

## As the local and national economies sputter, tepid office demand remains throughout the Phoenix market

Phoenix, having been one of the hottest office markets in the nation prior to the pandemic, is now witnessing a drastic downward decline in office leasing activity. In the third quarter there was less than 1.0 million square feet (msf) leased across the market. Transaction activity slowed by 2.1% from last quarter, and by 56.8% when compared to Q3 2019. COVID-19 and its impact on the economy have severely disrupted the industry. Fears of a potential second wave of infections in the fall and winter have created a wait-and-see approach for many occupiers. To help alleviate these concerns, landlords will need to consider offering market-sensitive pricing and generous concessions in order to attract interest and to cement good long-term relations with tenants.

### Sublease availability accelerates; asking rents tick up as landlords have yet to show willingness for repricing

Despite the economic jolt, overall asking rates throughout the Phoenix metro have nevertheless risen 1.6% year over year to \$28.26 per square foot (psf). Rates for Class A space have risen more modestly to \$31.95 psf, increasing just 0.5% from a year ago. Meanwhile, availability rates throughout Phoenix soared over 210 basis points from last quarter to 21.2%. Similarly, Class A availability surged to 22.6%, jumping nearly 400 basis points. Much of the increase was due to an influx of new sublease stock. Phoenix's sublease inventory has increased by 95% to 2.8 msf since the start of 2020. New sublease availabilities coming to market this quarter include a 150,000-sf block of USAA's space at 25700 North Norterra Parkway and 80,000 sf at First Solar's Tempe headquarters, 350 West Washington Street.

### Occupier demand expected to remain low until economic confidence increases

Despite the drop in leasing volume, there were a few notable deals executed this quarter including Maximus, Inc., which subleased 62,771 square feet (sf) at 2133 West Peoria Avenue, while CVO Holding Company leased 31,622 for their headquarters at Block 23 downtown. In Tempe, Insurance provider Bright Health Plan subleased 28,000 sf at RIO 2100 near Tempe Town Lake. In the near term, and perhaps until an effective vaccine nears closer to reality, fewer tenants will be active in the market apart from those pressured by an upcoming lease expiration. Those occupiers in a position to transact space can take advantage of market uncertainty and should expect favorable terms and flexibility.

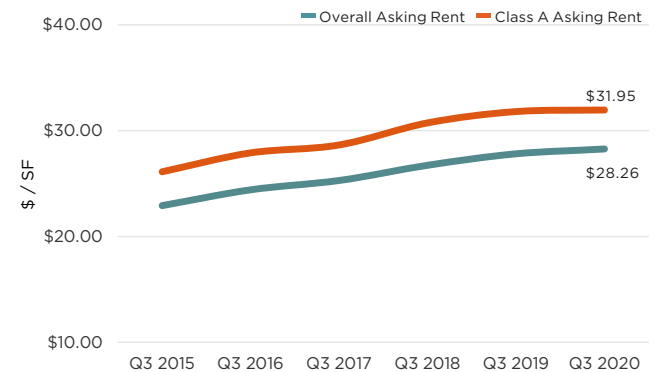
### Outlook

- Until the COVID-19 virus is controlled, many real estate leasing decisions will continue to take a wait-and-see approach
- The recent glut of sublease availability will ultimately provide value opportunities for tenants, while also putting additional downward pressure on overall asking rents
- Despite the current market uncertainty, Phoenix will remain an appealing solution for corporate users, and its comparatively low cost of doing business will support growth and attract businesses from other markets

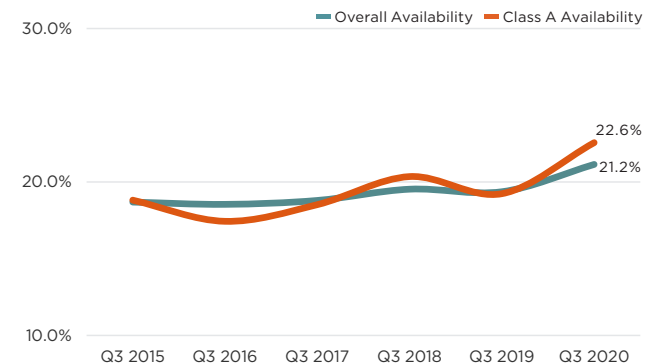
### KEY STATISTICS

	Q3 2019	Q3 2020	y-o-y Change
Inventory	103.2 MSF	<b>103.8 MSF</b>	▲
Availability Rate	19.4%	<b>21.2%</b>	▲
Asking Rental Rate	\$27.80	<b>\$28.26</b>	▲
Class A Asking Rental Rate	\$31.79	<b>\$31.95</b>	▲
Quarterly Leasing Activity	1.7 MSF	<b>0.7 MSF</b>	▼

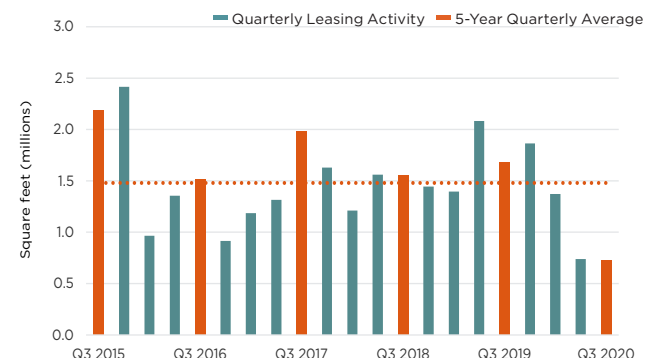
### ASKING RENT TRENDS



### AVAILABILITY TRENDS



### LEASING ACTIVITY



MAJOR TRANSACTIONS

7 of 10

major transactions were new locations

29.7%

of major transactions occurred in the Northwest Phoenix submarket by square footage

62.9%

Financial Services sector tenants represented 62.9% of major transactions by square footage

Tenant	Square feet	Address	Transaction type	Submarket	Industry
Maximus, Inc.	62,771	2133 W Peoria Avenue	New Location	Northwest Phoenix	Financial Services
CVO Holding Company, LLC	31,622	101 E Washington Street	Relocation	Downtown	TAMI
Bright Health Plan	28,000	2120 E Rio Salado Parkway	New Location	Tempe	Insurance
Ategrity Specialty Insurance	23,490	14000 N Pima Road	Relocation	Scottsdale/Airpark	Financial Services
UBS	18,738	2575 E Camelback Road	New Location	Camelback Corridor	Financial Services
Sandoval Design	10,973	25 S Arizona Place	Relocation	Chandler	TAMI
Willmeng Construction, Inc	10,445	1355 N Scottsdale Road	New Location	Scottsdale South	Construction
Billing Tree	9,786	8800 E Raintree Drive	New Location	Scottsdale/Airpark	Professional Services
Siemens Corporation	7,823	2100 E Rio Salado Parkway	New Location	Tempe	Manufacturing
Akos	7,684	16435 N Scottsdale	New Location	Scottsdale/Airpark	Healthcare

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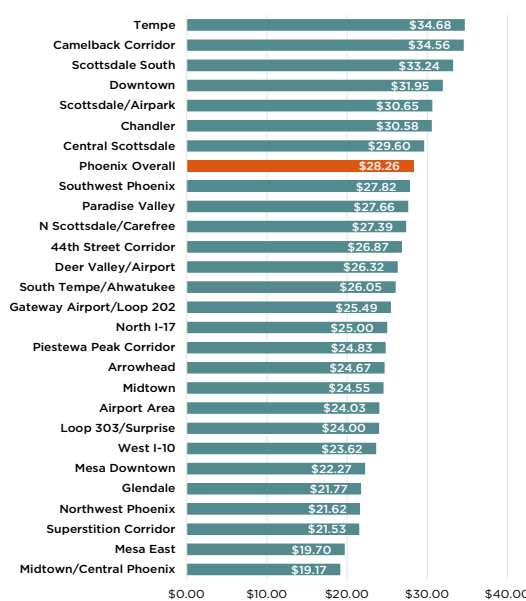
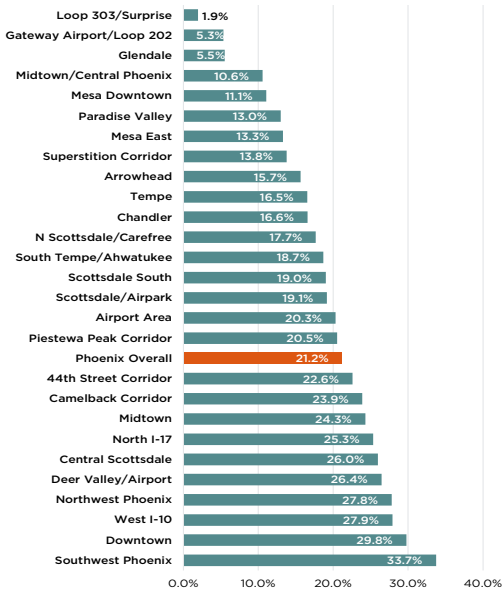
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AVAILABILITY RATE COMPARISON

Phoenix Submarkets

RENTAL RATE COMPARISON (\$/SF)

Phoenix Submarkets



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

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