

Mid-Year
2015
Retail
Market Report

2Q15 Retail

Across the U.S., retail markets continue to see positive improvements as they strive to return to pre-recession norms. Dr. Peter Linneman, NAI Global chief economist, studied 29 of the top retail markets for insight on the status of recovery. Of these 29 markets, using 8.5% vacancy as a benchmark for a balanced market, 17 of the 29 markets were in balance during the fourth quarter of 2014, and 22 are projected to be in balance by year-end 2015. Phoenix is projected to meet this marker by the end of 2017; as of Q2 the vacancy rate for the market sits at 9.5%, has continually fell since the highs seen in 2011, and is down significantly over the last year when the rate sat at 10.4%.

Also aiding in decreased vacancy and market stability is improvements in unemployment. With the addition of jobs comes consumer confidence; one of the main business drivers for any retail market. According to Linneman Associates, "research indicates that for every 100 basis points (bps) of growth in U.S. employment, the retail vacancy rate declines by 26 bps. Assuming that 11.2 million new jobs (8%) are created from the first quarter of 2015 through 2018, we estimate that the retail vacancy rate will decline by about 210 bps over the next four years." Phoenix is also mirroring this trend, as Phoenix Metro unemployment continues to drop as vacancy rates improve. As of May the unemployment rate has dropped to 4.6%, down from 5.8% in January

of this year, and has continued to fall since the dramatic highs seen in 2010.

According to Real Capital Analytics, nationally the April 2015 average private transaction value for retail properties was \$216 per square foot, above both the historical mean (\$177) and the previous year's pricing (\$175). In comparison, a high of \$235 and low of \$123 per square foot were seen in 2012 and 2001, respectively. Phoenix has mirrored this increase in price per square foot as well; in Q2 the average was \$201.69, the highest seen since 2009, and up dramatically from the same time last year when the average price was \$146.41 per square foot.

In Q2 of 2015, leasing activity continued to remain strong. Over 550 transactions were completed totaling 1.33 million SF, up from 386 transactions and 1.22 million SF leased in Q1. Rental rates, while down slightly since the beginning of 2014, remain consistent at \$13.95 for Q2, up from \$13.81 in Q1. As vacancy continues to tighten, rates are projected to rise.

Sources: Bureau of Labor Statistics, CoStar, Linneman Associates

Q2 Retail Market Trends



Vacancy Rate



Net Absorption



Average Asking Rates

Phoenix 2Q15 Retail Snapshot

2Q15
Retail

Market Overview

	Total RBA	Vacant SF	Vacant %	Net Absorption	RBA Delivered	RBA Under Construction	Average Rental Rate
Q2 2015	218,644,092 SF	20,872,162 SF	9.5%	413,712 SF	223,896 SF	486,229 SF	\$13.95 PSF
Q1 2015	218,761,727 SF	21,343,746 SF	9.8%	234,397 SF	296,799 SF	533,617 SF	\$13.81 PSF
Q4 2014	218,598,613 SF	21,415,029 SF	10.1%	799,060 SF	398,478 SF	548,452 SF	\$13.89 PSF
Q3 2014	216,214,222 SF	21,911,677 SF	10.5%	808,776 SF	136,208 SF	733,897 SF	\$14.12 PSF

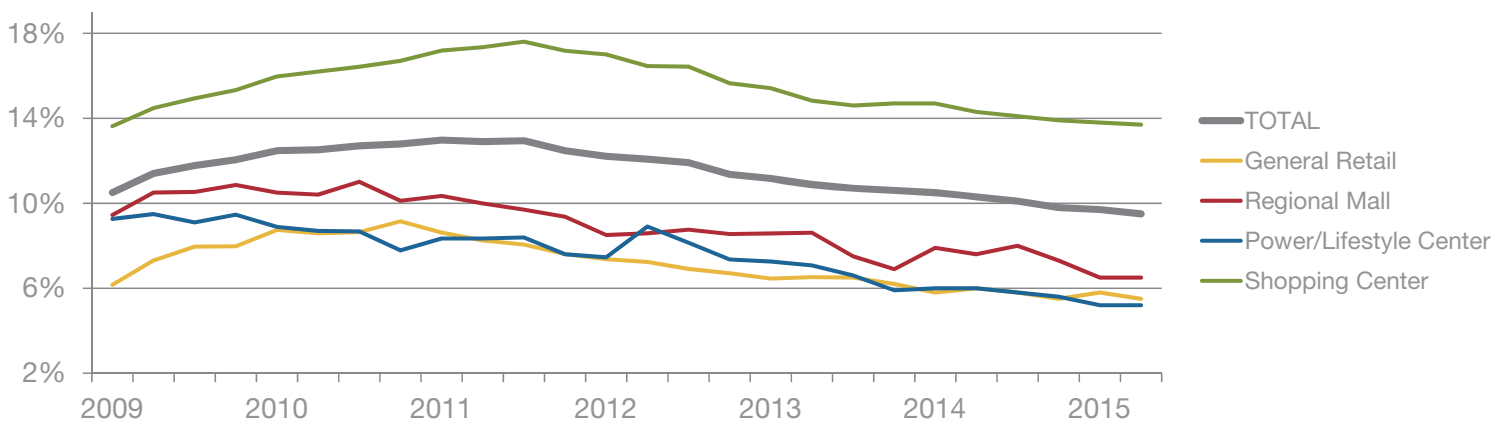
Significant Lease Transactions

Property	Address	Tenant	Size	Type	Type
Hamstra Square	1050 E Pecos Rd, Gilbert	Kids That Rip Indoor Skatepark	54,375 SF	Retail/Direct	Move In
The Pavillions at Talking Stick	9001-9175 E Indian Bend Rd	Frontgate Outlet Store	32,950 SF	Retail Direct	Move-In
McClintock Fountains	1860 E Warner Rd	EoS Fitness	29,334 SF	Retail/Direct	Move-In
Scottsdale Towne Square	13802 N Scottsdale Rd	Natural Grocers	27,827 SF	Retail/Direct	Move-In

Significant Sale Transactions

Property	Address	Buyer	Sale Date	Size	Type	Price
Northsight Village	15090 N Northsight Blvd	Arizona Patners Retail Investment Group LLC	4/21/2015	88,031 SF	Community Center	\$11.6M
Haggens - Adobe Village	11475 E Via Linda Rd	Spirit Realty Capital	5/28/2015	58,836 SF	Neighborhood Center	\$9.99M
The Container Store	7580 W Bell Rd	Consolidated-Tomka Land CompaNY	5/15/2015	23,329 SF	Super Regional Mall	\$8.6M

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.

Market Numbers

Mid-Year
2015

Vacancy

- Decreased to 9.5% in Q2 from 9.8% in Q1 2015
- Power/Lifestyle Center space reported the lowest vacancy rate at 5.2%
- Shopping center space reported the highest vacancy rate in Metro Phoenix at 13.7%

Rental Rates (NNN)

- Rates increased in Q2 up to \$13.95 from \$13.81 in Q1
- The Scottsdale submarket continued to fetch the highest average rental rates at \$20.24
- The Pinal County submarkets reported the lowest rental rate, around \$11.51

New Construction

- Ending Q2 2015, there were 486,229 SF of new retail space under construction.
- 520,695 SF was delivered to the market in the first half of 2015

Net Absorption

- In Q2 2015, 413,712 SF was absorbed in the Phoenix Metro Retail Market, almost double the absorption rate for Q1

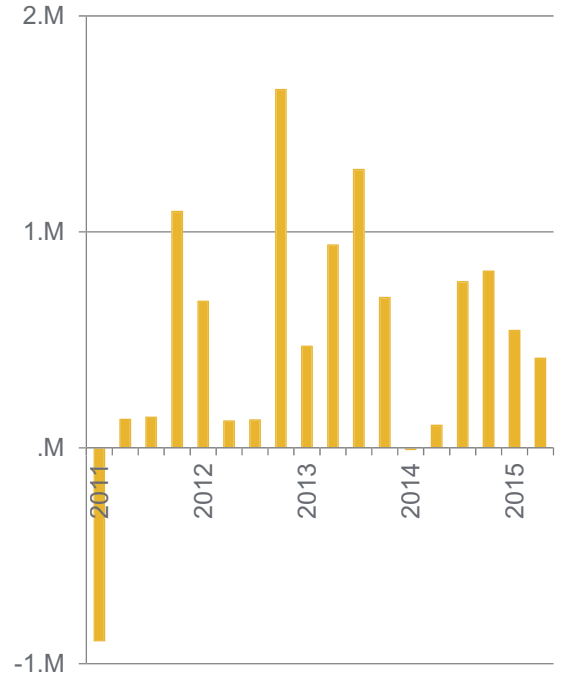
Economic Trends

↑ Consumer Price Index
Up .5% in May, no change since 05/14

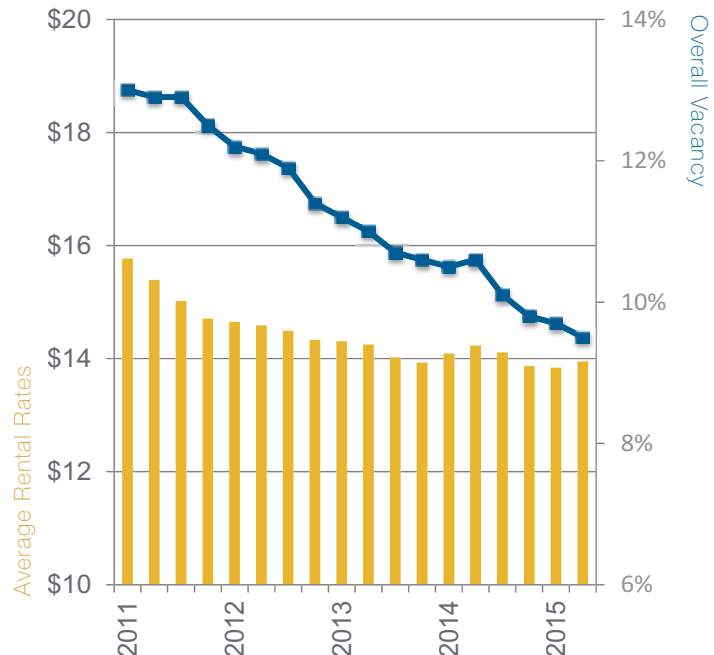
↑ 30-Year Fixed Mortgage
4.2% National Average, down from 3.98% 01/15

↓ Phoenix Metro Unemployment
MSA, 05/15- 4.6% down from 5.8% 01/15

Net Absorption



Rental & Vacancy Rates





1840 E Warner Rd

Tempe, AZ 85284

Size: 29,334 SF

Tenant: EoS Fitness

Leased: April 2015



2375 E Camelback Rd

Phoenix, AZ 85016

Size: 2,111 SF

Tenant: My Pizza Studio

Leased: April 2015



1430 W Warner Rd

Gilbert, AZ 85233

Size: 8,385 SF

Tenant: Skip & Jan's Sports Bar, Inc

Leased: June 2015



10450 N 28th Dr

Phoenix, AZ 85043

Size: 3,100 SF

Tenant: Pei Wei Asian Diner

Leased: May 2015



20250 N 59th Ave

Glendale, AZ 85308

Size: 2,853 SF

Tenant: Sakana

Leased: May 2015



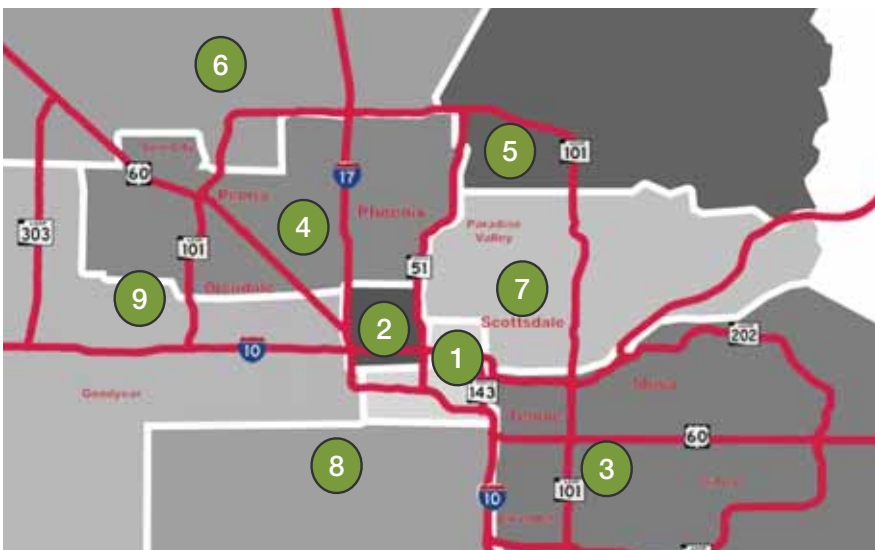
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Phoenix Submarkets

Q2 2015

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	2,371,445	103,755	4.4%	1,883	-	-	\$11.54
	Airport/Regional Mall	-	-	-	-	-	-	-
	Power/Lifestyle Center	1,418,335	118,578	10.0%	-	-	-	\$23.85
	Shopping Center	1,521,615	-	10.6%	(5,465)	-	-	\$12.32
Total	5,311,395	381,742	7.7%	(3,582)	-	-	\$12.72	
Downtown Phoenix	General Retail	4,282,551	541,715	12.6%	37,795	-	-	\$14.09
	Regional Mall	-	-	-	-	-	-	-
	Power/Lifestyle Center	-	-	-	-	-	-	-
	Shopping Center	2,396,173	370,687	15.6%	670	-	-	\$13.20
Total	6,678,724	912,402	13.7%	38,465	-	-	\$13.77	
East Valley	General Retail	17,809,642	843,507	5.2%	119,582	113,388	142,208	\$12.64
	Regional Mall	3,576,958	1,381,469	38.6%	81,581	81,581	916,588	\$4.68
	Power/Lifestyle Center	11,406,018	446,885	4.1%	43,142	7,751	-	\$24.07
	Shopping Center	36,557,331	5,798,785	16.0%	259,969	13,900	11,445	\$12.86
Total	71,509,172	7,524,873	10.5%	417,082	135,039	153,653	\$13.29	
North Phoenix	General Retail	12,592,963	665,872	5.6%	(10,472)	-	-	\$12.13
	Regional Mall	2,530,074	577,456	22.8%	-	-	-	-
	Power/Lifestyle Center	3,194,584	194,268	6.1%	(7,877)	-	-	\$18.09
	Shopping Center	20,907,554	3,490,219	16.7%	(136,225)	60,000	-	\$12.37
Total	39,225,175	4,927,815	12.7%	-154,574	-	-	\$12.42	
North Scottsdale	General Retail	4,819,654	251,585	5.3%	9,392	25,302	-	\$21.66
	Regional Mall	1,498,420	33,415	2.2%	-	-	-	-
	Power/Lifestyle Center	4,186,908	188,849	4.6%	(15,181)	-	-	\$13.95
	Shopping Center	7,041,362	764,269	10.9%	39,690	30,555	4,600	\$18.50
Total	17,546,344	1,238,118	7.1%	33,901	55,857	4,600	\$18.29	
Northwest Phoenix	General Retail	3,941,631	130,787	3.3%	36,943	25,000	-	\$14.50
	Regional Mall	1,397,944	15,343	1.1%	-	-	-	-
	Power/Lifestyle Center	4,130,066	108,271	3.2%	34,216	-	-	\$27.14
	Shopping Center	10,191,374	879,201	9.6%	(5,524)	-	-	\$15.12
Total	19,661,015	1,133,602	6.4%	65,635	25,000	-	\$15.84	
Pinal County	General Retail	4,084,156	123,712	3.7%	12,286	-	10,775	\$11.93
	Regional Mall	-	-	-	-	-	-	-
	Power/Lifestyle Center	1,111,532	98,011	8.8%	(1,590)	-	-	-
	Shopping Center	4,209,250	631,499	15.0%	(53,631)	-	-	\$11.44
Total	9,404,938	826,151	9.4%	(42,935)	-	10,775	\$11.51	
Scottsdale	General Retail	6,145,100	371,491	6.1%	(4,081)	-	11,000	\$21.58
	Regional Mall	3,370,633	90,606	2.7%	1,699.00	-	141,689	-
	Power/Lifestyle Center	1,127,162	97,338	8.6%	6,408	-	-	\$22.93
	Shopping Center	7,984,089	825,537	10.5%	(33,504)	-	20,000	\$18.81
Total	19,280,371	1,411,174	7.4%	(29,478)	-	172,689	\$20.24	
South Mountain	General Retail	990,490	16,982	1.7%	(1,033)	-	-	\$15.96
	Regional Mall	-	-	-	-	-	-	-
	Power/Lifestyle Center	1,127,162	97,338	8.6%	(5,894)	-	-	-
	Shopping Center	4,494,350	440,662	9.8%	2,093	-	18,600	\$17.11
Total	6,612,002	554,982	8.4%	(4,834)	7,000	14,800	\$17.06	
West Phoenix	General Retail	6,584,881	319,328	4.8%	15,445	-	107,648	\$12.29
	Regional Mall	997,787	16,542	1.7%	(2,596)	-	141,689	-
	Power/Lifestyle Center	3,877,557	214,655	5.5%	(13,093)	5,859	3,700	\$23.42
	Shopping Center	11,214,704	1,052,772	9.4%	85,484	-	9,613	\$12.60
Total	22,674,929	1,603,297	7.1%	89,152	-	117,261	\$12.68	
All Submarkets	General Retail	63,629,923	3,514,709	5.5%	225,740	171,690	284,082	\$14.53
	Regional Mall	15,531,039	1,014,959	6.5%	95,979	-	-	-
	Power/Lifestyle Center	32,232,711	1,669,353	5.2%	40,131	7,751	-	\$21.34
	Shopping Center	106,517,802	14,613,456	13.7%	153,557	44,455	60,458	\$13.40
Overall Total	218,644,092	20,872,162	9.5%	413,712	223,896	486,229	\$13.95	
Overall Total 1Q15	218,761,727	21,343,746	9.8%	234,397	296,799	533,617	\$13.81	
Overall Total 4Q14	218,598,613	21,415,029	9.8%	799,060	398,478	548,452	\$13.89	
Overall Total 3Q14	216,214,222	21,911,677	10.1%	808,776	136,208	733,897	\$14.12	
Overall Total 2Q14	216,105,300	22,611,531	10.5%	384,597	62,694	775,739	\$14.20	



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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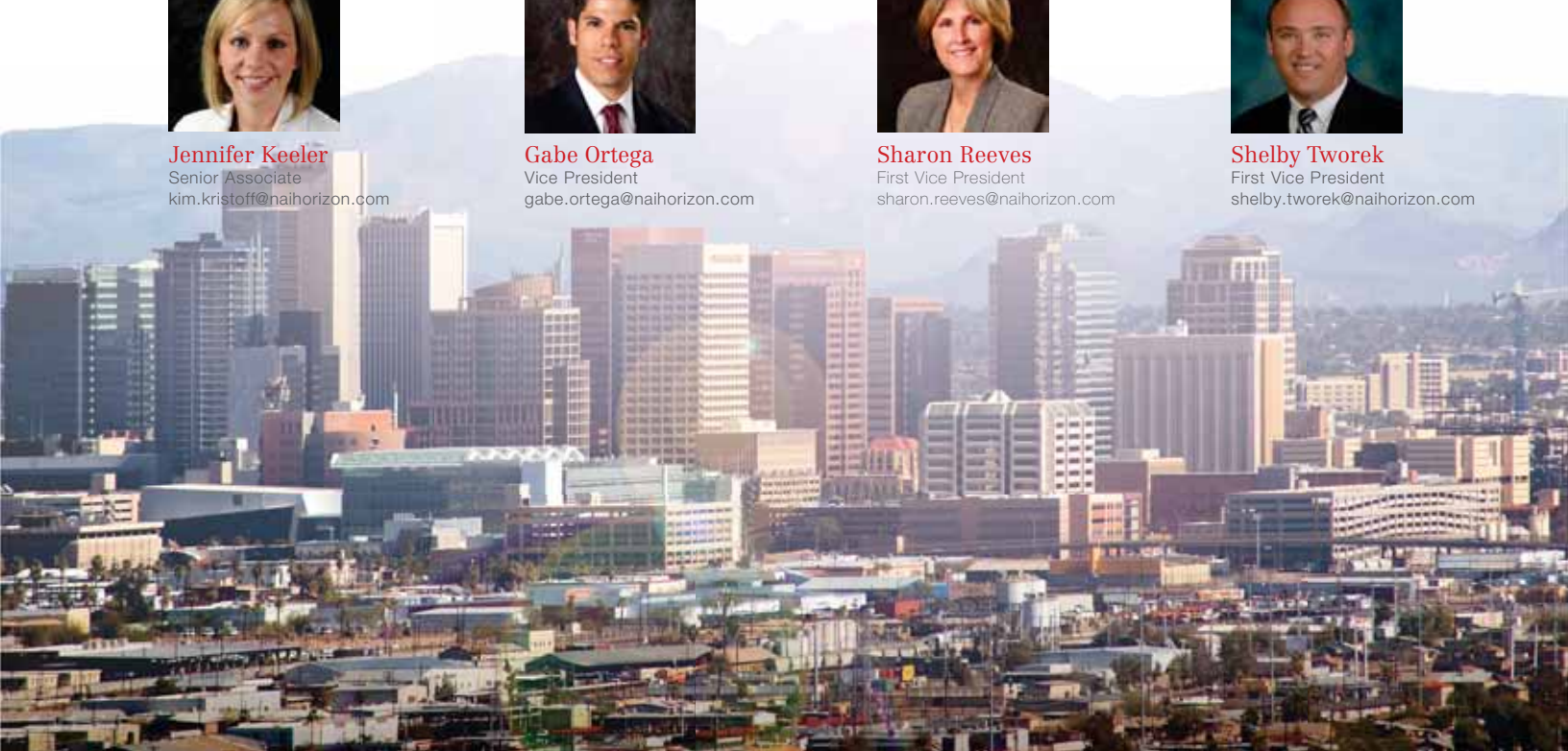
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