MARKET IN MINUTES
Savills Research

Q2 2022 - Office

Phoenix

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Overall leasing activity slows at mid-year 2022

In Q2 2022, the Phoenix office market has seen an overall slowdown in leasing activity as the number of deals and total square footage were lower compared to Q1 2022. This quarter saw 231 transactions totaling 1.2 million square feet (msf) compared to the 314 transactions totaling 1.7 msf reported in the previous quarter. Led by an 83,791-sf lease signed by Qwick Media at 4343 N Scottsdale Road, as well as a 70,000-sf lease signed by Meritage Homes at NWC Loop 101, the Scottsdale submarkets saw the most leasing activity this quarter. Overall, the Phoenix total availability rate of 24.4% was flat from the previous quarter but up 90 bps from 23.5% reported a year ago. The overall average asking rent did increase slightly from $28.26 per square foot (psf) reported in the first quarter to $28.31 psf this quarter.

Overall availability and rental rates face uncertainty in tenant demand along with sublease expirations looming

Due to the continued increase in sublease space which now sits at 5.3 msf market-wide, there is downward pressure on average rents in some submarkets as some sublease space is typically listed between 10-20% lower than direct asking rents. For example, the Scottsdale/Airpark and Tempe submarkets have a combined 1.4 msf of sublease space with an average time on the market of just over 10 months. As leasing activity has slowed and signs of a looming economic slowdown become more pronounced, economic uncertainty might cause a further slowdown in space demand.

Office sector outlook remains tenant-favorable in the short-term

Despite increased average office rental rates and rising housing costs over the past several years, Phoenix remains an attractive location for companies looking to recruit and retain talent. However, with inflation reaching a 40-year high and interest rates going up, many companies are taking a wait-and-see approach again as it relates to their real estate decision making. In the local technology sector, companies such as Carvana have already gone through a round of layoffs locally and other fast-growing private startups could see the same. As a result, expect the overall Phoenix office market to remain tenant-favorable for the foreseeable future.

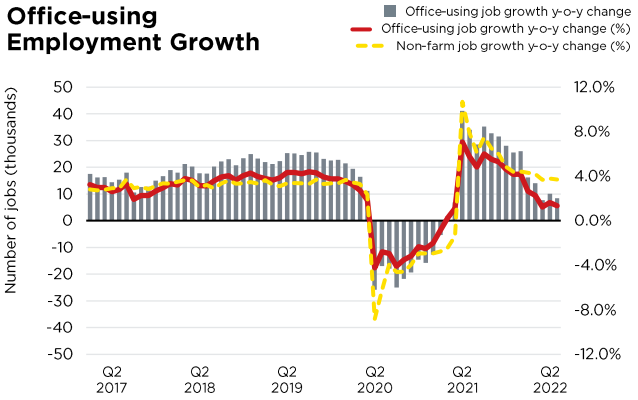
Outlook

- Phoenix's overall affordability and population growth should continue to make it a top option for occupiers looking to grow and expand over the long-term
- Tenants will continue to be in the driver's seat with landlords offering generous concession packages in order to attract and retain tenants amidst high availability levels
- Overall office development has slowed due to demand uncertainty, creating the lowest level of space under construction since 2017

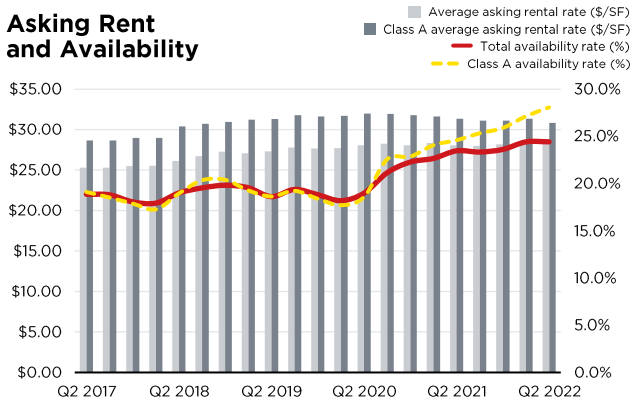
Key Statistics

	Q2 2021	Q2 2022	y-o-y Change
Inventory	104.5 MSF	105.8 MSF	▲
Availability Rate	23.5%	24.4%	▲
Asking Rental Rate	$28.06	$28.31	▲
Class A Asking Rental Rate	$31.35	$30.84	▼
Quarterly Leasing Activity	1.7 MSF	1.2 MSF	▼
Available Sublease Space	3.4 MSF	5.3 MSF	▲

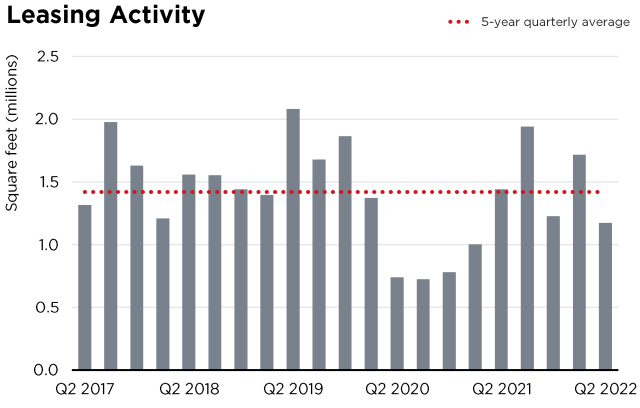
Office-using Employment Growth



Asking Rent and Availability



Leasing Activity



By the Numbers

2.9%
Phoenix unemployment rate (as of May 2022)

1.3%
Office-using employment growth year-over-year (as of May 2022)

2.2 msf
Office space currently under construction

Top Transactions

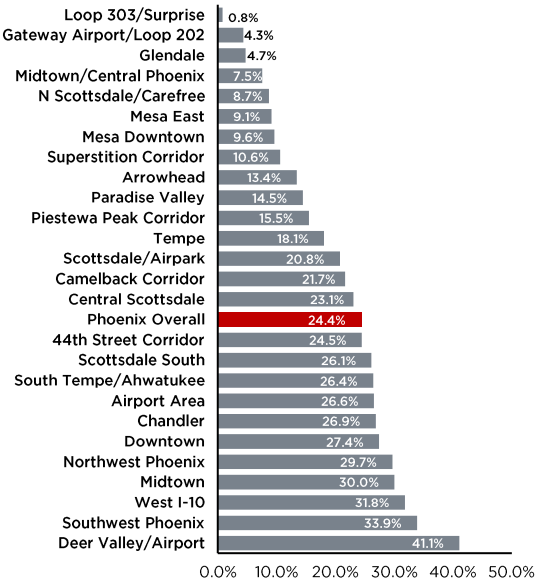
Tenant	Square Feet	Address	Transaction Type	Submarket	Industry
Qwick Media	83,791	4343 N Scottsdale Rd	Relocation	Scottsdale South	TAMI
Meritage Homes	70,000	NWC Loop 101	Relocation	Scottsdale/Airpark	Real Estate
Tech Data Corporation	51,217	410 E Rivulon Rd	Relocation	Chandler	TAMI
JLL	31,000	4300 E Camelback Rd	Relocation	Camelback Corridor	Real Estate
Moon Valley Nurseries	25,219	14000 N Pima Rd	Relocation	Scottsdale/Airpark	Retail
La Frontera Arizona	24,727	4425 W Olive Ave	Renewal	Northwest Phoenix	Healthcare
Bar-S	20,041	18700 N Hayden Rd	Relocation	Scottsdale/Airpark	Manufacturing
MST Solutions*	19,142	2195 W Chandler Blvd	New Location	Chandler	TAMI
Priority1*	18,817	1600 N Desert Dr	New Location	Tempe	Transportation
Contexture	18,779	2901 N Central Ave	New Location	Midtown	Business Services

*Sublease

Source: Savills Research

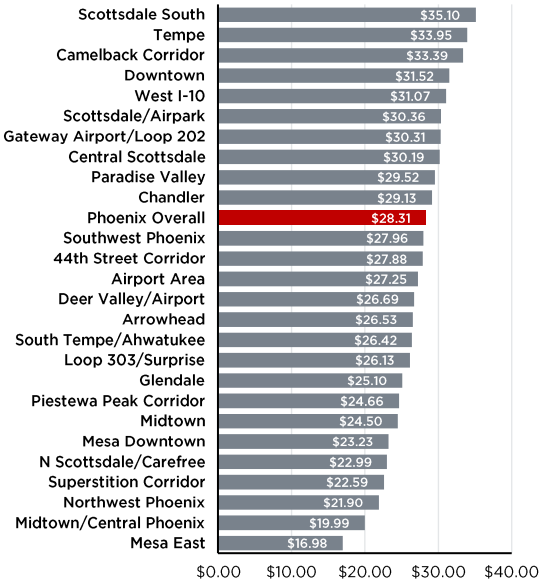
Availability Rate Comparison (%)

Phoenix Submarkets



Rental Rate Comparison ($/SF)

Phoenix Submarkets



Unless otherwise noted, all rents quoted throughout this report are average asking gross (full service) rents per square foot. Statistics are calculated using both direct and sublease information. Current and historical availability and rent data are subject to change due to changes in inventory.

The information in this report is obtained from sources deemed reliable, but no representation is made as to the accuracy thereof. Unless otherwise noted, source for data is Savills Research.

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