

Lee & Associates: 3Q Phoenix Office Report



Pedestrian bridge at Fountainhead Office Plaza with largest lease 3Q 2014

Lee & Associates reports the Phoenix office market ended the third quarter in a very strong position. After a bold first quarter and a less than stellar second quarter, the sector is heading toward the end of the year with sustainable momentum moving into 2015. Economic conditions including a growing GDP and higher employment, are translating to increased market activity and growth in the office sector.

The Valley's office market is humming with build-to-suit construction projects, mostly in the East Valley. In Downtown Tempe, tower cranes dot Tempe Town Lake. The biggest project of them all, State Farm's Marina Heights, is currently under construction of its first phase that includes two mid-rises totaling over 1 million SF. Additional phases will bring the project to over 2M SF and will become the largest office project in Arizona. In addition to Marina Heights, Hayden Ferry Lakeside is under construction with a 10-story, 250,000 SF building on Tempe Town Lake. This is the third and final phase of this office project.

Another very active submarket is Chandler. This sector is becoming a first choice for tech companies and many are

locating along the Loop 101/202 Corridor. There have been many land sales over the past year with new office projects planned. With 700,000 SF of current construction activity and nearly 300,000 SF delivered so far in 2014, this sector continues to see strong momentum going forward.

Absorption continues in positive territory and is up substantially over Q2. Net absorption posted a 798,563 SF gain. Year-to-date, net absorption stands at 1.8M SF. Lease activity remains strong as a steady stream of tenants are in the market looking for quality space. Certain sectors are providing challenges with availability, forcing tenants to consider other options. Overall market vacancy has dropped an additional 20-basis points to 21.6%, the lowest level since Q3 2008 at the beginning of the Great Recession. Since then, over 6.5M SF of office space has been added to the Phoenix office inventory.

Full-service asking rents remain below historic levels, but are increasing modestly each quarter. In Q3, lease rates increased overall by 1.3%, with Class A rents rising the most by 3.2%.

Construction activity remains strong, especially in Tempe and Chandler. A total of 2.25M SF of office space is currently under construction in the Valley. Three projects totaling 574,262 SF were delivered to inventory this quarter.

In the largest lease transaction this quarter, Concentrix Corp. leased 101,803 SF at Fountainhead Office Plaza in Tempe. The largest sales transaction in Q3 was Washington Alliance Capital's purchase of the 53,314 SF offices for the U.S. Immigration Service at 1330 S. 16 St. for \$17.6M or \$330.12 per SF.

The Phoenix office market continues to rebuild and reposition itself as a strengthening economy brings new opportunities for growth. The sector is becoming stronger with new fundamentals

in place that will guide the market forward.

The full Phoenix office report from Lee & Associates is here:
Q3 2014 Office Report