SVN
DESERT COMMERCIAL ADVISORS

3Q2023 METRO PHOENIX RETAIL NEWSLETTER

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METRO PHOENIX RETAIL OVERVIEW

QUARTERLY RETAIL STATS

VACANCY 4.60% 3Q2022: 4.30%	MARKET RENT $24.14/SF 3Q2022: $22.11/SF
ABSORPTION 491,071 SF 3Q2022: 805,169 SF	PRICE PSF $250/SF 3Q2022: $261/SF

ECONOMIC HIGHLIGHTS

Employment Data (YOY)	
3.80% Unemployment Rate (USA)	0.30%
3.80% Unemployment Rate (Metro PHX)	0.20%
2.575MM Employed Residents (Metro PHX)	
Metro PHX Housing Trends (YOY)	
$431,000 Median Home Price	-1.80%
5,423 Closed Transactions	-14.30%
56 Days on Market	+8 Days
2.90 Months of Supply	-0.67 Months
10-Year Treasury	
4.59% as of 09/29/2023	
+0.83% YOY | +0.47% MOM|	

Following another quarter of steady improvement, the Phoenix retail sector boasts some of the tightest market conditions in recent memory heading into late 2023. The combination of robust population gains, healthy consumption growth, a lack of store closures, and limited new supply has created the perfect storm for continued outperformance.

The Valley recorded its ninth consecutive quarter of more retail move-ins than move-outs, contributing to 4.4 million SF of net absorption over the past 12 months. That figure ranks Phoenix as the top market in the United States for retail demand and helped compress vacancy to an all-time low of 4.6%. Lease signings by grocers, fitness users, and pickleball-related tenants are driving demand in larger format spaces while quick-service restaurants and beverage retailers fill smaller ones.

Robust spending activity has boosted sales at most retailers, leaving many in a fundamentally sound position. The increased profitability has given landlords the leverage to push rents more aggressively while allowing tenants to maintain comfortable occupancy costs. As a result, the asking rent for local retail properties has climbed 9.3% over the past 12 months, making Phoenix one of the top rent growth markets in the country.

Tenant demand for Phoenix retail space remains healthy as robust net migration, strong population growth, and rising incomes support underlying property performance. These factors helped drive net absorption over the past 12 months, compressing the metro-wide vacancy rate to a record-low. Similarly, the availability rate, which includes listed space that has yet to be vacated or delivered, recently fell below the U.S. level, reaching an all-time low of 4.6%.

The lack of available space is restraining leasing activity as tenants find limited options for expansion. As a result, leasing volume remains modestly below the pre-COVID five-year average and has been easing since 22Q1. Instead, the market's continued outperformance is largely driven by fewer store closures. Many national retailers have healthy profit margins and strong balance sheets, reducing tenant turnover. Phoenix retail move-outs hit their lowest level in at least 15 years in the 12-month period ending in 23Q3.

The average asking rent rose over the past 12 months, well outpacing the 3.4% gain seen at the national level. Phoenix's outperformance is a relatively new phenomenon. In the years leading up to the onset of the pandemic, the metro's pace of rent growth matched or lagged that of the overall United States, but the post-COVID demand boom helped launch Phoenix to near the top of the rankings.

Indications from local market participants are that rent concessions remain limited due to tight market conditions. Additionally, landlords have become less flexible regarding tenant improvements and some are reducing allowances. As underlying demand continues to outpace available supply, retail rent escalations for a five-year term are usually between 3% and 4% annually, though some high-credit tenants are instead getting a single 10% increase in year five. All of Phoenix's more than 30 submarkets boast rates of rent growth that are more than double the U.S. average.

Harsh lessons learned during the global financial crisis have left developers and lenders much more disciplined this time around, keeping supply-side pressure largely at bay. In the sector's heyday, from 2006 to 2008, builders delivered over 10 million SF per year, a far cry from the 1.4 million SF per year completed on average over the past 10 years. About 6.1 million SF of retail space was demolished over the past decade, largely driven by pre-1980s suburban product and department store closings. Headlining this transformation has been the redevelopment of several enclosed shopping malls. PV Mall, Fiesta Mall, and Metrocenter Mall are all in various stages of reinvention into mixed-use destinations.

Geographically, development activity is most prominent in the metro's periphery. West Valley submarkets like North Goodyear/Litchfield, Goodyear, and Glendale boast some of the strongest rates of population growth in Phoenix and comprise more than a third of the development pipeline. In the South East Valley, the rapidly growing town of Queen Creek has been another hotspot.

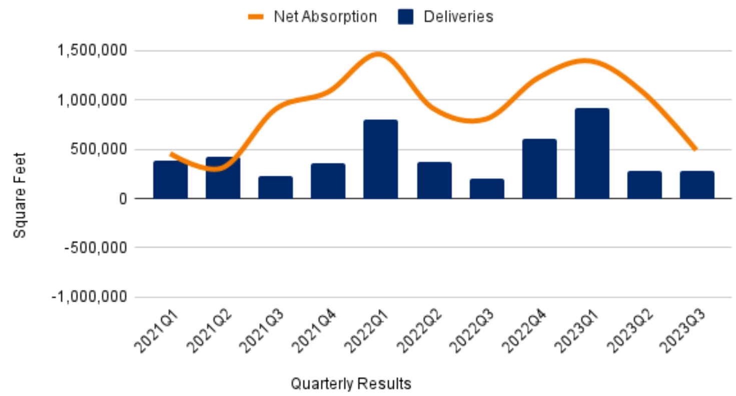
Investment activity remains restrained thus far in 2023, as elevated interest rates and economic uncertainty slow deal volume in the Phoenix retail market. In the first three quarters of the year, less than $1.2 billion worth of retail assets traded hands, a more than 55% decline from the first three quarters of 2022. The buyer profile for these types of transactions tends to be REITs, regional owners/developers, and other larger groups, which are more reliant on financing and thus more impacted by higher debt costs. Moving forward, elevated interest rates and uncertainty regarding the future path of monetary policy are expected to keep deal flow muted. The pricing expectations gap between buyers and sellers is wide and could remain that way until interest rates stabilize.

For deals at the $1 million to $5 million price point, private individual investors comprise the bulk of the buyer pool, usually targeting single-tenant triple-net lease properties. These investors are often all-cash buyers motivated by tax deferral or estate planning strategies rather than simply going in-yield. As a result, cap rates tend to be lower than deals that require more hands-on management and higher credit risk. Cap rates for these newly built assets have generally moved up about 100 basis points from their recent all-time low in late 2021 and early 2022 to the low- to mid-5% range, with some deals leaking into the high-4% band.

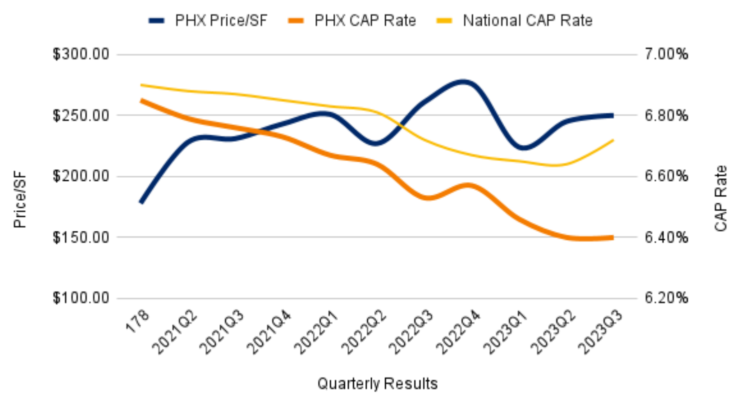
Moving forward, elevated interest rates and uncertainty regarding the future path of monetary policy are expected to keep deal flow muted. The pricing expectations gap between buyers and sellers is wide and could remain that way until interest rates stabilize. Owners facing a loan maturity or deals involving 1031 exchange capital may be a source of transactions. The potential for an economic downturn adds further headwinds to dealmaking. Nevertheless, Phoenix's steady demographic tailwinds are expected to keep the Valley as one of the better-performing markets in the nation and support the metro's long-term outlook.

Sources: CoStar Realty Information, Inc; U.S. Department of the Treasury; AZ Commerce Authority; ARMLS; U.S. Census Bureau, U.S. Bureau of Labor Statistics; Elliott D. Pollack and Company

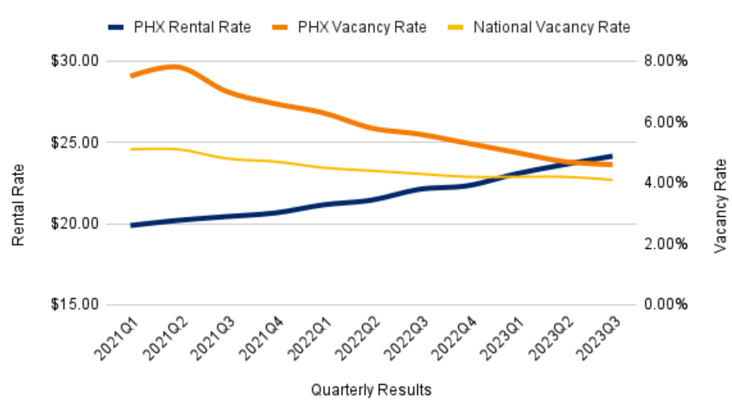
METRO PHOENIX DELIVERIES AND ABSORPTION



PRICE AND CAP RATE TRENDS



RENTAL AND VACANCY RATES



SUBMARKET ANALYTICS - 3Q2023 RETAIL

	Inventory (Millions)	Under Construction (SF)	Total Vacancy Rate	12 Mo. Absorption	Market Rent/SF	Market Sale Price/ SF	Market CAP Rate	12 Mo. Sales Volume
Ahwatukee Foothills	3,237,652	0	3.7%	43,017	$25.71	$259.97	6.6%	$11,575,000
Airport Area	4,470,738	0	4.2%	6,383	$20.09	$234.01	6.4%	$4,680,000
Anthem	2,775,782	5,000	3.4%	83,697	$27.30	$302.14	6.1%	$10,900,000
Apache Junction	2,367,381	48,800	5.4%	22,490	$20.00	$219.87	6.5%	$2,382,500
Carefree	1,882,839	0	3.5%	24,103	$26.93	$316.01	5.8%	$0
Central Scottsdale	17,241,995	7,222	3.3%	-6,420	$35.40	$303.47	6.1%	$11,837,418
Chandler	16,887,432	0	5.0%	140,465	$24.94	$231.83	6.7%	$35,135,000
Ctrl Peoria/ Arrowhead	10,605,004	5,985	5.2%	-22,725	$27.90	$261.53	6.5%	$19,916,100
Deer Valley	2,333,009	8,900	0.4%	134,927	$33.47	$331.54	6.2%	$11,851,124
Downtown Phoenix	8,499,515	175,977	4.6%	-28,758	$23.25	$250.18	6.2%	$26,065,858
East Phoenix	9,004,861	0	4.2%	147,362	$21.11	$239.75	6.4%	$35,996,500
Fountain Hills	773,638	0	5.0%	-6,742	$20.56	$269.06	6.2%	$930,000
Gateway Airport	3,115,665	91,340	4.4%	112,353	$27.23	$275.79	6.6%	$10,990,000
Gila River Outlying	356,950	0	0.0%	0	$19.92	$220.21	6.3%	$0
Gilbert	17,149,600	162,803	2.7%	211,570	$25.83	$268.97	6.5%	$59,290,000
Glendale	11,733,472	191,473	4.7%	159,741	$21.21	$228.02	6.6%	$15,258,755
Goodyear	4,024,339	204,890	1.5%	45,849	$24.33	$262.18	6.3%	$3,200,000
Laveen	1,703,658	35,119	0.6%	74,374	$28.74	$292.36	6.3%	$3,275,000
Loop101/I-10	3,590,475	27,865	2.0%	51,839	$27.91	$263.84	6.4%	$2,977,000
N Goodyear/ Litchfield	7,136,833	417,818	2.3%	808,671	$26.88	$266.24	6.4%	$16,656,000
N Phoenix/I-17 Corr	16,280,129	0	7.8%	440,919	$17.80	$198.74	6.7%	$23,041,000
NE Outlying Maricopa	17,164	0	0.0%	0	$13.85	$239.83	6.2%	$0
North Buckeye	269,841	0	1.5%	15,819	$23.88	$278.30	6.3%	$0
North Scottsdale	14,022,317	123,670	3.8%	117,360	$29.63	$305.90	6.1%	$8,779,000
Outlying Pinal County	9,274,570	33,476	6.4%	231,781	$19.15	$222.01	6.6%	$7,022,241
Queen Creek	2,704,623	232,789	2.4%	382,255	$25.06	$292.43	6.3%	$5,104,000
Red Mountain/Mesa	31,383,187	109,796	6.8%	581,031	$19.57	$204.79	6.7%	$42,111,440
South Buckeye	1,643,173	0	1.6%	35,852	$26.58	$304.43	6.0%	$950,000
South Mountain	1,676,847	1,438	12.9%	52,616	$25.25	$259.62	6.7%	$0
South Phoenix	1,957,316	2,816	3.4%	-10,669	$20.75	$264.70	6.2%	$3,815,999
South Scottsdale	3,334,127	46,490	6.5%	3,469	$21.34	$274.93	6.2%	$0
Sun City	3,958,159	0	5.1%	72,312	$19.34	$214.80	6.7%	$5,175,000
Surprise/North Peoria	5,787,340	48,686	1.8%	180,007	$28.19	$279.72	6.4%	$21,284,960
Tempe	8,291,266	145,900	6.3%	47,649	$23.36	$268.06	6.2%	$2,577,000
Tolleson	2,961,559	22,300	3.2%	53,714	$23.23	$261.85	6.4%	$7,867,000
WOutlyingMaricopa	849,713	0	0.0%	10,152	$17.13	$204.27	6.6%	$2,250,000
West Phoenix/ Maryvale	8,369,443	0	2.7%	155,383	$19.83	$197.78	6.7%	$10,661,850
Totals/Averages	**241,671,612**	**2,150,553**	**4.1%**	**4,371,846**	**$23.86**	**$258.62**	**6.4%**	**$423,555,745**

NOTABLE SALES

SHOPPES AT MIRADOR SQUARE

860, 874, 894 E Warner Rd; 743 S Lindsey Rd., Gilbert, AZ 85296

Sale Date : 09/25/2023
Sale Price : $9,330,000
Price/SF : $192.11

Bldg Type : Class B
Year Built : 2004
GLA : 48,541 SF

RETAIL FAST FOOD

13025 W Camelback Rd., Litchfield Park, AZ 85340

Sale Date : 09/25/2023
Sale Price : $2,710,000
Price/SF : $947.81

Bldg Type : Class B
Year Built : 2023
GLA : 2,855 SF

BELL FURNISHING CENTER

6910 W Bell Rd., Glendale, AZ 85308

Sale Date : 09/21/2023
Sale Price : $14,500,000
Price/SF : $241.20

Bldg Type : Class B
Year Built : 2003
GLA : 60,117 SF

THE SHOPS AT KOHL'S

4637 E Chandler Blvd., Phoenix, AZ 85048

Sale Date : 09/07/2023
Sale Price : $11,580,000
Price/SF : $130.97

Bldg Type : Class B
Year Built : 2003
GLA : 88,377 SF

DUNKIN'

3250 S Arizona Ave., Chandler, AZ 85248

Sale Date : 09/06/2023
Sale Price : $1,700,000
Price/SF : $1,568.27

Bldg Type : Class B
Year Built : 2023
GLA : 1,084 SF

MY FLORIST PLAZA

1601-1607 N 7th Ave., Phoenix, AZ 85003

Sale Date : 08/16/2023
Sale Price : $10,500,000
Price/SF : $482.63

Bldg Type : Class B
Year Built : 1962; Reno : 2010
GLA : 21,756 SF

ANGIE'S LOBSTER

4326 W Thunderbird Rd., Glendale, AZ 85306

Sale Date : 07/28/2023
Sale Price : $2,190,000
Price/SF : $2,032.56

Bldg Type : Class B
Year Built : 2023
GLA : 1,075 SF

FREESTANDING RETAIL

2602 W Van Buren St., Phoenix, AZ 85009

Sale Date : 07/25/2023
Sale Price : $1,800,000
Price/SF : $334.51

Bldg Type : Class C
Year Built : 1951
GLA : 5,381 SF

WENDY'S

1205 N Country Club Dr., Mesa, AZ 85201

Sale Date : 09/19/2023
Sale Price : $2,280,000
Price/SF : $710.94
Cap Rate : 5.03%

Bldg Type : Class B
Year Built : 1979
GLA : 3,200 SF

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