



# Phoenix

## Q3 2017 / Quarterly Retail Market Report

### Market Facts

 **10.0%**  
Shopping Center Vacancy

 **4.6%**  
Standing Vacancy

 **\$14.71**  
Shopping Center  
Average Asking Rate

 **\$17.38**  
Free Standing  
Average Asking Rate

 **\$202**  
Sales Price/Square Foot

 **6.7%**  
Retail Average CAP Rate

### Market Overview

The Phoenix retail market expanded to nearly 226 million square feet (msf) with the third quarter vacancy rate dropping slightly to 8.4%, 50 basis points lower than third quarter 2016, and well below the peak of 12.8% in third quarter 2011. Average rental rates declined slightly to \$15.19 per square foot (psf) in the third quarter, down from \$15.38 psf in the second quarter, but up from \$14.63 in third quarter 2016. 908,000 square feet (sf) was absorbed in the third quarter while year-to-date leasing activity exceeded 1.9 msf. The retail market is benefiting from several factors: year-over-year average hourly earnings increased 5.9% in September 2017, and overall personal income is forecasted to increase by at least 6.3% annually over the next four years. Retail sales in Phoenix now exceed pre-recession levels and continue to grow, with May 2017 sales increasing 7.5% from May 2016. Through 2020, retail sales are projected to grow 4.8% to 6.7% annually.

### Top Leases

| Tenant                      | Building                   | Submarket                | Square Feet | Type         |
|-----------------------------|----------------------------|--------------------------|-------------|--------------|
| Amazon                      | 53333 W Lower Buckeye Road | SW South of Buckeye Road | 473,209     | Distribution |
| CVS                         | 8585 W. Buckeye Rd.        | Tolleson                 | 141,852     | Distribution |
| Aquafl Carpet Recycling     | 3555 W. Washington St. Ave | SW North of Buckeye Road | 116,890     | Warehouse    |
| Modern Industries Areospace | 2925 S. Roosevelt St.      | Tempe Southwest          | 101,601     | Flex         |
| Bravada Yachts              | 9310 W. Buckeye Rd.        | Tolleson                 | 73,954      | Distribution |

### Top Sales

| Buyer                                 | Building           | Submarket                     | Square Feet | Sale Price   | Price/SF |
|---------------------------------------|--------------------|-------------------------------|-------------|--------------|----------|
| Swire Pacific Holdings Inc.           | 1850 W. Elliot Rd. | Tempe Southwest               | 278,966     | \$43,532,325 | \$76     |
| TA Realty                             | 9160 S. McKemy St. | Tempe Southwest               | 197,016     | \$16,701,629 | \$85     |
| Watson Development Company LLC        | 14647 S. 50th St.  | Chandler                      | 134,713     | \$16,200,000 | \$120    |
| Bailard                               | 7822 S. 46th St.   | South Airport South of Roeser | 188,142     | \$16,100,000 | \$86     |
| Nicola Crosby Real Estate Investments | 23751 N. 23rd Ave. | Deer Valley/Pinnacle Park     | 93,700      | \$14,175,000 | \$151    |

Taking into consideration rising employment and population growth in the metro area, the Phoenix retail market is poised to remain strong throughout the current economic cycle.

The Central Scottsdale submarket reported the highest absorption in the third quarter with 186,143 sf of positive absorption, approximately 20% of the market's positive absorption. Central Scottsdale had the highest asking rent of the major submarkets at \$24.47, due to its many upscale shopping destinations. In submarkets with over one million sf, Queen Creek's 1.9% vacancy rate was the lowest. Of the eight submarkets with over 10 msf, the Central Scottsdale submarket is the healthiest, with shopping center vacancy at 7.4%, freestanding vacancy at 2.9%, and rental rates of \$24.47 and \$24.67 respectively. Only two submarkets had lower vacancy rates, albeit with substantially lower rents.

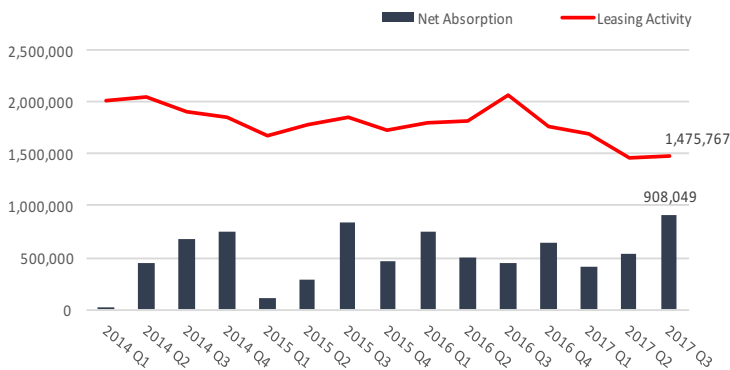
1.4 msf of new retail construction was delivered in the Phoenix retail market through third quarter 2017 with only 12.2% vacancy; and over 1.3 msf of retail space is currently under construction in the region with 51.8% already preleased.

Transaction activity slowed in third quarter 2017 after slightly increasing in second quarter 2017. The largest sale was The Shops at Norterra Parkway at 2460 West Happy Valley Road in Phoenix totaling 325,000 sf, which sold for \$78 million or approximately \$240 psf. Although the number of deals was down 8.3% from second quarter 2017 and total square footage declined 21.1%, dollar volume increased 29.8% due to the average price per square foot rising 57.5%. Cap rates grew to 6.7%, growing nearly 68 basis points. There were several other large sales in the second quarter: DESCO Southwest in joint venture with Iridius Capital, LLC bought the 229,766 sf Mesa Grand Shopping Center for \$42.7 million or \$187 psf; and A&C Properties acquired 140,644 sf Metro Towne Center for \$32.9 million, or \$234 psf.

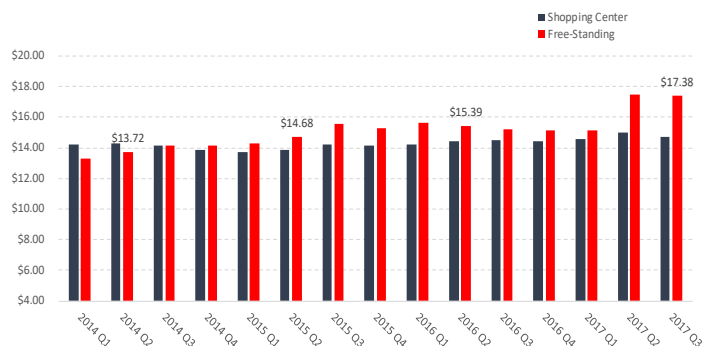
The resurgent regional economy continues to support the strong fundamentals in the Phoenix retail market, inspiring increasing rental rates, declining vacancy and growing investment. While retail companies continue to evolve in the age of e-commerce, Maricopa County, as reported by the U.S. Census Bureau, is the fastest-growing county in the U.S, and comments at ICSC's May 2017 RECon indicate that Phoenix is increasingly viewed as a desirable market to invest

## Market Snapshot

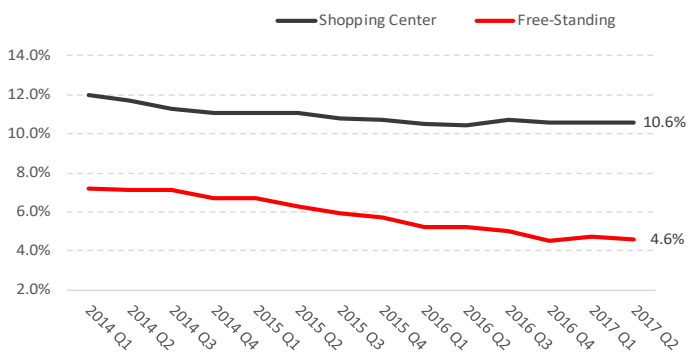
### Historical Net Absorption & Leasing Activity



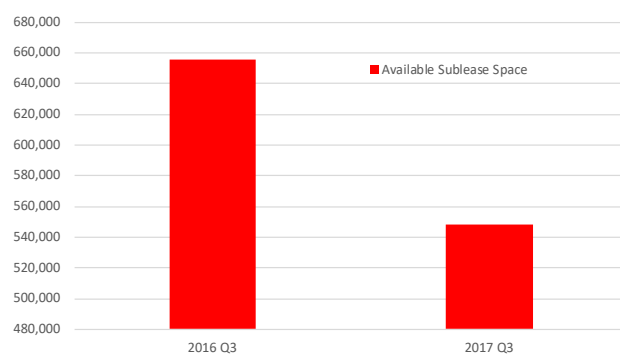
### Historical Asking Rental Rate (FSG)



### Historical Vacancy



### Total Available Sublease Space in the Market



### 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         | 3,279,445          | 292,067           | 7,045          | 10.1%           | 2.9%          | 248,295           | 7,045          | 57,688              | \$17.36              | \$17.27                        | \$18.94                      |
| Airport Area                | 3,927,725          | 174,763           | 0              | 4.6%            | 4.2%          | 170,278           | 0              | 54,529              | \$17.07              | \$17.42                        | \$16.23                      |
| Anthem                      | 2,640,802          | 129,632           | 9,898          | 5.1%            | 5.6%          | 129,632           | 9,898          | -14,476             | \$17.42              | \$19.60                        | \$13.80                      |
| Apache Junction             | 1,802,186          | 127,305           | 15,251         | 10.0%           | 5.8%          | 125,905           | 15,251         | -12,267             | \$11.72              | \$11.73                        | \$11.65                      |
| Carefree                    | 1,799,991          | 222,612           | 0              | 16.0%           | 4.5%          | 215,716           | 0              | 15,439              | \$16.96              | \$19.65                        | \$18.96                      |
| Central Scottsdale          | 15,972,115         | 975,572           | 39,391         | 7.4%            | 2.9%          | 930,548           | 35,741         | 186,143             | \$24.47              | \$24.67                        | \$23.93                      |
| Chandler                    | 17,027,712         | 1,113,249         | 59,834         | 8.4%            | 2.2%          | 1,050,759         | 59,834         | 127,615             | \$15.30              | \$14.81                        | \$19.89                      |
| Central Peoria/Arrowhead    | 10,264,812         | 533,504           | 25,336         | 6.3%            | 1.8%          | 520,092           | 25,336         | 56,584              | \$16.31              | \$15.59                        | \$19.52                      |
| Deer Valley                 | 2,073,104          | 128,254           | 0              | 7.8%            | 1.0%          | 86,254            | 0              | 3,973               | \$20.20              | \$20.20                        | -                            |
| Downtown Phoenix            | 7,341,492          | 802,828           | 0              | 17.2%           | 7.6%          | 716,395           | 0              | 63,442              | \$16.14              | \$12.66                        | \$18.53                      |
| East Phoenix                | 8,627,089          | 798,784           |                | 12.8%           | 3.4%          | 737,722           | 0              | 35,575              | \$13.53              | \$13.33                        | \$14.17                      |
| Fountain Hills              | 743,093            | 55,914            | 0              | 9.7%            | 5.3%          | 55,914            | 0              | 16,192              | \$14.18              | \$16.47                        | \$11.60                      |
| Gateway Airport             | 2,863,839          | 203,196           | 0              | 7.4%            | 5.8%          | 183,667           | 0              | 12,471              | \$17.84              | \$18.27                        | \$13.79                      |
| Gilbert                     | 14,965,423         | 855,924           | 57,235         | 7.1%            | 3.2%          | 787,630           | 55,643         | 116,795             | \$18.27              | \$17.97                        | \$19.94                      |
| Glendale                    | 11,438,938         | 1,075,008         | 32,533         | 11.9%           | 5.0%          | 1,021,772         | 32,533         | -24,675             | \$13.13              | \$13.13                        | \$13.16                      |
| Goodyear                    | 3,437,019          | 321,838           | 17,876         | 10.1%           | 9.3%          | 320,518           | 0              | 103,262             | \$14.28              | \$9.30                         | \$16.53                      |
| Laveen                      | 1,401,213          | 30,552            | 20,390         | 3.9%            | 0.0%          | 30,552            | 20,390         | 22,801              | \$14.60              | \$14.60                        | -                            |
| Loop 101/I-10               | 2,940,503          | 197,402           | 0              | 8.5%            | 3.6%          | 172,846           | 0              | 10,360              | \$21.37              | \$24.04                        | \$15.81                      |
| North Goodyear/Litchfield   | 5,147,999          | 274,949           | 0              | 5.8%            | 3.3%          | 268,851           | 0              | -1,632              | \$15.88              | \$15.64                        | \$17.57                      |
| North Phoenix/I-17 Corridor | 16,032,925         | 2,367,674         | 49,190         | 18.8%           | 6.1%          | 2,335,677         | 49,190         | -71,445             | \$12.23              | \$12.07                        | \$13.68                      |
| North Buckeye               | 63,368             | 0                 | 0              | 0.0%            | 0.0%          | 0                 | 0              | 2,841               | \$25.00              | -                              | \$25.00                      |
| North Scottsdale            | 14,911,382         | 1,071,282         | 39,130         | 8.1%            | 5.6%          | 906,968           | 39,130         | 56,028              | \$20.31              | \$17.87                        | \$27.26                      |
| Outlying Pinal County       | 8,223,878          | 723,640           | 22,469         | 12.8%           | 4.0%          | 723,640           | 22,469         | -25,648             | \$12.59              | \$12.85                        | \$11.67                      |
| Queen Creek                 | 1,644,724          | 31,927            | 0              | 1.8%            | 2.7%          | 29,963            | 0              | 930                 | \$19.16              | \$19.89                        | \$17.18                      |
| Red Mountains/Mesa          | 29,526,829         | 3,540,653         | 108,181        | 14.3%           | 7.8%          | 3,459,346         | 108,181        | 94,488              | \$13.15              | \$12.87                        | \$14.36                      |
| South Buckeye               | 1,483,396          | 34,050            | 0              | 3.4%            | 0.0%          | 34,050            | 0              | 1,621               | \$17.66              | \$17.68                        | \$17.00                      |
| South Mountain              | 1,749,902          | 169,356           | 0              | 13.2%           | 0.3%          | 169,356           | 0              | 10,530              | \$20.36              | \$21.21                        | \$18.26                      |
| South Phoenix               | 1,603,526          | 64,348            | 0              | 7.2%            | 1.8%          | 64,348            | 0              | 20,952              | \$11.88              | \$12.88                        | \$10.53                      |
| South Scottsdale            | 3,907,202          | 275,085           | 6,777          | 11.5%           | 5.0%          | 267,585           | 6,777          | 3,685               | \$17.10              | \$14.42                        | \$18.24                      |
| Sun City                    | 3,596,757          | 304,013           | 0              | 14.1%           | 1.8%          | 304,013           | 0              | -25,655             | \$12.82              | \$12.49                        | \$16.27                      |
| Surprise/North Peoria       | 5,282,752          | 396,167           | 3,145          | 8.8%            | 2.2%          | 396,167           | 3,145          | -55,718             | \$12.94              | \$12.96                        | \$9.00                       |
| Tempe                       | 8,345,715          | 507,576           | 7,806          | 6.9%            | 4.5%          | 501,333           | 7,806          | 16,882              | \$18.02              | \$17.39                        | \$21.85                      |
| Tolleson                    | 2,596,385          | 147,236           | 50,000         | 10.9%           | 2.4%          | 145,036           | 50,000         | 7,521               | \$15.91              | \$13.79                        | \$18.84                      |
| West Outlying Maricopa      | 784,483            | 25,499            | 0              | 2.0%            | 3.6%          | 25,499            | 0              | 5,242               | \$10.25              | \$8.00                         | \$33.98                      |
| West Phoenix/Maryvale       | 8,155,364          | 340,603           | 0              | 5.1%            | 2.3%          | 340,603           | 0              | 35,976              | \$11.99              | \$12.52                        | \$9.90                       |
| <b>Total</b>                | <b>225,603,088</b> | <b>18,312,462</b> | <b>571,487</b> | <b>10.0%</b>    | <b>4.6%</b>   | <b>17,476,930</b> | <b>548,369</b> | <b>908,049</b>      | <b>\$15.19</b>       | <b>\$14.71</b>                 | <b>\$17.38</b>               |



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