

## Phoenix Economy Continues to Hum; Class A and overall rents exhibit increases

A recent Bureau of Labor statistics report found the Phoenix metropolitan area leading the United States in net new jobs created over the past 12 months. In total 66,500 net nonfarm jobs were added in the Phoenix metropolitan area over the 12 months prior to May. With sustaining demand for office space throughout the region, rents have increased 4.4% year over year, ending the second quarter of 2019 at \$27.26 per square foot (psf) on average. Asking rents ranged from a low of \$18.40 psf in the Mesa East submarket, to \$33.84 psf in Tempe. Class A rents increased 2.6% year-over-year and 0.3% over the quarter, to \$31.27 psf.

### Despite Demand, Tenants Still Have Ample Options

Office supply has increased as construction activity has surged in recent times. Currently there is more than 3 million square feet of office inventory under construction, and more than 2 million square feet of available space will deliver in the coming 12 months. There are more than 70 options currently available for tenants seeking 50,000 sf or larger. While tenants remain active in the market, the increase in supply has had a moderating effect on availability rates. The overall availability rate declined just slightly this quarter, falling 30 basis points (bps) to 19.3%. The average Class A availability rate was up 20 basis points over the year, also to 19.3%.

### Leasing Exceeds Long-term Average; WeWork Continues Rapid Expansion

Total second-quarter 2019 leasing activity was 1.8 million square feet (msf), up 19.5% and 30.9% from the previous year and quarter, respectively. Two more WeWork leases were announced this quarter, with the coworking giant taking more than 140,000 sf in downtown deals at Block 23 and 101 N. 1st Avenue. These transactions followed WeWork's 69,000 sf lease at Watermark Phase I announced last quarter. Other large transactions this quarter were concentrated in the Southeast, including TransPerfect committing to 71,000 sf at 4809 E. Thistle Landing Drive, and The Allstate Corporation subleasing 68,000 sf at 1340 S. Spectrum Boulevard in Chandler.

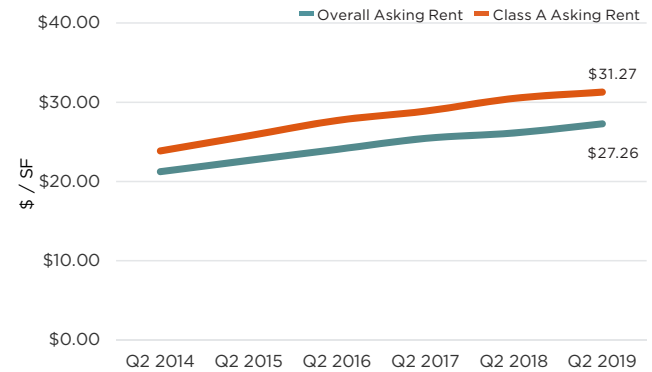
### Outlook

- While asking rents continue to track upward, elevated availability rates suggest tenants still have leverage in negotiations; with millions of square feet in the development pipeline, significant declines in availability are unlikely in the near term
- Co-working space demand continues, as evidenced by the WeWork deals signed this quarter. WeWork has leased over 200,000 sf in the Phoenix market, while Industrious and Spaces also maintain a significant presence
- Phoenix MSA employment is projected to grow by 2.2% per year over the next five years, resulting in aggregate growth of nearly 237,000 new jobs through the first quarter of 2024

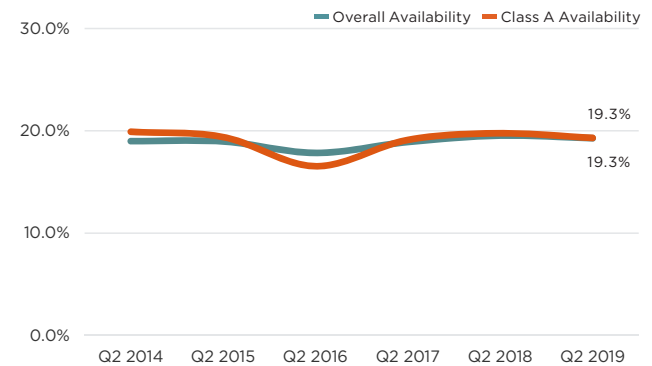
### KEY STATISTICS

	Q2 2018	Q2 2019	y-o-y Change
Inventory	98.4 MSF	<b>99.4 MSF</b>	▲
Availability Rate	19.5%	<b>19.3%</b>	▼
Asking Rental Rate	\$26.16	<b>\$27.26</b>	▲
Class A Asking Rental Rate	\$30.48	<b>\$31.27</b>	▲
Quarterly Leasing Activity	1.6 MSF	<b>2.0 MSF</b>	▲

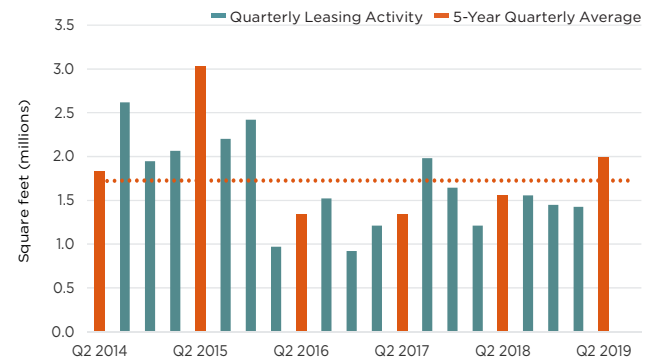
### ASKING RENT TRENDS



### AVAILABILITY TRENDS



### LEASING ACTIVITY



MAJOR TRANSACTIONS

28.6%

of major transactions were **subleases**

26.9%

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

27.7%

**Professional services** represented 26.9% of major transactions

Tenant	Square feet	Address	Transaction type	Submarket	Industry
WeWork	90,576	101 E Washington Street	New Location	Downtown	Coworking
TransPerfect	71,006	4809 E Thistle Landing Drive	Renewal	South Tempe/Ahwatukee	Professional Services
The Allstate Corporation	68,667	1340 S Spectrum Boulevard	Sublease	Chandler	Financial Services & Insurance
WeWork	53,093	101 N 1st Avenue	Renewal	Downtown	Coworking
Arizona State University	50,000	1465 N Scottsdale Road	Renewal	Scottsdale South	Education
Maldonado Medical	45,000	8465 N Pima	Sublease	Central Scottsdale	Healthcare
Ascend Learning	40,440	355 E Germann Road	New Location	Chandler	Professional Services
Alegis	39,255	4645 E Cotton Center Boulevard	Renewal	Airport Area	Healthcare
Carvana	39,218	4301 N Scottsdale Road	Sublease	Scottsdale South	TAMI
Emerge Tech	36,878	9055 E Del Camino Drive	Renewal	Central Scottsdale	Professional Services

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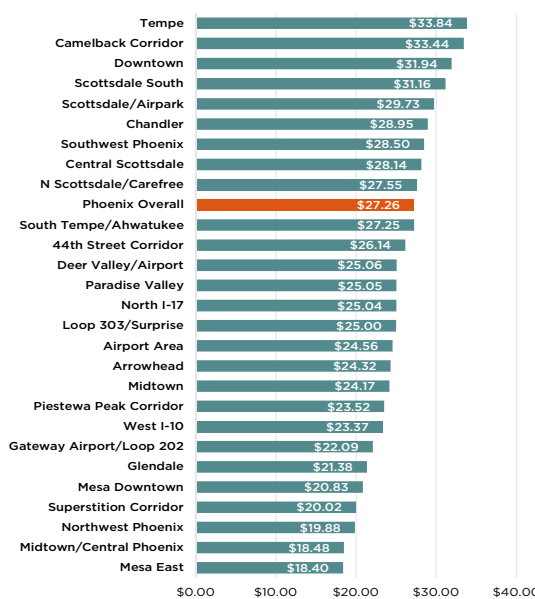
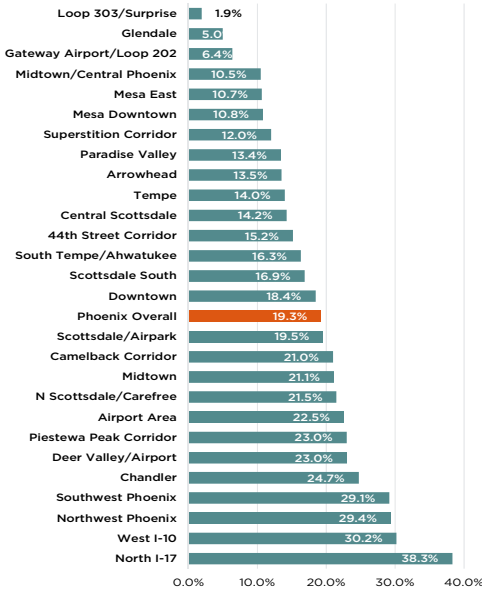
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AVAILABILITY RATE COMPARISON

Phoenix Submarkets

RENTAL RATE COMPARISON (\$/SF)

Phoenix Submarkets



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