# Mid-Year 2018 Retail Market Report

# Q2 2018 RETAIL MARKET METRO PHOENIX

# Experiential Retail Concepts Still Reign in Q2 2018

Perhaps more so than any recent quarter, the 2nd Quarter of 2018 stood out more for the jaw dropping, headline transactions across the Valley, in contrast with the standard set of retail data points: rental rates, absorption and vacancy.

In these signature announcements, one can discern not only the trajectory of Greater Phoenix retail, but also how owners, tenants and investors are positioning their assets and businesses for continued evolution in the retail space.

The E-commerce growth story is well documented, as is the ongoing trend of experiential brick and mortar offerings. Amidst this backdrop, the purchase of Westgate Entertainment District in Glendale by GoDaddy founder Bob Parsons generated waves of electricity and conversation. The $133 million acquisition of the 76-acre site by Parsons' YAM Properties brings a stable owner to a mixed-use property that has long struggled to find its footing. With Parsons at the helm, and a property already strategically positioned in the sports zone of the Arizona Coyotes and Cardinals, the expanse of retail opportunities for patrons continues to accelerate.

Where YAM saw value in Glendale, global furniture powerhouse IKEA decided against an expansion of their footprint in the West Valley community by nixing plans for a new 350,000 square foot store. IKEA instead cited the need to invest resources in their online presence. That is the unique nature of the retail sector in 2018; growth in certain segments juxtaposed with contractions in others.

20 miles Southwest in Goodyear, institutional Real Estate Investment Trust giant Macerich, seized the opportunity to divest a piece of their Power Center holdings in a $49.1 million sale of The Market at Estrella Falls. The 98% occupied, 285,000 square foot power center with multiple "Big Box" anchors generated strong interest from investors around the country, with the highly coveted asset ultimately going to an Ohio-based landlord.

## RETAIL TRENDS

- VACANCY RATE ▼
- AVERAGE ASKING RATE ▲
- NET ABSORPTION ▼

Entertainment and eateries continue their expansion across the Valley. For guests who love the breakfast/brunch scene, there are a plethora of offerings including: Snooze, First Watch, Scramble and Hash Kitchen. For those who prefer the night life, the Gilbert location of Dierks Bentley's Whiskey Row provides an attractive setting. Phoenix-based Treg Bradley certainly thought so, as the group emerged from the pack of other interested buyers and purchased the property from Valley-based Gilbert/Vaughn Partners, LLC for $8.1 million.

Sticking with food and entertainment, one of the fastest growing areas belongs to the upscale film, dining and imbibing offerings. Names such as Alamo Drafthouse, Flix Brewhouse and Roadhouse Cinemas are expanding their locations and looking to gain market share.

## ECONOMIC TRENDS

- CONSUMER PRICE INDEX ▲
- 30-YR FIXED MORTGAGE ▲
- PHOENIX METRO UNEMPLOYMENT ▼

Do not forget the booming fitness market. Where even three to six months ago, there was speculation on oversaturation of fitness outlets, any skepticism on their vitality has dissipated. New entrants, Crunch and VASA join the fray as competitors to established big box brands: Planet Fitness, LA Fitness, EOS Fitness, and Mountainside Fitness.

An unlikely category that is trending up sharply are the express car wash concepts that seem to be popping up on every corner. Operators such as Three Minute Express, Quick Quack, and Super Star Car Wash are just a few of the vehicle washing solutions for Valley drivers. It is not uncommon for purchasers to aggressively bid $1 million or more on 1-acre sites to place new locations.

What does it all mean? Retail is alive and thriving, and the numbers only bolster the point. Overall vacancy rates hit another new low for the cycle, landing at 7.1%, and net absorption stayed on pace with previous quarters, measuring 754,000 square feet. Two more strong metrics; average rental rates pushing ever higher to $15.72 per square foot, and an onslaught of construction poised to bring over one million square feet to the market.

The retail environment looks vibrant going into 2019 considering a robust economy and healthy consumer. With continued organic, and sustainable growth in the Greater Phoenix retail sector, the outlook for the immediate future continues to look very positive.

# Q2 2018 RETAIL MARKET METRO PHOENIX

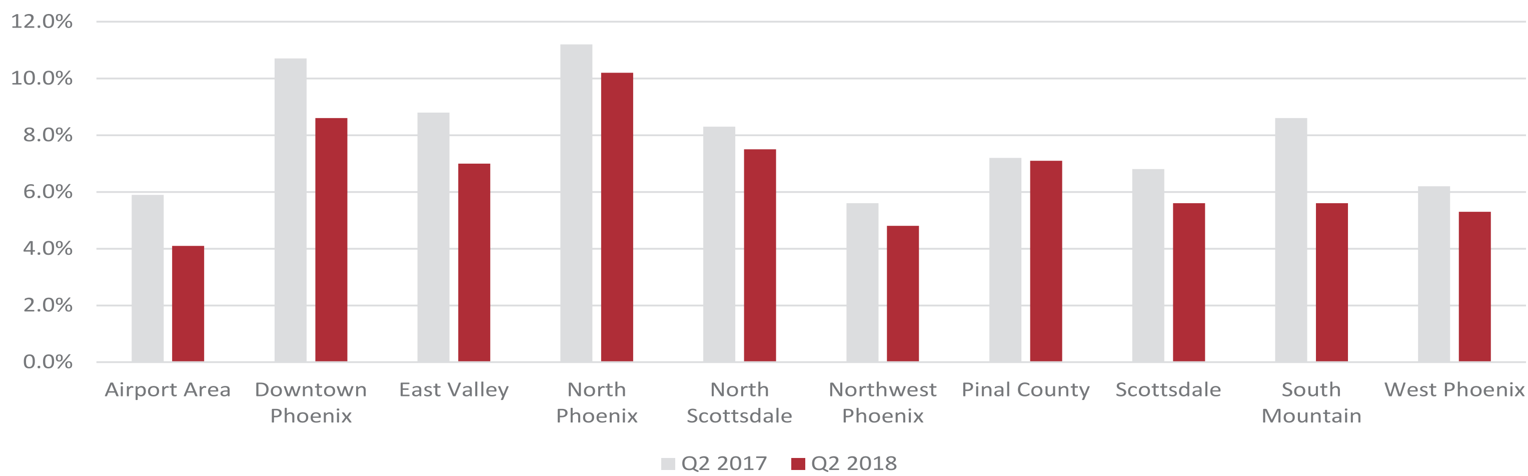
# Phoenix Market Snapshot

| Market Overview | Total RBA | Vacant SF | Vacant % | Net Absorption | RBA Delivered | RBA Under Construction | Average Rental Rate |
|---|---|---|---|---|---|---|---|
| Power/Lifestyle | 32,612,307 SF | 1,832,748 SF | 5.6% | (55,405) SF | 4,000 SF | 67,213 SF | $19.46 NNN |
| Regional Mall | 15,604,701 SF | 791,055 SF | 5.1% | (114,047) SF | - | 14,367 SF | - |
| General | 71,621,262 SF | 2,861,849 SF | 4.0% | 189,782 SF | 151,973 SF | 674,179 SF | $18.09 NNN |
| Shopping Center | 109,736,159 SF | 10,725,543 SF | 9.8% | 789,424 SF | 29,786 SF | 299,863 SF | $14.82 NNN |

| Significant Lease Transactions | Address | Tenant | Size | Submarket | Type |
|---|---|---|---|---|---|
| 8150 W Peoria Ave | Peoria | D&R Grocery | 62,831 SF | Glendale | Move In |
| 3003 W Apache Trl | Apache Junction | Sunshine Acres | 36,825 SF | Apache Junction | Move In |
| 2820-2860 S Alma School | Chandler | ALDI | 31,479 SF | Chandler | Move In |
| 185 W Apache Trl | Apache Junction | Goodwill | 27,850 SF | Apache Junction | Move in |

| Significant Sale Transactions | Address | Date | Size | Sale Price | Price/SF |
|---|---|---|---|---|---|
| Westgate City Center | 9400 W Hanna Dr, Glendale | 06/11/2018 | 280,000 SF | $72.8M | $259.86 |
| Boardwalk at Anderson Springs | 1949-1979 W Ray Rd, Chandler | 05/18/2018 | 89,804 SF | $26M | $289.52 |
| Glendale Center | 5016-5080 W Olive Ave, Glendale | 05/23/2018 | 100,812 SF | $13.7M | $135.46 |
| Mesa Commons | 10603 E Apache Trl, Apache Junction | 05/24/2018 | 90,496 SF | $11.3M | $124.87 |

## 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.*

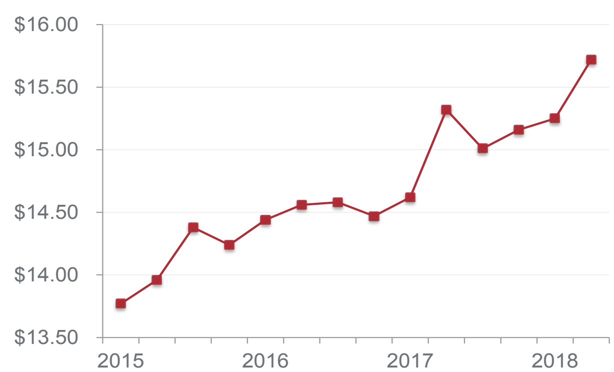
# Q2 2018

# RETAIL MARKET METRO PHOENIX

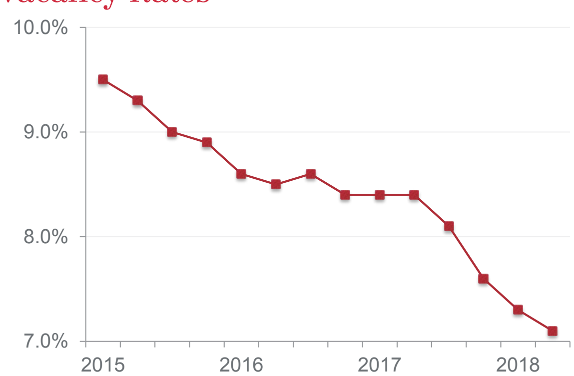
## Submarket Snapshot

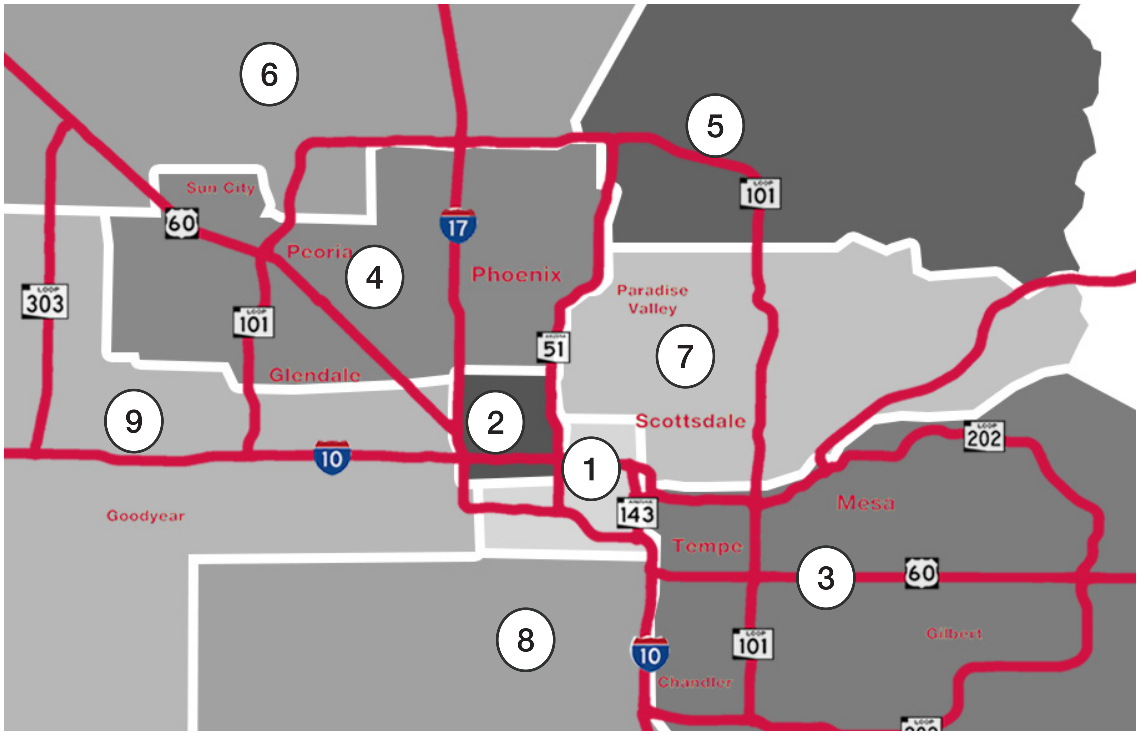
| Submarket Cluster | Retail Type | Total RBA | | Total Vacant SF | | Total Vacant % | | Total Net Absorption | | RBA Delivered | | RBA Under Construction | | Average NNN Rate | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Airport Area | General Retail | 2,652,611 | — | 70,406 | ▼ | 2.7% | ▼ | 3,085 | ▼ | - | — | 2,225 | ▲ | $16.30 | ▲ |
| | Regional Mall | - | — | - | — | - | — | - | — | - | — | - | — | - | — |
| | Power/Lifestyle Center | 1,419,022 | — | 59,005 | ▼ | 4.2% | ▼ | 44,495 | ▲ | - | — | - | — | $17.80 | — |
| | Shopping Center | 1,519,823 | — | 103,452 | ▼ | 6.8% | ▼ | 1,500 | ▼ | - | — | - | — | $18.38 | ▲ |
| | **Total** | **5,591,456** | — | **232,863** | ▼ | **4.2%** | ▼ | **49,080** | ▲ | **-** | — | **2,225** | ▲ | **$17.48** | ▲ |
| Downtown Phoenix | General Retail | 5,000,441 | ▲ | 268,741 | ▼ | 5.4% | ▼ | 55,271 | ▲ | 3,000 | ▼ | 38,746 | ▼ | $19.94 | ▲ |
| | Regional Mall | - | — | - | — | - | — | - | — | - | — | - | — | - | — |
| | Power/Lifestyle Center | - | — | - | — | - | — | - | — | - | — | - | — | - | — |
| | Shopping Center | 2,545,133 | — | 382,537 | ▼ | 15.0% | ▼ | 56,888 | ▲ | - | — | - | — | $13.81 | ▲ |
| | **Total** | **7,545,574** | ▲ | **651,278** | ▼ | **8.6%** | ▼ | **112,159** | ▲ | **3,000** | ▼ | **38,746** | ▼ | **$17.32** | ▲ |
| East Valley | General Retail | 21,018,908 | ▲ | 852,571 | ▲ | 4.1% | ▲ | 63,682 | ▼ | 109,300 | ▲ | 261,047 | ▼ | $17.93 | ▲ |
| | Regional Mall | 5,935,285 | — | 295,713 | ▲ | 5.0% | ▲ | (113,788) | ▼ | - | — | 14,367 | — | - | — |
| | Power/Lifestyle Center | 11,108,489 | — | 524,868 | ▼ | 4.7% | ▼ | 48,072 | ▼ | 4,000 | ▼ | 8,040 | ▼ | $18.17 | ▼ |
| | Shopping Center | 38,117,340 | ▲ | 3,676,550 | ▼ | 9.6% | ▼ | 292,767 | ▲ | 18,506 | ▲ | 171,340 | ▲ | $15.08 | ▲ |
| | **Total** | **76,180,022** | ▲ | **5,349,702** | ▼ | **7.0%** | ▼ | **290,733** | ▼ | **131,806** | ▲ | **454,794** | ▼ | **$15.68** | ▲ |
| North Phoenix | General Retail | 13,905,315 | ▲ | 523,324 | ▼ | 3.8% | ▼ | 46,289 | ▲ | 1,936 | ▼ | 14,887 | ▼ | $15.67 | ▲ |
| | Regional Mall | 2,608,356 | — | 380,974 | ▼ | 14.6% | ▼ | 1,062 | ▲ | - | — | - | — | - | — |
| | Power/Lifestyle Center | 2,982,134 | — | 159,533 | ▲ | 5.3% | ▲ | (276) | ▲ | - | — | 10,536 | — | $25.53 | ▲ |
| | Shopping Center | 21,219,016 | — | 3,081,690 | ▼ | 14.5% | ▼ | 277,403 | ▲ | - | — | 2,398 | — | $11.75 | ▲ |
| | **Total** | **40,714,821** | ▲ | **4,145,521** | ▼ | **10.2%** | ▼ | **324,478** | ▲ | **1,936** | ▼ | **27,821** | ▼ | **$12.83** | ▲ |
| North Scottsdale | General Retail | 5,087,463 | ▲ | 258,376 | ▼ | 5.1% | ▼ | 34,555 | ▲ | 2,005 | ▲ | 48,124 | ▼ | $25.47 | ▲ |
| | Regional Mall | 1,152,991 | — | 7,779 | — | 0.7% | — | - | — | - | — | - | — | - | — |
| | Power/Lifestyle Center | 4,288,543 | — | 291,515 | ▼ | 6.8% | ▼ | 2,763 | ▼ | - | — | 35,015 | — | $23.04 | ▼ |
| | Shopping Center | 7,149,881 | — | 773,769 | ▲ | 10.8% | ▲ | (104,347) | ▼ | - | — | 15,581 | — | $19.58 | ▲ |
| | **Total** | **17,678,878** | ▲ | **1,331,439** | ▲ | **7.5%** | ▲ | **(67,029)** | ▼ | **2,005** | ▲ | **98,720** | ▼ | **$21.63** | ▲ |
| Northwest Phoenix | General Retail | 4,472,875 | ▲ | 159,487 | ▲ | 3.6% | ▲ | (11,175) | ▼ | 24,932 | ▲ | 22,842 | ▼ | $14.72 | ▼ |
| | Regional Mall | 1,397,960 | — | 13,799 | — | 1.0% | — | - | — | - | — | - | — | - | — |
| | Power/Lifestyle Center | 4,157,360 | — | 104,026 | ▼ | 2.5% | ▼ | 5,362 | ▼ | - | — | - | — | $30.90 | ▲ |
| | Shopping Center | 10,490,622 | — | 699,691 | ▼ | 6.7% | ▼ | 12,918 | ▼ | - | ▼ | 4,626 | ▲ | $15.48 | ▲ |
| | **Total** | **20,518,817** | ▲ | **977,003** | ▲ | **4.8%** | ▲ | **7,105** | ▼ | **24,932** | ▼ | **27,468** | ▼ | **$15.59** | ▼ |
| Pinal County | General Retail | 4,552,236 | — | 166,859 | ▼ | 3.7% | ▼ | 18,725 | ▲ | - | ▼ | 150,070 | ▲ | $11.35 | ▲ |
| | Regional Mall | - | — | - | — | - | — | - | — | - | — | - | — | - | — |
| | Power/Lifestyle Center | 1,218,818 | — | 144,094 | ▲ | 11.8% | ▲ | (123,625) | ▼ | - | — | - | — | - | ▼ |
| | Shopping Center | 4,434,658 | — | 412,584 | ▼ | 9.3% | ▼ | 7,883 | ▲ | - | ▼ | 84,750 | — | $12.51 | ▲ |
| | **Total** | **10,205,712** | — | **723,537** | ▲ | **7.1%** | ▲ | **(97,017)** | ▼ | **-** | ▼ | **234,820** | ▲ | **$12.27** | ▲ |
| Scottsdale | General Retail | 6,336,023 | ▲ | 294,082 | ▲ | 4.6% | ▲ | (24,094) | ▼ | 2,600 | ▼ | 53,138 | ▼ | $23.24 | ▼ |
| | Regional Mall | 3,512,322 | — | 80,548 | ▲ | 2.3% | ▲ | (1,321) | ▼ | - | — | - | — | - | — |
| | Power/Lifestyle Center | 2,189,068 | — | 292,806 | ▲ | 13.4% | ▲ | (44,792) | ▼ | - | — | - | — | $24.44 | — |
| | Shopping Center | 8,349,235 | — | 558,258 | ▼ | 6.7% | ▼ | 56,686 | ▲ | - | — | - | — | $24.11 | ▲ |
| | **Total** | **20,386,648** | ▲ | **1,225,694** | ▲ | **6.0%** | ▲ | **(13,521)** | ▲ | **2,600** | ▼ | **53,138** | ▼ | **$23.83** | ▲ |
| South Mountain | General Retail | 1,200,282 | ▲ | 21,625 | ▼ | 1.8% | ▼ | 3,607 | ▲ | 2,200 | ▲ | 7,000 | ▼ | $21.07 | ▼ |
| | Regional Mall | - | — | - | — | - | — | - | — | - | — | - | — | - | — |
| | Power/Lifestyle Center | 1,129,696 | — | 15,061 | ▼ | 1.3% | ▼ | 31,604 | ▲ | - | — | - | — | - | — |
| | Shopping Center | 4,658,791 | — | 351,669 | ▼ | 7.5% | ▼ | 109,511 | ▲ | - | — | - | — | $17.07 | ▲ |
| | **Total** | **6,988,769** | ▲ | **388,355** | ▼ | **5.6%** | ▼ | **144,722** | ▲ | **2,200** | ▲ | **7,000** | ▼ | **$17.40** | ▲ |
| West Phoenix | General Retail | 7,502,858 | ▼ | 265,375 | ▲ | 3.5% | ▲ | (4,474) | ▼ | - | ▼ | 65,000 | — | $14.45 | ▼ |
| | Regional Mall | 997,787 | — | 12,242 | — | 1.2% | — | - | — | - | — | - | — | - | — |
| | Power/Lifestyle Center | 4,254,086 | — | 253,226 | ▲ | 6.0% | ▲ | (19,008) | ▼ | - | — | 13,600 | — | $14.77 | ▼ |
| | Shopping Center | 11,483,715 | ▲ | 762,652 | ▼ | 6.6% | ▼ | 37,495 | ▼ | 11,280 | ▼ | 7,000 | ▼ | $14.61 | ▼ |
| | **Total** | **24,238,446** | ▲ | **1,293,495** | ▼ | **5.3%** | ▼ | **14,013** | ▼ | **11,280** | ▼ | **85,600** | ▼ | **$14.60** | ▼ |
| All Submarkets | General Retail | 71,729,012 | ▲ | 2,880,846 | ▼ | 4.0% | ▼ | 185,471 | ▼ | 145,973 | ▲ | 663,079 | ▼ | $18.14 | ▲ |
| | Regional Mall | 15,604,701 | — | 791,055 | ▲ | 5.1% | ▲ | (114,047) | ▼ | - | — | 14,367 | — | - | ▼ |
| | Power/Lifestyle Center | 32,747,216 | ▲ | 1,844,134 | ▲ | 5.6% | ▲ | (55,405) | ▼ | 4,000 | ▼ | 67,191 | ▼ | $19.46 | ▲ |
| | Shopping Center | 109,968,214 | ▲ | 10,802,852 | ▼ | 9.8% | ▼ | 748,704 | ▲ | 29,786 | ▼ | 285,695 | ▲ | $14.82 | ▲ |
| | **Overall Total** | **230,690,080** | ▲ | **16,359,400** | ▼ | **7.1%** | ▼ | **754,834** | ▼ | **179,759** | ▼ | **1,037,432** | ▼ | **$15.72** | ▲ |
| | Overall Total 1Q18 | 230,513,012 | | 16,937,166 | | 7.3% | | 838,004 | | 197,161 | | 1,151,101 | | $15.25 | |
| | Overall Total 4Q17 | 230,331,163 | | 17,616,325 | | 7.6% | | 1,558,467 | | 637,107 | | 1,102,279 | | $15.16 | |
| | Overall Total 3Q17 | 229,694,056 | | 18,610,485 | | 8.1% | | 1,028,221 | | 484,977 | | 1,252,265 | | $15.02 | |
| | Overall Total 2Q17 | 229,234,579 | | 19,187,643 | | 8.4% | | 666,097 | | 604,070 | | 1,359,036 | | $15.32 | |

## 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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