



Phoenix retail market report

Q1 2023

**AVISON
YOUNG**

Phoenix retail market: Trends

189.2 msf

Inventory (sf)

Retail inventory (10,000 sf +) totaled 189,242,777 square feet in the greater Phoenix area to end the 1st quarter of 2023.

Retail development activity has experienced a tremendous rebound following the lull experienced during the pandemic - with deliveries in Q1 totaling 757,174 sf and 2,700,660 sf currently under construction, both of which are decade-highs for the retail market.

5.6%

Total vacancy rate

Vacancy rates for Phoenix retail continued its downward trend across all Phoenix submarkets – with the total vacancy rate in the greater Phoenix area seeing a drop of 30 basis points from 5.9% in Q4 2022 to 5.6% in Q1 2023.

The decline in vacancies can largely be attributed to the post-pandemic rise in tenant demand. Larger space retail uses that were considered “high-risk” to keep open during the pandemic such as grocery stores and fitness centers, which were two of the primary drivers of this resurgence – with these tenants leasing larger vacant spaces in shopping centers and new developments.

\$166.2m

Sales volume (Q1 2023)

Investment sales did slow from historical norms in Q1, with 28 closed transactions totaling \$166.2m. While some of this is attributable to cap rates and rising interest rates needing to reconcile between sellers and buyers, it is important to note that Phoenix broke records in 2022 for investment sales metrics. These new high-water marks resulted in a substantial number of projects trading in the past 2 years and hence less quality property is on the market so far in 2023.

More owners are exhibiting confidence and holding their assets than in prior quarters. Total available listings decreased in Q1 showing this may be more of a supply-side issue than a buyer pullback or concern on retail investments.

*Values reflect data on retail properties 10 ksf & above

Phoenix retail market: Indicators

3.5 msf

Phoenix's retail development pipeline hit a **decade high** during the 1st quarter with 2.7 msf currently under construction. Deliveries are also up significantly during the 1st period, with 757,174 sf delivered thus far – doubling the quarterly 10-year moving average of 345,046 sf.

1.2 msf

Total net absorption was **up** in Q1, posting 1,241,192 sf of positive net absorption during the quarter – an 11.2% increase (125,652 sf) over the 1,118,060 sf of positive net absorption seen during Q4 2022.

\$22.90 psf

Direct market rents for retail properties have **increased** to \$22.90 psf in Q1 2023 – up \$0.55 (2.5%) over Q4's rate of \$22.35.

10.4 msf

Total availabilities decreased for the 11th consecutive quarter – ending the first period with 10.4 msf of total available space. This marks the least amount of available retail space in the Valley since Q2 2007.

5.6%

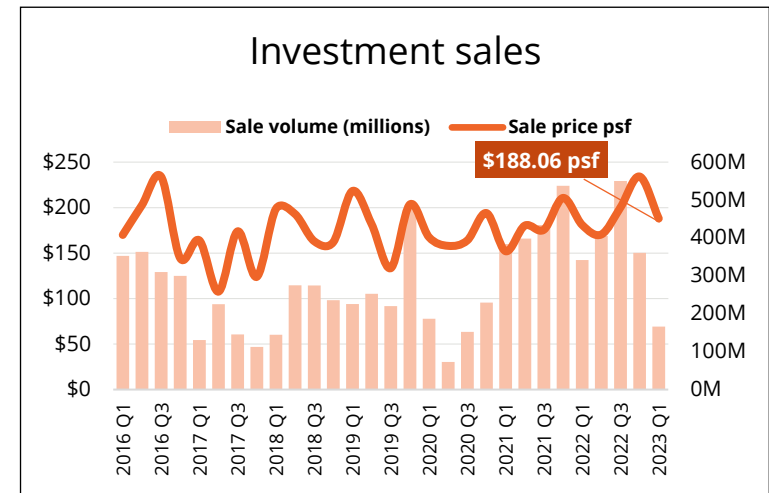
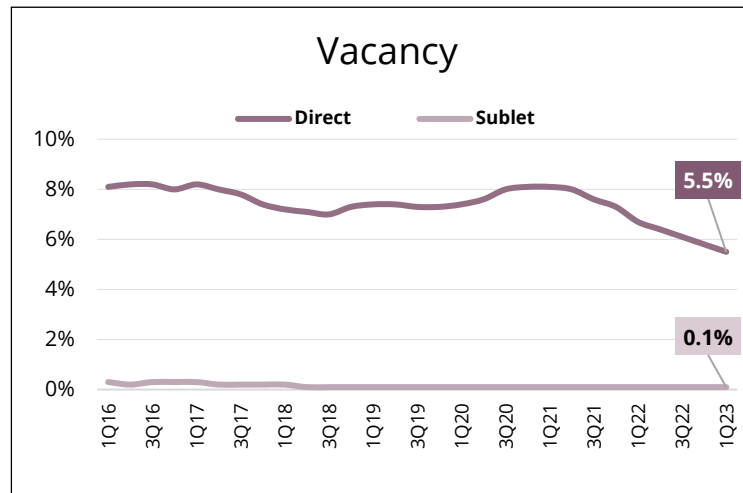
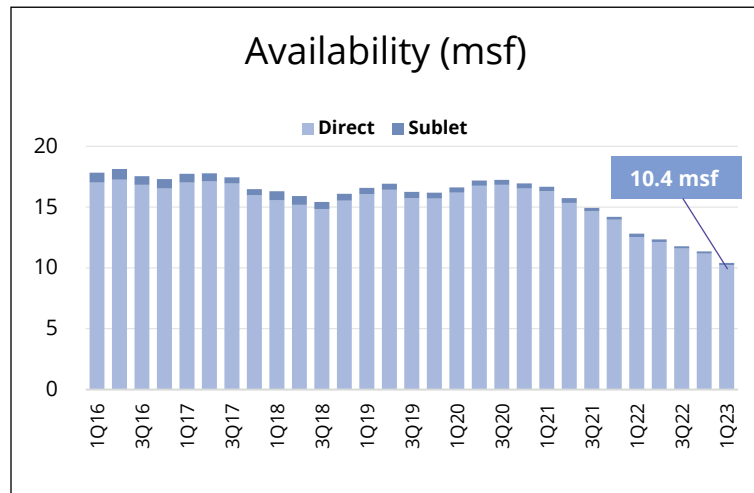
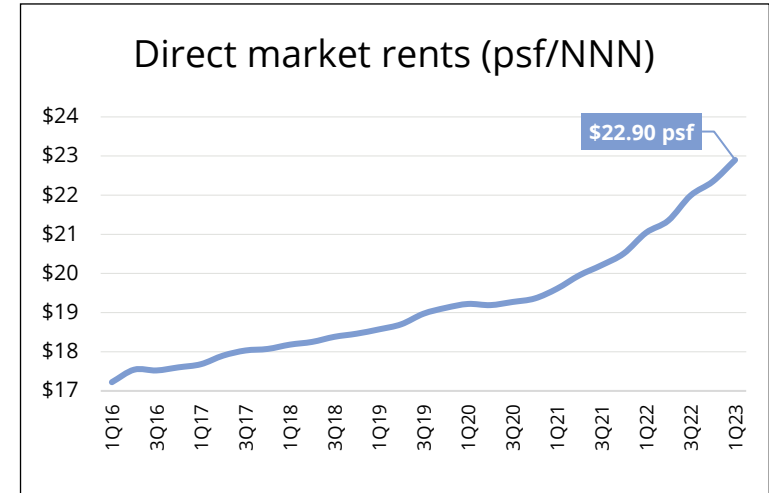
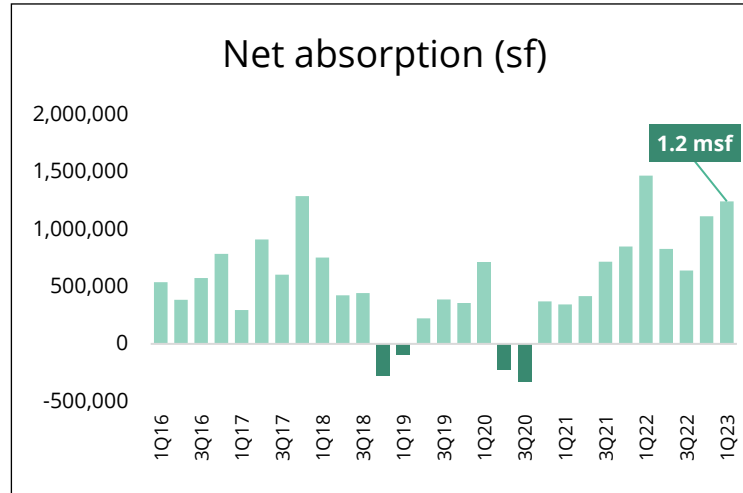
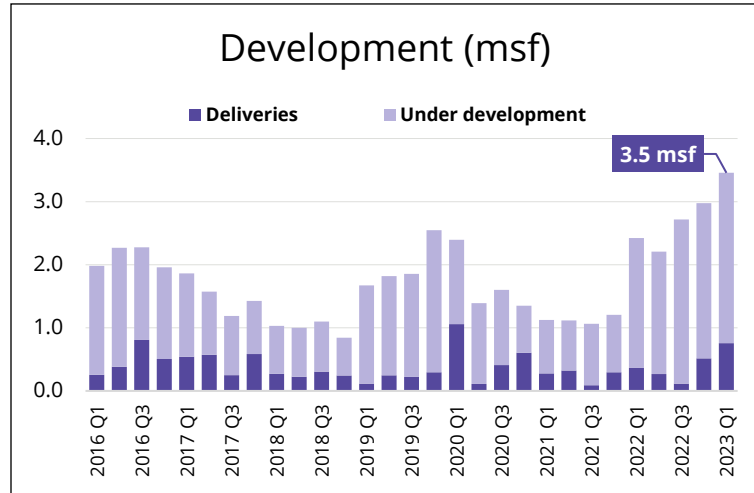
The **total vacancy rate** for Phoenix retail ended the 1st quarter at 5.6% - **down** 30 basis points quarter-over-quarter. Vacancy continues to fall as demand for retail has rebounded from the hesitancy seen from tenants during Covid.

\$188.06 psf

Both sales volume (by \$) & average price per sf on retail sales **decreased** quarter-over-quarter. Sales volume fell 53.9% from \$360.6m transacted in Q4 2022 to \$166.2m in Q1 2023 – with average rates across sales falling from \$234.22 to \$188.06, respectively.

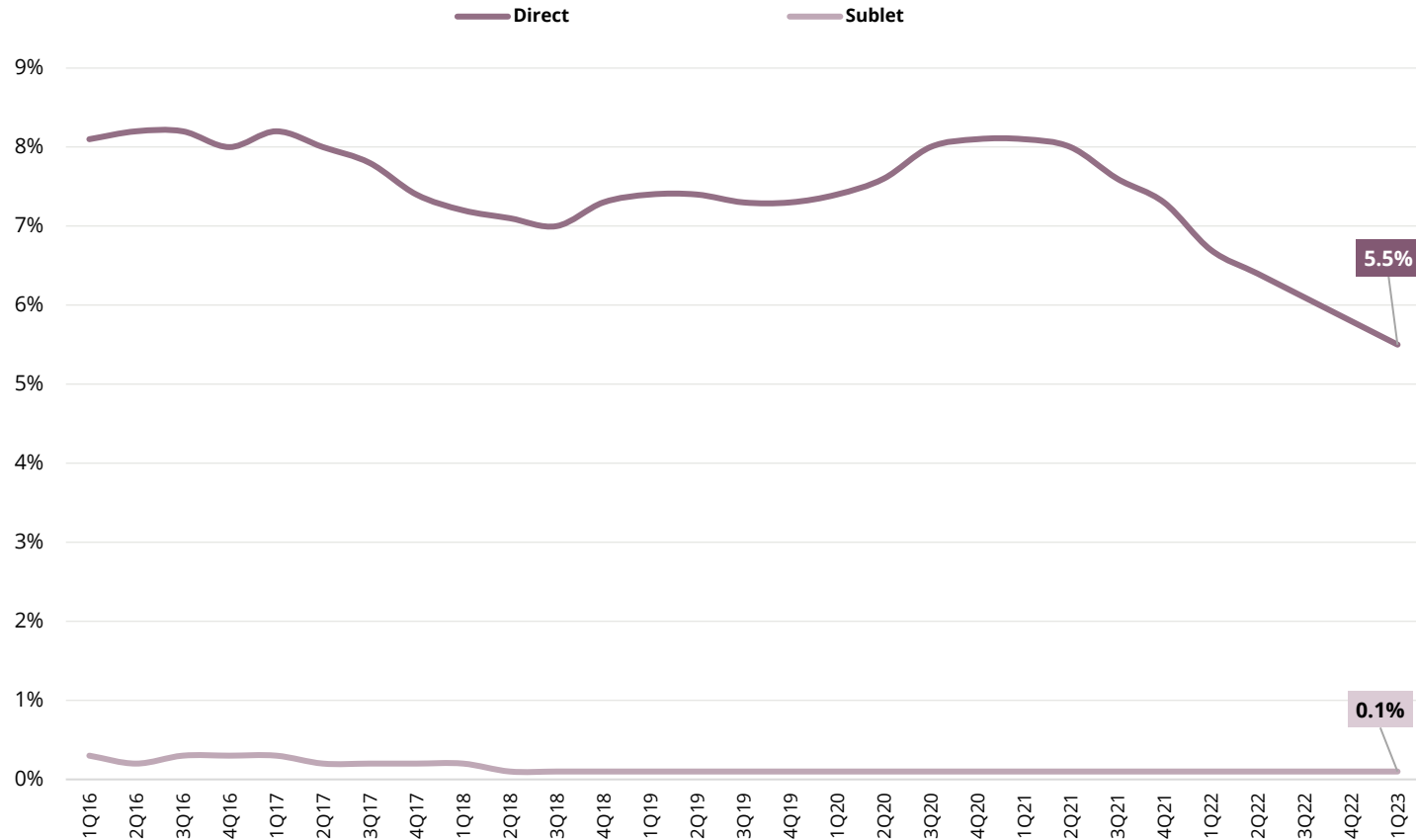
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Phoenix retail market: Indicators



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Phoenix retail market: Vacancy



Phoenix retail records a decade-low total vacancy rate of 5.6% in the 1st quarter.

The decline in vacancies has been largely fueled by rising tenant demand post-pandemic - with grocery stores and fitness centers making a resurgence by leasing larger vacant spaces in shopping centers and new mixed-use developments.

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Phoenix retail market: Net absorption



Phoenix retail reports 1.2 msf of positive net absorption in Q1 – marking the 10th consecutive quarter of positive net absorption.

Despite wavering consumer confidence due to rising interest rates and fears of a possible economic downturn, Phoenix has continued to fare well given recent growth in both population and market size.

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Phoenix retail market: Sales activity

Q1 2023: Notable closed transactions

Address	Sale date	Size (sf)	Sale price	Sale price psf	Buyer	Seller	Notes
Metrocenter Mall 9617 N Metro Pkwy West, Phoenix	Jan 2023	700,000	\$26,800,000	\$38	Concord Wilshire Capital	Carlyle Development Group	The Metrocenter Mall, which sat on 40 acres was sold for its land value. The buyers plan on redeveloping the site into a community-driven walkable village that will have residential apartment options, and retail stores. The partnership formed a strategic alliance with Hines for the redevelopment.
Glendale Palms 6611 W Bell Rd, Glendale	Feb 2023	104,949	\$18,250,000	\$151	Essential Growth Properties	B.M. Tonkin Inc.	The Glendale Palms is a neighborhood retail center which was built in 1992 and renovated in 2002. The property is anchored by Fry's Food Drug Marketplace, a subsidiary of Kroger. Essential Growth Properties was motivated to acquire the shopping center since operating grocery retail centers are low-risk, high-return investments. They used Fund II for this acquisition.
Sprout's Center 5225-5235 E Southern Ave, Mesa	Jan 2023	57,345	\$17,035,110	\$323	Deatherage Family Trust	Boros Investments	The Sprout's Center is a freestanding neighborhood retail center built in 2005. At the time of the sale the property was 100% occupied and traded at a 6.15% cap rate. The property was acquired by a California-based family trust through a 1031 exchange.
Crossroads Plaza 6750 W Peoria Ave, Peoria	Mar 2023	112,838	\$14,750,000	\$131	LBM Investments	Ethan Christopher	The Crossroads Plaza is a freestanding neighborhood retail center built in 1986. The property was 91.4% occupied and the projected pro forma cap rate is expected to be around 8.13%. Prominent tenants in the plaza at the time of sale included: Harbor Freight, Dollar Tree, Goodwill, LA Crab Shack, Ta' Carbon Mexican Grill, Odyssey Martial Arts and Iced Out Ice Cream Parlor.
Caliber Collision 2190 S Douglas Dr, Chandler	Jan 2023	29,065	\$6,320,000	\$217	Kent Companies	Cross Development	The general retail building at 2190 S Douglas Dr sold for \$6,320,000; or \$217.44 per square foot. The class B general retail property is comprised of 29,065 square feet and is occupied by Caliber Collision. This was a Triple Net Investment opportunity for the buyer. The property is zoned PAD and is situated within the Gilbert Ret submarket. The retail building is sitting on 4.75 Acres.

Phoenix retail market: Leasing & development activity

Recent leasing activity

Tenant name	Address	City	Sign date	Size (sf)	Transaction type	Lease type
Fry's Food Store	SW Cactus Rd & Sarival Rd	Surprise	Mar 2023	105,000	New Lease	Direct
EOS Fitness	SW Cactus Rd & Sarival Rd	Surprise	Mar 2023	103,256	New Lease	Direct
At Home	1110-1320 W Elliot Rd	Tempe	Mar 2023	84,000	New Lease	Direct
Slick City	7586 W Thunderbird Rd	Peoria	Jan 2023	34,425	New Lease	Direct
Sprouts Farmer's Market	34750 N North Valley Pkwy	Phoenix	Jan 2023	28,000	New Lease	Direct
Arena 23 Sports Amusement	2031 N Arizona Ave	Chandler	Jan 2023	22,275	New Lease	Direct
Portillo's	2630 Market St	Gilbert	Jan 2023	21,464	New Lease	Direct
Modern Resale	116 N Lindsay Rd	Mesa	Mar 2023	15,600	New Lease	Direct

Notable construction projects

Project Name	Address	City	Size (sf)	Est. Delivery
Prasada North	NEC Prasada Pkwy & Waddell Rd	West Phoenix	400,000	Oct 2025
The Village @ Prasada	13490 N Prasada Pkwy	West Phoenix	300,000	Jan 2024
Hudson Station	22101 E Queen Creek Rd	East Valley	197,830	Mar 2024
Estrella Commons	SEC Estrella Pkwy & I-10	West Phoenix	171,000	Jan 2024

Phoenix retail market: Submarket stats

Submarket	Existing inventory sf	Deliveries sf (Q1 2023)	Under development sf	Direct vacancy	Sublet vacancy	Total vacancy	Net absorption sf (Q1 2023)	Direct market rent (psf)
Airport Area	3,997,827	-	-	4.4%	0.2%	4.6%	(8,540)	\$18.66
Downtown Phoenix	5,479,373	-	108,000	6.3%	0.0%	6.3%	(20,406)	\$22.39
East Valley	64,522,328	11,780	644,153	5.9%	0.1%	6.0%	211,886	\$21.60
North Phoenix	32,624,861	-	166,869	8.2%	0.2%	8.4%	65,499	\$17.91
North Scottsdale	13,896,475	-	43,226	4.4%	0.1%	4.5%	(2,747)	\$27.49
Northwest Phoenix	17,548,812	-	73,867	3.8%	0.0%	3.8%	(41,704)	\$26.85
Pinal County	7,756,342	-	71,780	9.2%	0.0%	9.2%	290	\$20.16
Scottsdale	15,919,924	-	216,356	3.6%	0.2%	3.8%	6,285	\$32.28
South Mountain	5,668,068	-	40,994	5.9%	0.0%	5.9%	25,592	\$24.37
West Phoenix	21,828,767	745,394	1,335,415	2.4%	0.0%	2.4%	1,005,037	\$22.71
Market total	189,242,777	757,174	2,700,660	5.5%	0.1%	5.6%	1,241,192	\$22.90

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For more market insights and
information visit **avisonyoung.com**

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