



Retail Market Report

METRO PHOENIX 2022

NAIHorizon

AT A GLANCE

Q1 **Vacancy: 5.8%**

Q1 **SF Construction: 1.7M SF**

Q1 **SF Leased: 1.7M SF**

NATIONAL RETAIL TRENDS

Grocery-anchored shopping centers remained the strongest performing retail niche in the asset class with demand still strong for institutional investors. Cedar Realty Trust (based in Port Washington, NY), for example, recently sold a portfolio of 33 grocery-anchored shopping centers and a redevelopment site for approximately \$879 million to a joint venture between a fund managed by DRA Advisors LLC and KPR Centers. The REIT is selling some other assets as well as all of its assets to Wheeler Real Estate Investment Trust (based in Virginia Beach, VA) in an all-cash merger that values the assets at more than \$290 million. Wheeler operates mostly in the Southeast and Northeast.

Grocery-anchored centers are also good hedges against inflation, according to CREXI Chief Strategy Officer Eli Randel, and for one obvious reason: they sell necessities and most often have some of the best retail mixes regardless of the submarkets in which they are located.

In contrast, Placerai showed that from May to June foot traffic at regional malls shifted notably from one month to the next. Visits in May were up 4.1% at indoor malls and 2.5% at outlet malls compared with April, but in June, visits were down 3.7% at indoor malls and 0.6% at outlet malls, compared with May.

Cap rates increased for all retail asset sales by a modest 5 basis points during the second quarter, according to Boulder Group, while office cap rates ticked up 7 basis points and industrial cap rates remained unchanged from the first quarter. Higher priced properties, in general faced more cap rate pressure as the markets braced for potentially more Fed rate hike this summer (the first was 75 basis points in June and the second, in late July, was also 75 basis points), yet lower-priced net lease properties saw less impact on pricing – most likely due to more cash buyers lining up for those deals, Boulder Group analysts reported. The Wilmette, Illinois-based company is a boutique investment firm that specializes in single-tenant net leased properties.

Inflation is beginning to impact consumer behavior, as costs to retailers are higher in the areas of transportation and fuel prices, as well as the products themselves.



Q2 Retail Market Report

METRO PHOENIX 2022

According to statements the CEO of MTN Retail Advisors (Doug Munson) has made, “shopping basket sizes are shrinking, people are trading for more private label product in stores and lowering their discretionary spends; sales of hot bar and prepared foods are down within stores and people are going back to basics, eating out less.”

Albertson’s CEO Vivik Sankaran echoed the changing consumer habits sentiment on a late July earnings call, saying that “consumers are clearly trading down to private-label goods such as rice, beans and oil.” Albertson’s private label brands accounted for 25.8% of revenue during the second quarter, compared with 21.3% for the entirety of its most recent fiscal year.

Munson also said that the discount food retailers such as Aldi, Save-A-Lot and Grocery Outlet are gearing up for expansion.

Indeed. Placerai visitation data in June for Walmart Neighborhood Market shows 18.6% year-over-year (YoY) growth in Seattle, 13.5% YoY growth in Chicago, and 8.9% YoY growth in Houston. Grocery Outlet shows YoY growth of 36.9% in Philadelphia, 10.3% in San Francisco, and 8.1% in Los Angeles. These numbers demonstrate a significant opportunity for the value-oriented segment of the grocery category if the nation’s inflation woes continue.

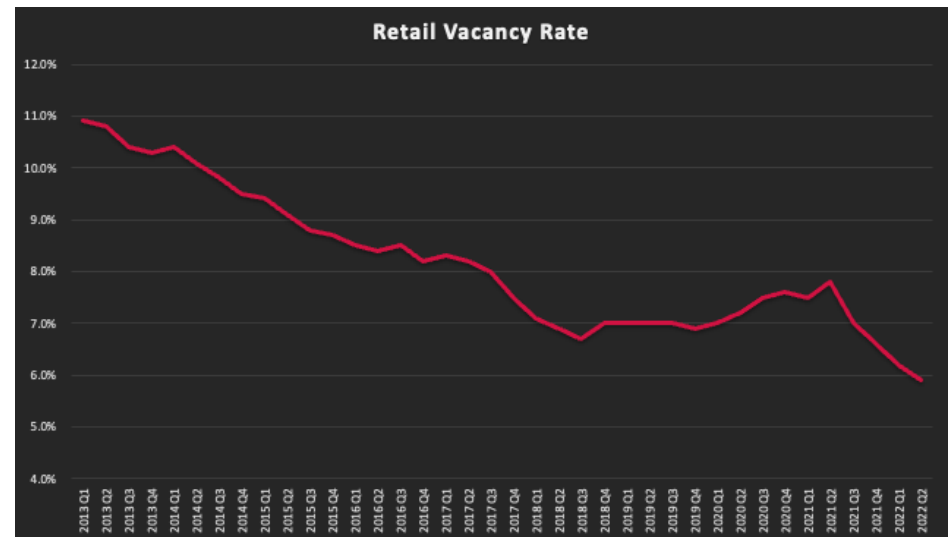
There are signs that supply chain issues are improving for retailers, but even that depends on who you ask.

What has been reported, however, is that Target plans for big sales and discounts to unload some of the products that arrived later than planned, and now they need to make room in their warehouses for new product and prepare for back-to-school sales and later, winter holidays.

2ND QUARTER RETAIL DATA

Fueled by constant population growth, the Phoenix retail market is one of the healthiest in the U.S. among major metropolitan regions, and certainly the Western States. The second quarter ended with total occupancy of 94.1% across all retail asset classes—or a vacancy rate of 5.9%, and a little more than 900,000 square feet of positive net absorption. That’s a follow on to 1.44 million square feet of retail space that was positively net absorbed during the first quarter.

Landlords and tenants came terms on 511 lease agreements in the second quarter, compared with 535 in the first quarter this year and 669 completed lease transactions in the second quarter a year ago.



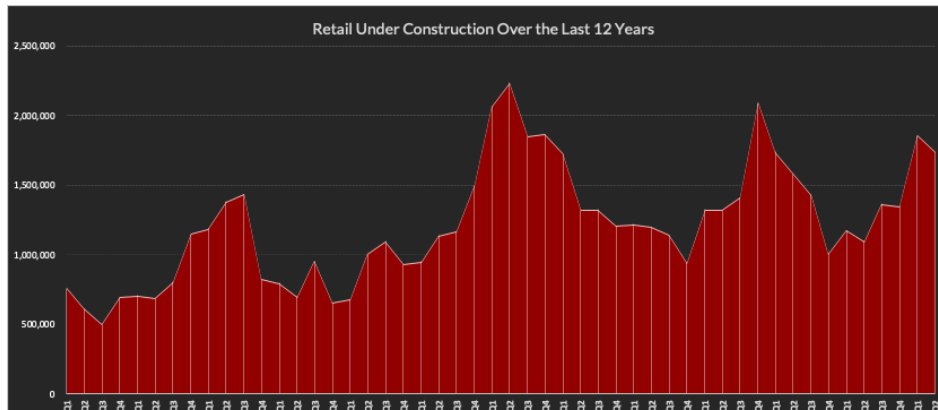
Developers brought 31 buildings online in the recent quarter, adding 367,094 square feet to retail inventory, which is comparable to a year ago when 398,543 square feet was added in 33 new buildings.

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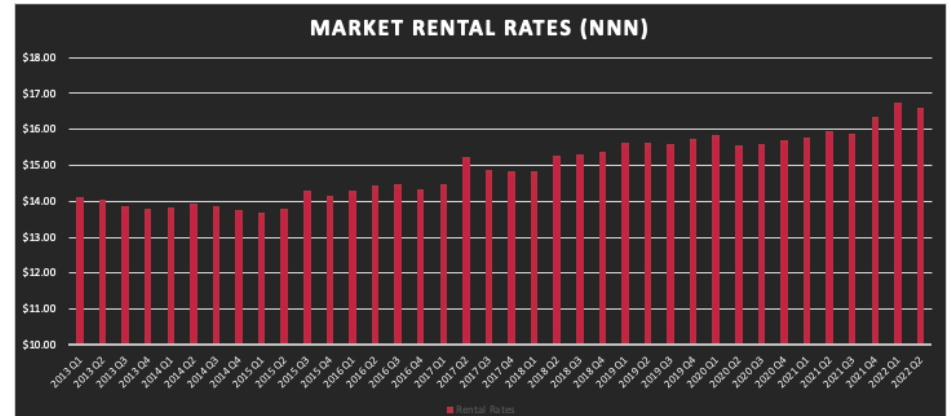
At the close of 2Q2022, there were 89 retail projects under construction totaling 1.74 million square feet. It is the 29th consecutive quarter in which over 1 million square feet of new retail product was under construction at any given time, with the exception of one quarter – the 4th quarter of 2018, when builders had 944,568 square feet of retail buildings under construction.

The average asking rental rate was \$16.60 as of June 30 this year, a 5.4% increase from a year ago when the average asking retail rate was \$15.76.



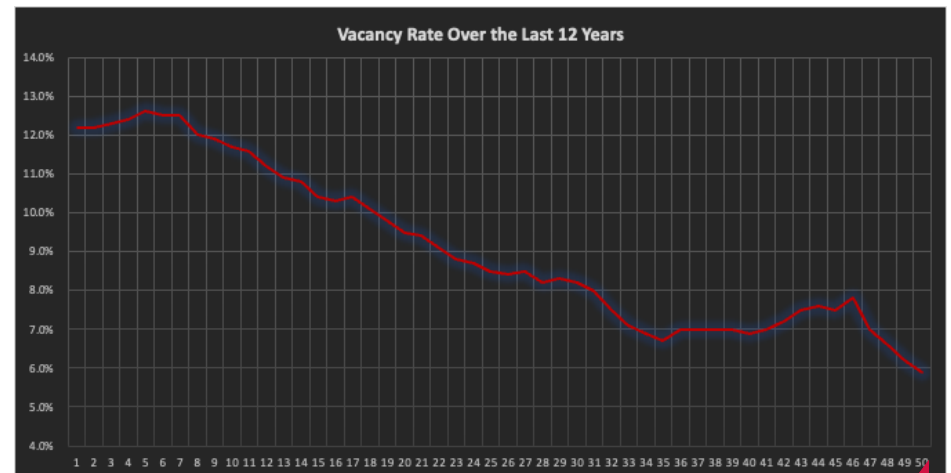
BIGGEST SALES

The biggest second quarter sales included a 75,000-square-foot building on N. John Wayne Parkway for \$34 million, or \$453 per-square-foot (psf), at 57,888-square-foot Safeway store on N. Vistancia Blvd. that traded for \$21.1 million, or \$364 psf, and a 98,599 square-foot retail asset (Paradise Square) on E. Thunderbird



that sold for \$18.5 million, or \$188 per foot – because it is an older, 1987-built center.

The average price-per-foot sold in 2Q2022 was \$242, the average Cap Rate was 5.7% and the average vacancy rate at the time of sale was 6.8%.

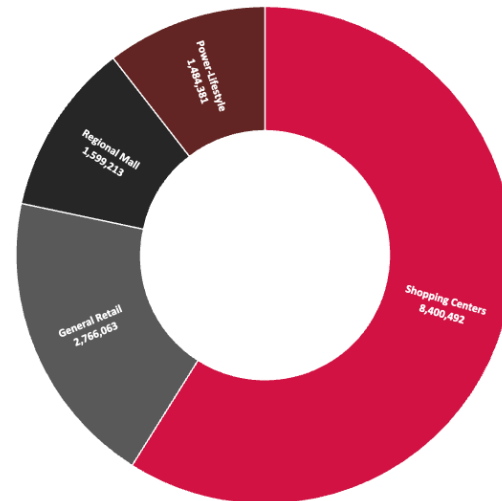


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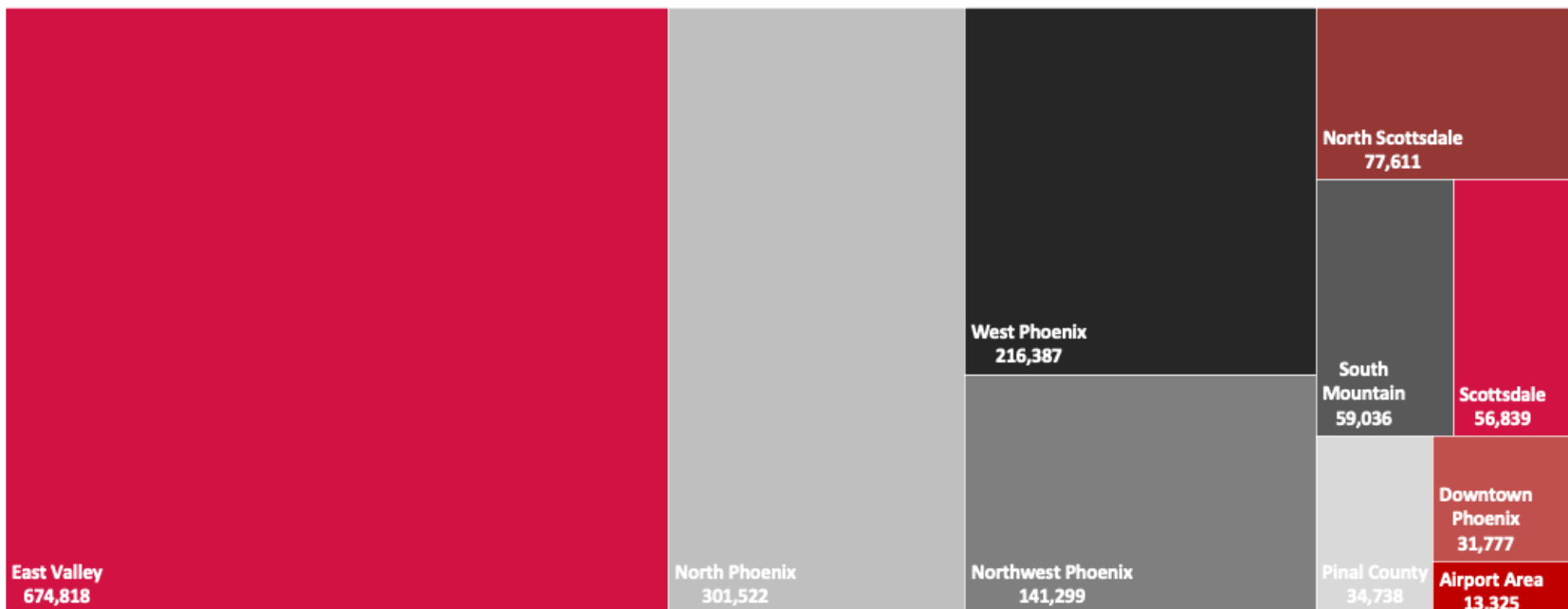
LARGEST LEASES

EOS Fitness inked two of the largest leases in the second quarter, taking 57,809 square feet at Monte Vista Village in the Gateway Airport submarket, as well as a 41,450-square-foot space at Park Central in the Midtown area of Phoenix. In the first quarter this year EOS Fitness also committed to 50,320 square feet at Ancala Village in Central Scottsdale. MIND 24/7 – a mental health urgent care operator, leased 30,104 square feet at Camelback 101 Plaza in the Loop 101/1-10 submarket. Michaels and Sun & Ski Sports each leased 20,000-square-foot spaces during the recent quarter, with the arts & crafts retailer taking up space at Tramonto Marketplace in Anthem while the recreational operator leased a spot at Paradise Village Gateway in Central Scottsdale.



Leasing Activity by Type

LEASING ACTIVITY IN SF




Q2 Retail Market Report


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Photos & Information provided by CoStar

LARGEST LEASES IN Q2

1  **9101 E BASELINE RD**


Submarket	Gateway Airpark
Tenant	EOS Fitness
Size	57,809 SF
Class	B

2  **2448 E HIGHWAY 60**

Submarket	Arizona SE & Sierra Vista Area
	Set to open October 2022
Size	46,169 SF
Class	C


3  **25314-25406 N LAKE PLEASANT PKY**

Submarket	Surprise North Peoria
Tenant	Multiple Anchors & Tenants
Size	42,879 SF
Class	B

4  **3110 N CENTRAL AVE**

Submarket	Midtown
Tenant	EOS Fitness
Size	41,450 SF
Class	B

LARGEST SALES IN Q2

1  **625 S COTTON LN**

Sale Price	Under Contract
Submarket	Goodyar
Size	197,946 SF
Price/SF:	TBD

2  **20300 N JOHN WAYNE PKWY**

Sale Price	\$34 M
Submarket	Outlying Pinal County
Size	75,000 SF
Price/SF:	\$453.33

3  **7942-8290 W BELL RD**

Sale Price	\$22.88 M
Submarket	CTRL Peoria/Arrowhead
Size	129,340 SF
Price/SF:	\$176.86

4  **3831-3933 E THUNDERBIRD RD**

Sale Price	\$18.5 M
Submarket	North Scottsdale
Size	98,599 SF
Price/SF:	\$170.23



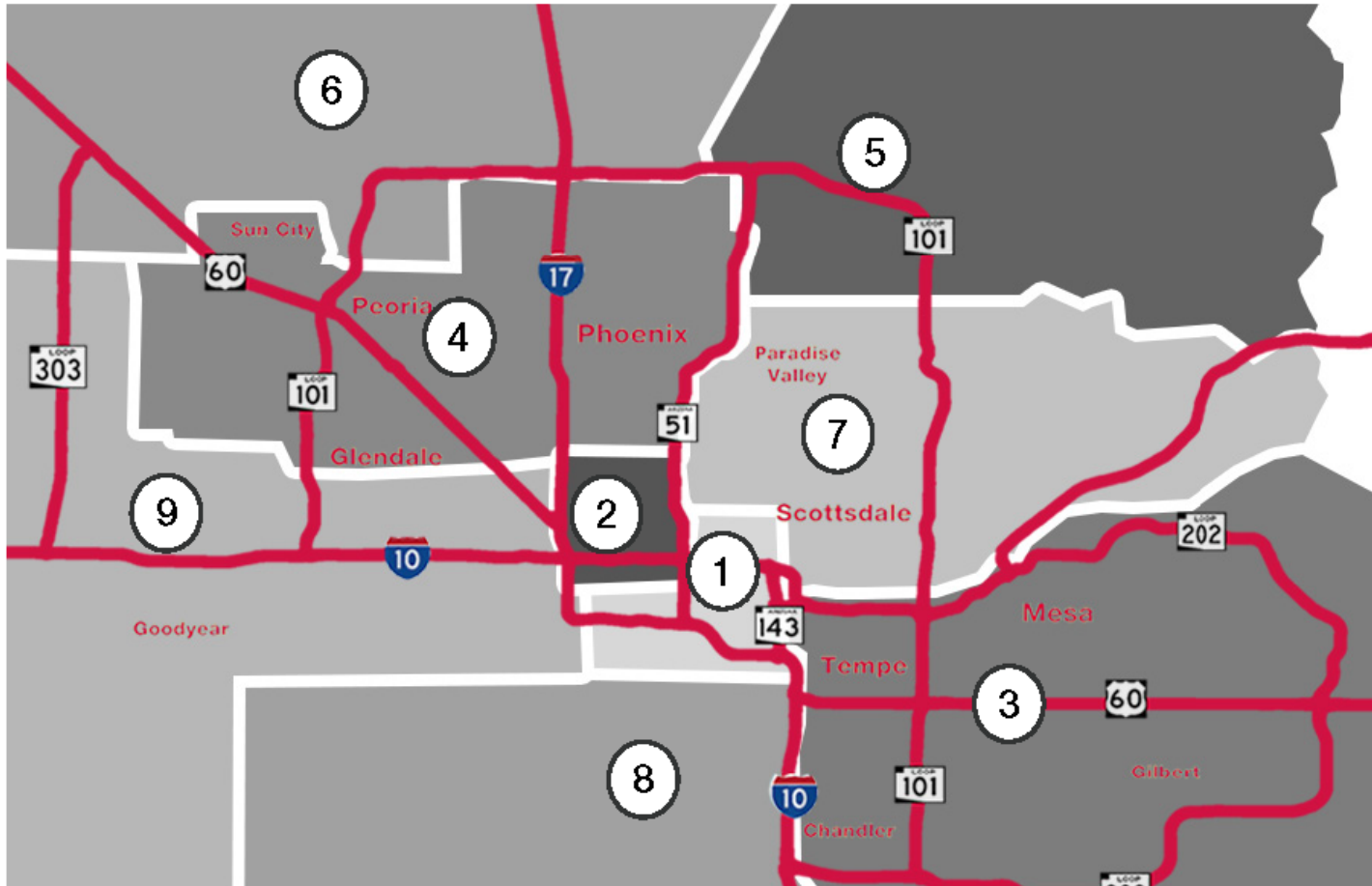
Submarket Performance

Submarket	RBA	Vacant SF	Vacant %	Net Absorption	Under Construction
Airport Area	5,804,103 ▲	265,424 ▲	4.6% ▲	50,476 ▲	- — \$17.68 ▲
Downtown Phoenix	8,455,942 ▲	389,924 ▼	4.6% ▼	(26,534) ▼	5,700 — \$19.25 ▲
East Valley	78,522,044 ▼	4,910,912 ▼	6.3% ▼	122,437 ▲	434,735 ▲ \$15.70 ▲
North Phoenix	40,462,943 ▲	3,335,708 ▼	8.2% ▼	217,013 ▲	71,343 ▲ \$13.76 ▲
North Scottsdale	16,551,878 —	807,189 ▼	4.9% ▼	59,179 ▼	- — \$21.08 ▲
Northwest Phoenix	21,007,879 ▲	945,307 ▼	4.5% ▼	96,268 ▲	31,451 ▲ \$17.49 ▲
Pinal County	11,425,790 ▲	874,976 ▼	7.7% ▼	137,525 ▲	47,679 ▲ \$15.99 ▲
Scottsdale	20,235,190 ▲	786,214 ▲	3.9% ▲	131,737 ▲	4,000 ▼ \$28.27 ▲
South Mountain	6,936,319 —	490,474 ▼	7.1% ▼	17,326 ▼	16,955 ▼ \$18.10 ▲
West Phoenix	25,865,656 —	1,004,406 ▼	3.9% ▼	104,790 ▲	1,125,941 ▲ \$18.18 ▲

All Submarkets	236,481,048 ▲	13,823,375 ▼	5.8% ▼	912,989 ▲	1,737,804 ▼ \$16.60 ▲
Overall Total 4Q21	235,727,922 ▲	14,616,674 ▼	6.2% ▼	1,435,983 ▲	1,859,880 ▼ \$16.74 ▲
Overall Total 3Q21	235,410,747 ▲	15,650,438 ▼	6.6% ▼	1,082,768 ▲	1,348,592 ▲ \$16.36 ▲
Overall Total 2Q21	236,583,095 ▲	16,396,549 ▼	6.9% ▼	933,995 ▼	1,365,032 ▲ \$15.90 ▲

Submarket	RBA	Vacant SF	Vacant %	Net Absorption	RBA Delivered	RBA Under	Avg NNN
Power/Lifestyle	33,800,025	1,389,705	4.1%	145,696	0	4,000	\$21.58
Regional Mall	14,686,188	1,943,721	13.2%	42,871	-	-	\$10.14
General	80,121,913	2,729,481	3.4%	240,748	329,994	1,287,373	\$20.52
Shopping Center	107,509,392	7,760,468	7.2%	483,674	37,100	446,431	\$15.75

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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