

Phoenix

Retail Market Report 4th Quarter 2018

Quick Stats

103.6 K

Net employment gain from November 2017 to November 2018.

150.4 K

Square feet of positive retail space absorption.

7.1%

Vacancy increased by 10 basis points from third quarter 2018.

625.6 K

Square feet of retail space under construction.

\$15.85 PSF

Gross asking rates increased by 1.0% from third to fourth quarter 2018.

Retail Market Continues to Draw Attention of Investors.

The strong economy and employment base of the Phoenix region supports a retail market that continues to draw the attention of investors. Employment and population growth over 1.0% annually in the past 10 years demonstrates to developers and their financiers that Phoenix retail is a safe destination. The recent influx of tech companies and the still growing healthcare industries are broadening the population of those with disposable income. Information sector employment increased 12.1% in the 12 months leading up to November 2018.

Rental Rates

Fourth quarter 2018 rental rates increased 1.0% from third quarter, to \$15.85 per square foot (psf). Asking rate increases were largest in the Loop 101/I-10 (27.4%), Goodyear (9.2%) and Queen Creek (8.1%) Submarkets. At the top of the market, Central Scottsdale NNN rates declined 0.8% but remain the highest at \$24.80 psf. E-commerce continues to put pressure on shopping centers, with grocery stores now

expanding into delivery, causing rents to lag freestanding retail by 23.4%. Projects completed in 2018 are charging \$33.86 psf. Rents range from \$42.00 psf for a 7,000-sf pad space at Gateway Village in the Loop101/I-10 Submarket, down to \$26.00 psf for 2,128 sf at 7500 W. Main Street in Central Scottsdale. In developments built since 2017 rents decreased 0.8% in 2018 to accelerate leasing, from \$25.36 to \$25.15.

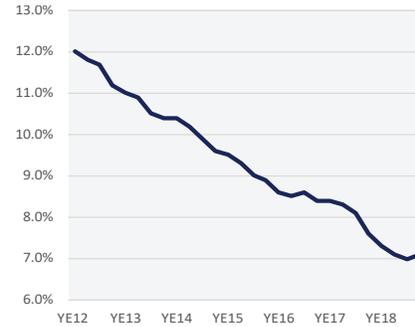
Vacancy

Vacancy increased a negligible 10 basis points, as nearly 460,000 sf were delivered; however, it is still near the historic lows reached in mid-2018. Central Scottsdale, Goodyear, Surprise/North Peoria and West Outlying Maricopa all improved by 100 bps. Worsening vacancy was seen in Outlying Pinal County (280 bps), Downtown Phoenix (270 bps) and Apache Junction (200 bps). Vacant sublease space fell again in the fourth quarter, declining 17.8% as tenants continue to try and find bargains in a tightening market.

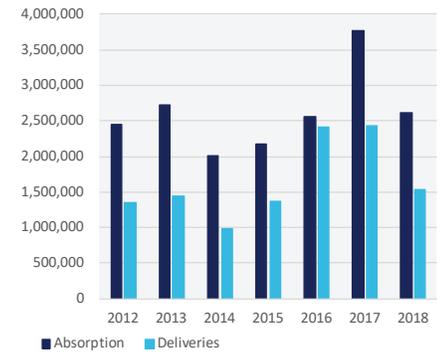
Rental Rates



Vacancy Rates



Absorption & Deliveries



Top Leases

Tenant	Building	Submarket	SF	Type
Salvation Army Family Store	4920 S. Arizona Avenue	Chandler	13,929	Freestanding
Salt Creek Home	2757 S. Santan Village Parkway	Gilbert	12,480	Shopping Center
BBB Fashion Mart	1703 W. Bethany Home Road	North Phoenix/I-17 Corridor	11,221	Shopping Center
La Santisima Bar	4139 W. Bell Road	North Phoenix/I-17 Corridor	9,975	Shopping Center
Five Below	2784 W. Peoria Avenue	North Phoenix/I-17 Corridor	9,081	Shopping Center

Top Sales

Buyer	Building	Submarket	SF	Sale Price
DRA Advisors LLC	Palm Valley Pavilions West	North Goodyear/Litchfield	150,111	\$44,750,000
At Home	15255 N. Northsight Boulevard	North Scottsdale	130,333	\$15,600,000
VEREIT Real Estate L.P.	San Tan Pavilions	Gilbert	112,211	\$14,098,971
Agree Realty Corporation	Maricopa Marketplace II	Outlying Pinal County	78,750	\$13,075,000
Sphinx Construction	The Shoppes at Parkwood Ranch	Red Mountain/Mesa	92,626	\$13,000,000

Under Construction

Property	Submarket	Completion	SF	% Preleased/Owned
The Watermark - Phase I	Tempe	4Q2019	44,000	42.3%
The Pavilions At Talking Stick	Central Scottsdale	1Q2019	36,974	18.4%
15169 N. Scottsdale Road - Phase II	North Scottsdale	2Q2019	35,015	9.2%
Mountain Vista Marketplace - Sprouts	Mountain Vista Marketplace	2Q2019	28,896	100.0%
Safeway Plaza	Outlying Pinal County	2Q2019	20,000	0.0%

Trends to Watch

Leisure and hospitality employment continue to rise, while the unemployment rate dropped 30 bps from third quarter.



3.9%

The unemployment rate decreased 60 bps from January 2018.



8.1% to 7.1%

The vacancy rate has dropped 100 bps from fourth quarter 2016 to fourth quarter 2018.

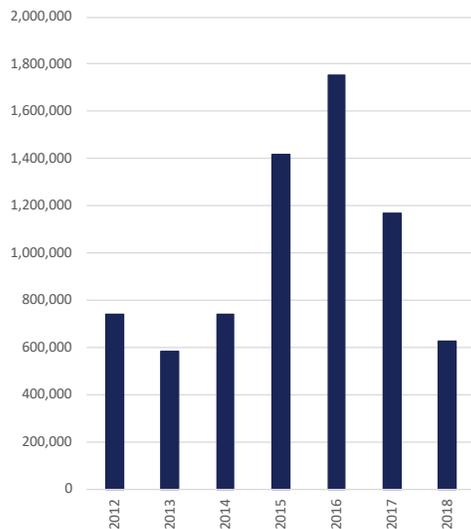


3.2%

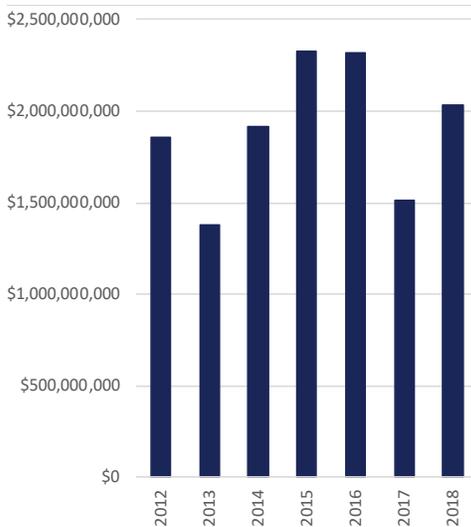
Leisure and hospitality sectors employment has increased year-over-year.

Growing employment has helped Phoenix retail sales grow 5.8% annually from 2010 to 2018.

Under Construction



Investment Sales



Leasing

Fourth quarter absorption was strongest in the Central Scottsdale Submarket (174,085 sf), followed by North Scottsdale (135,000 sf). Positive absorption declined 74.2% from third quarter. There were no large leases over 50,000 sf in the fourth quarter. The Salvation Army Family Store leased 13,929 sf in Chandler and Salt Creek Home leased 12,480 sf in Gilbert. The North Phoenix/I-17 Corridor Submarket accounted for the next three sizable leases with BBB Fashion Mart leasing 11,221 sf at 1703 W. Bethany Home Road, La Santisima Bar leasing 9,975 sf at 4199 W Bell Road, and Five Below leasing 9,081 sf at 2784 W Peoria Avenue.

Construction

The Phoenix retail market has seen a total of 1,526,122 sf of retail space built over the past four quarters with a total of 625,580 sf under construction by the end of fourth quarter 2018. The largest project under construction in the fourth quarter is the high-end mixed-use project The Watermark, a 1.9 msf project in Tempe with an estimated 44,000 sf featuring Class A office buildings, restaurants, shops and multi-family units, and an expected delivery before the end of 2019.



The Watermark | Tempe

The Gilbert Submarket led the Phoenix market for sf under construction.

The Gilbert Submarket accounts for 25.4% of the square footage under construction, more than any submarket in the Phoenix Metro Area. When the current pipeline in Gilbert is completed, 159,232 sf will be added to the submarket. The Gilbert Crossings shopping center accounts for 55% of the submarket's development.

Investment Sales

Sales volume contracted in the fourth quarter 14.9% to \$495 million. Total volume in 2018 reached \$2.0 billion, up from \$1.5 billion in 2017. DRA advisors closed the largest sale of the fourth quarter, purchasing Palm Valley Pavilions for \$44.8 million (\$298 psf). The 150,111-sf shopping center was 98.5% leased at the time of sale and is anchored by Ross Dress for Less and Best Buy.



Palm Valley Pavilions

In the second and third largest sales were the 130,333 sf At Home store in North Scottsdale for \$15.6 million (\$120 psf), and VEREIT Real Estate L.P. purchasing the 112,211 sf San Tan Pavilions shopping center in Gilbert for \$14.09 million (\$126 psf).

Market By The Numbers

Market	Total RBA (SF)	Vacancy Space		Vacancy Rate		Available Space		Net Absorption (SF)	Avg. Ask Total (NNN)	Avg. Ask Shopping Center (NNN)	Avg. Ask Free-Standing (NNN)
		Direct	Sublease	Shopping Center	Free-Standing	Direct	Sublease				
Ahwatukee Foothills	3,422,133	242,580	6,005	8.1%	3.5%	241,083	6,005	-14,256	\$17.80	\$17.73	\$18.56
Airport Area	3,894,649	194,391	0	5.5%	4.2%	192,788	0	-30,145	\$16.89	\$18.92	\$14.01
Anthem	2,675,866	80,397	0	2.6%	3.8%	79,696	0	19,133	\$16.05	\$17.42	\$14.79
Apache Junction	2,046,498	176,317	15,251	12.7%	5.8%	168,679	15,251	42,444	\$11.92	\$12.14	\$10.95
Carefree	1,826,581	187,705	2,792	13.3%	4.5%	186,694	2,792	10,836	\$16.75	\$16.75	\$17.00
Central Scottsdale	15,792,448	779,532	23,045	5.5%	3.9%	759,215	23,045	174,085	\$24.80	\$25.28	\$23.71
Chandler	17,258,014	904,397	23,719	6.7%	1.3%	892,168	20,470	104,841	\$16.02	\$15.86	\$17.14
Central Peoria/Arrowhead	10,369,238	426,381	5,314	4.5%	2.9%	419,193	5,314	-8,154	\$17.58	\$17.28	\$20.16
Deer Valley	2,100,556	100,573	5,400	5.5%	3.8%	98,313	5,400	664	\$20.81	\$20.13	\$22.63
Downtown Phoenix	7,668,134	809,742	0	9.6%	11.0%	658,726	0	-120,732	\$18.50	\$12.47	\$21.83
East Phoenix	8,871,048	760,277	4,050	12.5%	2.7%	737,977	4,050	-24,339	\$16.92	\$14.75	\$22.20
Fountain Hills	768,497	81,927	0	7.4%	14.1%	81,927	0	-7,697	\$15.14	\$14.89	\$15.37
Gateway Airport	2,971,473	145,104	0	4.9%	4.7%	145,104	0	-15,778	\$16.98	\$18.44	\$13.78
Gilbert	16,003,201	987,283	35,088	7.7%	2.8%	968,492	35,088	-130,376	\$18.33	\$18.01	\$20.09
Glendale	11,506,067	804,671	15,013	8.9%	3.5%	787,328	15,013	20,161	\$11.79	\$11.50	\$14.43
Goodyear	3,530,244	249,631	0	8.9%	1.7%	244,956	0	60,556	\$18.40	\$17.14	\$21.28
Laveen	1,394,757	64,563	0	5.0%	0.0%	63,243	0	1,651	\$17.53	\$16.30	\$30.00
Loop 101/I-10	3,011,647	148,911	0	7.4%	0.6%	148,911	0	50,593	\$20.25	\$21.67	\$16.83
North Goodyear/Litchfield	5,125,407	342,191	0	7.4%	3.9%	288,103	0	-36,957	\$14.84	\$14.41	\$17.27
North Phoenix/I-17 Corridor	16,490,838	2,035,999	8,682	15.5%	4.9%	2,018,460	8,682	-78,278	\$12.31	\$12.43	\$11.35
North Buckeye	63,696	0	0	0.0%	0.0%	0	0	0	-	-	-
North Scottsdale	15,012,688	879,053	0	7.3%	1.8%	870,794	0	135,926	\$22.99	\$21.58	\$27.37
Outlying Pinal County	8,411,024	707,459	17,684	9.3%	7.7%	701,669	17,684	-148,342	\$12.12	\$12.29	\$11.35
Queen Creek	1,721,487	57,111	0	3.8%	0.0%	57,111	0	32,041	\$15.93	\$17.13	\$12.60
Red Mountains/Mesa	30,403,731	2,825,744	30,544	11.0%	5.9%	2,793,210	30,544	87,344	\$14.38	\$13.34	\$19.08
South Buckeye	1,489,993	28,528	0	1.9%	2.0%	28,528	0	-1,560	\$16.54	\$17.06	\$12.00
South Mountain	1,752,811	92,712	0	6.8%	1.7%	92,712	0	6,930	\$16.87	\$16.66	\$25.00
South Phoenix	1,671,967	68,171	0	5.2%	3.4%	63,937	0	947	\$14.92	\$15.38	\$14.27
South Scottsdale	3,866,438	196,020	6,777	7.8%	4.0%	190,848	6,777	9,869	\$16.53	\$13.49	\$20.05
Sun City	3,708,351	354,804	0	15.8%	2.2%	354,804	0	9,003	\$11.49	\$10.58	\$17.34
Surprise/North Peoria	5,453,525	327,754	3,145	6.8%	3.2%	324,274	3,145	58,068	\$12.84	\$12.17	\$16.53
Tempe	8,203,537	505,901	11,240	6.6%	5.6%	497,850	11,240	-85,798	\$19.38	\$14.75	\$27.05
Tolleson	2,764,629	134,285	50,000	8.3%	4.4%	129,278	50,000	-1,521	\$13.16	\$12.12	\$16.53
West Outlying Maricopa	807,000	18,863	0	1.1%	2.6%	15,263	0	7,950	\$33.98	-	\$33.98
West Phoenix/Maryvale	8,383,282	309,717	0	3.7%	3.6%	300,712	0	21,320	\$12.16	\$12.19	\$12.08
Total	230,441,455	16,028,694	263,749	8.2%	4.5%	15,602,046	260,500	150,429	\$15.85	\$14.90	\$19.46

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.



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