

Year End

2015

Retail
Market Report

4Q15 Retail

Arizona saw a strong year of job growth in 2015, with 65,700 jobs added last year totaling a 2.5% job growth. Housing in the Phoenix Metro area also had an optimistic 2015, with a 70% increase in home starts year-over-year. These are very promising signs for the local economy and will directly affect the retail sector as Valley residents get a spending confidence boost. With housing prices expected to increase into 2016, and more jobs coming to the valley, the retail sector is poised for a year of growth.

Vacancy rates in the Phoenix Metro retail sector continued to fall throughout 2015, ending the year at 9.3%, down from 9.9% in Q1. This marks the lowest average vacancy rate in the Phoenix Metro area since 2008, and has come a long way since the almost 13% vacancy rates seen in 2011.

In terms of absorption, the final quarter of 2015 fell a little short of previous year-end surges with 507,577 SF absorbed. While Q3 saw the largest absorption in three years, the total net absorption for the year came in at 1,71,390 SF, just shy of the 2 million SF mark that had been met for the previous 3 years. With all other indicators pointing in a positive direction, this quarter should remain a blip on the radar and not hinder the optimistic outlook of 2016.

Average rental rates have also seemed to turn the corner this year. After several years of declining or stagnant average rates, 2015 had an average rental rate overall of \$14.00 per SF, up from \$13.62 in 2014. As vacancy continues its decline, rental rates can be expected to tick upwards as demand increases. The Scottsdale submarket continued to bring in the highest average rental rates at \$19.50 per SF, while the North Phoenix submarket brought in the lowest rate at \$12.45 per SF.

The largest lease transaction of the final quarter of 2015 was 42,281 to Tesla Motors at 2077 E University Dr in Tempe. The top sales transaction of the quarter was the 167,314 SF East Thunderbird Square in Scottsdale (14202-14418 N Scottsdale Rd) for \$39.1 million or \$233.69 per SF.

Sources: Bureau of Labor Statistics, CoStar, ADOD

Q4 Retail Market Trends



Sustained job growth combined with an expanding economy has proved 2015 to be a favorable year for the commercial real estate market, indicating that the US Economy is gaining traction and continuing its recovery. Nationally, property prices are positioned to advance as inventory continues to shrink. National vacancy rates in all sectors besides multi-family have seen a continuous decline this year. The industrial sector has led this trend with vacancy decreasing by 1.4 percent, commercial and retail followed posting reductions of .8 and 1.3 percent respectfully, while multifamily rates saw an increase of 1.2 percent. Economically speaking, 2016 should be another productive year with US markets remaining healthy. Confidence in GDP growth is expected to hold steadfast through 2017, even with increasing capital market volatility extending from global economic uncertainty.

2015 saw an increase in the Fed's key interest rate, signaling the end of Quantitative Easing. Low interest rates of the past few years have been aimed to increase the federal government's ability to borrow money cheaply, enticing it from raising taxes or reducing spending to cover expenses, actions that would lead to economic contraction. Without these rock bottom interest rates one of the biggest uncertainties facing the US and abroad has been how the market will evolve without them. Luckily, according to Dr. Peter Linneman, Chief Economist of NAI Global, "there is no believable economic transmission mechanism from QE to economic growth". Further he explains that "Interest rates must rise to market levels for the economy to boom".

The Phoenix metro economy has out preformed the national average for the fourth straight year, expanding at a growth rate of 2.7 percent, above the national rate of 2.0 percent. This growth has translated into higher gains in personal income and retail sales, a trend that will continue at least through next year. Gains have not been spread out evenly though, Sectors in mining, manufacturing, construction and government have all seen negative job growth. But, these losses have been offset by the robust employment gains in the financial, healthcare and service sectors.


During 2015, the Phoenix industrial and office sectors- saw positive movement in net absorption, vacancy and rental rates. While the retail sector did not see much change in the way of absorption, it did witness much forward looking action in vacancy and rental rates. The most significant activity this quarter has been the upsurge of absorption, where the office sector posted over 2,000,000/SF in Q4, the biggest single quarter gain in more than a decade. Industrial also had a solid showing in the same category, coming in at over 3,000,000/SF in Q4. Further, rental rates have risen across the board this year, with the office sector leading the market seeing rates rise from \$19.91/SF in Q4 2014 to \$20.79/SF in Q4 2015. Retail rates have taken a nice hike as well, going from \$13.88/SF to \$14.34/SF.

While showing improvement in every other indicator mentioned, the industrial sector showed the least amount of change in rates, seeing numbers go from \$6.19/SF to \$6.52/SF. If all factors remain steady, and the market maintains pace, 2016 should be another strong year for the Phoenix commercial market.

Economic Trends

 **Consumer Price Index**
Up .5% year over year as of 11/15

 **30-Year Fixed Mortgage**
3.65% National Average, down from 3.5% 01/15

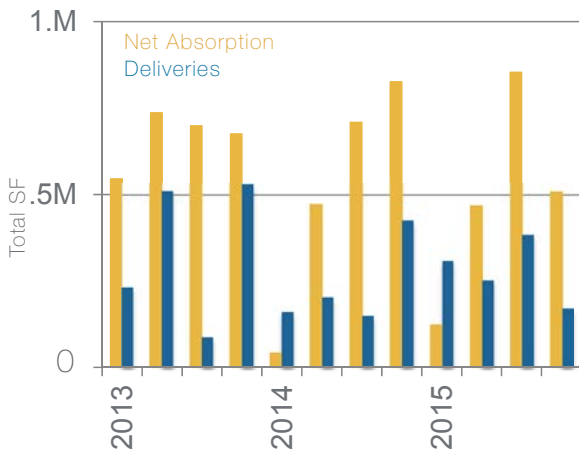
 **Phoenix Metro Unemployment**
MSA, 11/15- 5% down from 5.6% 11/14

Phoenix Snapshot

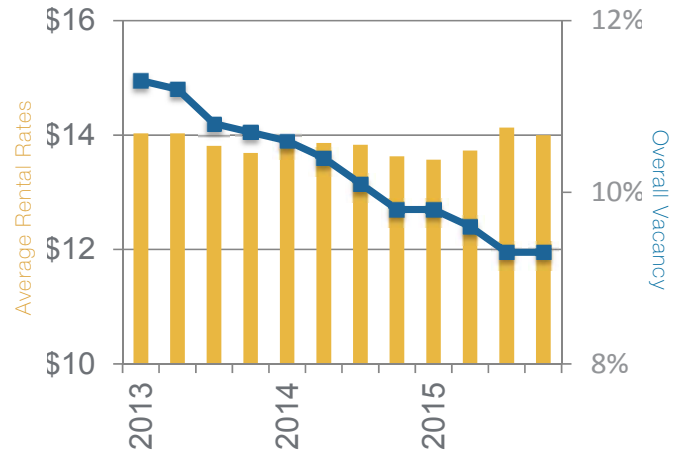
Market Overview

	Total RBA	Vacant SF	Vacant %	Net Absorption	RBA Delivered	RBA Under Construction	Average Rental Rate
YR 2015	219,995,037 SF	20,377,817 SF	9.3%	1,771,390 SF	1,121,283 SF	903,985 SF	\$14.00 PSF
Q 4 2015	219,995,037 SF	20,377,817 SF	9.3%	507,577 SF	223,896 SF	486,229 SF	\$14.00 PSF
Q 3 2015	219,733,430 SF	20,710,683 SF	9.4%	901,467 SF	296,799 SF	533,617 SF	\$14.11 PSF
Q 2 2015	219,505,851 SF	21,384,571 SF	9.7%	301,501 SF	398,478 SF	548,452 SF	\$13.72 PSF
Q 1 2015	219,548,709 SF	21,728,930 SF	9.9%	78,447 SF	136,208 SF	733,897 SF	\$13.55 PSF

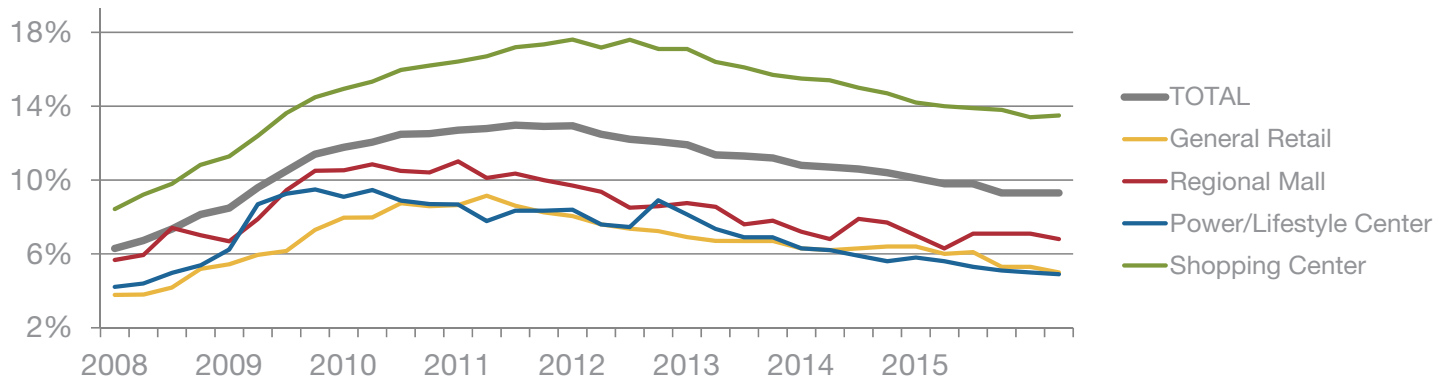
Net Absorption & Deliveries



Rental & Vacancy Rates



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.



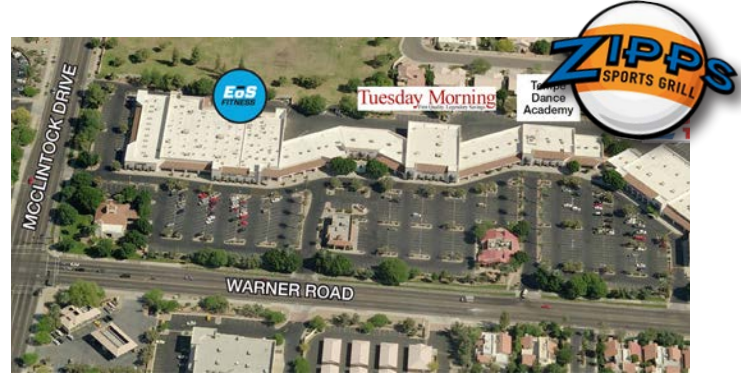
Round Valley Plaza

205 South Mountain Ave | Springerville

Size: 26,700 SF

Tenant: Shopko

Leased: November 2015



McClintock Fountains

NEC McClintock & Warner | Tempe, AZ

Size: 6,400 SF

Tenant: Zipp's Sports Grill

Leased: December 2015



2980 N Alma School Rd

Chandler, AZ

Size: 25,000 SF

Tenant: Planet Fitness

Leased: July 2015



7000 E Mayo Blvd

Scottsdale, AZ

Size: 7,600 SF

Tenant: Denny's

Leased: March 2015



Warner Village

1342 W Warner Rd & 8707 S Priest Dr | Tempe

Size: 19,643 SF

Price: \$4.47 million

Sold: December 2015



Mercado del Lago

8300-8320 N Hayden Rd | Tempe

Size: 61,319 SF

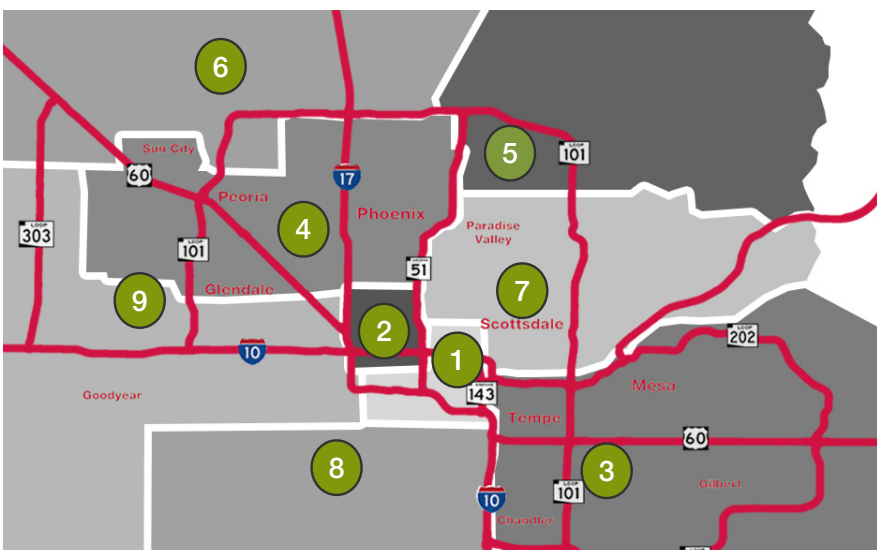
Price: \$8.8 million

Sold: August 2015

Phoenix Submarkets

Q4 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	2,398,099	86,434	3.6%	6,074	-	-	\$10.59
	Airport/Regional Mall	-	-	-	-	-	-	-
	Power/Lifestyle Center	1,418,849	88,791	6.3%	-	-	-	\$17.94
	Shopping Center	1,551,615	136,564	8.8%	6,775	-	-	\$11.85
Total		5,368,563	311,789	6.2%	12,849	-	-	\$12.52
Downtown Phoenix	General Retail	4,313,749	420,838	9.8%	50,148	-	33,395	\$14.87
	Regional Mall	-	-	-	-	-	-	-
	Power/Lifestyle Center	-	-	-	-	-	-	-
	Shopping Center	2,418,526	356,606	14.7%	6,166	-	-	\$12.08
Total		6,732,275	777,444	11.5%	56,314	-	33,395	\$13.48
East Valley	General Retail	18,250,659	873,489	5.2%	(1,328)	10,560	343,291	\$12.81
	Regional Mall	5,736,181	328,343	5.7%	41,385	-	-	\$18.42
	Power/Lifestyle Center	11,513,169	471,257	4.2%	4,134	17,700	48,450	\$19.45
	Shopping Center	36,578,624	5,700,555	15.6%	117,314	9,332	218,909	\$13.35
	Total		72,078,633	7,373,644	10.3%	161,505	37,592	610,650
North Phoenix	General Retail	12,825,435	617,214	4.8%	79,269	27,000	67,398	\$11.51
	Regional Mall	2,396,712	585,456	24.4%	-	-	-	\$29.50
	Power/Lifestyle Center	3,201,842	191,016	6.0%	3,845	-	-	\$18.83
	Shopping Center	20,662,149	3,415,661	17.0%	18,091	-	-	\$12.28
	Total		39,086,138	4,809,347	14.9%	101,205	27,000	67,398
North Scottsdale	General Retail	4,778,400	205,544	4.3%	3,558	-	12,261	\$19.35
	Regional Mall	1,498,420	33,415	2.2%	-	-	-	-
	Power/Lifestyle Center	4,196,970	173,711	4.1%	23,091	-	-	\$14.73
	Shopping Center	7,048,492	854,314	12.1%	(88,786)	4,600	2,800	\$17.60
	Total		17,522,282	1,266,984	7.2%	(62,137)	4,600	15,061
Northwest Phoenix	General Retail	4,050,436	194,242	4.8%	65,066	70,765	12,900	\$15.13
	Regional Mall	1,397,944	15,343	1.1%	-	-	-	\$14.99
	Power/Lifestyle Center	3,201,842	191,016	6.0%	3,845	-	-	\$18.83
	Shopping Center	10,175,338	893,575	8.8%	47,125	-	-	\$15.23
	Total		19,753,784	1,294,176	6.3%	116,036	70,765	12,900
Pinal County	General Retail	4,146,401	127,359	3.1%	26,244	-	11,370	\$10.07
	Regional Mall	-	-	-	-	-	-	-
	Power/Lifestyle Center	1,117,632	87,971	7.9%	6,100	6,100	-	\$12.00
	Shopping Center	4,209,250	579,730	13.8%	20,007	-	-	\$11.55
	Total		9,473,283	795,060	8.3%	52,351	6,100	11,370
Scottsdale	General Retail	6,158,776	355,572	5.8%	10,470	4,802	10,000	\$18.83
	Regional Mall	3,512,322	88,097	2.5%	2,851	-	-	\$72.10
	Power/Lifestyle Center	1,781,695	154,681	8.8%	1,530	-	2,979	\$22.70
	Shopping Center	8,047,445	840,636	10.4%	1,518	-	98,500	\$19.42
	Total		19,500,238	1,438,986	7.4%	16,369	4,802	111,479
South Mountain	General Retail	1,005,567	11,598	1.2%	2,850	-	-	\$16.52
	Regional Mall	-	-	-	-	-	-	-
	Power/Lifestyle Center	1,127,162	45,774	4.1%	30,615	-	-	-
	Shopping Center	4,475,747	493,572	11.0%	(25,818)	-	14,800	\$16.55
Total		6,608,476	550,944	8.3%	7,647	-	14,800	\$16.55
West Phoenix	General Retail	6,891,851	300,908	4.4%	32,599	21,650	26,932	\$12.31
	Regional Mall	997,787	16,542	1.7%	0	-	-	-
	Power/Lifestyle Center	3,892,168	232,922	6.0%	(3,644)	-	-	\$15.01
	Shopping Center	11,236,686	1,026,339	9.1%	19,549	-	-	\$13.19
	Total		23,018,492	1,576,711	6.7%	48,504	21,650	26,932
All Submarkets	General Retail	64,819,373	3,193,198	7.1%	274,950	134,667	517,547	\$13.89
	Regional Mall	15,539,366	1,067,196	6.9%	44,236	-	-	\$23.12
	Power/Lifestyle Center	32,379,553	1,591,775	4.9%	66,450	23,800	51,429	\$18.35
	Shopping Center	106,403,872	14,398,103	13.5%	121,941	13,932	335,009	\$13.65
	Overall Total		219,142,164	20,250,272	9.3%	507,577	172,409	903,985
Overall Total 3Q15		219,733,430	20,710,683	9.4%	901,467	385,123	684,315	\$14.11
Overall Total 2Q15		219,505,851	21,384,571	9.7%	301,501	254,219	809,831	\$13.72
Overall Total 1Q15		219,548,709	21,728,930	9.9%	78,447	309,611	674,466	\$13.55



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

We are here. Phoenix



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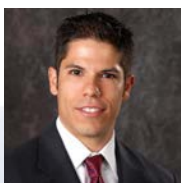
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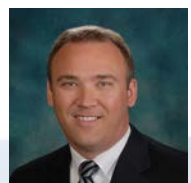
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