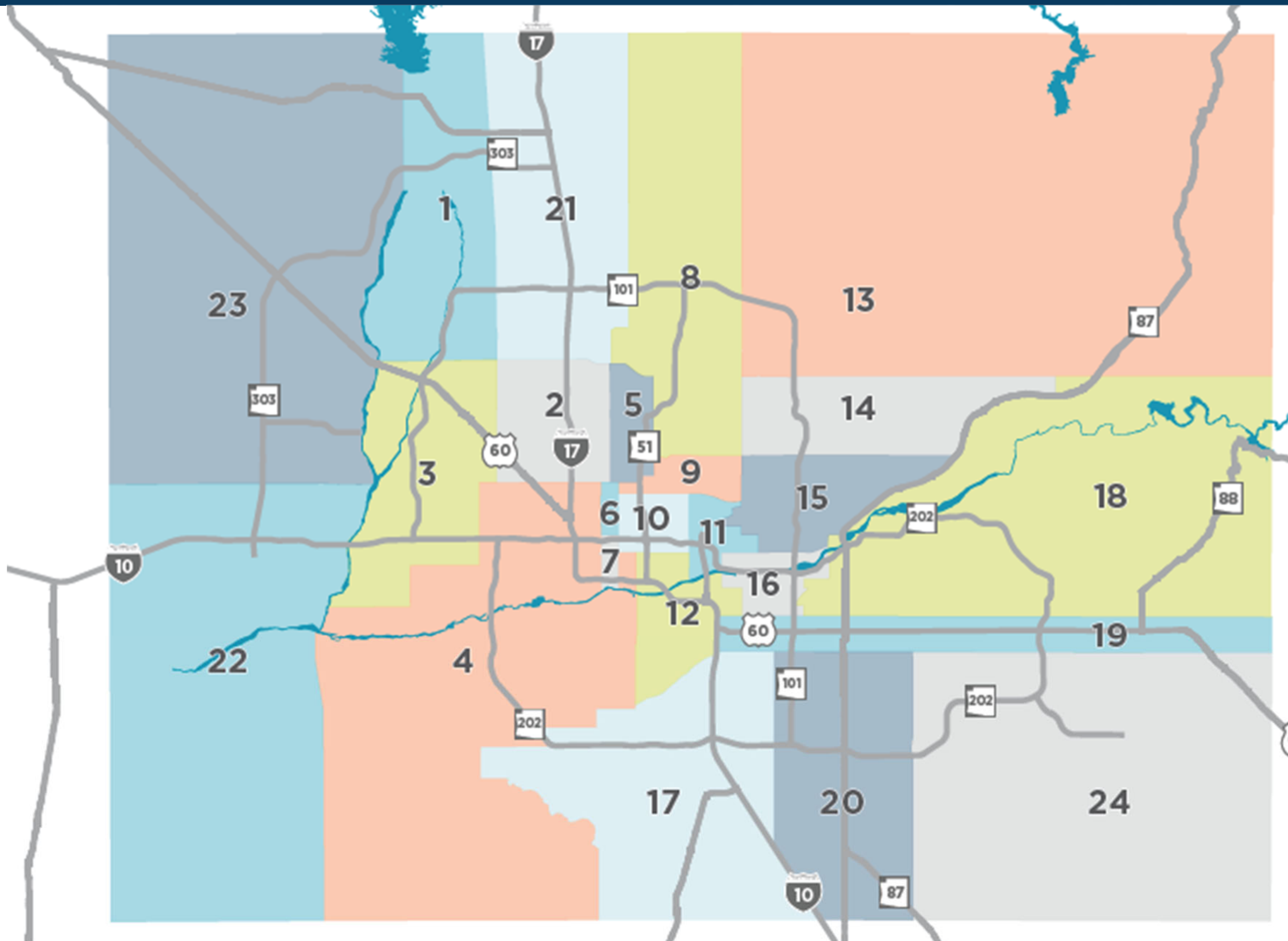
Office Submarket Map

Phoenix Metro Area



1. Arrowhead
2. Metrocenter
3. Glendale 101
4. Southwest Phoenix
5. Piestewa Peak
6. Midtown
7. Downtown
8. Desert Ridge/Paradise Valley
9. Camelback Corridor
10. Central Phoenix
11. North Airport/44th Street Corridor
12. South Airport
13. Scottsdale Airpark
14. Central Scottsdale
15. South Scottsdale
16. Tempe
17. South Tempe/Ahwatukee
18. East Mesa
19. Superstition Corridor
20. Price/Mesa/Chandler
21. Deer Valley
22. West I-10
23. Loop 303/Surprise
24. Phoenix-Mesa Gateway/Loop 202