

MARKET REPORT

Retail
Phoenix Metro Area

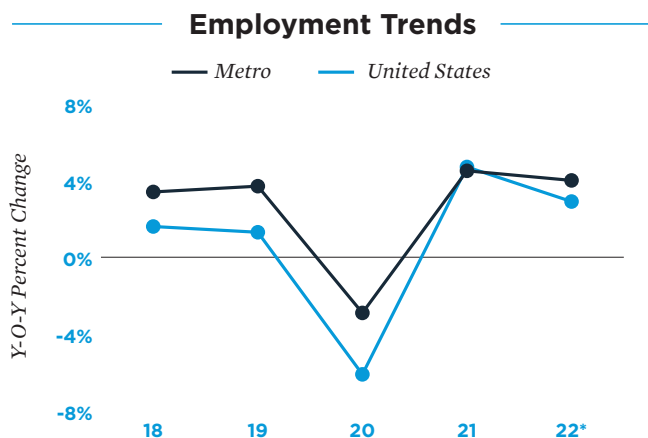
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3Q/22

Booming Population Ignites Vendor Demand; Evolving Consumer Behavior Shifts Builders' Focus

Retailers respond to strong rate of household formation. Retail fundamentals are outperforming historical norms in Phoenix, with recent demographic trends providing strong demand tailwinds for retailers. Correlating with the metro's above-average job growth, nearly 47,000 new households were formed during the 12-month span ending in June, the highest number among major metros outside of Texas. This prompted vendors to absorb over 4.1 million square feet of retail space on a net basis over the past year, lowering vacancy by 170 basis points — the largest compression recorded across major U.S. metros. Standout absorption allowed vacancy to tighten by at least 60 basis points in all 11 of the metro's submarkets. Most notably, West Phoenix and Scottsdale hit record-low rates at 4.0 and 4.1 percent, respectively, with a negligible speculative pipeline in Scottsdale suggesting that further local contraction is likely.

Developers hone in on shopping centers. Phoenix builders have historically focused on single-tenant development, with subsector deliveries exceeding multi-tenant construction for the entire decade prior to the pandemic. This trend is shifting, however, as over the past 24 months ending in June, multi-tenant supply additions surpassed single-tenant completions by nearly 200,000 square feet. Evolving consumer behaviors — with an emphasis on visiting more stores quickly amid fast-paced lifestyles — have motivated developers to grow the multi-tenant pipeline. As of September, local builders were underway on 1.4 million square feet of multi-tenant space.



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook



**90,000
JOBS**
will be created

EMPLOYMENT:

Phoenix employers added 69,400 jobs year-to-date through August, surpassing the gains observed through the preceding eight months by nearly 9,000 positions. Keeping this momentum, firms will expand Phoenix's total job count by 4.0 percent by year-end.



**1,610,000
SQ. FT.**
will be completed

CONSTRUCTION:

Development accelerates in 2022, as builders lift the annual supply addition by 730,000 square feet relative to last year. Deliveries during the first half were concentrated in the East Valley, though in the second half they shift toward West Phoenix.



**90
BASIS POINT**
decrease in vacancy

VACANCY:

Retail availability tightens to 6.6 percent, anchored by a near 15-year high in first half net absorption in 2022. This places the year-end vacancy rate 100 basis points below the pre-pandemic mark.

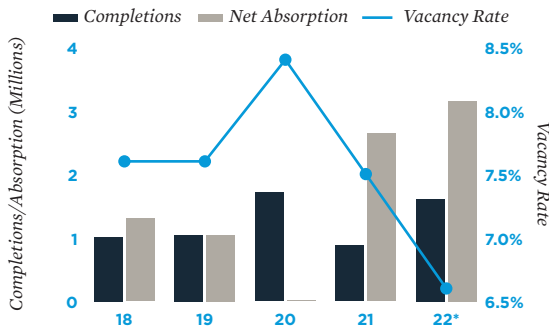


**5.1%
INCREASE**
in asking rent

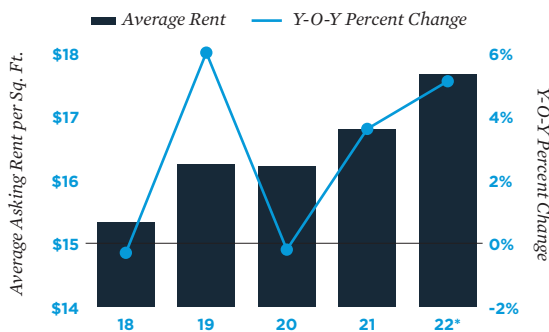
RENT:

Robust demand fosters an elevated pace of rent growth, lifting the average asking rate to \$17.66 per square foot in December. Enhanced by less available space on the market, this year's annual gain is nearly twice the speed of the prior five-year average.

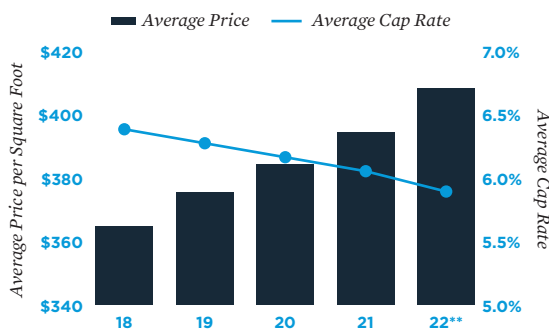
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: \$250

2Q 2022 - 12-Month Period



CONSTRUCTION

1,099,000 sq. ft. completed

- Builders completed 511,000 square feet in the East Valley during the 12-month period ending in June, expanding local inventory by 0.8 percent.
- West Phoenix's active pipeline totaled nearly 1.3 million square feet as of September, highlighted by the 700,000-square-foot Village at Prasada, an outdoor shopping center in Surprise.



VACANCY

170 basis point decrease in vacancy Y-O-Y

- Net absorption outstripped deliveries by more than 3 million square feet during the yearlong span ending in June. This compressed metro vacancy to 6.5 percent, the lowest rate since 2007.
- Single-tenant vacancy declined by at least 80 basis points in 10 out of 11 sub-markets, dropping the sector's rate to 5.6 percent in the second quarter.



RENT

4.2% increase in the average asking rent Y-O-Y

- The average asking rent jumped to \$17.22 per square foot in June, as retailer demand for existing space surged amid a decline in supply additions.
- Single-tenant rent growth more than doubled the multi-tenant gain, lifting 5.1 percent to an average of \$18.00 per square foot. Still, the mean single-tenant asking rent trails the record mark by nearly \$3 per square foot.

Investment Highlights

- Multi-tenant sales pricing lifted 9 percent to \$316 per square foot on average during the yearlong span ending in June, as valuations were driven up by record-low subsector vacancy and a moderate pipeline. Strong price gains, along with heightened competition for listings, lowered the mean multi-tenant cap rate 20 basis points to 6.4 percent.
- North Phoenix is one of the metro's most active locales for multi-tenant trading, with investors drawn to its relatively low entry costs and above-average first-year returns. Out-of-state buyers are acquiring neighborhood centers in the area for an average of roughly \$135 per square foot, with cap rates primarily falling in the low- to mid-7 percent band.
- Single-tenant assets are changing hands at an accelerated pace in the East Valley, with first-year returns mostly ranging from high-5 to 6 percent. Scottsdale is also noting sizable single-tenant deal flow, though first-year returns here are much lower, hovering in the low-5 percent range.
- Fast food establishments proximate to major thoroughfares, such as Interstate 17 and Red Mountain Freeway, are attracting substantial dealflow. Yields for these properties are often trading in the high-4 percent band.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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