

Phoenix

Retail Market Report Second Quarter 2019

Quick Stats

6.9%

In Q2 2019, vacancy rates dipped to a historic low

\$16.31

Average asking rental rates for second quarter 2019

184 K

Net absorption for second quarter came in at 183,829 square feet

1.06 M

Square feet of retail space under construction

\$407 M

Total sales volume for Q2, with \$777 million YTD for 2019

The Phoenix Valley's Retail Mantra for Q2 2019: Let Us Entertain You

Arizona's tourism industry experienced a record year in 2018. Big-time attractions and entertainment venues are ready to open their doors. All have created a perfect storm to boost the Valley's retail market. According to the Arizona Office of Tourism, a record 45.4 million overnight visitors spent a record \$24.4 billion in fiscal year 2018, which ended June 30. This translated to a spending increase of 8% from the previous year; the number of visitors increased 3.4%. In the Valley, three new entertainment destinations are set to open: FatCats Entertainment Center in Mesa and Medieval Times and Great Wolf Lodge in Scottsdale are eyeing Q3 2019 openings. On the retail side, Phoenix-based specialty grocer Sprouts Farmers Market opened a 30,000 SF location in Mesa in Q2 2019 and has set an opening date of September 11 for another 30,000 SF location, this one in Laveen. On the horizon: German

retailer Aldi has spent more than \$2 million on land in Peoria for one of its discount grocery stores.

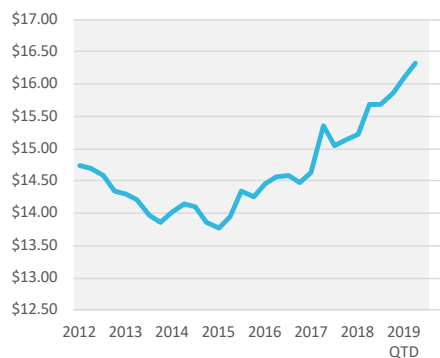
Rental Rates

Q2 2019 rental rates were \$16.31 per square foot (psf), following \$16.09 psf in Q1 2019. Asking average total NNN rates were highest in Central Scottsdale, \$27.43 sf; West Outlying Maricopa, \$23.48 psf; Loop 101/I-10, \$23.17 sf; North Scottsdale, \$22.54 psf; and Deer Valley, \$20.34 psf.

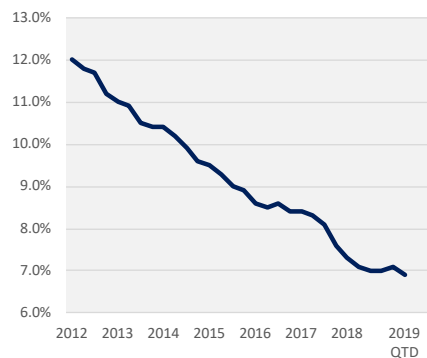
Vacancy

Vacancy dipped to another historic low in Q2 2019 at 6.9%, a decrease of 200 basis points from Q1 2019. Almost 200,000 sf was delivered with the biggest numbers coming from Red Mountain/Mesa 65,058 sf; North Scottsdale, 35,015 sf; Gilbert, 24,032 sf; and Downtown Phoenix, 22,000 sf.

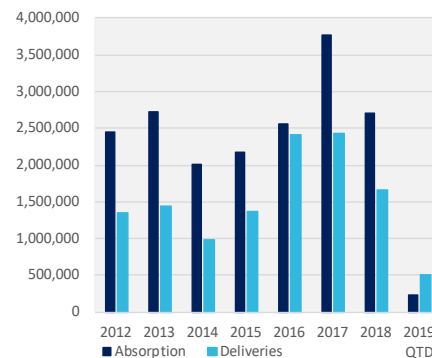
Rental Rates



Vacancy Rates



Absorption & Deliveries



Top Leases

Tenant	Building	Submarket	Square Feet	Type
Ashley Furniture	San Tan Pavillions - E. Williams Field Road	Gilbert	38,000	Community Center
Protégé Boxing	1126 S. Gilbert Road	Red Mountain/Mesa	34,117	Neighborhood Center
House of Rhema Full Gospel Baptist Church	South Gate - 460 S. Country Club Drive	Red Mountain/Mesa	32,000	Neighborhood Center
360 Thrift	North Point Village - 1042-1140 N. Higley Road	Red Mountain/Mesa	19,953	Community Center
Ace Hardware	Agua Fria Crossing - 8365 W. Camelback Road	Loop101/I-10	13,979	Neighborhood Center

Top Sales

Buyer	Building	Submarket	Square Feet	Sale Price	Price/SF
Sita Enterprises, LLLP	Chandler Heights Marketplace	Gilbert	124,822	\$30,800,000	\$247
Crow Holdings Capital Investment Partners	Laveen Village Marketplace	Laveen	39,763	\$16,650,000	\$415
Optima, Inc.	15450 N. Scottsdale Road	North Scottsdale	27,189	\$15,000,000	\$552
2211 West Camelback, LLC	Westwood on Camelback	Downtown Phoenix	59,400	\$13,800,000	\$232
PV Ocean View, LLC	Ross Walgreens Shopping Center	East Phoenix	96,152	\$13,340,000	\$139

Top Projects Under Construction

Property	Submarket	Completion	Total SF	% Preleased/Owned
Medieval Times	Central Scottsdale	Q3 2019	80,000	100.0%
The Point at Eastmark	Gateway Airport	Q4 2019	79,037	80.4%
FatCats	Red Mountain/Mesa	Q3 2019	61,402	100.0%
The Watermark - Phase I	Tempe	Q2 2019	44,000	42.3%
Alamo Drafthouse - Power Road	Gilbert	Q3 2019	40,000	100.0%

Trends to Watch

With the highest population growth in the nation and a strong economy, Arizona should continue to push retail higher in 2019.



Steady Growth

Arizona is growing steadily, with a population of 7.28 million people YTD, with a 1.44% growth rate.



Tourism Drives Revenue

In 2018, tourism brought \$45.4 million to our economy, spiking retail growth.

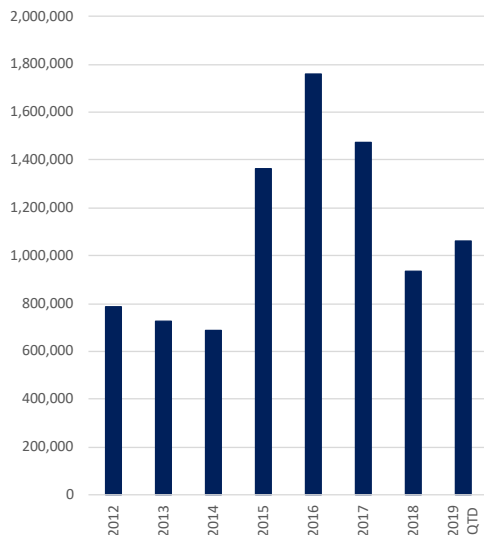


Negative to Positive

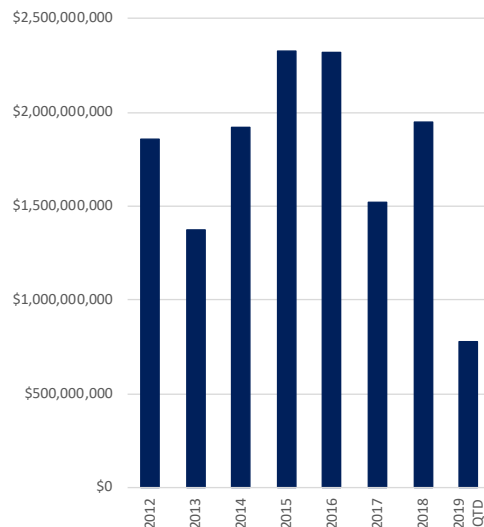
Despite negative absorption in 2018, 1.25 msf is projected to be absorbed in 2019.

Retailers are absorbing space. In the second quarter, the retail market kicked off with 1.06 million sf under construction.

Under Construction



Investment Sales



Leasing

Second quarter absorption was strongest in the North Goodyear/Litchfield submarket (67,828 sf) followed by the North Scottsdale submarket (52,172 sf). There was one additional lease of more than 50,000 sf in first quarter, North Phoenix/I-17 Corridor submarket, 50,289 sf.



North Goodyear/Litchfield

The top lease of Q2 2019 was Ashley Furniture taking 38,000 sf at San Tan Pavilions in Gilbert. Protégé Boxing took 34,117 sf at 1126 S. Gilbert Road; House of Rhema Full Gospel Baptist Church leased 32,000 sf at 460 S. Country Club Drive in Red Mountain/Mesa submarket; and 360 Thrift to 19,953 sf at North Point Village, also in the Red Mountain/Mesa submarket.



Ashley Furniture at San Tan Pavilions

Construction

The second quarter of 2019 was vibrant with 1.06 msf under construction. The largest project under construction is The Watermark Phase I in Tempe, 44,000 sf. It's scheduled to deliver in Q3 2019. Medieval Times Dinner & Tournament in the Central Scottsdale

submarket is expected to also deliver in Q3 2019. The 80,000-sf entertainment and dining venue serves four-course



Medieval Times Dinner & Tournament

meals while costumed performers compete in jousting and sword fighting. Other notable retail projects under construction are The Point at Eastmark, Gateway Airport submarket, 79,037 sf; FatCats, Red Mountain/Mesa submarket, 61,402 sf; and Alamo Drafthouse Power Road, Gilbert submarket, 40,000 sf.



The Point at Eastmark

Investment Sales

Investment sales volume in Q2 2019 was \$407 million for a 2019 YTD of \$777 million. Total volume in 2018 was \$2.0 billion, up from \$1.5 billion in 2017. Sita Enterprises, LLLP closed the largest sale of second quarter, purchasing Chandler Heights Marketplace in Gilbert (124,822 sf) for \$30.8 million. Crow Holdings Capital Investment Partners purchased Laveen Village Marketplace (39,763 sf) for \$16.65 million, and Optima, Inc. purchased a 27,000-sf property at 15450 N. Scottsdale Road for \$15 million.

Market By The Numbers*

Submarket	Total RBA (SF)	Sublease Vacancy	Total Vacancy	Shopping Center Vacancy Rate	General Vacancy Rate	Q2 Deliveries	Under Construcion (SF)	Q2 Net Absorption (SF)	Avg. Ask Total (NNN)	Avg. Ask Shopping Center (NNN)	Avg. Ask General (NNN)
Ahwatukee Foothills	3,235,148	3,135	285,496	9.6%	4.2%	0	7,000	29,659	\$18.45	\$17.36	\$31.05
Airport Area	3,887,976	0	165,614	4.7%	3.6%	0	0	(10,738)	\$18.26	\$20.70	\$15.48
Anthem	2,625,891	0	90,637	4.1%	2.3%	0	69,528	5,618	\$17.02	\$19.21	\$8.75
Apache Junction	2,057,730	15,251	222,257	15.6%	5.7%	0	36,400	(37,415)	\$18.89	\$18.63	\$22.61
Carefree	1,865,073	2,792	172,127	12.2%	3.1%	0	0	2,428	\$17.27	\$18.46	\$17.04
Central Scottsdale	15,707,036	18,890	854,363	5.5%	5.2%	0	219,093	(463)	\$27.43	\$28.12	\$25.82
Chandler	17,379,950	0	1,028,891	7.3%	2.2%	21,023	47,630	(57,350)	\$16.58	\$15.38	\$22.54
Central Peoria/Arrowhead	10,269,204	3,014	435,855	4.6%	3.1%	0	32,174	9,854	\$19.24	\$19.57	\$17.85
Deer Valley	2,111,373	0	82,087	4.3%	2.5%	0	11,225	11,891	\$20.34	\$19.61	\$22.63
Downtown Phoenix	7,741,978	1,991	516,453	9.1%	5.5%	22,000	18,200	26,571	\$20.20	\$14.33	\$23.79
East Phoenix	8,908,129	3,855	699,057	11.5%	2.4%	0	11,600	(7,117)	\$15.73	\$14.39	\$18.91
Fountain Hills	767,558	0	88,524	9.0%	14.3%	0	0	(868)	\$14.82	\$14.96	\$14.66
Gateway Airport	3,001,339	1,900	132,087	4.2%	5.2%	4,382	79,037	3,117	\$16.84	\$17.21	\$14.66
Gila River Outlying	356,184	0	0	0.0%	0.0%	0	0	0	\$0.00	\$0.00	\$0.00
Gilbert	16,090,579	38,859	940,409	7.1%	2.4%	24,032	189,040	45,270	\$16.15	\$15.54	\$21.26
Glendale	11,335,418	13,013	873,016	10.4%	2.6%	0	18,000	39,798	\$16.46	\$16.50	\$16.16
Goodyear	3,560,992	0	250,043	8.9%	1.9%	0	0	(11,865)	\$18.35	\$16.86	\$21.52
Laveen	1,471,972	0	77,068	4.9%	7.5%	13,294	11,437	3,367	\$17.88	\$16.30	\$30.00
Loop 101/I-10	2,992,436	0	112,000	5.2%	1.2%	0	16,363	(5,065)	\$23.17	\$23.98	\$20.72
North Goodyear/Litchfield	5,132,212	0	261,655	6.0%	1.5%	0	60,226	67,828	\$17.28	\$16.75	\$22.33
North Phoenix/I-17 Corridor	16,282,683	2,600	1,889,686	14.7%	4.0%	0	14,719	50,289	\$12.36	\$12.35	\$12.47
NE Outlying Maricopa	4,722	0	0	0.0%	0.0%	0	0	0	\$0.00	\$0.00	\$0.00
North Buckeye	63,968	0	0	0.0%	0.0%	0	0	0	\$0.00	\$0.00	\$0.00
North Scottsdale	15,457,539	1,230	860,784	6.9%	1.8%	35,015	8,355	52,172	\$22.54	\$21.61	\$25.19
Outlying Pinal County	8,455,801	17,684	822,963	11.6%	7.3%	0	26,000	3,296	\$11.73	\$11.93	\$11.08
Queen Creek	2,077,125	0	105,999	6.5%	0.4%	0	15,085	2,658	\$16.61	\$17.32	\$13.00
Red Mountains/Mesa	30,703,209	34,658	2,880,970	11.2%	5.3%	65,058	84,432	(75,732)	\$13.73	\$13.38	\$15.29
South Buckeye	1,529,145	0	45,128	2.0%	4.9%	9,026	3,500	8,942	\$16.68	\$17.04	\$15.31
South Mountain	1,672,478	0	89,891	6.5%	2.5%	0	0	3,175	\$17.03	\$16.81	\$25.00
South Phoenix	1,688,998	0	55,174	3.2%	3.3%	0	27,945	622	\$12.54	\$15.31	\$10.93
South Scottsdale	3,879,346	6,777	179,756	7.7%	3.1%	0	1,887	16,995	\$17.45	\$15.49	\$19.89
Sun City	3,772,617	0	292,134	13.0%	1.7%	2,398	0	30,882	\$11.94	\$11.56	\$15.55
Surprise/North Peoria	5,592,693	4,572	291,646	5.7%	3.2%	0	7,479	31,721	\$12.83	\$12.02	\$17.25
Tempe	8,243,710	6,621	515,602	6.6%	5.5%	0	44,000	(28,905)	\$18.52	\$14.62	\$24.04
Tolleson	2,792,625	0	178,874	8.6%	3.2%	0	2,200	2,804	\$10.97	\$10.64	\$13.11
West Outlying Maricopa	798,583	0	21,132	0.0%	2.8%	0	0	(1,139)	\$23.48	\$0.00	\$23.48
West Phoenix/Maryvale	8,249,792	0	478,706	7.6%	2.4%	0	0	(28,471)	\$11.60	\$11.53	\$11.80
Total	231,763,212	176,842	15,996,084	8.4%	3.8%	196,228	1,062,555	183,829	\$16.09	\$15.08	\$19.46

*The data contained in this market report is obtained from The CoStar Group, Inc., and is used under licensed permission. The report is based on all Metro-Phoenix markets for retail buildings. It includes sublease space only upon the date of availability. Both current and historical data has been adjusted with corrected or updated information, after it was obtained. This may prevent comparison to previously released reports.


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