

4Q24

Phoenix Office Market Overview



NEWMARK

Market Observations

Economy

- Phoenix’s labor market remains robust, with a November unemployment rate of 3.5%, 50 basis points below the national average.
- Education, health, and government sectors led job gains over the past 12 months, while four of the 10 super sectors recorded losses.
- Office-occupying employment is 5.9% above pre-pandemic levels. However, the potential impact of global tech layoffs by companies like Google, Meta, and Amazon remains a key concern for the market.
- The Fed cut interest rates by 25 basis points this quarter, bringing the benchmark short-term rate to a range of 4.25%-4.5%, a full percentage point below the four-decade high reached in July 2023.

Major Transactions

- Tenant relocations were prominent in Q4 2024, often involving modest footprint reductions with new lease agreements.
- Owner-user and large portfolio sales rebounded after subdued activity in 2023 and early 2024, signaling renewed investor confidence.
- Sales of medical office properties outperformed traditional office assets due to Phoenix’s strong healthcare fundamentals.
- As loan maturities approach, landlords face growing pressure, with more distressed and bank-owned office assets expected to enter the market, potentially influencing pricing dynamics in 2025.

Market Fundamentals

- Net absorption was negative for the ninth consecutive quarter, with 35,244 SF in losses. A contraction, but not a sharp one compared to recent quarters.
- Net absorption for 2024 totaled -1.8 MSF, much lower than 2023’s -2.8 MSF.
- Hybrid work trends (less space needed) and rising vacancy have deterred new construction, with no starts recorded in the second half of 2024.
- Total vacancy climbed to 26.5%, a 200-basis-point increase year-over-year.
- Sublease space additions slowed, but transitions from sublease to direct availability are accelerating. More transitions are expected as major sublet terms expire in 2024 and 2025.

Outlook

- Macroeconomic uncertainty will drive cautious decision-making among occupiers and investors, likely suppressing leasing and sales activity.
- Market vacancy is expected to rise further as lease expirations prompt tenants to renew or sign smaller footprints.
- Despite rising vacancy, Phoenix remains an attractive market for office users due to its strong population growth, diversified economy, and highly educated workforce, which continue to underpin long-term demand.

1. Economy
2. Market Fundamentals
3. Appendix

4Q24

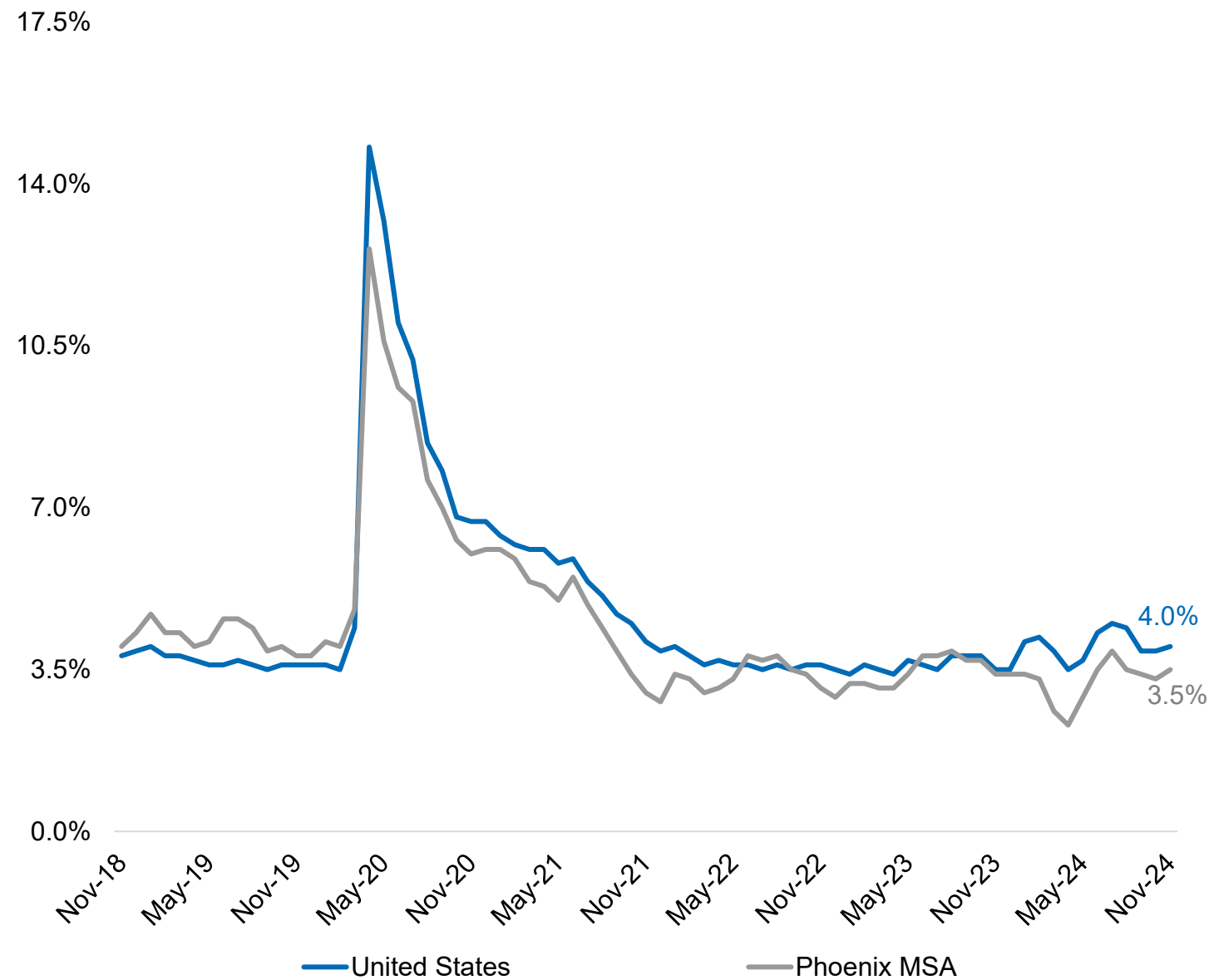
Economy



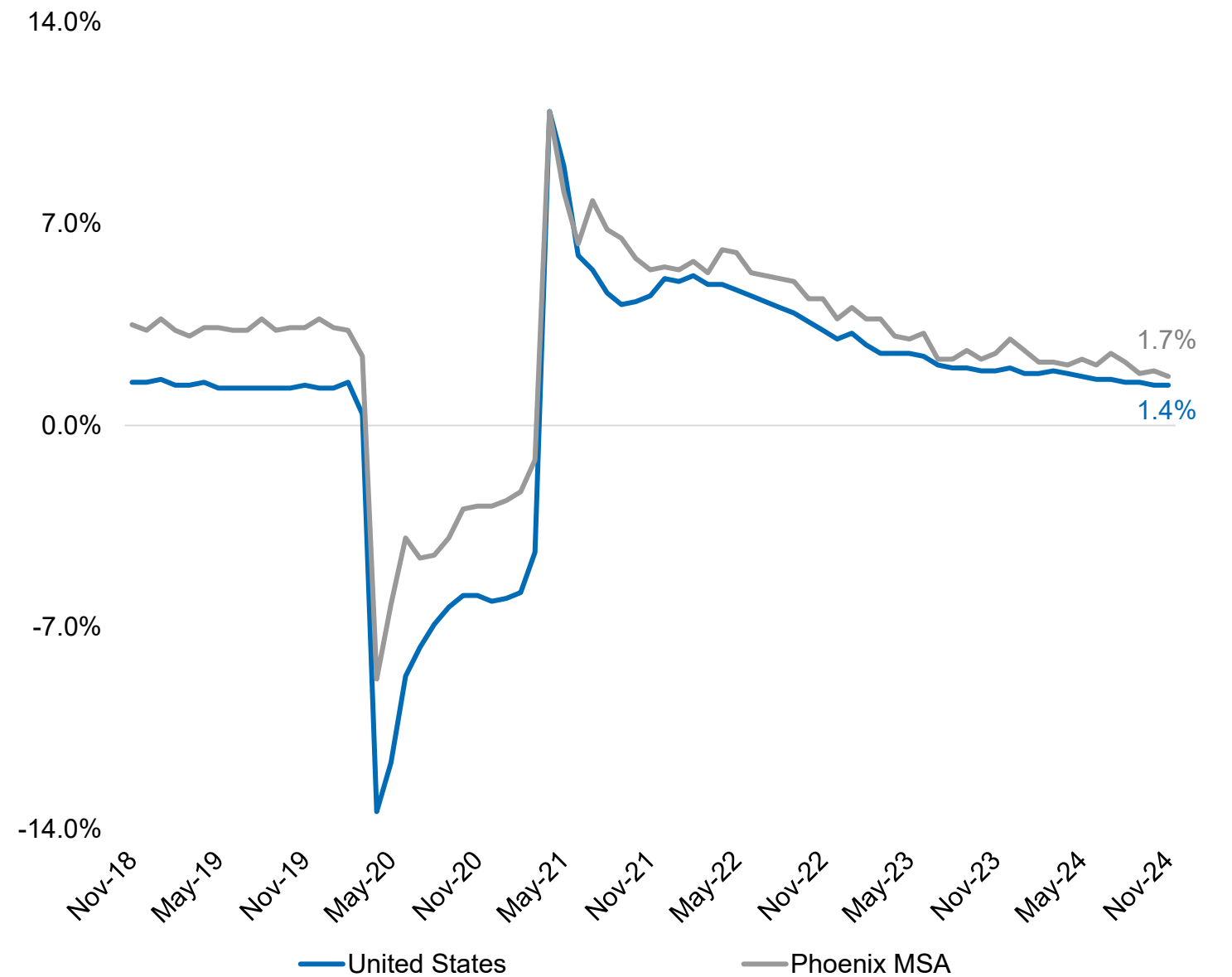
Resilient Labor Market Amid Economic Challenges

Local unemployment remains strong at 3.5%, outperforming the national average of 4.0% since August 2023. While job growth has decelerated, it remains positive as companies adjust to shifting economic conditions. Sustained lower unemployment highlights the region's economic resilience, though caution is warranted given broader uncertainty in the U.S. economy.

Unemployment Rate, Not Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change

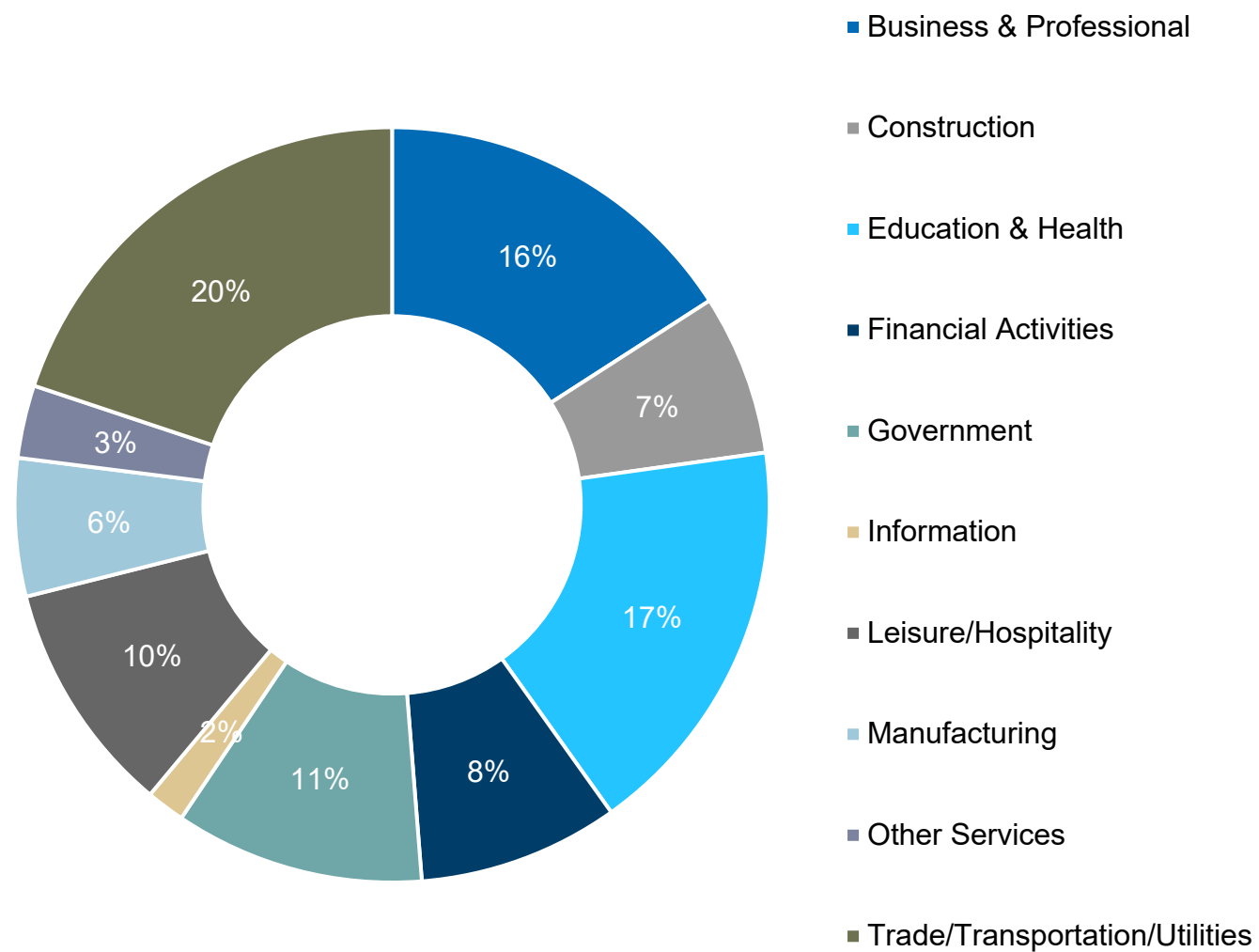


Source: U.S. Bureau of Labor Statistics, Phoenix MSA
 Note: November 2024 data is preliminary.

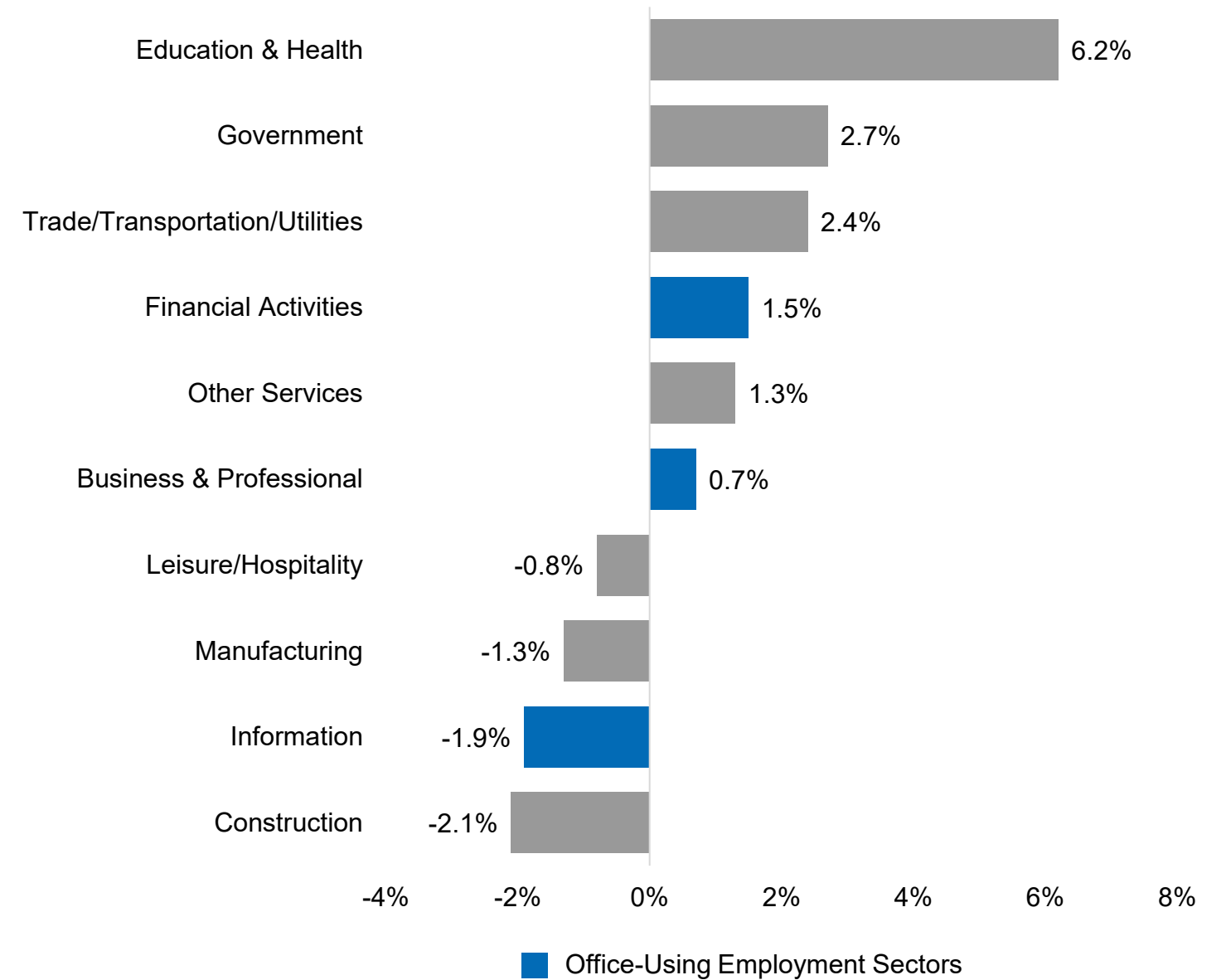
Job Growth Was Pronounced in Already Strong Employment Sectors

Education and health led annual job growth, followed by government and trade/transportation/utilities. Among office-using sectors, information (dominated by tech) contracted by -1.9%, while financial activities grew 1.5%, and professional/business services rose 0.7%. The contraction in tech reflects broader industry challenges, while steady gains in other office-occupying sectors indicate relative stability.

Employment by Industry, November 2024



Employment Growth by Industry, 12-Month % Change, November 2024



Source: U.S. Bureau of Labor Statistics, Phoenix MSA
 Note: November 2024 data is preliminary.

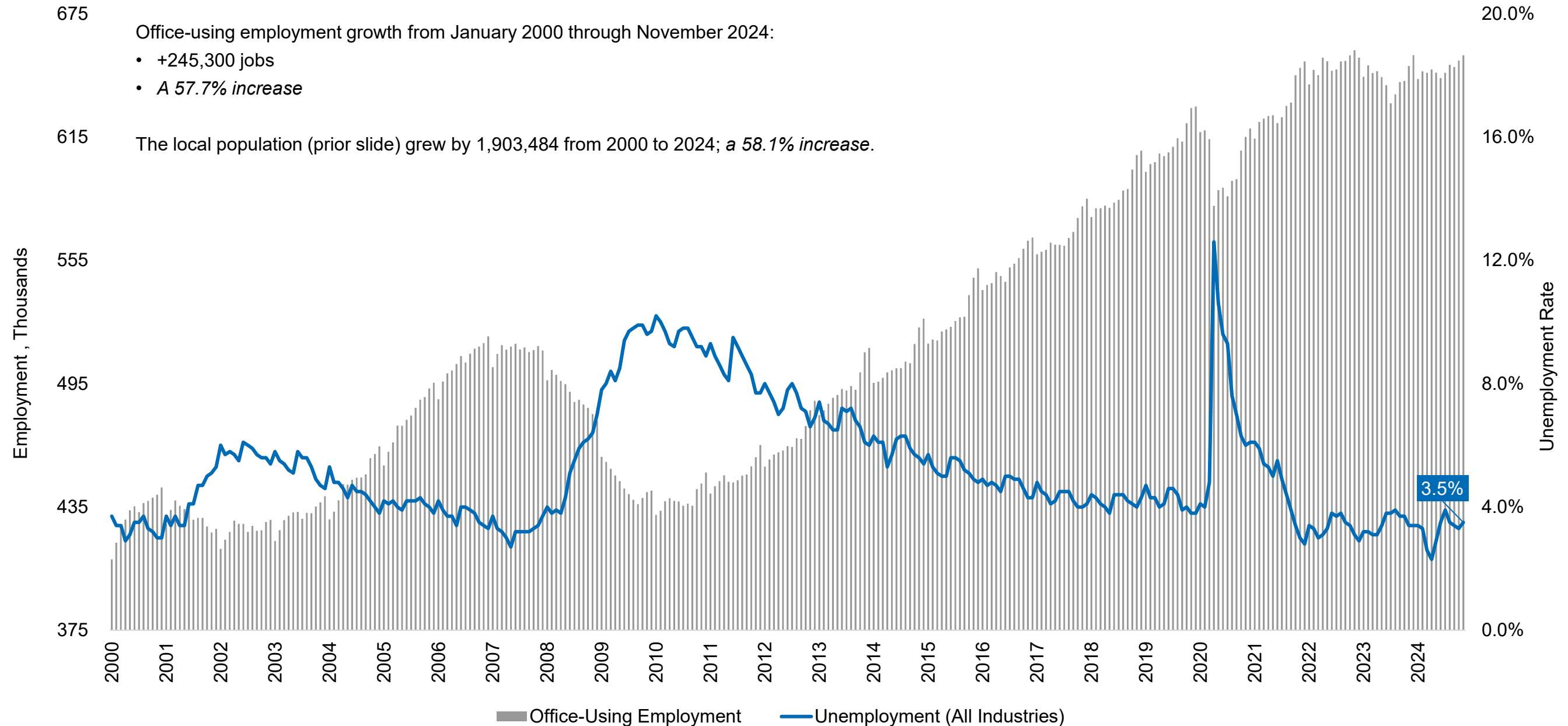
Population Growth in Recent Decades and Future Projections

Please reach out to your
Newmark business contact for this information

Office-Using Employment Growth Driven by Population Expansion

Office-using employment stands 5.9% above pre-pandemic levels (February 2020) and 0.8% higher year-over-year, supported by robust population growth. This increase has fueled demand for population-serving office tenants, including insurers, banks, and law firms, as expanding local demographics drive broader service needs.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Phoenix MSA

Note: November 2024 data is preliminary.

*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

Phoenix Inflation is Cooling and is One of the Lowest Among U.S. Metros

Please reach out to your
Newmark business contact for this information

4Q24

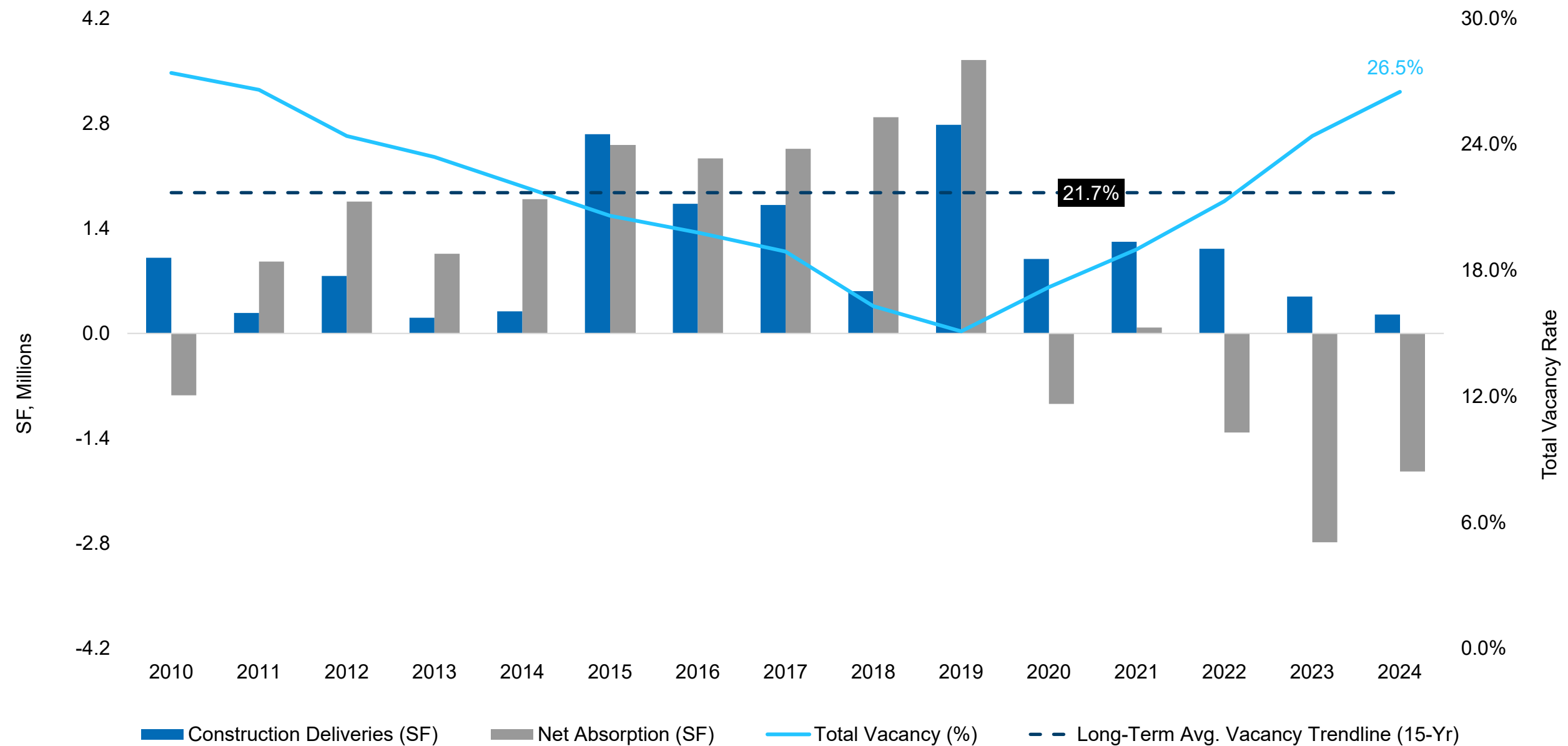
Market Fundamentals



Vacancy's Rise Expected to Slow in 2025

Total vacancy reached 26.5% at year-end 2024, exceeding the 15-year average of 21.7% by 480 basis points. While space givebacks persisted as tenants reduced footprints, the rate of these reductions slowed compared to 2023. Limited construction deliveries and a constrained development pipeline are expected to moderate further vacancy increases, providing some stability as the market continues to adjust to evolving tenant needs.

Historical Construction Deliveries, Net Absorption, and Vacancy | Greater Phoenix

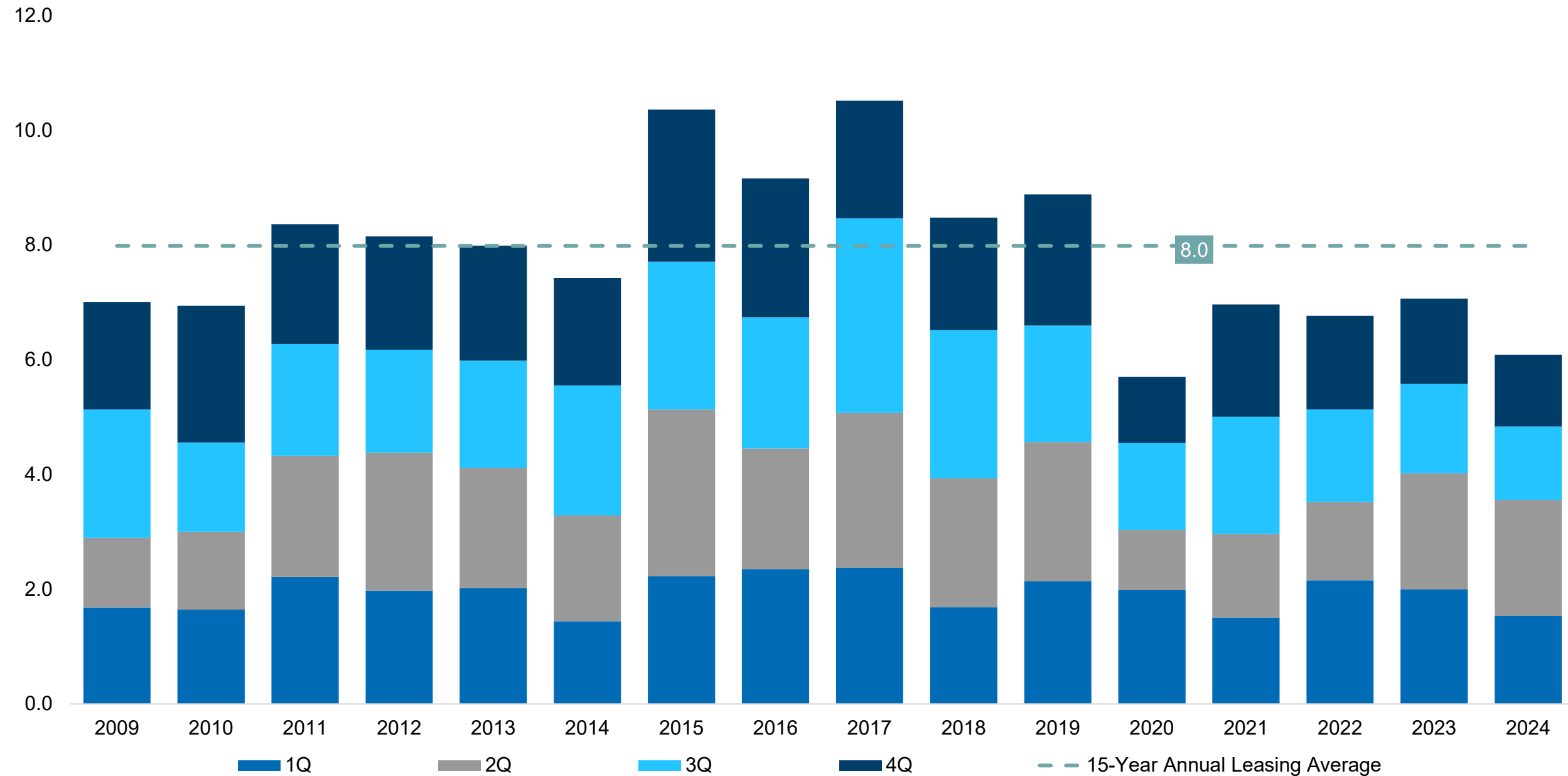


Source: Newmark Research

Leasing Activity Reflects Smaller Tenant Footprints in 2024

Leasing activity in the second half of 2024 was subdued, with fewer and smaller deals dominating the market. Annual transaction volume fell below 2021–2023 levels but remained above the 2020 low. Office tenants continued to favor lease renewals or new agreements with reduced footprints, driven by hybrid work models and evolving space requirements.

Total Leasing Activity (MSF)

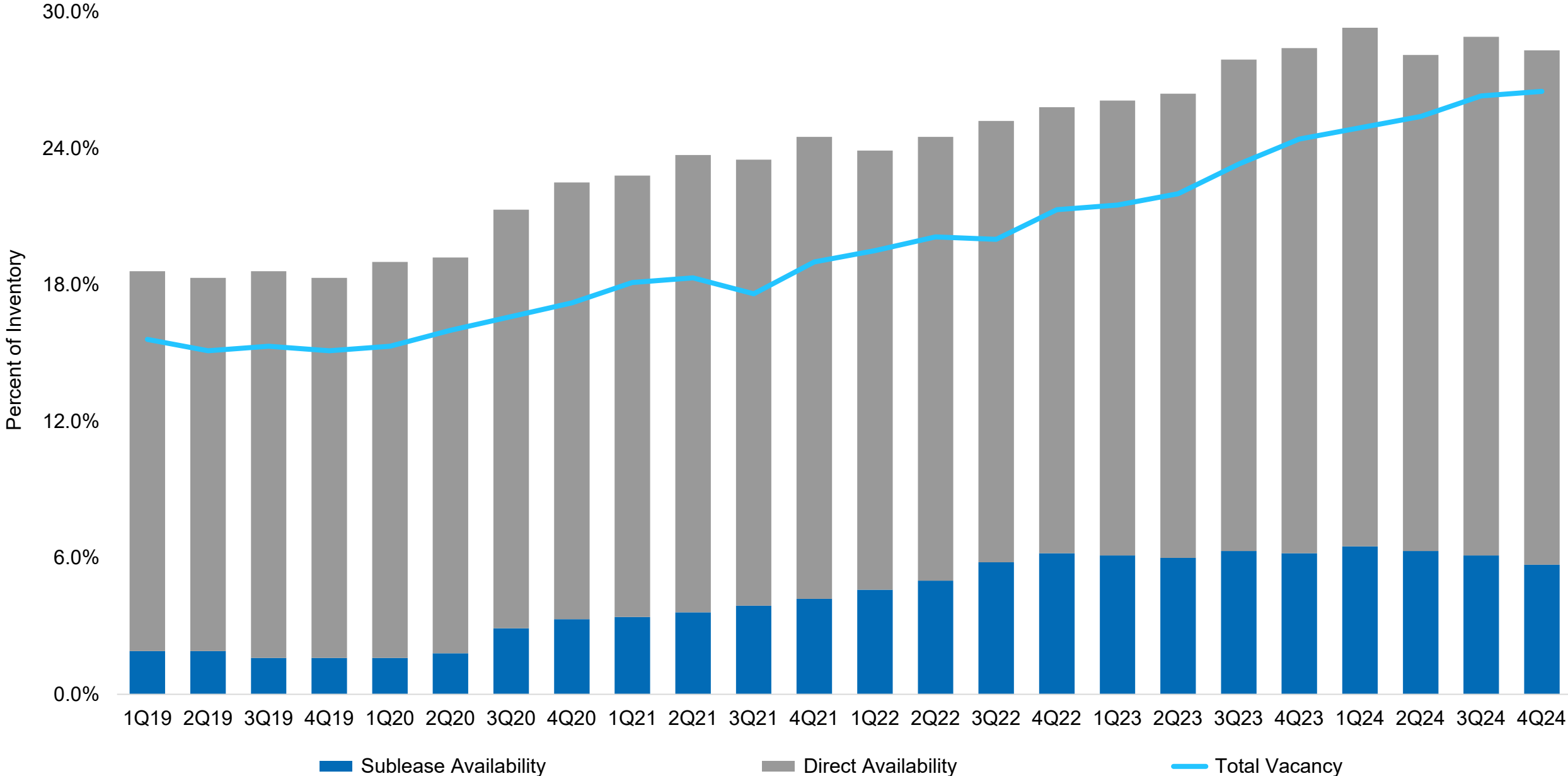


Source: Newmark Research

Sublease Availability Stabilizing Amid Prolonged Market Vacancies

Since the pandemic, sublease availability steadily increased due to hybrid work and cost-saving measures. However, Q4 2024 saw a 40-basis-point drop in sublease availability and a 20-basis-point decline in direct availability. Despite these improvements, vacant space continues to linger on the market for extended periods, contributing to a gradual uptick in overall vacancy as tenants shed larger spaces. The trend highlights ongoing challenges in balancing supply and demand in the Phoenix office market.

Available Space and Total Vacancy as Percent of Overall Market | Greater Phoenix



Source: Newmark Research

Elevated Sublease Availability Trends Downward in Phoenix

Please reach out to your
Newmark business contact for this information

The Ten Largest Sublet Blocks Currently on the Market

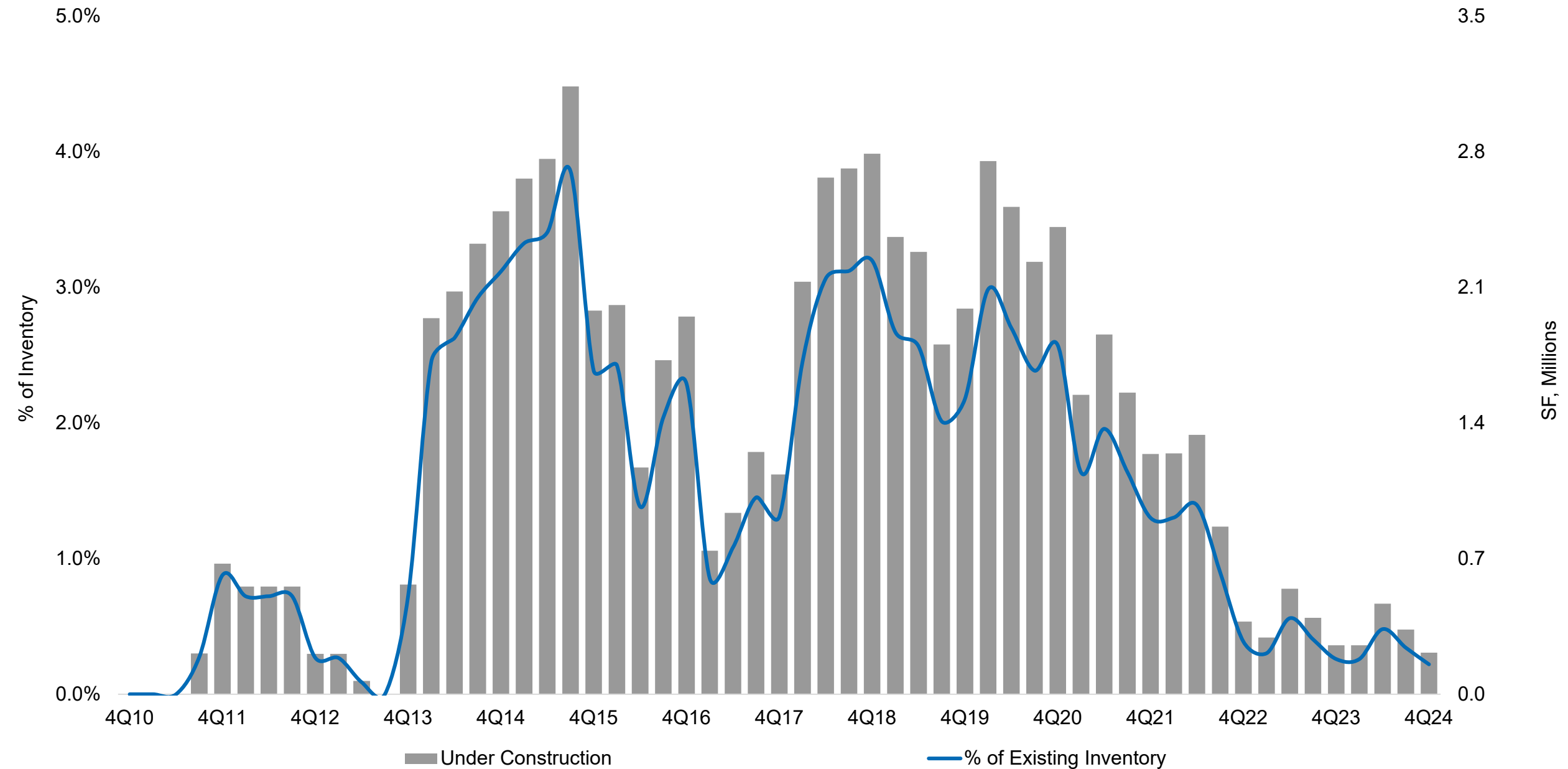


Please reach out to your
Newmark business contact for this information

Constrained Office Development Amid Shifting Demand

Hybrid work trends, elevated sublease availability, and tempered tenant demand have significantly curtailed office construction activity since 2020. With just 214,800 SF of traditional office space under development and only two deliveries in 2024, the pipeline remains limited, allowing tenants to absorb existing inventory. Developers are prioritizing other asset classes, such as industrial and multifamily, amid changing market dynamics.

Office Under Construction and % of Existing Inventory

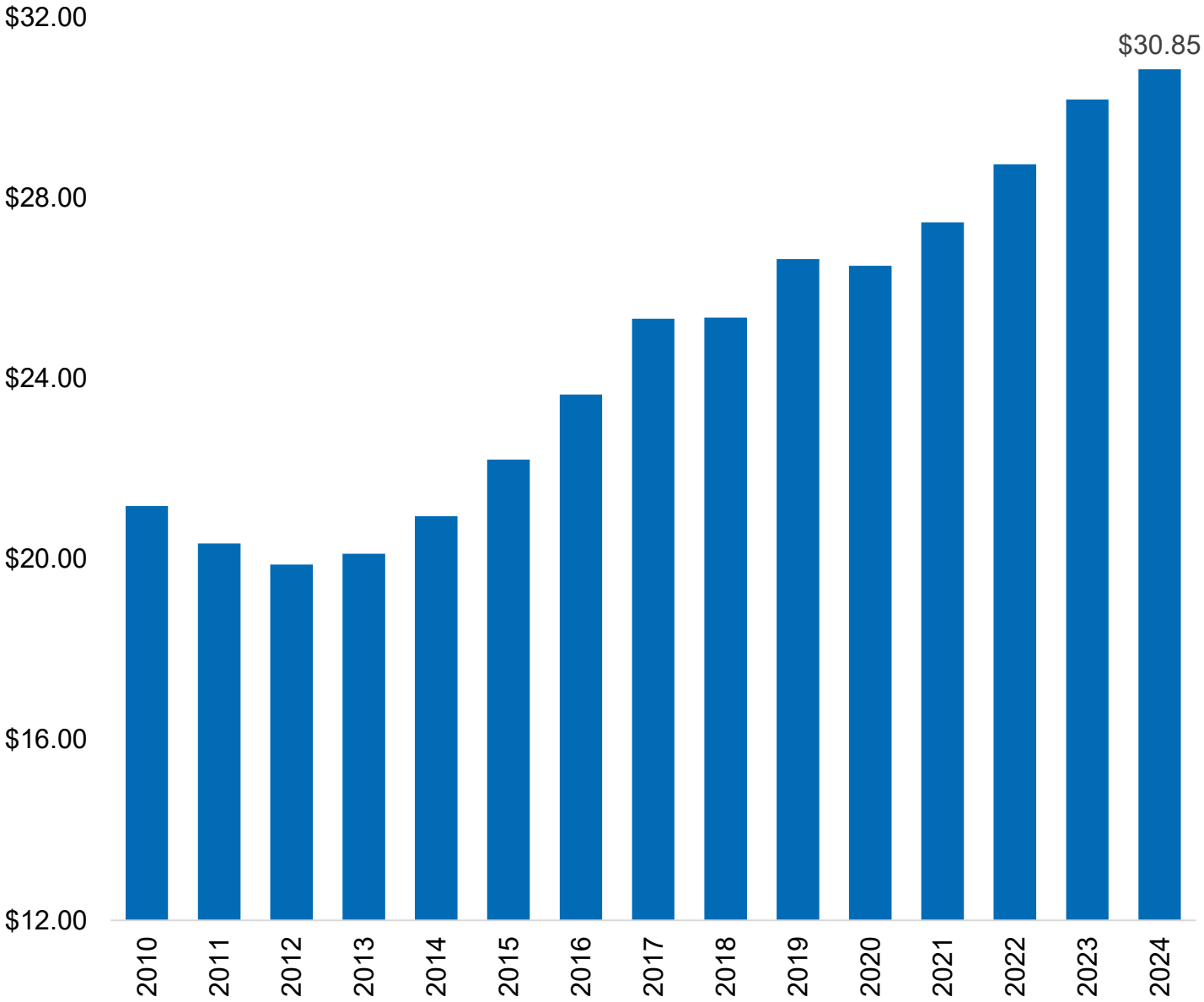


Source: Newmark Research

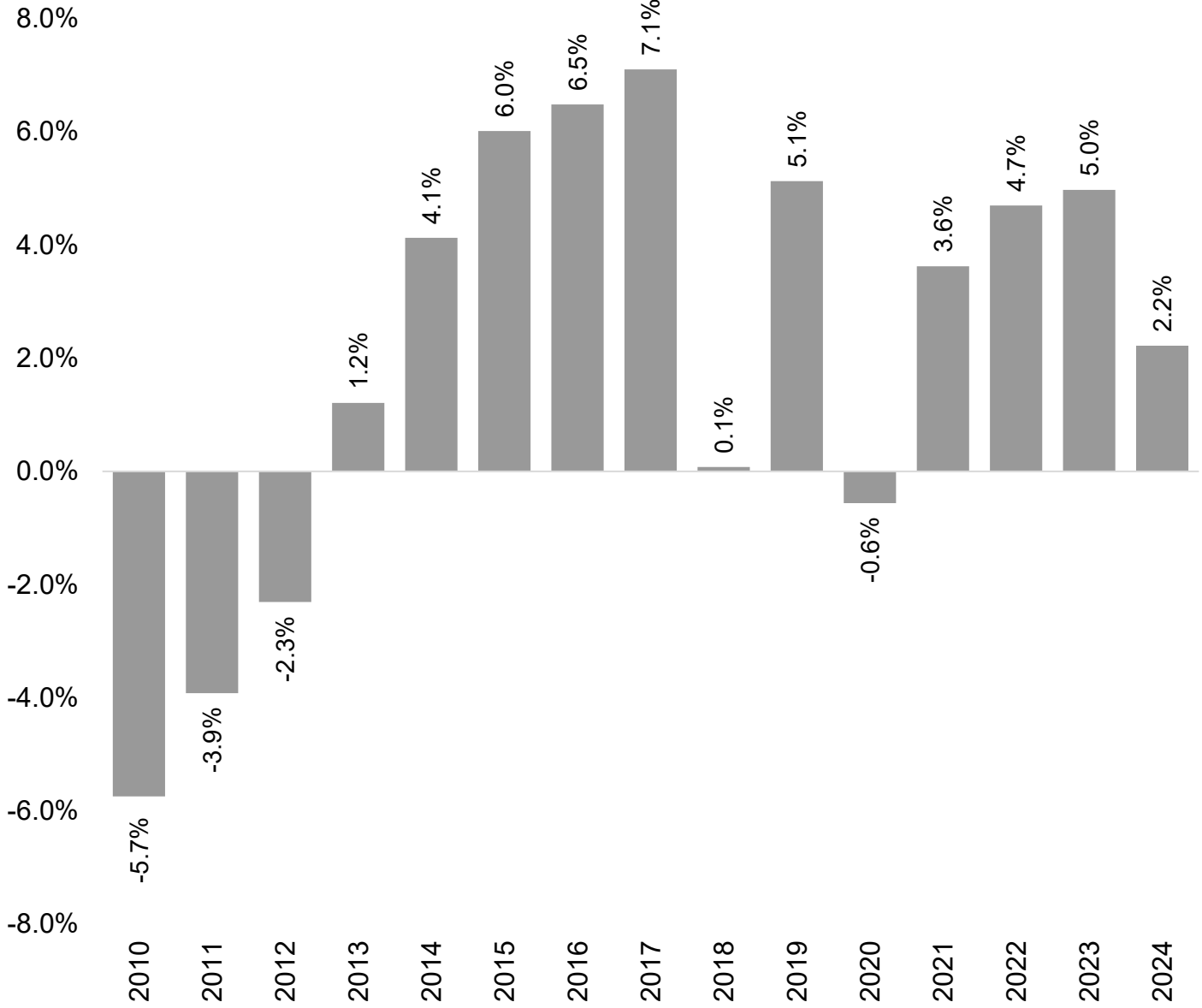
Stagnant Rental Growth Amid Elevated Availability

Prolonged vacancy periods stalled rent growth in 2024, with landlords maintaining asking rates for direct space while offering increased concessions and tenant improvement allowances to secure tenants. Few construction deliveries in 2025 are unlikely to establish new rate benchmarks. Rental rates are anticipated to remain steady until declining availability creates upward pressure.

Office Average Asking Rent, \$/SF/Year, FS



Year-over-Year Asking Rent Growth Rate

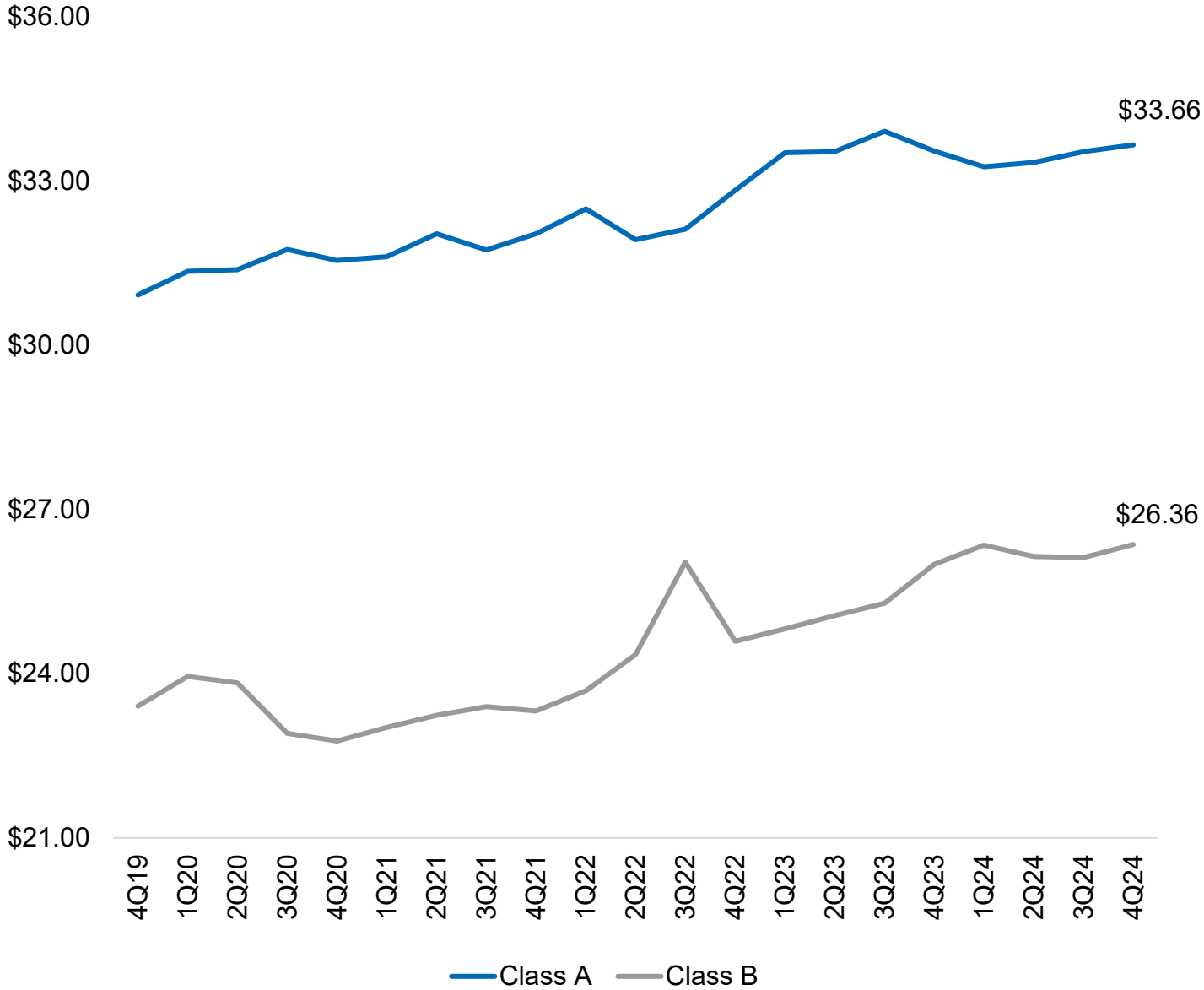


Source: Newmark Research

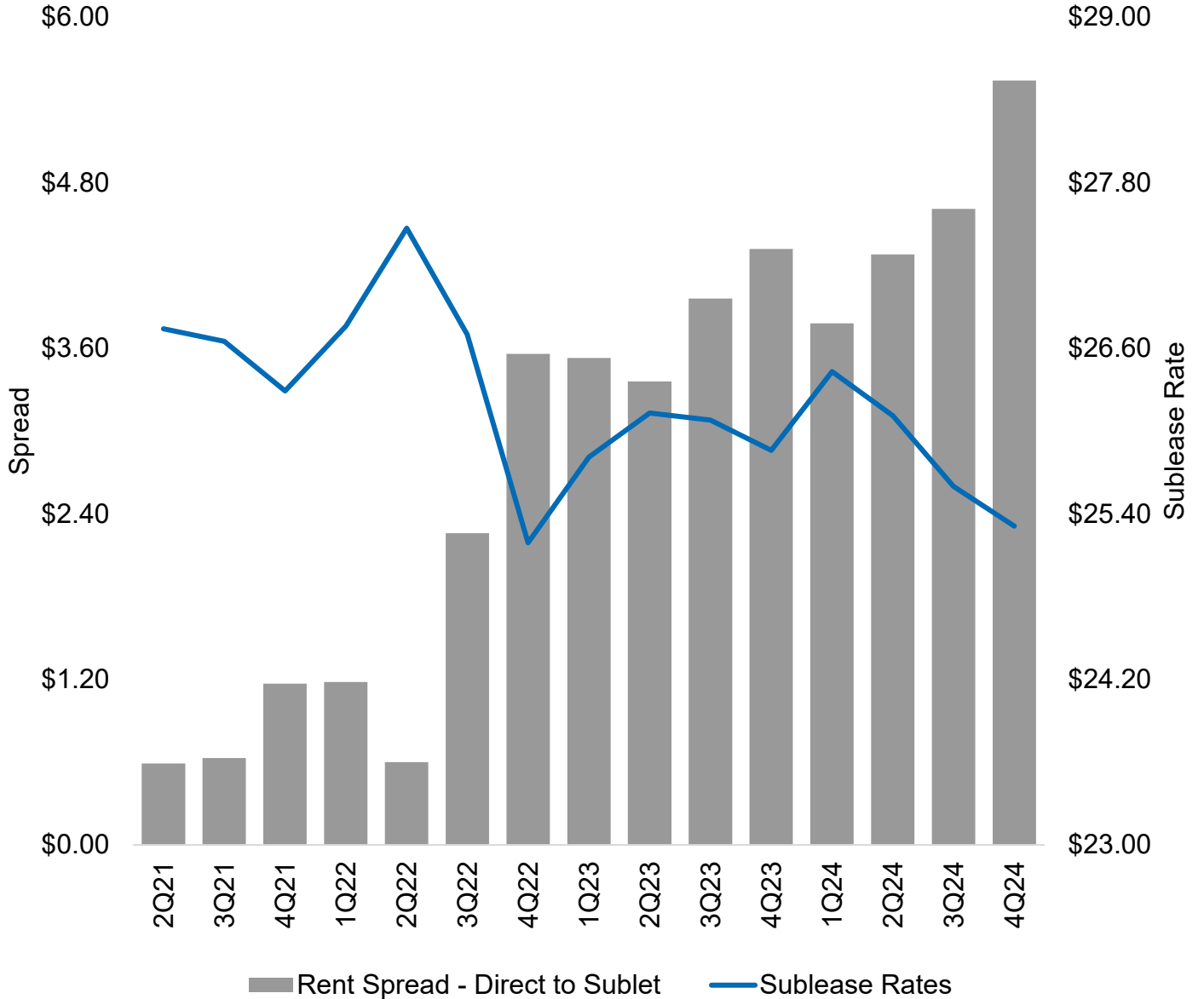
Sublease Competition Pressures Rent Dynamics

Sublessors are aggressively competing with landlords by reducing rents, creating a \$5.54/SF rent spread between direct and sublease space. Despite this pressure, Class A and Class B asking rates demonstrated moderate growth throughout 2024, reflecting resilient demand for higher-quality space in a challenging market.

Class A and Class B Asking Rents, \$/SF/Year, FS



Sublease Asking Rates



Source: Newmark Research

Effective Rents are Marginally Down Since 2019, and Will Remain Flat

Please reach out to your
Newmark business contact for this information

Tenant Improvement Allowances Remain Generous



Please reach out to your
Newmark business contact for this information

4Q24 Notable Lease Transactions

This quarter's top deals are a mix of direct leases and one sublease all of which were on the smaller side compared to previous quarters. Most tenants continue to enact cost-cutting measures by downsizing to mitigate high costs of business.

Notable 4Q24 Lease Transactions

Tenant	Building(s)	Submarket	Type	Square Feet
Adtalem	20410 N 19 th Ave	Deer Valley	Direct Lease	57,336
<i>Adtalem relocated to the Deer Valley submarket from 2149 West Dunlap Ave.</i>				
SAP America	1101 W Washington St	Tempe	Direct Lease	32,880
<i>SAP America recommitted to their current location in a renewal transaction, but at a smaller footprint than the original term.</i>				
C.H. Robinson Company Inc	16220 N Scottsdale Rd	Scottsdale Airpark	Sublease	26,042
<i>C.H. Robinson Company relocated from Desert Ridge in this 26,042 SF sublease.</i>				
Assured Partners	14614 N Kierland Blvd	Scottsdale Airpark	Direct Lease	25,558
<i>Already subleasing space at 14614 N Kierland Blvd, Assured Partners decided to sign on for a direct lease to stay in place.</i>				
NexMetro	2575 R Camelback Rd	Camelback Corridor	Direct Lease	20,803
<i>NexMetro took 20,803 SF in a relocation move from Camelback Center.</i>				

2024 Welcomes Strong Year-End Activity

Please reach out to your
Newmark business contact for this information

Capital Strategies and Phoenix's Resilient Medical Office Market



Please reach out to your
Newmark business contact for this information

Sales Activity Increased from Previous Quarter

The increase in sales activity this quarter, along with gains from previous quarters, exceeded the total sales volume for 2023. The Federal Reserve's reductions in interest rates are expected to boost property sales volume in the coming year, especially as more distressed or bank-owned properties enter the market.

Notable 3Q24 Sale Transactions

Building Address	Submarket	Sales Price	Price/SF	Square Feet
24 th & Camelback Phase II - 2325 E Camelback Rd	Camelback Corridor	\$97,900,000	\$319.02	306,877
<i>24th at Camelback II was 87% leased when it was sold by Hines & Invesco for \$97.9 million.</i>				
Camelback Lakes – 2710, 2720, 2730, & 2850 E Camelback Rd	Camelback Corridor	\$60,000,000	\$260.62	230,222
<i>DRA & Mainstreet sold the four-building park as a portfolio in the Camelback Corridor.</i>				
Desert Ridge Corporate Center I & II – 20830 & 20860 N Tatum Blvd	Scottsdale Airpark	\$35,000,000	\$127.18	275,208
<i>Discount Tire Company, already a large tenant within the center, purchased Deseret Ridge Corporate Center I & II from Regent Properties in an owner-user transaction.</i>				
7272 Old Town- 7272 E Indian School Rd	Scottsdale South	\$42,250,000	\$266.47	158,556
<i>Location was purchased by Ascentris and George Oliver Companies as part of a larger portfolio with significant reposition plans for the near future.</i>				
20 E Thomas Rd	Midtown	\$23,700,000	\$43.17	548,938
<i>U-Haul purchased the Midtown property to utilize as a corporate headquarters.</i>				

4Q24

Appendix



Phoenix Metro Office Submarket Map and High-Level Statistics | 4Q24



Please reach out to your
Newmark business contact for this information



Please reach out to your
Newmark business contact for this information



Please reach out to your
Newmark business contact for this information

A Lower Cost Business Environment With Affordable Housing Favors Phoenix



Please reach out to your
Newmark business contact for this information

For more information:

Amelia Yates

*Research Manager
Phoenix, Las Vegas, SLC*

amelia.yates@nmrk.com

Charlie Beaver

*Research Analyst
Phoenix*

charlie.beaver@nmrk.com

Dain Fedora

*Head of Research
Southwest*

dain.fedora@nmrk.com

Phoenix Office

2555 E. Camelback Rd.
Suite 600
Phoenix, AZ 85016
t 602-952-3800

New York Headquarters

125 Park Ave.
New York, NY 10017
t 212-372-2000

nmrk.com

Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.

All information contained in this publication (other than that published by Newmark) is derived from third party sources. Newmark (i) has not independently verified the accuracy or completeness of any such information, (ii) does not make any warranties or representations, express or implied, concerning the same and (iii) does not assume any liability or responsibility for errors, mistakes or inaccuracies of any such information. Further, the information set forth in this publication (i) may include certain forward-looking statements, and there can be no guarantee that they will come to pass, (ii) is not intended to, nor does it contain sufficient information, to make any recommendations or decisions in relation to the information set forth therein and (iii) does not constitute or form part of, and should not be construed as, an offer to sell, or a solicitation of any offer to buy, or any recommendation with respect to, any securities. Any decisions made by recipient should be based on recipient's own independent verification of any information set forth in this publication and in consultation with recipient's own professional advisors. Any recipient of this publication may not, without the prior written approval of Newmark, distribute, disseminate, publish, transmit, copy, broadcast, upload, download, or in any other way reproduce this publication or any of the information it contains with any third party. This publication is for informational purposes only and none of the content is intended to advise or otherwise recommend a specific strategy. It is not to be relied upon in any way to predict market movement, investment in securities, transactions, investment strategies or any other matter. If you received this publication by mistake, please reply to this message and follow with its deletion, so that Newmark can ensure such a mistake does not occur in the future.

NEWMARK