



COVID-19 will test the resiliency of the market, but Phoenix may have several factors working in its favor

The swift emergence of COVID-19 in March caused disruption to everyday life and introduced substantial uncertainty to the Phoenix office market. Governor Ducey ordered the shuttering of non-essential businesses through the end of April at earliest, and schools were closed through the end of the academic year. While the magnitude of an economic downturn has yet to be ascertained, it is possible that a downward repricing will occur in Phoenix. However, the market appears comparatively well-positioned to weather the storm, given lower rates of COVID-19 infection in Phoenix as compared with other metro areas. Additionally, Phoenix remains a fast-growing, lower-cost market that has become increasingly attractive to occupiers and investors alike. These factors, however, will not protect Phoenix from rental rate compression entirely.

Availability dips while asking rents edge upward, but market dynamics could be altered by recession

Prior to recent events, availability throughout the market trended downward, falling 60 basis points from last quarter to 18.2%. Similarly, Class A availability dipped to 17.7%, declining by 70 basis points. Class A conditions in the Tempe submarket tightened considerably, sinking 210 basis points to 10.4% available. Just two existing Class A properties in Tempe offer blocks of 50,000 square feet (sf) or more, although ongoing development in the submarket may offer future relief. Overall asking rates across Phoenix jumped 2.4% year over year to \$27.71 per square foot (psf), although rents were essentially flat from the previous quarter. Meanwhile, Class A rates stood at \$31.72 psf, increasing 1.6% from a year ago.

Leasing activity wanes prior to beginning of economic pullback

Transaction volumes across the Phoenix market totaled 1.4 million square feet (msf), declining 23.9% from Q4 2019, but was unchanged compared to same period last year. Deal volume this quarter fell below the five-year quarterly average of 1.6 msf. Occupiers were active in the East Valley submarket, with a quarter of transactions by square footage occurring here. Amazon completed the largest deal of the quarter, committing to 93,000 sf at 100 S Mill Ave. in Tempe. Aetna renewed its lease at Allred Park Place Central in Chandler for 50,346 sf. Meanwhile, a new entrant to the Phoenix market, Root Insurance was the first tenant to lease space at Chandler Freeway Crossing, taking 38,016 sf. Transaction levels may further decline in Q2 as businesses seek clarity on the impacts of COVID-19 on operations.

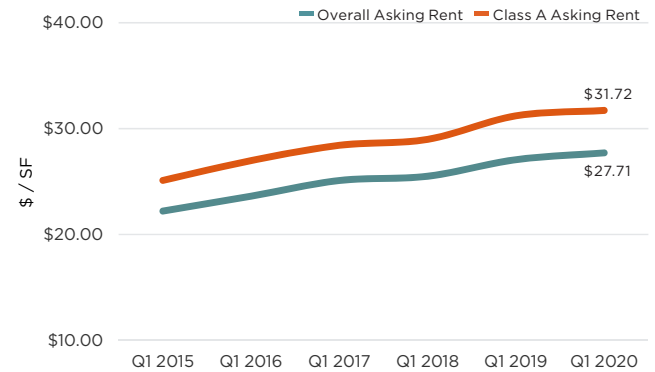
Outlook

- Leasing activity will likely slow over the remainder of 2020 as the global economy enters a recession in the wake of the COVID-19 pandemic
- As market fundamentals shift towards tenants, expect landlords to become more aggressive in attracting and retaining tenants, given that space demand will be easing
- While COVID-19 will alter the landscape in the near term, Phoenix should remain a relatively attractive solution for corporate users due to its population growth, diverse economy, increasingly talented labor pool, and comparatively low cost of doing business

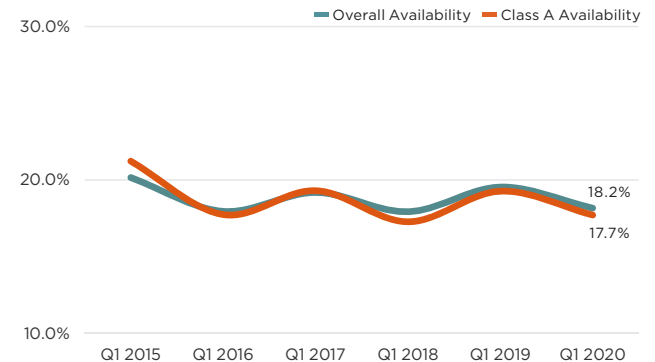
KEY STATISTICS

	Q1 2019	Q1 2020	y-o-y Change
Inventory	102.5 MSF	103.2 MSF	▲
Availability Rate	19.5%	18.2%	▼
Asking Rental Rate	\$27.06	\$27.71	▲
Class A Asking Rental Rate	\$31.21	\$31.72	▲
Quarterly Leasing Activity	1.4 MSF	1.4 MSF	◄►

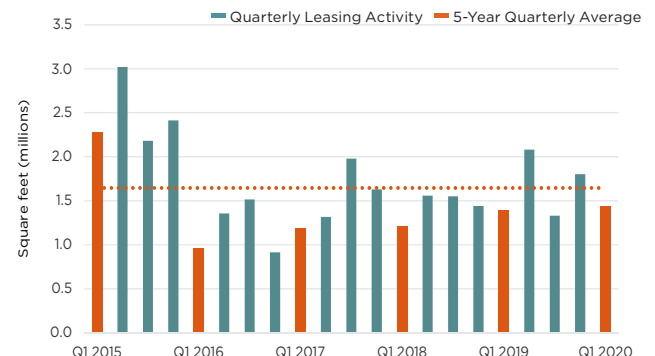
ASKING RENT TRENDS



AVAILABILITY TRENDS



LEASING ACTIVITY



MAJOR TRANSACTIONS

5 of 10

major transactions were new locations

27.4%

of major transactions occurred in the Tempe submarket

42.2%

TAMI sector tenants represented 42.2% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Amazon	93,000	100 S Mill Avenue	New Location	Tempe	TAMI
ZipRecruiter	89,889	4039 E Raymond Street	Relocation	Airport Area	Professional Services
Aetna	50,346	1255 S Spectrum Boulevard	Expansion	Chandler	Financial Services and Insurance
Root Insurance	38,016	2625 W Geronimo Place	New Location	Chandler	Financial Services and Insurance
Whiterabbit.ai	37,574	3925 E Broadway Road	New Location	Airport Area	TAMI
Deloitte	31,661	100 S Mill Avenue	Relocation	Tempe	Professional Services
SMS Assist	31,017	3137 E Elwood Street	New Location	Airport Area	TAMI
Clarivate Analytics	30,239	3133 W Frye Road	New Location	Chandler	TAMI
Arizona Nursing College	27,068	16404 N Black Canyon Highway	Expansion	Deer Valley/Airport	Education
Zero Mass Water	25,461	1465 N Scottsdale Road	Relocation	Scottsdale South	Energy

Source Savills Research

For more information, please contact us:

Savills

Anchor Centre East
2231 E. Camelback Road
Suite 209
Phoenix, AZ 85016
+1 602 783 1610

Tiffany Winne

Vice Chairman, Director
twinne@savills.us

Anders Klein

Regional Research
Director,
Midwest & Central
aklein@savills.us

About Savills Inc.

Savills helps organizations find the right solutions that ensure employee success. Sharply skilled and fiercely dedicated, the firm's integrated teams of consultants and brokers are experts in better real estate. With services in tenant representation, workforce and incentives strategy, workplace strategy and occupant experience, project management, and capital markets, Savills has elevated the potential of workplaces around the corner, and around the world, for 160 years and counting.

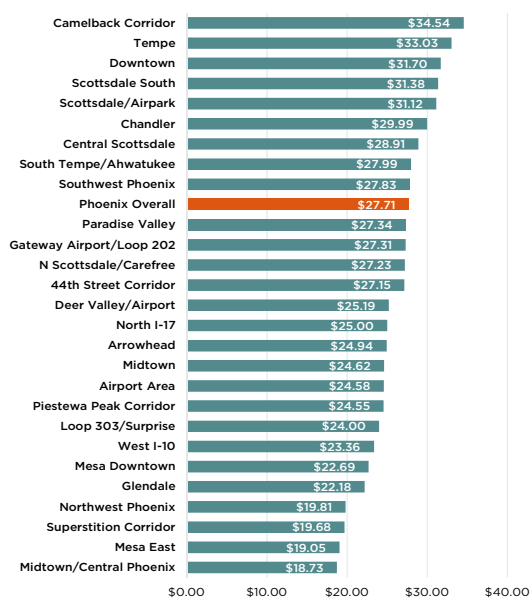
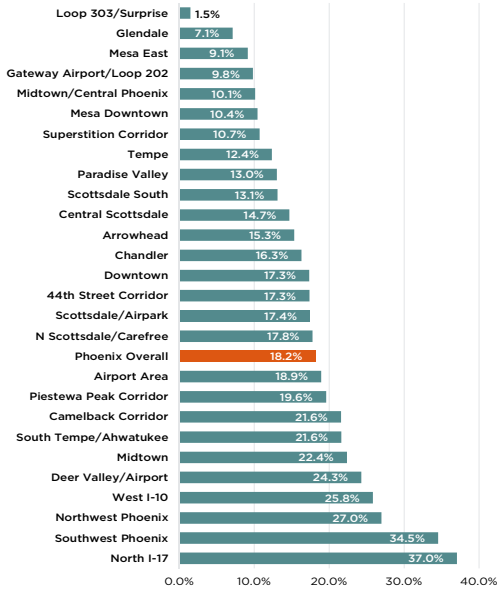
For more information, please visit Savills.us and follow us on LinkedIn, Twitter, Instagram and Facebook.

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.

Copyright © 2020 Savills

