

Phoenix Retail Market

Phoenix Retail Continues to Show Resiliency Among Waning Economic Conditions

Despite a slowing U.S. economy, forecasts for the remainder of 2022 in the Phoenix market are overwhelmingly positive with every major statistical category performing stronger than the market has seen in the last two decades. Sales volume in the third quarter was over \$1.1 billion, almost topping a decade-high set in the fourth quarter of 2021. Leasing continues to remain strong with vacancy dropping for the fifth consecutive quarter and the lowest the market has seen in the last 20 years at 5.6%. Investor optimism in the Phoenix market remains high due to consistently experiencing the highest population growth of any metro area along with a steadily decreasing vacancy rate.

Leasing activity has remained strong despite an economic downturn in the U.S. The low vacancy rate, positive net absorption and over 2 million square feet of retail product currently under construction are all convincing data points for sustained growth in the market. Average rents in Phoenix over the last year have increased above the national average with Phoenix at 5.4% compared to 4.4% nationally. Net absorption exceeded 800,000 square feet which also marked the fifth consecutive quarter being positive by at least this quarter's number. This proves to be a positive trend with 12-month net absorption is the highest it's been over the last 16 years closing in on 5 million square feet.

Current Conditions

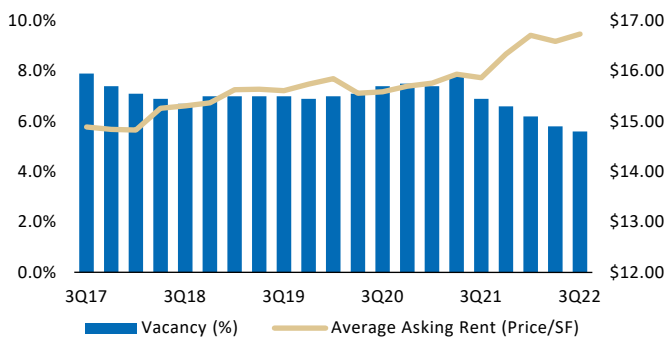
- Vacancy rate dropped for the fifth consecutive quarter and the lowest the market has experienced in the last 20 years at 5.6%.
- Investment sales remain strong closing the quarter with the lowest cap rate in over a decade at 6.5%.
- 12-month net absorption highest in last 16 years closing in on 5 million square feet.

Market Summary

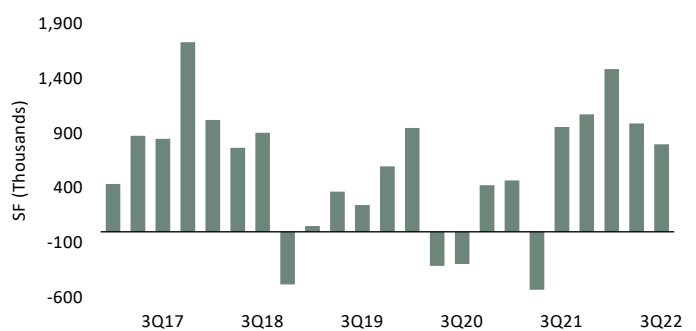
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory	237MSF	237M SF	236M SF	↑
Vacancy Rate	5.6%	5.8%	6.9%	↓
Quarterly Net Absorption (SF)	800,519	990,787	1,488,500	↓
Average Asking Rent/SF	\$16.74	\$16.59	\$15.87	↑
Under Construction (SF)	2,261,273	1,858,879	1,514,194	↓
Deliveries (SF)	201,832	414,052	245,818	↑

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



RESEARCH Q3 2022

Investment sales remain strong closing the quarter with the lowest cap rate in over a decade at 6.5% proving buyer competition within the market. 12-month sales volume also hit a decade-high of \$3.8 billion, although expected to taper off with waning economic conditions. Demand for grocery-anchored retail centers continues to be the main driver among Phoenix due to consistency in population growth and high volume of development among other asset classes.

Development continues to show the effects of urban sprawl among the metropolitan area. Speculative development is focused further from the central cities of Phoenix and is also evidence of the exponential population growth the area has experienced over the last decade. Mixed-use developments are becoming more popular as they may offer more security for owners and landlords. Although supply chain delays continue to make it difficult on developers, low vacancy and cap rates are driving the demand for new product.

Notable Projects Under Construction

Building Name	Building Address	Submarket	Type	Square Feet
Village at Prasada	SEC Loop 303 & Waddell Rd.	North West Phoenix	Speculative	700,000
Estrella Commons	SEC Estrella Pky. & I-10	South West Phoenix	Speculative	171,000
75 th & Glendale	SEC 75 th Ave. & Glendale Ave.	North West Phoenix	Speculative	71,000

Notable Deliveries 2022

Building Name	Building Address	Submarket	Type	Square Feet
SanTan Pavilions	1765 E. Williams Rd.	South East Phoenix	Speculative	50,000
Sonoran Creek Marketplace	20300 N. John Wayne Pky.	Outlying Pinal County	Build-to-Suit	47,928
ALDI	1405 E. Bell Rd.	North Phoenix	Build-to-Suit	30,000
Tesla	9225 W. Glendale Ave.	North West Phoenix	Build-to-Suit	30,000
Honor Health Complete Care	16590 W. Waddell Rd.	North West Phoenix	Build-to-Suit	20,000

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
Costco	Verrado Way & I-10	South West Phoenix	Direct New	160,938
Life Time Fitness	5796 S. Val Vista Dr.	South East Phoenix	Direct New	123,359
Hobby Lobby	15305 W. McDowell Rd.	North West Phoenix	Direct New	64,028
O'Reilly Auto Parts	1005-1095 S. Arizona Ave.	South East Phoenix	Direct New	30,233
Burlington	2031-2039 N. Power Rd.	South East Phoenix	Direct New	29,781

Select Sale Transactions

Building Address	Submarket	Sales Price	Price/SF	Square Feet
The Promenade 16203-16255 N. Scottsdale Rd.	North Scottsdale	\$53,331,221	\$213.19	250,154
Lake Pleasant Pavilion 24890 N. Lake Pleasant Pky.	North West Phoenix	\$50,500,000	\$283.71	178,000
Canyon Trails Towne Center 625 S. Cotton Ln.	South West Phoenix	\$41,000,000	\$207.13	197,946
Laveen Park Place 7620 S. 59 th Ave.	South Mountain	\$38,597,492	\$454.62	84,900
Las Tiendas 2945 S. Alma School Rd.	South East Phoenix	\$36,956,629	\$187.96	196,615

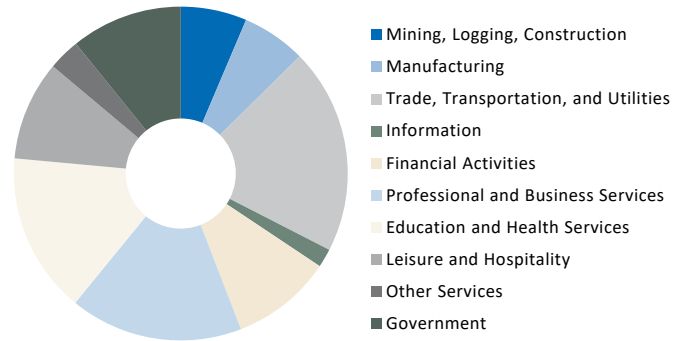
Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Quarterly Deliveries (SF)	All Service Type Rent (Price/SF)	Average NNN Asking Rent (Price/SF)
Airport Area	3,921,583	-	4.9%	15,168	30,626	5,002	\$19.46	\$21.07
Downtown Phoenix	8,450,874	6,965	4.2%	29,688	57,998	-	\$20.86	\$19.16
East Valley	2,681,241	-	4.5%	38,738	45,684	-	\$18.14	\$18.20
Maricopa County	834,094	-	1.2%	2,689	5,461	-	\$12.98	\$13.50
North Phoenix	29,995,916	8,810	7.8%	367,221	868,528	50,946	\$13.93	\$13.94
North Scottsdale	13,978,584	-	4.5%	3,000	(1,549)	-	\$23.25	\$21.93
North West Phoenix	49,496,410	1,094,675	4.8%	52,929	631,620	44,181	\$16.08	\$16.36
Pinal County	9,102,360	16,500	8.0%	36,843	291,149	-	\$15.64	\$15.43
Scottsdale	20,178,095	346,500	3.7%	39,323	241,573	-	\$27.48	\$28.11
South Mountain	8,475,321	56,736	5.6%	49,262	158,817	-	\$16.81	\$17.11
South West Phoenix	9,056,985	327,276	2.4%	20,575	163,736	8,762	\$18.26	\$18.43
South East Phoenix	80,976,123	384,385	6.2%	98,800	714,912	94,467	\$16.12	\$16.05
Market	237,147,586	2,241,847	4.8%	754,236	3,208,183	203,358	\$18.25	\$18.27

Economic Overview

Like many other metro areas in the Sunbelt, Phoenix continues to benefit from demographic shifts in the U.S. Phoenix is an attractive option for those leaving coastal gateway markets for economic opportunities and a lower cost of living. Phoenix’s diversified economy, young talent pool, numerous universities and community colleges, lower cost of doing business relative to gateway markets and strong population growth are major draws for employers and employees alike. Almost every industry experienced strong job growth over the last 12 months, with only the financial activities sector seeing job growth contract in the wake of rising interest rates and inflation. While the next several quarters appear economically murky, the Phoenix Metro is well-poised for a vibrant future.

Employment by Industry

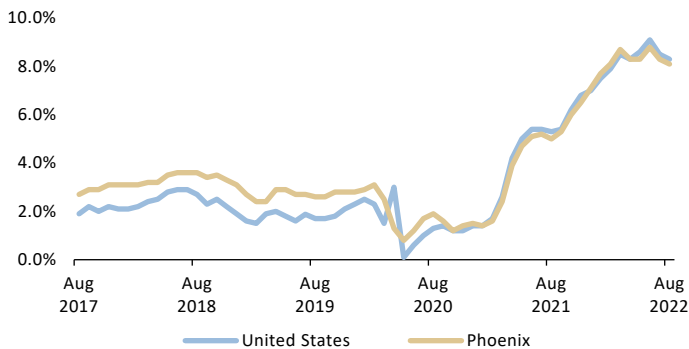
PHOENIX, 2021 ANNUAL AVERAGE



Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)

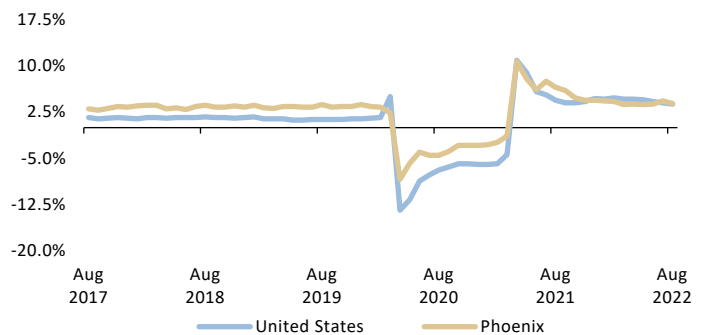
ALL ITEMS, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Payroll Employment

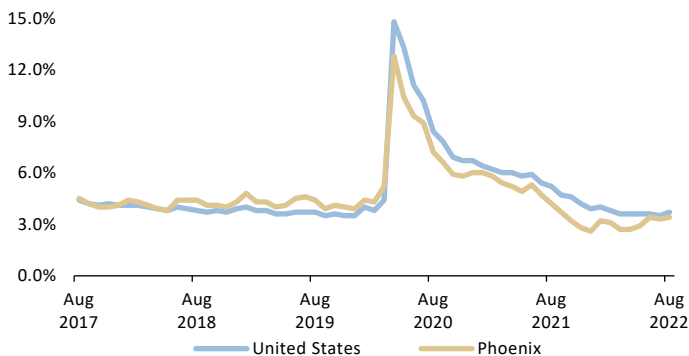
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Unemployment Rate

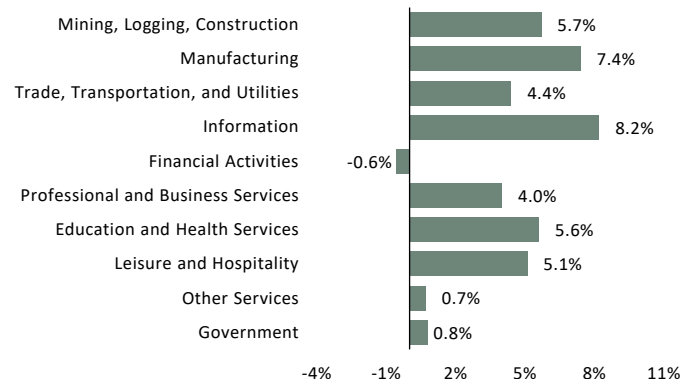
NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry

PHOENIX, AUGUST 2022, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

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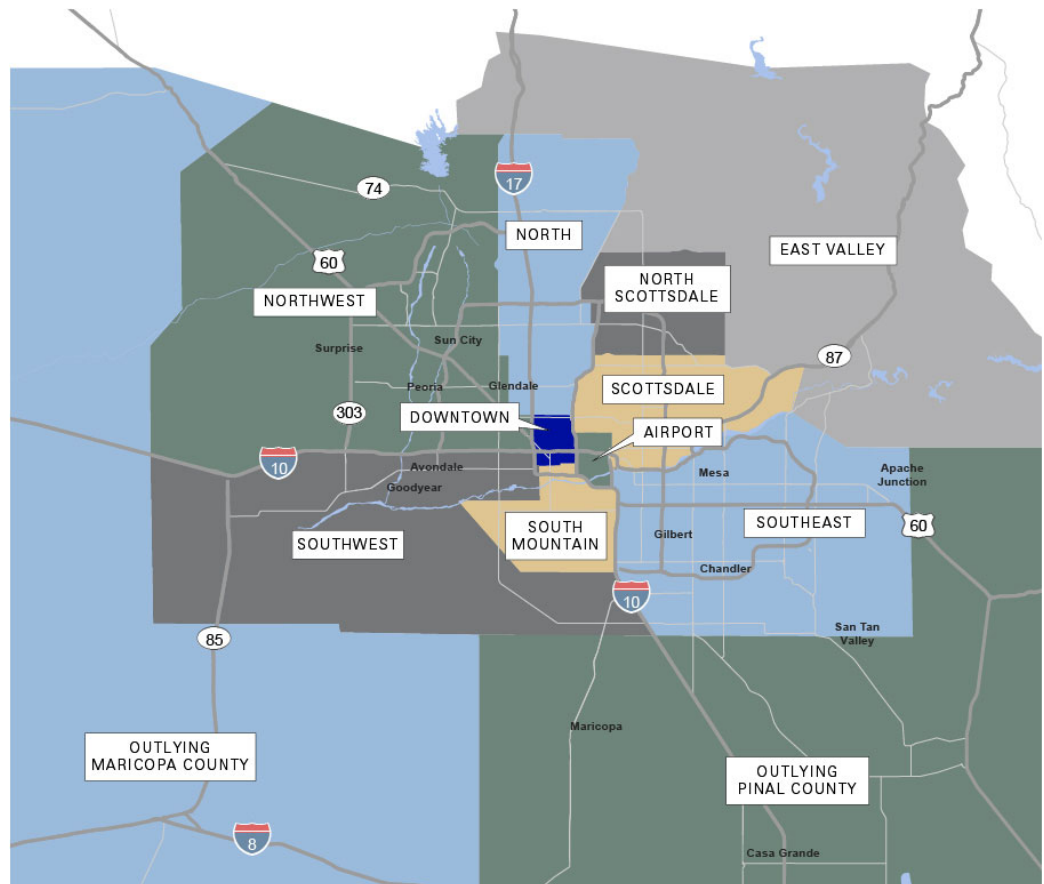
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