



NAI Horizon

3rd Quarter  
**2017**  
Office  
Market Report

### Time to Refresh, Renovate & Reenergize

Across the Valley in Class B office space, 1987 is the new 2017, if building owners choose to renovate to remain relevant in an increasingly competitive office leasing market.

Class B remains the story in Quarter 3. In Quarter 2 the segment led the office sector in absorption, vacancy reductions and the largest growth of the average rental rate per square foot. With total rentable building area (RBA) in Greater Phoenix standing at 88 million square feet, Class B is the big game in town, dwarfing Class A square footage by nearly 40 million square feet.

For Class B owners however, Quarter 3's negative absorption of 50,000 square feet conveys a distinct contrast and stark message...The time has arrived to refresh, renovate and reenergize properties. Turning tired and dated office buildings into fresh and modern spaces depends on both cosmetic makeovers: lighting upgrades, flooring and wall coverings; but also providing the amenities demanded by working professionals: open meeting areas, eatery options, energized common areas and technology infrastructure.

The reality for those owners who are resetting the clock, leasing transactions are occurring in a healthy and steady way, while those who are reluctant to transition what is old into new are seeing stagnation in activity. Most interesting, the time is advantageous for owners to undergo a facelift, as average rental rates in all Classes and submarkets once again moved higher from Quarter 2 levels, reaching \$24.45 a square foot and Class B specifically to \$22.61.

If Class B sets the tone and pace for the Greater Phoenix market, Class A drove the absorption story in Quarter 3, adding 215,000 square feet and allowing for a net positive, yet weak absorption of 30,000 square feet overall.

### OFFICE TRENDS



is accelerating, which may necessitate the need for Class B owners to upgrade their spaces to capture market share and deliver more cost effective options. This may already be underway, as Quarter 3 numbers indicate 237,000 square feet of Class B RBA under construction.

Catering though to the millennial workforce, Class A developers are continuing their building spree with

1.245 million square feet of RBA under construction in Quarter 3. Walkability, amenities and collaborative, novel and contemporary office settings dominate the market offerings. Tempe, Downtown, Camelback Corridor and Scottsdale South and Airpark submarkets remain robust with the highest average rental rates in the \$27-\$30 range.

With solid momentum, the Greater Phoenix office sector will persist in its upward trajectory of the past seven years. The pace and energy of the ongoing expansion however, will depend on how property owners adapt to the always changing office leasing landscape.

Class A also provided the only pushback to higher vacancy rates in Class B and C, by a reduction in premium office vacancy to 13.7% from 14.3% in Quarter 2. Overall, average vacancy held its Quarter 2 level of 16%.

In some submarkets, the spread between Class A and B

### ECONOMIC TRENDS



The Office Market is a compilation that includes Class A, Class B, and Class C buildings with at least 10,000 SF of space. Medical office buildings are included. Some information contained herein has been obtained from third party sources, including CoStar and the Bureau of Labor Statistics, deemed reliable but has not been independently verified by NAI Horizon. NAI Horizon makes no warranties or representations as to the completeness or accuracy thereof. NAI Horizon makes no guarantee about projections, opinions, assumptions or estimates. Occasionally corrected or updated information becomes available for both current and historical data thereby invalidating specific comparison to previously issued reports.

# Q3 2017

## OFFICE MARKET METRO PHOENIX

### Phoenix Market Snapshot

#### Market Overview

	Total RBA	Vacant SF	Vacant %	Net Absorption	RBA Delivered	RBA Under Construction	Average Rental Rate
CLASS A	49,056,285 SF	6,728,042	13.7%	215,024 SF	-	1,244,706 SF	\$28.85/SF
CLASS B	87,800,091 SF	15,276,680 SF	17.4%	(49,904) SF	38,382 SF	236,651 SF	\$22.61/SF
CLASS C	12,468,768 SF	1,873,082 SF	15.0%	(135,090) SF	-	-	\$17.60/SF
<b>TOTAL</b>	<b>149,325,144 SF</b>	<b>23,877,804 SF</b>	<b>16.0%</b>	<b>30,030 SF</b>	<b>38,382 SF</b>	<b>1,481,357 SF</b>	<b>\$24.45/SF</b>
Q2 2017	149,333,836 SF	23,916,526 SF	16.0%	577,666 SF	334,113 SF	1,061,268 SF	\$24.18/SF
Q1 2017	149,017,723 SF	24,178,079 SF	16.2%	1,002,585 SF	1,226,442 SF	1,006,522 SF	\$23.86/SF

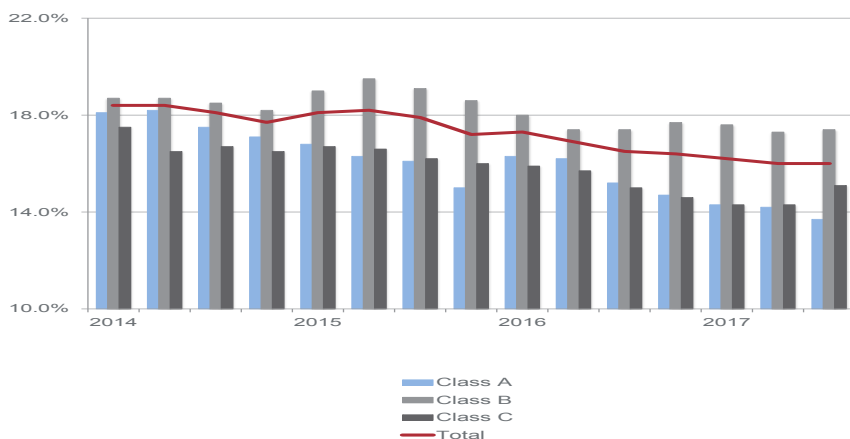
#### Significant Lease Transactions

Address	Tenant	Size	Class	Type
11101 W Washington St	MUFG Union Bank	173,055 SF	A	Move In
17500 N Black Canyon Hwy	Consumer Cellular	163,607 SF	B	Move In
2290 E Yeager Dr	Liberty Mutual	102,121 SF	A	Move In
2501 S Price Rd	Wells Fargo	81,896	B	Move In
1665 W Alameda Dr	Centene	60,000 SF	A	Move In

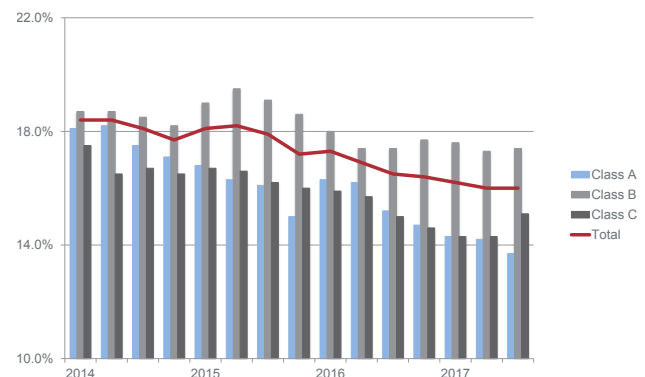
#### Significant Sale Transactions

Address	Date	Size	Class	Price
The Mesa Tower	08/28/2017	306,571 SF	A	\$23M (\$75.02/SF)
Seville Professional Center	09/20/2017	91,942 SF	A	\$22.4M (\$243.63/SF)
Perimeter Parkview Corp Ctr	09/25/2017	106,000 SF	A	\$20.65M (\$194.81/SF)

#### Office Vacancy Rates



#### Absorption & Deliveries



# Q3 2017

## OFFICE MARKET METRO PHOENIX

### Submarket Snapshot

Type	Total RBA	Total Vacant SF	Total Vacant %	Total Net Absorption	RBA Delivered	RBA Under Const.	Avg Rental Rate (FS)
44th Street Corridor	3,658,642	602,440	16.5%	(48,699)	-	-	\$25.25
Airport Area	10,861,659	2,508,157	23.1%	7,910	-	235,000	\$23.67
Arrowhead	2,796,026	396,436	14.2%	(142)	-	-	\$23.93
Camelback Corridor	8,583,676	1,565,809	18.2%	13,963	-	118,090	\$30.89
Central Scottsdale	7,491,045	836,572	11.2%	110,904	-	-	\$25.17
Chandler	8,736,731	1,427,701	16.3%	29,085	-	154,079	\$24.56
Deer Valley/Airport	11,202,284	1,702,674	15.2%	(29,819)	-	-	\$23.20
Downtown	10,047,656	1,357,672	13.5%	(12,003)	-	26,174	\$29.95
Gateway Airport/Loop 202	1,384,855	167,808	12.1%	38,382	-	43,231	\$24.58
Glendale	2,477,375	468,294	18.9%	62,136	-	125,000	\$24.73
Loop 303/ Surprise	1,816,247	228,111	12.6%	37,635	26,200	-	\$23.13
Mesa Downtown	930,208	58,354	6.3%	4,223	-	-	\$14.04
Mesa East	1,989,547	185,001	9.3%	19,656	-	-	\$17.42
Midtown	12,096,485	2,677,835	22.1%	(5,453)	-	25,312	\$21.87
Midtown/Central Phoenix	3,819,766	467,733	12.2%	13,247	-	-	\$18.87
N Phoenix/Cave Creek	68,926	8,835	12.8%	4,026	-	-	\$21.05
N Scottsdale / Carefree	1,081,039	301,953	27.9%	7,058	-	-	\$21.22
North I-17	488,286	97,955	20.1%	(10,083)	-	-	\$24.30
Northwest Phoenix	8,475,177	2,105,450	24.8%	107,316	-	-	\$18.49
Paradise Valley	3,680,289	534,045	14.5%	22,845	-	16,165	\$24.51
Piestewa Peak Corridor	2,920,895	507,702	17.4%	7,822	-	-	\$21.45
Pinal County	799,794	78,720	9.8%	872	12,182	-	\$21.17
Scottsdale Airpark	11,984,811	1,384,540	11.6%	(35,111)	-	-	\$27.04
Scottsdale South	5,401,888	938,204	17.4%	(106,709)	-	271,000	\$29.59
South Tempe / Ahwatukee	6,501,938	1,014,826	15.6%	(271,213)	-	-	\$23.45
Southwest Phoenix	2,701,296	257,071	9.5%	4,000	-	44,000	\$23.12
Superstition Corridor	4,832,305	625,228	12.9%	39,197	-	-	\$19.76
Tempe	11,030,724	1,194,812	10.8%	11,730	-	423,306	\$29.07
West I-10	1,465,574	177,866	12.1%	7,255	-	-	\$20.44

## Class A

A classification used to describe buildings that generally qualify as extremely desirable, investment-grade properties and command the highest rents or sale prices compared to other buildings in the same market.

## Class B

A classification used to describe buildings that generally qualify as a more speculative investment, and as such, command lower rents or sale prices compared to Class A properties.

## Class C

A classification used to describe buildings that generally qualify as no-frills, older buildings that offer basic space and command lower rents or sale prices compared to other buildings in the same market.

## Deliveries

Buildings that complete construction during a specified period of time. In order for space to be considered delivered, a certificate of occupancy must have been issued for the property.

## Full Service Gross (FSG) Rental Rate

Rental rates that include all operating expenses such as utilities, electricity, janitorial services, taxes and insurance.

## Leasing Activity

The volume of square footage that is committed to and signed under a lease obligation for a specific building or market in a given period of time. It includes direct leases, subleases and renewals of existing leases. It also includes any pre-leasing activity in planned, under construction, or under renovation buildings.

## Net Absorption

The net change in occupied space over a given period of time. Unless otherwise noted, Net Absorption includes direct and sublease space.

## Rentable Building Area (RBA)

The total square footage of a building that can be occupied by, or assigned to a tenant for the purpose of determining a tenant's rental obligation. Generally RBA includes a percentage of common areas including all hallways, main lobbies, bathrooms, and telephone closets.

## Submarkets

Specific geographic boundaries that serve to delineate a core group of buildings that are competitive with each other and constitute a generally accepted primary competitive set, or peer group. Submarkets are building type specific (office, industrial, retail, etc.), with distinct boundaries dependent on different factors relevant to each building type.

## Under Construction

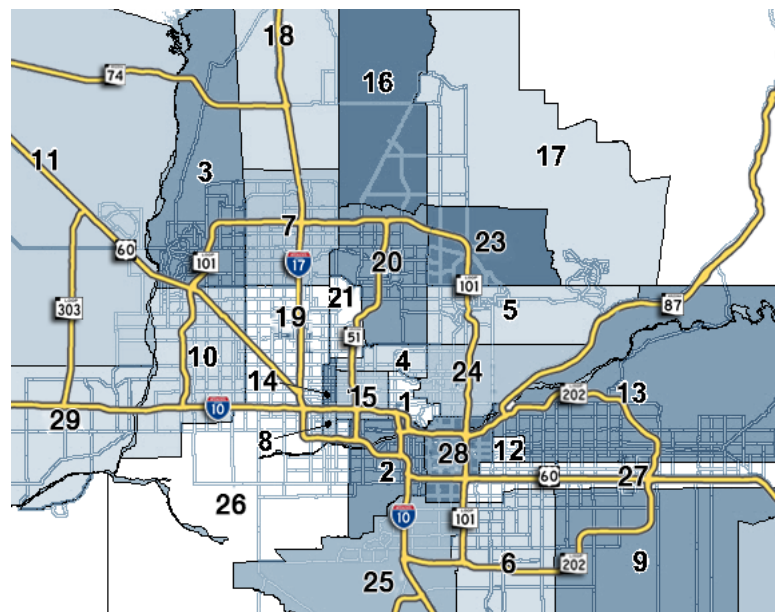
The status of a building that is in the process of being developed, assembled, built or constructed. A building is considered to be under construction after it has begun construction and until it receives a certificate of occupancy.

## Vacancy Rate

A measurement expressed as a percentage of the total amount of physically vacant space divided by the total amount of existing inventory space. Under construction space generally is not included in vacancy calculations.

## Vacant Space

Space that is not currently occupied by a tenant, regardless of any lease obligation that may be on the space. Vacant space could be space that is either available or not available.



## PHOENIX OFFICE SUBMARKETS

- |                             |                            |
|-----------------------------|----------------------------|
| 1. 44th St Corridor         | 16. N Phoenix/Cave Creek   |
| 2. Airport Area             | 17. N Scottsdale/Carefree  |
| 3. Arrowhead                | 18. North I-17             |
| 4. Camelback Corridor       | 19. Northwest Phoenix      |
| 5. Central Scottsdale       | 20. Paradise Valley        |
| 6. Chandler                 | 21. Piestewa Peak Corridor |
| 7. Deer Valley/Airport      | 22. Pinal County           |
| 8. Downtown                 | 23. Scottsdale Airpark     |
| 9. Gateway Airport/Loop 202 | 24. Scottsdale South       |
| 10. Glendale                | 25. South Tempe            |
| 11. Loop 303/Surprise       | 26. Southwest Phoenix      |
| 12. Mesa Downtown           | 27. Superstition Corridor  |
| 13. Mesa East               | 28. Tempe                  |
| 14. Midtown                 | 29. West I-10              |
| 15. Midtown/Central Phoenix |                            |

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