

Net Absorption Finishes the Year Negative for the First Time Since 2011



Vacancy Rate
8.0%



Net Absorption
(106,156) SF



Construction
685,916 SF



Lease Rate
\$16.49 NNN

*Arrows indicate change from previous quarter

NEGATIVE NET ABSORPTION CONTINUES INTO THE FOURTH QUARTER

Net absorption in the Phoenix retail market posted 106,156 sq. ft. of negative net absorption. The two-year average now totals 149,408 sq. ft. where the high was 323,765 sq. ft. in Q3 2019 and the low was negative 161,221 sq. ft. in Q3 2020.

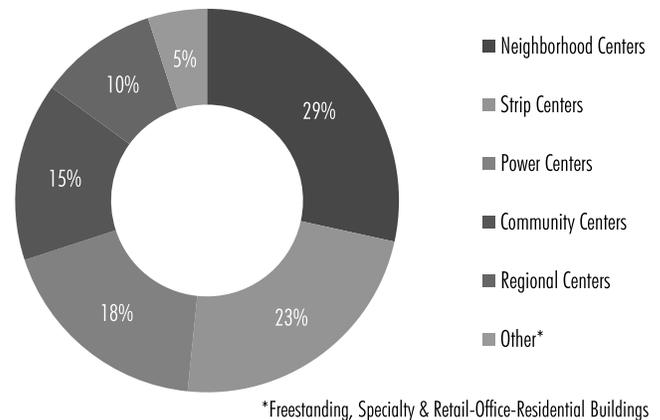
GROCER DEMAND DRIVES CONSTRUCTION

As the grocery sector continues to increase in demand, new supply is on the horizon in Phoenix. City Gate Marketplace, anchored by 123,000 sq. ft. Fry's, and Village Grove at Verrado, anchored by 124,070 sq. ft. anchored by Fry's, is under construction. A Basha's at Verrado is also planned to start development soon. Grocers have been resilient during strict lockdown periods and will continue to see demand with new deliveries expected later this year.

HOUSING MARKET CONTINUES TO STRENGTHEN

The Phoenix housing market continues to grow. Year-over-year permits are up 27.2% in single-family and 42.3% in multi-family. Phoenix continues to be the leader in net migration and shows no sign of slowing down.

Figure 1: Vacant Space Distribution



Source: CBRE Research, Q4 2020.

The metro Phoenix retail vacancy increased to 8.0% at the end of Q4 2020, an increase of 20 basis points from the previous quarter. Year-over-year, the vacancy rate is steady. The retail market continues to tighten as new construction remains disciplined with 685,916 sq. ft. of product currently under construction. Construction is led by grocery anchored and fitness center developments with Fry's and EOS Fitness active in the market. It is expected that retail construction will remain disciplined through the remainder of the current real estate cycle.

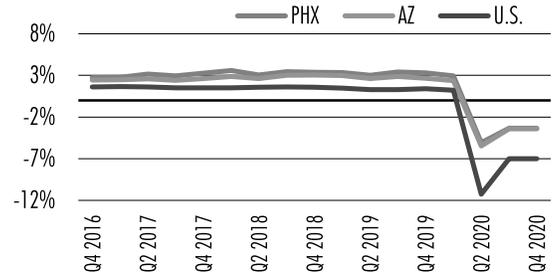
EMPLOYMENT

The ongoing pandemic severely impacted employment across the nation. However, the loss in employment has been less severe in Phoenix compared to other metros and the national average. In the fourth quarter, the Phoenix Metro lost 69,900 jobs year-over-year bringing nonfarm employment to 2.1 million. Industries with the greatest job losses include leisure and hospitality with 38,900 jobs lost year-over-year in the fourth quarter while retail and trade lost 2,400 jobs.

NET ABSORPTION

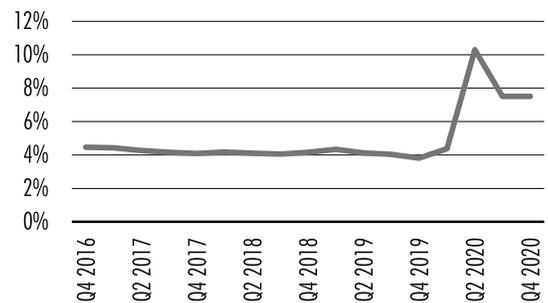
In the fourth quarter, there was 106,156 sq. ft. of negative net absorption. Gross activity for the market totaled 602,732 sq. ft. Both net and gross absorption improved from the previous quarter. Although the market remained active, considerable move outs pulled the overall market negative. The Mesa/Chandler/Gilbert submarket registered 78,796 sq. ft. of negative net absorption, mainly attributed to two move outs each by Office Max and Stein Mart. The North Scottsdale submarket recorded 60,555 sq. ft. of negative net absorption, headlined by two Stein Mart vacates and an Office Max closing. The newly built Costco (154,418 sq. ft.) in the Sun City submarket highlighted the positive 139,373 sq. ft. of net absorption. Overall, the Phoenix Metro finished the year with 13,286 sq. ft. of negative net absorption.

Figure 2: Year-Over-Year Job Growth



Source: U.S. Bureau of Labor Statistics, Q4 2020.

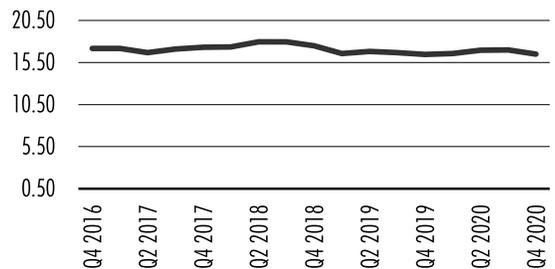
Figure 3: Unemployment Rate



Source: Bureau of Labor Statistics, Oxford Economics, January 2020.

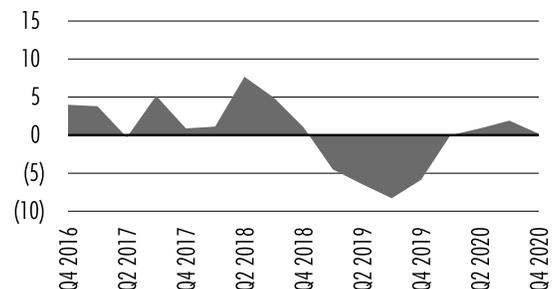
*The quarterly average for these geographies exclude December. These estimates are preliminary.

Figure 4: Average Asking Lease Rate (SPSF/YR/NNN)



Source: CBRE Research, Q4 2020.

Figure 5: Year-Over-Year Rent Growth (%)



Source: CBRE Research, Q4 2020.

VACANCY

The year-over-year market-wide vacancy rate remained steady at 8.0%. Of the core submarkets, the Scottsdale and East Phoenix submarkets had some of the lowest vacancy rates for metro Phoenix to end the year at 3.2% and 4.8%, respectively. These submarkets consistently outperform others, which can be attributed to favorable location and density. Meanwhile, the Northwest Phoenix and Mesa/ Chandler/ Gilbert submarkets had the highest vacancy rates at 10.2% and 10.0%, respectively. The reconfiguration of vacant big-box space could help push down overall vacancy in these areas over time.

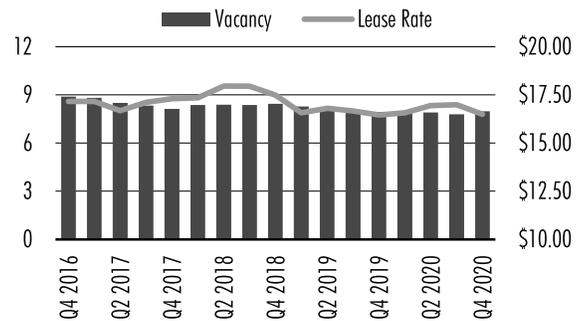
ASKING LEASE RATES

The overall average asking lease rate ended the year at \$16.49 per sq. ft. (NNN) compared to \$16.99 (NNN) at the end of Q3 2020. Year-over-year, asking rents are up 0.2% from the Q4 2019 total of \$16.46 (NNN). Average asking lease rates by development type are led by retail/office developments at \$29.21 per sq. ft. (NNN), followed by power centers with average asking lease rates of \$20.14 per sq. ft (NNN). Of the core submarkets, East Phoenix led all submarkets at year-end with average asking rents at \$27.59 per sq. ft. (NNN) followed by the Scottsdale submarket with average asking rents of \$20.91 per sq. ft. (NNN).

CONSTRUCTION ACTIVITY

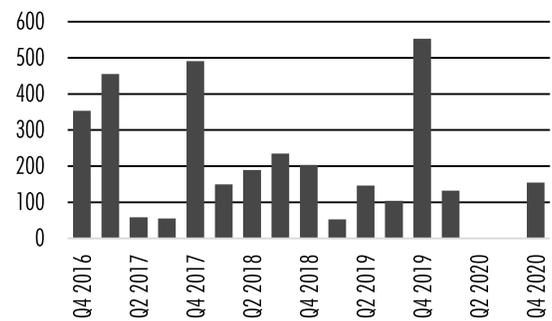
In the fourth quarter there was 685,916 sq. ft. of retail space under construction across the Valley. Two notable projects under construction are both in Gilbert and include the City Gate Marketplace, a Fry's anchored center at Baseline and Higley roads, and The Post at Cooley Station, a Fry's anchored center located at Williams Field and Recker roads. EOS Fitness has also been active around the Valley and kicked off a 38,000 sq. ft. fitness center at Pecos and Val Vista Rd. Costco delivered a brand new 154,418 sq. ft. building at Waddell Rd and Prasada Pkwy.

Figure 6: Vacancy Rate (%) vs. Lease Rate (NNN)



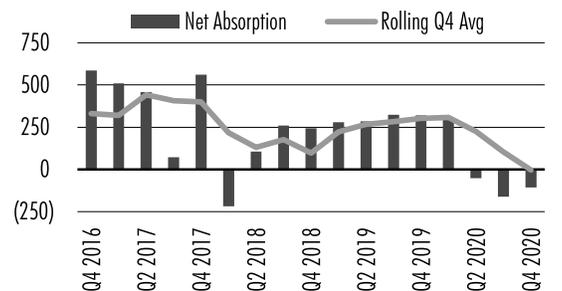
Source: CBRE Research, Q4 2020.

Figure 7: Total Completions (000's)



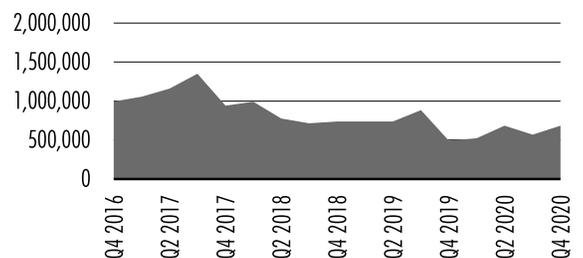
Source: CBRE Research, Q4 2020.

Figure 8: Net Absorption (000's)



Source: CBRE Research, Q4 2020.

Figure 9: Under Construction (SF)



Source: CBRE Research, Q4 2020.

OUTLOOK

Despite the down year for brick-and-mortar shopping, the retail sector is hopeful for a big comeback in 2021. Many professionals are citing “revenge retail”, while others are not so optimistic. Since the onset of the COVID-19 pandemic, many have been pushed to e-commerce which bodes well for the industrial sector. Conversations continue surrounding big box retail redevelopment into industrial, but those talks have not yet come to fruition in Phoenix to end 2020.

The rollout of the COVID-19 vaccine should continue to improve consumer sentiment and safety. Phoenix has the benefit of many open-air, suburban shopping centers, providing space to increase retail occupancy. The return to office should also benefit retail in 2021 and as Phoenix continues to grow its population base, retail should recover more quickly than most metros. However, national store closures will continue to impact the local market in the short-term.

Figure 10: Retail Market Statistics

Market Area	Bldg. Sq. Ft.	Overall Vacancy (%)	Availability (%)	Current Net Absorption (Sq. Ft.)	Current Gross Activity (Sq. Ft.)	Under Construction (Sq. Ft.)	Construction Deliveries (Sq. Ft.)	Avg. Asking Lease Rates (\$PSF/YR/NNN)
Community Centers	20,502,419	8.9	9.9	56,432	90,678	0	0	16.32
Freestanding Food	1,531,960	0.3	0.3	4,340	4,340	0	0	-
Freestanding Non-Food	6,155,420	2.1	2.1	(4,443)	4,585	38,000	0	10.00
Neighborhood Centers	42,358,477	8.1	9.2	35,988	263,668	647,916	154,418	16.54
Power Centers	35,908,402	6.2	7.7	(88,222)	81,827	0	0	20.14
Regional Centers	13,344,300	9.0	10.2	(2,121)	0	0	0	-
Retail-Office	3,400,313	8.1	9.3	899	15,037	0	0	29.21
Specialty	5,174,589	3.7	5.6	998	7,196	0	0	-
Strip Centers	22,649,307	12.4	14.3	(110,027)	135,401	0	0	13.78
Metro Phoenix Total	151,066,387	8.0	9.3	(106,156)	602,732	685,916	154,418	16.49

Source: CBRE Research, Q4 2020.

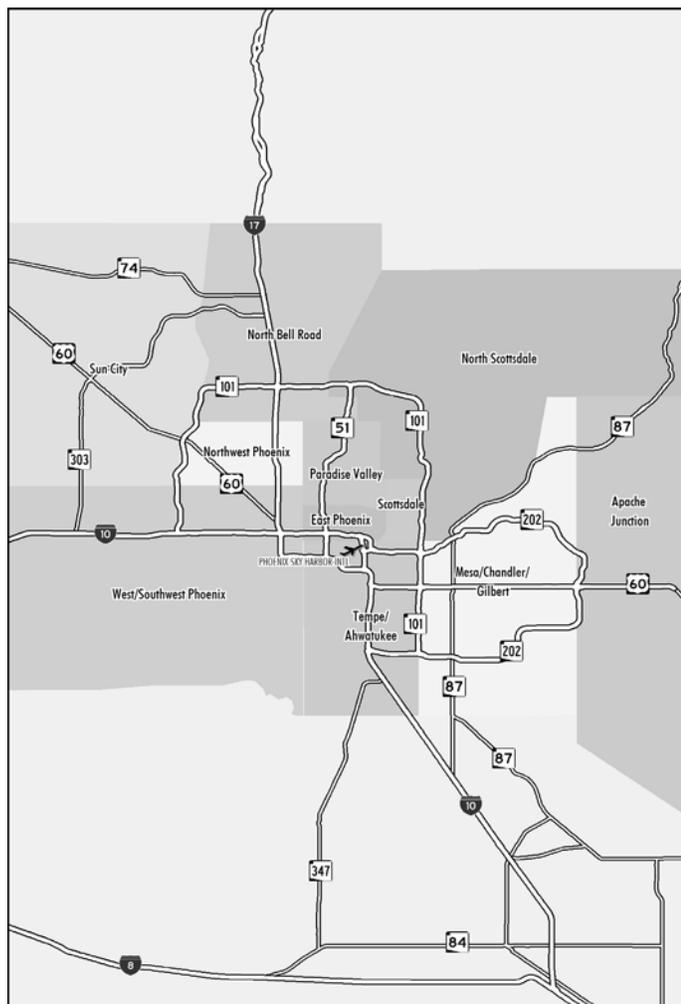
Figure 11: Key Transactions

Occupier	Industry Type	Location	Total Sq. Ft.
Scottsdale Gymnastics	Fitness	North Scottsdale	38,000
EOS Fitness	Fitness	Paradise Valley	36,797
810 Billiards & Bowling	Entertainment	Tempe/Ahwatukee	28,243
American French Academy	Education	Mesa/Chandler/Gilbert	24,870

Source: CBRE Research, Q4 2020.

Figure 12: Retail Submarket Statistics

Submarket	Bldg Count	Bldg SF	Vacant SF	Vacancy Rate (%)	Under Construction (SF)	Construction Deliveries (SF)	Gross Activity	Net Absorption
Sun City	73	9,569,017	580,869	6.1	0	154,418	182,573	139,373
North Bell Road	107	15,853,159	1,121,426	7.1	0	0	43,020	(67,456)
Northwest Phoenix	92	11,106,688	1,135,971	10.2	0	0	13,888	(12,906)
West/Southwest Phoenix	139	19,941,662	1,530,032	7.7	124,070	0	104,443	50,086
Paradise Valley	56	8,136,807	651,015	8.0	0	0	2,712	(43,403)
North Scottsdale	104	15,177,965	1,210,342	8.0	46,007	0	40,294	(60,555)
East Phoenix	29	3,526,595	167,597	4.8	0	0	7,000	(11,427)
Scottsdale	28	4,422,045	139,187	3.1	0	0	10,699	9,813
Tempe/Ahwatukee	131	18,106,989	1,295,408	7.2	0	0	64,736	(15,430)
Mesa/Chandler/Gilbert	284	38,942,429	3,908,897	10.0	515,839	0	122,781	(78,796)
Apache Junction	43	5,704,003	328,663	5.8	0	0	10,586	(15,455)
Maricopa	5	579,028	7,162	1.2	0	0	0	0
Metro Phoenix Total	1,091	151,066,387	12,076,569	8.0	685,916	154,418	602,732	(106,156)



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