

# MARKETBEAT

## Office Snapshot Q3 2015

### Metropolitan Phoenix



#### PHOENIX OFFICE

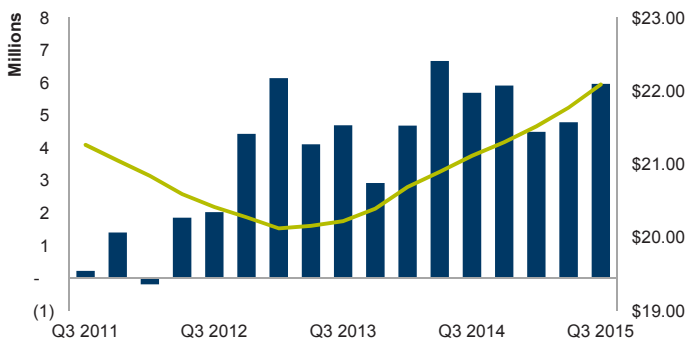
##### Economic Indicators

	Q3 14	Q3 15	12-Month Forecast
Phoenix Employment	1,858	1,887	▲
Phoenix Unemployment	6.4%	5.8%	▼
U.S. Unemployment	6.1%	5.1%	▼

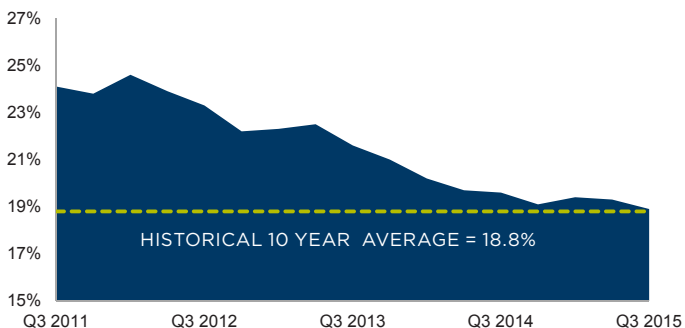
##### Market Indicators

	Q3 14	Q3 15	12-Month Forecast
Overall Vacancy	19.6%	18.9%	▼
Net Absorption	411,000	881,000	▲
Under Construction	2,474,000	4,416,000	▲
Average Asking Rent	\$21.42	\$22.69	▲

##### Net Absorption/Asking Rent 4Q TRAILING AVERAGE



##### Overall Vacancy



### Economy

The Metro Phoenix job market continued to show signs of improvement, adding 44,900 jobs year-over-year through August. During the same time period, the unemployment rate decreased 60 basis points, dropping to 5.8%. Out of the 44,900 jobs added, 13,600 were office sector jobs. The three sectors that make up office employment are; business & professional services, information/technology and financial activities. The business & professional services category accounts for 61% of the entire office sector employment and is the leading indicator for office space demand.

### Market Overview

At the close of Q3 2015, office vacancy in Phoenix stood at 18.9%. This marks a considerable reduction from the 19.3% rate that was in place just three months ago, and an even more significant drop from the 19.6% reading of one year ago.

The Metro Phoenix office market continued to experience robust demand during Q3 2015, absorbing over 880,000 square feet (sf). This marks the largest net gain for a single quarter since Q4 2012 and brings the year-to-date total to 1.8 million square feet (msf). Occupancy growth took place in 17 of Metro Phoenix's 22 office submarkets in Q3. The Chandler/Gilbert/202 submarket (22.7% vacancy) led the way with over 160,000 sf of net absorption, due in large part to Isagenix occupying its 150,000 sf build-to-suit (BTS) facility located in the new Rivulon Business Park. The Price Corridor (15.7%) followed closely behind with 140,000 sf and Tempe North (11.2%) with 111,000 sf of gains. In regards to year-to-date performances, the Price Corridor (364,000 sf) and Chandler/Gilbert/202 (254,000 sf) lead the Valley. While Q3 marks the second straight quarter in which all building classes posted net gains, class A office space accounted for 55% (481,000 sf) of the total growth in Q3 and has accounted for 62% (1.1 msf) of the occupancy growth Metro Phoenix has experienced in 2015. Class A vacancy now stands at 15.8%, down from the 17.6% rate of one year ago.

Due to the lack of large contiguous blocks of space available in class A buildings, large national credit

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tenants, such as State Farm, have turned to BTS options in order to fulfill their specific office needs. Three new projects were completed during the third quarter, adding 511,000 sf to the local inventory, of which nearly 93% was preleased. As for new construction, four projects broke ground in Q3 totaling 470,000 sf of true speculative construction, bringing the total square footage under development in Metro Phoenix to 4.4 msf.

### LARGE NATIONAL CREDIT TENANTS HAVE TURNED TO BUILD-TO-SUIT OPTIONS IN ORDER TO FULFILL THEIR SPECIFIC OFFICE NEEDS.

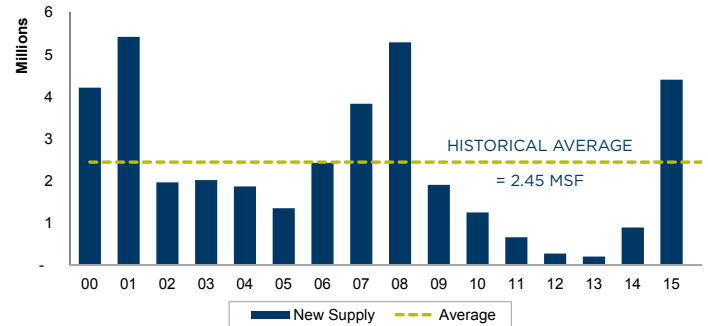
Despite an overall vacancy in the high teens, Metro Phoenix's overall average asking rent continues to rise. The current average asking rent of \$22.69 per square foot (psf), on an annual full service basis, has increased quarterly by 2.1% and 5.6% from a year ago. East-Central Phoenix (\$17.39 psf) and Chandler/Gilbert/202 (\$24.21 psf) recorded the largest quarterly gains in this market increasing 8.0% and 6.5%, respectively. The Camelback Corridor (\$29.39 psf) and Scottsdale South (\$27.69 psf) remain atop all other submarkets in terms of average asking rates, and it is no coincidence that the class A rates in these trade areas are among the Valley's highest, at \$32.54 psf and \$28.75 psf respectively.

### Outlook

- Levels of new construction and continued demand for premium product will drive up the region's overall average asking rents.
- Until vacancy in both class B (20.9%) and C (21.0%) drop significantly, the overall vacancy in the Metro Phoenix market will remain in the high teens.
- In total, we are projecting over 4.4 msf of new inventory that will be delivered during 2015, the greatest amount since 2001 (5.4 msf).
- Tenant demand remains focused on premier space; class A space has accounted for 62% of all occupancy growth this year.

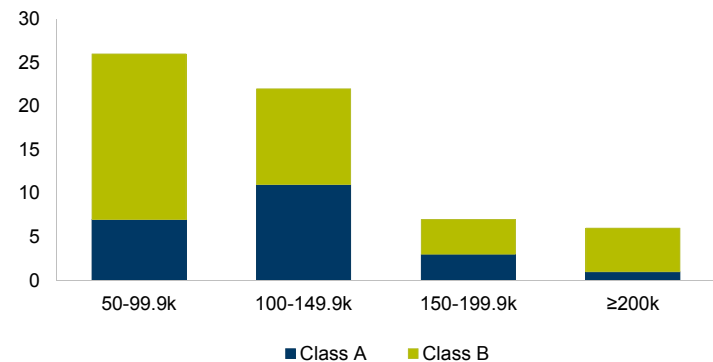
### New Supply

NEW SUPPLY IS PROJECTED TO EXCEED THE HISTORICAL AVERAGE BY 80% IN 2015



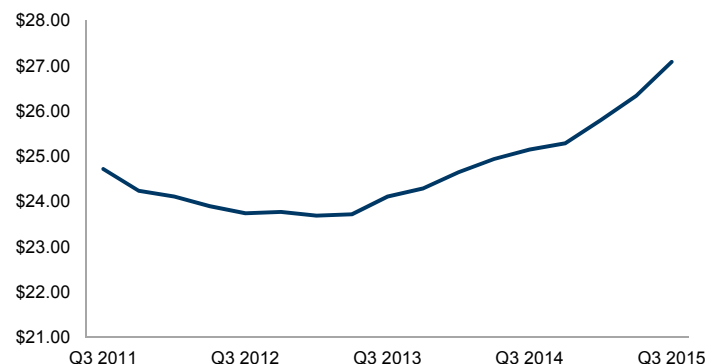
### Large Block Space

CONTIGUOUS BLOCKS OF AVAILABLE SPACE



### Class A Asking Rent Trend

METRO PHOENIX CLASS A ASKING RENT INCREASED 8% FROM A YEAR AGO



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SUBMARKET	TOTAL BLDGS	INVENTORY	SUBLET VACANT	DIRECT VACANT	VACANCY RATE	Q3 NET ABSORPTION	YTD NET ABSORPTION	UNDER CONSTRUCTION	AVG ASKING RENT (All Classes)
Downtown	41	7,192,230	118,568	1,320,206	20.0%	(34,231)	(59,204)	-	\$25.58
Midtown	88	10,908,482	49,049	2,697,069	25.2%	85,006	134,319	-	\$20.88
<b>CBD Total</b>	<b>129</b>	<b>18,100,712</b>	<b>167,617</b>	<b>4,017,275</b>	<b>23.1%</b>	<b>50,775</b>	<b>75,115</b>	<b>-</b>	<b>\$22.51</b>
44th Street Corridor	41	3,363,955	2,517	439,010	13.1%	32,631	154,115	62,000	\$23.09
Arrowhead	23	1,448,463	6,629	359,788	25.3%	8,808	85,515	-	\$21.68
Camelback Corridor	75	7,397,947	42,554	1,483,932	20.6%	69,128	126,941	-	\$29.38
Chandler/Gilbert/202	31	1,670,838	19,521	359,317	22.7%	160,130	254,278	497,761	\$24.21
Deer Valley	71	7,384,667	31,000	1,159,114	16.1%	(1,685)	194,095	149,209	\$21.32
East-Central Phoenix	44	2,020,173	25,678	298,936	16.1%	62,651	23,394	-	\$17.39
Glendale/Peoria	15	967,591	-	276,113	28.5%	2,284	5,099	-	\$17.24
Mesa	22	978,528	-	245,959	25.1%	(490)	63,698	108,000	\$14.64
Metrocenter	67	4,584,900	-	1,104,016	24.1%	93,253	50,253	-	\$18.27
N Phoenix/Desert Ridge	36	2,534,993	63,139	453,701	20.4%	17,580	46,847	-	\$22.40
Piestewa Peak Corridor	32	1,972,910	3,223	477,008	24.3%	25,455	27,415	-	\$18.44
Price Corridor	55	5,729,225	18,182	879,663	15.7%	139,614	363,759	336,607	\$23.54
Scottsdale Airpark	146	10,006,269	67,419	1,908,811	19.7%	(52,340)	131,682	208,939	\$25.33
Scottsdale Central	66	5,187,817	25,017	720,760	14.4%	51,381	(126,989)	70,000	\$23.60
Scottsdale South	35	3,649,701	3,407	336,125	9.3%	26,192	88,900	145,000	\$27.69
Sky Harbor	56	4,783,823	38,566	830,751	18.2%	103,280	117,206	-	\$20.38
South I-10/Ahwatukee	57	3,210,524	17,227	563,887	18.1%	(41,784)	(35,253)	-	\$20.34
Superstition Corridor	47	2,495,369	33,001	677,713	28.5%	17,781	(33,704)	-	\$18.28
Tempe North	85	7,847,602	1,621	874,843	11.2%	110,683	160,743	2,838,344	\$24.36
West Phoenix	40	1,803,343	9,307	360,016	20.5%	4,900	20,481	-	\$16.28
<b>Suburban Total</b>	<b>1,044</b>	<b>79,038,638</b>	<b>408,008</b>	<b>13,809,463</b>	<b>18.0%</b>	<b>829,452</b>	<b>1,718,475</b>	<b>4,415,860</b>	<b>\$22.74</b>
Class A	242	37,438,865	385,383	5,536,789	15.8%	480,621	1,108,569	3,114,790	\$27.09
Class B	734	51,965,996	166,204	10,687,169	20.9%	366,313	482,512	1,301,070	\$20.81
Class C	197	7,734,489	24,038	1,602,780	21.0%	33,293	202,509	-	\$15.75
<b>Grand Total</b>	<b>1,173</b>	<b>97,139,350</b>	<b>575,625</b>	<b>17,826,738</b>	<b>18.9%</b>	<b>880,227</b>	<b>1,793,590</b>	<b>4,415,860</b>	<b>\$22.69</b>

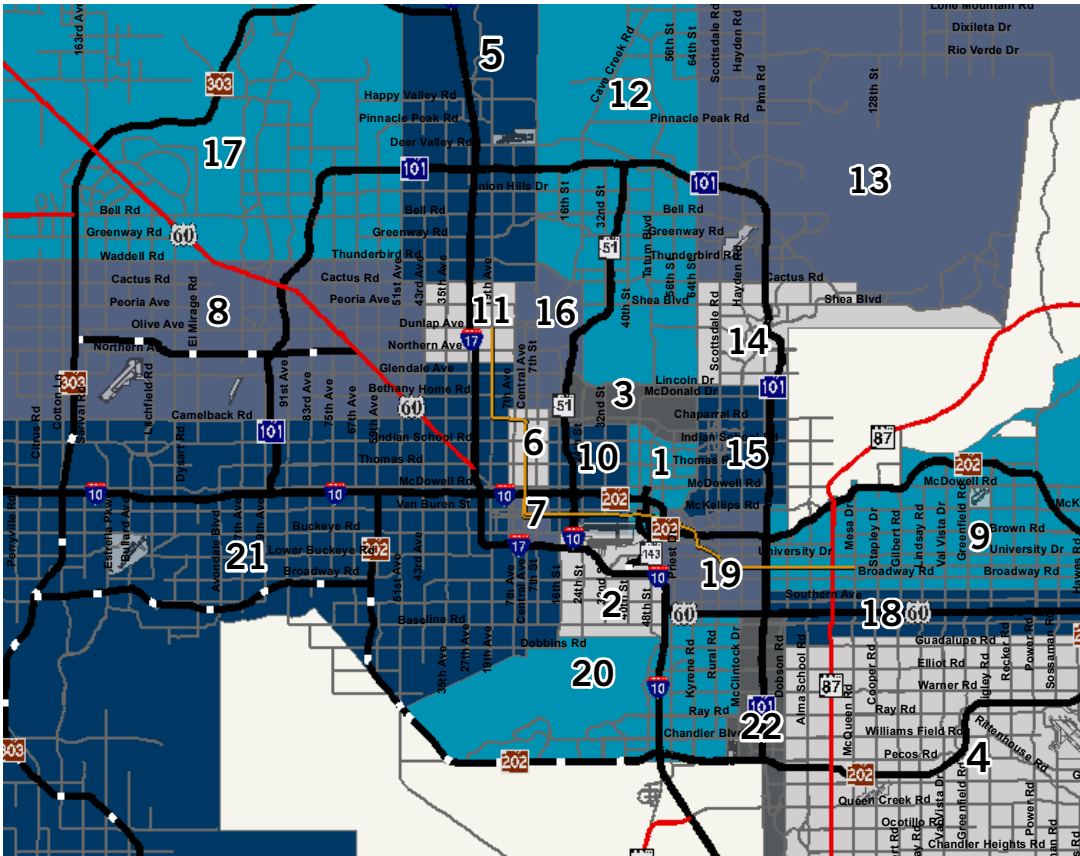
CUSHMAN & WAKEFIELD HAS RE-CLASSIFIED THE COMPETITIVE BUILDING INVENTORY AND CHANGED THE SUBMARKET BOUNDARIES. ASKING RENTS CONVERTED TO FULL SERVICE. THE AIRPORT SUBMARKET IS NOW CALLED SKY HARBOR. NET ABSORPTION IS THE NET CHANGE IN PHYSICALLY OCCUPIED SPACE BETWEEN THE CURRENT PERIOD AND THE PREVIOUS PERIOD.

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### OFFICE SUBMARKETS



- 1 - 44th Street Corridor
- 2 - Sky Harbor\*
- 3 - Camelback Corridor
- 4 - Chandler/Gilbert/202
- 5 - Deer Valley
- 6 - Midtown
- 7 - Downtown
- 8 - Glendale / Peoria
- 9 - Mesa
- 10 - East-Central Phoenix
- 11 - Metrocenter
- 12 - N Phoenix/Desert Ridge
- 13 - Scottsdale Airpark
- 14 - Scottsdale Central
- 15 - Scottsdale South
- 16 - Piestewa Peak Corridor
- 17 - Arrowhead
- 18 - Superstition Corridor
- 19 - Tempe North
- 20 - South I-10/Ahwatukee
- 21 - West Phoenix
- 22 - Price Corridor

\*The Airport Submarket is now called Sky Harbor

### About Cushman & Wakefield

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