

Phoenix Retail

Market Forecast

Trends

Absorption



Vacancy



Rental Rate



New Construction



Notable Transactions

Target

1625 E Camelback Rd., Downtown Phoenix
50,000 s.f. Leased

Burlington Coat Factory

2650 E Germann Rd., Gilbert
50,000 s.f. Leased

Aspire Fitness

4940-4980 W Ray Rd., Chandler
37,000 s.f. Leased

Mega Furniture

2501 W Happy Valley Rd., Deer Valley
34,000 s.f. Leased

Ace Hardware

13811-13823 N Tatum Blvd.,
North Scottsdale
26,000 s.f. Leased

The Phoenix retail market started 2017 with strong leasing activity, rising net absorption, and steady rental rates. Total vacancy decreased by 20 basis points to 8.6%, a result of 803,000 square feet of positive net absorption and over 1.0 million square feet of leasing activity this quarter. With growing demand the market continues to tighten, and we expect increased competition for space and higher rates to continue in 2017. The Phoenix unemployment rate sits at 4.5%, only a 10 basis point decrease from the 4.6% recorded this time last year.

The overall retail vacancy level of 8.6% represents the lowest vacancy rate recorded since the third quarter of 2008. Submarkets in Phoenix with the highest direct vacancy rates include North Phoenix/ I-17 Corridor at 14.8%, Carefree at 14.2% and Red Mountain/Mesa at 13.4%. Submarkets with the least vacant space include Gila River and NE Outlying at 0.0%, and South Buckeye at 2.8%. Submarkets with the highest net absorption included Red Mountain/Mesa at 248,000 S.f. and Surprise/North Peoria at 149,000 square feet. In the first quarter of 2017 over 2.6 million square feet of new construction was delivered, the majority of which was constructed in East Valley submarkets. Another 1.2 million square feet of retail product is currently under construction, most of which is clustered in the East Valley, North Phoenix, and Northwest Phoenix submarket clusters.

Asking rental rates market wide for retail properties remained steady at \$14.52 per square foot on a triple net basis. Asking rates remain highest in the Scottsdale submarket cluster, where they average \$21.84 per square foot and are growing steadily each quarter. By contrast, the lowest rates are found in the Maricopa County submarket cluster, which reported an average asking rent of \$11.04 per square foot.

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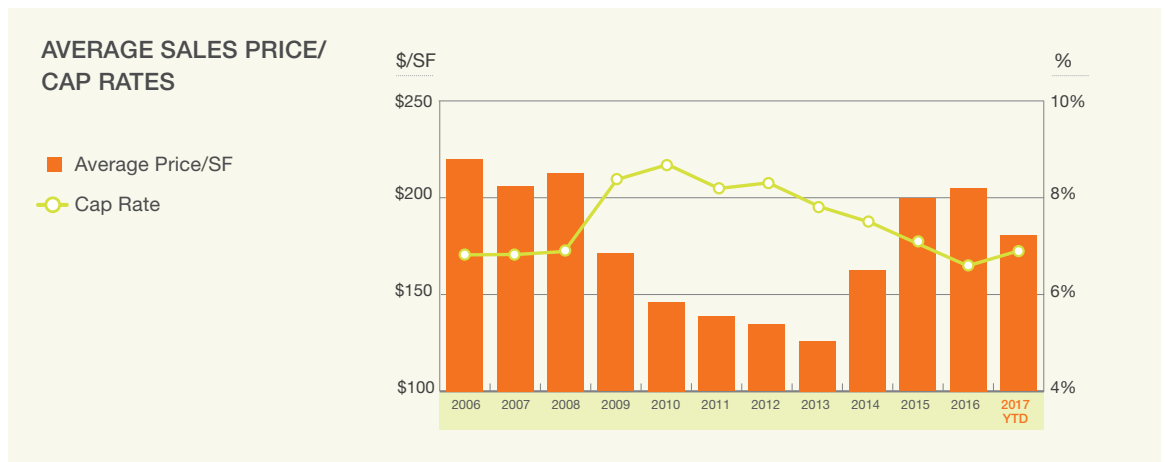
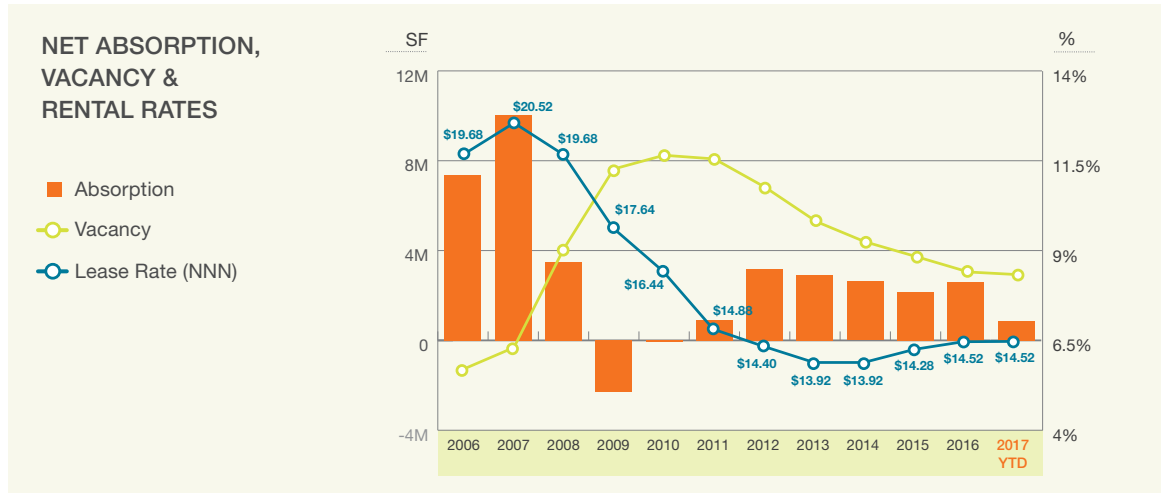
The average sale price in the first quarter for retail investment assets was \$180 per square foot. Cap rates averaged 6.9%. The largest sale took place in the North Phoenix/I-17 Corridor submarket, where Bethany Towne Center sold

for \$41.3 million (\$151 per square foot) to Goldman Sachs. Total dollar volume for retail asset sales in the first quarter was \$200 million from 83 transactions.

Data Source: CoStar

Market Breakdown

	1Q17	4Q16	1Q16	Annual % Change
Vacancy Rate	8.6%	8.8%	8.9%	-3.4%
Availability Rate	10.1%	10.2%	10.4%	-2.9%
Asking Lease Rate	\$14.52	\$14.52	\$14.40	0.8%
Leased SF	1,030,329	1,696,995	1,801,603	-42.8%
Sold SF	9,209,902	14,457,056	13,412,544	-31.3%
Net Absorption	802,610	679,411	702,047	N/A



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