Phoenix

Retail Market Report
Fourth Quarter 2019

Quick Stats

20.5%
Increase since 2002 in number of stores selling services

$17.09
Average asking NNN rental rate psf for fourth quarter 2019

519 K
Net absorption for fourth quarter came in at 518,796 square feet

1.3 M
Square feet of retail space delivered in past 12 months

$2.2 B
Total sales volume for Q4 2019

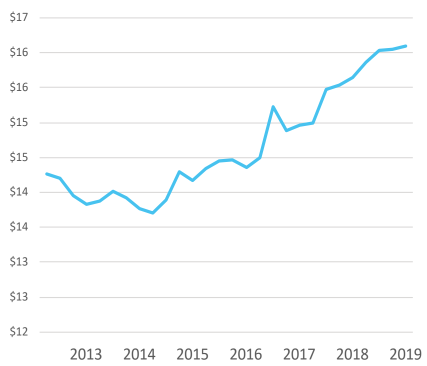
Shift from Goods to Services

With store closings out-pacing openings two to one, the retail landscape at first glance appears to still be in free fall, but all is not lost. Far from it. The dramatic arc of the sector from boom times to crash certainly grabs headlines but the real story of retail at this point in the cycle is about reinvention.

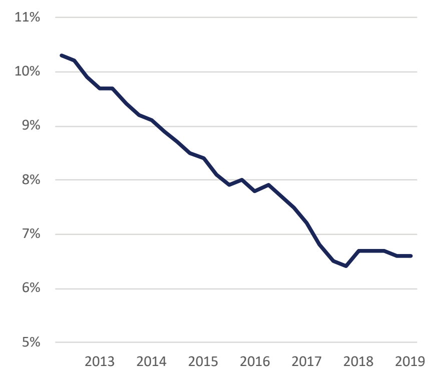
The rise of e-commerce is an obvious trend at the heart of retail's challenges. Last quarter, this report noted a number of industry responses to the digital revolution from pop-ups to omni-channel marketing to experiential retail. The basic fact remains, though, that the parts of the retail sector performing best offer consumers tangible and intangible goods & services that cannot be downloaded — services like getting a haircut, the experience of fine dining, attending a live music event, or taking the family to a trampoline park.

A recent ICSC report took note of the changing mix of goods versus services in retail and provides important perspective on the seismic shifts occurring in the sector. Store closures grab headlines, but the report shows that while the number of retail establishments selling goods has declined 4.5% since 2002, the number of establishments selling services has increased by 20.5%. As of 2017, the share of the overall retail market selling goods accounts for 46.8% and those selling services account for 53.2%. Also noted is the fact that sales per store has increased substantially from 2002 to 2017. The transformation of retail is a more nuanced story, and one that underscores the responsiveness of developers and brokers to changing consumer habits and recalibration of store mix and site selection approaches to filling empty storefronts.

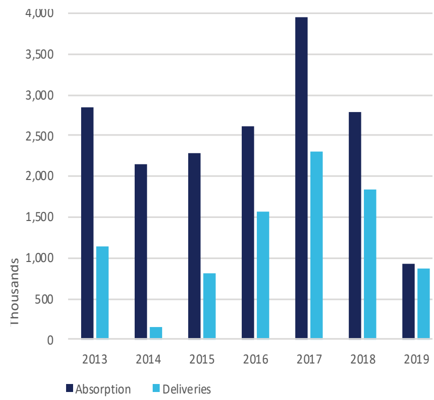
Rental Rates



Vacancy Rates



Absorption & Deliveries



Top Leases

Tenant	Building	Submarket	Square Feet	Type
Goodwill	5263 S Power Road	Gateway Airport Retail	24,930	Direct
Sky Zone	928 W Camelback Road	Downtown Phoenix Retail	22,403	Direct
Goodwill	1565 W Happy Valley Blvd	Deer Valley Retail	21,280	Direct
Goodwill	14063 W Grand Ave	Surprise/North Peoria Retail	18,915	Direct
Banfield Pet Hospital	21002-21102 S Ellsworth Road	Queen Creek Retail	18,019	Direct
Napa Auto Parts	9897 W McDowell Road	Tolleson	17,768	Direct

Top Sales

Buyer	Building	Submarket	Square Feet	Sale Price	Price/SF
YAM Properties	Shops at Norterra	Deer Valley	362,878	$108,000,000	$496
Centerpoint on Mill	Wexford Developments	Tempe	125,497	$60,000,000	$478
First Washington Realty	Shops at Gainey Village	Central Scottsdale	91,204	$55,350,824	$607
Lamar Companies	Mesa Pavilions North	Red Mountain/Mesa	106,106	$26,800,000	$253
Lakeview Village Corporation	The Groves - Tempe	Chandler	166,227	$18,500,000	$109

Top Projects Under Construction

Property	Submarket	Completion	Total SF	% Preleased/Owned
City Gate Marketplace	Red Mountain/Mesa Retail	2Q 2020	132,300	98.3%
The Post at Cooley Station	Gilbert Retail	3Q 2020	125,944	87.0%
Biltmore Fashion Park	Central Scottsdale Retail	1Q 2020	80,000	100.0%
The Watermark	Tempe Retail	1Q 2020	44,000	44.3%
The Pavilions at Talking Stick	Central Scottsdale Retail	1Q 2020	36,974	18.4%

Trends to Watch

Dark Stores & Restaurants

Consumer shopping and dining habits are changing as online ordering & delivery becomes more popular. Developers, restaurateurs, and brokers are responding by leasing space that is closed to the general public and is designed to fulfill online orders and expedite delivery.

Crowded Store Aisles

Dark stores offer a solution for frustrating trips to the supermarket as close-in parking spots are increasingly reserved for pick-up & delivery vehicles & aisles more crowded with dedicated insta-cart shoppers.

First Come, Last Served

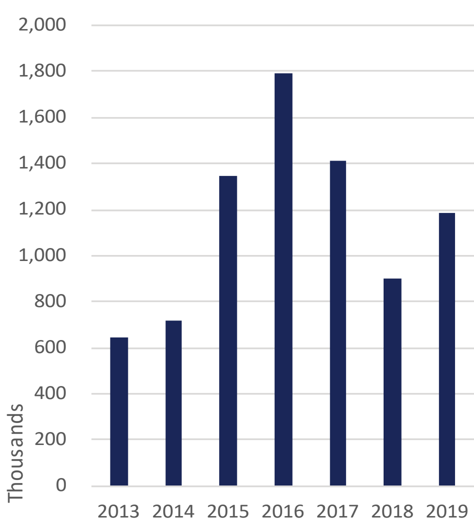
Dark restaurants provide welcomed relief for restaurant diners who find themselves last served after delivery orders and drivers rushing hot food to stay-at-home consumers.

Micro-Fulfillment Centers

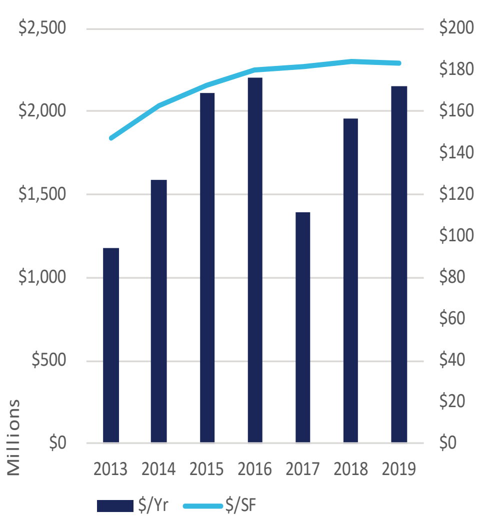
Some retailers are pushing the tech envelope by adapting store space as micro-fulfillment centers that create online/in-store synergies, as well as testing robotics and autonomous shopping carts.

Phoenix retail vacancy currently stands at 7.1% overall, down 560 basis points from peak vacancy in 3Q 2011, among the strongest compression of all US markets.

Under Construction



Investment Sales



Rental Rates

Rent growth overall has trended upward for most retail sub-sectors with rates now near the national average. The exception is for power centers and malls which have slipped this past year by 1.1% and 7.1% respectively. Average NNN asking rent in 4Q 2019 is $17.09 psf. Free-standing retail properties averaged $19.51 psf.

Vacancy

Despite alarming headlines about empty storefronts, Phoenix retail vacancy currently stands at 7.1% overall, down 560 basis points from peak vacancy in 3Q 2011, among the strongest compression of all US markets.

Leasing

Retail leasing is fairly stable and local developers and brokers have collaborated on creative reuse for obsolete product. Fitness tenants leased up significant space across Metro Phoenix. Grocery retail continues to evolve to meet changing consumer shopping habits as well as opening new stores in fast-developing suburbs like East Mesa and Queen Creek. Aldi, the German discount grocer, has delayed slightly its planned store openings until after the completion of a distribution center in Goodyear.

Aldi in Arizona

Construction

In retrospect, the intensity of retail overbuilding in the run-up to the recession was utterly unsustainable. Developers built 30 million square feet (msf) of new space from 2006 through 2008. In recent years, that pace has dwindled to a manageable 1.7 msf annually on average. Currently, 1.1 msf is in the pipeline with deliveries scheduled through 2021.

The year ended with a major announcement that Akimel 7, a massive multi-billion dollar sports and entertainment project on tribal land near the junction of Loops 101 and 202, has been approved. Details of the plan have not yet been announced.

Safeway opened 79,000 sf near the new master planned community of Eastmark in Mesa in November. Eastmark ranked 7th nationally for sales and first in Arizona in the master planned community category.

Suburban Retail Expanding

Investment Sales

Phoenix retail property sales finished the year with the third best volume figure for the decade at $2.3 billion. Annual sales volume peak at $2.4 billion in 2006. Price per square foot hit a record $210, up 63.4% from the recession trough in 1Q 2013 when it cratered at $85.04 psf, a price not seen since the end of 1998. The biggest transaction of the quarter was executed in October when GoDaddy founder, Bob Parsons' YAM Properties paid $108 million for Shops at Norterra.

Market By The Numbers*

Submarket	Total RBA (SF)	Sublease Vacancy	Total Vacancy	Shopping Center Vacancy Rate	Free-standing Vacancy Rate	Q4 Deliveries	Under Construction (SF)	Q4 Net Absorption (SF)	Avg. Ask Free-standing (NNN)	Avg. Ask Shopping Center (NNN)	Avg. Ask Overall (NNN)
Ahwatukee Foothills	3,261,598	0	298,194	10.2%	2.9%	13,500	0	(14,264)	$17.17	$30.52	$18.40
Airport Area	3,883,151	0	133,537	3.6%	3.2%	0	0	16,712	$19.73	$18.91	$19.39
Anthem	2,607,197	0	103,293	5.1%	1.4%	3,200	59,328	26	$15.14	$28.41	$17.31
Apache Junction	2,094,902	15,251	138,500	7.4%	5.7%	0	824	25,901	$15.00	$16.50	$15.06
Carefreee	1,869,626	0	170,975	11.9%	2.3%	0	0	5,682	$15.29	$15.23	$17.04
Central Scottsdale	10,205,158	6,023	491,664	5.5%	2.2%	0	48,697	70,394	$19.91	$21.32	$20.20
Chandler	16,033,611	23,767	802,242	5.2%	4.6%	61,212	167,981	182,864	$28.09	$27.01	$27.75
Central Peoria/Arrowhead	17,142,344	8,100	1,027,333	7.2%	2.6%	5,280	57,312	(61,282)	$13.26	$22.99	$14.86
Deer Valley	2,121,386	2,150	49,917	2.8%	0.9%	0	0	24,404	$19.91	$22.63	$20.55
Downtown Phoenix	7,631,464	7,191	521,451	9.0%	5.9%	0	51,849	(84,615)	$13.36	$23.49	$19.29
East Phoenix	8,921,195	0	646,375	11.1%	1.7%	6,000	18,463	(11,041)	$14.36	$16.41	$15.05
Fountain Hills	782,227	0	60,865	9.0%	6.5%	0	0	13,271	$15.53	$15.11	$15.31
Gateway Airport	3,049,115	1,900	203,279	6.4%	7.6%	0	88,776	(71,221)	$15.73	$17.60	$16.49
Gila River Outlying	356,506	0	0	0.0%	0.0%	0	0	0	-	-	-
Gilbert	16,239,955	18,771	957,339	6.8%	3.3%	71,108	288,514	36,782	$16.54	$20.11	$16.97
Glendale	11,349,830	13,013	747,908	8.8%	2.4%	0	20,400	81,037	$16.72	$14.62	$16.52
Goodyear	3,561,860	0	238,492	8.9%	0.8%	0	0	6,099	$17.05	$19.00	$17.11
Laveen	1,523,105	0	65,240	4.3%	4.1%	0	7,489	8,054	$16.02	$29.53	$17.84
Loop 101/I-10	3,119,593	0	81,151	2.6%	2.6%	80,000	8,087	101,987	$23.82	$21.06	$23.18
North Goodyear/Litchfield	6,800	0	0	0.0%	0.0%	0	0	0	-	-	-
North Phoenix/I-17 Corridor	63,968	0	3,884	0.0%	6.1%	0	0	(3,884)	-	-	-
NE Outlying Maricopa	5,180,210	0	136,802	3.1%	0.7%	41,847	24,631	38,109	$19.67	$29.03	$21.36
North Buckeye	16,330,707	40,349	1,631,157	12.0%	5.2%	2,519	5,569	(37,825)	$10.32	$13.25	$10.77
North Scottsdale	15,484,639	3,312	801,896	6.1%	2.7%	0	0	(45,515)	$21.57	$24.77	$22.54
Outlying Pinal County	8,513,457	16,400	788,483	11.3%	6.6%	0	29,800	31,168	$12.83	$10.21	$12.23
Queen Creek	2,095,497	0	96,715	6.0%	0.0%	4,448	24,900	1,621	$18.96	$12.00	$18.14
Red Mountains/Mesa	30,888,552	22,382	3,202,916	12.2%	6.7%	67,402	153,100	182,949	$13.65	$14.18	$13.74
South Buckeye	1,537,085	0	32,984	1.2%	4.0%	5,000	71,185	3,344	$15.34	$12.00	$15.21
South Mountain	1,674,298	0	47,282	3.7%	0.9%	0	0	20,000	$15.84	$25.00	$16.12
South Phoenix	1,700,776	6,387	58,679	4.0%	3.1%	0	0	14,915	$14.07	$11.73	$12.49
South Scottsdale	3,825,005	6,777	216,952	7.6%	4.4%	1,887	0	(33,518)	$16.13	$18.59	$17.28
Sun City	3,753,585	0	294,320	13.2%	1.8%	0	0	13,540	$10.28	$15.91	$10.78
Surprise/North Peoria	5,654,149	0	196,054	3.6%	3.1%	0	8,575	20,392	$11.23	$17.23	$12.37
Tempe	8,252,929	5,800	517,386	7.2%	4.1%	2,400	44,000	(37,865)	$15.55	$24.99	$19.38
Tolleson	2,838,348	0	174,795	7.8%	3.7%	2,200	0	13,494	$10.57	$13.69	$11.02
West Outlying Maricopa	792,170	0	11,105	0.0%	1.5%	0	0	6,989	-	$27.85	$27.85
West Phoenix/Maryvale	8,201,327	0	432,334	7.1%	1.8%	0	0	7,556	$11.00	$12.40	$11.44
Total	**232,645,714**	**197,573**	**15,382,181**	**7.9%**	**3.9%**	**368,003**	**1,170,780**	**518,796**	**$16.05**	**$19.51**	**$17.09**

*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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