

MARKETBEAT

Phoenix

Office Q4 2018



PHOENIX OFFICE

Economic Indicators

	Q4 17	Q4 18	12-Month Forecast
Phoenix Employment	2,054k	2,137k	▲
Phoenix Unemployment	4.0%	3.9%	▼
U.S. Unemployment	4.1%	3.7%	▼

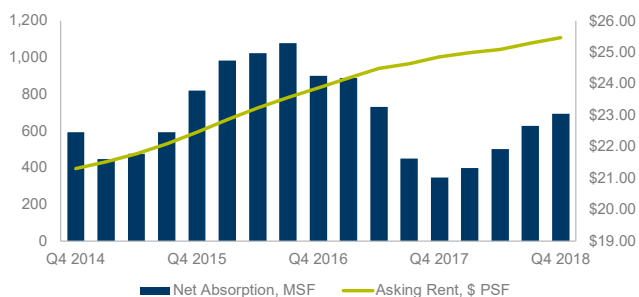
*Q4 data is based on the U.S. Bureau of Labor Statistics, All Employees: Total Nonfarm in Phoenix-Mesa-Scottsdale, AZ (MSA).

Market Indicators (Overall, All Classes)

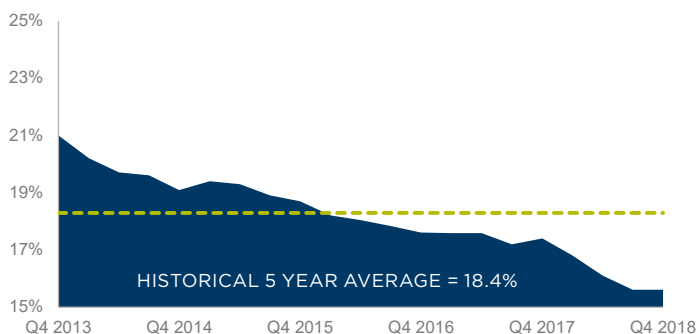
	Q4 17	Q4 18	12-Month Forecast
Vacancy	17.4%	15.6%	▼
Net Absorption (sf)	383k	640k	▲
Under Construction (sf)	1,755k	2,713k	▲
Average Asking Rent*	\$25.11	\$25.83	▲

*Rental rates reflect overall gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent 4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The Metro Phoenix job market continued to improve, adding over 82,400 jobs year-over-year through December. During the same time period, the unemployment rate remained at 3.9%. According to the Bureau of Labor Statistics, the Phoenix metropolitan statistical area added 25,000 office sector jobs through the fourth quarter 2018. The three sectors that make up office employment are: business & professional services, information/technology and financial activities.

Market Overview

In the fourth quarter of 2018, vacancy in the Metro Phoenix office market stood at 15.6%, dropping 180 basis-points (bps) from the fourth quarter 2017 rate of 17.4%. This is the lowest vacancy rate since fourth quarter 2007 (14.3%).

The Metro Phoenix office market continued to experience robust demand in fourth quarter 2018, absorbing +640,000 square feet (sf). This brings the 2018 total to +2.8 million square feet (msf), more than double the square footage absorbed in 2017 (+1.4 msf). This marks the seventh largest net gain for a single year going back to 1999. The largest net gain for any single year posted was +4.2 msf in 2005. In fourth quarter 2018, all building classes (A-C) posted positive occupancy growth led by Class B (+333,000 sf), followed by Class A (+295,000 sf) and Class C (+12,000 sf). For the year, Class B space absorbed over +1.6 msf, followed by Class A with over +1.1 msf and Class C with over +58,000 sf, for a total of +2.8 msf of positive absorption.

Out of Metro Phoenix's 22 office submarkets, 12 experienced positive absorption in the fourth quarter of 2018. Tempe North submarket led with +265,200 sf due in large part to McKesson occupying 177,600 sf in State Farms old buildings. Scottsdale Airpark followed with +153,600 sf with notable move ins such as P.F. Chang's (+53,000 sf) and CVS Caremark (+52,000 sf). The Chandler/Gilbert/202 submarket (+135,500 sf) can be attributed to Deloitte occupying +102,000 sf at the newly developed Commons at Rivulon. Ten of the 22 submarkets experienced negative absorption in fourth quarter 2018, led by the Downtown submarket (-125,800 sf). At the close of 2018, 18 out of 22 submarkets experience positive annual occupancy growth led by Tempe North (+1.0 msf), Price Corridor (+450,000 sf) and Chandler/Gilbert/202 (+325,000 sf) submarkets. The Metrocenter (-168,000 sf) and West Phoenix (-56,000 sf) submarkets experienced negative absorption.

Throughout 2018, developers delivered just under 1.3 msf of new product to the Metro Phoenix office market. Seven speculative projects introduced over 734,000 sf and three built-to-suits (bts) delivered over 545,000 sf. Currently, Metro Phoenix has 2.7 msf

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under construction, with 13 speculative projects totaling 2.2 msf and four bts projects totaling 563,000 sf. The Tempe North submarket accounts for six of the 17 projects under construction totaling 1.2 msf, followed by Price Corridor with four projects totaling 623,000 sf. Class A product continues to dominate the entire market with 14 projects under construction accounting for over 2.3 msf. Of the 2.3 msf of Class A product under construction, 2.1 msf is expected to deliver by the end of 2019.

Asking rents are up 2.8% year-over-year and are up more than 23.3% from the post-recession low point reached in the first quarter 2013 (\$19.82 psf).

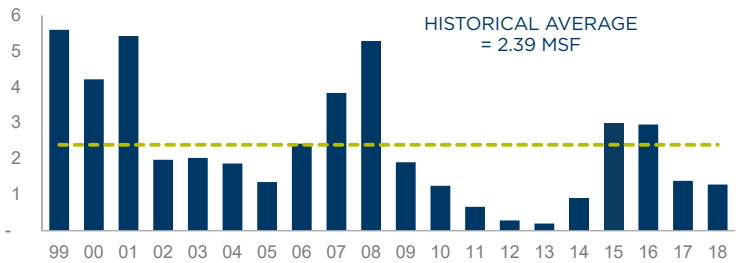
The overall rent in the Metro Phoenix office market increased in fourth quarter 2018, to \$25.83 per square foot (psf) on an annual full-service basis. This accounts for a 2.8% (\$0.70 psf) increase from fourth quarter 2017. The Price Corridor submarket led with a 12.3% increase in overall asking rates, followed by East-Central Phoenix (9.4%) and Deer Valley (8.7%). The Camelback Corridor and South Scottsdale submarkets continue to lead the market in highest rental rates. Glendale/Peoria remains the smallest and least expensive office submarket.

Outlook

- Absorption was positive in all quarters of 2018; and in 18 of 22 submarkets for the year, with no strong winners or losers. With the bulk of development concentrated in just three submarkets (Tempe North, Price Corridor and Downtown), Cushman & Wakefield expects submarket absorption to be more uneven, with higher highs and lower lows, in 2019 and 2020.
- Demand for coworking space increased throughout 2018 with firms such as WeWork, Workuity, Spaces and Industrious increased their footprints in Metro Phoenix. This trend is expected to continue in 2019 as these firms expand further into large blocks of vacant space and new companies like Serendipity Labs and Novel Coworking enter the market.
- Bts projects can move very quickly in Metro Phoenix. Freedom Financial is expected to deliver the second of their two bts buildings in the Tempe North submarket within five quarters. The first building broke ground in January 2018 and phase two is expected to deliver first quarter 2019. Phoenix has shorter construction periods than other cities, so the current pipeline for 2020 deliveries is not yet complete.
- Vacancy rates dropped considerably during 2018, finishing at 15.6%, declining over 180 bps since fourth quarter 2017. The vacancy rate is anticipated to drop in 2019. Arizona's high employment growth and favorable outlook should yield considerable growth in population and GDP, which outpaces the country as a whole.

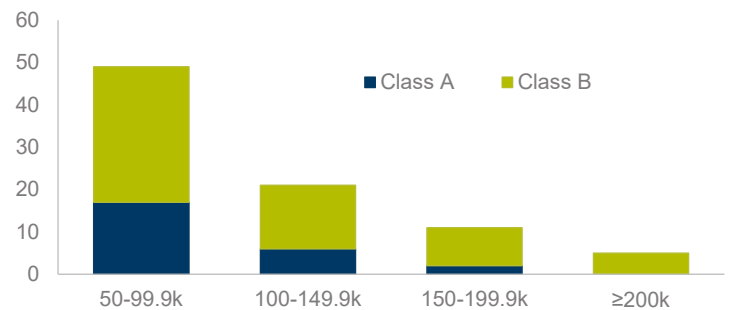
New Supply

NEW INVENTORY TO DELIVER IN 2018 IS 49% BELOW THE HISTORICAL AVERAGE



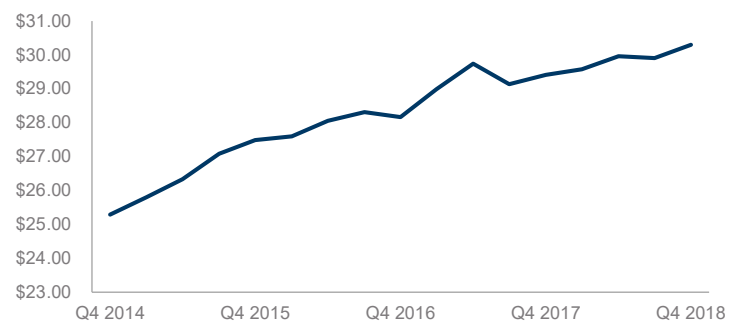
Large Block Space

CONTIGUOUS BLOCKS OF AVAILABLE SPACE



Class A Rate

METRO PHOENIX CLASS A ASKING RENT INCREASED OVER THE TRAILING 4 QUARTERS



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SUBMARKET	TOTAL BLDGS	INVENTORY	SUBLET VACANT	DIRECT VACANT	VACANCY RATE	Q4 NET ABSORPTION	2018 NET ABSORPTION	UNDER CONSTRUCTION	OVERALL AVG ASKING RENT	DIRECT ASKING RENT
Downtown	42	7,217,776	92,824	1,076,346	16.2%	-125,834	129,830	328,402	\$30.16	\$30.87
Midtown	82	10,518,389	48,139	2,388,330	23.2%	-10,891	8,592	0	\$22.59	\$23.15
CBD Total	124	17,736,165	140,963	3,464,676	20.3%	-136,725	138,422	328,402	\$25.07	\$25.59
44th Street Corridor	42	3,389,155	22,083	457,975	14.2%	89,757	145,243	0	\$25.78	\$26.34
Arrowhead	23	1,448,463	2,114	67,508	4.8%	30,320	63,915	0	\$23.72	\$23.69
Camelback Corridor	72	7,364,794	94,211	1,268,928	18.5%	-79,809	-31,890	0	\$33.09	\$33.33
Chandler/Gilbert/202	43	2,762,651	7,000	864,668	31.6%	135,482	324,880	166,888	\$25.56	\$25.56
Deer Valley	73	7,742,376	3,346	939,370	12.2%	-5,800	142,741	150,000	\$24.60	\$24.63
East-Central Phoenix	44	2,020,173	0	215,116	10.6%	38,419	34,713	0	\$21.59	\$21.59
Glendale/Peoria	14	831,080	0	67,354	8.1%	-4,856	9,546	0	\$17.73	\$17.73
Mesa	24	1,239,068	20,816	133,934	12.5%	14,336	61,346	0	\$20.79	\$20.76
Metrocenter	67	4,584,900	11,904	1,266,548	27.9%	-49,850	-167,888	0	\$20.38	\$20.45
N Phoenix/Desert Ridge	36	2,534,993	47,085	309,369	14.1%	24,521	-18,194	0	\$25.22	\$25.07
Piestewa Peak Corridor	32	1,972,910	39,534	372,814	20.9%	19,526	38,839	0	\$20.76	\$21.21
Price Corridor	59	6,332,824	3,333	487,138	7.7%	65,690	450,677	623,370	\$28.07	\$28.60
Scottsdale Airpark	145	10,106,532	406,512	1,042,487	14.3%	153,629	259,295	0	\$28.92	\$29.60
Scottsdale Central	67	5,257,817	65,009	484,129	10.4%	-28,557	38,353	0	\$27.21	\$28.32
Scottsdale South	37	4,011,416	45,653	651,168	17.4%	-26,306	10,474	274,338	\$31.25	\$32.05
Sky Harbor	54	4,902,235	40,098	900,954	19.2%	114,667	255,041	0	\$22.99	\$23.53
South I-10/Ahwatukee	56	3,181,548	48,048	326,634	11.8%	53,918	13,999	0	\$21.49	\$21.69
Superstition Corridor	45	2,425,915	13,051	326,704	14.0%	-12,962	59,445	0	\$20.50	\$21.10
Tempe North	98	11,407,422	164,674	957,125	9.8%	265,257	1,011,984	1,169,628	\$27.93	\$28.12
West Phoenix	37	1,668,149	0	295,202	17.7%	-20,709	-55,710	0	\$18.83	\$18.83
Suburban Total	1,068	85,184,421	1,034,471	11,435,125	14.6%	776,673	2,646,809	2,384,224	\$26.03	\$26.18

CLASS	TOTAL BLDGS	INVENTORY	SUBLET VACANT	DIRECT VACANT	VACANCY RATE	Q4 NET ABSORPTION	2018 NET ABSORPTION	UNDER CONSTRUCTION	OVERALL AVG ASKING RENT	DIRECT ASKING RENT
Class A	266	42,520,988	689,727	5,075,625	13.6%	295,039	1,141,002	2,339,256	\$30.30	\$30.99
Class B	741	53,053,521	449,736	8,720,432	17.3%	333,019	1,586,059	373,370	\$23.59	\$23.83
Class C	185	7,346,077	35,971	1,103,744	15.5%	11,890	58,170	0	\$18.69	\$18.67
Grand Total	1,192	102,920,586	1,175,434	14,899,801	15.6%	639,948	2,785,231	2,712,626	\$25.83	\$26.05

CUSHMAN & WAKEFIELD HAS RE-CLASSIFIED THE COMPETITIVE BUILDING INVENTORY AND CHANGED THE SUBMARKET BOUNDARIES. ASKING RENTS CONVERTED TO FULL SERVICE. THE AIRPORT SUBMARKET IS NOW CALLED SKY HARBOR. NET ABSORPTION IS THE NET CHANGE IN PHYSICALLY OCCUPIED SPACE BETWEEN THE CURRENT PERIOD AND THE PREVIOUS PERIOD.

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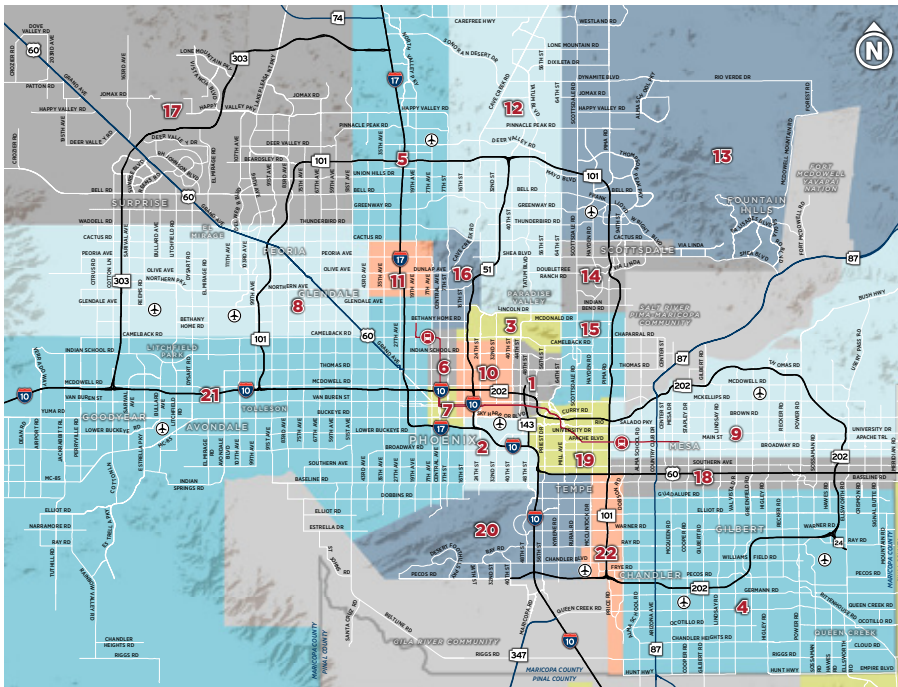
Key Lease Transactions Q4 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Workspace Cotton Center	160,910	Aetna	New Lease	Metrocenter
Commons at Rivulon - Bldg B	102,434	Deloitte	New Lease	Downtown
2900 S Sunland Dr	98,632	McKesson	Sublease	Tempe North
Two Gateway	81,306	Care1st Health	New Lease	Sky Harbor Airport
2800 S Sunland Dr	79,007	McKesson	Sublease	Midtown

Key Sales Transactions Q4 2018

PROPERTY	SF	SELLER/BUYER	PRICE/PSF	SUBMARKET
Chase Tower	723,922	Taconic Capital Advisors LP/Vincent Viola	\$96,600,000/\$133	Downtown
Missouri Falls	190,419	ICIC Commercial Investments/El Dorado Holdings Inc	\$41,400,000/\$217	Midtown
Raintree Corporate Center - IV	171,710	iStar Financial Inc/Oaktree Capital Management LP	\$47,000,000/\$274	Scottsdale Airpark
Raintree Corporate Center - III	163,179	iStar Financial Inc/Oaktree Capital Management LP	\$45,000,000/\$274	Scottsdale Airpark
Papago Spectrum	159,764	GLL Real Estate Partners Inc/Alidade Capital LLC	\$34,000,000/\$213	Tempe North

OFFICE SUBMARKETS



- 1 - 44th Street Corridor
- 2 - Sky Harbor*
- 3 - Camelback Corridor
- 4 - Chandler/Gilbert/202
- 5 - Deer Valley
- 6 - Midtown
- 7 - Downtown
- 8 - Glendale/Peoria
- 9 - Mesa
- 10 - East-Central Phoenix
- 11 - Metrocenter
- 12 - N Phoenix/Desert Ridge
- 13 - Scottsdale Airpark
- 14 - Scottsdale Central
- 15 - Scottsdale South
- 16 - Piestewa Peak Corridor
- 17 - Arrowhead
- 18 - Superstition Corridor
- 19 - Tempe North
- 20 - South I-10/Ahwatukee
- 21 - West Phoenix
- 22 - Price Corridor

*The Airport Submarket is now called Sky Harbor

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