

Phoenix Retail Market

Phoenix Retail Reflects Increased Consumer Confidence in Post Pandemic Landscape

The Phoenix retail market was hit hard as much of the rest of the nation in 2020 with consumer spending and shopping trends shifted suddenly due to health and safety precautions put in place to stop the spread of COVID-19. The full effect of the pandemic on the retail world will have ripple effects for coming quarters, but the start of 2021 shows some positive indicators of retail recovering. Leasing activity was steady and new supply was modest to support limited demand. Although consumer confidence has not rebounded to pre-pandemic levels, the sector is moving towards stabilization. Grocery, drive-thru, hobby and drug stores drove the sector in terms of leasing and sales activity.

Non-essential business closures and lack of demand drove the vacancy rate up to 7.1% in first-quarter 2020 to 7.4% in first-quarter 2021— however, that is a 30 basis point drop from fourth quarter 2020's 7.7%. Vacancy is expected to rise slightly in the second quarter of 2021 with the closure of Paradise Valley Mall, the second mall closure in the metro to occur during the pandemic after Metrocenter Mall's closure in third-quarter 2020. Numerous big box retailers shut doors in the past year, but some larger tenants had some recent deliveries that bring some life back to the market. Lifetime Fitness, ALDI and Dollar Tree all had new deliveries in Northwest Phoenix with other tenants such as

Current Conditions

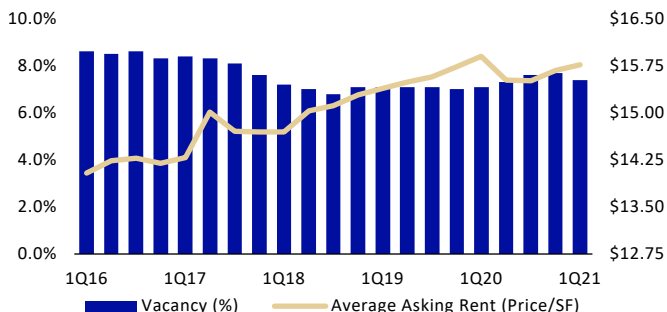
- Grocery, drive-thru, hobby and fitness tenants continue to lead the sector in terms of leasing and sales activity.
- Phoenix continues to be a hot spot for opportunistic out-of-state buyers due to the high-yield spread on retail assets.
- Developers continue to focus on build-to-suits in order to mitigate supply-side risks and are keeping watch on the Metro's post-pandemic recovery.

Market Summary

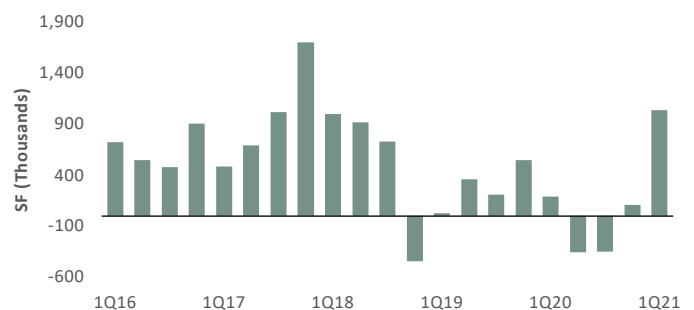
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory	234 M SF	234 M SF	233 M SF	↑
Vacancy Rate	7.4%	7.7%	7.1%	↓
Quarterly Net Absorption (SF)	984,480	112,565	188,258	↑
Average Asking Rent/SF	\$15.70	\$15.67	\$15.90	↑
Under Construction (SF)	664,212	805,075	1,307,510	↓
Deliveries (SF)	414,199	352,535	561,739	↓

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



RESEARCH Q1 2021

EOS Fitness, SanTan Pavilions and ALDI currently have projects in Southern Phoenix underway. As vaccines rollout, consumer confidence is increasing and retailers such as hobby stores, discount retailers, and grocers continue to lease new space and expand their footprints. Overall asking rates are holding steady quarter to quarter, only lowered within one to two percent of pre-pandemic levels.

Nearly 665,000 square feet of retail space was under construction in metro Phoenix in first-quarter 2021, approximately half of first-quarter 2021's 1.3 million square feet. New construction is concentrated on specific asset types such as grocery-anchored shopping centers, fast food and gym facilities and located in fast-growing suburban areas. After experiencing a high in vacancy due to too much retail growth, retail construction and deliveries has maintained an average growth of just over 1 million square feet each year to keep pressure on existing

product and is expected to continue for the coming quarters as developers watch the market's post pandemic recovery.

Sales activity continued its rise from the second half of 2020 into 2021, but still below pre-pandemic levels. Overall transaction dollar volume is still at its lowest in a decade; however, deals that close are taking place in areas with high population growth in product or centers that have fared resilient despite the pandemic with a diversified rent roll. For example, Pima Crossing in Scottsdale sold for \$51.5 million to YAM Properties, anchored heavily by pandemic-resilient tenants such the PGA Tour Superstore, Uptown Cheapskate, and a multitude of takeout or drive thru food tenants. Many out of state buyers are on the hunt for quality, single-tenant triple net investments to place capital due to the Metro's yield spread compared to others like California.

Notable Projects Under Construction

Building Name	Building Address	Submarket	Type	Square Feet
Fry's Marketplace	19600 West Indian School Road	North West Phoenix	Build-to-Suit	124,070
Sonoran Creek Marketplace	John Wayne Parkway & Edison Road	Pinal County	Speculative	75,000
SanTan Pavilions	1765 East Williams Field Road	South East Phoenix	Speculative	52,000
EOS Fitness	NEC Pecos Road & Val Vista Road	South East Phoenix	Build-to-Suit	38,000
ALDI	SE Watson Road & Yuma Road	South West Phoenix	Built-to-Suit	22,000

Notable Deliveries 1Q 2021

Building Name	Building Address	Submarket	Type	Square Feet
Lifetime Fitness	24700 North 67 th Avenue	North West Phoenix	Build-to-Suit	180,000
ALDI	24665 North Lake Pleasant Parkway	North West Phoenix	Built-to-Suit	22,000
Dollar Tree	13507 West Thunderbird Road	North West Phoenix	Built-to-Suit	10,000
AutoZone	2841 South Recker Road	South East Phoenix	Built-to-Suit	7,137

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Scottsdale Gymnastics	8658-8666 East Shea Boulevard	Scottsdale	Direct New	38,000
Family Dollar	6016-6036 East Main Street	South East Phoenix	Direct New	13,033
Horizon Thrift	1837-1955 West Guadalupe Road	South East Phoenix	Direct New	12,568
Dollar Tree	SEC Jackrabbit Trail & Indian School Road	North West Phoenix	Direct New	10,000
Whataburger	7134 East Thomas Road	Scottsdale	Direct New	7,902

Select Sale Transactions

Building Address	Submarket	Sales Price	Price/SF	Square Feet
Buildings A-C 8710-8776 East Shea Boulevard	Scottsdale	\$19,218,192	\$174.97	109,836
Building D-F 8658-8666 East Shea Boulevard	Scottsdale	\$15,341,032	\$198.64	77,229
Tri-City Pavilions 67 North Dobson Road	South East Phoenix	\$12,264,934	\$149.34	82,128
Moon Valley Towne Center 703-801 East Bell Road	North Phoenix	\$11,988,933	\$152.08	78,834
Kohl's 5408 West Bell Road	North West Phoenix	\$11,600,000	\$131.49	88,219

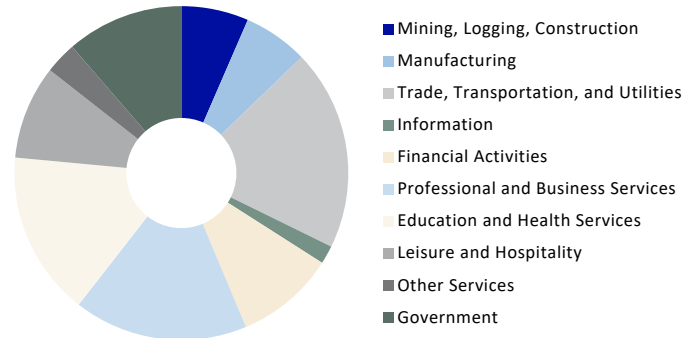
Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Quarterly Deliveries (SF)	All Service Type Rent (Price/SF)	Average NNN Asking Rent (Price/SF)
Airport Area	3,938,227	-	5.0%	2,780	(25,013)	10,900	\$17.29	\$20.44
Downtown Phoenix	7,822,278	825	7.1%	25,751	31,486	-	\$17.82	\$18.39
East Valley	2,638,397	-	9.1%	6,083	(9,506)	-	\$15.79	\$15.93
Maricopa County	827,524	-	1.6%	(3,500)	2,696	-	\$12.23	\$14.85
North Phoenix	29,970,377	29,250	10.8%	42,717	(558,974)	-	\$12.97	\$12.99
North Scottsdale	15,432,766	-	6.3%	47,186	(257,775)	15,545	\$22.22	\$22.20
North West Phoenix	48,179,566	240,447	6.0%	209,044	70,243	222,375	\$15.84	\$15.95
Pinal County	8,844,578	107,072	10.0%	72,698	(114,949)	14,867	\$11.81	\$11.85
Scottsdale	19,858,723	86,020	5.5%	66,159	28,502	6,177	\$22.76	\$23.24
South Mountain	8,263,208	746	6.2%	12,862	43,040	96,968	\$16.85	\$17.13
South West Phoenix	8,429,708	38,994	5.1%	30,832	82,763	-	\$16.56	\$15.91
South East Phoenix	80,082,385	160,858	7.8%	471,868	375,761	47,367	\$15.12	\$14.76
Market	234,287,737	664,212	7.4%	984,480	(331,726)	414,199	\$15.70	\$15.65

Economic Overview

After the record unemployment high of 12.5% in April 2020, Phoenix’s unemployment rate has lowered to February 2021’s 6.7%. Unemployment numbers have gone up and down since the onset of the pandemic, closely tied to the number of COVID-19 cases within the metro. For some time, Phoenix was recovering faster than the nation, but since October 2020, it has stayed slightly higher than the national unemployment rate. Since April 2020, there has been a net total of 196,406 jobs added, with the top two sectors being leisure and hospitality, along with trade, transportation and utilities. Over 25% of the metro had received the first dose of two for the COVID-19 vaccine by the end of March 2021. As the vaccine fully rolls out, it is expected that more jobs may be needed in coming months as the economy recovers.

Employment by Industry

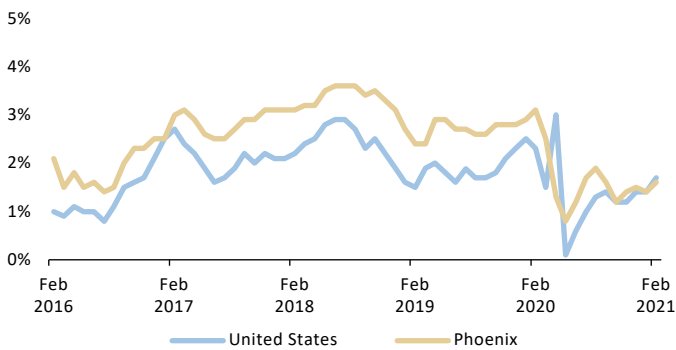
PHOENIX, 2020 ANNUAL AVERAGE



Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)

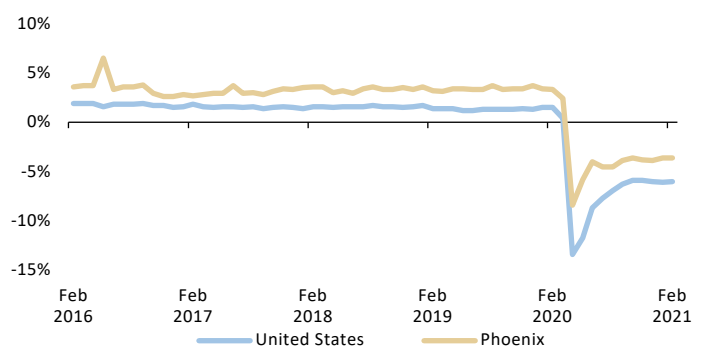
ALL ITEMS, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Payroll Employment

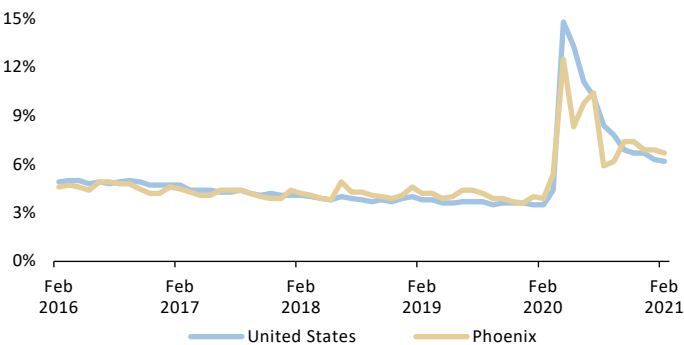
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Unemployment Rate

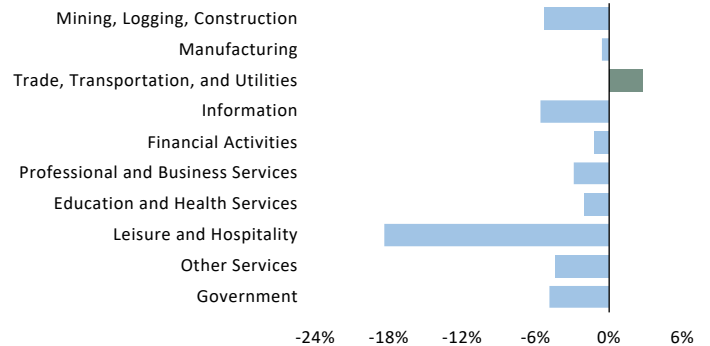
NOT SEASONALLY ADJUSTED



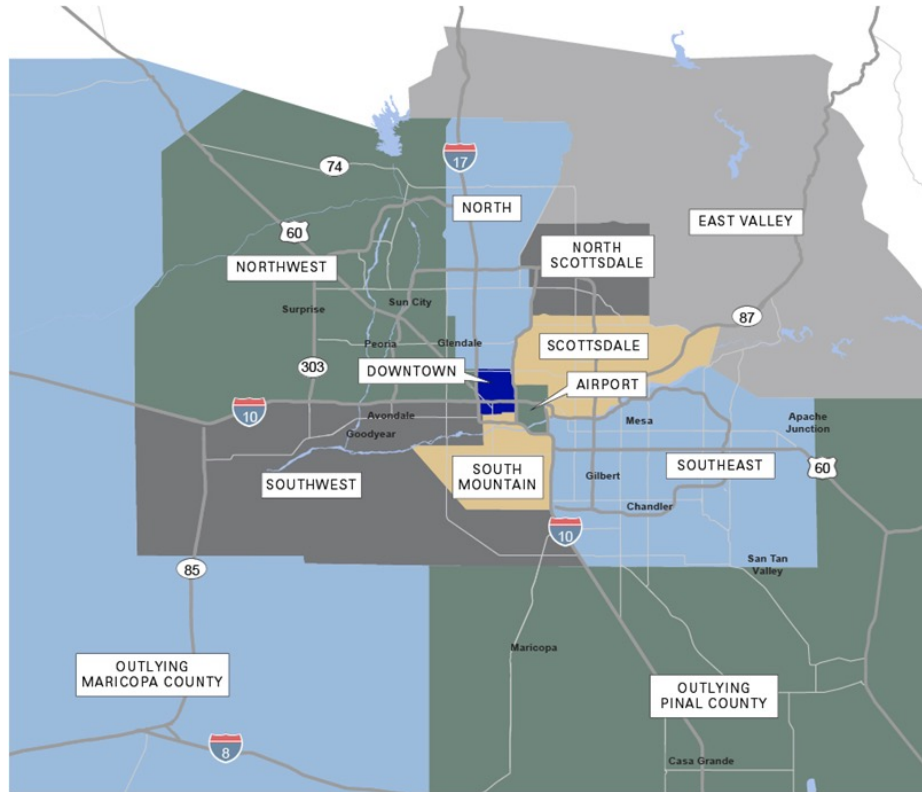
Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry

PHOENIX, FEBRUARY 2021, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics



For more information:

Arizona Office

2398 E. Camelback Rd., Ste 950
Phoenix, AZ 85016
t 602-952-3800

Rich Lachowsky

Director of Operations/Research
rich.lachowsky@ngkf.com

Amelia Yates

Research Manager
amelia.yates@ngkf.com

Katherine Brinkerhoff

Research Coordinator
Katherine.brinkerhoff@ngkf.com

Chase Gabriel

Research Coordinator
chase.gabriel@ngkf.com

nmrk.com

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