

A woman with blonde hair, wearing a green patterned shirt and a brown leather apron, stands in the doorway of a modern cafe. She is smiling and looking to her right. The cafe interior is visible behind her, featuring warm lighting, a counter, and stools.

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Phoenix retail insight report

Q3 2021

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Contents

U.S. retail drivers	page 3
Phoenix market fundamentals	page 7
Economic and demographic trends	page 10
Retail occupier conditions	page 17
Capital markets conditions	page 23
Get in touch	page 28

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U.S. retail drivers

PHOENIX RETAIL INSIGHT REPORT
Q3 2021

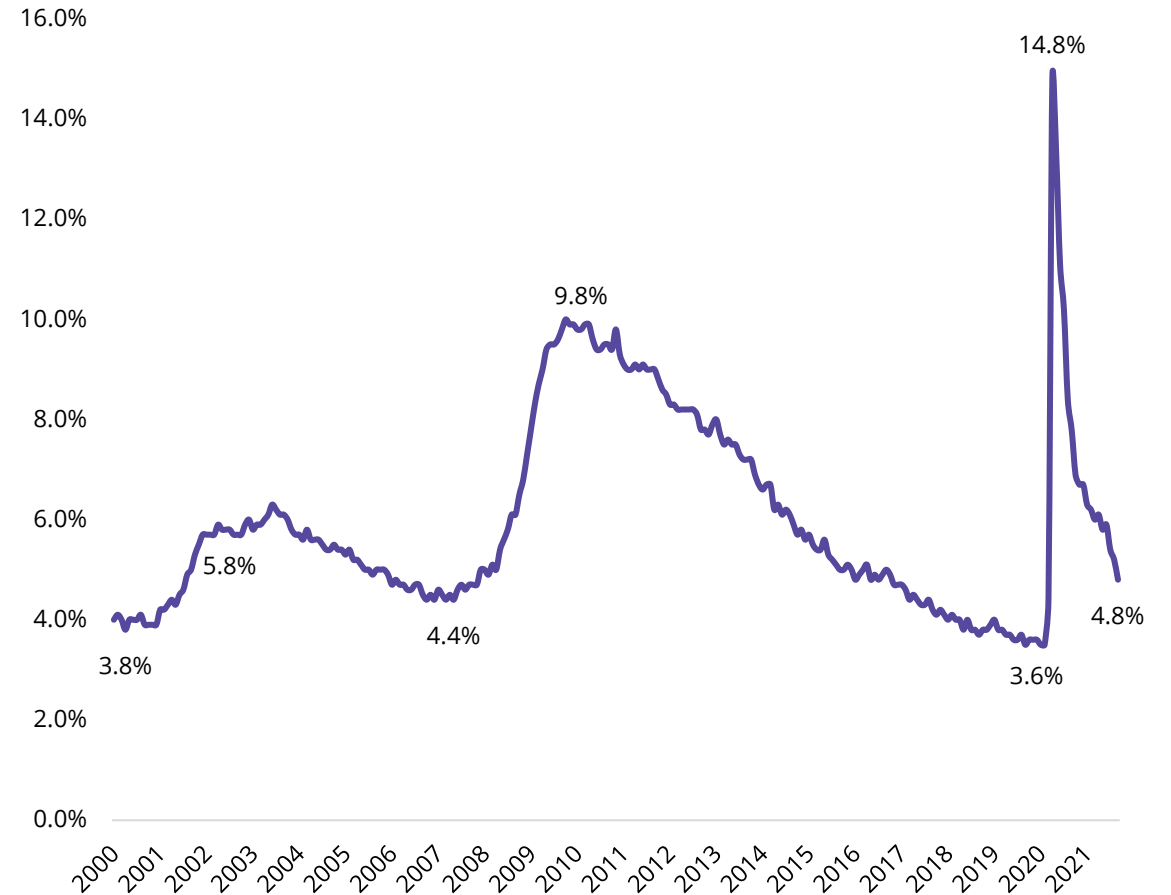
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U.S. unemployment rate

4.8%

Unemployment rate as of September 2021

The national unemployment rate continued to decline in Q3, reaching 4.8% in September. Reopening efforts across the country have provided a boost to employment, most notably in discretionary industries including retail, leisure and hospitality.



Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

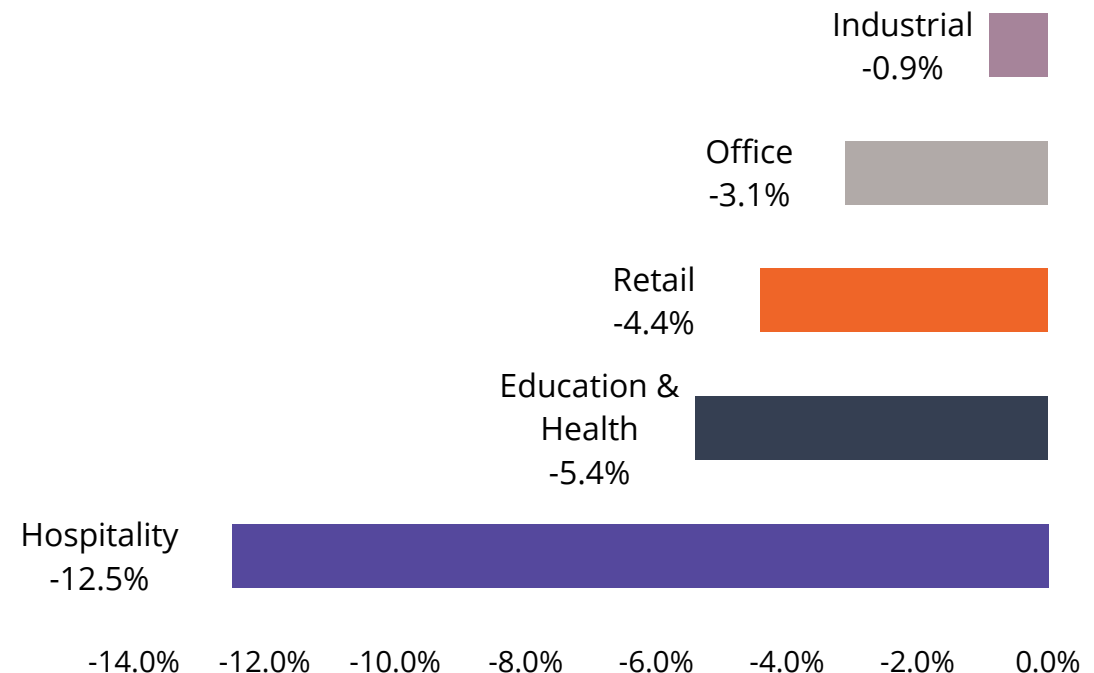
U.S. property type job gains and losses

-2.2%

Change in total employment during the pandemic

Total employment is 2.2% lower than pre-pandemic levels. The third quarter saw a notable jump in industrial employment, now down just 0.9% from February 2020. The hospitality sector continues to trail other fields as the world grapples with the ongoing impacts of COVID-19.

Total change in U.S. job gains/(losses) February 2020 to August 2021



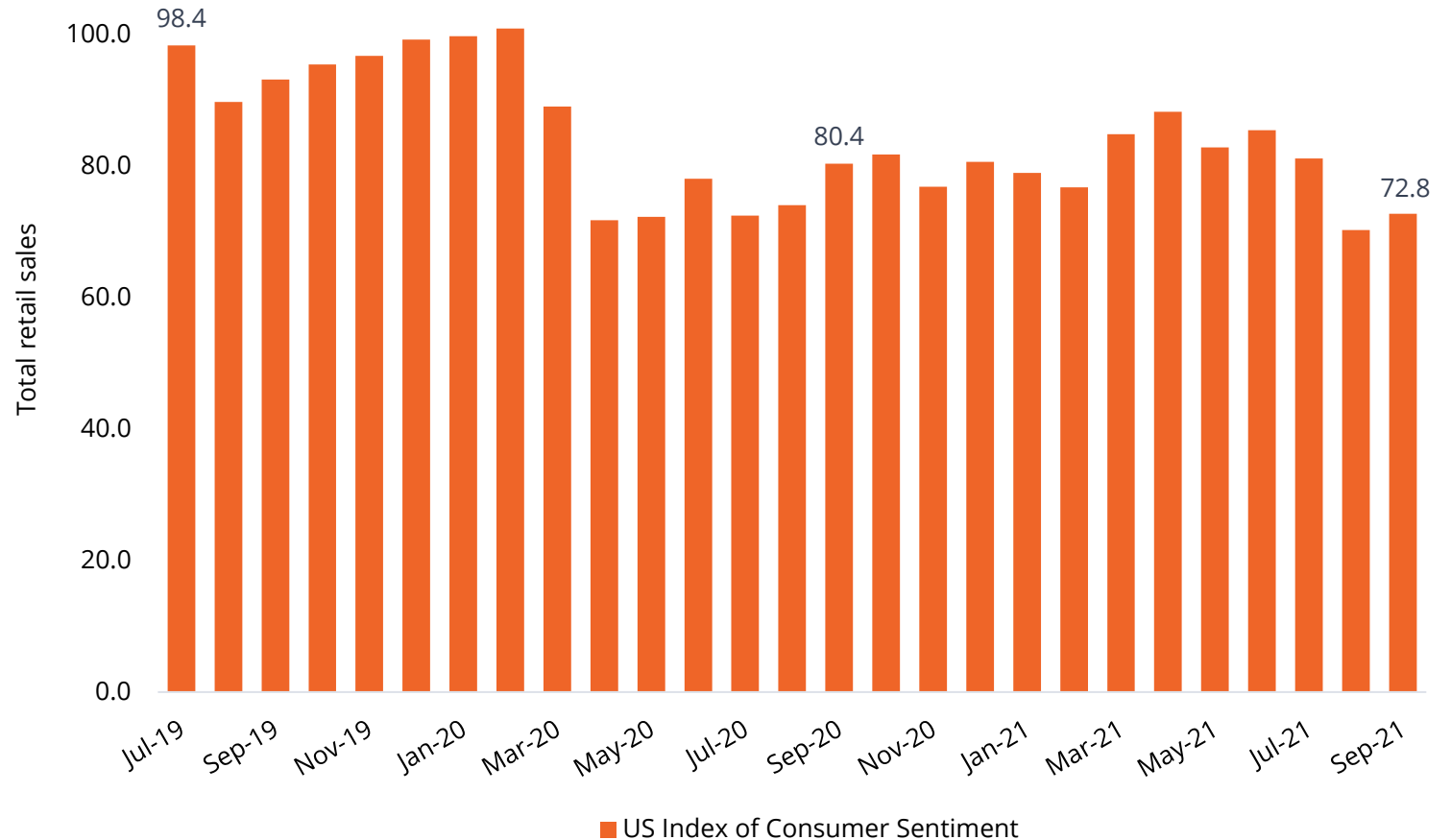
Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

U.S. consumer sentiment

-9.5%

**Consumer sentiment
down from one year ago**

Consumer sentiment experienced a notable decline in Q3, shifting from 85.5 in June to 72.8 in September 2021. A rise in inflation contributed to an August consumer sentiment level of 70.3, the lowest level since 2011.



Source: University of Michigan Surveys of Consumers



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Phoenix market fundamentals

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Key retail takeaways



Economic conditions

- Total retail employment has surpassed pre-pandemic levels, increasing by **0.3 percent** since February 2020. This amounts to a gain of approximately 1,000 additional retail workers.
- Following the start of the pandemic, unemployment in the Phoenix MSA briefly spiked to 13.5 percent. In September, the unemployment rate declined to **3.8 percent**.



Recovery rate

- National consumer sentiment was reported at **70.3** in August, the lowest level since 2011.
- The Greater Phoenix Chamber noted a strong correlation between lower consumer confidence and rising COVID-19 cases. This could be one reason why Arizona's consumer sentiment has been slightly lower than the national average in 2021.



Retail demand

- Increased leasing volumes, up **7.4 percent** from 2019 pre-COVID levels, suggest an ongoing recovery in the retail market.
- The volume of active retail construction amounted to approximately **600 ksf** in Q3. This level of activity lags the prior two years, as inflated construction input prices made for a notable headwind.

Key retail takeaways



Retail supply

- The total vacancy rate for retail properties is at **7.8 percent**, slightly below the pre-pandemic 5-year average of 8.0 percent.
- Net absorption in 2021 amounts to approximately **0.8 percent** of the market's existing inventory. Compared to the global financial crisis, which saw a 1.0 percent decrease in net absorption in 2009, the Phoenix retail market has staged a quick recovery.



Pricing trends

- Asking rents have experienced moderate growth during the pandemic, continuing the trend of rising rents since 2015. Pricing has increased by **2.1 percent** since the beginning of the pandemic.
- The cost of construction materials have seen a massive increase in 2021. The Bureau of Labor Statistics Construction Materials Cost Index has increased by **35.3 percent** year-to-date through August.



Capital markets

- Year-to-date retail market sales reached **\$2.25 billion** in Q3. The highest sales volume in a single year was in 2019, which had \$7 million more in annual sales than the first 3 quarters of 2021.
- Asset pricing in the retail market has continued to escalate despite the ongoing pandemic. Asset pricing has increased by **24.5 percent** year-over-year from \$190 psf in September 2020 to \$237 psf in September 2021.



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Economic and demographic trends

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Q3 2021

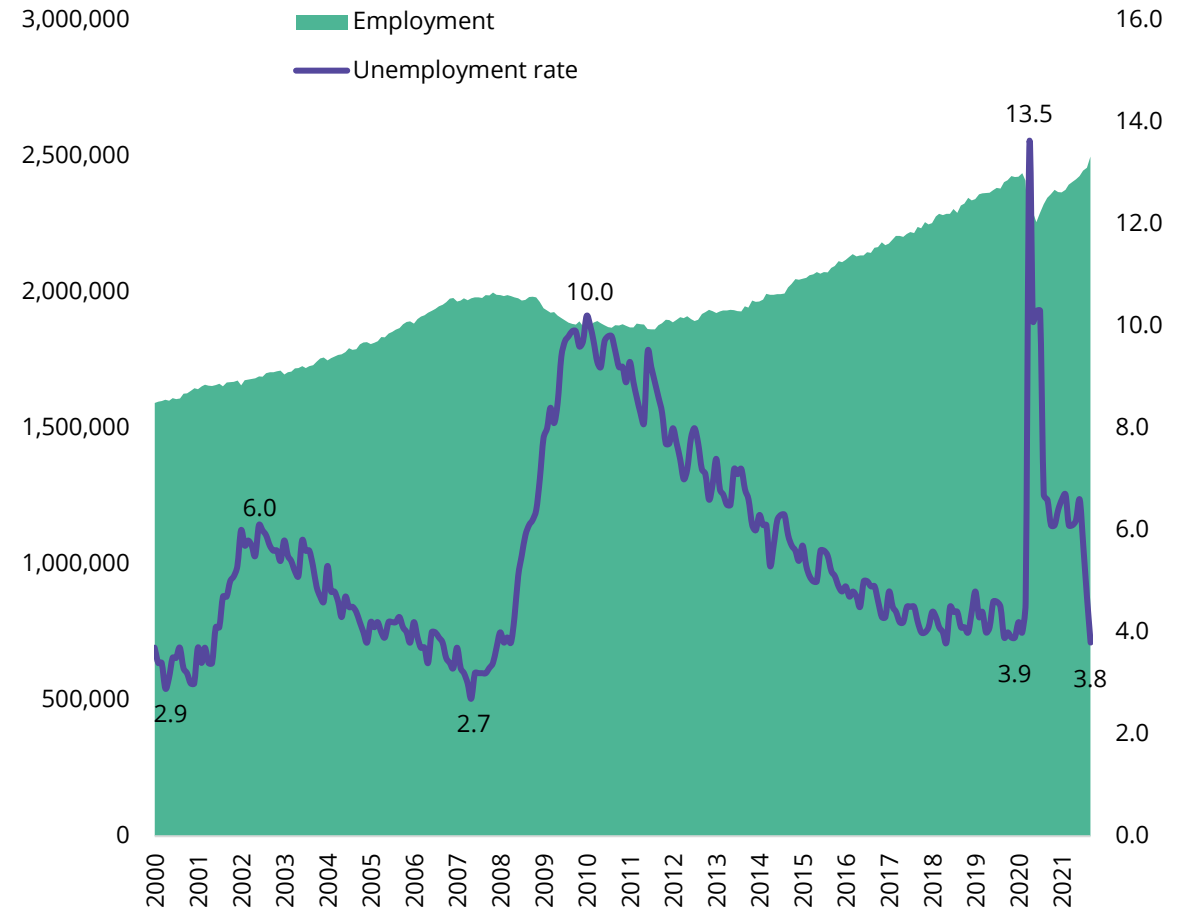
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Employment and unemployment rate

3.8%

Phoenix unemployment rate as of September 2021

Regional unemployment dipped below 4% at the end of 2019, before seeing a drastic spike in March 2020 at the start of the pandemic. The September unemployment rate declined to 3.8%, which is the lowest rate since May of 2018. The total number of residents employed in the Phoenix MSA reached an all time high, with nearly 2.50 million jobs filled.



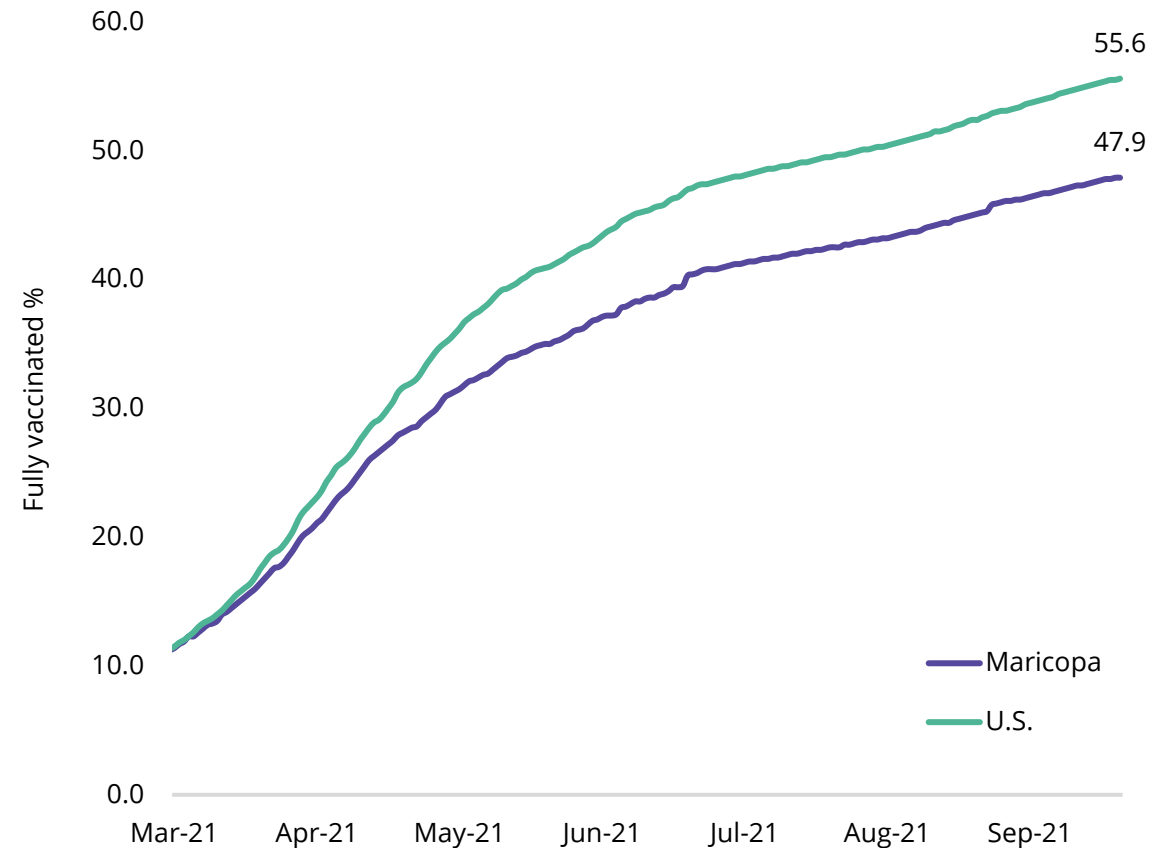
Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Vaccination rates

47.9%

**Percentage of Phoenix population
that is fully vaccinated**

At a rate of 47.9%, nearly half of people living in Phoenix are now fully vaccinated. Maricopa's vaccination rates should continue to steadily increase as workers return to the office and more children become eligible for the shot.



Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Property type job gains and losses

0.3%

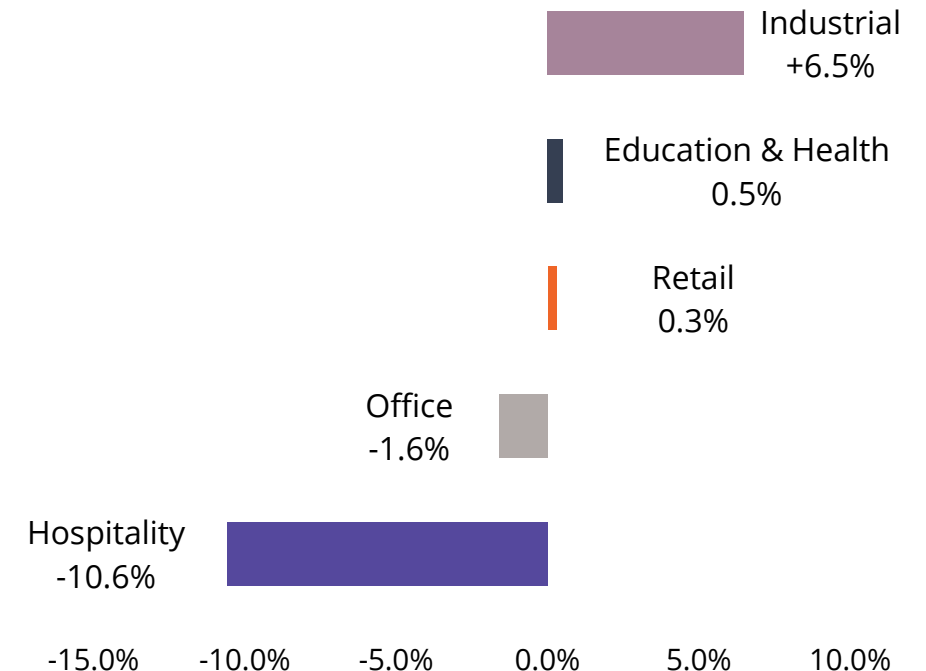
Change in retail employment during the pandemic

Retail employment in the Phoenix MSA has fully recovered from pandemic induced layoffs, increasing by 0.3% since February 2020. National retail employment is down 4.4% since the start of the pandemic, another sign that Phoenix remains ahead of the pack in its economic recovery.

[VIEW DASHBOARD](#)

Total change in Phoenix MSA* job gains/(losses)

February 2020 to August 2021



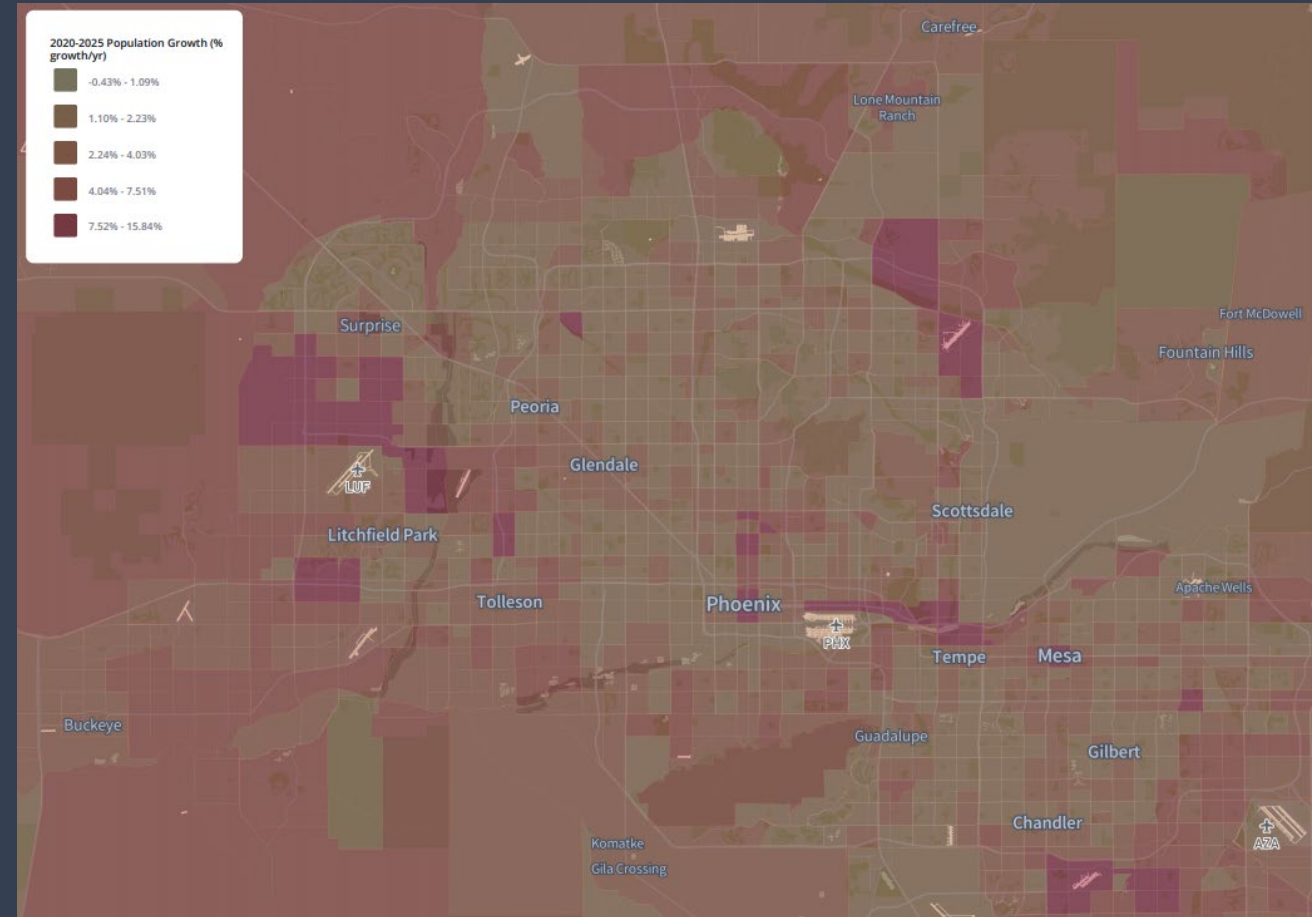
Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

Phoenix population growth projections

15.8%

Projected 2020 – 2025 population growth in specific regions in Phoenix

According to the 2020 U.S. Census Bureau, Phoenix regularly gains more residents than any other major city. Downtown Phoenix, Surprise, Scottsdale, Tempe and Mesa are a few districts where population growth is projected to remain very strong as people move from costlier markets like California.



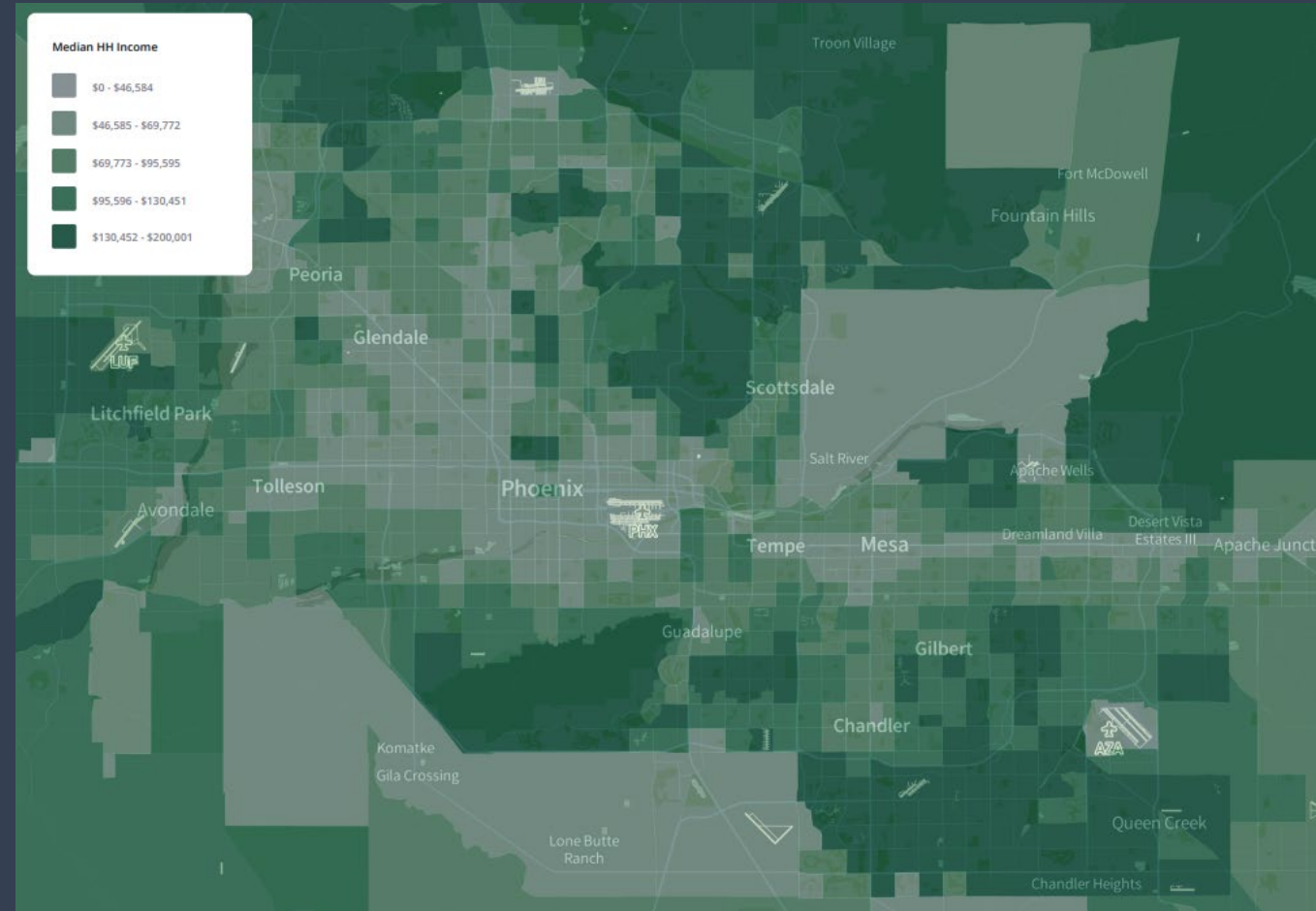
Source: AVANT by Avison Young
U.S. Census Bureau
ESRI

Phoenix household income

\$69K

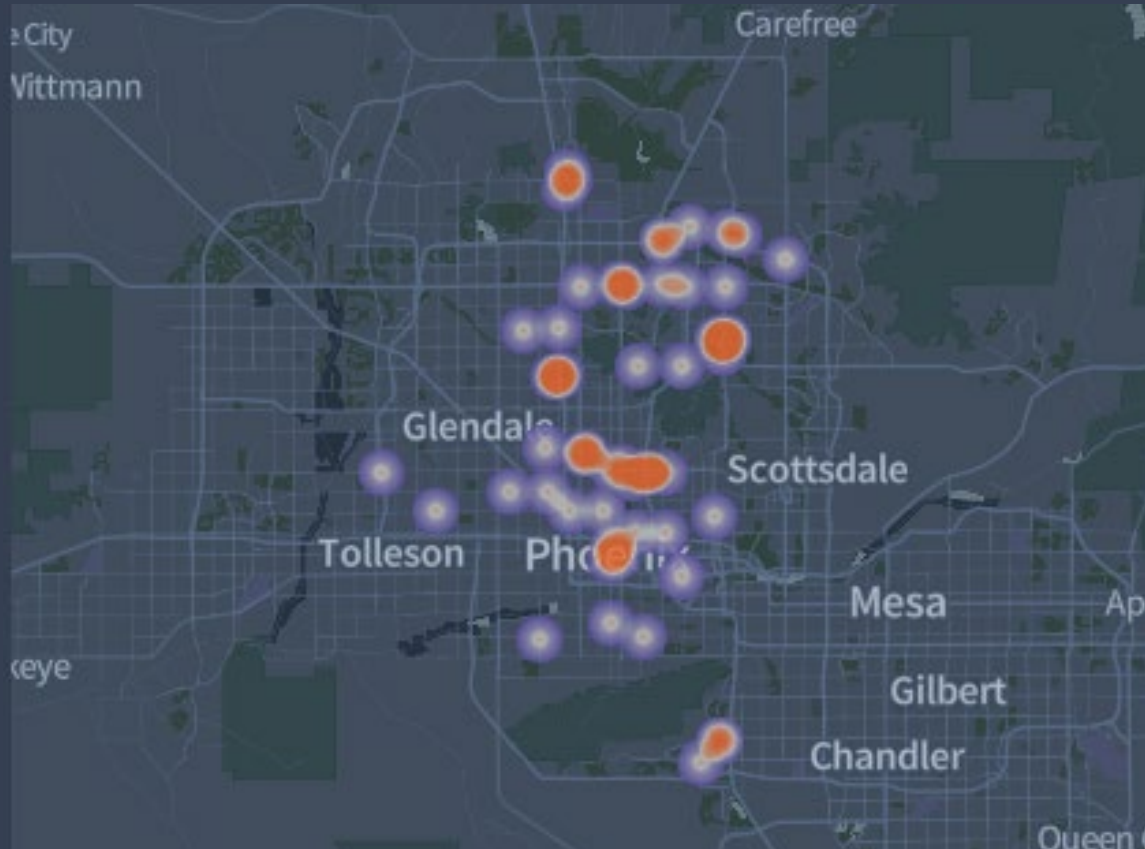
Phoenix median household income level

Phoenix leads the West in income growth, according to the 2020 U.S. Census Bureau. Areas in the Phoenix MSA with the highest annual salaries include Scottsdale, Peoria, Chandler, Glendale, Surprise, Goodyear, Tempe and Phoenix. Forecasts for income growth underpins strong resident-oriented retail fundamentals.

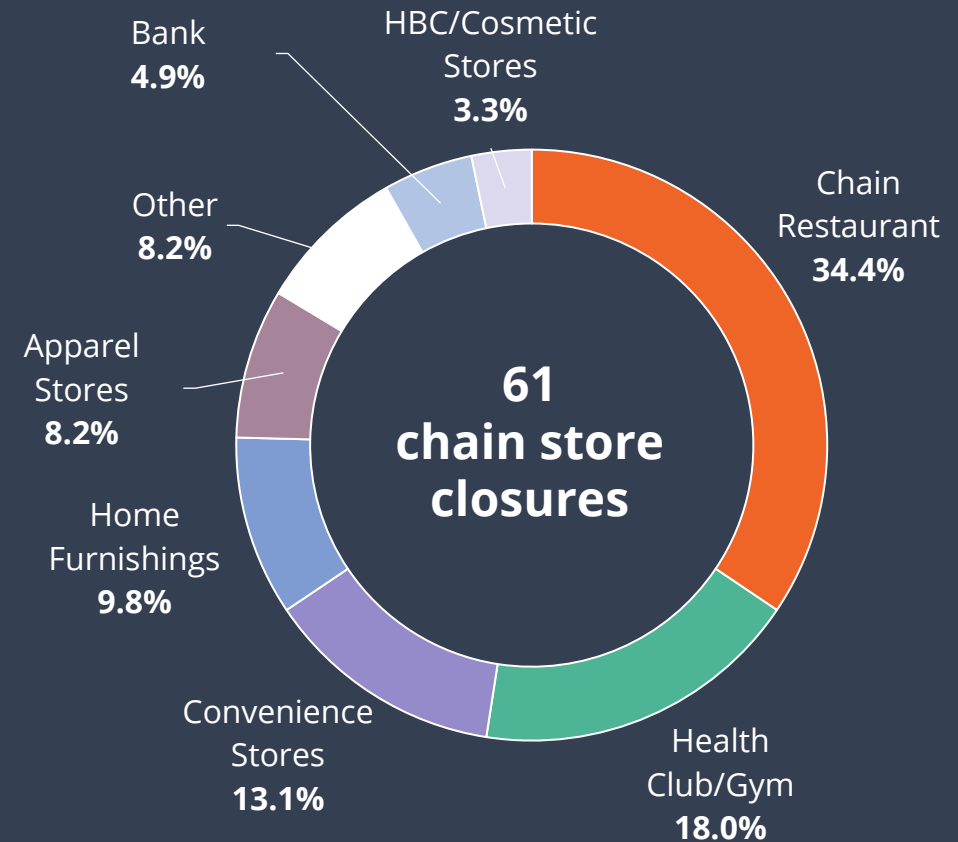


Source: AVANT by Avison Young
U.S. Census Bureau
ESRI

Phoenix retail chain store closures



34.4% of retail closures were by chain restaurants



Source: AVANT by Avison Young
Chain Store Guide

A man with a beard and a woman are looking at a display of food in a grocery store. The man is wearing a green polo shirt and the woman is wearing a yellow sweater. They are both smiling and looking at the food. The background is a blurred grocery store aisle.

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Retail occupier conditions

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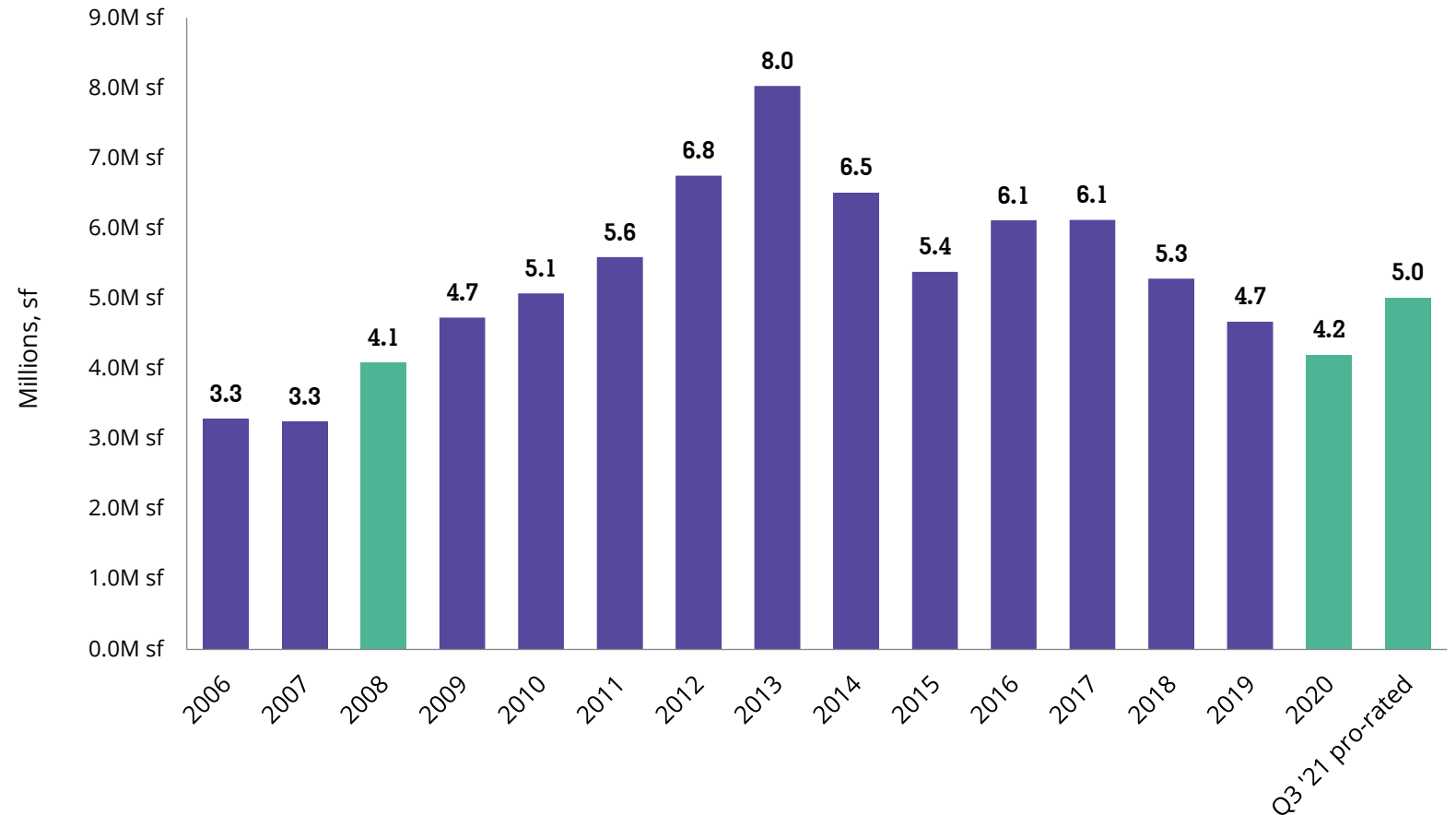
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Retail leasing activity

-14.5%

**Pro-rated 2021 vs.
prior 10-year annual
average leasing
activity**

Phoenix retail leasing has improved relative to 2020 but remains 14.5% lower than the prior 10-year average. Strength in grocery, home improvement and furniture have been key drivers in 2021.



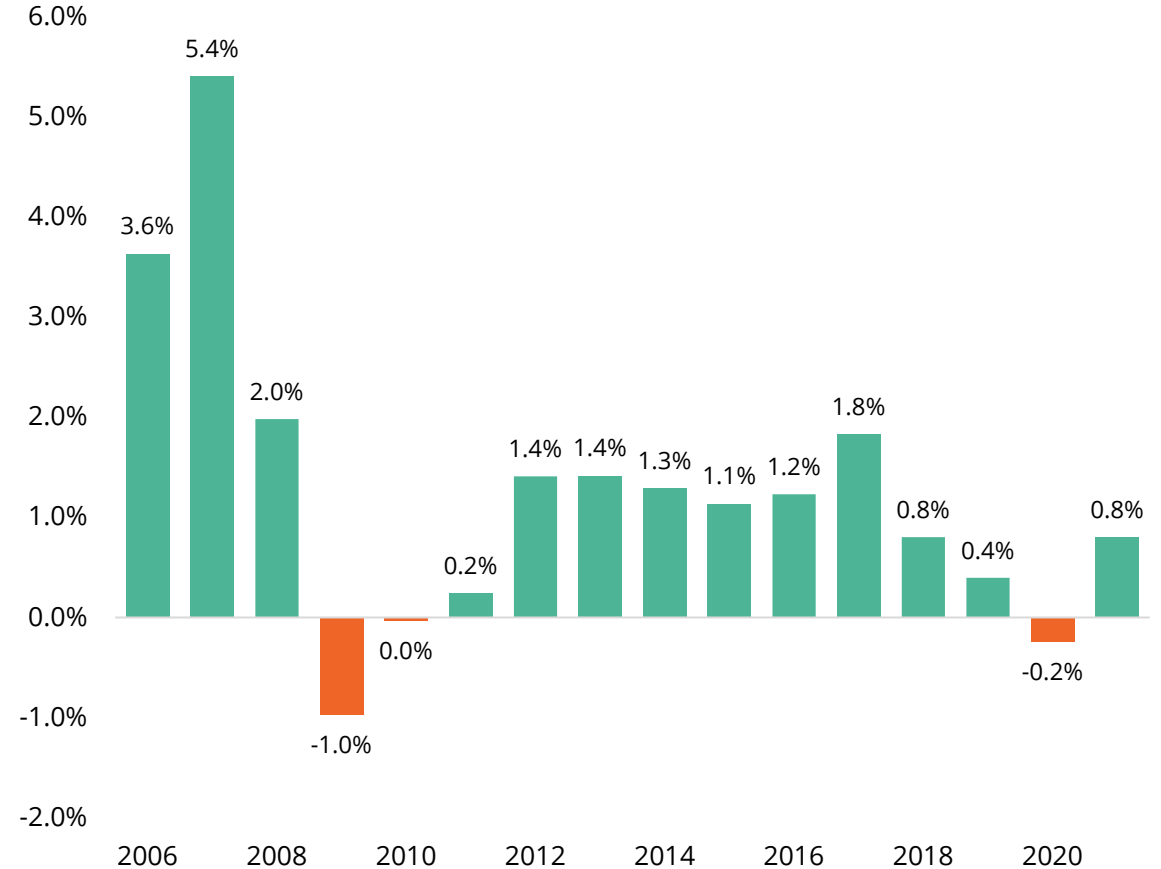
Source: AVANT by Avison Young

0.8%

Net absorption as a percentage of inventory for 2021 year-to-date

Absorption through Q3 has amounted to approximately 1.5 million sf, totaling 0.8% of existing inventory.

Increases in net absorption have slowed in recent years, with 2021 being the first year since 2017 to experience a year-over-year increase.



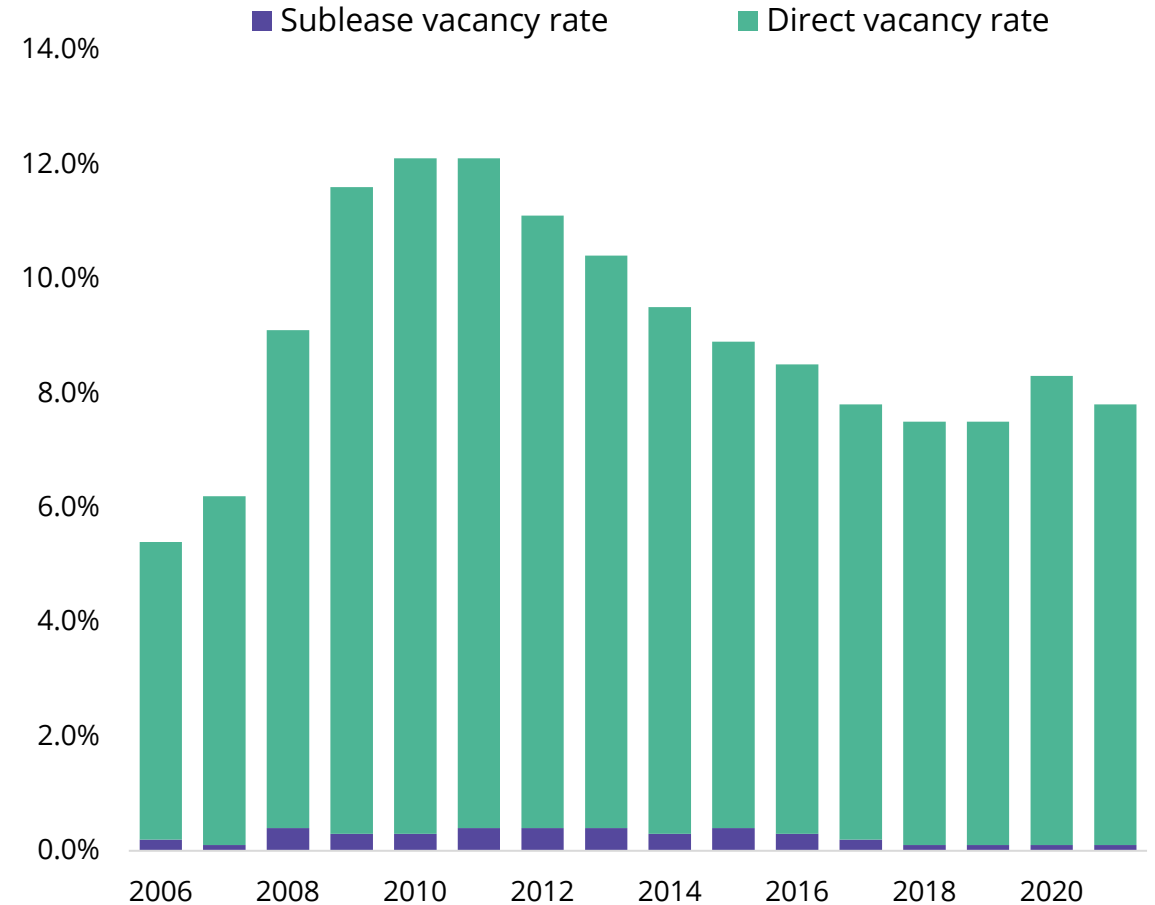
Source: AVANT by Avison Young

Vacancy rate

7.8%

Phoenix vacancy as of Q3 2021

Vacancy has declined slightly since the end of 2020, reaching 7.8% through Q3. The pre-pandemic 5-year average vacancy rate was 8.0%. Lower vacancy rates and modest construction activity signals stabilization in retail supply.



Source: AVANT by Avison Young

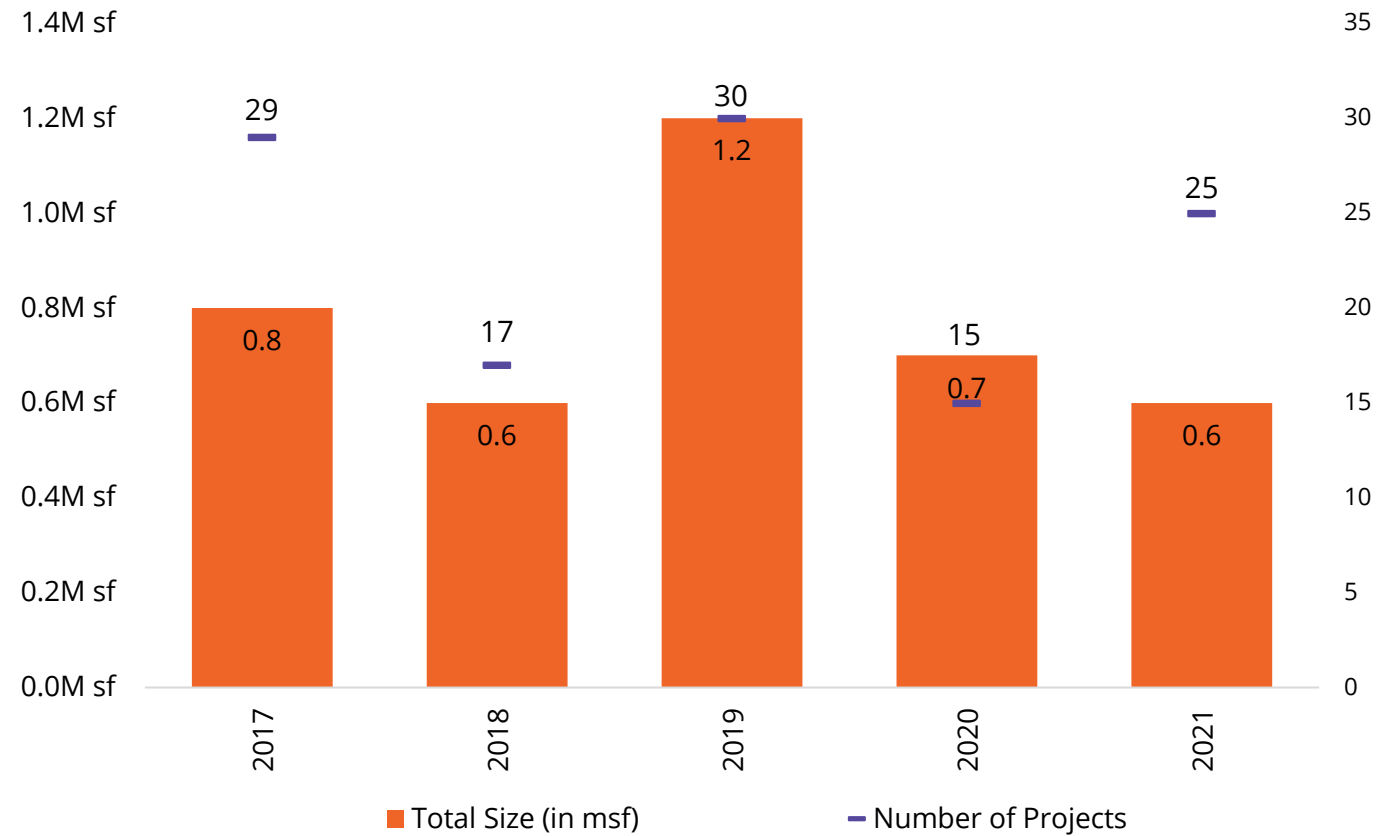
Phoenix retail development pipeline

25 properties

under construction

600 ksf

under construction



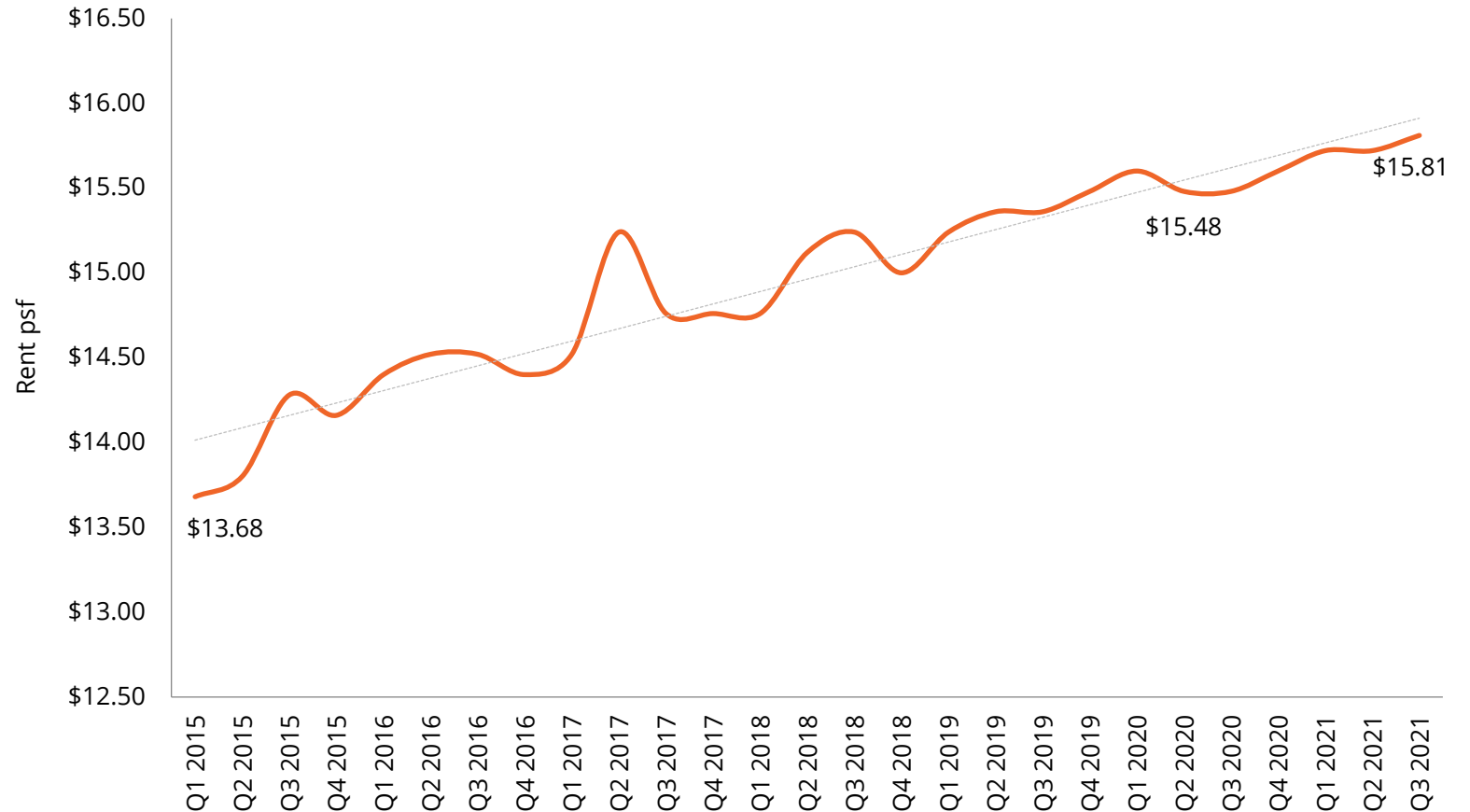
Source: AVANT by Avison Young

Asking rents

+2.1%

Asking rents since the onset of the pandemic

Asking rents continued to rise in Q3 and have been trending upwards in recent years. Asking rents have increased by 15.6% since the start of 2015.



Source: AVANT by Avison Young



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Capital markets conditions

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Q3 2021

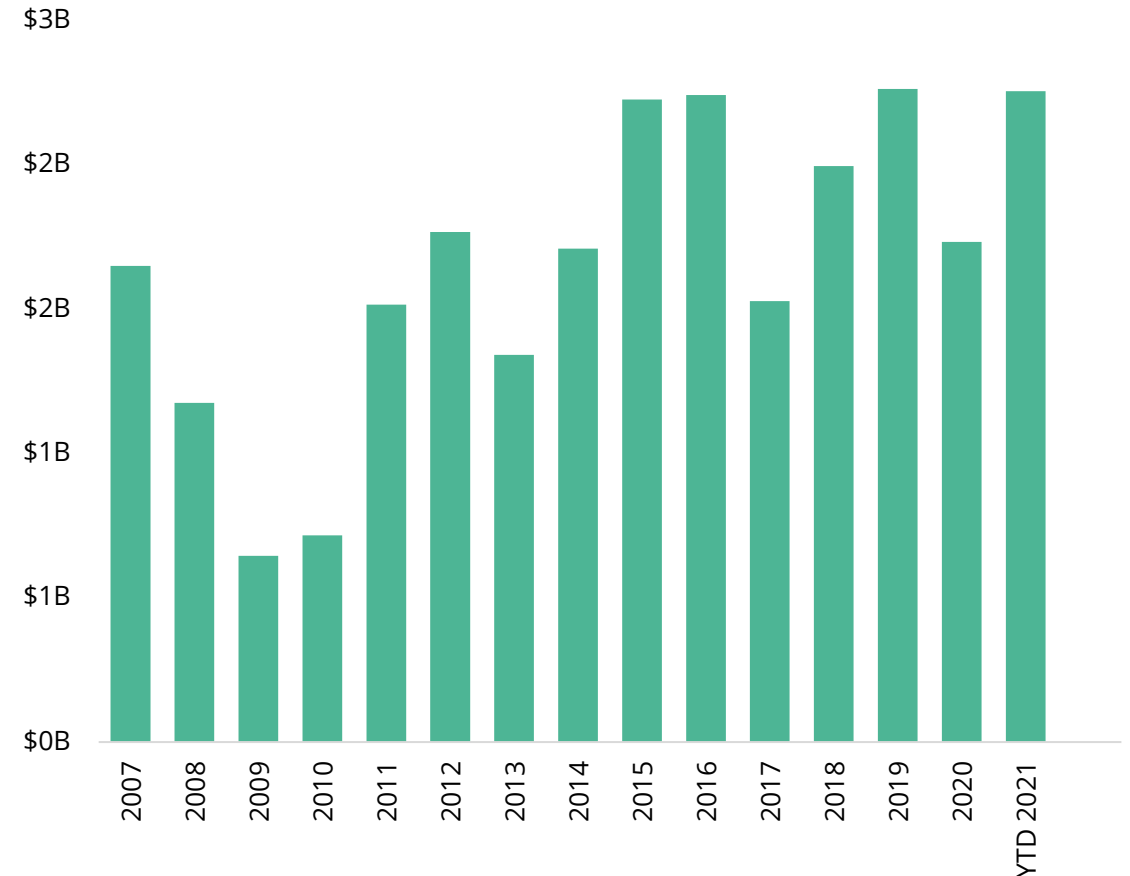
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Retail investment dollar volume

\$4.0B

Phoenix retail dollar volume 2020 to present

Retail sales activity through Q3 2021 is just \$7 million shy of 2019, the year that accrued the highest volume of retail sales at \$2.26 billion. The surge in retail property sales is partially driven by new tenants from out of state relocating to Phoenix, as well as a strong economic recovery relative to the rest of the United States.



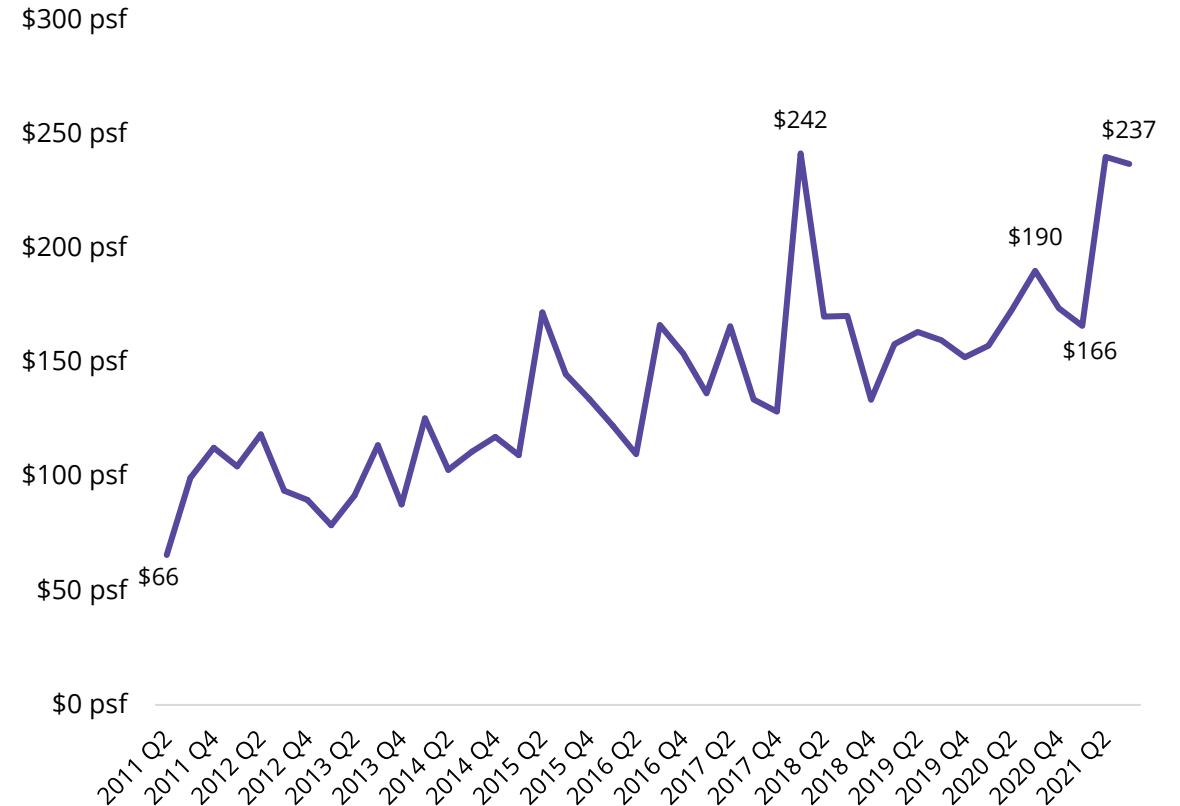
Source: AVANT by Avison Young, Costar, RCA

Retail asset pricing

+24.5%

Phoenix retail pricing increase year-over-year

Pricing remained elevated in Q3, as investors that were temporarily sidelined at the start of the pandemic became more active amidst record levels of uncommitted capital. Asset pricing increased from \$190 psf in September 2020 to \$237 psf in September 2021.



Source: AVANT by Avison Young, RCA

Looking forward



Here's what we can expect

- **Retail demand has exceeded expectations in 2021, and demand should remain strong moving forward.** A growing population in the Phoenix MSA and Arizona in general has led to a proportionate need for new retailers to serve the population. The migration of Californians and other residents from areas with higher cost of living should continue to provide a boon for the local retail market.
- The influx of new small businesses to the region has led to increased leasing activity for properties with lower square footage. One source estimated that **more than 90% of new leasing activity in the Phoenix MSA has been for buildings under 5,000 sf.**
- Maricopa County **employment is projected to increase by 5.5% growth through 2022**, per the Office of Economic Opportunity.
- Current employment in retail positions is just **0.3 percent higher than before the start of the pandemic**. Nationally, retail employment is 4.4 percent lower than pre-pandemic numbers. This would indicate a bright near-term outlook for the Phoenix retail market.



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Let's talk

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