MARKETBEAT
Phoenix
Office Q1 2019

CUSHMAN & WAKEFIELD

PHOENIX OFFICE

Economic Indicators

	Q1 18	Q1 19	12-Month Forecast
Phoenix Employment	2,084k	2,146k	▲
Phoenix Unemployment	4.3%	4.4%	▲
U.S. Unemployment	4.1%	3.8%	▼

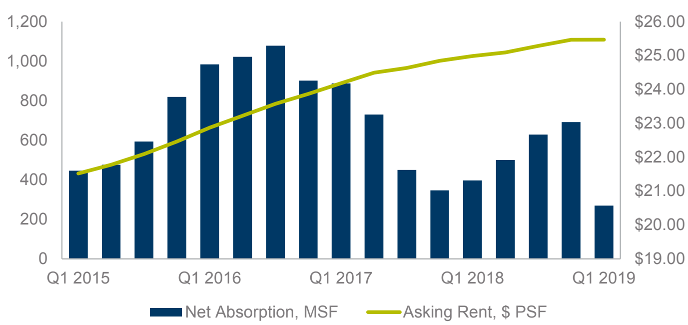
*Q1 data is based on the U.S. Bureau of Labor Statistics, All Employees: Total Nonfarm in Phoenix-Mesa-Scottsdale, AZ (MSA).

Market Indicators (Overall, All Classes)

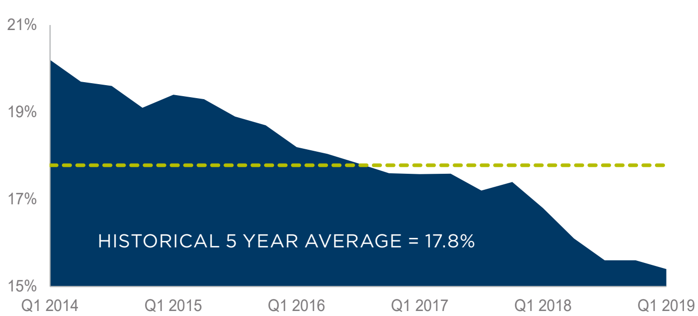
	Q1 18	Q1 19	12-Month Forecast
Vacancy	16.8%	15.4%	▼
Net Absorption (sf)	865k	269k	▼
Under Construction (sf)	2.6M	2.5M	▼
Average Asking Rent*	$25.22	$25.33	▲

*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 62,300 jobs year-over-year through the first quarter of 2019. During the same time period, the unemployment rate increased 10 basis points (bps), rising to 4.4%. According to the Bureau of Labor Statistics, the Phoenix metropolitan statistical area added 12,200 office sector jobs in the last four quarters. The three sectors that make up office employment are: business & professional services, information/technology and financial activities.

Market Overview

In the first quarter of 2019, vacancy in the Metro Phoenix office market was 15.4%. This marks the lowest vacancy rate since the second quarter of 2008 when it stood at 16.6%. The rate dropped 20 bps quarter-over-quarter and 120 bps from the first quarter of 2018.

The Metro Phoenix office market continued to experience positive occupancy growth and absorbed more than 268,000 square feet (sf) during the first quarter of 2019. This marked the 23rd straight quarter of positive absorption since the third quarter of 2013. More than half (13) of Metro Phoenix's 22 office submarkets experienced occupancy gains in the first quarter of 2019. The Tempe North submarket led the way with 203,000 sf of net absorption, due in large part to Lennar occupying 90,000 sf at The Alameda and Benchmark Electronics occupying 63,000 sf at RIO2100. The Price Corridor and Midtown submarkets experienced notable occupancy growth of 121,000 sf and 116,000 sf, respectively. Eight of the 22 submarkets in the Metro Phoenix office market experienced negative absorption during the first quarter of 2019, led by the Scottsdale Airpark submarket with -155,000 sf, attributed to Forthright Funding vacating 28,000 sf at Kierland Corporate Center and Superior Home Solutions vacating 20,000 sf at Scottsdale Quarter. Across the market, Class A and C office buildings recorded over 243,000 and 64,000 sf of positive absorption, respectively. Class B buildings reported a loss in absorption, with -39,000 sf.

Construction in the Metro Phoenix office market remains robust in the first quarter of 2019, with 2.5 million square feet (msf) of projects currently under construction. The Grand at Papago Center – Phase II is the largest project that is under construction, at 352,000 sf. The Tempe North submarket dominated Class A projects in construction square footage with over 1.1 msf, or 52% of the total Class A projects under construction across Metro Phoenix. Price Corridor has 624,000 sf under construction, accounting for 17% of the total Class A projects under construction. The two submarkets combined account for 891,000 sf under construction, or 42% of the total Class A projects under construction.

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Cushman & Wakefield is currently tracking 15 projects under construction, 12 spec builds and three build-to-suits (bts). We are projecting 14 of the 15 buildings under construction to deliver by the end of 2019, with over 1 msf of new inventory. Eight of the 11 Class A projects under construction are spec buildings. Tempe North accounts for four spec projects, which makes up all of Tempe North's total new inventory. Scottsdale South submarket accounts for two Class A spec projects, for a total of 274,000 sf of new inventory.

During the first quarter of 2019, three projects delivered, adding 230,000 sf of new inventory with 29% preleased. Included in this amount was 63,000 sf of new inventory was Benchmark Electronics' bts, located at RIO2100. Rivulon delivered the second of two spec projects at 97,000 sf; the first delivered in the fourth quarter of 2018. Chandler/Gilbert/202 submarket delivered The Reserve at San Tan, adding 69,000 sf.

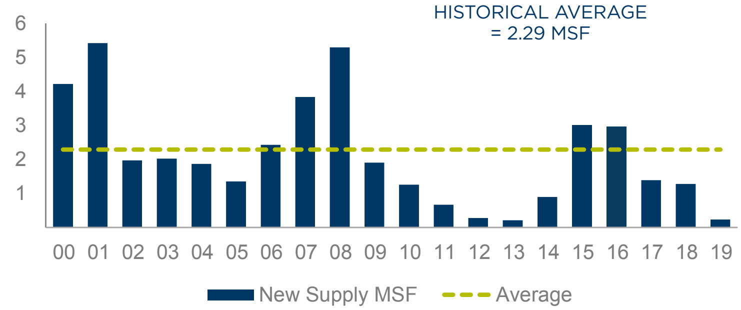
The overall rental rate in the Metro Phoenix office market decreased in the first quarter of 2019, to $25.33 per square foot (psf) on an annual full-service basis. This marks a $0.50 psf decrease from the fourth quarter of 2018 ($25.83) and a $0.11 psf increase from the first quarter of 2018 ($25.22). Despite the overall market decline, the Piestewa Peak Corridor submarket led all others with an 11.7% increase in overall asking rents, followed by West Phoenix at 4.3% and Superstition Corridor at 3.1%. Camelback Corridor and Scottsdale South continue to lead the market in highest rental rates at $32.93 and $31.38, respectively. East Central Phoenix ($18.11) and Glendale/Peoria ($17.77) submarkets remain the smallest and least expensive office submarkets.

Outlook

- **14 of the 15 under construction projects Cushman & Wakefield is tracking are expected to be completed by the fourth quarter of 2019. This means that of the 2.5 msf currently under construction, 2.3 msf is expected to be added to the market's overall inventory before the end of the year.**
- **Due to the rising costs of labor and materials, tenant improvements (TI's) are expected to continue to rise.**
- **Class A office continues to remain strong with the vacancy rate falling 40 bps to 13.6%, while Class B vacancy remained the same from the previous quarter (17.3%) and Class C decreased by 10 bps (15.5%). This trend is expected to continue throughout 2019.**
- **Coworking space grew in the Metro Phoenix market with Serendipity Labs entering the Camelback Corridor submarket this quarter. With other coworking providers like WeWork, Industrious, Regus, Spaces and Workuity already in market, Cushman & Wakefield expects coworking space to continue to grow during the remainder of 2019 and into 2020.**

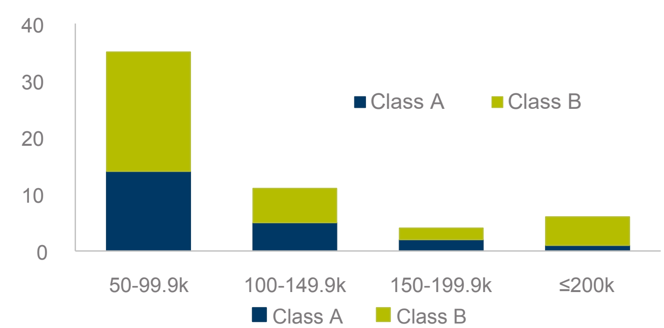
New Supply

NEW INVENTORY TO DELIVER IN 2019 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	Q1 NET ABSORPTION	2019 NET ABSORPTION	UNDER CONSTRUCTION	OVERALL AVG ASKING RENT	DIRECT ASKING RENT
Downtown	42	7,302,788	100,604	1,086,948	16.3%	-18,382	-18,382	328,402	$29.79	$30.70
Midtown	82	10,561,369	48,342	2,278,495	22.0%	116,019	116,019	0	$22.01	$22.95
CBD Total	**124**	**17,864,157**	**148,946**	**3,365,443**	**19.7%**	**97,637**	**97,637**	**328,402**	**$24.89**	**$25.70**
44th Street Corridor	42	3,493,052	20,383	453,571	13.6%	6,104	6,104	0	$23.15	$23.63
Arrowhead	23	1,446,587	2,934	65,058	4.7%	1,630	1,630	0	$23.94	$23.86
Camelback Corridor	72	7,375,697	83,796	1,206,480	17.5%	72,863	72,863	0	$32.93	$33.36
Chandler/Gilbert/202	45	3,075,594	7,000	893,492	29.3%	40,816	40,816	40,000	$23.63	$23.60
Deer Valley	72	7,768,297	6,415	936,566	12.1%	-6,226	-6,226	150,000	$24.42	$24.45
East-Central Phoenix	43	1,928,669	0	219,895	11.4%	-4,779	-4,779	0	$18.11	$18.11
Glendale/Peoria	14	827,799	0	67,354	8.1%	0	0	0	$17.77	$17.77
Mesa	24	1,219,383	20,816	117,379	11.3%	16,555	16,555	0	$20.87	$21.14
Metrocenter	66	4,612,826	16,305	1,384,169	30.4%	-129,287	-129,287	0	$19.77	$19.87
N Phoenix/Desert Ridge	35	2,397,186	48,546	273,955	13.5%	33,953	33,953	0	$25.35	$25.65
Piestewa Peak Corridor	32	2,010,074	28,234	374,975	20.1%	9,139	9,139	0	$23.21	$23.60
Price Corridor	59	6,328,900	3,333	365,709	5.8%	121,429	121,429	623,370	$27.94	$28.61
Scottsdale Airpark	144	10,130,483	222,472	1,381,818	15.8%	-155,291	-155,291	0	$27.14	$29.77
Scottsdale Central	67	5,254,354	54,871	527,761	11.1%	-33,494	-33,494	0	$27.66	$28.77
Scottsdale South	37	4,092,043	66,064	621,273	16.8%	9,484	9,484	274,338	$31.38	$32.46
Sky Harbor	54	4,842,419	46,628	885,575	19.3%	8,849	8,849	0	$21.16	$21.50
South I-10/Ahwatukee	56	3,091,790	36,368	330,207	11.9%	8,107	8,107	0	$21.46	$22.01
Superstition Corridor	44	2,464,319	8,577	330,500	13.8%	-3,694	-3,694	0	$21.15	$21.44
Tempe North	99	11,450,894	179,423	802,233	8.6%	203,643	203,643	1,106,628	$27.99	$28.42
West Phoenix	36	1,665,697	0	311,002	18.7%	-28,586	-28,586	0	$19.64	$19.64
Suburban Total	**1,064**	**85,476,063**	**852,165**	**11,548,972**	**14.5%**	**171,215**	**171,215**	**2,194,336**	**$25.46**	**$25.88**

CLASS	TOTAL BLDGS	INVENTORY	SUBLET VACANT	DIRECT VACANT	VACANCY RATE	Q1 NET ABSORPTION	2019 NET ABSORPTION	UNDER CONSTRUCTION	OVERALL AVG ASKING RENT	DIRECT ASKING RENT
Class A	269	42,817,351	508,935	5,146,256	13.2%	243,301	243,301	2,109,368	$31.26	$29.70
Class B	739	53,284,842	449,230	8,755,839	17.3%	-39,273	-39,273	413,370	$23.44	$23.21
Class C	180	7,238,027	42,946	1,012,320	14.6%	64,824	64,824	0	$17.61	$17.64
Grand Total	**1,188**	**103,340,220**	**1,001,111**	**14,914,415**	**15.4%**	**268,852**	**268,852**	**2,522,738**	**$25.33**	**$25.84**

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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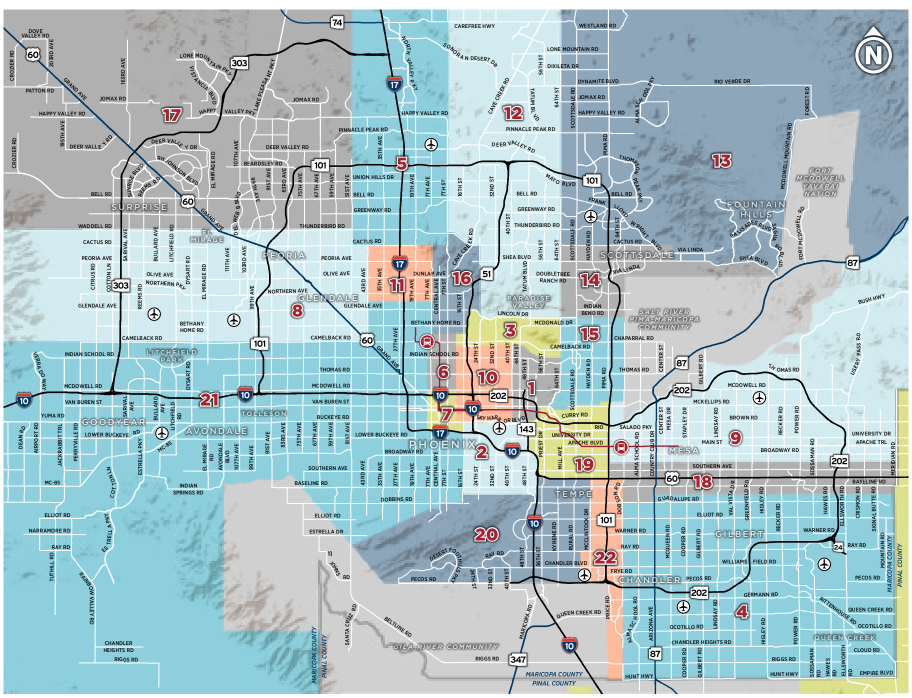
Key Lease Transactions Q1 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
One Chandler Corporate Center	117,176	Allstate	New Lease	Price Corridor
The Alameda	90,000	Lennar	New Lease	Tempe North
Benchmark Electronics	63,500	Benchmark Electronics	New Lease	Tempe North
CenturyLink Tower	42,526	HDR Engineering	New Lease	Midtown
Ugly Duckling Corporate Headquarters	38,029	Synchronoss Technologies	New Lease	44th Street Corridor

Key Sales Transactions Q1 2019

PROPERTY	SF	SELLER/BUYER	PRICE/PSF	SUBMARKET
Phoenix Corporate Center	457,893	Colony Capital/Balfour Pacific	$42,340,000/$92	Midtown
2020 On Central	247,645	Arizona Central Credit Union/Sperry Commercial	$23,888,888/$96	Midtown
The Alameda	236,188	Wentworth Property Company/Ascent Real Estate Advisors	$71,500,000/$302	Tempe North
Stonecreek Pointe	110,766	HighBrook Investors/Madison Marquette	$17,850,000/$161	N. Phoenix/Desert Ridge
La Ronde Centre	106,503	Whiteboard, Inc/Anchor Health Properties	$25,250,000/$237	Arrowhead

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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