Mid-Year 2019 Retail Market Report

Q2 2019 RETAIL MARKET METRO PHOENIX

OVERVIEW

The Phoenix Metropolitan Area continues to be one of the fastest growing urban centers in America. In fact, two Valley of the Sun cities captured the number one ranking by the U.S. Census Bureau as the fastest growing cities in the U.S.: Buckeye, for population growth as a percentage of existing residents, and Phoenix for numeric increase. The rankings were based on growth from July 1, 2017 to July 1, 2018 for cities with a population of at least 50,000. Phoenix added 25,288 residents in that span while Buckeye grew by 8.5 percent during those 12 months and now has 74,370 residents.

Population growth, of course, drives the formation of new households in a region and new residents create demand for more retail services.

The Arizona Republic reported that new home sales increased 20 percent from mid-June to mid-July compared to last year when contracts for 2,108 new homes were signed earlier this summer in the metro Phoenix area with Scottsdale, Apache Junction and El Mirage leading the way by percentage increases.

Queen Creek and the San Tan Valley are among the fastest growing submarkets in the region and not surprisingly, areas of new retail development with Safeway and Fry's Food and Drug anchoring new neighborhood-serving shopping centers at the northwest corner of Ironwood Road and Ocotillo Road (Safeway) and Ellsworth Road and Riggs Road (Fry's).

LEASING, ABSORPTION & DEVELOPMENT

In addition to new grocery stores, the housing boom is spurring growth in the home furnishings sector. At Home Furnishings, for example, took over about 40,000 square feet of older generation shop space on Elliot Road in Tempe, demolished it and built a new store that is over 100,000 square feet. At Home joins Thomasville Home Furnishings of Tempe, Mod Home Urban Interiors, The Dump, IKEA and Best Deal Furniture as other home furnishings' stores in Tempe.

In the first quarter retail report this year, we reported that fitness continues to be the most active category for leasing retail space. In addition to the fastest growing city in America, Phoenix seems to be bidding for the most athletically fit city in the U.S., too. Here's a recap of some of the gym and fitness concepts that have completed transactions this year.

In January, Planet Fitness leased about 20,000 square feet on 7th St in Phoenix then did a similar size deal in April at 76020 W Lower Buckeye Rd, in Tolleson (Southwest Valley). Aspire Fitness leased 36,000 square feet at 67th and Peoria, also in January. Planet Fitness plans to be an anchor for a Gilbert development expected to open in 2020. 18th Mountainside Fitness has committed to a new gym in affluent Scottsdale's La Camarilla at 5320 Shea Blvd. VASA Fitness has signed on to partially anchor a new shopping center, called Park Northern, located at 35th Avenue and Northern where a Safeway supermarket burned to the ground last year and is now being redeveloped. Taken together, these fitness centers, with a little help from entertainment operators like SkyZone and a medical office occupier here and there, have greatly absorbed much of the big box space that was vacated by retailers in the ecommerce shakeup.

Net absorption was positive 183,829 square feet during the quarter, which was comparatively soft from a year earlier when more than 1.2 million square feet of retail was positively net absorbed.

A little more than 1.06 million square feet of retail real estate was under construction at the close of the second quarter this year, which demonstrates that developers have been keeping an eye on those in-migration patterns and population growth. With available space as tight as it has been in this cycle, new consumer demand justifies the development risks and building more retail. A year ago, there was 1,203,780 square feet of retail under construction.

However, the amount of delivered retail space in the second quarter was only 196,228 square feet and further indication that supply for retail space is catching up with demand. For the recent four quarters, 1,397,814 square feet of retail real estate was added to the Phoenix metro area's inventory. By comparison and from mid-2017 through mid-2018, developers delivered 2,102,123 square feet of retail.

Q2 2019 | RETAIL MARKET METRO PHOENIX

VACANCY & RENTAL RATES

The overall vacancy rate for all retail space ended the second quarter at 6.9 percent, a smidge above where it stood at mid-year 2018 (6.8 percent). The vacancy rate was highest for shopping centers, at 9.4 percent and lowest for general retail at 3.8 percent. The vacancy rate for regional malls was 6.0 percent and 6.1 percent for power and lifestyle centers.

Average asking rental rates continued its quarterly streak – now at eight, for rising from the previous quarter. At mid-year, average asking rent was $16.31 per-square foot, up from $16.16 a foot at the close of the first quarter this year. A year ago, average asking rents were $15.65 per foot.

TRENDS

- Inventory is tight and in some pockets of the market, retailers are close to getting into bidding wars for space.
- Restaurant growth remains explosive, with Triple Net type operators opening new locations (IHOP, Denny's and Chili's).
- Landlords have figured out how to split-up big box stores and re-tenant them; many shopping centers enjoy 100 percent occupancy.
- While the concern for rising construction costs is ubiquitous for all asset classes of property, there is new concern for the cost of retail labor; on January 1 of this year the new minimum wage went into effect and at $11 per hour, some retailers are beginning to assert that labor costs are cutting into already thin margins.

RETAIL TRENDS

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

ECONOMIC TRENDS

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

Q2 2019

RETAIL MARKET METRO PHOENIX

Phoenix Market Snapshot

Market Overview

Market Overview	Total RBA	Vacant SF	Vacant %	Net Absorption	RBA Delivered	RBA Under Construction	Average Rental Rate
Power/Lifestyle	32,932,966 SF	1,996,486 SF	6.1%	113,547 SF	90,479 SF	22,100 SF	$23.78 NNN
Regional Mall	14,645,568 SF	876,365 SF	6.0%	58,503 SF	-	9,200 SF	-
General	73,507,787 SF	2,773,706 SF	3.8%	97,433 SF	69,400 SF	587,097 SF	$19.28 NNN
Shopping Center	109,860,381 SF	10,328,395 SF	9.4%	(84,515) SF	36,349 SF	448,118 SF	$15.06 NNN

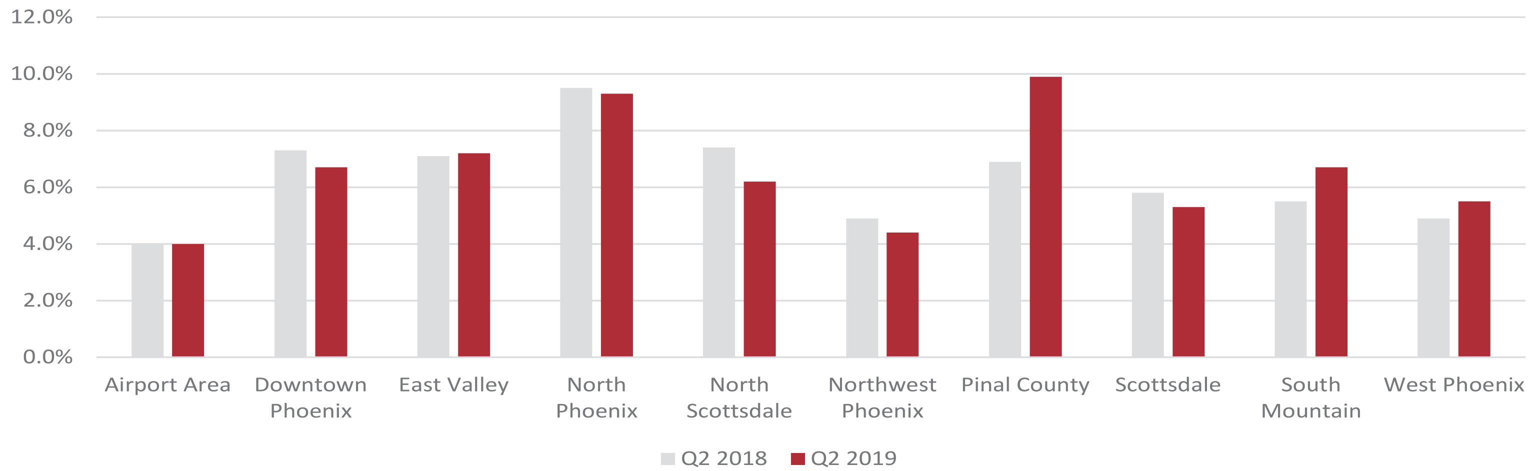
Significant Lease Transactions

Significant Lease Transactions	Address	Tenant	Size	Submarket	Type
1126 S Gilbert Rd	Mesa	Protege Boxing	36,241 SF	Mesa	Move In
460 S Country Club Dr	Mesa	House of Rhema	32,000 SF	Mesa	Move In
1042-1140 N Higley Rd	Mesa	360 Thrift	19,953 SF	Mesa	Move In
8365 W Camelback Rd	Phoenix	Ace Hardware	13,979 SF	Phoenix	Move in

Significant Sale Transactions

Significant Sale Transactions	Address	Date	Size	Sale Price	Price/SF
Westwood on Camelback	2211 W Camelback Rd	04/18/2019	59,400 SF	$13.8M	$232.32
Gilbert Crossing	835-865 N Gilbert Rd	04/17/2018	57,428 SF	$8.9M	$154.60
Laveen Village Marketplace	5130 W Baseline Rd	05/30/2019	24,864 SF	$7.2M	$289.52
N/A	1911 W Bethany Home Rd	05/30/2019	45,970 SF	$7M	$153.09

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.

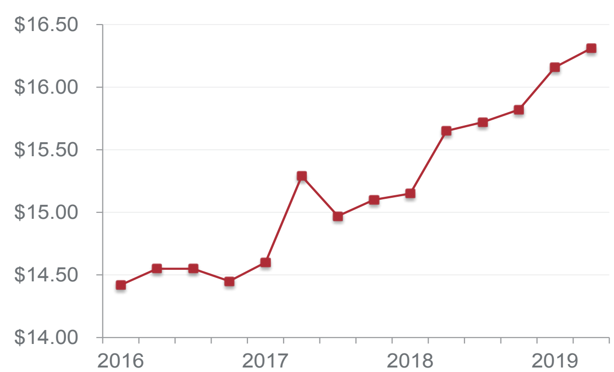
Q2 2019

RETAIL MARKET METRO PHOENIX

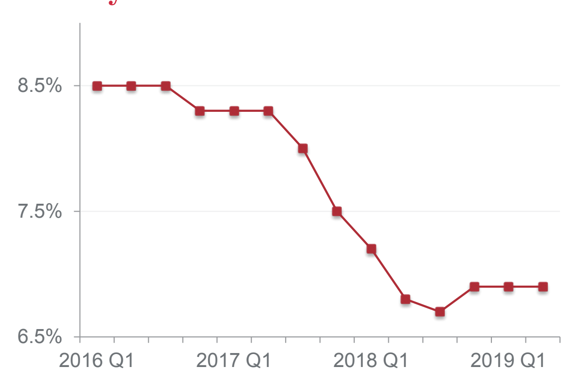
Submarket Snapshot

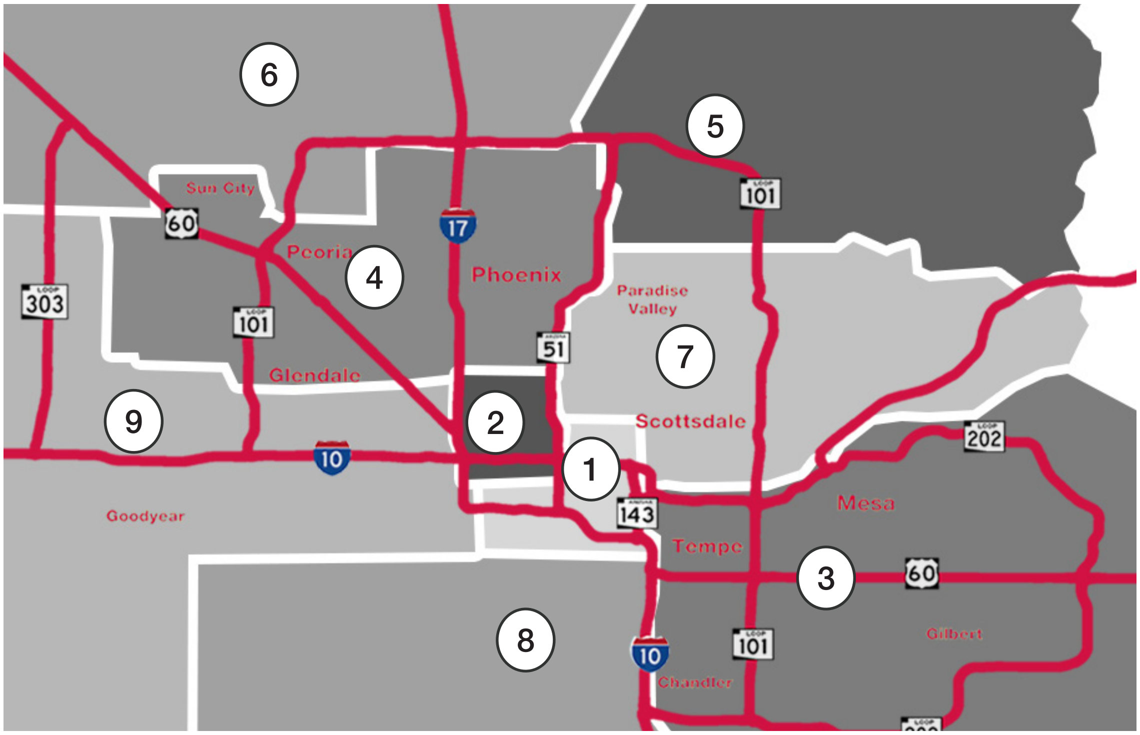
Submarket Cluster	Retail Type	Total RBA	Total Vacant SF	Total Vacant %	Total Net Absorption	RBA Delivered	RBA Under Construction	Average NNN Rate
Airport Area	General Retail	2,728,620 ▼	95,566 ▲	3.5% ▲	(20,539) ▼	- —	27,945 ▲	$13.36 ▼
	Regional Mall	- —	- —	- —	- —	- —	- —	- —
	Power/Lifestyle Center	1,419,022 —	64,300 ▼	4.5% ▲	(2,800) ▼	- —	- —	$25.22 ▲
	Shopping Center	1,429,332 —	60,922 ▲	4.3% ▲	13,223 ▲	- —	- —	$15.79 ▼
	Total	**5,576,974** ▼	**220,788** ▼	**4.0%** ▲	**(10,116)** ▼	**-** —	**27,945** —	**$15.61** ▼
Downtown Phoenix	General Retail	5,183,520 ▲	283,920 ▲	5.5% ▲	20,522 ▼	22,000 ▼	15,200 ▼	$23.79 ▲
	Regional Mall	- —	- —	- —	- —	- —	- —	- —
	Power/Lifestyle Center	- —	- —	- —	- —	- —	- —	- —
	Shopping Center	2,546,962 —	232,533 ▼	9.1% ▼	6,049 ▲	- —	3,000 —	$14.33 ▼
	Total	**7,730,482** ▲	**516,453** ▼	**6.7%** ▼	**26,571** ▲	**22,000** ▼	**18,200** ▼	**$20.20** ▲
East Valley	General Retail	22,024,516 ▲	883,508 ▲	4.0% ▲	(1,947) ▼	32,180 ▼	258,542 ▲	$18.65 ▼
	Regional Mall	5,838,872 —	300,439 ▲	5.1% ▲	(17,114) ▼	- —	- —	$26.00 ▲
	Power/Lifestyle Center	11,143,082 ▲	626,156 ▲	5.6% ▲	30,887 ▲	48,364 ▲	9,500 ▼	$15.72 ▼
	Shopping Center	38,489,442 ▲	3,793,855 ▲	9.9% ▲	(122,768) ▼	33,951 ▲	195,142 ▲	$14.23 ▼
	Total	**77,495,912** ▲	**5,603,958** ▼	**7.2%** ▼	**(110,942)** ▼	**114,495** ▲	**463,184** ▼	**$15.11** ▼
North Phoenix	General Retail	13,917,381 —	406,841 ▼	2.9% ▼	64,824 ▲	- ▼	36,619 ▼	$16.35 ▲
	Regional Mall	2,569,575 —	428,440 ▼	16.7% ▼	5,116 ▲	- —	7,700 —	- —
	Power/Lifestyle Center	2,740,409 —	203,258 ▲	7.4% ▼	9,215 ▲	- —	- —	$32.70 ▲
	Shopping Center	21,069,997 ▲	2,715,354 ▼	12.9% ▼	34,697 ▲	2,398 —	- ▲	$12.38 ▲
	Total	**40,297,362** ▲	**3,753,893** ▼	**9.3%** ▼	**113,852** ▲	**2,398** ▼	**44,319** ▲	**$14.01** ▲
North Scottsdale	General Retail	5,123,138 ▲	146,555 ▼	2.9% ▼	11,182 ▲	- ▲	8,355 ▼	$21.48 ▼
	Regional Mall	1,202,000 —	0 —	0.0% —	- —	- —	- —	- —
	Power/Lifestyle Center	4,500,441 —	231,483 ▲	5.1% ▲	3,479 ▼	35,015 —	- —	$21.08 ▼
	Shopping Center	7,264,591 —	743,397 ▼	10.2% ▼	39,071 ▲	- —	- —	$20.67 ▲
	Total	**18,090,170** ▲	**1,121,435** ▼	**6.2%** ▼	**53,732** ▲	**35,015** ▲	**8,355** ▼	**$21.63** ▲
Northwest Phoenix	General Retail	4,735,203 —	136,011 ▼	2.9% ▼	24,534 ▲	- —	43,599 —	$17.48 ▲
	Regional Mall	1,197,000 —	0 —	0.0% —	- —	- —	- —	- —
	Power/Lifestyle Center	4,158,554 —	82,538 ▼	2.0% ▼	15,351 ▼	- —	- —	$27.75 ▲
	Shopping Center	10,508,404 —	681,676 ▼	6.5% ▼	19,199 ▲	- ▼	76,807 —	$16.34 ▲
	Total	**20,599,161** —	**900,225** ▼	**4.4%** ▼	**59,084** ▲	**0** ▼	**120,406** —	**$16.77** ▲
Pinal County	General Retail	4,652,295 —	323,315 ▼	6.9% ▲	(4,721) ▼	- ▼	2,400 —	$12.02 ▲
	Regional Mall	- —	- —	- —	- —	- —	- —	- —
	Power/Lifestyle Center	1,224,191 —	249,776 ▼	20.4% ▼	12,541 ▲	- —	- —	- —
	Shopping Center	4,636,821 —	472,129 ▲	10.2% ▲	(41,939) ▼	- ▼	60,000 —	$13.78 ▲
	Total	**10,513,307** —	**1,045,220** ▲	**9.9%** ▲	**(34,119)** ▼	**-** ▼	**62,400** ▲	**$13.43** ▲
Scottsdale	General Retail	6,382,768 —	276,846 ▲	4.3% ▲	(14,754) ▼	- ▼	136,974 ▼	$24.40 ▲
	Regional Mall	2,914,141 —	4,736 ▼	0.2% ▼	70,501 ▲	- —	1,500 —	- —
	Power/Lifestyle Center	2,162,744 —	209,828 ▼	9.7% ▼	7,511 ▲	- —	- —	$26.00 —
	Shopping Center	8,126,729 —	542,709 ▲	6.7% ▲	(46,726) ▼	- —	82,506 —	$26.30 ▲
	Total	**19,586,382** —	**1,034,119** ▼	**5.3%** ▼	**16,532** ▲	**0** ▼	**220,980** ▼	**$25.68** ▲
South Mountain	General Retail	1,141,324 ▲	46,354 ▲	4.1% ▲	824 ▲	6,194 ▼	18,437 ▲	$29.70 ▲
	Regional Mall	- —	- —	- —	- —	- —	- —	- —
	Power/Lifestyle Center	1,389,232 ▲	90,372 ▲	6.5% —	6,009 ▲	7,100 ▲	- ▼	$24.15 ▲
	Shopping Center	4,205,226 —	315,729 ▼	7.5% ▼	29,368 ▲	- —	- —	$16.63 ▲
	Total	**6,735,782** ▲	**452,455** ▼	**6.7%** ▼	**36,201** ▲	**13,294** ▲	**18,437** ▲	**$17.98** ▲
West Phoenix	General Retail	7,619,022 ▲	174,790 ▼	2.3% ▼	17,508 ▲	9,026 ▲	39,026 ▲	$16.89 ▲
	Regional Mall	923,980 —	142,750 —	15.4% —	- —	- ▼	- —	- —
	Power/Lifestyle Center	4,195,291 —	238,775 ▼	5.7% ▼	31,354 ▲	- —	12,600 ▲	$19.78 ▼
	Shopping Center	11,582,877 ▲	770,091 ▲	6.6% ▲	(14,689) ▼	- ▼	30,663 ▼	$14.97 ▼
	Total	**24,321,170** ▲	**1,326,406** ▼	**5.5%** ▲	**34,173** ▼	**9,026** ▼	**82,289** ▲	**$15.75** ▲
All Submarkets	General Retail	73,507,787 ▲	2,773,706 ▼	3.8% ▼	97,433 ▼	69,400 ▼	587,097 ▼	$19.28 ▼
	Regional Mall	14,645,568 —	876,365 ▼	6.0% ▼	58,503 ▲	0 —	9,200 —	- ▼
	Power/Lifestyle Center	32,932,966 ▲	1,996,486 ▼	6.1% ▼	113,547 ▲	90,479 ▲	22,100 ▼	$23.78 ▲
	Shopping Center	109,860,381 ▲	10,328,395 ▲	9.4% ▲	(84,515) ▼	36,349 ▼	448,118 ▲	$15.06 ▲
	Overall Total	**231,761,503** ▲	**15,996,084** ▼	**6.9%** ▼	**183,829** ▼	**196,228** ▼	**1,066,515** ▼	**$16.31** ▲
	Overall Total 1Q19	231,587,837	16,006,247	6.9%	41,178	309,164	1,023,625	$16.16
	Overall Total 4Q18	231,533,290	15,995,312	6.9%	50,104	461,123	933,845	$15.82
	Overall Total 3Q18	231,085,167	15,597,293	6.7%	603,585	431,299	1,116,555	$15.72
	Overall Total 2Q18	230,564,220	15,792,607	6.8%	1,275,668	585,941	1,203,780	$15.65

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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