

Savills Studley Report

Phoenix office sector

Q1 2018



SUMMARY

Market Highlights

LEASING BELOW AVERAGE

Tenants have leased 7.4 msf in the last four quarters, well under the long-term average of 10.2 msf.

AVAILABILITY RATE FALLS *

The overall availability rate, 16.6%, fell 40 basis points from the last quarter of 2017. The Class A availability rate remains unchanged at 17.5%.

RENT PUSHES HIGHER

Phoenix's overall average asking rent increased by 0.8% to \$25.16, and has jumped by 7.4% year-on-year. Class A asking rent rose by 0.8% to \$28.99 and has jumped by 3.6% year-on-year.

SALES INCREASE

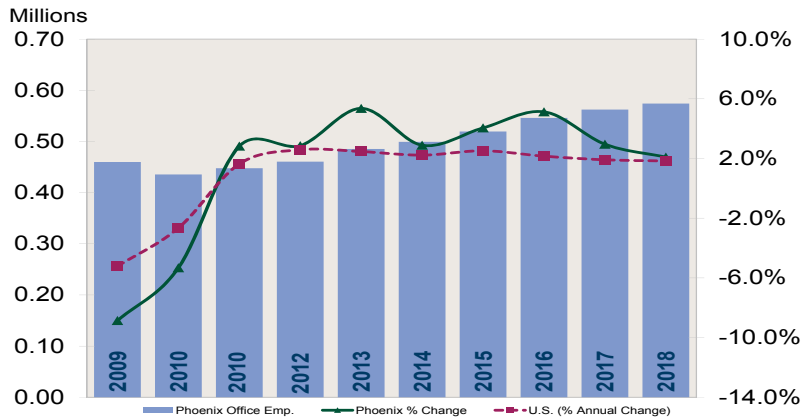
Office property sales during the last six months (through February 2018) totaled \$2.1 billion, a 85% increase compared to the previous six-month total of \$1.1 billion.

*Availability includes all vacant space and space marketed for lease with future occupancy in existing properties, as well as those under construction.

.....
"Job growth in core office-using sectors remained on a slower track in the last several quarters. The number of massive corporate relocations and 100,000-sf-plus leases has also dropped off. Despite this recent moderation, availability has increased only slightly in select submarkets — controlled construction has been a factor."

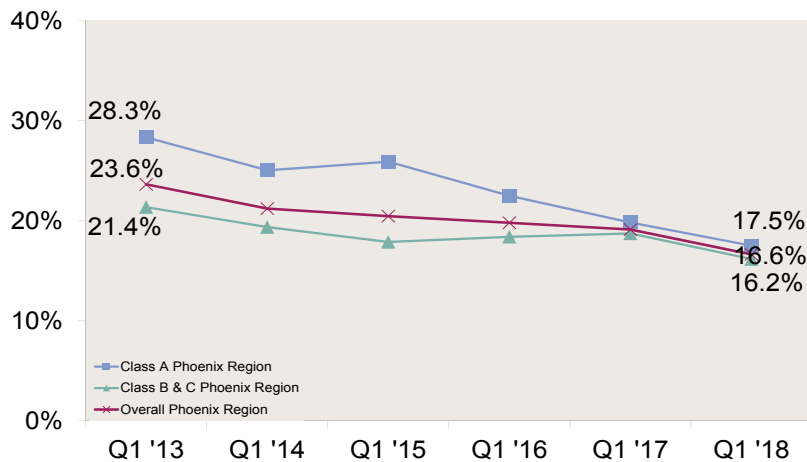
Tiffany Winne,
Executive Vice President
.....

Office-Using Employment Trends

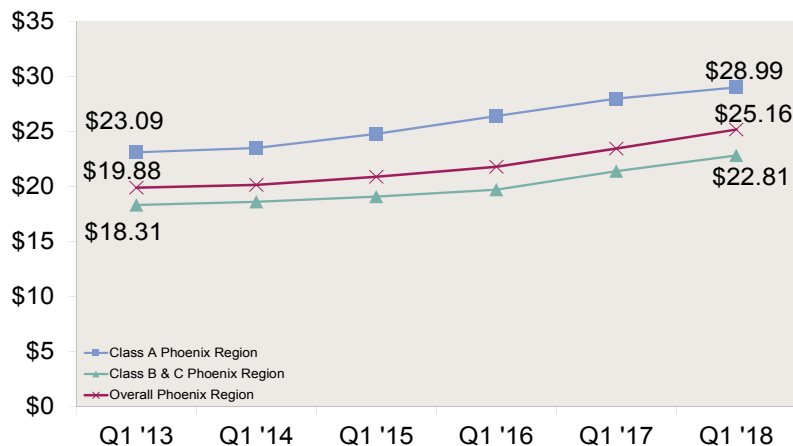


Source: Bureau of Labor Statistics^

Availability Rate Trends



Asking Rent Trends (\$/sf)



Job Growth and Leasing Moderates as Fewer Mega-Deals are Completed

Phoenix's economy and office market continue to show signs that the recovery is losing momentum. During the last 12 months, office-using employment in Phoenix has increased by 1.9%, falling well short of the 3.2% growth in the prior 12 months. Leasing activity has also moderated in recent quarters with fewer deals over 100,000 sf completed.

So far, weaker hiring and leasing has not had a dramatic impact on the office market, but availability is not falling as sharply of late. Phoenix's Class A availability rate was unchanged, remaining at 17.5% —the first time since the first quarter of 2015 without a decrease in Class A availability. The overall availability rate dipped by 40 basis points to 16.6% in the first quarter and has now plummeted by 580 basis points from its peak mark of 22% back in 2010.

East Valley Active

Demand from mid-sized tenants has remained relatively robust in East Valley locations such as Tempe, Chandler and Superstition Springs. Tempe in particular has registered sustained demand, with more than 900,000 sf in net absorption since the start of 2017. Conditions are tight in Tempe, with sub-10% vacancy and rent in some of the highest-caliber buildings is approaching \$50/sf. A few tenants have pushed to Gilbert, Chandler and Mesa, where they can find bigger blocks of new space. During the first quarter, Allstate sublet 100,622 sf at 1450 S. Spectrum Boulevard in Chandler. Additionally, Morgan Stanley took 31,655 at 111 E Rivulon Boulevard.

Tempe and Chandler account for more than half of the remaining space for lease in new buildings under way. The entire region has 30 buildings totaling 3.1 msf currently under construction. Among non owner-user buildings though, there are only 10 buildings totaling just under 1.6 msf with 1.4 msf remaining for lease. All of the Grand at Papago Park Phase II – a 352,481-sf building – is still available and The Watermark's entire Phase I has just over 260,000 sf available remaining.

Downtown and Midtown have also registered relatively steady demand. The Central Corridor does not have as many newer buildings or build-to-suit sites as the East Valley. However, companies looking for quality product with rents that

are 20% to 25% lower than in Tempe and Old Scottsdale are targeting Downtown and Midtown. This includes schools, government agencies and professional/business services firms. ASU's Thunderbird School of Global Management completed a 60,203-sf lease in the first quarter. New construction Downtown is also limited. Block 23 at Cityscape has just over 200,000 sf remaining available, but there are few other projects under way.

The rental rate differentiation from one submarket to the next is still very wide. While rent in a few Tempe buildings approaches \$50/sf, rent is 20% to 25% lower in Class A buildings within the Central Corridor, averaging in the mid to high-\$30/sf range. At the other end of the spectrum, tenants looking for value plays can still find a deep pool of space in Northwest submarkets such as Deer Valley/Airport with rent well under \$25/sf. In the first quarter, Ready Logistics committed to 51,105 sf at 4615 E. Elwood Street in the Airport Area. This submarket has strong value plays for tenants.

Select Sectors Expand

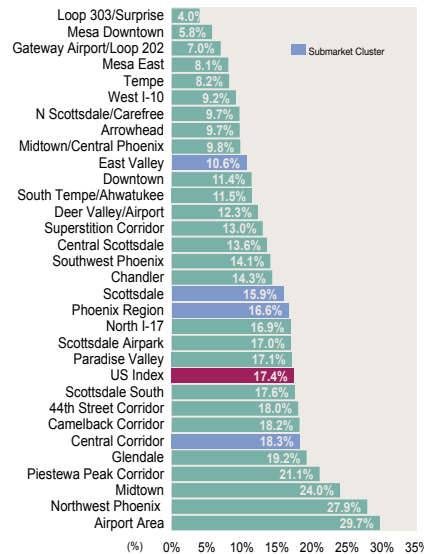
Although office-using employment has been a bit weak, overall employment has been remarkably consistent, increasing by 2.7% in the last 12 months, just under the 2.8% growth in the prior 12 months. These numbers suggest that non-office-using sectors are capturing more of the recent expansion among local firms, as well as the movement of businesses from other markets. Lower business costs and a business-friendly environment are drawing a few automotive firms to the region. Hybrid truck designer Nikola Motors plans to shift 2,000 jobs from Salt Lake City to Phoenix.

Additionally, back office and customer support continue to be a key driver of office space demand. Late last year, USAA announced plans to expand its technology and digital office, adding 1,000 employees to its center in North I-17. The center provides IT support and customer services. Some banks are also expanding. Financial services firms hiring in Phoenix can capture substantial savings, the average wage is 30% below the national average. Banks and financial services have been active in early 2018. In addition to Morgan Stanley's 30,000-sf lease, Paypal signed a 92,562 sf lease at 90 Mountain View Road during the first quarter.

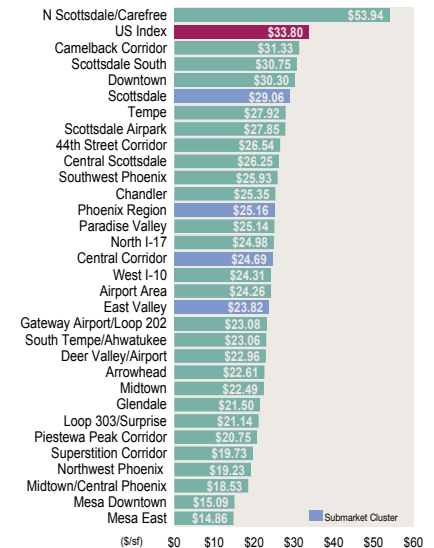
Decrease in Big Corporate Moves

The region's growing population fuels

Availability Rate Comparison



Overall Rental Rate Comparison



Major Transactions

Tenant	Sq Feet	Address	Market Area
Allstate	100,622	1450 S. Spectrum Blvd.	Chandler
PayPal	92,562	90 Mountain View Blvd.	Central Scottsdale
First Solar	81,385	350 W. Washington St.	Tempe
McKesson	61,510	5801 N. Pima Rd.	Scottsdale South
ASU - Thunderbird School	60,203	400 E. Van Buren St.	Downtown
Ready Logistics	51,105	4615 E. Elwood St.	Airport Area
Morgan Stanley	31,650	111 E. Rivulon Blvd.	Chandler
Aspen University Inc.	18,938	4605 E. Elwood St.	Airport Area
Ryley, Carlock & Applewhite	8,627	2001 W. Camelback Rd.	Northwest Phoenix
Grand Canyon Anesthesiology Consultants	7,050	2345 E. Thomas Rd.	Midtown/Central Phoenix
Sum of Top Leases	513,652		

its dynamic labor market. Net migration exceeded 50,000 people in both 2014 and 2015 and spiked to more than 62,000 in 2016. Phoenix is still adding new households at a steady clip, but the number of larger companies relocating to the region seems to have moderated. Mid-sized firms and entrepreneurs are coming to Phoenix but the larger corporate relocations involving hundreds of local hires or more have become less frequent.

The most rapidly expanding firms such as Amazon and Apple have been willing to pay top dollar for talent in centers of excellence such as San Francisco, Seattle and Boston. In turn, they have not been investing as heavily in markets such as Phoenix. Companies that are priced out of these markets, or those that can not find enough qualified labor are often moving on to a set of maturing Sunbelt locations – Atlanta, Dallas/Fort Worth or perhaps secondary tech markets such as Austin,

Raleigh/Durham or Denver. Companies with the outsized resources and massive staffing needs such as Amazon and Apple are setting up operations in nearly every major market.

Phoenix has a strong base of traditional tech and semiconductor companies as well as a burgeoning startup scene. It is telling that some local tech companies are also branching out to other markets. Phoenix-based startup Freestar, for example, recently opened a Denver office. The startup helps online publishers monetize web traffic by managing advertising operations. They plan to double their staff from 43 to more than 100, including some to be hired in Denver.

Submarket	Total		Available SF			Availability Rate			Asking Rents Per SF		
	Inventory SF (1000's)	Leasing (Last 12 months)	This Quarter	% Change from Last Qtr.	Year Ago	This Quarter	pp Change from Last Qtr. ⁽¹⁾	Year Ago	This Quarter	% Change from Last Qtr.	Year Ago
Airport Area	9,196	398	2,730	6.8%	2,795	29.7%	1.9%	30.4%	\$24.26	-1.8%	\$23.17
Airport Area - Class A	1,641	125	537	19.2%	466	32.7%	5.3%	28.4%	\$27.07	1.8%	\$26.26
South Tempe/Ahwatukee	5,646	243	648	-1.9%	1,149	11.5%	-0.2%	20.3%	\$23.06	-3.5%	\$22.65
South Tempe/Ahwatukee - Class A	776	18	22	21.3%	39	2.9%	0.5%	5.0%	\$28.60	3.8%	\$25.43
Downtown	8,559	475	975	-4.4%	1,191	11.4%	-0.6%	14.0%	\$30.30	0.5%	\$27.17
Downtown - Class A	4,667	396	534	-13.7%	738	11.4%	-1.9%	15.9%	\$31.32	0.5%	\$28.54
Midtown	10,341	696	2,482	-0.1%	2,819	24.0%	0.0%	27.2%	\$22.49	1.0%	\$21.66
Midtown - Class A	4,588	309	1,129	3.1%	1,234	24.6%	0.7%	27.0%	\$25.15	1.4%	\$24.50
44th Street Corridor	3,012	215	543	-5.1%	644	18.0%	-0.8%	21.2%	\$26.54	0.7%	\$24.55
44th Street Corridor - Class A	1,716	94	374	8.6%	381	21.8%	N/A	N/A	\$27.08	0.7%	\$26.00
Camelback Corridor	8,310	485	1,514	-2.0%	1,700	18.2%	-0.3%	20.4%	\$31.33	1.9%	\$28.71
Camelback Corridor - A	4,638	271	959	2.0%	1,031	20.7%	0.5%	22.2%	\$34.93	2.5%	\$33.21
Midtown/Central Phoenix	2,760	110	270	-6.9%	361	9.8%	-0.8%	13.1%	\$18.53	6.4%	\$18.23
Midtown/Central Phoenix - Class A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Chandler	6,444	0	923	-26.9%	1,623	14.3%	-5.3%	25.2%	\$25.35	-1.4%	\$24.42
Chandler - Class A	2,109	110	113	-61.0%	378	5.4%	-8.4%	17.9%	\$28.60	-0.6%	\$27.02
Gateway Airport/Loop 202	789	300	55	-16.6%	107	7.0%	-2.0%	14.6%	\$23.08	-10.7%	\$24.42
Gateway Airport/Loop 202 - Class A	0	529	0	0.0%	0	N/A	N/A	N/A	N/A	N/A	\$27.36
Mesa Downtown	902	0	52	9.6%	96	5.8%	0.5%	10.7%	\$15.09	1.2%	\$14.57
Mesa Downtown - Class A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mesa East	963	35	78	-13.2%	95	8.1%	-1.1%	9.8%	\$14.86	-3.1%	\$16.92
Mesa East - Class A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Superstition Corridor	3,783	12	491	-6.6%	740	13.0%	-1.0%	19.6%	\$19.73	1.4%	\$19.19
Superstition Corridor - Class A	579	0	157	-2.9%	152	27.1%	-1.0%	26.5%	\$23.19	-0.2%	\$23.28
Tempe	9,373	60	767	0.9%	1,163	8.2%	0.1%	12.3%	\$27.92	0.3%	\$26.13
Tempe - Class A	5,370	0	362	12.5%	549	6.7%	0.8%	10.1%	\$34.19	-1.6%	\$32.40
N Phoenix/Cave Creek	22	0	0	0.0%	0	0.0%	0.0%	0.0%	N/A	N/A	\$23.07
N Phoenix/Cave Creek - Class A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Paradise Valley	2,738	47	469	3.6%	484	17.1%	1.2%	17.0%	\$25.14	4.5%	\$23.82
Paradise Valley - Class A	1,183	173	302	14.5%	273	25.6%	5.3%	20.9%	\$27.78	0.1%	\$27.18
Piestewa Peak Corridor	2,251	361	475	2.7%	540	21.1%	0.6%	23.9%	\$20.75	2.7%	\$20.27
Piestewa Peak Corridor - Class A	287	307	33	140.5%	56	11.5%	6.7%	19.5%	\$26.50	0.0%	\$27.11
Northwest Phoenix	7,257	0	2,024	-0.1%	2,289	27.9%	-0.1%	31.7%	\$19.23	0.6%	\$18.13
Northwest Phoenix - Class A	1,158	0	610	-2.8%	484	52.7%	-1.4%	41.7%	\$23.07	1.4%	\$22.30
Arrowhead	1,618	60	157	2.1%	225	9.7%	0.2%	13.9%	\$22.61	0.4%	\$23.07
Arrowhead - Class A	81	96	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Deer Valley/Airport	7,994	9	984	-3.2%	1,423	12.3%	-0.5%	17.9%	\$22.96	3.0%	\$23.24
Deer Valley/Airport - Class A	2,025	139	103	3.2%	316	5.1%	0.2%	15.6%	\$24.09	2.1%	\$26.23
North I-17	407	47	69	-7.5%	83	16.9%	-1.6%	20.7%	\$24.98	1.7%	\$22.45
North I-17 - Class A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Central Scottsdale	6,326	89	860	2.4%	995	13.6%	0.3%	15.8%	\$26.25	2.8%	\$23.76
Central Scottsdale - Class A	2,335	383	434	27.7%	398	18.6%	4.0%	17.1%	\$28.23	3.2%	\$26.07
N Scottsdale/Carefree	1,253	60	121	17.2%	201	9.7%	1.4%	16.1%	\$53.94	185.6%	\$21.76
N Scottsdale/Carefree - A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Scottsdale Airpark	10,230	5	1,740	-2.7%	1,806	17.0%	-0.6%	17.7%	\$27.85	-0.9%	\$26.87
Scottsdale Airpark - Class A	5,806	0	1,174	-6.4%	1,233	20.2%	-1.4%	21.3%	\$29.79	1.5%	\$28.98
Scottsdale South	5,218	386	917	-7.9%	1,175	17.6%	-1.8%	22.9%	\$30.75	-1.6%	\$28.85
Scottsdale South - Class A	2,265	126	412	-7.0%	529	18.2%	-1.4%	23.4%	\$32.51	-0.8%	\$30.40
Glendale	1,832	777	352	-0.2%	404	19.2%	0.0%	22.1%	\$21.50	0.1%	\$21.86
Glendale - Class A	293	490	27	0.0%	7	9.2%	0.0%	2.2%	\$24.31	0.0%	\$29.14
Loop 303/ Surprise	558	486	22	-39.7%	59	4.0%	-2.6%	10.7%	\$21.14	-14.7%	\$23.20
Loop 303/ Surprise - Class A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Southwest Phoenix	1,727	287	243	-8.6%	306	14.1%	-1.4%	17.8%	\$25.93	1.4%	\$21.08
Southwest Phoenix - Class A	914	199	142	0.0%	174	15.5%	0.0%	19.0%	\$28.88	0.0%	\$23.00
West I-10	889	0	81	-2.9%	105	9.2%	0.0%	12.0%	\$24.31	9.1%	\$22.75
West I-10 - Class A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Central Corridor	18,900	700	3,457	-1.4%	4,010	18.3%	-0.3%	21.2%	\$24.69	0.5%	\$23.36
Central Corridor - Class A	9,255	2,330	1,663	-3.0%	1,972	18.0%	-0.6%	21.4%	\$27.13	0.1%	\$26.04
East Valley	22,255	1,439	2,367	-14.0%	3,825	10.6%	-1.7%	17.2%	\$23.82	1.0%	\$23.31
East Valley - Class A	8,058	1,775	631	-18.3%	1,079	7.8%	-1.7%	13.3%	\$30.86	-0.1%	\$29.22
Scottsdale	22,864	583	3,639	-2.4%	4,177	15.9%	-0.4%	18.3%	\$29.06	3.2%	\$26.00
Scottsdale - Class A	10,406	731	2,020	-0.8%	2,160	19.4%	-0.2%	20.8%	\$30.02	0.8%	\$29.49
Phoenix Region	120,399	7,448	20,044	-2.4%	22,992	16.6%	-0.4%	19.1%	\$25.16	0.8%	\$23.43
Phoenix Region - Class A	42,430	3,286	7,431	-0.4%	8,440	17.5%	0.0%	19.8%	\$28.99	0.8%	\$27.97

Please contact us for further information

Savills Studley
Anchor Centre East
2231 E. Camelback Road
Suite 209
Phoenix, AZ 85016
(602) 783-1610

Office Contact
Tiffany Winne
EVP, Designated Broker
twinne@savills-studley.com
(602) 783-1611

Corporate Research Contact
Keith DeCoster - Director
kdecoster@savills-studley.com
(212) 326-1023

(1) Percentage point change for availability rates.

Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents psf.

Statistics are calculated using both direct and sublease information.

^Unless otherwise noted, source for data is Savills Studley.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Statistics compiled with the support of The CoStar Group.
Copyright © 2018 Savills Studley