INVESTMENT FORECAST

Retail

Phoenix

IPA INSTITUTIONAL PROPERTY ADVISORS

2022

Clouds of Uncertainty Clear, Revealing a Glowing Long-Term Outlook that Elevates Investor Activity

Job gains and new residents a boon for consumption. Retail metrics have soundly improved after enduring some turbulence, and momentum will spill into 2022. Net absorption is expected to surpass 2 million square feet for the second straight year, dropping vacancy to the lowest year-end mark since 2007. Several factors are driving the uptick in space demand by retailers. Metro employment exceeded the 2019 peak by August of last year, spearheading consumers' ability to spend. At the same time, some seasonal residents have returned after staying put in 2020 and tourism is progressing. In the long term, the metro's swift expansion aids the outlook. Through the end of this decade, the household count is projected to grow by nearly three times the national pace. A larger resident base translates to higher levels of spending, encouraging retailers to enter or enlarge their market presence. Experiential tenants, one of the more impacted segments during the pandemic, inked several 2022 commitments, including Urban Air in Gilbert and EoS Fitness in Queen Creek. Traditional retailers are leasing as well, with Dick's Sporting Goods and Sportsman's Warehouse moving into facilities late last year.

Uneven rebound impacts investment decisions. The recovery differs across market areas and retail segments, prompting many investors to adjust their strategies. Multi-tenant asking rents dipped last year, due mostly to sluggish demand in large malls amid low foot traffic. Meanwhile, single-tenant rates grew in 2021 as necessity retailers and drive-thru-capable shops thrived. As a result, single-tenant buildings accounted for roughly 60 percent of deals completed through the third quarter of last year, compared to a nearly even split in 2019. Despite the shift, average sale prices rose in both segments. The East Valley and Scottsdale submarkets generate the most buyer interest across retail asset types, and also had steep vacancy declines last year. Single-tenant cap rates here fall between 4 percent and 6 percent, and multi-tenant returns are in the 6 percent to mid-7 percent band.

2022 Market Forecast

Employment up 3.8% — Metro employers enlarge the headcount by 85,000 personnel in 2022, the second-largest annual gain across the past 15 years.

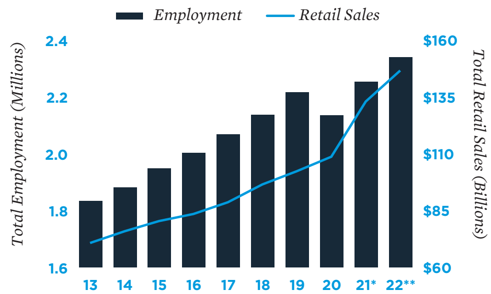
Construction 1,400,000 sq. ft. — Stock grows by 0.7 percent as delivery volume exceeds 1 million square feet for the third time in four years. Nearly half of the new space is in East Valley locales like Chandler and Gilbert.

Vacancy down 40 bps — The overall vacancy rate retreats to 7.2 percent in 2022, down 10 basis points from the past-decade low set in September 2018. Single-tenant availability could dip near 6.0 percent.

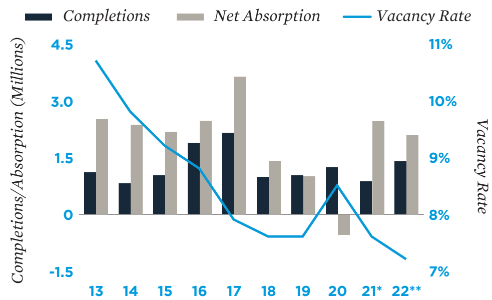
Rent up 3.0% — Availability drops to a 15-plus year low as demand strengthens, setting the stage for rent growth. The average marketed rate climbs to $17.20 per square foot, up 6.6 percent from 2020.

Investment — Downtown Phoenix could attract more investment after vacancy fell to the lowest rate since 2007. Fast food and restaurants here often command entry costs above $500 per square foot.

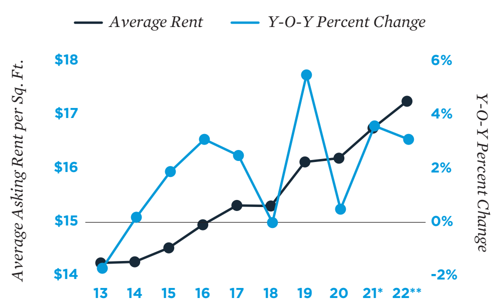
Economic Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

Daniel Taub
Senior Vice President
Director IPA Retail
Tel: (212) 430-5100 | dtaub@ipausa.com