

METRO PHOENIX

# Retail

VACANCY ▼

CONSTRUCTION ▲

NET ABSORPTION ▲

4th Quarter  
**2022**  
RETAIL  
**Market Report**

### National Trends

Holiday sales, from November 1st to December 24th, rose 7.6% from a year earlier, with online sales jumping 10.6%. In-person shopping accounted for 6.8% of that year-over-year increase. According to Mastercard SpendingPulse, which tracks all forms of payment, by category, clothing rose 4.4%, yet jewelry and electronics dipped roughly 5%.

However, retail sales declined for the entire month of December by 1.1% (seasonally adjusted) compared with November. The latest data shows that the economy is cooling as the Fed pushes up interest rates to combat inflation.

### Nationwide, retail concepts are contracting, expanding, and potentially for sale.

Bed Bath & Beyond (BBB) is making national news with their announcement of store closures and potential bankruptcy filing. According to a list made available for this Report, as of early January, BBB had earmarked approximately 130 stores in more than 20 states scheduled to close. BBB stores range from 18,000 square feet to 70,000 square feet, though the majority average around 32,000 square feet, and only six stores are larger than 45,000 square feet.

Some of its store closings include a handful of its BuyBuy Baby brand of stores. There were two recent announcements from the company, including that it was in talks to sell its entire BuyBuy Baby chain to generate cash. As of February 2022, the company had about 770 Bed Bath & Beyond stores and 130 BuyBuy Baby locations. An analyst estimates that the baby chain had around \$1.2 billion in sales last year, which would value the brand between \$300 million and \$400 million. Making matters worse for the BBB company, it faced debt payments on \$28 million in loans due February 1st.

In Phoenix, BBB has three locations, none of which are currently on the closure list. They are located in North Phoenix off of AZ State Route 51, north of Scottsdale off AZ State Route 101, and in South Phoenix, close to Chandler, near the 202 Loop. The company has three Phoenix-area BuyBuy Baby stores – in Chandler, North Scottsdale, and the northwest Valley near Sun City and Peoria.

The Subway Sandwich chain is also eyeing a sale which, between private equity firms and corporate buyers, could value the chain as the largest franchise operator in the world at more than \$10 billion. In 2021, the company had ±37,000 stores across the globe and was the biggest restaurant chain in the U.S. by location. That year, 21,000 U.S. stores generated \$9.4 billion in sales. Subway was

Would-be land buyers are facing dauntingly high land prices, which have been driven up by the post-pandemic surge in development projects.

founded in 1965, and was run by co-founder Fred DeLuca for decades until his passing in 2015. His heirs still own the company.

### Retail Expansions

Lululemon, Whole Foods, and Chick-fil-A are each opening stores in Montana (Bozeman, Billings, Missoula). Dollar General is also on an expansion spree in the Big Sky State, mainly opening in the state's smaller cities and large towns, many of which are in Montana. California-based In-N-Out Burger announced that it would open its first quick-service restaurants east of Texas, starting by opening a second corporate office in Franklin, Tennessee. The company said it would begin opening restaurants in Nashville in 2024. Popshelf, a micro-store concept from Dollar General, announced plans to open 300 locations nationwide and aims to attract shoppers who make between \$50,000 and \$125,000 annually. Popshelf has one store in the Phoenix area, is planning to open a second

### Q4 AT A GLANCE:

VACANCY: 5.3% ▼

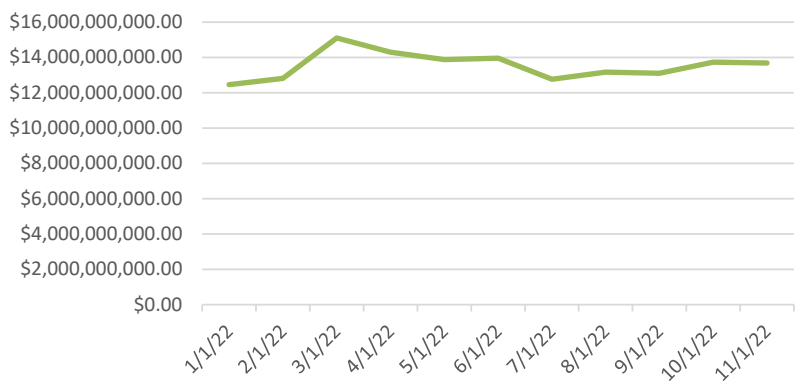
NET ABSORPTION RATE: (1,166,822) SF ▲

AVG ASKING RATE: \$16.84 / SF ▲

store at Westgate Shopping Center, and is looking in the southeast Valley, likely Gilbert, for a third location.

Locally, in addition to pickleball operators hunting for locations in the Phoenix area, water park companies are looking for land sites to open giant wave pools, some of which will include large hotels, to create destination venues for vacationers. Would-be land buyers are facing dauntingly high land prices, which have been driven up by the post-pandemic surge in development projects. Because multifamily developers, and in some instances, industrial developers, can afford to pay more for land based on projected returns, it has become even more difficult for retail and entertainment operators to compete on price for the same dirt.

2022 AGGREGATE ARIZONA RETAIL SALES  
TOTAL \$148.9 BILLION



Further, Andretti Indoor Karting and Games is seeking locations in the greater Phoenix area. Racing go-carts appeal to young adults and grown adults alike. The company's current sites are in Marietta, GA, Orlando, FL, San Antonio, TX, The Colony, TX, Katy, TX, and Buford, GA.

### 4th Quarter Phoenix Retail Data

Steady population growth and a robust regional economy continue to entice retailers to open and expand operations in Phoenix and its surrounding suburbs. The retail vacancy rate at the close of the fourth quarter was 5.3% — 130 basis points lower than it was a year earlier. It was the seventh consecutive quarter in which the vacancy rate has declined, which

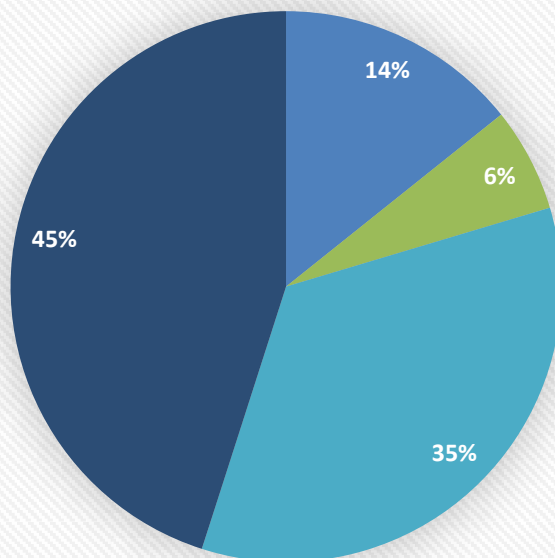
accounts for the steady rise in overall asking retail rental rates in the Valley. Asking rental rates concluded the fourth quarter at \$16.84 per square foot (PSF), up from \$16.35 PSF a year earlier. Rental rates in the Valley continue to move upward from a low point in the first quarter of 2015, when the asking rate was \$13.70 PSF.

At the end of the recent quarter, Scottsdale had the highest asking rent of the area's submarkets, at \$28.71 PSF, while the most affordable rents were in North Phoenix, at \$14.50 PSF. The East Valley, which has the most significant amount of retail inventory in the region with nearly 80 million square feet, had a vacancy rate of 5.8% and an average asking rent of \$15.93 PSF. The submarket also had 343,168 square feet of new retail real estate under construction at the end of the year. That is well below the amount of new construction underway in the ever-growing West Phoenix submarket, with over 1.2 million square feet of new retail inventory under construction in late December.

Valley-wide, as the fourth quarter ended, retail developers were at work building 1.9 million square feet of new inventory. For the full year of 2022, builders delivered 167 new retail stores, restaurants, and shopping centers with a total of 1.8 million square feet. By comparison, in 2021, 139 new retail buildings were added to the Valley's inventory, comprised of 1.45 million square feet of retail real estate.

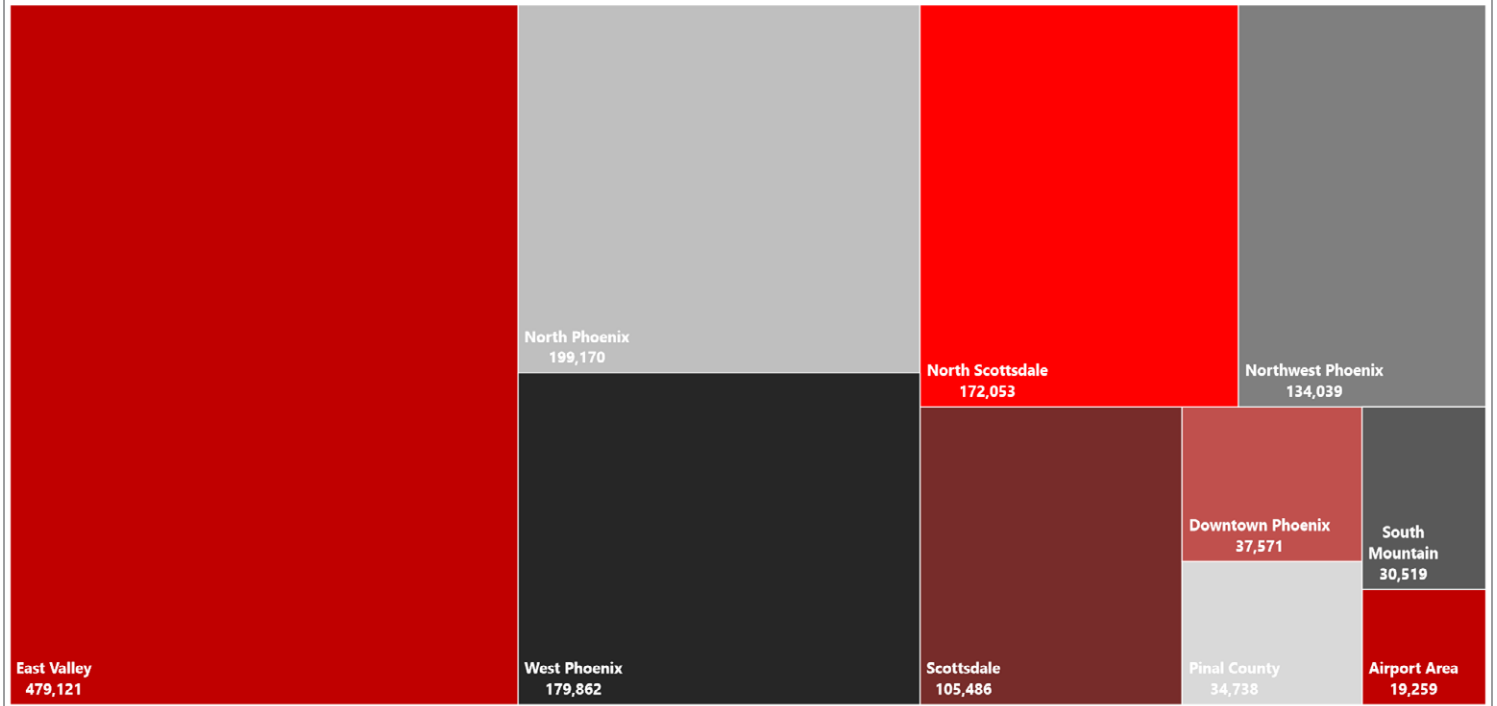
In the final quarter of 2022, total net absorption was positive 1.17 million square feet, making it the sixth consecutive quarter of positive net absorption. Retail net absorption has been positive in 16 of

### Lease Activity SF by Type



■ Power-Lifestyle ■ Regional Mall ■ General Retail ■ Shopping Centers

### LEASING ACTIVITY IN SF



the past 20 quarters in the Valley.

Leasing activity was relatively soft compared with earlier quarters, with 365 direct and sublease transactions signed. One would have to go back to the second quarter of 2020 to find fewer deals done, at 299. Of course, that was the first full

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quarter of the pandemic when everything had slowed. Fewer deals with significant gross and net absorption mean that the average deal size was larger in the fourth quarter. By comparison, in the first quarter of 2022, retail tenants inked 536 leases. Net absorption was greater than the final quarter last year, but not by much, at 1.48 million square feet. About 90% of signed leases are smaller, involving 5,000 square feet or less.

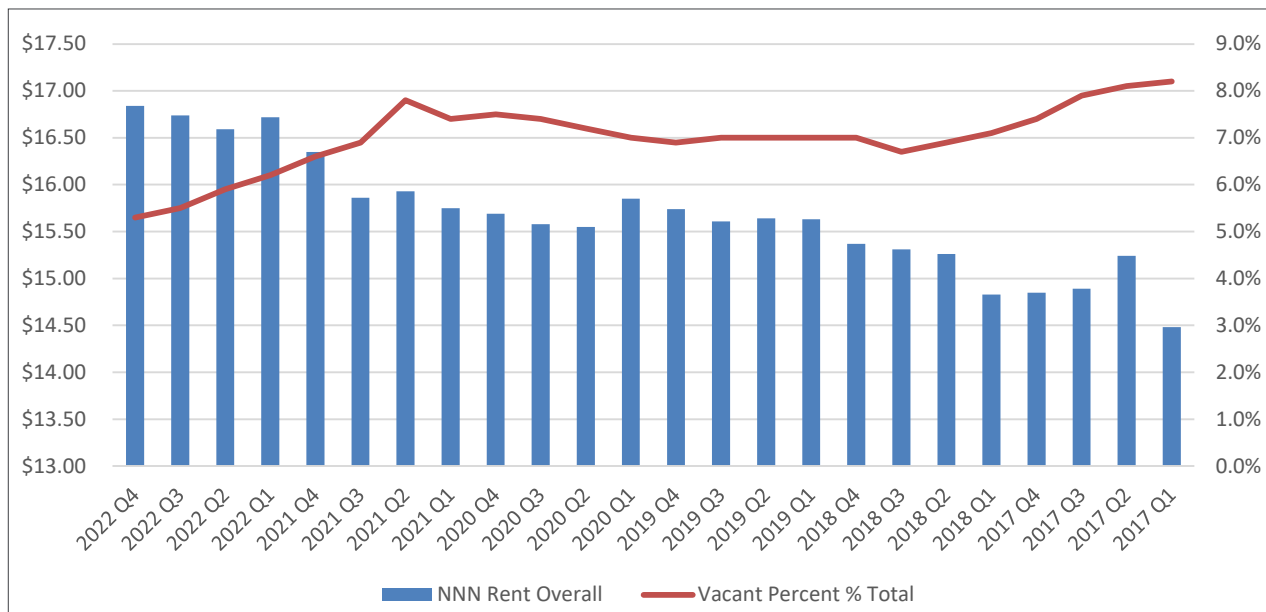
Out-of-state buyers, many from California, closed some of the most significant sales last year, often doing so with 1031 exchanges. For example, a private California investor paid \$12.7 million (\$207 PSF) for a 61,300-square-foot community center in Mesa, while a Los Angeles buyer traded up for an Avondale retail property for \$7.4 million (\$241 PSF). One of the most significant sales of the year involved The Promenade shopping center for \$180 million (\$309 PSF) as part of a portfolio sale. Lowes, Living Spaces, and Nordstrom Rack anchor the Promenade.

### Phoenix Market Snapshot

#### Categories

	RBA	Vacant SF	Vacant %	Net Absorption	RBA Delivered	RBA Under Construction	Avg NNN Rate
Power/Lifestyle	33,947,240	1,180,747	3.5%	343,937	272,954	6,000	\$22.91
Regional Mall	14,529,782	1,939,764	13.4%	33,939	–	–	\$10.30
General	82,253,014	2,554,230	3.1%	354,641	239,694	1,409,203	\$19.85
Shopping Center	107,191,856	6,868,940	6.4%	434,305	40,176	495,774	\$16.19

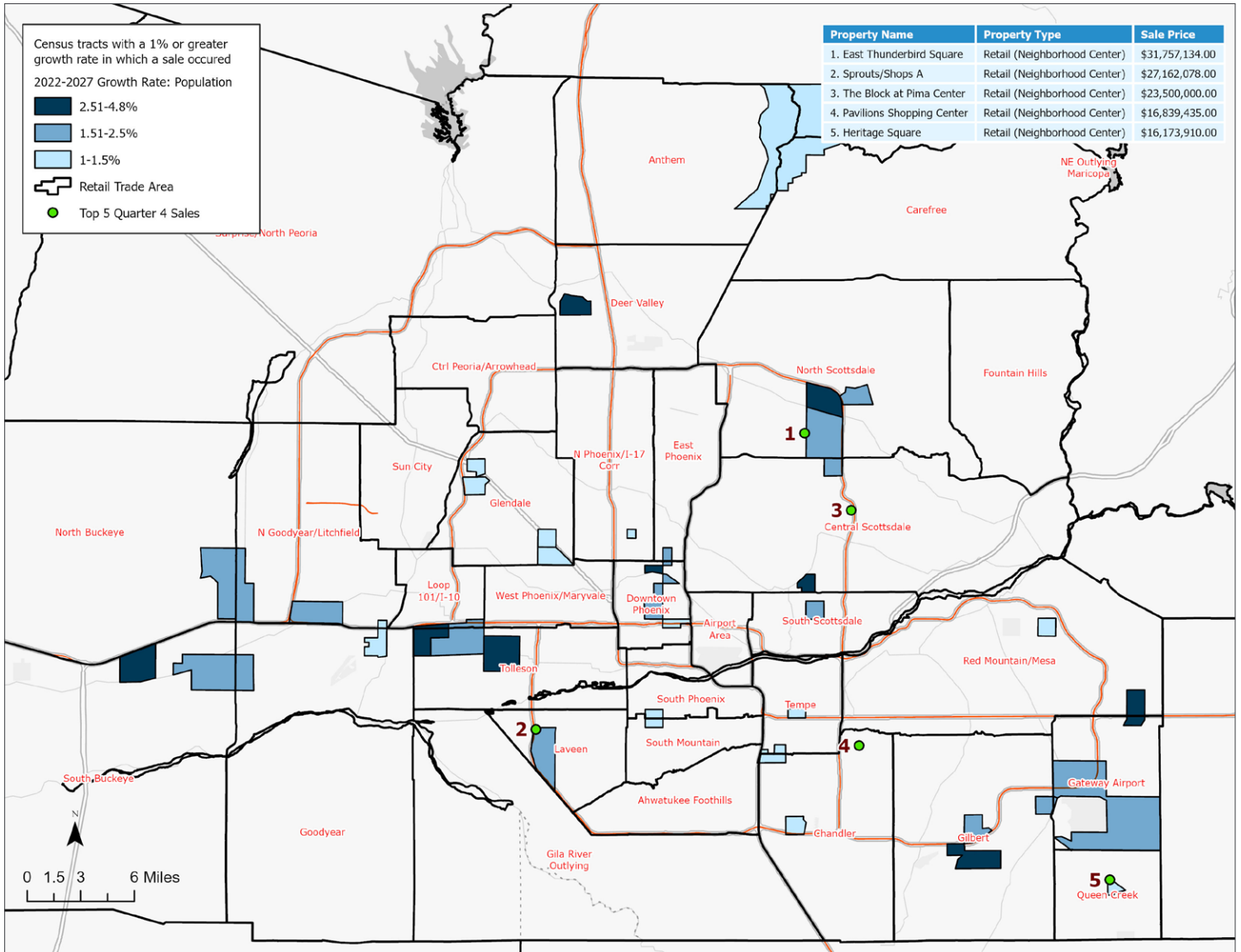
#### Retail Rental & Vacancy Rates



# Q4 2022

## RETAIL MARKET METRO PHOENIX

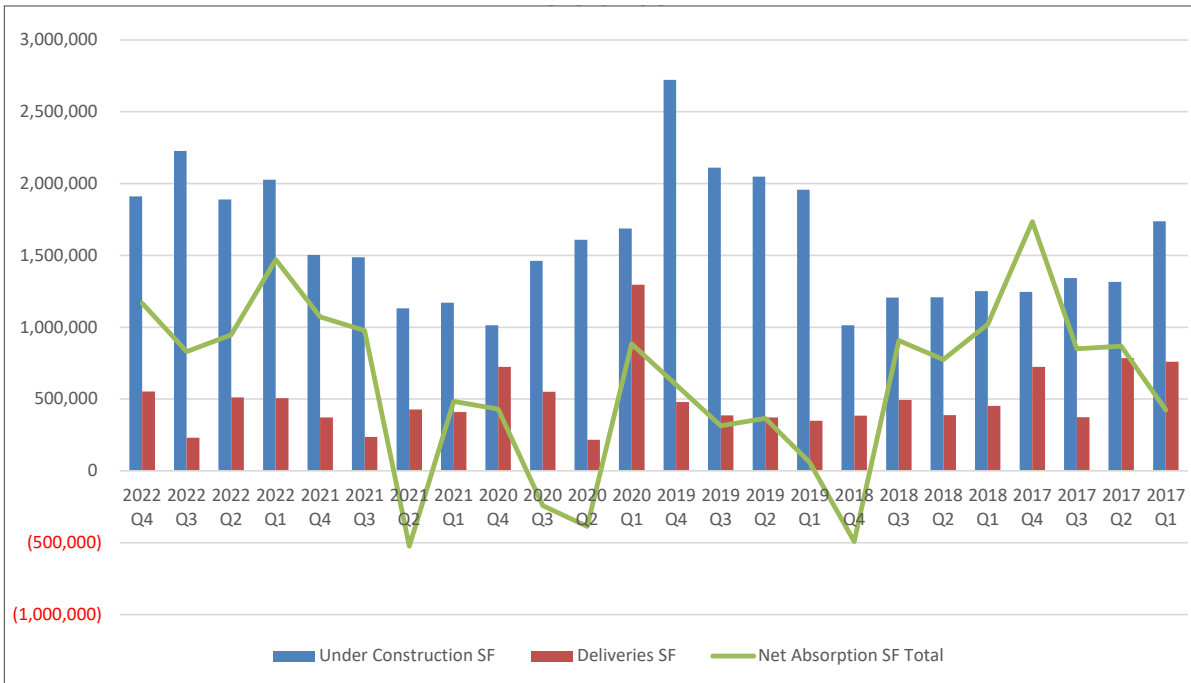
### Top Retail Sales



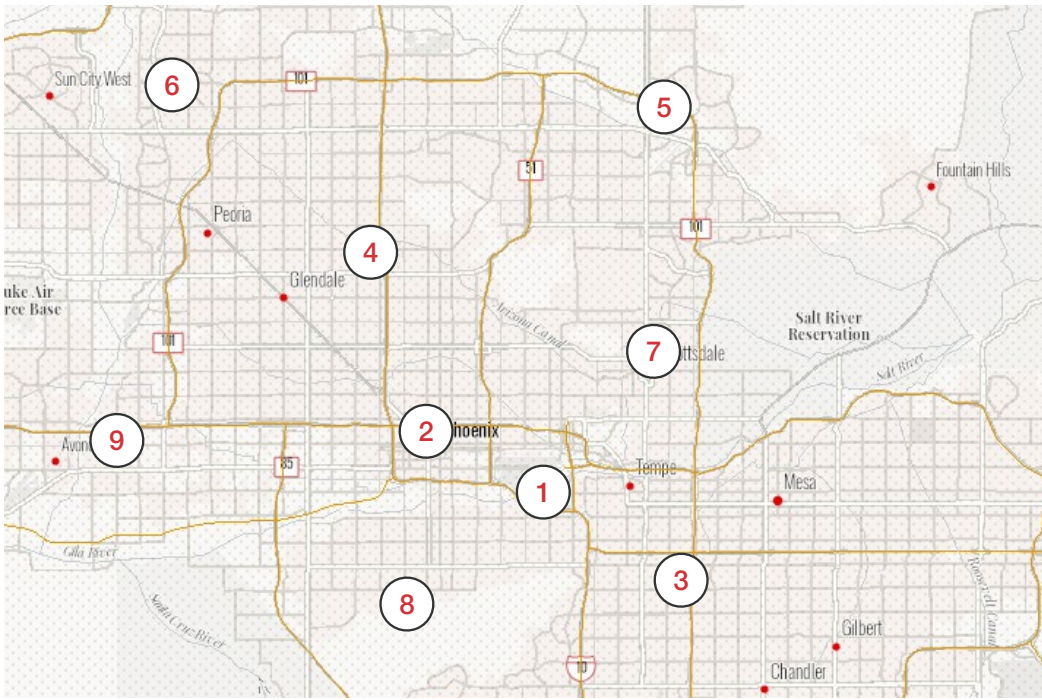
### Submarket Snapshot

	RBA		Vacant SF		Vacant %		Net Absorption		Under Construction		Avg NNN Rate
Airport Area	5,894,905	▲	258,738	▲	4.4%	▲	(6,903)	▼	–	–	\$17.35 ▼
Downtown Phoenix	8,467,317	▲	393,310	▲	4.6%	▲	(31,574)	▼	114,865	P	\$18.68 ▼
East Valley	79,147,537	▲	4,555,935	▼	5.8%	▼	655,731	▲	343,168	▼	\$15.93 ▼
North Phoenix	40,610,725	▲	3,064,682	▼	7.5%	▼	61,795	▼	87,369	▼	\$14.50 ▲
North Scottsdale	16,504,326	▼	693,779	▼	4.2%	▼	32,727	▼	–	–	\$21.32 ▲
Northwest Phoenix	21,123,113	▲	746,393	▼	3.5%	▼	149,056	▲	11,569	▼	\$17.62 ▲
Pinal County	11,472,617	▲	825,974	▼	7.2%	▼	84,225	▲	49,586	▲	\$16.26 ▲
Scottsdale	20,273,637	▲	710,425	▼	3.5%	▼	41,966	▲	41,856	▼	\$28.71 ▲
South Mountain	6,926,510	▼	393,223	▼	5.7%	▼	56,612	▲	34,626	▲	\$18.32 ▲
West Phoenix	26,650,889	▲	897,022	▼	3.4%	▼	117,235	▲	1,227,938	▼	\$17.92 ▲
All Submarkets	237,962,037	▲	12,543,681	▼	5.3%	▼	1,166,822	▲	1,910,977	▼	\$16.84 ▲
Overall Total Q3 2022	237,415,036	▲	13,163,502	▲	5.5%	▼	829,988	▲	2,226,638	▼	\$16.74 ▲
Overall Total Q2 2022	237,311,358	▲	13,889,812	▼	5.9%	▼	946,349	▲	1,890,123	▲	\$16.59 ▲
Overall Total Q1 2022	237,054,051	▲	14,588,466	▼	6.2%	▼	1,471,105	▼	2,026,953	▼	\$16.72 ▼

### Supply, Demand & Under Construction







## 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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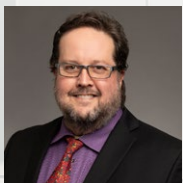


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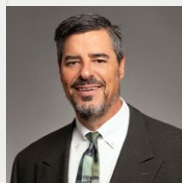
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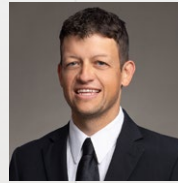
## Retail Specialists



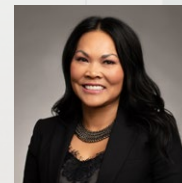
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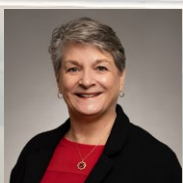
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