

OFFICE MARKET REPORT - PHOENIX

Q4 2023

PHOENIX, ARIZONA

GREATER PHOENIX OFFICE MARKET

The year's end marked a positive turnaround for the Phoenix Office Market, with a net absorption of 68,616 square feet recorded, reversing three consecutive quarters of negative net absorption. Overall, rental rates continued their upward trend, reaching \$29.56 per square foot by the end of 2023. The affordability of office space remains a key factor attracting businesses to the market. As existing leases approach expiration, tenants face decisions regarding their space requirements. However, potential economic challenges may lead tenants to exercise caution before committing to significant longterm space arrangements.

Transaction activity in the Phoenix office market has significantly decelerated due to heightened vacancies, increasing interest rates, and uncertainties regarding the sector's future prospects, restraining sales volume. Over the last 12 months, approximately \$1.3 billion worth of transactions occurred, marking a substantial decrease from the preceding three-year average of \$2.5 billion per year.

In the coming months, the leasing landscape is expected to continue presenting challenges. Property owners may face a less favorable environment as leases for tenants opting not to renew become due in the next 12 to 24 months. While a restrained construction pipeline may prevent a worsening of existing conditions, a rise in vacancy rates is still anticipated in 2024.



DIRECT VACANCY

17.8%

VS. 17.9% IN Q3



NET ABSORPTION

68,616 SF

VS. (355,027 SF) IN Q3



AVERAGE ASKING RENTS

\$29.56 PSF

VS. \$28.64 PSF IN Q3



UNDER CONSTRUCTION

252,578 SF

VS. 402,194 SF IN Q3



SUBLEASE SPACE

6,879,069 SF

VS. 6,877,178 IN Q3

The sublease inventory emphasizes the challenging conditions confronting the sector. Presently, approximately 6.8 million square feet is available for sublet, a significant rise from the 2006 to 2019 average of 2 million square feet. This figure constitutes 6.3% of the metro's total office inventory, positioning Phoenix among the most heavily affected sublease markets in the country. Geographically, the cities of Chandler and Tempe bear the brunt of this impact, particularly as technology and insurance firms either downsize or close their offices in these areas.

The process of returning to the office continues to be fragmented. The potential for an economic slowdown introduces additional challenges, prompting tenants to approach significant, long-term space commitments with caution.

SALES BY THE NUMBERS: Q4 2023

NO. OF TRANSACTIONS

72

(Q3 2023: 60)

TOTAL SALES VOLUME

\$289M

(Q3 2023: \$322M)

AVERAGE PSF

\$192/SF

(Q3 2023: \$190/SF)

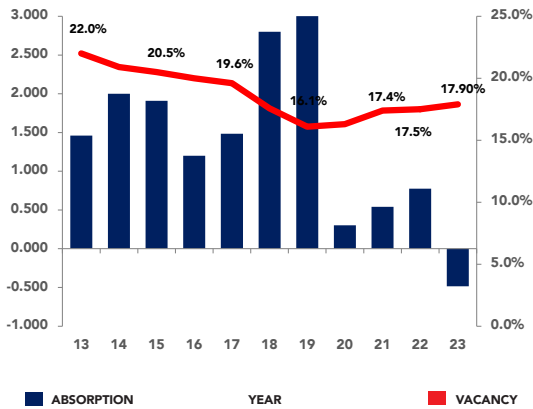
AVERAGE CAP RATE

7.3%

(Q3 2023: 6.6%)

ABSORPTION/VACANCY

2013-2023

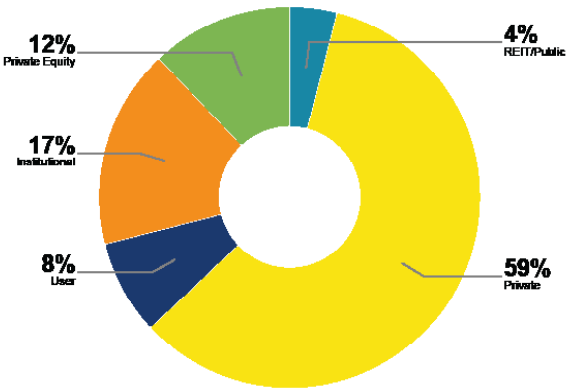


QUARTERLY TREND ANALYSIS

	Q4 2023	Q3 2023	Q2 2023	Q1 2023
Vacancy Rate	17.8%	17.9%	17.6%	17.6%
Availability Rate	20.1%	20.6%	20%	19.9%
Asking Lease Rate	\$29.56	\$28.64	\$28.79	\$28.35
Leased SF	1,355,716SF	1,466,151 SF	1,588,090 SF	2,037,668 SF
Sold SF	1,475,057 SF	1,811,503 SF	1,232,885 SF	1,279,361 SF
Net Absorption	68,616 SF	(355,027) SF	(137,097) SF	(127,468) SF

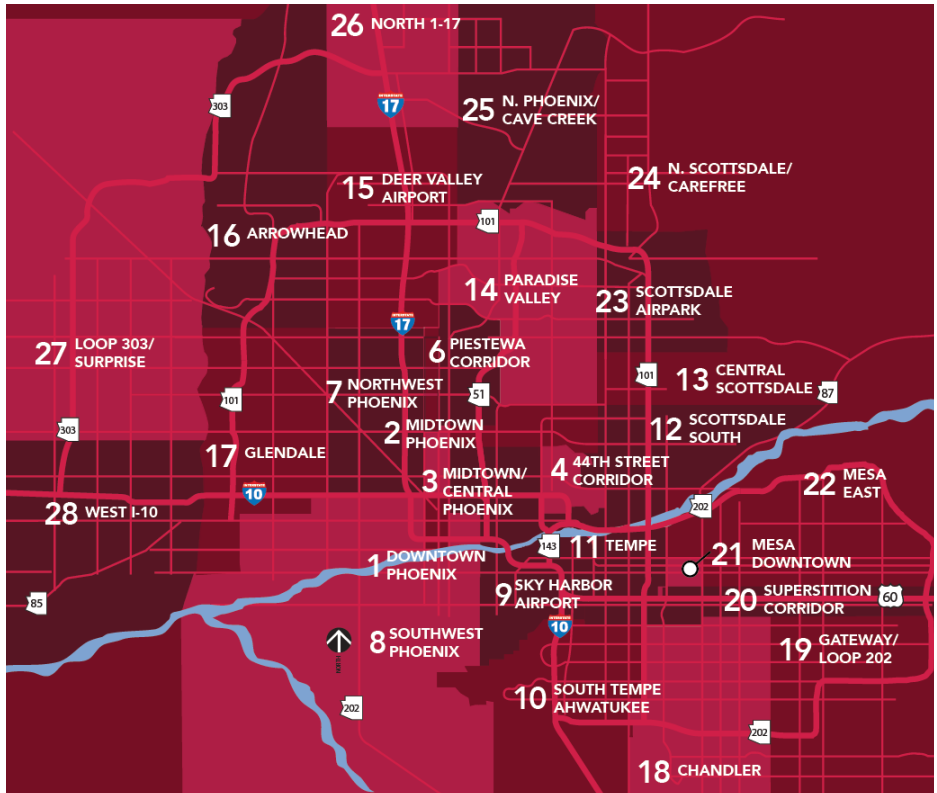
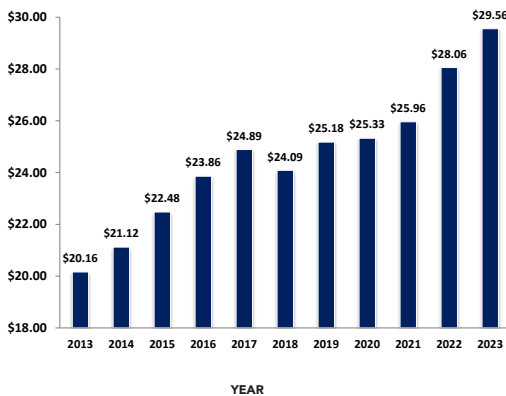
BUYER TYPE

Q2 2023 SALES



RENTAL RATES (FULL SERVICE)

PER YEAR, 2013 - 2023



PHOENIX OFFICE MARKET | Q4 2023

BUILDING CLASS	INVENTORY TOTAL	VACANCY RATE						NET ABSORPTION		SUBLEASE AVAILABLE			UNDER CONSTRUCTION	ASKING FS RENTS
		DIRECT		SUBLEASE		TOTAL		Q4 2023	YTD 2023	VACANT SF	TOTAL SF	PERCENT		
		SF	PERCENT	SF	PERCENT	SF	PERCENT							
Class A	48,622,177	10,823,654	22.5%	3,453,894	7.1%	14,369,930	29.6%	(256,256)	(1,156,644)	3,453,894	3,992,509	8.2%	252,578	\$32.88
Class B	54,289,788	8,310,137	15.3%	1,986,927	3.7%	10,297,064	19.0%	257,699	603,673	1,986,927	2,586,130	4.8%	-	\$24.36
Class C	6,163,759	338,766	5.5%	183,838	3.0%	522,604	8.5%	67,173	68,116	48,330	300,430	9.2%	-	\$19.07
Totals	109,075,724	19,472,557	17.8%	5,624,659	5.2%	25,189,598	23.0%	68,616	(484,855)	5,489,151	6,879,069	6.3%	252,578	\$29.56

OFFICE SUBMARKET	INVENTORY TOTAL	VACANCY RATE						NET ABSORPTION		SUBLEASE AVAILABLE			UNDER CONSTRUCTION	ASKING FS RENTS
		DIRECT		SUBLEASE		TOTAL		Q4 2023	YTD 2023	VACANT SF	TOTAL SF	PERCENT		
		SF	PERCENT	SF	PERCENT	SF	PERCENT							
Downtown Phoenix	6,159,776	1,535,658	24.9%	122,509	2.0%	1,658,167	26.9%	(134,654)	(176,519)	122,509	131,782	2.1%	-	\$31.68
Midtown Phoenix	10,004,870	2,391,269	23.9%	84,240	0.8%	2,475,509	24.7%	26,585	35,466	84,240	84,240	0.8%	-	\$25.92
Midtown/Central Phoenix	1,935,079	191,250	9.9%	1,500	0.1%	192,750	10.0%	(53,012)	86,107	1,500	1,500	0.1%	-	\$23.28
44th St. Corridor	2,580,633	47,692	18.5%	64,961	2.5%	541,653	21.0%	60,355	36,643	64,961	146,267	5.7%	-	\$28.68
Camelback Corridor	7,844,061	1,658,090	21.1%	185,046	2.4%	1,843,136	23.5%	20,787	(159,878)	185,046	229,901	2.9%	-	\$38.04
Piestewa Corridor	2,161,197	272,533	12.6%	95,284	4.4%	367,817	17.0%	(11,927)	(31,090)	95,284	98,284	4.5%	-	\$26.16
Northwest Phoenix	6,445,485	1,245,785	19.3%	208,848	3.2%	1,454,563	22.6%	(21,577)	114,553	208,848	291,432	4.5%	-	\$21.96
Southwest Phoenix	1,443,427	103,950	7.2%	-	0.0%	103,950	7.2%	-	32,343	-	-	-	-	\$25.80
Sky Harbor Airport	3,508,530	379,125	10.8%	779,405	22.2%	1,158,530	33.0%	85,877	102,760	779,405	786,909	22.4%	-	\$19.08
S. Tempe/Ahwatukee	6,034,299	924,121	15.3%	514,204	8.5%	1,438,325	23.8%	26,281	173,858	514,204	712,791	14.5%	-	\$26.16
Tempe	13,432,757	3,145,651	23.4%	1,256,914	9.4%	4,402,565	32.8%	(132,305)	(660,789)	1,256,914	1,234,001	9.2%	133,356	\$31.44
Scottsdale South	5,875,550	1,005,668	17.1%	206,649	3.5%	1,212,317	20.6%	152,237	73,900	206,649	260,528	4.4%	-	\$38.64
Central Scottsdale	5,567,624	902,526	16.2%	188,759	3.4%	1,091,285	19.6%	(64,729)	28,440	188,759	197,165	3.5%	-	\$31.08
Paradise Valley	2,540,493	466,591	18.4%	16,155	0.6%	482,746	19.0%	1,445	(86,960)	16,155	17,423	0.7%	-	\$31.92
Deer Valley Airport	5,134,822	627,264	12.2%	578,058	11.3%	1,205,322	23.5%	97,463	127,551	578,058	633,232	12.3%	-	\$22.08
Arrowhead	1,256,735	125,637	10.0%	24,117	1.9%	149,754	11.9%	2,254	(17,451)	24,117	21,293	1.7%	-	\$28.44
Glendale	1,972,386	411,409	20.9%	7,506	0.4%	418,915	21.2%	(23,018)	(145,171)	7,506	7,506	0.4%	-	\$23.04
Chandler	8,186,528	1,124,616	13.7%	859,361	10.5%	1,983,977	24.2%	(12,362)	(136,789)	859,361	1,202,924	14.7%	119,222	\$28.56
Gateway/Loop 202	552,437	27,681	5.0%	-	0.0%	27,681	5.0%	22,978	68,630	-	-	0.0%	-	\$28.92
Superstition Corridor	2,941,659	313,757	10.7%	80,559	2.7%	394,316	14.2%	(978)	13,125	80,559	101,856	3.5%	-	\$23.88
Mesa Downtown	670,995	63,678	9.5%	1,172	0.2%	64,850	9.7%	(229)	(10,081)	1,172	1,172	0.2%	-	\$21.36
Mesa East	1,349,276	418,677	31.0%	36,287	2.7%	454,964	33.7%	(20,604)	(76,657)	36,287	46,369	3.4%	-	\$35.88
Scottsdale Airport	9,795,063	1,425,090	14.5%	301,118	3.1%	1,726,208	17.6%	11,182	9,848	301,118	541,421	3.1%	-	\$33.48
N. Scottsdale/Carefree	621,595	82,980	13.3%	4,762	0.8%	87,742	14.1%	(2,632)	4,029	4,762	4,762	0.8%	-	\$23.64
N. Phoenix/Cave Creek	13,607	-	-	-	-	-	0.0%	-	-	-	-	0.0%	-	\$0.00
North I-17	537,801	17,946	3.3%	1,894	0.4%	19,840	3.7%	29,337	109,808	1,894	1,894	0.4%	-	\$26.16
Loop 303/Surprise	435,380	48,211	11.1%	2,770	0.6%	50,981	11.7%	12,981	(12,310)	2,770	2,770	0.6%	-	\$29.64
West I-10	1,280,579	181,868	14.2%	2,581	0.2%	184,449	14.4%	(3,119)	11,779	2,581	2,581	0.2%	-	\$32.52
TOTALS	109,075,724	19,472,557	17.8%	5,624,659	5.2%	25,189,598	23.0%	68,616	(484,855)	5,489,151	6,879,069	6.3%	252,578	\$29.56



* When inaccurate or newly updated information is discovered, it is incorporated into current reporting which may negate comparison to previously published market reports. Net absorption is calculated by the net change in physically occupied space between the current period and the previous period based on our competitive building inventory.

Q4 2023 TOP OFFICE LEASES

Tenant Name	Property Name	Address	Class	Submarket	SF	Lease
Peckham, Inc.	One Compass Center	3150 S. 48th Street	A	Airport	136,194	Sublease
Fennemore	Biltmore Center III	2394 E. Camelback Rd.	A	Camelback	52,886	Renewal
OfferPad	The Beam on Farmer	433 S. Farmer Ave.	A	Tempe	41,164	New
Clin-Path Associates	Workspace Cotton Center	4313 E. Cotton Ctr. Blvd.	B	Airport	30,539	New
Ports America	Tempe Gateway	222 S. Mill Ave.	A	Tempe	29,240	New

Q4 2023 TOP OFFICE SALES

Property Address	Buyer	Seller	Class	Sales Price	SF	PSF
3285 S. Val Vista Dr.	Beaudin Construction	Hill Development	B	\$29,000,075	71,259	\$406.97
14350 N. 87th St.	Providence RE Group	New York Life Investment	A	\$26,500,000	138,693	\$191.07
475 E. Lincoln St.	Phoenix Suns/Mercury	Montana Ave. Capital Ptn	B	\$21,650,000	65,000	\$333.08
16552 N. 90th St.	Envita Medical Centers	Strategic Office Partners	A	\$15,929,760	128,998	\$123.49
200 E. Van Buren St.	Stenson Tamaddon	ViaWest Group	A	\$14,500,000	245,513	\$59.06

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The Phoenix Office Market Report compiles relevant market data by using a third-party database for the proprietary analysis of specific office properties above 10,000 SF in the Phoenix Metropolitan Area.

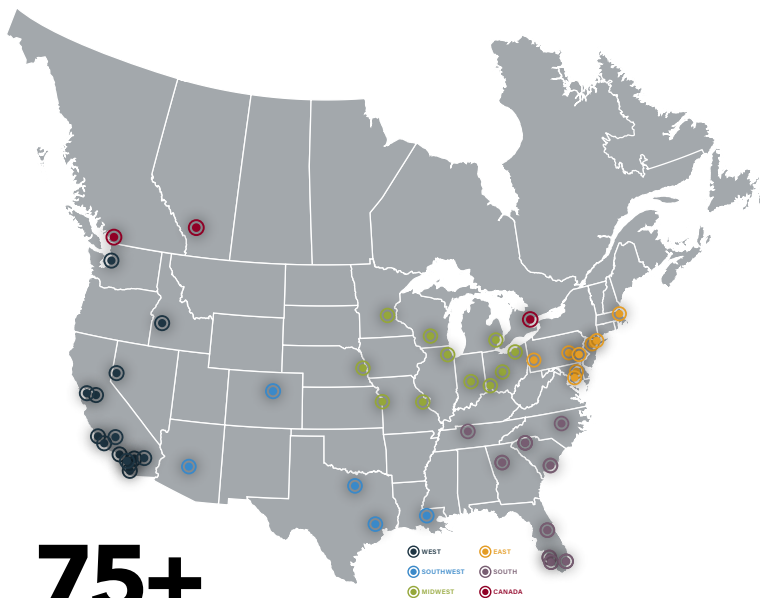
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\$32+
BILLION TRANSACTION
VOLUME 2022

1,500+
PROFESSIONALS
AND GROWING

108%
INCREASE IN BROKERED
SALE & LEASE
CONSIDERATION
OVER 5 YEARS



75+
OFFICES ACROSS NORTH AMERICA