

Phoenix 4th Quarter Office Space Net Absorption Topped 1 Million Square Feet



2019 Brought 3.4 Million-Square-Feet of New Office Space to Inventory

Phoenix, Arizona – The Greater Phoenix office market experienced its best year since 2008, posting very strong net absorption and adding more than 3.4 million-square-feet of new space to the inventory.

The metropolitan area has been recognized with three of the Nation’s top ten “Best Cities for Jobs,” as researched by WalletHub. Scottsdale, Chandler, and Tempe were all ranked, based on job growth in 2019 and our healthy economy. Sizable job creation announcements from companies like DoorDash, Open Door, and Deloitte all contributed to office leasing. The 12-month period ending in November brought 56,500 net new jobs, increasing the workforce by 2.6 percent.

Positive net absorption exceeded one million square feet during fourth quarter 2019. This marked the 31st consecutive quarter of positive net absorption. The largest deals executed during fourth quarter were located found in Tempe, Chandler, and the Scottsdale Airpark. DoorDash leased 345,795-square-feet at The Grand at Papago Park Phase II. OpenDoor expanded its position in Greater Phoenix with a lease for 100,807 square feet at The Watermark in Tempe. Choice Hotels leased 150,000-square-feet at Cavasson in Scottsdale.

Vacancy in the office sector hit 12.7 percent at the end of the year, following a drop of 120 bps during 2019. The vacancy rate dropped 70 bps during fourth quarter. These improvements in vacancy are evident in all classes of office buildings, which reflects the overall strength of the local office market. Southwest Phoenix overtook Tempe as the submarket with the lowest vacancy rate at just 6.5 percent. Tempe posted 7.5 percent vacancy, while Midtown/Central Phoenix sits at 8.1 percent vacancy, Superstition Corridor with 9.6 percent, and the Scottsdale Central submarket at 10.3 percent vacancy.

A decline in vacancy is putting pressure on rental rates, which increased 4.4 percent from a year ago. The average asking rental rate hit \$24.62 per square foot at the end of 2019. Asking rents are expected to moderately rise during 2020 as new developments push up rates.

Construction activity added 3.4 million square feet to the office inventory during 2019, with fourth quarter adding more than 700,000-square-feet. More than 2.5 million-square-feet of new space are under construction, which falls in line with levels of the past five years that averaged 2.32 million-square-feet per year. Projects currently under construction are close to 60 percent pre-leased. Tempe and Scottsdale Airpark lead the market in construction with 1.08 million square feet and 731,017-square-feet underway. Robust office construction is expected to continue, focused largely along the east 101 Loop, Tempe Town Lake, and Chandler.

Office investment sales exceeded one billion dollars in 63 transactions involving 4.8 million square feet during 2019. The median price was \$175 per square foot, with cap rates resting at 7.6 percent. The two most notable transactions driving the increase were the sale of The Grand at Papago Phase I for \$422 per square foot and The Biltmore Center at \$328 per square foot.

The outlook for Greater Phoenix remains bright as local companies continue to expand and new companies bring

operations to the city. The Federal Reserve's dovish approach on rates and negative rates in Europe will contribute to our strengthening real estate market. As other investments offer lower yields, investors will seek cash flow vehicles such as commercial real estate in our dynamic, Southwest city.

To read the full report click here: [Arizona Office Report 4Q 2019](#)

