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Market Inventory	169,802,754 SF
Overall Vacancy Rate	8.0%
Net Absorption	(164,004) SF
Construction Pipeline	164,473 SF
Average Asking Rate	$19.52 SF

2Q 2020 / Research Report

Phoenix Retail Market

The affect the COVID-19 pandemic has had on retail trends is starting to come into focus. Some structural changes may become permanent as disruptions in supply chains caused suppliers and merchants to rapidly respond. Drive-thru concepts like Salad and Go gained market share while dine-in restaurants and bars closed or transitioned to curb-side pick-up and dining. A second round of PPP loans offered more broadly to smaller retailers helped provide financial breathing room in a sectors critically effected by the Pandemic.

In Arizona, a series of quasi-shutdowns created frustration as big box stores and groceries operated at full capacity, while smaller retailers, even those trying to comply with COVID-19 protocols, remained closed. The accelerated clip of change and adaptation is sorting out businesses that will emerge from the current crisis in fighting shape, and those that will suffer knockouts.

Across retail subtypes, the biggest spike in foot traffic occurred for grocery stores. In late March and early April, strained supply chains took time to catch up with consumer runs on particular items like toilet paper, hand sanitizers and bleach. The surge in grocery demand tapered, however, and stay-at-home orders kept store trips to a minimum. Rigorous mask adherence for every shopper made for stark contrast to the early weeks of the quarter when such guidance was not in place.

Employment

After the Hospitality sector, retail employment took the hardest hit. Arizona mandates a 60-day alert, or WARN Notice, for businesses larger than 100 employees enacting layoffs so that additional retraining or state programs can be offered. A steady stream of WARN Notices have been issued throughout the quarter. Job growth in the sector, however, is not expected to slow as severely as the national rate, with Phoenix experiencing -6.7% decline in retail trade job growth, while the US suffered a drop of -12.95%. Median household income is still above the national average and population growth, at 2.6% annually, will likely remain high for the next few years.

164K SF

Retail construction activity moved forward, despite the sector's struggles caused by the Pandemic, with 19 projects underway in 2Q 2020. The largest retail projects under construction are in Gilbert and Scottsdale.

Absorption & Vacancy

Overall vacancy for the Retail sector at 8.0% is, given the statewide closures, fair and about where it stood 1Q 2018. A slip of two years' gain can be quickly recovered provided reopening plans are successful, and financial support is readily available. Many tenants postponed move-ins months after lease commencements. Negative absorption of -164,004 square feet is slightly higher than last quarter, however positive gains have been recorded, with that single exception, since 1Q 2011. For a sector allegedly ailing, the Phoenix Retail Market has measured construction judiciously since the over-building of the mid-2000s.

Rental Rates

Rents have slipped since 1Q 2020, from $17.11 psf to $16.41 psf overall. Rent growth for free-standing retail began to overtake shopping center retail. Downward pressure is expected to continue through this year before any economic recovery takes hold. Retailers renegotiating leases with landlords are benefitting from open lines of communication rather than any expectation that the city, state, or Federal Government will cover losses.

New Construction

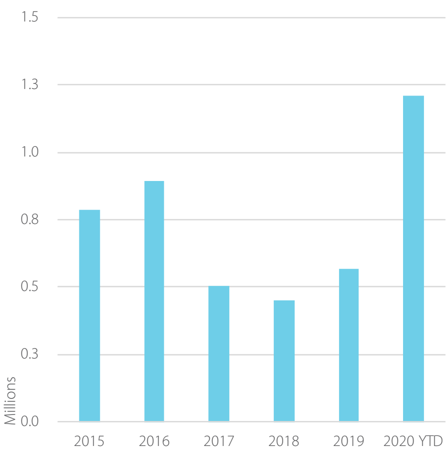
19 retail properties were under construction in 2Q 2020, totaling 164,473 square feet. The 12-month rolling average is 1.2 msf. Even before the Pandemic, repurposing underperforming retail subtypes was happening rapidly in the retail sector. Trends like medical services, childcare and services were already underway. EOS Fitness is the largest project currently underway at 38,000 sf in Gilbert. One-third of all square footage under construction is for The Block at Perimeter Center in Scottsdale.

Investment Sales

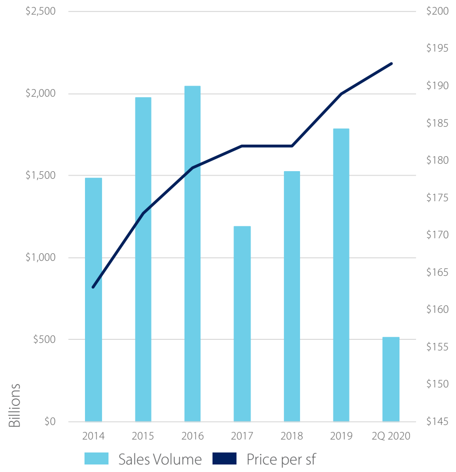
Half a billion dollars in transacted in 2Q 2020, at an average of $193 psf, a solid quarter by any measure. Several of the top sales are for Walgreen's stores, a plan by the company already in the works when the COVID-19 Pandemic began.

Under Construction

12 Month Rolling Average



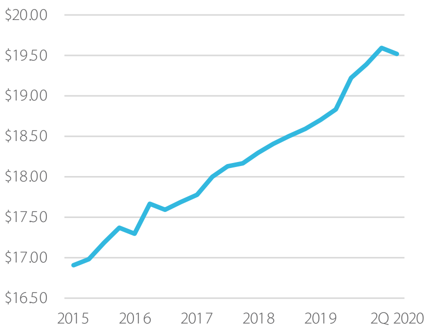
Investment Sales



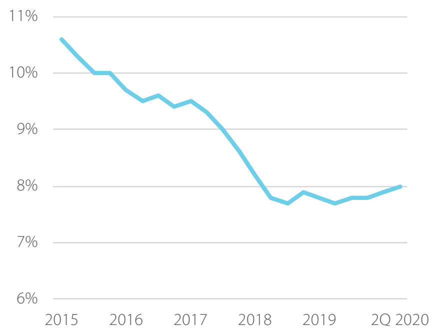
Retail Market Snapshot

While retail is in a state of tremendous upheaval, the sector has proven itself agile and receptive to rapid change when faced with crises.

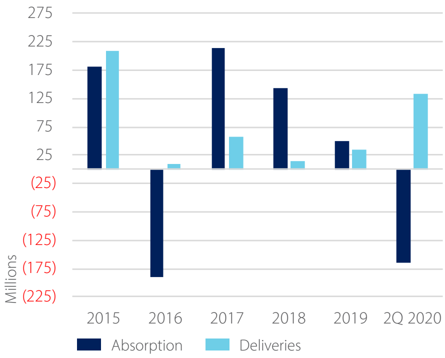
Rental Rates



Overall Vacancy Rates



Absorption & Deliveries



Top Leases

Tenant	Building	Submarket	Square Feet	Type
Marshalls	Superstition Gateway	Gateway/Airport	30,624	Direct
Stevan's Consignment	7995 E Paradise Ln	Scottsdale Airpark	21,446	Direct
Carvana	6343 E Southern Ave	Red Mountain/Mesa	17,050	Direct
The Discount Store	Sunburst Plaza	N Phoenix/I-17 Corridor	12,960	Direct
Desert Fitness	Higley Pavilion	Gilbert	12,726	Direct

Top Sales

Buyer	Building	Submarket	Square Feet	Sale Price	Price/SF
George & Daisy Zaia	Wigwam Creek Shopping Center	N Goodyear/Litchfield	19,720	$9,200,000	$272
Troy Zimmerman	Walgreens Store #11610 - 2000 S Mill Ave	Tempe	14,490	$9,050,000	$624
Aldi Damian	Walgreens Store #7747 - 3233 E Germann Rd	Gilbert	14,820	$5,625,000	$380
Wanda M. Adams (1031 Exchange)	Walgreens Store #9175 - 23477 W Yuma Rd	S Buckeye	14,000	$5,500,000	$393
Dale R. Johnson	Goodwill	N Phoenix/I-17 Corridor	25,000	$4,495,000	$180

Under Construction

Property	Completion	Submarket	Square Feet	% Preleased/Owned
The Block at Pima Center (multiple sites)	3Q 2020	Central Scottsdale	45,000	38.8%
EOS Fitness	4Q 2020	Gilbert	38,000	100.0%
The Block at Pima Center	3Q 2020	Central Scottsdale	13,985	61.4%
Cooper's Hawk Winery & Restaurant	3Q 2020	N Scottsdale	11,270	100.0%
8946 E Germann Rd	4Q 2020	Gateway Airport	10,500	0.0%

Market By The Numbers*

12 Month Rolling Average

Submarket	Total RBA (SF)	Sublease Vacancy	Total Vacancy	Shopping Center Vacancy Rate	Free-Standing Vacancy Rate	2Q Net Absorption (SF)	2Q Deliveries	Under Construction (SF)	Avg. Ask Shopping Center (NNN)	Avg. Ask Free-Standing (NNN)	Avg. Ask Overall (NNN)
Chandler	12,790,818	15,437	822,980	7.3%	3.9%	30,610	0	0	$13.70	$17.57	$14.03
Central Scottsdale	12,657,490	22,167	677,764	5.4%	5.2%	(62,918)	15	36,045	$25.16	$26.62	$25.53
North Scottsdale	11,891,367	2,732	755,847	6.3%	5.4%	(69,306)	0	11,270	$28.35	$20.70	$21.41
Gilbert	10,483,210	2,782	892,963	9.9%	3.5%	(61,804)	826	59,944	$18.17	$17.00	$16.03
Central Peoria/Arrowhead	7,576,597	5,046	545,760	7.9%	3.5%	(27,784)	2,420	0	$18.91	$19.25	$18.98
Tempe	6,859,155	0	451,097	7.2%	9.4%	(21,631)	0	0	$17.00	$25.19	$19.56
Surprise/North Peoria	4,569,986	0	239,387	6.6%	0.0%	3,580	7,225	0	$16.01	$10.00	$14.89
Ahwatukee Foothills	2,541,189	0	274,620	13.0%	4.1%	(8,892)	0	0	$16.97	$30.01	$17.84
Red Mountain/Mesa	21,891,195	21,182	2,954,094	14.7%	10.7%	(13,962)	0	0	$13.09	$12.71	$13.03
North Phoenix/I-17 Corridor	12,846,595	35,929	1,158,907	10.2%	10.0%	59,637	25	7,912	$10.99	$11.11	$11.01
Glendale	8,212,187	13,013	611,996	8.5%	4.2%	(1,084)	0	0	$17.23	$14.71	$16.84
Downtown Phoenix	5,238,085	0	359,098	9.3%	5.2%	7,756	22,000	0	$15.21	$25.42	$20.10
North Goodyear/Litchfield	3,497,216	0	127,100	3.7%	3.2%	85,251	12,642	0	$19.85	$31.77	$21.86
South Scottsdale	3,267,651	6,777	268,191	11.6%	5.9%	(59,094)	0	7,000	$14.76	$20.40	$16.41
Airport Area	3,149,309	0	142,078	4.7%	4.2%	(5,151)	0	0	$18.95	$17.62	$18.52
Goodyear	2,609,491	1,785	223,569	10.4%	1.6%	(7,730)	0	0	$17.19	$11.36	$16.22
Loop-101/I-10	2,376,100	0	117,092	4.9%	5.4%	(44,818)	0	7,000	$15.86	$21.37	$16.28
Gateway Airport	2,034,407	0	155,291	8.8%	10.7%	12,263	5,239	13,239	$15.94	$15.53	$15.76
Deer Valley	1,767,918	0	50,787	3.5%	0.6%	227	0	7,000	$19.33	$27.00	$19.76
Queen Creek	1,395,370	0	99,106	7.5%	0.0%	444	0	0	$17.20	$0.00	$17.20
South Mountain	1,094,744	0	68,966	8.0%	1.6%	(23,074)	0	0	$16.52	$25.00	$16.82
East Phoenix	6,671,380	9,000	532,593	10.7%	2.4%	(37,126)	0	0	$13.73	$22.08	$15.07
Outlying Pinal County	5,849,917	0	527,930	13.2%	2.9%	18,976	4,380	0	$12.02	$6.37	$11.92
West Phoenix/Maryvale	5,475,706	0	479,682	9.1%	7.5%	(1,643)	0	0	$10.68	$14.41	$11.40
Sun City	2,527,600	14,490	327,765	16.8%	3.1%	(35,204)	0	0	$10.48	$15.49	$11.00
Anthem	1,788,076	0	83,317	5.8%	1.1%	4,565	0	0	$15.90	$24.00	$15.90
Tolleson	1,667,685	0	155,574	11.5%	5.8%	29,831	0	0	$8.29	$13.35	$9.38
South Buckeye	1,350,487	0	39,098	3.5%	1.5%	(4,500)	0	0	$21.23	$0.00	$21.23
Carefree	1,233,835	0	150,472	14.4%	2.1%	3,977	0	0	$15.98	$16.00	$15.98
Apache Junction	1,209,677	15,251	107,185	10.6%	6.4%	12,246	862	0	$13.97	$15.00	$14.00
Laveen	1,214,386	0	65,573	5.8%	0.0%	76,538	78,517	0	$20.44	$0.00	$20.44
South Phoenix	1,056,782	0	77,595	8.1%	6.5%	(25,064)	0	0	$12.27	$12.12	$12.20
Fountain Hills	509,009	0	74,885	15.4%	13.8%	(12,147)	0	0	$15.08	$12.41	$13.63
West Outlying Maricopa	456,737	0	6,156	0.0%	1.5%	(3,000)	0	0	$0.00	$33.98	$33.98
North Buckeye	41,397	0	1,721	0.0%	4.2%	1,191	0	0	$0.00	$0.00	$0.00
Total	169,802,754	165,591	2,096,953	8.0%	4.9%	(164,004)	134,151	164,473	$16.26	$18.89	$19.52

*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. A calculation error with South Mountain inventory in our 1Q 2020 report has been corrected in this report. This may prevent comparison to previously released reports.

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