

Real Estate Market Review

Phoenix Retail

The Phoenix retail real estate market stayed hot during the third quarter, with 851,810 s.f. of positive net absorption accompanied by almost 1.3 million s.f. of leasing activity. Rental rates are up 2.5% year-over-year, on average, but preferred submarkets have seen 10% or greater rent growth over the past 12 months. A growing economy, highlighted by strong job growth and a 4.3% unemployment rate, suggests the potential for further growth and tightening in the retail market in the quarter's to come.

Strong demographic and economic trends in the Phoenix metro area bode well for retail demand growth moving forward. Phoenix's population is growing at nearly three times the national rate and job growth continues to consistently outpace the national average. Furthermore, the metro's single-family housing market is finally back on firm footing. Home prices increased by about 7% last year and are gradually returning to pre-recession levels.

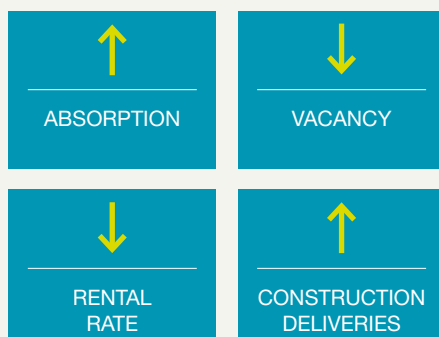
The effects of these positive demographic trends on the Valley's retail market are particularly visible in fast-growing, up-and-coming population centers in the southeast. Queen Creek, which has experienced a population expansion of 23% since 2010, has one of the tightest vacancy rates in the metro. Rent growth in this submarket has vastly outperformed the market as a whole, as the average asking rate reached \$1.87 triple-net this quarter, up 14% year-over-year. Queen Creek's retail vacancy rate is one of the lowest in metro Phoenix at 1.9%.

Strong retail leasing activity continued, reaching nearly 1.3 million s.f. this quarter and has surpassed 4.6 million s.f. for the year. Total vacancy in the market is down 40 basis points from this time last year, and availabilities are down 20 basis points over that timeframe. As tenant demand remains ahead of new supply, the market continues to tighten, with increasing competition for space allowing landlords to continue pushing rental rates upward toward the end of the year.

The market's overall vacancy rate of 8.4% is its lowest since the 2008 recession. Retailers are quickly absorbing the area's new construction deliveries, which summed to 174,452 s.f. this quarter, and there is ample demand to fill the 1.4 million s.f. currently under construction. This quarter's 851,810 s.f. of positive net absorption bumped the year-to-date gain in occupied retail space past 1.8 million s.f.

Asking rental rates for retail properties marketwide decreased slightly in the third quarter to \$15.00/s.f. on a triple-net basis. Scottsdale

Market Forecast Trends



Notable Transactions

Drive Shack
 SW Bethany Home Road at 99th Avenue
 Glendale
 60,000 s.f. leased

Planet Fitness
 E Williams Field Road at SanTran Village Pky
 Gilbert
 50,000 s.f. leased

Aspire Fitness Clubs
 10160 N 67th Avenue, Peoria
 40,916 s.f. leased

Boot Barn
 823-855 N Dobson Road
 Red Mountain / Mesa
 28,800 s.f. leased

Sky Zone
 4801-4859 E Greenway Road
 North Scottsdale
 27,000 s.f. leased

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continues to lead the market with an average asking rent of \$23.16/s.f., but most submarkets have shown steady rate growth over the past year. The lowest rates are found in the Maricopa County submarket cluster, which came in at \$10.20/s.f.

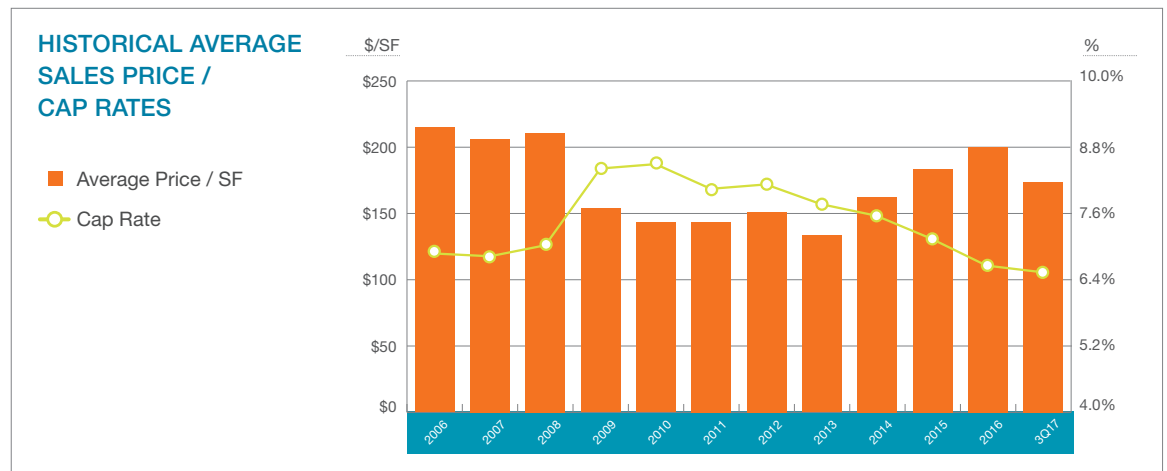
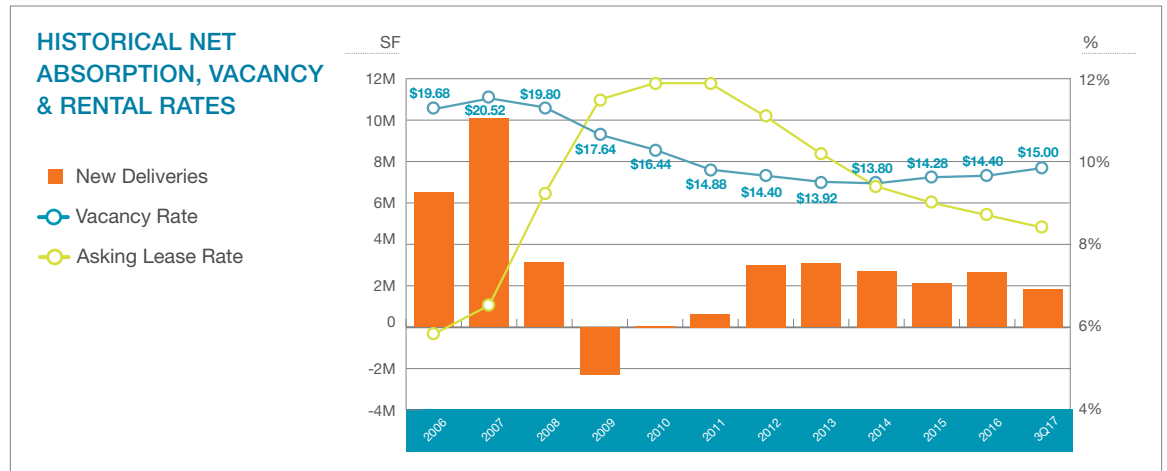
The average sale price for retail assets during the third quarter was \$201/s.f., which raised the average

price for the year to date to \$177/s.f. Cap rates continue to fluctuate between 6-7%, averaging 6.5% this quarter. The total dollar volume for retail asset sales in the quarter was \$334 million over 295 transactions, down from the sale activity seen during the summer of 2016.

Data Source: CoStar

Market Breakdown

	Q3 2017	Q2 2017	Q3 2016	Annual % Change
Vacancy Rate	8.40%	8.70%	8.80%	-4.50%
Availability Rate	9.90%	10.30%	10.10%	-2.00%
Asking Lease Rate	\$15.00	\$15.25	\$14.64	2.50%
Leased SF	1,295,026	1,653,370	2,083,329	-37.80%
Sold SF	2,819,958	4,313,465	4,881,461	-42.20%
Net Absorption	856,157	535,598	614,360	N/A



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