Phoenix Investment Sales

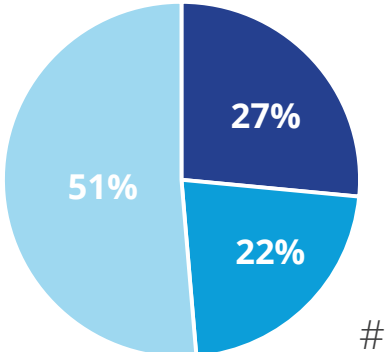
2023 Q2 Report

Quarterly Highlights

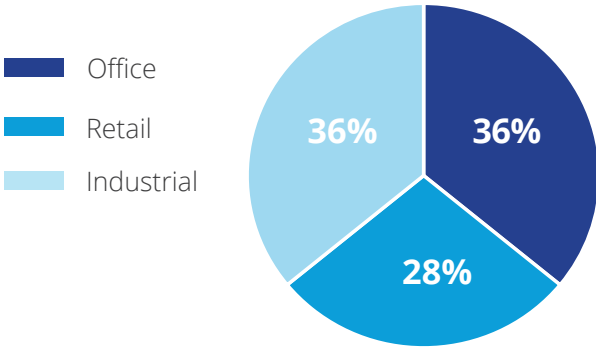
- Greater Phoenix hosted 2.4 million jobs at an unemployment rate of 3.0% at the end of 2Q2023, with a 2.0% increase in households year-over-year (YOY) of 1.9 million households. As of May 2023, Phoenix metro had expanded total nonfarm jobs by 80,200 employees compared to May 2022, a 3.5% increase.
- Industrial rental rates increased by 24.5% YOY ending at $1.01 NNN/Mo; with 3.9 million SF of positive net absorption during the quarter. 6.4 million square feet broke ground during 2Q2023, increasing the total amount of industrial space under construction to 49.3 million SF, a 40.2% YOY increase. Sale of industrial properties continue to be strong, albeit a bit slower than the frothy rate in 2021 and 2022.
- During 2Q2023, 62,244 SF of office space was absorbed following two quarters of negative absorption, resulting in direct office vacancy at 14.1%, and availability at its highest level in nine years. Amid year-to-date negative absorption and increases in vacancy, Phoenix continues to see increases in asking office rents. At $29.24 PSF, this is a 2.1% increase YOY for all office space; and a 2.8% increase in Class A rates at $32.32 PSF. These increases are bucking trends of other major U.S. markets.
- Despite high overall vacancy levels, certain types of offices are in very high demand and short supply. The office condominium marketplace that was overbuilt 15 years ago is fully absorbed and, in most submarkets, enjoys 96% to 98% occupancy levels. Similarly, medical offices find most vacancy in obsolete, older facilities, while well-designed medical offices enjoy high occupancy and growing rents.
- The Phoenix retail market is firing on all cylinders as of 2Q2023. The healthy labor market, growing consumer base, and positive demographic patterns are intensifying retail demand, and encouraging expansion. These factors supported the absorption of 4.1 million SF of net new retail space, the strongest 12-month period since the run-up to the Great Recession. Retail vacancy rates continue to be at all-time low levels, posting only 5.0% at the end of 2Q2023; and rental rates continue to climb – ending the quarter at $17.66 PSF, NNN – a 2.8% increase quarter-over-quarter.
- Encouraged by healthy fundamentals and attractive yields, investor interest in Phoenix retail properties is strong, but the “value-add” investor is frustrated given the high occupancy levels across the Valley.

Direct Quarterly Sales (over 20,000 SF & $1 M)

Total $ Spent



# of Sales



MINDY KORTH
Executive Vice President
Direct +1 602 222 5005
mindy.korth@colliers.com

JENNY BASSETT
Real Estate Analyst
Direct +1 602 222 5158
jenny.bassett@colliers.com

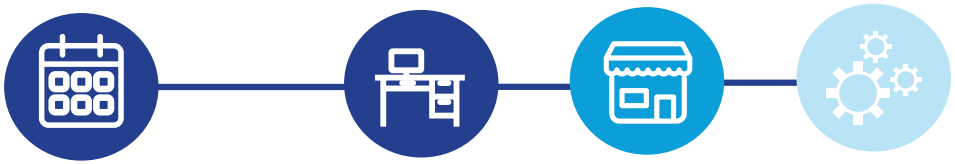
KELSEY ROBINSON
Client Services Coordinator
Direct +1 602 222 5041
kelsey.robinson@colliers.com

ALYSSA SMITH
Graphic Designer
Direct +1 602 222 5041
alyssa.smith@colliers.com

The Colliers Arizona Investment Properties Sales Team

Colliers | 2390 E Camelback Road, Suite 100 | Phoenix, AZ 85016
Main Phone: +1 602 222 5000
colliers.com | www.phoenixinvestment.properties

Monthly Snapshots



	Office	Retail	Industrial	Total
April				
TOTAL AMOUNT	$37,600,000	$32,700,000	$108,071,600	$178,371,600
PER SQUARE FOOT	$83	$153	$152	
NUMBER OF TRANSACTIONS	6	2	6	14
May				
TOTAL AMOUNT	$48,900,000	$73,237,826	$314,655,569	$436,793,395
PER SQUARE FOOT	$195	$200	$139	
NUMBER OF TRANSACTIONS	6	7	8	21
June				
TOTAL AMOUNT	$171,127,229	$109,267,303	$76,179,244	$356,573,776
PER SQUARE FOOT	$214	$157	$78	
NUMBER OF TRANSACTIONS	11	9	9	29
2nd Quarter				
TOTAL AMOUNT	$257,627,229	$215,205,129	$498,906,413	$971,738,771
PER SQUARE FOOT	$164	$170	$123	
NUMBER OF TRANSACTIONS	23	18	23	64

Market Makers

April

Office

1330 W Southern Ave
1330 W Southern Ave, Tempe, AZ
Size/Percent Leased: 150,000 SF / 83%
Sales Price: $13.3M ($89 PSF)

Retail

Superstition Springs Center
2060-2150 S Power Rd, Mesa, AZ
Size/Percent Leased: 94,258 SF / 93%
Sales Price: $16.7M ($177 PSF)

Industrial

The Cubes of Glendale, Bldg E
7421 N Reems Rd, Glendale, AZ
Size/Percent Leased: 570,080 SF / 0%
Sales Price: $82.7M ($145 PSF)

May

Chandler Midway Corporate Center, A
5740 W Chandler Blvd, Chandler, AZ
Size/Percent Leased: 20,944 SF / 100%
Sales Price: $5.5M ($260 PSF)

Gilbert Town Square
1144, 1166 S Gilbert Rd, Gilbert, AZ
Size/Percent Leased: 81,879 SF / 100%
Sales Price: $23.9M ($292 PSF)

GO-99 (3 blgs)
99th Ave and Buckeye Rd, Phoenix, AZ
Size/Percent Leased: 1,282,863 SF / 0%
Sales Price: $165.0M ($129 PSF)

June

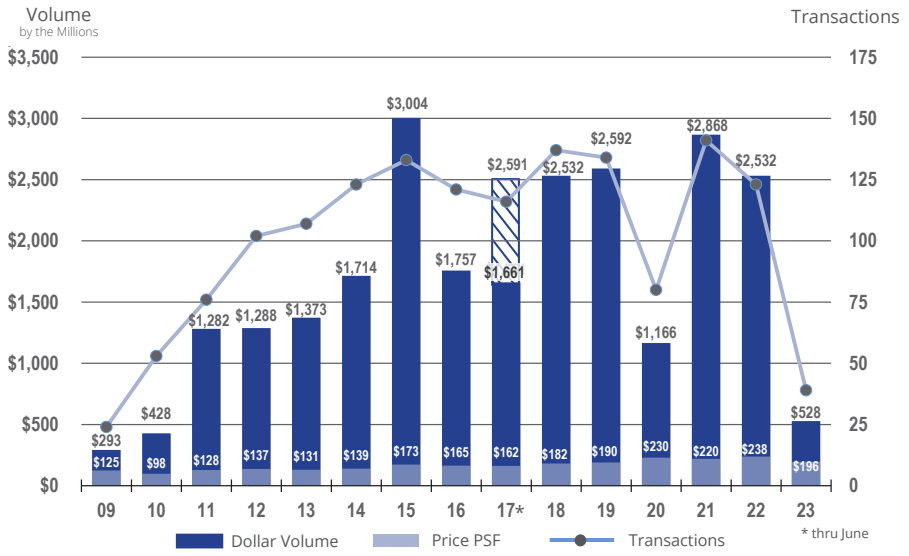
Scottsdale Financial Center I
4110 N Scottsdale Rd, Scottsdale, AZ
Size/Percent Leased: 109,968 SF / 96.1%
Sales Price: $44.0M ($400 PSF)

Arcadia Towne Center
4730-4748 E Indian School Rd, Phoenix, AZ
Size/Percent Leased: 69,497 SF / 98.4%
Sales Price: $25.3M ($364 PSF)

17 North Corporate Center
2335 Corporate Center Dr, Phoenix, AZ
Size/Percent Leased: 111,676 SF / 0%
Sales Price: $20.4M ($183 PSF)

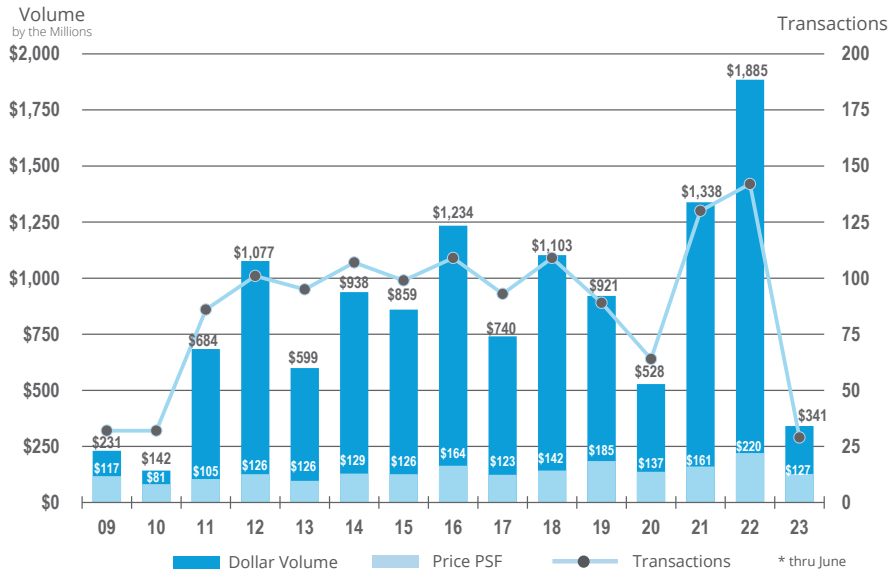
Historical Volume vs. Avg PSF and Number of Transactions

Office

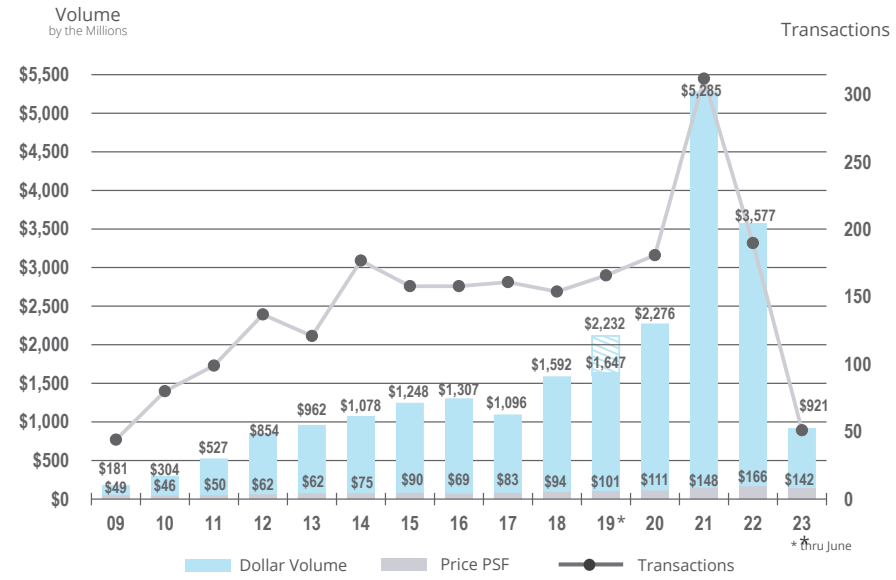


* 2017 sales exclude State Farm @ Marina Heights which if included totals $2.591 B; 117 sales; $211 PSF and if excluded totals $1.661 B; 116 sales; $162 PSF

Retail



Industrial



* 2019 sales exclude the GLP/Blackstone Group portfolio, which if included would total $2,232B; 177 sales; $103 PSF and if excluded would total $1.647B; 166 sales; $101 PSF

Trend Spotting

Interest Rates! Hmmm. Are they really too high?

Two amazingly astute structured finance professionals recently brought to my attention that the 50-year average of 10-year treasuries is 6%. Doubting their accuracy, I decided to visit the daily chart that goes back to 1963 and run the math. Sure enough, the historical average from 1973-2023 is 6%. Today the 10-year is about 4%, so we are still at two-thirds the 50-year average. Many investors think rates are way above normal, and rates will come down within the next 2 years, so they are using shorter loans, or delaying investment decisions. These same astute professionals also were careful to say they made a mess of things whenever they tried to predict interest rate movement, and they learned (sometimes the hard way) the best approach is to make business decisions based upon current conditions. If you want to see the 10-year treasury averages in 5-year increments going back 60 years, just let me know and I'll send it to you!

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