

Phoenix Office Market

Forward Motion at Beginning of 2021 after 2020's Pandemic Halt

The negative impact of COVID-19 in Phoenix in 2020 left the office market stale for most of the year, especially in the latter half. Leasing velocity slowed down tremendously, with short-term lease renewals or extensions comprising the bulk of activity. Although the Phoenix economy is more diversified than other surrounding metros, such as Las Vegas or Los Angeles, the effect was felt across all industries for both landlords and tenants alike. Furthermore, Phoenix was one of a handful of metros across the metro that saw an unfortunate rise in unemployment near the end of 2020 instead of a continual decline—an alarming metric when combined with higher vacancy and negative absorption. The first quarter of 2021 shows that despite the weak end of 2020, Phoenix was able to recover positive market indicators that illustrate the metro has the capability to come out of this recession in a stronger position than before the pandemic.

Overall vacancy increased slightly from 17.3% in fourth-quarter 2020 to 17.5% in first-quarter 2021. This increase can be largely attributed to Union A, a Class A 238,348-square-foot-building delivering with no tenants in place at occupancy, further explaining the drastic rise in vacancy within the Mesa East submarket.

Current Conditions

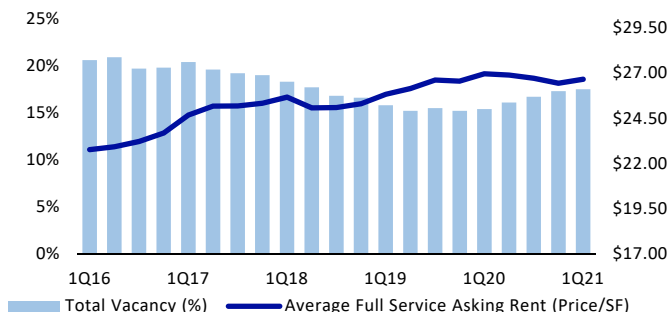
- The delivery of Northrop's build-to-suit 120,000-square-foot-building in Gilbert and the Union A speculative 238,348-square-foot-building bring over 350,000 square feet of quality Class A space to the office base.
- The Phoenix office market recorded positive 58,320 square feet of net absorption during first-quarter 2021, the first quarter to record positive numbers since the onset of COVID-19.
- The rise of new direct leases during first-quarter 2021 was a welcome change to the short-term renewals and extensions of 2020.

Market Summary

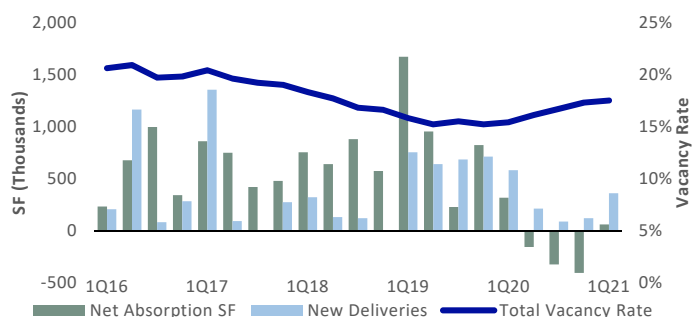
| | Current Quarter | Prior Quarter | Year Ago Period | 12-Month Forecast |
|-------------------------------|-----------------|---------------|-----------------|-------------------|
| Total Inventory | 94.8M SF | 94.4 M SF | 92.8 M SF | ↑ |
| Vacancy Rate | 17.5% | 17.3% | 15.4% | ↑ |
| Quarterly Net Absorption (SF) | 58,320 | (407,430) | 314,874 | ↑ |
| Average Asking Rent/SF | \$26.66 | \$26.44 | \$26.96 | ↓ |
| Under Construction (SF) | 1,960,226 | 2,372,838 | 2,758,115 | ↓ |
| Deliveries (SF) | 358,348 | 117,394 | 578,706 | ↑ |

Market Analysis

ASKING RENT AND TOTAL VACANCY RATE



NET ABSORPTION SF, DELIVERED SF AND TOTAL VACANCY RATE



RESEARCH Q1 2021

Sublet availability increased marginally from fourth-quarter 2020 to first-quarter 2021 from 3.3% to 3.4%; subleases are entering the market, but much slower, which could mean companies are deciding to ultimately keep their full footprint; additionally, the number of companies being hit hardest by the pandemic are starting to slow down. As more office users reenter the workplace, the conversation around how much space to have may be felt more in coming quarters at a staggered rate when leases expire and office space needs are reevaluated at that point in time.

New, large direct leases were sparse in 2020; first-quarter 2021 changed that. As restrictions eased, businesses were able to slowly bring employees back to the office as long as restrictions were put in place. Alliance Bank of Arizona leased 97,064 square feet in CityScape in Downtown South, TSMC leased 46,618 square feet in Canyon Corporate Plaza 1 in Northwest Phoenix and both Robinhood (34,259 square feet) and Align Technology (33,976 square feet) both leased full floors in

Watermark 1 in Tempe. One notable renewal was Plexus Worldwide's renewal of 73,060 square feet at its headquarters in Scottsdale Central as part of a sale-leaseback transaction. The increase in larger transactions shows tenant confidence, as well as stability to make such movements in the metro.

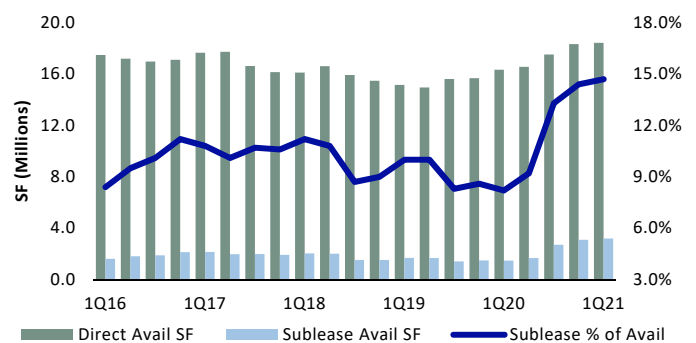
Sales remained strong into first-quarter 2021 as office investors continued to see Phoenix as an attractive location to place capital. TerraCap Management purchased Anchor Centre 1 & 2, a 333,284-square-foot-office park in the Camelback Corridor submarket, from KBS for \$103.5 million. Raintree Corporate Center in Scottsdale was purchased for \$34.0 million; another office park, Portico Place in Chandler, was purchased for \$21.7 million. Office capital markets recovered quickly after a brief hiatus in the middle of 2020 for both traditional and medical office buildings and are expected to remain high with the amount of dry powder and cash available.

Notable Projects 2021

| Building Name | Submarket | Status | SF |
|--------------------|--------------------------|--------------------|---------|
| Cavasson | Scottsdale North/Airpark | Under Construction | 460,000 |
| 100 Mill | Tempe | Under Construction | 286,990 |
| Scottsdale Entrada | Scottsdale South | Under Construction | 248,006 |
| Union A | Mesa East | Delivered | 238,348 |
| Axis Raintree | Scottsdale North/Airpark | Under Construction | 175,000 |
| Northrop | Chandler/Gilbert | Delivered | 120,000 |

Availability Overview

SUBLEASE V DIRECT AVAIL SF AND SUBLEASE AS % OF AVAILABILITY



Select Lease Transactions

| Tenant | Building | Submarket | Type | Square Feet |
|--------------------------|-------------------------------|--------------------|------------|-------------|
| Alliance Bank of Arizona | CityScape | Downtown South | Direct New | 97,064 |
| Plexus Worldwide | Plexus Worldwide Headquarters | Scottsdale Central | Renewal | 73,060 |
| TSMC | Canyon Corporate Plaza 1 | Northwest Phoenix | Direct New | 46,618 |
| Robinhood | The Watermark 1 | Tempe | Direct New | 34,259 |
| Align Technology | The Watermark 1 | Tempe | Direct New | 33,976 |

Select Sale Transactions

| Building Address | Submarket | Sales Price | Price/SF | Square Feet |
|---|--------------------------|---------------|----------|-------------|
| Anchor Centre 1 & 2 2201 E Camelback Road | Camelback Corridor | \$103,515,000 | \$310.61 | 333,265 |
| Raintree Corporate Center 15333 N Pima Road | Scottsdale North/Airpark | \$34,000,000 | \$227.54 | 149,424 |
| Versum Materials 8555 S River Parkway | Tempe South/Chandler | \$22,000,000 | \$231.26 | 95,133 |
| Portico Place 1 & 2 2121 W Chandler Boulevard | Chandler/Gilbert | \$21,700,000 | \$243.32 | 89,182 |
| Mutual of Omaha Bank 4950 S 48 th Street | Airport Area | \$21,000,000 | \$286.19 | 73,377 |

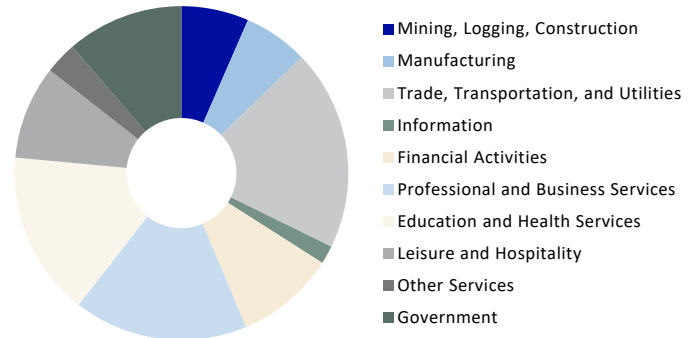
| Submarket Statistics | | | | | | | | |
|----------------------------------|----------------------|-------------------------|--------------------|---------------------|---------------------|--------------------------------|--------------------------------|--------------------------------|
| | Total Inventory (SF) | Under Construction (SF) | Total Vacancy Rate | Qtr Absorption (SF) | YTD Absorption (SF) | Class A Asking Rent (Price/SF) | Class B Asking Rent (Price/SF) | Average Asking Rent (Price/SF) |
| Downtown North/Midtown | 8,935,974 | - | 22.0% | 52,023 | 52,023 | \$26.84 | \$22.33 | \$23.66 |
| Downtown South | 7,421,472 | - | 19.0% | (33,080) | (33,080) | \$33.33 | \$28.09 | \$30.28 |
| CBD Total | 16,357,446 | - | 20.6% | 18,943 | 18,973 | \$30.40 | \$25.27 | \$27.03 |
| 44 th Street Corridor | 3,065,350 | - | 16.3% | (25,872) | (25,872) | \$28.79 | \$29.17 | \$28.90 |
| Airport Area | 8,053,389 | - | 18.1% | 133,874 | 133,874 | \$28.91 | \$17.28 | \$18.72 |
| Camelback Corridor | 7,029,855 | - | 19.6% | (172,609) | (172,609) | \$38.91 | \$29.28 | \$35.97 |
| Central/East Phoenix | 1,062,467 | - | 8.4% | 5,390 | 5,390 | - | \$24.13 | \$20.97 |
| Chandler/Gilbert | 6,792,396 | 300,000 | 19.7% | 73,781 | 73,781 | \$30.51 | \$26.01 | \$29.07 |
| Deer Valley Airport | 5,683,723 | 150,000 | 22.7% | (4,561) | (4,561) | \$27.51 | \$15.86 | \$21.38 |
| Glendale | 975,258 | - | 15.7% | (29,099) | (29,099) | \$24.56 | \$16.76 | \$19.55 |
| Mesa Downtown | 280,039 | - | 20.3% | 1,258 | 1,258 | - | \$22.93 | \$22.93 |
| Mesa East | 875,374 | - | 31.0% | 1,221 | 1,221 | \$36.73 | \$19.86 | \$35.51 |
| N Phoenix/Desert Ridge | 2,526,452 | - | 8.9% | (8,066) | (8,066) | \$30.80 | \$22.52 | \$27.98 |
| Northwest Phoenix | 4,512,518 | - | 27.7% | 62,594 | 62,594 | \$24.91 | \$19.88 | \$21.51 |
| Piestewa Peak | 2,084,221 | - | 20.1% | (24,117) | (24,117) | \$28.52 | \$25.32 | \$25.22 |
| Scottsdale Central | 5,169,753 | 100,000 | 13.2% | (71,113) | (71,113) | \$28.94 | \$26.63 | \$27.88 |
| Scottsdale North/Airpark | 8,091,101 | 785,111 | 13.8% | 28,351 | 28,351 | \$31.68 | \$25.73 | \$29.81 |
| Scottsdale South | 3,822,286 | 245,000 | 18.3% | (19,471) | (19,471) | \$33.29 | \$29.40 | \$32.36 |
| Sun City | 709,669 | - | 11.7% | (19,503) | (19,503) | - | \$25.68 | \$25.68 |
| Superstition Corridor | 2,438,625 | - | 12.7% | (42,200) | (42,200) | \$25.08 | \$17.95 | \$20.85 |
| Tempe | 9,050,163 | 380,115 | 11.3% | 167,969 | 167,969 | \$38.98 | \$27.87 | \$31.73 |
| Tempe South/Chandler | 5,442,620 | - | 15.3% | (35,457) | (35,457) | \$28.72 | \$16.68 | \$19.54 |
| West Phoenix | 731,671 | - | 6.8% | 17,007 | 17,007 | \$27.47 | \$25.00 | \$26.00 |
| Suburban Total | 78,396,930 | 1,960,226 | 16.9% | 39,377 | 39,377 | \$31.86 | \$21.88 | \$26.55 |
| Market | 94,754,376 | 1,960,226 | 17.5% | 58,320 | 58,320 | \$31.58 | \$22.77 | \$26.66 |

Economic Overview

After the record unemployment high of 12.5% in April 2020, Phoenix's unemployment rate has lowered to February 2021's 6.7%. Unemployment numbers have gone up and down since the onset of the pandemic, closely tied to the number of COVID-19 cases within the metro. For some time, Phoenix was recovering faster than the nation, but since October 2020, it has stayed slightly higher than the national unemployment rate. Since April 2020, there has been a net total of 196,406 jobs added, with the top two sectors being leisure and hospitality, along with trade, transportation and utilities. New office jobs total a net of 52,300 jobs, nearly 30% of the overall new jobs. Over 25% of the metro had received the first dose of two for the COVID-19 vaccine by the end of March 2021. As the vaccine fully rolls out, more employees returning to the workplace in person, it is expected that more jobs may be needed in coming months as the economy recovers.

Employment by Industry

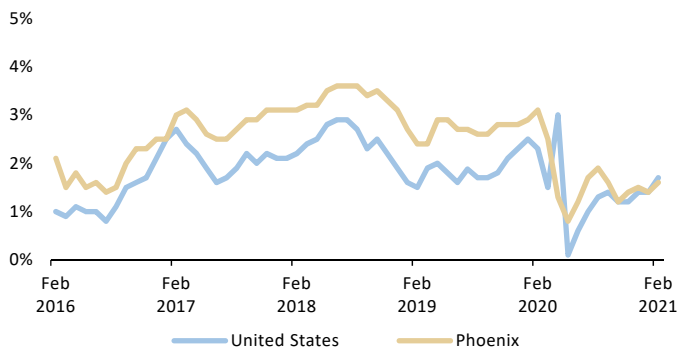
PHOENIX, 2020 ANNUAL AVERAGE



Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)

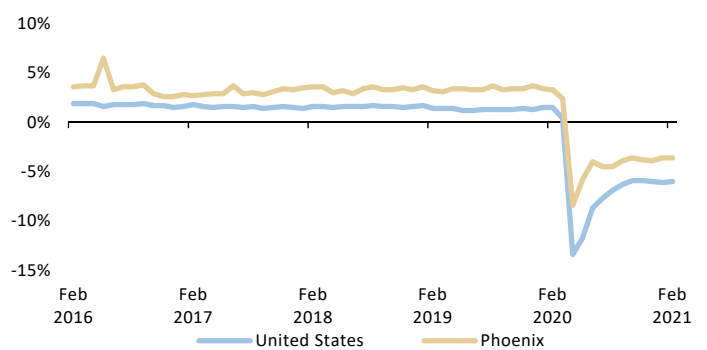
ALL ITEMS, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Payroll Employment

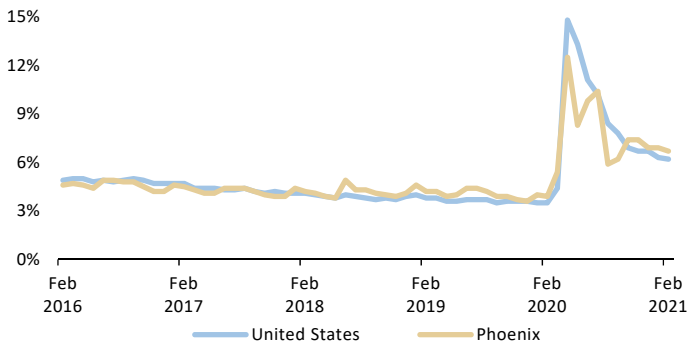
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Unemployment Rate

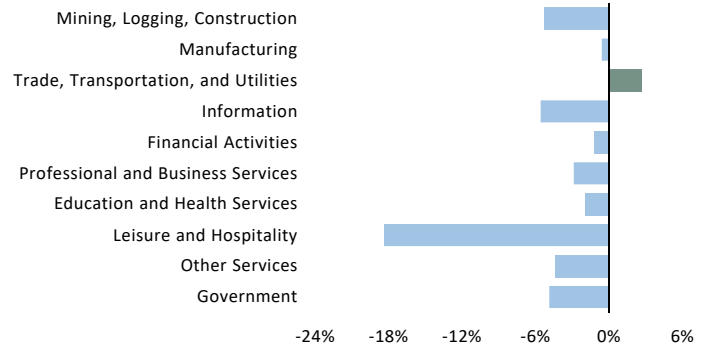
NOT SEASONALLY ADJUSTED



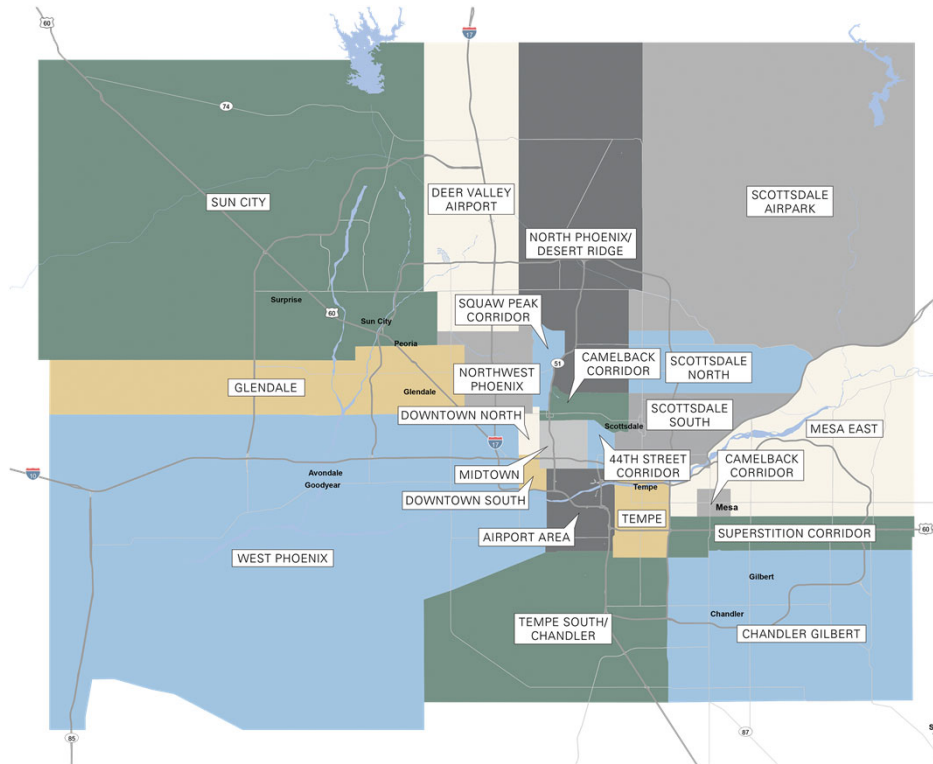
Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry

PHOENIX, FEBRUARY 2021, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics



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