

## AT A GLANCE

- Q2 Vacancy: 13.6%**
- Q2 SF Construction: 1.9 M SF**
- Q2 SF Leased: 2.2 M SF**

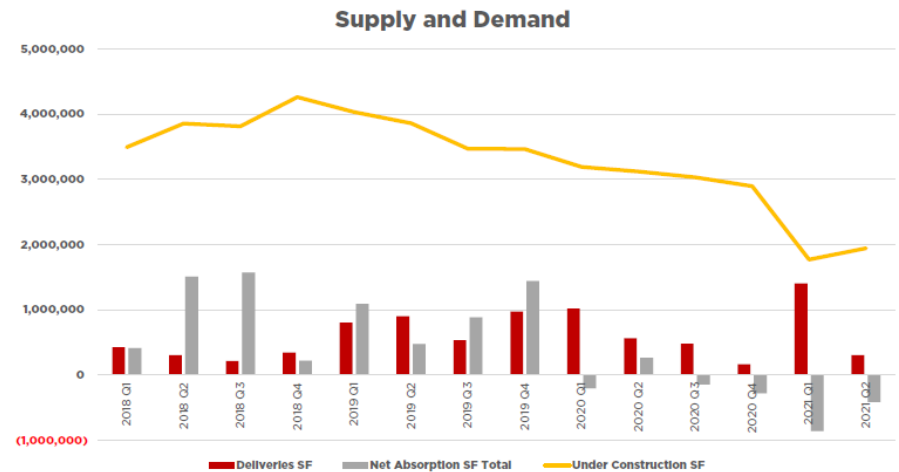
## Our first look at the Post - Covid Office Market

The quarter wrapped up on a high note for the Valley of the Sun: a steady increase in the number of vaccinated Phoenicians, the revocation of remaining Covid-19 restrictions, some normalcy returning to the workforce, and the Phoenix Suns headed to the playoffs.

At the start of the quarter, only a fourth of eligible Arizonans had received full immunization against COVID-19. Now, merely months later, half of the population is fully immunized. Covid-19 hospitalizations and deaths are down despite the restriction rollbacks, and the Suns' successful season had Arizona's 'Rally the Valley' spirit on full display.

The Office Market in Phoenix followed a similar upward trajectory; NAI Horizon agents have seen the workforce returning to the office - if you can show up to a Suns game en masse, then you can go back to the office, right? Agents also saw an uptick in leasing activity compared to what we've seen in the last year and a half, demonstrating confidence in returning to Post-Covid normalcy.

Healthcare provider offices remained at or near capacity with Covid restrictions in place throughout the pandemic. Now, mental health care services are seeing an increase in new tenants and practice expansions. The numbers reflect this noticeable increase; ConnectionsAZ, a mental health facility, for example, accounted for one of the leases in the Valley, albeit a renewal at Phoenix Memorial Center at 40,000 SF. Months of pandemic living and an overall acceptance of mental health support can explain behavioral health's rise in popularity.



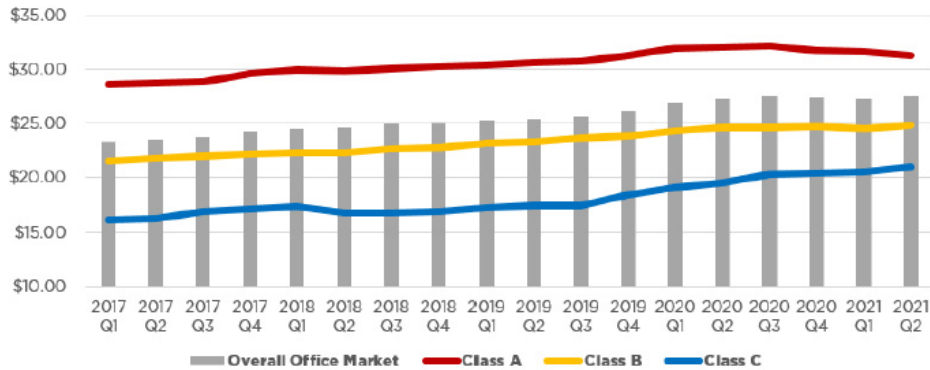
Rents have not buckled either. The average Full-Service Gross rate is up 21 cents from the previous quarter, coming in at \$27.48, compared to the \$26.92 rate seen at the pandemic's start. What are some possible causes for this increase? According to our agents and the supporting data, this upward trend may be partly explained by new inventory, which is asking - and getting - rents above \$45.00/SF. The Watermark Phase I (410 N Scottsdale Rd) in Tempe, completed in 2020, asks \$45/SF and has welcomed high-profile names like Robinhood and Align Technology during this quarter. One Hundred Mill (100 S Mill Ave), scheduled to deliver in Q3 2021, asks \$50.50/SF and boasts preminent tenants like Amazon and Morgan Stanley.



# Q2 Office Market Report

## METRO PHOENIX 2021

Phoenix Office Market Rents

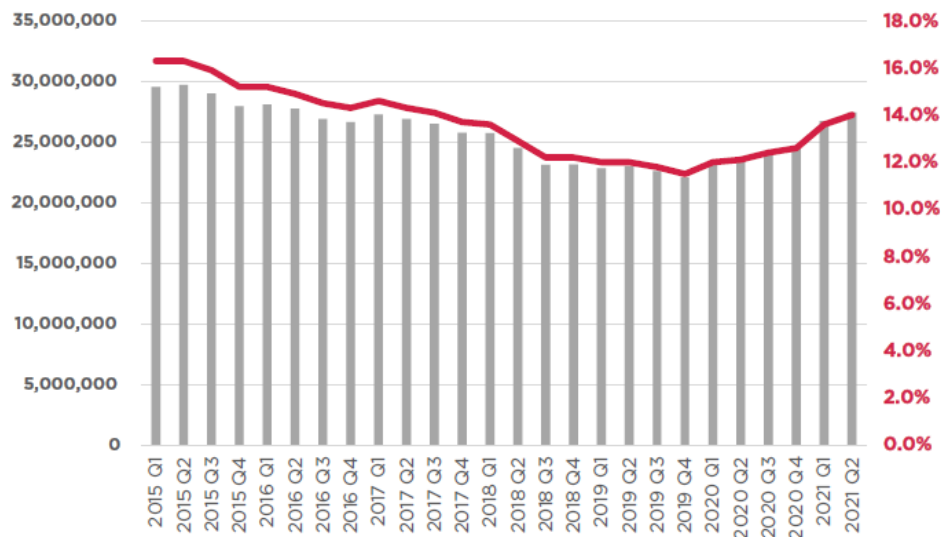


Concessions and Tenant Improvements (TI's) may also play a role in rental rates holding firm. Agents have seen increases in deals like 1-year free on a 7-year contract or 5-months free on a 5-year contract. Transactions like these are not anomalies; they are becoming commonplace in the industry. Other notable trends we've seen this quarter are landlords' willingness to invest in their properties through improvements or maintenance; and tenant readiness to ink longer-term deals. The cost of these longer-term deals? Either upfront cost for the larger, capital-rich institutional landlords or more spread out for the non-institutional owners.

Although there is substantially more about which to be hopeful than cautious, here are some things that give our agents some pause:

- A re-closure of the economy if virus variants become a more significant issue, as we are starting to see in parts of California
- The threat of increasing inflation
- Supply-chain issues interfering with new construction
- The glut of sublease space on the market, which is more than 4.5 million SF, according to CoStar

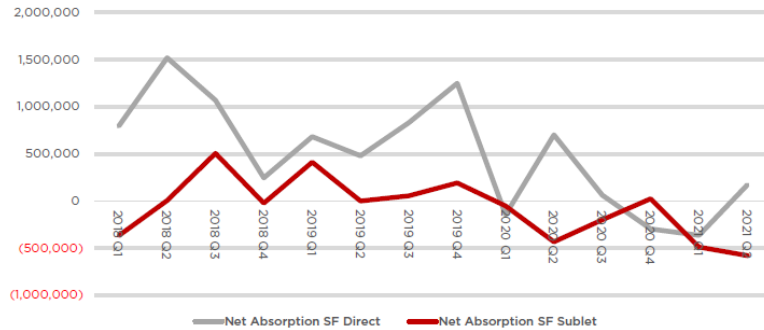
Total Vacancy Rate/Total SF Vacant



Only time will tell how these issues might affect the market in the months ahead, but we can rest easy about one of our agent's concerns - sublease space. Sublease space is in excess, but the 4.5 million SF number is misleading. The mass amount of available space is not due to increased vacancies across the valley overall. Instead, we can attribute this number to a handful of buildings with upwards of 100K of available square footage. Apollo's Corporate headquarters has 268K SF sublet space available, Kierland II has a substantial amount of its 237k SF building for sublease, and Blackhawk Corporate Center II has over 100k SF available for sublease. Additionally, NAI Horizon agents are confident that the threat posed by sublease space will diminish as new product tapers off. Phoenix has only 1.9M SF of new space under construction - which is a 3.5-year low. If the sublet space were omitted from this quarter's numbers, the valley-wide net absorption would have been 171K SF.

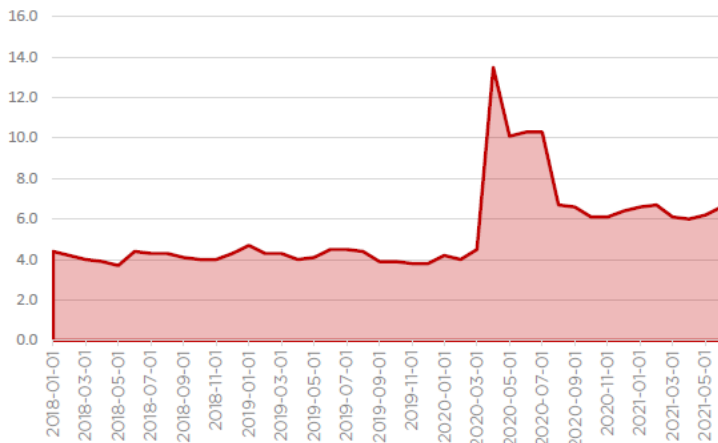


Phoenix Metro Direct and Sublet Net Absorption



Greater Phoenix continues to draw in more businesses looking for an agreeable regulatory environment with a large talent pool while attracting a workforce looking for economic growth, opportunity, and high quality of life. Several large-scale businesses have announced they'll be opening operations in Phoenix this quarter - among them are Anuncia Inc., a Bioscience and medical device company; Thinkzilla, a marketing consulting company; and Carvana, a tech-enabled, used auto dealer.

Phoenix Metro Unemployment Rate

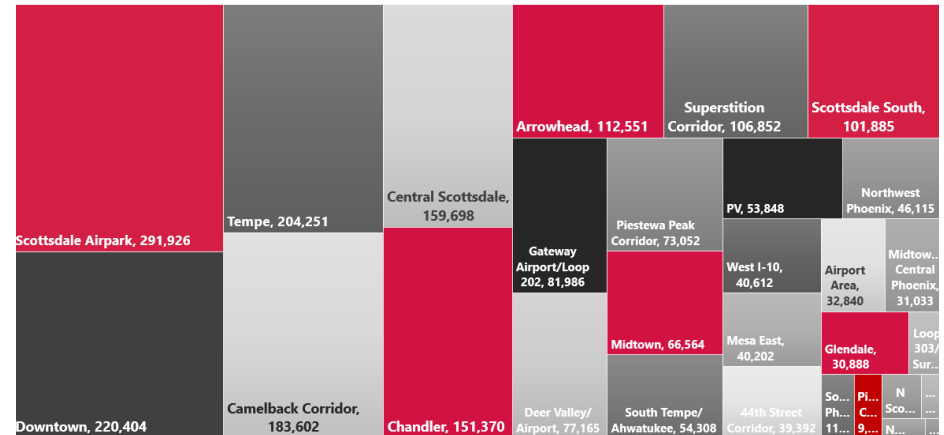


### What we are keeping an eye on:

Large-scale industrial companies are coming to the Valley in droves. Among the latest are:

- Hello Fresh - opening its largest distribution center (440k SF) in Phoenix
- APEL Extrusions - an aluminum company that has chosen the SE corner of loop 202 and Buckeye Rd as its new HQ and manufacturing facility
- TSMC - a semi-condor manufacturer which has chosen north Phoenix as the site of its multi-billion-dollar factory

LEASING ACTIVITY




As more industrial heavyweights choose to locate and operate in Phoenix, we believe the secondary and tertiary positive effects on the office market will be significant. Companies will be directly leasing office space to accommodate their massive workforce, or their vendors will begin leasing office space or expanding into more locations, or properties with more square footage.

Stay tuned! We will be tracking the numbers and reporting on this prediction in the upcoming Quarterly Reports.



## Q2 Top Leases

**1**




4300 E Camelback Rd	
Submarket	Camelback Corridor
Tenant	JP Morgan
Size	60,000 SF
Class	A
Time Vacant	1 Day

**2**




101 E Washington St	
Submarket	Downtown
Tenant	Western Alliance Bank
Size	57,438 SF
Class	A
Time Vacant	27 Months

**3**



1621 W Rio Salado Pky	
Submarket	Tempe
Tenant	Carvana
Size	51,789 SF
Class	B
Time Vacant	10 Months


**4**



1201 S 7th Ave	
Submarket	Downtown
Tenant	ConnectionsAZ
Size	40,000 SF
Class	B
Time Vacant	N/A

## Q2 Top Sales

**1**




1715 N McQueen Rd	
Sale Price	\$43,100,000
Price/SF	\$385.29
Submarket	Chandler
Size	120,294 SF
Class	A

**2**




1201 S Alma School Rd	
Sale Price	\$39,500,000
Price/SF	\$126.96
Submarket	Superstition Corridor
Size	311,132 SF
Class	A

**3**



1811 E Northrop Blvd	
Sale Price	\$34,235,000
Price/SF	\$262.05
Submarket	Chandler
Size	130,642 SF
Class	B

**4**

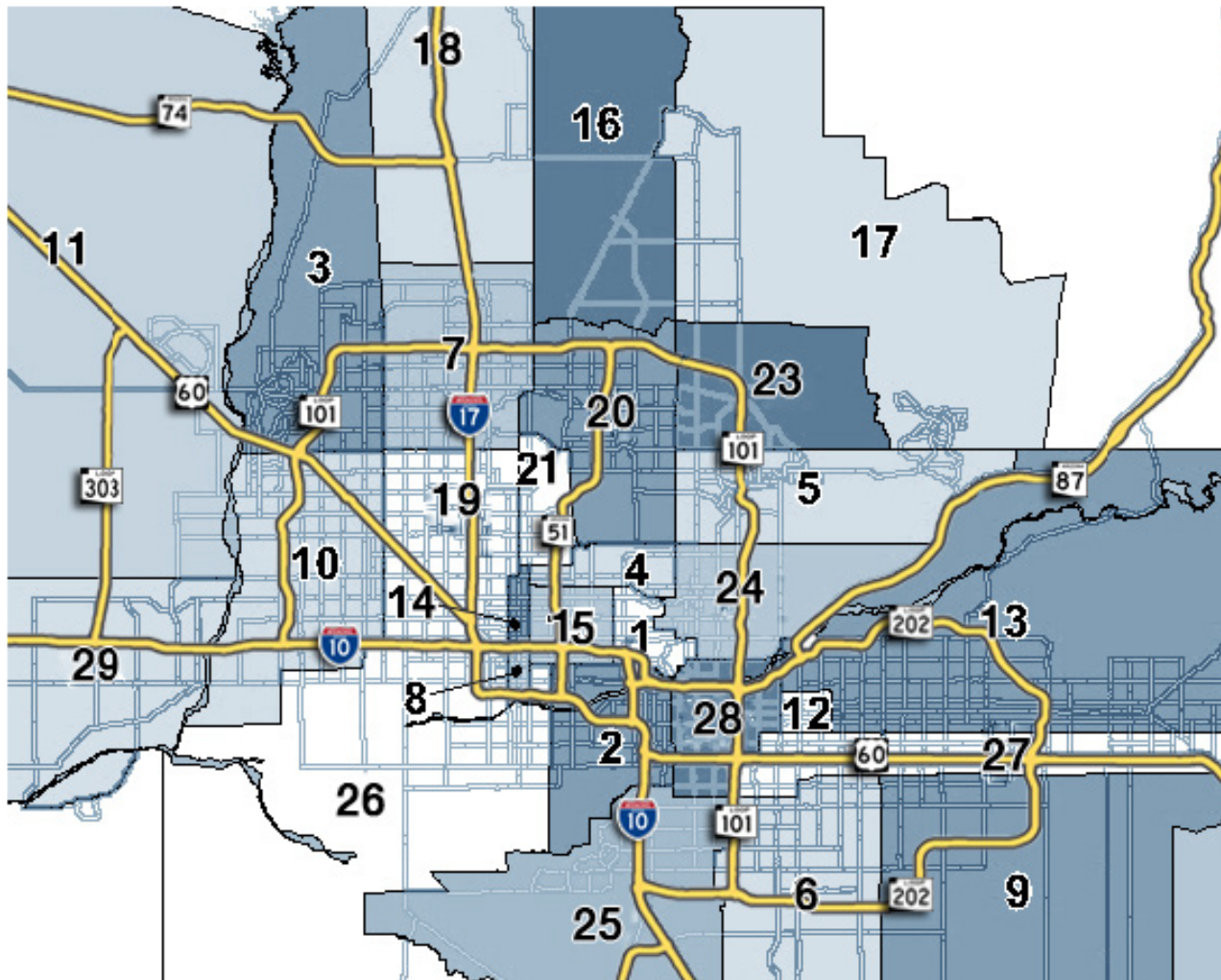


8377 E Hartford Dr	
Sale Price	\$30,175,000
Price/SF	\$287.50
Submarket	Scottsdale Airpark
Size	104,956 SF
Class	A

Photos & Information provided by CoStar



## Phoenix Submarkets



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



## Submarket Performance

Submarket	RBA	Vacant SF	Vacant %	Net Absorption	Deliveries	Under Construction	Average FSG Rate
44th Street Corridor	4,167,407	571,614	13.7%	(1,326)	-	-	\$27.31
Airport Area	6,658,050	1,127,535	16.9%	(267,963)	-	-	\$22.37
Arrowhead	4,551,432	467,378	10.3%	112,551	128,000	-	\$27.32
Camelback Corridor	9,489,131	1,814,584	19.1%	2,847	-	263,766	\$34.23
Central Scottsdale	8,989,282	1,399,420	15.6%	(112,327)	-	100,000	\$27.67
Chandler	13,029,556	1,675,494	12.9%	(246,323)	-	379,000	\$28.89
Deer Valley/Airport	14,355,122	2,190,782	15.3%	(5,369)	-	-	\$25.60
Downtown	11,625,403	1,779,090	15.3%	(52,705)	-	-	\$31.42
Gateway Airport/Loop 202	3,001,684	212,667	7.1%	87,034	51,100	71,800	\$29.98
Glendale	3,584,107	453,127	12.6%	54,634	-	-	\$26.22
Loop 303/Surprise	2,618,730	215,774	8.2%	3,847	-	-	\$28.01
Mesa Downtown	1,523,997	106,519	7.0%	22,786	-	-	\$21.40
Mesa East	4,789,220	335,063	7.0%	42,994	-	-	\$28.51
Midtown	13,235,032	2,534,561	19.2%	22,273	-	-	\$24.19
Midtown/Central Phoenix	6,112,486	408,162	6.7%	51,107	-	-	\$22.45
N Phoenix/Cave Creek	148,013	5,660	3.8%	-	-	-	\$24.57
N Scottsdale/Carefree	1,878,793	233,293	12.4%	5,363	-	-	\$26.25
North I-17	765,894	126,541	16.5%	(5,169)	-	-	\$24.25
Northwest Phoenix	11,078,956	2,178,391	19.7%	(116,916)	-	-	\$20.78
Paradise Valley	5,017,197	541,244	10.8%	48,589	13,934	-	\$28.11
Piestewa Peak Corridor	3,479,709	421,968	12.1%	37,398	-	-	\$23.58
Pinal County	1,678,481	133,599	8.0%	(44,538)	-	17,128	\$14.41
Scottsdale Airpark	14,029,494	2,436,753	17.4%	167	-	150,000	\$29.82
Scottsdale South	7,812,429	1,098,872	14.1%	(68,581)	-	244,998	\$32.69
South Tempe/Ahwatukee	8,053,821	1,235,371	15.3%	(32,660)	-	-	\$25.92
Southwest Phoenix	4,955,225	205,891	4.2%	(5,624)	-	-	\$27.34
Superstition Corridor	6,744,153	849,570	12.6%	59,162	22,040	-	\$23.68
Tempe	19,935,449	2,469,567	12.4%	(9,847)	93,125	470,526	\$29.03
West I-10	2,573,242	213,462	8.3%	9,546	-	248,628	\$28.80
<b>Total Valley</b>	<b>196,294,227</b>	<b>27,441,952</b>	<b>14.0%</b>	<b>(409,050)</b>	<b>308,199</b>	<b>1,945,846</b>	<b>\$27.48</b>
<b>2021 Q1</b>	<b>195,986,028</b>	<b>26,724,703</b>	<b>13.6%</b>	<b>(855,034)</b>	<b>1,408,789</b>	<b>1,771,891</b>	<b>\$27.27</b>
<b>2020 Q4</b>	<b>194,735,157</b>	<b>24,618,798</b>	<b>12.6%</b>	<b>(274,514)</b>	<b>167,693</b>	<b>2,896,914</b>	<b>\$27.40</b>
<b>2020 Q3</b>	<b>194,586,306</b>	<b>24,195,433</b>	<b>12.4%</b>	<b>(139,515)</b>	<b>481,700</b>	<b>3,031,807</b>	<b>\$27.56</b>



## About NAI Horizon

Exceptional global commercial real estate solutions begin with local market leadership and expertise. Established in 1992, NAI Horizon is a full-service commercial real estate company serving Arizona with offices located in Phoenix and Tucson. NAI Horizon is passionate about the commercial real estate business, providing Brokerage and Property Management Services for local, national and international clients. NAI Horizon is a member of the NAI Global commercial real estate network providing real estate solutions to more than 300 offices worldwide. For more information visit [www.naihorizon.com](http://www.naihorizon.com).

## About NAI Global

Advisory Services | Leasing | Property Management  
Property & Note Sales | Tenant Representation

NAI Global is a leading global commercial real estate brokerage firm. NAI Global offices are leaders in their local markets and work in unison to provide clients with exceptional solutions to their commercial real estate needs. NAI Global has more than 300 offices in 43 countries strategically located throughout North America, Latin America and the Caribbean, Europe, Africa and Asia Pacific, with 5,100 local market professionals, managing in excess of 1.1 billion square feet of property and facilities. Annually, NAI Global completes in excess of \$20 billion in commercial real estate transactions and a gross revenue of \$1.5 billion.

NAI Global professionals achieve extraordinary results for clients locally and globally through creativity, collaboration and the consistent delivery of exceptional knowledge and service that only market-leading firms can provide. NAI Global provides a full range of corporate real estate services, including brokerage and leasing, property and facilities management, real estate investment and capital market services, due diligence, global supply chain and logistics consulting and related advisory services.

©2021 NAI Horizon. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable, including that of CoStar Commercial Real Estate Information Company. Any projections, opinions, assumptions or estimates used are for example only. No warranty or representation, expressed or implied, is made as to the accuracy of the information contained herein, and the same is submitted subject to errors and omissions.

## NAI Horizon Office Specialists



**TROY GIAMMARCO**  
First Vice President  
[Troy.Giammarco@naihorizon.com](mailto:Troy.Giammarco@naihorizon.com)



**JOE PEQUENO**  
Vice president  
[Joe.Pequeno@naihorizon.com](mailto:Joe.Pequeno@naihorizon.com)



**DON MORROW**  
Senior Vice President  
[Don.Morrow@naihorizon.com](mailto:Don.Morrow@naihorizon.com)



**THOMAS BEAN, CCIM**  
First Vice President  
[Thomas.Bean@naihorizon.com](mailto:Thomas.Bean@naihorizon.com)



**DYLAN WHITWER**  
Associate  
[Dylan.Whitwer@naihorizon.com](mailto:Dylan.Whitwer@naihorizon.com)



**JAY MININBERG, J.D.**  
Associate  
[Jay.Mininberg@naihorizon.com](mailto:Jay.Mininberg@naihorizon.com)



**LAUREL LEWIS**  
Senior Vice President  
[Laurel.Lewis@naihorizon.com](mailto:Laurel.Lewis@naihorizon.com)



**KEVIN HIGGINS**  
Vice President  
[Kevin.Higgins@naihorizon.com](mailto:Kevin.Higgins@naihorizon.com)



**MIKE MYRICK**  
Senior Vice President  
[Mike.Myrick@naihorizon.com](mailto:Mike.Myrick@naihorizon.com)

## NAI Horizon Marketing/Research Team

**MEG ZEMLIKA**  
Director of Marketing  
[Meg.Zemlicka@naihorizon.com](mailto:Meg.Zemlicka@naihorizon.com)

**SABRINA DRUMMOND**  
Marketing Manager  
[Sabrina.Drummond@naihorizon.com](mailto:Sabrina.Drummond@naihorizon.com)

**ANTONIO CARMONA**  
Research/GIS Specialist  
[Antonio.Carmona@naihorizon.com](mailto:Antonio.Carmona@naihorizon.com)

**LARSON WILCKE**  
Research/GIS Intern  
[Larson.Wilcke@naihorizon.com](mailto:Larson.Wilcke@naihorizon.com)

