



## MARKET CHANGE

*Compared to the Previous Quarter:*

Vacancy  
**DOWN**

Net Absorption  
**POSITIVE**

Lease Rates  
**UP**

Transactions  
**DOWN**

Deliveries  
**UP**

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## HIGHLIGHTS

- **Poised for Growth** - The Phoenix office market continued to convey strong signs of recovery in the third quarter of 2014, posting over one million square feet of positive net absorption, making it the fourteenth straight quarter of positive absorption. Both availability and vacancy maintained their downward trends, while lease rates continued to climb. While all of these are positive indications, continued job growth in the valley will be needed to further relieve pressure on vacancy and sustain growth.
- **Construction** - Total space under construction checked in at nearly 2.7 million square feet in the third quarter, with the highest concentration in the East Valley submarket.
- **Vacancy** - Direct/sublease space (unoccupied) finished the quarter at 18.25%, a decrease from 2014's second quarter rate of 18.70% and down 8.06% from 2013's third quarter rate of 19.85%. The Airport Area submarket posted the lowest rate in the metro, coming in at 14.56%.
- **Availability** - Direct/sublease space being marketed was at 20.56% at the end the third quarter of 2014, a decrease of 64 basis points when compared to the prior year's rate of 21.20%.
- **Lease Rates** - The average asking full-service gross (FSG) lease rate per square foot per year in Phoenix was \$21.36 in the third quarter of 2014, an increase of 24 cents from the second quarter's rate of \$21.12. The record high rate of \$25.86 was established in the last quarter of 2007. Class A rates for the county averaged \$24.60, while Downtown Phoenix had the highest average rate of all submarkets, at \$25.68.
- **Absorption** - The Phoenix office market posted 1,048,021 square feet of positive net absorption in the third quarter, marking the fourteenth consecutive quarter of positive absorption and giving the market a total of 8.1 million square feet since the second quarter of 2011.
- **Transaction Activity** - Leasing activity checked in at just under 1.5 million square feet in the third quarter of 2014, a slight decrease from the previous quarter's figure. Sales activity posted 2.3 million square feet this quarter, down almost 300,000 square feet from last quarter, and down compared to 3.2 million the same quarter last year. This statistic can have some lag time in being reported, so look for third quarter figures to end up somewhat higher. Details of the largest transactions can be found on the back page of this report.
- **Unemployment** - The unemployment rate in the Phoenix-Mesa-Glendale Metropolitan area was 6.3% in July 2014, a decrease from January 2014's rate of 6.8%. Sectors with strong job growth included transportation, construction, financial activities, and education/health services. Phoenix has created a new niche for itself in high tech manufacturing. Phoenix's projected total annual employment growth will be among the strongest in the nation. According to Arizona Department of Administration, July added 14,300 nonfarm jobs: 300 in construction and 4,400 in the education & health services sector. The number of jobs has increased in the first half of 2014 and we anticipate this trend continuing for the remainder of 2014.
- **Overall** - We are continuing to see a decrease in the amount of available space on the market and increases in occupancy costs. Positive absorption should continue throughout the rest of 2014, and with few new deliveries in the pipeline to apply upward pressure on vacancy, the market should further improve. The Phoenix area is poised for growth however, cautious optimism still prevails as job creation will need to continue in order to drive the demand needed to sustain growth in the Phoenix Office market.

## FORECAST

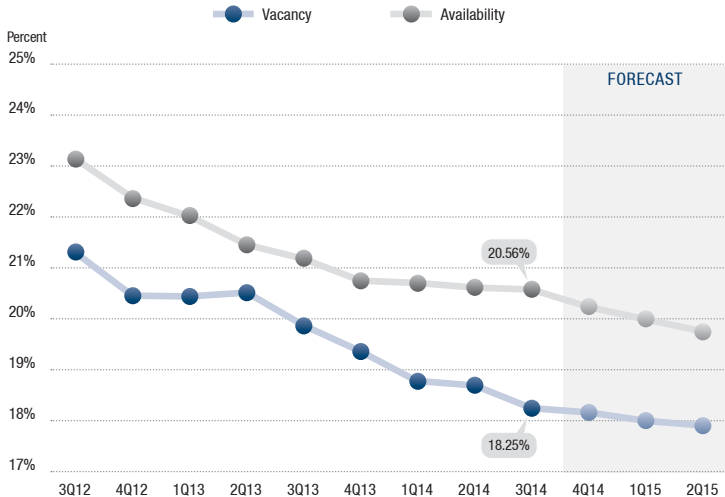
- **Construction** - With a favorable business climate spurring demographic growth in the Phoenix area, we expect it to only be a matter of time before development resumes. With 20 million square feet on the slate as being planned, we will see an influx of new product in the next year or so. In the meantime, limited construction should ease vacancy rates and allow demand to further catch up to supply.
- **Employment** - We anticipate job growth of around 2.6%, or 59,000 jobs, in the Phoenix Metropolitan area over the year. Look for industries like professional & business services, construction, and education & health services to lead the way in employment growth.
- **Lease Rates** - Expect average asking lease rates to increase by another 3% to 5% over the next four quarters.
- **Vacancy** - We anticipate the vacancy rate continuing its descent in the coming quarters, dropping by around 40 basis points, to below 18.00%, by the end of the second quarter of 2015.

## OVERVIEW

	3Q14	2Q14	3Q13	% of Change vs. 3Q13
Vacancy Rate	18.25%	18.70%	19.85%	(8.06%)
Availability Rate	20.56%	20.62%	21.20%	(3.02%)
Average Asking Lease Rate	\$21.36	\$21.12	\$20.58	3.79%
Sale & Lease Transactions	3,758,010	4,532,595	6,193,246	(39.32%)
Gross Absorption	2,636,039	2,087,701	2,566,975	2.69%
Net Absorption	1,048,021	167,591	931,232	N/A

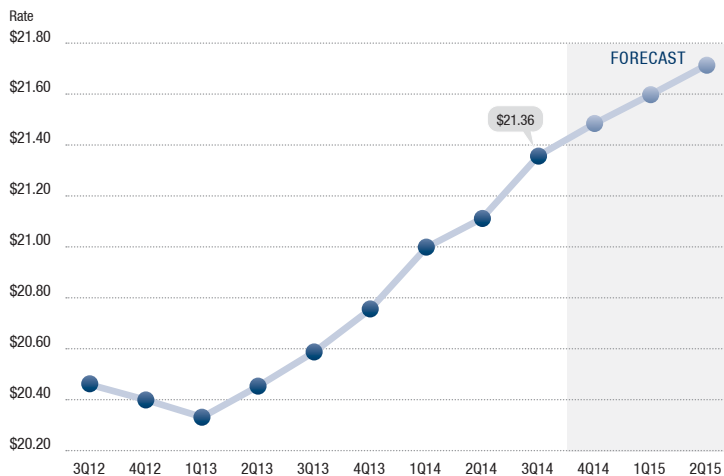
**VACANCY & AVAILABILITY RATE**

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



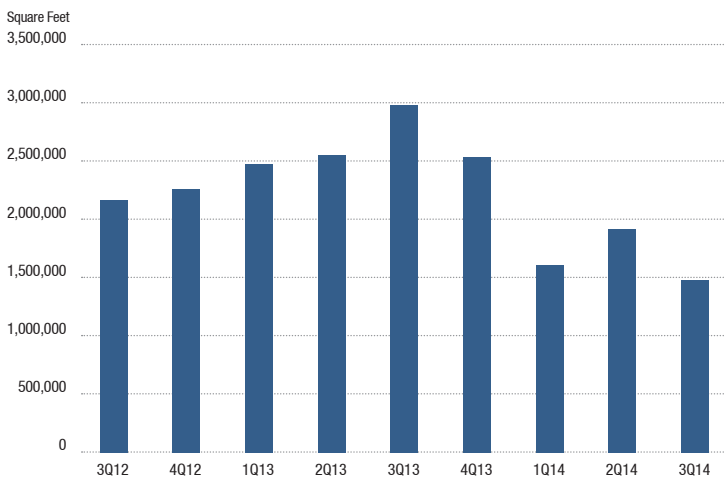
**AVERAGE ASKING FULL-SERVICE GROSS LEASE RATE**

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



**LEASE TRANSACTIONS**

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



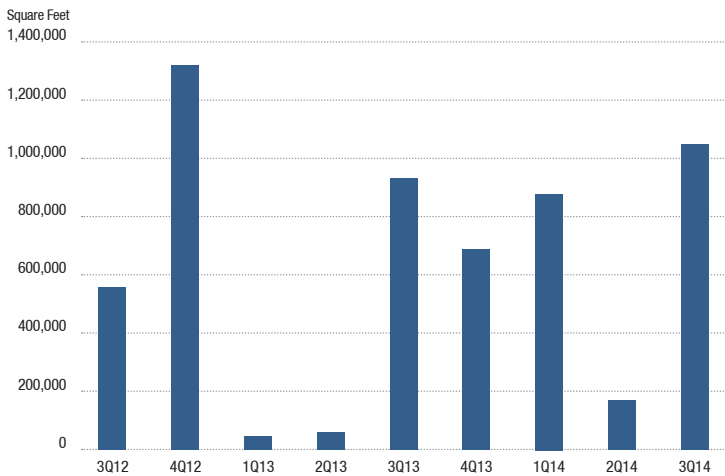
**SALES TRANSACTIONS**

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER



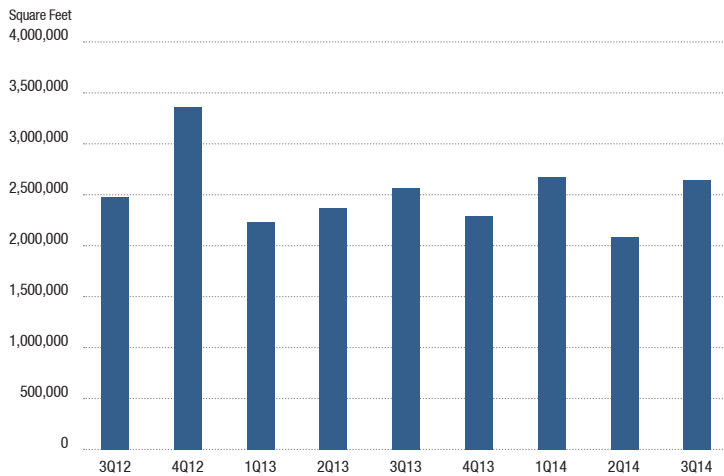
**NET ABSORPTION**

CHANGE IN THE AMOUNT OF OCCUPIED SPACE FROM ONE QUARTER TO THE NEXT



**GROSS ABSORPTION**

TOTAL AMOUNT OF SPACE THAT BECAME OCCUPIED IN A QUARTER



	INVENTORY				VACANCY & LEASE RATES					ABSORPTION			
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 3Q2014	Square Feet Available	Availability Rate 3Q2014	Average Asking Lease Rate	Net Absorption 3Q2014	Net Absorption 2014	Gross Absorption 3Q2014	Gross Absorption 2014
<b>Airport Area</b>													
Airport Area	150	9,804,508	310,094	612,139	1,503,032	15.33%	1,533,566	15.64%	\$20.28	(14,707)	(37,119)	72,651	262,423
South Tempe/Ahwatukee	126	5,658,843	110,000	1,050,000	749,090	13.24%	1,046,036	18.48%	\$21.00	267,839	621,363	369,008	827,363
<b>Airport Total</b>	<b>276</b>	<b>15,463,351</b>	<b>420,094</b>	<b>1,662,139</b>	<b>2,252,122</b>	<b>14.56%</b>	<b>2,579,602</b>	<b>16.68%</b>	<b>\$20.64</b>	<b>253,132</b>	<b>584,244</b>	<b>441,659</b>	<b>1,089,786</b>
<b>Central Corridor</b>													
Midtown	151	12,162,645	0	478,488	3,039,259	24.99%	3,234,158	26.59%	\$20.04	(41,809)	38,527	54,875	416,323
Downtown	66	8,970,053	0	498,770	1,220,984	13.61%	1,371,572	15.29%	\$25.68	125,178	65,655	167,442	344,757
<b>Central Corridor Total</b>	<b>217</b>	<b>21,132,698</b>	<b>0</b>	<b>977,258</b>	<b>4,260,243</b>	<b>20.16%</b>	<b>4,605,730</b>	<b>21.79%</b>	<b>\$21.36</b>	<b>83,369</b>	<b>104,182</b>	<b>222,317</b>	<b>761,080</b>
<b>East Phoenix</b>													
44th Street Corridor	81	5,687,122	0	0	727,722	12.80%	1,128,183	19.84%	\$22.20	24,105	42,806	52,455	202,958
Camelback Corridor	133	8,778,265	0	0	1,976,003	22.51%	2,264,910	25.80%	\$24.84	34,238	63,628	101,250	404,514
Midtown/Central Phoenix	131	3,847,011	0	0	594,240	15.45%	691,372	17.97%	\$15.60	31,848	124,730	59,904	244,281
<b>East Phoenix Total</b>	<b>345</b>	<b>18,312,398</b>	<b>0</b>	<b>0</b>	<b>3,297,965</b>	<b>18.01%</b>	<b>4,084,465</b>	<b>22.30%</b>	<b>\$23.04</b>	<b>90,191</b>	<b>231,164</b>	<b>213,609</b>	<b>851,753</b>
<b>East Valley</b>													
Chandler	142	6,219,417	996,648	9,321,971	908,929	14.61%	999,824	16.08%	\$23.38	226,504	282,872	263,731	444,735
Gateway Airport/Loop 202	44	1,142,726	0	1,210,365	274,364	24.01%	280,356	24.53%	\$23.76	30,498	48,469	35,431	69,322
Mesa Downtown	36	939,017	0	0	125,117	13.32%	133,399	14.21%	\$15.00	5,069	(3,090)	10,644	14,997
Mesa East	70	1,871,998	0	10,156	284,210	15.18%	283,900	15.17%	\$12.72	(1,500)	8,914	15,845	58,551
Superstition Corridor	146	4,524,062	0	425,200	845,389	18.69%	991,438	21.91%	\$19.08	84,544	70,613	162,757	294,467
Tempe	125	5,388,715	1,279,235	1,468,000	595,896	11.06%	616,792	11.45%	\$17.40	(34,032)	9,880	70,689	263,882
<b>East Valley Total</b>	<b>563</b>	<b>20,085,935</b>	<b>2,275,883</b>	<b>12,435,692</b>	<b>3,033,905</b>	<b>15.10%</b>	<b>3,305,709</b>	<b>16.46%</b>	<b>\$18.96</b>	<b>311,083</b>	<b>417,658</b>	<b>559,097</b>	<b>1,145,954</b>
<b>Northwest Phoenix</b>													
Arrowhead	101	2,515,913	25,000	190,289	479,498	19.06%	486,161	19.32%	\$21.72	(3,140)	40,205	41,873	171,699
Deer Valley/Airport	129	10,199,036	0	1,619,545	1,873,622	18.37%	2,009,784	19.71%	\$20.40	91,386	125,254	179,275	411,104
Northwest Phoenix	243	8,737,223	0	113,500	2,404,446	27.52%	2,782,569	31.85%	\$16.44	(134,343)	(66,808)	134,192	552,149
<b>Northwest Phoenix Total</b>	<b>473</b>	<b>21,452,172</b>	<b>25,000</b>	<b>1,923,334</b>	<b>4,757,566</b>	<b>22.18%</b>	<b>5,278,514</b>	<b>24.61%</b>	<b>\$17.76</b>	<b>(46,097)</b>	<b>98,651</b>	<b>355,340</b>	<b>1,134,952</b>
<b>Paradise Valley</b>													
Paradise Valley	95	3,822,090	0	221,316	832,847	21.79%	799,006	20.90%	\$22.32	30,690	53,803	66,215	203,047
Piestewa Peak Corridor	70	2,941,960	0	0	567,505	19.29%	639,097	21.72%	\$17.64	28,352	(5,369)	47,113	127,164
<b>Paradise Valley Total</b>	<b>165</b>	<b>6,764,050</b>	<b>0</b>	<b>221,316</b>	<b>1,400,352</b>	<b>20.70%</b>	<b>1,438,103</b>	<b>21.26%</b>	<b>\$19.92</b>	<b>59,042</b>	<b>48,434</b>	<b>113,328</b>	<b>330,211</b>
<b>Scottsdale</b>													
Central Scottsdale	163	7,236,684	0	863,900	1,079,133	14.91%	1,475,438	20.39%	\$21.84	141,962	235,049	239,863	608,215
Scottsdale Airpark	309	12,833,322	0	677,572	2,572,561	20.05%	2,988,588	23.29%	\$24.72	9,147	290,939	199,043	894,133
Scottsdale South	122	5,085,477	0	265,000	753,684	14.82%	762,872	15.00%	\$22.80	167,962	76,451	249,519	424,574
<b>Scottsdale Total</b>	<b>594</b>	<b>25,155,483</b>	<b>0</b>	<b>1,806,472</b>	<b>4,405,378</b>	<b>17.51%</b>	<b>5,226,898</b>	<b>20.78%</b>	<b>\$23.52</b>	<b>319,071</b>	<b>602,439</b>	<b>688,425</b>	<b>1,926,922</b>
<b>West Phoenix</b>													
Glendale	47	2,329,232	0	756,000	592,539	25.44%	599,760	25.75%	\$23.28	(24,592)	(15,926)	11,887	36,334
Loop 303/Surprise	47	1,363,432	0	90,000	284,397	20.86%	310,978	22.81%	\$23.52	5,904	10,710	10,793	44,760
Southwest Phoenix	45	2,201,727	0	0	303,690	13.79%	310,309	14.09%	\$20.76	(572)	11,907	3,348	17,357
West I-10	50	1,455,231	0	222,803	186,322	12.80%	160,119	11.00%	\$22.92	(2,510)	789	16,236	61,415
<b>West Phoenix Total</b>	<b>189</b>	<b>7,349,622</b>	<b>0</b>	<b>1,068,803</b>	<b>1,366,948</b>	<b>18.60%</b>	<b>1,381,166</b>	<b>18.79%</b>	<b>\$23.64</b>	<b>(21,770)</b>	<b>7,480</b>	<b>42,264</b>	<b>159,866</b>
<b>Phoenix Total</b>	<b>2,822</b>	<b>135,715,709</b>	<b>2,720,977</b>	<b>20,095,014</b>	<b>24,774,479</b>	<b>18.25%</b>	<b>27,900,187</b>	<b>20.56%</b>	<b>\$21.36</b>	<b>1,048,021</b>	<b>2,094,252</b>	<b>2,636,039</b>	<b>7,400,524</b>
Class A	256	41,696,653	2,296,296	7,128,441	7,405,318	17.76%	8,667,020	20.79%	\$24.60	547,172	906,999	802,753	2,387,439
Class B	1,990	81,963,291	424,681	12,966,573	15,381,178	18.77%	17,088,973	20.85%	\$19.20	458,547	1,027,779	1,655,309	4,407,907
Class C	576	12,055,765	0	0	1,987,983	16.49%	2,144,194	17.79%	\$13.92	42,302	159,474	177,977	605,178
<b>Class Total</b>	<b>2,822</b>	<b>135,715,709</b>	<b>2,720,977</b>	<b>20,095,014</b>	<b>24,774,479</b>	<b>18.25%</b>	<b>27,900,187</b>	<b>20.56%</b>	<b>\$21.36</b>	<b>1,048,021</b>	<b>2,094,252</b>	<b>2,636,039</b>	<b>7,400,524</b>

This survey consists of office properties 10,000 square feet and larger in size, representing both single tenant and multi-tenant buildings. The lease rates are based on a full-service gross basis.

**MAJOR TRANSACTIONS**

**Sales Transactions**

Property Address	Submarket	Class	Square Feet	Sale Price Per SF	Buyer	Seller
1201 S. 7th Ave. – 2 Properties	Downtown	B	309,616	\$18.02	Cornerstone Property Services	Tenet Healthcare Corporation
2001 W. Pinnacle Peak Rd. – 4 Properties	Deer Valley/Airport	B	164,280	\$97.39	Adler Realty Investments, Inc.	The Alter Group
1001 N. Central Ave.	Downtown	B	132,000	\$44.13	Case, Huff & Associates, Inc.	Pat Davis Properties
11201 N. Tatum Blvd.	Paradise Valley	A	109,961	\$98.67	Highbrook Investment Advisors, LLC	Lone Star Funds
2222-2228 W. Northern Ave.	Northwest Phoenix	B	91,491	\$80.88	River Valley Enterprises, Inc.	MJA Investments, Inc.
10301 N. 92nd St.	Central Scottsdale	B	74,425	\$97.55	Delmastro Eells Construction, LLC	ESI Ventures

**Lease Transactions**

Property Address	Submarket	Class	Square Feet	Transaction Date	Tenant	Owner
5455 E. High St.	Paradise Valley	A	77,391	Jul-14	Sprout's Farmers Markets, LLC	Lincoln Property Company
2179 SW Steaman Dr.	Chandler Airport	B	70,000	Jul-14	Crown Castle	Mdb CC Chandler, LLC
410 N. 44th St.	44th St. Corridor	A	50,000	Jul-14	Health Choice Arizona	Oaktree Real Estate Partners
5670 W. Chandler Blvd.	S. Tempe/Ahwatukee	B	32,988	Jul-14	NXP Semiconductors	ViaWest Properties, LLC
3200 E. Camelback Rd.	Camelback Corridor	A	32,535	Jul-14	Valley of the Sun United Way	Bridge Investment Group Partners
4129 E. Van Buren St.	44th St. Corridor	A	25,753	14-Jul	Hot Chalk	Arden Realty Inc.

**PRODUCT TYPE**

**CLASS A**

Most prestigious buildings competing for premier office users with rents above average for the area. Buildings have high-quality standard finishes, state-of-the-art systems, exceptional accessibility and a definite market presence.

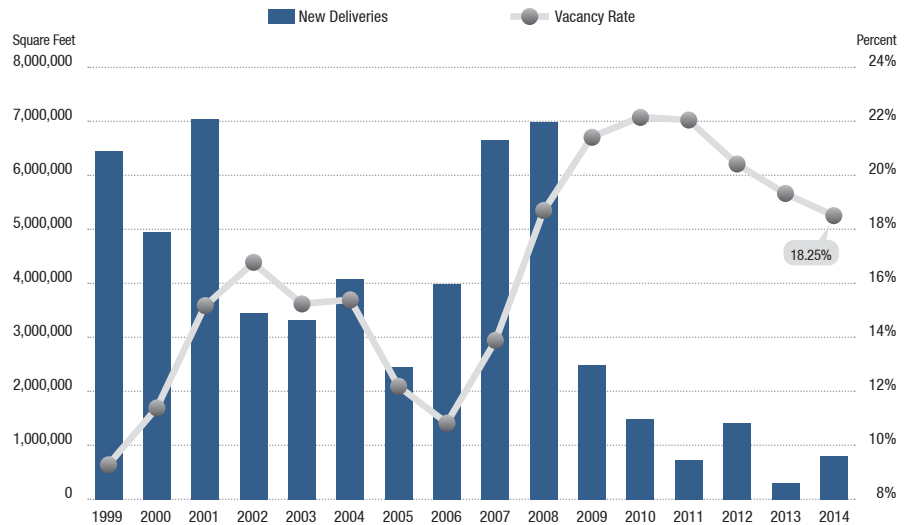
**CLASS B**

Buildings competing for a wide range of users with rents in the average range for the area. Building finishes are fair to good for the area, and systems are adequate. However, Class B buildings cannot compete with Class A buildings of the same price.

**CLASS C**

Buildings competing for tenants requiring functional space at rents below the area average.

**ANNUAL NEW DELIVERIES VS. VACANCY RATE**



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