Q3 2015 was an impressive showing for the Phoenix office market, a sector that has seen its fortunes rise and fall since the beginning of the decade. While vacancy rates across the valley remain high compared to other markets with similar job growth and economic make-up, select submarkets have fared extremely well and most of the market has seen a growing improvement in vacancy. Bolstered by having a strong talent base and aggressive economic development, Tempe has seen its vacancy rates plummet all while shouldering nearly half of the office product set to deliver in Q4. Other submarkets like Chandler have seen increasing activity as well, mainly because like Tempe they are able to adapt to the needs of the current market better, as they have not been bogged down with what has become the Achilles heel for most of the sector; obsolete product left over from the pre-rescission building boom failing to meet the needs of the current market.

Q3 has posted the highest absorption in three years and all indicators point to Q4 being even more of a market equalizer. Thus, if the market as a whole can be nimble enough to capitalize on the increasing percentage of office sector jobs, particularly those hailing from the tech sector (Phoenix is currently tied with San Francisco for tech job growth at a two-year growth rate of 42.7% according to the U.S Bureau of Labor Statistics), we can expect vacancies to continue to decrease and absorption to increase across the board.

Average asking rental rates have also echoed the sustained positive growth of the sector, coming in at $22.11/SF, almost up $1.00 from the previous year. Q3 has seen multiple areas of the valley see a steep rise in rates; average asking rates have jumped almost 10% in Southwest Phoenix from Q2 and top dollar submarkets like Scottsdale South and Camelback Corridor are seeing a healthy resurgence in price.

Q3 sales volume, while lower than 2Q, still came in strong at a little over $500 million. Buildings over 500,000/SF have warranted the highest price per square foot at $246.83/SF, almost double what the rest of the market garnered at $160.92/SF.

Construction remained in brute force in Q3, pushing to deliver over 1.2 million square feet in Q4. With construction in high gear, the market will benefit greatly from the fresh product to entice more high profile tenants to Phoenix.
The Office Market is a compilation that includes Class A, Class B, and Class C buildings with at least 10,000 SF of space. Medical office buildings are included. Some information contained herein has been obtained from third party sources deemed reliable but has not been independently verified by NAI Horizon. NAI Horizon makes no warranties or representations as to the completeness or accuracy thereof. NAI Horizon makes no guarantee about projections, opinions, assumptions or estimates. Occasionally corrected or updated information becomes available for both current and historical data thereby invalidating specific comparison to previously issued reports.

### Market Overview

<table>
<thead>
<tr>
<th>Class</th>
<th>Total RBA</th>
<th>Vacant SF</th>
<th>Vacant %</th>
<th>Net Absorption</th>
<th>RBA Delivered</th>
<th>RBA Under Construction</th>
<th>Average Rental Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>CLASS A</td>
<td>43,474,143 SF</td>
<td>6,988,177 SF</td>
<td>16.1%</td>
<td>478,657 SF</td>
<td>330,000 SF</td>
<td>3,419,345 SF</td>
<td>$26.45 FSG</td>
</tr>
<tr>
<td>CLASS B</td>
<td>84,043,278 SF</td>
<td>15,699,831 SF</td>
<td>18.7%</td>
<td>472,784 SF</td>
<td>90,250 SF</td>
<td>542,392 SF</td>
<td>$20.57 FSG</td>
</tr>
<tr>
<td>CLASS C</td>
<td>12,412,006 SF</td>
<td>2,042,446 SF</td>
<td>16.8%</td>
<td>36,240 SF</td>
<td>-</td>
<td>-</td>
<td>$15.44 FSG</td>
</tr>
<tr>
<td>TOTAL</td>
<td>139,659,427 SF</td>
<td>24,740,454 SF</td>
<td>17.7%</td>
<td>987,681 SF</td>
<td>420,250 SF</td>
<td>3,961,737 SF</td>
<td>$22.11 FSG</td>
</tr>
<tr>
<td>Q2 2015</td>
<td>139,239,177 SF</td>
<td>25,307,885 SF</td>
<td>18.2%</td>
<td>507,183 SF</td>
<td>361,027 SF</td>
<td>4,151,066 SF</td>
<td>$21.82 FSG</td>
</tr>
<tr>
<td>Q1 2015</td>
<td>138,637,526 SF</td>
<td>25,213,417 SF</td>
<td>18.2%</td>
<td>72,746 SF</td>
<td>-</td>
<td>4,575,228 SF</td>
<td>$21.58 FSG</td>
</tr>
</tbody>
</table>

### Significant Lease Transactions

<table>
<thead>
<tr>
<th>Property</th>
<th>Address</th>
<th>Tenant</th>
<th>Size</th>
<th>Class</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>827 West Grove</td>
<td>827 West Grove, Mesa</td>
<td>QBE Americas, Inc.</td>
<td>69,561 SF</td>
<td>B</td>
<td>Move In</td>
</tr>
<tr>
<td>Two Renaissance Square</td>
<td>40 N Central Ave, Phoenix</td>
<td>Jones, Skelton &amp; Hochuli, PLC</td>
<td>59,392 SF</td>
<td>A</td>
<td>Move In</td>
</tr>
<tr>
<td>Phase III - Block M</td>
<td>15059 N Scottsdale Rd, Scottsdale</td>
<td>JDA Software</td>
<td>55,530 SF</td>
<td>A</td>
<td>Move In</td>
</tr>
</tbody>
</table>

### Significant Sale Transactions

<table>
<thead>
<tr>
<th>Property</th>
<th>Address</th>
<th>Buyer</th>
<th>Sale Date</th>
<th>Size</th>
<th>Class</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>North Mountain Integrated Medical Services</td>
<td>9250 N 3rd St, Phoenix</td>
<td>Physicians Realty Trust</td>
<td>09/01/2015</td>
<td>121,976 SF</td>
<td>A</td>
<td>$51.7M</td>
</tr>
<tr>
<td>Raintree Corporate Center Phase III</td>
<td>8800 E Raintree Dr, Scottsdale</td>
<td>Equus Capital Partners, Ltd</td>
<td>09/14/2015</td>
<td>163,179 SF</td>
<td>A</td>
<td>$36.7M</td>
</tr>
<tr>
<td>Palm Valley Medical Office Building</td>
<td>13555 W McDowell Rd, Goodyear</td>
<td>Physicians Realty Trust</td>
<td>08/21/2015</td>
<td>101,241 SF</td>
<td>B</td>
<td>$35.2M</td>
</tr>
</tbody>
</table>

### Office Vacancy Rates

[Graph showing office vacancy rates for Class A, Class B, Class C, and Total from 2012 to 2015]
### Phoenix Office Submarkets

**Submarket** | **RBA (SF)** | **Vacant SF** | **Vacant %** | **Net Absorption** | **RBA Delivered** | **RBA Under Construction** | **Avg. Rental Rate (FS)**
---|---|---|---|---|---|---|---
44th Street Corridor | 3,668,978 | 449,393 ▼ | 0 ▲ | (10,857) ▼ | - ▬ | - ▬ | $22.68 ▲
Airport Area | 9,840,116 | 1,599,329 ▲ | 0 ▼ | $221,686.00 ▲ | - ▬ | - ▬ | $21.09 ▼
Arrowhead | 2,581,666 | 429,057 ▼ | 16.6% ▼ | 4,402 ▼ | - ▬ | - ▬ | $22.78 ▲
Camelback Corridor | 8,718,053 ▼ | 1,711,127 ▼ | 20.3% ▼ | 66,584 ▲ | - ▬ | - ▬ | $26.86 ▲
Central Scottsdale | 7,262,347 ▼ | 1,152,127 ▼ | 15.9% ▼ | 80,842 ▲ | - ▬ | - ▬ | $22.78 ▲
Chandler | 7,256,388 ▼ | 1,322,366 ▼ | 18.2% ▼ | 290,552 ▲ | 420,250 ▲ | 534,162 ▼ | $23.96 ▲
Deer Valley/Airport | 10,768,073 ▼ | 1,837,623 ▼ | 17.1% ▼ | (14,704) ▼ | - ▬ | 196,151 ▲ | $21.77 ▲
Downtown | 9,022,509 ▼ | 1,281,301 ▼ | 14.2% ▼ | (42,000) ▼ | - ▬ | - ▬ | $25.17 ▲
Gateway Airport/Loop 202 | 1,168,472 ▼ | 251,350 ▼ | 21.5% ▼ | 22,383 ▲ | - ▬ | - ▬ | $24.98 ▼
Glendale | 2,340,321 ▼ | 538,628 ▼ | 23.0% ▼ | (11,539) ▼ | - ▬ | - ▬ | $23.13 ▼
Loop 303/Surprise | 1,414,420 ▼ | 249,648 ▼ | 17.7% ▼ | 11,394 ▲ | - ▬ | - ▬ | $23.53 ▼
Mesa Downtown | 941,257 ▼ | 102,844 ▼ | 10.9% ▼ | 4,823 ▼ | - ▬ | - ▬ | $13.35 ▼
Mesa East | 1,903,077 ▼ | 260,337 ▼ | 13.7% ▼ | 14,134 ▲ | - ▬ | - ▬ | $17.63 ▲
Midtown | 12,200,423 ▼ | 2,887,700 ▼ | 23.7% ▼ | 51,811 ▲ | - ▬ | - ▬ | $17.63 ▲
Midtown/Central Phoenix | 3,789,877 ▼ | 536,369 ▲ | 14.2% ▲ | 16,765 ▼ | - ▬ | - ▬ | $17.99 ▼
N Phoenix/Cave Creek | 68,926 ▼ | 22,183 ▼ | 32.2% ▬ | - ▲ | - ▬ | - ▬ | $20.55 ▲
N Scottsdale/Carefree | 1,130,740 ▼ | 440,584 ▼ | 39.0% ▼ | 53,643 ▼ | - ▬ | - ▬ | $21.77 ▲
North I-17 | 461,818 ▼ | 118,259 ▼ | 25.6% ▲ | 3,779 ▼ | - ▬ | - ▬ | $20.86 ▼
Northwest Phoenix | 8,245,136 ▼ | 2,165,501 ▼ | 26.3% ▼ | 108,186 ▲ | - ▬ | - ▬ | $17.26 ▼
Paradise Valley | 3,764,635 ▼ | 616,123 ▼ | 18.1% ▼ | 22,134 ▲ | - ▬ | - ▬ | $22.47 ▲
Piestewa Peak Corridor | 2,943,721 ▼ | 596,091 ▼ | 20.2% ▼ | 984 ▲ | - ▬ | - ▬ | $18.88 ▲
Pinal County | 726,733 ▼ | 95,235 ▼ | 13.1% ▼ | (22,983) ▼ | - ▬ | - ▬ | $19.62 ▼
Scottsdale Airpark | 11,835,089 ▼ | 1,966,105 ▼ | 16.6% ▼ | 53,204 ▲ | - ▬ | 169,189 ▼ | $25.17 ▲
Scottsdale South | 5,231,477 ▼ | 552,661 ▼ | 10.6% ▼ | 33,963 ▲ | - ▬ | - ▬ | $23.77 ▲
South Tempe/ Ahwatukee | 5,998,346 ▼ | 808,900 ▼ | 13.5% ▼ | 15,805 ▲ | - ▬ | 150,000 ▼ | $21.08 ▲
Southwest Phoenix | 2,223,287 ▼ | 301,509 ▼ | 13.6% ▲ | - ▬ | - ▬ | - ▬ | $21.23 ▲
Superstition Corridor | 4,747,680 ▼ | 1,177,626 ▼ | 24.8% ▼ | 41,731 ▲ | - ▬ | - ▬ | $19.27 ▲
Tempe | 8,071,680 ▼ | 1,008,416 ▼ | 12.5% ▼ | (34,988) ▼ | - ▬ | 2,451,235 ▼ | $23.68 ▼
West I-10 | 1,348,927 ▼ | 156,124 ▼ | 11.6% ▼ | 5,947 ▲ | - ▬ | - ▬ | $22.00 ▼

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### Phoenix Office Submarkets

1. 44th St Corridor
2. Airport Area
3. Arrowhead
4. Camelback Corridor
5. Central Scottsdale
6. Chandler
7. Deer Valley/Airport
8. Downtown
9. Gateway Airport/Loop 202
10. Glendale
11. Loop 303/Surprise
12. Mesa Downtown
13. Mesa East
14. Midtown
15. Midtown/Central Phoenix
16. N Phoenix/Cave Creek
17. N Scottsdale/Carefree
18. North I-17
19. Northwest Phoenix
20. Paradise Valley
21. Piestewa Peak Corridor
22. Pinal County
23. Scottsdale Airpark
24. Scottsdale South
25. South Tempe
26. Southwest Phoenix
27. Superstition Corridor
28. Tempe
29. West I-10