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Phoenix Office Rents Up 10% in Q1

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Phoenix is one of the fastest growing office markets in the country. In the first quarter, office rents increased 10% year-over-year, and in 2018, rents increased 4.2%, according to research from **Avison Young**. The first quarter marketed 23 consecutive quarters of growth as well as positive absorption. Job and population growth are behind the strong activity, and this demand will likely continue to attract new companies and fill new construction supply as it comes to market.

"Strong job growth has fueled demand for office space, which outpaced new supply in 2018. With over 600,000 square feet of net absorption recorded in the 1st quarter of this year, robust demand is continuing," **Mark Seale**, principal and director of brokerage services at Avison Young, tells Globest.com. "Although over 2 million square feet is currently in the construction pipeline there is more than double that in user activity looking for space in the market. Net absorption has outpaced new supply since 2011, pushing vacancy down from its recessionary peak in second quarter of 2008 of 26.2% to 15.5% in at the end of first quarter 2019."

Mark Seale

It is important to note that the Phoenix office market isn't only growing but it is also developing a dynamic mix of companies—which boosts economic stability. While there is a growing tech market, financial services firms also continue to migrate and expand in the market. "Growing tech companies as well as mature financial services firms continue to be drivers by taking big blocks of space," says Seale. "Voya Financial, Northern Trust, JP Morgan Chase and Allstate are all examples of financial companies who have expanded here. In terms of tech, Freedom Financial expanded into another 150,000 square feet recently. Also, Deloitte Technology Services, Clearlink, Grubhub, Amazon, Ring, DoorDash and Go Daddy have been growing in the tech space."

In the last couple of years, co-working operators have also expanded in the market, adding yet another facet. "We are also seeing co-working firms expand here. Co-working firms that have done recent deals include Infusionsoft, Industrious, Workuity, WeWork and Novel Coworking," says Seale.

Seale has a positive outlook for continued growth; however, he does have some concerns. One is the cost of construction and shortage of construction labor, which could stall new development and subsequently new corporate growth. "A shortage of construction labor and an increase in material costs could be the only impediment to continued growth over the next 12 months," he says. "At the end of 2018, 1.4 million square feet of signed leases were ready to occupy in 2019. According to the Arizona Office of Economic Opportunity, Maricopa County is predicted to add another 138,457 jobs between now and the end of the second quarter of 2020."

Despite this concern, Seale expects net absorption to be on par with last year, although new office deliveries could push vacancy rates up. "Net absorption should stay strong for 2019 similar to 2018 around two million square feet, however with approximately 2.5 million square feet coming online, vacancy may increase slightly," he adds. "Rental rates should increase moderately as new construction reaches its peak."

***Kelsi Borland** is a freelance writer and editor living whose work has appeared in such publications as Travel + Leisure, Angeleno and Riviera Orange County.*