

MARKET REPORT

Retail
Phoenix Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

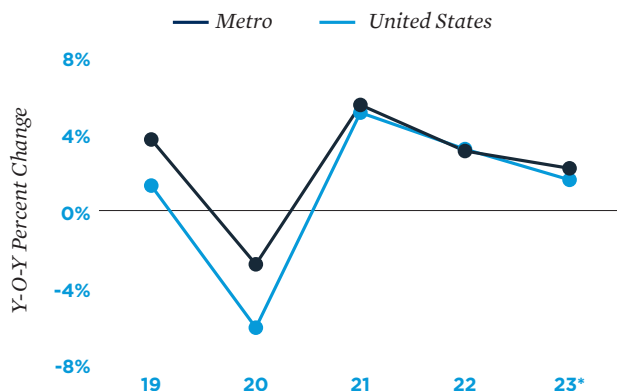
4Q/23

Substantial Retailer Competition Positions Asking Rents to Reach a Record Pace in 2023

Submarket trio's space demand led the nation. In the first half of 2023, West Phoenix, the East Valley and North Phoenix ranked first, second and fourth in the U.S. for retail net absorption. Retailers are aggressively expanding across the suburbs in response to Maricopa County's recent, nation-leading population growth, favoring residential pockets best-suited to host future in-migration. This potential stands out in these three submarkets, as over 5,600 apartments were delivered here during the span, with nearly 18,400 additional units under construction as of October. Correspondingly, each location noted record-low retail vacancies in June. Multiple tenants pursuing leases at available, well-positioned spaces across these areas will play a major part in driving an all-time high, more than 8 percent gain in Phoenix's overall average asking rent in 2023.

Most new builds are tenanted. As of October, over 80 percent of the space underway in Phoenix was pre-leased. With the market's vacancy at a historic low of 5.2 percent in June, a lack of speculative projects moving forward should allow retail space availability to remain tight. Nevertheless, more than 100,000 square feet of pending deliveries in Downtown Phoenix remain untenanted. The submarket was the only in the metro to note rising vacancy over the last year; however, space demand is likely to improve near-term. Local apartment stock grew 12.0 percent in the span, the highest among western CBDs, greatly improving retailer interest in the area.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2023 Outlook



**52,000
JOBS**

will be created

EMPLOYMENT:

Job creation will be below-average in 2023, at 2.2 percent. Still, longer-term, the presence of Taiwan Semiconductor Manufacturing Company will engender the addition of over 80,000 jobs in the next five years.



**2,050,000
SQ. FT.**

will be completed

CONSTRUCTION:

Stock growth will roughly match the long-term pace, at 1.1 percent in 2023. West Phoenix and the East Valley host the most deliveries near-term, with each reporting over 600,000 square feet underway in October.



**90
BASIS POINT**

decrease in vacancy

VACANCY:

Net absorption this year is projected to nearly double the delivery count, producing the largest annual vacancy drop among major U.S. metros. The rate is on track to close out 2023 at an all-time low of 5.0 percent.



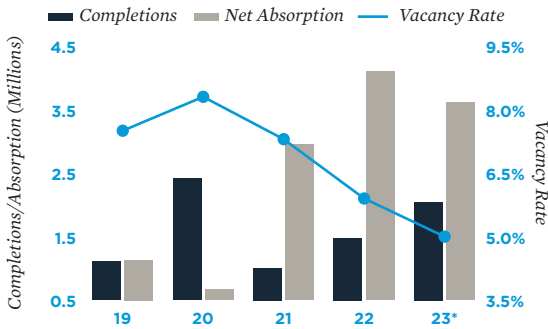
**8.3%
INCREASE**

in asking rent

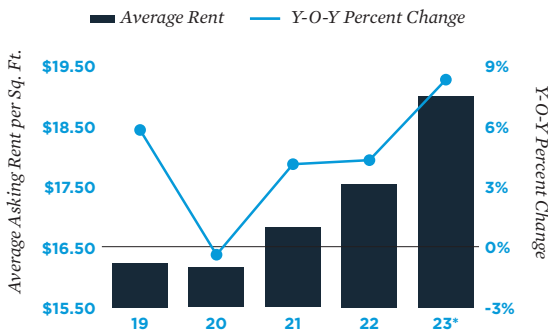
RENT:

The average asking rent has grown for eight consecutive quarters, alongside declining vacancy in the span. This trend continues in the second half of 2023, pushing the mean marketed rent up to \$19.00 per square foot.

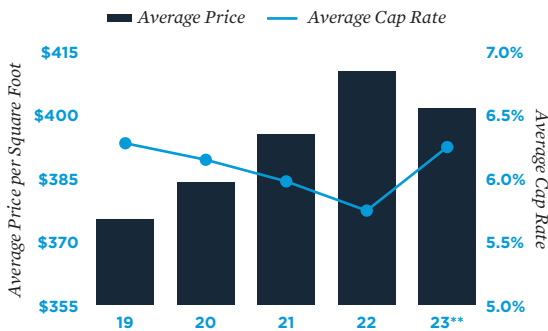
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: \$250

2Q 2023 - 12-Month Period



CONSTRUCTION

1,746,000 sq. ft. completed

- Roughly 930,000 and 550,000 square feet was added to local stock in West Phoenix and the East Valley during the 12-month span ended in June, accounting for most of the metro's 0.9 percent expansion through the frame.
- West Phoenix noted an inventory growth rate of 4.3 percent, the largest among any U.S. submarket with at least 20 million square feet of stock.



VACANCY

120 basis point decrease in vacancy Y-O-Y

- Most of the metro's 11 submarkets recorded annual vacancy decreases over 100 basis points, lowering the marketwide rate to 5.2 percent in June.
- North Phoenix had the largest drop in vacancy among any U.S. submarket with at least 20 million square feet of inventory, while the East Valley had the greatest decrease for those with at least 50 million square feet of stock.



RENT

7.9% increase in the average asking rent Y-O-Y

- The marketwide vacancy rate has decreased in each of the past 10 quarters, driving the average asking rate up to \$18.51 per square foot in June.
- Retailers absorbed a near-record 1.4 million square feet in the East Valley over the last 12 months, propelling the local average asking rate up by an all-time high magnitude to \$18.21 per square foot.

Investment Highlights

- In the first half of 2023, Phoenix hosted about one in every eight deals that was completed for retail assets across secondary U.S. metros. Triple-net investments continue to comprise a large portion of local trading activity, and may pick up over time as investors become more cognizant of persistently rising insurance and wage expenses. So far in 2023, these types of deals have been most prevalent in the Red Mountain-Mesa area and Gilbert. High levels of ongoing housing development here have drawn numerous retailer expansions and investor interest.
- Chandler hosted a significant portion of single-tenant trading activity in the first eight months of 2023. Intel is currently planning an expansion that will require the addition of 3,000 local jobs through 2026. This has stirred opportunities for buyers to position in the submarket, ahead of the spending boost that these hires will provide to retailers in the area.
- Gilbert was the most active submarket for multi-tenant trades in the first two-thirds of the year. Investment activity should sustain into the end of 2023 and beyond, as growth in the local multi-tenant asking rent has far-exceeded the metro, at nearly 8 percent over the year ended in June.

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