

MARKET REPORT

OFFICE

Phoenix Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

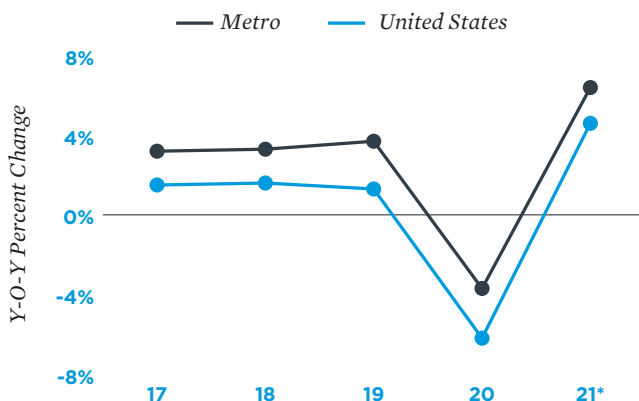
4Q/21

Tempe and North Phoenix Compelling to Investors As New Supply Plagues Some Other Market Areas

Foundation in place for long-term strength in Tempe. Companies are expanding in Phoenix, attracted by the state's business-friendly policies and rapidly growing labor pool. For many, the proximity to Arizona State grants Tempe an advantage in finding young educated workers, fueling space demand in the area. Peloton recently inked a lease for a call center near the Loop 101 and 202 interchange, while payment processing firm TSYS signed a renewal for a 102,000-square-foot facility south of the Superstition Freeway. Additionally, Phase 3 of the Novus Innovation Corridor, a mixed-use project comprising 355 acres near the Arizona State campus, is reaching completion. Future phases extend through 2035 and will create a live-work-play environment that entices companies to lease adjacent space over the next decade.

Office landscape in Phoenix a mixed bag. In the aftermath of a historically difficult 2020, conditions around the metro are not uniform. North Phoenix is outperforming, with vacancy down 140 basis points year over year to 14.9 percent in June, the tightest rate here since 2007. Conversely, availability shot up 760 basis points in the Airport Area, the largest jump among submarkets during the past year. Other places with annual vacancy jumps exceeding 200 basis points include Scottsdale and the East Valley, areas that had to balance large construction pipelines with weak demand during the pandemic. Supply headwinds will not subside in the near term with a combined 1.4 million square feet underway across these two submarkets as of August.

Employment Trends



* Forecast
Sources: BLS; CoStar Group, Inc.

Office 2021 Outlook



137,000

JOBS

will be created

EMPLOYMENT:

Staffing totals in Phoenix will grow by 6.4 percent in 2021 as the metro count surpasses the pre-recession level by 2.1 percent. Traditional office-using sectors are projected to expand by 29,000 positions, which will be the largest advance in more than 15 years.



2,000,000

SQ. FT.

will be completed

CONSTRUCTION:

Deliveries drop to a three-year low in 2021 with market inventory projected to enlarge by 1.2 percent. The completion volume will be muted relative to the past few years but still exceed the trailing-decade annual average by 125,000 square feet.



70

BASIS POINT

increase in vacancy

VACANCY:

Following a year in which vacant stock rose by 5.4 million square feet, conditions are expected to settle, but challenges remain. In 2021, vacant stock will climb by an additional 1.6 million square feet, pushing the rate of availability up to 18.6 percent.



0.3%

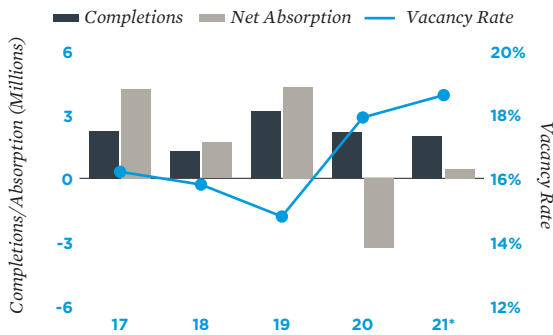
INCREASE

in asking rent

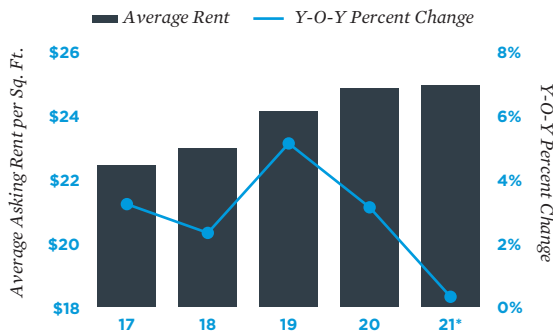
RENT:

Higher vacancy will press on rent growth in 2021, resulting in the smallest annual gain in nine years. Nonetheless, the marginal increase to \$24.93 per square foot in 2021 will keep intact a trend of consecutive yearly rises spanning back to 2012.

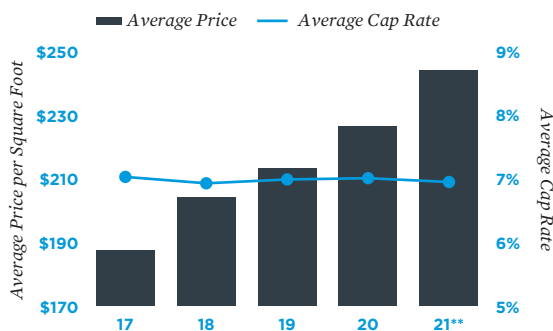
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q
Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Office

Alan L. Pontius

Senior Vice President, National Director
Tel: (415) 963-3000 | apontius@ipausa.com

For information on national office trends, contact:

John Chang

Senior Vice President, National Director | Research Services
Tel: (602) 707-9700 | jchang@ipausa.com

2Q21 – 12-Month Period



CONSTRUCTION

2,277,000 sq. ft. completed

- Annual delivery volume ended in June was 750,000 square feet smaller than the prior period. Still, inventory grew by 1.4 percent and an additional 1.9 million square feet was underway in July.
- During the first six months of 2021, submarkets that added at least 500,000 square feet include Scottsdale and the East Valley.



VACANCY

250 basis point increase in vacancy Y-O-Y

- Influenced by a 400-basis-point hike in Class A availability, the metro's overall office vacancy jumped to 18.9 percent in June. The rate was last this high in 2015 amid a sluggish recovery from the financial crisis.
- Class B/C vacancy rose 170 basis points metrowide but declined locally in North and East Phoenix as well as the Central Corridor.



RENT

1.1% decrease in the average asking rent Y-O-Y

- Quarterly eases in every three-month span since the second quarter of 2020 brought the average asking rent in Phoenix down to \$24.69 per square foot in June. The rate is up 2.4 percent from 2019, however.
- The average Class B/C rent increased marginally to \$22.17 per square foot, while the Class A rate fell 3.6 percent to \$29.53 per square foot.

Investment Highlights

- Deal flow in the first six months of 2021 nearly matched the 12-month total from last year. The uptick was largely due to a surge in Class B/C properties priced between \$1 million and \$10 million. These traded twice as often in the first half relative to the same period in 2020.
- Properties transacted during the yearlong frame ended in June had an average sale price of \$243 per square foot, up an eye-catching 11 percent. The mean cap rate dipped 10 basis points to 6.9 percent.
- Investors were less active in historically popular locales like Scottsdale and the Airport Area amid vacancy rises and supply concerns. Instead, buyers concentrated more heavily on the East Valley and North Phoenix submarkets, particularly Chandler and Paradise Valley.
- Underpinned by the sizable retiree population and robust in-migration outlook, medical offices are attractive in Phoenix. During the four-quarter period ended in June, these assets changed hands 10 percent more often relative to the previous yearlong span. Marketwide, medical offices transact for an average of roughly \$290 per square foot with first-year returns in the low-6 percent to mid-8 percent band.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Note: Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: IPA Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics
© Marcus & Millichap 2021 | www.ipausa.com