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Phoenix retail insight report

Q2 2021

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U.S. Retail drivers

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Q2 2021

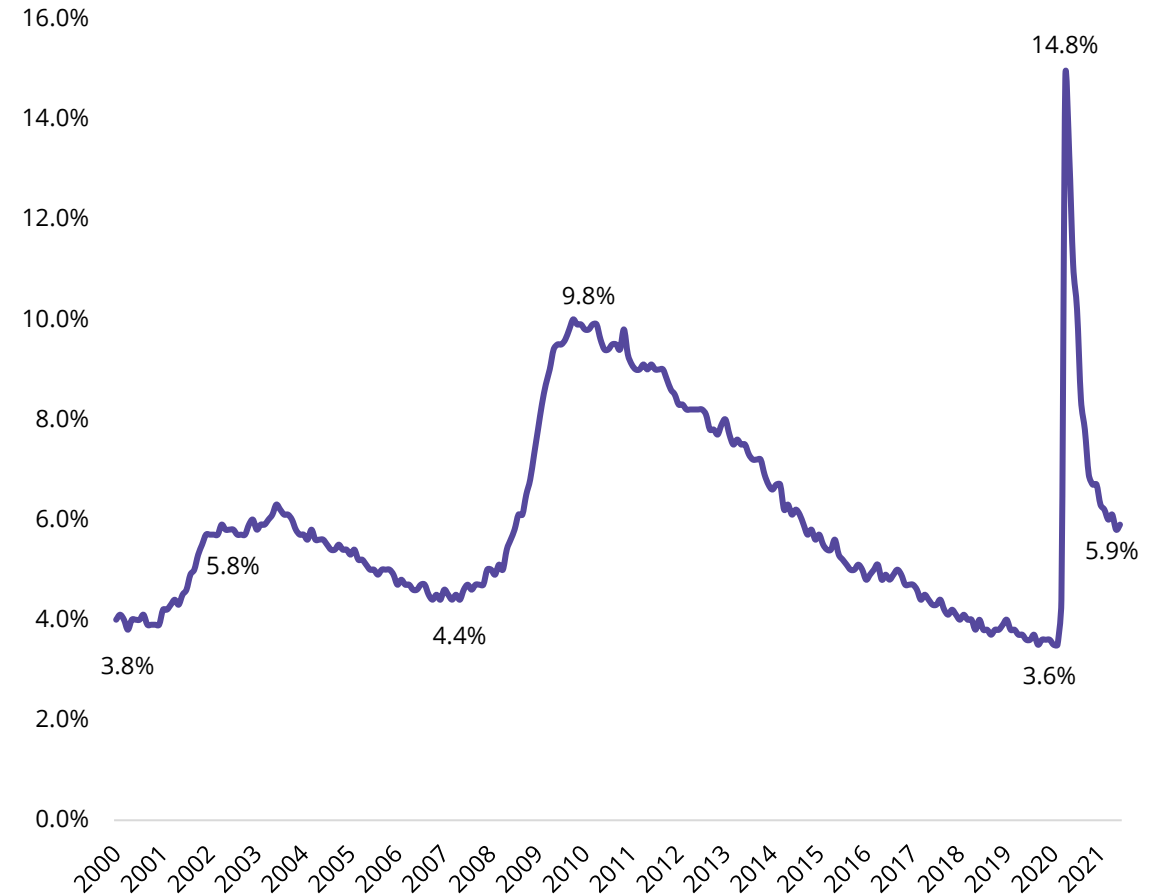
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U.S. unemployment rate

5.9%

Unemployment rate as of June 2021, below the height of the financial crisis

The pandemic eliminated many jobs in 2020. However, reopening efforts have enabled the economy to add a substantial number of jobs, particularly in the discretionary industries such as retail, leisure and hospitality.



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

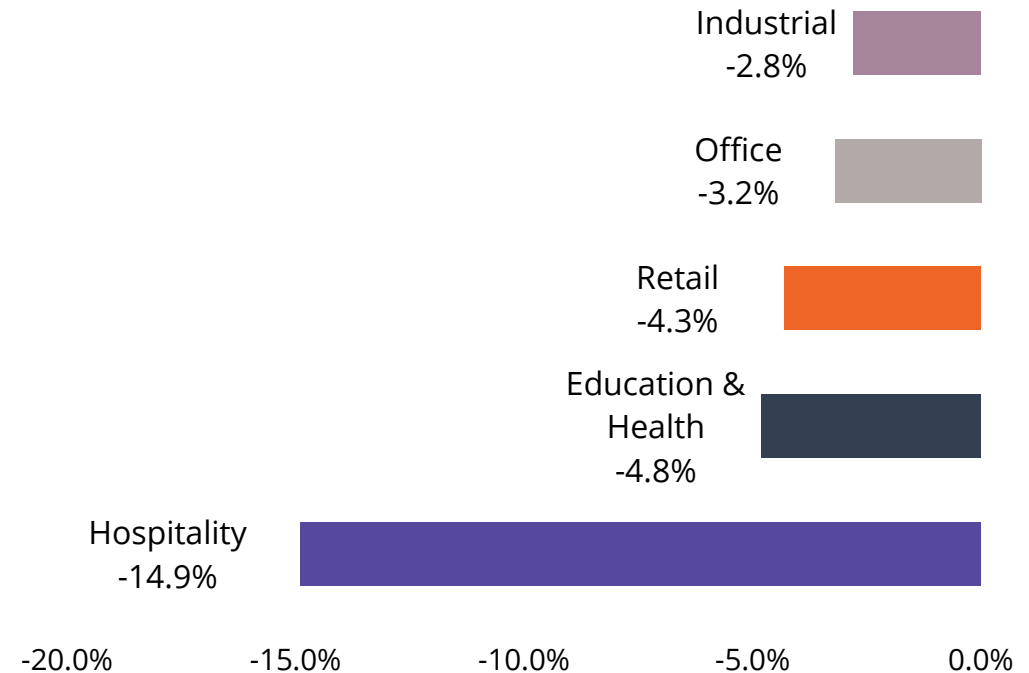
U.S. property type job gains and losses

-4.1%

Change in total employment during the pandemic

The nation lost 4.1% of its total labor force since the pandemic began, with the retail sector nearly equating that proportionate contraction. Retail losses were subdued relative to the Education & Health and Hospitality sectors.

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



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

U.S. consumer sentiment is rebounding

+11.5%

Consumer sentiment up from one year ago

As the economy begins to reopen, consumer sentiment growth has increased, suggesting retail demand is sustainable. U.S. Index of Consumer Sentiment is at a current level of 80.8, up from 72.5 one year ago.



Source: University of Michigan Surveys of Consumers

A photograph of two women sitting on a wooden bench at an outdoor bar. The woman on the left is wearing a black halter top and a long teal skirt, holding a beer. The woman on the right is wearing a light blue button-down shirt and black pants, also holding a beer. They are both laughing and looking at each other. In the background, there is a bar counter with various bottles and a large window showing a construction site with cranes.

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Phoenix market fundamentals

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Key retail takeaways



Retail demand

- Increased leasing volumes, up **22.0 percent** from 2019 pre-COVID levels, point to momentum in the retail market that a recovery is underway.
- Asking rents continued to rise in the second quarter, and overall have been trending upward since 2015, increasing by **14.9 percent** over the past six years.



Recovery rate

- The pandemic eliminated over a quarter of a million jobs between February and May 2020. However, the economy has added back those **quarter-of-a-million** job losses since May 2020.
- Arizona is ranked **fifth** among U.S. states based on several key economic indicators, including consumer confidence and job market strength.



Economic conditions

- Retail is doing well. According to the Greater Phoenix Economic Council, there are nearly **15,000 more retail jobs** around the Phoenix Metro than there were the same time last year.
- Reopening efforts and increased vaccination rates have allowed the Phoenix unemployment rate to rebound from a high of 13.5 percent to **6.6 percent**.
- Unlike other states, Arizona avoided the back-and-forth between opening and closing, enabling the state to reopen sooner. The Arizona economy emerged comparatively quickly relative to other states.

Key retail takeaways



Pricing trends

- Asking rents **increased** in the second quarter, continuing an upward trend since 2015. Pricing has increased by **14.9 percent** over the last six years.
- Demand is increasing as the economy reopens and tenants that postponed their long-term occupancy strategies re-enter the market. Consumer demand has been uncharacteristically high for grocery, pharmacy, home improvement, drive-thru, and hobby stores.



Retail supply

- New supply-induced risk has been partially stemmed by higher construction costs.
- Vacancy was **9.2 percent** during 2Q 2021, below the 2008 to Q2 2021 equilibrium of 11.3 percent.
- Net absorption from 2020 to Q2 2021 has totaled approximately **-0.5 percent** of existing stock. This negative absorption is less severe than that of the global financial crisis (-2.3 percent).



Capital markets

- Retail sales activity is on pace to surpass 2019 levels as Phoenix continues to attract opportunistic investors. Out-of-state buyers searching for well-located properties are driving transaction activity. California buyers are especially active since Phoenix retail assets provide an attractive yield spread over southern California properties.
- Post-pandemic asset pricing has escalated as investors that have been sidelined during the pandemic became more active. Asset pricing increased by **27.9 percent** from \$173 per square foot in June 2020 to \$240 per square foot in June 2021.



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Economic and demographic trends

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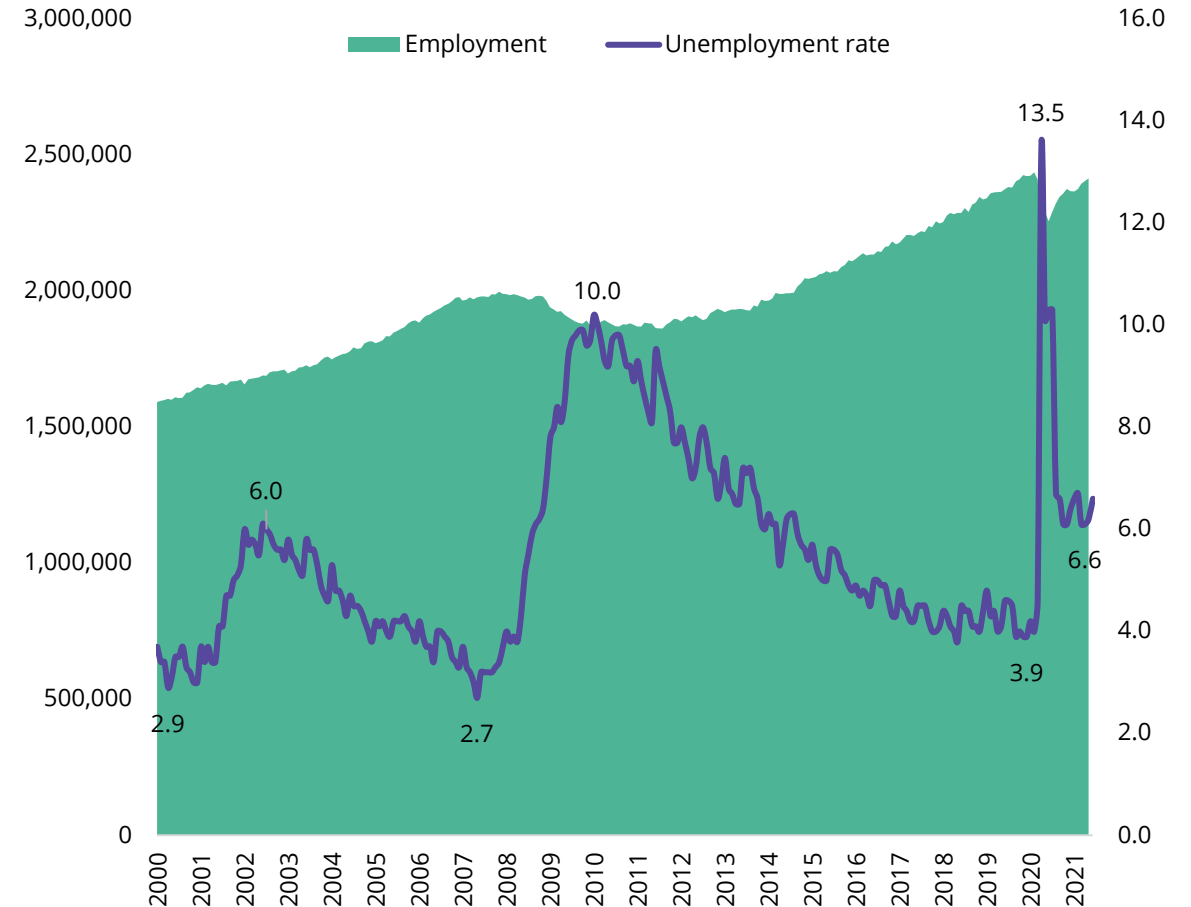
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Phoenix employment

6.6%

Phoenix experiencing an employment rebound

The pandemic eliminated over one quarter of a million jobs between February 2020 and May 2020. However, reopening efforts have enabled the economy to add back those lost jobs, causing the unemployment rate to dip by 690 bp. Retail is doing well. According to the Greater Phoenix Economic Council, there are nearly 15,000 more retail jobs around the Phoenix Metro than there were the same time last year.



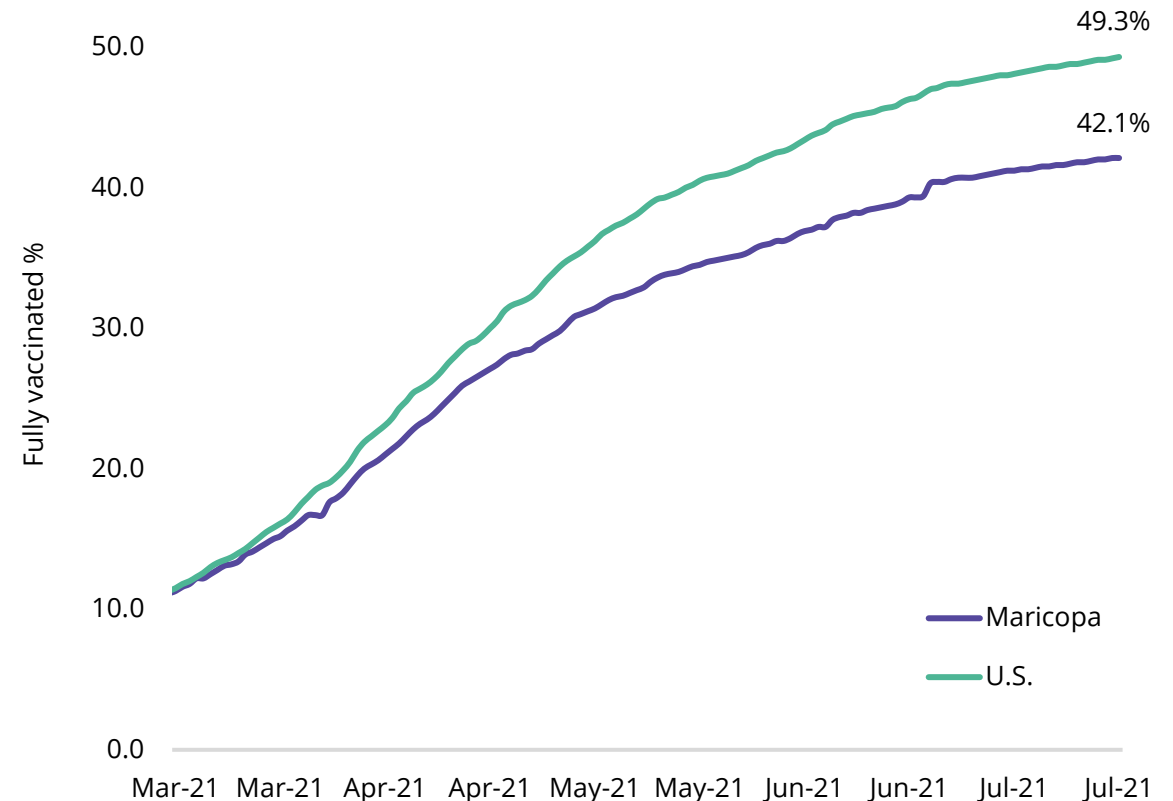
Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Vaccination rates

42.1%

Share of total Phoenix population that is fully vaccinated

Phoenix's full vaccination rate trails the U.S. average; however, Arizona reopened sooner than most other states, resulting in a comparatively fast economic recovery.



Source: CDC

Property type job gains and losses

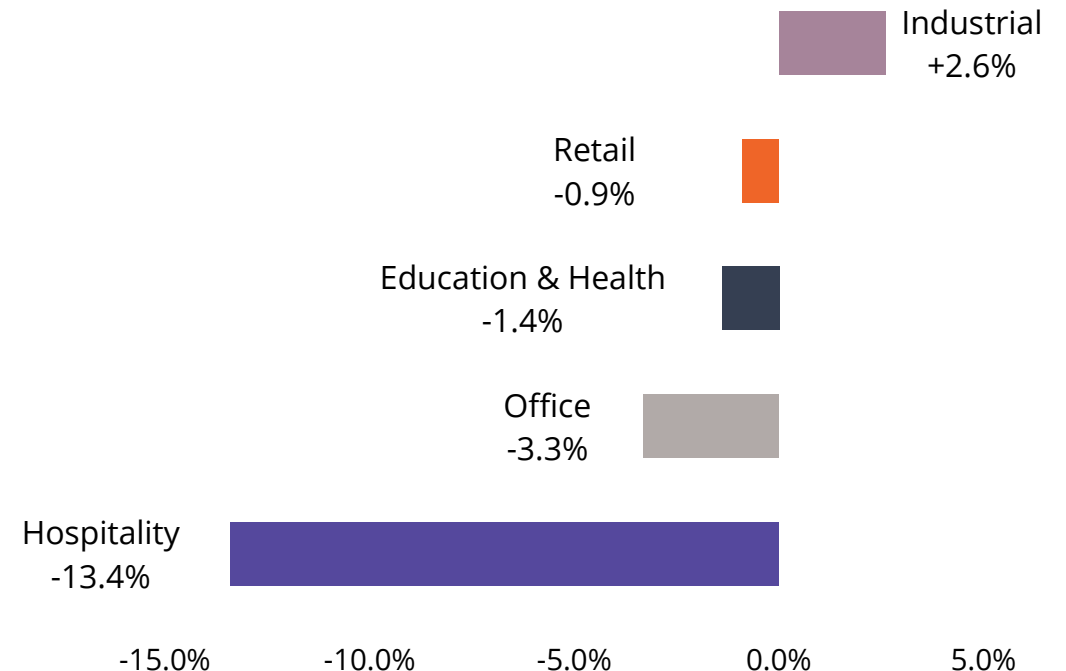
-0.9%

Change in retail industry employment during the pandemic

The Phoenix metro area lost only 0.9% of its retail labor force since the pandemic began, a mild contraction when compared to other local industries.

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

February 2020 to May 2021



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

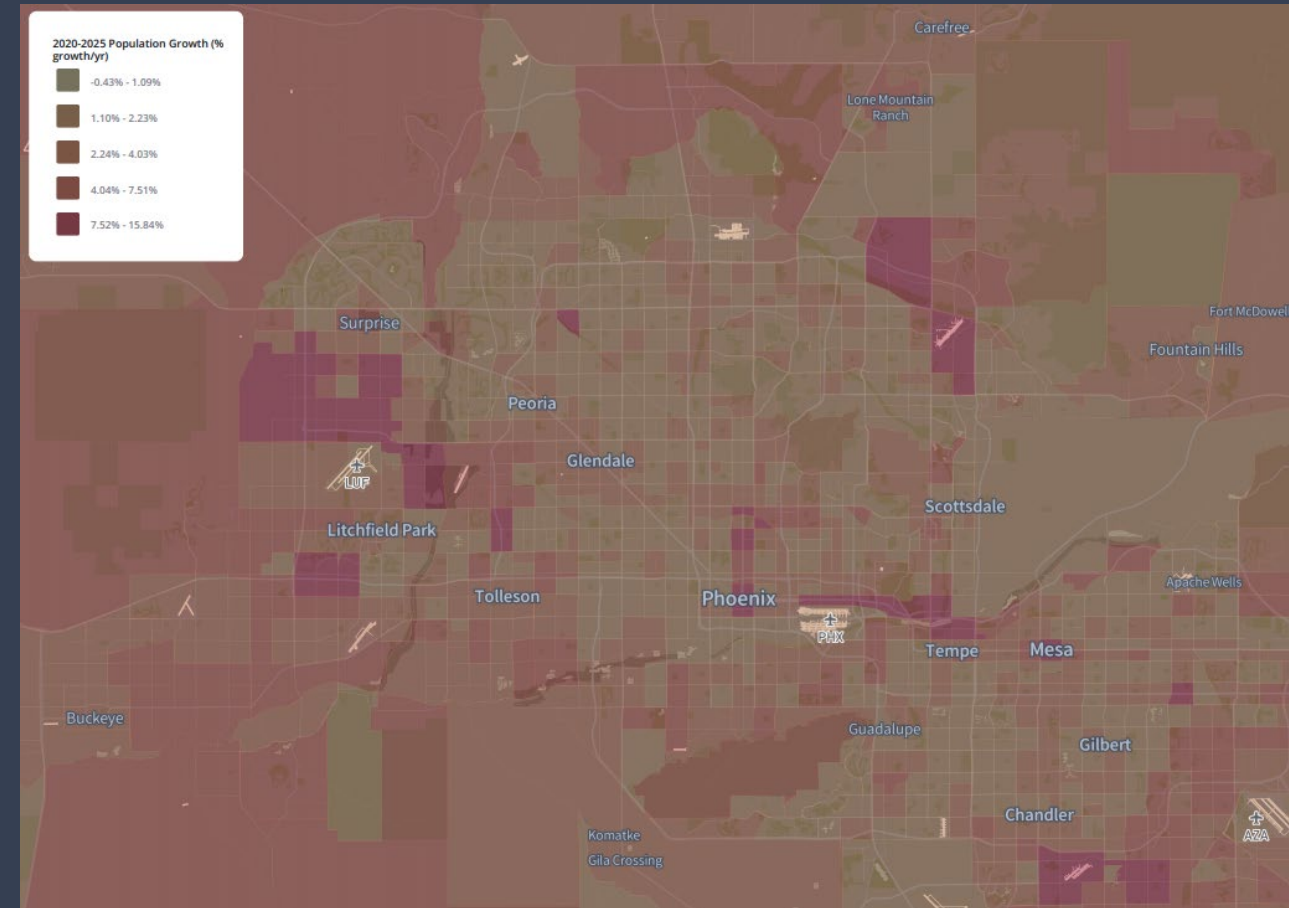
Phoenix population growth projections

15.8%

Population growth rate, 2020-2025 in certain areas of Phoenix

According to the U.S. Census Bureau of 2020, Phoenix adds 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 such as California.



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

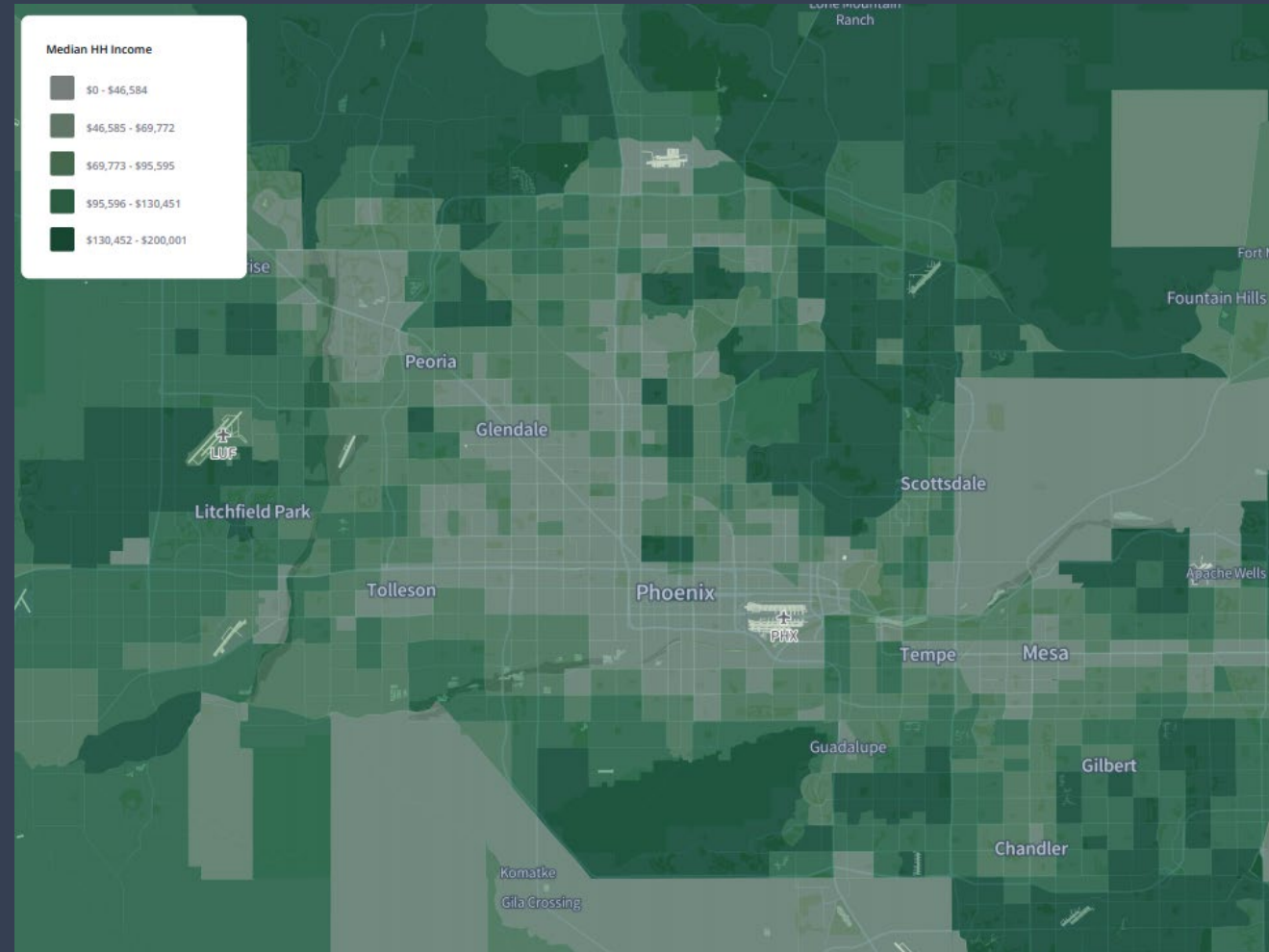
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Phoenix household income

\$68K

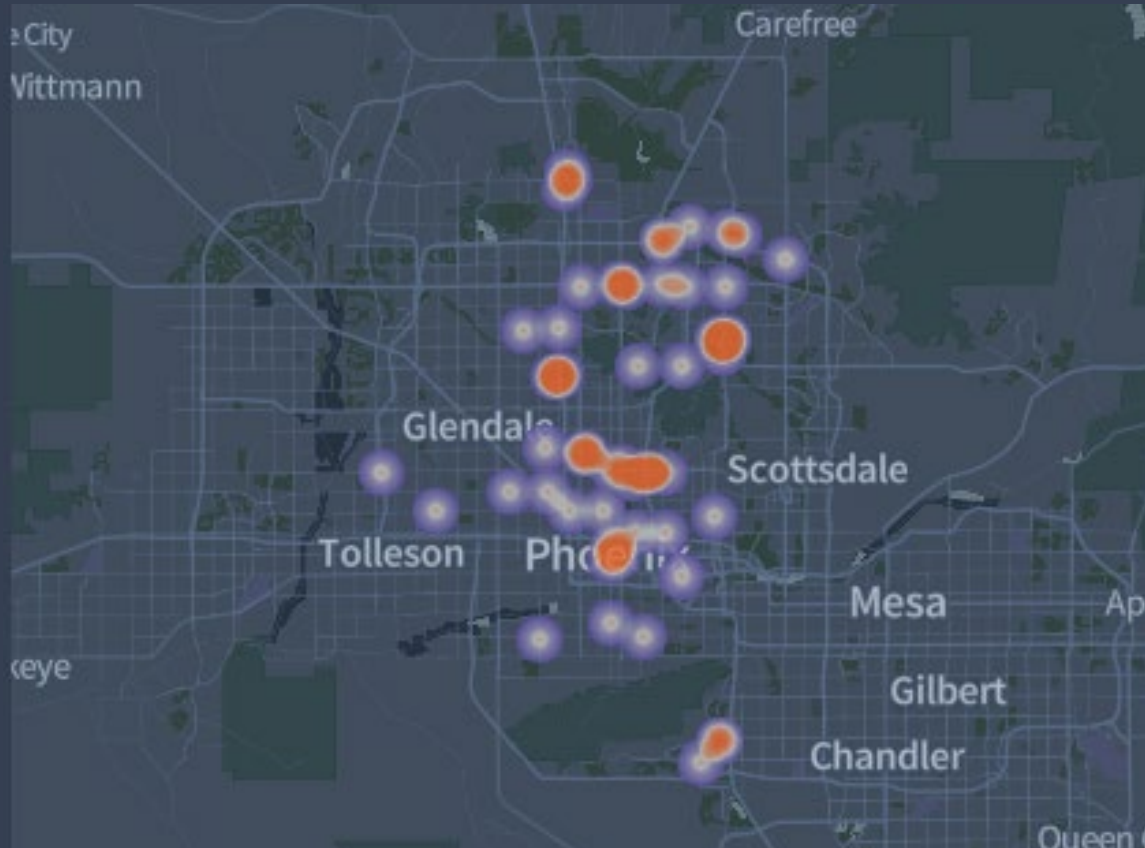
Phoenix median household income level

Phoenix leads West in income growth, according to the U.S. Census Bureau. Cities in the Phoenix metropolitan area with the highest annual salaries are Goodyer, Peoria, Chandler, Avondale, Glendale, Surprise, Scottsdale, Tempe and Phoenix. This forecasted income growth underpins strong resident-oriented retail fundamentals.

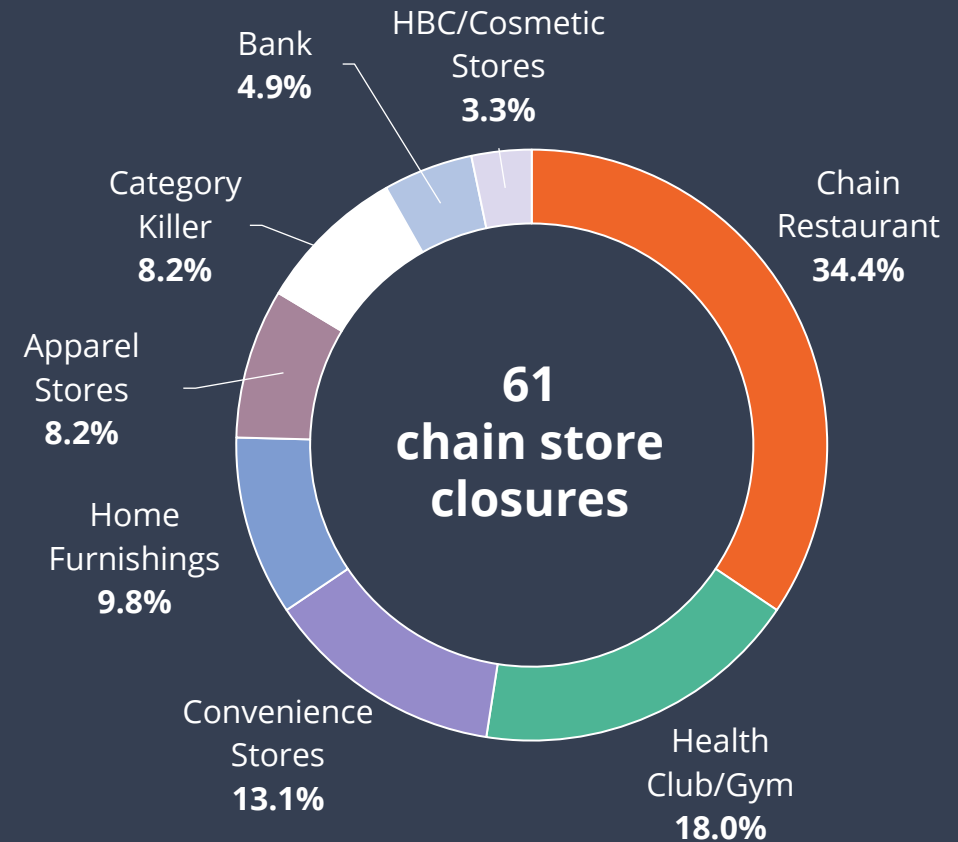


Source: AVANT by Avison Young
U.S. Census Bureau
ESRI

Phoenix retail chain store closures



34.4% of retail closures were by chain restaurants



Source: AVANT by Avison Young
Chain Store Guide

A woman with dark hair, wearing a white face mask and a grey apron over a light-colored t-shirt, is standing in the doorway of a retail store. She is holding the door frame with both hands. The background shows the interior of the store, which appears to be a bar or a cafe, with shelves stocked with bottles and a green plant on a counter to the left.

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Retail occupier conditions

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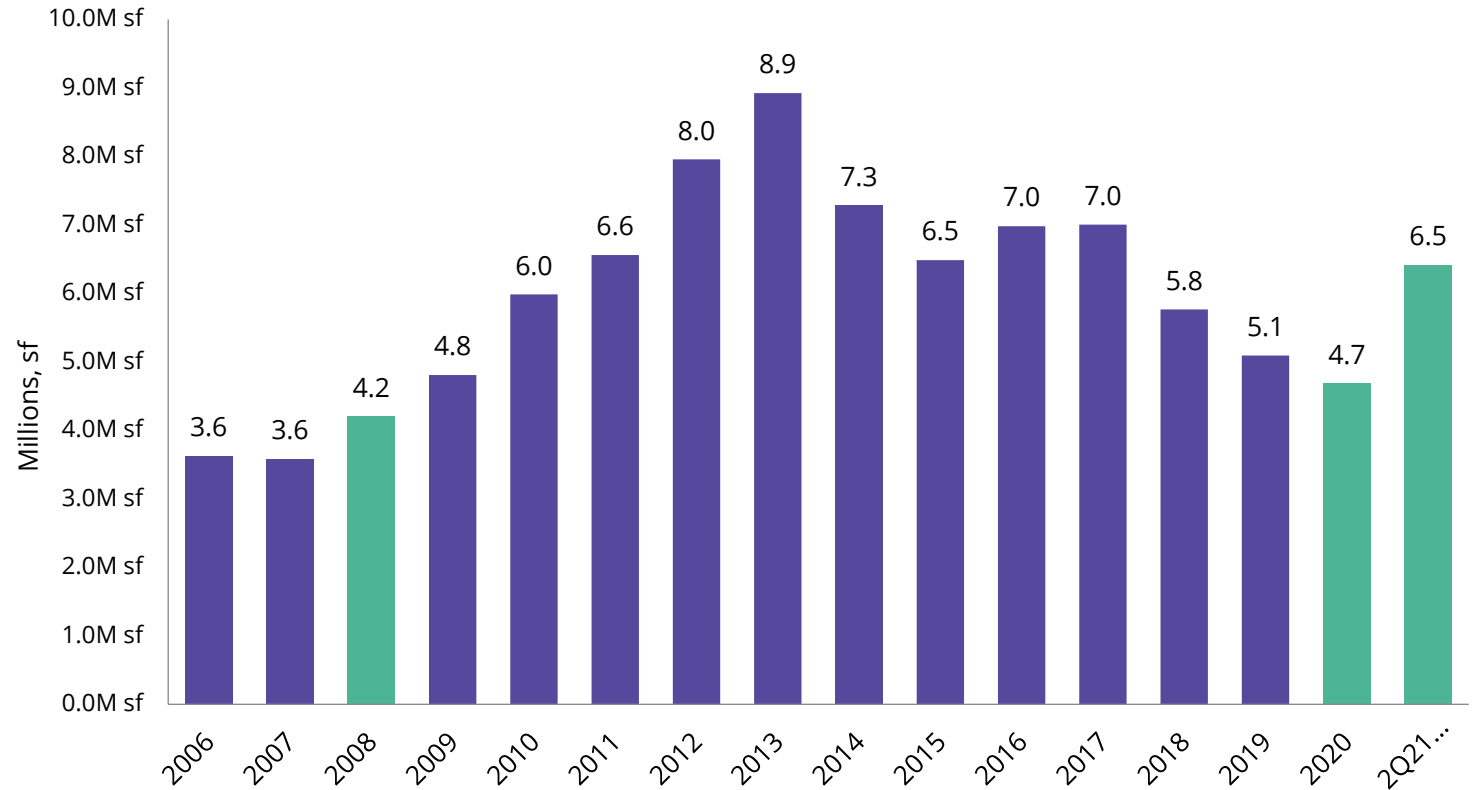
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Retail leasing activity

-11.2%

**2020-pro-rated 2021 vs.
prior 20-year annual
average leasing activity**

Phoenix retail leasing has rebounded from a slow 2020, anchored by demand from grocery, home improvement, furniture and other outlets.

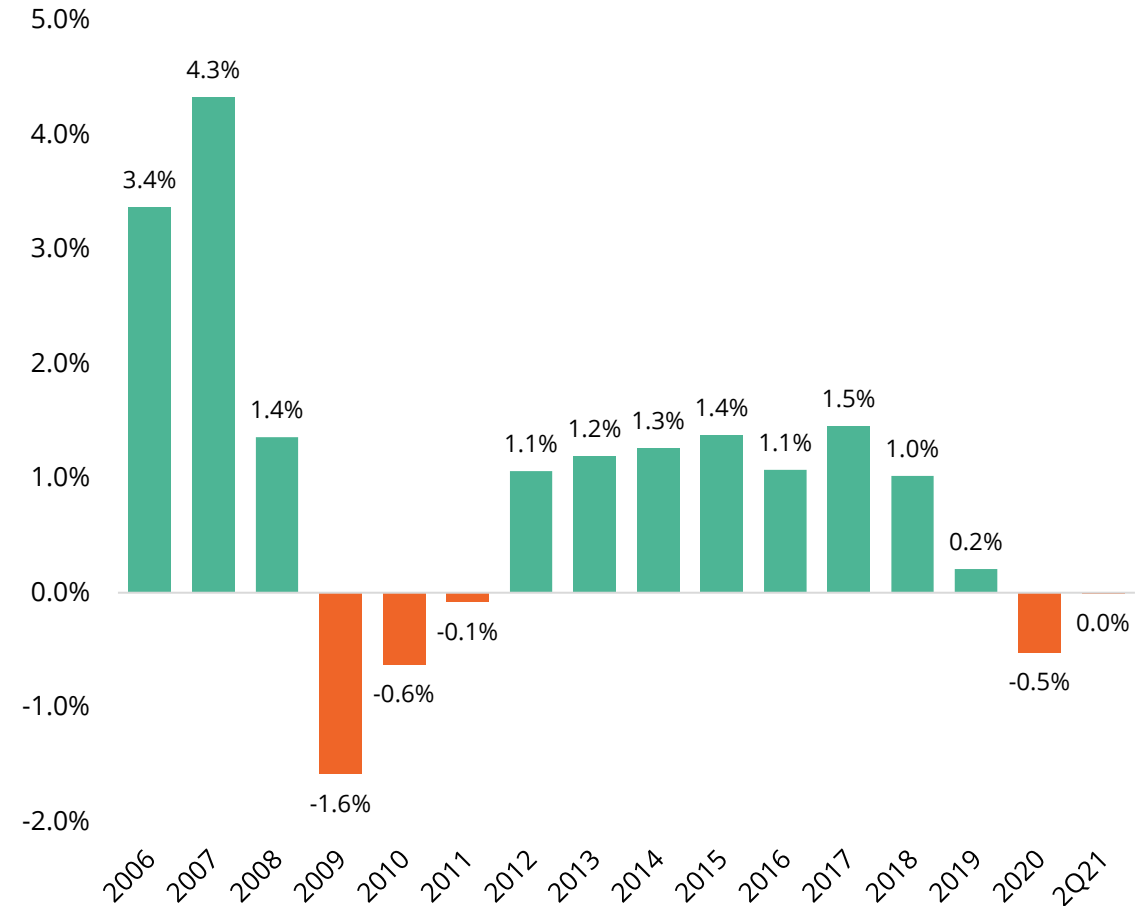


Source: AVANT by Avison Young

-0.5%

Net absorption as a percentage of inventory, 2020 through Q2 2021

Negative absorption from 2020 to 2Q21 has totaled approximately 1.0 million sf, totaling -0.5% of the existing stock. This negative absorption is less severe than the global financial crisis (-1.6%).



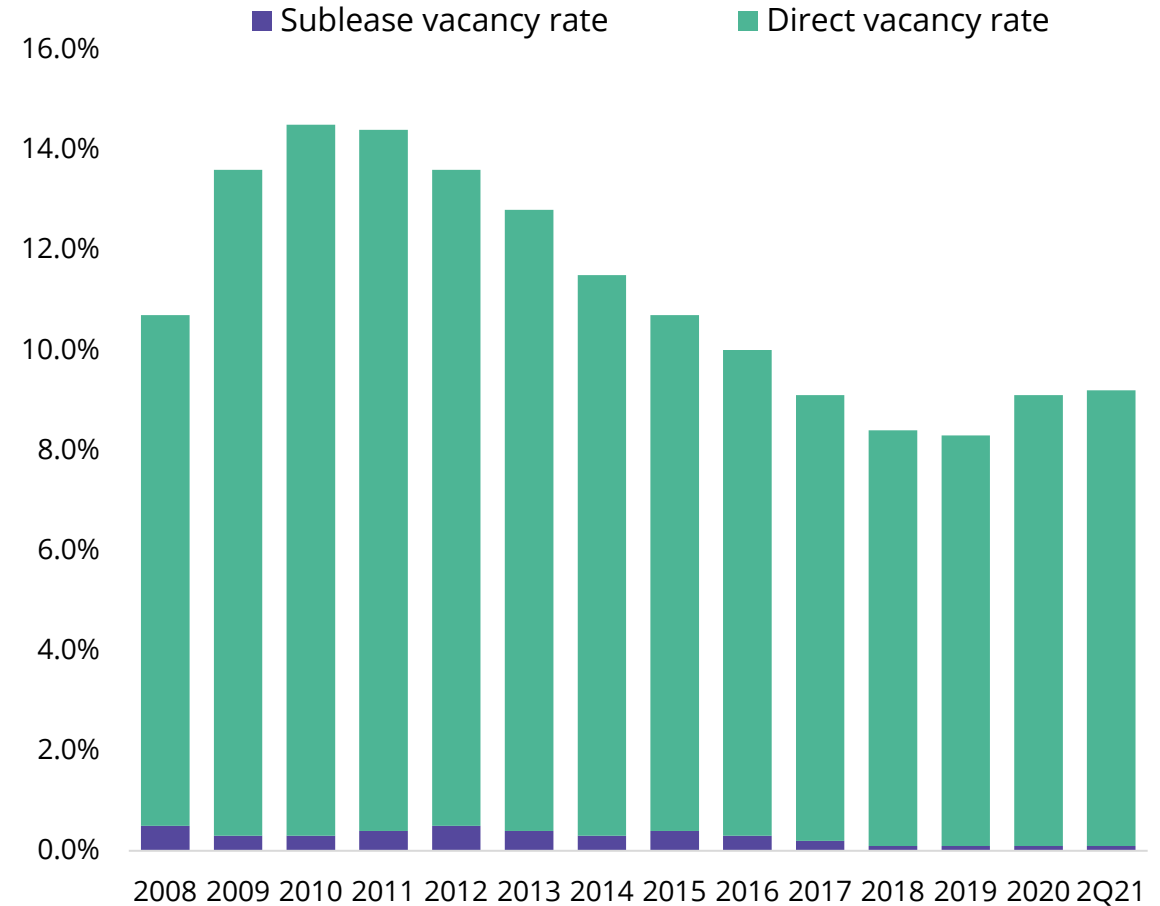
Source: AVANT by Avison Young

Vacancy rate

9.2%

Phoenix vacancy as of
Q2 2021

Vacancy has remained level since 2020 and remained below the 2008 to 2020 equilibrium of 11.3%. Stronger leasing activity and lower construction activity signifies that supply has stabilized.



Source: AVANT by Avison Young

Phoenix retail development pipeline

57 properties

under construction

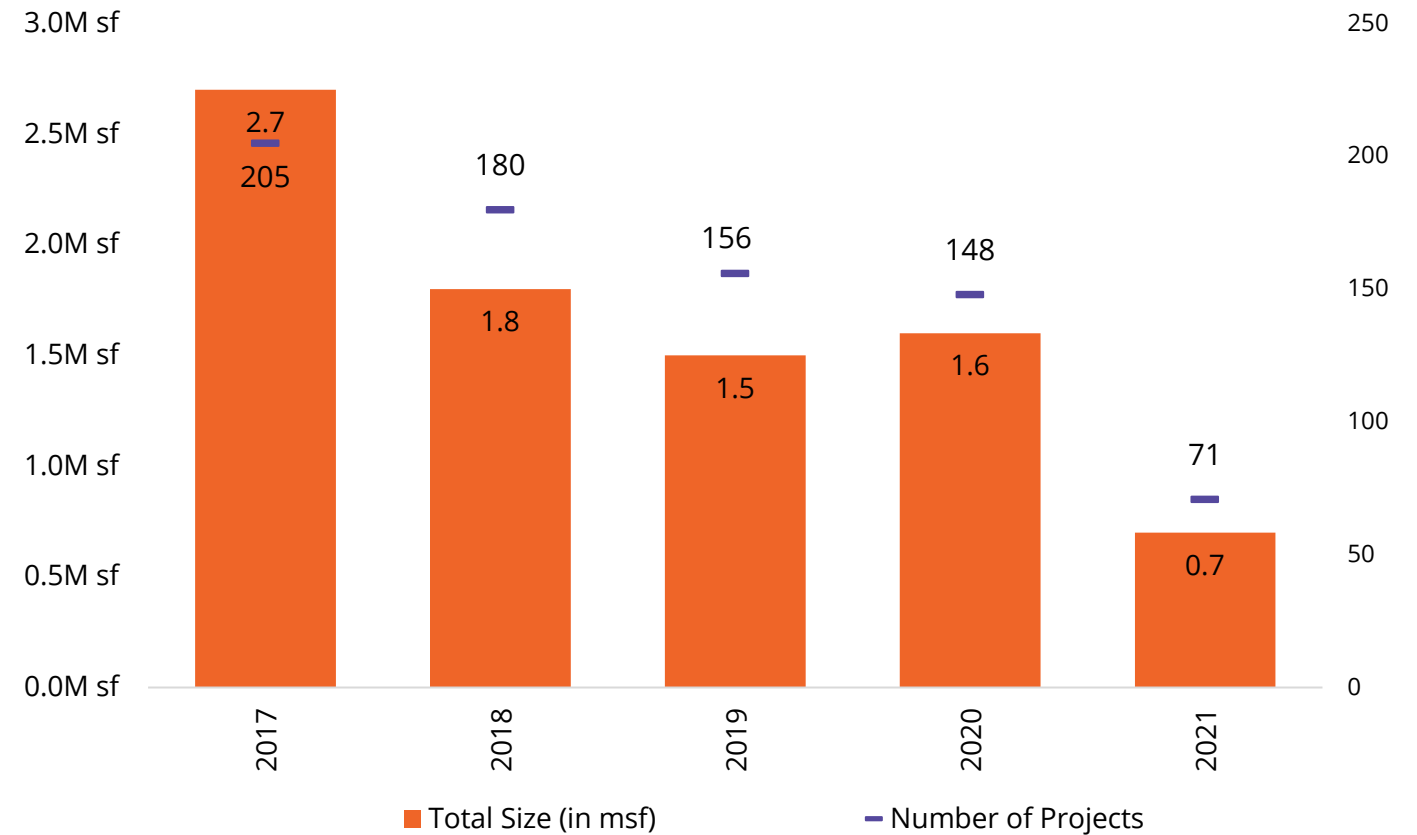
700K sf

under construction

Gilbert

Submarket with most ground-
broken projects at 21

Rising construction costs have stemmed
new delivery-induced retail supply risk



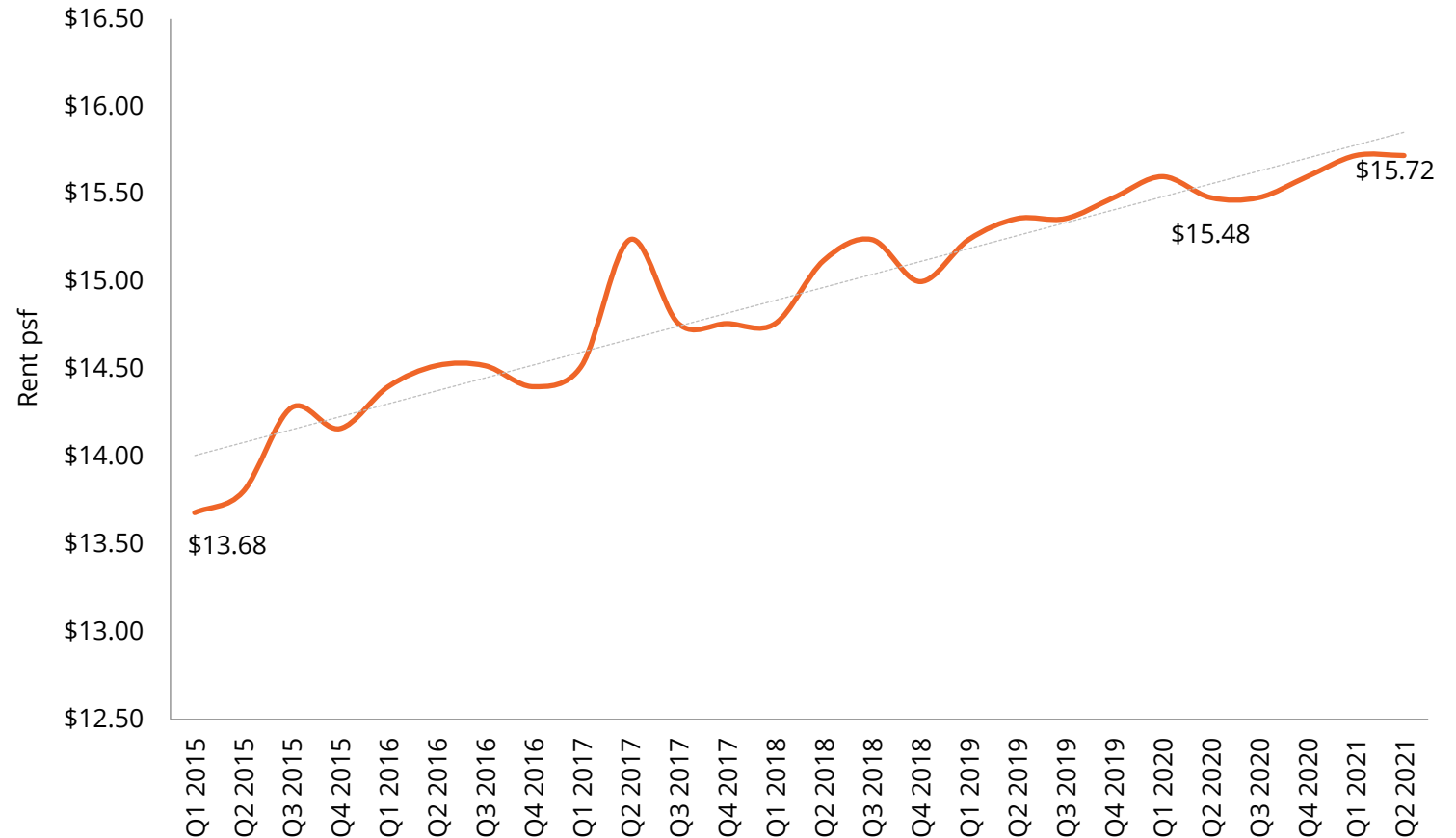
Source: AVANT by Avison Young

Asking rents

+1.6%

Asking rents since the onset of the pandemic

Asking rents continued to rise in the second quarter, and overall have been trending upward since 2015, increasing by 14.9% over the last six years.



Source: AVANT by Avison Young



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Capital markets conditions

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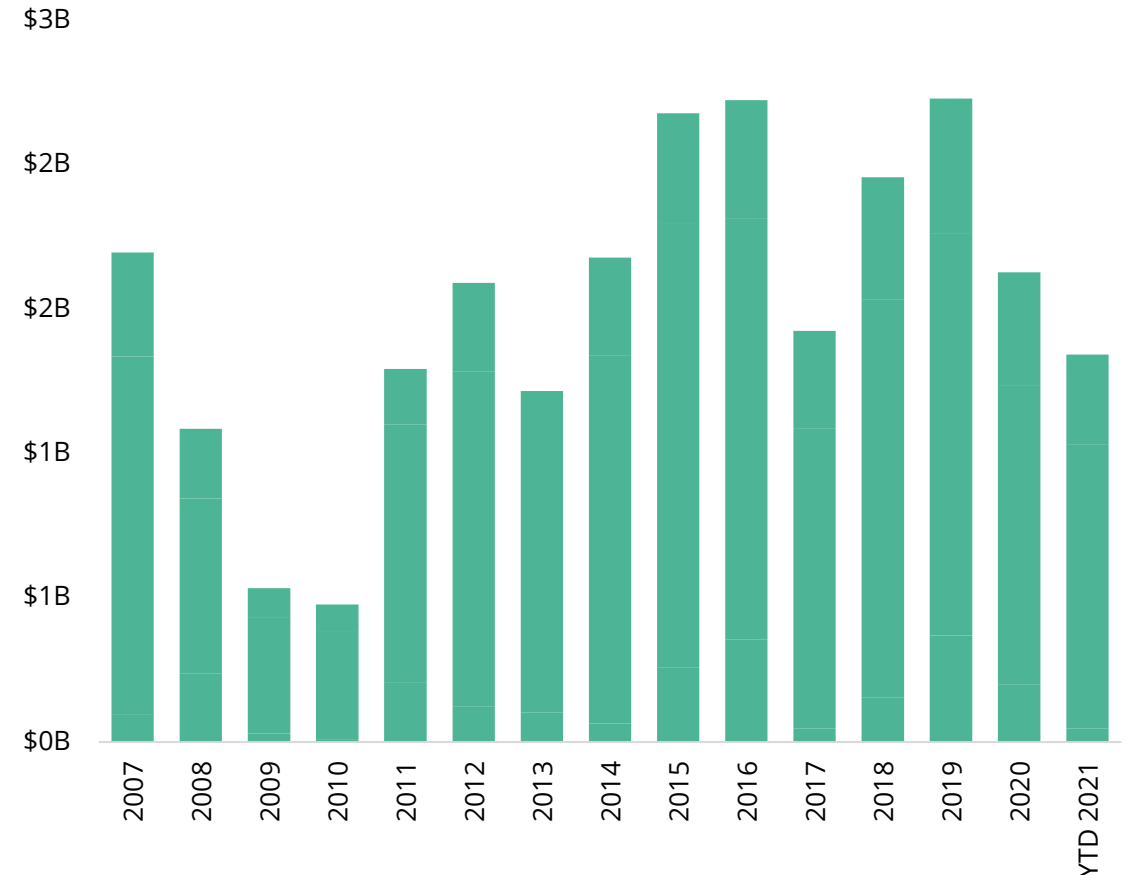
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Retail investment dollar volume

\$3.0B

Phoenix retail dollar volume 2020 to present

Retail sales activity is on pace to surpass 2019 levels due to increased demand by opportunistic investors. Out-of-state buyers searching for well-located properties are driving transaction activity, particularly those originating from California.



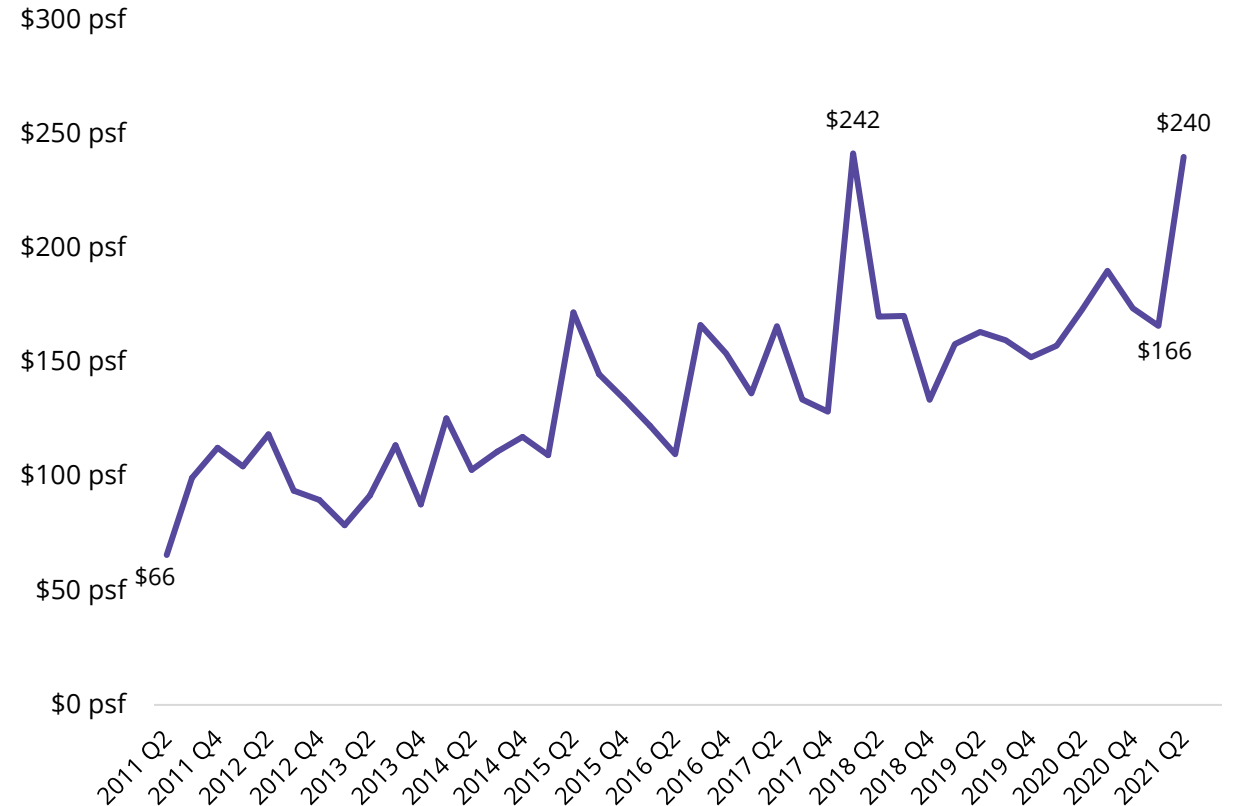
Source: AVANT by Avison Young, Costar, RCA

Retail asset pricing

+27.9%

Phoenix retail pricing from June 2020 to present

Pricing has accelerated since the pandemic as investors that were temporarily sidelined become more active amidst record levels of uncommitted capital. Asset pricing increased from \$173 psf in June 2020 to \$240 psf in June 2021.



Source: AVANT by Avison Young, RCA

Looking forward



Here's what we can expect

- Maricopa County **employment is projected to increase by 5.9% growth through 2022**, per the Office of Economic Opportunity.
- Many uncertainties abound regarding the disruption caused by the coronavirus and its long-term impact associated with online shopping versus in-store sales. The Phoenix retail market is in a better position than most primary retail markets due to elevated and diversified occupier demand coupled with a limited supply of well-located and new construction availabilities.
- The closure of Paradise Valley Mall and some anticipated closures among national retailers may temporarily disrupt the local retail market's otherwise positive trajectory. The mall had struggled for years prior to its closure, and the city council approved redevelopment and demolition plans. Other recent sizable closures so far include two Fry's Electronics stores and Stein Mart, an indication that the **pandemic should still disrupt struggling retailers.**



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Let's talk

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