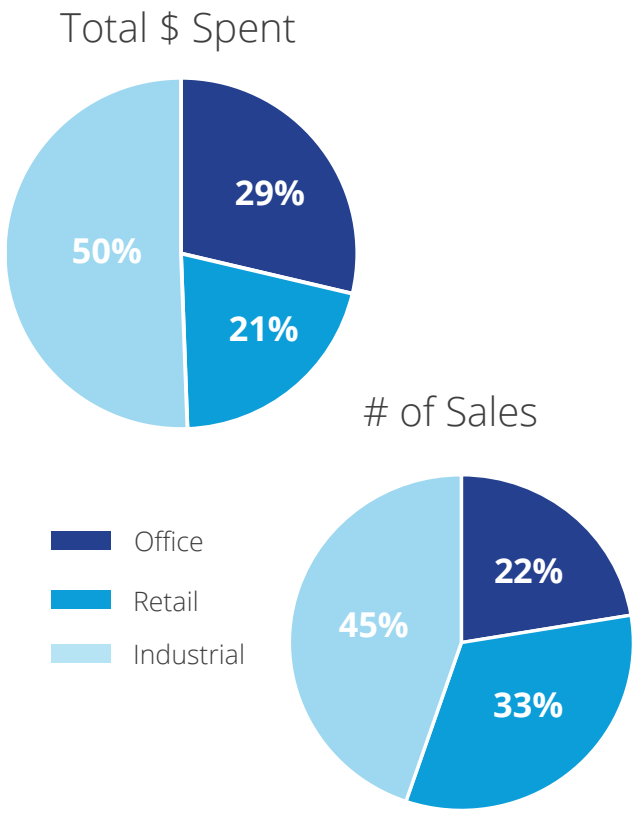
# Phoenix Investment Sales

## 2023 Q3 Report

## Quarterly Highlights

- At the end of 3Q2023, Phoenix metro had expanded its labor force by 57,000 employees compared one year earlier, resulting in 2.4 million jobs and an unemployment rate of 3.3%
- Households and household incomes both improved year-over-year, by 2.1% (1.9 million households) and 4.0% ($81,300 household incomes), respectively
- Direct office vacancy rose in the third quarter to 14.7%, marking an increase of 60 bps quarter-over-quarter, while average rents grew again, to $29.34 PSF, a 2.16% year-over-year increase.
- Despite this overall office vacancy, 64% of all offices larger than 10,000 SF are 100% leased; and more than 700 buildings can accommodate only less than 10,000 SF, 15% of availability. Much of the availability is in large contiguous blocks within a small number of buildings – 40% of the availability is contained in 106 buildings that have contiguous blocks of more than 50,000 SF.
- The industrial market remains the top-performing sector in Phoenix. However, due to the prolonged delays of construction, the third quarter had an avalanche of product deliver simultaneously. The third quarter delivered 12.04 million SF, marking the highest amount of product ever delivered in a single quarter. The deliveries help propel net absorption to achieve another positive quarter, ending at 4.02 million SF, and increased vacancy to 5.6%. Rental rates have increased 17.7% from a year earlier, at $1.03 NNN.
- The industrial construction pipeline of 45.6 million SF (76% of which is distribution) has recently seen slower construction starts as developers delay ground breakings to allow the absorption and capital markets to settle.
- Retail has continued to post positive absorption, high occupancy, growing rental rates, and pre-leased new supply. At the end of the third quarter, occupancies across Phoenix were 95.5%, and rents grew by 3.8% to $16.35 year-over-year. With 1.4 million SF under construction, there has been 2.5 million SF of absorption, and 1.1 million SF of new deliveries year to date.
- Retail property sales have slowed from the record year in 2022, mostly due to lack of supply, mixed with offerings not clearing the market due to cost of capital disruptions. Numerous institutional investors are actively seeking retail properties, yet 84% of buyers and 92% of sellers of retail property have been private capital investors. The multi-tenant properties that sold during the third quarter were fully occupied and ranged in cap rates from 6.0% to 7.8%.

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





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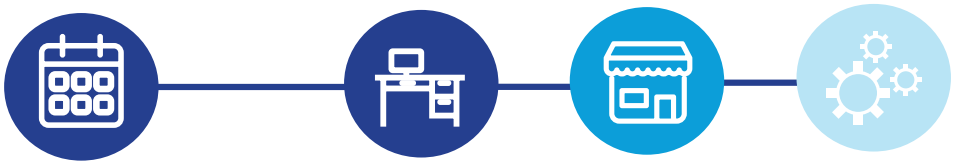
# Monthly Snapshots



| July | Office | Retail | Industrial | Total |
|---|---|---|---|---|
| TOTAL AMOUNT | $114,638,000 | $61,224,852 | $234,089,496 | $409,952,348 |
| PER SQUARE FOOT | $107 | $163 | $97 | |
| NUMBER OF TRANSACTIONS | 6 | 7 | 7 | 20 |
| **August** | | | | |
| TOTAL AMOUNT | $22,795,000 | $54,090,000 | $213,545,692 | $290,430,692 |
| PER SQUARE FOOT | $161 | $175 | $148 | |
| NUMBER OF TRANSACTIONS | 5 | 5 | 17 | 27 |
| **September** | | | | |
| TOTAL AMOUNT | $140,050,000 | $85,276,500 | $41,735,000 | $267,061,500 |
| PER SQUARE FOOT | $229 | $202 | $193 | |
| NUMBER OF TRANSACTIONS | 4 | 10 | 6 | 20 |
| **3rd Quarter** | | | | |
| TOTAL AMOUNT | $277,483,000 | $200,591,352 | $489,370,188 | $967,444,540 |
| PER SQUARE FOOT | $166 | $180 | $146 | |
| NUMBER OF TRANSACTIONS | 15 | 22 | 30 | 67 |

# Market Makers

## July

### Office

**One Arizona Center**
400 E Van Buren St, 455 N 3rd St, Phoenix, AZ
Size/Percent Leased: 556,105 SF / 44.0%
Sales Price: $27.0M ($49 PSF)

### Retail

**Plaza 32**
3205-3329 E Bell Rd, Phoenix, AZ
Size/Percent Leased: 173,303 SF / 81.0%
Sales Price: $31.3M ($181 PSF)

### Industrial

**Hatcher Industrial Park**
15101, 15151 W Hatcher Rd, Waddell, AZ
Size/Percent Leased: 906,125 SF / 0%
Sales Price: $92.7M ($102 PSF)

## August

**Desert North Commerce Center**
42201, 42211 N 41st Dr, Phoenix, AZ
Size/Percent Leased: 52,027 SF / 89.9%
Sales Price: $7.9M ($151 PSF)

**My Florist Plaza**
1601-1607 N 7th Ave, Phoenix, AZ
Size/Percent Leased: 21,933 SF / 100.0%
Sales Price: $10.5M ($479 PSF)

**TA Realty to ViaWest Group Portfolio**
6 locations throughout Metro Phoenix
Size/Percent Leased: 586,915 SF / 100.0%
Sales Price: $105.5M ($180 PSF)

## September

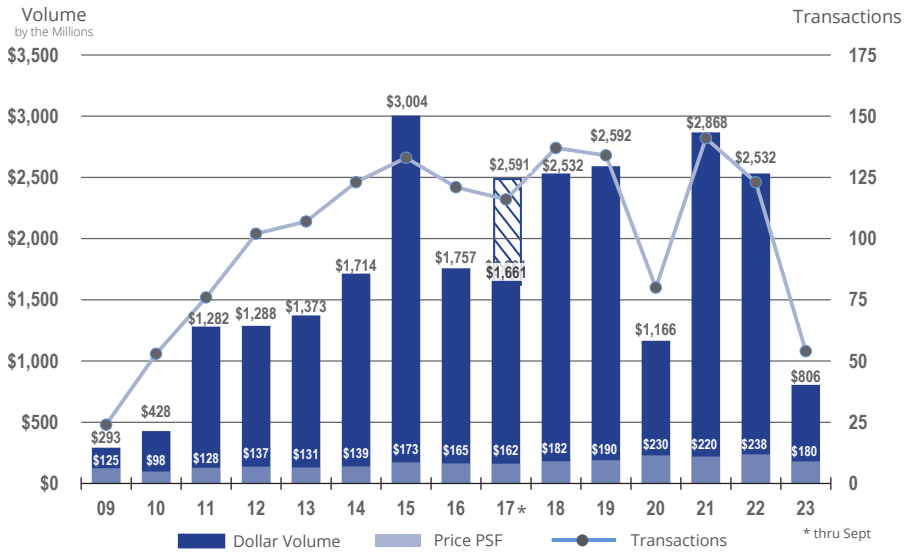
**Scottsdale Financial Center I**
4110 N Scottsdale Rd, Scottsdale, AZ
Size/Percent Leased: 109,968 SF / 96.1%
Sales Price: $44.0M ($400 PSF)

**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)

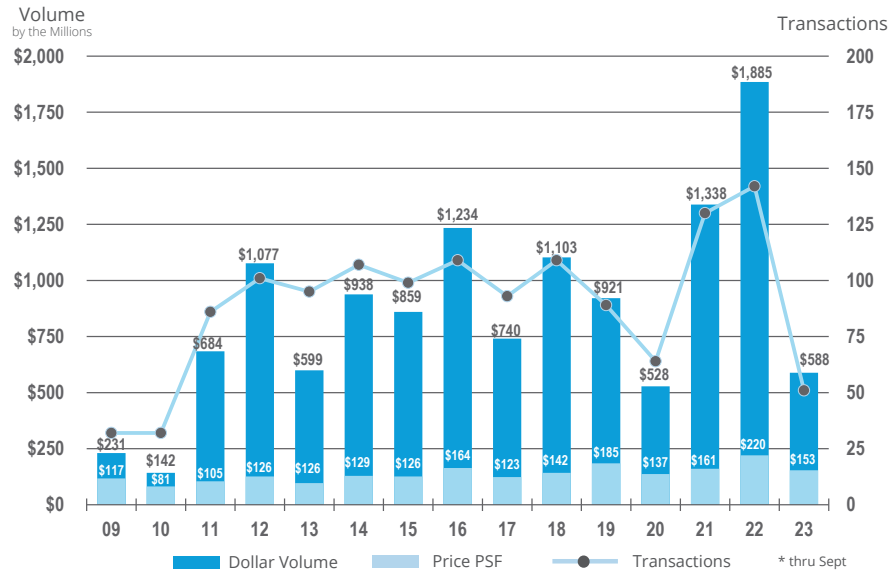
# Historical Volume vs. Avg PSF and Number of Transactions

## Office

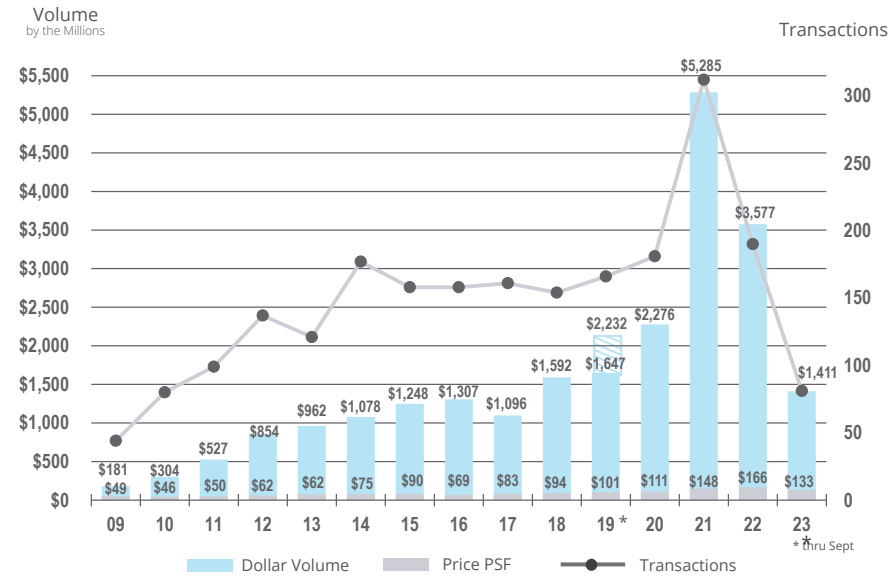



* 2017 sales exclude State Farm @ Marina Heights which if included totals $2.591 B; 117 sales; $211 PSF and if excluded totals $1.661 B; 116 sales; $162 PSF

## 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

### What are Institutional Investors Buying and Selling?

We evaluated the purchases and sales by institutional investors of office, industrial, and retail income properties from 2020 thru 3Q2023, and will be issuing our report shortly. We found some obvious, but also not-so-obvious trends. Obvious is that purchases of industrial properties accounted for 78% of all institutional transactions thru 3Q2023, growing from an average of 60% during 2020-2022; while offices accounted for 57% of all institutional sales thru 3Q2023, averaging 89% of the per square foot of all offices sold. Not so obvious trends include: institutions are holding onto their retail properties, having sold only 12 properties during this almost four year period; they are also holding onto their industrial properties more so in 2023 than in previous years, only representing 28% of industrial sales where in the previous three years they averaged 44%; and institutions only purchased 5 offices in 2023, of which 4 were medical, and 3 were anchored by Banner. Look for our full report coming soon.

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