

# MARKETBEAT

## Office Snapshot 2Q 2016

### Metropolitan Phoenix



#### PHOENIX OFFICE

Economic Indicators*	2Q 15	2Q 16	12-Month Forecast
Phoenix Employment	1,900K	1,962K	▲
Phoenix Unemployment	5.2%	4.7%	▼
U.S. Unemployment	5.4%	4.9%	▼

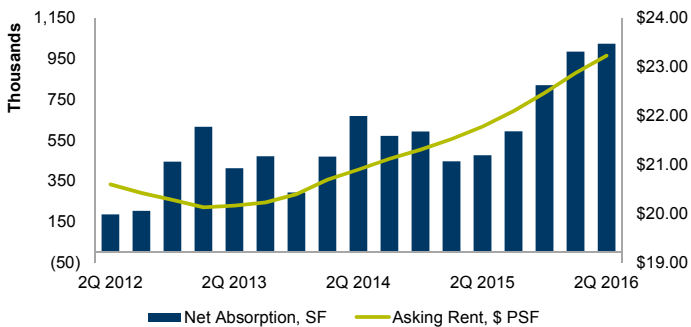
2Q data based on the average of April and May values.

#### Market Indicators (Overall, All Classes)

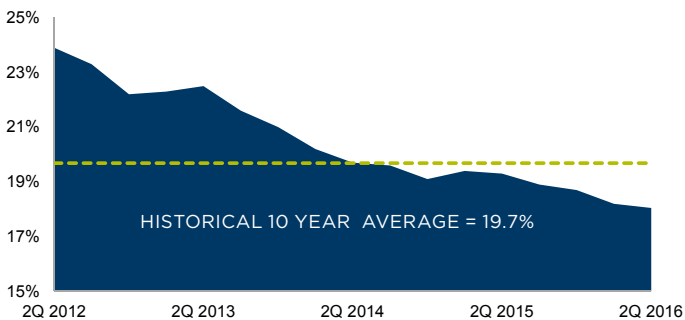
	2Q 15	2Q 16	12-Month Forecast
Overall Vacancy	19.3%	18.0%	▼
Net Absorption (sf)	850,000	1,005,000	▲
Under Construction (sf)	4,844,000	2,456,000	▲
Average Asking Rent*	\$22.21	\$23.52	▲

\*Rental rates reflect gross asking \$psf/year

#### Overall Net Absorption/Overall Asking Rent 4Q TRAILING AVERAGE (IN THOUSANDS)



#### Overall Vacancy



#### Economy

The Metro Phoenix job market continued to show signs of improvement, adding just over 62,000 jobs year-over-year through May 2016. During the same time period, the unemployment rate decreased 50-basis-points, dropping to 4.7%. Out of the 62,000 jobs added, nearly 40% (±24,000 jobs) were office sector jobs. Over the past five years, the Phoenix office sector has outperformed state and national averages by virtue of favorable demographics and being viewed as a much cheaper technology hub when compared to California.

#### Market Overview

At the 2016 midyear point, office vacancy in the Metro Phoenix office market stood at 18.0%, a 20-basis-point (BP) reduction from 1Q 2016, and an even more significant drop of 130 BP from the 19.3% reading of 2Q 2015.

The Valley's office market continued its vitality through the second quarter of 2016, absorbing just over 1 million square feet (MSF) and bringing the year-to-date total to over 1.7 MSF. This marks the largest midyear net gain since 2006 (1.9 MSF). Occupancy growth took place in 15 of Metro Phoenix's 22 office submarkets in 2Q. The Tempe North submarket (11.1% vacancy) dominated all other submarkets during the second quarter with over 572,000 square feet (SF) of net absorption, which accounts for 57.0% of all occupancy growth for the entire market in 2Q. Tempe North's net gain is due to State Farm taking down the second building (620,000 SF) of their five-building regional headquarters, all of which are build-to-suit (BTS) properties. The Price Corridor (13.2%) submarket followed with over 254,000 SF of growth which can be attributed to Infusionsoft occupying the fourth building (100,000 SF) in Allred's Park Place Central development and ViaSat moving into their 72,000 SF BTS space. Tenant demand remained overwhelmingly high for Class A space during the second quarter posting a net gain of over 638,000 SF. In regards to year-to-date performances, Class B space (19.9% vacancy) accounts for over 47.6% of the total absorption in Metro Phoenix, with Class A (15.1% vacancy) and Class C (20.5% vacancy) following at 46% and 6.4%, respectively.

During the second quarter, nearly 988,000 SF was added to the local inventory, 73% of which came online

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released in the form of BTS projects. Through the first six months of 2016 developers have added just under 1.3 MSF of new product to the Metro Phoenix office market, roughly 23% more than the space delivered during the first six months of 2015.

In 2Q 2016, four new projects broke ground totaling over 733,000 SF, all of which are speculative buildings. Cushman & Wakefield is currently tracking nearly 2.5 MSF under construction in the Metro Phoenix office market, 1.6 MSF scheduled to be completed by the end of 2016.

### WHILE TENANT DEMAND REMAINED OVERWHELMINGLY HIGH FOR CLASS A SPACE DURING THE SECOND QUARTER, CLASS B SPACE ACCOUNTED FOR MORE THAN 47% OF THE OCCUPANCY GROWTH IN THE FIRST HALF OF 2016.

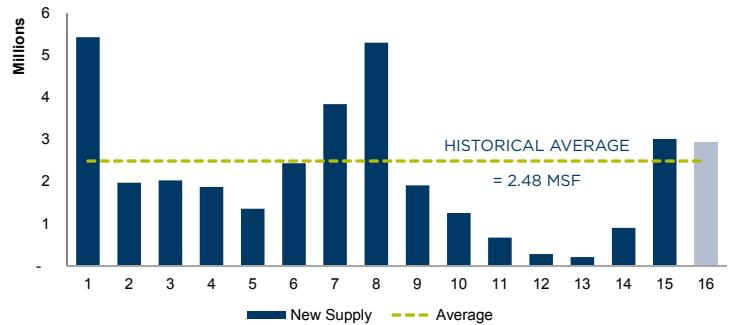
The average asking rent in the Metro Phoenix continues its upward trend, with a current direct rate of \$23.63 per square foot (PSF), on an annual full service basis. This marks a 0.6% (\$0.15 PSF) increase quarter-over-quarter and a staggering 6.4% (\$1.42 PSF) increase year-over-year. The Mesa (\$14.73 PSF) and Scottsdale South (\$30.39 PSF) submarkets recorded the largest quarterly gains in Metro Phoenix, increasing 4.1% and 3.8%, respectively. In regards to the average asking rates for Class A space, the Camelback Corridor (\$34.80 PSF) and Scottsdale South (\$31.72 PSF) submarkets remain the high-water marks. Despite having the highest rates in Metro Phoenix, Cushman & Wakefield tracked over 84,000 SF of combined leasing activity for Class A space in these two submarkets during 2Q 2016.

### Outlook

- Continued demand for premium product will drive up the region's overall average asking rents.
- Asking rents are up 6.4% year-over-year, and are up over 19.2% from the post-recession low point reached in 1Q 2013.
- In total, Cushman & Wakefield is projecting over 2.9 MSF of new inventory to be delivered during 2016, 55% of which is preleased.
- Net absorption could exceed 3.0 MSF by year-end as job growth remains positive.

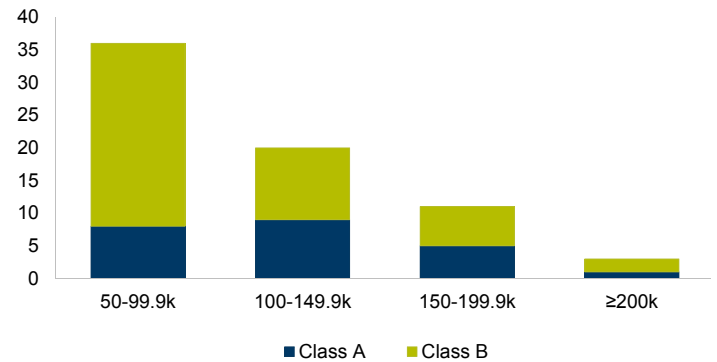
### New Supply

NEW SUPPLY EXCEEDED THE HISTORIC AVERAGE BY 18% IN 2016



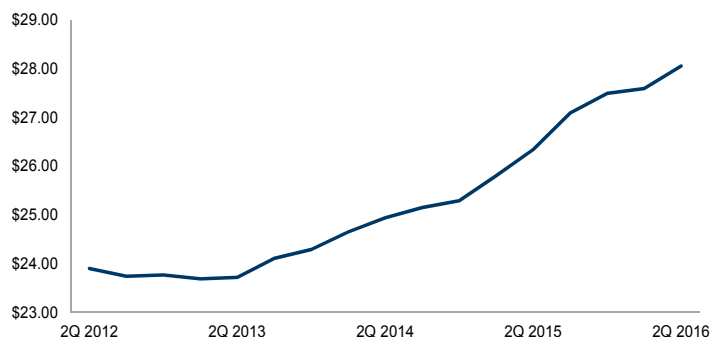
### Large Block Space

CONTIGUOUS BLOCKS OF AVAILABLE SPACE



### Class A Asking Rent Trend

METRO PHOENIX CLASS A ASKING RENT INCREASED 6% FROM A YEAR AGO



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SUBMARKET	TOTAL BLDGS	INVENTORY	SUBLET VACANT	DIRECT VACANT	VACANCY RATE	2Q NET ABSORPTION	YTD NET ABSORPTION	UNDER CONSTRUCTION	OVERALL AVG ASKING RENT	DIRECT AVG ASKING RENT
Downtown	42	7,226,812	124,650	1,193,000	18.2%	18,211	68,530	122,220	\$26.06	\$26.88
Midtown	88	10,908,482	77,714	2,425,480	22.9%	(27,438)	4,059	-	\$21.28	\$21.52
<b>CBD Total</b>	<b>130</b>	<b>18,135,294</b>	<b>202,364</b>	<b>3,618,480</b>	<b>21.1%</b>	<b>(9,227)</b>	<b>72,589</b>	<b>122,220</b>	<b>\$22.85</b>	<b>\$23.22</b>
44th Street Corridor	42	3,389,155	40,238	433,256	14.0%	14,496	(17,224)	-	\$22.89	\$23.24
Arrowhead	23	1,448,463	-	313,137	21.6%	(1,996)	6,151	-	\$21.75	\$21.75
Camelback Corridor	75	7,397,947	95,781	1,423,058	20.5%	8,066	66,561	-	\$30.58	\$31.20
Chandler/Gilbert/202	38	2,168,549	25,402	806,154	38.3%	4,521	54,156	368,114	\$24.54	\$24.54
Deer Valley	72	7,533,876	58,568	1,178,496	16.4%	120,304	128,878	-	\$22.13	\$22.47
East-Central Phoenix	44	2,020,173	25,678	305,430	16.4%	(4,858)	(7,169)	-	\$18.19	\$17.53
Glendale/Peoria	15	967,591	-	239,127	24.7%	8,601	36,571	-	\$18.28	\$18.28
Mesa	23	1,086,528	-	94,920	8.7%	(12,110)	148,455	152,540	\$14.80	\$14.73
Metrocenter	67	4,584,900	-	979,815	21.4%	(32,508)	(47)	-	\$19.04	\$19.06
N Phoenix/Desert Ridge	36	2,534,993	22,803	425,671	17.7%	21,280	43,783	-	\$25.03	\$25.13
Piestewa Peak Corridor	32	1,972,910	-	455,822	23.1%	25,217	43,340	-	\$18.51	\$18.49
Price Corridor	58	6,047,832	8,870	787,368	13.2%	208,690	254,121	-	\$22.93	\$22.92
Scottsdale Airpark	148	10,215,208	11,058	1,973,866	19.4%	(19,726)	51,282	-	\$26.26	\$26.40
Scottsdale Central	67	5,257,817	53,126	643,389	13.2%	29,127	75,288	-	\$23.79	\$24.00
Scottsdale South	35	3,649,701	134,117	312,323	12.2%	(25,299)	(107,063)	145,000	\$29.09	\$30.39
Sky Harbor	52	4,634,315	38,566	839,089	18.9%	1,232	79,060	-	\$22.38	\$22.48
South I-10/Ahwatukee	56	3,181,548	19,167	448,724	14.7%	28,822	72,502	-	\$20.83	\$21.11
Superstition Corridor	47	2,495,369	34,128	531,798	22.7%	42,601	72,238	-	\$18.76	\$18.42
Tempe North	89	9,053,354	3,074	1,005,502	11.1%	572,497	607,122	1,667,718	\$25.85	\$25.78
West Phoenix	39	1,716,983	6,510	357,497	21.2%	25,166	27,301	-	\$16.74	\$16.67
<b>Suburban Total</b>	<b>1,058</b>	<b>81,357,212</b>	<b>577,086</b>	<b>13,554,442</b>	<b>17.4%</b>	<b>1,014,123</b>	<b>1,635,306</b>	<b>2,333,372</b>	<b>\$23.69</b>	<b>\$23.74</b>
Class A	249	39,295,655	374,757	5,554,508	15.1%	638,287	784,879	1,442,055	\$28.05	\$28.47
Class B	743	52,548,722	356,475	10,102,219	19.9%	376,573	813,679	1,013,537	\$21.76	\$21.82
Class C	196	7,648,129	48,218	1,516,195	20.5%	(9,964)	109,337	-	\$16.52	\$16.56
<b>Grand Total</b>	<b>1,188</b>	<b>99,492,506</b>	<b>779,450</b>	<b>17,172,922</b>	<b>18.0%</b>	<b>1,004,896</b>	<b>1,707,895</b>	<b>2,455,592</b>	<b>\$23.52</b>	<b>\$23.63</b>

CUSHMAN & WAKEFIELD HAS RE-CLASSIFIED THE COMPETITIVE BUILDING INVENTORY AND CHANGED THE SUBMARKET BOUNDARIES.

ASKING RENTS CONVERTED TO FULL SERVICE. THE AIRPORT SUBMARKET IS NOW CALLED SKY HARBOR.

NET ABSORPTION IS THE NET CHANGE IN PHYSICALLY OCCUPIED SPACE BETWEEN THE CURRENT PERIOD AND THE PREVIOUS PERIOD.

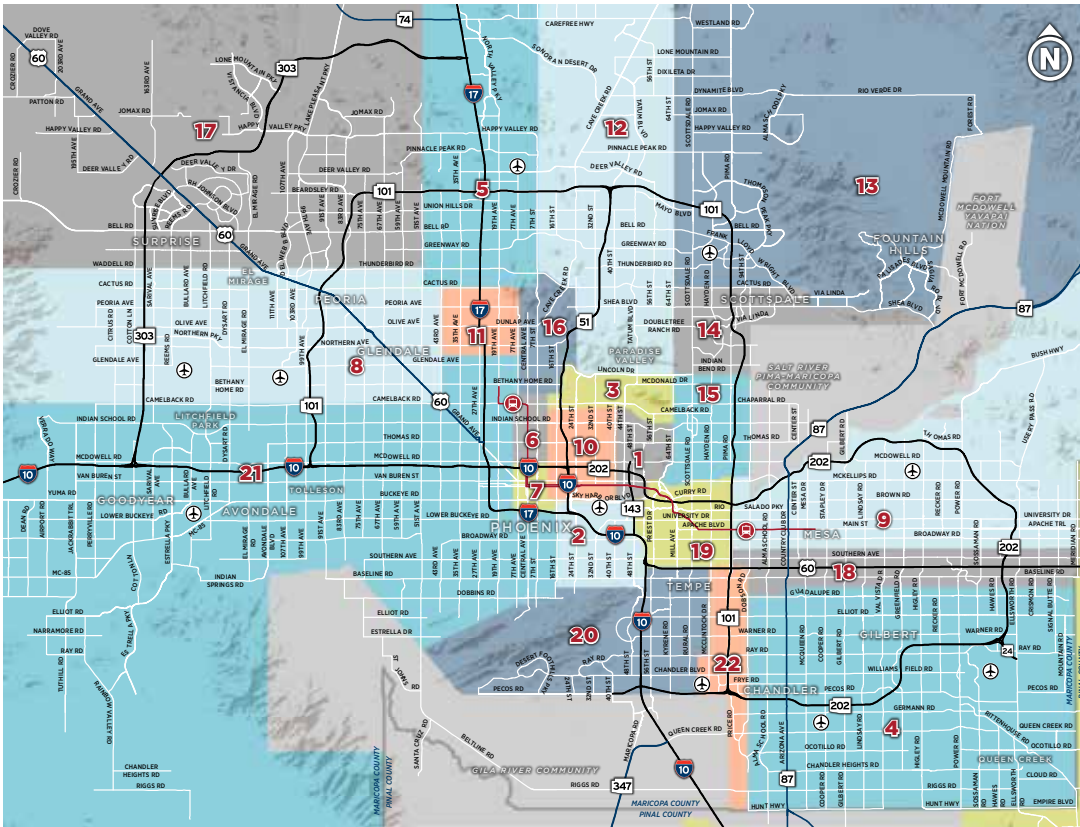
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#### OFFICE SUBMARKETS



- 1 - 44th Street Corridor
- 2 - Sky Harbor\*
- 3 - Camelback Corridor
- 4 - Chandler/Gilbert/202
- 5 - Deer Valley
- 6 - Midtown
- 7 - Downtown
- 8 - Glendale / Peoria
- 9 - Mesa
- 10 - East-Central Phoenix
- 11 - Metrocenter
- 12 - N Phoenix/Desert Ridge
- 13 - Scottsdale Airpark
- 14 - Scottsdale Central
- 15 - Scottsdale South
- 16 - Piestewa Peak Corridor
- 17 - Arrowhead
- 18 - Superstition Corridor
- 19 - Tempe North
- 20 - South I-10/Ahwatukee
- 21 - West Phoenix
- 22 - Price Corridor

\*The Airport Submarket is now called Sky Harbor

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#### About Cushman & Wakefield

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