MARKET REPORT

Retail

Phoenix Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

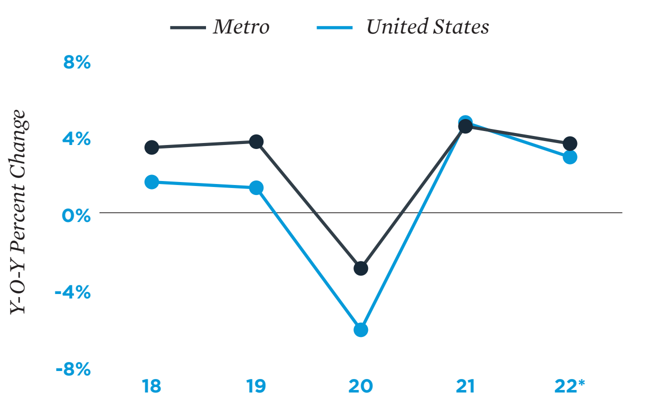
2Q/22

Retailers Follow Workers; Sky High Retail Sales Aid Record Net Absorption

New consumers prompt leasing. Only five other major metros are welcoming households at a quicker rate than Phoenix, leading to a bevy of home decor and furniture store leases. American Furniture Warehouse signed on to fill roughly 150,000 square feet in Midtown, its third Phoenix location. Additionally, high levels of population growth and in-migration are sparking necessity-based leasing around The Valley, with Sprouts and Dollar Tree both adding space. The hardest-hit industries during the pandemic are also showing strong space demand, with gyms and sit-down eateries expanding as well. Retail sales growth above 32 percent during the health crisis led 2021 to break local net absorption records, and suggests Phoenix will remain an expansion-friendly environment for retailers.

Absorption strongest in high-income and growing areas. Retailers are actively looking for space, with a particular focus on growing communities in the Southeast Valley and in Midtown, where population density is intensifying as new apartments open. Seven of the metro's 11 submarkets shed at least 140 basis points from their local vacancy rate year-over-year, highlighted by drops of at least 250 basis points in North Phoenix and Downtown, the two submarkets by which Midtown is divided. The CBD has one of the lowest vacancy rates in the metro at 4.9 percent in March. Other areas with elevated incomes, like Scottsdale and North Scottsdale, are noting improvements. Both submarkets noted vacancy reduction and rent growth in the first quarter, despite being the highest cost areas for retailers.

Employment Trends



** Forecast*

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook

80,000 JOBS
will be created

EMPLOYMENT:

As the local unemployment rate dipped below 3 percent during the first quarter of 2022, job growth will slow slightly this year to 3.6 percent. This rate is ahead of the 2019 level, highlighting the positive labor market shifts since before the pandemic.

1,800,000 SQ. FT.
will be completed

CONSTRUCTION:

Development is set to reach its highest level since 2017. The rapid in-migration observed during the health crisis tightened market vacancy and necessitated new builds in fast-growing exterior areas like Queen Creek and Surprise.

80 BASIS POINT
decrease in vacancy

VACANCY:

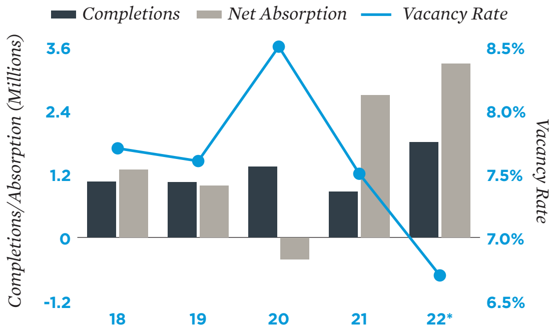
Vacancy will tighten significantly this year, down to 6.7 percent after falling 100 basis points last year. Despite the uptick in construction, net absorption continues to outpace space additions, highlighted by 1.5 million square feet absorbed in the first quarter of 2022.

5.9% INCREASE
in asking rent

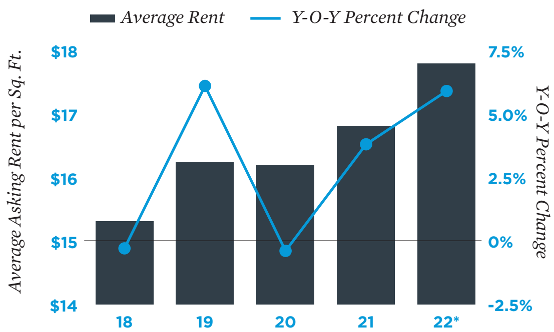
RENT:

Fewer available floorplans on the market, combined with the addition of high-end space, will cause asking rent growth to surge ahead of the 3.8 percent rate observed last year, reaching $17.80 per square foot on average by year-end.

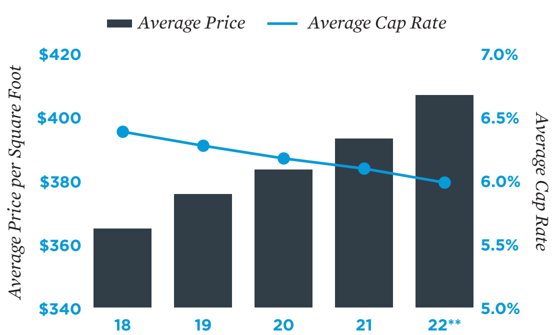
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 1Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: $250

1Q 2022 - 12-Month Period

CONSTRUCTION

1,418,000 sq. ft. completed

- Builders completed more than half of the space finalized in the past four quarters in just the last three months, at more than 715,000 square feet.
- The East Valley added the most supply as Gilbert and Queen Creek grow in population. Significant space has also been added in the Goodyear area, where warehousing employment has expanded rapidly.

VACANCY

130 basis point decrease in vacancy Y-O-Y

- While single-tenant vacancy was able to shed 40 basis points in the first quarter and reach 5.8 percent, multi-tenant properties saw available space drop at a quicker rate to 9.4 percent on a 60-basis-point quarterly slide.
- Despite elevated completions in the first quarter of 2022, vacancy dropped 40 basis points between December 2021 and March of this year.

RENT

5.4% increase in the average asking rent Y-O-Y

- As conditions tightened, the average marketed rent climbed to $17.13 per square foot in March. The rate of rent growth has been escalating since the second quarter of 2021.
- Nine of the 11 submarkets recorded year-over-year rent growth in March, highlighted by 10 percent-plus gains in Pinal County and near the Airport.

Investment Highlights

- Twice as many retail assets traded in the 12-month period ended in March than in the previous yearlong interval, with the first quarter of this year registering the largest volume of any first quarter on record. While sales involving single-tenant and multi-tenant buildings have grown, gains in multi-tenant asset velocity are largely responsible for this climb.
- Targeting of multi-tenant assets sparked a 10 percent gain in average pricing to $314 per square foot for the year ended in March. Buyers willing to pay a premium are eyeing the affluent Scottsdale area, with per-square-foot pricing at $370 on average, and cap rates in the mid-5 to low-6 percent range. Investors looking for lower entry costs have been active in the East Valley, where the household count is rising quickly.
- Single-tenant pricing has grown slightly to $493 per square foot, with cap rates easing into the mid-5 percent range. Entry costs can be more than double this average for assets filled by national chains in desirable locales.
- Out-of-state activity is sizable, and the addition of high-end, mixed-use projects in Scottsdale and Midtown should garner attention from such investors as the stock of institutional grade assets in The Valley rises.