



Phoenix office market report

Q2 2024

**AVISON
YOUNG**

Phoenix office market trends

25.0%

Total vacancy rate (%)

Phoenix's office vacancy remains among historically high levels at 25.0% in Q2 2024, driven by a notable increase in sublet vacancies, which rose to 5.3%—500 basis points higher than pre-pandemic levels in Q2 2019. Larger buildings, typically over 50,000 sf, generally show higher vacancy rates, reflecting ongoing challenges in the market. However, office buildings with smaller floorplates (below 10,000 square feet) remain healthy at 10.7% vacant. Some larger transactions, such as the Dutch Bros HQ for over 130k square feet, pose more certainty as companies grasp their new post-pandemic work models.

\$31.33

Direct asking rents FS (\$ psf)

Phoenix office asking rents continue to rise, registering at \$31.33 per square foot annually in Q2 of 2024, despite a lack of demand and record-high vacancies. Landlords are juggling rising operating costs with inflation as well as the increase of construction costs and tenant improvements for larger Class A properties. As over 23 million square feet remain vacant on the market as of Q2 of 2024, the rate at which rents are increasing is decelerating when comparing quarters on a year-over-year basis.

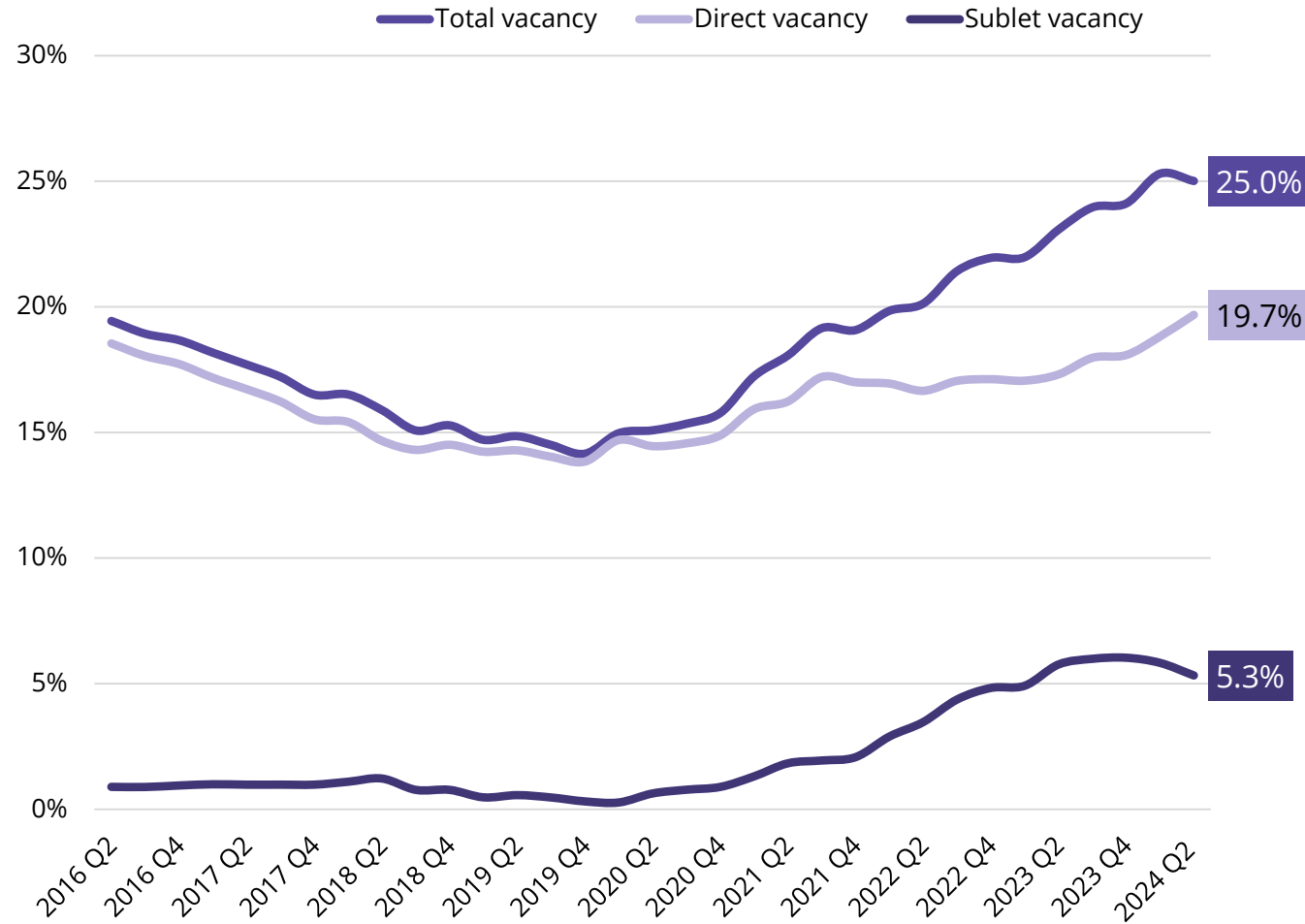
\$275.9M

Sales volume (\$)

Investment sales in the Phoenix office market for both traditional and medical office space exceeded the last four quarters, reaching \$275.9 million for Q2 of 2024. This marks a dramatic rise of 111.4% from the \$130.5 million recorded in Q2 of 2023. Notable investments in Q2 2024 were made by groups like Columbus Properties and Breakwater Property Partners. More about key investors can be found on page 8.

Source: AVANT by Avison Young, CoStar. 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 vacancy (%)



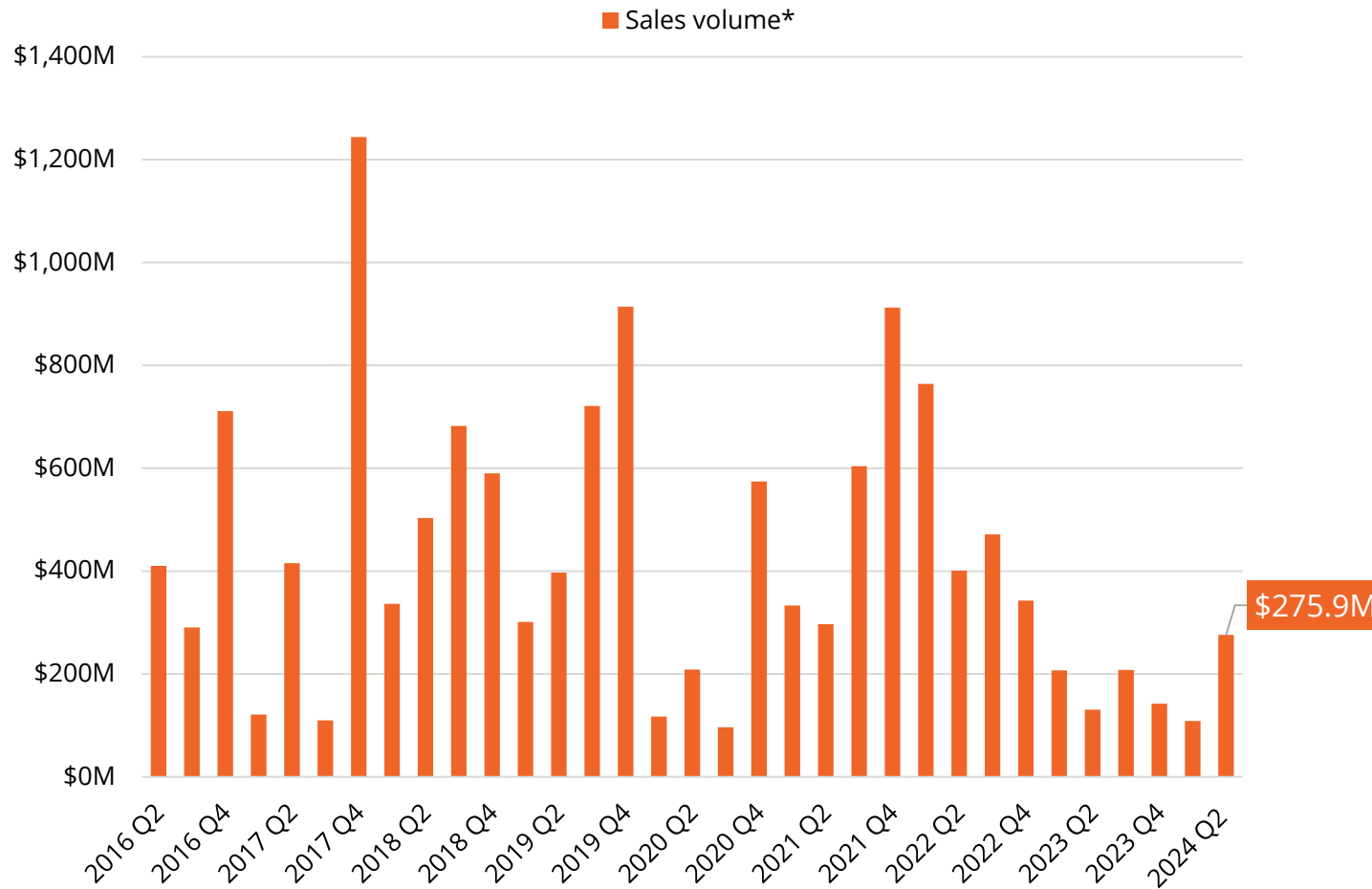
Since the peak of the pandemic, sublet vacancies in Phoenix’s office market have consistently risen by approximately 100 basis points each year, driven by large users right-sizing their space as a result of the post-pandemic hybrid work model. In addition, companies such as US Foods, The Raley's Companies, Northrop Grumman, and The Arizona Cardinals have announced layoffs, which may contribute to the challenging market conditions in the Phoenix area.

Phoenix office direct asking rents FS (\$)



Rents in Phoenix’s office market remain high as a result of higher operating and construction costs associated with Class A properties. Although, the pace of rent growth has noticeably slowed over the past year. In Q2 2023, rents surged by 4.4% year-over-year, and just a year later, this growth rate significantly eased to just a 1% increase in Q2 2024 from the year prior, indicating a potential market shift to stabilized rental rates.

Phoenix office sales volume (\$)



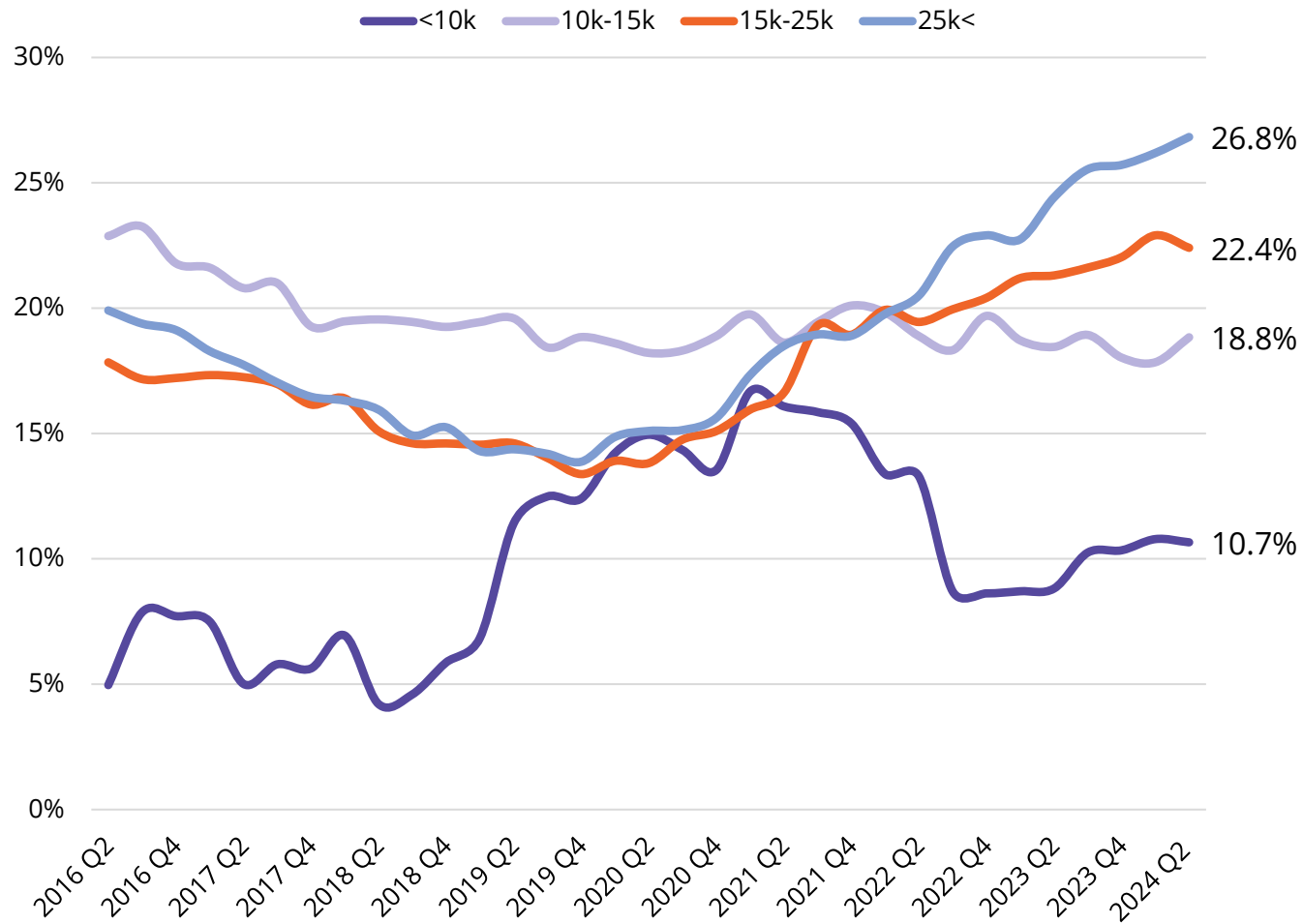
*Unlike traditional office investment sales on page 9, this graph includes medical office sales in the sales volume.

In the traditional Phoenix office market, there has been a drastic increase in transaction volumes from the last four quarters, as large office owners decide to sell their largely vacant properties at significant discounts – creating opportunity and attraction to investors.

Appendix



Phoenix office floorplate vacancy (%)



In the Phoenix office market, larger buildings typically exhibit higher vacancy rates, however, when we focus on floorplate sizes rather than overall building size, the market may offer optimism for larger properties. Buildings with floorplates under 10,000 square feet show a relatively low vacancy rate of 10.7%. As floorplate sizes increase beyond 10,000 square feet, vacancy rates escalate significantly, peaking at floorplates of 25,000 square feet in size or more. This trend suggests that larger floorplates correlate with higher vacancy levels.

Phoenix office market activity

Q2 2024 – Top leasing activity

Tenant	Address	Submarket Cluster	Sign date	Size (sf)	Transaction type	Lease type
Dutch Bros	1930 W Rio Salado Pky	Airport Area	May 2024	136,246	New Lease	Direct
WillScot Mobil Mini Holdings Corp	6400 E McDowell Rd	Scottsdale	April 2024	89,716	New Lease	Direct
Fennemore	2394 E Camelback Rd	East Phoenix	April 2024	47,474	Renewal	Direct
LPL Financial	500 E Rio Salado Pky	East Valley	April 2024	42,467	New Lease	Sublease
SmartRent	6811 E Mayo Blvd	Scottsdale	June 2024	38,820	New Lease	Sublease

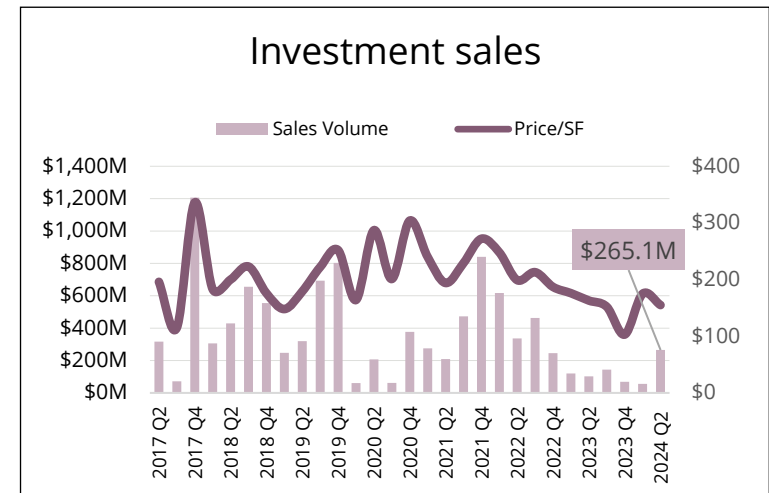
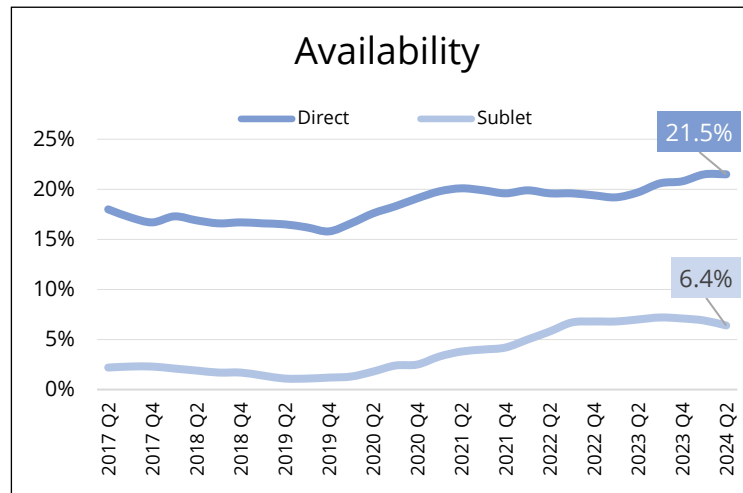
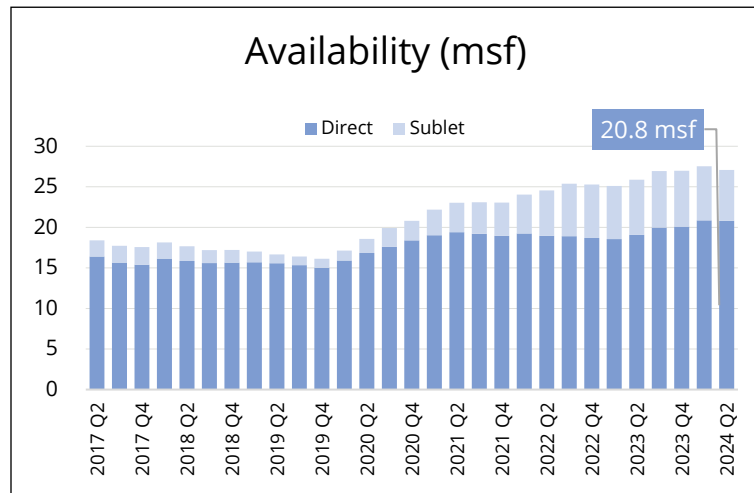
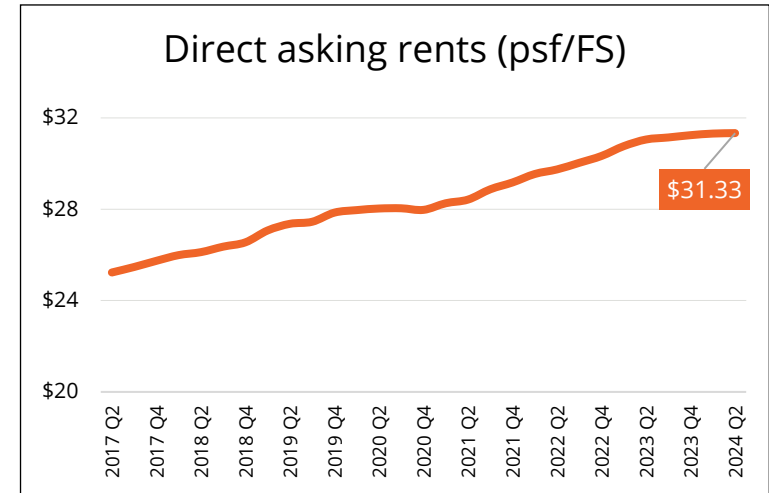
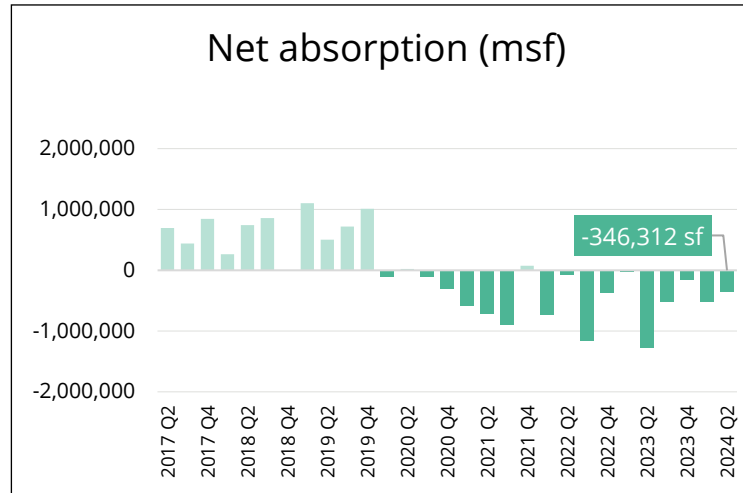
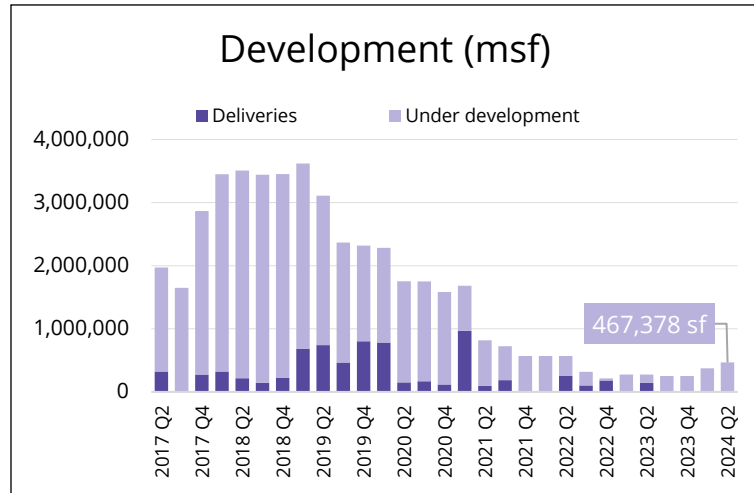
Q2 2024 – Top investment sales activity

Buyer	Address	Sale date	Building size (sf)	Sale price	Sale price psf	Seller
Columbus Properties, Inc.	2375 E Camelback Rd	April 2024	308,827	\$86,100,000	\$278.80	New York Life Investments
Breakwater Property Partners	433 S Farmer Ave	May 2024	180,910	\$56,200,000	\$310.65	M.A. Mortenson Company
George Oliver Companies	4141 N Scottsdale Rd	June 2024	162,227	\$26,050,000	\$160.58	Palisades Capital Realty Advisors
Younan Company Inc	3200 N Central Ave	May 2024	349,627	\$24,470,000	\$69.99	DPC Development Companies

Top projects under development

Project Name Address	Submarket Cluster	Delivery date	Building size sf	% Preleased	Developer
1 Scottsdale – Phase One Scottsdale Rd	Scottsdale	December 2024	214,800	70.4%	DMB Associates, Inc.
Tempe Vale 1295 W Rio Salado Pky – Building 2	Airport Area	July 2024	133,356	0%	Verde Investments
Gilbert Spectrum SWC Elliot Rd & McQueen Rd – Bldg 3	East Valley	August 2024	119,222	100%	SunCap Property Group

Phoenix office market indicators



Phoenix office market stats

	Existing inventory sf	Deliveries sf (Q2)	Under development sf	Direct availability	Sublet availability	Total availability*	Net absorption sf (Q2)	Net absorption % of inventory (Q2)	Annual direct asking rent psf FS
Airport Area	9,166,580	0	0	19.5%	12.6%	29.8%	4,600	0.03%	\$28.52
Central Corridor	16,744,463	0	0	22.9%	2.5%	25.4%	(130,897)	-0.74%	\$30.18
East Phoenix	11,105,230	0	0	22.4%	3.3%	25.7%	19,258	0.11%	\$35.67
East Valley	24,585,334	0	252,578	21.1%	9.6%	30.3%	134,418	0.55%	\$32.63
Northwest Phoenix	11,138,415	0	0	25.5%	8.5%	34.0%	(316,625)	2.87%	\$26.94
North Phoenix	3,687,718	0	0	21.3%	3.0%	24.3%	6,421	0.31%	\$29.35
Scottsdale	17,325,378	0	214,800	19.3%	4.8%	23.7%	(119,439)	0.63%	\$32.76
West Phoenix	2,831,190	0	0	14.4%	1.3%	15.7%	55,952	1.98%	\$30.09
Market total	96,584,308	0	467,378	21.5%	6.4%	27.5%	(346,312)	0.35%	\$31.33

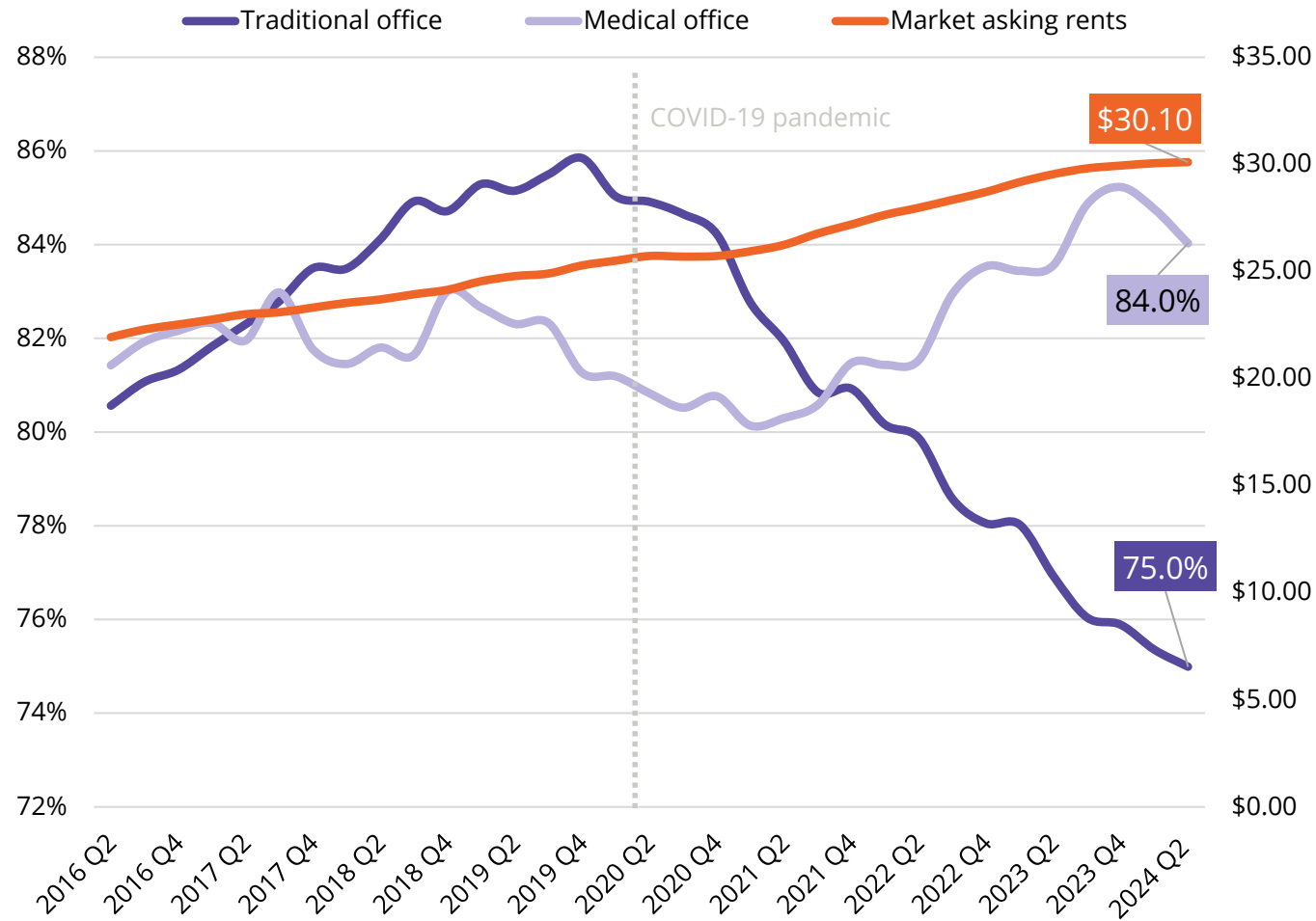
*Availability rates differ from vacancy rates due to space being listed as available before the current leases' expiration and the pre-leasing of unreleased space. Survey criteria: Statistics in this report reflect on non-owner-user traditional office properties that are 20k sf and up (unless specified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

Phoenix medical office market

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

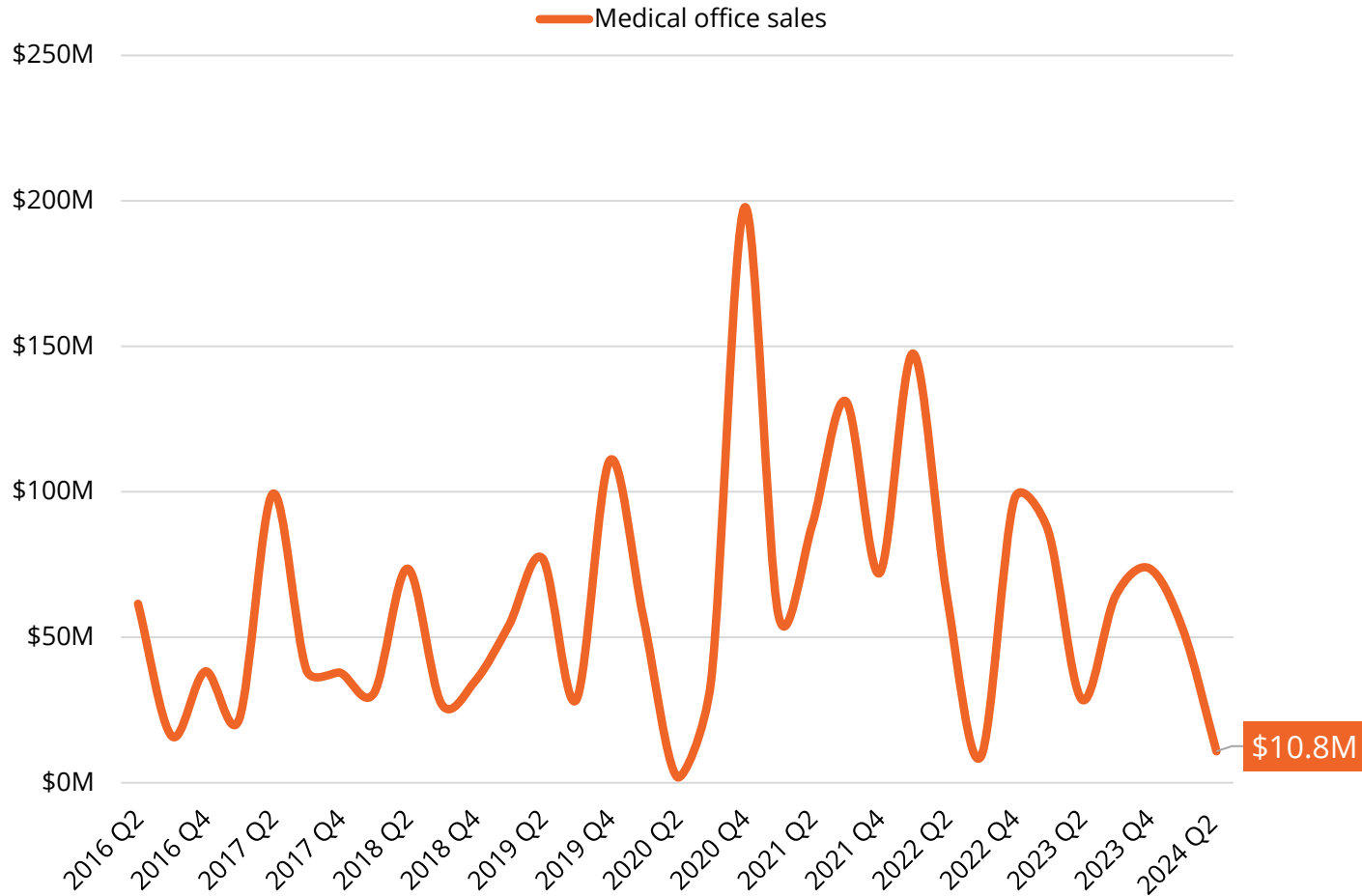


Phoenix medical office market health



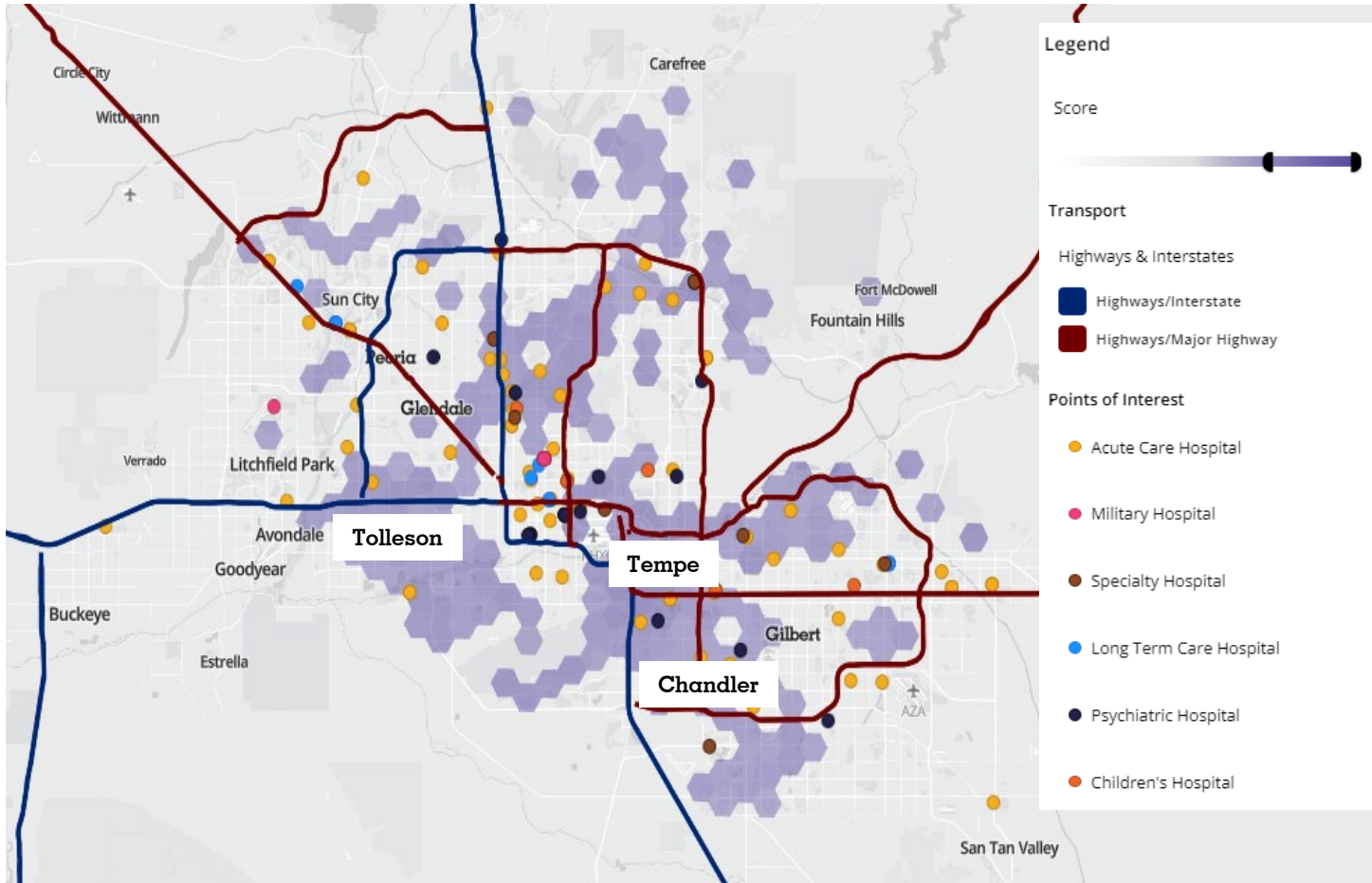
Medical office occupancy continues to climb while the traditional office market shows little signs of recovery post-pandemic. The medical office occupancy for nonowner user spaces is 84%, contrasting with the 75% occupied traditional office space. Coincidingly, asking rents continue to climb – coming in at \$30.10 per square foot for medical office properties in Q2 2024. As the population continues to grow, and the world cautiously eases its way out of a virus-induced pandemic, there is a growing demand for healthcare space and providers.

Phoenix medical office sales volume (\$)



Phoenix medical office investment sales declined from the previous quarter, as traditional office sales rose. Year-to-date, medical office sales represent 16.5% of the total investment sales volume.

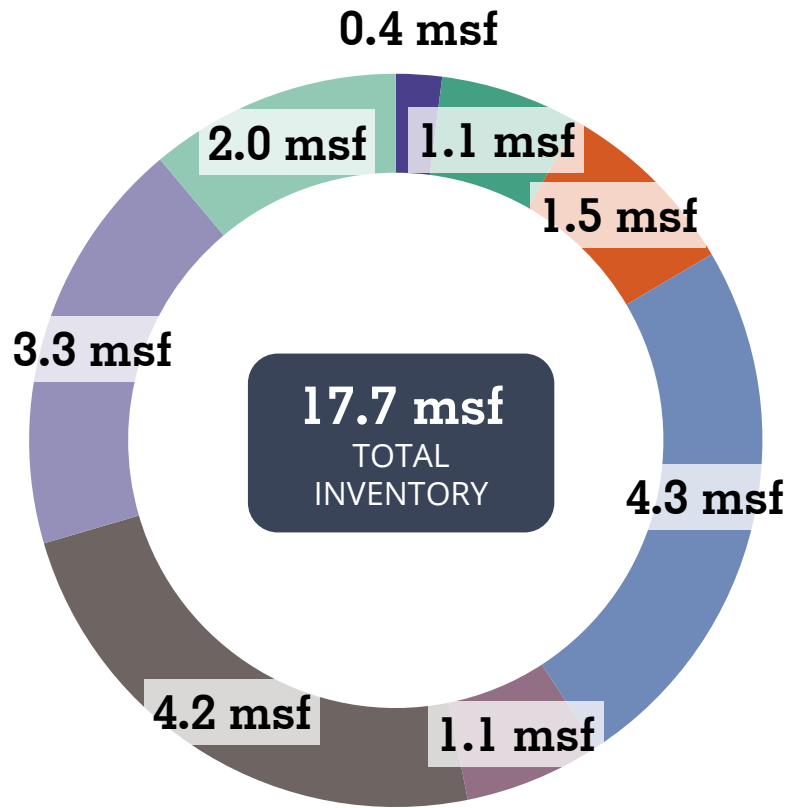
Phoenix areas in need of more imaging services



While imaging is an over-saturated service line in the overall Phoenix medical office market, certain pockets in the valley display unmet demand. Utilizing our AI model in AVANT by AY, we have identified areas like Tempe and Chandler (East Valley) and Tolleson (West Phoenix) where unmet demand is benchmarked off existing providers, specialists, and demographics needing the service.

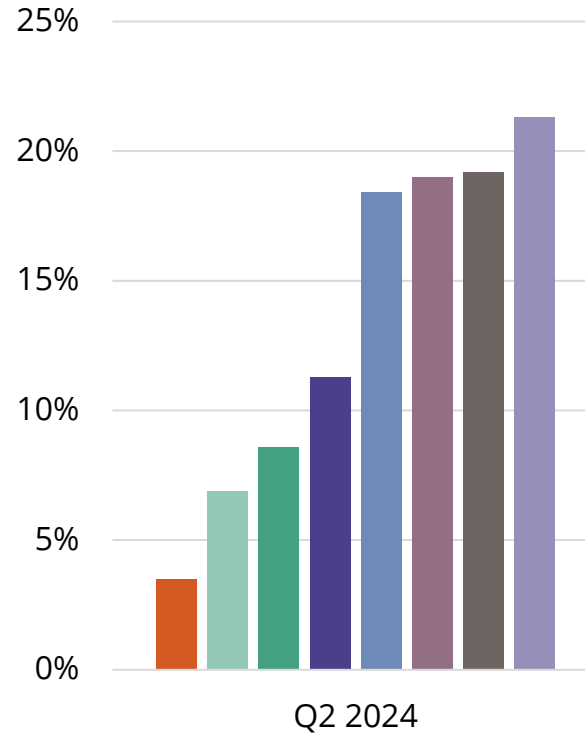
Our legend highlights high score areas (dark purple) = high unmet demand.

Phoenix medical office submarkets



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

TOTAL VACANCY

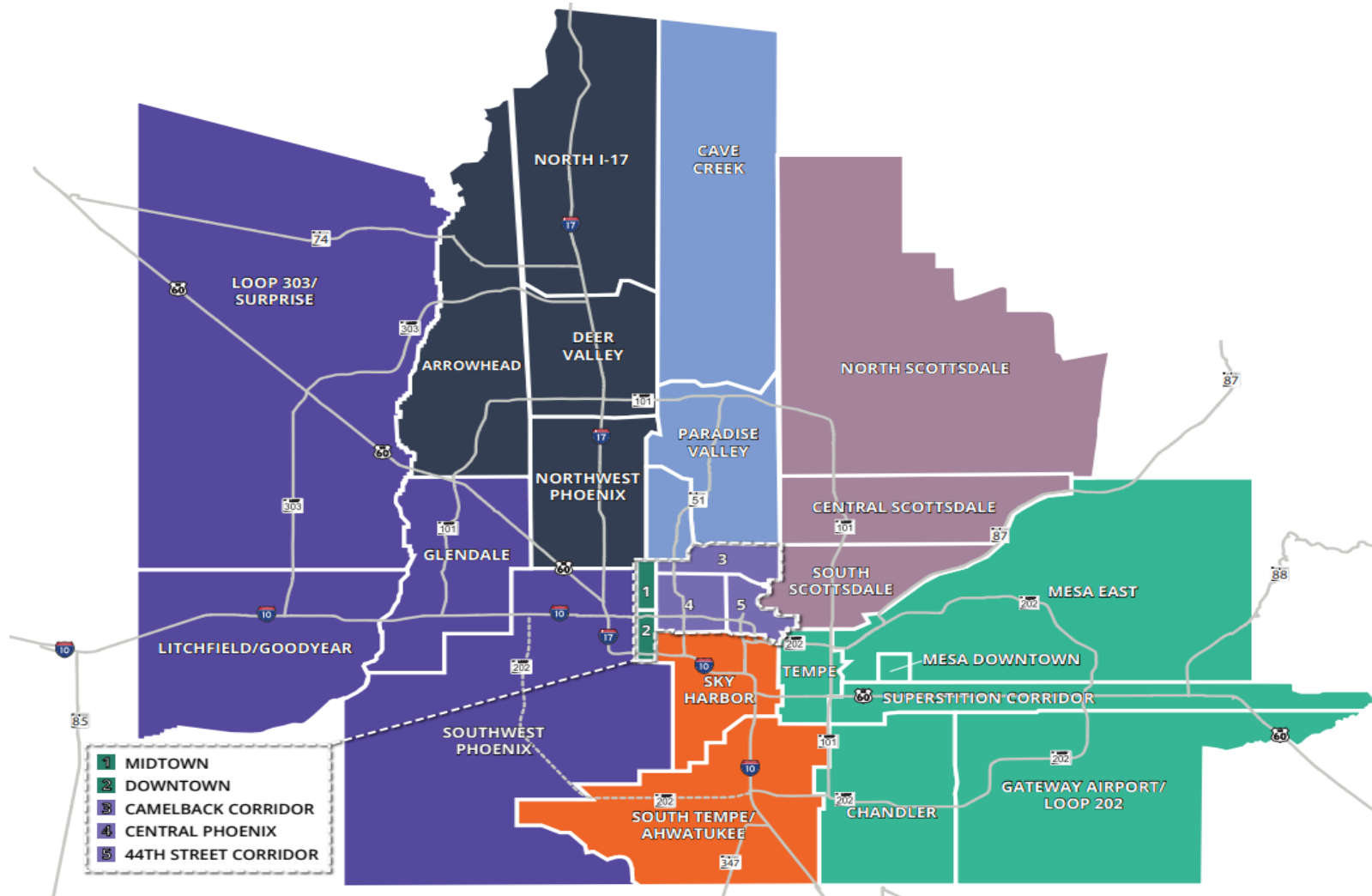


A majority of non-owner user medical office inventory is found in the Scottsdale, East Valley, and Northwest Phoenix submarket clusters and tends to surround major medical centers including:

- **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.

Phoenix office submarket map



SUBMARKET CLUSTERS

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

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
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