

METRO PHOENIX

Retail

VACANCY ▼

NET ABSORPTION ▲

AVERAGE RENT ▲

1st Quarter
2023
RETAIL
Market Report

1st Quarter Retail Market Report

Inflation has begun to impact shopping habits, and shoppers are demonstrating their preference for necessity as the first quarter played out. Consumers pulled back on purchases of apparel and electronics in recent months while continuing to spend on groceries and other essentials, according to the largest retailers. The latest trends were in contrast to much of 2021 and the early innings of 2022 when consumers engaged in what one pundit called “revenge spending” following the pandemic and subsequent reopening of the economy.

Macy’s and Best Buy expect sales to fall into negative territory this year after declining in 2022, as persistently high inflation and other economic issues weigh on shoppers. Macy’s reported a 32% drop in profit for the first quarter, while Best Buy CEO Corie Barry said on a conference call with analysts that she expects “2023 will be the bottom in tech demand for U.S. households.”

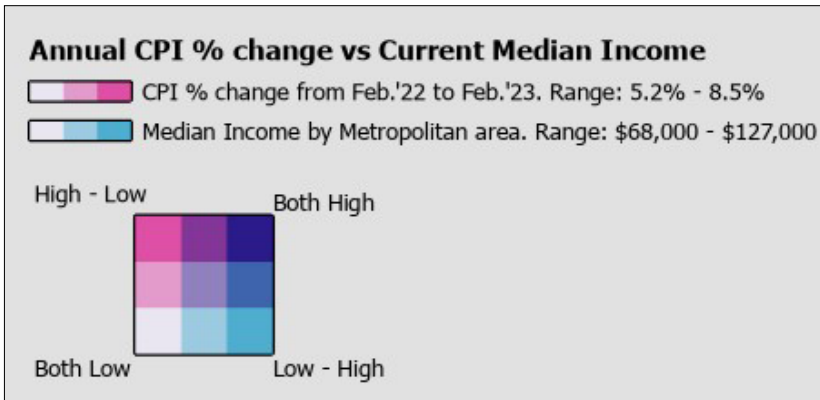
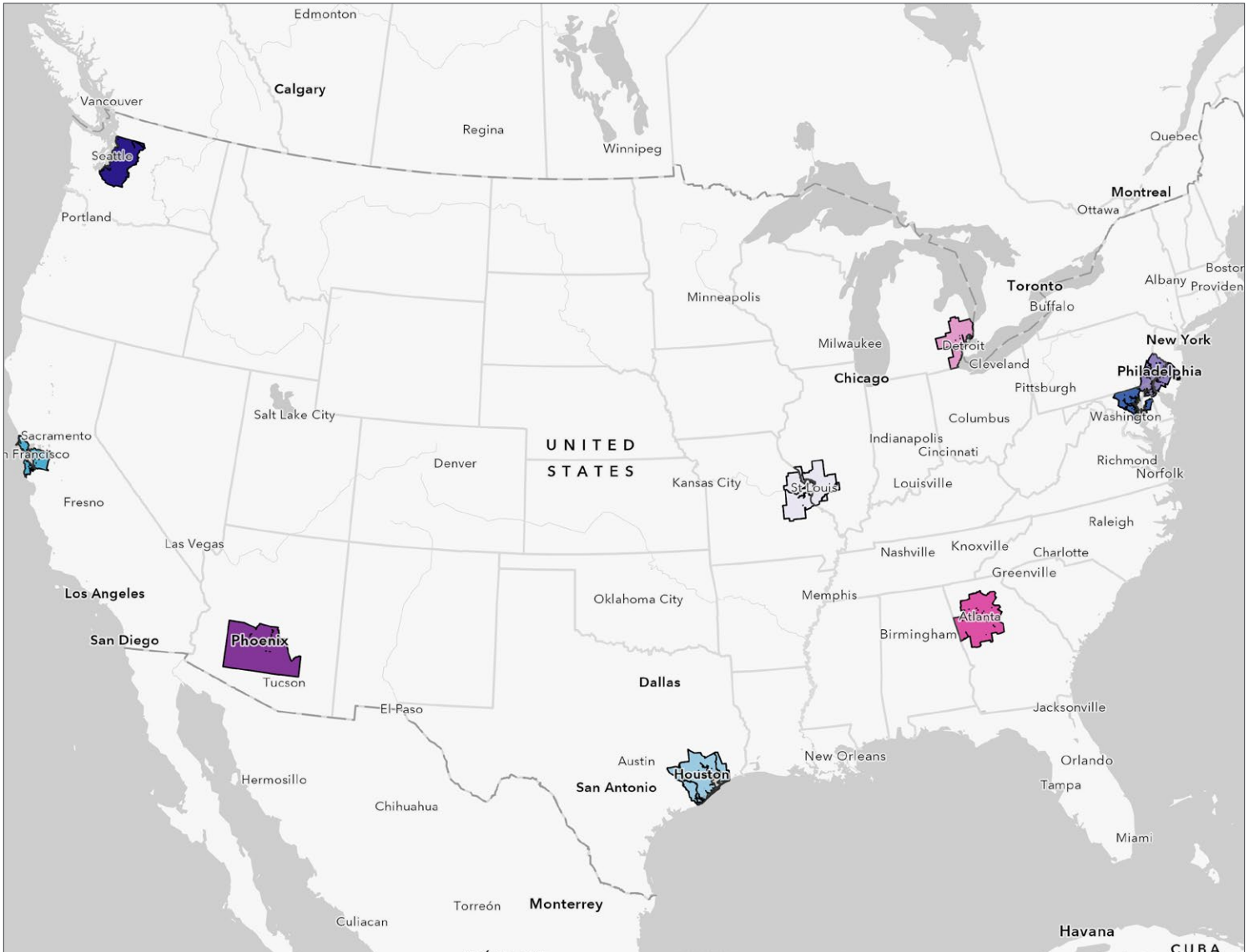
Shoppers are also looking to lower budgets by buying more lower-cost store brands and smaller sizes of some items such as paper products, prompting the CEO of Kroger Co., Rodney McMullen, the biggest U.S. supermarket operator, to say: “Consumers are behaving as if they are already in a recession.”

Walmart has also reported that shoppers are selecting more of the Arkansas-based retailer’s cheaper, private-label brands. Further, the company has asserted that it is gaining more affluent shoppers in many urban and metropolitan markets. Similarly, brands that offer value, such as T.J. Maxx and Burlington Stores, thrive in this environment.

First-quarter financial reports from retailers show divergence in fortunes among sellers of discretionary products and staples or necessities, yet that didn’t stop consumers from pulling out their pocketbooks during the first month of 2023. According to Commerce Department data, retail spending increased by 3% in January, compared with December last year, on a seasonally adjusted basis. Goods accounted for 33% of January retail sales, as opposed to 30% in pre-pandemic years. This trend is consistent with the shift back to pre-pandemic norms. After the pandemic, consumers started spending more on dining out and travel than on furniture, home accessories, and big-ticket items like appliances.

Q1 2023

RETAIL MARKET METRO PHOENIX



1st Quarter Phoenix Retail Market

Retail real estate continues to flourish in the Valley of the Sun, with first-quarter net absorption posting a healthy 1,753,525 square feet. We would have to return to the fourth quarter of 2017 to find a quarter with comparable net absorption when it was 1,172,592 square feet. Net absorption has been positive now for eight consecutive quarters. It has only been negative in five quarters going back to the second quarter of 2011, when the economy began to grow again after the Great Financial Crisis.

The vacancy rate continued its descent from a recent high watermark of 7.8% in the second quarter of 2021, dropping to 5.0% at the end of the current quarter. The vacancy rate was 5.3% at the end of last year and 6.1% at the end of the first quarter of 2021.

Looking at the numbers by retail category, the vacancy rate for lifestyle/power centers dropped to 3.3% in the recent quarter, and there were 21 total lease transactions closed in the period. The vacancy rate for regional malls concluded the first quarter at 4.3%, and there were 11 leases signed during the first few months of the year. Shopping centers had a 5.3% vacancy rate, and 278 leases were completed in Q1 of 2023. For general retail, which is often standalone retail buildings and detached restaurants, the period ended with a vacancy rate of 2.4% and 76 leases inked in the quarter.

Of the ten metro area submarkets, and they are Downtown Phoenix, North Phoenix, West Phoenix, Northwest Phoenix, East Valley, South Mountain, Scottsdale, North Scottsdale, the Airport Area, and Pinal County, West Phoenix experienced the most significant growth during the first quarter, with net absorption exceeding 1.4 million square feet, and accounting for the majority of overall net absorption in the first quarter, which was 1,753,525

Q1 AT A GLANCE:

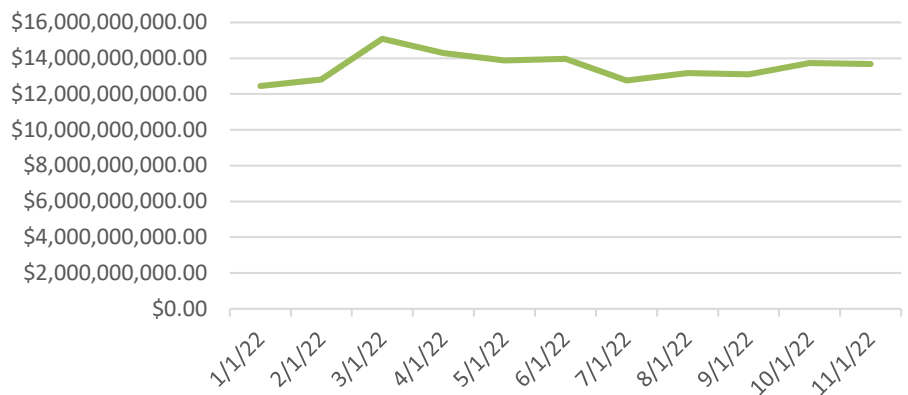
VACANCY: 5.0% ▼

NET ABSORPTION: \$1.8M SF ▲

AVERAGE ASKING RATE: \$17.10 / SF ▲

The vacancy rate continued its descent from a recent high watermark of 7.8% in the second quarter of 2021, dropping to 5.0% at the end of the current quarter.

2022 AGGREGATE ARIZONA RETAIL SALES
TOTAL \$148.9 BILLION



square feet. The East Valley had positive net absorption of 273,729 square feet in the quarter. In contrast, Downtown Phoenix, Northwest Phoenix, the Airport Area, and North Scottsdale each had minor negative net absorption.

Valley-wide and across all sectors of retail product type, age, and quality classes, overall asking NNN rents pushed higher again, settling at \$17.10 in the first quarter, up from \$16.68 for the same period a year earlier.

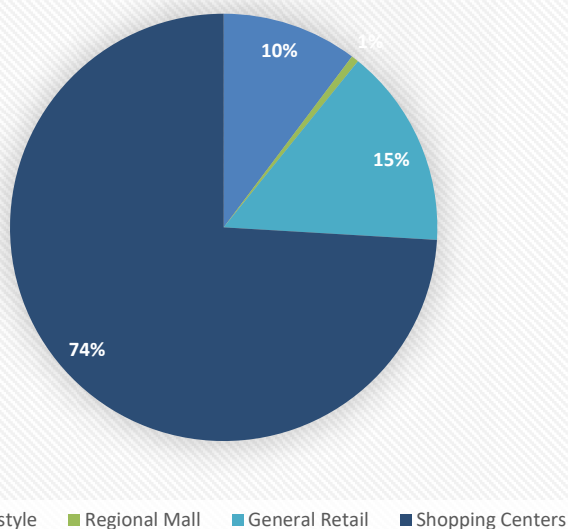
Builders and companies doing built-to-suit retail buildings delivered 44 of them in the quarter, which is an average number looking back five or six years. 69 was the most for one quarter, 1Q2020, while the fewest in that span was 27, in 1Q2021. Total retail deliveries for the first quarter exceeded 1.32 million square feet – a strong showing by recent comparisons of 651,954 in the fourth quarter last year and 502,139 square feet for the same period a year earlier.

At the close of the first quarter, developers were at work on 2,713,493 square feet of new retail space

under construction, which is on par with last year. In 2022, 11.22 million square feet of new retail inventory was added to the market, or about 2.8 million square feet per quarter. The metro Phoenix market has over 280 million square feet of shopping centers and miscellaneous retail real estate in various product categories.

Dick's Sporting Goods expects to absorb approximately 300,000 square feet of the new retail inventory in the Phoenix area, as the company puts in three 100,000-square-foot locations in the community. These will likely be the company's latest and larger-than-normal format, House of Sports. House of Sports is a retail concept that provides interaction and experiences, including putting greens, rock walls, batting cages, and turf baseball fields, along with sports-related apparel and equipment for sale. There are currently three House of Sports stores in Rochester, New York.; Knoxville, Tennessee; and Minnetonka, Minnesota. Dick's recently announced plans to roll out as many as 75 to 100 new stores over the next five years. There are currently three traditional Dick's Sporting Goods in the Phoenix area.

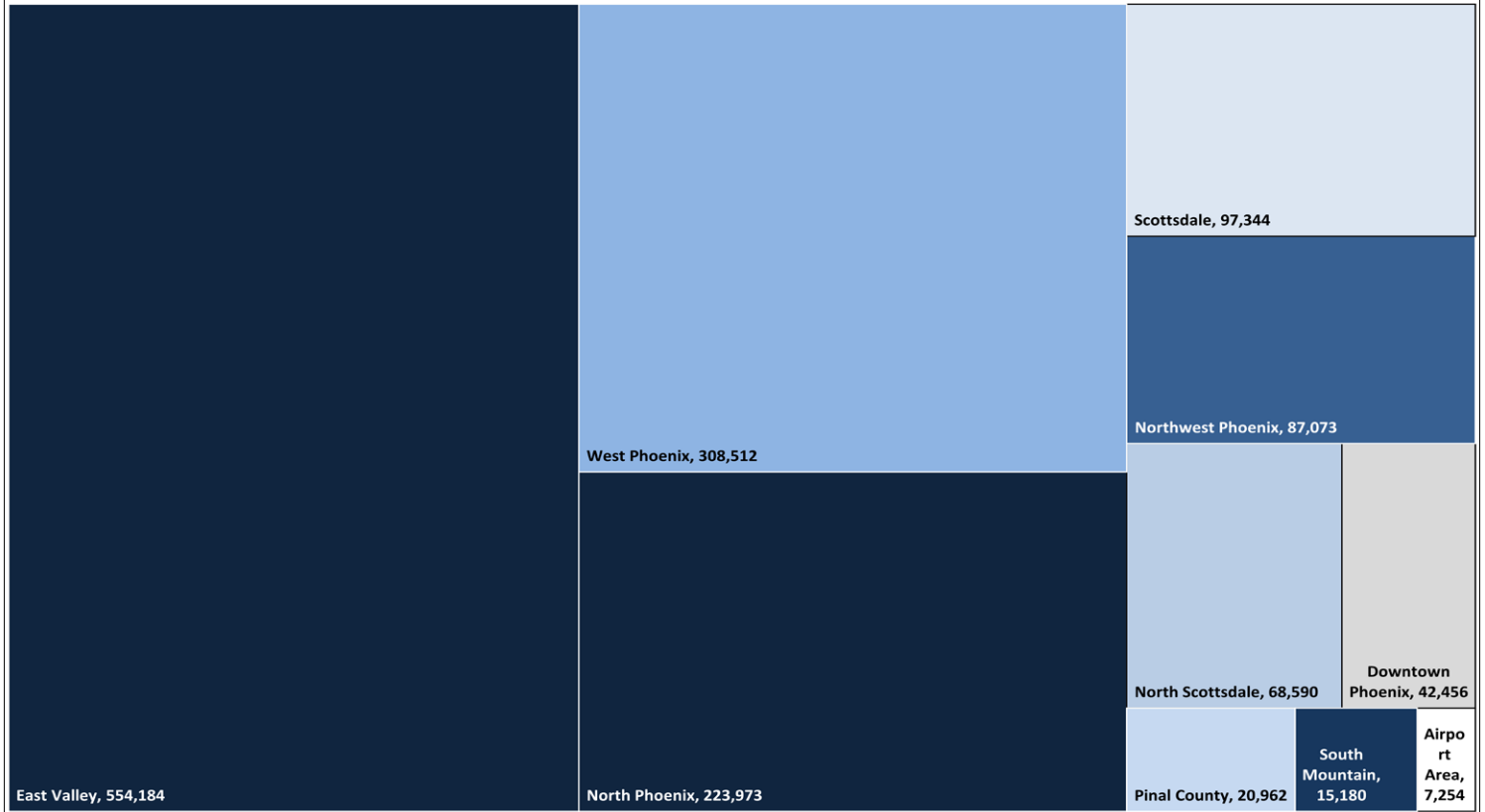
Lease Activity SF by Type



Top Leases and Sales

Among the top leases in the first quarter this year, Fry's Food Stores took 105,000 square feet in the N. Goodyear/Litchfield submarket, and EoS Fitness committed to 103,256 square feet in the same submarket. Both retailers are part of the growth story of the West Valley and the City of Surprise, and the Loop 303 Corridor. At Home, the home and holiday superstore signed an 84,000-square-foot lease at The Groves in Chandler during the first quarter. Beyond the more significant leases, many quick-service restaurants have added locations throughout the Valley's submarkets in the past year. Salad and Go has signed eight leases in the past 12 months, while Starbucks, Subway, and Nektar Juice Bar have added

LEASING ACTIVITY SF



numerous stores in the region in the past year. Further, the national trend of medical offices filling storefronts is well underway in Phoenix, with **CenterWell** by Humana and **Mind 24/7**, a behavioral health clinic, recently expanded with new retail locations.

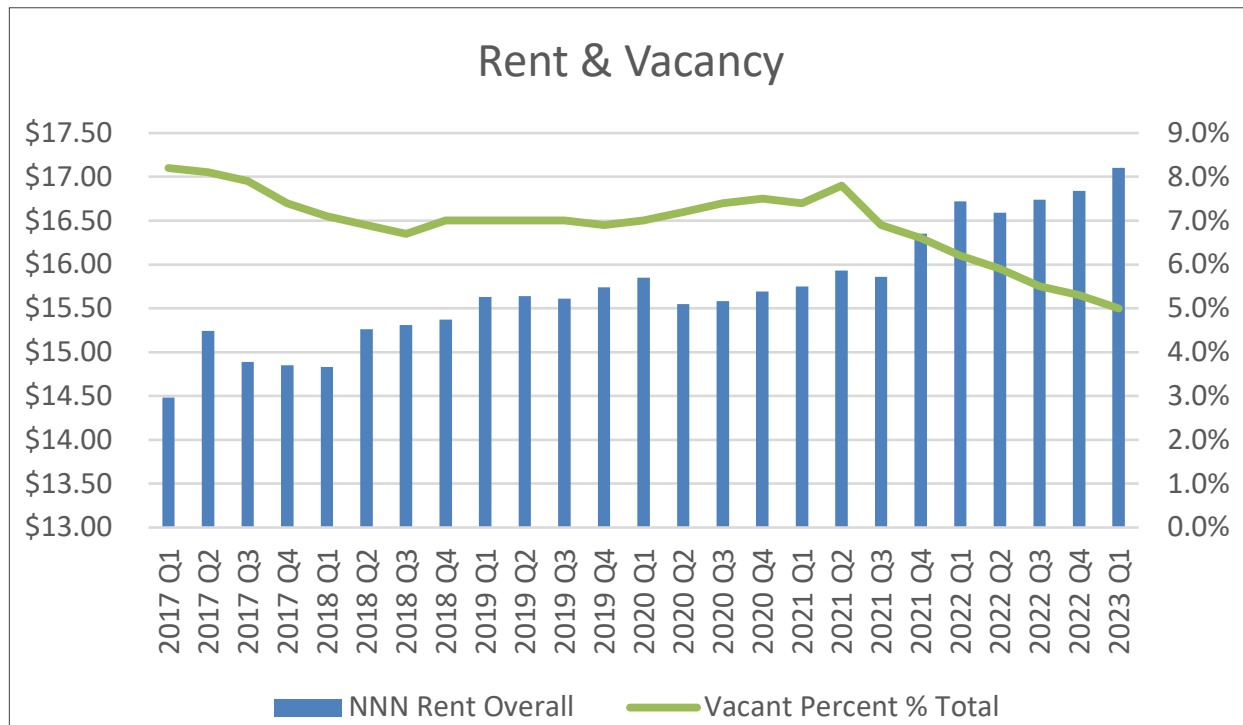
However, the past 12 months have been a relatively strong period for retail property sales in the region. Some \$2.9 billion in retail assets have sold, which outpaced the five-year average of \$2.4 billion for 12 months.

The only significant retail sale closed in the first quarter was a 53,845-square-foot property on E. Southern Avenue in Phoenix that **Sprout's Market** occupies. The asset traded hands for over \$17 million, or \$316-per-square-foot (psf). Transaction volume has slowed across asset classes and shows in Phoenix-area sales volume. However, the past 12 months have been a relatively strong period for retail property sales in the region. Some \$2.9 billion in retail assets have sold, which outpaced the five-year average of \$2.4 billion for 12 months. As borrowing costs have climbed, so too have capitalization rates. Current pricing expectations are that neighborhood shopping centers and power centers are being marketed at a 6.8% cap rate, malls are closer to 6%, and general retail is priced at a going-in, one-year yield of 6.4%

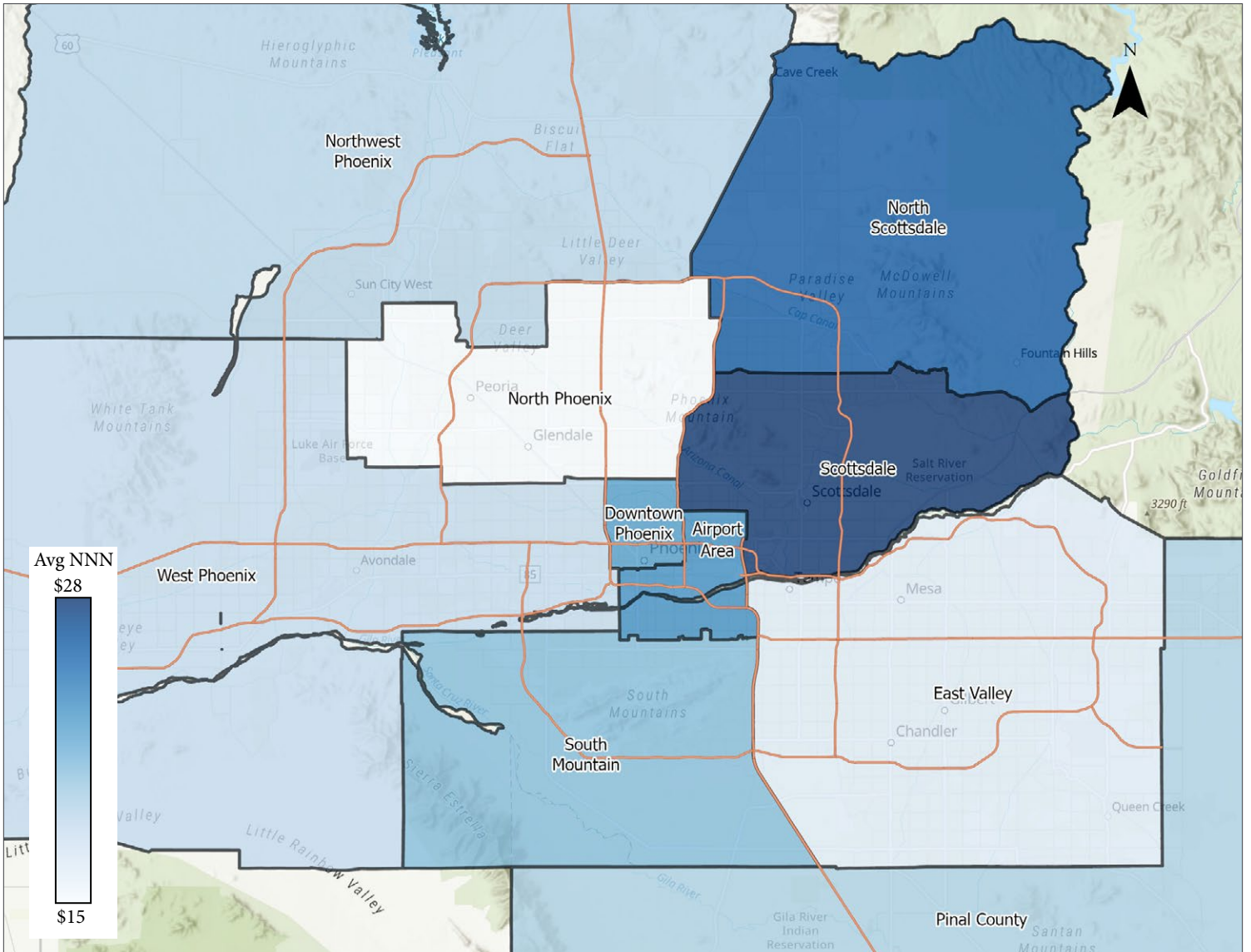
Phoenix Market Snapshot Categories

	RBA	Vacant SF	Vacant %	Net Absorption	RBA Delivered	RBA Under Construction	Avg NNN Rate
Power/Lifestyle	33,809,829	1,176,040	3.5%	3,707	6,000	67,720	\$21.31
Regional Mall	14,507,641	1,589,648	11.0%	350,116	-	-	\$10.31
General	83,897,655	2,667,655	3.2%	1,103,035	1,224,108	2,179,093	\$20.79
Shopping Center	107,465,571	6,653,153	6.2%	296,667	87,437	466,680	\$16.23

Retail Rental & Vacancy Rates



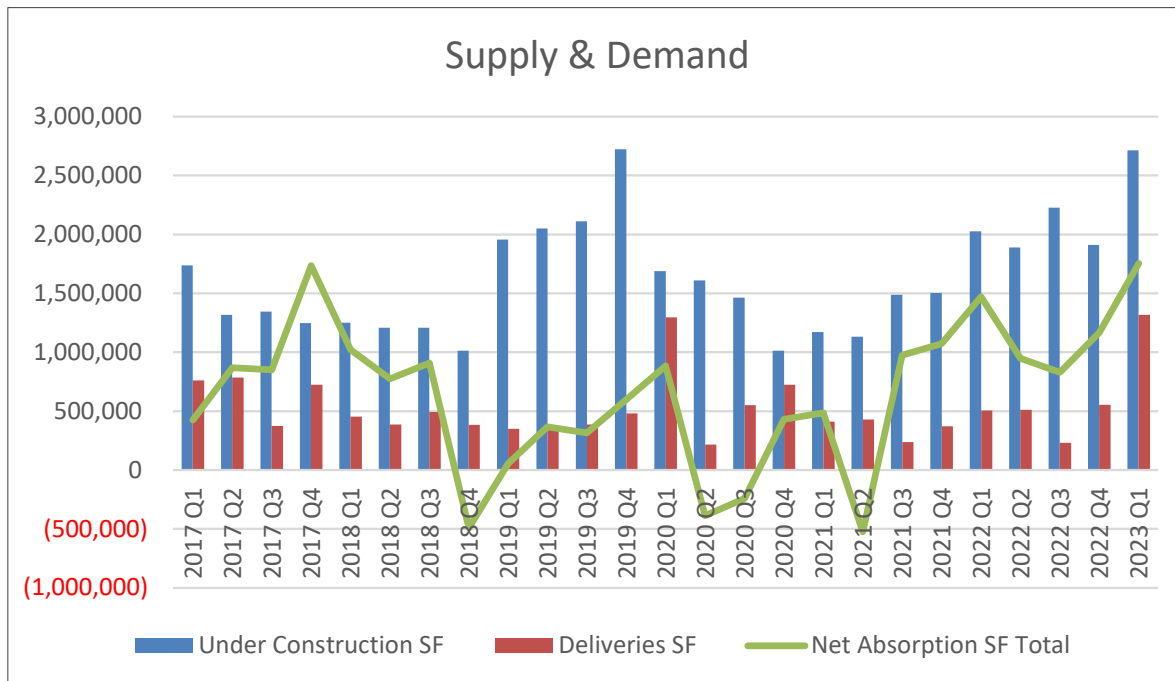
Average Rent



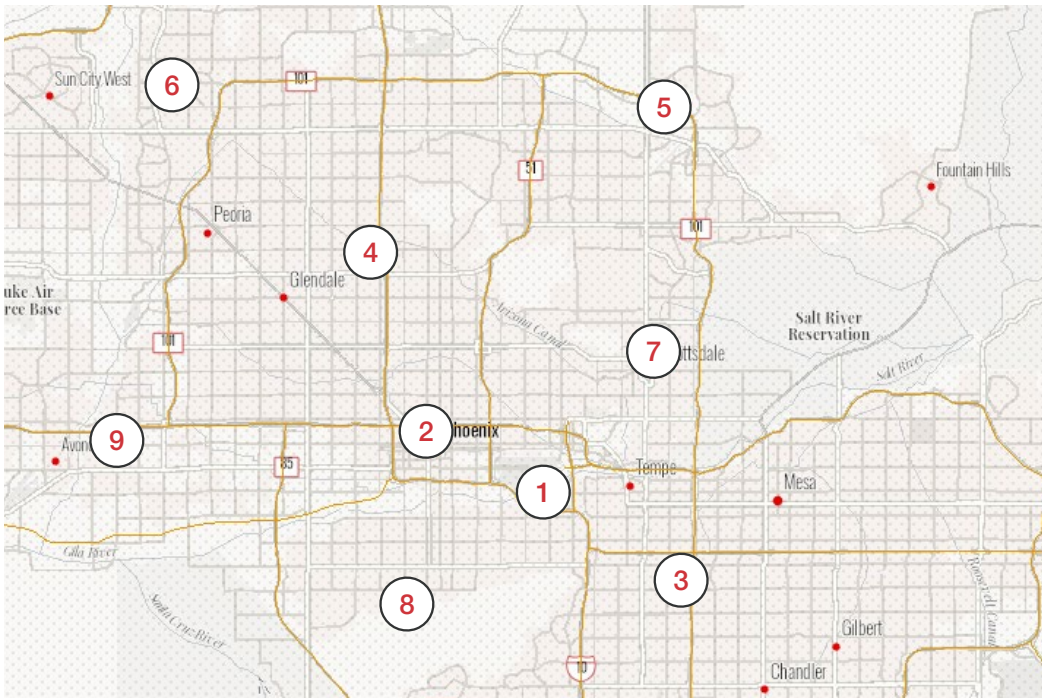
Submarket Snapshot

	RBA		Vacant SF		Vacant %		Net Absorption		Under Construction		Avg NNN Rate
Airport Area	6,368,476	▲	257,684	▼	4.0%	▼	(2,992)	▲	2,816	▲	\$20.76
Downtown Phoenix	8,411,573	▼	423,865	▲	5.0%	▲	(30,555)	▲	114,865	▼	\$20.20
East Valley	79,138,502	▼	4,345,010	▼	5.5%	▼	273,729	▼	815,733	▼	\$16.05
North Phoenix	40,679,357	▲	3,001,680	▼	7.4%	▼	74,530	▲	179,103	▲	\$14.83
North Scottsdale	16,572,207	▼	695,374	▲	4.2%	–	(1,595)	▼	32,527	▲	\$22.69
Northwest Phoenix	21,268,655	▲	779,758	▲	3.7%	▼	(15,652)	▼	111,272	▼	\$17.64
Pinal County	11,488,778	▲	825,377	▼	7.2%	–	5,194	▼	111,580	▲	\$17.94
Scottsdale	20,271,621	▼	709,408	▼	3.5%	–	6,967	▼	228,078	▲	\$27.85
South Mountain	6,878,193	▼	372,566	▼	5.4%	▼	31,410	▼	70,018	▲	\$18.94
West Phoenix	27,740,561	▲	671,574	▼	2.4%	▼	1,412,489	▲	1,047,501	▼	\$17.30
All Submarkets	239,713,037	▼	12,086,496	▼	5.0%	▼	1,753,525	▲	2,713,493	▼	\$17.10
Overall Total Q4 2022	238,395,492	▼	12,522,476	▲	5.3%	▲	1,271,258	▼	3,343,271	▲	\$16.79
Overall Total Q3 2022	237,415,036	▼	13,205,114	▲	5.5%	▲	775,875	▼	3,035,190	▼	\$16.69
Overall Total Q2 2022	237,311,358	▼	13,899,183	▲	5.9%	▲	800,152	▼	2,369,210	▼	\$16.56

Supply, Demand & Under Construction





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Retail Submarkets

- 1 Airport Area
- 2 Downtown Phoenix
- 3 East Valley
- 4 North Phoenix
- 5 North Scottsdale
- 6 Northwest Phoenix
- 7 Scottsdale
- 8 South Mountain
- 9 West Phoenix

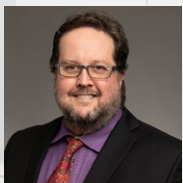
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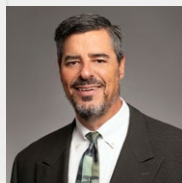
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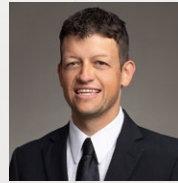
Retail Specialists



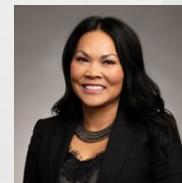
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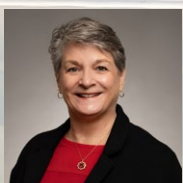
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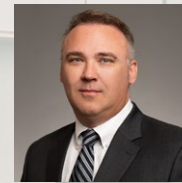
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