



Retail Market Report

METRO PHOENIX 2022

NAIHorizon

AT A GLANCE

- Q1 Vacancy: 6.3%**
- Q1 SF Construction: 962K SF**
- Q1 SF Leased: 2.05M SF**

Multiple years into retail's retreat, store operators are adjusting and adapting.

Geopolitical events are spurring greater retail investment in the U.S. In a recent Wall Street Journal article --"Europeans Step up Investment in U.S.," the paper reported that weakness in other parts of the world are boosting the appeal of a growing American market. To wit: Danish jewelry company Pandora AS told investors that it had acquired 32 stores in the U.S., mainly on the West Coast, and put its plans for expanding its operations in China on hold. The company operates more than 200 stores in China.

Pandora isn't the only European retail operator adjusting its retail strategy.

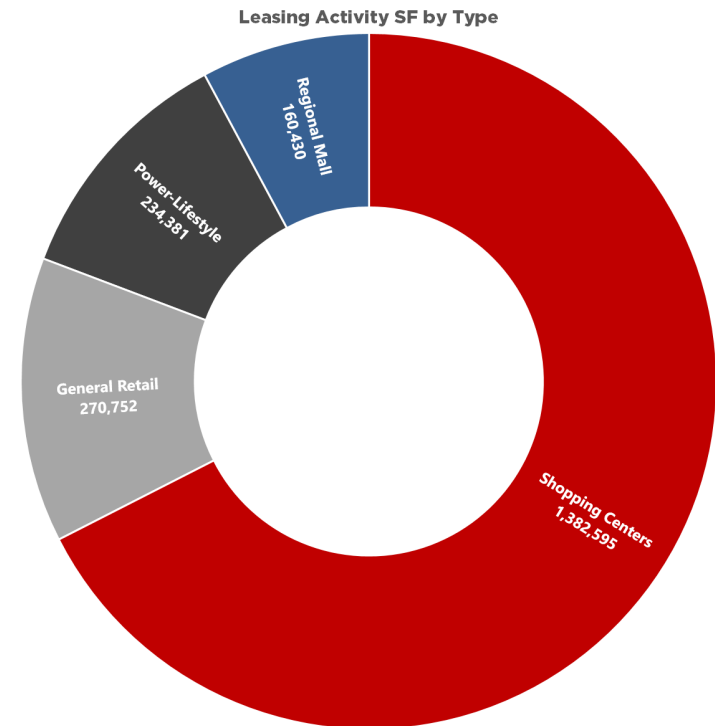
Also in May, Swedish home furniture shop and related accessories IKEA said it would invest 3 billion Euro, or \$3.16 billion in US currency, in opening city-center stores with much smaller footprints while converting many of its existing big box stores to distribution hubs for online orders as the furniture giant looks to adapt to changing shopping habits.

The company said it expected to modify between 30% and 40% of existing stores. The investment is on top of \$2.2 billion the parent company, Ingka Holding BV, invested in its stores over three years from 2019 to 2021. As for inflation, IKEA said it would raise prices on average 9% to address the cost of goods and pass those through to consumers.

Some of the best known brands in retail are also accelerating their omni-channel operations and bringing those new strategies to market.

Omni-channel operations allows people to shop online but then use retail's physical locations as the last hub for pick up and stores are becoming the "last mile" where shoppers and retailers intersect.

For example, 72% of US retail transactions will occur in physical stores, according to market research firm Forester. And ICSC found that 62% of online orders are fulfilled at physical locations.



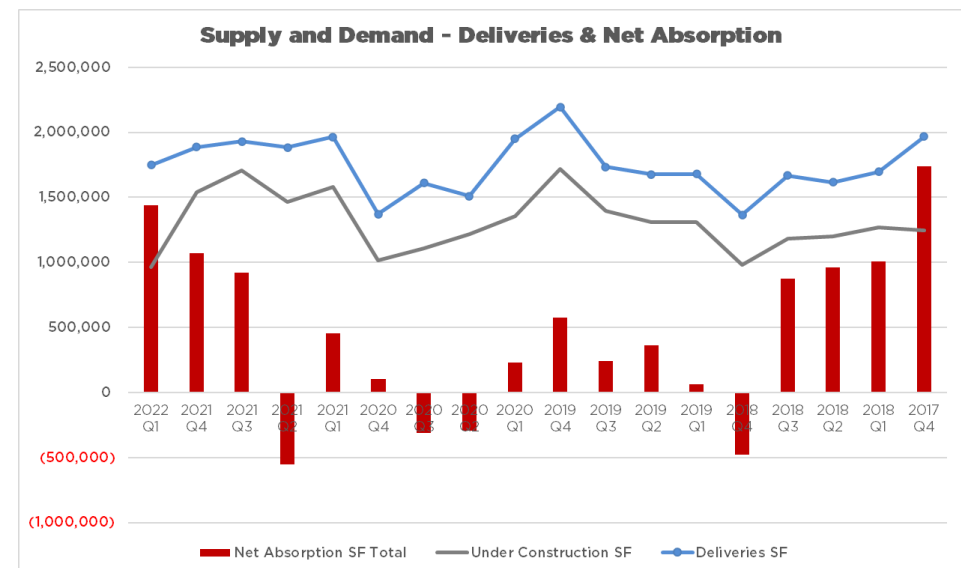
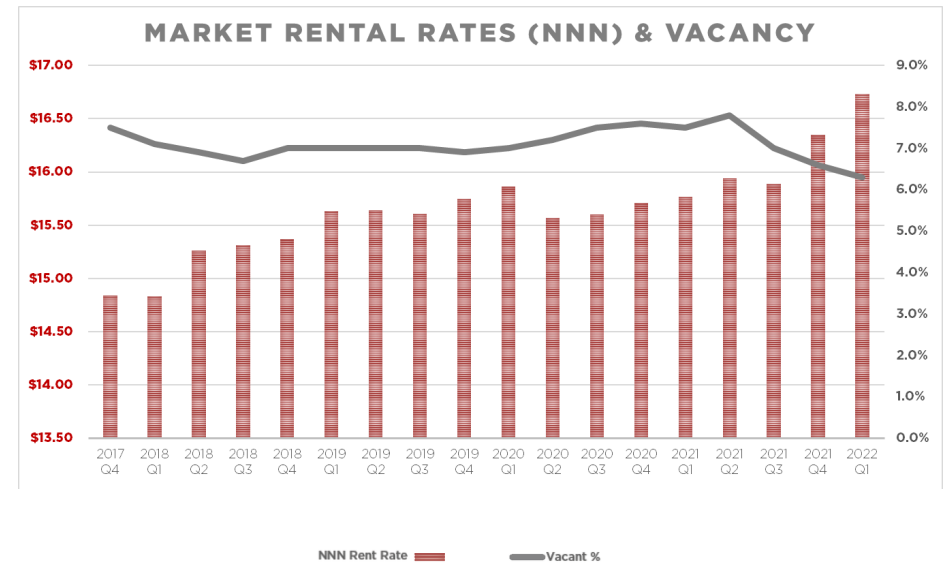
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Market by Macy's is Macy's new small store format and omni-channel platform. Joe Hodge, a senior director of real estate at Macy's, was recently quoted on the engagement aspect of the new format. "One objective for Market by Macy's is to provide a physical engagement point for customers after we exit a mall-based department store," explained Hodge. "This will allow Macy's to maintain and protect market share and serve a loyal customer base in high quality and viable submarkets."

Here's a mixed-back snapshot of some of the other leading national trends in the retail sector of the economy, and retail real estate.

- Interest remains high for restaurant and pharmacy locations with in-place or buildable drive-thru locations. Readers may recall in these reports NAI Horizon had earlier stated that drive-thru restaurant concepts were the shining stars in an otherwise dour period for retail during the worst of the pandemic.
- General merchandise unit sales in the U.S. in April were 7% lower than a year ago, leading to a 1% decline in sales revenue, according to The NPD Group.
- The NDP Group's take on inflation's impact is that lower-and middle-income consumers are starting to feel more economic uncertainty, so retailers and manufacturers need to sharpen the value side of their product offerings, while also providing higher-income consumers with products that will motivate them to spend rather than save.
- The ICSC convention May 22-24 in Las Vegas is expected to draw between 20,000 and 25,000 attendees and sponsors – far fewer than the 38,000 to 42,000 in pre-pandemic times. Conversely, the 2022 attendance expectation is more than double the 9,500 real estate professionals that attended "ICSC Light" in Las Vegas the first week of December last year.



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1st Quarter Data

The Phoenix-area retail market continued its bullish run in the first quarter this year with positive net absorption of 1,436,522 square feet. It is the third consecutive quarter of positive net absorption totaling over 2.4 million square feet of retail space. You would have to go back to the fourth quarter of 2012 to find a 90-day period when net absorption exceeded 1.4 million square feet. In 4Q2012 it was 1.6+ million feet.

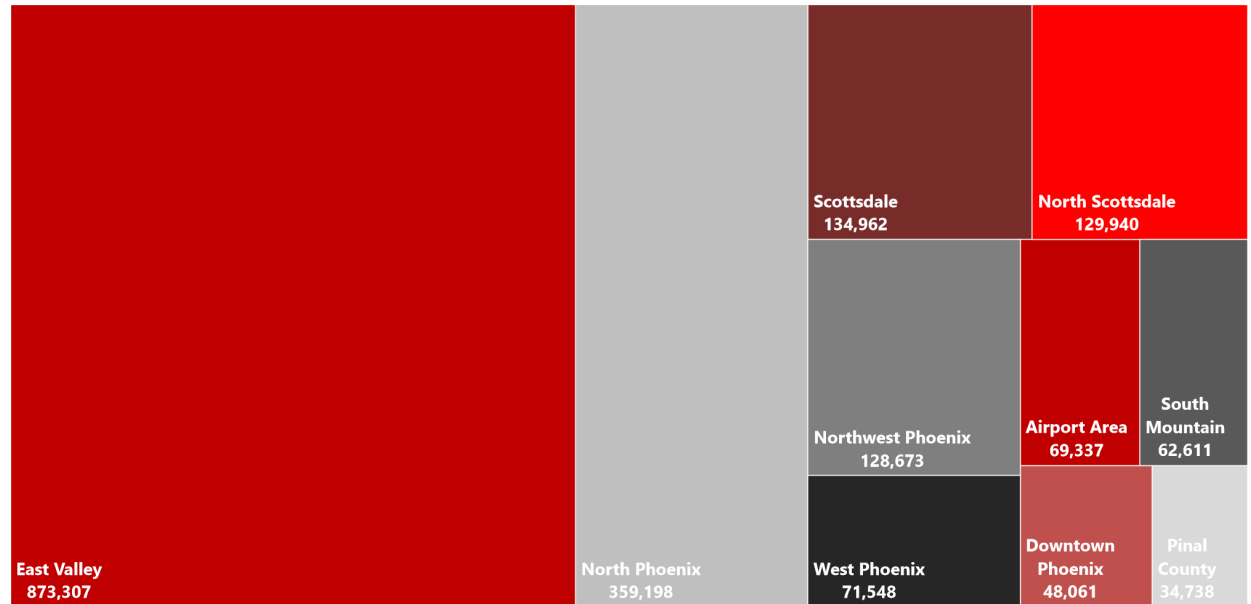
The vacancy rate compressed again, to 6.3% at the close of the first quarter. That's 120 basis points lower than a year earlier when it was 7.5%.

Rents pushed north, ending the quarter at \$16.73 – up 38 cents from the fourth quarter and almost a dollar greater than the first quarter of 2021 when average asking retail rents were \$15.77. Leasing activity was on par with the last few years, as 529 total transactions were recorded in the period – with the exception of course of 2Q2020 when only 300 deals got done. In the last decade the lowest quarter number of transactions was 472 while the highest was 727 in one quarter, which happened in 4Q2013, again, not counting 2Q2020.

During the first quarter, builders delivered 787,220 square feet of new retail product and were busy constructing another 962,519 square feet. Total retail inventory in the Metro Phoenix Market now exceeds 236 million square feet of stores, shops, neighborhood-serving retail centers, power centers and regional shopping malls.

One of the reasons that retail real estate in the Phoenix area has remained steady over the years – in addition to continuous population growth, is that retail developers have done a good job at monitoring the demand side of the equation and not over-building. It has been only since the first quarter of 2007 when total retail inventory surpassed 200 million square feet. Given the growth in Phoenix the last 15 years, that's a fairly conservative development pace.

LEASING ACTIVITY IN SF



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Largest Leases

The largest retail lease for the quarter featured big box retailer Costco's North Phoenix take down of 154,809 SF. Mak Pack Dog Training (30,133 SF), Big Lots (28,000 SF) and apparel company Burlington (26,186 SF) were three additional large leases in the period.

1 **1646 W Montebello Ave**

Submarket	N Phoenix/ I-17 Corridor
Tenant	Costco
Size	154,809 SF
Move Date	September 2022

2 **3050 S Gilbert Rd**

Submarket	Gilbert
Tenant	Mak Pack Dog Training
Size	30,133 SF
Move Date	June 2022

3 **24720-24790 Lake Pleasant Rd**

Submarket	Peoria/Arrowhead
Tenant	Big Lots
Size	28,000 SF
Move Date	March 2023

4 **245 E Bell Rd**

Submarket	East Phoenix
Tenant	Burlington
Size	26,186 SF
Move Date	Sept 2022

Biggest Sales

The top sales for the period, measured by square footage, were \$22.15 million, \$21.95 million, \$18.5 million a slightly over \$18 million.

Photos & Information provided by CoStar

1 **Larry H. Miller Automotive - Peoria**

Sale Price	\$22,150,000
Location	8633 W Bell Rd
Size	423,025 SF
Price/SF:	\$962

2 **Shops at Dynamite Creek - Cave Creek**

Sale Price	\$21,950,000
Location	2812-28260 N Tatum Blvd
Size	69,755 SF
Price/SF:	\$314.67

3 **Larry H. Miller Automotive - Surprise**

Sale Price	\$18,500,000
Submarket	13165 N Autoshow Ave
Size	50,224 SF
Price/SF:	\$368.35

4 **Wal-Mart/ Sam's Club Center - Scottsdale**

Sale Price	\$18,034,160
Location	15255 N Northsight Blvd
Size	130,333 SF
Price/SF:	\$138.37

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Submarket Performance

Submarket	RBA		Vacant SF		Vacant %		Net Absorption		Under Construction		Avg NNN Rate	
Airport Area	5,802,377	▲	312,900	▲	5.4%	▲	2,464	▲	3,000	-	\$18.40	▲
Downtown Phoenix	8,481,064	▲	368,390	▼	4.3%	▼	51,844	▼	5,700	-	\$18.91	▲
East Valley	78,261,199	▼	5,027,028	▼	6.4%	▼	469,597	▲	424,158	▲	\$15.82	▲
North Phoenix	40,565,112	▲	3,586,456	▼	8.8%	▼	383,738	▲	109,327	▲	\$14.34	▲
North Scottsdale	16,808,180	-	890,848	▼	5.3%	▼	23,645	▼	-	-	\$21.07	▲
Northwest Phoenix	21,098,468	▲	995,471	▼	4.7%	▼	(20,193)	▲	25,340	▲	\$17.37	▲
Pinal County	11,351,173	▲	942,178	▼	8.3%	▼	135,866	▲	105,674	▲	\$15.23	▲
Scottsdale	20,318,398	▲	904,174	▲	4.5%	▲	71,491	▲	16,800	▼	\$25.94	▲
South Mountain	6,903,655	-	472,870	▼	6.8%	▼	36,979	▼	-	▼	\$18.07	▲
West Phoenix	26,002,679	-	1,456,235	▼	5.6%	▼	281,091	▲	272,520	▲	\$18.11	▲
All Submarkets	236,481,048	▲	14,972,163	▼	6.3%	▼	1,436,522	▲	962,519	▼	\$16.73	▲
Overall Total 4Q21	235,727,922	▲	15,655,559	▼	6.6%	▼	1,072,559	▲	1,537,965	▼	\$16.35	▲
Overall Total 3Q21	235,410,747	▲	16,410,942	▼	7.0%	▼	919,488	▲	1,704,867	▲	\$15.89	▲
Overall Total 2Q21	236,583,095	▲	18,496,069	▼	7.8%	▼	(553,392)	▼	1,463,873	▲	\$15.94	▲

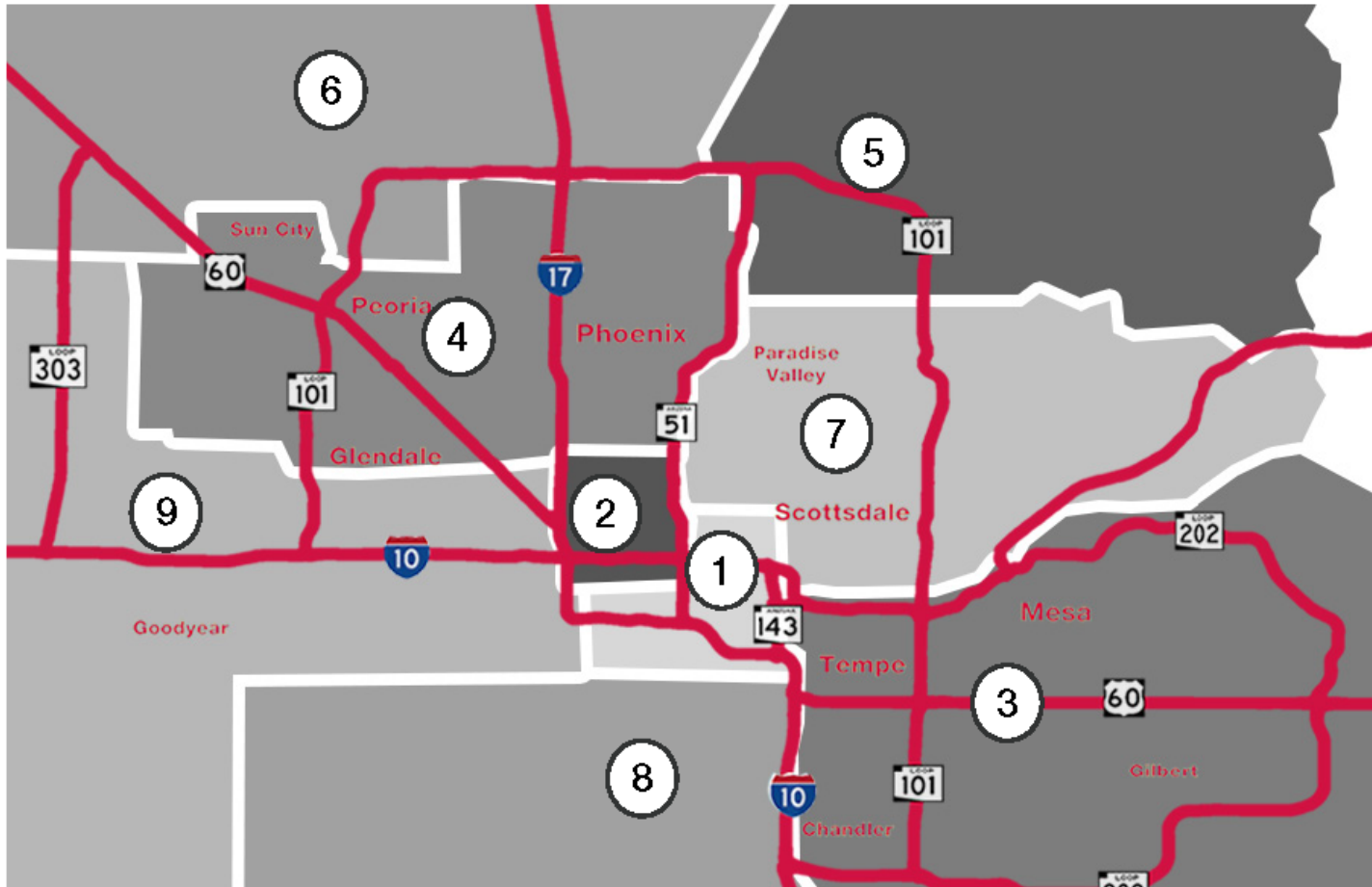
Submarket	RBA	Vacant SF	Vacant %	Net Absorption	RBA Delivered	RBA Under	Avg NNN
Power/Lifestyle	34,081,891	1,597,155	4.7%	97,129	7,000	-	\$23.28
Regional Mall	14,688,371	1,986,592	13.5%	371,229	-	-	\$10.14
General	79,937,052	3,072,209	3.8%	410,206	597,267	469,295	\$20.74
Shopping Center	107,734,765	8,316,207	7.7%	557,958	182,953	493,224	\$15.70



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Phoenix 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



About NAI Horizon

Exceptional global commercial real estate solutions begin with local market leadership and expertise. Established in 1992, NAI Horizon is a full-service commercial real estate company serving Arizona with offices located in Phoenix and Tucson. NAI Horizon is passionate about the commercial real estate business, providing Brokerage and Property Management Services for local, national and international clients. NAI Horizon is a member of the NAI Global commercial real estate network providing real estate solutions to more than 300 offices worldwide. For more information visit www.naihorizon.com.

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Property & Note Sales | Tenant Representation

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NAI Global professionals achieve extraordinary results for clients locally and globally through creativity, collaboration and the consistent delivery of exceptional knowledge and service that only market-leading firms can provide. NAI Global provides a full range of corporate real estate services, including brokerage and leasing, property and facilities management, real estate investment and capital market services, due diligence, global supply chain and logistics consulting and related advisory services.

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