NAI Horizon

3rd Quarter 2019 Retail Market Report

Q3 2019 | RETAIL MARKET METRO PHOENIX

OVERVIEW - *FOOD & FITNESS DRIVING PHOENIX AREA RETAIL*

Food and fitness continues to drive the Phoenix-area retail market, which reflects the region's ongoing population growth as well as greater degrees of disposable income and in some submarkets, increasing affluence.

Sprouts, Fry's and Safeway grocery stores have been actively opening new stores in recent years, yet the buzz on new grocery is the 40,000-square-foot Whole Foods store in Tempe that is scheduled to open in early November. Located at 750 South Ash Avenue, the 10th Whole Foods in Arizona is actually a relocation of the existing Tempe store at 5120 South Rural Road. Among the new features and perhaps with an eye toward ASU students, On Ash, an on-site bar and restaurant, will open with a pub-style menu and local beer and wine.

Donovan's Steakhouse at 32nd and Camelback was recently acquired by Hillstone Restaurant Group reportedly for $8.5 million with plans to redevelop the restaurant site into a new concept.

The Wildfish Seafood Grille (owned by Darden Restaurants) at Scottsdale Waterfront that closed in March -- also located on Camelback Road, was recently backfilled by Chicago-based Maple & Ash, which does an innovative take on the traditional steakhouse by mixing a modern aesthetic with high-touch service and classic wood-fired dishes. The restaurant will bring some gloss to the Scottsdale food scene, as Maple & Ash is led by two-Michelin-star Danny Grant.

Meanwhile, a couple of new concepts out of Los Angeles have staked their claim at Fashion Square Mall. Toca Madera, an upscale Mexican restaurant committed to 8,000 square feet of space as part of a new luxury two-story wing that will surround Nieman Marcus off Goldwater Boulevard. Tocaya Organica – which hails from the same ownership group, opened a 2,800-square-foot quick service restaurant (QSR) to serve its brand of modern Mexican food with an emphasis on high-quality ingredients that includes vegan, vegetarian and gluten-free options.

As for fitness and athletic facilities opening and expanding, the beat goes on and the competition is heating up, especially at the high end.

Equinox, a luxury fitness club, will open their first location in Arizona at Fashion Square Mall. In February, Macerich, the Santa Monica-based REIT that owns the mall, announced it had inked a lease with Equinox. Equinox's mission of life maximization, inclusive of Movement, Nutrition and Regeneration is at the heart of how the club creates its physical environment as well as its fitness programs (including personal instruction and group classes) and operations.

Lifetime Fitness will open its brand of a luxury athletic club, pool and gym later this year at the Biltmore Fashion Park. The facility, which will be featured as one of Lifetime's uber exclusive Diamond Clubs,will be in excess of 110,000 square feet and feature all of the usual amenities found in a Lifetime Fitness location, plus a few select services only offered at their Diamond Clubs.

On the value side of the gym equation, EOS Fitness (with its slogan – Better Gym. Better Price.), continues their expansion with nine new locations for 2020/2021 delivery. Planet Fitness extends their footprint in the Valley as well. With new locations at 7th St & Townley Ave in the Sunnyslope neighborhood, 75th Ave & Lower Buckeye serving Estrella and two more clubs set to open soon at Gilbert & Warner Rds and Val Vista Dr & Queen Creek Rd in Gilbert, brings the total count of Planet Fitness clubs in the Valley to 30. In addition, Gold's Gym is returning to the market with a new facility at the northeast corner of Rural and Ray in South Tempe and a few others rumored to be in negotiation.

LEASING, ABSORPTION & DEVELOPMENT

At the close of the third quarter, a little more than 1.1 million square feet of retail real estate was under construction in all Phoenix submarkets. West Phoenix and Northwest Phoenix had the most construction activity, with 162,723 square feet and 159,204 square feet being built, respectively. However, only 196,729 square feet of new retail inventory was

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LEASING, ABSORPTION & DEVELOPMENT CONTINUED

added during the quarter. By comparison, a year ago (3Q2018) 454,501 square feet of retail real estate was delivered. As noted in the opening overview, much of that space is grocery related.

Absorption was positive for the quarter, with 48,749 square feet. For the previous four quarters – going back to 3Q2018, net retail absorption in the greater Phoenix retail market was positive 691,129 square feet.

VACANCY & RENTAL RATES

The vacancy rate ended the quarter at 6.8 percent – virtually unchanged from the previous three quarters. Since the first quarter of 2018, retail vacancy has been at 7 percent or lower for each quarter. The market is as good as it gets for landlords.

Average asking retail rental rates closed the quarter at $16.34 per-square-foot and four cents stronger than at mid-year. A year ago, retail rents ended the third quarter at $15.70 per foot.

Rents are another story for specialty retail in some of the region's premier shopping districts, where quoted asking rates typically range from the mid-30s to low-40s.

NATIONAL RETAIL NEWS

Despite the Forever 21 bankruptcy announcement in the first week of October, roughly five retail chains are opening stores for every single retailer that has closed them this year, according to research from IHL Group. This is up from last year's 4-1 ratio. The firm also reports that the number of chains adding stores in 2019 has increased by 56 percent, while the number of chains closing them has decreased by 66 percent.

For example, Old Navy announced plans to open 800 new locations as part of its upcoming split from the Gap. Old Navy's CEO Sonia Syngal said the retailer plans to get to 2,000 stores in North America, primarily in under-served smaller markets. The Phoenix area has about 10 Old Navy stores and may get a couple more.

Trends that have dominated the Phoenix retail market for multiple quarters remain strong. Grocery chains, fitness clubs and restaurants are demonstrating their staying power. The consumer demand for those types of tenants continues to prevail through Q3 with no foreseeable end in sight. As we have previously reported, those retailers willing to adapt to the changing retail landscape are not just surviving but thriving. We anticipate that the rapidly expanding Phoenix population and upward trajectory of the local economy will continue to support growth Valley wide, particularly in those submarkets experiencing an influx in residential development.

RETAIL TRENDS

ECONOMIC TRENDS

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Phoenix Market Snapshot

Market Overview	Total RBA	Vacant SF	Vacant %	Net Absorption	RBA Under Construction	Average Rental Rate
Power/Lifestyle	32,945,681 SF	2,058,966 SF	6.2%	(75,785) SF	12,600 SF	$24.20 NNN
Regional Mall	15,075,750 SF	882,985 SF	5.9%	7,896 SF	1,500 SF	$16.50 NNN
General	73,349,348 SF	2,875,725 SF	3.9%	71,724 SF	655,441 SF	$19.45 NNN
Shopping Center	109,499,453 SF	9,997,898 SF	9.1%	42,996 SF	448,483 SF	$15.06 NNN
Overall Total	230,870,232 SF	15,815,574 SF	6.9%	46,831 SF	1,118,024 SF	$19.48 NNN

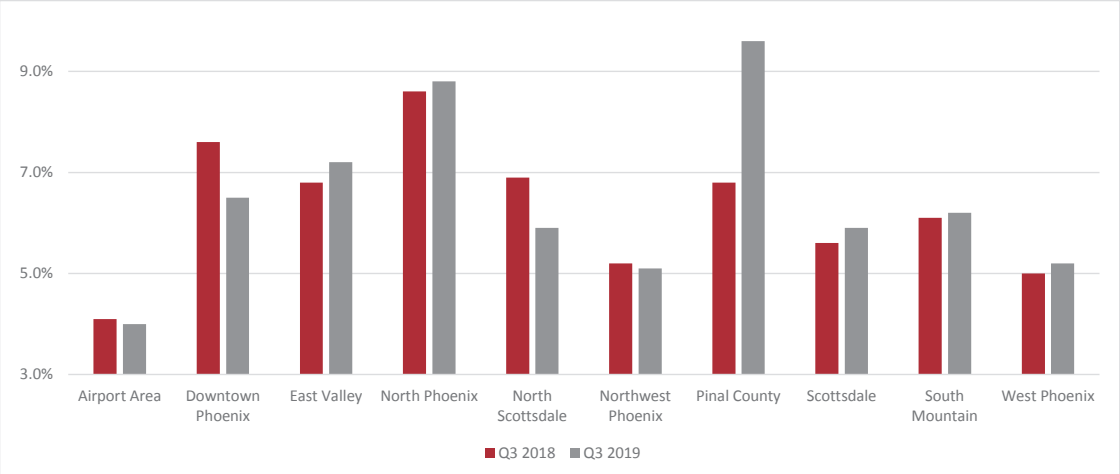
Significant Lease Transactions

	City	Tenant	Size	Submarket	Type
8021-8033 N 35th Ave.	Phoenix	NA	51,511 SF	Northwest Phoenix	Move In
E Williams Field Rd.	Phoenix	Urban Air	50,000 SF	Gateway Airport/Loop 202	Renewal
9001-9175 E Indian Bend Rd.	Scottsdale	Maverix	45,500 SF	Central Scottsdale	Move In
9001-9175 E Indian Bend Rd.	Scottsdale	Conn's Homes	36,974 SF	Central Scottsdale	Renewal
9001-9175 E Indian Bend Rd.	Scottsdale	DBat	21,458 SF	Central Scottsdale	Move In

Significant Sale Transactions

	Address	Date	Size	Sale Price	Price/SF
Avondale Toyota Scion	10005 W Papago Fwy	7/11/2019	65,200 SF	$41,500,000	$636.50
13220 N Scottsdale Rd	13220 N Scottsdale Rd	8/6/2019	44,374 SF	$13,625,000	$307.05
Glendale Galleria	5800 W Peoria Ave	9/24/2019	119,038 SF	$11,874,402	$99.75
Andersen Fiesta	1760-1940 W Chandler Blvd	9/11/2019	117,391 SF	$11,500,000	$97.96

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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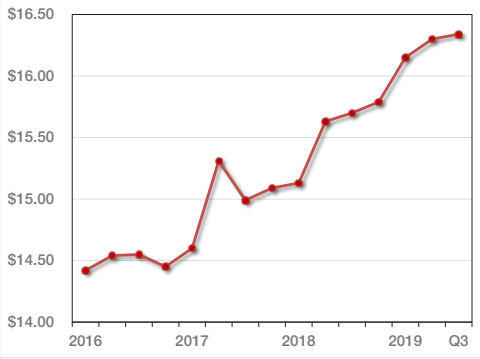
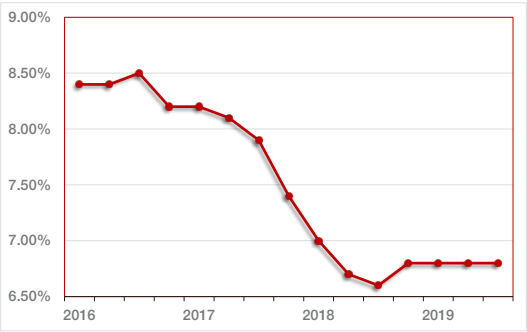
Submarket Snapshot

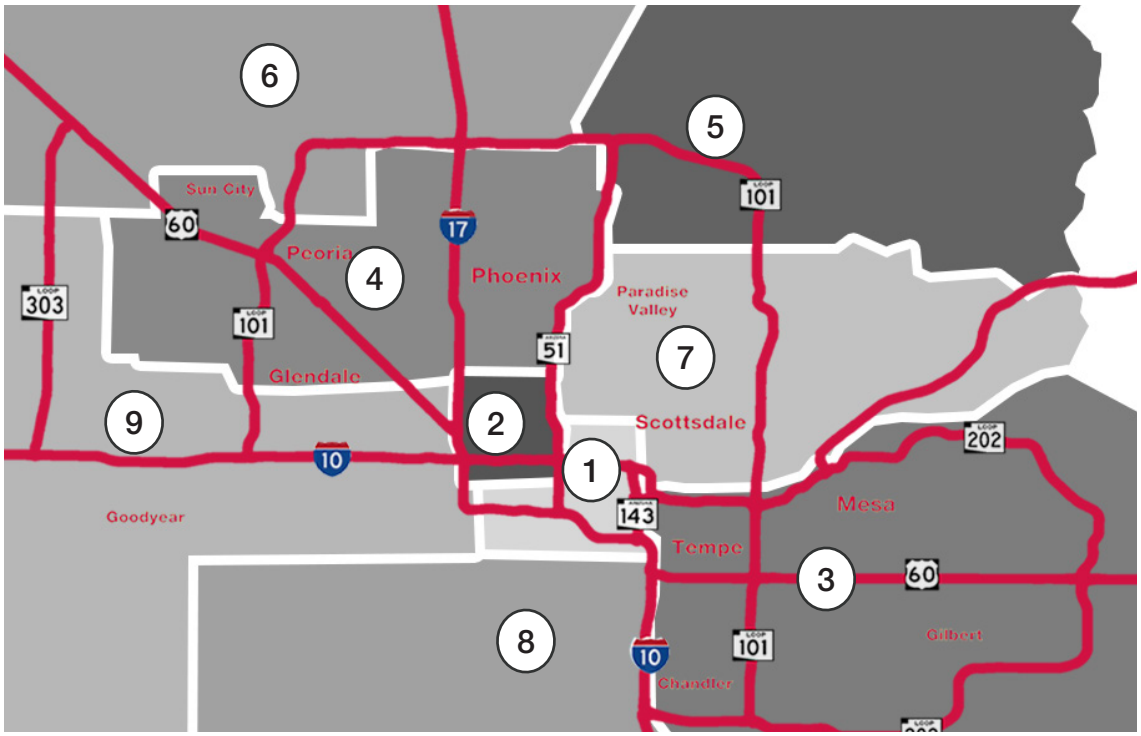
	RBA		Vacant SF		Vacant %		Net Absorption		Under Construction		Avg NNN Rate	
Airport Area	5,583,725	—	224,210	▲	4.0%	▲	(3,422)	▲	27,945	—	$16.52	▼
Downtown Phoenix	7,534,586	—	493,178	▼	6.5%	▼	36,236	▲	52,456	▲	$20.38	▲
East Valley	77,404,678	—	5,588,007	▼	7.2%	▼	55,024	▲	470,281	▲	$15.22	▲
North Phoenix	40,260,987	▲	3,538,106	▼	8.8%	▼	(42,676)	▼	43,042	▼	$14.07	▲
North Scottsdale	18,149,969	—	1,077,809	▼	5.9%	▼	35,555	▼	8,355	—	$20.99	▼
Northwest Phoenix	20,618,593	▲	1,048,890	▲	5.1%	▲	(76,003)	▼	159,204	▼	$16.79	▲
Pinal County	10,554,795	▲	1,018,280	▲	9.6%	▲	7,039	▲	60,000	▼	$13.61	▲
Scottsdale	19,677,167	▲	1,152,296	▲	5.9%	▲	(37,649)	▲	95,821	▲	$25.47	▼
South Mountain	6,747,297	—	417,078	▼	6.2%	▼	26,732	▲	18,437	—	$17.86	▲
West Phoenix	24,338,435	▲	1,257,720	▼	5.2%	▼	45,995	▲	162,723	▼	$15.91	▲
All Submarkets	231,673,537	▲	15,834,788	▲	6.8%	▲	48,749	▼	1,118,024	▼	$16.34	▲
Overall Total 2Q19	231,579,034	▲	15,807,706	▲	6.8%	▲	(23,767)	▼	1,205,926	▲	$16.30	▲
Overall Total 1Q19	231,424,265	▲	15,629,170	▲	6.8%	▲	10,691	▼	1,060,070	▲	$16.15	▲

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 27 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 36 other countries, with more than 375 offices and more than 6,000 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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