



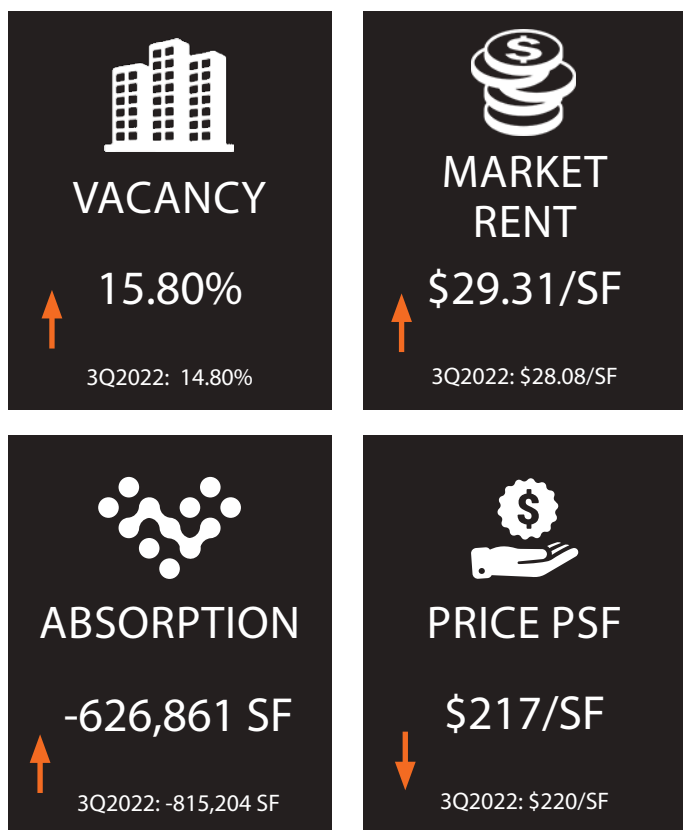
3Q2023 METRO PHOENIX OFFICE NEWSLETTER

CONTACT INFORMATION

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METRO PHOENIX OFFICE OVERVIEW

QUARTERLY OFFICE STATS



Phoenix saw the addition of another -626,861 SF of net vacant office space to the market in 23Q3 as tepid demand and broad-based economic uncertainty continued to pressure the sector. Total empty space has climbed nearly 50% since the end of 2019, driving the metro-wide vacancy rate from 11.0% in 19Q4 to 15.8% in 23Q3, matching a level last seen in 2015. However, over the past 12 months, the metro recorded a 4.38% increase in average asking rents, ranking the Valley as one of the best-performing markets in the country.

The increased adoption of hybrid work arrangements has led to a structural shift in the relationship between job growth and occupied office space, with occupiers placing renewed emphasis on space utilization. Prior to the pandemic, the two metrics would generally move in the same direction, but the rise of flexible configurations has reduced their correlation. This indicates many companies are operating at lower space-per-employee requirements, reducing underlying space demands.

Despite an unrelenting rise in metro-wide vacancy, rents in the Phoenix office market have been surprisingly stable. Average asking rents climbed 4.38% over the past 12 months, outpacing the national average of 0.7%. The market recorded -2.2 million SF of net absorption as tenants opt to downsize their footprints or shutter offices altogether. Geographically, suburban areas on the periphery of the metro have held up better than denser areas. Annual rent growth in the suburbs ended 23Q3 above 4% compared to less than 3% growth in the CBD. East Valley submarkets like Mesa East, Gateway Airport/Loop 202, and the Superstition Corridor are among the leaders in Phoenix rent growth. Pinal County has also seen steady rent gains.

Space availabilities are highest at 4 & 5 Star properties with 27.5% of this inventory currently available for lease. 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. Overall, the Phoenix office market has about 7.8 million SF available for sublease, nearly tripling the pre-COVID 15-year average of about 2 million SF. The share of total inventory on the sublease market is now at 3.9%, ranking Phoenix as one of the most heavily impacted sublease markets in the country.

ECONOMIC HIGHLIGHTS

Employment Data (YOY)

- ▶ 3.80% Unemployment Rate (USA) +0.30%
- ▶ 3.80% Unemployment Rate (Metro PHX) +0.20%
- ▶ 2.575MM Employed Residents (Metro PHX)

Metro PHX Housing Trends (YOY)

- ▶ \$431,000 Median Home Price -1.80%
- ▶ 5,423 Closed Transactions -14.30%
- ▶ 56 Days on Market +8 Days
- ▶ 2.90 Months of Supply -0.67 Months

10-Year Treasury

- ▶ 4.59% as of 09/29/2023
- ▶ +0.83% YOY | +0.47% MOM

Supply-side pressure remains modest in the Phoenix office market. Just 1.1 million SF of net new office space was completed over the past 12 months, representing a meaningful slowdown from the nearly 2.5 million SF that was added per year from 2015 to 2017. Geographically, Tempe has been one of the primary recipients of new space. The area was a popular expansion option for technology, finance, and insurance companies in the half-decade leading up to the pandemic and developers poured millions of square feet of high-end office space into the submarket to meet demand.

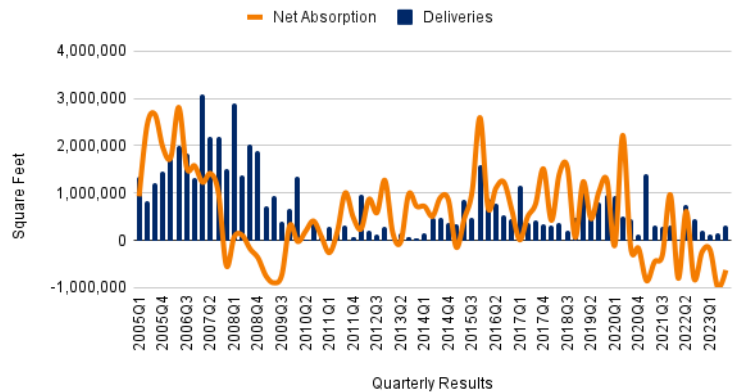
Office development is also heating up in the West Valley. Last year, builders finished work on the first phase of GSQ, a large mixed-use project that Globe Corporation is conducting in partnership with the City of Goodyear. The new GSQ development is reportedly 60% leased with expectations to be fully occupied by 2024.

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. About \$1.4 billion traded in the most recent 12-month period, a steep decline from the three-year average of \$2.6 billion. Looking forward, upcoming loan maturities could pose a potential risk. CoStar is tracking more than \$750 million worth of CMBS debt coming due through 2025, which may cause challenges for investors when the time comes to refinance at current interest rates. Some owners may need to bring additional capital to the table to meet current lending standards.

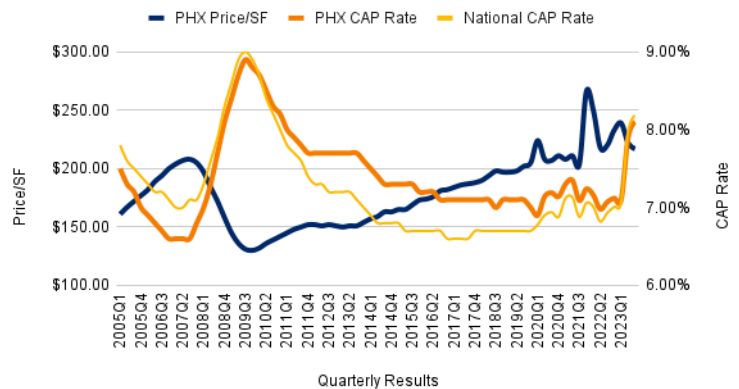
Phoenix remains one of the nation's better-performing markets for employment growth recording more than 40,200 job additions in the trailing 12-month period ending August 2023. The labor market now has 152,500 more jobs than before the pandemic. While labor is the primary driver behind the market's business attraction success, relative affordability and a more accommodating regulatory environment help tip the scale in favor of Phoenix when companies make their site selection decision.

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

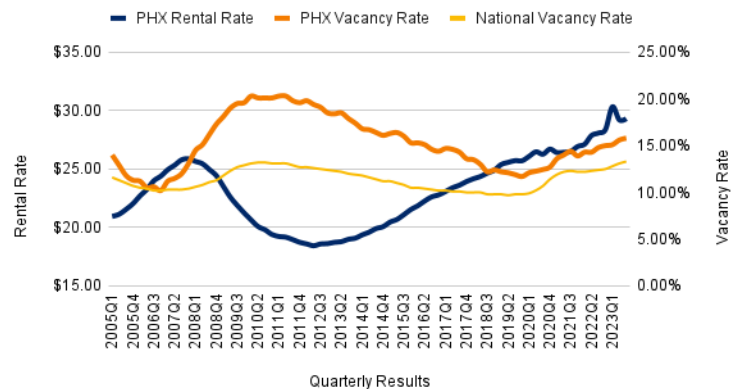
METRO PHOENIX DELIVERIES AND ABSORPTION



PRICE AND CAP RATE TRENDS



RENTAL AND VACANCY RATES



SUBMARKET ANALYTICS - 3Q2023 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	4,044,204	0	17.2%	-49,528	\$29.78	\$208.80	8.1%	\$5,750,000
Airport Area	5,408,945	0	23.1%	-167,348	\$27.05	\$185.95	8.5%	\$0
Arrowhead	4,828,125	0	9.2%	-54,329	\$28.55	\$215.96	8.5%	\$2,801,400
Camelback Corridor	9,514,784	40,000	20.8%	-103,798	\$36.51	\$263.81	7.4%	\$72,900,000
Central Scottsdale	9,210,721	0	15.2%	-60,389	\$29.69	\$224.97	8.0%	\$30,060,000
Chandler	12,966,536	15,519	15.7%	-9,701	\$29.43	\$225.51	8.2%	\$8,944,500
Deer Valley/Airport	12,448,965	0	16.3%	-10,732	\$28.84	\$217.86	8.0%	\$2,205,000
Downtown	11,494,801	0	20.4%	-284,594	\$32.54	\$253.01	7.6%	\$20,519,142
Gateway Airport/ Loop 202	3,036,388	130,032	6.4%	76,933	\$29.22	\$219.19	8.7%	\$28,904,000
Glendale	3,678,147	39,650	12.4%	-13,807	\$29.66	\$203.06	8.2%	\$0
Loop 303/Surprise	2,674,750	9,984	8.6%	-30,538	\$30.68	\$216.56	8.4%	\$38,605,000
Mesa Downtown	1,494,070	0	13.2%	-69,608	\$21.04	\$132.65	8.7%	\$0
Mesa East	5,022,612	10,095	12.3%	-55,702	\$26.53	\$187.85	8.7%	\$10,680,300
Midtown	13,421,762	0	19.3%	-17,668	\$26.94	\$211.98	7.6%	\$14,250,000
Midtown/Central Phoenix	6,148,939	13,246	5.9%	138,220	\$24.44	\$169.09	8.5%	\$9,527,500
N. Phoenix/Cave Creek	156,275	0	0.9%	0	\$24.84	\$203.43	8.2%	\$0
N. Scottsdale/Carefree	1,889,069	0	10.0%	51,087	\$25.40	\$184.59	8.3%	\$3,341,350
North I-17	1,006,112	0	6.6%	72,327	\$26.92	\$207.48	8.4%	\$3,160,000
Northwest Outlying	139,303	0	2.8%	-3,872	\$25.11	\$167.37	8.4%	\$0
Northwest Phoenix	11,024,334	0	16.1%	383,410	\$23.29	\$152.34	8.7%	\$3,623,600
Paradise Valley	5,479,873	0	12.0%	-35,835	\$29.27	\$206.39	8.2%	\$11,649,000
Piestewa Peak Corridor	3,459,967	0	12.0%	-98,345	\$25.72	\$178.61	8.6%	\$410,000
Pinal County	1,780,191	0	3.7%	-18,786	\$22.50	\$159.81	9.0%	\$5,640,000
Scottsdale Airpark	13,919,012	248,000	15.3%	-141,358	\$32.33	\$250.62	7.8%	\$28,785,600
Scottsdale South	8,085,710	6,820	17.2%	13,004	\$32.33	\$254.16	7.7%	\$17,320,000
South Tempe/Ahwatukee	7,448,200	135,000	21.4%	-148,800	\$27.88	\$197.69	8.3%	\$4,440,000
Southwest Outlying	307,070	0	0.0%	0	\$24.66	\$159.81	8.5%	\$3,700,000
Southwest Phoenix	4,505,027	0	2.9%	78,749	\$28.09	\$191.71	8.2%	\$3,558,000
Superstition Corridor	6,821,416	0	11.0%	-59,131	\$25.01	\$174.67	8.9%	\$17,025,000
Tempe	21,196,983	297,972	22.7%	-1,510,640	\$32.79	\$252.43	7.9%	\$5,231,250
West I-10	2,562,917	83,773	7.5%	35,657	\$31.03	\$215.38	8.2%	\$4,464,000
Total/Averages	195,175,208	1,030,091	12.6%	-2,095,122	\$28.00	\$202.99	8.3%	\$357,494,642

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



3Q2023 METRO PHOENIX OFFICE CONDO REPORT

PRICE PSF
\$300.62

RENT PSF
\$29.31 SF

DEALS SOLD
64

INVENTORY (MOS.)
5.05

YOY ▲ 1.91%

▼ 4.38%

▼ 7.25%

▲ 23.23%



1

NW VALLEY

PRICE PSF
\$370

RENT PSF
\$26.12

2

SW VALLEY

PRICE PSF
\$387

RENT PSF
\$19.16

3

PHOENIX

PRICE PSF
\$284

RENT PSF
\$29.89

4

SCOTTSDALE/PV

PRICE PSF
\$313

RENT PSF
\$34.19

5

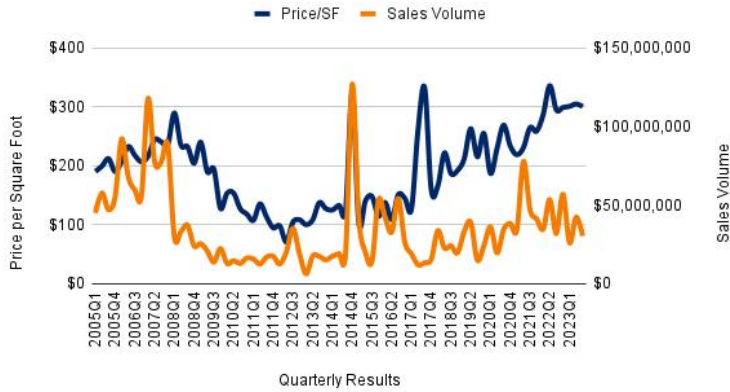
SE VALLEY

PRICE PSF
\$305

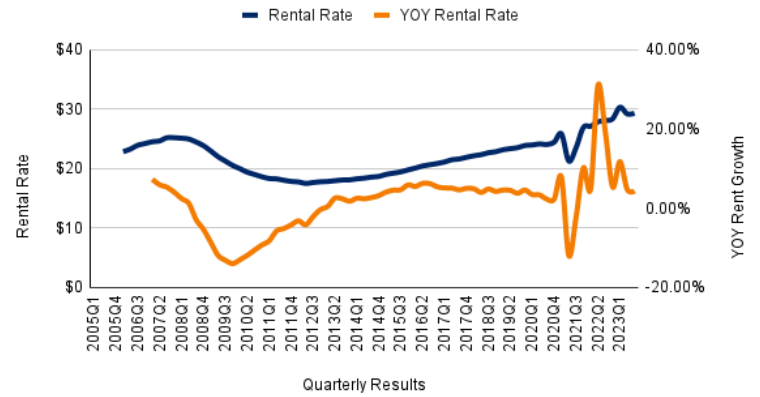
RENT PSF
\$29.48

3Q2023 METRO PHOENIX OFFICE CONDO TRENDS

SALES PRICE PSF AND SALES VOLUME



RENT PSF AND YOY RENT GROWTH



NOTABLE TRANSACTIONS

OFFICE OWNER USER

WEST CHANDLER PROPERTY

60 N McClintock Dr., Chandler, AZ 85226

Sale Date : 09/28/2023
 Sale Price : \$1,500,000
 Price/SF : \$338.52
 Sale Type : Office Owner User
 Year Built : 2007
 RBA : 4,431 SF



MEDICAL OWNER USER

PASEO RANCH

6677 W Thunderbird Rd. #124, Glendale, AZ 85306

Sale Date : 09/11/2023
 Sale Price : \$1,430,000
 Price/SF : \$401.75
 Sale Type : Medical Owner User
 Year Built : 2003
 RBA : 6,513 SF



INVESTMENT SALE

THE FOUNTAINS AT OCOTILLO

3901 S Alma School Rd #2., Chandler, AZ 85248

Sale Date : 08/08/2023
 Sale Price : \$2,000,000
 Price/SF : \$363.04
 Cap Rate : 6.60%
 Sale Type : Investment
 Year Built : 2005
 RBA : 5,509 SF



PIMA COMMERCE CENTER

14275 N 87th St. #115-116, Scottsdale, AZ 85260

Sale Date : 07/12/2023
 Sale Price : \$1,180,000
 Price/SF : \$378.40
 Sale Type : Office Owner User
 Year Built : 2004
 RBA : 28,011 SF



91ST & UNION HILLS

9240 W Union Hills Dr., Peoria, AZ 85382

Sale Date : 07/11/2023
 Sale Price : \$1,380,000
 Price/SF : \$400.00
 Sale Type : Medical Owner User
 Year Built : 2006
 RBA : 4,588 SF



WARNER VILLAGE

8655 S Priest Dr #101 & 104, Tempe, AZ 85284

Sale Date : 08/01/2023
 Sale Price : \$1,200,000
 Price/SF : \$295.28
 Cap Rate : 6.00%
 Sale Type : Investment
 Year Built : 2007
 RBA : 4,064 SF



