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Research

United States

Office | Q3 2023

Phoenix

- Quarterly negative net absorption totaled more than 1.5 million s.f., almost double the loss in the previous quarter.
- Significant sublease space was added to the market, particularly in the Southeast Valley and CBD.
- Despite a relatively poor performance across all classes of building, more recently built and highly amenitized properties remained stable in comparison, with only moderate additions of available space.
- Camelback Corridor posted elevated levels of positive direct absorption this quarter, following some weakness earlier this year.

Fundamentals		Forecast
YTD net absorption	-2,843,579 s.f.	▼
Total vacancy	25.0%	▲
Class A direct asking rent	$34.41 p.s.f.	▶
Overall direct asking rent	$30.36 p.s.f.	▼
Concessions	Rising	▲
Under construction	130,000 s.f.	▶

The total vacancy rate in Phoenix was 25% in Q3 2023, increasing by 150 basis points from the previous quarter. Softening office market trends continued with both direct and sublease space added to the market. In particular, sublease vacancies widened to 5.6%, with sublease activity in the Southeast Valley acting as a significant driver of negative absorption. This includes PayPal subleasing out a 141,000-s.f. facility in Chandler. Additionally, sublease vacancies almost doubled in the CBD cluster, year-to-date, as leasing activity in those submarkets remained slow to recover from the pandemic.

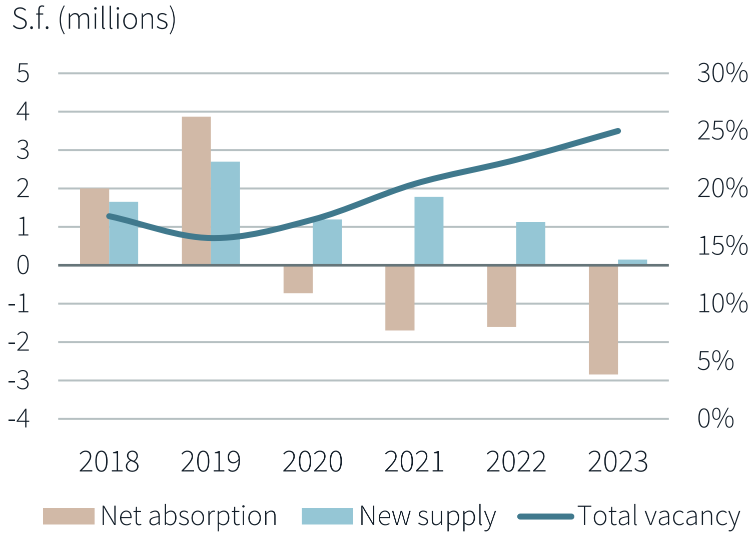
Despite softening overall market conditions, demand persisted throughout some Phoenix submarkets. Notable leases were particularly concentrated within Camelback Corridor, Chandler, South Tempe and Scottsdale. Direct asking rents for the Phoenix market exceeded $30 p.s.f. for the first time, amid local business expansion and new companies moving to the area. However, increased concessions were more prevalent to accommodate incoming tenants and lease renewals at similar rents. There was also elevated interest and emphasis on flexible space and spec suites.

Outlook

Overall, the outlook for office real estate in Phoenix remains cautious. There are a number of factors that could continue to negatively impact the market, including further slowdown in national economic growth, continued inflation and elevated interest rates. Some positive signs in the market include ongoing demand for highly amenitized office space, positive operating fundamentals for newer Class A and Trophy buildings and return-to-work efforts by many companies near the end of the quarter.

Moving forward, interest from smaller tenants is expected to alleviate some volatility in vacancy rates. Additionally, new office construction remains relatively moderate, which should limit some supply-side risks in the near term. However, larger entities are more likely to seek cost-cutting opportunities by reducing existing footprints in the event that national economic conditions worsen. While plenty of opportunities still exist within the market, recovery to pre-pandemic levels will take some time as headwinds persist.

Historical trends



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