

Availability, and options, increase as new developments deliver

Overall availability, while relatively unchanged from last quarter, has climbed 200 basis points in the last 12 months ending Q1 at 19.6%. The greatest increase in availability was observed in the East Valley submarkets where several new developments offer large blocks of available space. The market's Class A availability rate has witnessed a similar spike, up 260 basis points year-over-year to 19.4%. Asking rents have seen similar quarter-to-quarter fluctuations and the large blocks of high-quality space on the market are pushing asking rents up year-over-year. Overall asking rents increased 6.5% over the year to \$26.99 per square foot (psf). Class A rents saw a more pronounced increase, rising 7.4% year-over-year to \$31.19 psf.

Leasing activity robust with many new market entrants

Nearly 90.0% of major transactions this quarter were new entrants in the Phoenix market. Voya Financial executed the quarter's largest lease transaction, committing to 151,359 square feet (sf) at 1700 S. Price Road in Chandler. The company plans to create 1,000 new jobs at its new financial operations center. Meanwhile, shared office providers continue to be active in Phoenix. WeWork leased 68,968 sf in Tempe on the 10th and 11th floors of Watermark Phase I. WeWork is the first company to commit to space at the 265,000-sf building delivering later this year. Industrious added another coworking location to the market, as well, taking 31,857 sf at 222 South Mill Avenue.

Amount of speculative development confirms positive outlook for local economy, but pitfalls exist

With state economists forecasting more than 500,000 new jobs across Arizona in the next seven years, developers in the Phoenix market have not hesitated in kicking off millions of square feet of speculative office development. While many of these developments have delivered or are nearing completion with significant availability, fears that the market is becoming overbuilt have not yet taken hold. However, with so much new development and the fact that some companies are leaving behind shadow space, any sudden changes in the direction of the economy have the potential to dramatically shift the market's landscape even more in favor of tenants.

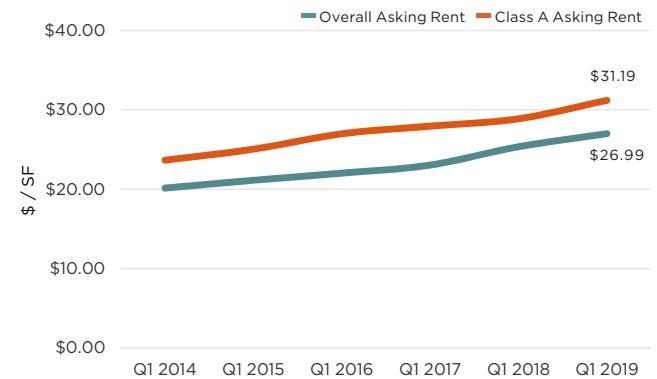
Outlook

- Barring a jarring economic event, Arizona's employment growth shows no signs of slowing, and should fuel tenant demand throughout the region
- New developments in the Tempe and Chandler submarkets have numerous large blocks of available space, providing desirable options for tenants seeking efficient space and top-tier amenities
- Market improvement allowances have moved upwards, but tenants may still experience 'sticker shock' for major renovations or relocations as construction costs continue to rise each quarter

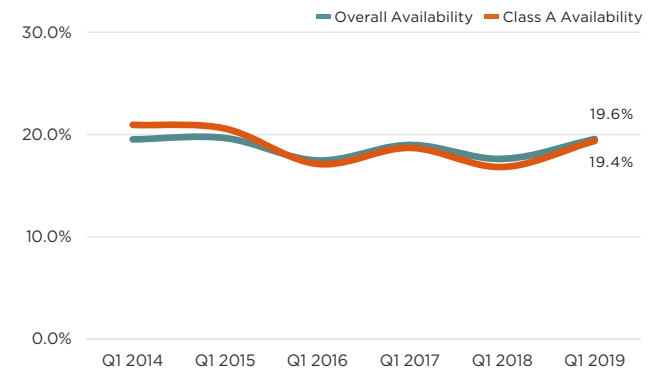
KEY STATISTICS

	Q1 2018	Q1 2019	y-o-y Change
Inventory	101.7 MSF	103.5 MSF	▲
Availability Rate	17.6%	19.6%	▲
Asking Rental Rate	\$25.35	\$26.99	▲
Class A Asking Rental Rate	\$28.87	\$31.19	▲
Quarterly Leasing Activity	1.2 MSF	1.4 MSF	▲

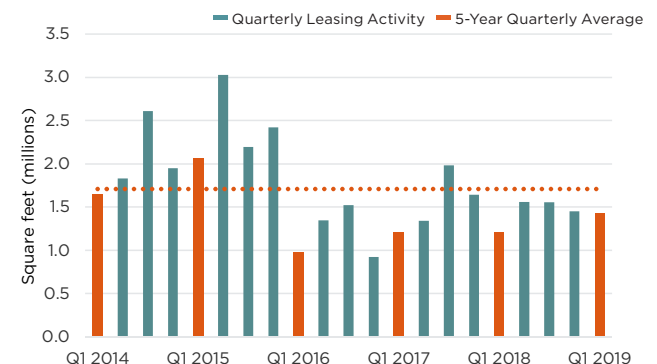
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

88.3%

of major transactions were **new market entrants or relocations**

59.1%

of large transactions occurred in the **Tempe** submarket

39.5%

Financial Services and Insurance represented 39.5% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Voya Financial	151,359	410 N Scottsdale Road	New Location	Tempe	Financial Services
WeWork	68,986	410 N Scottsdale Road	New Location	Tempe	Coworking
MAXIMUS	64,439	1401 S 52nd Street	New Location	Airport Area	Professional Services
Caris Life Sciences	38,640	350 W Washington Street	New Location	Tempe	Healthcare
Synchronoss Technologies	38,029	4020 E Indian School Road	New Location	44th Street Corridor	TAMI
Industrious	31,857	222 S Mill Avenue	New Location	Tempe	Coworking
Turo	30,090	2390 E Camelback Road	Sublease	Camelback Corridor	Professional Services
California Casualty	27,750	5651 W Talavi Boulevard	Renewal	Deer Valley/Airport	Financial Services
23andMe	25,719	4645 E Cotton Center Boulevard	New Location	Airport Area	TAMI
Lincoln Financial	15,458	20430 N 19th Avenue	New Location	Deer Valley/Airport	Financial Services

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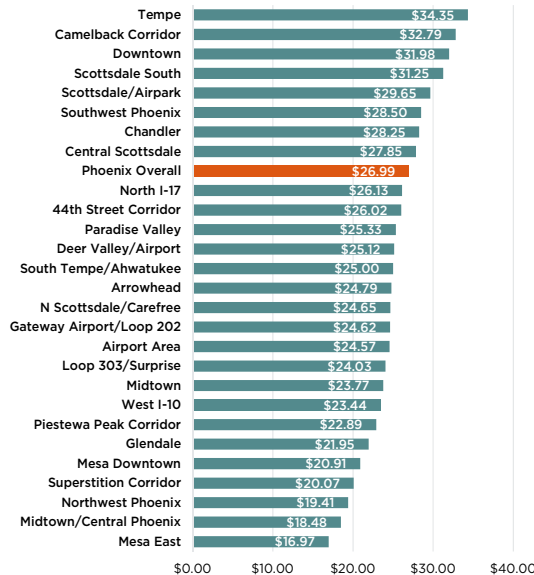
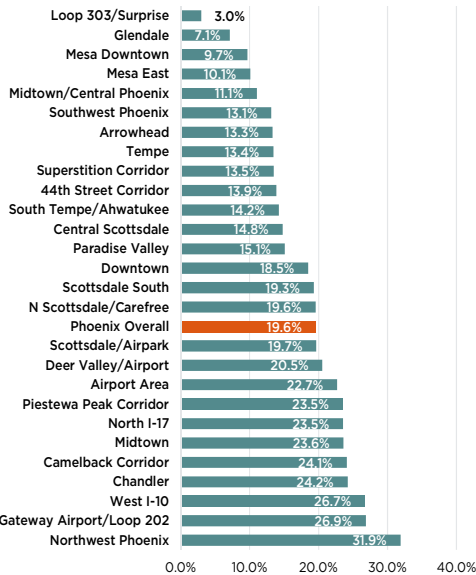
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AVAILABILITY RATE COMPARISON

Phoenix Submarkets

RENTAL RATE COMPARISON (\$/SF)

Phoenix Submarkets



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

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