



Phoenix, AZ

Retail

21Q2

Key Takeaways

- Vacancy decreased 20 bps Q-o-Q
- YTD Net absorption is at 496,542 SF, more than double the amount of all of 2020
- Investment sales reached \$350 million in the second quarter, 19% higher than the first 6 months of 2020



Q2 2021

Second quarter was a drastic change from last year. Investment sales this quarter was higher than all of 2020, ending at \$350.5 million. There was 249,645 square feet of positive absorption followed by a slight increase in rental rates. In late March Governor Ducey lifted all restrictions on businesses in Arizona, which benefits future business for all owners.

Market Indicators



6.20%
Unemployment Rate (May-21)



12.45%
GDP - Quarterly % change yr/yr

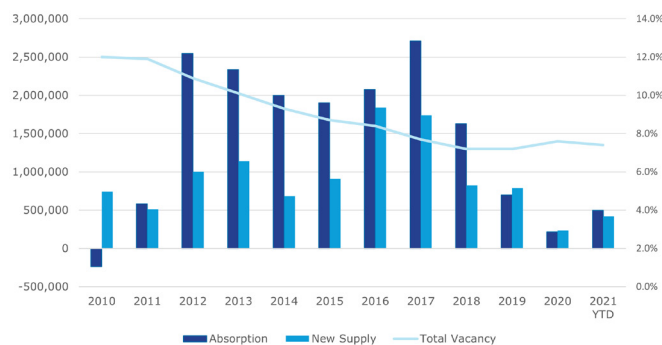


1.469%
U.S. 10 Year Treasury Note

Historic Comparison

	20Q2	21Q1	21Q2
Total Inventory (in Thousands of SF)	176,801	177,407	177,595
New Supply (in Thousands of SF)	146	231	188
Net Absorption (in Thousands of SF)	14	246	249
Direct Vacancy	7.3%	7.6%	7.4%
Under Construction (in Thousands of SF)	974	431	382
Overall Asking Lease Rates (NNN)	\$14.59	\$14.75	\$14.90

Historical Absorption, Deliveries, and Vacancy Rates



Lease Transactions



Scheels
3199 W Chandler Blvd
Chandler
220,000 SF



ExtraSpace Storage
14505 W Grand Ave
Surprise/N. Peoria
55,255 SF



Sportsman's Warehouse
800-890 N 54th St
Chandler
32,019 SF

Sale Transactions

Property Name/Property Address	Submarket	Sale Date	Sale Price	Size SF	Sale Price SF
Camelback Colonnade 1949 E Camelback Rd	Central Scottsdale	6/18	\$162,500,000	1,098,685	\$148
The Shops at Hilton Village 6137 N Scottsdale Rd	Central Scottsdale	6/14	\$37,500,000	96,546	\$388
SanTan Pavilions 1877 E Williams Field Rd	Gilbert	5/7	\$9,800,000	16,164	\$606



Executive Summary

Q2 2021

Prior to prop 208, Arizona had one of the lowest income tax rates at 4.5%. Without the recently passed tax reform package, Arizona would have imposed the country's ninth highest tax rate, beating Illinois and Connecticut. The new plan will benefit all taxpayers, with the average taxpayer experiencing a savings of about \$300, or a 13% reduction. Implementing a flat tax of 2.5%, the lowest flat tax in the country, protects Arizona's small businesses from a 77.7% tax increase; places a tax max of 4.5% and reduces commercial property taxes on small businesses and job creators by 10%. As other states are racking up debt, Arizona paid off nearly \$1 billion in debt during the last year while collecting \$2 billion more in tax revenue than the previous year. Under the new tax reform, Arizona is forecast to accumulate a \$4 billion surplus over the next three years. The budget will increase investment in K-12 education, universities, infrastructure and set aside \$1 billion in the state's Rainy-Day fund.

Arizona's economy is booming and experiencing record revenue growth, as well as personal income growth. From 2019-2020 Arizona led the nation (tied with Montana) in the category of highest personal income growth by posting a 7.1% increase. That state is projected to add 325,000 jobs in the next 12 months.

The Greater Phoenix Retail market ended Q2 2021 narrowly edging out the previous quarter by posting 249,645 square feet of net absorption. Rental rates continued showing positive growth, rising

1.98 percent year-over-year. Construction continued forward during second quarter as the market delivered 188,470 square feet of new space within three projects and posted another 382,505 square feet under way. Investment sales in the Retail market improved during second quarter with transactions totaling \$350 million, bringing year-to-date sales volume to \$636 million. The median price paid per square foot percent landed at \$222.

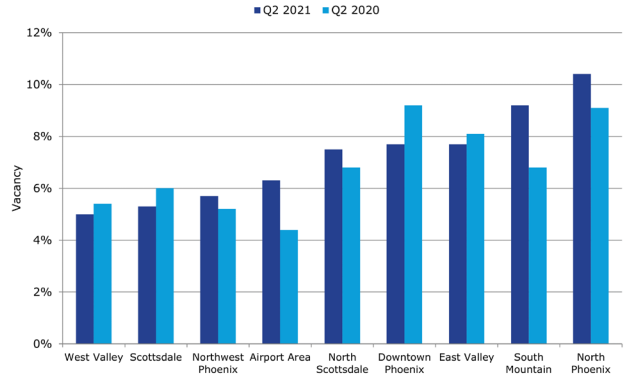
Outlook

Pent up demand has resulted in a retail spending increase of 25 percent compared to January 2020. Phoenix maintains its top metro position for net migration for the 3rd consecutive year from July 2019-2020, so our market is witnessing more and more demand for retail outlets entering the area. Development in suburban areas make up over 80 percent of construction as developers actively work to keep up with the strong growth.

Vacancy

Second quarter ended with retail vacancy at 7.4 percent, which was 10 bps below first quarter, and an increase of 10 bps year-over-year. Scottsdale submarket cluster, which ended the quarter at 5.3 percent, had the largest decrease of vacancy over-the-quarter declining 110 bps, and falling 70 bps year-over-year. Downtown submarket cluster had the largest decrease in vacancy year-over-year dropping 150 bps. West Valley submarket cluster posted the lowest vacancy for the second consecutive quarter at 5.0 percent, a decrease of 40 bps year-over-year. North Phoenix submarket cluster has the highest vacancy, ending the quarter at 10.4 percent, which is an increase of 130 bps year-over-year but level with last quarter.

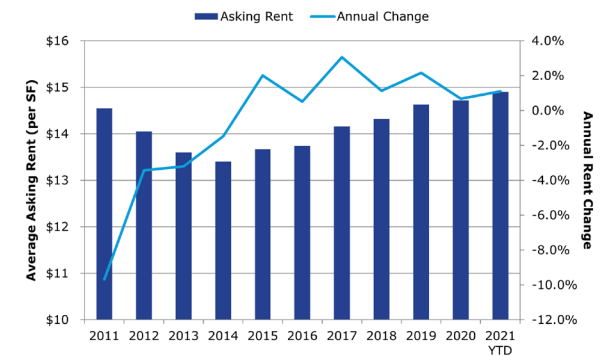
*Paradise Valley mall was removed from our existing inventory and will be added to under construction next quarter when the project enters redevelopment.



Absorption and Leasing

Net absorption during second quarter totaled 249,645 square feet in Greater Phoenix, outpacing last quarter and bringing year-to-date absorption to 496,542 square feet. Year-to-date 2021 we posted the most absorption in the first six months since 2018.

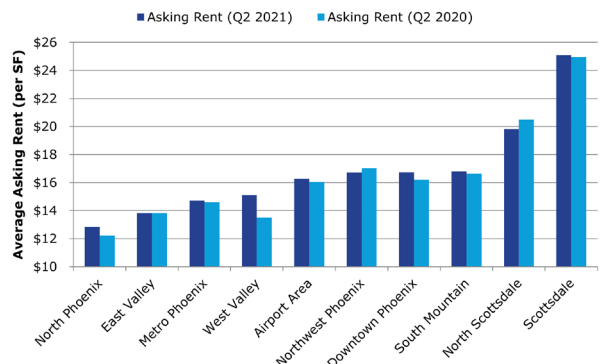
Leasing in East Valley submarket was the most active in the second quarter, where 399,172 square feet of new direct deals were signed. In May, sporting good company Scheels committed to occupy the old Nordstrom's at Chandler Fashion Square. This marks the company's first location in Phoenix and is expected to open in 2023. Outdoor company Sportsman Warehouse inked a deal for 32,019 square feet at Chandler Pavilions. The retailer will be moving into the former Toys R Us space. Outside of the East Valley, ExtraSpace Storage had the largest deal, signing for 55,255 square feet at a former Safeway in Surprise, AZ.



Rental Rates

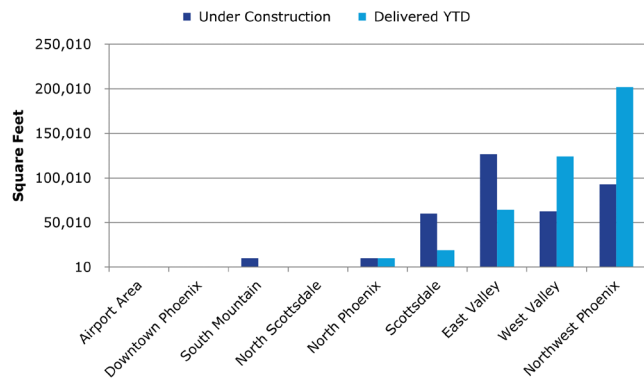
Rental rates ended the second quarter at \$14.90, reflecting an increase of 1.02 percent over-the-quarter and year-over-year of 1.98 percent. Every submarket cluster witnessed a year-over-year increase, with the exception of North Scottsdale where rates decreased 2.1 percent. West Valley and Northwest Phoenix had the largest year-over-year increases, jumping 7.9 and 7.1 percent, respectively. Scottsdale submarket maintains the highest rental rates, increasing 0.52 percent over-the-quarter to \$25.10 per square foot.

The product demand created by new companies looking to enter the market will help rental rates stay strong throughout the year.



Construction

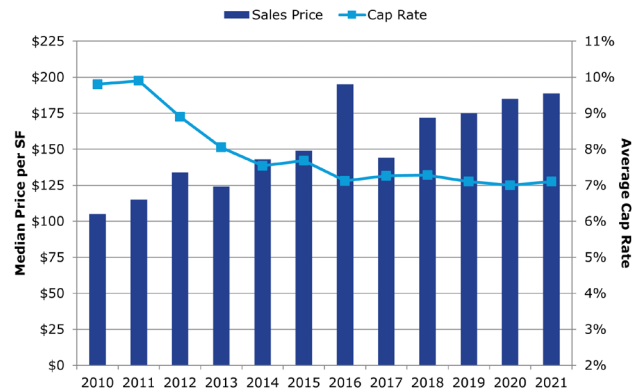
Three projects totaling 188,470 square feet of new retail inventory were delivered in the second quarter with zero vacancy, bringing year-to-date deliveries to 419,490 square feet. Gilbert had two separate EOS Fitness centers deliver that total 64,400 square feet. In Buckeye, Fry's Marketplace delivered its 124,070-square-foot store at Village Grove at Verrado. Currently there are 382,505 square feet of retail space being developed, which is well below the five-year average. The redevelopment of Papago Plaza in Scottsdale is the only inner core project under construction. The remainder of retail construction is found in the Southeast, West Valley and Northwest. East Valley boasts the most product being developed, involving five properties that total 126,562 square feet. Urban Air Adventure Park is the largest project, a 50,000 facility at SanTan Pavilions.



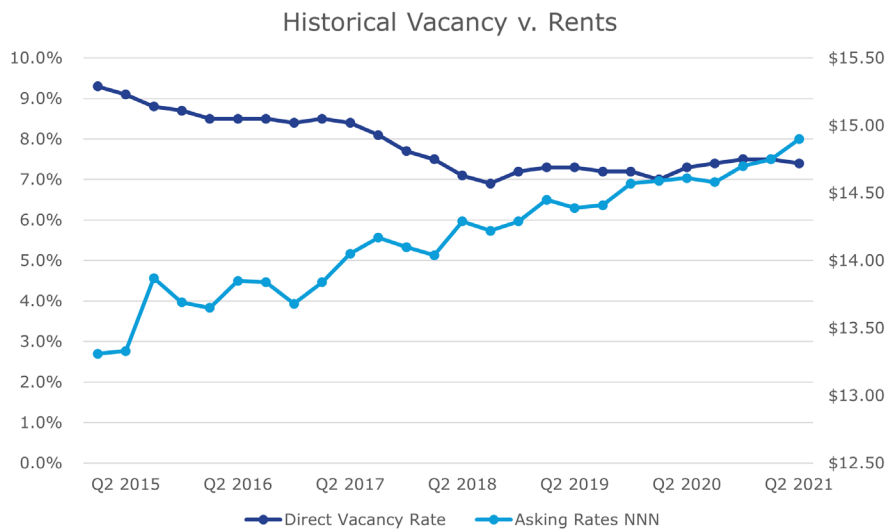
Investment Trends

Transaction volume during the second quarter reflected a drastic change from a year ago, increasing the number of deals by 167 percent, for total transaction volume of \$350 million. These deals elevated the median price per square foot to \$222. Drug store sales were extremely active this quarter, with 10 transactions completed that accounted for \$52 million in sales volume.

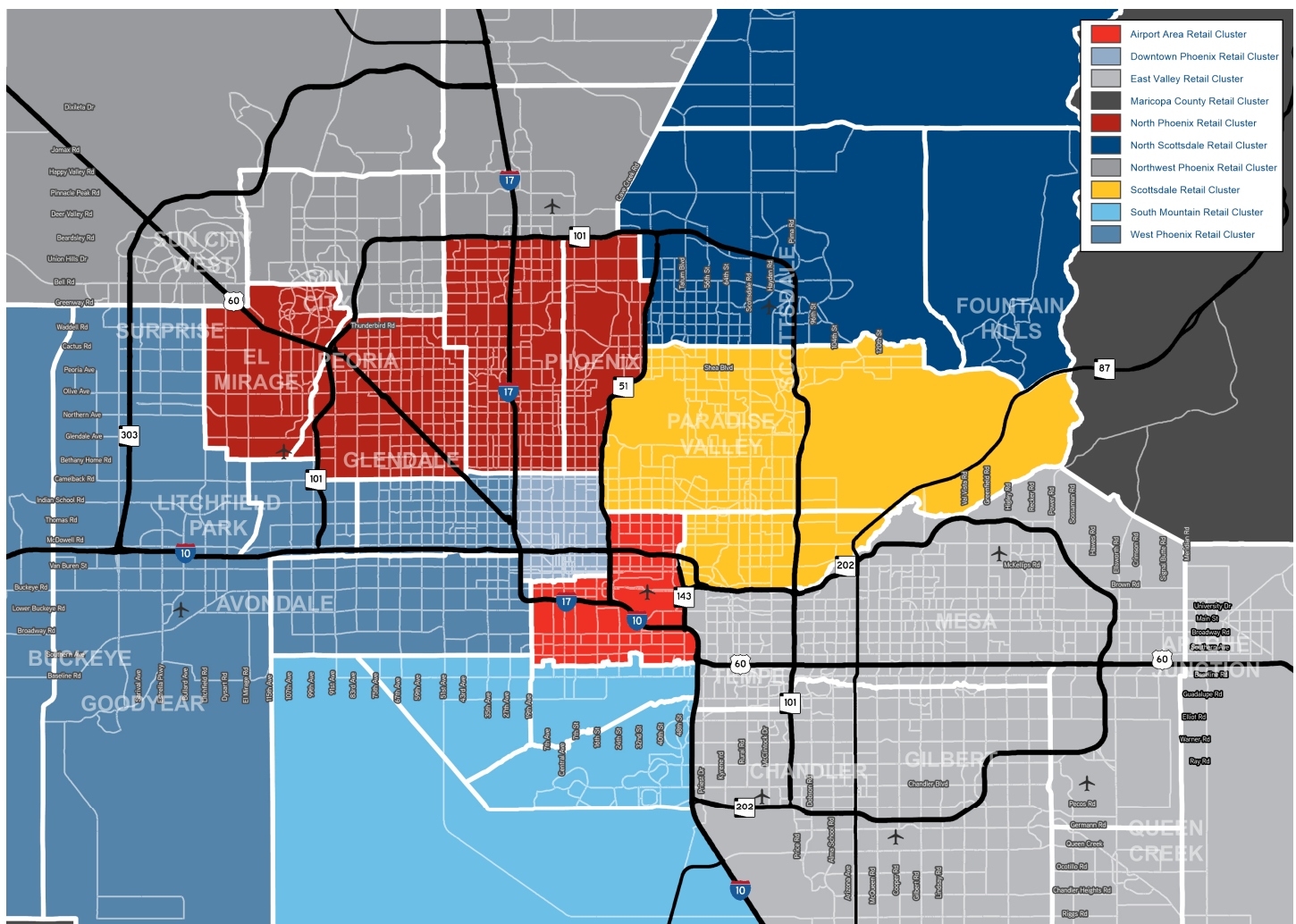
The largest transaction was the \$162.5 million sale of Camelback Colonnade, a 1,098,685-square-foot shopping center in the Camelback Corridor. RED development sold the asset to Federal Realty Investment Trust. Federal Realty also purchased The Shops at Hilton Village from RED Development during second quarter. The \$37.5 million purchase price equates to \$388/SF.



Vacancy vs. Rental Rate



Submarket	Inventory	Total Vacancy		Net Absorption-SF		New Supply		Under Construction	Asking Rents Rate (NNN)	
		Vacant SF	Q1-21	Q1-20	Q1-21	YTD	Q1-21			YTD
Airport Area	3,453,495	216,818	6.3%	4.4%	(29,476)	(38,836)	-	-	-	\$16.27
Downtown Phoenix	5,298,120	410,229	7.7%	9.2%	12,465	76,746	-	-	-	\$17.31
East Valley	63,744,697	4,886,937	7.7%	8.1%	102,204	310,365	64,400	64,400	126,652	\$13.83
North Phoenix	31,390,002	3,253,098	10.4%	9.1%	5,263	(136,328)	-	10,000	30,000	\$12.85
North Scottsdale	14,830,614	1,105,555	7.5%	6.8%	(18,028)	9,865	-	-	-	\$19.81
Northwest Phoenix	17,430,874	991,776	5.7%	5.2%	(5,124)	173,904	-	202,000	93,153	\$16.72
Scottsdale	15,480,856	817,535	5.3%	6.0%	85,299	143,883	-	19,020	60,000	\$25.10
South Mountain	5,657,784	521,496	9.2%	6.8%	12,446	(131,358)	-	-	10,000	\$16.89
West Valley	20,308,703	1,017,000	5.0%	5.4%	84,596	88,301	124,070	124,070	62,700	\$14.60
METRO PHOENIX	177,595,145	13,220,444	7.4%	7.3%	249,645	496,542	188,470	419,490	382,505	\$14.90



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\$3.3B
in revenue



2B
square feet under management



18,000 +
professionals and staff

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