



# Phoenix

## Q2 2017 / Quarterly Retail Market Report

### Market Facts

**10.6%**

Shopping Center Vacancy

**4.6%**

Free Standing Vacancy

**\$14.98**

Shopping Center Average Asking Rate

**\$17.50**

Free Standing Average Asking Rate

### Market Overview

The Phoenix retail market expanded to 225 million square feet (msf) with the second quarter overall vacancy rate dropping slightly to 8.8%, ten basis points lower than second quarter 2016 and well below the peak of 12.8% in third quarter 2011. Average rental rates spiked to \$15.43 per square foot (psf) in the second quarter, up from \$14.66 psf in the first quarter 2017 and \$14.61 in second quarter 2016. Year-to-date absorption remains positive with 947,000 square feet (sf) absorbed, of which 547,000 sf was in the second quarter. Quarterly absorption has remained positive since fourth quarter 2011.

The retail market is benefiting from several factors: year-over-year average hourly earnings increased 4.3% in June 2017, and overall personal income is forecasted to increase by at least 6.3% annually over the next four years. Retail sales in Phoenix now exceed pre-recession levels and continue to grow with an increase of 4.7% from March 2016 to March 2017. Through 2020 the retail sales growth rate is projected to increase between 4.8% and 6.7% annually. Taking into consideration rising employment and the population increase due to in-migration, the Phoenix retail market should remain strong throughout the current economic cycle.

The Gilbert submarket reported the highest absorption in the second quarter of the year, with 122,112 sf of positive absorption, approximately 22% of the market's positive absorption. The Central Scottsdale submarket had the highest

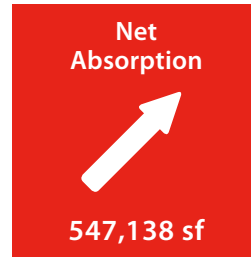
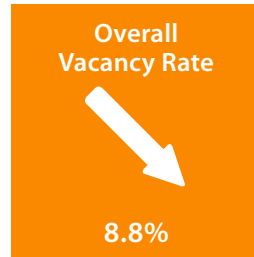
asking rent at \$25.45, in-line with its high-end shopping destinations. Gila River Outlying submarket reported no vacancy by virtue of its limited inventory, and in submarkets with over one msf, Queen Creek had a low 2.0% vacancy rate. Of the eight submarkets with over 10 msf, the Central Scottsdale submarket is the healthiest, boasting a shopping center vacancy of 7.9%, freestanding vacancy at 4.2%, with rental rates of \$25.72 and \$24.73 respectively.

1.1 msf of new product was delivered in the Phoenix retail market through mid-year 2017, with 84.5% leased. Over 800,000 sf of retail space is currently under construction in the region, with 59.9% being preleased.

Property transaction activity increased slightly in second quarter 2017 after slowing in late 2016 and early 2017. The largest sale was Safeway-anchored Palm Valley Marketplace at 14175 West Indian School Road totaling 107,600 sf, which sold for \$22.5 million or approximately \$209 psf with a reported cap rate of 5.78%. Although the number of sales rose 8.9% over first quarter 2017, total square footage was down 14%; however, sales of retail buildings increased slightly from \$176 psf in first quarter 2017, to \$188 in second quarter 2017. Other large sales in the second quarter in the Phoenix Metro were 8680-8690 East Raintree Drive selling for \$15.4 million (\$167 psf), and 7518-7616 West Thunderbird Road, an 82,100 sf neighborhood shopping center selling for \$12.5 million or \$152 psf.

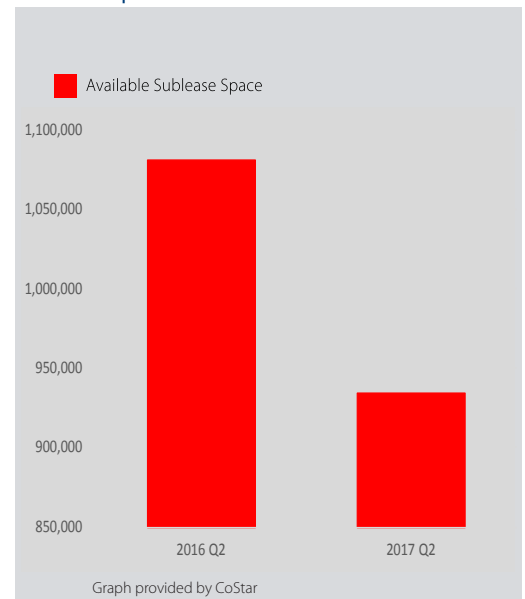
### Market Snapshot

The resurgent regional economy continues to support the strong fundamentals in the Phoenix retail market, resulting in 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 at ICSC's May 2017 RECon, Phoenix is increasingly viewed as a desirable market in which to invest and finance development.

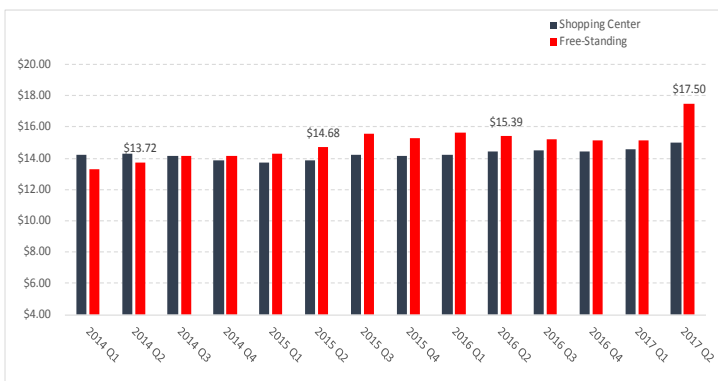


The largest sale was Safeway-anchored Palm Valley Marketplace at 14175 West Indian School Road totaling 107,600 sf, which sold for \$22.5 million or approximately \$209 psf with a reported cap rate of 5.78%.

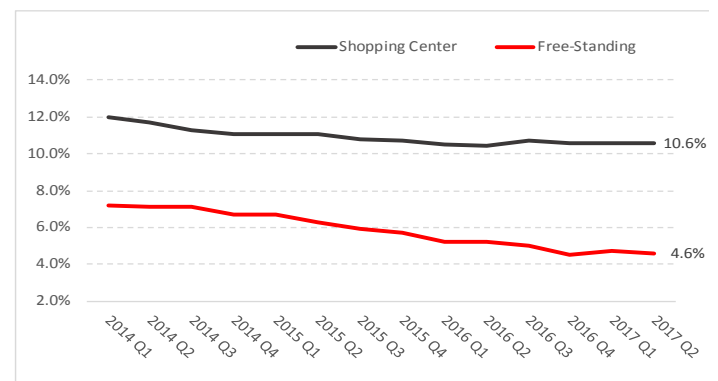
### Total Available Sublease Space in the Market



### Historical Asking Rental Rate (FSG)



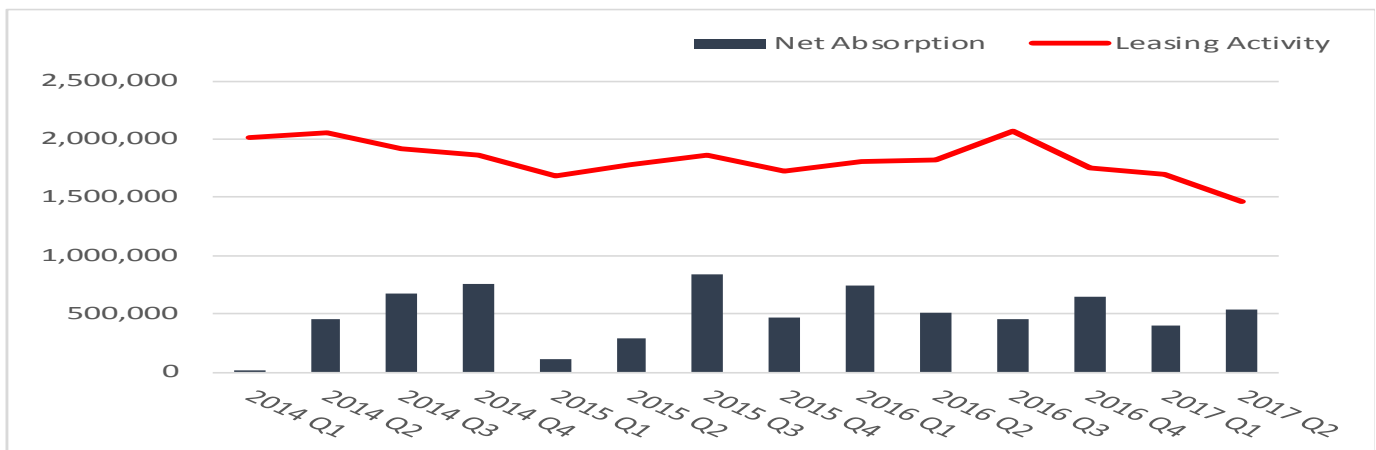
### Historical Vacancy



### Market By The Numbers

Market	Total RBA (SF)	Vacancy Space		Vacancy Rate		Available Space		Net Absorption (SF)	Avg. Ask Total (NNN)	Avg. Ask Shopping Center (NNN)	Avg. Ask Free Standing (NNN)
		Direct	Sublease	Shopping Center	Free Standing	Direct	Sublease				
Ahwatukee Foothills	3,278,129	349,755	7,045	12.1%	2.9%	304	843	-60,908	\$17.07	\$19.96	\$18.94
Airport Area	3,913,702	244,102	550	8.5%	2.8%	243,002	550	-13,922	\$15.35	\$15.32	\$15.41
Anthem	2,641,468	115,456	9,898	4.7%	4.7%	113,849	9,898	11,335	\$17.93	\$19.62	\$14.62
Apache Junction	1,785,248	101,838	15,251	7.5%	5.6%	100,614	15,251	-3,018	\$12.41	\$12.40	\$12.49
Carefree	1,786,769	236,051	0	16.9%	5.2%	229,155	0	13,672	\$16.84	\$16.53	\$18.96
Central Scottsdale	15,877,359	1,094,916	34,434	7.9%	4.2%	1,018,248	34,434	9,389	\$25.45	\$25.72	\$24.73
Chandler	17,012,421	1,233,345	80,131	9.4%	2.4%	1,153,492	74,761	47,868	\$15.67	\$15.15	\$19.68
Central Peoria/Arrowhead	10,253,471	580,027	32,597	6.7%	2.6%	523,462	32,597	62,555	\$16.13	\$15.56	\$18.74
Deer Valley	2,065,881	134,183	1,118	7.8%	2.4%	126,016	1,118	16,914	\$20.20	\$20.20	-
Downtown Phoenix	7,166,343	812,046	5,650	20.0%	6.6%	723,828	5,650	-48,049	\$14.78	\$11.75	\$16.87
East Phoenix	8,659,667	844,659	6,000	13.0%	4.4%	807,605	6,000	59,578	\$18.21	\$12.72	\$34.48
Fountain Hills	737,978	71,506	0	11.1%	8.2%	70,295	0	-12,905	\$14.15	\$15.86	\$11.60
Gateway Airport	2,855,598	199,365	16,302	7.5%	7.7%	195,189	16,302	-302	\$18.07	\$18.22	\$15.45
Gila River Outlying	356,184	0	0	0.0%	-	0	0	0	-	-	-
Gilbert	14,873,610	931,730	39,989	7.4%	3.8%	893,556	39,989	122,112	\$17.86	\$17.53	\$19.52
Glendale	11,420,393	1,024,930	15,120	11.5%	4.0%	1,010,330	15,120	16,899	\$13.69	\$13.66	\$14.07
Goodyear	3,434,541	450,000	17,976	14.2%	8.7%	424,400	17,976	-8,006	\$14.08	\$13.80	\$17.17
Laveen	1,388,269	52,853	20,390	5.7%	0.0%	47,872	20,390	6,718	\$14.60	\$14.60	-
Loop 101/I-10	2,937,203	208,624	0	8.6%	4.5%	195,574	0	36,301	\$21.87	\$24.58	\$15.77
North Goodyear/Litchfield	5,147,999	273,317	0	5.7%	3.6%	266,700	0	43,264	\$15.87	\$15.72	\$16.96
North Phoenix/I-17 Corridor	15,994,220	2,267,461	82,955	18.6%	5.4%	2,240,564	82,955	98,502	\$12.29	\$12.25	\$12.75
North Buckeye	58,563	2,341	0	0.0%	5.8%	0	0	0	\$25.00	-	\$25.00
North Scottsdale	14,726,767	1,148,650	17,590	9.1%	4.7%	1,025,737	17,590	99,660	\$19.68	\$17.98	\$25.00
Outlying Pinal County	8,240,620	702,665	22,469	12.9%	3.2%	700,396	22,469	-46,423	\$12.52	\$12.99	\$10.70
Queen Creek	1,640,344	32,357	0	1.7%	3.7%	32,357	0	19,569	\$18.64	\$19.89	\$16.02
Red Mountains/Mesa	29,452,241	3,772,421	108,181	15.0%	8.2%	3,683,622	108,181	39,521	\$13.62	\$13.91	\$12.22
South Buckeye	1,480,934	35,671	0	3.4%	0.3%	34,432	0	7,314	\$17.89	\$17.91	\$17.00
South Mountain	1,749,902	179,886	0	13.8%	1.2%	178,882	0	1,851	\$13.52	\$12.85	\$22.90
South Phoenix	1,598,886	85,300	0	6.4%	4.6%	79,300	0	-45	\$14.08	\$15.98	\$10.53
South Scottsdale	3,906,274	378,370	6,777	10.8%	5.5%	267,377	6,777	-16,679	\$17.20	\$14.78	\$18.49
Sun City	3,594,757	287,113	0	13.3%	1.7%	278,584	0	7,093	\$12.60	\$12.91	\$12.03
Surprise/North Peoria	5,231,740	303,176	30,204	7.3%	2.2%	297,145	30,204	-3,959	\$13.38	\$13.41	\$9.00
Tempe	8,457,369	542,611	7,806	7.7%	3.6%	507,180	7,806	-37,940	\$17.71	\$17.84	\$17.09
Tolleson	2,556,929	154,757	0	8.0%	2.9%	147,078	0	-1,090	\$15.82	\$13.79	\$18.53
West Outlying Maricopa	779,483	30,241	0	2.0%	4.3%	27,241	0	40,937	\$10.44	\$8.00	\$26.98
West Phoenix/Maryvale	8,156,063	376,579	0	6.3%	1.5%	338,540	0	39,332	\$11.82	\$11.83	\$11.79
<b>Total</b>	<b>225,217,325</b>	<b>19,258,302</b>	<b>578,433</b>	<b>10.6%</b>	<b>4.6%</b>	<b>17,981,926</b>	<b>566,861</b>	<b>547,138</b>	<b>\$15.43</b>	<b>\$14.98</b>	<b>\$17.50</b>

### Historical Net Absorption & Leasing Activity



### Top Leases

Tenant	Building	Submarket	Square Feet	Type
-	147 S. Dobson Rd.	Red Mountain/Mesa	58,000	New
Burlington	4609-4735 E. Ray Rd.	Ahwatukee Foothills	41,752	New
Planet Fitness	S. Gilbert Rd.	Gilbert	30,000	New
American Freight	7307-7445 W. Indian School Rd.	West Phoenix/Maryvale	27,434	New
American Freight	4961 W. Bell Rd.	North Phoenix/I-17 Corridor	25,700	New

### Top Sales

Building	Buyer	Submarket	Square Feet	Sale Price	Price/SF
14175 W Indian School Rd	Sterling Organization	North Goodyear/Litchfield	107,633	\$22,450,000	\$209
8680-8690 E. Raintree Dr.	C-III Asset Management	North Scottsdale	92,000	\$15,400,000	\$167
7518-7616 W. Thunderbird Rd.	American California Property Management Company	Glendale	82,100	\$12,500,000	\$152
1760-1940 W. Chandler Blvd.	LNR Partners, LLC	Chandler	117,391	\$10,800,000	\$92
15557-15609 W. Bell Rd.	Woodgrain Millwork Inc	Surprise/North Peoria	64,193	\$9,300,000	\$145



#### Avison Young

2777 East Camelback Road, Suite 230  
 Phoenix, AZ 85016  
 T 480.994.8155 F 480.994.8599  
[avisionyoung.com](http://avisionyoung.com)