

Phoenix Retail, Q4 2016

Phoenix retail demand robust amid rise in new supply

▼ Vacancy
8.9%

▲ Lease Rates
\$17.16 Per Sq. Ft.

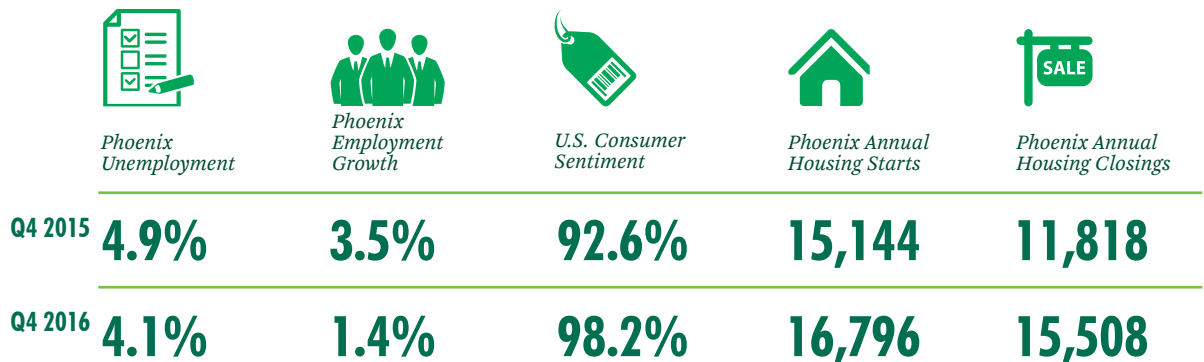
▲ Net Absorption
585,366 Sq. Ft.

▼ Under Construction
994,242 Sq. Ft.

▲ Deliveries
353,654 Sq. Ft.

*Trend arrows indicate year-over-year change. Data reflects market totals.

Figure 1: Important Retail Indicators



Source: CBRE Research, Q4 2016. All employment figures reflect the most recent BLS data at time of publishing. University of Michigan Consumer Sentiment. Metrostudy 2016.

The Phoenix retail market performed well in the fourth quarter, highlighted by roughly 600,000 sq. ft. of positive net absorption—notably the greatest amount of any quarter throughout 2016. Nearly five million sq. ft. of gross leasing activity occurred during 2016, surpassing the previous year's totals. Strong demand for space motivated developers; in fact, completions during 2016 reached 1.3 million sq. ft.—a six year high.

Meanwhile, several bankruptcies earlier this year including Sports Authority, Sport Chalet, and The RoomStore left roughly one million sq. ft. of vacant space on the market. However, strong demand for Class A space—particularly among big box retailers—absorbed several of these spaces quickly. Target, Dick's Sporting Goods, and Burlington Coat Factory each signed leases to occupy former Sports Authority locations. Additionally, Ross and Big Lots also signed leases to occupy a portion of a former

K-Mart in Mesa which is currently under renovation and being demised.

Fast-casual dining proved to be in high demand in 2016 as well. Multiple tenants expanded their footprint in the Valley and newcomers entered the market. Blaze Pizza, Salad & Go, and Café Rio were among a few fast-casual restaurants that gained momentum throughout the year, confirming consumer demand for customizable and fresh dining.

Grocers continued to be active in Q4 as they were throughout 2016. At year-end, four Fry's Marketplaces and two Sprouts Farmers Markets were delivered—all build-to-suit stores in areas experiencing high levels of household formation and housing growth. Demand for grocers is expected to extend into 2017, with two Fry's Marketplaces and one Sprouts Farmers Market in the development pipeline.

NET ABSORPTION

The Phoenix retail market recorded nearly 600,000 sq. ft. of positive net absorption during the fourth quarter of 2016. Notably, this was the highest amount of quarterly net absorption of 2016. Much of this can be attributed to strong demand for space among big box retailers, a minimal amount of move outs and new supply that was heavily preleased. Two submarkets (West/Southwest Phoenix and Mesa/Chandler/Gilbert) accounted for two-thirds of the entire market's gross absorption in Q4 2016 (nearly 800,000 sq. ft.). Strong activity in the fourth quarter boosted year-end net absorption to over 1.3 million sq. ft.

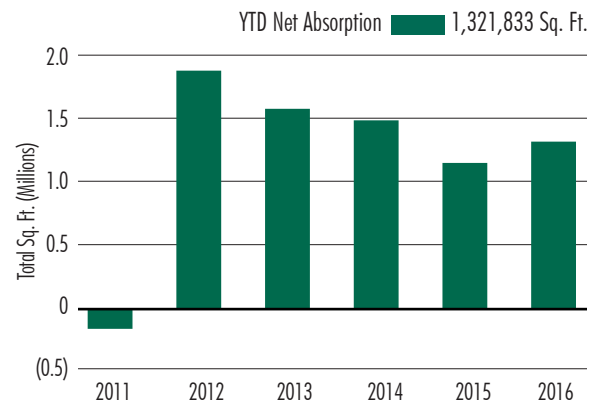
VACANCY

The marketwide vacancy rate dipped 4 basis points (bps) quarter-over-quarter, ending the year at 8.9%. This reflected a year-over-year decline of 20 bps. Vacancy declined in two-thirds of all submarkets from year-end 2015 to year-end 2016. Of these, the Mesa/Chandler/Gilbert submarket posted the most significant decrease in vacancy (down 100 bps to 10.1%) as the new housing market continues to perform well, attracting retailers and developers alike. During the same period, multiple big box move outs caused vacancy to rise 150 bps to 10.3% in the North Phoenix submarket.

ASKING RENTAL RATE

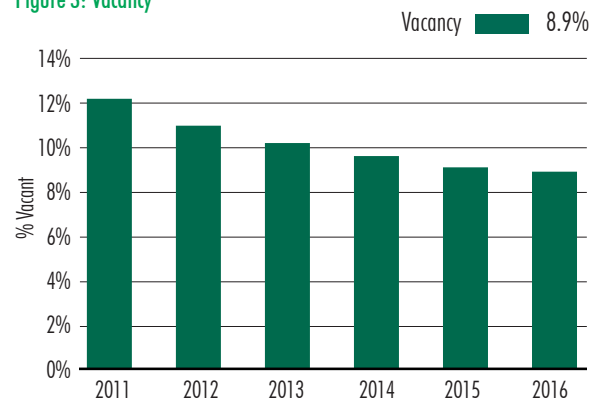
The Phoenix retail market's average asking lease rate ended Q4 2016 at \$17.16 per sq. ft. (NNN). This reflected a 4% year-over-year increase. Rent growth this year was supported by rising demand from restaurants—users that typically pay a premium for well-located and quality space. The strongest rent growth occurred in the highest demand submarkets (where supply is limited) including Scottsdale, Tempe, and East Phoenix.

Figure 2: Net Absorption



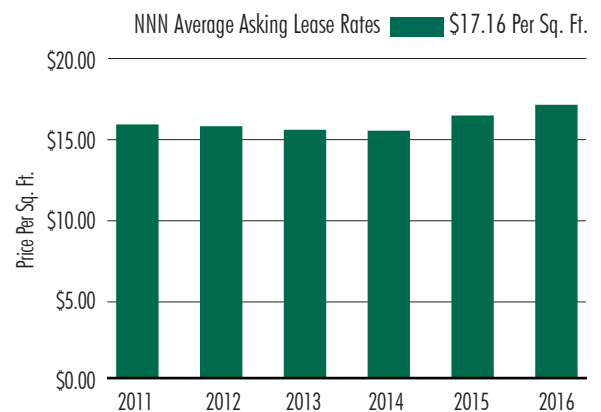
Source: CBRE Research, Q4 2016.

Figure 3: Vacancy



Source: CBRE Research, Q4 2016.

Figure 4: Asking Rental Rate



Source: CBRE Research, Q4 2016.

CONSTRUCTION

Completed construction during Q4 2016 exceeded 350,000 sq. ft. A portion of Artesian Marketplace in Chandler, which included a Fry's Marketplace, accounted for roughly one-third of the quarter's completions. Additionally, a freestanding Harkins Theatre was completed in Goodyear totaling 78,000 sq. ft. Meanwhile, a segment of Chandler Crossings in Chandler was delivered, which included Alamo Drafthouse Cinema and BASIS School (105,000 sq. ft.). This year, completions totaled over 1.3 million sq. ft., more than doubling the amount of space that came online in 2015. The majority of completions were concentrated in the Mesa/Chandler/Gilbert and West/Southwest Phoenix submarkets, which totaled over 850,000 sq. ft.

At the end of Q4 2016, nearly one million sq. ft. of retail space remained under construction. The Apache Junction submarket had the greatest amount of space under construction (approximately 240,000 sq. ft.) due in part to a Fry's Marketplace-anchored center that broke ground and is expected deliver Q3 2017. Additionally, the Mesa/Chandler/Gilbert submarket has over 220,000 sq. ft. under construction, with a Sprouts-anchored center that broke ground during the fourth quarter of 2016.

OUTLOOK

The outlook for the Phoenix retail market in 2017 remains positive. This view is underpinned by healthy growth expectations during the coming year, including strong job and wage growth which will support consumer spending. This, in addition to the strengthening housing market, will benefit retailers in the Valley and help drive demand for retail space. Meanwhile, following relatively higher levels of completions in 2016, new supply will subside in the next year. As a result, the supply/demand balance is forecasted to remain healthy, allowing for occupiers to fill vacant space across the valley and rents to increase.

Consistent with 2016, grocers, restaurants, and entertainment retailers will be the most active users in the market this coming year. These users will be most active in areas with higher concentrations of new household growth including the Southeast and West Valley. Additionally, infill development and redevelopment projects will increasingly occur in submarkets with lower vacancy levels such as Scottsdale, Tempe, and East Phoenix.

Figure 5: Retail Market Statistics

Market	Rentable Area Sq. Ft. (±)	Vacancy Rate %	YTD Net Absorption Sq. Ft. (±)	Under Construction Sq. Ft. (±)	NNN Average Asking Lease Rate Sq. Ft./Yr. \$
Sun City	9,286,242	6.4	43,801	148,036	17.96
North Bell Road	15,582,862	10.3	(109,783)	140,819	15.97
Northwest Phoenix	12,399,336	14.6	124,641	148,000	14.66
West/Southwest Phoenix	19,658,402	7.7	432,903	74,036	17.74
Paradise Valley	8,056,807	6.6	(97,615)	0	24.96
North Scottsdale	15,296,747	9.5	(55,461)	0	21.76
East Phoenix	3,494,759	6.4	76,474	16,242	19.51
Scottsdale	4,546,789	5.2	28,489	0	25.83
Tempe/Ahwatukee	17,964,557	7.3	(27,923)	0	17.26
Mesa/Chandler/Gilbert	38,264,864	10.1	655,384	223,193	15.66
Apache Junction	5,128,381	4.0	241,300	243,916	19.62
Maricopa	491,778	1.8	9,623	0	22.64
Metropolitan Phoenix	150,171,524	8.9	585,366	994,242	17.16

Source: CBRE Research, Q4 2016.

Figure 6: Key Transactions

Size Sq. Ft. (±)	Tenant	Address	Market
53,910	Shoppers Supply	SEC Apache Trl/Ironwood Dr	Apache Junction
50,428	Target	SEC Camelback Rd/16th St	Paradise Valley
42,332	Burlington Coat Factory	SEC Loop 202/Dobson Rd	Mesa/Chandler/Gilbert
41,276	Dick's Sporting Goods	SWC Loop 101/Scottsdale Rd	North Scottsdale
36,825	Pet Club	SEC Apache Trl/Meridian Rd	Apache Junction

Source: CBRE Research, Q4 2016.



CONTACTS

Chase Dorsett

Retail Researcher

CBRE | CBRE Research
2415 E. Camelback Road
Phoenix, Arizona 85016
T 602 735 5513
F 602 735 5655
chase.dorsett@cbre.com

Jeff Cooledge

Research Manager

CBRE | CBRE Research
2415 E. Camelback Road
Phoenix, Arizona 85016
T 602 735 5586
F 602 735 5655
jeff.cooledge@cbre.com

Darin Mellott

Director, Research and Analysis

CBRE | CBRE Research
222 S. Main Street, 4th Floor
Salt Lake City, Utah 84101
T 801 869 8014
F 801 869 8080
darin.mellott@cbre.com

To learn more about CBRE Research, or to access additional research reports, please visit the Global Research Gateway at:
www.cbre.com/researchgateway.