

Phoenix

Retail Market Report Third Quarter 2019

Quick Stats

68%

Prelease rate for projects under construction in Metro Phoenix

\$14.93

Average asking NNN rental rate psf for third quarter 2019

272.4 K

Net absorption for third quarter came in at 272,386 square feet

1.1 M

Square feet of retail space delivered in past 12 months

\$2.1 B

Total sales volume for Q3 2019

Once Bitten, Twice Shy

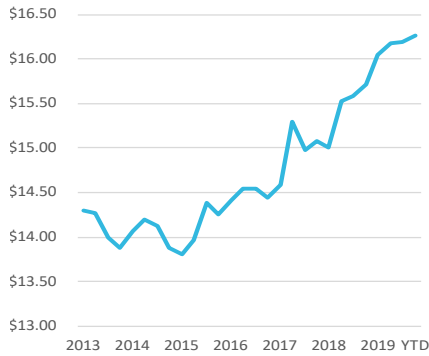
As Metro Phoenix continues its impressive recovery from the deep lows of the Great Recession, the Retail Market has improved more slowly than other real estate sectors. Conservative growth and expansion patterns have not necessarily kept pace with the region's population gains and rising household formation demands. The retail sector's negative headlines have painted conditions with a broad brush but not all sub-types are performing equally. The retail market encompasses diverse categories, and performance by category varies greatly. As consumer patterns, technology and demographics evolve, some retail real estate categories have done much better than others. Strip malls and neighborhood centers still suffer from high vacancy rates, while single tenant and niche players like fitness, entertainment retailers and restaurants are surging. Rumors of retail's demise rarely

take this diversity into account. The sector's condition is a more interesting and, in many respects, more upbeat story than recent headlines often tell.

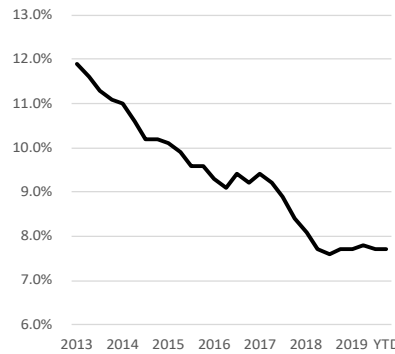
Rental Rates

While the rental rate graph of the past five years shows a healthy upward trajectory, rents are still 20% below pre-recession highs, and an overall deceleration is expected in the current cycle going forward. Mall rents have taken the biggest tumble after outperforming other categories recently. The West Outlying Maricopa Submarket achieved \$27.85 psf while the Laveen Submarket, where international discount grocer Aldi plans one of its two Phoenix locations sometime next year, leads in freestanding NNN retail rents at \$30.00 psf. The Central Scottsdale Submarket took top spot for Mall NNN rents at \$27.80 psf.

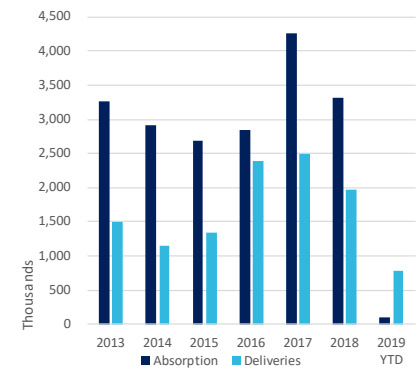
Rental Rates



Vacancy Rates



Absorption & Deliveries



Top Leases

Tenant	Building	Submarket	Square Feet	Type
-	Park Northern	North Phoenix/I-17	51,511	Neighborhood Center
Urban Air Trampoline & Adventure Park	San Tan Pavilions	Gilbert	50,000	Strip Center
Maverix	The Pavilions at Talking Stick	Central Scottsdale	45,000	Power Center
Conn's Home Plus	The Pavilions at Talking Stick	Central Scottsdale	36,974	Power Center
Dbat	The Pavilions at Talking Stick	Central Scottsdale	21,458	Power Center
Planet Fitness	South Mountain Plaza	South Mountain	20,622	Neighborhood Center

Top Sales

Buyer	Building	Submarket	Square Feet	Sale Price	Price/SF
Apollo Commercial Real Estate Finance Inc.	Avondale Toyota	Avondale	65,200	\$41,500,000	\$637
Weingarten Realty	Camelback Miller Plaza	Scottsdale	155,284	\$33,386,060	\$215
Matthew Jewell	Santan Gateway	Chandler	123,491	\$16,918,267	\$137
James L. Case	Glendale Galleria	Glendale	120,275	\$14,800,000	\$123
The Related Group	LA Fitness	Scottsdale	44,374	\$13,625,000	\$307

Top Projects Under Construction

Property	Submarket	Completion	Total SF	% Preleased/Owned
FatCats	Red Mountain/Mesa	Q4 2019	91,402	100%
Lifetime Athletic	Central Scottsdale	Q1 2020	80,000	100%
Floor and Décor	Loop 101/I-10	Q4 2019	80,000	100%
Safeway + Shops	Gateway Airport	Q4 2019	79,037	80.4%
The Watermark Phase I	Tempe	Q4 2019	44,000	44.3%

Trends to Watch

The Halo Effect is a concept that considers how impressions in one sphere impact upon another. In retail it highlights the reciprocal influence of e-commerce on in-store traffic.



Bricks Drive Clicks

A new store opening in a city drives web traffic up by 37% on average to the retailer's website according to a study by ICSC.



Physical Closures Hit Web Traffic

Share of web traffic usually falls when a physical store shutters by as much as 16% depending on retail category.

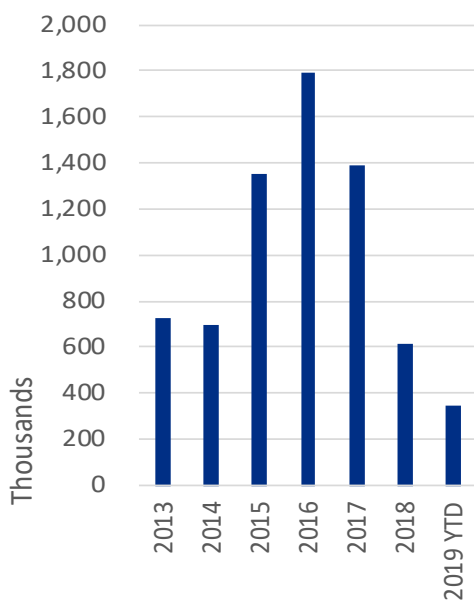


More Stores, Better Brand ID

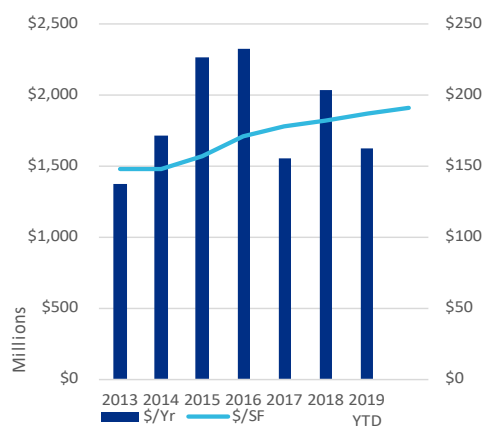
Retailers grow brand awareness significantly by opening physical locations in a new market. The higher the store count per million, the steeper the awareness curve.

PAD sites are particularly popular with tenants seeking high profile storefronts who will pay top dollar fees for premium visibility.

Under Construction



Investment Sales



Vacancy

Vacancy compression overall fell almost 600 basis points (bps) from a recession high of 12.6% in 1Q 2011 to 6.6% in Q3 2018, a national record for reversal. Metro Phoenix currently has a lower than average concentration of retail space than the rest of the nation at 47 square feet per capita. With limited supply in the pipeline, vacancy rates are not expected to climb any time soon. Submarkets with the quarter's lowest overall vacancy rates include West Outlying Maricopa at 2.4%, Deer Valley at 3.2%, and South Mountain at 3%. Sun City shopping center vacancy stands out for the highest rate at 13.4%, while South Buckeye Submarket boasts the lowest at 1.2%.

Leasing

Most leasing activity in this period is in restaurant, car wash, fitness, entertainment and medical spaces. Look for this to continue. PAD sites are particularly popular with tenants seeking high profile storefronts who will pay top dollar fees for premium visibility.

Store closures by retailers like Forever 21, Bed Bath & Beyond, and Payless Shoes have been offset by expansions and robust demand for fitness retailers like Planet Fitness, LA Fitness, and EOS Fitness, as well as entertainment retail centers like the planned Urban Air Adventure Park prelease of 50,000 sf at San Tan Pavilions in Gilbert.



Urban Air Adventure Park

Construction

New supply has fallen under 2 million square feet annually, down from highs just before the crash when nearly 30 million sf was added between 2006 and 2008. Developers will deliver only 1.2 million sf this year, a second annual slowdown. Furniture, fitness, and fun define the quarter's top construction projects. Fatcats, the 91,402 sf family entertainment center in Mesa, is set to debut by the end of the year. Lifetime Athletic, coming in January to Biltmore Fashion Park, ranks second in size at 80,000 sf. Floor and Decor in Tolleson will also occupy 80,000 sf. Food, another defining "f" in retail, is represented in top projects with a 79,037 sf Safeway in Mesa delivering in December. Fashion, the final "f," is the sector's laggard with little to no new construction activity.



Lifetime Athletic – Biltmore Fashion Park

Investment Sales

The average sale price is up from 2013 lows, rising to \$190 psf on average but this is still 11% below pre-recession peaks. Average Cap rates of 7% are 250 bps above those in California, attracting yield-chasing investors to Arizona. The Avondale Toyota Scion auto dealership ranked first in this quarter's retail investment sales as part of a \$41.5 million portfolio deal. In July, the 155,284 sf neighborhood shopping center Camelback Miller Plaza, comprised of 15 one-story buildings, traded for \$33.5 million.

Market By The Numbers*

Submarket	Total RBA (SF)	Sublease Vacancy	Total Vacancy	Shopping Center Vacancy Rate	Free-standing Vacancy Rate	Q3 Deliveries	Under Constructon (SF)	Q3 Net Absorption (SF)	Avg. Ask Total (NNN)	Avg. Ask Shopping Center (NNN)	Avg. Ask Free-standing (NNN)
Ahwatukee Foothills	3,248,348	3,135	270,863	9.2%	4.1%	0	7,000	1,749	\$17.26	\$31.18	\$18.68
Airport Area	3,882,595	0	139,592	4.2%	2.7%	0	0	16,048	\$20.16	\$17.89	\$19.11
Anthem	2,632,844	0	95,406	4.8%	1.4%	6,853	67,528	(2,629)	\$14.77	\$28.41	\$16.69
Apache Junction	2,093,124	15,251	144,836	9.3%	5.8%	3,272	0	34,000	\$18.20	\$16.54	\$18.11
Carefree	1,869,626	0	174,309	11.8%	3.0%	0	0	(5,240)	\$16.17	\$17.04	\$16.20
Central Scottsdale	15,852,024	18,890	932,968	5.5%	4.8%	100,634	111,581	5,100	\$27.80	\$27.13	\$27.13
Chandler	17,187,700	8,100	1,024,443	7.0%	2.2%	13,379	0	26,184	\$14.36	\$23.10	\$15.72
Central Peoria/Arrowhead	10,270,854	5,063	536,911	5.6%	3.1%	0	0	(52,135)	\$20.48	\$19.83	\$20.36
Deer Valley	2,121,325	2,150	73,019	3.5%	2.5%	11,225	0	18,143	\$19.33	\$22.50	\$20.05
Downtown Phoenix	7,591,706	1,991	495,490	9.2%	4.4%	0	0	33,993	\$15.22	\$23.56	\$20.16
East Phoenix	8,895,870	0	693,811	10.9%	2.1%	5,600	0	4,957	\$14.82	\$16.45	\$15.42
Fountain Hills	782,227	0	78,836	10.2%	9.9%	0	0	9,378	\$14.58	\$14.94	\$15.22
Gateway Airport	3,046,251	1,900	135,008	4.2%	5.6%	0	0	(5,971)	\$16.26	\$15.67	\$15.79
Gila River Outlying	356,506	0	0	0.0%	0.0%	0	0	0	\$0.00	\$0.00	\$0.00
Gilbert	16,108,411	19,760	994,816	6.9%	2.6%	16,800	203,589	(29,105)	\$15.18	\$21.02	\$16.39
Glendale	11,329,523	13,013	795,418	9.5%	2.6%	0	0	28,883	\$16.61	\$16.36	\$16.22
Goodyear	3,560,591	0	253,363	8.8%	1.9%	0	0	(3,320)	\$16.68	\$23.27	\$18.51
Laveen	1,475,920	0	71,794	4.3%	6.3%	3,948	0	9,222	\$16.30	\$30.00	\$17.88
Loop 101/I-10	3,025,780	0	122,376	4.7%	2.9%	0	0	(10,376)	\$23.98	\$20.71	\$23.20
North Goodyear/Litchfield	5,129,554	0	218,064	4.3%	1.7%	9,026	0	3,317	\$16.13	\$24.41	\$16.96
North Phoenix/I-17 Corridor	16,184,776	35,929	1,663,326	11.8%	5.1%	7,700	2,519	(22,826)	\$12.15	\$10.98	\$12.07
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	15,663,084	4,542	778,255	5.4%	2.4%	0	0	29,417	\$21.56	\$24.72	\$22.47
Outlying Pinal County	8,506,267	16,400	820,728	11.4%	7.0%	9,782	0	(4,198)	\$12.59	\$11.03	\$12.20
Queen Creek	2,111,257	0	112,675	6.9%	0.4%	0	0	(6,676)	\$17.32	\$12.00	\$16.45
Red Mountains/Mesa	30,865,347	22,382	2,797,054	10.3%	5.1%	17,920	0	119,036	\$13.68	\$15.12	\$13.94
South Buckeye	1,528,565	0	32,728	1.2%	2.5%	3,500	0	15,900	\$17.74	\$12.00	\$17.15
South Mountain	1,670,470	0	68,782	3.8%	2.1%	0	0	21,109	\$15.64	\$25.00	\$15.88
South Phoenix	1,695,200	6,387	73,594	4.0%	4.4%	0	0	(18,420)	\$15.00	\$11.50	\$12.55
South Scottsdale	3,824,490	6,777	186,751	6.4%	3.8%	0	0	(6,495)	\$15.98	\$18.93	\$17.46
Sun City	3,777,390	0	309,215	13.4%	1.7%	0	0	(17,081)	\$11.57	\$16.04	\$12.03
Surprise/North Peoria	5,601,403	4,572	245,058	4.6%	3.2%	0	0	47,688	\$12.01	\$17.25	\$12.89
Tempe	8,187,025	5,800	485,321	6.3%	4.5%	5,948	0	(10,679)	\$15.43	\$20.26	\$17.22
Tolleson	2,839,126	0	186,089	8.5%	3.6%	0	2,200	7,568	\$11.07	\$13.31	\$11.41
West Outlying Maricopa	792,104	0	19,214	0.0%	2.5%	0	0	1,918	\$0.00	\$27.85	\$27.85
West Phoenix/Maryvale	8,237,545	0	446,850	6.9%	1.9%	7,500	0	33,927	\$11.54	\$11.86	\$11.63
Total	232,013,518	192,042	15,476,963	7.7	3.7%	223,087	394,417	272,386	\$14.93	\$18.27	\$16.60

*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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