



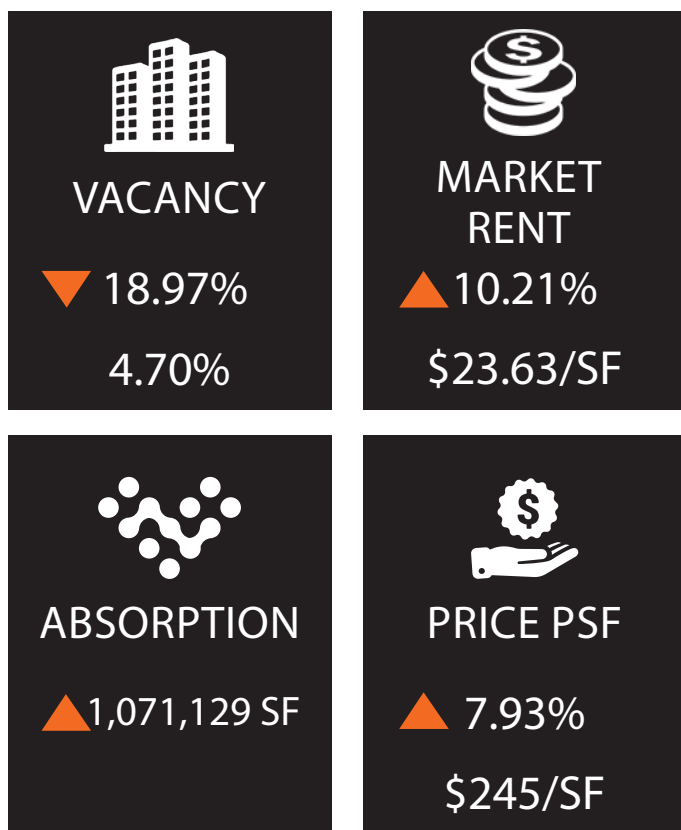
# 2Q2023 METRO PHOENIX RETAIL NEWSLETTER

CONTACT INFORMATION

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# METRO PHOENIX RETAIL OVERVIEW

## YOY RETAIL STATS



The Phoenix retail market continued to outperform in 23Q2 as strong demographics, resilient consumer spending, and steady job creation supported demand at local retailers. Thanks to these tailwinds, The Valley recorded its eighth-consecutive quarter of positive net absorption, compressing vacancy to an all-time low of 4.7%. Quick-service restaurants, grocery stores, medical tenants, and fitness users have been the primary source of growth.

Roughly 4.1 million SF of space was absorbed in the past 12 months, ranking Phoenix as one of the strongest markets in the nation for new demand. With vacancy at the lowest level on record, the lack of available space has begun to weigh on leasing volume as retailers find fewer and fewer options for expansion. This dynamic coupled with a limited amount of speculative construction indicates that Phoenix may be approaching a structural bound on growth. Instead, the primary contributor to the market's recent strength has been a lack of store closures. The number of move-outs is at nearly the lowest level on record as healthy balance sheets and strong liquidity keep most national retailers in a fundamentally sound position.

Over the past five years, gross deliveries have averaged about 540,000 SF per quarter, compared to over 2.5 million SF from 2006 to 2008 and just 2.3 million SF is currently under construction, about 85% of which is being built with a tenant in place. Additionally, the removal of older, obsolete space supports the continued refinement of the existing inventory with lower-quality properties getting demolished.

Ultra-tight market conditions have kept pricing power squarely in the hands of landlords. Annual rent growth hit 10.2% last quarter, one of the best performances in the county and triple the market's pre-COVID five-year average. One local retail broker mentioned that owners are being more aggressive when negotiating rent escalations. Typically, annual rent increases would fall between 3% and 4%, but some landlords are now pushing for lease terms with 5% hikes.

## ECONOMIC HIGHLIGHTS

### Employment Data (YOY)

- ▶ 3.60% Unemployment Rate (USA) 0.02%
- ▶ 3.30% Unemployment Rate (Metro PHX) 0.12%
- ▶ 2.552MM Employed Residents (Metro PHX)

### Metro PHX Housing Trends (YOY)

- ▶ \$443,000 Median Home Price -6.70%
- ▶ 7,257 Closed Transactions -6.00%
- ▶ 66 Days on Market +36 Days
- ▶ 1.99 Months of Supply -0.34 Months

### 10-Year Treasury

- ▶ 3.81% as of 06/30/2023
- ▶ +0.83% YOY | +0.12% MOM

Geographically, a clear trend has emerged of annual rent growth increasing as nominal rent levels get more affordable. For example, Sun City and West Phoenix/Maryvale rank in the top five of major submarkets with the lowest market rent. These areas are also near the top of the ranking for highest retail rent growth, posting annual gains near 9% or higher. Lower-cost housing options are attracting residents and shoppers to these submarkets, spurring rent gains. Likewise, rapidly growing suburbs like Goodyear, Tolleson, Queen Creek, and Laveen areas have outperformed for similar reasons, though average rents are closer in line with the metro average.

Phoenix rents finally overtook the previous cycle's peak in 23Q1 and currently stand at an all-time high. Despite recent performance, at \$23.63/SF, Phoenix retail rates remain in line with the national average of \$24.00/SF, offering affordability for expanding retailers who face higher prices in major coastal markets. Moving forward, nation-leading net migration into Maricopa County, continued job growth, and a favorable supply-demand balance will support further rent growth at local retailers.

Today, 2.3 million of retail space is under construction, which accounts for just 1.0% of the existing inventory. 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. Restaurants

and fast-food operators are expanding including Macayo's, Whataburger, and Angie's Lobster. Several grocers, gyms, and coffee shops are also underway on new space.

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 has spurred record levels of investment over the past few years, though sales volume is beginning to wane. Nevertheless, approximately \$2.1 billion in retail assets have traded in the past 12 months, in line with the five-year average of \$2.4 billion annually.

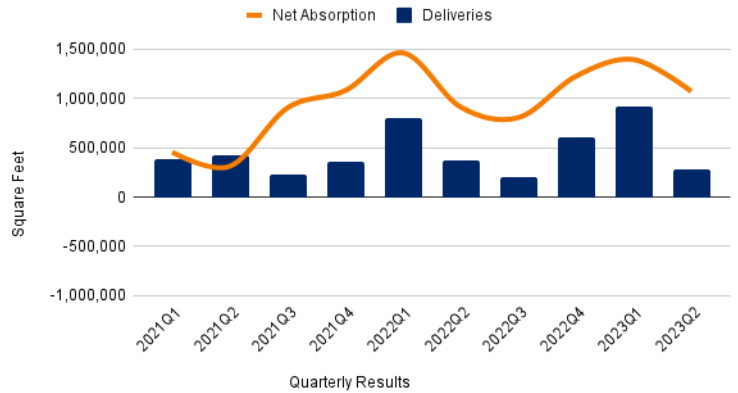
About \$750 million was sold in the first half of 2023, a 50% decline from the average in 2021 and 2022 for the same time period. The rapidly changing capital markets environment and rising economic uncertainty were the primary culprits that weighed on sales activity. Last year, the Federal Reserve embarked on the most aggressive policy tightening path since the 1980s, causing all-in borrowing costs 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 California investors with extended 1031-exchange deadlines could be a source of sales in the coming year.

The significant increase in interest rates coupled with tighter lending standards is expected to negatively impact transaction volumes and pricing. Average cap rates have been slow to respond and rangebound between 5.5% and 6.5% since 21Q2. Average going-in yields for transactions over \$5 million have expanded roughly 75 basis points to 6.2% as of the first quarter. For single-tenant net lease investments, cap rates have been quite resilient, increasing to a lesser degree by 25 to 50 basis points since the 2022 lows to a range of 5% to 5.75%. Private investors are typically cash buyers in this space and are driven by tax deferral and generational wealth creation.

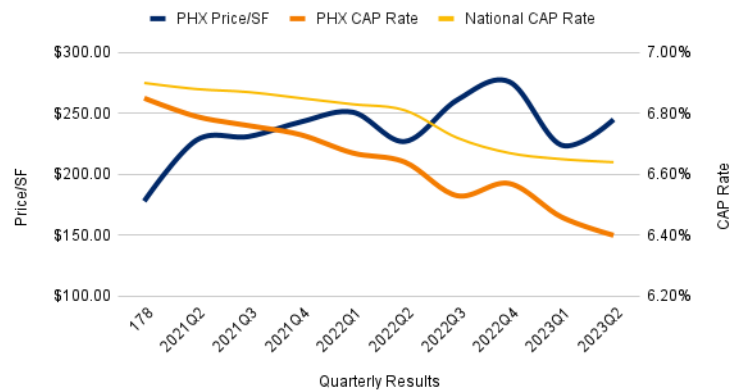
While interest rates and cap rates do not always move in lockstep, the rapid rise in debt costs over the past 12 months has likely not been fully reflected in current yields. It often takes some time for changes in monetary policy to work their way into the commercial real estate market and this delayed impact could begin to materialize later in the year, putting upward pressure on cap rates.

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

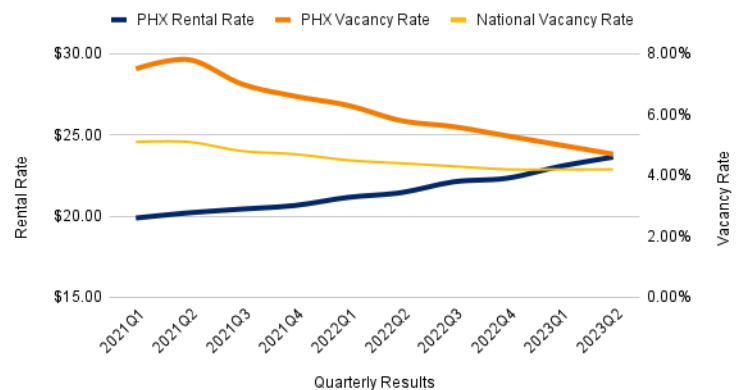
## METRO PHOENIX DELIVERIES AND ABSORPTION



## PRICE AND CAP RATE TRENDS



## RENTAL AND VACANCY RATES



# SUBMARKET ANALYTICS - 2Q2023 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	4.2%	45,814	\$25.48	\$262	6.5%	\$7,900,000
Airport Area	4,469,753	0	4.4%	12,674	\$19.87	\$230	6.4%	\$6,985,000
Anthem	2,773,782	5,000	3.1%	129,993	\$25.98	\$298	6.1%	\$3,200,000
Apache Junction	2,355,635	63,660	5.2%	19,803	\$19.70	\$216	6.5%	\$7,840,000
Carefree	1,874,299	0	4.2%	46,723	\$26.33	\$312	5.8%	\$3,895,000
Central Scottsdale	17,168,084	19,722	2.9%	100,303	\$35.01	\$299	6.1%	\$62,903,536
Chandler	17,083,642	0	5.1%	152,131	\$24.56	\$230	6.6%	\$24,585,478
Ctrl Peoria/ Arrowhead	10,609,009	6,735	5.5%	-38,414	\$27.43	\$258	6.6%	\$6,050,000
Deer Valley	2,230,600	8,900	1.2%	22,017	\$33.33	\$330	6.3%	\$0
Downtown Phoenix	8,435,124	144,061	5.1%	-35,784	\$22.93	\$246	6.3%	\$9,524,200
East Phoenix	8,975,550	0	4.6%	134,083	\$20.84	\$237	6.4%	\$3,975,000
Fountain Hills	773,560	0	4.3%	1,937	\$20.07	\$262	6.2%	\$0
Gateway Airport	3,083,315	46,675	2.7%	152,467	\$26.51	\$273	6.6%	\$19,528,032
Gila River Outlying	356,950	0	0.0%	0	\$19.53	\$218	6.3%	\$0
Gilbert	17,127,209	172,353	2.9%	233,568	\$25.57	\$265	6.5%	\$43,951,636
Glendale	11,650,813	180,673	5.0%	60,911	\$20.63	\$223	6.6%	\$17,622,884
Goodyear	4,012,603	204,890	1.3%	41,947	\$23.82	\$259	6.3%	\$4,475,581
Laveen	1,700,870	25,505	0.7%	95,708	\$28.00	\$288	6.3%	\$2,825,000
Loop101/I-10	3,579,573	25,500	1.5%	67,124	\$27.29	\$260	6.4%	\$5,075,000
N Goodyear/ Litchfield	7,005,401	443,303	2.5%	881,224	\$26.17	\$269	6.3%	\$2,785,000
N Phoenix/I-17 Corr	16,271,675	0	8.6%	578,237	\$17.44	\$196	6.7%	\$32,050,200
NE Outlying Maricopa	17,164	0	0.0%	0	\$13.71	\$236	6.2%	\$0
North Buckeye	263,841	6,000	1.5%	9,819	\$23.47	\$287	6.1%	\$0
North Scottsdale	13,993,894	44,872	3.9%	113,225	\$29.17	\$301	6.1%	\$51,670,000
Outlying Pinal County	9,190,616	38,027	6.6%	196,688	\$18.78	\$220	6.6%	\$18,288,256
Queen Creek	2,680,010	308,396	3.1%	357,735	\$24.50	\$290	6.3%	\$17,947,826
Red Mountain/Mesa	31,408,508	79,114	6.5%	717,693	\$19.25	\$204	6.7%	\$52,589,680
South Buckeye	1,643,984	0	1.6%	43,964	\$26.01	\$296	6.0%	\$0
South Mountain	1,721,921	46,974	12.4%	7,542	\$24.68	\$250	6.7%	\$0
South Phoenix	1,899,184	2,816	3.0%	5,390	\$20.61	\$262	6.2%	\$5,325,000
South Scottsdale	3,332,417	46,490	7.1%	-38,010	\$21.05	\$269	6.2%	\$12,150,000
<b>Sun City</b>	3,935,891	0	5.9%	26,975	\$18.93	\$213	6.7%	\$0
<b>Surprise/North Peoria</b>	5,747,145	48,686	2.0%	146,632	\$27.60	\$278	6.4%	\$4,250,000
<b>Tempe</b>	8,265,136	145,900	6.0%	-103,308	\$23.10	\$266	6.2%	\$27,019,540
<b>Tolleson</b>	2,925,896	31,800	3.0%	68,729	\$22.79	\$258	6.5%	\$0
<b>WOutlyingMaricopa</b>	849,362	0	0.1%	11,899	\$16.87	\$201	6.5%	\$0
<b>West Phoenix/ Maryvale</b>	8,258,000	0	2.8%	93,271	\$19.53	\$195	6.7%	\$20,550,000
<b>Totals/Averages</b>	<b>240,902,275</b>	<b>2,146,052</b>	<b>3.8%</b>	<b>4,360,710</b>	<b>\$23.42</b>	<b>\$256</b>	<b>6.4%</b>	<b>\$474,961,849</b>



# NOTABLE SALES

## TUTOR TIME

5911 W Thunderbird Rd., Glendale, AZ 85306

Sale Date : 08/04/2023  
 Sale Price : \$9,000,000  
 Price/SF : \$494.67  
 Bldg Type : Class B  
 Year Built : 2007  
 GLA : 18,194 SF



## CHANDLER PAVILIONS II

845 N 54th St., Chandler, AZ 85226

Sale Date : 06/14/2023  
 Sale Price : \$6,600,000  
 Price/SF : \$197.04  
 Bldg Type : Class A  
 Year Built : 2000; Renov : 2002  
 GLA : 33,496 SF



## HEALTH CLUB

4820 E Ray Rd., Phoenix, AZ 85044

Sale Date : 06/22/2023  
 Sale Price : \$7,900,000  
 Price/SF : \$202.56  
 Bldg Type : Class B  
 Year Built : 2018  
 GLA : 39,000 SF



## PLAZA DEL SOL

3223 W Indian School Rd., Phoenix, AZ 85017

Sale Date : 06/16/2023  
 Sale Price : \$17,250,000  
 Price/SF : \$165.54  
 Bldg Type : Class C  
 Year Built : 1994  
 GLA : 104,204 SF



## WHATABURGER

1957 N Country Club Dr., Mesa, AZ 85201

Sale Date : 07/07/2023  
 Sale Price : \$3,110,000  
 Price/SF : \$1,045.73  
 Bldg Type : Class B  
 Year Built : 2023  
 GLA : 2,974 SF



## AUTOZONE

14760 N Northsight Blvd., Scottsdale, AZ 85260

Sale Date : 05/22/2023  
 Sale Price : \$2,160,000  
 Price/SF : \$96.31  
 Bldg Type : Class B  
 Year Built : 2004  
 GLA : 22,428 SF



## GILBERT TOWN SQUARE

1144 S Gilbert Rd., Gilbert, AZ 85296

Sale Date : 05/10/2023  
 Sale Price : \$12,900,000  
 Price/SF : \$293.11  
 Bldg Type : Class B  
 Year Built : 2001  
 GLA : 44,023 SF



## EOS FITNESS

NWC Ellsworth Rd. & Riggs Rd., Queen Creek, AZ 85142

Sale Date : 05/02/2023  
 Sale Price : \$14,350,000  
 Price/SF : \$377.57  
 Bldg Type : Class B  
 Year Built : 2023  
 GLA : 38,000 SF



## STOREFRONT RETAIL

9241 E Cadence Pkwy., Mesa, AZ 85212

Sale Date : 04/14/2023  
 Sale Price : \$4,320,000  
 Price/SF : \$630.95  
 Cap Rate : 5.65%  
 Bldg Type : Class C  
 Year Built : 2023  
 GLA : 6,850 SF



