



Phoenix office market report

Q3 2024

**AVISON
YOUNG**

Phoenix office market trends

25.7%

Vacancy continues increasing as companies downsize and work models evolve.

The Phoenix office market continues to face elevated vacancy rates as companies adopt new work models and shift away from traditional metro downtown hubs. Many companies have embraced hybrid or remote arrangements, reducing the demand for office space. In Q3 2024, the total vacancy rate reached 25.7%, marking the highest level on record. Notably, the proportion of direct-to-sublet space has grown, with vacancies totaling just under 25 million square feet across the Valley—5 million square feet of which is sublet space, accounting for 20% of the overall vacancy.

\$30.96

Rents seem to have plateaued with growth slowing to under 2% per quarter in 2024.

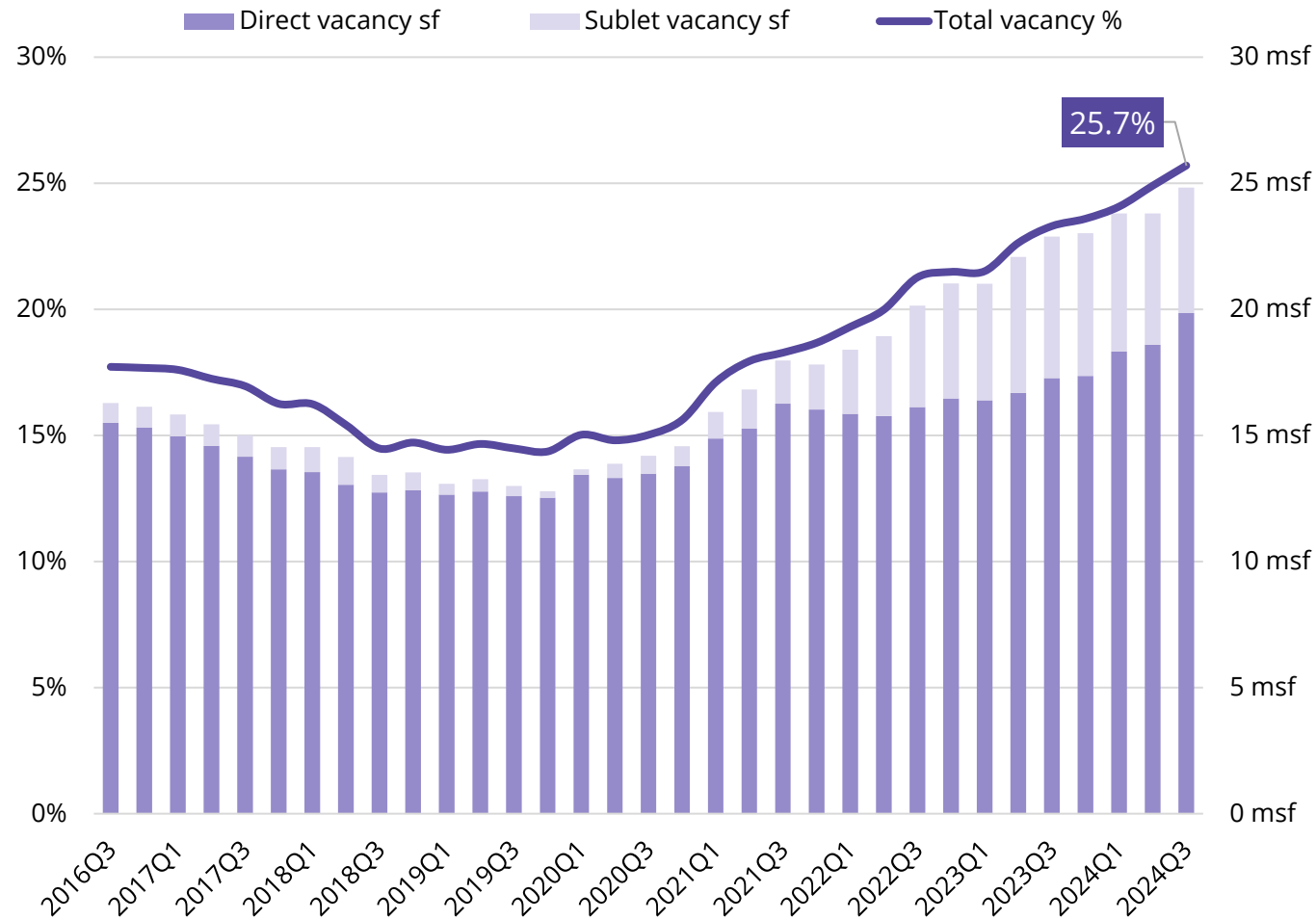
In the Phoenix office market, rents have seemingly plateaued around \$30.96 per square foot, with rent growth slowing noticeably over the past three quarters. From Q4 2021 through Q4 2023, the market experienced steady growth, with office rents consistently rising by 3% to 5% at any given quarter on an annual basis. However, 2024 has marked a shift in this trend, as rent growth has slowed to less than 2% per quarter, which reflects a lack of demand amid changing work models and continued high vacancy rates.

-759,437sf

Leasing remains challenging, with demand for larger spaces lagging significantly.

Q3 2024 absorption closed at -759,437 square feet. Leasing remains a challenge for the Phoenix office market, with demand for larger spaces still lagging. Before COVID, buildings over 100,000 square feet saw strong activity, but post-pandemic, absorption has been limited to small and mid-size properties, with no sign of recovery for larger spaces. Though there have been exceptions, such as Dutch Bros moving its headquarters to Phoenix, large-scale leases are infrequent. Meanwhile, the industrial sector is expanding as companies relocate to Phoenix and other Sunbelt markets, which could eventually boost office demand.

Phoenix office vacancy (%)



Across the Valley, most submarkets are facing vacancy rates over 20%, with the Airport and Northwest Phoenix areas exceeding 30%. These high vacancies reflect the ongoing shift in workplace dynamics as businesses adapt to new work models, leading to reduced demand for larger office spaces and increased competition among landlords to attract tenants in an over-supplied market.

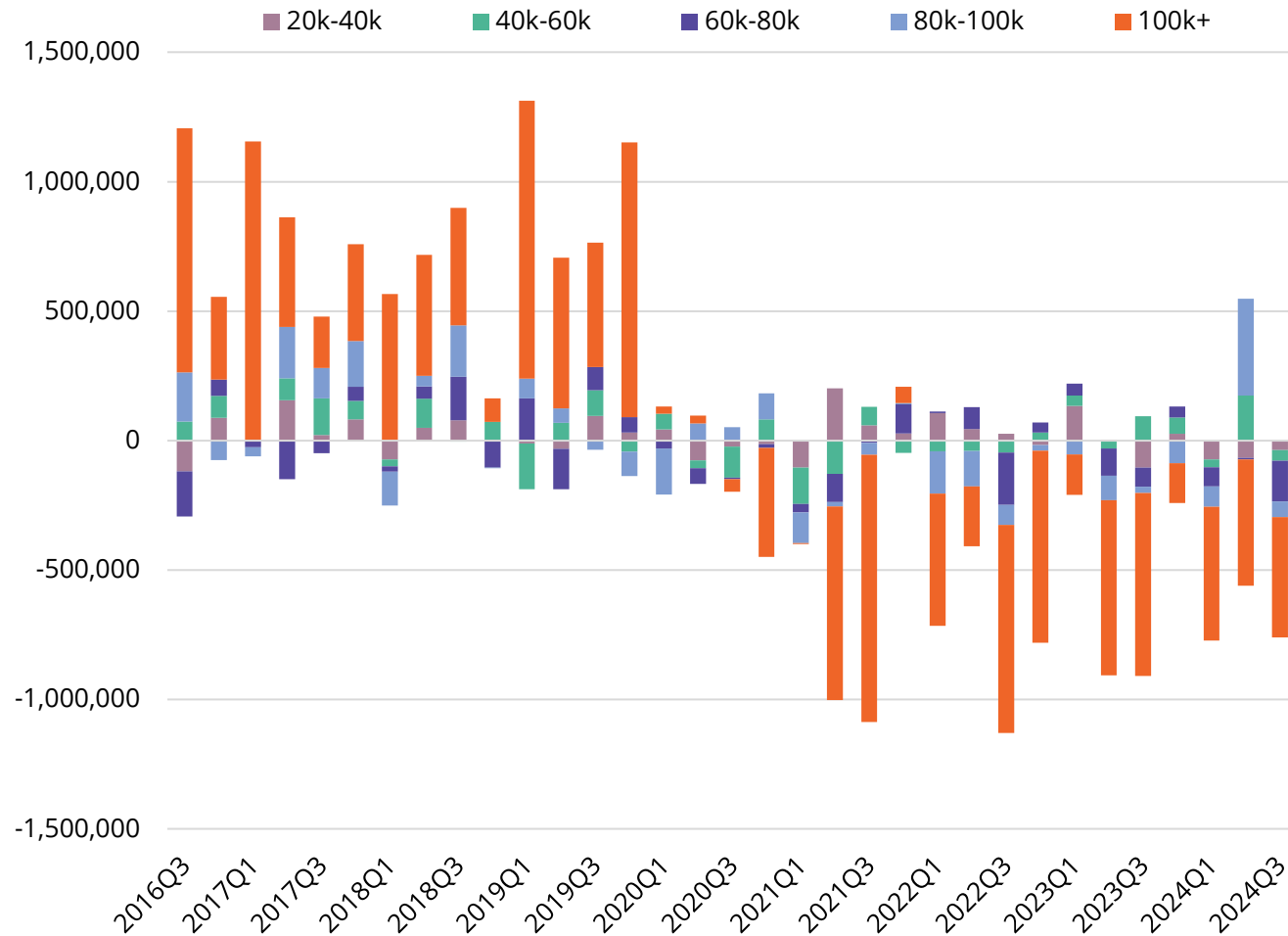
See submarket-specific metrics on page 9.

Phoenix office asking rents (\$)



Rent growth in the Phoenix office market has slowed due to rising vacancy rates and reduced landlord leverage, forcing competition on pricing. While premium office spaces continue to drive higher rents, lower leasing activity and increased property expenses, driven by inflation and higher operational costs, are pushing landlords to raise rents to maintain profitability. The recent 50 basis point rate cut may help stabilize rents by easing inflation, but landlords still face challenges balancing competitive pricing with increasing costs.

Phoenix office absorption by property size (sf)



In the Phoenix office market, rising vacancies are driven by reduced demand for larger spaces, as companies downsize and seek smaller, flexible floorplates. This shift has led to a significant decline in demand for buildings over 100,000 square feet, especially in urban centers where high-rises remain vacant, as employees favor suburban locations to reduce commute times.

Appendix



Phoenix office market activity

Q3 2023 – Top leasing activity

Tenant	Address	Submarket Cluster	Sign date	Size (sf)	Transaction type	Lease type
Move.com	5601 N Pima Rd	Scottsdale	August 2024	65,655	New Lease	Sublease
Mahoney Group Insurance	2625 W Geronimo Pl	East Valley	August 2024	35,000	New Lease	Direct
Kimley-Horn	2046 Riverview Auto Dr	East Valley	July 2024	34,771	New Lease	Direct
Stealth	18700 N Hayden Rd	Scottsdale	August 2024	32,069	Expansion	Direct
Arizona Coll	4425 W Olive Ave	Northwest Phoenix	July 2024	27,026	New Lease	Direct

Q3 2024 – Top investment sales activity

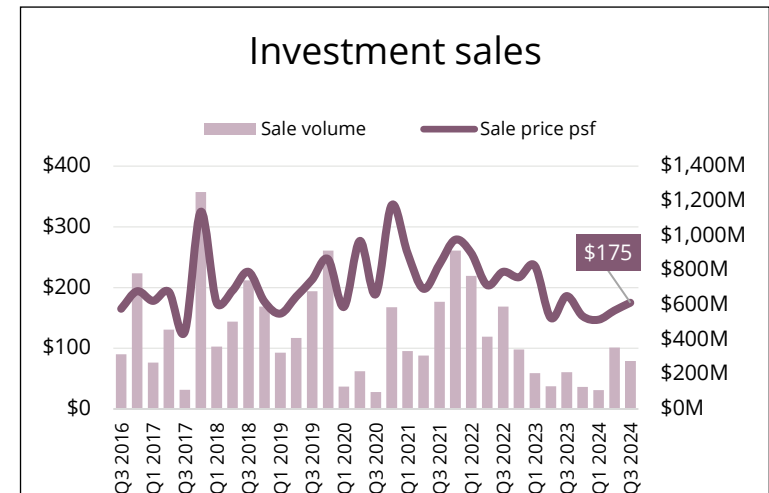
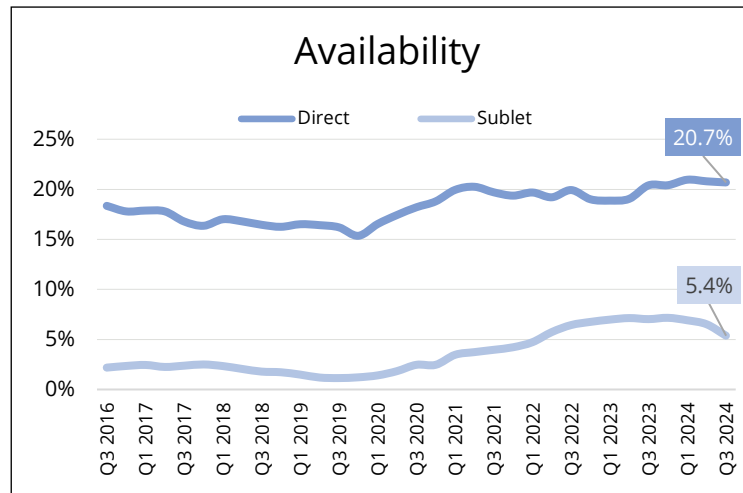
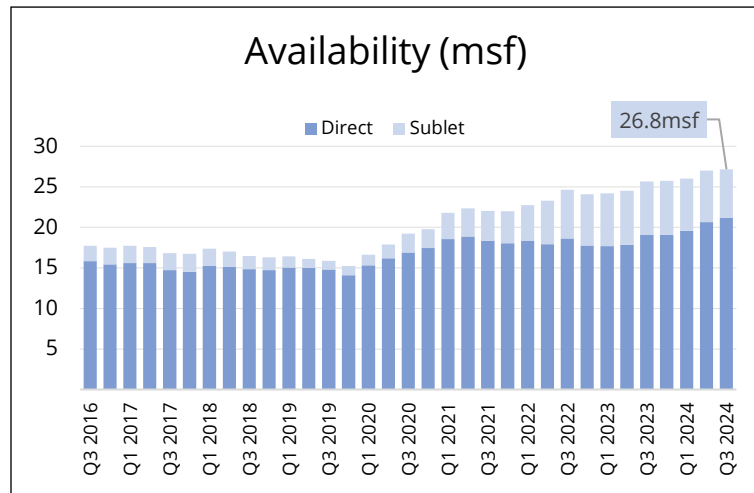
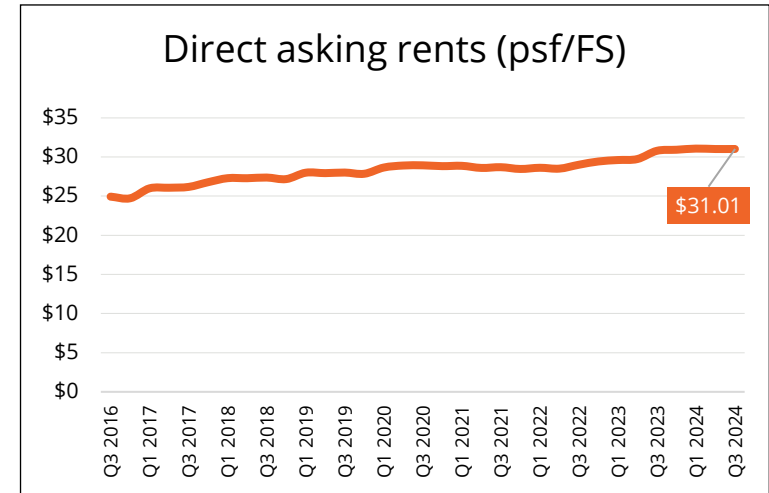
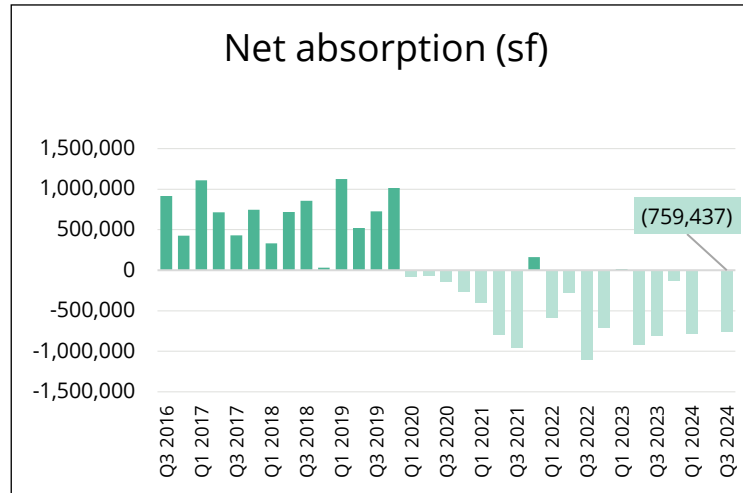
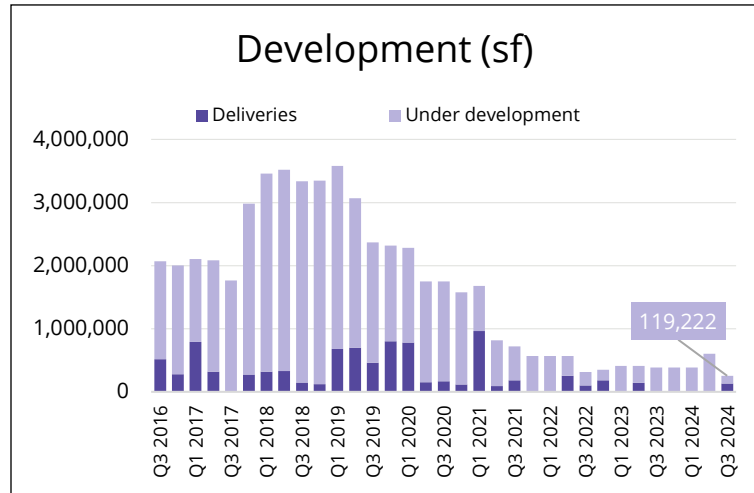
Buyer	Address	Sale date	Building size (sf)	Sale price	Sale price psf	Seller
Samuel & Co Inc	9501 E Shea Blvd	August 7 , 2024	366,513	\$71.5M	\$195.08	Net Lease Office Properties
Varde Partners, Inc.	3815 E Bell Rd*	July 24, 2024	127,252	\$36M	\$282.90	Healthpeak Properties, Inc.
Varde Partners, Inc.	7330 N 99 th Ave*	July 24, 2024	65,476	\$21.8M	\$332.95	Healthpeak Properties, Inc.

*part of bulk property portfolio sale

Top projects under development

Project Name Address	Submarket Cluster	Delivery date	Building size sf	% Preleased	Developer
1 Scottsdale – Phase One (mixed-use) Scottsdale Rd	Scottsdale	December 2024	214,800	70.4%	DMB Associates, Inc.
Gilbert Spectrum SWC Elliot Rd & McQueen Rd – Bldg 3*	East Valley	December 2024	119,222	100%	SunCap Property Group

Phoenix office market indicators

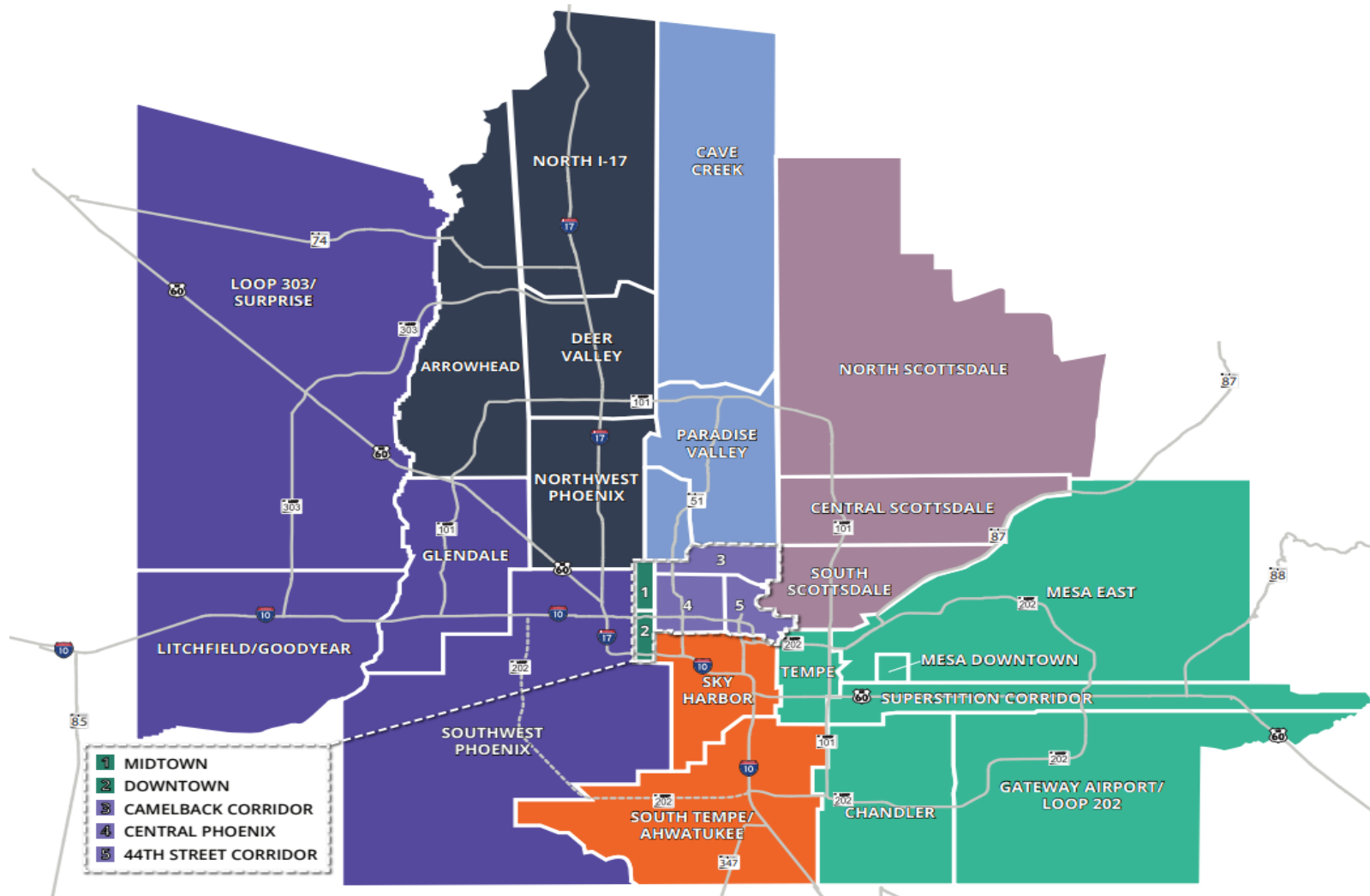


Phoenix office market stats

Submarket cluster	Existing inventory sf	Deliveries sf (Q3)	Under development sf	Direct availability	Sublet availability	Total availability*	Net absorption sf (Q3)	Net absorption % of inventory (Q3)	Annual direct asking rent psf FS
Airport Area	14,980,344			23.5%	10.9%	33.3%	20,516	0.14%	\$ 31.00
Central Corridor	19,009,199			22.7%	2.2%	24.9%	-142,547	0.75%	\$ 28.05
East Phoenix	10,984,189			23.8%	2.8%	26.6%	-12,840	-0.12%	\$ 35.37
East Valley	16,940,344	133,356	119,222	17.5%	9.6%	26.5%	70,935	0.42%	\$ 34.02
Northwest Phoenix	10,115,892			22.6%	9.2%	31.7%	-72,277	-0.71%	\$ 26.04
Paradise Valley	3,613,609			22.0%	3.1%	25.1%	-23,890	-0.66%	\$ 29.55
Scottsdale	17,256,996			18.7%	3.9%	22.5%	-332,617	-1.93%	\$ 33.34
West Phoenix	2,843,750			14.6%	1.3%	15.9%	-4,211	-0.15%	\$30.74
Market total	95,744,323	133,356	119,222	20.68%	5.38%	26.05%	-759,437	-0.79%	\$ 31.01

*Availability rates differ from vacancy rates due to space being listed as available before the current leases' expiration and the pre-leasing of unreleased space. Survey criteria: Statistics in this report reflect on non-owner-user traditional office properties that are 20k sf and up (unless specified otherwise).

Phoenix office submarket map



SUBMARKET CLUSTERS

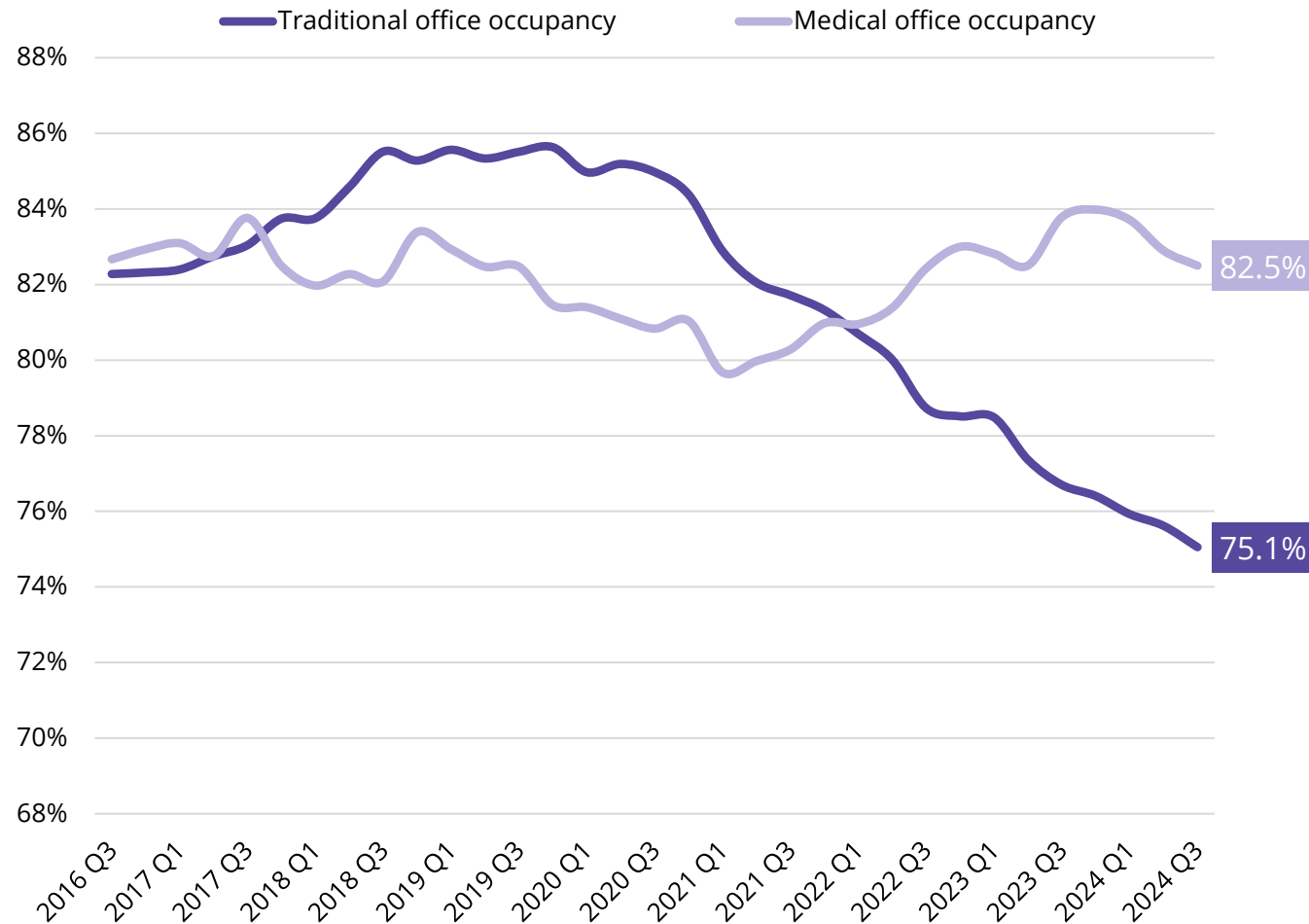
- WEST PHOENIX
- NORTHWEST PHOENIX
- NORTH PHOENIX
- CENTRAL CORRIDOR
- EAST PHOENIX
- AIRPORT AREA
- EAST VALLEY
- SCOTTSDALE

Phoenix medical office market

Let's examine more medical
office trends in the valley.



Phoenix medical office market health

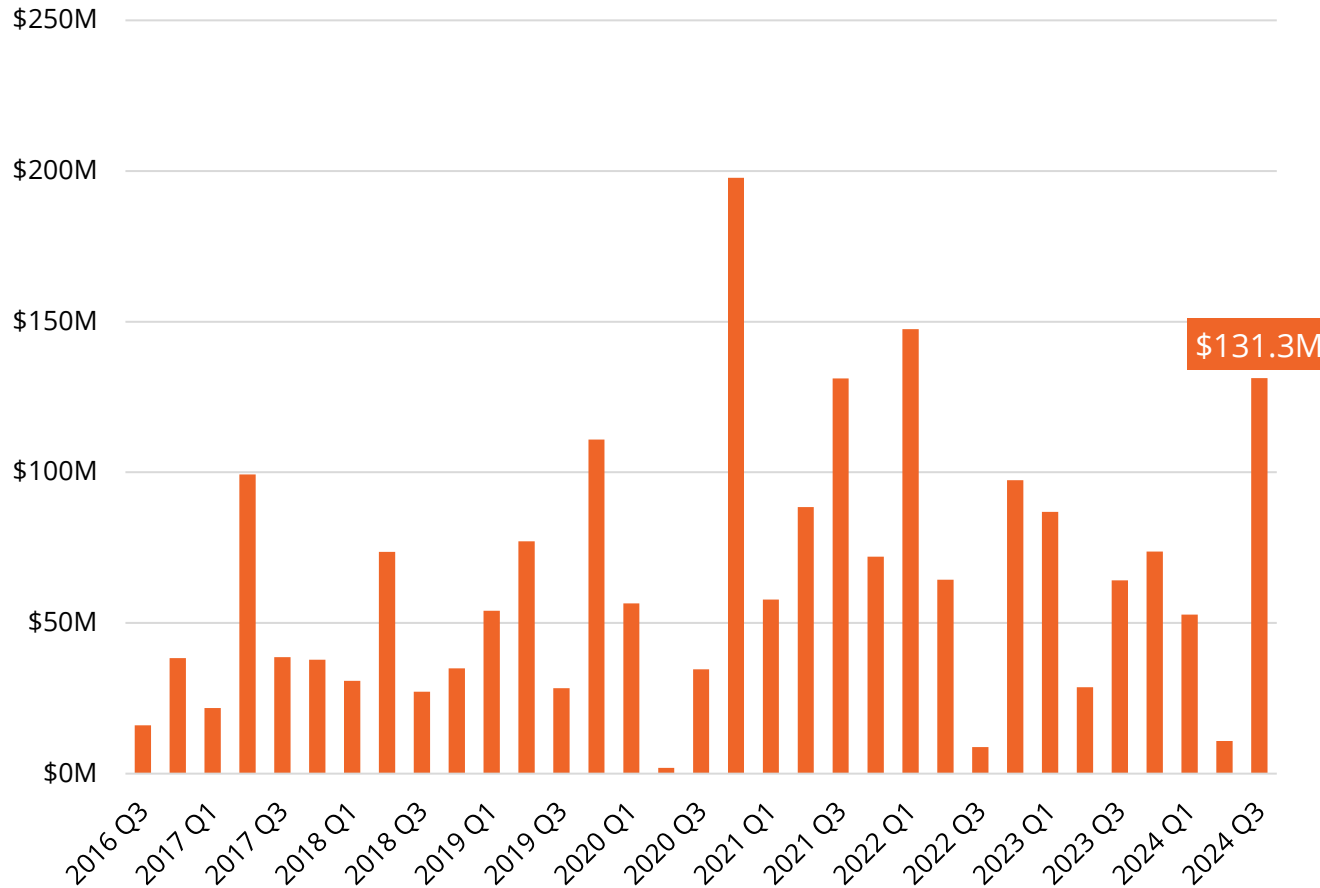


Note: This data reflects non-owner-occupied medical offices over 20k sf in size.

Phoenix has become a prime location for medical office growth, attracting state-of-the-art facilities and steady development. After outperforming medical offices before 2020, traditional office occupancy has since declined due to the global health crisis and government support for healthcare. As of Q3 2024, medical office occupancy is at 82.5%, slightly down from its mid-2023 peak. New projects like One Scottsdale Medical are set to deliver within the next year and are contributing to a modest rise in vacancy rates.

See page 14 for new development details.

Phoenix medical office sales volume (\$)



\$131.3M

Note: This data reflects non-owner-occupied medical offices over 20k sf in size.

In Q3 2024, investment sales for non-owner-occupied spaces over 20,000 square feet soared, surpassing \$131.3 million—the highest level of sales activity since Q4 2020. This impressive surge included a bulk portfolio sale to Varde Partners, which accounted for three of the top five sales of the quarter. TPG Angelo Gordon & Co. also made significant acquisitions. Healthpeak Properties Inc. was the seller in the Varde Partners deal, while Cypress West Realty Management Inc. facilitated the transaction with TPG Angelo Gordon & Co.

See page 14 for transaction details.

Phoenix medical office market activity

Q3 2024 – Top investment sales activity

Buyer	Address	Sale date	Building size (sf)	Sale price	Sale price psf	Seller
Varde Partners, Inc.	3815 E Bell Rd – Physicians Medical Plaza of Scottsdale*	July 24, 2024	127,252	\$36M	\$282.90	Healthpeak Properties, Inc.
Varde Partners, Inc.	7330 N 99 th Ave – St. Joseph’s Westgate Medical Office Building*	July 24, 2024	65,476	\$21.8M	\$332.95	Healthpeak Properties, Inc.
TPG Angelo Gordon & Co., L.P.	9520 W Palm Ln – 101 Medical Gateway*	July 11, 2024	50,040	\$18.08M	\$361.37	Cypress West Realty Management, Inc.
Varde Partners, Inc.	16836 E Palisades Blvd – Town of Fountain Hills*	July 24, 2024	46,121	\$13M	\$281.87	Healthpeak Properties, Inc.
TPG Angelo Gordon & Co., L.P.	9220 E Mountain View Rd – Desert Mountain Medical Plaza*	July 11, 2024	40,495	\$12.55M	\$309.88	Cypress West Realty Management, Inc.

*part of bulk property portfolio sale

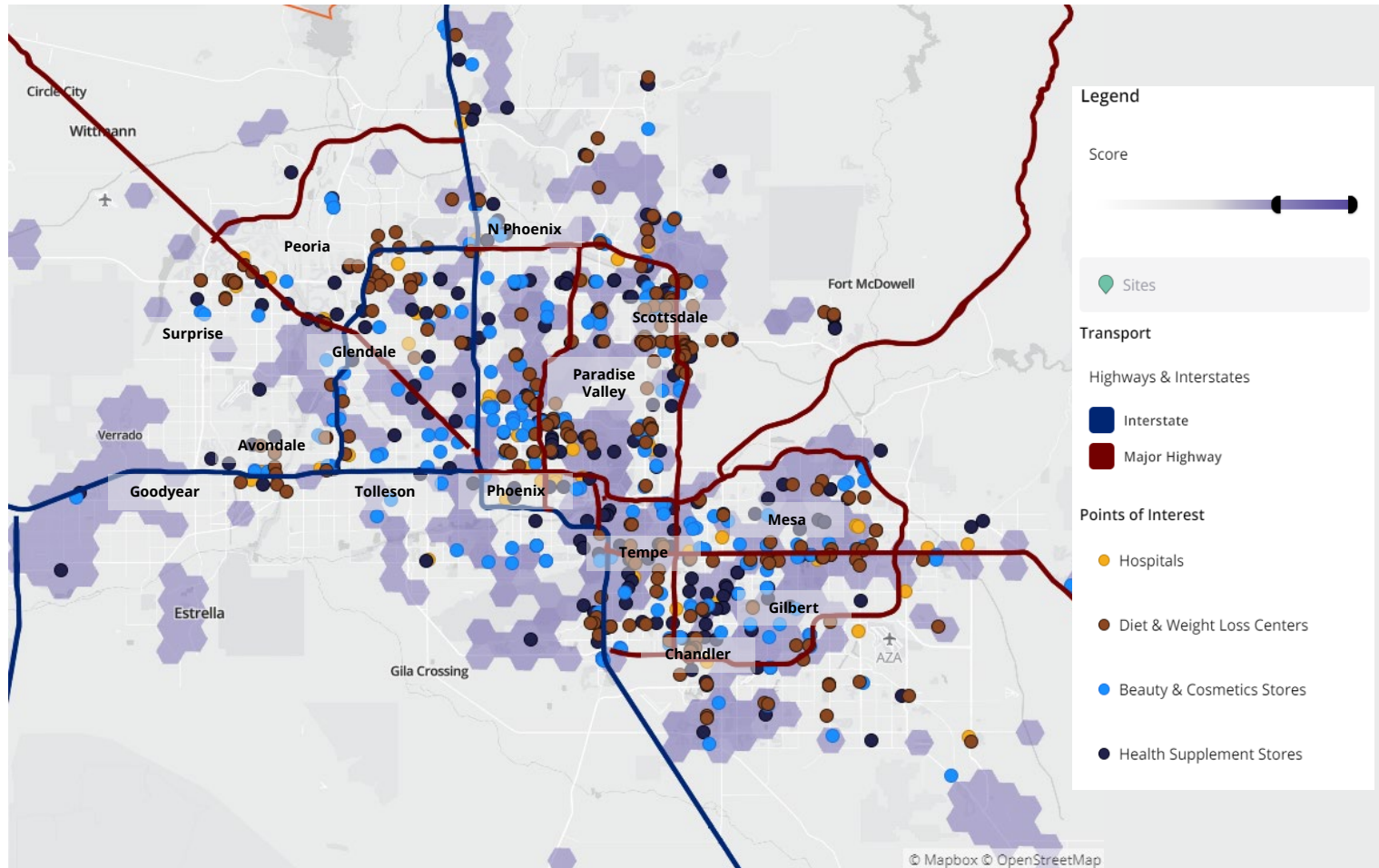
Q3 2024 – Top leasing activity

Tenant	Address	Submarket Cluster	Sign date	Size (sf)	Transaction type	Lease type
Phoenix Autism Center	3303 N 44 th St	East Phoenix	July 2024	13,758	New Lease	Direct
CCI Success Insights	17015 N Scottsdale Rd	Scottsdale	July 2024	13,644	New Lease	Direct

Top projects under development

Project Name Address	Submarket Cluster	Delivery date	Building size sf	% Preleased	Developer
Pima Center 8435 N Pima Center Pky	Scottsdale	March 2025	100,000	79.0%	Boldt
One Scottsdale Medical 20159 N Scottsdale Rd	Scottsdale	October 2024	98,000	79.6%	Ryan Companies
Rancho Santa Fe Phase II 13028 W Rancho Santa Fe Blvd	West Phoenix	January 2025	30,000	50%	Unknown

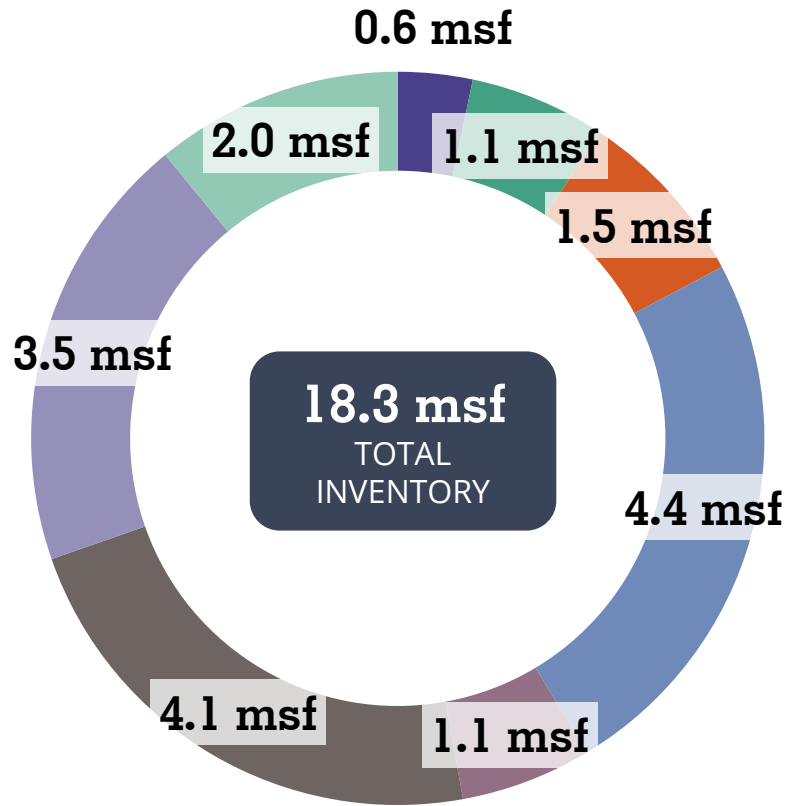
Phoenix areas of opportunity for plastic surgery centers



Using the Avant Healthcare Intelligence tool, areas with unmet demand for the expansion of plastic surgeons have been pinpointed. Although some regions are oversaturated, the beauty industry continues to grow and increasingly intersects with healthcare through the rise of medspas and wellness centers. Analysis reveals opportunities for plastic surgery centers concentrated in areas featuring diet and weight loss centers, as well as beauty and health supplement stores.

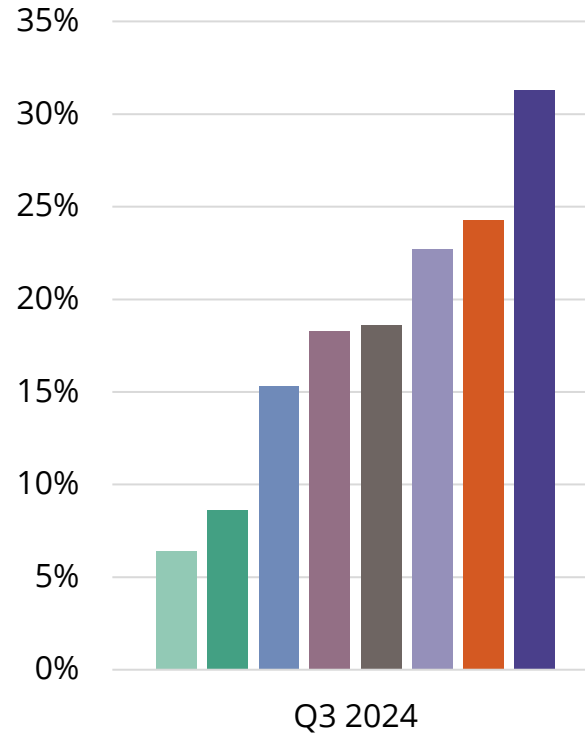
Our legend highlights high score areas (dark purple) = high unmet demand.

Phoenix medical office submarkets



- Airport Area
 - Central Corridor
 - East Phoenix
- North Phoenix
 - Northwest Phoenix
 - Scottsdale
- West Phoenix
 - East Valley
 - (Unlabeled)

TOTAL VACANCY



A majority of non-owner user medical office inventory is found in the Scottsdale, East Valley, and Northwest Phoenix submarket clusters and tends to surround major medical centers including:

- **Scottsdale:** HonorHealth Scottsdale Shea & HonorHealth Scottsdale Osborn, Abrazo Scottsdale
- **Northwest Phoenix:** Banner Boswell & Banner Thunderbird, Abrazo Arrowhead, Dignity Health - Arizona General
- **East Valley:** Banner Desert, Dignity Health Chandler, Dignity Health Mesa

Note: This data reflects non-owner-occupied medical offices over 20k sf in size.

Office insights glossary of terms

Demand

- **Leasing activity:** total square footage of relocations, renewals, expansions and subleases expressed when the leases are signed, not when tenants take physical occupancy of the space
- **Absorption:** period-over-period change in occupied square footage

Supply

- **Direct vacancy rate:** space operated by landlords that is ready for immediate occupancy
- **Sublease vacancy rate:** space operated by sublandlords that is ready for immediate occupancy
- **Total vacancy rate:** sum of direct vacancy rate and sublease vacancy rate
- **Availability rate:** space that is vacant plus space that will become vacant over an indefinite time horizon, including spaces that are occupied by vacating tenants and under-construction properties

Office rents and concessions

- **Asking rents:** pricing guidance provided by landlords to tenants for available space expressed as full service (FS)
- **Base rents:** fair market value of market-level lease pricing based on representative executed leases, expressed as full service (FS)
- **Free rent period:** months of free rent that are typically provided upfront by landlords to tenants as a concession to offset the total cost of a lease and/or the construction timeline of an office suite
- **Tenant improvement allowance:** an allowance expressed in dollars per square foot provided from landlords to tenants to offset build-out, engineering, space planning and related permit costs
- **Net effective rent:** base rents discounted by the dollar values of tenant improvement allowance and free rent concessions expressed as full service (FS)

Capital markets

- **Investment volume:** office sales dollars expressed when the transactions close and based on inventory thresholds; partial-interest sale dollar amounts are not grossed-up to reflect the 100% value of the sale
- **Asset pricing:** unweighted average per-square-foot asset pricing of market-level closed sales
- **Cap rate:** net operating income divided by sale price; this measurement of market-level investment returns is calculated as an unweighted average based on closed investment sales

For more market insights and
information visit **avisonyoung.com**

Mark Seale

Principal
Market Leader
+1 480 423 7909
Mark.Seale@avisonyoung.com

Giovanna Abraham

Analyst
Market Intelligence
+1 480 994 8155
Giovanna.Abraham@avisonyoung.com