

Phoenix

Retail Market Report
First Quarter 2019

Quick Stats

7.1%
Vacancy rate increased by 10 bases points from fourth quarter 2018.

$16.09
Average asking rental rates for first quarter 2019.

-119 K
Net absorption for first quarter came in negative at -119,020 sf

875 K
Square feet of retail space under construction in first quarter 2019.

$370 M
Total sales volume for first quarter 2019.

Retail Market Braces for Influx of New Residents, More Jobs

The rosy picture economists painted for 2019 in Metro Phoenix and the latest U.S. Census Bureau data are giving the Valley's retail market continued boosts. While retail has faced headwinds nationally, the Phoenix Market remains strong and exhibits healthy property fundamentals. Consumer confidence is high. The unemployment rate is low. Businesses are looking to grow and expand. Retailers are absorbing space. Data released by the Census Bureau shows Maricopa County was the fastest-growing county in the U.S. last year with an average of 263 people moving to the Valley daily.

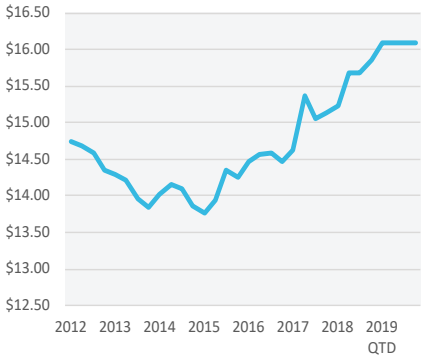
Rental Rates

First quarter 2019 rental rates were $16.09 per square foot (psf), following $15.85 psf in 4Q 2018. Year over year rents have increased by 5.5%. Asking average total NNN rates were highest in Central Scottsdale with $25.55 sf; North Scottsdale with $22.70 sf; Loop 101/I-10 with $21.04 sf; Deer Valley with $20.72 sf; and Downtown Phoenix with $20.03 sf. North Scottsdale held almost even this quarter at $22.70 psf over 4Q 2018 which was at $22.99 psf. Central Scottsdale increased to $25.55 this quarter from $24.80 in 4Q 2018.

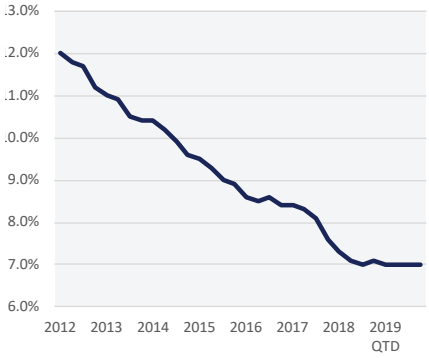
Vacancy

Vacancy held steady in the first quarter at 7.1%, a modest increase of 10 basis points from 4Q 2018. The 7.1% is still near a historic low, as tenants continue to opt for scoop up bargains. While the quarter saw 119,020 sf of negative absorption, the first negative number in nearly five years, the majority of this was due to Sears closing locations.

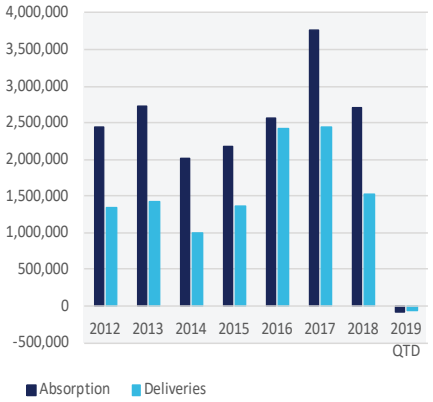
Rental Rates



Vacancy Rates



Absorption & Deliveries



Top Leases

Tenant	Building	Submarket	Square Feet	Type
EoS Fitness Center	4949 W. Ray Rd	Chandler	38,253	Community Center
Mega Furniture	6811-6821 W. Peoria	Peoria	33,000	Community Center
Family Entertainment	2820-2860 S. Alma School Rd	Chandler	29,179	Community Center
-	625 S. Cotton Lane	Goodyear	28,500	Power Center
Crunch	10050-10160 W. McDowell Rd	Avondale	24,315	Power Center

Top Sales

Buyer	Building	Submarket	Square Feet	Sale Price	Price/SF
QCM Partners	Queen Creek Marketplace - Shops B&C Phase I	Queen Creek	297,116	$53,028,025	$178
Levine Investments	Uptown Plaza - 2-52 E. Camelback	Downtown Phoenix	56,649	$23,260,270	$412
Levine Investments	Uptown Plaza - 100 E. Camelback	Downtown Phoenix	55,642	$22,923,699	$412
QCM Partners	Queen Creek Marketplace - 21002-21102 S. Ellsworth	Queen Creek	80,000	$14,278,066	$178
Capstone Advisors	Silver Creek Plaza - 4712-4730 E Ray Rd	Ahwatukee Foothills	41,425	$12,025,000	$290

Top Projects Under Construction

Property	Submarket	Completion	Total SF	% Preleased/Owned
Harvest Queen Creek	Queen Creek	1Q2020	63,357	0.0%
The Watermark	Tempe	3Q2019	44,000	42.3%
Pavilions at Talking Stick	Central Scottsdale	2Q2019	36,974	18.4%
Scottsdale Quarter - Block L	North Scottsdale	2Q2019	35,015	9.2%
Ocotillo Trails Marketplace	Apache Junction	3Q2019	34,000	100.0%

Trends to Watch

Number 1 population growth in the nation combined with a strong economy should push retail higher in 2019.

#1 in Population Growth

Phoenix-Mesa-Scottsdale metro gained 96,268 people in the last 12-month period, with an average gain of 263 per day.

Household Incomes Rising

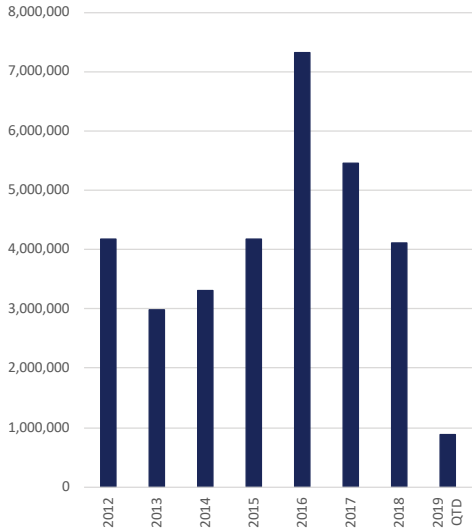
With household incomes on the rise retailers will continue to expand.

-119 K to 1.25 MSF

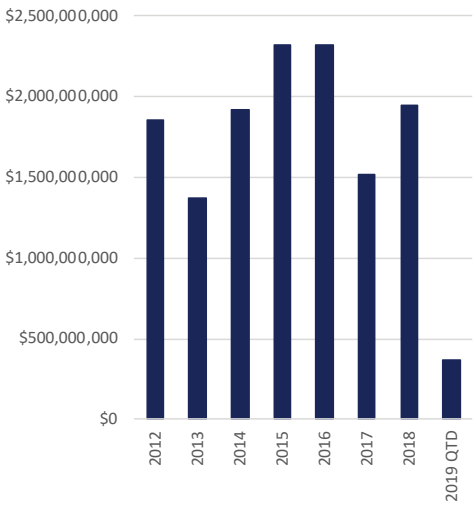
Despite negative absorption in the first quarter, 1.25 msf is projected to be absorbed in 2019.

Retailers are absorbing space. In the first quarter, the retail market kicked off with 875,136 sf under construction.

Under Construction



Investment Sales



Leasing

First quarter absorption was strongest in the Gilbert Submarket at 85,642 sf followed by the Red Mountain/Mesa Submarket at 61,204 sf. There were no leases of more than 50,000 sf in the first quarter. However, the top 5 were above the 24,000 sf mark. EoS Fitness Center leased 38,253 sf in Chandler and Mega Furniture leased 33,000 sf in Peoria.



EoS Fitness Center

The next sizable leases were Family Entertainment with 29,179 sf in Chandler. It is projected that even with the negative 1Q, absorption should turn positive and exceed 1.25 msf for 2019.

Construction

The first quarter kicked off with 875,136 sf of retail space under construction. The largest project under construction was Harvest Queen Creek at 63,357 sf. It's scheduled to deliver in 1Q 2020. The Watermark in Tempe at 44,000 sf is scheduled to deliver in 3Q 2019. The 1.9 msf project includes Class A office buildings, restaurants and shops.



The Watermark in Tempe

Other sizable retail projects under construction were the Pavilions at Talking Stick at 36,974 sf in Central Scottsdale, Scottsdale Quarter, Block L at 35,015 sf in North Scottsdale, and Ocotillo Trails Marketplace at 34,000 sf in Apache Junction.

Investment Sales

Total volume in 2018 was $2.0 billion, up from $1.5 billion in 2017.

Sales volume for the first quarter of 2019 came in at $370 million.

QCM Partners closed the largest sale of first quarter, purchasing Queen Creek Marketplace – Shops B&C Phase I at 297,116 sf for $53 million ($178 psf).



Queen Creek Marketplace

QCM Partners also made a second purchase at Queen Creek Marketplace of 80,000 sf for $14.28 million ($178 psf). Levine Investments made the next two largest purchases at Uptown Plaza in Downtown Phoenix for 56,649 sf at $23.26 million ($412 psf) and for 55,642 sf at $22.92 million (412 psf). While cap rates have trended higher recently, in 1Q we saw a reversal, with an average cap under 7% .

Market By The Numbers

Submarket	Total RBA (SF)	Sublease Vacancy	Total Vacancy	Shopping Center Vacancy Rate	General Vacancy Rate	Q1 Deliveries	Under Construciton (SF)	Net Absorption (SF)	Avg. Ask Total (NNN)	Avg. Ask Shopping Center (NNN)	Avg. Ask General (NNN)
Ahwatukee Foothills	3,241,896	2,870	315,155	11.4%	5.0%	0	0	(26,570)	$17.02	$16.61	$20.70
Airport Area	3,875,080	1,200	160,636	5.2%	3.4%	0	0	33,755	$18.19	$21.12	$14.05
Anthem	2,618,802	0	95,255	4.3%	3.8%	0	62,848	(13,958)	$16.04	$17.42	$14.59
Apache Junction	2,057,047	15,251	184,842	12.7%	5.1%	3,272	65,220	9,998	$12.01	$11.86	$13.44
Carefreee	1,843,281	2,792	174,055	15.8%	3.4%	0	0	20,747	$17.27	$16.76	$17.04
Central Scottsdale	15,707,946	22,038	844,131	5.8%	4.3%	0	89,548	(42,906)	$25.55	$26.27	$23.87
Chandler	17,277,421	23,770	923,873	8.6%	1.4%	3,340	23,900	8,983	$16.37	$15.80	$20.16
Central Peoria/Arrowhead	10,434,469	4,510	445,209	7.1%	3.5%	0	25,070	(13,514)	$19.31	$19.38	$17.80
Deer Valley	2,100,556	0	93,178	5.3%	3.7%	0	3,865	12,795	$20.72	$20.11	$22.63
Downtown Phoenix	7,646,778	0	532,241	8.4%	5.7%	10,240	28,700	(9,201)	$20.03	$15.18	$23.02
East Phoenix	8,877,992	4,050	699,325	11.9%	2.2%	0	0	59,402	$16.22	$14.73	$19.74
Fountain Hills	768,497	0	87,656	8.0%	15.0%	0	0	(5,729)	$16.04	$16.54	$15.60
Gateway Airport	2,996,957	0	130,822	4.6%	4.8%	0	0	14,282	$16.90	$16.91	$14.29
Gila River Outlying	356,184	0	0	0.0%	0.0%	0	0	0	$0.00	$0.00	$0.00
Gilbert	15,992,266	35,838	975,352	8.8%	2.5%	53,171	165,932	85,642	$17.33	$16.90	$20.69
Glendale	11,301,908	13,013	934,616	12.0%	3.9%	0	8,000	(112,603)	$11.96	$9.81	$16.86
Goodyear	3,529,954	0	247,452	11.1%	1.5%	0	0	2,179	$18.40	$17.45	$21.45
Laveen	1,451,842	0	86,631	6.6%	3.5%	7,000	7,100	(15,068)	$17.88	$14.41	$30.00
Loop 101/I-10	2,995,608	0	106,935	6.1%	1.1%	0	0	41,976	$21.04	$23.00	$16.83
North Goodyear/Litchfield	5,122,930	0	329,483	4.0%	2.4%	11,866	0	5,039	$17.91	$14.48	$22.33
North Phoenix/I-17 Corridor	16,298,128	2,600	2,089,466	14.8%	4.6%	0	8,500	32,272	$12.67	$12.76	$11.91
NE Outlying Maricopa	4,722	0	0	0.0%	0.0%	0	0	0	$0.00	$0.00	$0.00
North Buckeye	63,968	0	0	0.0%	0.0%	0	0	0	$0.00	$0.00	$0.00
North Scottsdale	15,196,394	1,230	874,441	10.2%	1.9%	0	43,370	4,872	$22.70	$20.88	$27.89
Outlying Pinal County	8,411,321	17,684	847,186	8.9%	7.6%	9,100	30,767	(112,943)	$11.17	$11.45	$10.32
Queen Creek	2,002,277	0	108,657	3.6%	0.4%	0	96,857	(51,546)	$15.92	$14.95	$13.00
Red Mountains/Mesa	30,559,270	27,458	2,781,748	11.0%	5.7%	7,400	102,905	61,204	$14.90	$13.22	$22.80
South Buckeye	1,490,028	0	39,444	4.0%	4.2%	0	19,026	(10,916)	$15.36	$16.00	$12.00
South Mountain	1,670,003	0	93,066	8.1%	2.2%	0	0	146	$16.63	$16.41	$25.00
South Phoenix	1,676,198	0	55,796	4.6%	2.6%	0	30,545	10,672	$14.78	$15.31	$14.21
South Scottsdale	3,876,964	6,777	210,080	9.0%	3.6%	0	2,000	(6,683)	$16.68	$15.25	$19.81
Sun City	3,759,311	0	356,426	16.0%	1.9%	6,237	2,398	4,615	$11.47	$11.05	$16.16
Surprise/North Peoria	5,568,808	4,572	323,367	8.2%	3.5%	30,872	29,479	39,104	$12.27	$11.68	$14.84
Tempe	8,245,126	6,621	490,397	8.1%	6.0%	7,100	44,000	40,844	$19.11	$14.84	$25.93
Tolleson	2,795,097	0	181,678	9.2%	3.5%	0	0	(23,397)	$10.73	$10.01	$14.75
West Outlying Maricopa	809,150	0	19,993	1.3%	2.7%	0	0	(1,130)	$23.48	$0.00	$23.48
West Phoenix/Maryvale	8,378,926	0	471,100	6.1%	3.1%	0	0	(161,383)	$11.01	$10.97	$11.08
Total	**231,003,105**	**192,274**	**16,309,692**	**9.5%**	**4.0%**	**149,598**	**890,030**	**-119,020**	**$16.09**	**$14.90**	**$19.46**

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