



# Phoenix

- In Q3 2024, the total vacancy rate decreased by 10 basis points to 25.1%, marking the first decline since Q4 2019.
- Total office inventory in the Phoenix market declined year-to-date due to recent conversions and less construction.
- Sublease vacancy and availability rates fell to the low-5% and mid-6% range, respectively, indicating an ongoing and gradual recovery in the sublease market.
- Direct asking rents rebounded, increasing 3.1% year-to-date, with strong demand for amenity-rich spaces and positive net absorption in key submarkets.

The Phoenix office market continued to stabilize into the third quarter of 2024. The total vacancy rate decreased by 10 basis points to 25.1%, the first decline since Q4 2019. This marginal change in vacancy rate resulted from a decrease in overall inventory, as some existing properties with elevated vacant space were recently converted. Although negative net absorption continued this quarter, it was significantly reduced compared with previous periods.

The sublease market showed positive trends, with declining vacancy and availability rates. Notably, the sublease vacancy rate declined 80 basis points year-to-date to 5.0% as of the latest quarter. Part of this improvement reflected the transition of unleased sublease space reverting to direct vacancies. Despite this transition, the direct vacancy rate remained relatively stable at 20.1%, showing minimal quarter-over-quarter change. Overall, the sublease market appeared to reach its weakest point in the second half of 2023 and continued to gradually recover through Q3 2024.

A slowdown in moveouts and lease expirations mitigated occupancy losses in Q3 2024, while pre-built spaces and high-quality subleases attracted ongoing interest. Additionally, demand remained strong for amenity-rich spaces, with positive absorption trends in key submarkets. Direct asking rents rebounded, increasing 3.1% year-to-date after a moderate decline earlier this year.

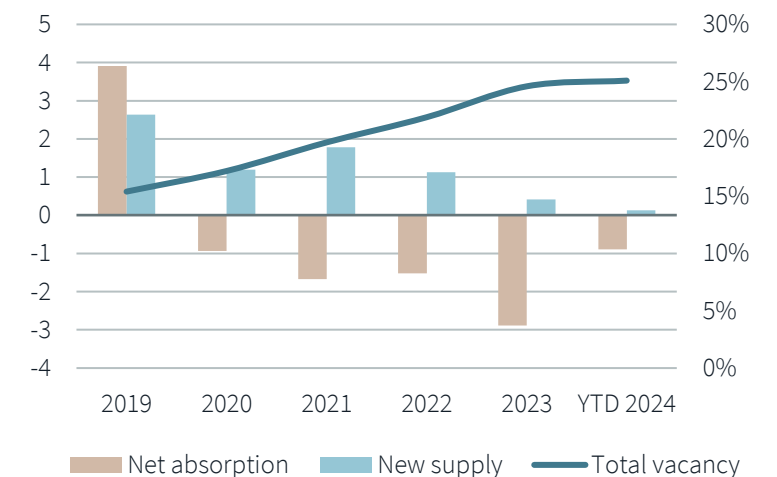
## Outlook

The recent Federal Reserve rate cut of 50 basis points in September and expected future cuts should ease market financial stress. Office footprint trends are expected to stabilize with the ongoing slowdown in downsizing and moveout activity as businesses encourage a complete return to the office. Despite lingering challenges with negative net absorption, recent stabilization in the overall vacancy rate is promising. The moderate uptick in office conversions could reduce the surplus of outdated space, which contribute to elevated vacancy levels in the Phoenix market.

| Fundamentals                      | Forecast       |   |
|-----------------------------------|----------------|---|
| <b>YTD net absorption</b>         | -890,546 s.f.  | → |
| <b>Total vacancy</b>              | 25.1%          | → |
| <b>Class A direct asking rent</b> | \$34.79 p.s.f. | ↑ |
| <b>Overall direct asking rent</b> | \$30.72 p.s.f. | ↑ |
| <b>Concessions</b>                | Stable         | → |
| <b>Under construction</b>         | 236,652 s.f.   | ↓ |
| <b>Preleased</b>                  | 100%           | → |

## Historical supply and demand trends

s.f. (millions)





COPYRIGHT © JONES LANG LASALLE IP, INC. 2024

This report has been prepared solely for information purposes and does not necessarily purport to be a complete analysis of the topics discussed, which are inherently unpredictable. It has been based on sources we believe to be reliable, but we have not independently verified those sources and we do not guarantee that the information in the report is accurate or complete. Any views expressed in the report reflect our judgment at this date and are subject to change without notice. Statements that are forward-looking involve known and unknown risks and uncertainties that may cause future realities to be materially different from those implied by such forward-looking statements. Advice we give to clients in particular situations may differ from the views expressed in this report. No investment or other business decisions should be made based solely on the views expressed in this report.