

METRO PHOENIX

# Office Market Snapshot

Second Quarter • 2015

DTZ

## PHOENIX OFFICE

### Economic Indicators

	Q2 14	Q2 15	12-Month Forecast
Phoenix Employment	1,844K	1,899K	▲
Phoenix Unemployment	6.0%	5.0%	▼
U.S. Unemployment	6.1%	5.5%	▼

### Market Indicators

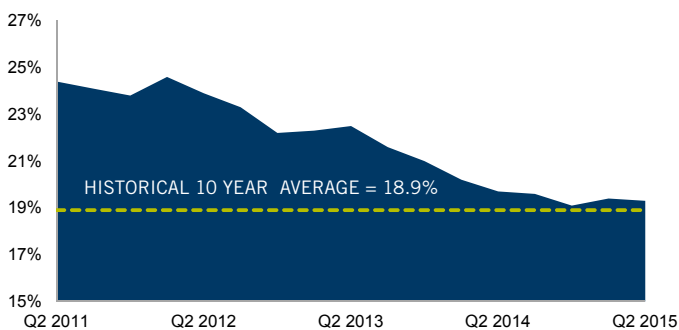
	Q2 14	Q2 15	12-Month Forecast
Overall Vacancy	19.7%	19.3%	▼
Net Absorption	731,000	850,000	▲
Under Construction	2,187,000	4,366,000	▲
Average Asking Rent	\$21.19	\$22.21	▲

### Net Absorption/Asking Rent

4Q TRAILING AVERAGE (MSF)



### Overall Vacancy



## Occupancy Growth Surges in Q2

At the close Q2 2015, office vacancy in Phoenix stood at 19.3%. This marks a slight reduction from the 19.4% rate that was in place three months ago and a more considerable drop from the 19.7% reading of one year ago. The Phoenix office market absorbed nearly 850,000 square feet (SF) in Q2. This reflects the highest level of occupancy growth recorded in a single quarter since Q4 2012 (1.2 MSF) and brings year-to-date net absorption to just over 913,000 SF.

Occupancy growth took place in half of Phoenix's 22 office submarkets in Q2, with the Price Corridor (15.1% vacancy) leading all other submarkets with 290,000 SF of net absorption, due in large part to Wells Fargo occupying the first of their two 205,000 SF build-to-suit (BTS) spaces. It was followed by Deer Valley (16.1%) with 155,000 SF and Midtown (26%) with 120,000 SF of gains. In terms of year-to-date performances, the Price Corridor (224,000 SF), Deer Valley (196,000 SF) and Scottsdale Airpark (184,000 SF) lead the Valley. While all classes posted net gains in Q2, tenant demand continues to be focused on quality space. Class A office product accounted for 56% (476,000 SF) of the total net gain in Q2 and has accounted for 69% (628,000 SF) of the occupancy growth Phoenix has experienced since the beginning of the year. Class A vacancy now stands at 16.1%, down from 16.5% three months ago.

Five new projects added 741,000 SF to the local inventory in Q2. Through the first six months of 2015, developers have added 1.04 million square feet (MSF) of new product to the local inventory; this is roughly 16% more than all of the space delivered over the entirety of 2014 (898,000 SF). Of the five new projects delivered, 37% of the new inventory was BTS projects for Wells Fargo (205,000 SF) and Crown Castle (70,000 SF); resulting in no impact on vacancy. However, the three remaining buildings were speculative projects that added 466,000 SF of new inventory. That brought the midyear total for new speculative space to 670,000 SF of which nearly 98% sits vacant.

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In Q2, five new projects broke ground totaling 143,000 SF. The total square footage under construction in Metro Phoenix is 4.4 MSF and 3.2 MSF is slated to be completed by the end of the 2015. In total, we are projecting nearly 4.0 MSF of new inventory will be delivered during 2015, the most since 2001 (5.4 MSF).

Tenant demand remains focused on quality; Class A space has accounted for 69% of all occupancy growth this year.

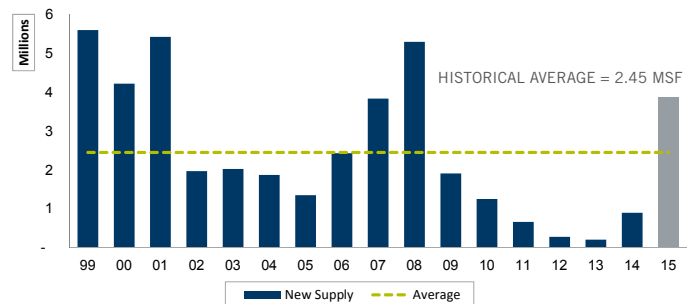
Despite overall vacancy in the high teens, Metro Phoenix's overall average asking rent continues to climb. The current average asking rent of \$22.21 per square foot (PSF), on an annual full service basis, has increased by 4.8% over the past year. The 44th Street Corridor (\$22.74 PSF) has recorded the largest gains in the region; this metric has increased by 7.7% over the past quarter and by 13.1% over the past year. The Camelback Corridor (\$27.65 PSF) and Scottsdale South (\$26.22 PSF) submarkets top all other markets. It is not a coincidence that the Class A space in these trade areas also topped all other Class A rates, at \$30.74 PSF and \$28.59 PSF respectively. Due to the amount of new construction and continued demand for premium product, the region's overall average asking rent continues to climb. However, until Class B (20.9%) and C (22.9%) vacancy levels drop significantly, overall vacancy for the Phoenix market will remain in the high teens for the foreseeable future.

## Outlook

- After a slow Q1, the Phoenix office market rebounded during Q2, absorbing nearly 850,000 SF. This reflects the highest absorption in a single quarter since Q4 2012 (1.2 MSF).
- Asking Rents are up 4.8% from one year ago, and are up over 12% from the post-recession low point reached in Q1 2013.
- 4.4 MSF of new office product is currently under development, of which only 1.3 MSF is speculative construction.

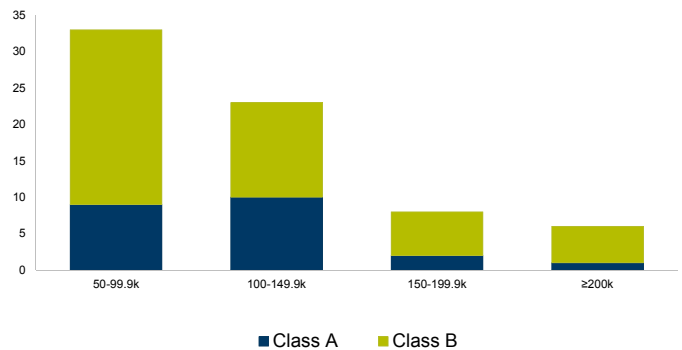
## New Supply

NEW SUPPLY IS PROJECTED TO EXCEED THE HISTORIC AVERAGE BY 58% IN 2015



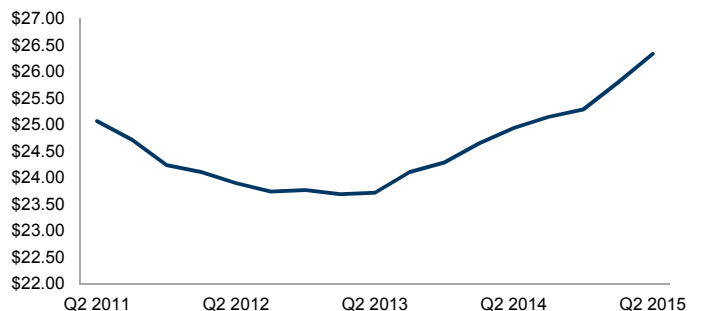
## Large Block Space

CONTIGUOUS BLOCKS OF AVAILABLE SPACE



## Class A Asking Rent

METRO PHOENIX CLASS A ASKING RENT INCREASED 5.6% FROM A YEAR AGO



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	TOTAL BLDGS	INVENTORY	SUBLET VACANT	DIRECT VACANT	VACANCY RATE	Q2 NET ABSORPTION	YTD NET ABSORPTION	UNDER CONSTRUCTION	AVG ASKING RENT (All Classes)
<b>Submarket</b>									
Midtown	88	10,908,482	46,049	2,785,075	26.0%	120,193	49,313	-	\$20.57
Downtown	41	7,192,230	60,376	1,289,309	18.8%	(24,439)	(24,973)	-	\$24.98
<b>CBD Total</b>	<b>129</b>	<b>18,100,712</b>	<b>106,425</b>	<b>4,074,384</b>	<b>23.1%</b>	<b>95,754</b>	<b>24,340</b>	<b>-</b>	<b>\$22.16</b>
44th Street Corridor	41	3,363,955	332	473,826	14.1%	57,253	121,484	62,000	\$22.74
Arrowhead	23	1,448,463	6,629	368,596	25.9%	8,342	76,707	-	\$21.62
Camelback Corridor	75	7,397,947	62,142	1,533,472	21.6%	26,985	57,813	-	\$27.65
Chandler/Gilbert/202	30	1,510,838	19,521	359,447	25.1%	81,892	94,148	556,049	\$22.64
Deer Valley	71	7,384,667	31,000	1,157,429	16.1%	154,602	195,780	-	\$21.17
East-Central Phoenix	44	2,020,173	27,131	360,134	19.2%	(20,882)	(39,257)	-	\$16.00
Glendale/Peoria	15	967,591	-	278,397	28.8%	(1,097)	2,815	-	\$17.19
Mesa	22	978,528	-	245,469	25.1%	15,875	64,188	108,000	\$14.86
Metrocenter	67	4,584,900	-	1,197,269	26.1%	(38,625)	(43,000)	-	\$18.31
N Phoenix/Desert Ridge	36	2,534,993	53,139	481,281	21.1%	13,977	29,267	-	\$22.59
Piestewa Peak Corridor	32	1,972,910	19,557	486,129	25.6%	(5,840)	1,960	-	\$18.17
Price Corridor	54	5,524,225	18,182	814,277	15.1%	289,480	224,145	541,607	\$23.54
Scottsdale Airpark	146	10,006,269	65,426	1,858,464	19.2%	91,003	184,022	169,189	\$25.07
Scottsdale Central	66	5,187,817	27,107	750,706	15.0%	(2,238)	(178,370)	70,000	\$23.57
Scottsdale South	35	3,649,701	21,058	344,666	10.0%	38,783	62,708	-	\$26.22
Sky Harbor	56	4,783,823	38,566	934,031	20.3%	(16,788)	13,926	-	\$19.98
South I-10/Ahwatukee	57	3,210,524	17,227	522,103	16.8%	3,363	6,531	-	\$20.07
Superstition Corridor	47	2,495,369	34,858	656,361	27.7%	(7,042)	(51,485)	-	\$18.43
Tempe North	84	7,691,575	45,497	785,623	10.8%	47,501	50,060	2,858,708	\$23.22
West Phoenix	40	1,803,343	9,307	364,916	20.8%	17,247	15,581	-	\$16.52
<b>Suburban Total</b>	<b>1,041</b>	<b>78,517,611</b>	<b>496,679</b>	<b>13,972,596</b>	<b>18.4%</b>	<b>753,791</b>	<b>889,023</b>	<b>4,365,553</b>	<b>\$22.23</b>
<b>Class</b>									
Class A	240	37,083,865	362,188	5,611,402	16.1%	475,802	627,948	3,175,581	\$26.34
Class B	733	51,799,969	203,048	10,850,611	21.3%	201,308	116,199	1,189,972	\$20.60
Class C	197	7,734,489	37,868	1,584,967	21.0%	172,435	169,216	-	\$15.70
<b>Grand Total</b>	<b>1,170</b>	<b>96,618,323</b>	<b>603,104</b>	<b>18,046,980</b>	<b>19.3%</b>	<b>849,545</b>	<b>913,363</b>	<b>4,365,553</b>	<b>\$22.21</b>

DTZ HAS RE-CLASSIFIED THE COMPETITIVE BUILDING INVENTORY AND CHANGED THE SUBMARKET BOUNDARIES.

ASKING RENTS CONVERTED TO FULL SERVICE. THE AIRPORT SUBMARKET IS NOW CALLED SKY HARBOR.

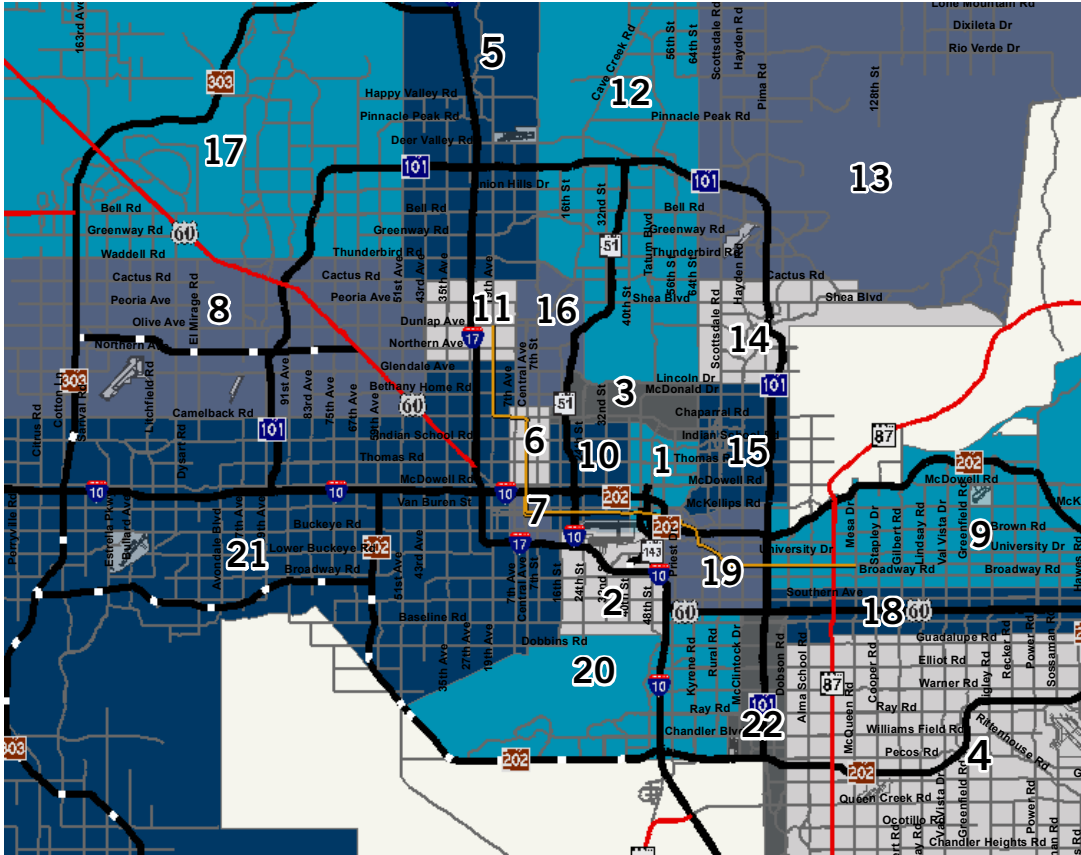
NET ABSORPTION IS THE NET CHANGE IN PHYSICALLY OCCUPIED SPACE BETWEEN THE CURRENT PERIOD AND THE PREVIOUS PERIOD.

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## Office Submarkets

Metro Phoenix



- 1 - 44th Street Corridor
- 2 - Sky Harbor\*
- 3 - Camelback Corridor
- 4 - Chandler/Gilbert/202
- 5 - Deer Valley
- 6 - Midtown
- 7 - Downtown
- 8 - Glendale / Peoria
- 9 - Mesa
- 10 - East-Central Phoenix
- 11 - Metrocenter
- 12 - N Phoenix/Desert Ridge
- 13 - Scottsdale Airpark
- 14 - Scottsdale Central
- 15 - Scottsdale South
- 16 - Piestewa Peak Corridor
- 17 - Arrowhead
- 18 - Superstition Corridor
- 19 - Tempe North
- 20 - South I-10/Ahwatukee
- 21 - West Phoenix
- 22 - Price Corridor

\*The Airport Submarket is now called Sky Harbor

## About DTZ

DTZ is a global leader in commercial real estate services providing occupiers, tenants and investors around the world with a full spectrum of property solutions. The company's core capabilities include agency leasing, tenant representation, corporate and global occupier services, property management, facilities management, facility services, capital markets, investment and asset management, valuation, research, consulting, and project and development management. DTZ provides property management for 1.9 billion square feet, or 171 million square meters, and facilities management for 1.3 billion square feet, or 124 million square meters. The company completed \$63 billion in transaction volume globally in 2014 on behalf of institutional, corporate, government and private clients. Headquartered in Chicago, DTZ has more than 28,000 employees who operate across more than 260 offices in 50 countries and represent the company's culture of excellence, client advocacy, integrity and collaboration.

DTZ announced an agreement to merge with Cushman & Wakefield in a May 11 press release. The new company, which will operate under the Cushman & Wakefield brand, will have revenues over \$5.5 billion, over 43,000 employees and will manage more than 4 billion square feet globally on behalf of institutional, corporate and private clients. The agreement is subject to customary closing conditions and is expected to close before the end of 2015. For further information, visit: [www.dtz.com](http://www.dtz.com) or follow us on Twitter @DTZ.

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