

Tenant Shuffling Reflects Improving – but Still Vulnerable – Phoenix Office Market



A single move-out negated more than 604,000 s.f. of Q3 office absorption

PHOENIX, ARIZONA – The Phoenix office market posted more than 604,000-square-feet of positive office space absorption during Q3 2021, according to the new **JLL Phoenix Office Insight Report**, but a single 721,000-square-foot move-out by Chase Bank negated the gain.

The scenario underscores the improving – but still-vulnerable – state of the local office market, according to Curtis Hornaday, Research Manager for JLL in Phoenix.

“Considering the extreme dynamics of the past 18 months, the metro Phoenix office market is performing well, with rents rising and demand accelerating,” said Hornaday. “Since April, over 562,000 square feet of speculative office product has started construction to meet that demand through high-end, Class A projects like The Grove on the Camelback Corridor and The Beam on Farmer in downtown Tempe.”

JLL’s Q3 report notes that direct average asking rates for Phoenix office space increased 2.8 percent year-over-year, but Class A vacancy rose to 20.4 percent, surpassing the 20

percent mark for the first time since 2014. This was due, in part, to negative absorption and, in part, to the delivery of buildings 7 and 8 (totaling 300,000 square feet) at Allred's Park Place Center in Chandler.

According to Hornaday, the heavy amenities at The Grove and The Beam are already generating strong pre-lease activity, which should sidestep any significant additional gains to overall vacancy.

A myriad of activity contributed to Phoenix's more than 604,000 square feet of Q3 positive office absorption, including move-ins by Dansons (200,000 square feet in Central Scottsdale) as well as Align Technology and Robinhood (a total 82,000-square-foot gain at Watermark in Tempe). However, the move-out of Chase Bank (721,000 square feet in downtown Phoenix), caused the quarter to end with negative absorption of 152,000-square-feet.

Direct average asking rates increased to \$29.08 per-square-foot, up from the \$29.04 posted in Q2 2021. With sublease rental rates now 14.7 percent (\$4.27 per-square-foot) lower than direct rates, a prolonged flight-to-quality period has created opportunities for growth-oriented users.

"When you look at the Phoenix office market overall, the story is a positive one," said Hornaday. "Companies continue to relocate and expand here, viewing Phoenix as a high-quality, lower-cost business environment with an exceptional workforce. Working with organizations like GPEC, which was just named the top economic development organization in the world by IEDC, gives Phoenix a huge advantage over other major U.S. metros."

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