



Phoenix Office Market

Net Absorption Finishes 2021 in the Black, While Investors were Active

Although the Phoenix Metro office market ended 2021 with a soft fourth quarter, overall market fundamentals indicate a strong recovery, given heightened tenant activity and investor demand. Asking rents continued to climb, sale transaction volume is up 89.9% year-over-year and construction starts and deliveries remained strong throughout the fourth quarter of 2021.

After dropping in the first nine months of the year, total vacancy moved upwards in the fourth quarter of 2021 to 18.9%, 140 basis points higher than the third quarter. Two large factors played into the sudden increase of vacancy: the delivery of Allred 7 & 8, totaling 300,000 square feet and unoccupied at completion, and the departure of Chase Bank from Downtown South for over 600,000 square feet. Chase Bank has been slowly transitioning its operations to its new campus in Tempe over the past year, but the official lease expiration returned a large block of space to the market, hitting both vacancy and net absorption in a big way this quarter. Despite negative net absorption in the fourth quarter, 2021 finished with positive net gains of 252,287 square feet across the Metro, a welcome change from 2020's negative 888,575 square feet. Overall sublease availability stabilized in the second half of 2021 with fewer new subleases entering the market as more companies have finalized office use plans for the near future.

Following the national trend, new construction starts in Phoenix have slowed but are still occurring at a measured pace. Over 1.2 million

Current Conditions

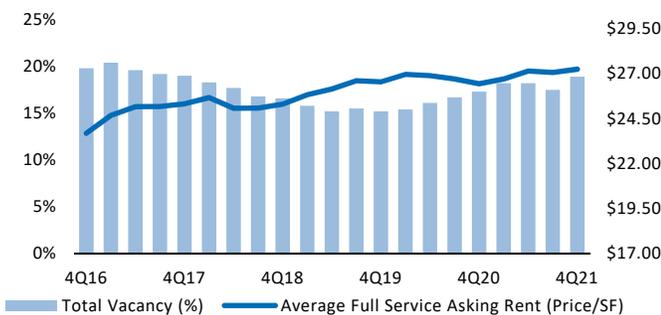
- Over 400,000 square feet delivered this quarter, with a total of 1.2 million square feet of construction underway.
- The Phoenix office market recorded 926,710 square feet in net absorption losses this quarter, heavily influenced by the official departure of Chase Bank from Downtown South after already settling slowly into Tempe during the past year.
- While vacancy moved from 17.5% to 18.9% quarter-over-quarter, the average asking rent increased \$0.18/SF over the same period to \$27.25/SF. Current rent is up 3.1% year-over-year.

Market Summary

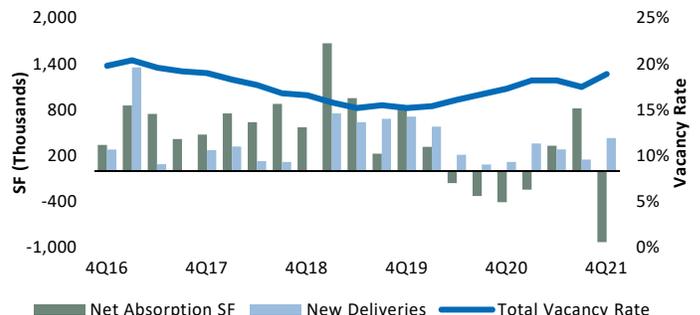
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory	96.0MSF	95.6 M SF	94.3 M SF	↑
Vacancy Rate	18.9%	17.5%	17.3%	↓
Quarterly Net Absorption (SF)	(926,710)	818,732	(407,430)	↑
Average Asking Rent/SF	\$27.25	\$27.07	\$26.44	↑
Under Construction (SF)	1,239,964	1,555,638	2,386,772	↓
Deliveries (SF)	430,000	150,000	117,394	→

Market Analysis

ASKING RENT AND TOTAL VACANCY RATE



NET ABSORPTION SF, DELIVERED SF AND TOTAL VACANCY RATE



RESEARCH Q4 2021

square feet of Class A product was underway at quarter-end, largely concentrated in Tempe (470,516 square feet), Scottsdale (277,054 square feet) and the Camelback Corridor submarket (263,766 square feet). Barring any construction delays, nearly 3/4 of the square footage currently under construction is expected to deliver in the first half of 2022. Developers will be keeping a keen eye on how the new deliveries are absorbed by the market as they decide when and where to bring new projects online within the Metro.

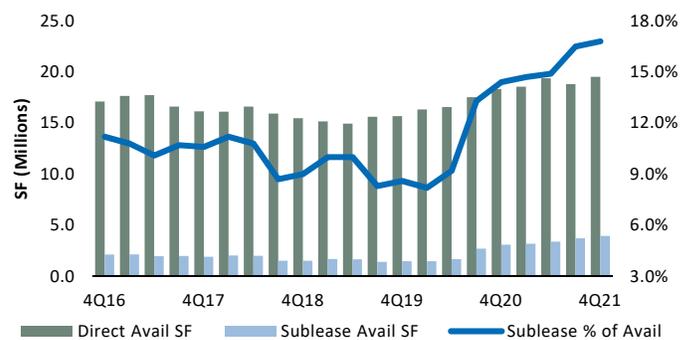
A selection of this quarter's larger leases include Mr. Cooper Group recommitting to 94,022 square feet in the Continuum Business & Technology Park in the Chandler/Gilbert submarket; Banner Health leasing 70,000 square feet in the under construction development, The Grove, in Camelback Corridor; and Cenlar FSB extending its lease of 65,580 square feet in the Tempe South/Chandler. Progress Residential renewed 52,199 square feet in Riverwalk Arizona and Morgan Stanley took 48,624 square feet in The Commons at Rivulon-D in a direct new deal located within the Chandler/Gilbert submarket.

Notable Under Construction Projects		
Building/Project Name	Submarket	SF
100 Mill	Tempe	286,990
The Grove	Camelback Corridor	263,766
Scottsdale Entrada	Scottsdale South	245,000
GSQ	West Phoenix	228,628
The Beam on Farmer	Tempe	183,526

While medical office and life science are a hot commodity among investors globally at this time, with Phoenix's healthcare strength benefitting from such attention, the traditional office market is seeing reinvigorated interest and sale transaction volume grow each quarter as 2021 progressed. Despite experiencing negative net absorption this year, buyers still saw potential within the Downtown South submarket, with City Office REIT purchasing Block 23 at CityScape for \$150.0 million and the City of Phoenix acquiring the Wells Fargo Plaza for \$46.5 million, with plans to use the location to home dispatch, police and other city services. Hines sold the Offices at Chandler Viridian to an institutional buyer, Macquarie Group, for \$102.0 million. Despite industrial and multi-family product being the preferred asset type in this economic environment, some investors chasing yield are looking to top-quality office product to place capital due to historically low cap rates among other asset types.

Availability Overview

SUBLEASE V DIRECT AVAILABLE SF AND SUBLEASE AS % OF AVAILABILITY



Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Mr. Cooper Group	Continuum Business & Technology Park	Chandler/Gilbert	Renewal	94,022
Banner Health	The Grove	Camelback Corridor	Direct New	70,000
Cenlar FSB	Plumwood – A	Tempe South/Chandler	Extension	65,580
Progress Residential	Riverwalk Arizona – N	Scottsdale Central	Renewal	52,199
Morgan Stanley	The Commons at Rivulon – D	Chandler/Gilbert	Direct New	48,624

Select Sale Transactions

Building Address	Submarket	Sales Price	Price/SF	Square Feet
Block 23 at CityScape – 101 E. Washington St.	Downtown South	\$150,000,000	\$488.55	307,030
The Offices at Chandler Viridian – 3133 W. Frye Rd.	Chandler/Gilbert	\$102,000,000	\$406.97	250,630
Kierland One – 16430 N. Scottsdale Rd.	Scottsdale North/Airpark	\$58,000,000	\$330.34	175,577
Norterra West 2 – 25800 N. Norterra Pkwy.	Deer Valley/Airport	\$48,500,000	\$334.94	144,802
Wells Fargo Plaza – 100 W. Washington St.	Downtown South	\$46,500,000	\$98.25	473,286

RESEARCH Q4 2021

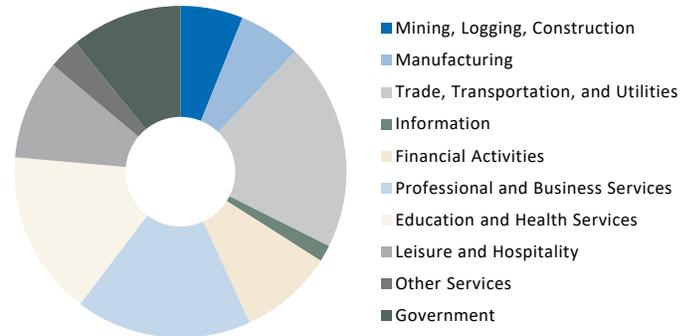
Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Average Asking Rent (Price/SF)
Downtown North/Midtown	8,961,307	-	22.5%	(63,893)	27,369	\$26.79	\$22.36	\$23.66
Downtown South	7,421,472	-	27.2%	(649,632)	(635,130)	\$32.08	\$28.60	\$30.14
CBD Total	16,382,779	-	24.6%	(713,525)	(607,761)	\$29.80	\$25.51	\$27.02
44 th Street Corridor	3,065,350	-	14.9%	(25,996)	18,239	\$29.01	\$24.81	\$27.83
Airport Area	8,050,001	-	18.4%	(70,323)	102,241	\$29.22	\$17.32	\$19.04
Camelback Corridor	6,757,473	263,766	20.1%	(8,158)	(148,072)	\$38.23	\$29.84	\$35.89
Central/East Phoenix	1,062,467	-	8.6%	9,840	3,431	-	\$24.95	\$22.64
Chandler/Gilbert	7,171,225	-	21.17%	(70,858)	234,310	\$32.23	\$25.55	\$30.69
Deer Valley Airport	5,833,723	-	23.4%	13,098	73,841	\$27.58	\$17.74	\$22.58
Glendale	975,258	-	15.6%	(15,082)	(28,694)	\$24.50	\$16.87	\$18.65
Mesa Downtown	280,039	-	17.3%	1,707	9,628	-	\$21.93	\$21.93
Mesa East	875,374	-	30.5%	267,059	(150,000)	\$38.14	\$19.56	\$37.08
N Phoenix/Desert Ridge	2,529,626	-	9.4%	(57,940)	(18,553)	\$29.60	\$22.84	\$27.78
Northwest Phoenix	4,482,197	-	31.5%	19,023	(68,240)	\$25.25	\$20.10	\$21.92
Piestewa Peak	2,084,221	-	15.9%	11,092	62,394	\$29.31	\$25.33	\$25.33
Scottsdale Central	5,269,753	-	14.9%	(106,475)	(69,820)	\$25.67	\$27.69	\$28.25
Scottsdale North/Airpark	8,876,212	32,054	15.4%	25,809	562,341	\$32.63	\$28.23	\$31.35
Scottsdale South	3,845,526	245,000	18.8%	102,397	(45,518)	\$38.20	\$32.40	\$36.27
Sun City	709,669	-	8.2%	3,771	5,150	-	\$27.74	\$27.74
Superstition Corridor	2,438,625	-	10.0%	46,584	24,259	\$25.40	\$19.02	\$20.88
Tempe	9,147,225	470,516	12.6%	29,444	132,808	\$40.21	\$27.24	\$32.01
Tempe South/Chandler	5,442,690	-	17.5%	28,011	(20,248)	\$30.36	\$17.26	\$21.93
West Phoenix	744,121	228,628	5.8%	871	24,890	\$28.54	\$25.00	\$24.66
Suburban Total	79,640,775	1,239,964	17.7%	(213,185)	860,048	\$32.51	\$22.15	\$27.32
Market	96,023,554	1,239,964	18.9%	(926,710)	252,287	\$32.00	\$23.05	\$27.25

Economic Overview

Phoenix's unemployment rate hit a historical low, coming in at 2.8% in November 2021, surpassing the Metro's pre-pandemic rate of 3.9% in February 2020. Year-over-year job growth occurred in every industry, excluding mining, logging and construction. Since April 2020, there has been a net total of 389,500 jobs added, with the heavily hit leisure and hospitality sector experiencing the highest employment percentage growth. New office jobs total a net of 105,800 jobs, just over 27% of the overall new jobs. Although the labor force participation rate for the Metro is still well below pre-pandemic numbers (sitting at 60.4% in November 2021 compared to 61.7% in February 2020), it has steadily stayed above the pandemic low of 59.9% since August 2020. Phoenix's labor shortage leaves 1.22 job openings available for each individual seeking work; companies will need to work hard to attract and retain talent.

Employment by Industry

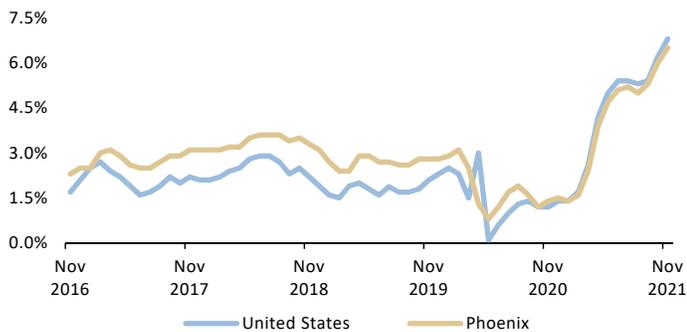
PHOENIX, 2020 ANNUAL AVERAGE



Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)

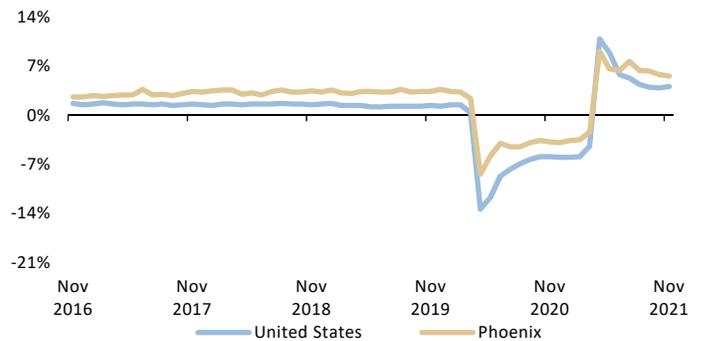
ALL ITEMS, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Payroll Employment

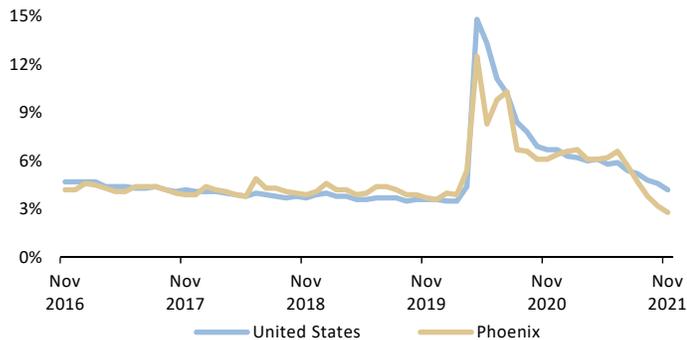
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Unemployment Rate

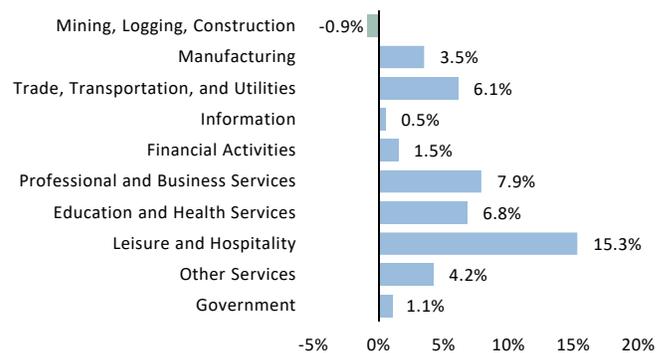
NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry

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



Source: U.S. Bureau of Labor Statistics

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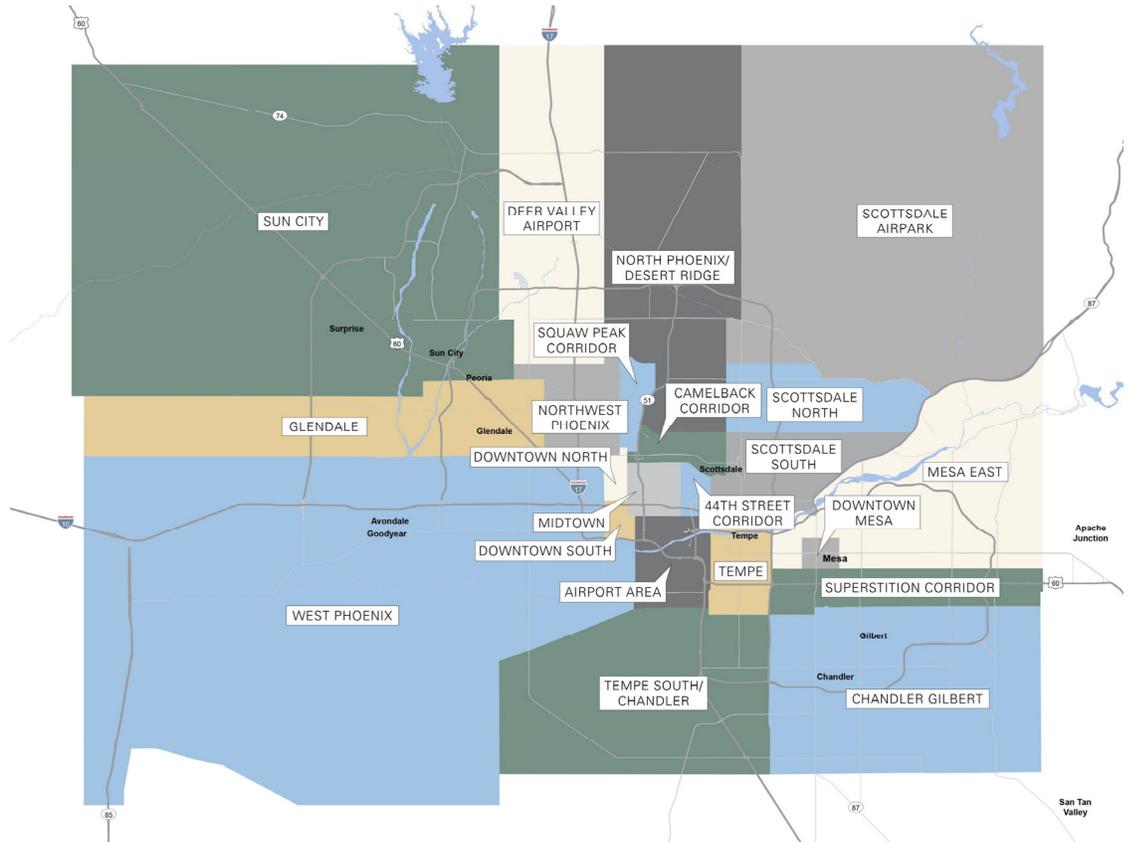
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