



NAI Horizon

4th Quarter

2019

Retail

Market Report

Q4 2019

RETAIL MARKET METRO PHOENIX

OVERVIEW - FOOD & FITNESS DRIVING PHOENIX AREA RETAIL

In May last year the U.S. Census Bureau confirmed what everyone not living under a rock in Phoenix already knew: the city was the fastest growing (large metro) city in the U.S., based on its addition of 25,288 new residents between 2017 and 2018. The West Valley suburb of Buckeye, meanwhile, garnered the top spot as the largest percentage growth of any city in the country.

While commuters moaned over the news, retailers cheered and retail operators, sensing opportunity, plotted their expansions in the Valley of the Sun. Here's a snapshot of new stores in the region.

Discount grocery store ALDI (founded in Germany) is opening nearly a dozen locations in metro Phoenix with stores ranging from a little more than 19,000 square feet to over 22,000 square feet. Phoenix and Chandler are slated for two stores while Mesa, Tempe, Peoria, Glendale, Gilbert, Goodyear and Buckeye should have stores opened sometime this year. ALDI opened its first US store in Iowa in 1976 and has now grown to over 1,900 stores across 36 states and is just beginning its western region expansion. ALDI prefers standalone and corner locations and is known for selling the most commonly purchased food items, like eggs and milk, under their exclusive brand label at the lowest possible price.

Home furnishing companies At Home and MOR Furniture announced expansions, with At Home opening at San Tan Marketplace and in South Tempe at Elliot Road and S. Priest Drive. The new store for MOR ('furniture for less' is its tagline), brings its total number of locations in Metro Phoenix to six.

With the basics of food and furniture covered, the Phoenix metro area is also getting its share of entertainment and experiential retail.

Utah-based Fat Cats Entertainment has opened locations in Gilbert and Mesa. The events and movie venue offers arcade space, bowling, birthday parties, corporate parties and virtual reality adventures. Similar to a Dave & Buster's minus the full-service restaurant and sports bar, Fat Cats is geared for children and families with each venue occupying approximately 60,000 square feet.

Franchisor Alamo Drafthouse also opened in Gilbert on Power Road just south of Loop 202. Moviegoers can now catch a movie, enjoy exceptional cocktails, the finest craft beers and choose from a multi-course menu with food made from scratch with an emphasis on some of America's most beloved foods – cheeseburgers, salads and pizza. From a real estate perspective, Alamo Drafthouse seeks locations of 40,000 square feet or greater with capacity for 10 or more movie theater screens, and 3 miles or more from the nearest first-run movie-theater. The Texas-based chain entered Phoenix in 2016 with a Chandler location and opened its second Arizona dine-in theater in Tempe in 2018.

Laser tag, billiards, arcade and patio games, eating and drinking and yes, bowling, are all part of the mix at Mavrix Bowling, which is scheduled to open at the end of February at Scottsdale Pavilions with co-tenants such as Kids that Rip, Octane Raceway, along with the major retailers; Target, Home Depot, Burlington, Hobby Lobby, and Mountainside fitness, to name a few. Mavrix signed its lease in the third quarter last year, backfilling a 45,000 SF box that was formerly occupied by Toys "R" Us, which ceased operations nationwide in 2018.

Not all of the new entertainment concepts are succeeding and along the way, we may have found a ceiling, particularly with the modern-movie experience concept, with the closing of luxury theater iPic at Scottsdale Quarter. Headquartered in Boca Raton, Florida, the theater chain filed for Chapter 11 bankruptcy last year. With luxurious leather recliners and in-theater dining options, iPic was among the priciest in the Phoenix market with tickets ranging from \$17 to \$27 per movie.

INVESTMENT HIGHLIGHTS

Bob Parsons made his first millions by selling his financial software services company, Parsons Technology, to Intuit for

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INVESTMENT HIGHLIGHTS CONTINUED

\$65 million in 1994. He came out of retirement in 1997 in Baltimore to launch Jomax Technology, which later became GoDaddy Group Inc. and relocated its headquarters to Scottsdale. As of 2018, GoDaddy is the world's largest web hosting company with over 62 million registered domains.

For years an active commercial property investor, Parson's YAM Properties completed two of the biggest retail property trades in the fourth quarter last year, selling the six-building Centerpoint on Mill shopping center in Tempe for just under \$60 million to Argosy Real Estate Partners while buying the 354,000 square foot lifestyle center, Shops at Norterra in Scottsdale from RED Development for more than \$105 million. Parsons acquired Centerpoint about six years ago for \$38 million. Going vertical is the appeal and opportunity to add value at Centerpoint on Mill, be it with more office space or residential towers.

LIVE. WORK. PLAY.

Years in the making, the Downtown Phoenix mixed-use development Block 23 at CityScape is open, including a new Fry's Food and Drug store in about 67,000 square feet on multiple levels – the first grocery store to open in Downtown Phoenix in many, many decades. On Washington Avenue between 1st and 2nd streets, Block 23 features 230,000 square feet of creative office space with floor-to-ceiling glass and 45,000-square-foot floorplates that tech companies typically prefer. The property also has 332 luxury apartments and 5,000 square feet of retail and restaurant space, some of which was leased by Fox Restaurant Concepts to build out their fourth location of the popular Blanco Tacos + Tequila.

DEVELOPMENT AND ABSORPTION

Builders delivered 368,003 square feet of retail real estate in the fourth quarter of 2019, bringing the total amount of new retail space for the year to slightly more than 1.2 million square feet. A slower building cycle is a trend we are likely to see for 2020 and beyond, as supply seems to have mostly caught up with demand. By comparison, in 2018 builders delivered almost 2 million square feet of retail real estate, while in 2017 when demand was much greater than supply, 2.45 million square feet was delivered to the metro region – the most amount of new retail space delivered in one calendar year during the current cycle.

VACANCY AND RENTAL RATES

Retail real estate ended the fourth quarter of 2019 the way the year began, which was essentially flat in terms of vacancy and rental rates. It appears that the market has reached a healthy equilibrium, after a solid nine-to-10 year run of declining vacancy and increasing rental rates.

The overall vacancy rate concluded 2019 at 6.9 percent – virtually unchanged for the previous five quarters. By comparison, the overall retail vacancy rate at the start of 2010 was 12.2 percent.

Rental rates have clawed back almost all that they lost following the Great Recession, ending the fourth quarter last year slightly above an overall asking rate of \$16 per-square-foot (\$16.07 psf). Rates were last seen around this level at the close of the first quarter in 2010, when the overall asking rental rate was \$16.89 per foot. The low point in this cycle was 1Q2015 with rents dipping to \$13.70 psf; they have inched upward ever since then.

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Phoenix Market Snapshot

Market Overview

	Total RBA	Vacant SF	Vacant %	Net Absorption	RBA Under Construction	Average Rental Rate
Power/Lifestyle	33,250,059 SF	1,811,397 SF	5.4%	206,014 SF	244,174 SF	\$22.16 NNN
Regional Mall	15,240,207 SF	1,312,014 SF	8.6%	500 SF	80,000 SF	\$8.00 NNN
General	74,321,637 SF	3,051,439 SF	4.1%	208,526 SF	348,638 SF	\$19.12 NNN
Shopping Center	108,824,853 SF	9,829,528 SF	9.0%	(10,863) SF	498,447 SF	\$14.96 NNN
Overall Total	232,435,940 SF	16,016,603 SF	6.9%	411,166 SF	1,171,259 SF	\$16.07 NNN

Significant Lease Transactions

	City	Tenant	Size	Submarket	Type
SWC Cave Creek Rd & Carefree Hwy	Cave Creek	Sprouts	29,896 SF	Anthem	Move In
3636 W Southern Ave	Tolleson	SkyZone Trampoline	24,000 SF	Tolleson	Move In
26 E Baseline Rd	Phoenix	Planet Fitness	20,622 SF	South Mountain	Move In
9897 W McDowell Rd	Tolleson	NAPA Auto Parts	17,768 SF	Loop 101/I-10	Move In
2875-2955 W Ray Rd	Chandler	My Sister's Closet	15,533 SF	Chandler	Move In

Significant Sale Transactions

	Address	Date	Size	Sale Price	Price/SF
The Shoppes at Gainey Village	8787 N Scottsdale Rd	12/16/2019	91,204	\$55,350,824	\$606.89
Centerpoint on Mill	730 S Mill Ave	12/12/2019	45,186	\$20,982,604	\$464.36
Shops at Norterra	2350-2370 W Happy Valley Rd	10/4/2019	70,290	\$17,776,208	\$252.90
Higley Plaza	3300 S Higley Rd	12/5/2019	55,283	\$15,825,000	\$286.25
Shops at Norterra	2550 W Happy Valley Rd	10/4/2019	63,663	\$15,705,863	\$246.70
Macayo's Plaza	15557-15609 W Bell Rd	11/5/2019	64,071	\$14,860,000	\$231.93

RETAIL TRENDS



ECONOMIC TRENDS



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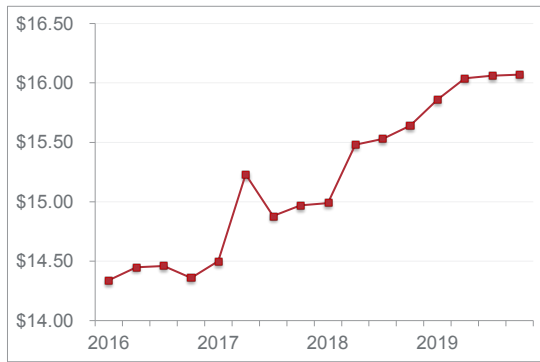
Submarket Snapshot

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	2,733,123	86,476	3.2%	12,365	-	-	\$15.62
	Regional Mall	-	-	-	-	-	-	-
	Power/Lifestyle Center	1,419,122	65,500	4.6%	(1,200)	-	-	\$25.22
	Shopping Center	1,430,544	43,840	3.1%	20,462	-	-	\$14.61
	Total	5,582,789	195,816	3.5%	31,627	0	0	\$17.01
Downtown Phoenix	General Retail	5,273,847	347,413	6.6%	(76,849)	-	48,849	\$23.49
	Regional Mall	-	-	-	-	-	-	-
	Power/Lifestyle Center	-	-	-	-	-	-	-
	Shopping Center	2,329,374	233,883	10.0%	(6,966)	-	3,000	\$13.36
	Total	7,603,221	581,296	7.6%	(83,815)	0	51,849	\$19.29
East Valley	General Retail	22,212,198	1,077,192	4.8%	(28,392)	145,138	147,413	\$18.17
	Regional Mall	5,917,401	739,807	12.5%	500	-	-	-
	Power/Lifestyle Center	11,706,476	665,626	5.7%	12,224	-	160,389	\$15.61
	Shopping Center	37,787,082	3,737,126	9.9%	(41,928)	5,500	348,800	\$14.32
	Total	77,623,157	6,219,751	8.0%	(57,596)	150,638	656,602	\$15.08
North Phoenix	General Retail	14,102,555	480,682	3.4%	27,286	8,519	30,023	\$15.08
	Regional Mall	3,021,117	425,592	14.1%	0	-	-	\$8.00
	Power/Lifestyle Center	2,750,960	184,353	6.7%	15,404	-	-	\$31.06
	Shopping Center	20,467,739	2,342,900	11.4%	2,521	-	5,569	\$11.83
	Total	40,342,371	3,433,527	8.5%	45,211	8,519	35,592	\$13.19
North Scottsdale	General Retail	5,256,912	158,638	3.0%	525	-	-	\$23.57
	Regional Mall	1,202,000	0	0.0%	-	-	-	-
	Power/Lifestyle Center	4,309,614	221,715	5.1%	(10,551)	-	-	\$28.16
	Shopping Center	7,367,966	686,548	9.3%	(16,536)	-	0	\$20.36
	Total	18,136,492	1,066,901	5.9%	(26,562)	0	0	\$21.38
Northwest Phoenix	General Retail	4,689,158	106,445	2.3%	21,907	3,200	34,266	\$19.67
	Regional Mall	1,197,000	0	0.0%	-	-	-	-
	Power/Lifestyle Center	4,159,092	64,071	1.5%	60,508	-	-	\$27.96
	Shopping Center	10,559,430	686,782	6.5%	32,801	-	80,984	\$16.27
	Total	20,604,680	857,298	4.2%	115,216	3,200	115,250	\$17.21
Pinal County	General Retail	4,707,643	302,032	6.4%	21,896	-	24,624	\$10.55
	Regional Mall	-	-	-	-	-	-	-
	Power/Lifestyle Center	1,224,191	234,604	19.2%	2,111	-	-	\$34.87
	Shopping Center	4,676,525	435,507	9.3%	25,598	-	6,000	\$13.06
	Total	10,608,359	972,143	9.2%	49,605	0	30,624	\$12.90
Scottsdale	General Retail	6,409,133	293,333	4.6%	69,976	57,999	51,974	\$24.78
	Regional Mall	2,978,709	3,865	0.1%	-	-	80,000	-
	Power/Lifestyle Center	2,087,281	127,861	6.1%	95,495	-	-	-
	Shopping Center	8,376,471	614,496	7.3%	(16,075)	5,100	46,007	\$25.85
	Total	19,851,594	1,039,555	5.2%	149,396	63,099	177,981	\$25.44
South Mountain	General Retail	1,182,079	30,082	2.5%	29,555	13,500	7,489	\$29.83
	Regional Mall	-	-	-	-	-	-	-
	Power/Lifestyle Center	1,397,558	78,452	5.6%	11,920	-	-	\$24.84
	Shopping Center	4,195,945	307,745	7.3%	(27,085)	-	-	\$16.34
	Total	6,775,582	416,279	6.1%	14,390	13,500	7,489	\$17.83
West Phoenix	General Retail	7,754,989	169,146	2.2%	130,257	118,247	4,000	\$15.51
	Regional Mall	923,980	142,750	15.4%	0	-	-	-
	Power/Lifestyle Center	4,195,765	169,215	4.0%	20,103	-	83,785	\$16.36
	Shopping Center	11,633,777	740,701	6.4%	16,345	10,800	8,087	\$15.50
	Total	24,508,511	1,221,812	5.0%	166,705	129,047	95,872	\$15.64
All Submarkets	General Retail	74,321,637	3,051,439	4.1%	208,526	346,603	348,638	\$19.12
	Regional Mall	15,240,207	1,312,014	8.6%	500	-	80,000	\$8.00
	Power/Lifestyle Center	33,250,059	1,811,397	5.4%	206,014	-	244,174	\$22.16
	Shopping Center	108,824,853	9,829,528	9.0%	(10,863)	21,400	498,447	\$14.96
	Overall Total	232,435,940	16,016,603	6.9%	411,166	368,003	1,171,259	\$16.07
Overall Total 3Q19		232,088,009	16,079,838	6.9%	249,890	321,418	1,102,784	\$16.06
Overall Total 2Q19		231,846,446	16,087,685	6.9%	90,601	238,002	1,267,074	\$16.04
Overall Total 1Q19		231,619,873	15,966,055	6.9%	23,563	279,299	1,158,965	\$15.86

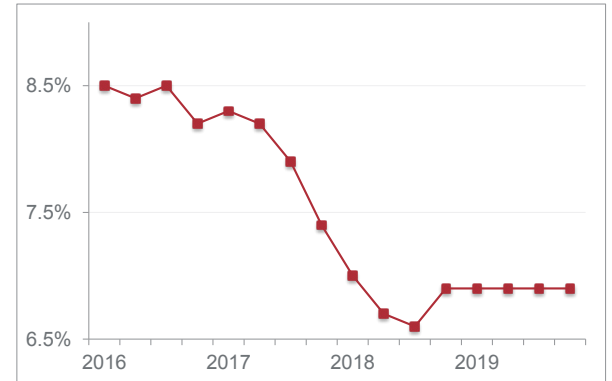
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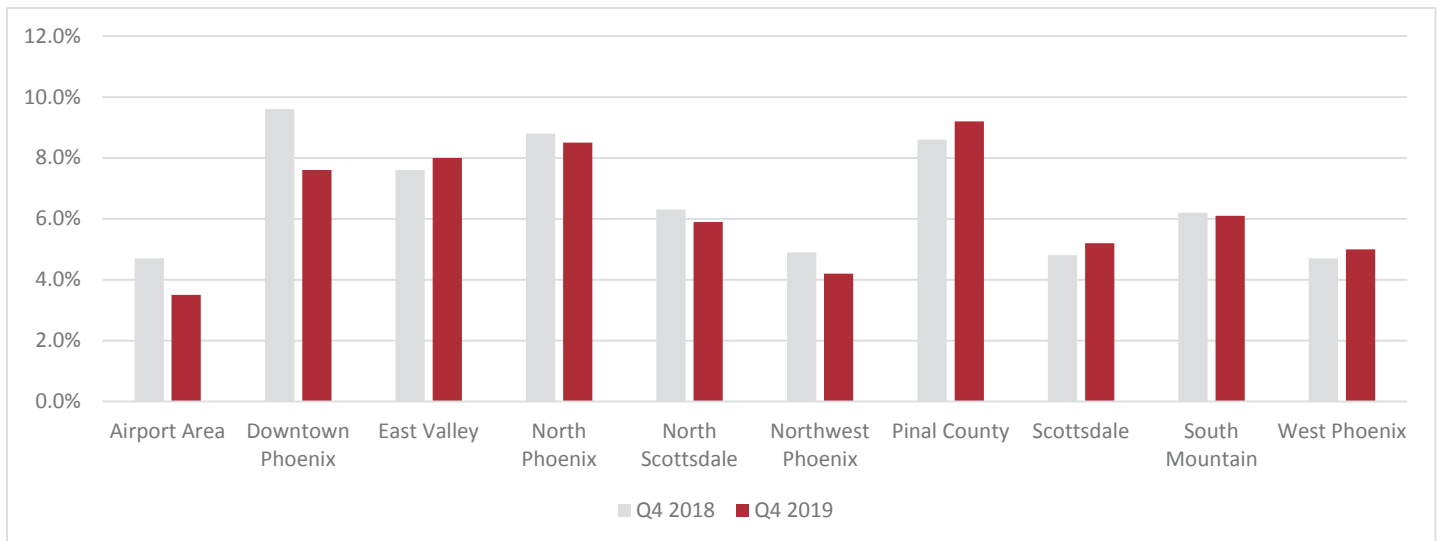
Rental Rates



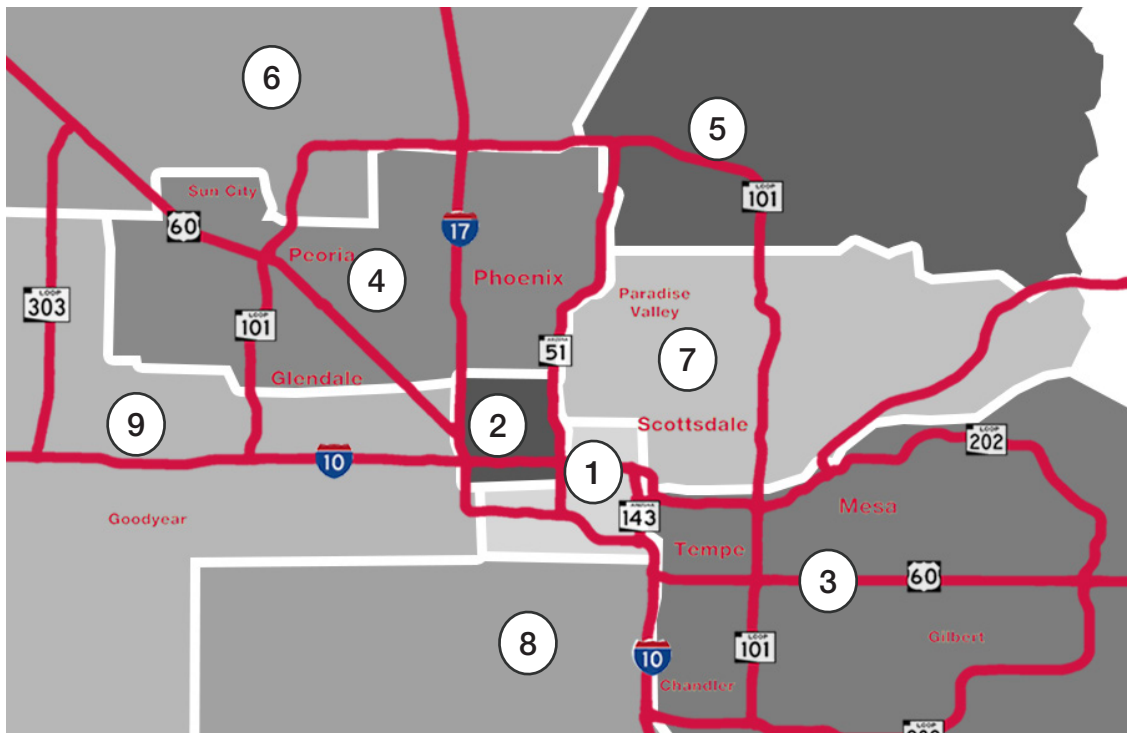
Vacancy Rates



Retail Submarket Vacancy Rates



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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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