



PHOENIX 3Q17 OFFICE MARKET

MARKET TIGHTENS AS LARGE TENANTS COMMIT TO SPACE

The Phoenix office market continued to tighten in the third quarter of 2017, as the overall vacancy rate dropped to 19.2%, a 10-year low. Vacancy has dropped 50 basis points in the past year alone, despite an increased inventory base of 2.5 million square feet. Several notable tenants committed to large blocks of space in the third quarter which include Bank of the West, Wells Fargo Bank, Liberty Mutual Insurance, Walgreens, Consumer Cellular, Union Bank, Varsity Tutors and Centene. The majority of these leases took place in the Southeast Valley and specifically in Tempe and Chandler.

Net absorption for the quarter tallied a positive 427,769 square feet, bringing the year to total to just over 2.0 million square feet, and on pace to top last year's total with a projected 2.6 million square feet of occupancy gains by the end of the year. The Chandler/Gilbert submarket recorded the largest absorption total of the quarter with 188,129 square feet, followed by Downtown South with 64,047 square feet. For the year, Tempe leads all submarkets with an overwhelming 585,794 square feet in occupancy gains, or 28.5% of the market's year-to-date total.

Asking Rent Rates

The overall average asking rent increased slightly quarter-over-quarter, from \$25.17/SF to \$25.18/SF. In an annual comparison, asking rents are up a healthy 8.1% as landlords continue to push rents. Class B rents led the charge up 9.9% over the past year from \$20.48/SF to \$22.50/SF, as vacancy for Class A product contracts. Class A rents are up 4.7% over the same time, reaching \$28.37/SF. Asking rents in Tempe, the Camelback Corridor and Scottsdale submarkets have reached historic high levels with prime properties commanding rents above the \$40/SF mark. Expect vacancy to continue to trend downward, putting further upward pressure on asking rents.

Construction Activity

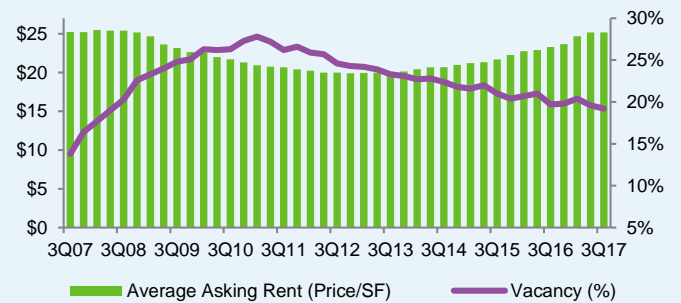
Three new speculative developments totaling 333,218 square feet broke ground during the quarter, all located in Chandler, highlighted by The Offices at Chandler Viridian (246,000 square feet) adjacent to Chandler Fashion Center. In total, the market currently has more than 1.4 million square feet currently under construction across seven submarkets. Of that total, more than 742,000 square feet, or 52.3%, has been leased and committed to large tenants including McKesson, Centene, Freedom Financial and Stantec. Limited availability in new construction is also keeping rents elevated, as the average rent in these properties is above \$34/SF. Four buildings, of which three are build-to-suits, totaling 566,000 square feet, are scheduled to be delivered by the end of the year.

Current Conditions

- Net absorption totaled positive 427,769 square feet in the third quarter of 2017.
- Overall average asking rents are up 8.1% year-over-year to \$25.18/SF.
- Overall vacancy dropped to a 10-year low to 19.2%.
- Investment sales volume down 34.2% from a year ago.

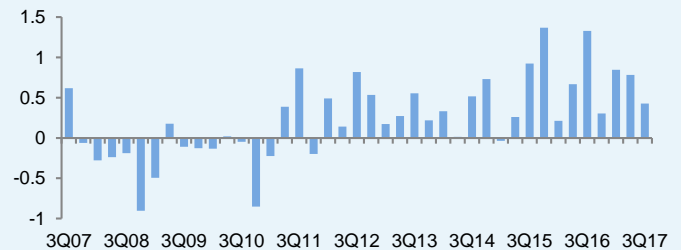
Market Analysis

Asking Rent and Vacancy



Net Absorption

Square Feet, Millions



Market Summary

| | Current Quarter | Prior Quarter | Year Ago Period | 12 Month Forecast |
|--------------------------|-----------------|---------------|-----------------|-------------------|
| Total Inventory | 86.7MSF | 86.7MSF | 84.2MSF | ↑ |
| Vacancy Rate | 19.2% | 19.6% | 19.7% | ↓ |
| Quarterly Net Absorption | 427,769 | 781,708 | 1,328,505 | ↔ |
| Average Asking Rent | \$25.18 | \$25.17 | \$23.29 | ↑ |
| Under Construction | 1,419,613 | 1,085,264 | 1,722,920 | ↑ |
| Deliveries | 0 | 89,889 | 443,114 | ↑ |



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Investor Demand

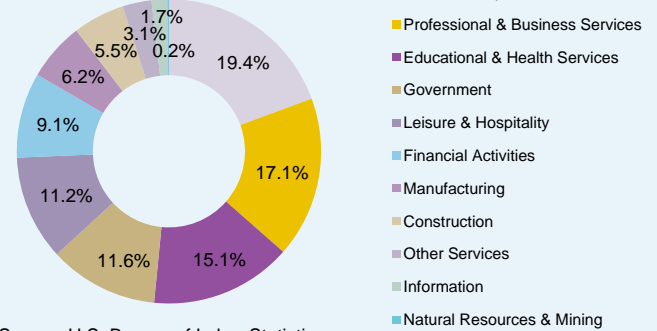
After a strong first half of the year, office investment activity for properties \$5.0 million or greater, calmed in the third quarter with 15 transactions totaling \$269.9 million in sales volume, down 34.2% compared with the same period a year ago, according to Real Capital Analytics. Over this time, the average price per square foot rose 2.9% to \$273/SF, with higher-quality assets trading. The largest sale transaction of the quarter was the 306,571-square-foot Class A Mesa Financial Plaza located in Mesa’s Fiesta District, which traded for \$23.0 million, or \$75/SF, to Barker Pacific Group. The new owners plan on extensive renovations to this landmark high-rise tower in the East Valley. The largest price-per-square-foot sale was Seville Professional Center in Scottsdale, which was purchased by EverWest Real Estate Partners for \$22.4 million, or \$244/SF, and was 94% leased at time of sale.

Economic Conditions

According to the Arizona Office of Economic Opportunity, the Phoenix metropolitan area’s unemployment rate decreased from 4.6% in July to 4.3% in August and currently stands 10 basis points below the national rate. The rate dropped 50 basis points over the past 12 months, as total employment grew by 34,900 jobs (1.8%). The largest annual gains were in the leisure and hospitality sector with 11,400 jobs (5.4%), followed by professional and business services with 8,600 jobs (2.9%). *Money* magazine recently named Phoenix the third top market for growth in tech jobs year over year. The state’s strong economic climate, affordability, and strong population growth continue to make the Phoenix market an attractive location for business growth and large operation facilities, with many firms recently announcing further expansion and job increases. Consequently, job growth is expected to continue, outpacing the national average.

Employment By Industry

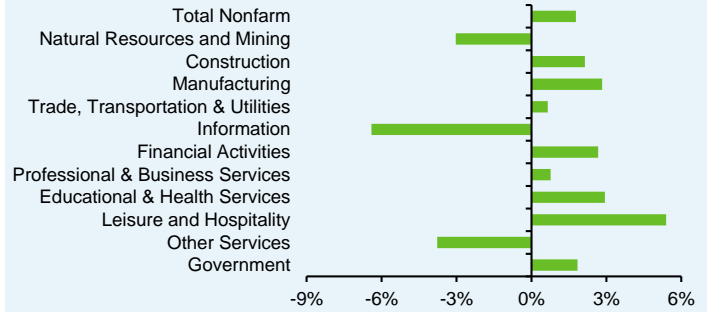
Phoenix-Mesa-Glendale, AZ, August 2017



Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry

Phoenix-Mesa-Glendale, August 2017, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

Top 5 Lease Transactions

| Tenant | Building | Submarket | Type | Square Feet |
|-------------------|--------------------------|---------------------|------|-------------|
| Union Bank | 1101 W Washington St | Tempe | New | 170,404 |
| Consumer Cellular | 17500 N Black Canyon Hwy | Deer Valley/Airport | New | 163,107 |
| Liberty Mutual | 2222 E Yeager Dr | Chandler/Gilbert | New | 130,488 |
| Wells Fargo Bank | 2501 S Price Rd | Chandler/Gilbert | New | 81,896 |
| Centene | 1665 W Alameda Dr | Airport Area | New | 74,939 |

Top 5 Sales Transactions

| Building | Submarket | Sale Price | Price/SF | Square Feet |
|-----------------------------|--------------------------|--------------|----------|-------------|
| Mesa Financial Plaza | Superstition Corridor | \$23,000,000 | \$75 | 306,571 |
| Perimeter Parkview | Scottsdale North/Airpark | \$20,650,000 | \$195 | 106,000 |
| Seville Professional Center | Scottsdale Central | \$22,400,000 | \$244 | 91,942 |
| 101 Corporate Center | N Phoenix/Desert Ridge | \$11,400,000 | \$153 | 77,037 |
| Calendar Stick | Scottsdale Central | \$10,150,000 | \$152 | 66,989 |


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Submarket Statistics

| | Inventory (SF) | Under Construction (SF) | Total Vacancy Rate | Qtr Absorption (SF) | YTD Absorption (SF) | Class A Asking Rent (Price/SF) | Class B Asking Rent (Price/SF) | Total Asking Rent (Price/SF) |
|--------------------------|-------------------|-------------------------------|--------------------------|---------------------------|---------------------------|--------------------------------------|--------------------------------------|------------------------------------|
| Downtown North/Midtown | 8,853,299 | - | 24.5 % | -379 | -58,698 | \$24.77 | \$20.88 | \$21.95 |
| Downtown South | 6,941,576 | 191,174 | 18.3 % | 64,047 | 83,683 | \$31.46 | \$29.90 | \$30.54 |
| CBD Total | 15,794,875 | 191,174 | 21.8 % | 63,668 | 24,985 | \$28.00 | \$22.96 | \$24.86 |
| 44th Street Corridor | 2,713,717 | - | 19.4 % | -40,975 | -37,160 | \$26.62 | \$26.23 | \$26.27 |
| Airport Area | 7,309,511 | 236,131 | 30.2 % | -31,150 | 195,462 | \$26.53 | \$23.64 | \$24.33 |
| Camelback Corridor | 6,846,355 | 118,090 | 19.7 % | 11,837 | -2,935 | \$35.58 | \$25.88 | \$32.42 |
| Central/East Phoenix | 1,062,467 | - | 15.6 % | -1,359 | 6,751 | - | \$18.82 | \$15.98 |
| Chandler/Gilbert | 4,867,432 | 207,218 | 24.8 % | 188,129 | 214,675 | \$26.22 | \$22.53 | \$24.97 |
| Deer Valley/Airport | 5,284,116 | - | 14.5 % | 42,939 | 459,643 | \$25.06 | \$23.46 | \$24.36 |
| Glendale | 825,485 | - | 24.2 % | 29,180 | 19,597 | \$22.41 | \$15.58 | \$20.79 |
| Mesa Downtown | 256,039 | - | 6.2 % | 255 | 7,721 | - | \$14.73 | \$15.82 |
| Mesa East | 637,026 | - | 30.3 % | 1,231 | -1,851 | \$28.01 | \$19.59 | \$25.62 |
| N Phoenix/Desert Ridge | 2,228,573 | - | 13.8 % | 36,264 | 20,402 | \$27.36 | \$21.31 | \$25.20 |
| Northwest Phoenix | 4,435,398 | - | 30.5 % | 49,589 | 38,832 | \$21.51 | \$18.20 | \$18.85 |
| Piestewa Peak | 2,084,221 | - | 27.2 % | 7,493 | 19,436 | \$26.07 | \$20.98 | \$22.01 |
| Scottsdale Central | 4,693,708 | 271,000 | 9.8 % | 39,326 | 260,128 | \$27.98 | \$23.21 | \$26.07 |
| Scottsdale North/Airpark | 7,949,185 | - | 13.6 % | 50,450 | 124,243 | \$29.61 | \$24.10 | \$28.62 |
| Scottsdale South | 3,603,705 | - | 17.2 % | -53,831 | -97,713 | \$35.06 | \$29.92 | \$33.63 |
| Sun City | 709,669 | - | 9.1 % | -194 | 17,692 | - | \$23.23 | \$23.23 |
| Superstition Corridor | 2,460,285 | - | 17.0 % | 7,726 | 13,333 | \$23.27 | \$17.22 | \$19.88 |
| Tempe | 7,276,287 | 150,000 | 11.2 % | 32,255 | 585,794 | \$32.88 | \$23.87 | \$26.91 |
| Tempe South/Chandler | 4,926,310 | 246,000 | 13.1 % | 5,011 | 181,151 | \$24.78 | \$23.54 | \$23.72 |
| West Phoenix | 744,121 | - | 28.4 % | -10,075 | 6,281 | \$25.79 | \$22.41 | \$21.27 |
| Suburban Total | 70,913,610 | 1,228,439 | 18.6 % | 364,101 | 2,031,482 | \$28.46 | \$22.35 | \$25.27 |
| Totals | 86,708,485 | 1,419,613 | 19.2 % | 427,769 | 2,056,467 | \$28.37 | \$22.50 | \$25.18 |

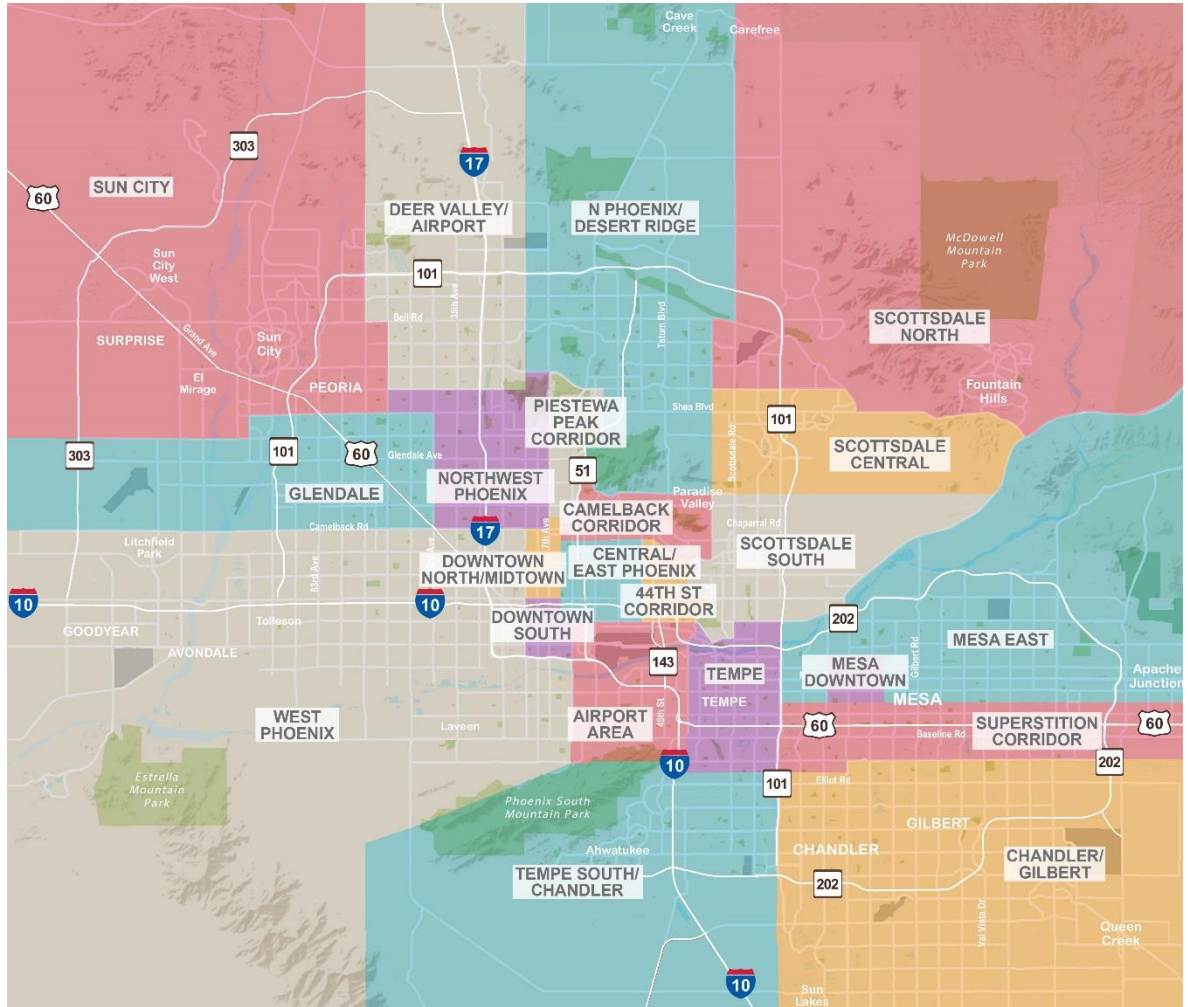


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