



NAI Horizon

Year End
2017
Retail
Market Report

Retailer Resiliency Driven by Experiences

To read the headlines, one would arrive at the conclusion that Brick and Mortar retail is DEAD! According to a CNBC piece in December, nearly 7,000 stores shuttered in 2017. Yet for all the front-page dispiriting drudgery, the retail market is in fact doing extremely well! Quarter 4 demonstrated that smart retailers can compete in the digital age, as record holiday sales approached \$600 billion, according to CBS News. Competition from the online universe has forced: big box, discounters, specialty, warehouse, luxury and retailers across the gamut to reinvent the shopping experience. The proof of success is in the numbers, especially in Greater Phoenix where the trends are very positive.

Total vacancy dropped to 7.8% across the Metro, a dramatic drop from the 8.3% figure recorded in the third quarter. The absorption numbers are staggering considering the false story of ghost town retail; 1.39 million square feet came off the market in Quarter 4, the bulk of that number (994,000 square feet) came from the Shopping Center segment. The closures of 1980's retail titans like Sears, K-Mart and Radio Shack is not a surprise to most people whether they're an industry professional or just a casual shopper; new retailers are innovating and utilizing space to deliver consumers products and services on the shoppers' terms.

Across the Valley, national tenants are expanding their footprint through new construction, IKEA as an example with their coming store adjacent to University of Phoenix stadium in Glendale, and Whole Foods with a two-story vertical addition to the booming downtown Tempe environment. Local tenants not to be left out of the action are growing as well, utilizing existing space to position their brands for success in the marketplace.

RETAIL TRENDS



eat and mingle with friends and family. The restaurants that can capture this dynamic are gaining market share. Restaurants are not the only segment that are enjoying strong sales. Planet Fitness opened 11 new locations in Arizona in 2017, with another 10 locations pegged for 2018. Further proof that big box retail is still vibrant and that you can't buy everything on the internet.

It is in the restaurant segment where the importance of experiential retail is highlighted. While Amazon and Wal-Mart can deliver physical goods to the consumers' door, they cannot provide a Friday night meal at the newest Sam Fox eatery, offer an upscale grocery shopping excursion, provide a relaxing manicure or provide an exhilarating workout. That is Retail Resiliency, the ability of brands to adapt to our ever changing market, and it is happening right now at your local grocery-anchored neighborhood retail center.

Owners, developers and investors are understanding this new environment and are taking advantage. Average rental rates climbed again in Quarter 4 to \$15.30 per square foot, while new properties under construction hit Rentable Building Area of 1.14 million square feet. Investment sales are booming as well with Canadian and California buyers scrambling into Greater Phoenix to capture value in commercial real estate as compared to their own local markets. To that end, with demand at all-time high, well positioned investment grade assets in the \$1M - \$5M range are fetching record low cap rates.

The bottom line...Metro Phoenix retail still has plenty of room to run. Those retailers not willing to transform with the market will be left behind as the retailers embracing the consumer experience will thrive.

Unquestionably, the dominant retailers in the era of e-Commerce are those that can deliver experiential offerings to consumers: TopGolf, Harkins Theaters, Alamo Drafthouse Cinema, Main Event Entertainment and others offering recreation and fun. Most notable in the era of experiences, the restaurant boom, as operators are paying premium rents in the \$40-\$50 per square foot range for premiere spaces. Whether it's Jimmy John's, Panera Bread, Humble Pie or Cold Beer & Cheeseburgers, consumers want a place to gather,

ECONOMIC TRENDS



Q4 2017

RETAIL MARKET METRO PHOENIX

Phoenix Market Snapshot

Market Overview

	Total RBA	Vacant SF	Vacant %	Net Absorption	RBA Delivered	RBA Under Construction	Average Rental Rate
Power/Lifestyle	32,260,750 SF	1,949,082 SF	6.0%	25,056 SF	-	-	\$19.29 NNN
Regional Mall	15,599,265 SF	739,987 SF	4.7%	185,372 SF	148,000	-	\$15.00 NNN
General	69,259,244 SF	3,115,073 SF	4.5%	189,321 SF	102,380 SF	506,751 SF	\$17.26 NNN
Shopping Center	109,288,714 SF	11,926,847 SF	10.9%	993,984 SF	168,636 SF	640,478 SF	\$14.56 NNN
Overall Total	226,407,973 SF	17,730,989 SF	7.8%	1,393,733 SF	419,016 SF	1,147,229 SF	\$15.30 NNN

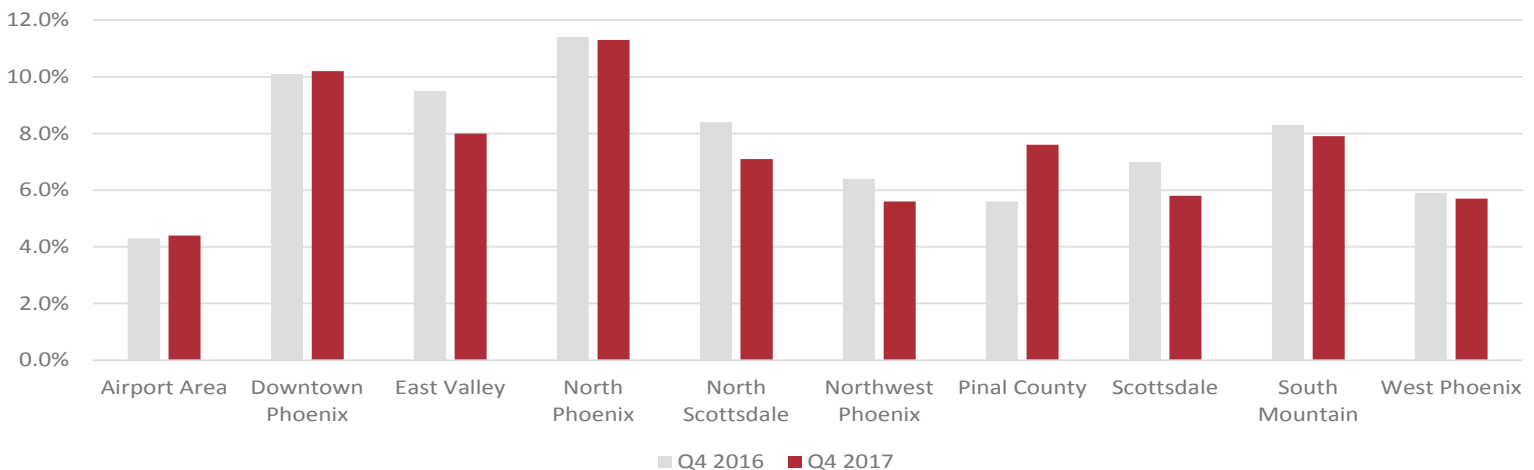
Significant Lease Transactions

Address	Tenant	Size	Submarket	Type
4609-4735 E Ray Rd Phoenix	Lina Home Furnishing	37,343 SF	South Phoenix	Direct
1126 S Gilbert Rd Mesa	Aspire Fitness	36,241 SF	East Valley	Direct
3320 N 7th Ave Phoenix	Sprouts	31,020 SF	Central Phoenix	Direct

Significant Sale Transactions

Address	Date	Size	Sale Price	Price/SF
Arrowhead Retail Shops 16955 N 75th Ave	10/2/2017	9,900 SF	\$8.4M	\$848.48
Power & Baseline 2235 S Power Rd	11/2/2017	107,724 SF	\$7.85M	\$170.52
Safeway 5035 W Baseline Rd	11/3/2017	72,800 SF	\$7.65M	\$138.47

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.

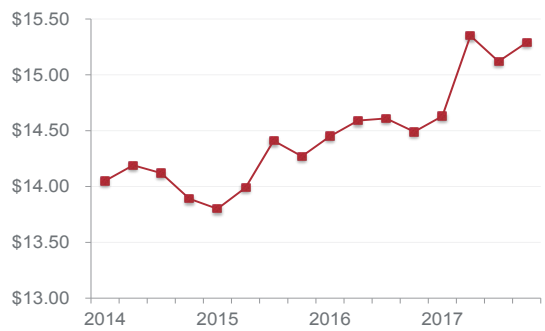
Q4 2017

RETAIL MARKET METRO PHOENIX

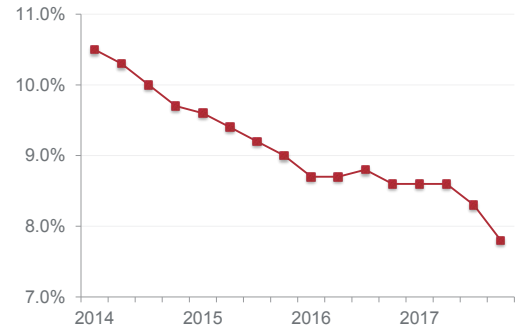
Submarket Snapshot

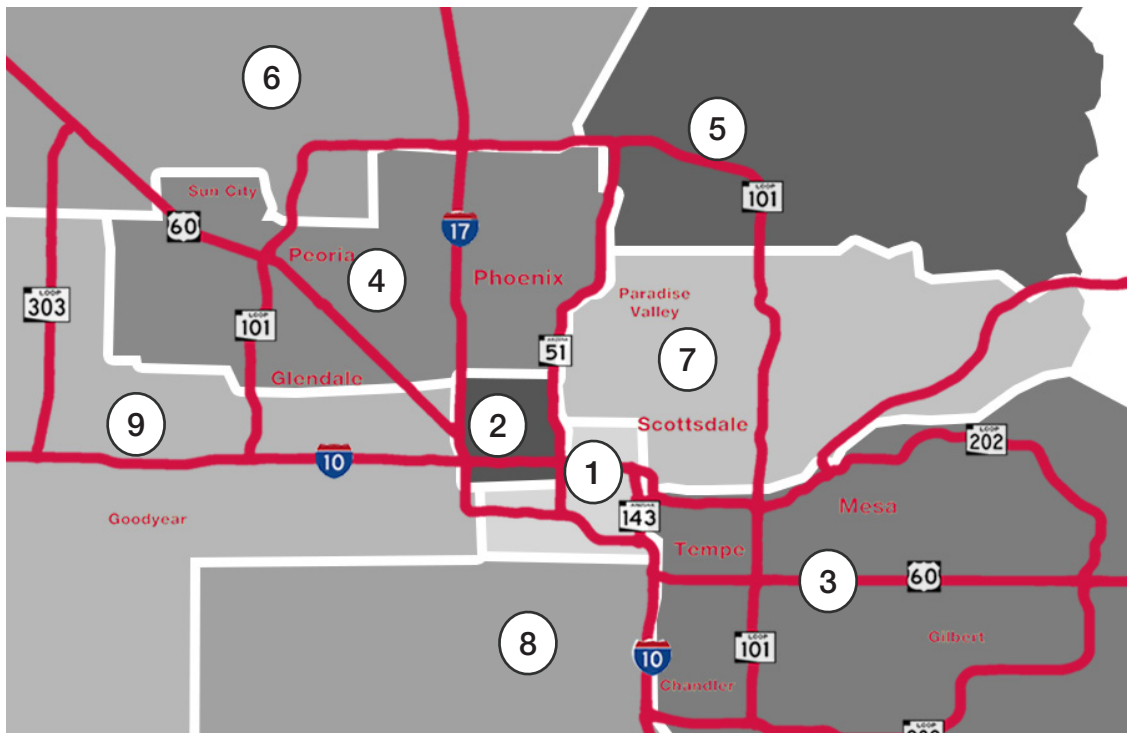
Submarket Cluster	Retail Type	Total RBA	Total Vacant SF	Total Vacant %	Total Net Absorption	RBA Delivered	RBA Under Construction	Average Rate
Airport Area	General Retail	2,552,152	74,277	2.9%	10,014	-	-	\$15.93
	Regional Mall	-	-	-	-	-	-	-
	Power/Lifestyle Center	1,419,579	82,419	5.8%	3,600	-	-	\$17.94
	Shopping Center	1,589,033	101,060	6.4%	(5,859)	-	-	\$16.37
Total	5,560,764	257,756	4.6%	7,755	-	-	\$16.72	
Downtown Phoenix	General Retail	4,786,809	321,132	6.7%	(19,243)	8,039	34,192	\$18.47
	Regional Mall	-	-	-	-	-	-	-
	Power/Lifestyle Center	-	-	-	-	-	-	-
	Shopping Center	2,543,428	424,884	16.7%	9,544	-	-	\$12.81
Total	7,330,237	746,016	10.2%	(9,699)	8,039	34,192	\$16.37	
East Valley	General Retail	20,334,859	1,039,768	5.1%	90,074	4,086	261,249	\$16.39
	Regional Mall	5,929,865	230,773	3.9%	30,612	-	-	\$15.00
	Power/Lifestyle Center	11,042,712	596,525	5.4%	(64,125)	-	-	\$20.45
	Shopping Center	37,382,003	4,100,986	11.0%	518,442	23,590	284,869	\$14.68
Total	74,689,439	5,968,052	8.0%	575,003	27,676	546,118	\$15.19	
North Phoenix	General Retail	13,340,325	566,879	4.2%	76,758	16,327	12,475	\$13.72
	Regional Mall	2,608,356	389,736	14.9%	140,300	148,000	-	\$15.00
	Power/Lifestyle Center	2,982,207	153,399	5.1%	4,261	-	-	\$24.55
	Shopping Center	21,093,519	3,424,043	16.2%	16,638	-	-	\$11.85
Total	40,024,407	4,534,057	11.3%	237,957	164,327	12,475	\$12.66	
North Scottsdale	General Retail	5,010,474	285,189	5.7%	11,404	27,931	44,124	\$24.10
	Regional Mall	1,152,991	7,779	0.7%	1,065	-	-	-
	Power/Lifestyle Center	4,275,301	318,720	7.5%	22,575	-	-	\$23.85
	Shopping Center	7,185,496	635,201	8.8%	144,613	-	15,604	\$17.32
Total	17,624,262	1,246,889	7.1%	179,657	27,931	59,728	\$19.56	
Northwest Phoenix	General Retail	4,278,212	117,383	2.7%	(1,681)	4,024	12,477	\$17.45
	Regional Mall	1,397,944	13,799	1.0%	1,012	-	-	-
	Power/Lifestyle Center	4,155,977	144,836	3.5%	42,623	-	-	\$21.58
	Shopping Center	10,426,058	864,736	8.3%	57,952	10,000	21,179	\$15.30
Total	20,258,191	1,140,754	5.6%	99,906	14,024	33,656	\$15.79	
Pinal County	General Retail	4,448,869	171,309	3.9%	22,574	-	55,000	\$11.68
	Regional Mall	-	-	-	-	-	-	-
	Power/Lifestyle Center	1,213,709	120,757	9.9%	-	-	-	\$5.50
	Shopping Center	4,549,772	485,698	10.7%	77,132	123,000	84,750	\$12.30
Total	10,212,350	777,764	7.6%	99,706	123,000	139,750	\$11.89	
Scottsdale	General Retail	6,218,764	239,623	3.9%	5,831	-	78,034	\$22.93
	Regional Mall	3,512,322	85,658	2.4%	12,383	-	-	-
	Power/Lifestyle Center	1,780,683	225,825	12.7%	11,281	-	-	\$24.44
	Shopping Center	8,443,570	604,866	7.2%	129,530	4046	91,506	\$22.44
Total	19,955,339	1,155,972	5.8%	159,025	4,046	169,540	\$22.66	
South Mountain	General Retail	1,041,575	18,170	1.7%	(3,922)	-	9,200	\$21.58
	Regional Mall	-	-	-	-	-	-	-
	Power/Lifestyle Center	1,129,696	54,997	4.9%	(423)	-	-	-
	Shopping Center	4,640,013	463,450	10.0%	(8,362)	4,500	-	\$17.04
Total	6,811,284	536,617	7.9%	(12,707)	4,500	9,200	\$17.43	
West Phoenix	General Retail	7,247,205	281,343	3.9%	(2,488)	41,973	-	\$14.59
	Regional Mall	997,787	12,242	1.2%	-	-	-	-
	Power/Lifestyle Center	4,260,886	251,604	5.9%	5,264	-	-	\$14.90
	Shopping Center	11,435,822	821,923	7.2%	54,354	3,500	142,570	\$15.32
Total	23,941,700	1,367,112	5.7%	57,130	45,473	142,570	\$15.12	
All Submarkets	General Retail	69,259,244	3,115,073	4.5%	189,321	102,380	506,751	\$17.26
	Regional Mall	15,599,265	739,987	4.7%	185,372	148,000	-	\$15.00
	Power/Lifestyle Center	32,260,750	1,949,082	6.0%	25,056	-	-	\$19.29
	Shopping Center	109,288,714	11,926,847	10.9%	993,984	168,636	640,478	\$14.56
	Overall Total	226,407,973	17,730,989	7.8%	1,393,733	419,016	1,147,229	\$15.30
Overall Total 3Q17	226,859,323	18,804,005	8.3%	929,305	306,710	1,372,417	\$15.13	
Overall Total 2Q17	226,586,527	19,460,514	8.6%	555,511	564,312	1,000,181	\$15.36	
Overall Total 1Q17	226,056,175	19,485,673	8.6%	444,994	624,757	1,360,059	\$14.65	
Overall Total 4Q16	225,435,002	19,309,494	8.6%	734,854	499,508	1,442,680	\$14.51	

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

We are here. Phoenix

 @naihazorizon

 naihazorizonblog.com

 facebook.com/NAIHorizon

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.

www.naihazorizon.com

Retail Specialists



Patrick Anthon
Associate
patrick.anthon@naihazorizon.com



Michael Gaida
Associate
michael.gaida@naihazorizon.com



Chris Gerow
Senior Vice President



Matt Harper, CCIM
Associate



Horth Hong
Senior Associate
horth.hong@naihazorizon.com



Gabe Ortega
Senior Vice President
gabe.ortega@naihazorizon.com



Sharon Reeves
First Vice President
sharon.reeves@naihazorizon.com



Shelby Tworek
Senior Vice President

Year End
2017
Retail
Market Report

NAIHorizon

2944 N 44th Street, Suite 200
Phoenix, Arizona 85018
tel +1 602 955 4000
www.naihorizon.com