2Q23

Phoenix Office Market Overview

Market Observations

Economy

- Phoenix's labor market remains strong, with a 3.3% unemployment rate in May 2023. This is lower than the U.S. average of 3.7%.
- Education and health services led local employment sectors in job gains over the past 12 months, with information and other services seeing the biggest losses.
- Overall office-occupying employment decreased recently due to difficulties arising in the financial activities sector. The big question for the metro is to what degree global layoffs at large tech firms, such as Google, Meta and Amazon, impact local jobs.

Leasing Market Fundamentals

- Office occupancy in the first half of 2023 contracted by 500,727 SF. Net absorption losses have slowed in recent quarters but are expected to continue in the second half of this year and into 2024.
- Under-construction space has trended down sharply since 2020. Hybrid work models and rising sublet availability are factors in deterring developers from the office market.
- Vacancy and asking rents both increased year over year. Vacancy grew to 21.8%, with only 82,272 SF of new product coming online in the first half of the year.

Major Transactions

- Large office users Amkor Technologies, Paradox and Uber all recommitted to substantial leases in the second quarter of 2023.
- Vanguard took a 136,345-SF full-building sublease off market in Scottsdale North/Airpark submarket, while Kimley-Horn signed to make the move into Camelback Arboleda for nearly 80,000 SF.
- Overall leasing volume in the second quarter of 2023 was on par with the second quarter of 2022. While leasing activity is down compared to pre-pandemic totals, it is more stable relative to other metros in the Southwest region.

Outlook

- Uncertainty reigns in the macroeconomic outlook. Occupiers and investors alike will approach deals with greater caution as a result, which will impact leasing and sales activity.
- Market vacancy will increase further as lease expirations occur and tenants continue the trend of renewing and/or leasing at smaller footprints.
- Ever-softening leasing conditions in the quarters ahead will pressure landlords to lower their asking rents. This is especially true for sub-trophy buildings.
- Phoenix remains an attractive locale for both local and out-of-state office users due to its strong economic fundamentals in population growth, diversified economic sectors and a highly educated workforce.

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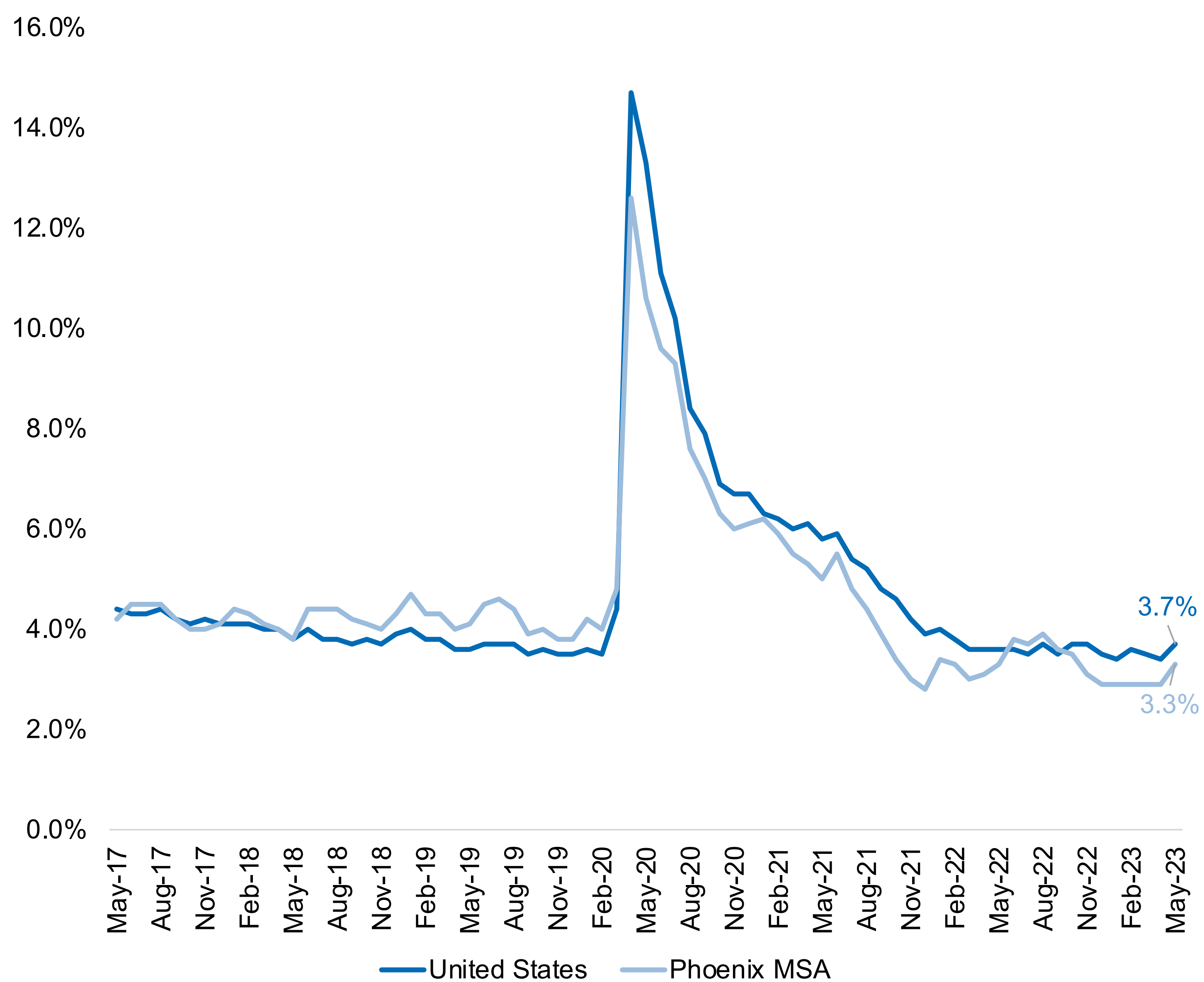
Economy

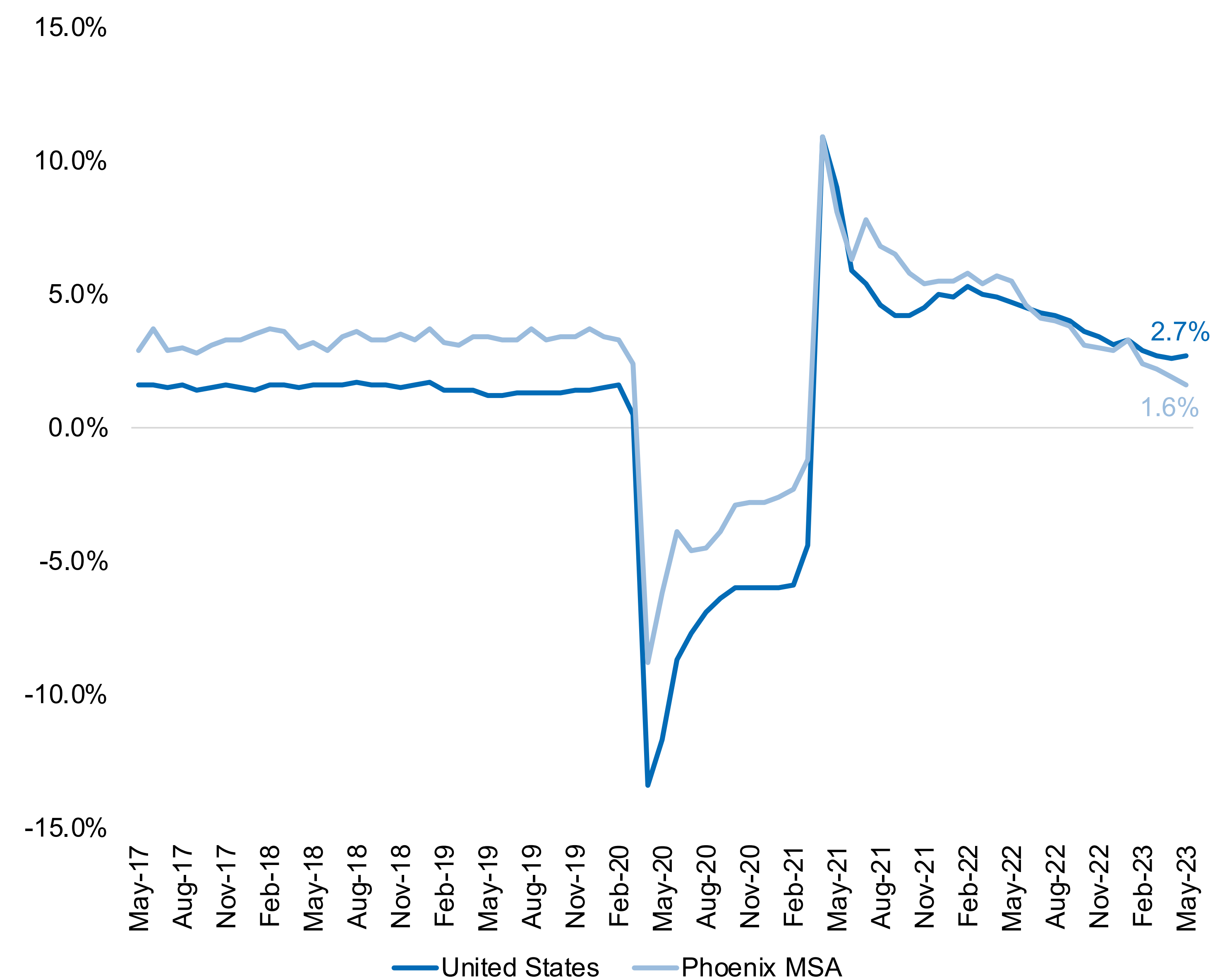
Phoenix Metro Labor Market Stabilizes

Phoenix's unemployment rate was below the national average in May 2023, averaging 3.3% relative to 3.7% for the U.S. Overall local job growth has slowed down but remains in the positive for now as companies adapt to softening economic conditions.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

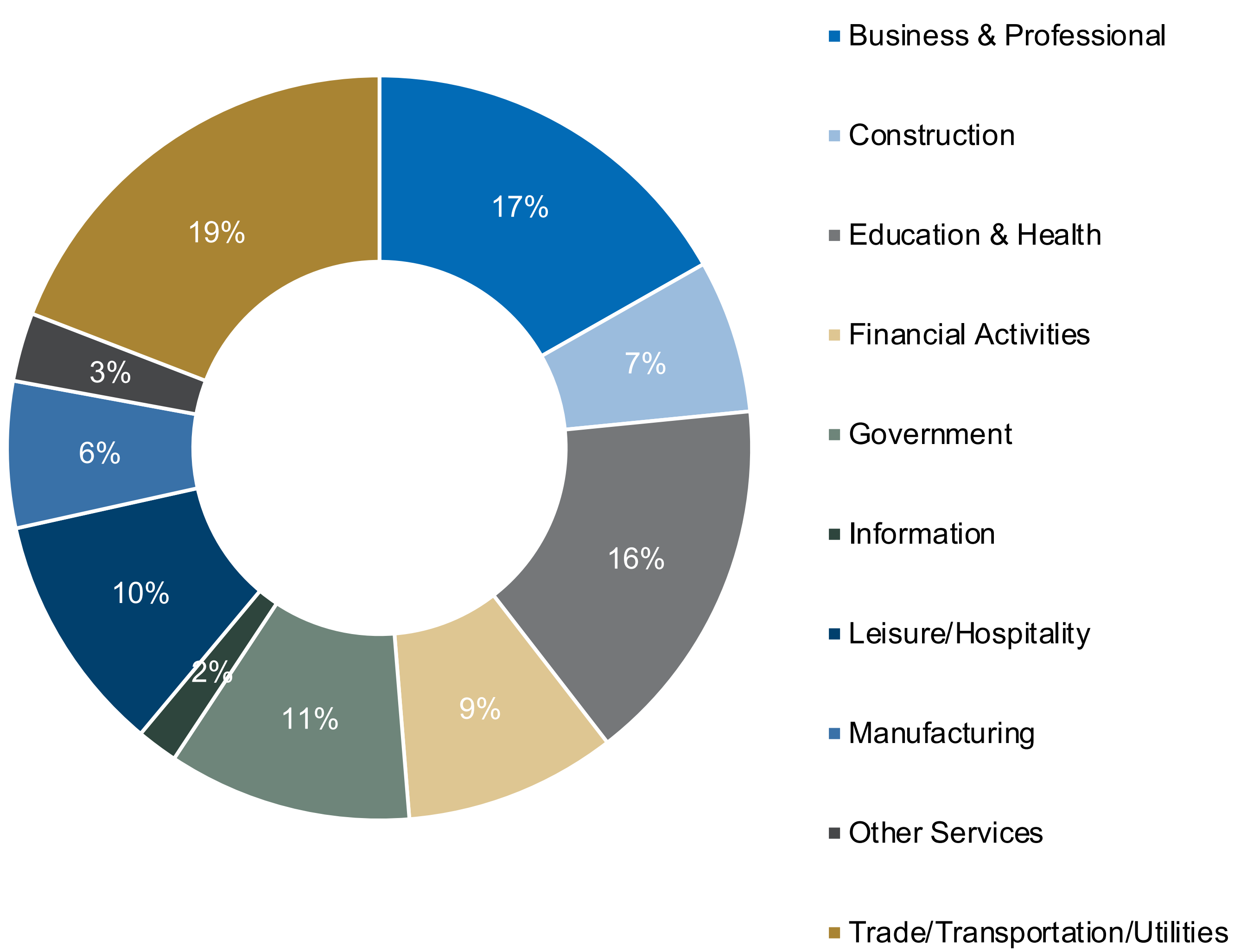


Source: U.S. Bureau of Labor Statistics, Phoenix MSA

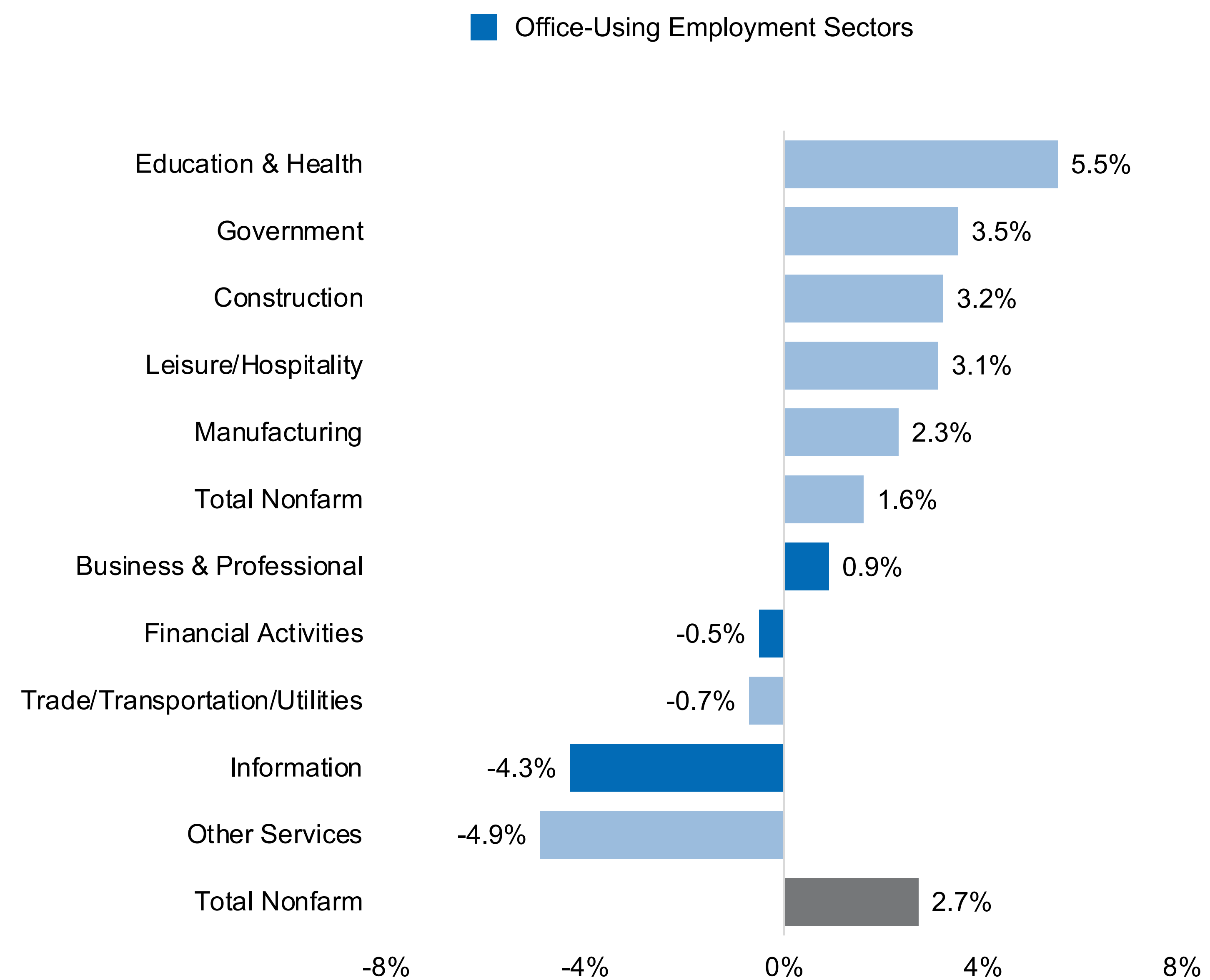
Strong Job Growth in Already Strong Sectors for the Metro

Education and health led all industries in annual job growth, followed closely by government and construction. Sizeable population growth in recent years supports the first two segments, while construction remains elevated on account of historic industrial development in the region. Information and financial activities, both of which are office-using employment sectors, contracted amid still-high interest rate hikes and company cost-cutting initiatives.

Employment by Industry, May 2023



Employment Growth by Industry, 12-Month % Change, May 2023

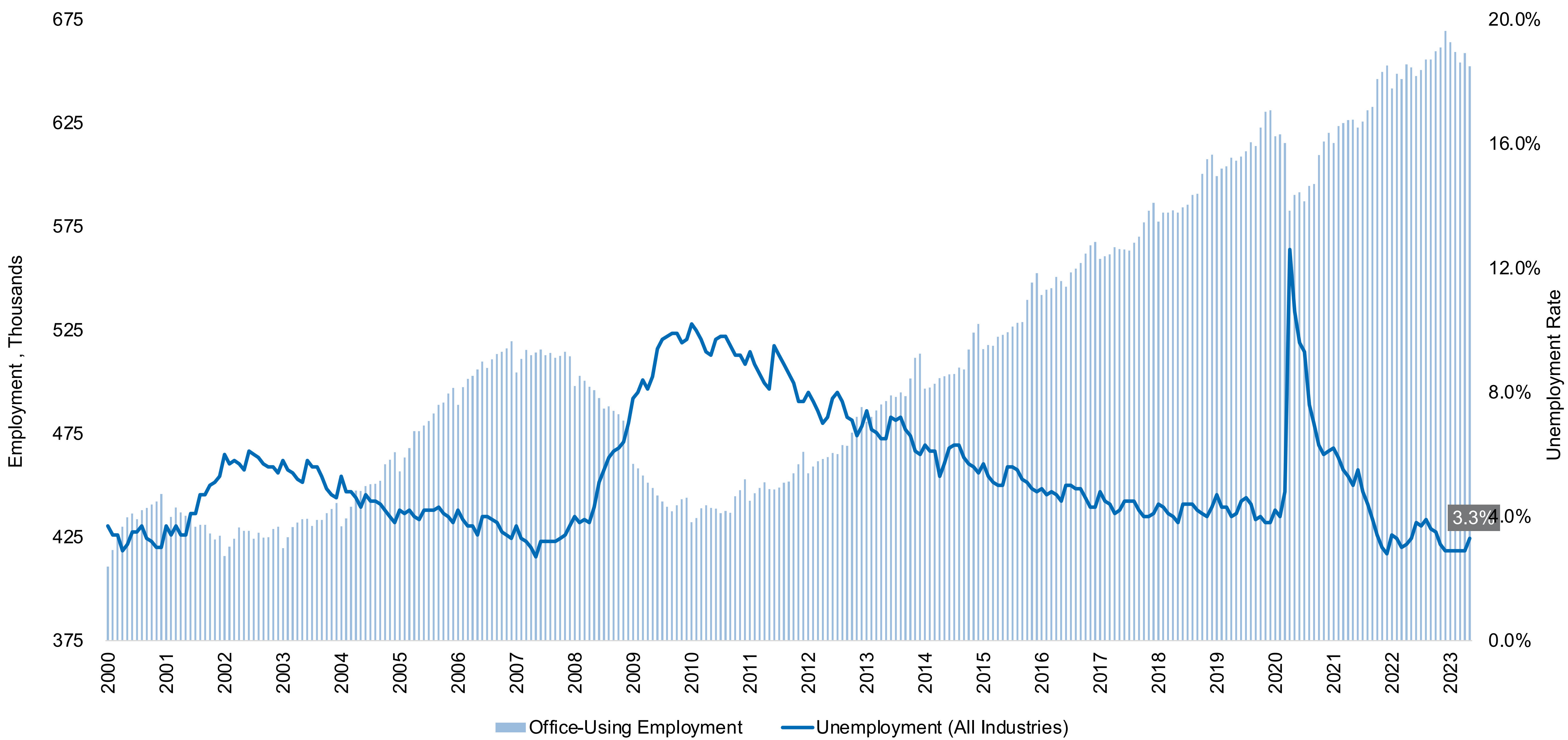


Source: U.S. Bureau of Labor Statistics, Phoenix MSA

Overall Office-Using Employment Near a Peak High

Office-using employment totaled 652,600 jobs in May 2023, 5.3% higher than the market's pre-pandemic total from February 2020. Although white-collar employment remains healthy, there have been modest declines since December 2002 due to reductions in the financial activities sector, a sector that presently accounts for 19.0% of Phoenix's employment.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Phoenix MSA
Note: May 2023 data is preliminary.
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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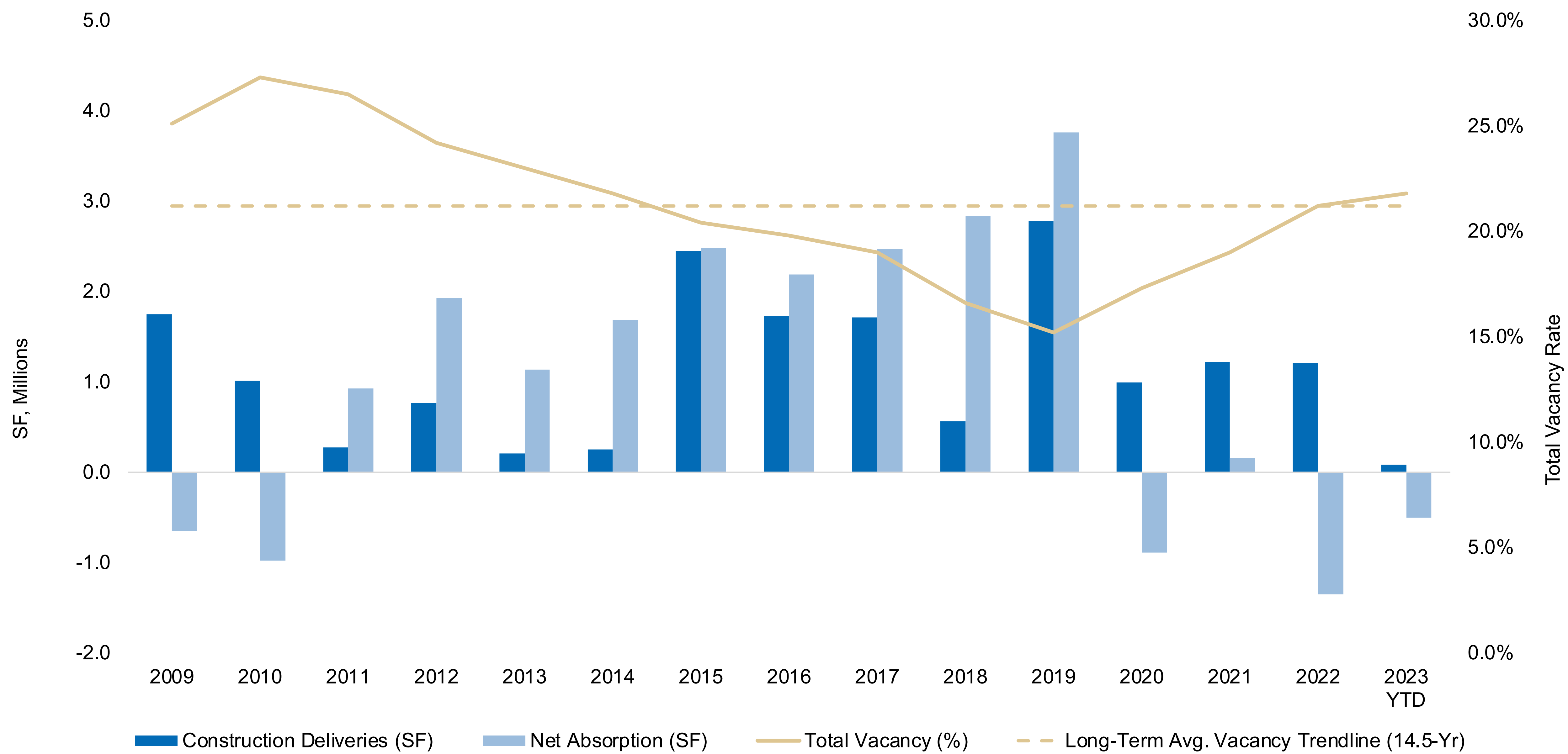
Leasing Market Fundamentals

Rising Vacancy and Negative Net Absorption Velocity Slows Down

Although current vacancy (21.8%) is higher than the metro's 14.5-year average (21.2%) for the first time since 2014, space givebacks in in the first half of 2023 were less pronounced compared with the second half of 2022. It would be safe to assume the market is stabilizing if this trend persists in the quarters ahead.

Historical Construction Deliveries, Net Absorption, and Vacancy

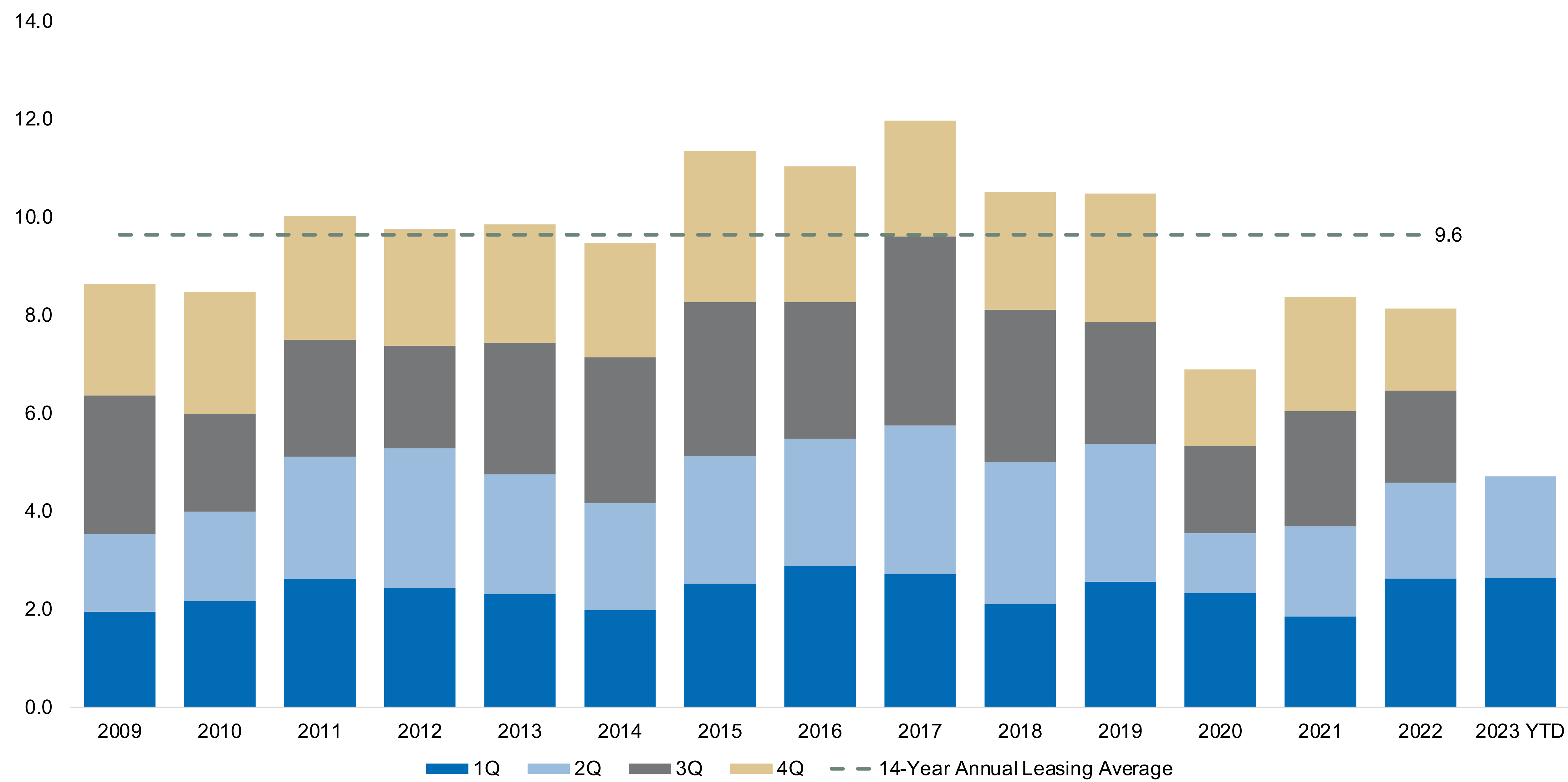


Source: Newmark Research

Leasing Activity Keeping Pace with 2022

Leasing activity in the first half of 2023 remained even with 2022, which was not the case in other Southwest metros. Larger leases signed by Vanguard, Amkor Technology and others helped to push leasing transactions' square footage volume upwards in the second quarter of 2023. Based on current tenant demand and size requirements, leasing activity in 2023 will likely mirror the totals of 2021 and 2022.

Total Leasing Activity (MSF)

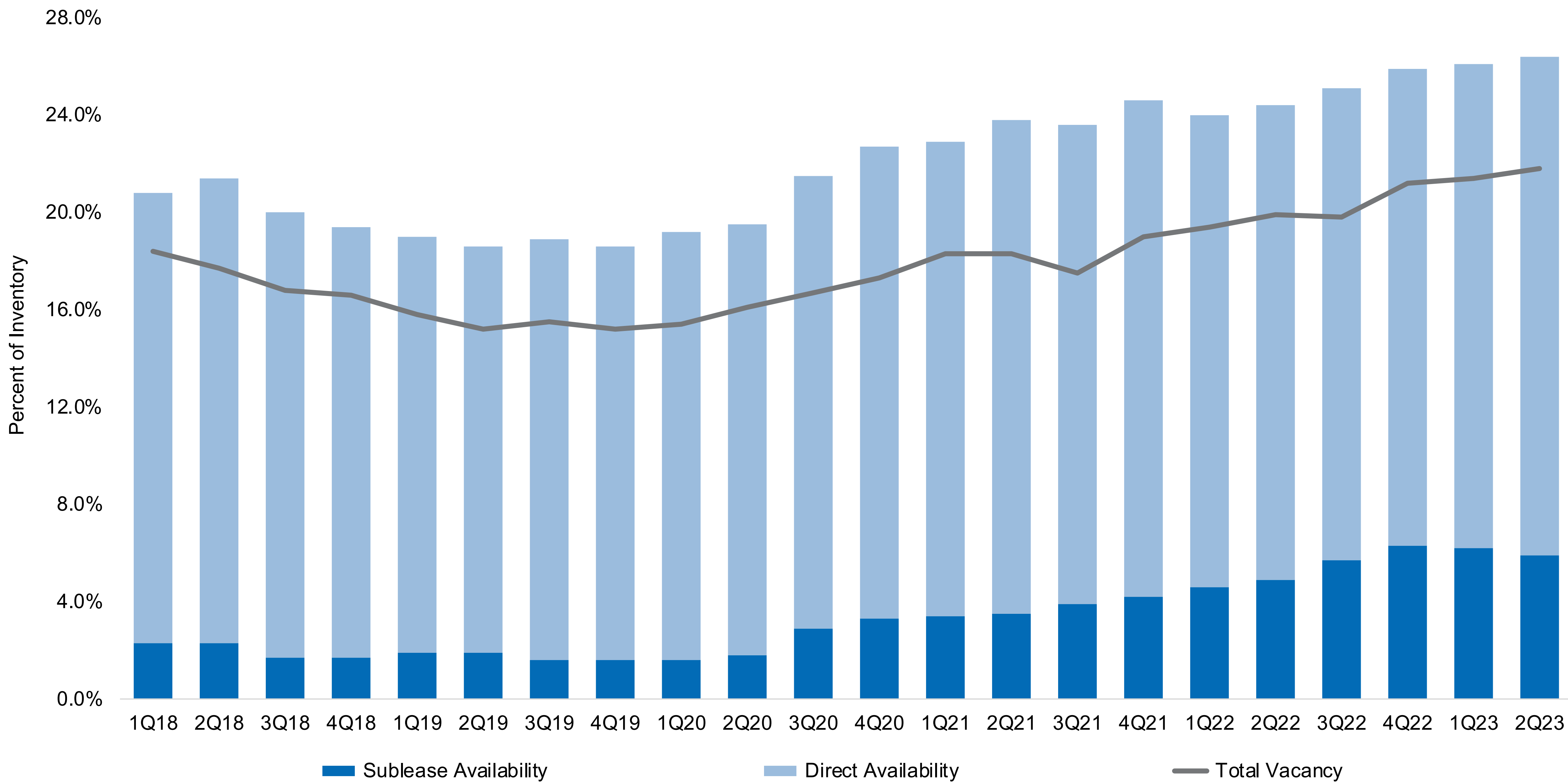


Source: Newmark Research

Availability Continues to Increase; Sublease Space Decreasing

From the onset of the pandemic until the end of 2022, sublease availability saw steady increases as tenants decided to reduce footprints for a multitude of reasons, including hybrid work models and general cost-saving measures. Sublease space has decreased over the last two quarters which can be attributed to fewer listings hitting the market, as well as some moving over to direct availability, while total availability and vacancy increase.

Available Space and Total Vacancy as Percent of Overall Market

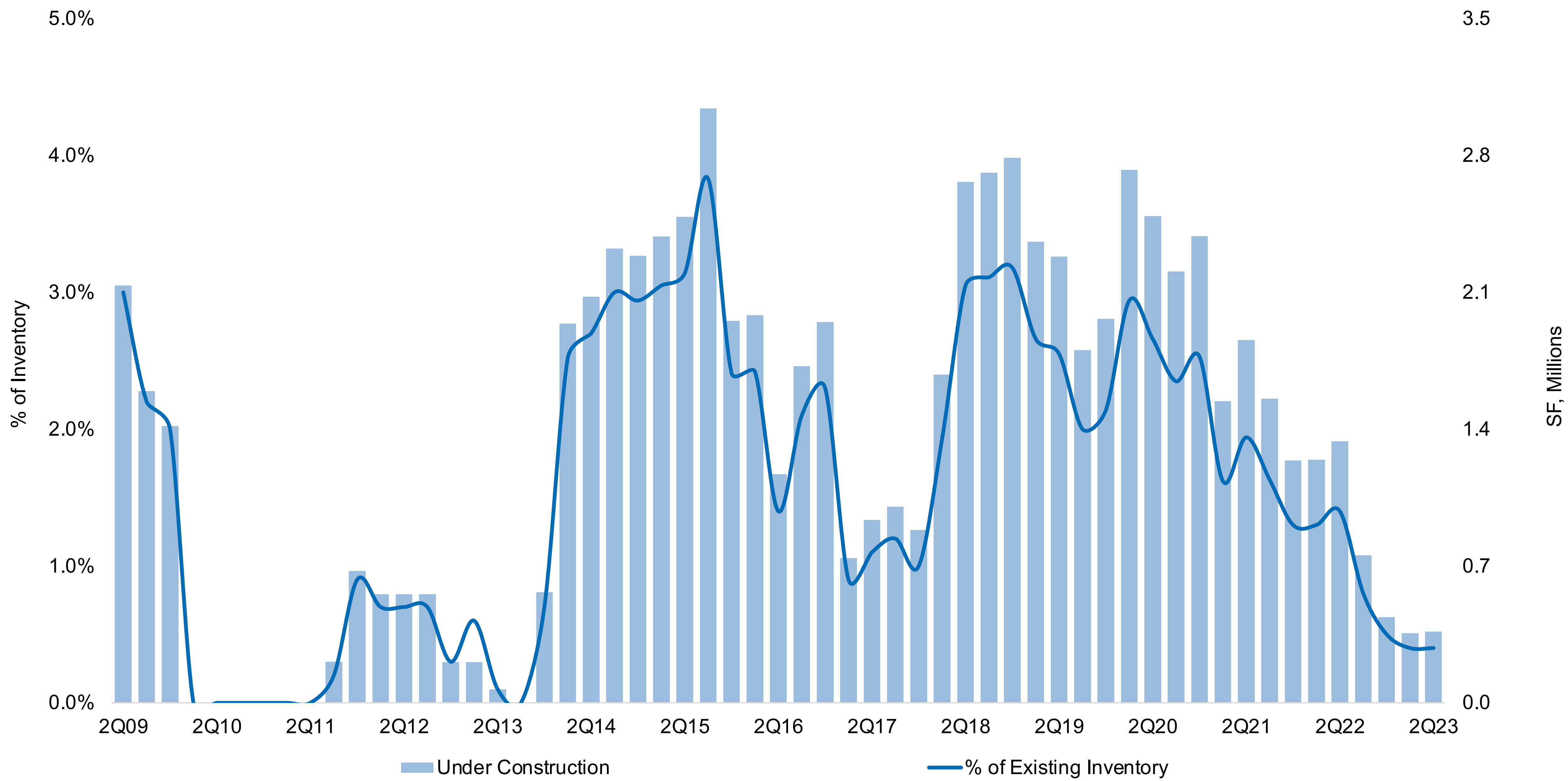


Source: Newmark Research

Deliveries Dwindle with No Notable Construction Starts in 2023

Hybrid work models, sublet availability and measured tenant demand relative to pre-pandemic averages caused a sharp reduction in office under-construction activity since 2020. Less than 500,000 square feet is presently underway.

Office Under Construction and % of Existing Inventory

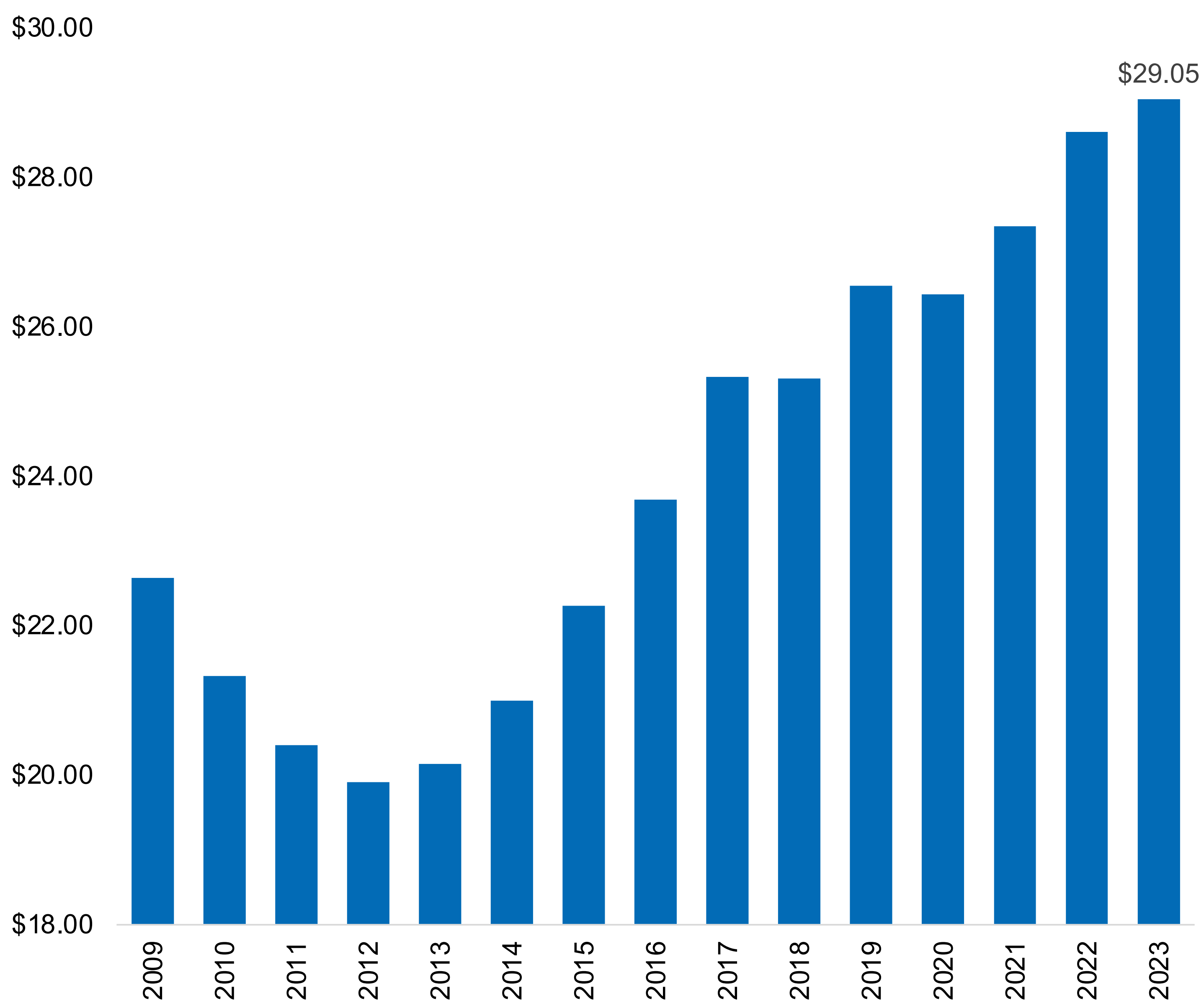


Source: Newmark Research

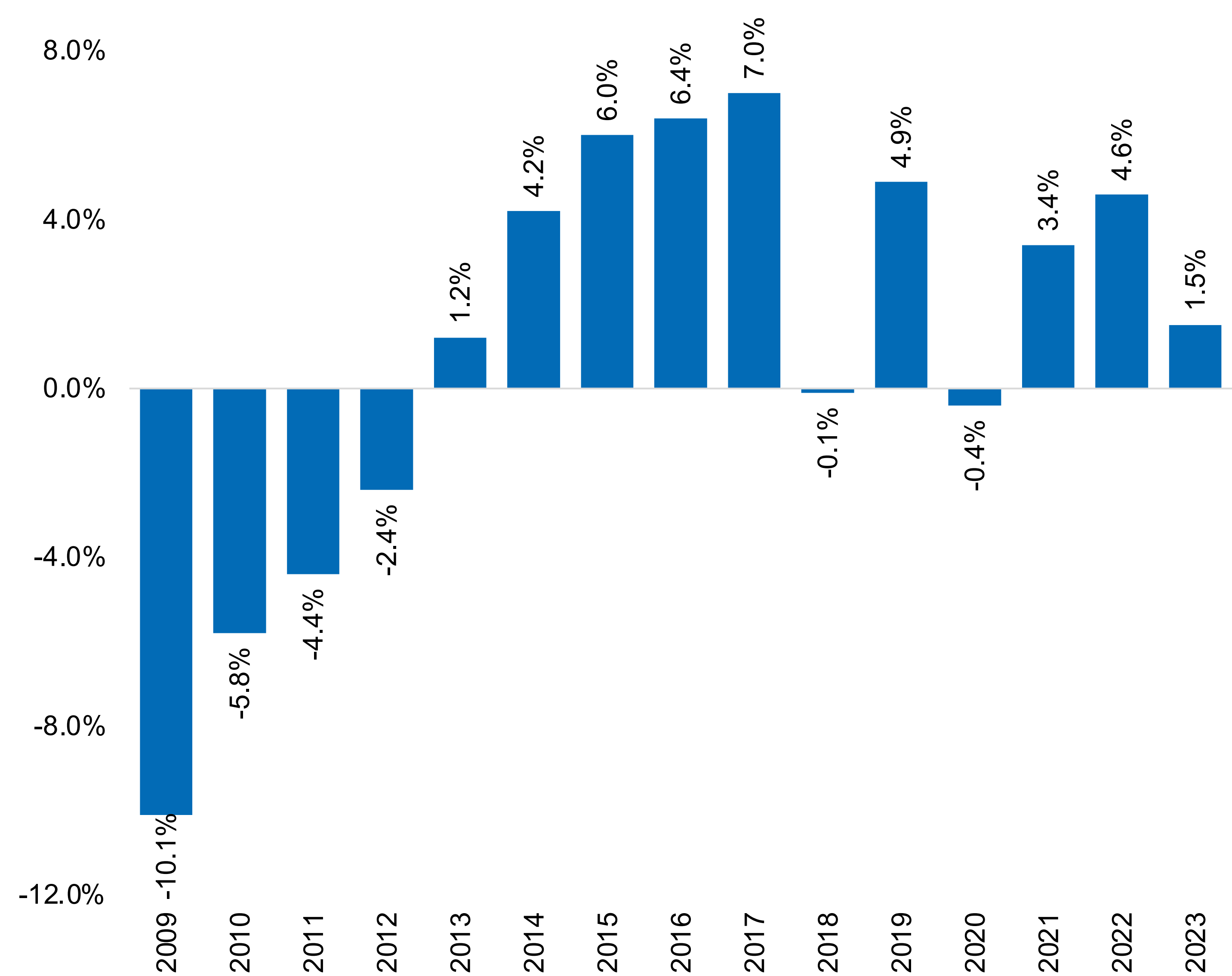
Asking Rents Continue to Climb for Now

Despite increasing vacancy, overall asking rates increased this quarter and hit a new record of $29.05/SF. Landlords are holding rates for direct space, preferring to offer more concessions and tenant improvement allowances to attract and retain tenants in recent quarters than what was offered pre-pandemic.

Office Average Asking Rent, $/SF/Year, FS



Year-over-Year Asking Rent Growth Rate

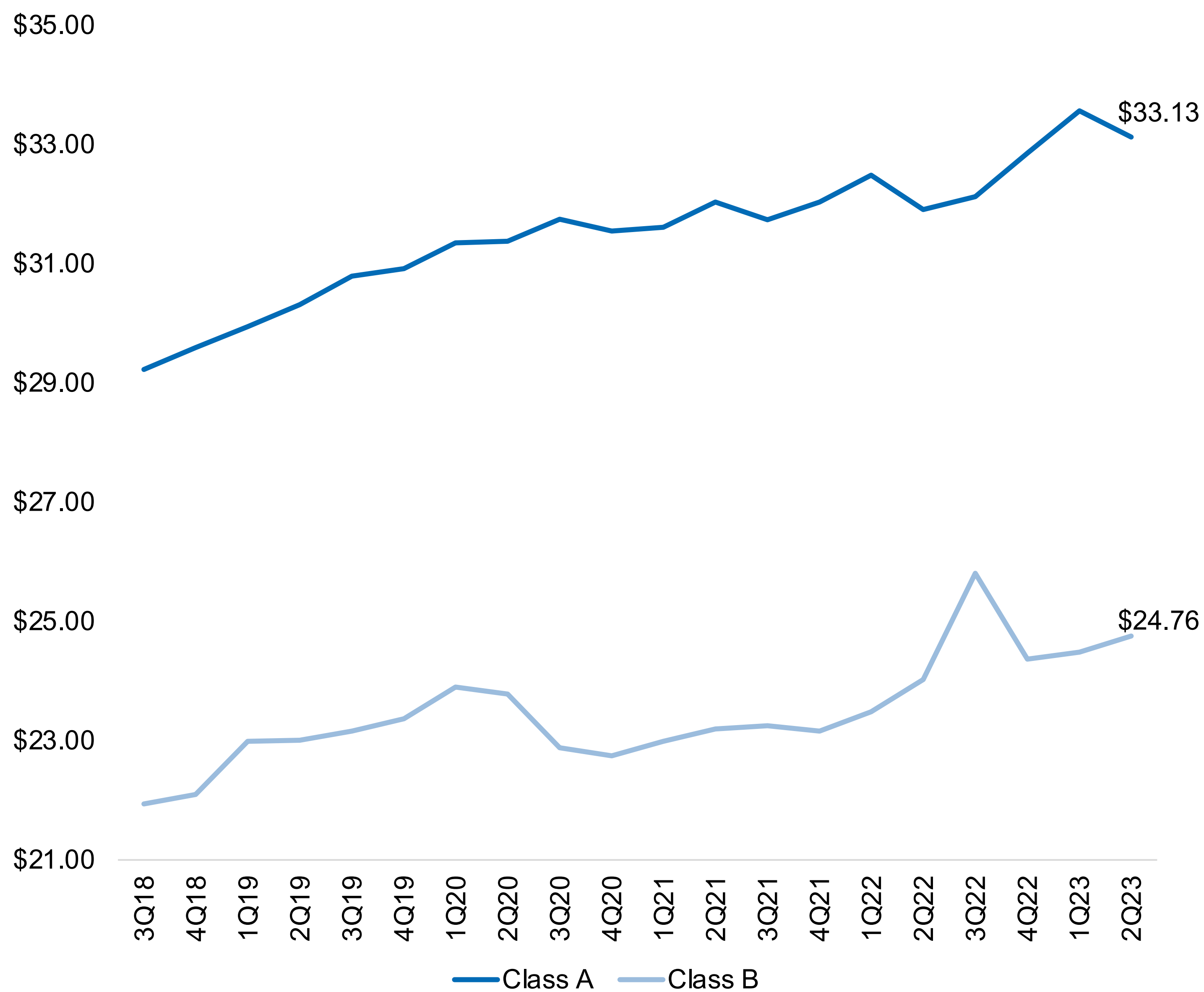


Source: Newmark Research

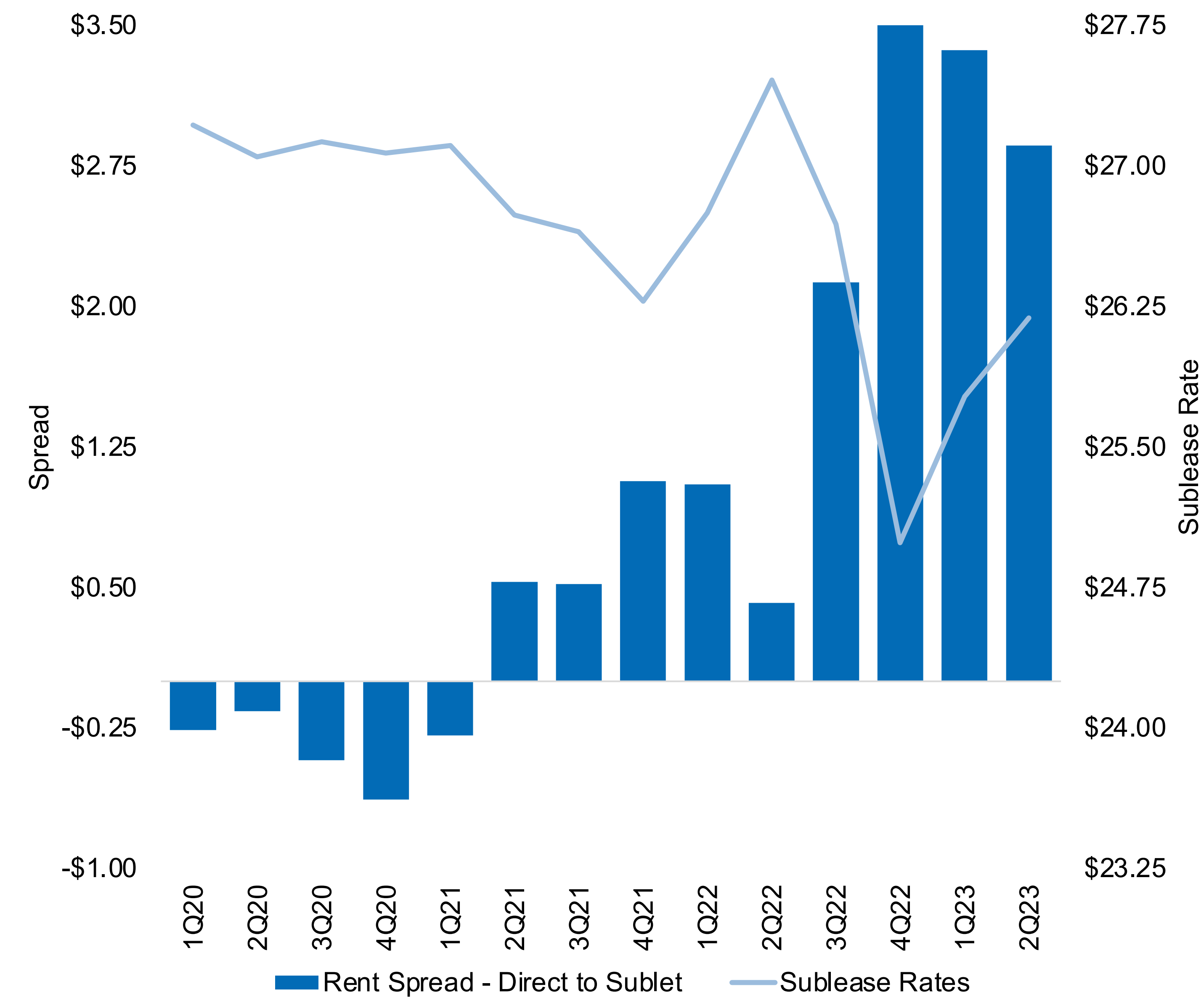
Asking Rents March On

Although overall asking rents are still increasing, Class A rents saw a dip the first half of 2023, heavily influenced by a handful of larger Class A subleases that leased at lower rates than current direct asking rates. In turn, although sublease space is historically leased at a discount relative to direct space, some sublessors are increasing asking rents, causing the rent delta between direct and sublet space to narrow in recent quarters.

Class A and Class B Asking Rents, $/SF/Month, FS



Sublease Asking Rates



Source: Newmark Research

Major Tenants Recommit to Staying in Phoenix Metro

Larger tenants such as Amkor Technology, Paradox and others all made the move to renew or extend current leases. With high population growth, strong economic diversity and a highly educated workforce, Phoenix remains a strong location for many office users to conduct business.

Notable 2Q23 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Vanguard	Northsight Corporate Center	Scottsdale North/ Airpark	Sublease	136,345
Vanguard took over a full-building plug-and-play sublease in the Northsight Corporate Center.				
Amkor Technology, Inc.	Ryan at ASU Research Park	Tempe South/ Chandler	Lease Extension	97,504
Deciding to stay in place, Amkor Technology extended its lease in the ASU Research Park.				
Kimley-Horn	Camelback Arboleda	Camelback Corridor	Direct Lease	78,668
Planning and consulting firm, Kimley-Horn signed in the second quarter of 2023 with plans to move into the Camelback Corridor once TI's are completed by beginning of 2024.				
Paradox	The Quad	Scottsdale South	Lease Renewal	46,174
The Quad kept Paradox, an AI company, as a tenant for another term in Scottsdale.				
Uber	201 East Washington Street	Downtown South	Lease Renewal	42,860
Popular rideshare company, Uber, renewed to stay in downtown Phoenix for another term.				

Source: Newmark Research

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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

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