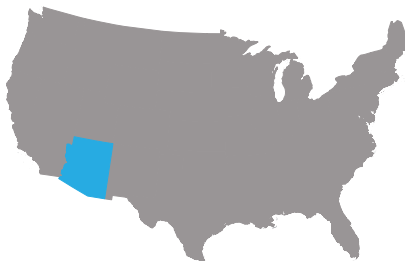


# RESEARCH & FORECAST REPORT



## Office Development to Gain Momentum in 2015

### THE BROADER VIEW

Conditions continued to improve in the Greater Phoenix office market in the first quarter, albeit at a more modest pace than during the surge of activity in the second half of 2014. Net absorption was positive again but deliveries accelerated, causing vacancy to level off after six consecutive quarters of declines. Similar trends will likely persist throughout much of 2015, with new construction and net absorption forecast to record nearly identical totals this year.

### CURRENT CONDITIONS

The Greater Phoenix office vacancy rate remained unchanged at 17.8 percent in the first quarter, matching the year-end 2014 figure. Despite the recent steady performance, the longer-term trend is one of declining vacancy, and the current rate has retreated 100 basis points year over year and is 260 basis points lower than 24 months ago.

Vacancy trends were mixed at the property class level. In Class A buildings, vacancy fell 40 basis points in the first quarter to 16.7 percent and the rate has improved 160 basis points year over year. Viewed over a longer term, the improvement in the top tier is even more dramatic; vacancy was 20.2 percent in the first quarter 2013 and was nearly 24 percent three years ago. Vacancy ticked higher in both the Class B and the Class C segments during the first quarter, but the rate has improved in both tiers over the past 12 months.

While there are pockets of vacancy throughout much of the market, there are several areas where tenants are finding only a few options. The Tempe submarket has the lowest vacancy in Greater Phoenix, with a rate just above 10 percent. Additionally, in the submarkets surrounding Tempe, vacancy rates are also well below the market average. The average vacancy in the 44th Street Corridor, Scottsdale South and South Tempe/Ahwatukee submarkets is approximately 12.5 percent, compared to 15 percent one year ago.

Net absorption opened the year with tenants moving into a net of nearly 199,000 square feet of space. This marked the 12th consecutive quarter of positive absorption, during which time tenants have moved into a net of approximately 7.7 million square feet of space. More than 90 percent of the total net absorption during the first quarter was recorded in Class A properties, similar to trends from a few years earlier.

Development is accelerating, with more than 1.3 million square feet of spec space forecast to be delivered in 2015, up from less than 550,000 square feet of spec deliveries last year. During the first quarter, a mix of approximately 485,000 square feet of spec and build-to-suit space came online, and in the past 12 months, deliveries have totaled 1.75 million square feet.

Rents are continuing to push higher in response to persistent tenant demand for space. Asking rents have increased in each of the past eight quarters since bottoming in early 2013. As of the first quarter, average asking rents in Greater Phoenix had reached \$21.28 per square foot, 3.3 percent higher than one year earlier. The strongest gains are being recorded in the Class A segment, where rents have increased 4.2 percent in the past year to \$24.83 per square foot. Projects under development could help

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### MARKET INDICATORS

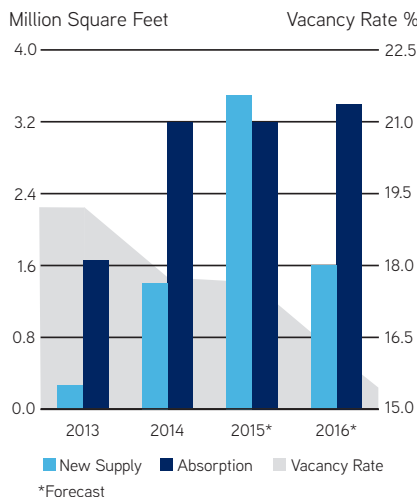
	2015 Q1	2014 Q1
VACANCY	↓	↓
NET ABSORPTION	↓	↑
CONSTRUCTION	↑	↑
RENTAL RATE	↑	↑

### EMPLOYMENT 1Q EMPLOYMENT TRENDS\*

TOTAL NONFARM PHOENIX METRO	↓	↓
OFFICE-USING PHOENIX METRO	↓	↓
TOTAL NONFARM U.S.	↓	↓
OFFICE-USING U.S.	↓	↑

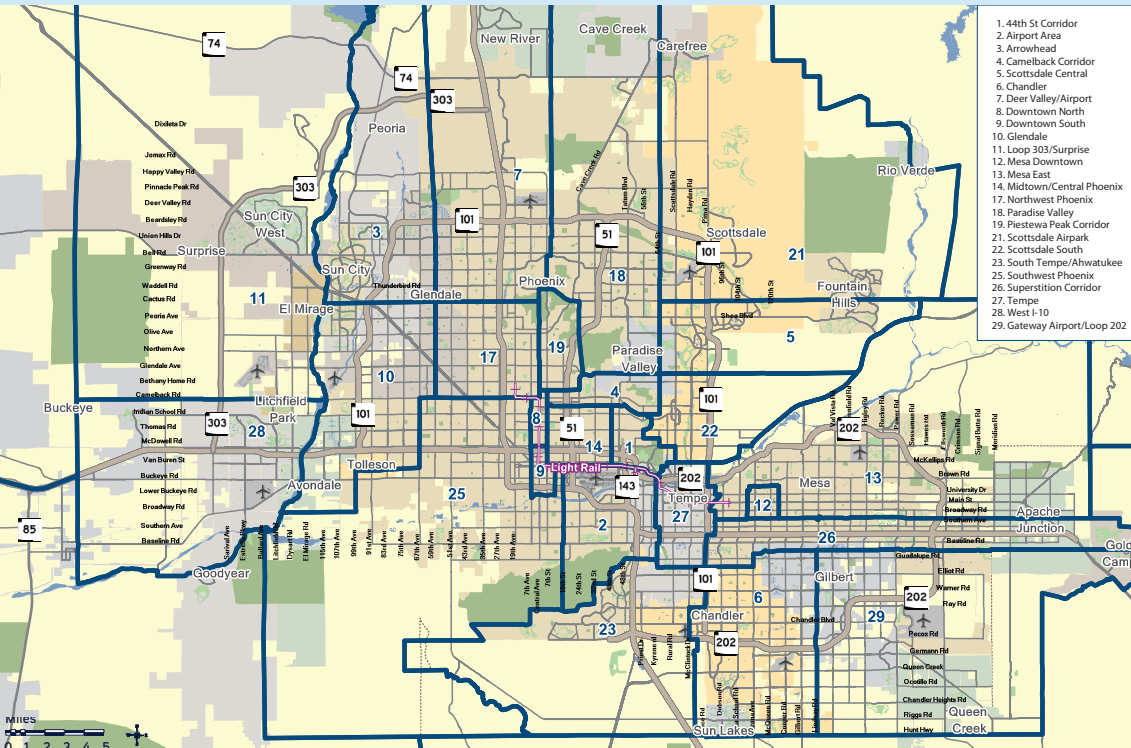
\*Bureau of Labor Statistics

### NEW SUPPLY, ABSORPTION & VACANCY RATES









485 offices in  
63 countries on  
6 continents

United States: 146  
Canada: 44  
Latin America: 25  
Asia Pacific: 186  
EMEA: 84

- \$2.1 billion USD in annual revenue
  - 1.46 billion square feet under management
  - 15,800 professionals worldwide
- (Based on 2013 results)

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Accelerating success.

push overall rents higher, with the current asking rents in space under construction averaging nearly \$28 per square foot, with the top asking rents in the \$35-\$36 per square foot range.

Following a fourth quarter surge to close 2014, sales activity slowed by approximately 20 percent in the first three months of this year. This follows similar patterns in recent years where activity has spiked in the final few months of the year and then slowed in the first quarter. When comparing activity in the first few months of 2015 to the same period from last year, sales velocity increased by 20 percent. Transaction activity is off to a solid start, with more properties changing hands in the first three months of 2015 than in any first quarter since 2007.

Sales prices ticked higher to start the year, reaching \$111 per square foot, compared to \$105 per square foot in the first quarter of 2014. While the mix of assets changing hands certainly has a significant impact on overall prices, part of the rise over the past few years is attributable to improving market

conditions, as rents have risen, vacancies have tightened while interest rates have generally remained in a tight band. Cap rates are averaging in the mid-7 percent range, similar to levels of the past few years.

IN THE MONTHS AHEAD

The Greater Phoenix office market is advancing along a traditional market cycle. The past few years have brought about recovery, with vacancies and rents first stabilizing and then improving, while construction was minimal. As the market has moved into expansion mode, developers are beginning to introduce new projects into the system to meet current and future demand. While the largest of these developments is the 2.1-million square foot build-to-suit for State Farm, a few spec projects will come online in the coming quarters, which will likely slow the pace of vacancy improvement. While new construction will likely curtail some vacancy improvement in the short term, investor demand has continued to intensify. After increasing by nearly 15 percent last year, sales activity could record a similar rise in 2015.

OFFICE SALES AND LEASE ACTIVITY

SALE ACTIVITY

PROPERTY ADDRESS	SUBMARKET	SALE DATE	SALE PRICE	SIZE SQ. FT.	SALE PRICE SQ. FT.	CLASS
4025-4045 S Riverpoint Pky., Phoenix	Airport Area	2/24	\$183,000,000	599,664	\$305	B
2415 E Camelback Rd., Phoenix	Camelback Corridor	3/11	\$74,300,000	218,266	\$340	A
16260 N 71st St., Scottsdale	Scottsdale Airpark	1/6	\$49,150,000	237,875	\$207	B

LEASE ACTIVITY

BUILDING NAME/ADDRESS	SUBMARKET	LEASE TYPE	TENANT	SIZE SQ. FT.	CLASS
Phoenix Corporate Tower/ 3003 N Central Ave	Downtown North	Move in	State of Arizona	112,323	B
Pima Center/Loop 101 & Pima Rd	Scottsdale Central	New Construction	Plexus Worldwide	70,000	A