

GREATER PHOENIX | RETAIL

4Q 2015

Accelerating success.

Housing and Hiring Strengthen the 2016 Retail Outlook

Key Takeaways

- > Vacancy in the Greater Phoenix retail market ended 2015 at 9.8 percent, 30 basis points lower than one year ago. This marked the first time the vacancy rate has ended the year below 10 percent since 2008.
- > Average asking rents advanced 3.4 percent in 2015, following several years of rent declines. Some of the strongest rent growth occurred in the West Valley.
- > Sales of shopping centers slowed to close the year. Prices were essentially unchanged from 2014, as cap rates inched higher. Improving property fundamentals should offset much of the investor demand for higher yields, keeping prices near current ranges.
- > The outlook for 2016 is fairly bright. The local economy is strengthening, as evidenced by strong hiring, resumed population growth and a rebound in the housing market. All of these demand drivers will support the local retail market.

Greater Phoenix Retail Market

The Greater Phoenix retail market closed 2015 on a bit of an upswing, with market conditions clearly stronger than one year earlier. Vacancy trended lower for the year and rents rose, but the traditional late-year spike in net absorption failed to materialize in 2015. As such, net absorption for the year failed to reach the levels recorded from 2012-2014. This will likely be a short-term disruption, rather than a reversal of the prevailing long-term trend, and forecasts for the year ahead remain favorable.

One sign of the modest slowdown in retail expansion was highlighted in the pace of hiring for retail workers. From 2012-2014, merchants added an average of more than 5,000 retail jobs per year, representing growth of approximately 2.3 percent per year. In 2015, however, the

Market Indicators Relative to prior period	Market Q4 2015	Market Q4 2014
Vacancy	↓	↓
Net Absorption	↓	↑
Construction	↓	↑
Rental Rate	↓	↓

Fourth Quarter Employment Trends*

Total Nonfarm Phoenix Metro	↑	↑
Total Nonfarm United States	↑	↑

*Source: Bureau of Labor Statistics

Summary Statistics	Phoenix Market
Vacancy Rate	9.8%
Change from 4Q 2014 (bps)	-30
Net Absorption (thousands SF)	228
New Construction (thousands SF)	103
Under Construction (thousands SF)	2,281
Asking Rents Per Square Foot Per Year	\$13.80
Change from 4Q 2014	3.4%

pace of growth slowed, with preliminary estimates showing a gain of approximately 3,500 workers. This growth rate of approximately 1.5 percent lagged the pace of expansion in the overall labor market by more than one full percentage point in 2015. This slowing pace

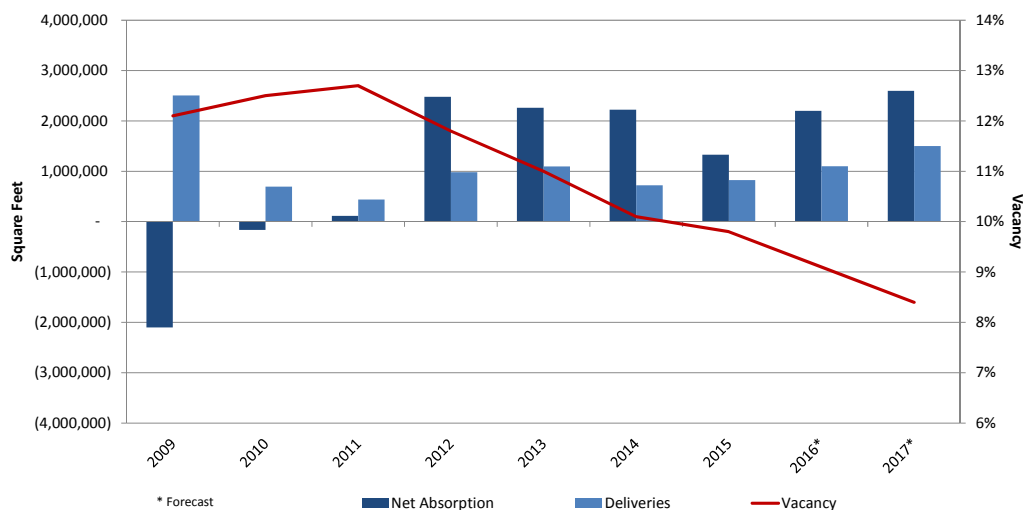
of employment growth in the retail sector likely reflects both the technological advances that are impacting retail as a whole, as well as the more cautious stance on expansion that retailers took in 2015.

Recent Transactions in the Market

RETAIL SALE ACTIVITY					
Property Address / Intersection	Submarket	Sale Date	Sale Price	Size SF	Sale Price SF
14202-14418 N Scottsdale Rd., Scottsdale	North Scottsdale	12/29	\$39,100,000	167,314	\$234
4304-4326 E Cactus Rd., Phoenix	North Scottsdale	11/20	\$24,800,000	171,129	\$145
3202 E Greenway Rd., Phoenix	East Phoenix	10/29	\$23,100,000	203,396	\$114
6702-6762 W Camelback Rd., Phoenix	North Phoenix	10/19	\$20,700,000	106,831	\$194
4123-4273 W Thunderbird Rd., Phoenix	North Phoenix	12/2	\$14,226,145	128,569	\$111

RETAIL LEASE ACTIVITY			
Property Address	Submarket	Tenant	Size SF
4570 S Higley Rd., Gilbert	East Valley	Goodwill	22,500
1262-1342S Country Club Rd., Mesa	East Valley	Antique City Warehouse	21,345
8710-8776 E Shea Blvd., Scottsdale	Scottsdale	Discount Patio	17,140

Historical Absorption, Deliveries and Vacancy Rates



Vacancy:

- › Vacancy in the Greater Phoenix retail market ended 2015 at 9.8 percent, down from 10.1 percent one year earlier. This marked the first time since 2008 that the rate had ended a year below the 10 percent threshold. Vacancy has been improving at a gradual pace over the past 12 months, after a more rapid pace of rate declines from 2012-2014.
- › The North Phoenix submarket will be the site of one of the more prominent redevelopments in the years ahead. The Metrocenter Mall will be converted from a covered mall to more of an urban infill, mixed-use development. Part of the redevelopment will include a new 148,000-square foot Walmart, which is slated to be delivered in the fourth quarter of next year. Vacancy in the North Phoenix submarket is one of the highest in all of Metro Phoenix at 13.8 percent.
- › Vacancy in the East Valley recorded healthy improvement in 2015, falling 100 basis points for the year to 10.7 percent. The vacancy rate in the East Valley has been above 10 percent since 2008, but is forecast to dip into single digits by the end of 2016.

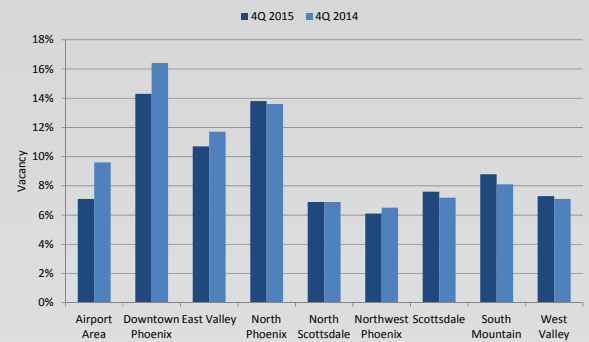
Rents:

- › Asking rents ended 2015 at \$13.80 per square foot, 3.4 percent higher than one year earlier. This was the first full year since 2007 where asking rents increased. Further gains are expected in 2016.
- › Vacancies in the West Valley have been below 10 percent since early 2012, and rents have been inching higher in response to comparatively tight conditions. Asking rents in the West Valley spiked 8.6 percent in 2015, reaching \$13.41 per square foot.
- › The East Valley is beginning to show signs of a rent turnaround, with asking rents increasing in each of the past three quarters. Asking rents in the East Valley ended the year at \$13.13 per square foot, 2.4 percent higher than at year-end 2014.

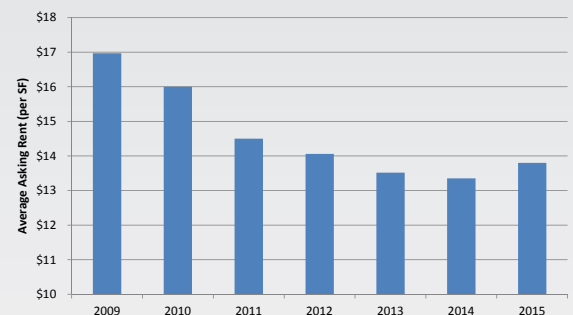
Investment Trends:

- › Sales of shopping centers slowed by nearly 15 percent in the fourth quarter, following a spike in activity in the preceding three-month period. For the year, sales velocity declined 8 percent from 2014 levels.
- › The median price for properties sold during the fourth quarter was \$109 per square foot, slightly higher than the median price in the third quarter. For the year, the median price was \$111 per square foot, compared to \$112 per square foot in 2014.
- › Cap rates ticked higher in 2015, averaging approximately 7.8 percent, approximately 20 basis points higher than the average cap rate in 2014. On average, cap rates ticked higher during the fourth quarter.

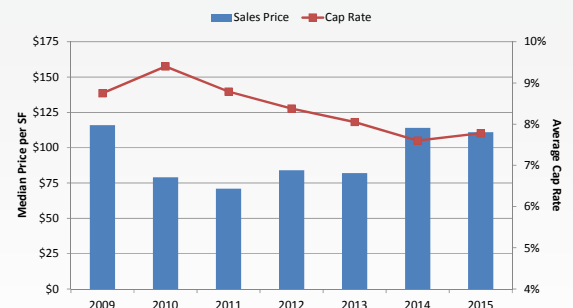
Vacancy by Submarket Cluster



Asking Rents Trends



Investment Trends



Outlook:

The momentum created in the Greater Phoenix retail market in 2015 is forecast to carry over into further improvement in the year ahead. The local retail market cleared two important hurdles in 2015, with vacancy dipping below 10 percent and rents finally inching higher. Vacancies are on a path to decline again in 2016, which will support additional rent increases as operating conditions tighten. Looking ahead, the local retail market should receive a boost from two traditional sources of growth: population

expansion and a strengthening local housing market. The pace of local population growth has been accelerating in recent years and should top 2 percent in 2016. Fueled in part by resumed population growth, the local housing market is also on the rebound. New single-family home permitting increased by more than 40 percent in 2015, and another strong gain is forecast for 2016. As these new homes are completed and sold, traffic at local retailers should pick up, supporting further expansion.

FOR MORE INFORMATION

Bob Mulhern

Managing Director | Greater Phoenix
+1 602 222 5038
Bob.Mulhern@colliers.com

Jim Keeley SIOR

Founding Partner | Scottsdale Office
+1 480 655 3300
Jim.Keeley@colliers.com

Pete O'Neil

Research Director | Greater Phoenix
+1 602 222 5029
Pete.ONeil@colliers.com

Copyright © 2015 Colliers International.

The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.

Colliers International | Greater Phoenix
2390 E. Camelback Road, Suite 100
Phoenix, AZ 85016
+1 602 222 5000
colliers.com/greaterphoenix



Accelerating success.