



RESEARCH Q3 2021



Phoenix Retail Market

Increased Transaction Activity and Consumer Confidence Bodes Well for Phoenix Retail Market

Since the beginning of the vaccine rollout in early 2021, the retail sector in Phoenix has slowly recovered with increased optimism in both health conditions and the overall economy among consumers. Leasing activity has somewhat stabilized, with the vacancy rate dipping below 7%, the first time since third-quarter 2018. Tenants under 5,000 square feet account for the vast majority of new leases while the larger tenants such as grocers and gyms are looking to occupy new spaces to fit new build-out preferences.

Net absorption this quarter almost amassed 1 million square feet driven by big box retailers such as Second Swing and Burlington signing leases upwards of 30,000 square feet. Additionally, retailers that were uncertain about whether or not to keep doors opened and had put space up on market experienced some stabilization and took space back. Market rent is the highest it has been in the last 10 years while year-over-year rent growth grew by 10.0%. Sales volume has exceeded pre-pandemic levels with the highest volume over the past 12 months at \$2.8 billion. Out of state buyers continue to invest in the Phoenix market in the chase for higher yield found in the Metro; also attracted by the high job growth and diversified labor market. Single-tenant investments in the form of drive-thru restaurants, pharmacies, fitness

Current Conditions

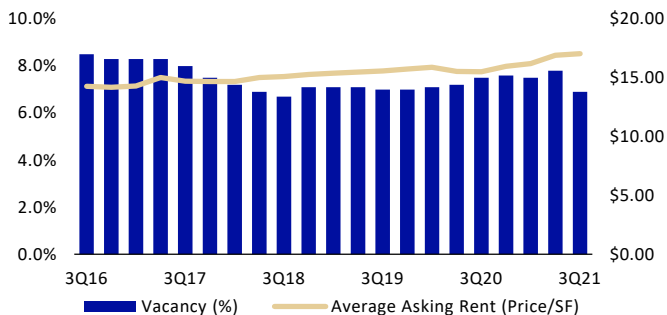
- Grocery, drive-thru, hobby and drug stores championed the retail sector in 2020 in terms of leasing and sales activity and continues its trend into 2021.
- Phoenix is a hot spot for opportunistic out-of-state buyers due to the high-yield spread on retail assets.
- Developers continue to focus on build-to-suits in order to mitigate supply-side risks.

Market Summary

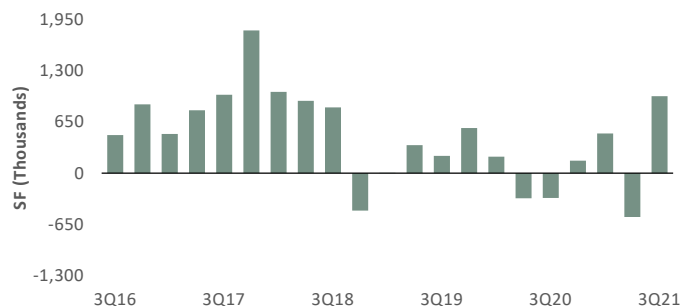
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory	235 M SF	236 M SF	235 M SF	↑
Vacancy Rate	6.9%	7.8%	7.5%	↓
Quarterly Net Absorption (SF)	978,392	(556,672)	(314,426)	↓
Average Asking Rent/SF	\$17.05	\$16.91	\$15.51	↑
Under Construction (SF)	893,797	771,281	1,071,457	↓
Deliveries (SF)	210,835	361,305	504,780	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



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centers, as well as grocery-anchored retail are heavily sought after assets as they have proven to be more recession-proof sectors of the retail market.

The most sale activity occurred in Central Scottsdale with over \$462.8 million in sales volume over 90 total transactions and 2,355,790 square feet transacted. More than \$182 billion more in sales volume with 50 fewer transactions than the next submarket area, Central Scottsdale has been a key driver in attracting investors to the Phoenix metro by boasting low cap rates along with high rents.

The Southeast Phoenix submarket is experiencing the highest levels of

construction development, with 424,654 square feet underway at quarter-end. Additionally, 108,913 square feet delivered within the Southwest Phoenix submarket, over half of the 204,521 square feet delivered through-out the Metro in third-quarter 2021.

Notable transactions throughout the Metro during the third quarter of 2021 include: Painted Tree leased 34,922 square feet in North Scottsdale, Planet Fitness took 20,895 square feet in Northwest Phoenix, while Camelback Colonnade sold for \$162.5 million and the Shops at Hilton Village was purchased for \$37.5 million.

Notable Projects Under Construction

Building Name	Building Address	Submarket	Type	Square Feet
Agritopia Epicenter	NWC Higley Rd & Ray Rd	Southeast Phoenix	Speculative	50,000
99 th Avenue & Van Buren	N 99 th Ave & Van Buren Rd	Southwest Phoenix	Speculative	32,000
Tesla	9225 W Glendale Ave	Northwest Phoenix	Build-to-Suit	30,000
ALDI	NEC Ellsworth Rd & Queen Creek Rd	Southeast Phoenix	Build-to-Suit	22,000
Goodwill	1850 E Chandler Blvd	Southeast Phoenix	Build-to-Suit	15,000

Notable Deliveries 2021

Building Name	Building Address	Submarket	Type	Square Feet
Village Grove at Verrado	19600 W Indian School Rd	Northwest Phoenix	Speculative	124,070
The Edge Shopping Center	NWC 90 th St & Loop 101	Scottsdale	Speculative	40,449
EOS Fitness	3025 S Val Vista Rd	Southeast Phoenix	Built-to-Suit	36,619
Shoen Family Conference Center	45 E Roanoke Ave	Downtown	Built-to-Suit	20,000

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Painted Tree Marketplace	16203-16255 N Scottsdale Rd	North Scottsdale	Direct New	34,922
Second Swing	9001-9175 E Indian Bend Rd	Scottsdale	Direct New	32,590
Burlington	7545-7685 W Bell Rd	Northwest Phoenix	Direct New	30,000
Michaels	2811-2929 W Agua Fria Fwy	North Phoenix	Direct New	23,658
Planet Fitness	4344 W Indian School Rd	Northwest Phoenix	Direct New	20,895

Select Sale Transactions

Building Address	Submarket	Sales Price	Price/SF	Square Feet
Camelback Colonnade 1919 E Camelback Rd	Scottsdale	\$162,500,000	\$261.67	621,000
The Shops at Hilton Village 6137 N Scottsdale Rd	Scottsdale	\$37,500,000	\$388.42	96,546
Longbow Marketplace 5918 E Longbow Pkwy	Southeast Phoenix	\$26,000,000	\$505.30	51,455
Arcadia Village 3939 E Camelback Rd	Scottsdale	\$21,000,000	\$561.50	37,400
El Chorro Lodge 5550 E Lincoln Dr	Scottsdale	\$19,500,000	\$896.47	21,752

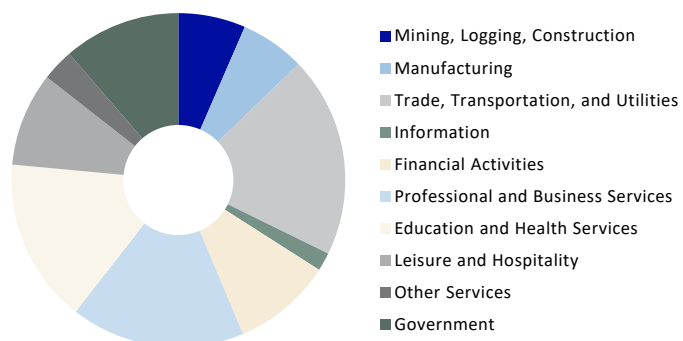
Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Quarterly Deliveries (SF)	All Service Type Rent (Price/SF)	Average NNN Asking Rent (Price/SF)
Airport Area	3,943,774	-	5.3%	(5,200)	(8,755)	-	\$18.28	\$19.29
Downtown Phoenix	8,190,794	4,500	5.5%	107,750	181,458	20,000	\$17.42	\$17.22
East Valley	2,636,145	-	6.9%	19,748	64,091	-	\$15.81	\$15.71
Maricopa County	833,233	-	1.9%	401	(6,399)	-	\$12.30	\$14.85
North Phoenix	29,836,284	57,748	11.0%	204,453	5,938	5,430	\$12.85	\$12.78
North Scottsdale	14,449,085	-	6.0%	67,719	(887,257)	-	\$20.46	\$20.89
North West Phoenix	48,586,894	174,300	5.8%	154,371	395,779	45,680	\$15.93	\$16.04
Pinal County	9,023,329	130,895	9.6%	(35,578)	114,860	16,670	\$13.65	\$13.39
Scottsdale	20,117,272	7,000	4.8%	9,991	117,002	900	\$23.66	\$24.66
South Mountain	8,360,478	20,200	7.1%	69,088	(67,186)	4,519	\$17.67	\$17.86
South West Phoenix	8,871,584	63,500	4.3%	31,171	97,037	2,409	\$17.40	\$16.67
South East Phoenix	80,278,589	424,654	7.2%	349,233	853,711	108,913	\$15.68	\$15.21
Market	235,127,461	862,597	6.9%	973,147	860,279	204,521	\$16.76	\$17.05

Economic Overview

Phoenix's unemployment rate continues to decrease from the high of 12.5% felt at the onset of the pandemic in April 2020, hovering near or slightly elevated from the national rate throughout 2021 and has been closely tied to the number of COVID-19 cases within the Metro. The Delta variant has heightened economic uncertainty in recent months, but the Metro saw its first dip below 5% in August 2021 for unemployment, coming in at 4.8%, a welcome sign that Phoenix is well on its way into a strong recovery. Since April 2020, there has been a net total of 226,600 jobs added, with the heavily-hit leisure and hospitality sector experiencing the highest employment percentage growth. As the vaccine continues to roll out and the Delta variant is contained, it is expected more employees will return to the workplace and more jobs may be needed in coming months as the economy recovers.

Employment by Industry

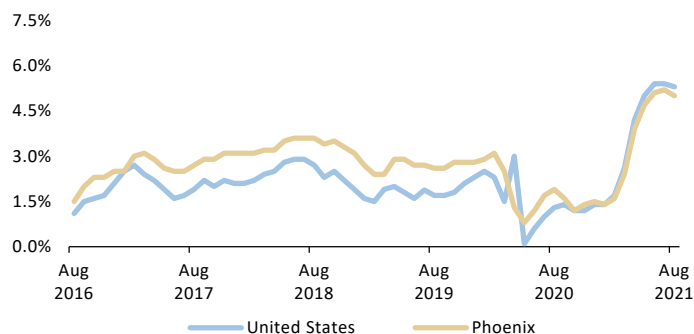
PHOENIX, 2020 ANNUAL AVERAGE



Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)

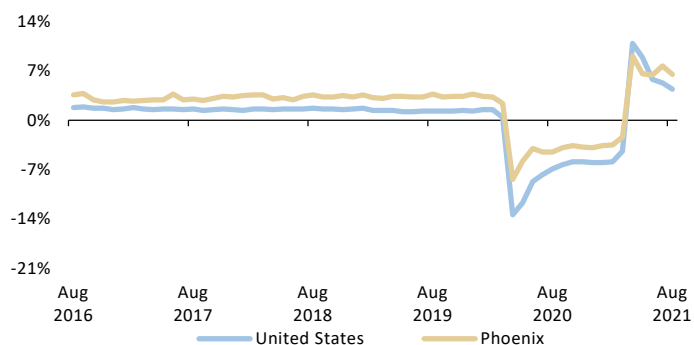
ALL ITEMS, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Payroll Employment

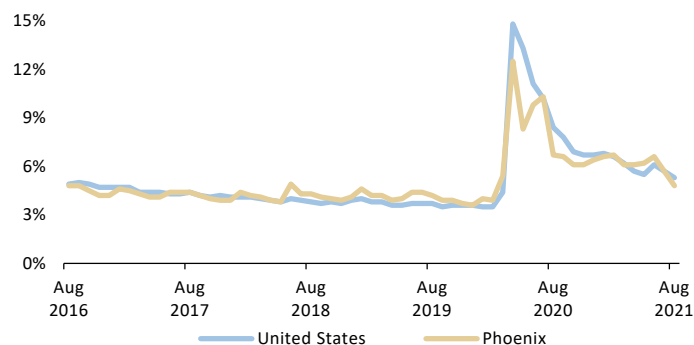
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Unemployment Rate

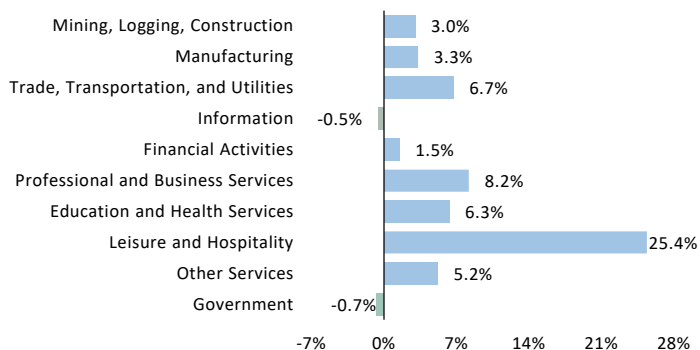
NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry

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



Source: U.S. Bureau of Labor Statistics

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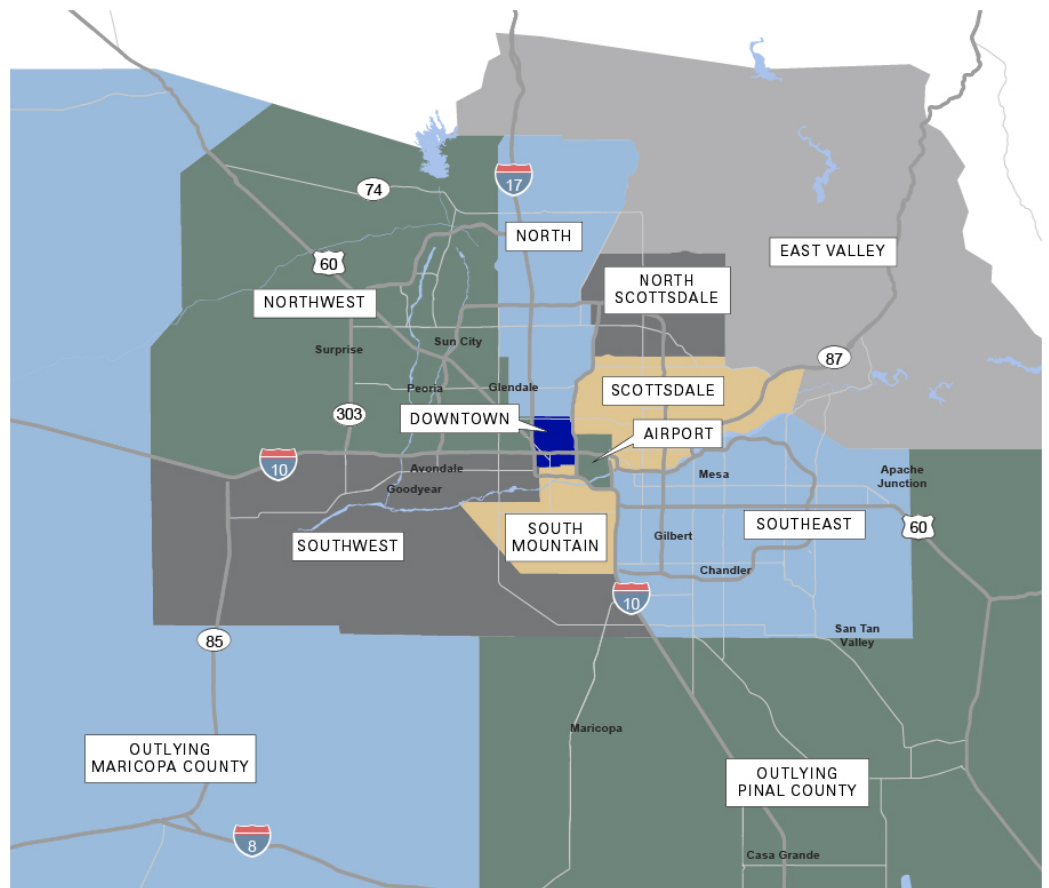
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