

INVESTMENT FORECAST

OFFICE
Phoenix Metro Area

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2020

Corporations Take Down Larger Phoenix Footprints Favored by Many Expanding Companies

Tenant move-ins and development showcase growth in Valley office market. Phoenix's young population continues to grow and fill newly created jobs in the metro. An attractive business climate entices several companies to expand operations near talent pools that align with their needs. DoorDash, for example, will move from its existing 52,000-square-foot property in Phoenix to a 345,000-square-foot office in Tempe, headlining interest in the East Valley suburbs of Chandler, Mesa, Scottsdale and Tempe. Developers, meanwhile, are targeting Tempe and Scottsdale, where large mixed-use properties are coming out of the ground. The Watermark in Tempe, for instance, will open to additional tenants this year, adding 265,000 square feet of office space to the metro. In west Phoenix, medical office buildings constitute the majority of office buildings under construction, leveraging the proximity to retirement communities and rapidly growing suburbs. Strong absorption will outpace office construction in 2020, lowering metrowide vacancy to a cyclical low.

Investors target assets proximate to new developments and transit hubs. While property values have increased substantially in the metro, cap rates in the region have held steady in the low-7 percent range. Growth areas with a tech influence like Tempe and some properties near U.S. 60 in the East Valley attract investors searching for repositioning options. Moving north, deals in the Scottsdale Airpark account for a large portion of volume in the northeast Valley. Cap rates in the airpark trend 30 basis points lower than the metrowide average due to buyer demand but have reached as high as 8 percent on larger multi-tenant properties of older vintage. In Midtown Phoenix, properties with a significant vacancy component are favored by private developers seeking renovation opportunities. Assets along East Camelback Road, home to many of the metro's financial and real estate firms, can trade with cap rates in the 7 percent range, sometimes pushing down into the 5 percent area, influenced by competitive bidding.

2020 Market Forecast

Employment
up 2.2%



Employment will grow by 48,500 employees in 2020, with a greater percentage of new office-using workers than 2019. The unemployment rate rests at a near-cycle low of 4.1 percent.

Construction
2.4 million sq. ft.



New construction in 2020 will fall to two-thirds the rate of supply growth recorded in 2019.

Vacancy
down 60 bps



Continuing a five-year descent, vacancy will reach 14.4 percent in 2020, dropping 450 basis points over the past half decade.

Rent
up 4.0%



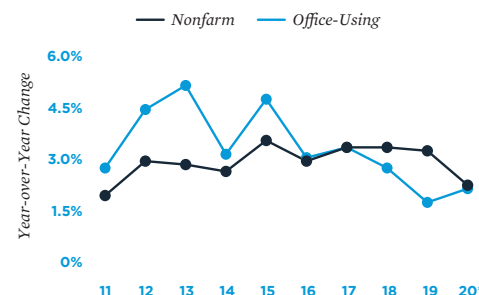
The asking rent climbs at a pace slightly lower than the five-year average, ending this year at \$27.10 per square foot.

Investment

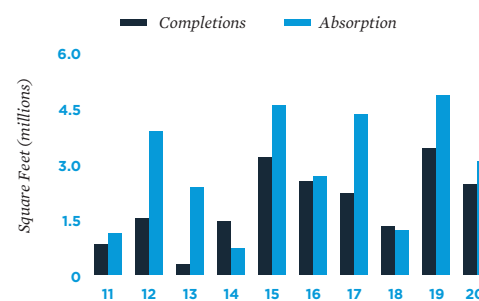


Medical office buildings in the East Valley and northwest Phoenix have garnered investor attention, with cap rates 20 basis points lower than the metrowide office average of 7 percent.

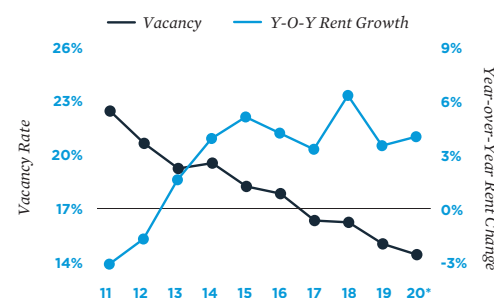
Employment Trends



Office Supply and Demand



Vacancy and Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of December 2020. Asking rent is based on the full-service marketed rental rate. 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 office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guaranty, 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.