



NAI Horizon

3rd Quarter
2017
Retail
Market Report

Expanding Footprints & Increasing Costs

As approximately 90 percent of an iceberg's volume and mass are underwater, what is visible on the surface does not provide a complete picture of what lies submerged. Translated to the commercial real estate retail sector in Greater Phoenix, the topline numbers do not fully disclose the full story of the market.

Undeniably, from a purely statistical perspective, the space is strong and healthy across the metro area. Overall average occupancy continues its upward trajectory by exceeding 91.5 percent in Quarter 3, accompanied by impressive leasing velocity. High growth continues in Chandler, Mesa and Gilbert with spillover across the Southeast Valley, as demand surges into Queen Creek. Absorption added over 300,000 square feet above the pace of Quarter 2 reaching 848,000 square feet.

And while average rental rates took a pause from their run of positive gains, the upward trend line still portrays expansion with a \$15.13 handle.

Much of the growth of the sector continues to center on experiences, most notably in the restaurant space, but also encompasses service businesses, which have most protection against internet disruption. These neighborhood shopping centers are grocery chain anchored, evidenced by the introduction of three new Safeway and Fry's stores in the Valley.

Most exciting in Quarter 3, the wave of new construction on both large and small projects in the metro area. These developments amount to over 1.4 million square feet of Rentable Building Area (RBA) and convey a continued dynamic

RETAIL TRENDS



initially from the expensive cost of land for developers, but have accelerated due to higher construction costs in both labor and materials; a point accentuated by the hurricanes of the last months.

In the case of restaurants, the point on higher labor costs and the pricing uptick, is owed to the recent increase in minimum wage legislation.

With new construction rental rates soaring into the \$40-\$60 range, the iceberg below is revealing a larger and soon to be prominent story: The first wave of tenants sitting on the sidelines indicating that pricing in the market is simply too expensive.

While this is not a massive phenomenon, it is pronounced enough to make the next 18 months very interesting, as markets recalibrate price in relation to how tenants react to the higher asking rents.

The retail sector in Greater Phoenix still has considerable room to run, as both local organic and national tenants, like the market and continue to want to expand their footprints. Paying attention though to what is currently unseen provides a great vantage point on opportunities and challenges to come in 2018.

of supply catching up with demand after years of moribund growth. The announcement by IKEA of its second store on 62-acres in Glendale, adds to the excitement of Greater Phoenix retail.

However, with this new construction deployment comes a hefty price tag, in many cases accelerating to \$40, \$50 and even \$60 a square foot in well positioned real estate. These substantively higher asking rents flow

ECONOMIC TRENDS



Phoenix Market Snapshot

Market Overview

	Total RBA	Vacant SF	Vacant %	Net Absorption	RBA Delivered	RBA Under Construction	Average Rental Rate
Power/Lifestyle	32,168,602 SF	1,949,838 SF	6.1%	51,834 SF	2,800	-	\$19.33 NNN
Regional Mall	15,276,492 SF	892,578 SF	5.8%	140,254 SF	-	148,000 SF	\$15.00 NNN
General	68,671,249 SF	3,176,197 SF	4.6%	152,462 SF	150,152 SF	481,818 SF	\$17.19 NNN
Shopping Center	109,031,683 SF	12,964,841 SF	11.9%	498,434 SF	21,500 SF	774,778 SF	\$14.28 NNN
Overall Total	225,922,084 SF	19,005,453 SF	8.4%	848,496 SF	174,452 SF	1,404,596 SF	\$15.12 NNN

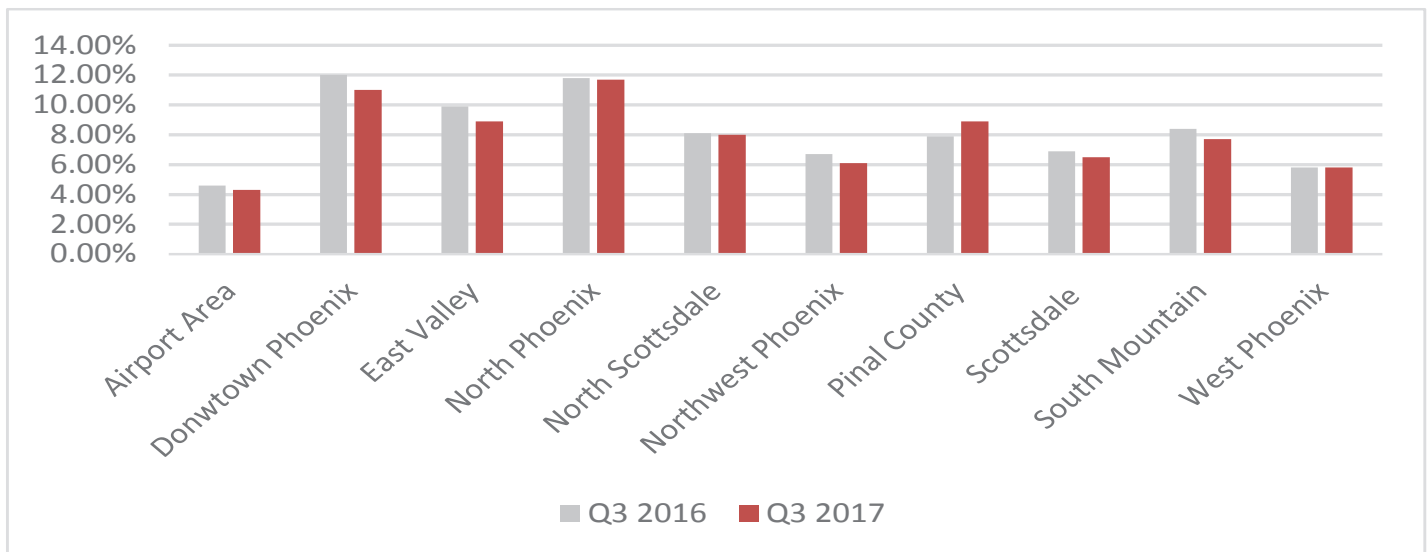
Significant Lease Transactions

Address	Tenant	Size	Submarket	Type
823-855 N Dobson Rd Mesa	Boot Barn	28,800 SF	East Valley	Direct
E Williams Field Rd @ San Tan Pkwy Gilbert	Planet Fitness	50,000 SF	East Valley	Direct
10160 N 67th Ave Peoria	Aspire Fitness	40,916 SF	North Phoenix	Direct

Significant Sale Transactions

Address	Date	Size	Sale Price	Price/SF
Laveen Village Marketplace 5130-5240 W Baseline	08/18/2017	41,307 SF	\$14.2M	\$250.23
Hayden Plaza North 12434 N Cave Creek Rd	09/29/2017	107,724 SF	\$11.8M	\$109.20
Osco Bashas Center 3320 N 7th Ave	07/17/2017	72,800 SF	\$11.6M	\$158.65

Retail Submarket 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.

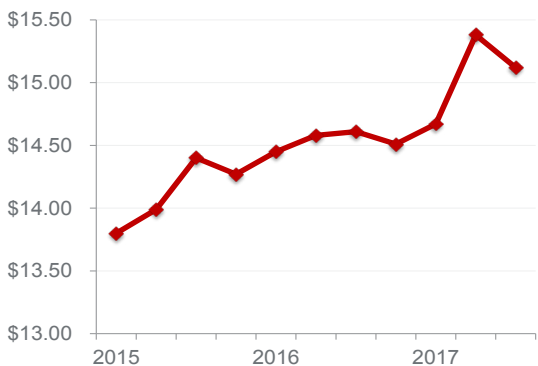
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RETAIL MARKET METRO PHOENIX

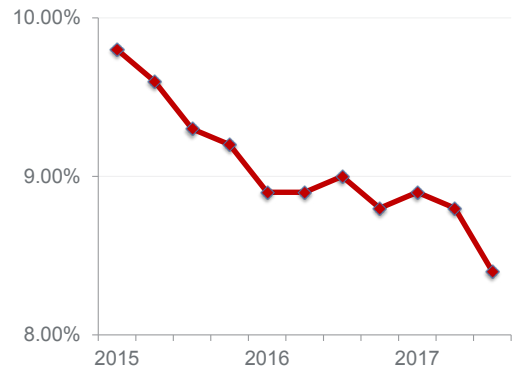
Submarket Snapshot

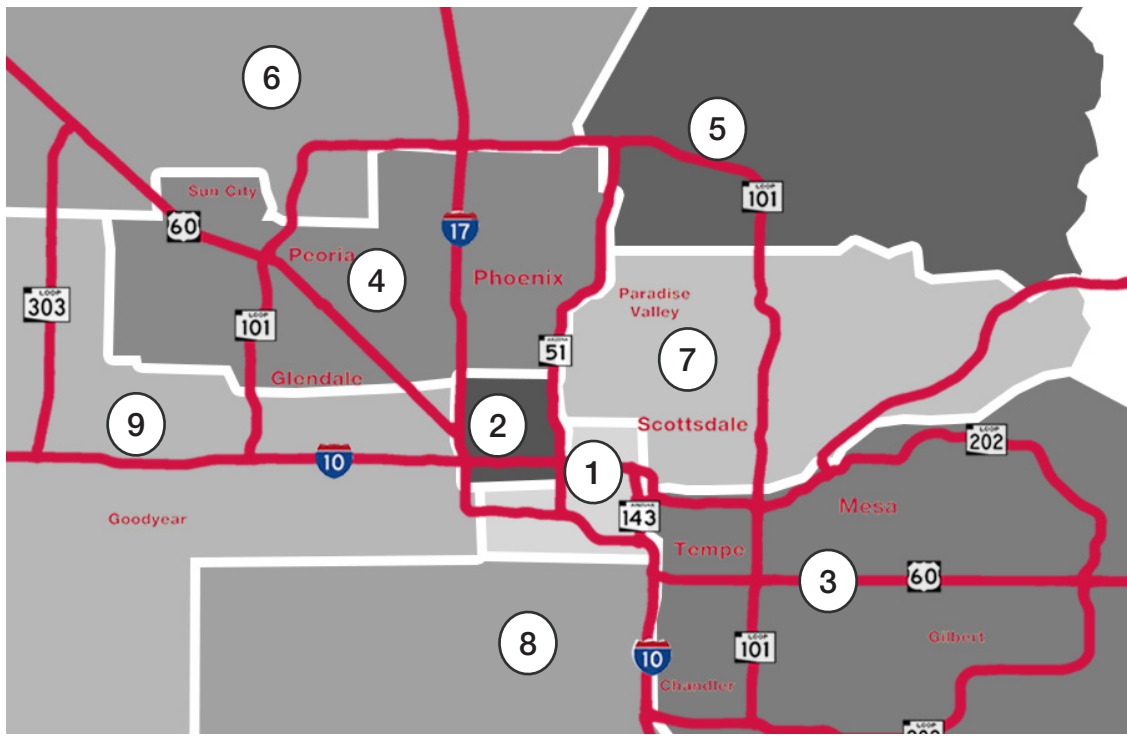
Submarket Cluster	Retail Type	Total RBA	Total Vacant SF	Total Vacant %	Total Net Absorption	RBA Delivered	RBA Under Construction	Average Rate
Airport Area	General Retail	2,516,697	82,391	3.30%	5,549	-	-	\$14.60
	Airport/Regional Mall	-	-	-	-	-	-	-
	Power/Lifestyle Center	1,420,092	61,019	4.30%	23,943	-	-	\$17.36
	Shopping Center	1,588,958	95,201	6.00%	48,150	-	-	\$15.60
	Total	4,798,522	364,950	7.60%	-38,062	-	42,231.00	\$18.54
Downtown Phoenix	General Retail	4,798,522	364,950	7.60%	-38,062	-	422,321	\$18.54
	Regional Mall	-	-	-	-	-	-	-
	Power/Lifestyle Center	-	-	-	-	-	-	-
	Shopping Center	2,481,028	437,878	17.60%	-42,104	-	59,400	\$12.71
	Total	7,279,550	802,828	11.00%	-80,166	0	101,631	\$16.16
East Valley	General Retail	20,115,473	1,059,772	5.30%	121,367	64,938	201,215	\$15.97
	Regional Mall	5,929,865	376,604	6.40%	60,792	-	-	-
	Power/Lifestyle Center	11,009,364	533,100	4.80%	7,309	-	-	\$20.16
	Shopping Center	37,315,623	4,642,109	12.40%	184,060	-	243,806	\$14.18
	Total	74,370,325	6,611,585	8.90%	373,528	64,938	445,021	\$14.02
North Phoenix	General Retail	13,294,102	613,951	4.60%	-52,942	2,500	28,802	\$13.51
	Regional Mall	2,285,583	382,036	16.70%	5,228	-	148,000	\$15.00
	Power/Lifestyle Center	2,982,207	157,660	5.30%	-1,230	-	-	\$25.12
	Shopping Center	21,151,227	3,473,055	16.40%	-37,256	-	-	\$11.63
	Total	39,713,119	4,626,702	11.70%	-86,200	2,500	176,802	\$12.68
North Scottsdale	General Retail	4,962,975	269,460	5.40%	4,842	-	52,124	\$25.65
	Regional Mall	1,152,991	8,844	0.80%	24,571	-	-	-
	Power/Lifestyle Center	4,231,242	341,295	8.10%	-39,036	-	-	\$20.61
	Shopping Center	7,107,258	769,339	10.80%	97,282	-	-	\$16.99
	Total	17,454,466	1,388,938	8.00%	87,659	0	52,124	\$19.69
Northwest Phoenix	General Retail	4,231,537	110,028	2.60%	7,261	2,714	4,024	\$17.45
	Regional Mall	1,397,944	14,811	1.10%	532	-	-	-
	Power/Lifestyle Center	4,145,903	187,459	4.50%	3,200	2,800	-	\$21.76
	Shopping Center	10,486,086	913,638	8.70%	-30,551	7,500	23,700	\$15.00
	Total	20,261,470	1,225,936	6.10%	-9,637	13,014	27,724	\$15.58
Pinal County	General Retail	4,387,678	190,883	4.40%	-26,537	-	55,000	\$12.03
	Regional Mall	-	-	-	-	-	-	-
	Power/Lifestyle Center	1,213,709	120,757	9.90%	-	-	-	\$5.50
	Shopping Center	4,424,660	577,025	13.00%	-11,378	14,000	201,750	\$12.51
	Total	10,026,047	888,665	8.90%	-37,915	-	256,750	\$12.08
Scottsdale	General Retail	6,177,715	234,732	3.80%	126,189	80,000	64,662	\$21.74
	Regional Mall	3,512,322	98,041	2.80%	45,101	-	-	-
	Power/Lifestyle Center	1,780,683	237,106	13.30%	7407	-	-	\$24.44
	Shopping Center	8,406,543	726,946	8.60%	11,131	-	95,552	\$23.63
	Total	19,877,263	1,296,825	6.50%	189,828	80,000	160,214	\$23.00
South Mountain	General Retail	1,027,827	14,248	1.40%	3,912	-	-	\$18.55
	Regional Mall	-	-	-	-	-	-	-
	Power/Lifestyle Center	1,129,696	54,574	4.80%	7,773	-	-	-
	Shopping Center	4,629,221	450,588	9.70%	82,268	-	4,500	\$16.46
	Total	6,786,744	519,410	7.70%	93,953	0	4,500	\$16.60
West Phoenix	General Retail	7,150,723	235,782	3.30%	-9,038	-	33,760	\$15.06
	Regional Mall	997,787	12,242	1.20%	4,300	-	-	-
	Power/Lifestyle Center	4,255,706	256,868	6.00%	45,402	-	-	\$15.36
	Shopping Center	11,441,079	879,062	7.70%	119,285	-	146,070	\$15.25
	Total	23,845,295	1,383,954	5.80%	159,949	0	179,830	\$15.23
All Submarkets	General Retail	68,671,249	3,176,197	4.60%	152,462	150,152	481,818	\$17.19
	Regional Mall	15,276,492	892,578	5.80%	140,524	-	148,000	\$15.00
	Power/Lifestyle Center	32,168,602	1,949,838	6.10%	51,834	2,800	-	\$19.33
	Shopping Center	109,031,683	12,964,841	11.90%	498,434	21,500	774,778	\$14.28
	Overall Total	225,911,865	19,008,953	8.40%	848,496	174,452	1,404,596	\$15.13
	Overall Total 2Q17	225,026,217	19,741,271	8.80%	544,334	519,570	823,893	\$15.38
	Overall Total 1Q17	224,516,385	19,775,773	8.80%	394,252	588,357	1,161,744	\$14.65
	Overall Total 4Q16	223,924,639	19,578,279	8.70%	655,776	464,805	1,377,593	\$14.50
	Overall Total 3Q16	223,718,717	20,028,133	9.00%	455,005	916,025	1,291,811	\$14.60

Rental Rates



Vacancy Rates





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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NAI Horizon knows commercial real estate. With over 25 years in the Valley, NAI Horizon's extensive market insight allows us to match client needs with the right solutions. NAI Global member firms span the U.S. and 55 other countries, with more than 400 offices and more than 7,000 local market experts on the ground. Supported by the central resources of the NAI Global organization, member firms deliver market-leading services locally, and combine their in-market strengths to form a powerful bond of insights and execution for clients with multi-market challenges.

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