

INVESTMENT FORECAST

Office
Phoenix

IPA
INSTITUTIONAL
PROPERTY
ADVISORS






2022

Expansionary Labor Pool and Lower Business Costs Prompt Growth in the Valley, Enhancing the Outlook

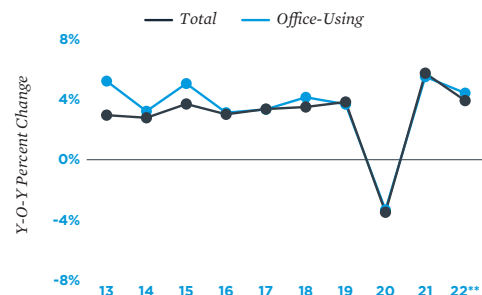
Thriving local economy lures proliferating firms. The metro population grew by more than 400,000 residents over the past five years and a similar gain is expected through 2026. A swift expansion coupled with the employment base's resilience during the pandemic has resulted in Phoenix claiming the 10th-largest job market among major U.S. metros entering this year. Notably, though, the Valley still has the runway to grow, as the local unemployment rate remains above the national level. At the same time, the cluster of colleges located in the area consistently brings in young adults and bolsters the pipeline of future workers. High personnel availability is attractive to firms wanting to grow operations, persuading many to enter Phoenix and expand their presence. Other aspects, including a business-friendly environment and comparatively lower office rents than Los Angeles and San Diego, also play a role. These factors all support improved demand for office space in 2022, producing downward pressure on vacancy as annual completions fall below 1.5 million square feet for just the second time in the past eight years.

Out-of-state buyer fervor for properties in Tempe and Scottsdale. The Phoenix office market was less impaired by the health crisis than some primary coastal metros, persuading more investors to turn their attention to the Valley. Capital inflow is poised to continue in 2022 as metrowide vacancy descends and average rents climb. Buyers from outside of the market are primarily focusing on two submarkets: the East Valley and Scottsdale. The East Valley encompasses several attractive office districts in Tempe and Chandler. The corridor also claims the lowest vacancy rate among the five largest submarkets by inventory. Class A and B assets comprise the bulk of deals in the East Valley and transact with first-year returns in the mid-5 percent to mid-7 percent band. Just north in Scottsdale, buyers are pursuing upside opportunities. Mid-tier complexes with entry costs slightly below the market average of \$246 per square foot and cap rates near 7 percent are most common.

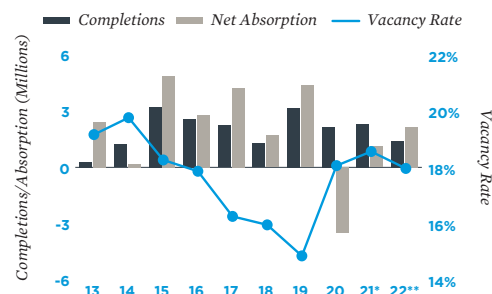
2022 Market Forecast

- Employment** up 3.8%  Office-using employment grew last year by the largest amount in over a decade, and a 27,000-job boost is expected in 2022.
- Construction** 1,400,000 sq. ft.  Annual delivery volume falls 900,000 square feet short of the 2021 total. Builders will finalize the most new space in the West Phoenix and East Valley submarkets this year.
- Vacancy** down 60 bps  Net absorption in 2022 will exceed new supply for the first time since the onset of the health crisis. This lowers the vacancy rate to 18 percent, about 300 basis points above the 2019 level.
- Rent** up 1.4%  Rent trends will revert after a 0.9 percent decline in 2021, as demand strengthens and vacant spaces secure tenants. The average asking rent climbs to \$25.15 per square foot this year.
- Investment**  Acquisition opportunities could emerge in the Airport Area and Northwest Phoenix, where vacancy is above 20 percent. Long-term upside amid market growth may pique buyer interest.

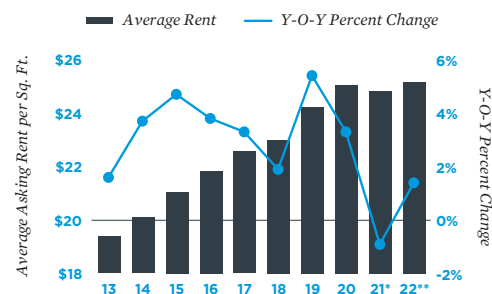
Employment Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

Al Pontius
Senior Vice President
Director IPA Office
Tel: (415) 963-3000 | apontius@ipausa.com

Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2021. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. 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.