



Phoenix

Q1 2018 / Quarterly Retail Market Report

Market Facts

 **9.0%**
Shopping Center Vacancy

 **4.2%**
Freestanding Vacancy

 **\$14.65**
Shopping Center
Average Asking Rate

 **\$17.83**
Freestanding
Average Asking Rate

 **\$208**
Average Sale
Price/Square Foot

 **6.7%**
Retail Average CAP Rate

Top Leases

Tenant	Building	Submarket	Square Feet	Type
Joann Fabrics	3131 E Indian School Rd	Central Scottsdale	16,000	Shopping Center
New Look Collision	15450 N 84th St	North Scottsdale	15,620	Freestanding
Party City	1755 N Pebble Creek Pky	N Goodyear/ Litchfield	15,068	Shopping Center
RideNow Powersports	11470 N Dysart Rd	Glendale	15,611	Shopping Center
BPL	13530 W Van Buren St	Goodyear	13,000	Shopping Center

Top Sales

Buyer	Building	Submarket	Square Feet	Sale Price	Price/ SF
Brixton Capital LLC	1533 N Dysart Rd	N Goodyear/ Litchfield	84,137	\$18,887,931	\$224
Samaritan Medical Center	4750 E Indian School Rd	Central Scottsdale	57,618	\$18,300,000	\$318
Talavi Bell LLC	5715 W Bell Rd	Central Peoria/ Arrowhead	72,500	\$18,058,469	\$249
Retail Realty Fund	717 Grand Ave	Downtown Phoenix	36,000	\$8,730,000	\$243
DPC Development Company	7000 E Shea Blvd	Central Scottsdale	63,388	\$6,994,538	\$110

Market Overview

The Phoenix retail market expanded to over 229 million square feet (msf), with the first quarter vacancy rate dropping to 7.5%, 30 basis points lower than fourth quarter 2017, and well below the peak of 12.2% in third quarter 2011. Average rental rates decreased slightly to \$15.28 per square foot (psf) in the first quarter 2018, down from \$15.32 in fourth quarter 2017 and up from \$15.19 psf in third quarter 2017. 867,378 sf was absorbed in the first quarter, and leasing activity exceeded 884,000 sf. The retail



market is benefitting from several factors: year-over-year average hourly earnings increased 3.0% in February 2018, and overall personal income is forecasted to increase by at least 6.4% annually over the next three years. Retail sales in Phoenix now exceed pre-recession levels and continue to grow, with December 2017 sales increasing 4.5% compared to December 2016. Through 2021, retail sales are projected to grow 5.1% to 6.6% annually.

Market Snapshot

Taking into consideration rising employment and population growth in the Metro Area, the Phoenix retail market is poised to remain strong throughout the current economic cycle.

The Red Mountain/Mesa Submarket reported the highest absorption in the first quarter with 357,172 sf of positive absorption, approximately 41% of the market's positive absorption. Central Scottsdale had the highest combined asking rent of the major submarkets at \$23.82 psf, due to its many upscale shopping destinations. In submarkets with over 1 msf, South Buckeye's 1.8% vacancy rate was the lowest. Of the eight submarkets with over 10 msf, the Central Scottsdale Submarket is the healthiest, with shopping center vacancy at 6.8%, freestanding vacancy at 4.4%, and rental rates of \$22.76 (shopping center) and \$26.05 (freestanding). Central Peoria/Arrowhead was the

only submarket to have lower vacancy rates, albeit with substantially lower rents.

227,418 sf of new retail construction was delivered in the Phoenix retail market in first quarter 2018, with only 16.1% vacancy. Nearly 1.1 msf of retail space is currently under construction in the region with 64.2% already preleased.



Pamilla Center at 1533 N Dysart Road

Transaction activity continued to slow in fourth quarter 2017. One of the largest sales was Palmilla Center at 1533 N. Dysart Road in Avondale totaling 84,137 sf, which sold for \$18.9 million or approximately \$224 psf.

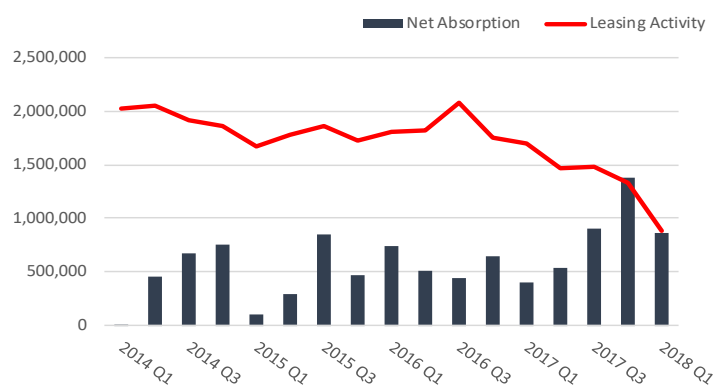
The number of deals was down 22.2% from fourth quarter 2017, dollar volume only declined 7.6%, total square footage decreased 34.0%; the price psf increased 26.1% to \$208 psf with an average cap rate of 6.7%, higher by

40 basis points. Other large sales in the first quarter include Samaritan Medical Center's purchase of 57,618 sf at 4750 E. Indian School Road for \$18.3 million or \$318 psf; and Talavi Bell LLC acquired 72,500 sf at 5715 W. Bell Road for \$18.1 million, or \$249 psf.

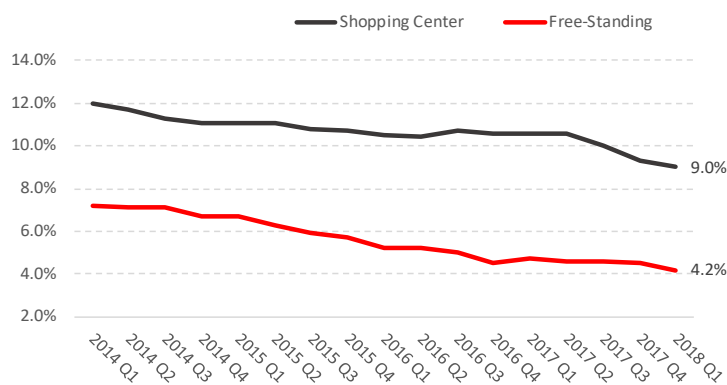
The resurgent regional economy continues to support the strong fundamentals in the Phoenix retail market, inspiring

increasing rental rates, declining vacancy and growing investment. While retail companies continue to evolve in the age of e-commerce, Maricopa County, as reported by the U.S. Census Bureau, is the fastest-growing county in the U.S, and comments in February 2018's Commercial Executive Magazine indicate that Phoenix retail is expected to remain healthy and continue expanding through 2018.

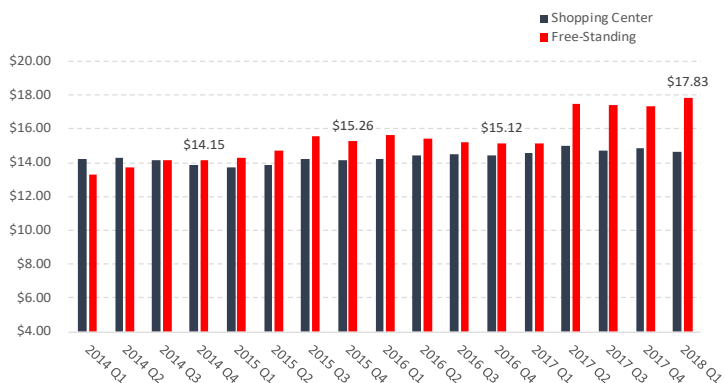
Historical Net Absorption & Leasing Activity



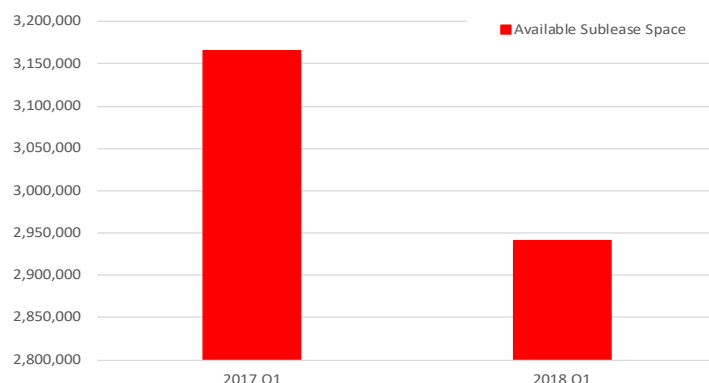
Historical Vacancy



Historical Asking Rental Rate (FSG)



Total Available Sublease Space in the Market



Market By The Numbers

Market	Total RBA (SF)	Vacancy Space Direct	Vacancy Space Sublease	Vacancy Rate Shopping Center	Vacancy Rate Free-Standing	Available Space Direct	Available Space Sublease	Net Absorption (SF)	Avg. Ask Total (NNN)	Avg. Ask Shopping Center (NNN)	Avg. Ask Free-Standing (NNN)
Ahwatukee Foothills	3,428,061	286,164	6,005	9.7%	2.6%	239,339	6,005	652	\$17.88	\$17.82	\$18.47
Airport Area	3,930,596	215,342	0	7.4%	2.7%	190,342	0	-3,066	\$18.22	\$18.80	\$16.99
Anthem	2,686,780	106,474	0	3.6%	4.6%	103,178	0	42,862	\$16.59	\$17.80	\$14.67
Apache Junction	1,940,946	88,469	15,251	5.9%	4.8%	88,469	15,251	-1,635	\$11.65	\$11.78	\$10.93
Carefree	1,827,937	186,482	27,015	13.1%	8.7%	186,482	27,015	-30,775	\$15.93	\$15.82	\$17.00
Central Scottsdale	16,086,173	974,533	33,559	6.8%	4.4%	942,255	33,559	-85,938	\$23.82	\$22.76	\$26.05
Chandler	17,304,095	1,066,068	24,470	7.7%	1.9%	1,039,480	24,470	65,197	\$16.64	\$16.39	\$18.15
Central Peoria/Arrowhead	10,329,223	474,661	25,336	5.7%	1.2%	158,009	25,336	46,850	\$16.85	\$16.17	\$24.71
Deer Valley	2,081,574	76,111	20,032	4.5%	5.1%	76,111	20,032	13,560	\$20.86	\$20.86	-
Downtown Phoenix	7,571,378	765,960	2,750	17.3%	6.5%	759,860	2,750	-3,586	\$16.51	\$13.31	\$18.72
East Phoenix	8,720,660	800,149	25,652	13.4%	3.2%	692,518	25,652	43,095	\$15.71	\$14.13	\$19.23
Fountain Hills	750,497	79,002	0	8.8%	12.2%	77,802	0	-1,743	\$12.99	\$14.92	\$11.46
Gateway Airport	2,874,778	169,841	0	7.0%	0.9%	166,880	0	5,658	\$18.24	\$18.70	\$14.57
Gilbert	15,545,339	958,456	54,843	7.6%	3.5%	892,023	54,843	52,086	\$19.09	\$18.69	\$21.92
Glendale	11,567,660	975,305	33,207	11.0%	4.1%	955,415	33,207	25,116	\$12.11	\$12.07	\$12.57
Goodyear	3,483,822	239,300	17,876	8.7%	3.3%	236,629	0	66,372	\$14.21	\$14.05	\$14.92
Laveen	1,394,764	72,080	0	5.6%	0.0%	70,738	0	3,300	\$15.73	\$14.80	\$30.00
Loop 101/I-10	2,946,984	211,284	0	8.5%	4.9%	202,076	0	27,528	\$18.89	\$21.08	\$15.80
North Goodyear/Litchfield	5,160,719	282,735	0	6.1%	3.0%	243,539	0	-12,814	\$15.75	\$15.54	\$17.07
North Phoenix/I-17 Corridor	16,469,001	2,221,562	52,902	17.2%	5.6%	2,218,902	52,902	-2,575	\$12.18	\$12.16	\$12.32
North Buckeye	63,968	0	0	0.0%	0.0%	0	0	0	\$25.00	-	\$25.00
North Scottsdale	15,108,702	987,925	3,300	7.1%	5.2%	980,410	3,300	-12,185	\$22.86	\$21.28	\$26.00
Outlying Pinal County	8,216,545	487,241	34,959	8.2%	3.9%	481,371	34,959	97,052	\$11.88	\$12.03	\$11.31
Queen Creek	1,651,813	59,005	0	3.9%	1.3%	53,397	0	-15,805	\$18.96	\$19.69	\$12.00
Red Mountains/Mesa	30,073,249	2,765,010	77,819	11.3%	5.5%	2,730,922	77,819	357,172	\$13.07	\$12.96	\$13.50
South Buckeye	1,480,859	26,233	0	1.9%	1.5%	21,384	0	-14,971	\$22.81	\$22.81	-
South Mountain	1,774,602	174,728	1,400	13.3%	1.5%	174,728	1,400	-7,212	\$18.01	\$17.43	\$22.70
South Phoenix	1,678,412	65,601	0	5.7%	2.8%	65,601	0	-9,776	\$13.26	\$14.22	\$11.63
South Scottsdale	3,906,245	208,601	6,777	9.2%	3.6%	208,601	6,777	29,008	\$14.67	\$13.63	\$15.41
Sun City	3,634,151	371,280	0	16.6%	2.7%	364,723	0	30,468	\$11.80	\$11.32	\$16.61
Surprise/North Peoria	5,415,886	359,697	3,145	7.8%	2.2%	352,411	3,145	41,833	\$13.09	\$13.11	\$9.00
Tempe	8,359,206	442,313	4,271	6.4%	3.0%	436,565	4,271	82,356	\$20.35	\$16.44	\$30.91
Tolleson	2,683,544	135,022	50,000	8.4%	4.7%	123,498	50,000	17,780	\$15.49	\$14.87	\$16.85
West Outlying Maricopa	784,846	35,424	0	1.1%	5.3%	35,424	0	2,000	\$10.25	\$8.00	\$33.98
West Phoenix/Maryvale	8,338,750	352,010	0	4.4%	3.8%	347,004	0	19,514	\$12.02	\$12.28	\$11.06
Total	229,271,765	16,720,068	520,569	9.0%	4.2%	15,916,086	502,693	867,378	\$15.28	\$14.65	\$17.83



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