



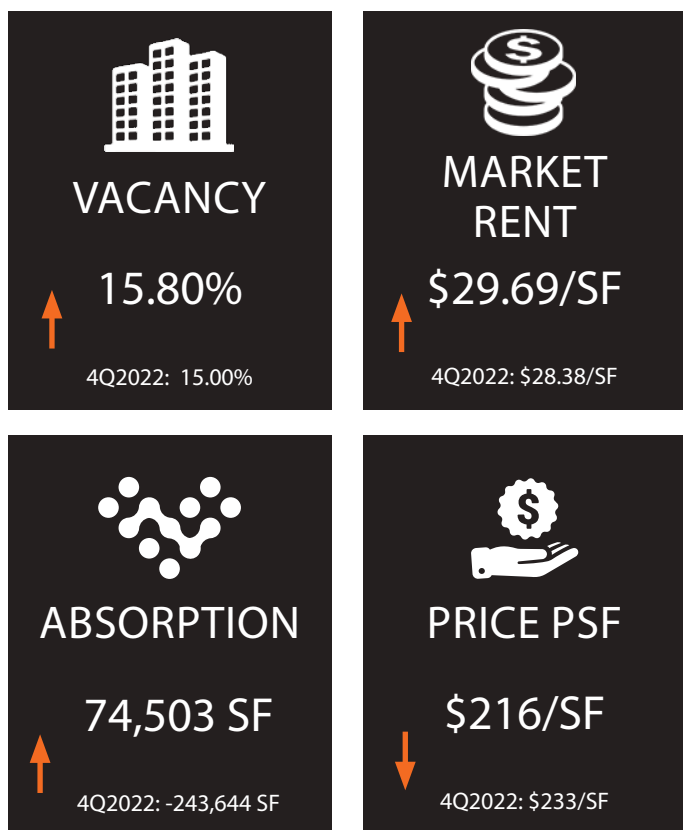
4Q2023 METRO PHOENIX OFFICE NEWSLETTER

CONTACT INFORMATION

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METRO PHOENIX OFFICE OVERVIEW

QUARTERLY OFFICE STATS



Despite being more than four years removed from the onset of COVID, pandemic-catalyzed shifts in demand continue to drive uncertainty in the Phoenix office market. Users are scrutinizing the efficiency and sizing of their existing office space amid these shifting workplace strategies. Some tenants have opted to shrink and consolidate their footprints while others are no longer leasing bigger blocks of space in anticipation of future headcount growth. The structural lowering of demand has led to a more than 50% increase in the amount of vacant office space since 19Q4 with 2023 marking an acceleration of the move-out trend compared to the prior two years.

Vacant space has accumulated most quickly in sizeable floorplates or large single-tenant buildings where demand is softest. Indications from local market participants are that spaces between 2,000 SF and 7,000 SF at well-amenitized buildings are the most sought after, reiterating the resilience of local small businesses that are more reliant on their physical footprint. Some operators have opted to demise larger blocks into smaller spec suites and invest in upgrades to common areas to attract tenants. The precipitous rise in sublease availability reinforces the headwinds facing Phoenix's office market. The total amount of space available for sublet is now at 7.7 million SF, comprising 3.9% of overall inventory. The Phoenix office market has seen negative net absorption in 11 of the past 14 quarters as users continue to reevaluate their space needs in the wake of hybrid work models. Over the past 12 months, the market recorded -2.4 million SF of net absorption, as tenants opted to downsize their footprints or shutter offices altogether. As a result, the metro-wide vacancy rate has risen from about 11.1% before the pandemic to 15.8% today, and expectations are for further increases over the short to midterm as in-place leases expire. Space availabilities are highest at 4 & 5 Star properties, with 27.7% of this inventory currently available for lease.

A combination of high-profile office closures by companies like Carvana and Silicon Valley Bank and the delivery of vacant buildings has contributed to the weakness. Furthermore, the bulk of sublease accumulation has also been at the top of the market, particularly for Tempe and Chandler properties that were previously leased to expanding technology and insurance firms. Although net absorption remains starkly negative due to continued move-outs and surging vacant sublease space, actual leasing volume is largely in line with historical figures.

ECONOMIC HIGHLIGHTS

Employment Data (YOY)

- ▶ 3.70% Unemployment Rate (USA) -0.10%
- ▶ 3.50% Unemployment Rate (Metro PHX) -0.30%
- ▶ 2.596MM Employed Residents (Metro PHX)

Metro PHX Housing Trends (YOY)

- ▶ \$430,000 Median Home Price +4.40%
- ▶ 4,820 Closed Transactions -3.30%
- ▶ 62 Days on Market -9 Days
- ▶ 3.54 Months of Supply -0.27 Months

10-Year Treasury

- ▶ 3.88% as of 12/29/2023
- ▶ +0.00% YOY | -0.49% MOM |

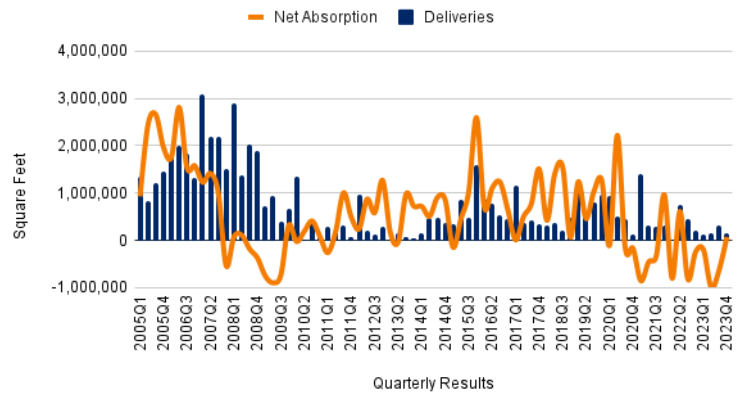
The pace of rent growth has been decelerating since early 2022, as rising vacancies and weaker tenant demand reduce landlords' ability to raise rates. Even so, Phoenix rents have held up better than most other markets. Over the past 12 months, the metro recorded a 3.1% increase in average asking rents, ranking the Valley as one of the best-performing markets in the country. Although underlying office demand has undoubtedly shifted, many property owners have opted for increased concessions or higher TI allowances to compete for tenants, rather than slashing asking rents. Moving forward, expectations are for rent growth to turn negative in the coming year as elevated sublease availabilities intensify competition in the broader market. Additionally, there could be some downward pressure on rents from new owners who acquired properties at a steep discount and can thus afford to lower rents to attract users.

Supply-side pressure remains modest in the Phoenix office market as 2024 kicks off. Just 340,000 SF of net new office space was completed over the past 12 months. Weaker underlying tenant demand, coupled with higher development costs and limited availability of construction financing, has made it difficult for builders to profitably break ground. As a result, construction starts have slowed to the lowest level in over a decade with the bulk of the current pipeline composed of smaller properties and medical office space, two segments of the market that have shown more resiliency. About 1.1 million SF is currently underway, representing just 0.6% of total inventory. Geographically, Tempe has been one of the primary recipients of new space. Tempe Vale, a two-building development that was originally planned for Carvana, is underway on its second phase, which will add 133,400 SF upon delivery in 24Q2. Office development is also heating up in the West Valley. In 2022, builders finished work on the first phase of GSQ, a large mixed-use project that Globe Corporation is conducting in partnership with the City of Goodyear.

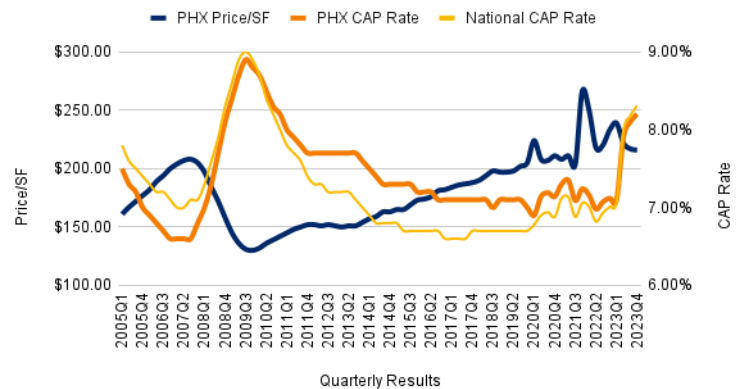
The pace of transaction activity has slowed considerably in the Phoenix office market as elevated vacancies, rising interest rates, and uncertainty surrounding the sector's long-term outlook keep sales volume restrained. Availability of debt financing remains scarce, and buyers are facing a challenge in how to properly value assets.

Sources: CoStar Realty Information, Inc; U.S. Department of the Treasury; AZ Commerce Authority; ARMLS; U.S. Census Bureau, U.S. Bureau of Labor Statistics; Elliott D. Pollack and Company

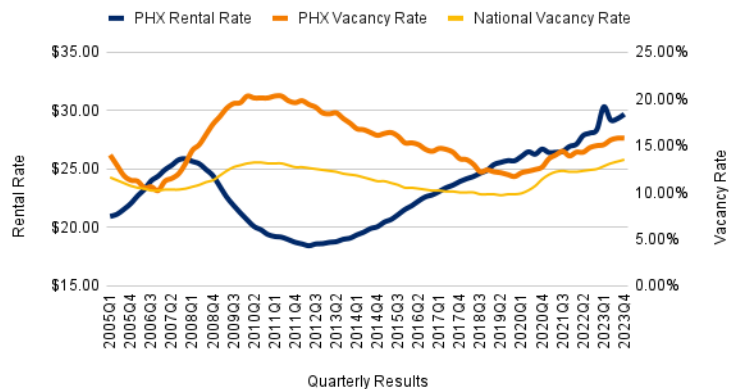
METRO PHOENIX DELIVERIES AND ABSORPTION



PRICE AND CAP RATE TRENDS



RENTAL AND VACANCY RATES



SUBMARKET ANALYTICS - 4Q2023 OFFICE

	Inventory (Millions)	Under Construction (SF)	Total Vacancy Rate	12 Mo. Absorption	Market Rent/Sf	Market Sale Price/SF	Market CAP Rate	12 Mo. Sales Volume
44th Street Corridor	4,044,416	0	15.3%	46,205	\$29.97	\$206.84	8.2%	\$2,395,000
Airport Area	5,352,583	0	21.9%	-88,959	\$27.68	\$184.85	8.6%	\$2,450,000
Arrowhead	4,836,305	0	8.9%	-11,145	\$28.92	\$212.87	8.6%	\$11,620,000
Camelback Corridor	9,518,381	0	20.5%	-329,236	\$37.04	\$262.41	7.5%	\$2,186,960
Central Scottsdale	9,278,318	0	14.9%	-51,583	\$30.10	\$222.25	8.1%	\$5,403,360
Chandler	12,967,754	124,680	16.0%	-76,472	\$30.02	\$225.83	8.3%	\$6,804,000
Deer Valley/Airport	12,787,037	0	14.7%	-194,455	\$28.81	\$214.65	8.1%	\$22,250,000
Downtown	11,498,365	0	22.0%	-372,775	\$32.47	\$249.53	7.7%	\$37,600,000
Gateway Airport/ Loop 202	2,973,749	130,610	4.7%	90,799	\$30.13	\$222.28	8.8%	\$43,561,640
Glendale	3,682,313	135,650	13.6%	-57,824	\$30.26	\$204.48	8.3%	\$586,465
Loop 303/Surprise	2,662,384	9,984	8.1%	5,384	\$30.84	\$213.77	8.5%	\$3,000,000
Mesa Downtown	1,493,201	0	13.9%	-52,038	\$21.28	\$134.18	8.8%	\$3,308,500
Mesa East	5,022,303	0	12.7%	-75,076	\$27.00	\$187.84	8.7%	\$2,635,000
Midtown	13,432,688	0	19.2%	26,615	\$27.04	\$209.27	7.8%	\$4,232,730
Midtown/Central Phoenix	6,148,999	13,246	6.0%	151,681	\$24.92	\$169.13	8.4%	\$2,345,000
N. Phoenix/Cave Creek	159,273	0	1.9%	-1,768	\$24.92	\$203.48	8.3%	\$0
N. Scottsdale/Carefree	1,888,569	0	12.0%	-21,139	\$25.81	\$183.32	8.4%	\$355,000
North I-17	1,006,112	0	3.8%	116,817	\$27.15	\$204.65	8.5%	\$1,835,000
Northwest Outlying	139,303	0	0.0%	0	\$25.36	\$167.76	8.5%	\$0
Northwest Phoenix	11,022,201	0	16.9%	99,282	\$23.48	\$151.02	8.8%	\$10,928,000
Paradise Valley	5,473,751	0	12.4%	-43,405	\$29.48	\$202.67	8.3%	\$23,485,596
Piestewa Peak Corridor	3,457,763	0	12.2%	-76,832	\$25.95	\$175.96	8.7%	\$535,000
Pinal County	1,780,280	14,329	2.5%	-4,348	\$22.68	\$159.06	9.1%	\$1,848,000
Scottsdale Airpark	14,096,682	98,000	15.9%	-33,237	\$32.68	\$249.01	8.0%	\$73,934,760
Scottsdale South	8,092,894	6,820	15.8%	43,220	\$32.49	\$251.12	7.8%	\$5,299,600
South Tempe/Ahwatukee	7,567,163	135,000	21.5%	-173,826	\$28.10	\$197.16	8.4%	\$3,770,000
Southwest Outlying	312,350	0	0.0%	0	\$25.05	\$159.50	8.6%	\$415,500
Southwest Phoenix	4,502,261	0	3.0%	17,524	\$28.32	\$190.30	8.3%	\$0
Superstition Corridor	6,829,299	0	10.7%	-69,631	\$25.99	\$178.19	8.9%	\$16,809,728
Tempe	21,266,830	298,356	23.3%	-1,024,797	\$33.42	\$251.88	8.0%	\$4,475,000
West I-10	2,558,459	141,773	7.8%	29,403	\$31.58	\$215.22	8.2%	\$7,587,300
Total/Averages	195,851,986	1,108,448	15.8%	-2,131,616	\$29.69	\$216	8.4%	\$301,657,139

NOTABLE SALES

WEBB MEDICAL PLAZA BUILDING

14416 W Meeker Blvd., Sun City West, AZ 85375

Sale Date : 09/29/2023
Sale Price : \$35,250,000
Price/SF : \$464.94

Bldg Type : Class B Office
Year Built : 2004
RBA : 71,515 SF



3030 N CENTRAL

3030 N Central Ave., Phoenix, AZ 85012

Sale Date : 09/27/2023
Sale Price : \$11,400,000
Price/SF : \$63.02

Bldg Type : Class B Office
Year Built : 1975
RBA : 180,891 SF



IRONWOOD MEDICAL OFFICE BUILDING II

37200 N Gantzel Rd., Queen Creek, AZ 85242

Sale Date : 09/22/2023
Sale Price : \$23,300,000
Price/SF : \$380.09

Bldg Type : Class A Office
Year Built : 2019
RBA : 61,302 SF



AQUILA MCDOWELL MT SUITES

9943 E Bell Rd., Scottsdale, AZ 85260

Sale Date : 09/15/2023
Sale Price : \$2,080,000
Price/SF : \$318.64

Bldg Type : Class B Office
Year Built : 2006
RBA : 6,512 SF



MIDTOWN OFFICE BUILDING

1425 N 1st St., Phoenix, AZ 85004

Sale Date : 09/05/2023
Sale Price : \$2,250,000
Price/SF : \$321.43

Bldg Type : Class B Office
Year Built : 1960; Reno : 2001
RBA : 7,000 SF



MEDICAL OFFICE BUILDING

17710 W Elliot Rd., Goodyear, AZ 85338

Sale Date : 08/31/2023
Sale Price : \$4,460,000
Price/SF : \$620.00

Bldg Type : Class B Office
Year Built : 2022
RBA : 7,200 SF



SOUTHERN EXECUTIVE CENTER

931 E Southern Ave., Mesa, AZ 85204

Sale Date : 08/10/2023
Sale Price : \$3,420,000
Price/SF : \$154.93

Bldg Type : Class B Office
Year Built : 1984
RBA : 22,075 SF



PINNACLE 101

17851 N 85th St., Scottsdale, AZ 85255

Sale Date : 07/28/2023
Sale Price : \$12,500,000
Price/SF : \$134.41

Bldg Type : Class A Office
Year Built : 2006
RBA : 93,000 SF



OWNER USER OFFICE BUILDING

1555 N Fiesta Blvd., Gilbert, AZ 85233

Sale Date : 07/26/2023
Sale Price : \$10,580,000
Price/SF : \$181.81

Bldg Type : Class B Office
Year Built : 1999
RBA : 58,194 SF



4Q2023 METRO PHOENIX OFFICE CONDO REPORT

PRICE PSF
\$296.00

RENT PSF
\$29.69 SF

DEALS SOLD
40

INVENTORY (MOS.)
5.67

YOY ▼ 1.00%

▲ 4.62%

▼ 40.30%

▲ 85.38%



1

NW VALLEY

PRICE PSF

\$289

RENT PSF

\$28.65

2

SW VALLEY

PRICE PSF

N/A

Q3 2023 \$387

RENT PSF

\$29.52

3

PHOENIX

PRICE PSF

\$286

RENT PSF

\$30.77

4

SCOTTSDALE/PV

PRICE PSF

\$328

RENT PSF

\$33.26

5

SE VALLEY

PRICE PSF

\$297

RENT PSF

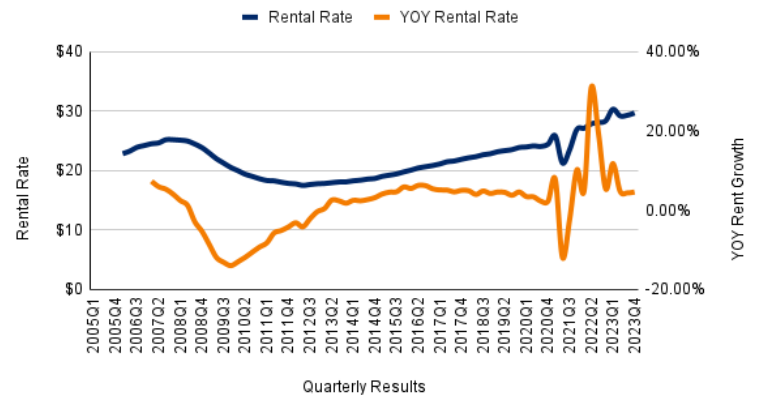
\$31.73

4Q2023 METRO PHOENIX OFFICE CONDO TRENDS

SALES PRICE PSF AND SALES VOLUME



RENT PSF AND YOY RENT GROWTH



NOTABLE TRANSACTIONS

OFFICE OWNER USER

PALOMA KYRENE OFFICE/INDUSTRIAL PARK

118 S Kyrene Rd #5-13, Chandler, AZ 85226

Sale Date : 11/21/2023
 Sale Price : \$855,000
 Price/SF : \$312.61
 Sale Type : Office Owner User
 Year Built : 2007
 RBA : 5,000 SF



MEDICAL OWNER USER

ODYSSEY PROFESSIONAL PARK

2045 S Vineyard #153, Mesa, AZ 85210

Sale Date : 11/17/2023
 Sale Price : \$2,134,728
 Price/SF : \$352.61
 Sale Type : Owner User
 Year Built : 2008
 RBA : 15,086 SF



INVESTMENT SALE

BELL PROFESSIONAL CENTER

5425 E Bell Rd #145, Scottsdale, AZ 85254

Sale Date : 12/28/2023
 Sale Price : \$816,848
 Price/SF : \$284.62
 Cap Rate : 6.50%
 Sale Type : Investment
 Year Built : 2005
 RBA : 12,662 SF



CHAUNCEY RANCH

18325 N Allied Way #220, Phoenix, AZ 85054

Sale Date : 10/31/2023
 Sale Price : \$1,275,000
 Price/SF : \$415.72
 Sale Type : Office Owner User
 Year Built : 2007
 RBA : 40,000 SF



3 OFFICE CONDOS SOLD

13943 N 91st Ave #101, #103, #104, Peoria, AZ 85381

Sale Date : 10/16/2023
 Sale Price : \$1,708,928
 Price/SF : \$317.17
 Sale Type : Investment
 Year Built : 2005
 RBA : 5,300 SF



VILLAGE OFFICE SUITES AT TOWNE CENTER

22717 S Ellsworth Rd B101, Queen Creek, AZ 85142

Sale Date : 10/19/2023
 Sale Price : \$805,000
 Price/SF : \$324.47
 Cap Rate : 6.10%
 Sale Type : Investment
 Year Built : 2005
 RBA : 4,963 SF



