



2021

Office Market Report

METRO PHOENIX 2021

NAIHorizon

Q3

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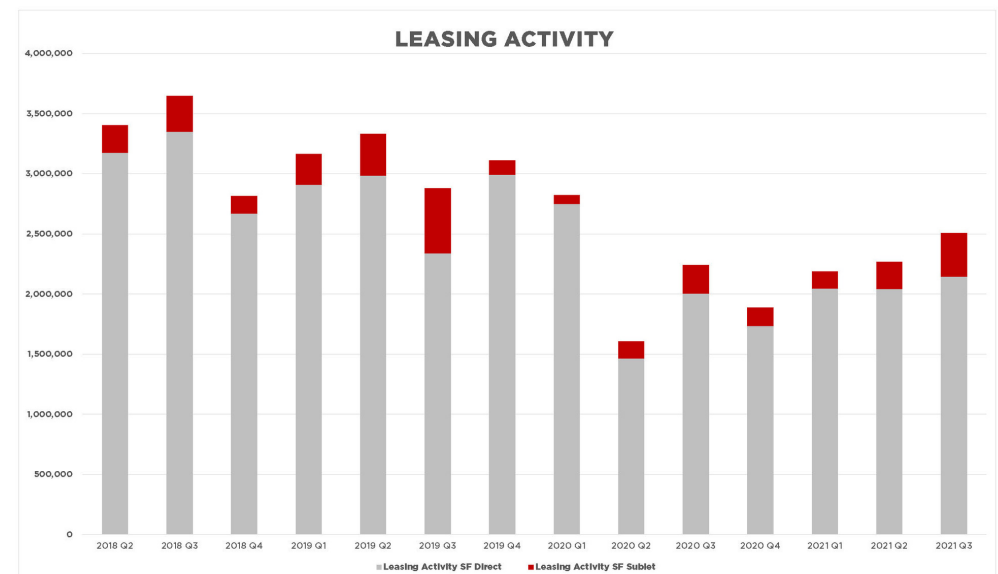
Q3 AT A GLANCE

- Q3 Vacancy: 14.4%**
- Q3 SF Construction: 1.8M SF**
- Q3 Avg FSG Rate: \$27.69**

National Recovery & Trends

The national office market is in recovery and showing strong signs of stabilization, but successful stabilization means adapting to change. Perhaps one of the most prominent trends we are seeing is a shift in the traditional employment strategy. In previous economic downturns, companies attempted to rehabilitate their business by resorting to termination of employment. Present times have instead resulted in a significant transition to remote work.

The national office market is undergoing an optimistic shift. Q3 sales have reached \$40 billion, which is in line with the sales volumes recorded through the pandemic; and for the first time since Q1 of 2020, net absorption is positive at just under 10 million SF. (1)



Phoenix Recovery

The Phoenix economic recovery has been exceptional, with an unemployment rate down to almost pre-pandemic levels and far below the highest rate seen amid the pandemic. Unlike many other big cities, Phoenix has bounced back rapidly, attracting extensive tourism, crowded events, residential growth, and welcoming large companies looking to relocate. The significant forward shift results from relative affordability, ease of doing business, and the diverse and profound, ever-growing talent pool, which is now among the fastest-growing group of many major cities in the country.(2)

In the third quarter of 2021, the Phoenix office market paralleled this same uprise, with sales volume reaching \$1 billion, the highest volume since the fourth quarter of 2019. Leasing activity reached 2 million square feet, but the vacancy volume also increased. NAI Agents believe this directly correlates to the vacating of 721,000 SF Chase Tower in Downtown Phoenix. Assuming the data does not include this transaction, we believe that net absorption (-342,000 SF) would have been significantly higher, even positive for this quarter.(1)

TOP LEASE OF Q3



Submarket: Downtown
Tenant Name: Western Alliance Bank
SF Leased: 31,500 SF
Time on Market: 7 mos

**101 E Washington St
Phoenix, AZ 85004**

TOP SALE OF Q3



Submarket: Tempe
Price: \$77,533,140
SF Sold: 277,545 SF
Date Sold: 9/13/2021

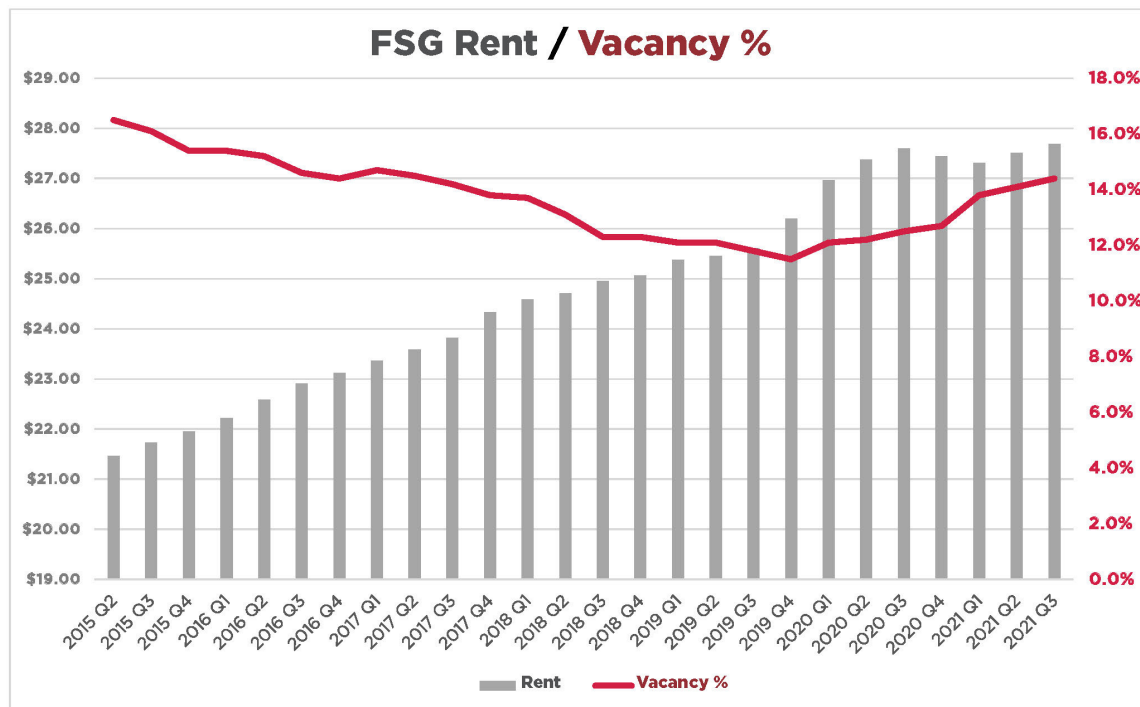
**1625 W Fountainhead Pky
Tempe, AZ 85282**



Remote, Hybrid, Amenities

It seems the nation, and Phoenix included, has undergone a massive shift in how we do business. In May of 2020, remote work across the country was at 70%.(5) As the nation began to recover from the coronavirus pandemic, many companies planned massive returns to the office during the second half of 2021, but instead have altered their business structure to accommodate a remote and hybrid work environment, even offering incentives to return to the office. These incentives include major renovations, added amenities, and newer buildings located in easily accessible areas.(1)

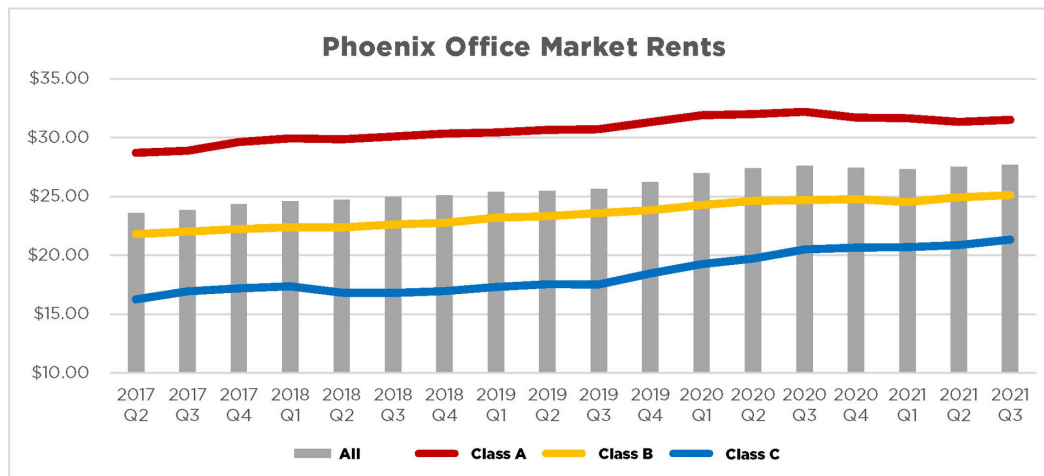
MANY COMPANIES HAVE ALTERED THEIR BUSINESS STRUCTURE TO ACCOMMODATE A REMOTE AND HYBRID WORK ENVIRONMENT, EVEN OFFERING INCENTIVES TO RETURN TO THE OFFICE



Remote, Hybrid, Amenities Cont.

For example, the 750,000 SF Camelback Corridor, The Grove, is projected to host a variety of mixed-use real estate, including self-storage, athletic facilities, luxury residential, an amenity deck, and even a rooftop lounge atop a four-story office building.(1)

Remote work is trending among businesses, but it is not always the most practical choice. Facebook, Twitter, Microsoft, Google, and accounting/consulting firm, PwC are among many Fortune 500 companies that have decreased salaries for those remote workers who reside where the cost of living is lower.(7)



Subsequently, many remote workers have decided to return to the office based on the significance of pay reduction, which essentially cancels out any raises or compensation for promotions within the company.(8)

Most office executives still view the physical office as an essential part of the corporate culture and prefer to incorporate remote work into a hybrid environment. 75% of Fortune 500 executives currently working completely remote, would choose to spend at least three days in the office.(8) As a result, companies still need to offer full-capacity office spaces.

Sublease Opportunities & Challenges

As we close out Q3, we are noticing both opportunities and challenges in the sublease market. Businesses are relocating to higher-quality sublease space for a discounted rate. While some employers have decided to relocate their business to smaller, more affordable spaces, others realize that they need larger space as their business grows.

Sources

- [1] <https://www.costar.com/>
- [2] <https://www.azcentral.com/story/news/local/arizona/2021/08/12/2020-census-phoenix-now-fastest-growing-big-city-u-s/8108506002/>
- [3] <https://fred.stlouisfed.org/series/PHOE004URN>
- [4] <https://www.bizjournals.com/phoenix/>
- [5] <https://news.gallup.com/poll/355907/remote-work-persisting-trending-permanent.aspx>
- [6] <https://futureforum.com/pulse-survey/>
- [7] <https://www.cnn.com/2021/10/01/pwc-says-us-employees-can-work-from-anywhere-in-the-country.html>



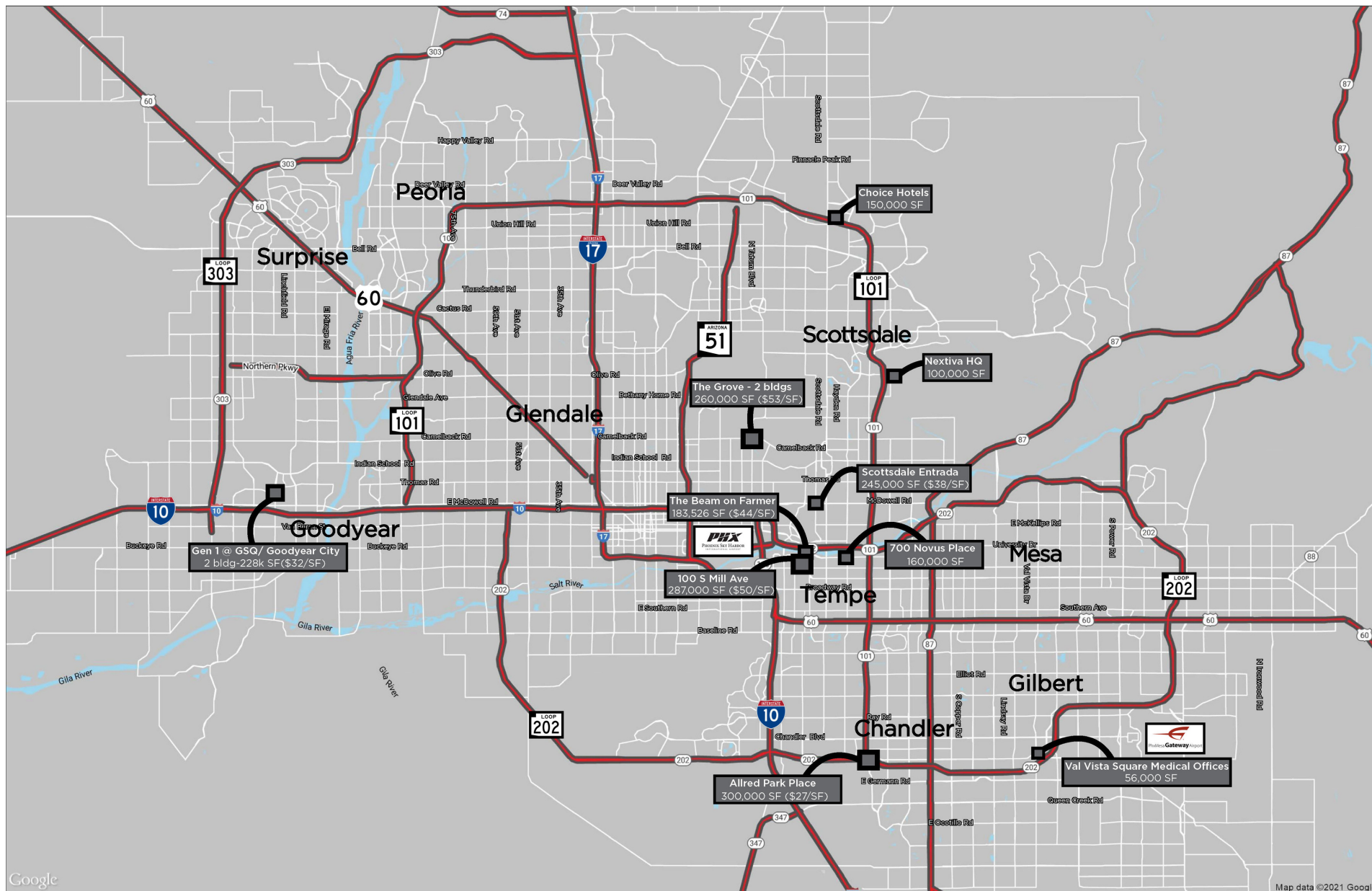
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Submarkets

	RBA		Vacant SF		Vacant %		Net Absorption		Deliveries		Under Construction		Avg FSG Rate	
44th Street Corridor	4,015,588	—	536,064	▼	13.3%	▼	35,550	▲	-	—	-	—	\$27.40	▲
Airport Area	6,462,121	—	940,027	▼	14.5%	▼	18,359	▲	-	—	-	▼	\$21.96	▼
Arrowhead	4,545,380	—	453,056	▼	10.0%	▼	14,322	▼	-	▼	-	—	\$27.57	▲
Camelback Corridor	9,487,378	—	1,882,938	▲	19.8%	▲	(68,354)	▼	-	▲	251,494	—	\$34.57	▲
Central Scottsdale	8,992,797	—	1,261,944	▼	14.0%	▼	137,476	▲	-	—	100,000	—	\$28.04	▲
Chandler	13,186,479	▲	1,851,390	▲	14.0%	▲	39,104	▲	215,000	▲	164,000	▼	\$29.51	▲
Deer Valley/Airport	12,342,943	▲	2,294,197	▲	18.6%	▲	(103,415)	▲	-	▲	-	▼	\$25.67	▲
Downtown	11,597,303	—	2,434,122	▲	21.0%	▲	(722,610)	▼	-	▲	-	▼	\$31.21	▼
Gateway Airport/Loop 202	2,884,260	▲	190,139	▼	6.6%	▼	38,146	▼	10,800	▲	87,358	▼	\$30.62	▼
Glendale	3,598,705	—	503,996	▲	14.0%	▲	(50,869)	▼	-	▼	-	—	\$21.89	▲
Loop 303/ Surprise	2,617,826	—	198,884	▼	7.6%	▼	16,890	▲	-	—	-	—	\$28.32	▲
Mesa Downtown	1,516,116	—	96,543	▼	6.4%	▼	9,976	▼	-	—	-	—	\$21.14	▼
Mesa East	4,841,088	—	354,884	▲	7.3%	▲	(19,821)	▼	-	—	-	▼	\$28.44	▼
Midtown	13,223,908	—	2,592,050	▲	19.6%	▲	(58,853)	▼	-	—	-	—	\$24.13	▼
Midtown/Central Phoenix	6,104,767	—	386,320	▲	6.3%	▼	21,842	▼	-	—	-	—	\$22.18	▼
N Phoenix/Cave Creek	148,013	—	2,660	—	1.8%	—	3,000	▲	-	—	-	—	\$25.79	▲
N Scottsdale/Carefree	1,878,792	—	195,712	▼	10.4%	▼	37,581	▲	-	—	-	—	\$26.00	▼
North I-17	765,894	—	121,489	▼	15.9%	▼	5,052	▲	-	—	-	—	\$24.79	▲
Northwest Phoenix	11,021,073	—	2,161,769	▲	19.6%	▲	(29,833)	▼	-	—	-	—	\$21.11	▲
Paradise Valley	5,017,489	—	510,695	▼	10.2%	▼	40,176	▲	13,934	—	-	—	\$28.33	▼
Piestewa Peak Corridor	3,496,607	—	412,892	▼	11.8%	▼	7,772	▼	-	—	-	—	\$23.58	—
Pinal County	1,678,580	▲	175,247	▼	10.4%	▼	(41,648)	▲	-	—	17,128	—	\$14.68	▲
Scottsdale Airpark	13,986,034	—	2,279,875	▼	16.3%	▼	153,528	▲	-	▲	150,000	—	\$29.75	▼
Scottsdale South	7,540,277	—	1,086,077	▼	14.4%	▼	12,795	▲	-	—	248,006	—	\$33.65	▲
South Tempe/Ahwatukee	7,946,926	—	1,150,424	▼	14.5%	▼	84,947	▲	-	—	-	—	\$25.73	▼
Southwest Phoenix	4,990,260	—	196,912	▼	3.9%	▼	8,979	▼	-	—	-	—	\$27.28	▼
Superstition Corridor	6,648,990	—	821,880	▼	12.4%	▼	17,634	▲	-	▼	10,791	—	\$24.50	▲
Tempe	19,929,394	—	2,510,533	▲	12.6%	▲	(40,966)	▼	-	—	470,526	—	\$29.25	▲
West I-10	2,579,834	—	156,990	▼	6.1%	▼	56,472	▲	-	▼	322,628	▲	\$29.50	▲
Total Valley	193,460,713	▲	27,765,709	▲	14.4%	▲	(342,457)	▲	239,734	▼	1,821,931	▼	\$27.69	▲
2021 Q2	193,364,507	▲	27,327,046	▲	14.1%	▲	(602,790)	▼	294,678	▼	1,930,516	▲	\$27.51	▲
2021 Q1	193,209,580	▲	26,569,329	▲	13.8%	▲	(941,598)	▼	1,410,689	▼	1,743,040	▼	\$27.31	▼
2020 Q4	191,956,809	▲	24,374,960	▼	12.7%	▼	(274,458)	▲	167,693	▲	2,902,235	▲	\$27.44	▲

Under Construction



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.

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.

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