



4Q 2020 / Research Report

Phoenix Retail Market

Market
Inventory
↓
170,760,326 SF

Vacancy
Rate
↑
9.0%

Net
Absorption
↑
-20,611 SF

Construction
Pipeline
↑
239,456 SF

Average
Asking Rate*
↑
\$19.51

The retail real estate sector in Phoenix has performed well under difficult conditions as lessons from previous cycles that tempered construction activity and put retailers in fighting shape to innovate and adjust. By the final quarter of a tumultuous year, the promise of imminent vaccination and pent up demand put consumers in a more optimistic mood. Aggregate retail sales for Metro Phoenix fell in April, but have since risen 20% to \$10.1 billion. A surprising number of restaurants have opened recently, albeit with reduced footprints, accommodations for outdoor seating and curbside pick-up. Restaurant sales in Metro Phoenix are down 12.2% year over year to \$1.9 billion, having climbed 47.1% from the depths of April 2020. The industry is resilient.

The holiday season was markedly different this year, but shoppers drove sales online and overall sales met or exceeded expectations. It gave some store owners a clearer picture of viability in the future, and others, a harsh reality.

Economy

Different sub-sectors of retail have recovered better than others. Employment in hospitality fared the worst, falling 38.8% from February 2020, and retail and wholesale trade up 3.4% and 1.3% respectively. Employment in food services and drinking places climbed from a 43% decline in April 2020 to a current 10.6% reduction from the level in February 2020.

According to Yardi Matrix, Maricopa County year-over-year employment is down 4.2% through September, which is better than all but four metros, and in line with comparative cities like Dallas (-4.0%), Denver (-5.2%) and Atlanta (-4.5%). Overall unemployment as of December stands at 7.2%, down 530 bps from its peak in April 2020.

Absorption & Vacancy

Retail absorption has improved from 3Q 2020 that recorded a half a million square feet of negative absorption. This quarter, the figure is a more manageable -20,611 sf.

\$261 psf

The race to market electric vehicles is a boon for Arizona, as tax incentives designed to attract innovators begins to pay off. In November, Lithia Motors paid \$261 psf for a site in North Phoenix.



The vacancy rate ticked slightly upwards from 8.9% last quarter to 9% in 4Q 2020. Free-standing retail vacancies fell by the same amount, while retail in shopping centers maintained an 8.6% vacancy rate.

Rental Rates

Retail rent growth trended downward through the year, ending 4Q 2020 at 0.9% with further slowing expected through the first quarter of 2021. Nominal rent dipped mid-year, but finished the year up at \$19.51 psf.

New Construction

Four of the five top retail projects currently under construction are located in the Southeast Valley. The largest, Sonoran Desert Marketplace, is in the town of Maricopa in Pinal County. Construction at Queen Creek Marketplace is another indicator of population growth pushing further southeast into San Tan Valley. Fitness centers have been emptied out by the pandemic, as at-home consumers adapted to exercise regimes outside of such facilities and

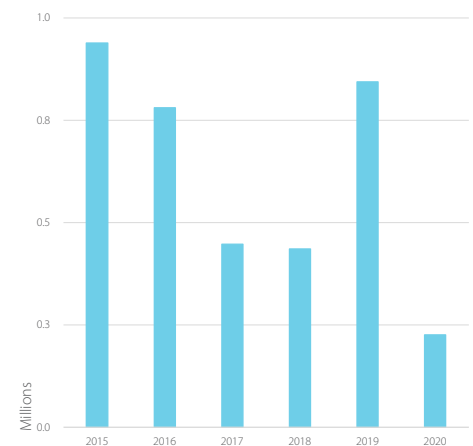
sent home exercise equipment sales soaring. Attracting those consumers back is a major concern for owners and developers. Two such facilities under construction, EOS Fitness in Gilbert and Mountainside Fitness in Avondale, will be closely watched to see if the sector can successfully recover. Both projects are scheduled for delivery in 1Q 2021.

With a mere 239,456 sf under construction, the sector clearly absorbed the brutal lesson of the last economic downturn. By contrast, a total of 8.2 million square feet were under construction in 3Q 2006.

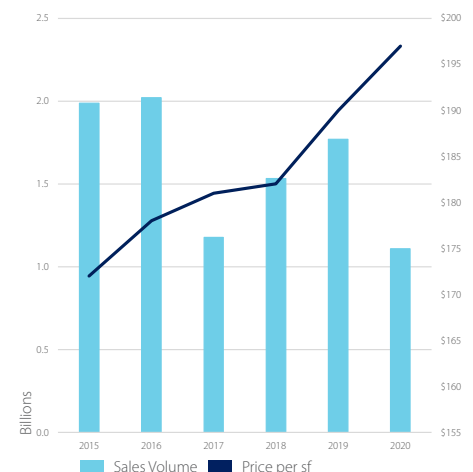
Investment Sales

Investment volume fell by half year over year to \$335.9 million in 4Q 2020 with the annual total down 37.3% to \$1.1 billion. The largest transaction was Lithia Motors purchase of the Bell Toyota lot in North Phoenix for \$16.5 million or \$261 psf, as electric vehicles gain market share. While annual sales volume is down, price per square foot rose 3.7% over 3Q 2020, hitting \$197 psf. Market cap rates rose to 6.95%.

Under Construction



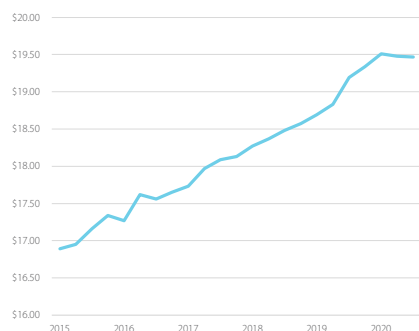
Investment Sales



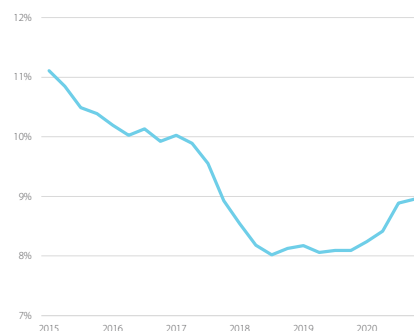
Retail Market Snapshot

The Metro Phoenix retail market ended an historic year in fair shape, with subsectors like grocery, discounters, and home improvement on the upswing.

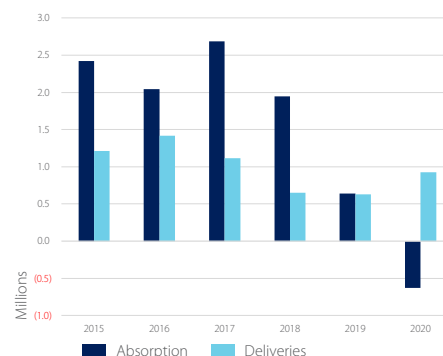
Rental Rates



Vacancy Rates



Absorption & Deliveries



Top Leases

Tenant	Building	Submarket	Square Feet	Type
AMC Theater	Ahwatukee Foothills Towne Center	Ahwatukee Foothills	78,000	Renewal / Direct
Extra Space Storage	N/NWC Gilbert Rd & Warner Rd	Gilbert	75,600	New / Direct
Bowlro	1754 W Southern Ave	Red Mountain / Mesa	34,839	Renewal / Direct
Big Lots	Laveen Commons	Laveen	29,666	Renewal / Direct
The French American Academy	Chandler Uptown Square	Gilbert	24,870	New / Direct

Top Sales

Buyer	Building	Submarket	Square Feet	Sale Price	Price/SF
Lithia Motors	Bell Toyota	N Phoenix / I-17 Corridor	63,320	\$16,500,000	\$261
Abbie Behar	Target - Baseline & McClintock	Tempe	117,873	\$14,450,000	\$123
Christopher and Janis Welsh	Mountain Ranch Market Place - Walgreens	Goodyear	14,820	\$5,436,047	\$367
STORE Capital	Bell Road/Estrella Plaza	Surprise / N Peoria	53,888	\$11,434,590	\$212
STORE Capital	Orange Tree Plaza	Red Mountain / Mesa	56,202	\$10,788,503	\$192

Under Construction

Property	Completion	Submarket	Square Feet	% Preleased/Owned
Sonoran Creek Marketplace	3Q 2021	Outlying Pinal County	75,000	85.4%
Mountainside Fitness - Avondale	1Q 2021	Loop-101 / I-10	40,000	100.0%
EOS Fitness	1Q 2021	Gilbert	38,000	100.0%
Queen Creek Marketplace - Shops D	1Q 2021	Queen Creek	18,995	76.6%
Sonoran Creek Marketplace - Shops 2	3Q 2022	Outlying Pinal County	13,572	28.0%

Market By The Numbers*

Submarket	Total RBA (SF)	Sublease Vacancy	Total Vacancy	Shopping Center Vacancy Rate	Free-Standing Vacancy Rate	Q4 Deliveries	Under Construction (SF)	Q4 Net Absorption (SF)	Avg. Ask Free-Standing (NNN)	Avg. Ask Shopping Center (NNN)	Avg. Ask Overall (NNN)
Chandler	12,973,068	8,200	788,131	6.3%	5.1%	0	5,565	(25,240)	\$16.74	\$13.85	\$14.24
Central Scottsdale	12,782,282	17,767	695,473	6.1%	3.2%	0	0	(53,385)	\$26.48	\$24.66	\$25.18
N Scottsdale	11,851,341	9,124	781,327	7.1%	4.4%	0	11,270	(591)	\$21.57	\$20.45	\$20.76
Gilbert	10,697,316	21,027	851,405	8.6%	5.8%	24,644	42,300	(3,163)	\$17.03	\$15.82	\$15.95
Central Peoria/Arrowhead	7,574,187	6,976	542,315	7.5%	5.5%	0	0	1,452	\$22.23	\$18.78	\$19.25
Tempe	6,866,556	0	479,571	6.9%	7.3%	0	2,630	(17,984)	\$26.04	\$15.86	\$18.77
Surprise/N Peoria	4,530,069	0	244,810	6.7%	0.3%	0	4,641	(6,416)	\$20.00	\$14.01	\$14.90
Ahwatukee Foothills	2,533,609	0	273,367	11.5%	4.1%	0	0	8,611	\$32.99	\$17.10	\$18.00
Red Mountains/Mesa	22,287,775	15,082	3,035,996	14.5%	10.5%	5,800	4,252	29,708	\$13.78	\$12.70	\$12.90
N Phoenix/I-17 Corridor	12,702,394	35,929	1,916,916	18.7%	5.7%	0	0	(157,784)	\$11.06	\$11.69	\$11.59
Glendale	8,269,835	13,013	652,039	9.1%	4.0%	0	0	(94,815)	\$18.07	\$17.21	\$17.32
Downtown Phoenix	5,258,374	0	359,489	8.9%	5.3%	0	825	(2,354)	\$21.96	\$16.07	\$19.27
N Goodyear/Litchfield	3,506,875	0	121,388	3.5%	3.0%	0	0	25,876	\$32.25	\$21.58	\$23.06
South Scottsdale	3,206,675	7,585	222,420	11.2%	3.9%	0	7,000	33,066	\$21.78	\$14.29	\$16.70
Airport Area	3,134,379	0	146,938	5.7%	3.2%	0	0	(7,433)	\$17.11	\$22.12	\$20.14
Goodyear	2,630,017	0	209,879	8.2%	1.5%	0	2,208	(14,438)	\$10.43	\$17.82	\$16.77
Loop 101/I-10	2,297,997	0	99,876	5.2%	1.7%	0	40,000	(3,404)	\$24.00	\$15.66	\$16.18
Gateway Airport	2,069,058	0	153,024	6.7%	10.3%	2,739	0	35,480	\$13.84	\$16.19	\$15.32
Deer Valley	1,790,279	0	71,594	4.9%	0.9%	0	0	(16,823)	\$29.00	\$17.85	\$18.32
Queen Creek	1,416,598	0	78,456	5.8%	0.0%	18,561	4,441	2,460	-	\$16.51	\$16.51
South Mountain	1,073,612	0	67,662	8.3%	1.0%	0	7,252	5,783	\$25.00	\$23.39	\$23.51
East Phoenix	6,617,694	0	486,959	10.1%	1.6%	0	0	23,122	\$23.67	\$14.22	\$15.56
Outlying Pinal County	5,930,703	0	306,589	7.8%	1.4%	0	97,072	41,452	\$9.69	\$11.60	\$11.56
West Phoenix/Maryvale	5,636,718	4,830	436,143	7.8%	7.4%	0	0	10,329	\$14.47	\$10.94	\$12.37
Sun City	2,527,909	14,490	297,529	15.2%	3.1%	0	10,000	(892)	\$14.64	\$10.85	\$11.17
Anthem	1,844,792	0	91,642	6.0%	1.6%	0	0	(7,743)	-	\$14.47	\$14.47
Tolleson	1,650,893	0	129,433	9.5%	4.7%	0	0	(11,580)	\$14.90	\$8.52	\$9.83
Buckeye	1,430,038	0	39,236	3.9%	0.4%	8,400	0	16,884	-	-	\$24.00
Carefree	1,212,174	0	152,205	14.3%	3.5%	0	0	(5,848)	\$16.00	\$16.12	\$16.11
Apache Junction	1,214,496	15,251	118,783	11.4%	7.4%	0	0	7,464	\$15.00	\$14.12	\$14.15
Laveen	1,219,286	0	69,595	6.1%	0.0%	0	0	-	-	\$18.98	\$18.98
South Phoenix	1,062,091	0	49,511	5.1%	4.1%	0	0	6,056	\$15.23	\$12.23	\$12.92
Fountain Hills	509,009	0	78,650	15.6%	15.3%	0	0	2,966	\$12.45	\$13.75	\$12.92
West Outlying Maricopa	452,227	0	6,156	0.0%	1.5%	0	0	-	\$33.98	-	\$33.98
Total	170,760,326	169,274	14,054,507	8.6%	4.1%	60,144	239,456	(20,611)	\$19.51	\$19.84	\$18.56

*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. The overall rental rate in 3Q 2020 was reported in error, showing Free-standing data rather than Overall data. 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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