Phoenix Investment Sales

2024 Q3 Report

Quarterly Highlights

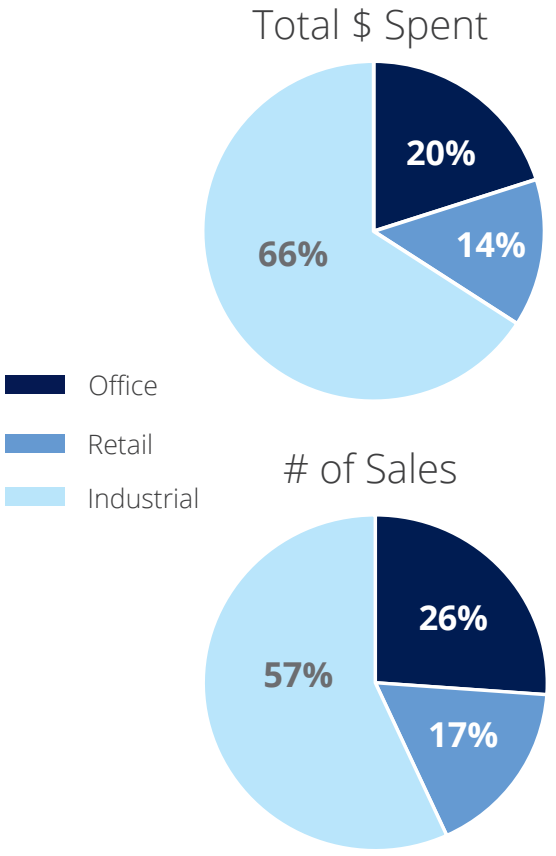
As of August 2024, Phoenix metro had expanded its labor force by 53,400 employees, a 2.2% increase year-over-year (Y-O-Y). Arizona Commerce Authority (https://www.azcommerce.com/) provides up-to-the-minute resources while advancing Arizona's economy as a premier technology hub.

Despite strong Class A leasing momentum, office vacancy rose again to 15.4% with various subleases rolling to direct availability. Vacancy is concentrated in 73 fully vacant buildings (5.4 million square feet (SF), i.e. 21.4% of total availability). Five submarkets (DT North, DT South, Chandler, Northwest, and S Tempe/Ahwatukee) contained 40% of the total vacancy. Rental rates averaged $29.84 PSF overall, a 1.7% Y-O-Y increase. Class A rates rose by 3.6% Y-O-Y to $33.58 PSF, with the Camelback Corridor at $41.77 PSF, growing by 4.3% Y-O-Y. 381,480 SF of office development completions year-to-date (YTD) were offset by three buildings being removed from office inventory for reuse as industrial or multi-family sites. More office conversions are on the horizon.

During the third quarter, 6.7 million SF of new industrial inventory was added, bringing the YTD deliveries to 26.8 million SF. With the rate of deliveries continuing to outpace net absorption, and only 20.5% of this new inventory pre-leased, the industrial vacancy rate increased to 10.1%, a 4.5% Y-O-Y increase. Interesting, the overall vacancy in buildings built pre-2024 is 6.5%, and buildings built pre-2023 were 3.4% vacant. The Northwest and Southwest clusters continue to dominate the development and leasing activity, representing 81% of the SF under construction and nearly 85% of the YTD net absorption. Investment sales volume peaked over $1 billion in the third quarter, more than double the sales of 3Q 2023. The YTD sales volume of just over $2 billion, is a 45% increase compared with the YTD through 3Q 2023.

Retail availability became even tighter this quarter, to a historic low of 3.9% - creating shortages and enabling rapid rental growth. Rents have grown 5.32% Y-O-Y, with major gains in North Scottsdale and the West Valley. At this point, most net absorption growth is from new development around the valley's outer perimeter at rental rates that support higher construction costs. Only 967,000 SF of new development has been delivered YTD, which was 80% pre-leased before delivery; and only 2.2 million SF of retail space is under construction, also substantially pre-leased. We predict shortages in availability and accelerated rent growth to continue. Of the 15 retail sales during the third quarter, seven were fully occupied and five were more than 95% occupied, resulting in an average $208 PSF. Cap rates remained stable.

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



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
Senior 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

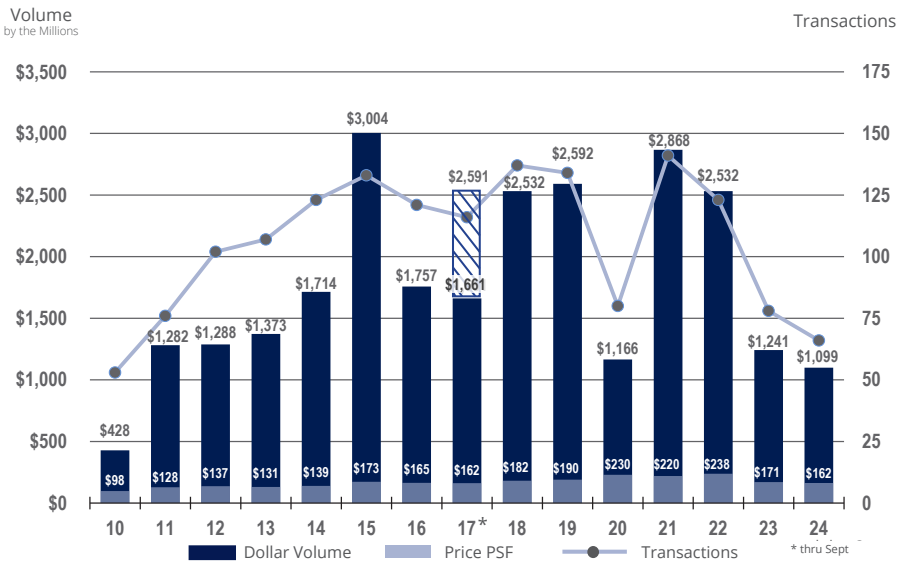
July	Office	Retail	Industrial	Total
TOTAL AMOUNT	$148,322,522	$44,265,000	$408,105,304	$600,692,826
PER SQUARE FOOT	$208	$133	$127	
NUMBER OF TRANSACTIONS	11	5	17	33
August				
TOTAL AMOUNT	$118,909,500	$143,400,000	$366,269,899	$628,579,399
PER SQUARE FOOT	$178	$235	$190	
NUMBER OF TRANSACTIONS	8	8	15	31
September				
TOTAL AMOUNT	$51,438,488	$35,750,000	$270,967,500	$358,155,988
PER SQUARE FOOT	$116	$277	$130	
NUMBER OF TRANSACTIONS	4	2	18	24
3rd Quarter				
TOTAL AMOUNT	$318,670,510	$223,415,000	$1,045,342,703	$1,587,428,213
PER SQUARE FOOT	$174	$208	$145	
NUMBER OF TRANSACTIONS	23	15	50	88

Market Makers

	Office	Retail	Industrial
July			
	DOC REIT MOB Portfolio 3 Properties in Metro Phoenix, AZ Size/Percent Leased: 238,849 SF Sales Price: $70.8M ($296 PSF)	**Bell Tower Village** 4907-4965 W Bell Rd, Glendale, AZ Size/Percent Leased:166,823 SF / 92.1% Sales Price: $23.2M ($139 PSF)	**Falcon Park 303 - Phase II** 15152 W Camelback Rd, Litchfield Park, AZ Size/Percent Leased: 326,018 SF / 100.0% Sales Price: $50.0M ($153 PSF)
August			
	CVS Health Corporation 9501 E Shea Blvd, Scottsdale, AZ Size/Percent Leased: 366,513 SF / 100% Sales Price: $71.5M ($195PSF)	**Queen Creek Crossing** 20004, 20008, 20062 S Ellsworth Rd, Queen Creek, AZ Size/Percent Leased: 50,741 SF / 100% Sales Price: $31.7M ($626 PSF)	**Artis to EQT Exeter Portfolio** 15 Bldg AZ / MN portfolio (12 bldgs in AZ) AZ Size/Percent Leased: 833,619 SF / 100% AZ Sales Price: $151.7 M ($182 PSF)
September			
	Canyon Corporate Plaza 2510 W Dunlap Ave, Phoenix, AZ Size/Percent Leased: 311,706 SF / 4% Sales Price: $21.4M ($27 PSF to Land)	**Paradise Hills Shopping Center** NWC of Shea Blvd and 32nd St, Phoenix, AZ Size/Percent Leased: 83,787 SF / 97% Sales Price: $16.8M ($201 PSF)	**General Dynamics** 8201 E McDowell Rd, Scottsdale, AZ Size/Percent Leased: 850,000 SF / 100% Sales Price: $61.1 M ($72 PSF)

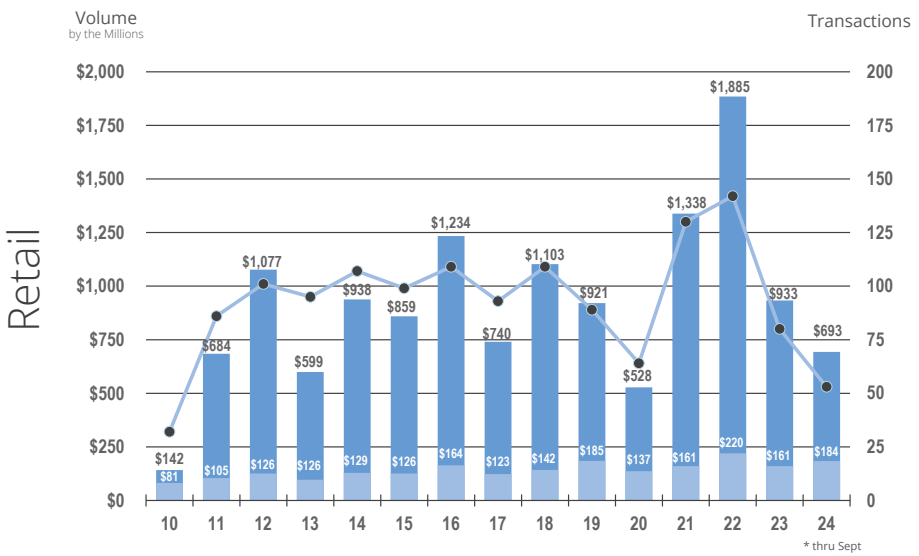
Historical Volume vs. Avg PSF and Number of Transactions

Office

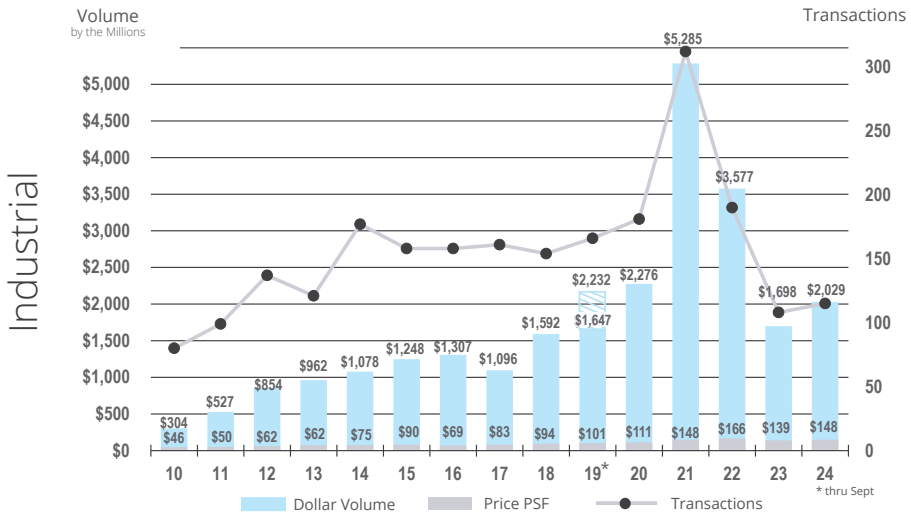


* 2017 sales exclude State Farm @ Marina Heights which if included totals $2.591 B; 117 sales; $211 PSF and if excluded totals $1.661 B; 116 sales; $162 PSF

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

Short Term Rate Reductions DO NOT Automatically Reduce Cap Rates

A 50-bps cut in the Fed Funds Rate doesn't automatically equate to a 50-bps reduction in cap rates. In fact, since October, the 10-year US Treasury Rate has risen by 60 basis points, closing at 4.41% on November 22, 2024, **despite** the Federal Fund Rate combined 50-bps reduction. Prior to that, the Fed Fund Rate increased from 0.25% to 5.50% in the space of 16 months, then held steady at that level for 14 months until September when euphoria set in with a reduction to 5.25%. That is still a far distance from 0.25%. And while the Fed Funds Rate made headlines, for real estate investors, the true impact on acquisition financing came from the 10-year US Treasury Rate which climbed from under 2.0% in early 2023. Acquisition loans are tied to long-term rates, and bond rates don't always move in tandem with the Fed's over-the-counter lending rate. To ensure smooth, successful transactions, we take into account all factors that influence property value, investor appetite, and capital markets. We're here to advise you, and navigate it together.

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