



1Q 2020 / Research Report

Phoenix Retail Market

Market
Inventory



190,722,586 SF

Overall Vacancy
Rate



8.3%

Net
Absorption



(64,244) SF

Construction
Pipeline



61,187 SF

Average
Asking Rate



\$17.11 SF

A full-stop in the present focuses thoughts on the future. Before the Coronavirus pandemic, Retail was adapting and repositioning itself to recover from the last downturn. A shake-out was well under way between retailers that are changing to consumer's current shopping habits and those that are not. The emergence of a major public health crisis is a threat to many small businesses, particularly restaurants, cinemas, and music venues. A threat that they did not create nor envision. Business owners must innovate and reconsider how safest to manage crowds and perfect a business model that is more resilient. The sector must turn an unprecedented short-term event into a catalyst for massive structural change.

Consider the retail environment in Metro Phoenix as the new year began. It had managed to emerge from the recession leaner and, in sharp contrast to the middle of the last decade, not overbuilt. Changes already underway, like shifts to omni-channel retailing and re-imagining obsolete retail space, have been accelerated by the virus crisis. Retailers

have had to scramble to adjust immediately to a global pandemic that has not only interrupted customer traffic flow but also interrupted supply chains already strained by recent trade wars. The pace of implementing structural changes has quickened. Whether certain measures are long-term or passing is impossible to gauge at this early stage. Next quarter's data will provide a clearer picture. While only a small silver lining, it may prove to be auspicious timing, as a natural slowdown is built into the region's seasonal economy.

Employment

There is no sugarcoating the fact that the retail employment picture is not pretty. However, the course of recovery is impossible to forecast and dramatic retail job losses may prove to be a brief episode. That said, some retailers will not reopen, and those that do will have to change practices and reconsider store layout to assure cautious shoppers that the retail environment is safe.

340K

340,000 Arizonans were employed in food service, hotels, arts and entertainment, and recreation as the year began. This makes up 13% of the state's workforce.



Absorption & Vacancy

Absorption turned negative at the end of 1Q 2020 for the first time since 2010. Half of the Metro's 37 Retail submarkets reported negative absorption. As the crisis hit Arizona retailers fully around mid-March, next quarter's data will paint a clearer picture of the damage.

Pre-crisis vacancy rates had remained fairly constant for the past nine quarters, averaging 8.2% over that period. This figure will jump significantly as business owners either adapt to the new normal or fail to reinvent themselves for a new retail era.

Rental Rates

Rental rates had been recovering steadily since the last downturn, posting a 2.4% increase in 3Q 2020 over the previous quarter, the best bump in 20 years. Trends already well under way, like the shift to online retail and omni-channel marketing and distribution, have been rapidly accelerated by circumstances. The retail landscape post-COVID-19 will likely

be fundamentally changed, however, these changes are highly dependent on consumer attitudes regarding safety and the state of the economy.

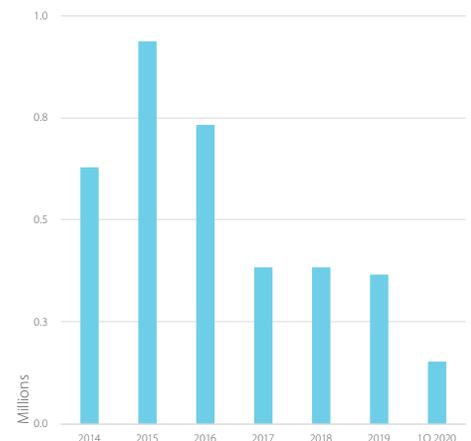
New Construction

Retail construction activity had been muted in the past decade as developers absorbed hard lessons from overbuilding in the run-up to the last recession. What appeared to be stubborn risk-aversion to new construction now appears sensible. The largest project under way is the 38,000 sf Val Vista & Pecos Shopping Center in Gilbert.

Investment Sales

4Q 2020 was the best investment sales quarter since 2Q 2006. Investors began pulling back in mid-February, 1Q 2020 figures are down 53% over 4Q 2019. The biggest sale of 1Q 2020 was Crossroads Towne Center in Gilbert, which sold in January for \$15.7 million, or \$232 psf. The highest price psf was for Raintree Shops at \$422 psf.

Under Construction



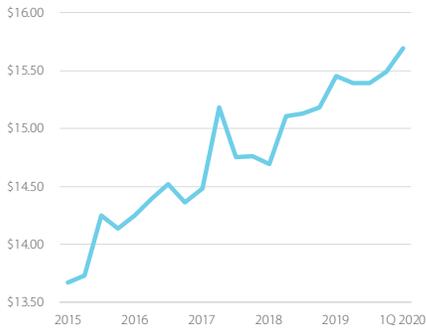
Investment Sales



Retail Market Snapshot

Despite unprecedented full-scale closures due to Coronavirus, the Phoenix Retail Market came out of the last recession much more risk-averse. Lessons learned since then will pay off going forward.

Rental Rates



Overall Vacancy Rates



Absorption & Deliveries



Top Leases

Tenant	Building	Submarket	Square Feet	Type
Roadhouse Cinemas	Bell Towne Center	East Phoenix	47,527	Direct
New Furniture Outlet	Promenade at Casa Grande	Outlying Pinal County	30,000	Direct
Sprouts	Cave Creek Crossing	Anthem	29,896	Direct
SkyZone Trampoline Park	South Mountain Crossing	Tolleson	24,000	Direct
Planet Fitness	Vista del Oro	Gilbert	23,845	Direct

Top Sales

Buyer	Building	Submarket	Square Feet	Sale Price	Price/SF
Crossroads-Tomoka Land Co.	Crossroads Towne Center	Gilbert	67,633	\$15,680,867	\$232
Skyline Education	550 W Warner Rd	Chandler	10,704	\$13,290,371	\$200
Gold Coast Investments	Talavi Towne Center	Central Peoria/Arrowhead	61,302	\$10,725,000	\$175
Mimco Inc. & Fred Ayoub	Cactus Village	N Phoenix/I-17 Corridor	60,363	\$9,750,000	\$162
Cave Creek Capital Partners	Raintree Shops	North Scottsdale	21,465	\$9,050,000	\$422

Under Construction

Property	Building	Submarket	Square Feet	%Preleased/Owned
Val Vista & Pecos Shopping Center Phase I	Gilbert	4Q 2020	38,000	100.0%
The Block at Pima Center	Central Scottsdale	2Q 2020	13,985	78.9%
Cooper's Hawk Winery & Restaurant	North Scottsdale	2Q 2020	11,270	100.0%
Cobblestone Creek	N Goodyear/Litchfield Park	3Q 2020	10,842	100.0%
The Post at Cooley Station	Gilbert	3Q 2020	8,520	58.0%

Market By The Numbers*

Submarket	Total RBA (SF)	Sublease Vacancy	Total Vacancy	Shopping Center Vacancy Rate	Free-Standing Vacancy Rate	1Q Net Absorption (SF)	1Q Deliveries	Under Construction (SF)	Avg. Ask Shopping Center (NNN)	Avg. Ask Free-Standing (NNN)	Avg. Ask Overall (NNN)
Chandler	12,723,954	15,457	840,787	7.7%	3.1%	10,900	12,318	0	\$13.63	\$22.81	\$14.38
Central Scottsdale	12,552,698	578,209	601,151	4.7%	5.2%	162,097	111,887	43,207	\$27.82	\$26.34	\$27.45
North Scottsdale	11,727,338	2,732	761,433	7.0%	4.7%	(23,739)	0	11,270	\$21.43	\$24.01	\$22.37
Gilbert	10,365,663	2,782	811,058	8.8%	4.0%	47,718	3,020	57,764	\$15.11	\$19.38	\$15.57
Central Peoria/Arrowhead	7,495,863	6,006	517,673	7.5%	3.4%	(28,668)	0	2,420	\$18.75	\$19.68	\$18.94
Tempe	6,938,791	0	429,959	7.1%	6.1%	42,861	50,439	0	\$16.27	\$26.82	\$19.72
Surprise/North Peoria	4,445,155	0	237,286	6.6%	2.3%	(3,975)	0	0	\$10.98	\$10.00	\$10.88
Ahwatukee Foothills	2,543,013	0	267,000	12.6%	4.7%	(5,588)	0	0	\$17.48	\$29.35	\$18.46
Red Mountains/Mesa	22,000,494	22,382	2,958,880	17.9%	11.2%	(74,122)	0	0	\$13.57	\$13.10	\$13.50
North Phoenix/I-17 Corridor	12,994,144	35,929	1,212,027	10.6%	10.2%	(45,635)	1,887	5,569	\$10.91	\$13.34	\$11.21
Glendale	8,150,886	13,013	625,903	11.0%	5.8%	26,927	2,400	0	\$16.88	\$12.48	\$16.22
Downtown Phoenix	5,207,006	0	389,623	9.1%	8.1%	6,143	3,000	22,000	\$15.39	\$25.73	\$21.08
North Goodyear/Litchfield	3,635,356	0	133,843	5.5%	0.4%	(4,684)	4,126	0	\$19.92	\$23.10	\$20.15
South Scottsdale	3,412,970	6,777	208,064	11.2%	5.0%	2,046	0	0	\$14.99	\$20.40	\$16.73
Airport Area	3,081,798	0	136,577	6.1%	5.9%	(490)	0	0	\$19.85	\$19.10	\$19.53
Goodyear	2,572,177	0	233,901	11.9%	2.3%	(29,264)	0	0	\$17.41	\$12.00	\$17.08
Loop 101/I-10	2,376,100	0	76,914	3.0%	5.0%	15,616	0	7,000	\$18.37	\$21.37	\$18.50
Gateway Airport	2,180,763	0	131,618	5.5%	10.8%	(804)	0	2,739	\$15.73	\$14.27	\$15.26
Deer Valley	1,766,383	0	50,095	4.2%	0.0%	(5,178)	0	0	\$18.99	\$33.24	\$20.37
Queen Creek	1,377,700	0	95,326	9.3%	0.0%	21,472	13,350	0	\$18.03	\$0.00	\$18.03
South Mountain	22,000,494	22,382	2,958,880	17.9%	11.2%	(74,122)	0	0	\$13.57	\$13.10	\$13.50
East Phoenix	6,624,178	0	488,199	11.9%	5.4%	(4,144)	0	0	\$12.97	\$20.98	\$14.38
Outlying Pinal County	6,087,439	1,910	605,457	20.7%	5.8%	(189,514)	0	0	\$12.22	\$10.61	\$12.18
West Phoenix/Maryvale	5,552,314	0	459,579	11.0%	7.6%	(33,306)	0	22,331	\$10.78	\$13.71	\$11.33
Sun City	2,496,699	14,490	293,005	19.7%	5.0%	(15,912)	0	0	\$10.25	\$14.71	\$10.62
Anthem	1,788,076	0	86,027	8.7%	0.6%	(4,502)	0	0	\$15.20	\$24.00	\$15.77
Tolleson	1,691,705	0	156,354	15.7%	8.3%	(21,830)	0	0	\$8.89	\$13.35	\$9.78
South Buckeye	1,370,895	0	42,779	4.9%	1.5%	16,213	20,408	8,400	\$21.23	\$0.00	\$21.23
Carefree	1,229,008	0	158,666	15.2%	9.4%	3,144	0	0	\$15.74	\$17.04	\$15.78
Apache Junction	1,194,027	15,251	118,569	13.5%	8.3%	15,804	0	862	\$14.74	\$15.00	\$14.75
Laveen	1,162,347	0	82,594	8.2%	0.0%	0	0	0	\$20.75	\$0.00	\$20.75
South Phoenix	985,766	6,387	56,654	12.6%	8.6%	0	0	0	\$12.90	\$11.65	\$12.00
Fountain Hills	505,979	0	60,670	12.6%	20.3%	(2,938)	0	0	\$15.08	\$12.41	\$13.63
West Outlying Maricopa	444,010	0	3,156	0.0%	0.8%	3,769	0	0	\$0.00	\$33.98	\$33.98
North Buckeye	41,397	0	1,721	0.0%	4.2%	972	0	0	\$0.00	\$26.53	\$0.00
Total	190,722,586	76,076	4,738,661	9.9%	5.7%	(64,244)	74,278	61,187	\$16.11	\$19.52	\$17.11

*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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