

Phoenix Retail, Q4 2014

Retailers' Demand for Premium Big Box Space Continues to Outpace Supply

▼ Vacancy
9.6%

▼ Rental Rate
\$15.51 Per Sq. Ft.

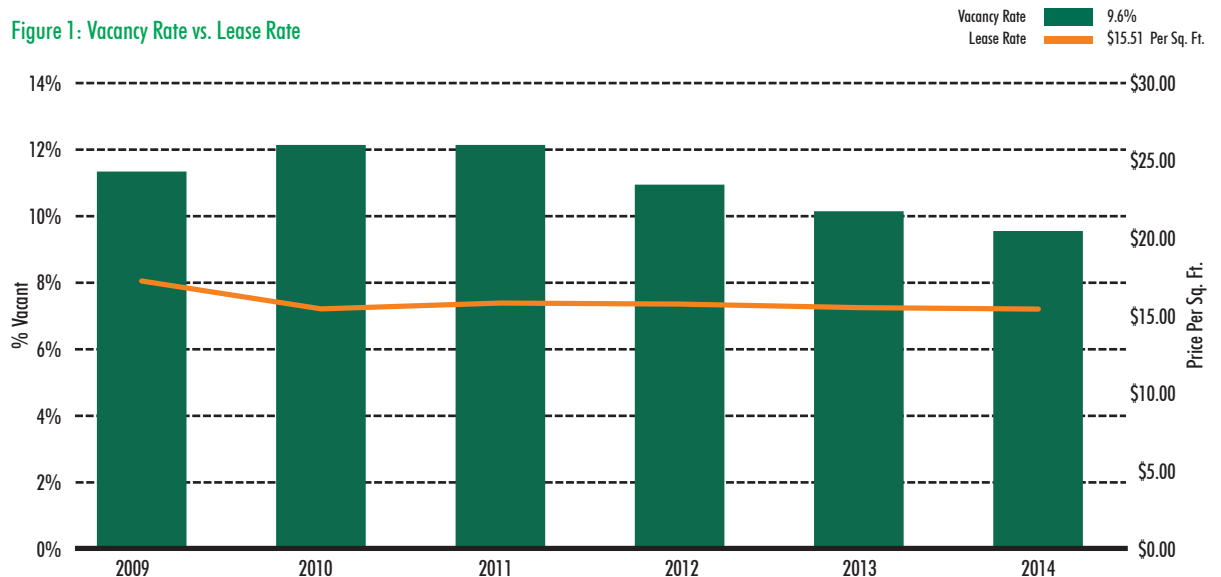
▼ Net Absorption
278,775 Sq. Ft.

▼ Under Construction
458,413 Sq. Ft.

▼ Deliveries
60,000 Sq. Ft.

*Directional arrows based on change from the previous quarter. Data reflects market totals.

Figure 1: Vacancy Rate vs. Lease Rate



SOURCE: CBRE Research, Q4 2014.

The metropolitan Phoenix retail market study reflects both shopping centers and freestanding retail buildings greater than 30,000 sq. ft. The overall vacancy rate at the end of Q4 2014 was 9.6%. One year ago, the vacancy rate was 10.2%. The fourth quarter saw metropolitan Phoenix's retail market continue to improve albeit at a more

gradual pace than previously anticipated. On the one hand, major demand drivers for consumer spending are in place, namely population and employment growth. Population growth trends in metropolitan Phoenix are increasing and moving back to historical norms as consumer balance sheets firm and household mobility picks up. At

the same time, job growth in the Valley accelerated throughout 2014. However, local retailers as a whole expanded at a fairly conservative pace in 2014.

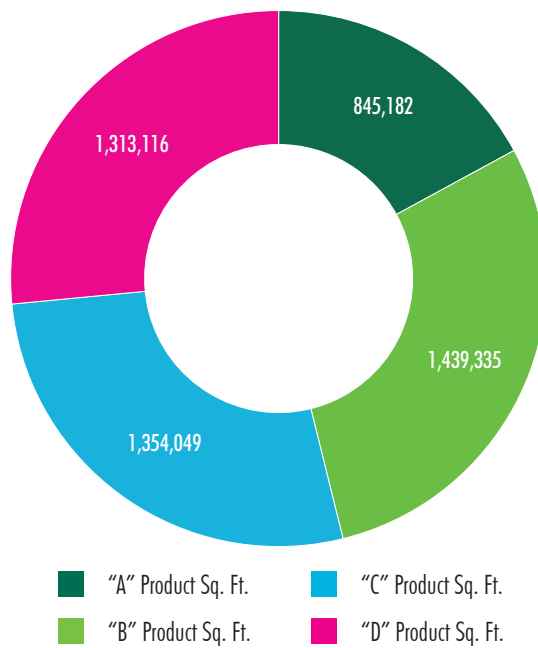
Delayed recovery in the local single family construction market has negatively impacted retailer expansion in Phoenix. Developers have been slow to bring new units to the market and a significant amount of new home construction is taking place in infill locations where existing retail options already exist.

Available big box space in the market continues to be scarce, especially for Class A assets. Available big box space is classified using a ranking system of A, B, C and D, with A space receiving the highest score for quality. At the end of Q4 2014 there were 126 spaces greater than 20,000 sq. ft., totaling 4.95 million sq. ft. of available big box space. Of the 126 spaces available in Q4 2014, Class A space totaled

only 21 opportunities. At the same time, Class B space totaled 38 opportunities and Class C and D space accounted for 53% of all available big box space with 38 and 29 opportunities, respectively. A significant imbalance still exists in the market for Class A big box space as an increasing number of prospective tenants are competing for a stagnant supply of space. Correspondingly, the market for premium big box space heavily favors owners.

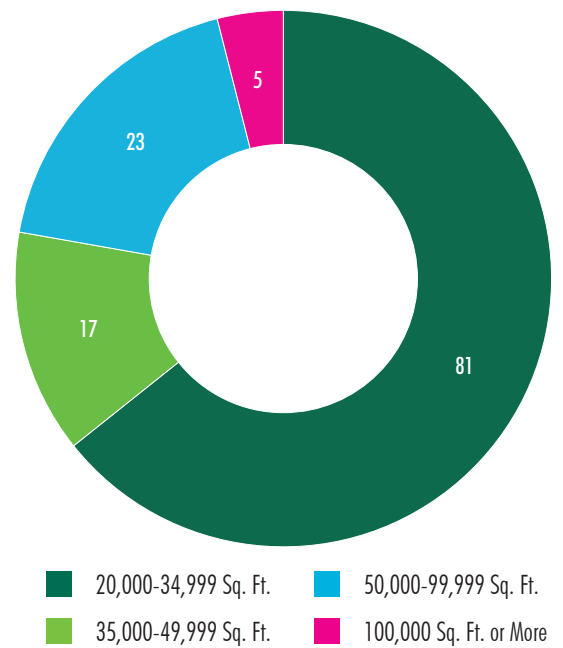
Throughout Q4 2014, 60,000 sq. ft. of retail product was added to metropolitan Phoenix's retail base and 285,400 sq. ft. was delivered to the market over the course of the year. By comparison, 512,000 sq. ft. of new product was added to the metropolitan Phoenix retail market in 2013 and from 2000 to 2010, an average of 5.5 million sq. ft. of new retail space was delivered to the metropolitan Phoenix retail market annually.

Figure 2: Big Box Space Sq. Ft. Availability by Class



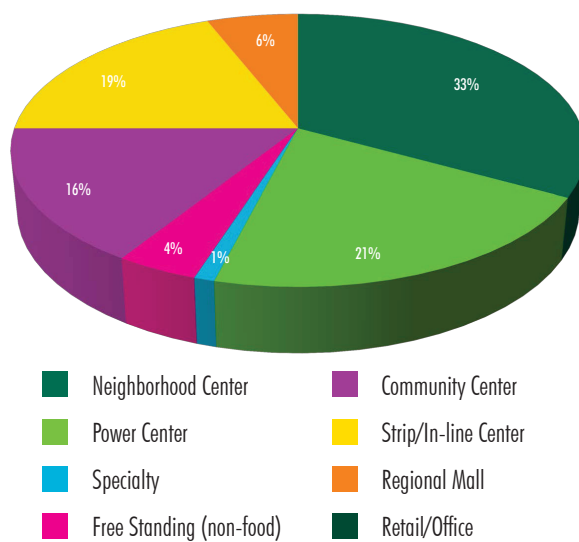
SOURCE: CBRE Research, Q4 2014.

Figure 3: Number of Big Box Spaces by Size



SOURCE: CBRE Research, Q4 2014.

Figure 4: Big Box Space by Center Type



SOURCE: CBRE Research, Q4 2014.

Figure 5: Big Box Availability - Historical

Sq. Ft. (±)	Tenant	Address
Q2 2011	168	6,787,451
Q3 2011	171	6,908,526
Q4 2011	168	6,595,419
Q1 2012	158	6,251,931
Q2 2012	137	5,284,398
Q3 2012	135	5,296,733
Q4 2012	138	5,214,470
Q1 2013	134	4,984,648
Q2 2013	136	5,081,518
Q3 2013	133	4,868,466
Q4 2013	121	4,539,602
Q1 2014	113	4,602,714
Q2 2014	113	4,432,297
Q3 2014	128	4,973,526
Q4 2014	126	4,951,682

SOURCE: CBRE Research, Q4 2014.

Figure 6: Retail Market Statistics

Market	Rentable Area	Vacancy Rate %	YTD Net Absorption Sq. Ft. (±)	Under Construction Sq. Ft. (±)	NNN Average Asking Lease Rate - \$ Sq. Ft./Yr.
Sun City	9,161,042	8.4	133,670	85,000	16.46
North Bell Road	15,811,858	8.9	4,622	-	15.96
Northwest Phoenix	12,523,737	15.3	227,953	-	12.97
West/Southwest Phoenix	19,215,808	8.0	148,722	-	14.75
Paradise Valley	7,968,168	6.6	237,265	-	17.73
North Scottsdale	15,304,747	6.5	298,510	105,000	20.41
East Phoenix	3,519,823	12.4	(14,573)	-	20.24
Scottsdale	4,401,889	5.5	24,223	132,000	18.05
Tempe/Ahwatukee	17,964,557	7.4	120,238	-	16.97
Mesa/Chandler/Gilbert	37,606,050	12.7	283,192	85,000	13.77
Apache Junction	4,795,732	5.8	17,614	51,413	17.16
Maricopa	528,488	2.0	5,877	-	N/A
Metropolitan Phoenix	148,801,899	9.6	1,487,313	458,413	15.51

SOURCE: CBRE Research, Q4 2014.

Figure 7: Key Transactions

Size Sq. Ft. (±)	Tenant	Address	Market
45,500	Covered Wagon Antiques	SWC Main St/63rd St	Mesa/Chandler/Gilbert
27,000	Ross	NEC Greenway Rd/32nd St	North Bell Road
22,565	Goodwill	NWC Ray Rd/I-10	Tempe/Ahwatukee
22,252	Potato Barn	SWC Loop 101/Scottsdale Rd	North Scottsdale
17,406	Staples	NEC Broadway Rd/Rural Rd	Tempe/Ahwatukee

SOURCE: CBRE Research, Q4 2014.

ECONOMY & UNEMPLOYMENT RATE

The Arizona economy continued to expand at a steady pace throughout the second half of the year, with job growth moving above the 2% range and exceeding the national average. The forecast calls for Arizona's growth to pick up speed during the 2015-2017 time period, with gains across most indicators far exceeding national results. Importantly, the mix of job creation taking place in metropolitan Phoenix continues to shift away from lower-wage positions and towards office-using industries, most notably financial services, professional and business services and technology, which should positively impact state per capita personal income growth going forward.

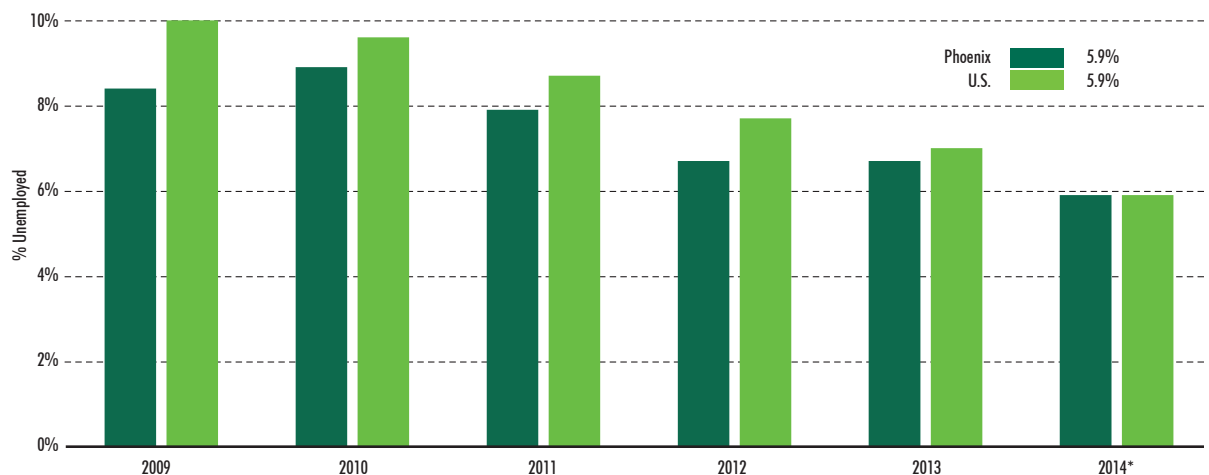
According to the Arizona Department of Administration, metropolitan Phoenix's unemployment rate was 5.9% in November 2014; a decline of 70 bps year-to-date. The local unemployment rate mirrors the national unemployment rate and continues to trend below the state level of 6.8%.

Although metropolitan Phoenix has made significant progress regaining jobs that were lost during the most recent economic downturn, the

local economic recovery has been slow compared to the larger U.S. recovery. Whereas in metropolitan Phoenix, only 71% of jobs lost during the Great Recession have been replaced, the U.S. has reached an expansion phase by achieving a 113% replacement rate as of Q4 2014. Construction jobs lost during the most recent downturn that have not been recovered contribute significantly to the overall slow recovery in employment. Delivery of new homes to the market continues to reside below normal market conditions as first-time home buyers remain largely on the sidelines. Absence of first-time home buyers throughout the current recovery is largely attributed to lack of credit, income and/or capital necessary to purchase a home as well as a short-term reduction in net in-migration.

In Q4 2014, the University of Arizona projected that metropolitan Phoenix would add 47,100 jobs in 2015, followed by an increase of 48,300 jobs in 2016 and 58,500 jobs in 2017. By comparison, an estimated 39,700 jobs were added to metro Phoenix's economy in 2014.

Figure 8: Unemployment Rate



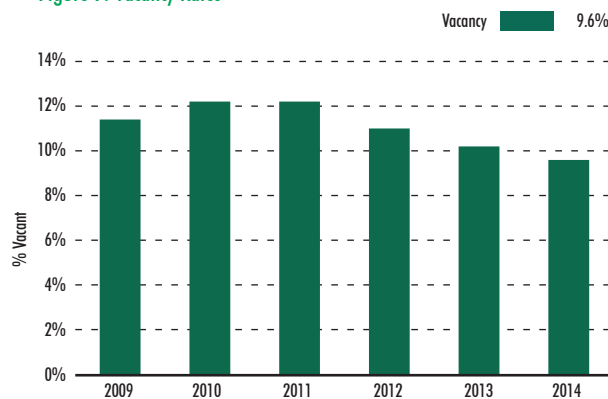
*November 2014

Source: U.S. Bureau of Labor Statistics.

VACANCY RATES

The overall retail vacancy rate in metropolitan Phoenix ended Q4 2014 at 9.6%. The prevailing retail vacancy rate represents a year-over-year decline of 60 bps. The vacancy rate at the end of Q4 2014 for strip/in-line centers was 16.3%, neighborhood centers reported 11.1% vacancy, followed by community centers with 10.4% vacant space and power centers reporting 5.2% vacancy.

Figure 9: Vacancy Rates

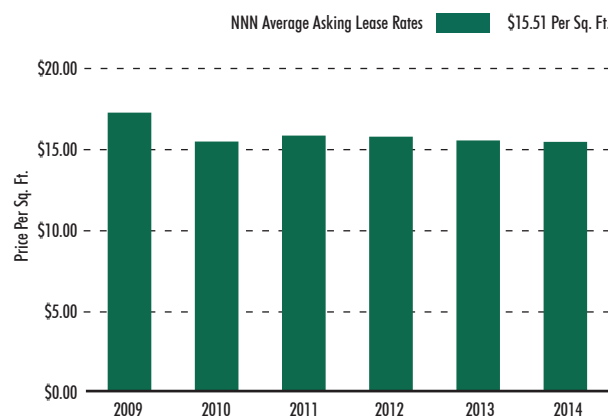


SOURCE: CBRE Research, Q4 2014.

ASKING RENTAL RATE

The average net asking lease rate among existing retail centers in metropolitan Phoenix decreased slightly from \$15.61 per sq. ft. in Q3 2014 to \$15.51 per sq. ft. at the end of Q4 2014. Examining the data over a longer duration, the \$15.51 per sq. ft. average net asking lease rate recorded for Q4 2014 represents a year-over-year decrease from Q4 2013, which recorded an average net asking lease rate of \$15.60 per sq. ft. The submarket with the highest average asking rate was North Scottsdale, which posted a rate of \$20.41 per sq. ft. in the quarter. The East Phoenix and Scottsdale submarkets commanded the next highest average asking rents of \$20.24 and \$18.05 per sq. ft., respectively. The submarkets with the lowest asking rental rates were Northwest Phoenix and Mesa/Chandler/Gilbert, which had average asking lease rates between \$12.97 and \$13.77 per sq. ft., respectively. At the end of the second quarter, the average net asking lease rate for existing space in power centers was \$20.38 per sq. ft., with community centers asking \$16.63 per sq. ft., neighborhood centers asking \$14.96 per sq. ft. and strip centers at \$13.38 per sq. ft.

Figure 10: Asking Rental Rate

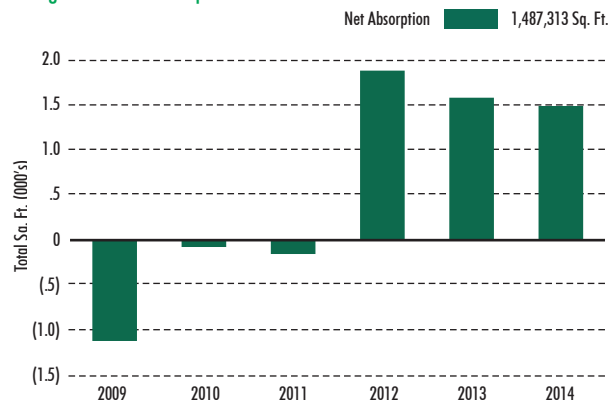


SOURCE: CBRE Research, Q4 2014.

NET ABSORPTION RATE

In Q4 2014, the metropolitan Phoenix retail market recorded positive net absorption of 278,775 sq. ft. with 1.5 million sq. ft. of gross activity. The metropolitan Phoenix retail market has recorded positive net absorption in thirteen of the last fourteen quarters. At the submarket level, North Scottsdale recorded the most significant gains in net positive absorption adding 298,510 sq. ft. The Paradise Valley retail market added 237,265 sq. ft. Notably, two submarkets that experienced the significant gains in net positive absorption throughout the fourth quarter are characterized by higher retail asking rental rates compared to peer submarkets. Tenants' demand for premium space and their coinciding willingness to allocate more capital towards rent reflects the notion that consumer balance sheets are continually improving and the fact that segments across the retail spectrum are becoming increasingly competitive; a trend that undoubtedly benefits owners of premium space.

Figure 11: Net Absorption Rate



SOURCE: CBRE Research, Q4 2014.

INVENTORY AT A GLANCE

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