

Despite uncertainty, Phoenix office market shows signs of demand increase

The Phoenix office market began the year strong, with 1.7 million square feet (msf) transacted in the first quarter. Deal volume was up 71.0% as compared to Q1 2021, indicative of renewed demand by occupiers so far in 2022. The Airport Area submarket had a strong first quarter, due in large part to Carvana's nearly 268,000 sf sublease at The University of Phoenix's Riverpoint Campus. Tempe also witnessed leasing activity nearly double from a year ago. Among the larger Tempe deals this quarter, Moov committed to 31,667 sf at 100 South Mill Avenue. Overall availability across the market increased to 24.4%, up 80 basis points (bps) from Q4 2021. Despite signs of improving demand, the market faces uncertainty as occupier leases expirations continue to roll and many companies are still strategizing what their office requirements will look like in the future.

Flight to quality evident among Phoenix occupiers

Occupiers' continued flight to quality and new developments that emphasize amenities and the tenant experience have been a consistent theme throughout the country, and Phoenix is no different. It has become a necessity for landlords to work with tenants in finding ways to bring employees back to the office, including upgrading amenities within their properties. Where Phoenix landlords have shown flexibility are in face rents. Rates have been mostly steady over the past year, falling 0.3% from a year ago to \$28.26 psf. The desirable Scottsdale South submarket, highly sought-after among tenants for its variety of restaurants and entertainment options, continued to command some of the market's highest asking rents, which have increased 5.0% year over year to \$34.41 psf. Availability for the market is up almost 550 basis points over the last 12 months, due to a mix of direct and sublease space recently coming to market, as well as the upcoming delivery of Scottsdale Entrada where no preleasing activity has yet been announced.

Despite being a desirable market, Phoenix faces uncertain demand in the medium to long term

Many Phoenix occupiers are still working through return to work plans, with some pushing their reopenings as late as the fall of 2022 before they return to the office. Within the tech sector, which has become a vital piece of Phoenix's economy, there has been some inconsistency in the return to work strategies. Many tech firms have announced remote and hybrid work opportunities for their employees. In contrast, Google has shown a commitment to bringing employees back to the office, recently announcing a \$9.5 billion investment in offices and data centers in 2022. Meanwhile, Phoenix witnessed a pullback in new subleases coming to market in early 2022. Some of the market's largest subleases are nearing the end of their terms, which will notably impact direct availability. This is expected to further shift market dynamics in the favor of tenants, as landlords will have to be increasingly aggressive in competing for occupancy.

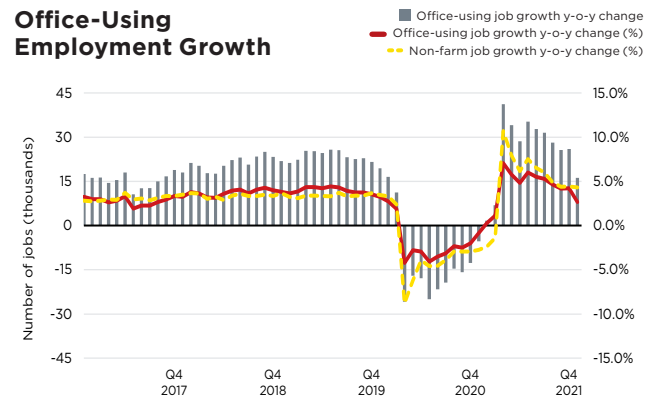
Outlook

- Phoenix remains a desirable location for corporate occupiers, having one of the country's strongest growth in population over the past two years
- Tenants will continue to have the upper hand in lease negotiations as landlords are often willing to be more flexible on term and offering more concessions to increase occupancy in their portfolios
- New office development has shown no signs of slowing, and with Phoenix being an overall sprawl market, the suburban markets should see continued growth in the long term

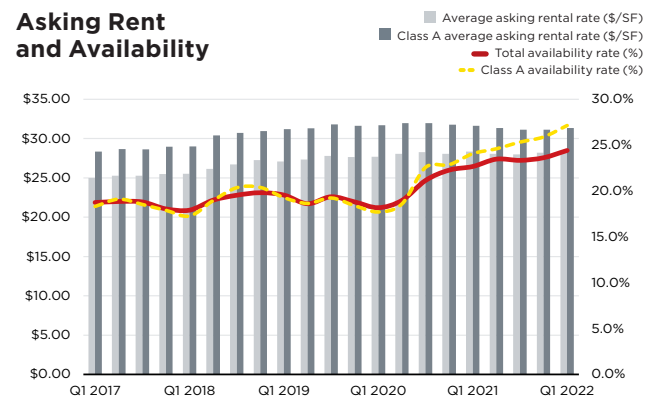
Key Statistics

	Q1 2021	Q1 2022	Y-o-y Change
Inventory	104.9 MSF	105.3 MSF	▲
Availability Rate	22.7%	24.4%	▲
Asking Rental Rate	\$28.34	\$28.26	▼
Class A Asking Rental Rate	\$31.62	\$31.34	▼
Quarterly Leasing Activity	1.0 MSF	1.7 MSF	▲
Available Sublease Space	3.2 MSF	5.4 MSF	▲

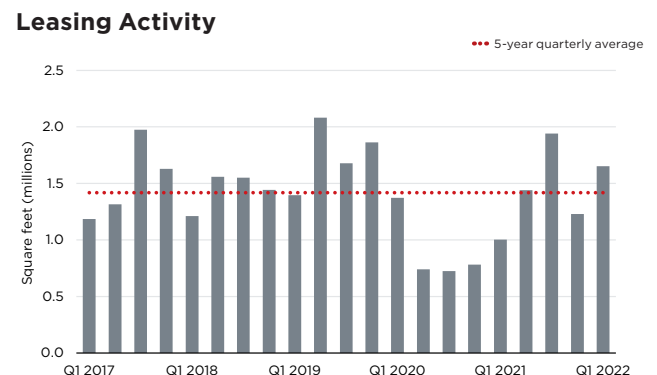
Office-Using Employment Growth



Asking Rent and Availability



Leasing Activity



By the Numbers

3.2%

Phoenix-Mesa Scottsdale, AZ MSA unemployment rate (as of Jan. 2022)

2.6%

Office-using employment growth year-over-year (as of Jan. 2022)

1.5 msf

Office space currently under construction

Top Transactions

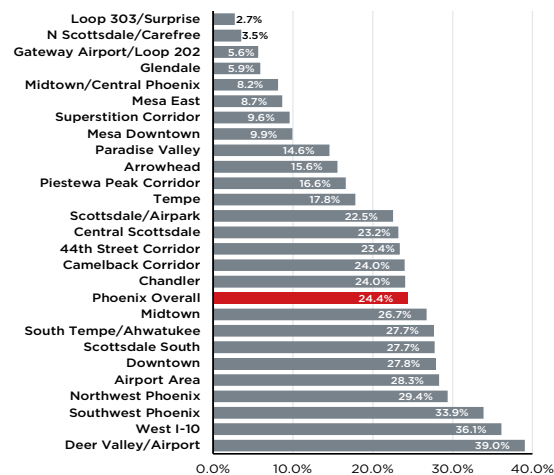
Tenant	Square Feet	Address	Transaction Type	Submarket	Industry
Carvana *	267,962	4025 S Riverpoint Parkway	New Location	Airport Area	TAMI
Carvana	82,257	1415 W 3rd Street	New Location	Tempe	TAMI
Alliance Bank of Arizona	45,996	1 E Washington Street	New Location	Downtown	Financial Services
NextCare	44,359	2145 E Baseline Road	Renewal	Tempe	Healthcare
Nuro	40,492	1725 W Greentree Drive	New Location	South Tempe/Ahwatukee	Manufacturing
Becton, Dickinson and Company	32,917	850 W Rio Salado Parkway	New Location	Tempe	Manufacturing
MOOV	31,667	100 S Mill Avenue	New Location	Tempe	Manufacturing
Lessen, Inc.	22,251	4800 N Scottsdale Road	New Location	Scottsdale South	TAMI
Wexford	19,630	850 N 5th Street	New Location	Downtown	Real Estate
Federal Express	18,249	4605 E Elwood Street	New Location	Airport Area	Transportation

*Sublease

Source: Savills Research

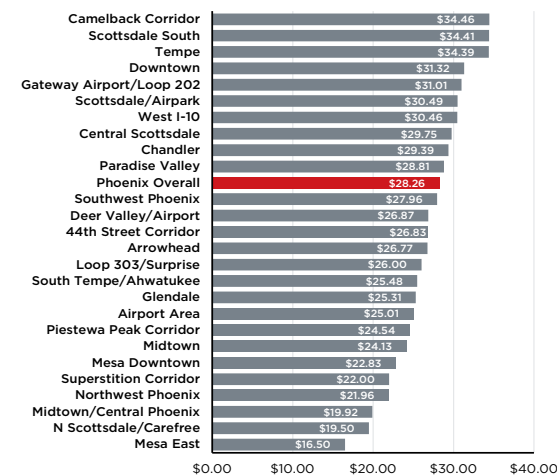
Availability Rate Comparison (%)

Phoenix Submarkets



Rental Rate Comparison (\$/SF)

Phoenix Submarkets



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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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