

MARKETBEAT PHOENIX



Office Q3 2023

YoY Chg 12-Mo. Forecast

27.2%

Vacancy Rate



-3.0M

YTD Net Absorption, SF



596K

Under Construction, SF



\$29.20

Asking Rent, PSF



ECONOMIC INDICATORS Q3 2023

YoY Chg 12-Mo. Forecast

2.4M

Phoenix Employment



3.3%

Phoenix Unemployment Rate



3.7%

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.

ECONOMIC OVERVIEW

In Q3 2023, the Phoenix market recorded an employment level of 2.4 million jobs and the unemployment rate decreased from 3.6% in Q3 2022 to 3.3% in Q3 2023. The metro area continues to have tremendous growth, as the number of households increased by 2.1% year-over-year (YOY) to 1.9 million. Wage growth continues to bring job seekers back into the labor market, as the median household income reached \$81,300 in Q3 2023, an increase of 4.0% YOY.

MARKET OVERVIEW

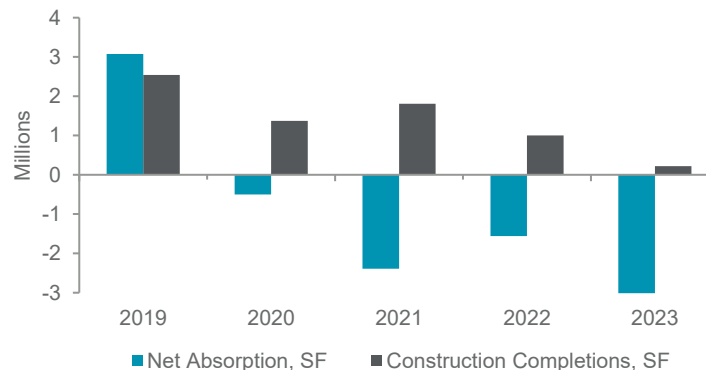
In the third quarter of 2023, the overall vacancy rate across the Phoenix metro office market rose to 27.2%. Of that total, 21.1% was direct vacancy which increased 100 basis points from the previous quarter. Sublease vacancy increased slightly to 6.1%, a 10-basis point quarter-over quarter (QOQ) increase. The Phoenix metro office market recorded 1.4 million square feet (msf) of gross leasing activity for the quarter, a 21.9% decrease QOQ, and an 8.9% decrease YOY. The highest levels of activity were recorded in the Scottsdale Airpark and Central Scottsdale submarkets – an increase of 27.4% and 34.5% in comparison to each submarket's respective 12-month moving average. Over 36% of all leasing activity in Q3 2023 occurred in the Scottsdale submarkets.

Absorption remained negative for the sixth consecutive quarter, as the Phoenix market recorded negative absorption of 1,123,389 square feet (sf) for all building classes in Q3 2023. Class A buildings had negative absorption of 740,446 sf, Class B buildings had negative absorption of 290,694 sf, and Class C buildings had negative absorption of 92,249 sf as large, mid-tier office buildings continue to struggle. Negative absorption climbed to 3,012,317 sf year-to-date (YTD), and no major office submarket with over 3 msf of inventory has recorded positive absorption on a YTD basis.

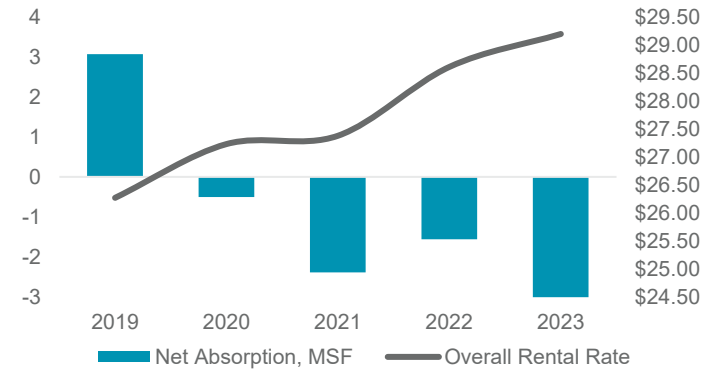
SUPPLY PRESSURE

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 300,000 sf currently under construction, followed by Scottsdale Airpark with 150,000 sf and Price/Chandler/Gilbert 202 with 119,222 sf.

SPACE DEMAND / DELIVERIES



YEARLY ABSORPTION & ASKING RENT



SUPPLY PRESSURE: Sublease Availability Continues to Increase

Sublease availability increased to over 6.4 msf in the third quarter – the highest figure recorded since Cushman & Wakefield began tracking sublet inventory. Over 5.6 msf of sublease space is currently vacant, with an additional 0.9 msf becoming vacant in the future. The largest subleases coming to market this quarter include Willis Towers Watson’s 40,750-sf block of space at One Papago Hills in Tempe, and Centene’s 38,081-sf block of space at Liberty Center Rio Salado in the South Airport submarket.

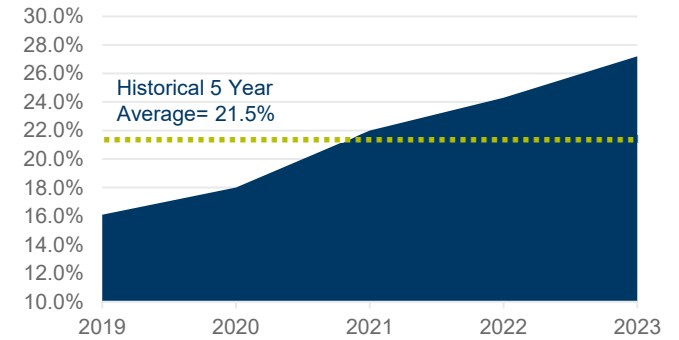
PRICING: Overall Asking Rents Increase

The overall full-service gross asking rental rate in the Phoenix Metro office market in Q3 2023 increased slightly to \$29.20 per square foot (psf) from \$28.89 psf in Q2 2023. Tempe remains the most expensive submarket at \$37.70 psf, followed closely by Camelback Corridor at \$36.60 psf. On the high-end, landlords are asking as much as \$55.00 full-service gross for premium space in the Camelback Corridor. On the low-end, Central Phoenix was the least expensive submarket, being the only submarket to fall under the \$20.00 threshold to \$19.36 psf.

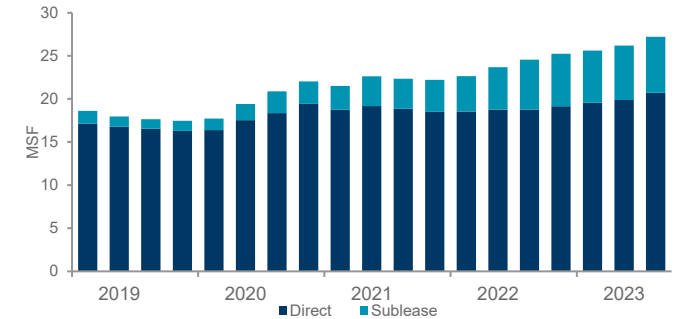
OUTLOOK

- 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, Tempe and South Scottsdale Class A submarkets in particular command, on average, a 21% premium in rental rates, a 119% increase in YTD leasing activity, and 23% lower vacancy rates in comparison to all Class A submarkets over 500,000 sf.
- Absorption and leasing activity both trended downward QOQ in Q2 2023. We expect both to remain deflated 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 by 2.9% quarter-over-quarter in Q3 2023, adding over 180,000 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, Cavasson, the future headquarters of Meritage Homes, and Tempe Vale, a 300,000 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 Q3	OVERALL NET ABSORPTION YTD	TOTAL UNDER CONSTRUCTION (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)
(1) Arrowhead	480,517	62,345	20,017	17.1%	28,327	-12,746	-29,612	-	\$29.94
(2) Metrocenter	5,265,094	1,667,109	150,330	34.5%	184,849	-873	38,709	-	\$22.02
(3) Glendale 101	759,264	143,351	2,202	19.2%	43,972	-98,292	-93,572	-	\$29.03
(4) Southwest Phoenix	313,743	28,500	-	9.1%	-	-	-28,500	-	-
(5) Piestewa Peak	2,331,964	314,643	121,510	18.7%	160,885	-16,180	4,554	-	\$27.38
(6) Midtown	9,272,468	2,756,170	54,248	30.3%	259,857	-30,774	-509,808	-	\$25.51
(7) Downtown	6,096,049	1,355,049	117,717	24.2%	97,492	-117,833	-119,029	-	\$31.64
(8) Desert Ridge/Paradise Valley	1,710,549	474,980	10,807	28.4%	54,564	-75,278	-112,099	-	\$31.47
(9) Camelback Corridor	7,037,109	1,405,083	148,202	22.1%	425,287	-76,501	-47,512	-	\$36.60
(10) Central Phoenix	880,077	88,203	-	10.0%	45,263	33,673	27,450	-	\$19.36
(11) North Airport/44 th Street Corridor	2,589,153	547,964	239,678	30.4%	90,834	11,512	-130,519	-	\$27.14
(12) South Airport	7,346,982	1,697,619	1,067,139	37.6%	166,486	-310,847	-423,203	-	\$25.07
(13) Scottsdale Airpark	9,419,510	1,418,217	474,619	20.1%	691,503	-4,303	-328,625	150,000	\$31.58
(14) Central Scottsdale	4,922,739	742,206	220,888	19.6%	509,754	64,603	-34,772	-	\$29.69
(15) South Scottsdale	4,221,286	1,060,997	104,015	27.6%	360,815	-23,846	-43,568	-	\$36.33
(16) Tempe	8,972,439	2,006,843	839,413	31.7%	413,110	-240,012	-684,358	300,000	\$37.70
(17) South Tempe/Ahwatukee	1,898,583	230,155	76,416	16.1%	221,540	122,582	131,096	-	\$25.47
(18) East Mesa	546,562	103,006	972	19.0%	8,626	-23,334	-32,797	-	\$21.64
(19) Superstition Corridor	2,968,171	394,676	127,036	17.6%	211,002	-27,631	-78,028	-	\$23.95
(20) Price/Chandler/Gilbert	8,514,293	1,370,073	1,178,500	29.9%	275,377	-49,314	-223,322	119,222	\$29.15
(21) Deer Valley	5,098,325	1,209,506	655,636	36.6%	195,716	-225,728	-267,402	-	\$27.20
(22) West I-10	317,674	105,003	-	33.1%	52,200	3,454	12,666	-	\$34.60
(23) Loop 303/Surprise	129,735	43,092	-	33.2%	1,784	-25,721	-28,989	-	\$29.88
(24) Phoenix-Mesa Gateway/Loop 202	315,172	30,511	-	9.7%	23,257	-	-11,077	26,358	\$32.67
Phoenix CBD	15,368,517	4,111,219	171,965	27.9%	357,349	-148,607	-628,837	-	\$27.31
Phoenix Non-CBD	76,038,941	15,144,082	5,437,380	27.1%	4,165,151	-974,782	-2,383,480	595,580	\$29.69
Grand Total	91,407,458	19,255,301	5,609,345	27.2%	4,522,500	-1,123,389	-3,012,317	595,580	\$29.20

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	29,522,235	6,118,939	2,782,728	30.2%	1,428,719	-740,446	-1,334,154	150,000	\$35.14
Class B	49,283,871	11,074,053	2,774,237	28.1%	2,586,961	-290,694	-1,581,093	445,580	\$27.39
Class C	12,601,352	2,062,309	52,380	16.8%	506,820	-92,249	-97,070	-	\$21.34
Grand Total	91,407,458	19,255,301	5,609,345	27.2%	4,522,500	-1,123,389	-3,012,317	595,580	\$29.20

KEY LEASE TRANSACTIONS Q3 2023

PROPERTY	SF	TENANT	TRANSACTION TYPE	CITY	SUBMARKET
Amkor Technology	110,000	Amkor Technology	Renewal	Tempe	Price/Chandler/Gilbert
Riverwalk Arizona	70,347	Open Network Exchange	Sublet	Scottsdale	Central Scottsdale
One Chandler Corporate Center	58,697	Dish Network	Direct	Chandler	South Tempe/Ahwatukee
The Drinkwater	55,798	Confidential Tenant	Renewal	Scottsdale	South Scottsdale
Allred Park Place	46,225	Northrop Grumman	Renewal	Chandler	Price/Chandler/Gilbert

KEY SALES TRANSACTIONS Q3 2023

PROPERTY	SF	BUYER	PRICE	PRICE/\$ PSF	CITY	SUBMARKET
Arizona Center	345,558	Reliance Management	\$19,984,142	\$57.83	Phoenix	Downtown
3131-3133 Camelback	297,680	Reliance Management	\$72,100,000	\$242.21	Phoenix	Camelback Corridor
3030 North Central	180,891	Cotterkey Investments	\$11,628,000	\$64.28	Phoenix	Midtown
Gainey Center II	143,653	Reliance Management	\$26,500,000	\$184.47	Scottsdale	Central Scottsdale

KEY CONSTRUCTION COMPLETIONS Q3 2023

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER/DEVELOPER
Rio Yards – Building A	Tempe	N/A	150,000	Wentworth Property Company

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PHOENIX

Office Q3 2023

Office Submarket Map

Phoenix Metro Area

