

# Qtr 1 2014 Metro-Phoenix Office Market



## OFFICE MARKET UPDATE

The Phoenix Office market ended the first quarter 2014 with a vacancy rate of 17.8%. The vacancy rate was down over the previous quarter, with net absorption totaling positive 750,157 square feet in the first quarter. Vacant sublease space increased in the quarter, ending the quarter at 790,491 square feet. Rental rates ended the first quarter at \$20.42, an increase over the previous quarter. A total of two buildings delivered to the market in the quarter totaling 272,710 square feet, with 1,791,653 square feet still under construction at the end of the quarter.

### Absorption

Net absorption for the overall Phoenix office market was positive 750,157 square feet in the first quarter 2014. That compares to positive 701,474 square feet in the fourth quarter 2013, positive 1,050,123 square feet in the third quarter 2013, and positive 98,414 square feet in the second quarter 2013.

The Class-A office market recorded net absorption of positive 363,969 square feet in the first quarter 2014, compared to positive 114,640 square feet in the fourth quarter 2013, positive 136,741 in the third quarter 2013, and positive 203,664 in the second quarter 2013.

The Class-B office market recorded net absorption of positive 463,159 square feet in the first quarter 2014, compared to positive 541,402 square feet in the fourth quarter 2013, positive 914,181 in the third quarter 2013, and positive 21,288 in the second quarter 2013.

The Class-C office market recorded net absorption of negative (76,971) square feet in the first quarter 2014 compared to positive 45,432 square feet in the fourth quarter 2013, negative (799) in the third quarter 2013, and negative (126,538) in the second quarter 2013.

Net absorption for Phoenix's central business district was positive 55,180 square feet in the first quarter 2014. That compares to positive 8,440 square feet in the fourth quarter 2013, positive 186,997 in the third quarter 2013, and negative (65,421) in the second quarter 2013.

Net absorption for the suburban markets was positive 694,977 square feet in the first quarter 2014. That compares to positive 693,034 square feet in fourth quarter 2013, positive 863,126 in the third quarter 2013, and positive 163,835 in the second quarter 2013.

### Vacancy

The office vacancy rate in the Phoenix market area decreased to 17.8% at the end of the first quarter 2014. The vacancy rate was 18.3% at the end of the fourth quarter 2013, 18.8% at the end of the third quarter 2013, and 19.5% at the end of the second quarter 2013.

Class-A projects reported a vacancy rate of 18.2% at the end of the first quarter 2014, 19.1% at the end of the fourth quarter 2013, 19.4% at the end of the third quarter 2013, and 19.6% at the end of the second quarter 2013.

Class-B projects reported a vacancy rate of 18.5% at the end of the first quarter 2014, 19.0% at the end of the fourth quarter 2013, 19.7% at the end of the third quarter 2013, and 20.7% at the end of the second quarter 2013.

Class-C projects reported a vacancy rate of 14.1% at the end of the first quarter 2014, 14.2% at the end of fourth quarter 2013, 14.3% at the end of the third quarter 2013, and 14.5% at the end of the second quarter 2013.

The overall vacancy rate in Phoenix's central business district was 20.2% at the end of the first quarter 2014, as well as at the end of the third and fourth quarter 2013. It was 21.1% at the end of the second quarter 2013.

The vacancy rate in the suburban markets decreased to 17.4% in the first quarter 2014. The vacancy rate was 18.0% at the end of the fourth quarter 2013, 18.6% at the end of the third quarter 2013, and 19.3% at the end of the second quarter 2013.

...CONTINUED OVER

Compliments of:  
Commercial Specialist

Arvle Knight, CCIM

602-885-8000

Arvle@KLCommercialGroup.com

Jim Kasten, CCIM, DB

602-677-0655

Jim@KLCommercialGroup.com

For Listings & MORE...  
[KLCommercialGroup.com](http://KLCommercialGroup.com)



Kasten Long Commercial Group  
 2821 E Camelback Road, Ste 600  
 Phoenix, Arizona 85016  
 602-445-4141

...CONTINUED FROM FRONT

### Rental Rates

The average quoted asking rental rate for available office space, all classes, was \$20.42 per square foot per year at the end of the first quarter 2014 in the Phoenix market area. This represented a 0.6% increase in quoted rental rates from the end of the fourth quarter 2013, when rents were reported at \$20.29 per square foot.

The average quoted rate within the Class-A sector was \$23.91 at the end of the first quarter 2014, while Class-B rates stood at \$19.64, and Class-C rates at \$15.19. At the end of the fourth quarter 2013, Class-A rates were \$23.67 per square foot, Class-B rates were \$19.41, and Class-C rates were \$15.18. The average quoted asking rental rate in Phoenix's CBD was \$20.79 at the end of the first quarter 2014, and \$20.35 in the suburban markets. In the fourth quarter 2013, quoted rates were \$20.65 in the CBD and \$20.22 in the suburbs.

### Deliveries and Construction

During the first quarter 2014, two buildings totaling 272,710 square feet were completed in the Phoenix market area. This compares to one building totaling 5,200 square feet that were completed in the fourth quarter 2013, two buildings totaling 74,252 square feet completed in the third quarter 2013, and 196,153 square feet in three buildings completed in the second quarter 2013.

There were 1,945,720 square feet of office space under construction at the end of the first quarter 2014. Some of the notable 2014 deliveries include: 435 N 5th St, a 155,000-square-foot facility that delivered in first quarter 2014 and is now 0% occupied, and 2005 E Indian School Rd, a 117,710-square-foot building that delivered in first quarter 2014 and is now 82% occupied.

The largest projects underway at the end of first quarter 2014 were 300 E Rio Salado Pky Bldg B, a 600,000-square-foot building with 100% of its space pre-leased, and 300 E Rio Salado Pky Bldg D, a 415,000-square-foot facility that is 100% pre-leased.

### Inventory

Total office inventory in the Phoenix market area amounted to 159,680,677 square feet in 8,093 buildings as of the end of the first quarter 2014. The Class-A office sector consisted of 41,092,825 square feet in 252 projects. There were 4,455 Class-B buildings totaling 95,699,434 square feet, and the Class-C sector consisted of 22,888,418 square feet in 3,386 buildings. Within the Office market there were 856 owner-occupied buildings accounting for 14,653,273 square feet of office space.

Data source: COSTAR, and personal knowledge.  
 All information is believed to be accurate but is not guaranteed

