

# Qtr 1 2013 Metro-Phoenix Office Market



## OFFICE MARKET UPDATE

The metro-Phoenix Office market ended the first quarter 2013 with a vacancy rate of 19.4%. The vacancy rate was down over the previous quarter, with net absorption totaling positive 152,689 square feet in the first quarter. Vacant sublease space decreased in the quarter, ending the quarter at 809,140 square feet. Rental rates ended the first quarter at \$19.44, a decrease over the previous quarter. There was 256,270 square feet still under construction at the end of the quarter.

### Absorption

Net absorption for the overall metro-Phoenix office market was positive 152,689 square feet in the first quarter 2013. That compares to positive 1,485,567 square feet in the fourth quarter 2012, positive 467,451 square feet in the third quarter 2012, and positive 885,031 square feet in the second quarter 2012. The Class-A office market recorded net absorption of positive 4,976 square feet in the first quarter 2013, compared to positive 900,460 square feet in the fourth quarter 2012, positive 352,690 in the third quarter 2012, and positive 343,280 in the second quarter 2012.

The Class-B office market recorded net absorption of positive 233,445 square feet in the first quarter 2013, compared to positive 696,561 square feet in the fourth quarter 2012, positive 193,190 in the third quarter 2012, and positive 561,946 in the second quarter 2012.

The Class-C office market recorded net absorption of negative (85,732) square feet in the first quarter 2013 compared to negative (111,454) square feet in the fourth quarter 2012, negative (78,429) in the third quarter 2012, and negative (20,195) in the second quarter 2012.

Net absorption for Phoenix's central business district was negative (43,555) square feet in the first quarter 2013. That compares to positive 17,005 square feet in the fourth quarter 2012, positive 110,106 in the third quarter 2012, and positive 23,853 in the second quarter 2012.

Net absorption for the suburban markets was positive 196,244 square feet in the first quarter 2013. That compares to positive 1,468,562

square feet in fourth quarter 2012, positive 357,345 in the third quarter 2012, and positive 861,178 in the second quarter 2012.

### Vacancy

The office vacancy rate in the Phoenix market area decreased to 19.4% at the end of the first quarter 2013. The vacancy rate was 19.5% at the end of the fourth quarter 2012, 20.3% at the end of the third quarter 2012, and 20.6% at the end of the second quarter 2012.

Class-A projects reported a vacancy rate of 20.0% at the end of the first quarter 2013, 20.0% at the end of the fourth quarter 2012, 22.1% at the end of the third quarter 2012, and 22.9% at the end of the second quarter 2012.

Class-B projects reported a vacancy rate of 20.4% at the end of the first quarter 2013, 20.7% at the end of the fourth quarter 2012, 21.3% at the end of the third quarter 2012, and 21.5% at the end of the second quarter 2012.

Class-C projects reported a vacancy rate of 14.0% at the end of the first quarter 2013, 13.7% at the end of fourth quarter 2012, 13.3% at the end of the third quarter 2012, and 12.9% at the end of the second quarter 2012.

The overall vacancy rate in Phoenix's central business district at the end of the first quarter 2013 increased to 20.0%. The vacancy rate was 19.8% at the end of the fourth quarter 2012, 19.6% at the end of the third quarter 2012, and 20.0% at the end of the second quarter 2012.

The vacancy rate in the suburban markets decreased to 19.3% in the first quarter 2013. The vacancy

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**Rental Rates**

The average quoted asking rental rate for available office space, all classes, was \$19.44 per square foot per year at the end of the first quarter 2013 in the Phoenix market area. This represented a 2.6% decrease in quoted rental rates from the end of the fourth quarter 2012, when rents were reported at \$19.95 per square foot.

The average quoted rate within the Class-A sector was \$23.18 at the end of the first quarter 2013, while Class-B rates stood at \$18.48, and Class-C rates at \$14.10. At the end of the fourth quarter 2012, Class-A rates were \$23.20 per square foot, Class-B rates were \$19.12, and Class-C rates were \$14.67.

The average quoted asking rental rate in Phoenix's CBD was \$20.21 at the end of the first quarter 2013, and \$19.32 in the suburban markets. In the fourth quarter 2012, quoted rates were \$20.31 in the CBD and \$19.89 in the suburbs.

**Deliveries and Construction**

During the first quarter 2013, no new space was completed in the Phoenix market area. This compares to four buildings totaling 234,079 square feet

that were completed in the fourth quarter 2012, five buildings totaling 77,617 square feet completed in the third quarter 2012, and 160,738 square feet in three buildings completed in the second quarter 2012.

There were 256,270 square feet of office space under construction at the end of the first quarter 2013.

The largest projects underway at the end of first quarter 2013 were 4500 E Cotton Center Blvd, a 139,403-square-foot building with 100% of its space pre-leased, and 1340 S Spectrum Blvd, a 68,867-square-foot facility that is 0% pre-leased.

**Inventory**

Total office inventory in the metro-Phoenix market area amounted to 159,465,797 square feet in 8,090 buildings as of the end of the first quarter 2013. The Class-A office sector consisted of 40,869,828 square feet in 250 projects. There were 4,469 Class-B buildings totaling 95,748,432 square feet, and the Class-C sector consisted of 22,847,537 square feet in 3,371 buildings. Within the Office market there were 791 owner-occupied buildings accounting for 14,296,414 square feet of office space.

Data source: COSTAR, and personal knowledge.

All information is believed to be accurate but is not guaranteed

