

# MARKETBEAT

## Office Snapshot Q4 2015

### Metropolitan Phoenix



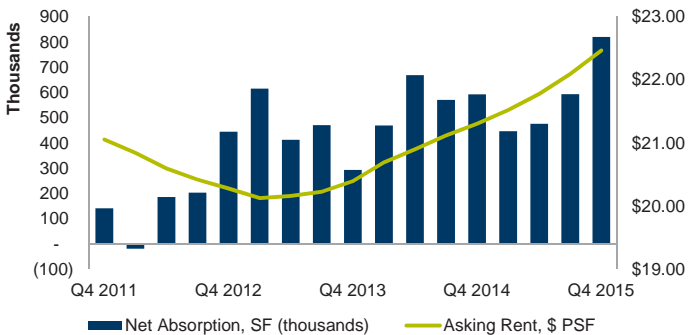
#### PHOENIX OFFICE

Economic Indicators	2014	2015	12-Month Forecast
Phoenix Employment	1,906K	1,956K	▲
Phoenix Unemployment	5.9%	5.0%	▼
U.S. Unemployment	5.8%	5.0%	▼

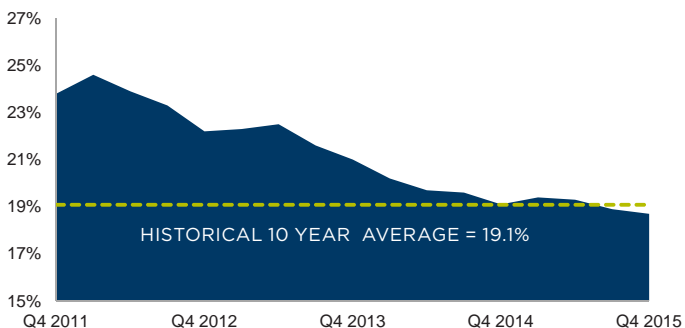
Market Indicators (Overall, All Classes)	2014	2015	12-Month Forecast
Vacancy	19.1%	18.7%	▼
Net Absorption (sf)	597,000	3,279,000	▲
Under Construction (sf)	2,857,000	3,098,000	▲
Average Asking Rent*	\$21.61	\$23.09	▲

\*Rental rates reflect gross asking \$psf/year

#### Overall Net Absorption/Overall Asking Rent 4Q TRAILING AVERAGE (IN THOUSANDS)



#### Overall Vacancy



#### Economy

The Metro Phoenix economy continues to grow, fueled by existing employers adding jobs and/or companies relocating to the Valley. Through the month of November, Metro Phoenix added 49,600 jobs year-over-year. During the same time period, the unemployment rate decreased 60 basis points, dropping to 5.0%. Out of the 49,600 jobs created, 12,600 were office sector jobs, which include business & professional services, information/technology and financial activities. Business & professional services accounted for 61% of the total office employment and experienced the largest gain, adding 7,300 of the 12,600 local office sector jobs added.

#### Market Overview

At the close of Q4 2015, office vacancy in Phoenix stood at 18.7%, a 20 basis point (bp) reduction from the previous quarter, and an even more significant drop from the 19.1% reading of one year ago.

The Metro Phoenix office market experienced robust demand during Q4 2015, absorbing 1.5 million square feet (msf) during the quarter. This marks the largest net gain for a single quarter since Q3 2005 (1.6 msf) and brings the year-to-date total to 3.3 msf. Occupancy growth occurred in 17 of the 22 Metro Phoenix office submarkets in Q4. The Tempe North submarket (11.6% vacancy) dominated all other submarkets during the fourth quarter with over 616,000 square feet (sf) of net absorption, which accounts for 41.0% of all occupancy growth for the entire market in Q4. Tempe North's net gain is due in large part to State Farm taking down the first building (375,000 sf) of their five-building regional headquarters, all of which are build-to-suit (BTS) properties. It should also be noted that the third and final building (264,000 sf) of the Hayden Ferry Lakeside Business Park was delivered 88.1% preleased during Q4 accounting for an additional 200,000 sf of absorption within the Tempe North submarket. The Midtown (23.0%) and Price Corridor (16.4%) submarkets followed with 262,000 sf and 166,000 sf of net gains. While Class C space posted its first net loss since Q1 2015, both Class A and B experienced positive growth. The trend of quality space being in high demand continued as Class A space accounted for 73% (1.1 msf) of the total net gain in Q4. Tenant demand remains overwhelmingly high for quality space and explains why Class A vacancy has dropped 50 bp in the last three months, 140 bp year-over-year, where vacancy currently stands at 15.3%.

Construction activity reached historic high levels in 2015,

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with over 3.0 msf of new space added to the local inventory, the most since 2008. Of the 3.0 msf delivered in 2015, 63.2% was delivered preleased. In Q4 2015 alone, nine new projects were completed totaling nearly 1.5 msf, of which 72% was preleased. In regards to new construction, two projects broke ground totaling 212,000 sf in Q4 2015, both of which are redevelopment projects with one located in the Sky Harbor submarket and the other in the Downtown Phoenix submarket. In the “warehouse district” located in the Downtown

### AS METRO PHOENIX'S TECH SECTOR CONTINUES TO GROW, THE TREND OF CONVERTING FUNCTIONALLY OBSOLETE INDUSTRIAL BUILDINGS INTO HIGHLY COVETED CREATIVE OFFICE SPACE CONTINUES.

Phoenix submarket, developers are currently renovating 122,000 square feet (sf) of former warehouse space into creative office space with an overall theme of collaborative, open space. When renovations are completed (Q4 2016), tech companies Galvanize & WebPT will occupy the entire building.

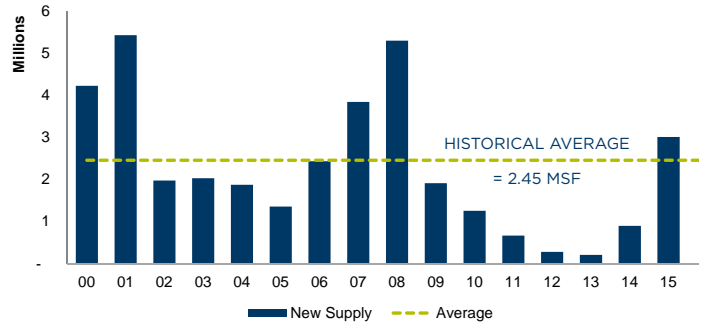
Despite an overall vacancy in the high teens, Metro Phoenix's overall average asking rent continues to rise. The current average asking rent of \$23.09 per square foot (PSF), on an annual full service basis, has increased by 6.8% over the past year. The Camelback Corridor (\$29.78 PSF) and Scottsdale South (\$28.09 PSF) submarkets top all other submarkets. It is not a coincidence that the Class A space in these trade areas also topped all other Class A rates, at \$33.28 PSF and \$29.74 PSF respectively.

### Outlook

- Class A asking rates (\$27.65 PSF) have increased 9% year-over-year, and may reach \$30.00 PSF by the end of 2016.
- Until Class B (20.7%) and C (21.6%) vacancy levels drop significantly, overall vacancy for the Phoenix market will remain in the high teens for the foreseeable future.
- With operational costs up to 40% less than California, throughout 2016 Metro Phoenix is expected to see more technology companies relocating to the Valley.
- Due to the surge of new construction and continued demand for premium space, the region's overall average asking rent continues to climb.

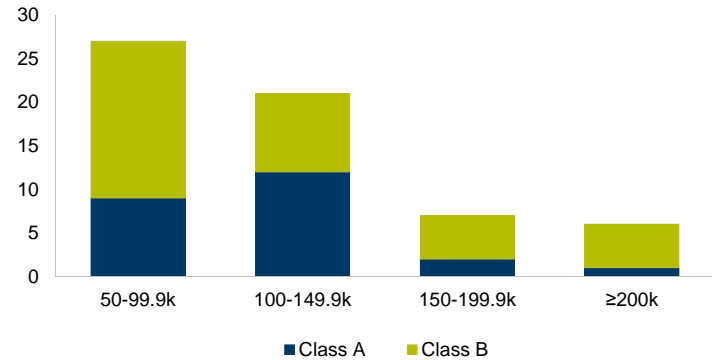
### New Supply

NEW SUPPLY EXCEEDED THE HISTORIC AVERAGE BY 23% IN 2015



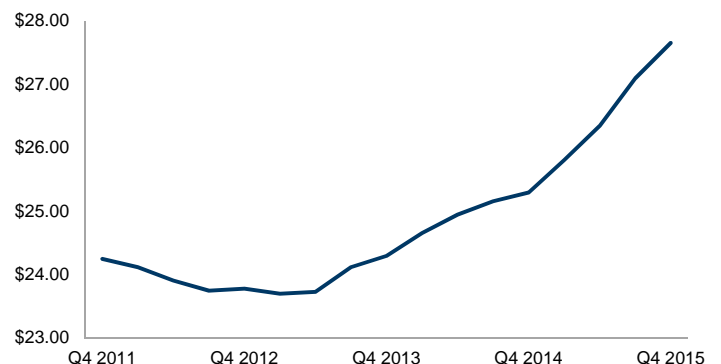
### Large Block Space

CONTIGUOUS BLOCKS OF AVAILABLE SPACE



### Class A Asking Rent Trend

METRO PHOENIX CLASS A ASKING RENT INCREASED 9% FROM A YEAR AGO



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SUBMARKET	TOTAL BLDGS	INVENTORY	SUBLET VACANT	DIRECT VACANT	VACANCY RATE	Q4 NET ABSORPTION	YTD NET ABSORPTION	UNDER CONSTRUCTION	AVG ASKING RENT (All Classes)
Downtown	41	7,192,230	102,734	1,283,446	19.3%	52,594	(6,610)	122,220	\$26.16
Midtown	88	10,908,482	68,602	2,438,651	23.0%	262,337	396,656	-	\$20.88
<b>CBD Total</b>	<b>129</b>	<b>18,100,712</b>	<b>171,336</b>	<b>3,722,097</b>	<b>21.5%</b>	<b>314,931</b>	<b>390,046</b>	<b>122,220</b>	<b>\$22.67</b>
44th Street Corridor	41	3,363,955	22,240	408,830	12.8%	10,457	164,572	25,200	\$23.66
Arrowhead	23	1,448,463	2,889	316,399	22.0%	47,129	132,644	-	\$21.77
Camelback Corridor	75	7,397,947	41,374	1,509,027	21.0%	(7,036)	103,026	-	\$29.78
Chandler/Gilbert/202	32	1,795,838	19,521	493,480	28.6%	(9,163)	245,115	372,761	\$24.24
Deer Valley	71	7,384,667	31,000	1,185,733	16.5%	(26,619)	167,476	149,209	\$21.61
East-Central Phoenix	44	2,020,173	25,678	298,261	16.0%	675	24,069	-	\$17.90
Glendale/Peoria	15	967,591	-	275,698	28.5%	415	5,514	-	\$17.70
Mesa	23	1,086,528	-	243,375	22.4%	110,584	174,282	-	\$13.95
Metrocenter	67	4,584,900	-	979,768	21.4%	124,248	174,501	-	\$18.72
N Phoenix/Desert Ridge	36	2,534,993	69,878	422,379	19.4%	24,583	71,430	-	\$22.82
Piestewa Peak Corridor	32	1,972,910	-	499,162	25.3%	(18,931)	8,484	-	\$18.48
Price Corridor	57	5,975,832	18,182	960,177	16.4%	166,093	529,852	90,000	\$23.76
Scottsdale Airpark	147	10,175,458	64,735	1,931,721	19.6%	148,963	280,645	39,750	\$26.17
Scottsdale Central	67	5,257,817	18,117	753,686	14.7%	43,974	(83,015)	-	\$23.74
Scottsdale South	35	3,649,701	6,969	332,408	9.3%	155	89,055	145,000	\$28.09
Sky Harbor	56	4,783,823	38,566	1,017,424	22.1%	(186,673)	(69,467)	89,889	\$21.35
South I-10/Ahwatukee	57	3,210,524	17,227	516,620	16.6%	47,267	12,014	-	\$20.37
Superstition Corridor	47	2,495,369	34,301	603,863	25.6%	72,550	38,846	-	\$18.40
Tempe North	88	8,589,243	27,135	968,563	11.6%	616,001	776,744	2,063,109	\$24.77
West Phoenix	40	1,803,343	9,307	382,511	21.7%	21,853	42,334	-	\$16.34
<b>Suburban Total</b>	<b>1,053</b>	<b>80,499,075</b>	<b>447,119</b>	<b>14,099,085</b>	<b>18.1%</b>	<b>1,186,525</b>	<b>2,888,121</b>	<b>2,974,918</b>	<b>\$23.21</b>
Class A	247	38,526,446	392,733	5,517,203	15.3%	1,099,817	2,208,386	1,987,209	\$27.65
Class B	738	52,338,852	179,444	10,675,997	20.7%	404,733	870,366	1,109,929	\$21.14
Class C	197	7,734,489	46,278	1,627,982	21.6%	(3,094)	199,415	-	\$15.77
<b>Grand Total</b>	<b>1,182</b>	<b>98,599,787</b>	<b>618,455</b>	<b>17,821,182</b>	<b>18.7%</b>	<b>1,501,456</b>	<b>3,278,167</b>	<b>3,097,138</b>	<b>\$23.09</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.

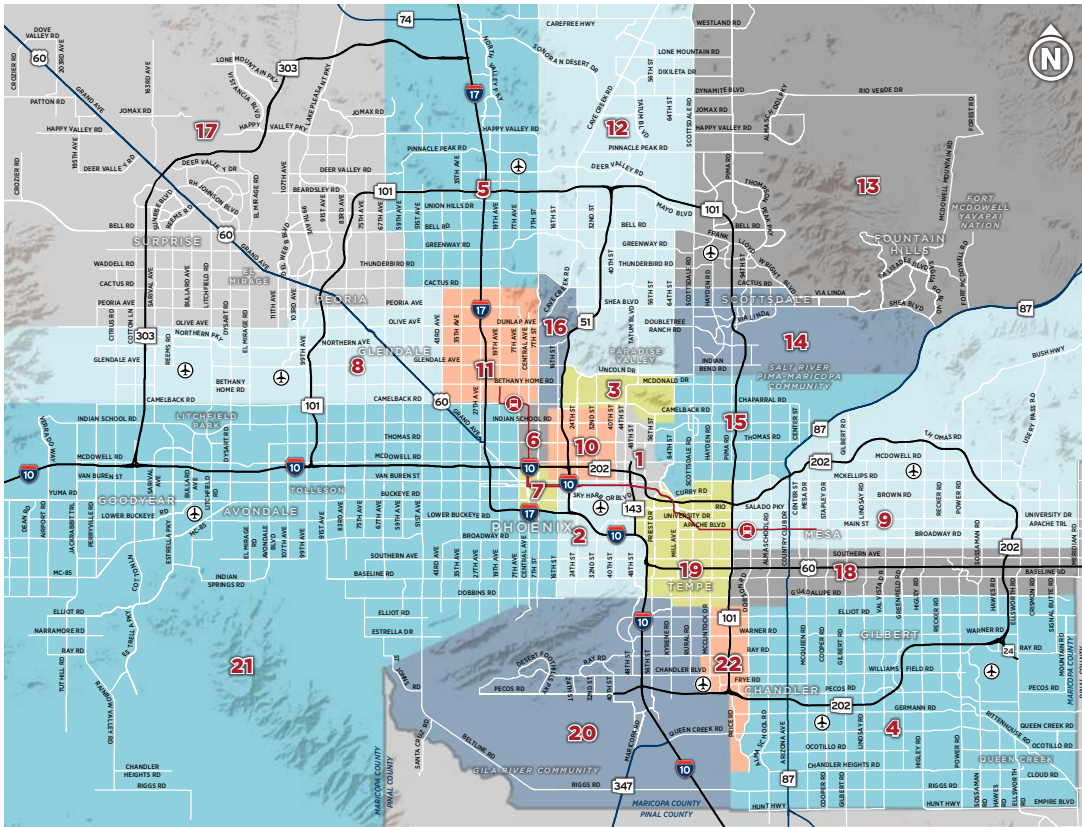
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#### OFFICE SUBMARKETS



- 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

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