



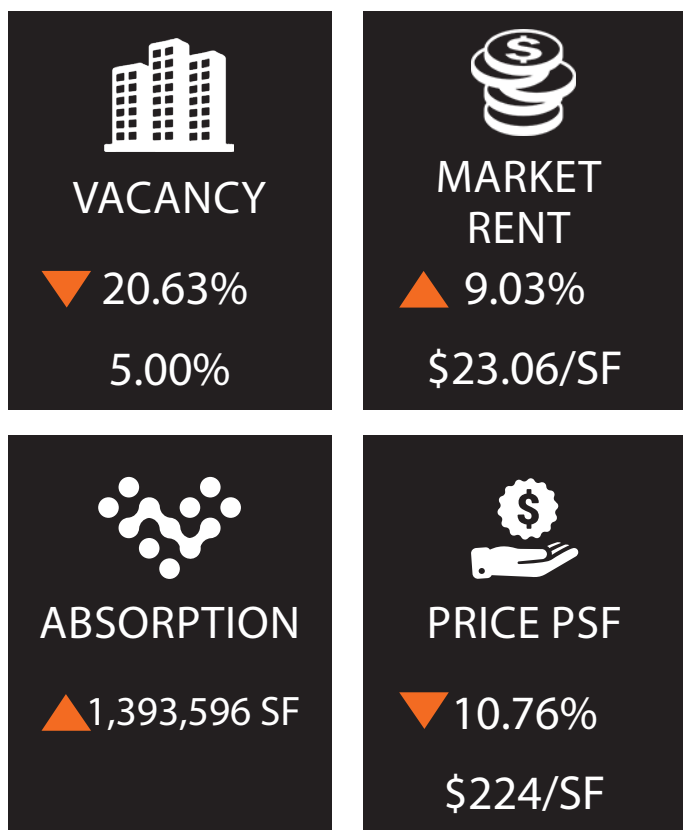
# 1 Q2023 METRO PHOENIX RETAIL NEWSLETTER

## CONTACT INFORMATION

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# METRO PHOENIX RETAIL OVERVIEW

## YOY RETAIL STATS



The Phoenix retail market is firing on all cylinders as of 23Q2. The healthy labor market, growing consumer base, and positive demographic patterns are intensifying demand at local retailers, encouraging expansion. These factors supported the absorption of 4.1 million SF of net new retail space in the past year, the strongest 12-month period since the run-up to the Great Recession. While gross leasing activity has been steady, the strength in the market can largely be attributed to a reduction in store closures as move-outs of retail space reached the lowest level in at least 17 years. Quick-service restaurants, fitness users, grocers, and medical tenants were the primary drivers of leasing activity. This robust demand is expected to continue in the coming year, compressing vacancy to an all-time low of 5.0%.

With vacancy approaching unprecedentedly low levels, the lack of available space is beginning to weigh on leasing activity. Retailers can't lease what's not available and the simultaneous decline of vacancy and leasing indicates the metro may be nearing a structural bound on growth. As a result, demand is most evident in outlying areas where land is more available and affordable for new developments.

Although new construction starts have ramped up over the past few quarters, the current pipeline is modest by historical standards with just 3.1 million SF currently underway, compared to over 10 million SF in 2006. Much of the pipeline is focused on built-to-suit projects as retailers opt to build their own sites when expanding due to a lack of available space. Nearly 90% of the current construction pipeline is being built with a tenant in place. The removal of older, obsolete retail space has been another key factor in restoring the balance of supply and demand. About 6 million SF has been demolished over the past decade, compared to 19 million gross deliveries.

Investors remain attracted to Phoenix retail properties encouraged by healthy fundamentals, attractive yields, and the metro's robust economic and demographic outlook. Higher interest rates, however, began to negatively impact sales volume in the back half of 2022 as buyers began demanding higher returns to compensate for more expensive debt. Sellers, meanwhile, have not shown a major willingness to voluntarily dispose of assets and are opting to hold. Triple net lease deals could remain a source of investment sales as out-of-state buyers, particularly those from California, look to place capital in a less management-intensive asset class.

The Phoenix retail market continues to outperform as the metro's attractive demographic profile and diversified local economy fuel leasing activity. Roughly 4.1 million SF of space was absorbed in the past 12 months, ranking Phoenix as the strongest market in the nation for new demand. Robust absorption levels together with the continued demolition of outdated retail inventory drove the metrowide vacancy rate down to 5.0%, the lowest mark in at least 15 years.

Vacancy at historically low levels combined with a limited pipeline of speculative construction has made it difficult for retailers to find available space. As a result, new lease signings began to wane over the past nine months as the metro approaches a limit on growth. Moving forward, retailers may need to consider building their own space if they plan to expand.

Smaller tenants are the most active; about 85% of leases signed in the past 12 months were for spaces under 5,000 SF and two-thirds were under 2,500 SF. Quick-service restaurants are the primary driver of these smaller-footprint sites. The underlying demand drivers supporting Phoenix retailers remain in place as healthy job growth, demographic tailwinds, and elevated consumption continue to support property performance. These factors coupled with limited construction activity are expected to compress vacancy further this

## ECONOMIC HIGHLIGHTS

### Employment Data (YOY)

- ▶ 3.50% Unemployment Rate (USA) -0.10%
- ▶ 2.90% Unemployment Rate (Metro PHX) -0.10%
- ▶ 2.553MM Employed Residents (Metro PHX)

### Metro PHX Housing Trends (YOY)

- ▶ \$419,000 Median Home Price -8.70%
- ▶ 7,417 Closed Transactions -22.10%
- ▶ 77 Days on Market +45 Days
- ▶ 2.28 Months of Supply +1.39 Months

### 10-Year Treasury

- ▶ 3.48% as of 03/31/2023
- ▶ +1.16% YOY | -0.44% MOM |

year, ending 2023 at 5.0%.

Over the past 12 months, the average asking rent has climbed 8.14%, compared to the national average of 3.5%. Current projections indicate Phoenix retail rent gains will continue to outpace the national level in the coming year, ending 2023 up 6.8% annually. Geographically, the most robust rent gains can be found in rapidly growing suburbs in the West Valley. Goodyear, Sun City, and the Loop 101/I-10 area are outperformers, posting annual rent growth above 9%. Meanwhile, pricey areas in the market like Deer Valley and Scottsdale have rates of rent growth that lag the market average. Strip and neighborhood centers posted the strongest rent growth over the past few years, climbing more than 20% since the onset of the pandemic. Malls have struggled the most; the segment recorded measurable rent reductions from mid-2020 to mid-2021, but rents have recently stabilized and are now more than 11% above pre-COVID levels as older space was removed or repurposed. After a prolonged recovery, Phoenix rents finally overtook the previous cycle's peak in 23Q1 and currently stand at an all-time high. Nationally, rents are more than 20% above their 2007 figure, suggesting that there may be more runway left for future gains. At \$23.06/SF, Phoenix retail rates remain below the national average of \$24.00/SF, offering affordability for expanding retailers.

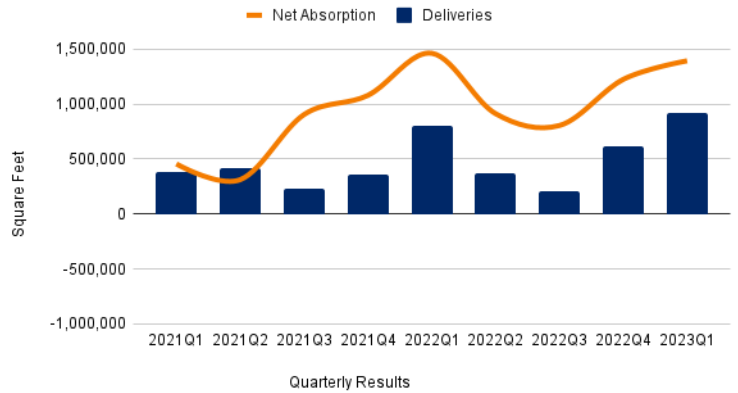
The steady recovery of retail fundamentals since the end of the global financial crisis was largely supported by the metro's subdued construction pipeline. Over the last 10 years, net retail deliveries averaged about 1.3 million SF annually, just a fraction of the 10 million SF per year delivered from 2006–08. Additionally, the removal of older, obsolete stock has helped bring supply and demand back into balance. About 6.1 million SF has been removed from inventory over the past decade. Today, 3.1 million of retail space is under construction, which accounts for just 1.3% of the existing inventory. Just 10% to 15% of the space underway is available for lease, further minimizing supply-side risk. Upcoming development is focused on the suburbs, specifically fast-growing communities in the Southeast Valley and West Valley. Most of the construction in these submarkets is for small to mid-sized spaces between 5,000 SF and 20,000 SF. Moving forward, a conservative construction pipeline will limit supply pressures in the Phoenix retail market. This lack of overbuilding and minimal speculative development activity will support property fundamentals, keeping vacancies and rents on the path for further improvement.

Phoenix's strong retail performance and positive market outlook have spurred record levels of investment. Approximately \$2.7 billion in retail assets have traded in the past 12 months, outpacing the five-year average of \$2.4 billion annually.

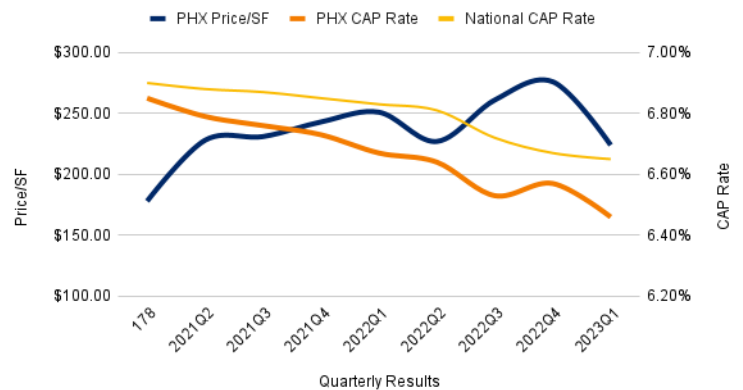
About \$290 million sold in 23Q1 as the impact of the rapidly changing capital markets environment and rising economic uncertainty weighed on sales activity. Last year, the Federal Reserve embarked on the most aggressive policy tightening path since the 1980s, causing interest rates to nearly double in 12 months. As a result, buyers face a much different lending climate and are demanding higher returns from sellers in compensation. Sellers, meanwhile, have not been willing to capitulate and would rather hold assets than sell at a perceived discount. This creates a bid-ask spread that will likely further weigh on transaction activity moving forward. Owners with loans coming due, funds with strict investment horizons, or investors with 1031-exchange deadlines could be a source of sales in the coming year.

Sources: CoStar Realty Information, Inc; U.S. Department of the Treasury; AZ Commerce Authority; ARMLS; U.S. Census Bureau, U.S. Bureau of Labor Statistics; Elliott D. Pollack and Company

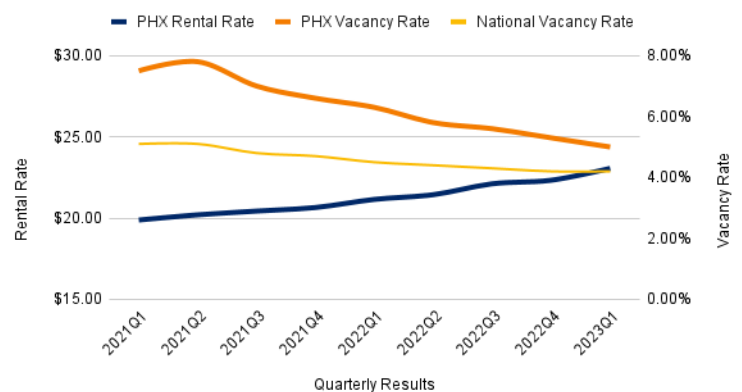
## METRO PHOENIX DELIVERIES AND ABSORPTION



## PRICE AND CAP RATE TRENDS



## RENTAL AND VACANCY RATES



# SUBMARKET ANALYTICS - 1Q2023 RETAIL

	Inventory (Millions)	Under Construction (SF)	Total Vacancy Rate	12 Mo. Absorption	Market Rent/SF	Market Sale Price/SF	Market CAP Rate	12 Mo. Sales Volume
Ahwatukee Foothills	3,231,859	0	4.6%	39,952	\$24.61	\$259	6.5%	\$7,360,000
Airport Area	4,465,053	0	4.6%	41,979	\$19.25	\$225	6.4%	\$5,285,000
Anthem	2,731,072	5,000	4.7%	62,578	\$25.24	\$301	6.0%	\$0
Apache Junction	2,346,011	44,860	5.1%	58,184	\$19.45	\$209	6.5%	\$0
Carefree	1,902,960	0	3.8%	73,646	\$25.64	\$302	5.8%	\$8,175,000
Central Scottsdale	16,943,537	186,722	2.7%	235,711	\$33.89	\$293	6.1%	\$5,090,000
Chandler	17,074,445	0	5.4%	104,149	\$23.80	\$226	6.6%	\$4,720,000
Ctrl Peoria/Arrowhead	10,672,458	0	4.9%	134,315	\$26.61	\$251	6.5%	\$22,197,632
Deer Valley	2,229,850	750	1.4%	19,999	\$32.32	\$322	6.3%	\$0
Downtown Phoenix	8,403,781	114,865	5.0%	-55,475	\$22.24	\$239	6.3%	\$16,302,000
East Phoenix	8,963,121	9,284	5.8%	59,292	\$20.27	\$229	6.4%	\$22,444,000
Fountain Hills	773,623	0	2.2%	15,888	\$19.73	\$260	6.2%	\$0
Gateway Airport	3,027,155	87,005	3.0%	144,832	\$25.59	\$265	6.7%	\$17,575,000
Gila River Outlying	356,950	0	0.0%	0	\$19.35	\$220	6.3%	\$0
Gilbert	17,050,099	167,540	2.8%	314,963	\$24.87	\$259	6.5%	\$19,110,000
Glendale	11,639,039	169,069	5.0%	96,056	\$20.15	\$217	6.6%	\$26,392,250
Goodyear	4,011,753	209,990	1.5%	59,513	\$23.30	\$253	6.2%	\$7,400,000
Laveen	1,662,909	17,505	0.9%	90,452	\$27.46	\$282	6.3%	\$0
Loop101/I-10	3,145,839	25,500	1.4%	116,243	\$24.89	\$254	6.4%	\$2,856,725
N Goodyear/Litchfield	6,978,789	1,153,969	2.7%	907,418	\$24.89	\$262	6.2%	\$8,908,620
N Phoenix/I-17 Corr	16,139,084	0	10.3%	406,090	\$16.99	\$189	6.8%	\$9,999,800
NE Outlying Maricopa	17,164	0	0.0%	0	\$13.51	\$228	6.2%	\$0
North Buckeye	255,699	14,142	1.6%	8,056	\$23.24	\$285	6.0%	\$0
North Scottsdale	13,937,608	48,226	4.3%	-31,638	\$28.34	\$294	6.1%	\$9,132,000
Outlying Pinal County	9,142,310	81,720	7.7%	173,935	\$19.18	\$217	6.6%	\$7,775,000
Queen Creek	2,627,085	342,581	2.2%	372,718	\$23.77	\$279	6.3%	\$12,989,333
Red Mountain/Mesa	31,311,368	75,707	7.1%	421,537	\$18.74	\$198	6.7%	\$40,429,448
South Buckeye	1,635,884	8,100	1.7%	35,285	\$25.54	\$290	6.0%	\$550,000
South Mountain	1,626,475	52,513	12.8%	15,153	\$24.14	\$247	6.6%	\$0
South Phoenix	1,897,495	2,816	2.8%	45,139	\$20.19	\$257	6.2%	\$1,228,000
South Scottsdale	3,319,099	41,356	7.4%	-15,618	\$20.42	\$261	6.2%	\$0
<b>Sun City</b>	<b>3,940,100</b>	<b>0</b>	<b>6.0%</b>	<b>78,088</b>	<b>\$18.59</b>	<b>\$210</b>	<b>6.7%</b>	<b>\$5,189,000</b>
<b>Surprise/North Peoria</b>	<b>5,688,654</b>	<b>90,522</b>	<b>1.7%</b>	<b>124,808</b>	<b>\$26.94</b>	<b>\$271</b>	<b>6.4%</b>	<b>\$8,575,000</b>
<b>Tempe</b>	<b>8,217,253</b>	<b>145,900</b>	<b>6.8%</b>	<b>-177,303</b>	<b>\$22.50</b>	<b>\$261</b>	<b>6.2%</b>	<b>\$12,695,000</b>
<b>Tolleson</b>	<b>2,905,847</b>	<b>31,000</b>	<b>3.2%</b>	<b>67,286</b>	<b>\$22.19</b>	<b>\$253</b>	<b>6.5%</b>	<b>\$7,575,000</b>
<b>WOutlyingMaricopa</b>	<b>845,609</b>	<b>0</b>	<b>0.5%</b>	<b>11,413</b>	<b>\$16.53</b>	<b>\$195</b>	<b>6.6%</b>	<b>\$110,000</b>
<b>West Phoenix/Maryvale</b>	<b>8,375,410</b>	<b>0</b>	<b>2.5%</b>	<b>194,437</b>	<b>\$18.91</b>	<b>\$187</b>	<b>6.7%</b>	<b>\$3,480,000</b>
<b>Totals/Averages</b>	<b>239,492,447</b>	<b>3,126,642</b>	<b>4.0%</b>	<b>4,249,081</b>	<b>\$22.79</b>	<b>\$250</b>	<b>6.4%</b>	<b>\$293,543,808</b>

# NOTABLE SALES

## CROSSROADS PLAZA

6750 W Peoria Ave., Peoria, AZ 85345

Sale Date : 03/21/2023  
 Sale Price : \$14,750,000  
 Price/SF : \$130.72  
 Cap Rate : 8.13% Pro Forma

Bldg Type : Class C  
 Year Built : 1986  
 GLA : 112,838 SF



## SPROUT'S CENTER

5225-5235 E Southern Ave., Mesa, AZ 85206

Sale Date : 01/06/2023  
 Sale Price : \$18,500,000  
 Price/SF : \$316.37  
 Cap Rate : 6.15%

Bldg Type : Class B  
 Year Built : 2005  
 GLA : 57,345 SF



## THE SHOPS AT KOHL'S

4645 E Chandler Blvd., Phoenix, AZ 85048

Sale Date : 01/12/2023  
 Sale Price : \$4,060,000  
 Price/SF : \$356.30

Bldg Type : Class B  
 Year Built : 2003  
 GLA : 11,395 SF

Cap Rate : 6.2% Pro Forma



## SPINATO'S

4848 E Chandler Blvd., Phoenix, AZ 85048

Sale Date : 03/16/2023  
 Sale Price : \$3,300,000  
 Price/SF : \$515.95

Bldg Type : Class B  
 Year Built : 2002  
 GLA : 6,396 SF



## GLENDALE PALMS

6611 W Bell Rd., Glendale, AZ 85308

Sale Date : 02/24/2023  
 Sale Price : \$18,250,000  
 Price/SF : \$151.01

Bldg Type : Class B  
 Year Built : 1992 / Renov : 2002  
 GLA : 120,852 SF



## CALIBER COLLISION

2190 S Douglas Dr., Chandler, AZ 85286

Sale Date : 01/31/2023  
 Sale Price : \$6,320,000  
 Price/SF : \$217.44

Bldg Type : Class B  
 Year Built : 1998  
 GLA : 29,065 SF



## COLDWATER CREEK PLAZA

1451 N Dysart Rd. Bldg. 9, Avondale, AZ 85323

Sale Date : 01/30/2023  
 Sale Price : \$6,300,000  
 Price/SF : \$416.67  
 Cap Rate : 5.30%

Bldg Type : Class B  
 Year Built : 2003  
 GLA : 15,120 SF

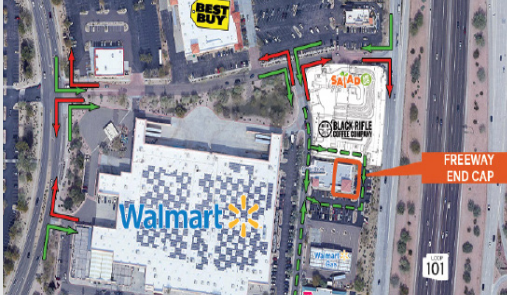


## FAST FOOD

15236 N Pima Rd., Scottsdale, AZ 85260

Sale Date : 03/06/2023  
 Sale Price : \$3,160,000  
 Price/SF : \$458.17

Bldg Type : Class B  
 Year Built : 2001  
 GLA : 6,897 SF



## FREESTANDING RETAIL

7435 W Glendale Ave., Glendale, AZ 85303

Sale Date : 02/22/2023  
 Sale Price : \$3,160,000  
 Price/SF : \$423.45  
 Cap Rate : 4.75%

Bldg Type : Class B  
 Year Built : 2023  
 GLA : 7,453 SF



