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Greater Phoenix Office Property Trends 2023

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Accelerating success.

Colliers



Phoenix Office

Trends - CoStar's 3 Key Office Trends as of 10-31-23

- 1: Office Attendance Stabilizes at 46.4% to 50.4% of the February 2020 levels, mostly during midweek attendance
- 2: Office-using employment growth has slowed along with the general slowing of Employment Growth
- 3: Lease Transaction Volume is Down via
 - a higher number of transactions than in February 2020 (up 7%);
 - at a smaller average deal size (down 22%)

**Office Condominium Occupancies
Contiguous Blocks of Available Space**

Phoenix Office Trends - Conversions

Residential

- o 2021 and 2022: 52% of those targeted for conversion were completed
- o 2015 to 2019: 33% were completed
- o Most were class B and C buildings that were built in the 1990s, and had high vacancy
- o Regular shape and bay depths matter

Phoenix Office Trends - Conversions

Scrape and start over

- o 16th Street between Northern Ave and Indian School Rd
- o 44th St & Camelback Rd now The Grove
- o 44th St & Oak now Quik Trip
- o Various older retail centers were bladed and rebuilt
- o Paradise Valley Mall, Metrocenter, Fiesta Mall

Phoenix Office Trends - Conversions

Other Uses:

Medical

- o generally will work for MOB and some specialty uses
- o Micro-hospitals or surgeries requires proper slab to slab height

Self-Storage

- o 16001 N 28th Ave just sold at \$81.41 PSF to convert to self-storage!

Phoenix Office Trends – Status as a Reliable, Stable Investment

Office Buildings have lost their status as Reliable, Stable Institutional Investments, **but is that entirely fair?**

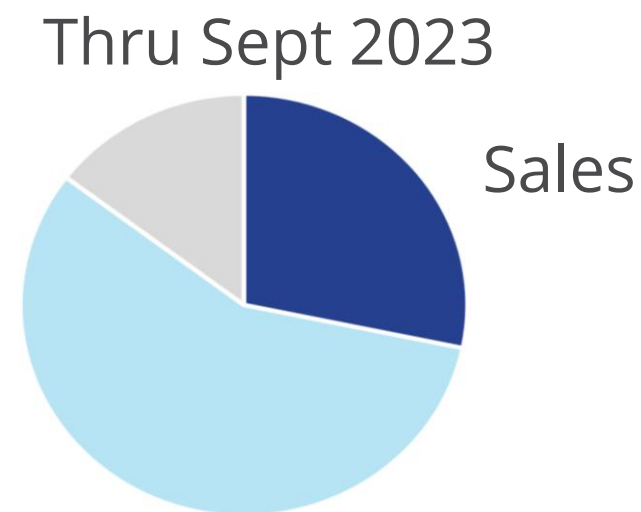
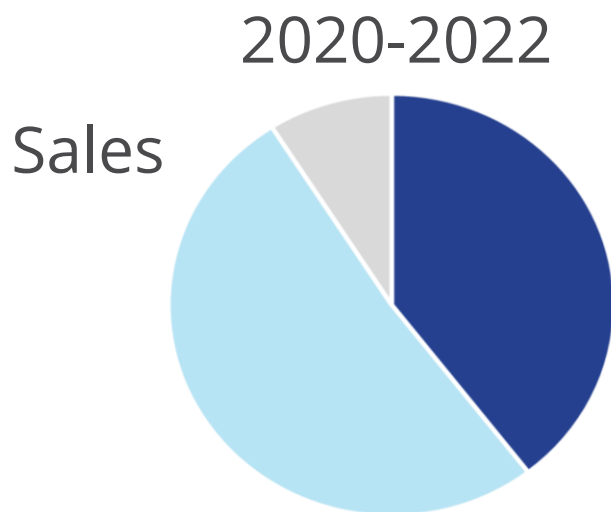
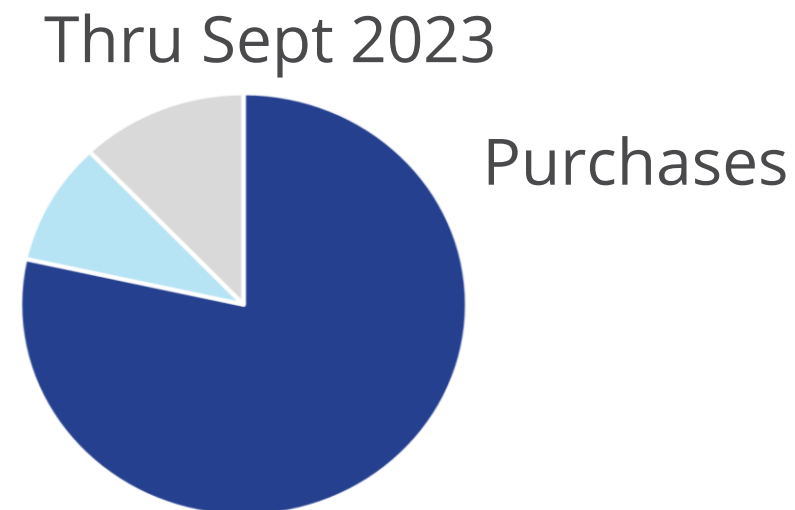
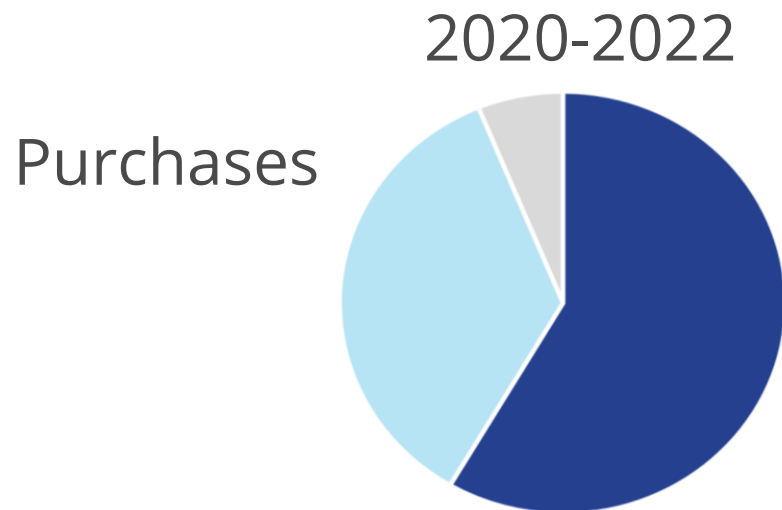
Is this the Contrarian Investors' Golden Opportunity?

- o 3131 & 3133 E Camelback - \$242 PSF – 84% occ – 10% cap on IP
- o Gainey Center II - \$184 PSF – 35% occ – sold in 2007 for \$352 PSF
- o Pinnacle 101 – Ph I - \$134 PSF – 69.5% occ
- o Arizona Center - \$48 PSF – 44% occ – sold in 2011 for \$117 PSF
- o Total invested since July 2023: \$138.1 million, avg \$127 PSF

Institutional Investor Activity Since 2020
Where is the vacancy?

Institutional Sales and Purchases

■ Industrial ■ Office ■ Retail



Institutional Purchases and Sales Overview

During 2020 thru 2022

- Office institutional purchases: between 34% to 36% of total institutional activity
- Industrial purchases have consistently accounted for 58% to 60%
- Office sales: between 49% and 50% of total activity
- Industrial sales: decreased from 49% in 2020 to 36% in 2022
- Retail sales grew from close to no sales in 2020 to 15% in 2022

Year to date 2023

- 78.5% of institutional purchases were of industrial properties, in 24 deals averaging \$140 PSF
- 57% of institutional sales were of offices, mostly at a loss, averaging \$159 PSF, i.e., 89% of total office sales

Institutional Office Transactions

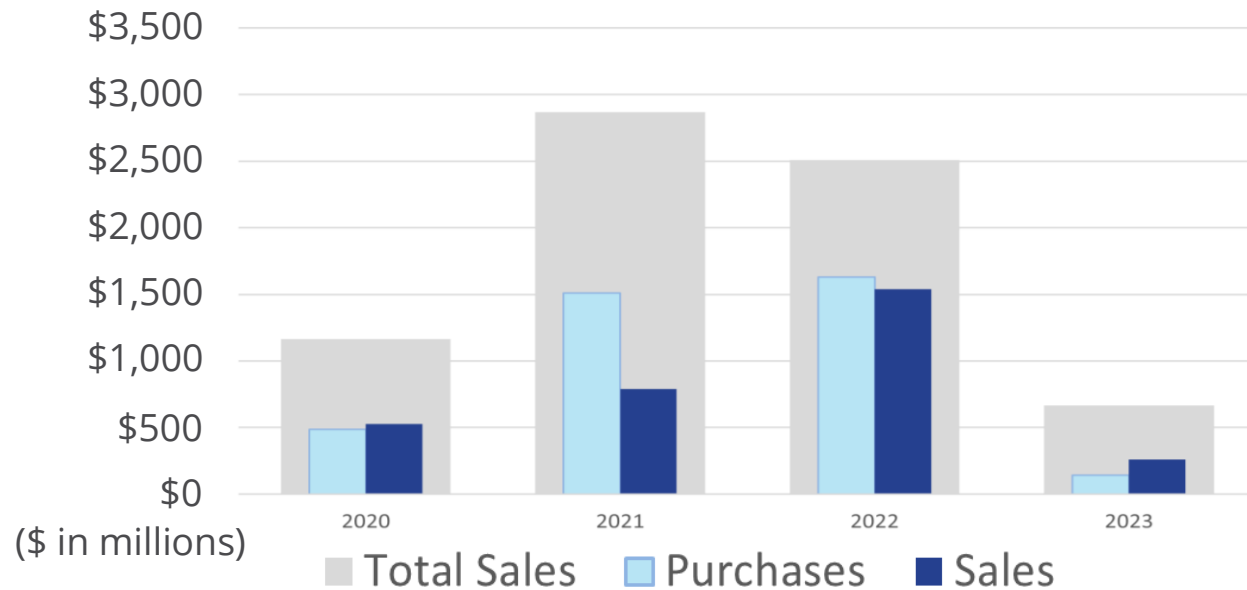


Chart Data (\$ in millions)

	Total Sales	Purchases	Sales
2020	\$1,165	\$627	\$713
2021	\$2,867	\$1,420	\$830
2022	\$2,509	\$1,098	\$1,303
2023	\$805	\$100	\$346

- Institutional investors spent **\$3.25 billion since 2020**, i.e., 44.2% of total sales.
- **Investors sold about the same as they purchased since 2020**, i.e., 43.5% v. 44.2% of total sales.
- Each year, **average buyer PSF prices exceeded overall averages**. Same with sellers until August 2022, when they sold below original purchases.
- **Year-to-date 2023 average PSF purchases: 150% of overall averages, sales: 89%.**
- **20 of the 66 purchases were medical properties** averaging \$490 PSF, ranging from \$278 to \$765 PSF.
- **Institutions purchased 27 properties in Scottsdale, Paradise Valley, and Tempe, 6 in Downtown Phoenix and Camelback Corridor, representing 40% and 28% of total purchases.**

Institutional Office Purchases

- \$3.25 billion, i.e., 44.2% of total sales, since 2020
- 2020 and 2021 53% and 50% purchases
- By 3Q23, only 12.5% were purchased
- 27 of the 66 were in Scottsdale, Paradise Valley, and Tempe and 6 were in Downtown Phoenix and Camelback Corridor – 68% of the total
- 20 were medical properties, averaging \$490 PSF
- Four of the five in 2023 were medical, and 3 of those were anchored by Banner

Institutional Office Sales

- Institutional sellers sold 28% and 33% of total sales volume in 2020 and 2021
- By 2022 and 2023, institutional sales accounted for 52% and 43% of the total
- In 2020 thru 2022, both purchases and sales exceeded the average PSF of total office sales
- In 2023, average PSF institutional purchases were 150% of the overall average; while sales were only 89% of the total

Institutional Sales and Purchases 2023 Examples



Banner 73K SF
Sale Leaseback
Montecito Buy
\$395 PSF



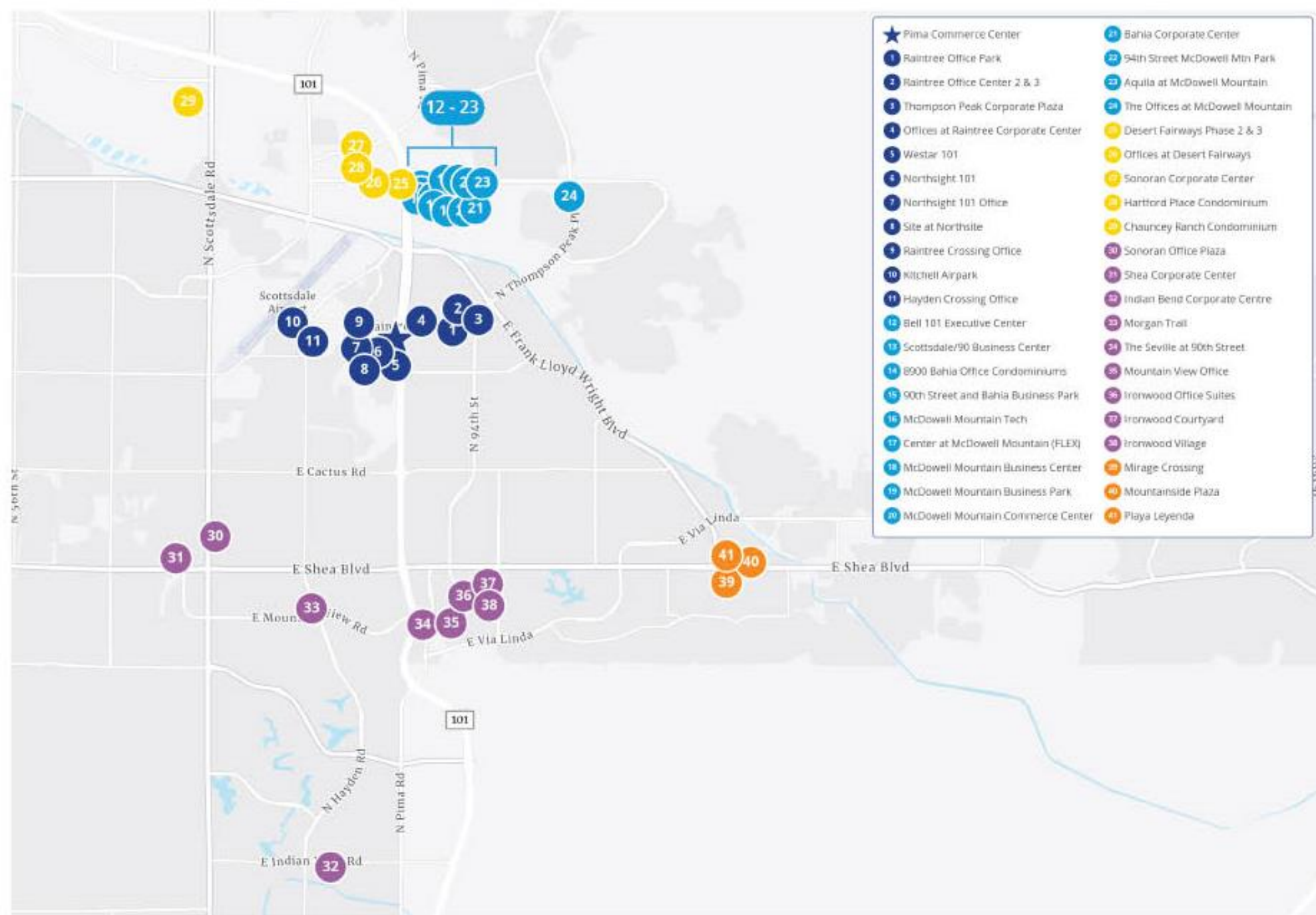
Scottsdale
Financial Center I
Goldman Sale
\$400 PSF



3131 & 3133
Camelback
Goldman Sale
\$242 PSF

Business Parks

North Scottsdale



North Scottsdale Business Parks

	Total Office	Condominiums
Occupancy %	82.30%	98.20%
Total Inventory	18,730,195	2,693,200
SF Available	3,306,552	49,055
# Buildings	672	220

North Scottsdale	Scottsdale Airpark	
98.20%	98.80%	Occupancy %
2,693,200	733,481	Total Inventory
49,055	8,746	SF Available
42; 220; 913	12; 52; 180	#Parks #Bldgs #Units
2,950	4,075	Average Unit Size
17	3	# Available Units
10,531	4,007	Largest Available Unit
5,531	2,559	Next Largest Available
2,408	2,915	Average Size Available

- **98.2% occupancy** creates **extremely high demand**
- **17 units available** out of **913**, there is a **scarcity**
- **No new inventory** built in **16 years**
- **Professional offices, financial services, medical providers, and entrepreneurs**
- **Do not want to “remote work”**
- **Prestigious locations** that are **highly accessible** and **visible**
- **Security of investing** in **office condominiums**, particularly when on **long-term leases** with **below market rental rates**

Condominium Business Parks Comparison

North Scottsdale, Surprise, Gilbert/SE Loop 202

North Scottsdale	Surprise	Gilbert/SE Loop 202	
98.20%	94.07%	96.79%	Occupancy %
2,693,200	425,068	617,970	Total Inventory
49,055	25,225	19,848	SF Available
42; 220; 913	12; 67; 244	9; 104; 347	# Parks; # Bldgs; # Units
2,950	1,742	1,781	Avg Unit Size
17	10	9	# Available Units
10,531	6,527	5,960	Largest Available Unit
5,531	3,230	4,631	Next Largest Available
2,408	2,523	2,205	Avg Size Available

Business Parks Comparison to Total Office Market

North Scottsdale, Surprise, Gilbert/SE Loop 202

North Scottsdale	Surprise	Gilbert/SE Loop 202	
Total Office Market		(10,000 SF+)	
82.30%	93.25%	85.33%	Occupancy %
18,730,195	1,755,858	5,849,310	Total Inventory
3,306,552	118,536	858,002	SF Available
672	115	401	# Buildings
Condo Business Parks			
98.20%	94.07%	96.79%	Occupancy %
2,693,200	425,068	617,970	Total Inventory
49,055	25,225	19,848	SF Available
220	67	104	# Buildings

Metro Phoenix Office Buildings

Submarket Occupancy

91%+ Occ	83 - 89% Occ	72 - 79% Occ
Gateway Airport / Loop 202	Arrowhead	44th Street Corridor (2)
Glendale (1)	Central Scottsdale (2)	Airport Area (5; 2 >200KSF)
Loop 303 / Surprise	Mesa Downtown (1)	Chandler (16)
Midtown / Central Phoenix	Mesa East (1>200KSF)	Deer Vly/Airpt (11; 3>200KSF)
N Phoenix / Cave Creek	N Scottsdale/Carefree	Downtown (6; 1>200KSF)
Northwest Outlying	North I-17	Midtown (8; 2>200KSF)
Pinal County	Paradise Valley	Northwest Phoenix (7)
Southwest Outlying	Piestewa Peak Corridor	Scottsdale Airpark (8)
Southwest Phoenix	Superstition Corridor (1)	Scottsdale South (5)
West I-10		South Tempe/Ahwatukee (8)
		Tempe (24; 5>200KSF)
521 bldgs; 19 Mill SF; 94%	843 bldgs; 30.4 Mill SF; 85%	1,841 bldgs; 119.5 Mill SF; 77%
	<i>Top 6 submarkets >10 Mill SF</i>	1,087 bldgs; 79.5 Mill SF; 76%
		19 Mill SF Vacant; 13>200K SF

Metro Phoenix Office Buildings

Largest Available Contiguous Block Sizes

SF Range	# of Buildings 3,205 SF Total	% of # Buildings With Availability	SF Available 119,503,374 SF Total	% of Total Availability
100% Occupied	2,062			
0 - 5,000 SF	516	45.1%	2,249,192	6.7%
5 - 10,000 SF	195	17.1%	2,716,626	8.1%
10-20,000 SF	182	15.9%	5,272,184	15.7%
20-50,000 SF	144	12.6%	8,434,683	25.1%
50-100,000 SF	59	5.2%	5,706,280	17.0%
100-200,000 SF	33	2.9%	4,859,996	14.5%
200,000+ SF	14	1.2%	4,323,337	12.9%
50-200,000+ SF	106	9.3%	14,889,613	44.4%
50+ Top 6 Submkt	73	6.4%	11,045,594	74.2%

In Summary

Not all offices are created equal –
Condos, Suite Sizes, Property Types, and Submarkets differentiate office property performance

- Office attendance is at 50% of Feb 2020 levels
- More transactions; smaller deal sizes
- Conversions increasing - from repurposing to reusing the land
- Loss of Status as a Reliable, Stable Institutional Investment as an Asset Class
- Institutions are selling off – often at a loss
- Medical office is still viewed favorably by Institutions
- Is this a Golden Opportunity for Contrarian Investors?
- Keep track of who are the buyers

In Summary

Not all offices are created equal – Condos, Suite Sizes, Property Types, and Submarkets differentiate office property performance

- North Scottsdale Office Condos are 98% occupied – while all offices are 82%
- This is the same across the valley – 94% in Surprise; 97% in Gilbert
- 19 office submarkets average 88% occ - 29% of the total
- 64% of all building are 100% occupied
- 711 buildings have contiguous blocks of less than 10K SF containing 15% of total availability
- 106 buildings have contiguous blocks of more than 50K SF, totaling 40% of availability
- The largest 6 submarkets contain 73 of these buildings, i.e., 74% of the more than 50K SF category



For any questions, please contact:

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