



NAI Horizon

4th Quarter

2020

Retail  
Market Report



# Q4 2020

## RETAIL MARKET METRO PHOENIX

### CAUSE FOR OPTIMISM

Shy of over-optimistic assertions that “the worst is behind us,” retail real estate activity in the Phoenix marketplace during the fourth quarter 2020 is giving cause for cautious optimism going into 2021.

Net absorption for the quarter was positive, at 124,330 square feet. With negative net absorption in the second and third quarters last year, net absorption for 2020 ended up negative at -373,715, compared with overall positive net absorption of retail space of 1.15 million in 2019. On paper, that looks bad. However given the year of Covid-19, travel restrictions and stay-at-home orders, the absorption figures were not all that horrible. During the climb out of the last recession, Phoenix retailers shed space in droves in the five consecutive quarters, beginning in 1Q2010 through the end of 1Q2011, or approximately 1.5 million square feet of negative net absorption during that span.

That is one data point from the optimistic side of the ledger. The second was the leasing activity – while not huge in volume, there were eight sizeable leases signed in the fourth quarter. More importantly, it was the nature of the businesses that committed to new or expanded space.

Completed transactions were across a wide spectrum of retail occupiers. The French American Academy took down nearly 25,000 square feet on N. Arizona Avenue, Goodwill committed to 24,000 square feet at Jackrabbit Trail & Indian School Road, Alta Climbing leased 20,000 square feet on S. Alma School Road and Uptown Jungle repositioned one of their units for over 13,000 square feet on N. 32nd Street.

Between them, these operators represented an elective learning center where people take immersion-based language classes, a national credit low cap rate discount store, a specialty indoor rock climbing facility and an indoor playground where children can celebrate birthdays with friends. The other occupiers in the group of eight included an auction house and three other value retailers -- Family Dollar (NYSE: FDO), Horizon Thrift and Five Below (NASDAQ: FIVE) that mostly sells items under \$5.

The other point worth making about the nature of these occupiers is that three out of four of them feature shared experiences—learning in a classroom together, climbing a rock wall with your best friend and multiple children giggling on a trampoline. Experiential retail may be down, but not out as retailers are betting on the communal nature of consumers.

Collectively, the deals represented one of the oldest maxims in real estate: there is opportunity in every cycle—the opportunities just change.

The third cause for optimism is this; retailers are upping their online presence. They are fine tuning their respective interfaces on multiple platforms, and making it easier than ever for the consumer to purchase their goods.

For example, Target Corp. comparable sales rose 17 percent in November and December from a year earlier, much of it from online sales, and importantly, 95 percent of which were sourced from stores. That means they are keeping stores open, people working, people shopping, and selling apparel and other items online but the product comes out of nearby store instead of some distant warehouse. It is a subtle yet significant shift for the industry.

Uptown Jungle’s lease tells another story, an ongoing story, the helps the Arizona economy in general and Phoenix retail specifically. The indoor playground operator had a lease coming up for renewal in California and rather than renew, store management opted to reposition this location across the state line and expand in Arizona. Uptown Jungle now has six locations in Arizona including Phoenix (on N. 32nd Street), Mesa, Peoria, Chandler, Avondale and Queen Creek to complement venues in Murrieta, CA and Las Vegas, according to its website.

Quick service restaurants continue to expand. In just one example, Whataburger recently committed to four new

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### CAUSE FOR OPTIMISM CONT.

locations and now has 25 stores in Arizona, including 19 in Phoenix and six in Tucson.

While high-end luxury and boutique sectors have generally fared less-well during the pandemic than value and every-day-goods retailers like Home Depot, it may not be as bad for this niche as perceived. A source from a REIT-owned high end shopping mall (here in Phoenix) with luxury tenants told us that while overall foot traffic was down during the recent holiday, sales volumes were actually comparable to a year earlier for its upscale retailer tenants.

Looking ahead, it's clear that most of the distress to the retail real estate industry occurred in the second and third quarters last year. At this point, landlords have worked out their arrangements with most of their tenants whether that meant rent deferral, renegotiated leases or other methods of relief or incentives and now, if a tenant can't pay the rent, the landlord are terminating those leases and beginning the re-tenanting process. Municipalities have been accommodative to changes such as outdoor dining; Retailers are adapting and in the market looking at opportunities. Arizona's population will almost assuredly continue to climb in 2021, driving demand for housing and shopping.

### 4TH QUARTER DATA

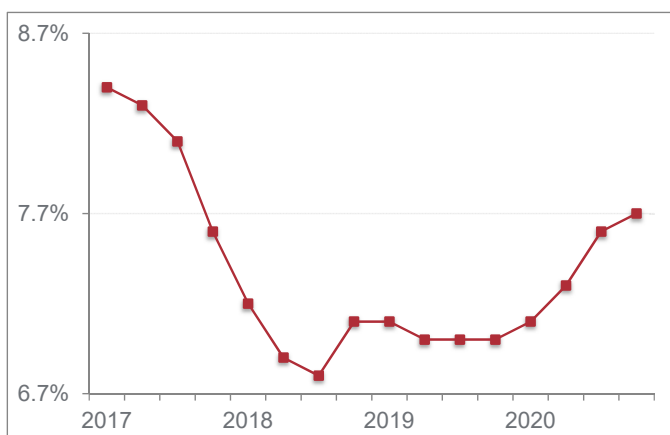
The vacancy rate for retail real estate in the Greater Phoenix Metro Area inched closer to 8 percent – which was last seen in 3Q2017, ending the fourth quarter last year at 7.7 percent; it started 2019 at 7 percent.

Overall asking retail rates held steady, concluding the year at \$15.58 per-square-foot, compared with \$15.64 a foot a year earlier. Average rents have stayed north of \$15 per since the second quarter of 2018.

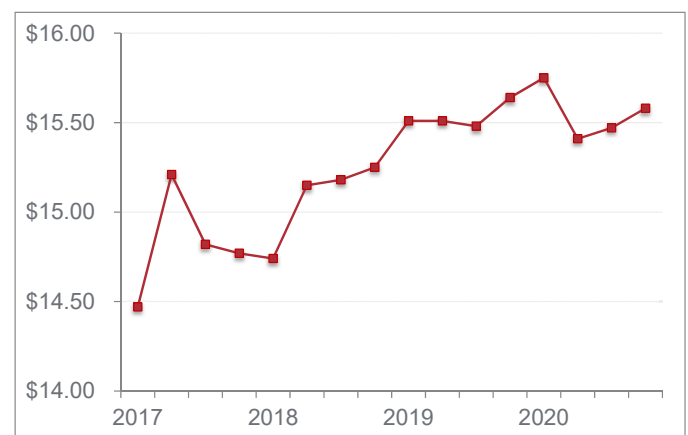
The largest retail property sold in the quarter was Pima Crossing, purchased by YAM Properties which is owned by Bob Parsons – the GoDaddy founder. The seven-building center traded for \$51.5 million and is anchored by one of the nation's largest golf retailers and other prominent retail brands. Comprised of 238,275 square feet and originally developed in 1993, the seller was an entity formed by Los Angeles-based Karlin Real Estate. Pima Crossing is in North Scottsdale at the full-diamond interchange of the Loop 101 Freeway and Shea Blvd.

Leasing activity in the fourth quarter was comparable to the third quarter last year, with 435 deals signed in 4Q, whereas 437 inked leases closed in 3Q. The volume of leasing activity has been in decline since the second quarter of 2017 when 617 lease transactions were completed. The transaction trend indicates that retail was nearing saturation after a 5 year rally after the end of the last recession, a trend that started well before the pandemic.

### Retail Vacancy



### Rental Rates



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### Phoenix Market Snapshot

#### Market Overview

	Total RBA	Vacant SF	Vacant %	Net Absorption	RBA Under Construction	Average Rental Rate
Power/Lifestyle	33,990,062 SF	1,930,592 SF	5.7%	89,803 SF	27,595 SF	\$19.25 NNN
Regional Mall	15,269,821 SF	2,245,905 SF	14.7%	(88,918) SF	-	-
General	76,391,546 SF	3,206,718 SF	4.2%	144,966 SF	336,945 SF	\$17.74 NNN
Shopping Center	108,580,421 SF	10,568,824 SF	9.7%	(21,521) SF	344,020 SF	\$14.83 NNN
Overall Total	234,231,850 SF	17,952,039 SF	7.7%	124,330 SF	708,560 SF	\$15.58 NNN

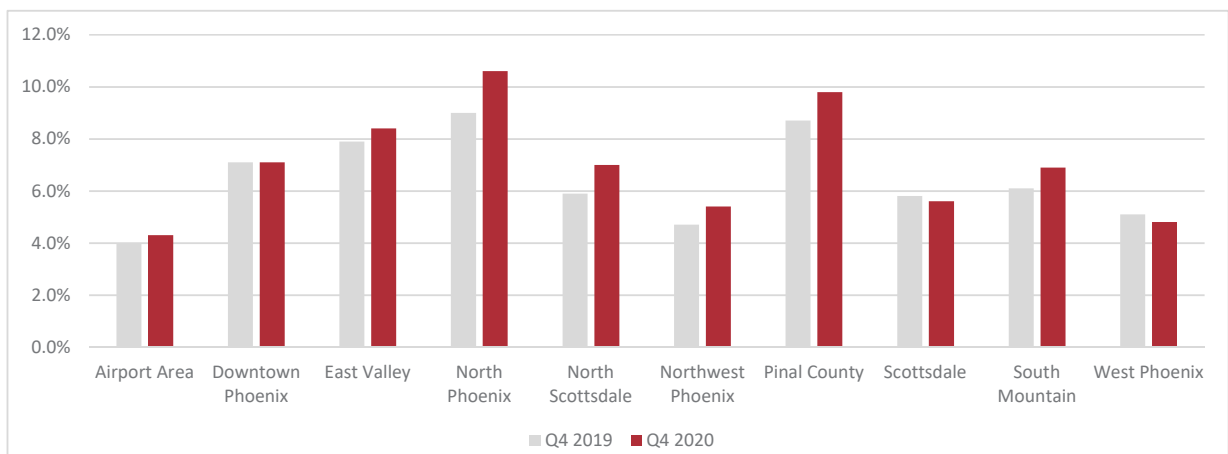
#### Significant Lease Transactions

	City	Tenant	Size	Submarket	Type
2031 N Arizona Ave	Chandler	French Am. Academy	24,870 SF	Gilbert	Move In
Jackrabbit Trl & Indian School	Buckeye	Goodwill	24,000 SF	N Goodyear/Litchfield	Move In
2815-2975 S Alma School Rd	Chandler	Alta Climbing	20,074 SF	Chandler	Move In
7539-7575 W Peoria Ave	Peoria	R&R Auctions	14,075 SF	Glendale	Move In
10602 N 32nd St	Phoenix	Uptown Jungle	13,563 SF	East Phoenix	Move In

#### Significant Sale Transactions

	Address	Date	Size	Sale Price	Price/SF
Pima Crossing	8658-8776 E Shea Blvd, Scottsdale	12/30/2020	246,177 SF	\$51,500,000	\$209.20
Target	1818 E Baseline Rd, Tempe	11/18/2020	114,874 SF	\$14,032,354	\$122.15
Overstreet	101 N Arizona Ave, Chandler	11/19/2020	31,804 SF	\$12,300,000	\$386.74
Desert Glen Shopping Ctr	5408 W Bell Rd, Glendale	12/7/2020	88,219 SF	\$11,600,000	\$131.49
Estrella Plaza	16750 W Bell Rd, Surprise	12/10/2020	53,843 SF	\$11,434,590	\$212.37

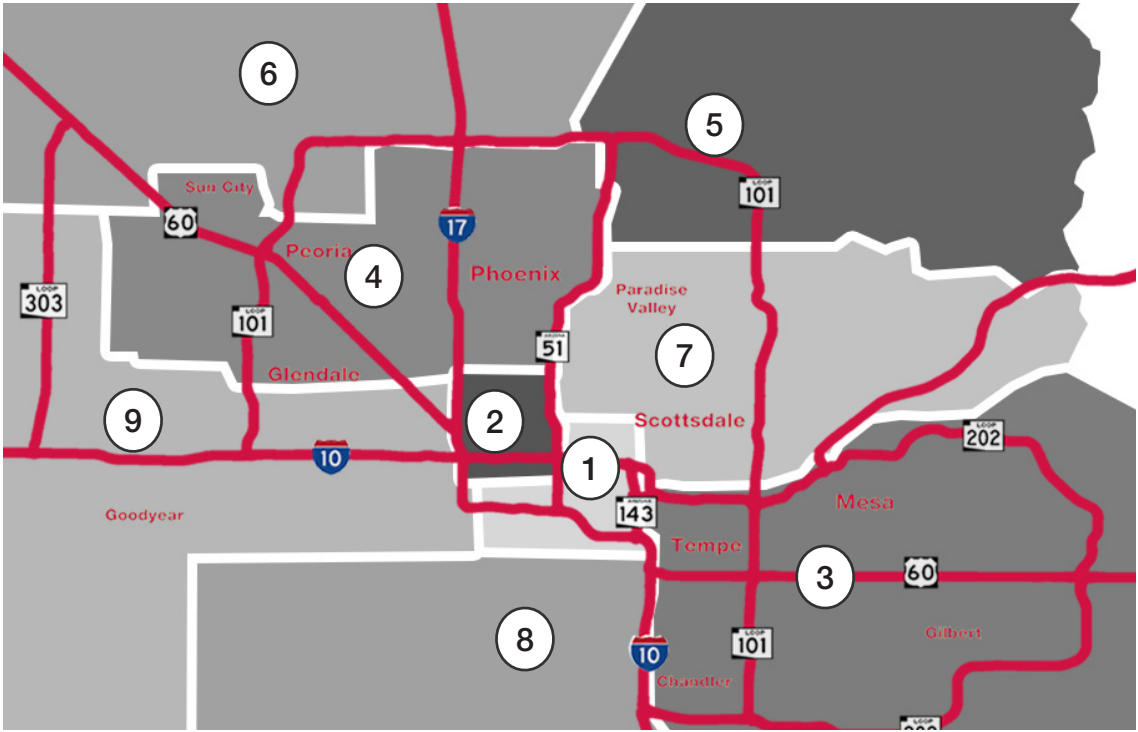
#### Retail Submarket Vacancy Rates



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.



# 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

# We are here. Phoenix

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