

Q1 2019

## Office Insight

# Office absorption reaches quarterly high, not seen in over 10 years

- Under-construction pipeline grows to over 2 million square feet, with over 222,000 s.f. of projects starting construction in the first quarter of 2019.
- Average asking rates reach \$27.14 per square foot, a 6.6 percent increase year over year led by Tempe and South Scottsdale.
- Tenant activity and development has not yet reached its peak.

Vacancy decreased 9 basis points in the first quarter driven by tenants occupying pre-leased space of newly delivered office product. The first quarter vacancy rate is the lowest vacancy Phoenix has seen since second quarter of 2008. Net absorption has reached a quarterly high, numbers not seen in over ten years. Tenant activity is strong with over 900,000 square feet in new leases signed in the first quarter, and still an additional 78 tenants looking for more than 4.6 million square feet of space. Strong demand bodes well for office product scheduled to deliver to the market in the next several quarters.

Under construction office projects increased with several new properties commencing construction at the start of 2019, some set to deliver as early as six months from now. The first quarter ended with just over 2.0 million square feet under construction, adding much needed space to high-demand submarkets. A large portion of the construction pipeline is in the highly desired Southeast Market, including just under a million square feet in Tempe and slightly over 500,000 square feet in the Chandler submarket. Solid leasing activity by financial, healthcare and high-tech tenants is quickly absorbing the newly completed office properties.

Year-to-date sales activity recorded over \$172 million in transactions, a slight decrease year over year. The largest sale of the quarter was at The Alameda, which sold for over \$71.5 million or \$304 PSF, double the quarterly average. Investors in the Phoenix market come from a range of backgrounds including REITs, institutional, private capital, foreign capital and high net worth individuals. Solid fundamentals such as a healthy and growing labor force, affordable cost of living and temperate climate continue to attract investors and new tenants to the metro area.

## Outlook

First quarter marked Phoenix's 23<sup>rd</sup> straight quarter of positive net absorption. This upward trend is expected to continue throughout 2019 and conceivably into 2020. The development pipeline is providing a healthy supply of new product, and regional housing development is increasing to support a fast-growing population. These features bode well for the sustained growth of the office market, with only limited risk for a sharp correction in the near term.

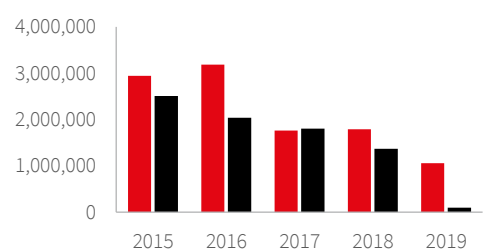
## For more information, contact:

Jennifer Farino | [Jennifer.Farino@am.jll.com](mailto:Jennifer.Farino@am.jll.com)

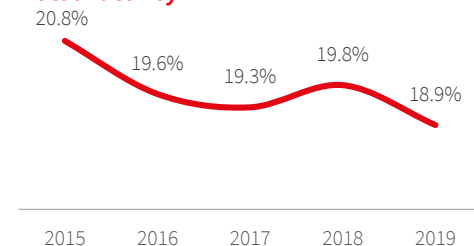
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Fundamentals	Forecast
YTD net absorption	1,055,958 s.f. ▲
Under construction	2,033,850 s.f. ▲
Total vacancy	18.9% ►
Average asking rent (gross)	\$27.14 p.s.f. ▲
Concessions	Rising ▲

## Supply and demand (s.f.)



## Total vacancy



## Average asking rents (\$/s.f.)

