

Phoenix Office

Market Forecast

Trends

Absorption	↑
Vacancy	↓
Rental Rate	↑
New Construction	↑

Notable 2016 Transactions

- ADP
111 W Rio Salado Parkway, Tempe
225,000 s.f. leased

- Carvana
1930 W Rio Salado Parkway, Airport Area
70,000 s.f. leased

- State of AZ Attorney General
2005 N Central Avenue, Midtown
68,000 s.f. leased

- Orbital Sciences
1233 S Spectrum Boulevard, Chandler
46,000 s.f. leased

- Western Governors University
432 N 44th Street, 44th Street Corridor
28,000 s.f. leased

The Phoenix office real estate market experienced strong leasing activity, over a million square feet of net absorption and rising rental rates during the fourth quarter. Direct vacancy decreased to 15.1%, a 140 basis points decrease from this time last year. The strong local economy and job creation should drive real estate market growth for many quarters to come. The Phoenix unemployment rate sits at 4.5%, a 60 basis point decrease from the 5.1% recorded this time last year.

The office direct vacancy level of 15.1% marks the lowest vacancy recorded since the second quarter in 2008. Submarkets in Phoenix with the highest direct vacancy rates include North Scottsdale/Carefree at 33.1%, Northwest Phoenix at 23.4% and Midtown at 20.7%. Submarkets with the least vacant space include Pinal County at 7.0%, Mesa Downtown at 7.8% and Tempe at 8.1%. Direct net absorption of over one million s.f. was mostly concentrated in the Scottsdale submarket cluster. Over 2.3 million s.f. of new construction has been delivered this year. Another 1.7 million s.f. of office product is currently under construction, of which one million s.f. is Class A space and the remaining 701,000 s.f. is Class B.

Asking rental rates market wide for office properties increased for the 15th consecutive quarter, to \$23.40/s.f. on a full-service basis, with Class A office going for \$28.20. Overall there was a 4.3% increase for all classes in rates from this time last year. Asking rates remain highest in the Camelback Corridor, where they average \$29.40/s.f. and are growing steadily each quarter. By contrast, the lowest rates are found in the Mesa Downtown submarket, which reported an average asking rent of \$15.60/s.f.

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Area Review

The average sale price in the fourth quarter for office investment assets was \$196/s.f., up from \$145/s.f. this time last year. Average cap rates increased from 7.4% in the

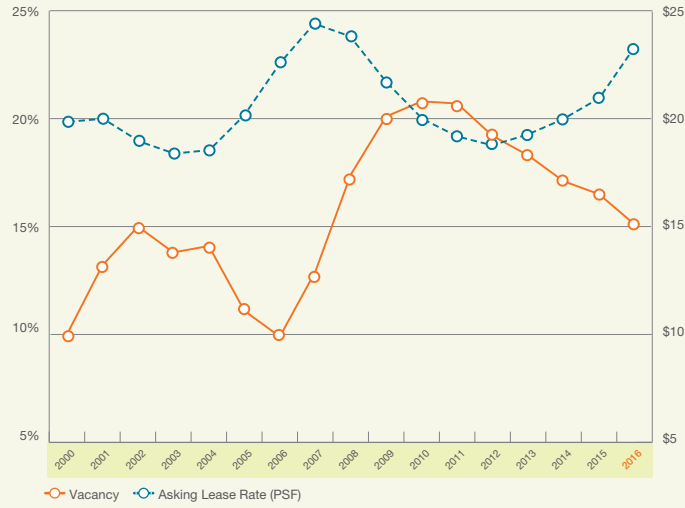
third quarter to 7.6% this quarter. Total dollar volume for office asset sales was \$470 million from 70 transactions.

Source: CoStar

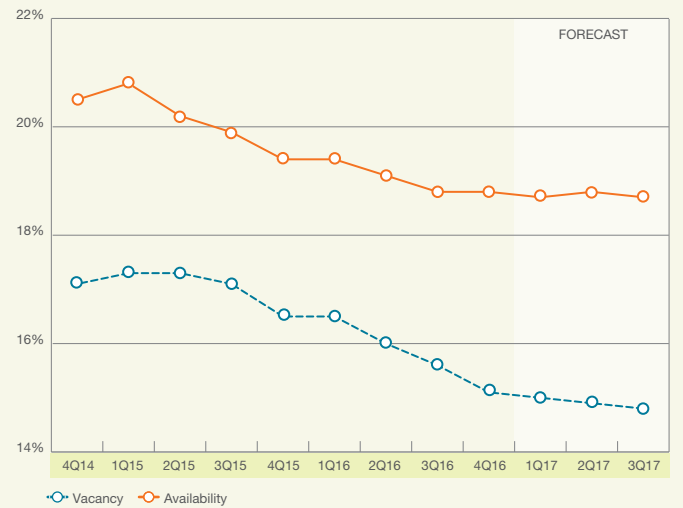
Submarket Statistics

Submarket	Total Inventory	Direct Vacancy Rate	Total Vacancy Rate	Total Available Rate	4Q Direct Net Absorption	YTD Direct Net Absorption	4Q Leasing Activity	YTD Leasing Activity	Average NNN Rental Rate
Airport Area	10,399,563	17.1%	20.7%	23.9%	96,557	28,725	144,382	540,945	\$22.68
South Tempe/Ahwatukee	6,426,950	12.8%	14.3%	20.1%	113,515	101,543	87,775	563,928	\$22.92
Airport	16,826,513	15.5%	18.3%	22.4%	210,072	130,268	232,157	1,104,873	\$22.68
Downtown	10,031,437	11.1%	12.3%	14.6%	(22,368)	57,573	22,728	193,152	\$27.84
Midtown	12,028,968	20.7%	21.2%	24.1%	(9,638)	60,255	125,699	487,750	\$21.84
Central Corridor	22,060,405	16.3%	17.1%	19.8%	(32,006)	117,828	148,427	680,902	\$23.40
44th Street Corridor	3,687,296	14.2%	14.2%	18.0%	15,556	(69,231)	79,720	314,028	\$24.96
Camelback Corridor	8,740,441	17.7%	18.7%	21.1%	(13,949)	189,094	79,273	721,442	\$29.40
Midtown/Central Phoenix	3,835,810	11.5%	12.3%	15.9%	45,568	37,716	51,612	194,678	\$18.24
East Phoenix	16,263,547	15.5%	16.2%	19.2%	47,175	157,579	210,605	1,230,148	\$25.92
Chandler	8,126,803	18.2%	18.7%	18.4%	83,833	189,629	76,782	522,219	\$24.12
Gateway Airport/Loop 202	1,263,149	16.4%	16.6%	19.9%	9,902	32,669	8,713	50,428	\$24.12
Mesa Downtown	931,228	7.8%	7.8%	8.9%	12,487	27,070	2,332	10,648	\$15.60
Mesa East	1,936,173	11.9%	11.9%	12.7%	7,039	21,449	12,169	52,153	\$17.04
Superstition Corridor	4,809,750	16.5%	17.0%	19.9%	(3,648)	215,320	71,046	301,153	\$19.32
Tempe	10,150,264	8.1%	8.5%	10.1%	9,968	1,474,125	307,693	877,954	\$24.48
East Valley	27,217,367	13.2%	13.6%	14.9%	119,581	1,960,262	478,735	1,814,555	\$22.56
N Phoenix/Cave Creek	68,926	19.8%	19.8%	19.8%	(1,300)	8,560	0	1,300	\$20.64
Paradise Valley	3,717,663	13.1%	14.0%	17.1%	53,505	79,417	42,783	251,808	\$23.76
Piestewa Peak Corridor	2,916,294	17.5%	17.8%	20.6%	11,284	58,806	57,081	209,184	\$20.28
North Phoenix	6,702,883	15.1%	15.7%	18.7%	63,489	146,783	99,864	462,292	\$21.96
Arrowhead	2,696,861	12.3%	12.3%	16.8%	73,693	148,490	28,638	164,888	\$23.76
Deer Valley/Airport	10,996,076	16.1%	16.5%	17.7%	77,651	149,680	21,595	371,681	\$22.56
North I-17	482,317	17.4%	17.4%	23.8%	27,561	42,460	0	27,237	\$22.32
Northwest Phoenix	8,414,253	23.4%	23.4%	30.7%	(73,427)	79,045	58,089	269,737	\$18.12
Northwest Phoenix	22,589,507	18.4%	18.6%	22.5%	105,478	419,675	108,322	833,543	\$20.40
Pinal County	776,849	7.0%	7.0%	7.0%	10,997	26,274	5,861	34,575	\$19.32
Central Scottsdale	7,425,642	13.4%	13.8%	17.1%	77,844	193,806	95,824	463,081	\$24.12
N Scottsdale/Carefree	1,131,752	33.1%	33.1%	33.9%	34,567	52,463	11,179	88,935	\$22.68
Scottsdale Airpark	11,968,837	11.7%	12.2%	16.4%	272,582	531,880	183,142	1,101,249	\$27.24
Scottsdale South	5,310,553	12.4%	13.9%	23.0%	(22,349)	(648)	20,434	329,250	\$29.16
Scottsdale	25,836,784	13.3%	13.9%	18.7%	362,644	777,501	310,579	1,982,515	\$26.28
Glendale	2,534,882	19.5%	19.5%	19.9%	84,026	113,853	5,050	74,113	\$23.04
Loop 303/Surprise	1,790,047	12.5%	13.0%	14.9%	30,610	22,391	4,000	48,456	\$23.52
Southwest Phoenix	2,698,258	10.8%	10.8%	11.2%	28,972	51,529	0	37,103	\$20.40
West I-10	1,377,282	9.8%	10.5%	10.2%	17,186	9,092	7,342	65,126	\$23.40
West Phoenix	8,400,469	13.6%	13.8%	14.5%	160,794	196,865	16,392	224,798	\$22.44
Phoenix Total	146,674,324	15.1%	15.9%	18.9%	1,048,224	3,933,035	1,610,942	8,368,201	\$23.40

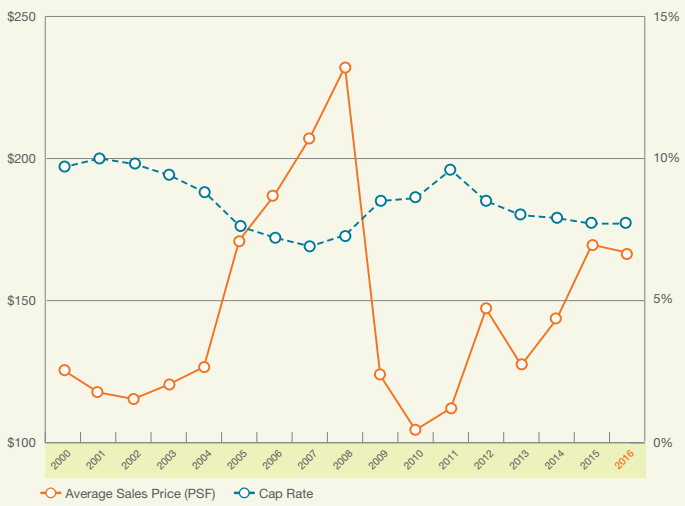
VACANCY VS ASKING LEASE RATE



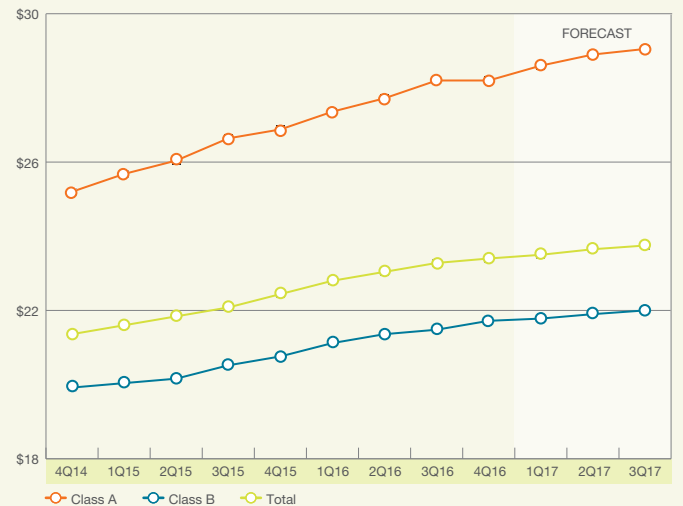
VACANCY VS AVAILABILITY



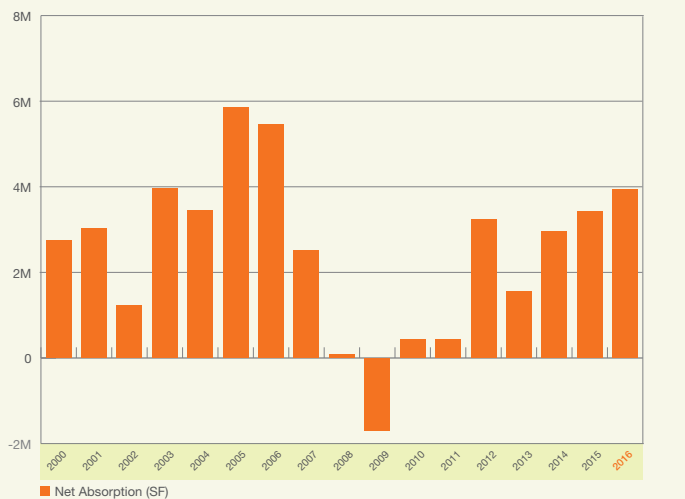
AVERAGE SALES PRICE & CAPITALIZATION RATES



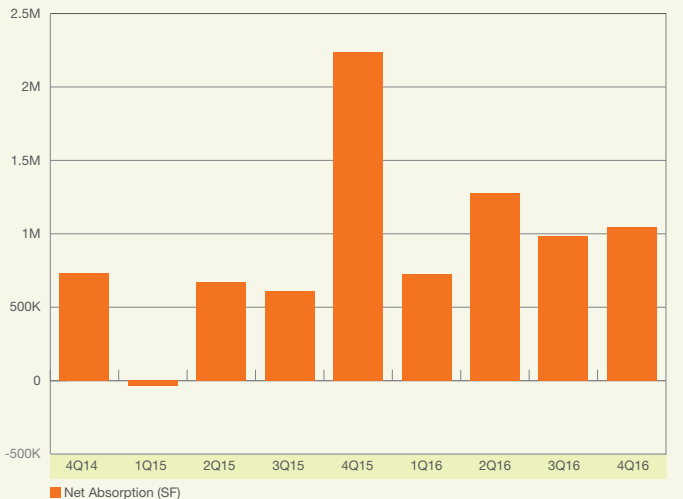
ASKING LEASE RATE



NET ABSORPTION - HISTORICAL



NET ABSORPTION - QUARTERLY



Offices

Seattle
206.296.9600

Bellevue
425.454.7040

South Seattle
206.248.7300

Tacoma
253.722.1400

Olympia
360.705.2800

Portland
503.221.9900

San Francisco
415.229.8888

Redwood Shores
650.769.3600

Silicon Valley
408.970.9400

Sacramento
916.970.9700

Roseville
916.751.3600

Orange County
949.557.5000

Inland Empire
909.764.6500

San Diego
858.509.1200

Carlsbad
760.430.1000

Reno
775.301.1300

Phoenix
602.513.5200

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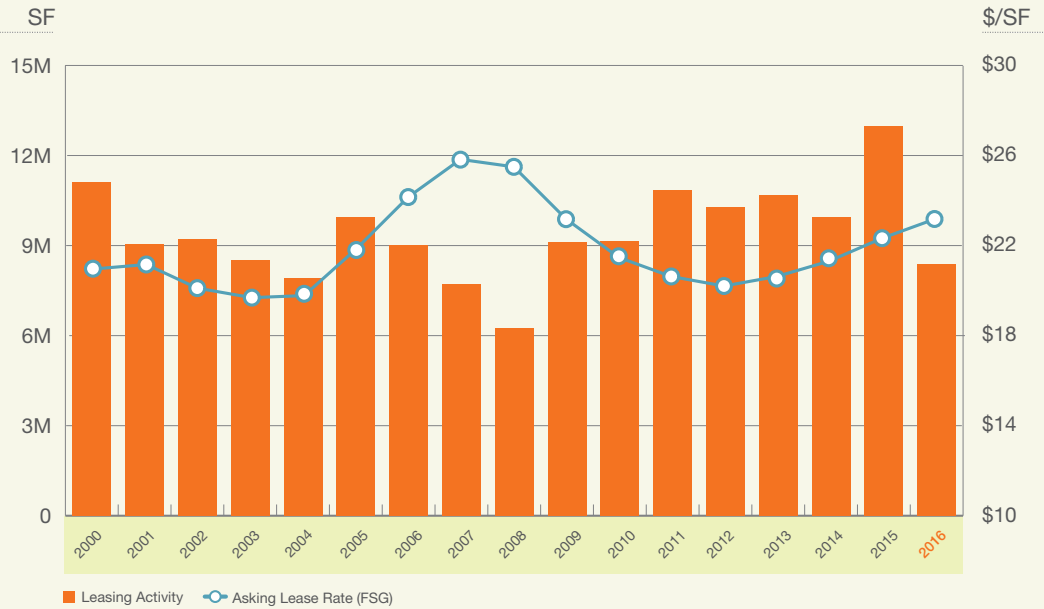
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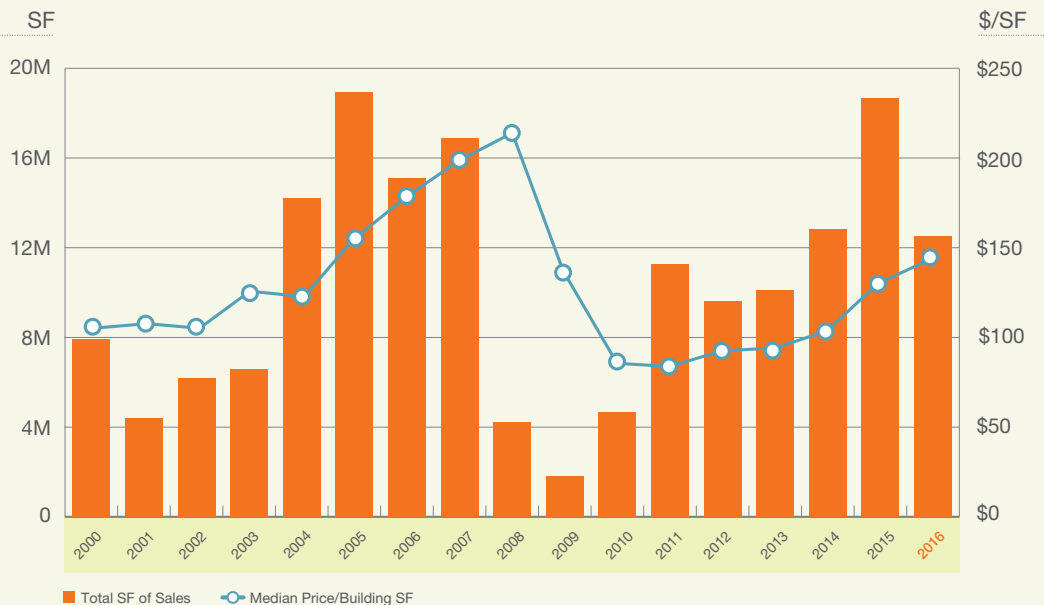
Market Breakdown

	2016	2015	2014	Annual % Change
Vacancy Rate	15.1%	16.5%	17.1%	-8.5%
Availability Rate	18.9%	19.4%	20.5%	-2.6%
Asking Lease Rate	\$23.40	\$22.44	\$21.36	4.3%
Leased SF	8,368,201	12,966,931	9,949,021	-35.5%
Sold SF	12,391,479	18,717,732	12,762,355	-33.8%
Net Absorption	3,933,035	3,476,387	2,957,269	N/A

HISTORICAL LEASING ACTIVITY & ASKING LEASE RATES



HISTORICAL SALES SF & MEDIAN SALE PRICE



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