



NAI Horizon

3rd Quarter
2022
Retail
Market Report

National Trends

According to published reports, the national vacancy rate for retail space ended mid-year at just over 6% -- the lowest in 15 years. Further, asking rents at major shopping centers averaged 16% higher than five years ago, indicating a recovery from the pandemic and some positive absorption.

Consumers are spending again, and for the first time since 1995, more retail stores opened last year in the U.S. than closed. Brookfield Asset Management said on a recent call with analysts that spending at its 132 U.S. malls is 31% above pre-pandemic levels.

The retail industry, however, still has its challenges.

In late August Bed Bath & Beyond said it would close about 150 stores and lay off workers. That announcement came days after company leaders were sued – accused of artificially inflating the stock in a ‘pump and dump scheme.’ The home soft-goods retailer is suffering from a merchandise problem, among other things (such as a mountain of debt) after it shifted to off-brand products a few years ago when the company tried to grow nine exclusive brands – and shoppers didn’t respond favorably. Bed Bath & Beyond is scaling back on some private-label products and trying to bring back prominent brand names. Its next test will be whether they can do so by the holiday shopping season.

At least one of the store closings is in Arizona. Bed, Bath & Beyond typically occupies about 25,000 to 40,000 square feet of retail space.

CVS is also closing some stores as it modifies its retail concept to include more in-store healthcare services.

The slowing housing market has impacted home goods stores. Year-over-Year (YoY) sales for furniture and home-furnishing stores declined in August by 1.6% on a seasonally adjusted basis, while electronics and appliance store sales declined 5.7%, according to the Commerce Department. However, declining sales at retailers such as RH, Wayfair Inc., Williams-Sonoma Inc., and others are due to the shift in consumer spending habits. During the pandemic, consumers stocked up on goods. Since late last year, when the health crisis began to fade, consumers switched to services – traveling and dining out, mostly with their discretionary spending dollars.

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TIs Impacting Retail Lease Deals

We've heard how rapidly rising interest rates are pausing CRE investment sales. Construction costs, with 30% to 35% increases over a year ago, negatively impact retail lease transactions as the build-out costs make deals untenable. Deals are preliminarily getting through committee-level decision-making and then killed at transactional (lease) execution. Tenants want rental rate reductions to make leases with high TIs pencil, and landlords aren't budging so far.

Q3 AT A GLANCE:

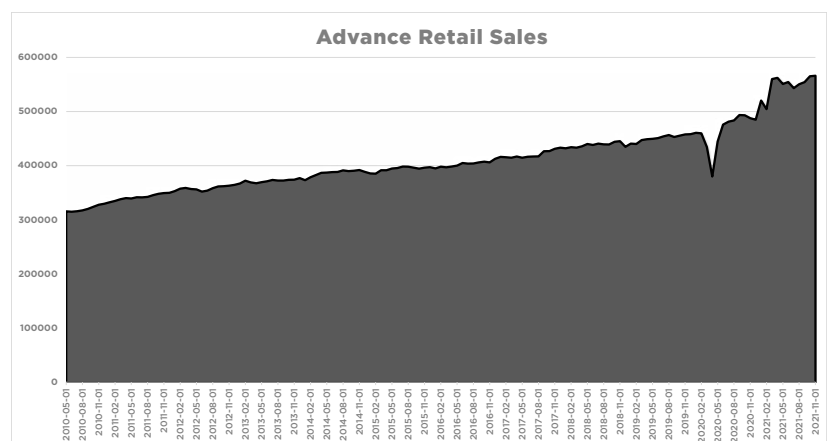
VACANCY: 5.6% ▼

NET ABSORPTION RATE: (808,951) SF ▲

AVG ASKING RATE: \$16.74 / SF ▲

Growth from New Concepts and Evolving Formats – Pickleball & Cocktails and Ralph Lauren Stores

The popularity of pickleball is soaring as a maturing population looks for active and social gatherings that aren't as demanding as, say, tennis or racquetball – and they are much more social than competitive. Hence a new retail/recreational/entertainment business is rolling out – Pickle and Social – the third concept developed under the Competitive Social Ventures (CSV) Holding Company. These are the guys that introduced Top Golf. The company defined its vision in a post on its' Pickle and Social website: “(We are) Embracing our Mission to bring people together for FUN and authentic shared experiences by creating an



unbeatable atmosphere, innovative play, amazing food and drink, and top-notch service.”

Shelby Tworek, a retail specialist with NAI Horizon in Phoenix, said the company is developing a 2-3 acre site in Scottsdale and is also planning similar locations in Gilbert and Glendale, which are also in the Phoenix Metro Market.

Ralph Lauren is opening 250 new North American stores, and it’s only a matter of time before one pops up in Scottsdale. Shifting from department stores to its branded outlets, Ralph Lauren told investors in late September that it had exited two-thirds of department stores where it sold apparel and would instead open direct-to-consumer locations, beginning with 14 new stores in prime markets, such as San Francisco, Denver, and Seattle. Already 63% of the company’s revenue comes from consumer-direct sales, with 26% attributed to e-commerce.

3rd Quarter Phoenix Retail Data

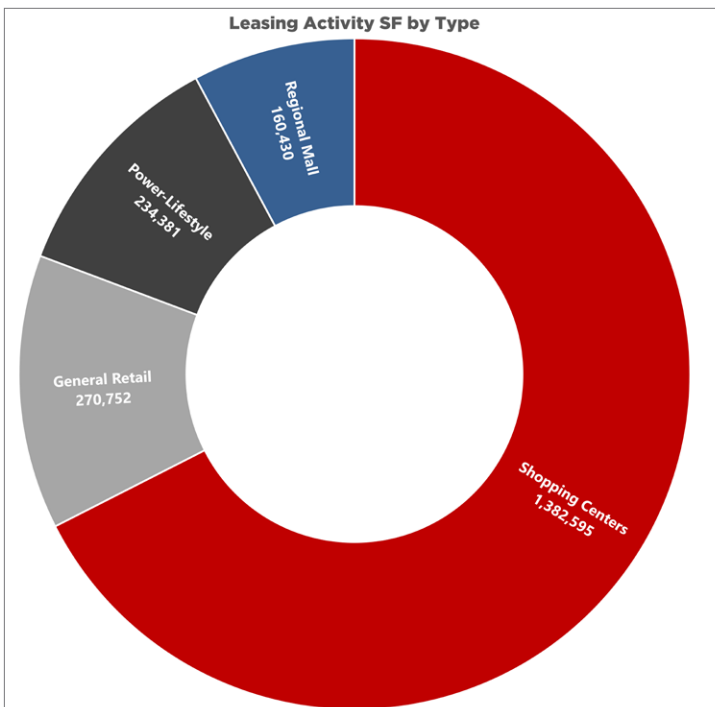
The overall vacancy rate at the close of the third quarter for all classes of retail property, including general retail, power and lifestyle centers, regional malls, and neighborhood shopping centers, came in at 5.6% -- exactly where it was at mid-year, and over 200 basis points lower than its recent high, the pandemic-fueled second quarter of 2021 when it reached 7.8%.

3rd quarter total net absorption was positive 808,951 square feet, comparable to the same period a year earlier when it was 961,062 square feet.

Leasing activity slowed markedly in what may be a precursor for how the year finishes and the next begins. Landlords and tenants got together to sign 386 leases during the quarter. You would have to go back to the second quarter of 2020 – in the teeth of the pandemic, to find a comparably slow quarter. In that period, tenants and landlords signed 299 leases. In the eight quarters between these periods, on average, 521 lease transactions were completed per quarter, with the second quarter of 2021 topping them all, with 668 deals closed.

Fortunately, builders seem to be in tune with a decelerating market, as only 196,867 square feet of new retail product was added to an inventory that now exceeds 237 million square feet. For perspective, in the previous eight quarters, the least amount of new product delivered in a quarter was 247,691 square feet (3Q2021), while the most was 531,056 square feet of new inventory delivered in the first quarter of 2020.

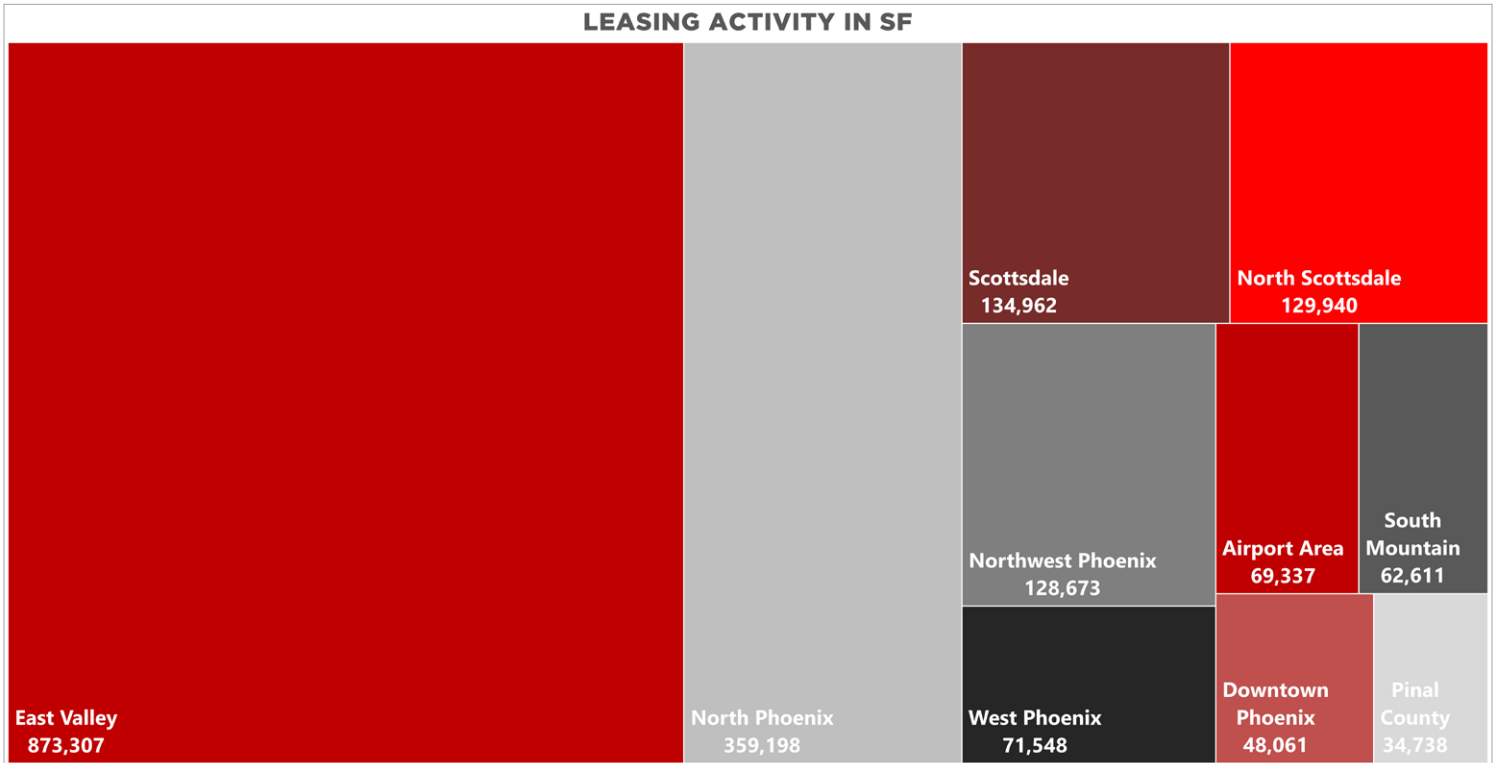
As we began the final quarter of 2022, 94 new retail buildings were under construction, totaling 2.215 million square feet. These new projects represent the most significant amount of new construction



Q3 2022

RETAIL MARKET METRO PHOENIX

LEASING ACTIVITY IN SF



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since the fourth quarter of 2019, when developers had nearly 2.7 million square feet in the works.

The NNN asking rent closed the third

quarter at \$16.74 per square foot (psf), marking the fourth consecutive quarter in which average asking rents were north of \$16 a foot. Rents have risen steadily since reaching a new low in the \$13s psf in the third quarter of 2013. By comparison, rents-in-place were \$19.26 a foot in 3Q2008 when the Great Financial Crisis commenced and began to descend from there.

Of all the commercial real estate product types, retail real estate is historically the most vulnerable to economic downturns and periods of growth, when retail's footprint usually expands. Retail activity will likely slow if we are in a recession or experience one in 2023. Yet as major markets go, Phoenix stands to be one of the healthier ones, given the consistent population growth the region experiences, and there is no reason to believe migration will decline in the foreseeable future.

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RETAIL MARKET METRO PHOENIX

Phoenix Market Snapshot

Categories

	RBA	Vacant SF	Vacant %	Net Absorption	RBA Delivered	RBA Under Construction	Avg NNN Rate
Power/Lifestyle	33,848,115	1,267,730	3.7%	121,975	0	110,590	\$22.46
Regional Mall	14,529,782	1,973,703	13.6%	(29,982)	-	-	\$10.23
General	81,395,163	2,665,267	3.3%	194,056	137,602	1,649,158	\$20.49
Shopping Center	107,299,130	7,295,631	6.8%	522,902	59,265	455,855	\$16.08

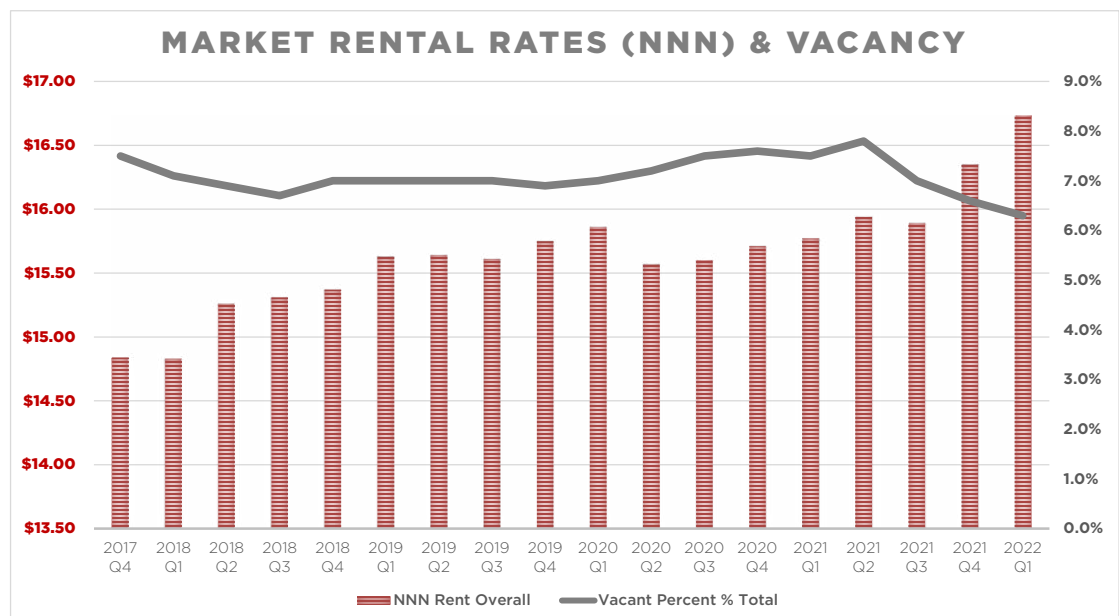
Significant Lease Transactions

Address	City	Tenant	Size	Submarket	Type
8658-8666 E Shea Blvd	Scottsdale	Scottsdale Gymnastics	38,000	Central Scottsdale	4 Star Retail Freestanding
1321-1325 E Florence Blvd	Casa Grande	ACE Hardware	20,000	Outlying Pinal County Ret	3 star Retail
1321-1325 E Florence Blvd	Casa Grande	Aaron's Rents	20,000	Outlying Pinal County Ret	3 star Retail
6912-6932 E Hampton Ave	Mesa	Paradise Appliances	17,034	Red Mountain/Mesa	3 Star Retail
42101 N 41st Dr	Phoenix	Ridgeline Academy	14,872	North I-17	3 Star Retail
9375 W Coyotes Blvd	Glendale	Sugar Factory	12,314	Westside	4 star Retail
SEC Jackrabbit Trl & Indian School Rd	Buckeye	Dollar Tree	10,000	N Goodyear/Litchfield	3 star Retail

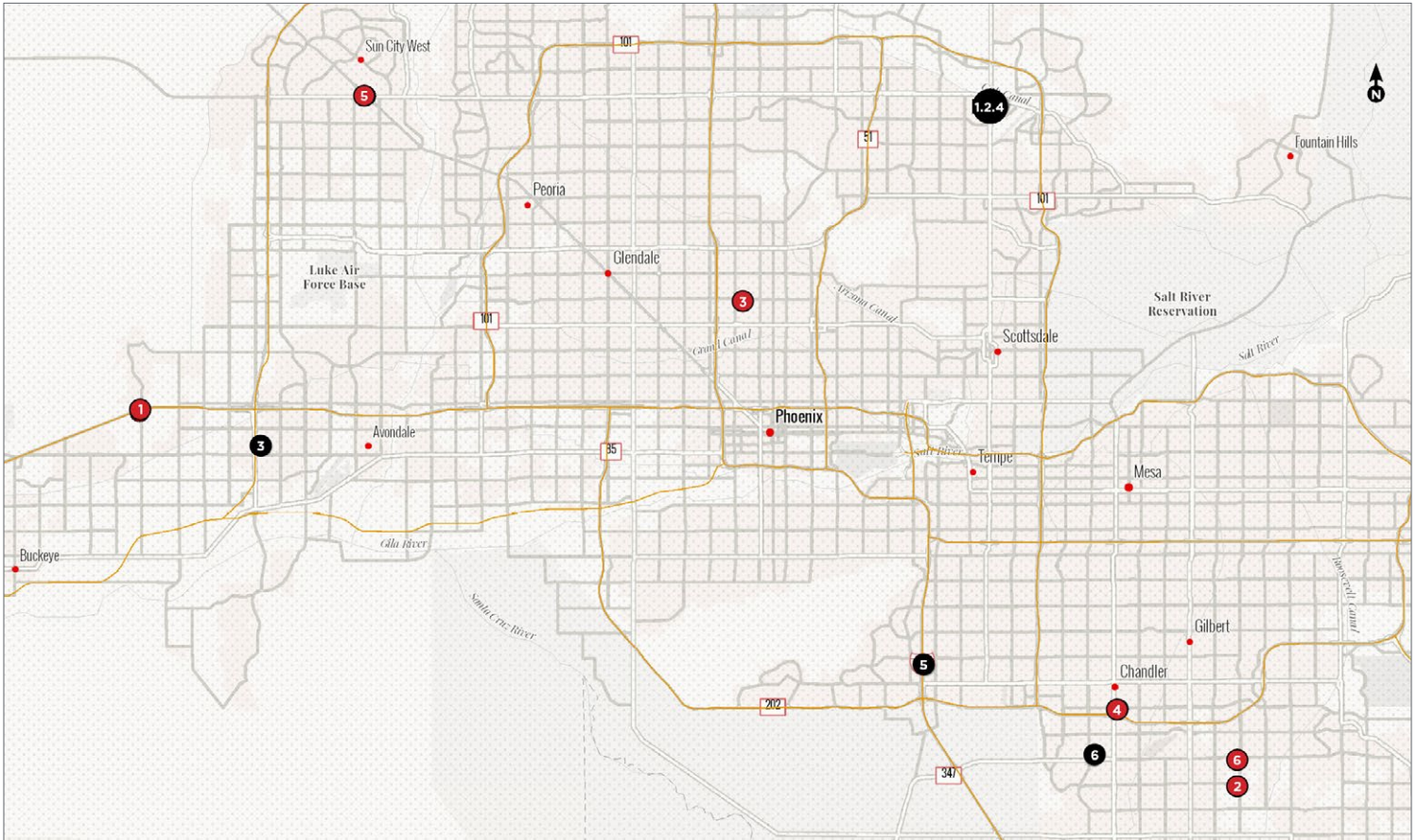
Significant Sale Transactions

Property	Address	Date	Size	Sale Price	PPSF
Lifetime Fitness	24700 N 67th Ave	3.15.21	180,000	\$34,000,000	\$188.89
Avondale Nissan	10305 W Papago Fwy	3.25.21	41,232	\$15,800,000	\$383.20
Moon Valley Towne Center	703-801 E Bell Rd	2.11.21	78,834	\$11,988,933	\$152.08
JC Penny at Arrowhead Towne Center	7750 W Arrowhead Towne Center Dr	1.30.21	146,653	\$11,300,000	\$77.05
JC Penny at Superstition Springs Center	6525 E Southern Ave	1.30.21	153,278	\$10,400,000	\$67.85
JC Penny at Palm Valley Cornerstone	13333 W McDowell Rd	1.30.21	97,513	\$10,250,000	\$105.11
The Agave	14601 N Scottsdale Rd	2.26.21	16,038	\$9,775,000	\$609.49
Augusta Ranch Marketplace	9911-9931 E Baseline Rd	1.25.21	65,544	8,452,814	\$128.96

Retail Rental & Vacancy Rates



Top Retail Sales & Leases



TOP RETAIL SALES

<p>1 16203-16255 N SCOTTSDALE RD</p> <p>\$533,311,221</p>	<p>2 16000 N SCOTTSDALE RD</p> <p>\$437,500,000</p>	<p>3 625 S COTTON LN</p> <p>\$410,000,000</p>
<p>4 16243 N SCOTTSDALE RD</p> <p>\$302,220,809</p>	<p>5 800-890 N 54TH ST</p> <p>\$26,018,614</p>	<p>6 2815-2975 S ALMA SCHOOL RD</p> <p>\$24,885,264</p>

TOP RETAIL LEASES

<p>1 VERRADO WAY & I-10</p> <p>160,938 SF</p>	<p>2 5796 S VAL VISTA DR</p> <p>123,359 SF</p>	<p>3 1703-1751 W BETHANY HOME RD</p> <p>60,000 SF</p>
<p>4 1005-1095 S ARIZONA AVE</p> <p>30,233 SF</p>	<p>5 13706-13722 W BELL RD</p> <p>28,034 SF</p>	<p>6 4844-4902 S VAL VISTA DR</p> <p>24,728 SF</p>

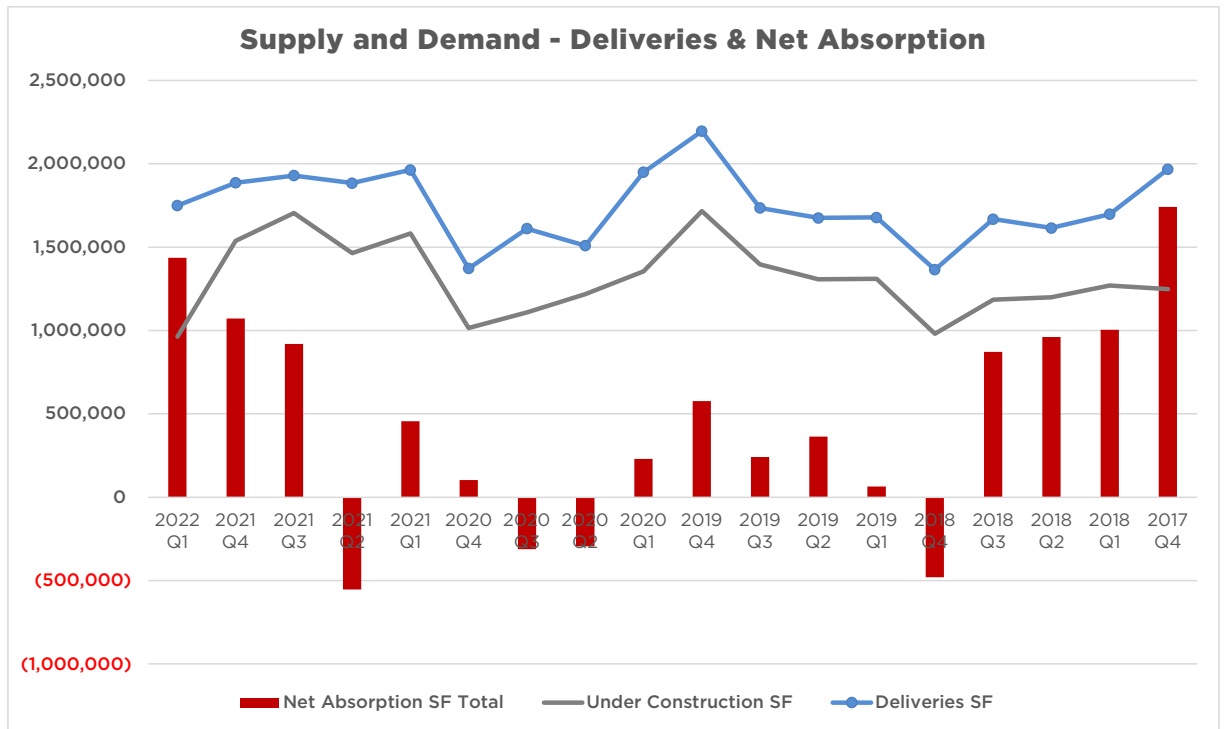
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RETAIL MARKET METRO PHOENIX

Submarket Snapshot

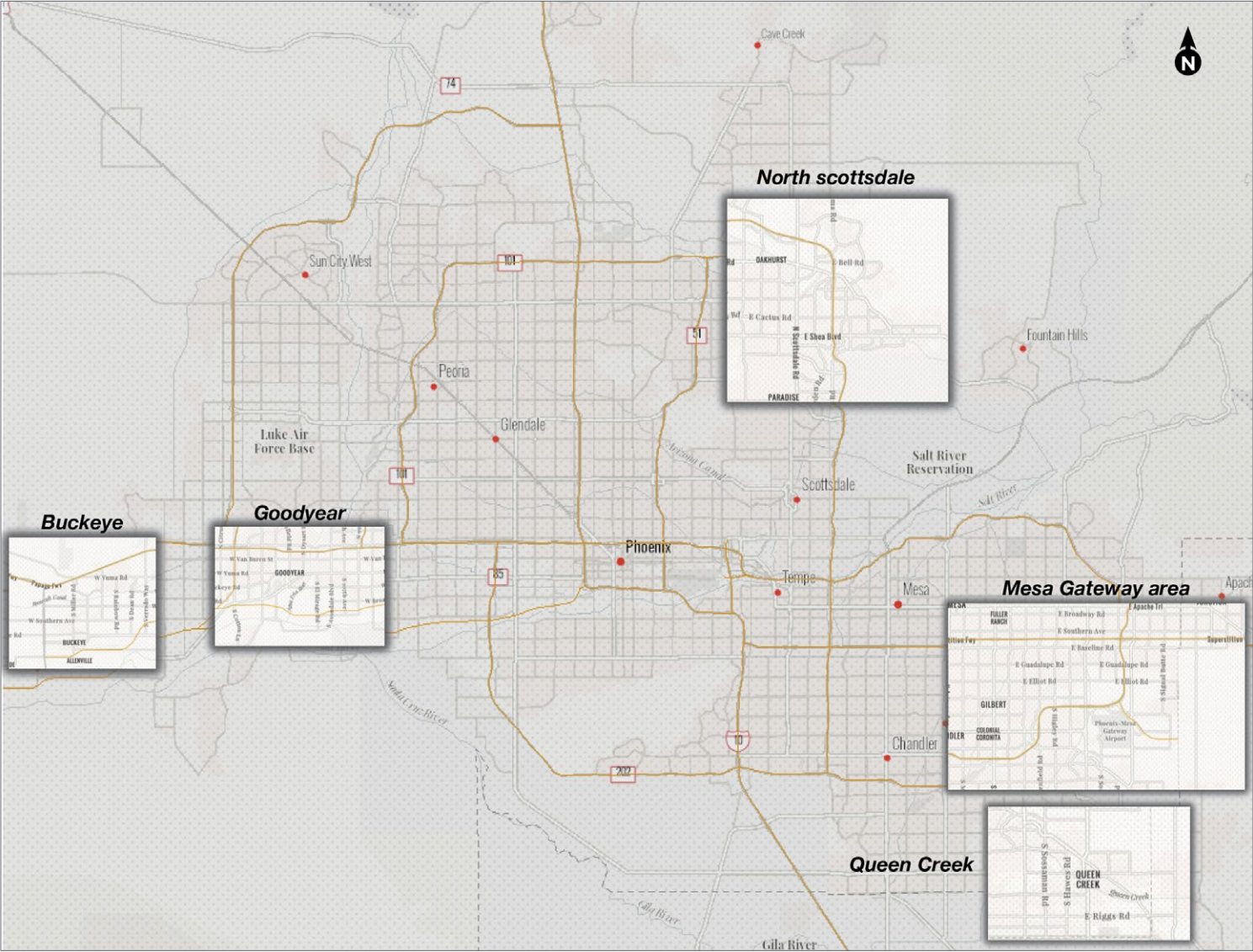
	RBA		Vacant SF		Vacant %		Net Absorption		Under Construction		Avg NNN Rate
Airport Area	5,824,761	▲	246,635	▲	4.2%	▲	23,791	▲	-	-	\$17.82
Downtown Phoenix	8,448,454	▼	357,236	▼	4.2%	▼	29,688	▼	6,965	-	\$19.16
East Valley	78,615,578	▼	4,885,653	▼	6.2%	▼	124,635	▲	356,706	▲	\$16.01
North Phoenix	40,560,667	▲	3,113,068	▼	7.7%	▼	275,395	▲	102,490	▲	\$14.03
North Scottsdale	16,640,488	-	717,323	▼	4.3%	▼	89,547	▼	-	-	\$20.97
Northwest Phoenix	21,069,144	▲	869,030	▼	4.1%	▼	81,677	▲	19,339	▲	\$17.45
Pinal County	11,438,771	▲	869,168	▼	7.6%	▼	10,008	▲	43,479	▲	\$16.10
Scottsdale	20,178,095	▲	746,891	▲	3.7%	▲	39,323	▲	346,500	▼	\$28.11
South Mountain	6,961,122	-	449,835	▼	6.5%	▼	40,639	▼	26,736	▼	\$17.81
West Phoenix	26,485,336	-	937,340	▼	3.5%	▼	91,559	▲	1,313,388	▲	\$17.79
All Submarkets	237,112,335	▲	13,202,331	▼	5.6%	▼	808,951	▲	2,215,603	▼	\$16.74
Overall Total 4Q21	236,915,468	▲	13,814,415	▼	5.8%	▼	982,218	▲	1,818,676	▼	\$16.59
Overall Total 3Q21	236,731,228	▲	14,622,005	▼	6.2%	▼	1,488,500	▲	1,987,120	▲	\$16.71
Overall Total 2Q21	236,255,411	▲	15,634,688	▼	6.6%	▼	1,074,516	▼	1,512,837	▲	\$16.34

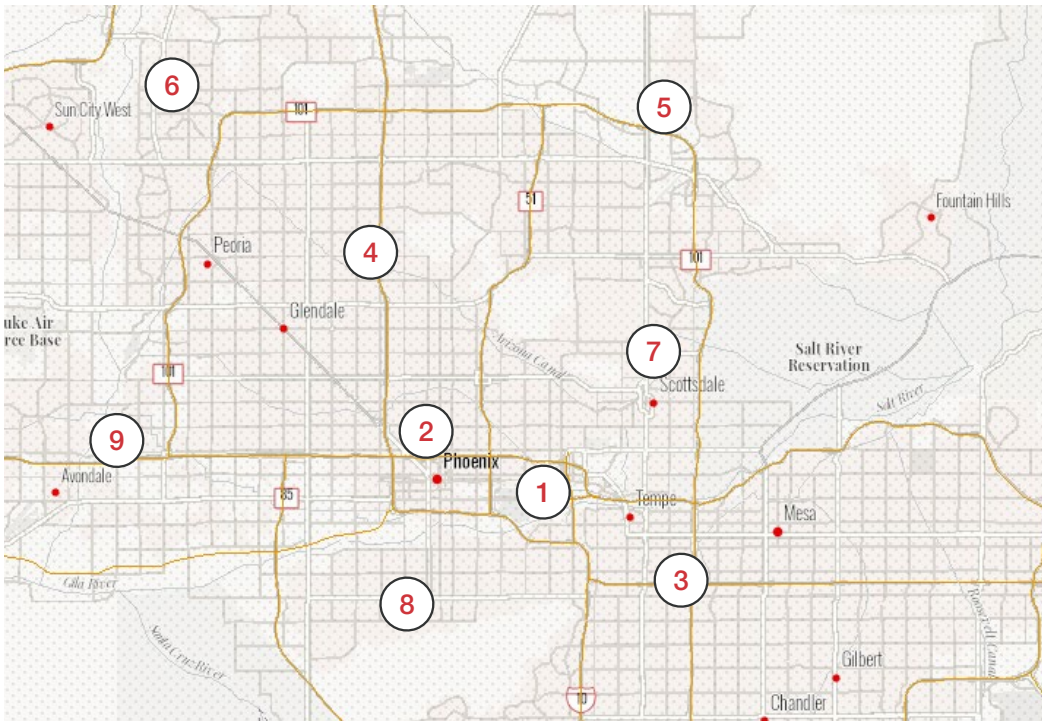
Supply, Demand & Under Construction



The Retail Market is a compilation that includes distribution, warehouse, manufacturing and flex 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 Hot Spots





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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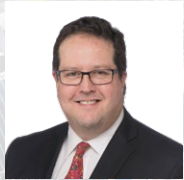


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NAI Horizon knows commercial real estate. With over 30 years in the Valley, NAI Horizon's extensive market insight allows us to match client needs with the right solutions. NAI Global member firms span the U.S. and 42 other countries, with more than 300 offices and more than 5,100 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 interests.

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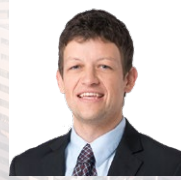
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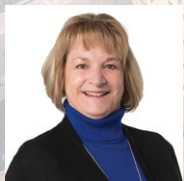
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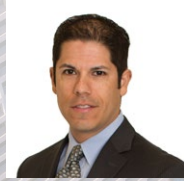
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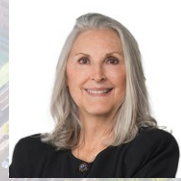
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