



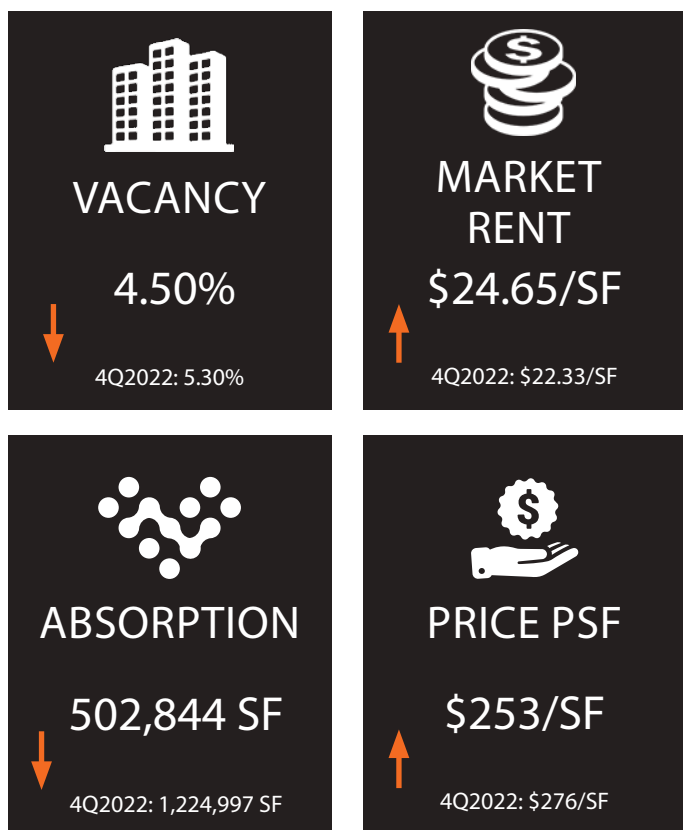
# 4Q2023 METRO PHOENIX RETAIL NEWSLETTER

CONTACT INFORMATION

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# METRO PHOENIX RETAIL OVERVIEW

## QUARTERLY RETAIL STATS



The Phoenix retail market is firing on cylinders in early 2024, with vacancy, space availability, and rent growth at multi-decade bests. Powerful demographic tailwinds, healthy consumption growth, and the expanding local economy underpin robust retail demand. These dynamics are expected to continue over the near term, setting Phoenix up for another year of outperformance.

Tenant demand for Phoenix retail space remains healthy as robust net migration, strong population growth, and rising incomes support underlying property performance. These factors helped drive ~3.6 million SF of net absorption over the past 12 months as of early 2024, compressing the metro-wide vacancy rate to a record-low 4.5%. Similarly, the availability rate, which includes listed space that has yet to be vacated or delivered, recently fell below the U.S. level, reaching an all-time low 4.4%. The Valley's larger-format spaces are being filled by expanding grocers, gyms, and pickleball-related users, while smaller tenants such as quick-service restaurants, coffee shops, and beauty/wellness service providers are the most active; About 85% of leases signed last year were for spaces under 5,000 SF and two-thirds of those were under 2,500 SF.

The Valley remains one of the strongest rent growth markets in the country as historically low retail space availability, continued population gains, and healthy spending growth provide landlords with ample leverage to raise rents. The average asking rent rose 9.4% over the past 12 months, well outpacing the 3.3% gain seen at the national level.

Indications from local market participants are that rent concessions remain limited due to tight market conditions. About two to three months of free rent can be included for new retail leases, though this varies widely by location, tenant credit, and building quality. Additionally, landlords have become less flexible regarding tenant improvements and some are reducing allowances. As underlying demand continues to outpace available supply, retail rent escalations for a five-year term are usually between 3% and 4% annually, though some high-credit tenants are instead getting a single 10% increase in year five.

Geographically, development activity is most prominent in the metro's periphery, as builders target high-growth suburban areas for new projects where land is more affordable and available. West Valley submarkets like North Goodyear/Litchfield, Goodyear, and Glendale boast some of the strongest rates of population growth in Phoenix and comprise more than a quarter of the development pipeline. In the South East Valley, the rapidly growing town of Queen Creek has been another hotspot. PV Mall, Fiesta Mall, and Metrocenter Mall are all in various stages of reinvention into mixed-use destinations. Final plans often feature more bar, restaurant, and entertainment space, as well as a residential or hotel component.

This ongoing refinement of Phoenix's retail inventory has resulted in the existing stock featuring a greater concentration of quality space, with poor-performing properties in sub-prime locations often getting replaced by other uses. The largest delivery of 2023 was a 700,000-SF shopping center in Surprise called Village at Prasada. The \$500 million outdoor mall includes shopping, restaurants, and an entertainment district.

## ECONOMIC HIGHLIGHTS

### Employment Data (YOY)

- ▶ 3.70% Unemployment Rate (USA) -0.10%
- ▶ 3.50% Unemployment Rate (Metro PHX) -0.30%
- ▶ 2.596MM Employed Residents (Metro PHX)

### Metro PHX Housing Trends (YOY)

- ▶ \$430,000 Median Home Price +4.40%
- ▶ 4,820 Closed Transactions -3.30%
- ▶ 62 Days on Market -9 Days
- ▶ 3.54 Months of Supply -0.27 Months

### 10-Year Treasury

- ▶ 3.88% as of 12/29/2023
- ▶ +0.00% YOY | -0.49% MOM |

Last year, about \$1.6 billion worth of retail assets traded hands, a more than 55% decline from the record level seen in 2022 and 2021. A pullback among larger deals is driving the slowdown, with sales volume for transactions of \$30 million or greater down 70% on a year-over-year basis, excluding bulk entity-level deals. The buyer profile for these types of transactions tends to be REITs, regional owners/developers, and other larger groups, which are more reliant on financing and thus more impacted by higher debt costs.

For deals at the \$1 million to \$5 million price point, private individual investors comprise the bulk of the buyer pool, often targeting single-tenant triple-net lease properties and small strip centers. These investors are frequently all-cash buyers motivated by tax deferral or estate planning strategies rather than simply going in-yield. As a result, cap rates tend to be lower than deals that require more hands-on management and higher credit risk. Cap rates for these assets have generally moved up about 125 basis points from their recent all-time low in early 2022 into the low-5% to low-6% range, though location, tenant credit, property quality, and lease term can create a broad yield spectrum.

Moving forward, elevated interest rates and uncertainty regarding the economic outlook are expected to keep the pricing expectations gap between buyers and sellers wide, weighing on deal flow.

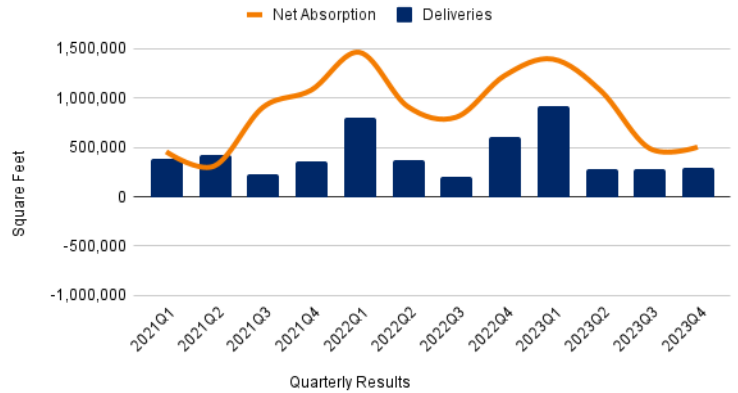
Phoenix remains one of the nation's better-performing markets for employment growth, adding 40,500 jobs in the trailing 12-month period ending November 2023. The labor market now has 159,900 more jobs than it did before the pandemic, the sixth-largest gain in the nation. Relative affordability and job prospects are attracting people living in dense and expensive cities to Phoenix. The increase in remote work has given more people mobility and has enticed residents in California or East Coast markets to relocate, bringing their high-wage jobs with them. Population growth, a diversifying economy, relative affordability, and business-friendly regulation have strengthened the Phoenix value proposition. These characteristics attracted an average of 175 net new people to the Phoenix metro each day in 2022 and made Maricopa County the fastest-growing county in the country, on an absolute basis.

Moving forward, supply and demand are expected to remain in fundamental balance in 2024, sustaining healthy market performance. Though rent growth will likely downshift to a more normal trajectory this year, it is projected to remain above the long-term trend, as space availability remains limited. Though some cracks have emerged in the strength of the consumer, the Valley's numerous tailwinds including population gains, purchasing power growth, and lack of overbuilding should keep fundamentals stable.

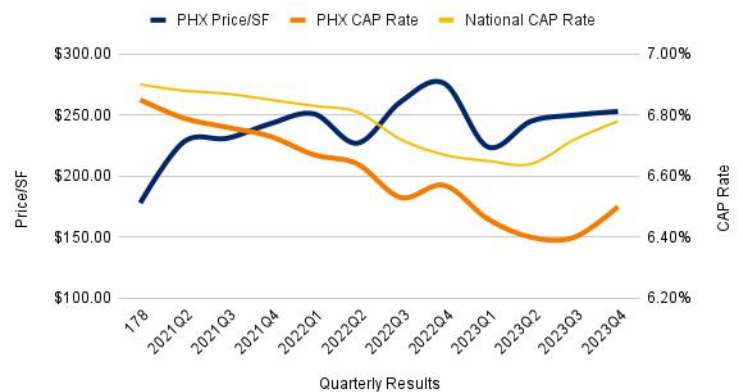
Population growth, a diversifying economy, relative affordability, and business-friendly regulation have strengthened the Phoenix value proposition. These characteristics attracted an average of 175 net new people to the Phoenix metro each day in 2022 and made Maricopa County the fastest-growing county in the country, on an absolute basis. The companies that Phoenix is attracting have evolved, and the market has emerged as a hub for advanced manufacturing, aerospace, logistics, technology, life sciences, and finance.

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

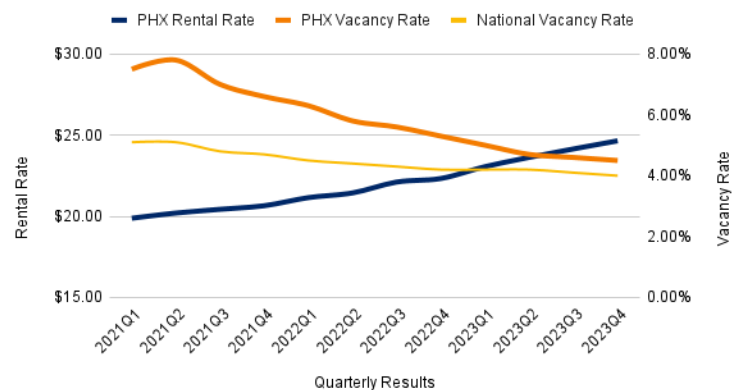
## METRO PHOENIX DELIVERIES AND ABSORPTION



## PRICE AND CAP RATE TRENDS



## RENTAL AND VACANCY RATES



# SUBMARKET ANALYTICS - 4Q2023 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	3,242,739	0	4.0%	16,105	\$26.24	\$262.54	6.7%	\$11,350,000
Airport Area	4,471,740	0	4.0%	20,391	\$20.49	\$236.31	6.4%	\$2,635,000
Anthem	2,738,907	5,000	3.2%	11,844	\$27.59	\$303.03	6.1%	\$6,100,000
Apache Junction	2,399,793	26,800	5.7%	32,957	\$20.59	\$225.45	6.5%	\$2,435,000
Carefree	1,857,178	0	3.8%	7,388	\$27.79	\$319.38	5.9%	\$1,530,000
Central Scottsdale	17,260,228	61,766	2.9%	6,863	\$35.79	\$306.62	6.1%	\$16,714,960
Chandler	16,873,665	0	4.9%	203,952	\$25.51	\$236.44	6.7%	\$16,724,300
Ctrl Peoria/ Arrowhead	10,616,295	5,985	5.7%	-67,056	\$28.55	\$265.81	6.6%	\$27,000,512
Deer Valley	2,366,722	0	0.1%	28,461	\$34.62	\$335.79	6.2%	\$0
Downtown Phoenix	8,481,439	174,289	5.2%	-42,521	\$23.67	\$253.24	6.3%	\$50,356,820
East Phoenix	9,047,779	0	3.6%	222,297	\$21.46	\$243.40	6.4%	\$10,607,000
Fountain Hills	763,554	0	4.0%	234	\$21.12	\$273.18	6.2%	\$0
Gateway Airport	3,175,393	123,940	3.9%	30,010	\$27.95	\$284.22	6.5%	\$14,210,000
Gila River Outlying	356,950	0	0.0%	0	\$20.39	\$220.71	6.3%	\$0
Gilbert	17,220,221	150,126	2.7%	121,554	\$26.34	\$275.49	6.5%	\$33,667,820
Glendale	11,932,727	112,458	4.7%	189,670	\$21.63	\$230.86	6.6%	\$15,041,000
Goodyear	4,017,670	183,390	1.4%	44,159	\$24.67	\$266.09	6.3%	\$4,969,000
Laveen	1,720,172	17,707	1.8%	35,421	\$29.42	\$291.74	6.4%	\$2,275,000
Loop101/I-10	3,586,325	27,865	2.0%	47,786	\$28.89	\$268.19	6.4%	\$2,667,000
N Goodyear/ Litchfield	7,207,423	427,068	1.7%	792,577	\$27.52	\$269.56	6.4%	\$4,866,217
N Phoenix/I-17 Corr	16,272,880	3,600	7.4%	515,225	\$18.15	\$202.26	6.7%	\$10,540,603
NE Outlying Maricopa	17,164	0	0.0%	0	\$14.49	\$248.98	6.1%	\$0
North Buckeye	279,010	586,082	1.4%	20,295	\$25.75	\$272.74	6.1%	\$0
North Scottsdale	14,270,789	108,304	3.4%	165,413	\$30.13	\$308.14	6.2%	\$30,900,000
Outlying Pinal County	9,113,199	39,076	6.4%	201,649	\$19.76	\$227.85	6.6%	\$3,845,000
Queen Creek	2,708,421	229,679	2.3%	90,348	\$25.78	\$296.27	6.3%	\$0
Red Mountain/Mesa	31,356,055	82,659	6.7%	309,050	\$20.00	\$209.68	6.6%	\$58,325,296
South Buckeye	1,653,502	0	1.1%	11,322	\$27.18	\$307.44	6.1%	\$4,062,500
South Mountain	1,676,869	1,438	11.7%	64,641	\$25.77	\$262.77	6.7%	\$19,197,046
South Phoenix	1,957,316	2,816	3.4%	-16,284	\$21.11	\$265.34	6.3%	\$1,580,000
South Scottsdale	3,330,506	44,490	7.8%	-25,685	\$21.94	\$279.33	6.2%	\$15,137,426
Sun City	3,982,795	6,260	5.2%	56,852	\$19.89	\$219.40	6.7%	\$5,955,000
Surprise/North Peoria	5,799,081	53,800	1.3%	118,375	\$28.81	\$284.45	6.4%	\$6,138,250
Tempe	8,458,354	130,644	6.1%	119,177	\$23.84	\$270.88	6.2%	\$7,765,000
Tolleson	2,987,962	17,500	2.3%	59,389	\$23.61	\$262.14	6.5%	\$17,000,000
W Outlying Maricopa	851,865	0	0.2%	2,700	\$17.70	\$209.40	6.6%	\$600,000
West Phoenix/ Maryvale	8,493,142	0	2.6%	298,069	\$20.22	\$200.17	6.7%	\$34,227,500
<b>Totals/Averages</b>	<b>242,545,830</b>	<b>2,622,742</b>	<b>4.5%</b>	<b>3,692,628</b>	<b>\$24.65</b>	<b>\$253</b>	<b>6.4%</b>	<b>\$438,423,250</b>



# NOTABLE SALES

## SHOPPES AT MIRADOR SQUARE

860, 874, 894 E Warner Rd; 743 S Lindsey Rd., Gilbert, AZ 85296

Sale Date : 09/25/2023  
Sale Price : \$9,330,000  
Price/SF : \$192.11  
Bldg Type : Class B  
Year Built : 2004  
GLA : 48,541 SF



## RETAIL FAST FOOD

13025 W Camelback Rd., Litchfield Park, AZ 85340

Sale Date : 09/25/2023  
Sale Price : \$2,710,000  
Price/SF : \$947.81  
Bldg Type : Class B  
Year Built : 2023  
GLA : 2,855 SF



## BELL FURNISHING CENTER

6910 W Bell Rd., Glendale, AZ 85308

Sale Date : 09/21/2023  
Sale Price : \$14,500,000  
Price/SF : \$241.20  
Bldg Type : Class B  
Year Built : 2003  
GLA : 60,117 SF



## THE SHOPS AT KOHL'S

4637 E Chandler Blvd., Phoenix, AZ 85048

Sale Date : 09/07/2023  
Sale Price : \$11,580,000  
Price/SF : \$130.97  
Bldg Type : Class B  
Year Built : 2003  
GLA : 88,377 SF



## DUNKIN'

3250 S Arizona Ave., Chandler, AZ 85248

Sale Date : 09/06/2023  
Sale Price : \$1,700,000  
Price/SF : \$1,568.27  
Bldg Type : Class B  
Year Built : 2023  
GLA : 1,084 SF



## MY FLORIST PLAZA

1601-1607 N 7th Ave., Phoenix, AZ 85003

Sale Date : 08/16/2023  
Sale Price : \$10,500,000  
Price/SF : \$482.63  
Bldg Type : Class B  
Year Built : 1962; Reno : 2010  
GLA : 21,756 SF



## ANGIE'S LOBSTER

4326 W Thunderbird Rd., Glendale, AZ 85306

Sale Date : 07/28/2023  
Sale Price : \$2,190,000  
Price/SF : \$2,032.56  
Bldg Type : Class B  
Year Built : 2023  
GLA : 1,075 SF



## FREESTANDING RETAIL

2602 W Van Buren St., Phoenix, AZ 85009

Sale Date : 07/25/2023  
Sale Price : \$1,800,000  
Price/SF : \$334.51  
Bldg Type : Class C  
Year Built : 1951  
GLA : 5,381 SF



## WENDY'S

1205 N Country Club Dr., Mesa, AZ 85201

Sale Date : 09/19/2023  
Sale Price : \$2,280,000  
Price/SF : \$710.94  
Cap Rate : 5.03%  
Bldg Type : Class B  
Year Built : 1979  
GLA : 3,200 SF



