

Retail Market Report

Greater Phoenix | Q3 2013

Vacancy Declines as Retail Resurges

Quarter 3 2013

The retail market continues to show signs of improvement on its long road to recovery. Vacancy continued to fall this quarter to the lowest it has been since the beginning of 2009, coming in at 10.6%. Just one year ago, the retail vacancy rate for the Phoenix Metro market sat at 12%, with the highest rate, 13%, in 2011. Demand for retail space continued to improve as well, 1.2 million SF of space was absorbed in the Valley. The East Valley submarket cluster made up more than 60% of that total with 818,444 SF absorbed. As the fourth quarter historically records as the strongest quarter for retail, 2013 has the potential to be the strongest year, in terms of net absorption, that the valley has seen since 2008. Already this year space absorbed has surpassed the 2012 value by almost 200,000 SF, with a strong fourth quarter still to come.

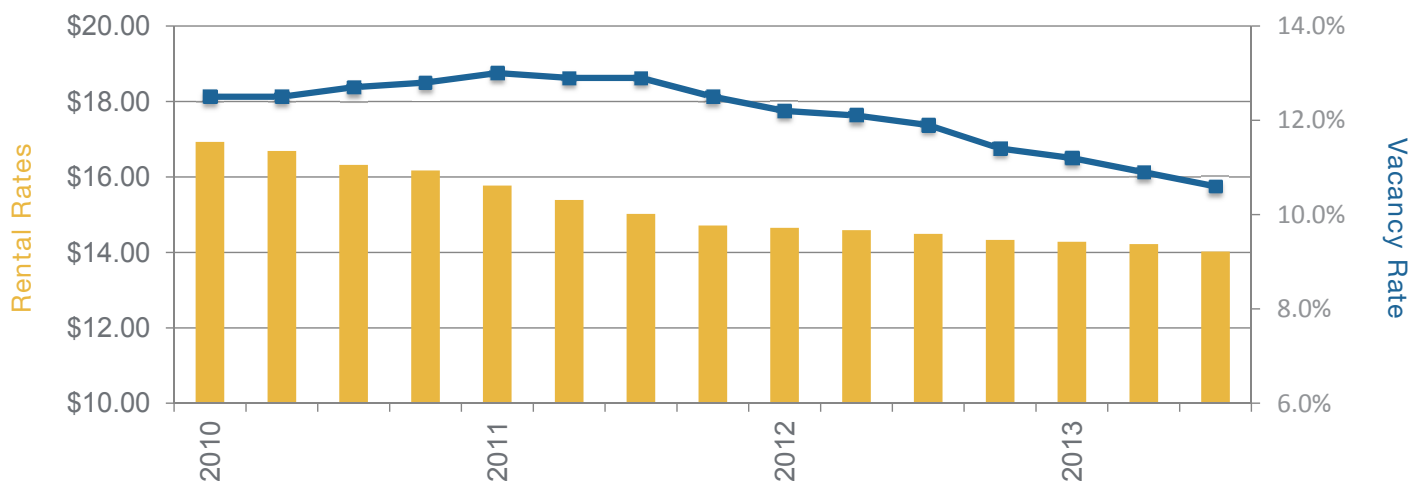
Leasing activity remained strong this quarter with over 1.6 million SF of retail space leased in 560 transactions. While slightly lower than last quarter, when over 2 million SF was leased, an increase can be expected at the end of the year when retail undergoes its holiday boom. The majority of leasing in the recovering market is thanks to smaller tenants, those under 10,000 SF. This shows confidence from local and national retailers alike in the Phoenix Metro market through their willingness to expand and began new businesses as the economy recovers. Larger spaces and big box locations continue to struggle as the new e-commerce retail market affects how space is used and the consumer purchasing process. With the increasing ease of online shopping, some

retail sectors are noticing a retraction from massive retail locations and smaller store fronts are becoming more economical.

Rental rates continued to struggle this quarter, with average rental rates dropping to \$14.04 PSF, down from \$14.27 seen last quarter. Even with other aspects of the retail market continuing to improve as the Valley moves past the recession, rental rates continue their slow decline. In the same quarter last year, the average rental rate sat at \$14.59, and just a year before in 2011, the rate was still higher at \$15.09. As vacancy tightens and the market continues to self-adjust and it is expected that rental rates will improve; while rates may not recover to the \$19+ seen in 2007, they will rise to a new average norm post-recession. With vacancy still almost double what it was in 2006 when rents hovered around \$19.00 PSF, tenants have the flexibility to drive down rates with the increase of options.

The top sales transactions for the quarter were portfolio sales for McDowell Mountain Marketplace in Scottsdale for \$14.12 million and Sante Fe Square Shopping Center for \$10.5 million. The top leases for the quarter include a 45,000 SF lease to Howie Furniture in the Glendale Market Square in Glendale, and 34,212 SF to USA Auto on Main St in Mesa.

Rental Rates





Consumer Price Index



30-Year Fixed Mortgage



Phoenix Metro Unemployment

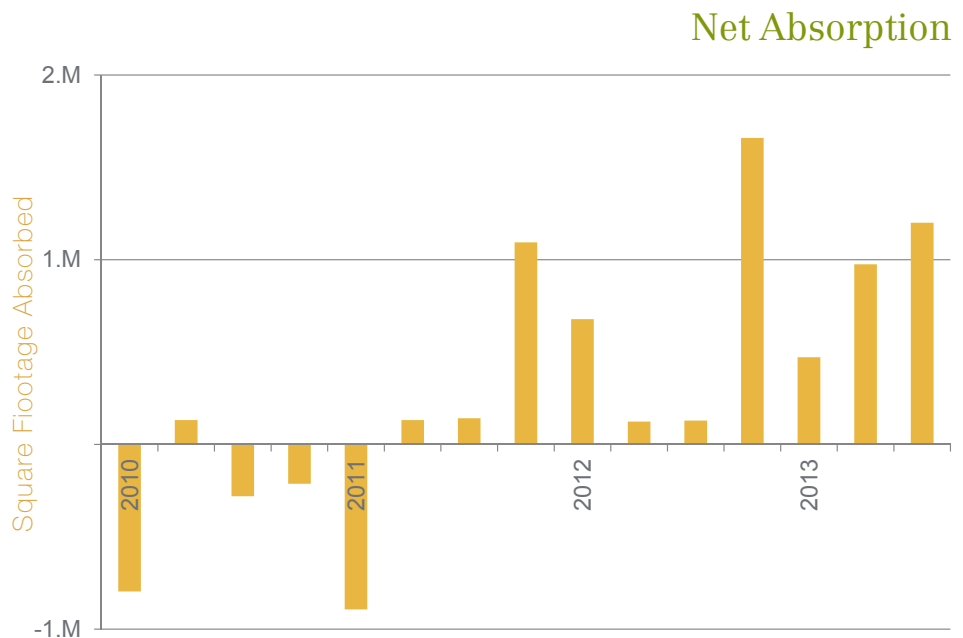
Economic Outlook

While the momentum has been slow, the Phoenix market is showing signs of recovery. As of the third quarter of this year, the office and retail sectors have both seen a significant decline in vacancy from just a year before; office vacancy is down to 19.8% from 21.5% in the third quarter of 2013, and retail has fallen to 10.5% from 11.9% just a year before. The industrial sector has seen a slight increase in vacancy coming in at 12.9% this quarter, but is still down from the highs seen in 2011 when vacancy rates were over 15.5%. Both the office and retail sectors showed impressive net absorption this quarter with more than 1 million SF of space absorbed, while industrial remained relatively stagnant from the previous quarter with a loss of 190,000 SF. While leasing activity in the office sector remained relatively the same in terms of SF leased and number of deals, the retail and industrial sectors saw slight drops in activity this quarter. As expected, the consistent nature of the market continues as the Phoenix area begins to define a new norm.

Recovery has been tracked on a nationwide scale as well. The six major metro areas have averaged a price recovery of 90% of peak compared to non-major metro areas averaging a 75% recovery. Of these six major metro areas, two have met previous peak-price levels, compared to just three among the remaining non-major metros nationwide, including Dallas, Houston, and Austin. Increased purchasing activity was also recorded across all property types in the U.S. as of August, with a recent influx of institutional and private buyers for retail properties causing prices to rise faster for the retail sector than others. Conversely, the multifamily sector has experienced a slowing of price gains after consistently leading the other sectors, potentially due to the slowing of the recent rush to rent by those hit in the housing downfall. Sales of significant commercial property nationwide totaled \$24 billion in August, up 12% year-over-year.

As of September, the unemployment rate for the Phoenix Metropolitan Area sat at 6.9% compared to the national rate of 7.3%. The Valley also continued to recover in the residential sector, with one-year house value growth coming in at 18.5% in September. According to the On Numbers Economic Index, Phoenix ranked No. 29 in September, up two places from August. This ranking, a monthly snapshot of economies in the nation's top 102 metropolitan areas by population, is an overall score based on 18 categories, including various job growth indicators, home value, and earnings information. Leading the ranks in the On Numbers Economic Index is Austin at number one, with Provo, Dallas-Fort Worth, Houston, and Oklahoma City rounding out the top five.

In September, the W.P. Carey School of Business and the Center for Real Estate Theory and Practice held a survey and panel discussion to gauge the current commercial market from those who know it best, brokers. Overwhelmingly, the experts believe that Phoenix Metro is currently in the recovery stage, with 87% of brokers in agreement. In addition, the majority of brokers believe that vacancy rates are on the decline and will trend down in the fourth quarter for the retail, industrial, and office sectors. Positive news was also forecasted for rental rates with more than 40% of the vote in all sectors and categories pointing to rates stabilizing and remaining stationary for the next 3 months; the second most popular vote predicted increased rates in almost all categories. These opinions point to a positive future with effects of the recession moving farther into the rearview mirror.



Q3 PHOENIX RETAIL MARKET BY THE NUMBERS

2013

	Total RBA	Vacant SF	Vacant %	Net Absorption	RBA Delivered	RBA Under Construction	Average Rental Rate
Q3 2013	214,110,518 SF	22,627,581 SF	10.6%	1,287,925	656,674 SF	208,397 SF	\$14.02 PSF
Q2 2013	214,054,658 SF	23,368,782 SF	10.9%	1,018,278	492,085 SF	823,649 SF	\$14.25 PSF
Q1 2012	213,616,182 SF	23,948,584 SF	11.2%	491,559	90,351 SF	1,210,869 SF	\$14.31 PSF

Top Transactions

LEASE

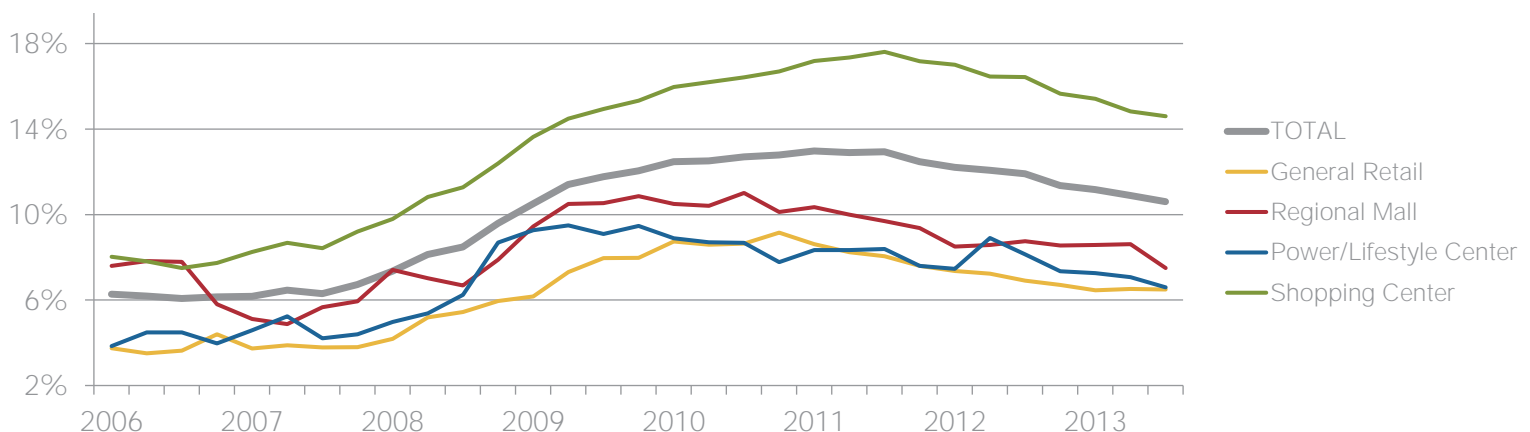
Property	Address	Tenant	Size	Sign Date	Type
Glendale Market Square	5870 W Bell Rd, Glendale	Howie Furniture	45,000 SF	9/13/2013	Move In
525 W Main St	525 W Main St, Mesa	USA Auto	34,212 SF	7/1/2013	Move In
Pecan Promenade	9870 W Lower Buckeye Rd, Tolleson	LA Fitness	27,551 SF	8/2/2013	Move In

SALE

Property	Address	Sale Date	Size	Price	Price PSF
McDowell Mountain Marketplace	10101-10111 E Bell Rd, Scottsdale	7/25/2013	84,087 SF	\$14.12M	\$167.98
Sante Fe Square Shopping Center	925-1107 S Gilbert Rd	8/5/2013	262,925 SF	\$10.5M	\$39.34
Denaro 101 Plaza	6685 W Beardsley Rd	9/23/2013	33,186 SF	\$9.6M	\$289.28



Retail Vacancy Rates

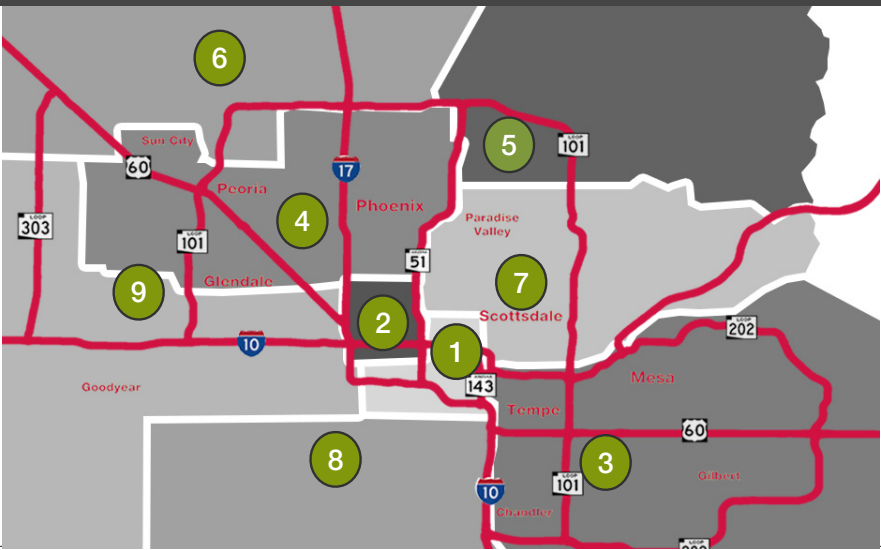


The Retail Market is a compilation that includes general retail, regional mall, power and lifestyle centers and shopping center buildings. Some information contained herein has been obtained from third party sources deemed reliable but has not been independently verified by NAI Horizon. NAI Horizon makes no warranties or representations as to the completeness or accuracy thereof. NAI Horizon makes no guarantee about projections, opinions, assumptions or estimates. Occasionally corrected or updated information becomes available for both current and historical data thereby invalidating specific comparison to previously issued reports.

PHOENIX SUBMARKETS

2013

Submarket Clusters	Retail Type	Total RBA	Total Vacant SF	Total Vacant %	Total Net Absorption	RBA Delivered	RBA Under Construction	Average Rate
Airport Area	General Retail	2,356,276	79,139	3.4%	(4,532)	-	-	\$12.51
	Airport/Regional Mall	-	-	-	-	-	-	-
	Power/Lifestyle Center	1,364,128	67,301	1.8%	0	-	-	\$22.85
	Shopping Center	1,578,468	186,206	11.8%	17,120	-	-	\$12.30
	Total	5,298,872	332,646	6.3%	12,588	-	-	\$14.13
Downtown Phoenix	General Retail	3,967,074	420,538	10.6%	32,293	4,129.00	-	\$13.03
	Regional Mall	-	-	-	-	-	-	-
	Power/Lifestyle Center	-	-	-	-	-	-	-
	Shopping Center	2,437,280	305,953	12.6%	46,025	-	-	\$12.06
	Total	6,404,354	726,491	11.3%	78,318	4,129.00	0	\$12.72
East Valley	General Retail	17,147,273	1,048,910	6.0%	604,564	636,725	131,081	\$12.11
	Regional Mall	10,288,957	546,271	5.3%	121,647	-	-	\$12.04
	Power/Lifestyle Center	7,453,313	616,080	8.3%	(5,976)	-	-	\$22.45
	Shopping Center	35,815,171	6,567,905	18.3%	98,209	-	9,500	\$13.12
	Total	70,704,714	8,779,166	12.4%	818,444	636,725	140,581	\$13.28
North Phoenix	General Retail	11,673,616	764,521	6.5%	18,995	-	-	\$11.64
	Regional Mall	2,959,064	765,891	25.9%	26,316	-	-	\$10.35
	Power/Lifestyle Center	3,493,525	144,228	4.1%	(17,272)	-	-	\$18.98
	Shopping Center	20,106,217	3,221,451	16.0%	27,774	-	-	\$12.23
	Total	38,232,422	4,896,091	12.8%	55,813	0	-	\$12.22
North Scottsdale	General Retail	4,707,444	282,328	6.0%	(2,378)	-	-	\$18.19
	Regional Mall	3,133,248	77,932	2.5%	-	-	-	\$12.86
	Power/Lifestyle Center	2,829,681	154,690	5.5%	45,719	-	-	\$17.69
	Shopping Center	6,666,518	855,691	12.8%	45,910	-	-	\$18.17
	Total	17,336,891	1,370,641	7.9%	89,251	-	-	\$17.64
Northwest Phoenix	General Retail	4,118,565	206,443	5.0%	(22,816)	-	-	\$13.87
	Regional Mall	1,332,071	13,056	1.0%	9,191	-	-	-
	Power/Lifestyle Center	3,629,097	213,089	5.9%	(3,399)	-	-	\$28.58
	Shopping Center	9,890,459	1,029,716	10.4%	(4,906)	-	-	\$16.01
	Total	18,970,192	1,462,304	7.7%	-21,930	0	-	\$16.51
Pinal County	General Retail	3,752,300	119,846	3.2%	49,015	-	-	\$11.84
	Regional Mall	867,313	54,173	6.2%	-4,189.00	-	-	-
	Power/Lifestyle Center	239,350	3,574	1.5%	0	-	-	-
	Shopping Center	4,349,954	555,756	12.8%	(8,765)	-	-	\$10.85
	Total	9,208,917	733,349	8.0%	36,061	-	-	\$10.93
Scottsdale	General Retail	6,079,307	655,126	10.8%	14,683	4,000	16,884	\$19.03
	Regional Mall	4,323,898	287,550	6.7%	72,795.00	6,100	-	\$31.43
	Power/Lifestyle Center	816,388	44,509	5.5%	19,167	-	-	-
	Shopping Center	8,269,259	962,110	11.6%	238	-	-	\$17.46
	Total	19,488,852	1,949,295	10.0%	106,883	10,100	16,884	\$19.94
South Mountain	General Retail	906,314	39,977	4.4%	(5,332)	-	-	\$18.72
	Regional Mall	680,847	41,645	6.1%	44,974	-	-	-
	Power/Lifestyle Center	796,414	48,322	6.1%	-	-	-	\$18.12
	Shopping Center	4,202,771	384,851	9.2%	20,948	-	-	\$16.00
	Total	6,586,346	514,795	7.8%	60,590	0	-	\$16.39
West Phoenix	General Retail	5,951,969	304,044	5.1%	17,764	-	45,073	\$13.31
	Regional Mall	2,066,618	138,913	6.7%	6,897	-	-	\$24.00
	Power/Lifestyle Center	2,685,667	230,216	8.6%	37,100	-	5,859	\$19.58
	Shopping Center	11,182,002	1,189,630	10.6%	(9,854)	-	-	\$13.11
	Total	21,886,256	1,862,803	8.5%	51,907	0	50,932	\$13.33
All Submarkets	General Retail	60,651,053	3,912,087	6.5%	702,256	650,574	193,038	\$13.54
	Regional Mall	25,652,016	1,925,431	7.5%	277,631	6,100	-	\$17.18
	Power/Lifestyle Center	23,307,863	1,522,009	6.5%	75,339	-	5,859	\$21.81
	Shopping Center	104,499,586	15,268,054	14.6%	232,699	-	9,500	\$13.59
	Overall Total	214,110,518	22,627,581	10.6%	1,287,925	656,674	208,397	\$14.02
Overall Total 2Q13		214,054,658	23,368,782	10.9%	1,018,278	492,085	823,649	\$14.25
Overall Total 1Q13		213,616,182	23,948,584	11.2%	491,559	90,351	1,210,869	\$14.31
Overall Total 4Q12		213,596,888	24,420,849	11.4%	1,652,465	588,253	557,680	\$14.36



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

Realizing Potential,
Delivering Results.

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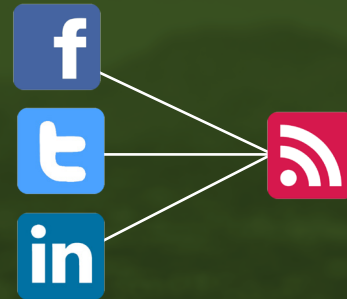
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