



NAI Horizon

1st Quarter
2019
Retail
Market Report



Q1 2019

RETAIL MARKET METRO PHOENIX

Phoenix Market Snapshot

NATIONAL TRENDS

Retailers are responding to the change in consumer shopping habits with innovation. Chains are forming partnerships with competitors that would have been unthinkable a few years ago. Department store Kohl's Corp. now allows returns from Amazon in about 100 stores, while Walgreens Boots Alliance Inc. recently announced it would open up returns at 8,000 of its stores and is partnering with Levi Strauss & Co. and Urban Outfitters, which also owns Anthropologie and other chains. Nordstrom, meanwhile reported it would test taking returns at seven stores in the Los Angeles area with a group of retailers that includes Cole Haan. These moves, of course, are all intended to increase foot traffic – ostensibly to increase sales.

LOCAL IMPACT

Food trends change faster than clothing styles and the flavor the moment seems to be breakfast. Allegedly the most important meal of the day, new and existing breakfast concepts alike are on the move to capture market share with new locations. Over Easy, Snooze, Biscuits Café and First Watch, are a few of the names that are leasing end-cap space in shopping centers and in some cases backfilling other businesses that have closed. First Watch just opened their 15th location at the beginning of April in Scottsdale at 94th St. and Shea Blvd, backfilling a prime endcap on Shea Blvd that was relinquished by a pet food concept going through a financial reorganization. Biscuits Café also opened their 6th & 7th locations in the first quarter of 2019 in Peoria and North Scottsdale.

Fitness continues to be the most active category in major/anchor portion of the market. Gold's Gym is back in the Metro Phoenix market after they were acquired by EOS Fitness in 2015. They signed a lease in the first quarter for an anchor position in the shopping center on the northeast corner of Rural and Ray Roads for their first, of what is rumored to be a five store development agreement. Not to be out positioned, EOS Fitness leased a 38,253 square foot space right across the street on the southeast corner of Rural and Ray Roads in Chandler

Alamo Drafthouse Cinema LLC, the Austin-based company with existing theaters in Chandler and Tempe, announced at the beginning of the first quarter it would open a cinema at 5478 S. Power Road in Gilbert later this year. Alamo's first foray in the Phoenix market was its Chandler cinema, which opened in 2016, followed by Tempe last year. The upscale theater features food, bars, reclining chairs and state-of-the-art projection systems.

STRENGTH IN PHOENIX NUMBERS - EMPLOYMENT AND ROOFTOPS DRIVE RETAIL

The two primary drivers for retail shopping and demand for retail real estate are employment and homebuilding.

Arizona's economy has been one of the fastest growing in the nation, particularly its biggest city – the Metro Phoenix area. The Civilian Labor force in July 2018 for Phoenix-Mesa-Scottsdale reached 2,354,800 (Bureau of Labor Statistics) – up from 1.9 million when the recovery from the Great Recession started in the Phoenix Metro Area in the middle of 2013 – that's over 400,000 net new non-farm jobs in five years. According to Bureau of Labor Statistics, the unemployment rate for Arizona fell 0.1 percentage points in March of this year to 5.0 percent, vastly improved from its high during the recession when unemployment in the state reach 10.9 percent in November 2009.

Quarterly new home starts are at their highest level since 3Q2007 and are up 14 percent from a year ago, reports Metrostudy, a Hanley Wood data company. Metrostudy's 4Q2018 study of the Phoenix homebuilding market revealed that builders had started 19,596 homes in 2018 – 5,005 of which were in the fourth quarter.

Phoenix Market Snapshot

STRENGTH IN PHOENIX NUMBERS - EMPLOYMENT AND ROOFTOPS DRIVE RETAIL

That number surpassed the most quarterly new home starts in the region since the third quarter of 2017. The fast-moving East Valley and expanding Downtown – especially highrise multifamily product, are leading the way in housing starts and deliveries – along with the Southwest Valley, San Tan Valley, Buckeye, the town of Queen Creek, and Tempe.

VACANCY RATES, RENTAL RATES, ABSORPTION AND NEW CONSTRUCTION

An anomaly, net absorption of retail real estate was negative in the first quarter (-95,384 square feet). It was the first time net absorption was negative since the first quarter of 2011; likely a timing issue of new deliveries and lease closings. For 2018, net absorption was positive at 1,584,259 square feet. Since the first quarter 2010 to the first quarter 2019, the Phoenix area retail market has positively absorbed over 18 million square feet of shopping centers, stores and shops.

The overall vacancy declined 10 basis points from the close of 2018 to end the first quarter this year at 7.1 percent. The vacancy rate has declined steadily since it was 12.7 percent at the beginning of 2011. It appears to be flattening, however, and has only fallen 0.50 percent since the fourth quarter of 2017 when it was 7.6 percent.

Retail rents are just now returning to pre-recession rates. At the beginning of 2010, for example, average asking retail rates were \$16.90 a foot and then began falling, to as low as \$13.77 per foot in 1Q2015. Rents have climbed steadily since.

New construction peaked in the current cycle in 2017 yet new product is still coming to market. During the first quarter this year 169,391 square feet of retail space was delivered, compared with 355,672 square feet during the first quarter 2018. Since 1Q2010, 13,716,172 square feet of retail real estate was built in the Phoenix metropolitan area.

With steady population growth and a strong economy expected to continue, the retail real estate market will maintain its trend toward compressed vacancy rates and increased rental rates, albeit at a slower pace, for the foreseeable future.

RETAIL TRENDS



ECONOMIC TRENDS



Q1 2019

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	32,728,916 SF	2,087,181 SF	6.4%	(176,324) SF	3,000 SF	118,426 SF	\$21.67 NNN
Regional Mall	14,982,650 SF	1,049,703 SF	7.0%	(72,781) SF	-	14,367 SF	\$15.00 NNN
General	72,603,883 SF	2,881,614 SF	4.0%	195,121 SF	124,383 SF	286,801 SF	\$20.35 NNN
Shopping Center	109,864,829 SF	10,275,457 SF	9.4%	(40,270) SF	42,008 SF	466,336 SF	\$14.78 NNN
Overall Total	230,180,278 SF	16,293,955 SF	7.1%	(94,254) SF	169,391 SF	885,930 SF	\$16.18 NNN

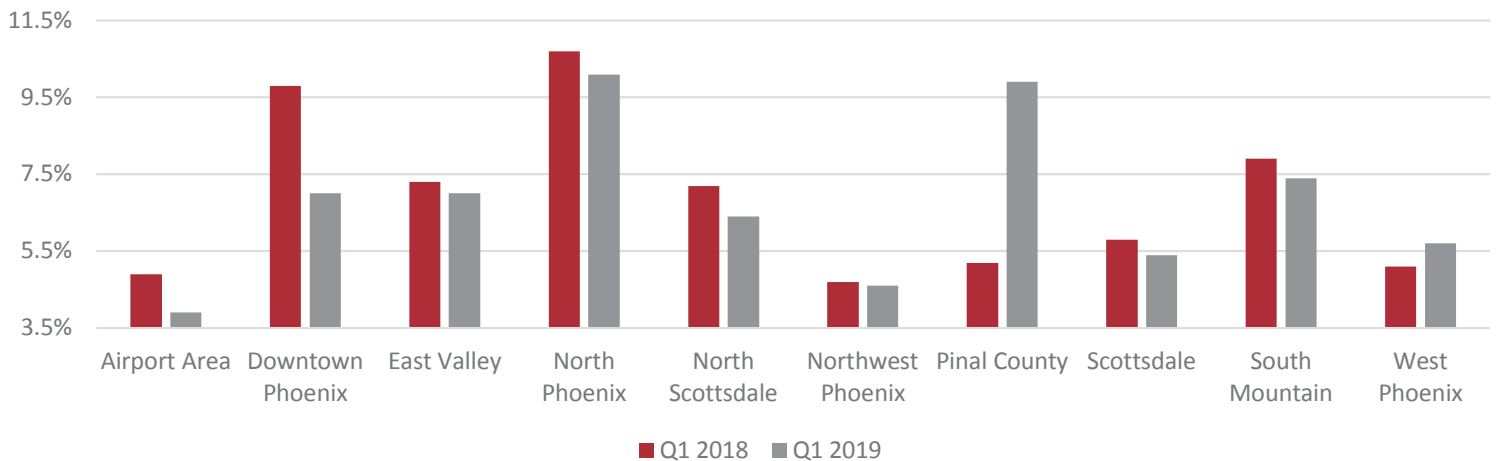
Significant Lease Transactions

Address	Tenant	Size	Submarket	Type
7100 W Erie St	USA Volleyball	43,201 SF	Chandler	Direct
4949 W Ray Rd	EOS Fitness	38,253 SF	Chandler	Direct
6811-6821 W Peoria Ave	Mega Furniture	33,000 SF	Glendale	Direct

Significant Sale Transactions

Address	Date	Size	Sale Price	Price/SF
Uptown Plaza	1/3/2019	56,649 SF	\$23.4M	\$412.37
Uptown Plaza	1/3/2019	55,642 SF	\$22.9M	\$411.99
Madison Village Marketplace	3/28/2019	40,900 SF	\$11.6M	\$283.87

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.

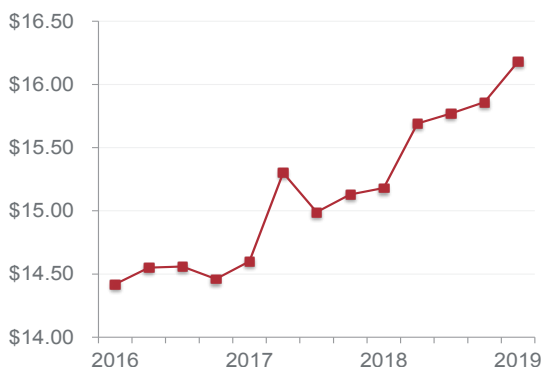
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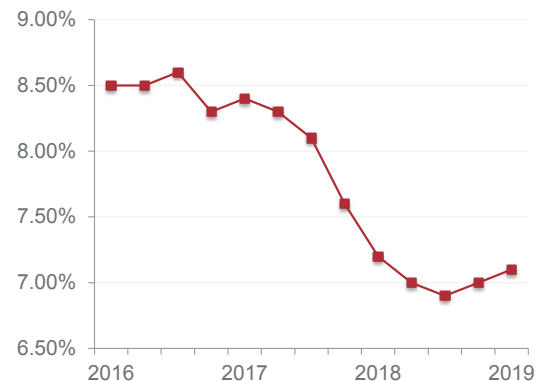
Submarket Snapshot

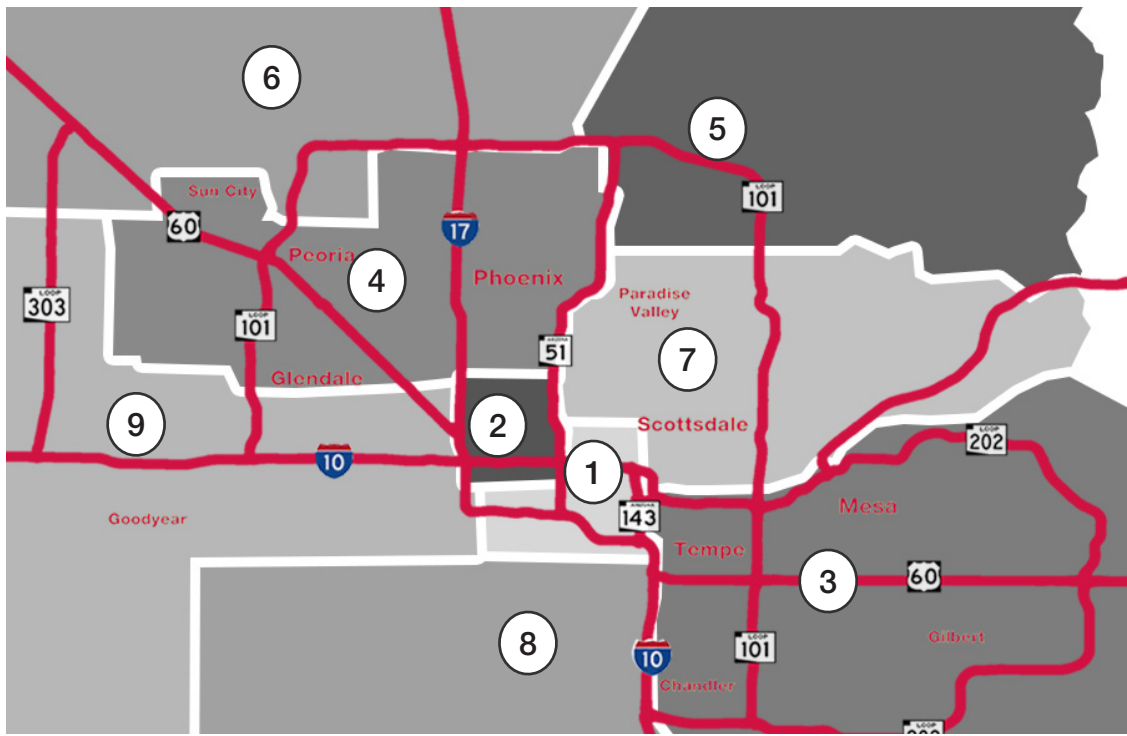
	RBA		Vacant SF		Vacant %		Net Absorption		Under Construction		Avg NNN Rate
Airport Area	5,569,639	▲	214,632	▼	3.9%	▼	44,427	▲	30,545	—	\$17.64
Downtown Phoenix	7,652,585	▼	532,241	▼	7.0%	▼	(558)	▲	22,700	▼	\$20.03
East Valley	77,038,785	▲	5,410,805	▼	7.0%	▼	159,409	▲	433,594	▲	\$15.94
North Phoenix	40,256,505	▲	4,085,933	▼	10.1%	▼	(7,788)	▲	18,898	▼	\$13.00
North Scottsdale	17,817,102	—	1,136,152	▼	6.4%	▼	19,890	▼	43,370	—	\$21.82
Northwest Phoenix	20,723,045	▲	957,009	▼	4.6%	▼	24,427	▲	121,262	—	\$16.45
Pinal County	10,467,835	▲	1,032,028	▼	9.9%	▼	(98,178)	▼	91,220	▲	\$11.29
Scottsdale	19,589,277	—	1,054,211	▲	5.4%	▲	(49,589)	▼	91,548	▲	\$24.10
South Mountain	6,719,759	—	494,852	▲	7.4%	▲	(39,792)	▼	7,100	▼	\$17.12
West Phoenix	24,345,746	▲	1,376,092	▲	5.7%	▲	(146,502)	▼	19,026	▼	\$15.73
All Submarkets	230,180,278	▼	16,293,955	▲	7.1%	▲	(94,254)	▼	879,263	▲	\$16.18
Overall Total 4Q18	231,060,194	▲	16,285,473	▲	7.0%	▼	103,377	▲	718,218	▼	\$15.86
Overall Total 3Q18	230,619,632	▲	15,948,288	▼	6.9%	▼	519,795	▼	933,140	▼	\$15.77

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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