



# Office Market Report

METRO PHOENIX 2022

**NAI**Horizon

# Q1 Office Market Report

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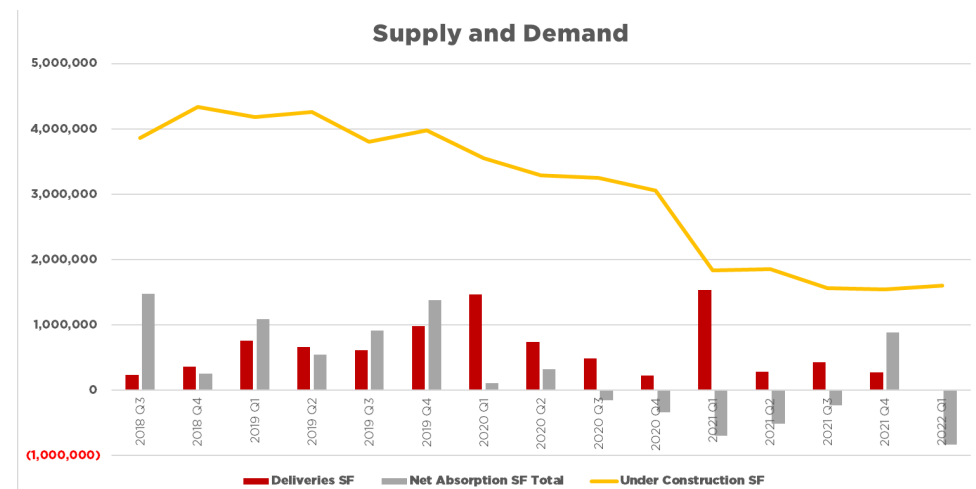
### AT A GLANCE

- Q1 Vacancy: 14.3%**
- Q1 SF Construction: 1.6 M SF**
- Q1 SF Leased: 2.85 M SF**
- Q1 Avg FSG Rate: \$28.02**

Office vacancy rates have been ticking upward in almost every U.S. market since the onset of the Covid health crisis and reached a national high in the second quarter of 2021 at 18.5%. Nationally, the office vacancy rate edged slightly downward at the end of the first quarter to 18.1%. Much of the dynamics associated with the office market are, of course, related to the pandemic and remote work phenomenon. Moody's, in a recent report, accurately described the situation as evolutionary: "The office market is on an evolutionary path, and we will continue to monitor it closely as new office vacancy models solidify into their eventual form." The report also asserted that hybrid work models do not necessarily lead to higher vacancy, noting that "if all workers decide to show up on the same day - which is highly likely if companies' mandate three days a week in the office centered on specific days, then office needs will not automatically decline." Further, the report also stated the obvious, that occupancy strategies will vary widely by office market, firm industry and individual job type.

Meanwhile and if there is a longer term trend to higher vacancy rates, it poses a threat to cities nationwide, most of which rely substantially on property values and tax income. If occupancy resets to lower levels, the thinking goes, than landlords will generate less revenue and in turn pay fewer taxes. Cities rely heavily on commercial property tax revenue. On a broader note and if there is a recession, it's worth remembering that in downturns Class A office market rents often drop 15% or so, yet demand for Class B and Class C space falls so greatly that you can almost give it away.

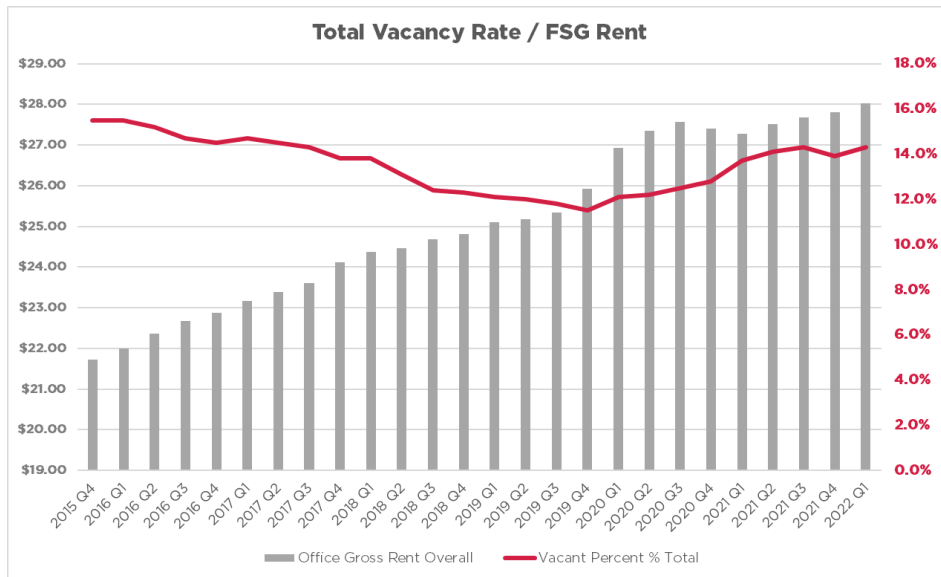
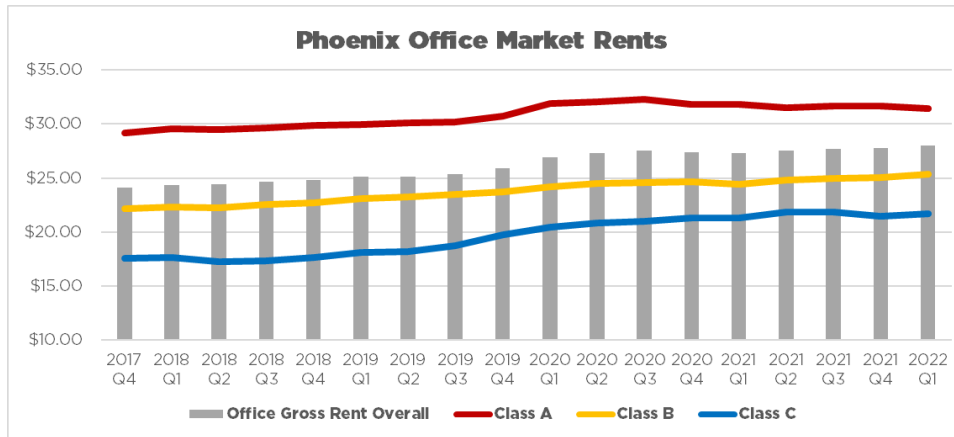
Here's to hoping that neither scenario comes to pass.



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### 1st Quarter Data



Despite the appearances in the second half last year that sublease space coming to the market was slowing, according to the most current first quarter numbers it has not. Instead, and other than little change between the third quarter and fourth quarter of 2020, it has climbed steadily since the most recent low, which happened during the third quarter of 2019 (remember then, markets were red hot, everywhere!) when there was 1,378,280 square feet of sublease space available. At the close of March, the Metro Phoenix office market had over 5.5 million square feet of sublease space on the market, which now totals 14.6% of all available office space in the region. For perspective, in the last dozen years or so at any given time there was, on average, about 2 million square feet of sublease space available.

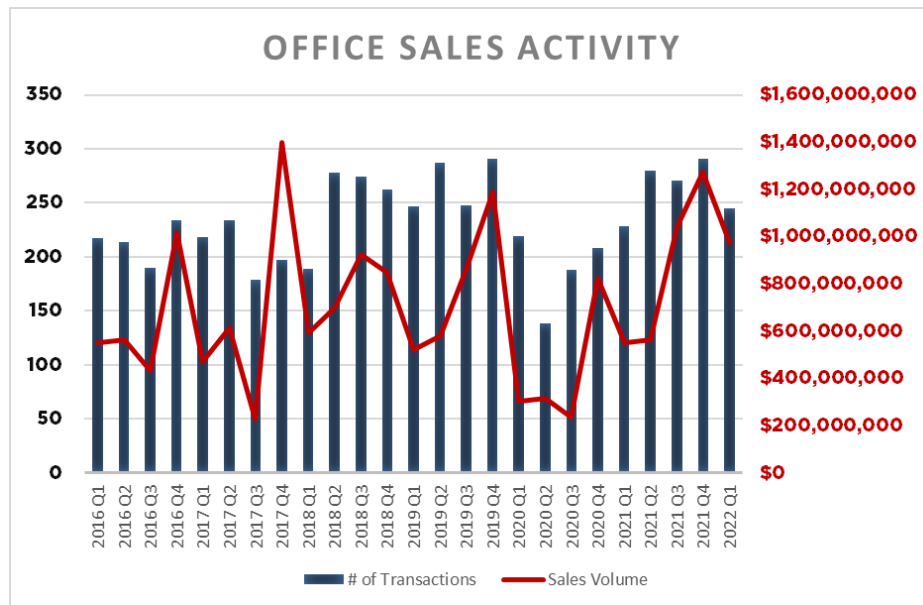
The overall office vacancy rate increased a marginal 20 basis points to 14.3% at the end of the first quarter. There were 623 completed leases in the first quarter, virtually the same number as the fourth quarter last year, and more or less in line with historical averages. The recent low for a single quarter, not surprisingly, was 440 signed leases in the second quarter of 2020 during the depths of the pandemic. By comparison, for the 20 quarters before the pandemic, or 3Q2015 to 1Q2020, the average number of leases signed monthly was 690 transactions.

Unfortunately, the office market gave back all of the positive absorption from the fourth quarter, and then some. During the first quarter this year, absorption was negative net 828,848 square feet, whereas it was a net positive 788,570 square feet in the fourth quarter last year.



During 2021 overall net absorption was negative over 1.1 million, so the first quarter numbers are a bit troubling but no cause for panic, as the overall fundamentals of the Phoenix economy and employment data remains strong. For more details on the regional economy read the Economic Outlook Report for this quarter.

At the close of the first quarter, there was 1.6 million square feet of office space under construction in Metro Phoenix.

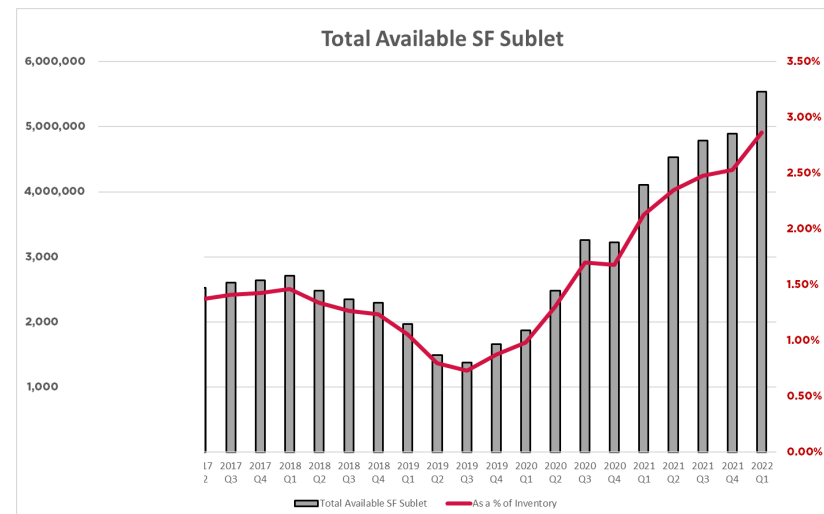


### Biggest Sales

The top sales for the first quarter, as measured by sale price, were \$385 million, \$23 million, \$18.2 million and \$13.225 million, respectively.

### Largest Leases


Carvana, the online and previously owned vehicle dealer (NYSE: CVNA), executed the largest direct lease in the first quarter this year (82,257 square feet) near its headquarters in Tempe on Rio Salado Parkway and also agreed to sublease a substantial portion of the University of Phoenix’s buildings at the Riverpoint campus, or 267,962 square feet as the University reduces its physical footprint and makes a more permanent transition to remote working and course instruction. Aircraft maintenance company AeroCheck (which has a facility at Sky Harbor Airport) inked the second largest office lease of the quarter, while local banking institution, Alliance Bank, took the third largest lease in the period and Clayco, a construction engineering company based in Chicago, signed the 4th biggest lease in the quarter.






## Q1 Top Leases

**1** **1415 W 3rd St**



Submarket	Tempe
Tenant	Carvana
Size	82,257 SF
Class	A
Move in Date	06/18/2022

**2** **5615 S Sossaman Rd**



Submarket	Mesa Gateway 202
Tenant	AeroCheck
Size	73,826 SF
Class	B
Move in Date	08/27/2022

**3** **1 E Washington St**



Submarket	Downtown Phoenix
Tenant	Alliance Bank
Size	45,996 SF
Class	A
Move in Date	Renewal/Expansion

**4** **4300 E Camelback Rd**




Submarket	Camelback Corridor
Tenant	Clayco
Size	36,054 SF
Class	A
Move in Date	01/01/2023

Photos & Information provided by CoStar


## Q1 Top Sales

**1** **4 Buildings - The Esplanade**



Sale Price	\$385,000,000
Price/SF	\$392.84
Submarket	Biltmore Phoenix
Size	980,041 SF
Class	A

**2** **Concorde Commerce Center**




Sale Price	\$23,000,000
Price/SF	\$164.10
Submarket	Northwest Phoenix
Size	140,161 SF
Class	B

**3** **3 blgs - Brookstone on Palm Ln**



Sale Price	\$18,200,000
Price/SF	\$143.87
Submarket	Midtown Phoenix
Size	126,506 SF
Class	B

**4** **1920 E Thomas St-Arizona Heart**



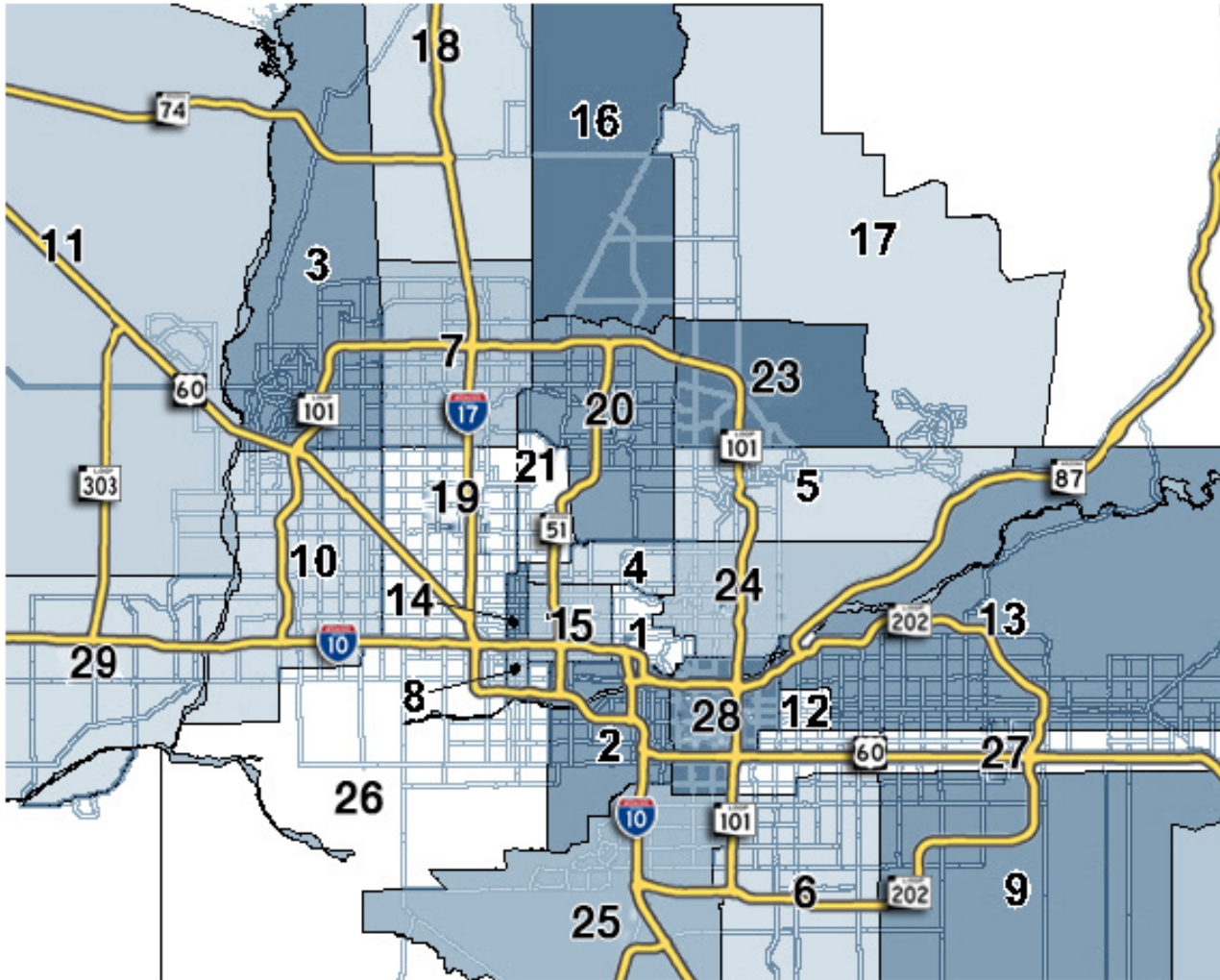
Sale Price	\$13,225,000
Price/SF	\$441.42
Submarket	Midtown Phoenix
Size	30,017 SF
Class	B



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## 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	4,022,564	610,605	15.2%	(74,131)	-	-	\$27.02
Airport Area	6,503,864	983,991	15.1%	(82,939)	-	-	\$21.93
Arrowhead	4,624,908	432,948	9.4%	12,126	-	44,000	\$28.44
Camelback Corridor	8,908,118	1,573,513	17.7%	120,973	-	251,494	\$34.95
Central Scottsdale	9,090,620	1,307,266	14.4%	(37,228)	-	-	\$28.36
Chandler	12,737,142	2,103,186	16.5%	(219,919)	-	14,000	\$29.17
Deer Valley/Airport	12,330,258	2,554,230	20.7%	(386,444)	-	-	\$26.01
Downtown	11,420,763	2,129,741	18.6%	211,921	-	-	\$31.66
Gateway Airport/Loop 202	2,920,242	182,201	6.2%	(8,027)	-	26,358	\$31.33
Glendale	3,610,117	397,677	11.0%	33,503	-	-	\$27.20
Loop 303/Surprise	2,665,219	195,137	7.3%	4,292	-	-	\$27.85
Mesa Downtown	1,519,362	97,112	6.4%	12,050	-	-	\$21.83
Mesa East	4,845,774	493,891	10.2%	(31,425)	-	36,000	\$33.19
Midtown	13,098,418	2,686,700	20.5%	(112,458)	-	-	\$24.72
Midtown/Central Phoenix	6,018,941	355,322	5.9%	(7,732)	-	-	\$23.36
N Phoenix/Cave Creek	148,013	1,330	0.9%	1,330	-	-	\$24.03
N Scottsdale/Carefree	1,857,678	183,493	9.9%	(15,878)	-	-	\$25.97
North I-17	897,435	118,456	13.2%	10,205	-	-	\$25.97
Northwest Phoenix	11,048,433	2,068,842	18.7%	(17,468)	-	-	\$21.55
Paradise Valley	5,390,789	563,782	10.5%	(15,139)	-	-	\$28.59
Piestewa Peak Corridor	3,422,482	352,572	10.3%	39,071	-	-	\$24.14
Pinal County	1,678,012	157,632	9.4%	11,835	-	22,954	\$14.68
Scottsdale Airpark	14,070,141	2,147,800	15.3%	(48,315)	-	32,054	\$30.23
Scottsdale South	7,702,866	1,152,204	15.0%	(168,486)	-	244,094	\$34.14
South Tempe/Ahwatukee	7,916,536	1,174,442	14.8%	(59,216)	-	-	\$26.34
Southwest Phoenix	4,979,272	208,338	4.2%	(1,213)	-	-	\$27.35
Superstition Corridor	6,935,888	756,492	10.9%	76,353	-	10,791	\$24.59
Tempe	19,882,021	2,504,925	12.6%	(51,787)	-	635,526	\$29.37
West I-10	2,598,101	159,066	6.1%	(24,702)	-	288,642	\$30.71
<b>Total Valley</b>	<b>193,288,929</b>	<b>27,652,894</b>	<b>14.3%</b>	<b>(828,848)</b>	<b>-</b>	<b>1,605,913</b>	<b>\$28.02</b>
<b>2021 Q4</b>	<b>193,431,159</b>	<b>26,966,276</b>	<b>13.9%</b>	<b>887,230</b>	<b>277,300</b>	<b>1,541,899</b>	<b>\$27.80</b>
<b>2021 Q3</b>	<b>193,251,599</b>	<b>27,673,946</b>	<b>14.3%</b>	<b>(234,331)</b>	<b>427,064</b>	<b>1,560,145</b>	<b>\$27.67</b>
<b>2021 Q2</b>	<b>192,971,578</b>	<b>27,161,494</b>	<b>14.1%</b>	<b>(507,600)</b>	<b>281,838</b>	<b>1,850,234</b>	<b>\$27.51</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.

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