

MARKET REPORT

Retail
Phoenix Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

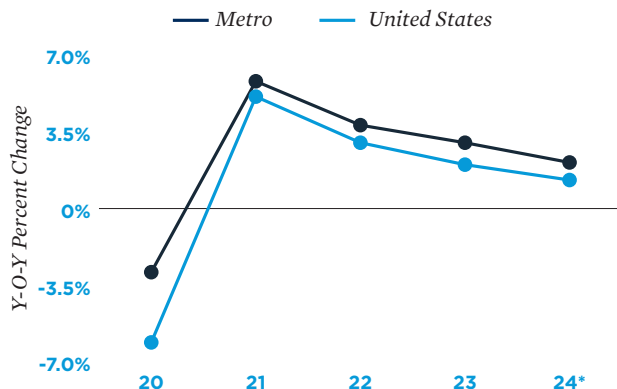
2Q/24

Tenant Demand in West and North Phoenix Keeps Overall Leasing Conditions Historically Tight

Vacancy is down dramatically. The marketwide rate ended March 170 basis points below the trailing half-decade average, the largest downshift among major metros. Standout vacancy performance is being supported by West Phoenix, where the local volume of vacant stock shrank by 56 percent in the last five years. Here, rapid population growth is attracting robust demand from tenants. Over the year ended in March, occupied apartment stock in the Avondale-Good-year-West Phoenix area grew by 25 percent, which was the strongest gain among major U.S. submarkets. Viewing these inflows, retailers are slated to move into over 500,000 square feet here in 2024. Local vacancy is likely to remain on the decline as a result, with less than 5 percent of the retail pipeline here remaining available as of June.

Shopping center spaces are in high demand. Phoenix's multi-tenant vacancy held at a record low of 6.4 percent in the six months trailing March. While a 15-year high for deliveries may pressure the rate up in 2024, outsized demand for these types of properties should mitigate near-term volatility. For example, over the year ended in March, North Phoenix posted multi-tenant net absorption of 435,000 square feet, which was the second-highest total among major U.S. submarkets. However, a limited volume of new multi-tenant spaces is slated to deliver here in 2024. While prospective retailers may look to new shopping center spaces elsewhere, less than 110,000 square feet is expected to deliver without a tenant in 2024.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2024 Outlook



**52,000
JOBS**

will be created

EMPLOYMENT:

Phoenix will add the fourth-most jobs among major U.S. markets in 2024, expanding its headcount by 2.1 percent. The education and health services fields have already hired 8,370 positions in the first four months.



**2,450,000
SQ. FT.**

will be completed

CONSTRUCTION:

This year's 1.3 percent stock gain will be the second-fastest among major U.S. markets. North Goodyear-Litchfield is slated to receive a metro-high 430,000 square feet, followed by Gilbert at 225,000 square feet.



**40
BASIS POINT**

increase in vacancy

VACANCY:

While marketwide vacancy rises to 5.4 percent, the increase should mostly be concentrated along the East Valley and Downtown Phoenix. Together, the two areas expect to host 282,000 square feet of speculative deliveries in 2024.



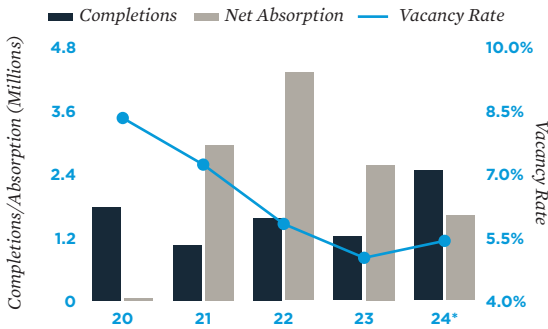
**4.8%
INCREASE**

in asking rent

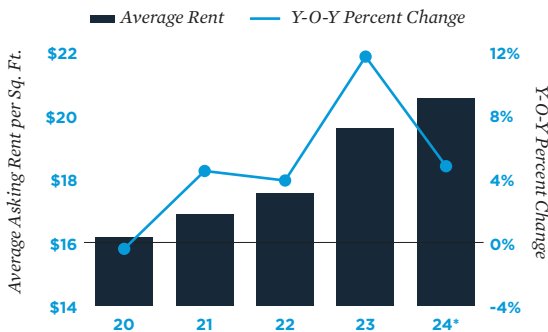
RENT:

Well below average vacancy and solid demand keep the mean marketed rent on an upward trajectory. The metric will reach \$20.53 per square foot at year-end, marking a total 27 percent increase over the 2019 level.

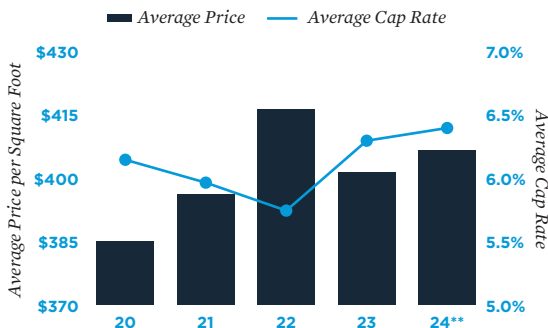
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: \$250

1Q 2024 - 12-Month Period



CONSTRUCTION

725,000 sq. ft. completed

- The 0.4 percent inventory gain during the yearlong span ended in March marked the metro's slowest pace since mid-2014.
- West and North Phoenix as well as the East Valley each received between 150,000 and 190,000 square feet of new supply. However, Pinal County had the most substantial growth locally, at 1.1 percent through the period.



VACANCY

20 basis point decrease in vacancy Y-O-Y

- Marketwide vacancy dipped to 5.3 percent in March, fueled by North Phoenix. Its local rate fell 160 basis points in the last year, the largest drop among major U.S. submarkets with over 30 million square feet of stock.
- Multi-tenant vacancy fell 50 basis points year over year to 6.4 percent, while the single-tenant rate ticked down 10 basis points to 4.7 percent.



RENT

5.9% increase in the average asking rent Y-O-Y

- Phoenix's average asking rent rose to \$19.14 per square foot in March. Seven submarkets noted double-digit percentage gains over the last 12 months, outweighing notable drops in Scottsdale and the Airport Area.
- Both the multi- and single-tenant sectors noted gains exceeding 5.5 percent, placing their rates at \$17.82 and \$19.79 per square foot, respectively.

Investment Highlights

- Preliminary data indicates Red Mountain-Mesa is on track to see the highest level of retail trading in Phoenix for at least the sixth year in a row. While an above-market vacancy rate and a below-market average asking rent are indicative of weaker fundamentals compared to elsewhere, they also reflect the abundance of opportunities for buyers to deploy value-add capital here. Average pricing of roughly \$300 per square foot over the last year, well-below the metro's benchmark, further supports this trend.
- The construction of Taiwan Semiconductor Manufacturing Company's Deer Valley campus is eliciting investor interest in the neighboring areas of Central Peoria and Arrowhead. The company is expected to directly account for the addition of more than 10,000 jobs at its new plants here through 2028. These inflows should generate additional foot traffic for local retailers, aiding property performance and attracting investment.
- Outlying areas like Apache Junction, Goodyear and Deer Valley are seeing premium pricing for local assets as residents look for less costly homes farther away from the core. Entry costs in all three frequently doubled the metro's overall mean of \$407 per square foot 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

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