



3Q 2020 / Research Report

Phoenix Retail Market

Market
Inventory



170,907,209 SF

Overall Vacancy
Rate



8.6%

Net
Absorption



(509,583) SF

Construction
Pipeline



124,470 SF

Average
Asking Rate



\$18.32 SF

Retail stratification has intensified in the COVID era. While “essential” businesses are thriving, many mom-and-pop retailers that did not secure PPP loans shuttered permanently. Overlapping product types, as with retail and industrial, force decision makers to seek a wider range of expertise for site selection, market, and property analysis.

Restaurants face particular risk to safely and profitably reopen. Al fresco dining in Metro Phoenix is common, so owners are not requesting more outside seating, rather overall size requirements are shrinking. Recent interest in PAD properties, to provide for more drive-thrus, is fueling sales and development activity.

Big box users in the process of right-sizing are not only compressing footprints, but also making space for web order fulfillment. Stay at home orders led to more consumers ordering necessities online. A recent Barclays study predicts 15 to 17% of US malls will require conversion, while also noting that doing so may write down the value by 60% to 90%.

Experiential retail faces the most challenges. In prior quarters, gyms took over obsolete grocer spaces that anchored many struggling shopping centers. Arizona allowed gyms to reopen with limited capacity this summer, but many members turned to the outdoors and home exercise, further lowering the likelihood of gym facilities' survival. Movie theaters faced streaming competition well before COVID-19. The industry has yet to reckon with such an abrupt change in consumer habits.

Employment

Overall Maricopa County employment is down 5.2% year-over-year to 5.9%. Unemployment is considerably down from the quarter's peak in July of 10.4%. Hospitality employment has not recovered, despite recent hiring spikes. Arts, entertainment, and recreation fared worse as food and beverage services employment is on an upward trajectory. With local temperatures beginning to cool, overall employment should continue to make gains.



124K SF

Metro Phoenix only saw 124,470 sf under construction at the end of 3Q. The largest project to break ground is a 38,000 sf EOS Fitness located in the Gilbert submarket.

Absorption & Vacancy

Sluggish absorption was helped by steady discount retailer and hobby store leasing, grocery store expansions, and surging home improvement retailers. The overall vacancy rate is above the national average, but at 8.6%, the sector is fairly stable. More tenants are seeking smaller spaces, and transaction volume is rising. Half of all submarkets reported a rise in vacancies since the beginning of pandemic closures in mid-March. Outlying Pinal County, which includes fast-growing San Tan Valley and Queen Creek, fared best, falling 4.3%. North Phoenix/I-17 Corridor suffering the loss of Metrocenter Mall rose by 3.4%.

Rental Rates

On average, rent growth at the end of 2019 had fallen 20% below mid-2000s peaks, and was trending downward prior to store closures. Overall rents declined 7.1% from 2Q to \$18.32 psf. Malls recorded the worst sub-sector rent growth performance, shrinking 2.1%. Over half of all submarket rents have declined, and two-thirds of retail

in shopping centers in all submarkets fell since mid-March. Affluent, suburban Ahwatukee Foothills commanded the highest free-standing retail rent at \$32.99 psf.

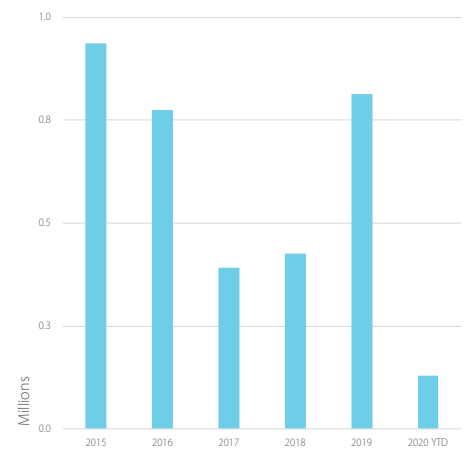
New Construction

The largest retail construction project is a 38,000 sf EOS Fitness in Gilbert. Given the hurdles facing gym operators, the opening date may be delayed. The second biggest project is Cooper's Hawk Winery & Restaurant, a Midwestern chain, building an 11,270 sf space in North Scottsdale slated to deliver in October.

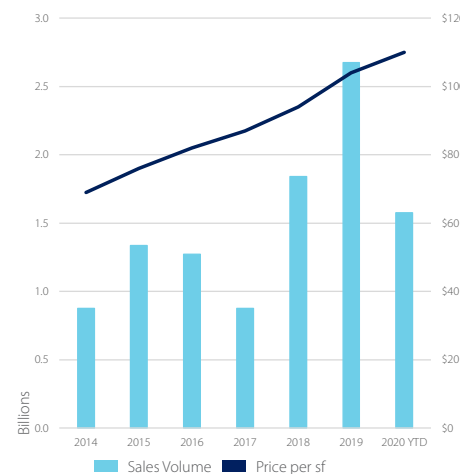
Investment Sales

While investment volume is recovering from the low in 2Q of \$241.6 million, the year-to-date figure of \$1.58 billion is only down 5.1% year-over-year. Rising population and income are also strong drivers of investment activity. The largest transaction occurred in early August when Camelback Marketplace sold for \$20,285,600 or \$402 psf, to a public REIT. The average sale price for all subtypes is \$193 psf.

Under Construction



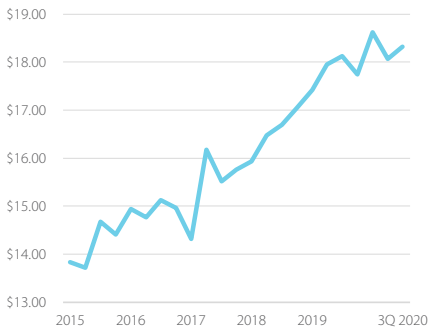
Investment Sales



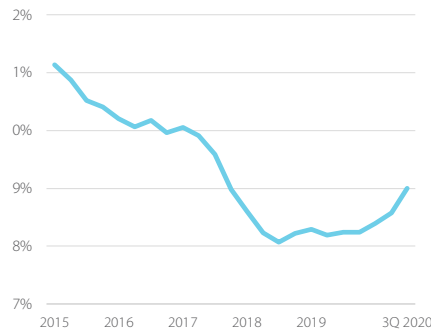
Retail Market Snapshot

Retail tenants and landlords are finding creative solutions to challenges in the COVID era in partnership with brokers who can bridge real estate types, interpret data, and market trends.

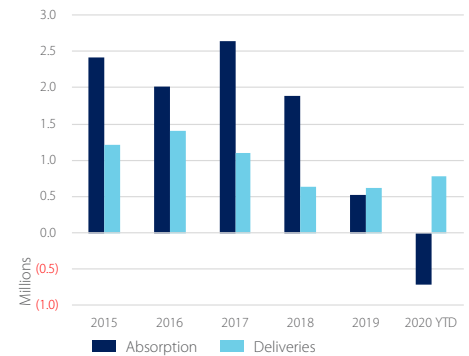
Rental Rates



Overall Vacancy Rates



Absorption & Deliveries



Top Leases

Tenant	Building	Submarket	Square Feet	Type
Super L Ranch Market	Indian River Plaza	South Scottsdale	10,200	Direct
Banquet Hall	8035 N 43rd Ave	N Phoenix/I-17 Corridor	10,000	Direct
Unknown Restaurant	6933 N 7th St	East Phoenix	6,636	Direct
Alma Restaurant	Scottsdale Seville	Central Scottsdale	6,280	Direct
Doordash Essentials	Bethany Marketplace	N Phoenix/I-17 Corridor	6,000	Direct

Top Sales

Buyer	Building	Submarket	Square Feet	Sale Price	Price/SF
Agree Realty	Camelback Marketplace	Downtown Phoenix	50,428	\$20,285,600	\$402
Solano Beach Storage	Tesla Tempe	Tempe	42,281	\$13,500,000	\$319
Wood Partners	8688 E Raintree Dr	North Scottsdale	63,294	\$13,050,000	\$206
David Wen	Cave Creek Crossing	Anthem	29,896	\$10,522,216	\$352
Scottsdale Redevelopment Partners	Shops at Dynamite Creek	Carefree	69,755	\$10,500,000	\$151

Under Construction

Property	Completion	Submarket	Square Feet	% Preleased/Owned
EOS Fitness	4Q 2020	Gilbert	38,000	100.0%
The Post at Cooley Station	4Q 2020	Gilbert	23,045	81.4%
Cooper's Hawk Winery & Restaurant	4Q 2020	N Scottsdale	11,270	100.0%
8946-8950 E Germann Rd	4Q 2020	Gateway Airport	10,500	0.0%
1177 S Watson Rd	4Q 2020	South Buckeye	8,400	34.6%

Market By The Numbers*

Submarket	Total RBA (SF)	Sublease Vacancy	Total Vacancy	Shopping Center Vacancy Rate	Free-Standing Vacancy Rate	3Q Net Absorption (SF)	3Q Deliveries	Under Construction (SF)	Avg. Ask Shopping Center (NNN)	Avg. Ask Free-Standing (NNN)	Avg. Ask Overall (NNN)
Chandler	12,919,228	8,200	854,563	7.4%	3.8%	(61,300)	0	0	\$13.69	\$17.77	\$13.99
Central Scottsdale	12,764,455	17,767	637,172	5.4%	3.3%	73,349	43,402	0	\$24.47	\$26.67	\$25.20
N Scottsdale	11,963,666	15,942	937,876	7.1%	4.9%	(88,195)	66,439	0	\$20.48	\$21.03	\$20.66
Gilbert	10,664,391	17,864	819,460	8.6%	4.5%	36,705	0	61,923	\$15.80	\$17.30	\$15.93
Central Peoria/Arrowhead	7,533,696	6,976	552,659	8.1%	3.5%	8,368	7,407	0	\$18.84	\$21.74	\$19.22
Tempe	7,050,296	0	473,870	7.0%	5.7%	(31,796)	0	2,630	\$15.81	\$25.10	\$18.72
Surprise/N Peoria	4,547,680	0	242,028	6.7%	0.0%	(7,141)	0	5,000	\$14.76	\$20.00	\$15.59
Ahwatukee Foothills	2,533,609	0	293,807	13.7%	4.1%	(12,574)	0	0	\$17.03	\$32.99	\$17.96
Red Mountains/Mesa	22,297,113	18,182	2,999,955	14.3%	10.6%	101,303	144,300	5,800	\$12.45	\$13.70	\$12.69
N Phoenix/I-17 Corridor	12,649,499	35,929	1,612,240	15.5%	5.8%	(426,018)	0	0	\$11.92	\$11.48	\$11.84
Glendale	8,268,801	13,013	578,560	8.0%	4.0%	(10,099)	0	0	\$17.23	\$17.38	\$17.25
Downtown Phoenix	5,242,547	0	354,776	9.2%	5.2%	(6,374)	0	0	\$14.83	\$24.80	\$19.53
N Goodyear/Litchfield	3,506,875	0	133,217	5.8%	3.3%	(7,124)	0	0	\$19.51	\$32.25	\$21.56
South Scottsdale	3,249,569	6,777	237,606	12.1%	4.0%	(29,337)	0	7,000	\$13.94	\$20.65	\$16.05
Airport Area	3,134,379	0	146,505	4.7%	4.6%	6,019	0	0	\$20.86	\$17.11	\$19.24
Goodyear	2,617,925	0	198,870	9.4%	0.6%	27,935	0	0	\$17.18	\$10.43	\$16.30
Loop 101/I-10	2,317,934	0	97,243	5.1%	1.7%	21,150	0	7,000	\$15.47	\$24.00	\$16.02
Gateway Airport	2,066,319	0	164,007	7.4%	10.3%	(3,463)	0	13,239	\$16.70	\$15.25	\$16.09
Deer Valley	1,788,525	0	60,068	4.1%	0.9%	1,800	7,000	0	\$17.94	\$27.00	\$18.30
Queen Creek	1,394,037	0	99,106	7.5%	0.0%	576	0	0	\$17.20	\$0.00	\$17.20
South Mountain	1,068,457	0	68,969	8.2%	1.6%	(6,603)	0	0	\$23.44	\$25.00	\$23.56
East Phoenix	6,646,905	0	507,645	13.0%	2.1%	41,696	0	0	\$14.06	\$25.53	\$15.45
Outlying Pinal County	5,925,359	0	340,659	7.8%	2.9%	(15,601)	2,000	0	\$12.07	\$8.13	\$11.93
West Phoenix/Maryvale	5,626,906	4,830	460,075	8.5%	7.0%	(17,060)	0	0	\$10.70	\$14.71	\$12.25
Sun City	2,527,909	14,490	320,301	16.7%	2.4%	5,964	0	0	\$10.17	\$15.49	\$10.78
Anthem	1,840,937	0	85,946	5.6%	1.6%	8,886	6,373	0	\$14.51	\$0.00	\$14.51
Tolleson	1,654,767	0	121,187	8.5%	5.5%	27,510	0	0	\$7.30	\$14.79	\$8.91
Buckeye	1,411,038	0	42,361	4.2%	0.4%	1,280	0	8,400	\$24.00	\$18.50	\$24.00
Carefree	1,239,014	0	150,477	13.9%	2.5%	2,412	0	0	\$16.04	\$16.00	\$16.04
Apache Junction	1,214,496	15,251	116,527	11.1%	7.4%	(20,557)	0	0	\$14.58	\$15.00	\$14.60
Laveen	1,219,386	0	70,816	6.2%	0.0%	(5,243)	0	0	\$18.98	\$0.00	\$18.98
South Phoenix	1,060,255	0	54,391	5.8%	4.3%	28,401	0	0	\$12.26	\$12.12	\$12.19
Fountain Hills	509,009	0	83,346	16.6%	16.1%	(6,261)	0	0	\$13.48	\$12.45	\$12.94
West Outlying Maricopa	452,227	0	6,156	0.0%	0.0%	0	0	0	\$0.00	\$12.50	\$33.98
Total	170,907,209	175,221	13,922,444	8.6%	4.2%	(509,583)	227,158	124,470	\$15.99	\$19.56	\$18.32

*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.



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