



RESEARCH Q4 2020



Phoenix Retail Market

Phoenix Market Resiliency Put to the Test in 2020

Before COVID-19, the Phoenix retail market was fairly resilient amidst the evolution of the landscape. Leasing activity was steady and new supply was modest to support limited demand. The onset of the pandemic brought hardships many retailers could not withstand, causing them to shutter for good. 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. Brick-and-mortar retailers that did not adopt an omnichannel approach struggled and will continue to struggle as pandemic-learned consumer habits are likely to stick.

Non-essential business closures and lack of demand drove the vacancy rate up to 7.7% in 4Q20 from 7.0% the previous year. Subsequently, asking rents fell to a yearly low in the second quarter of 2020, but have since stabilized at \$15.58/SF in 4Q20. It is important to note, the data cannot account for unreported missed rent collections and deferrals which started back in early April. Rent growth is expected to decelerate in the near term as vacancies rise and stores continue to shutter.

Current Conditions

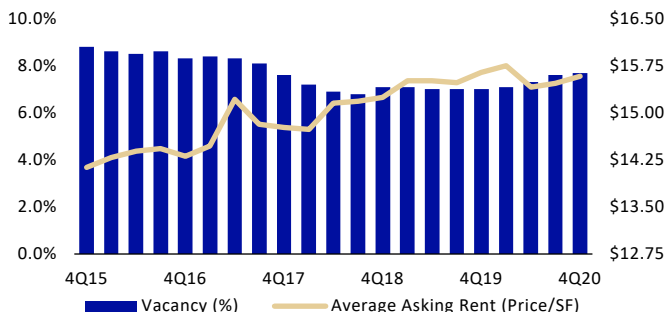
- Grocery, drive-thru, hobby and drug stores championed the retail sector in 2020 in terms of leasing and sales activity.
- Phoenix continues to be a hot spot for opportunistic out-of-state buyers due to the high-yield spread on retail assets.
- Developers continue to focus on build-to-suits in order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

Market Summary

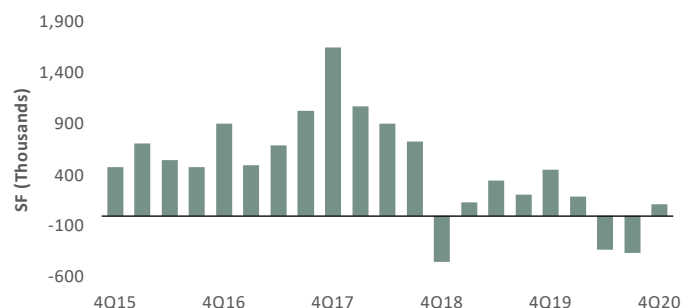
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory	234 M SF	233 M SF	232 M SF	↑
Vacancy Rate	7.7%	7.6%	7.0%	↑
Quarterly Net Absorption (SF)	113,381	(357,737)	450,626	↑
Average Asking Rent/SF	\$15.58	\$15.47	\$15.64	↑
Under Construction (SF)	713,714	950,256	1,660,258	↓
Deliveries (SF)	340,511	475,779	443,584	↓

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION



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Nearly 710,000 square feet of retail space is under construction in metro Phoenix, which only accounts for 0.3% of the existing inventory. New construction is concentrated on specific asset types such as grocery-anchored shopping centers, fast food and gym facilities. The delivery of new product and modest leasing for the quarter resulted in 113,831 square feet of positive net absorption in 4Q20— the first positive quarter since the onset of COVID-19. Although development continued in 2020, most retailers and end-users pushed their planned 2020 openings into 2021. Strong demand for space in late 2021, early 2022 is expected to make up for lost time in 2020.

Sales activity picked up in the second half of the year. Arizona and

California based buyers accounted for over 70% of the trades in the last year. Volume dipped to \$430.6M in 4Q20 compared to \$764.9M in 4Q19. It is important to note that 4Q19 was the second highest quarter for the market in a ten year period. Fast growing suburbs, Mesa, Chandler and Gilbert grabbed the attention of many investors and will continue to be hot spots because of the large migration from major cities. Walgreens and CVS were desirable assets for national buyers in 2020. The average cap rate for these properties fell in the high 5% to mid 6% range. The metro will continue to attract the attention of out-of-state buyers because of the attractive yield spreads of Phoenix retail assets and the dependability of the market.

Notable Projects Under Construction

Building Name	Building Address	Submarket	Type	Square Feet
Lifetime Fitness	24700 North 67 th Avenue	North West Phoenix	Build-to-Suit	180,000
Fry's Marketplace	19600 West Indian School Road	North West Phoenix	Build-to-Suit	124,070
Mountainside Fitness	West McDowell Road	North West Phoenix	Build-to-Suit	40,000
EOS Fitness	NEC Pecos Road & Val Vista Road	South East Phoenix	Build-to-Suit	38,000
ALDI	24665 North Lake Pleasant Parkway	North West Phoenix	Built-to-Suit	22,000

Notable Deliveries 2020

Building Name	Building Address	Submarket	Type	Square Feet
Fry's Food & Drug Stores	1455 North Higley Road	South East Phoenix	Build-to-Suit	132,300
Fry's Food & Drug Stores	4075 East Williams Field Road	South East Phoenix	Build-to-Suit	125,944
ALDI	845 Estrella Parkway	South West Phoenix	Built-to-Suit	20,000
Goodwill	10860 East Guadalupe Road	South East Phoenix	Built-to-Suit	18,000

Select Lease Transactions

Tenant	Building	Submarket	Type	Square Feet
AMC Theatres	4915 East Ray Road	South Mountain	Renewal	78,000
EOS Fitness	NWC Ellsworth Road & Riggs Road	South East Phoenix	Direct New	38,000
Big Lots	3628-3636 West Baseline Road	South East Phoenix	Renewal	29,666
Sprouts	4131-4233 West Thunderbird Road	North Phoenix	Direct New	24,513
Goodwill	10860 East Guadalupe Road	South East Phoenix	Direct New	18,000

Select Sale Transactions

Building Address	Submarket	Sales Price	Price/SF	Square Feet
Tesla 2077 East University Drive	South East Phoenix	\$13,500,000	\$319.29	42,281
Sprouts 5355 East Carefree Highway	North Phoenix	\$10,522,216	\$351.96	29,896
Walgreens 9800 South Estrella Parkway	South West Phoenix	\$9,350,000	\$630.90	14,820
Fresh & Easy 3050 South Dobson Road	South East Phoenix	\$8,550,000	\$612.07	13,969
Dutch Bros Coffee 580 North Estrella Parkway	South West Phoenix	\$2,620,000	\$2,977.27	880

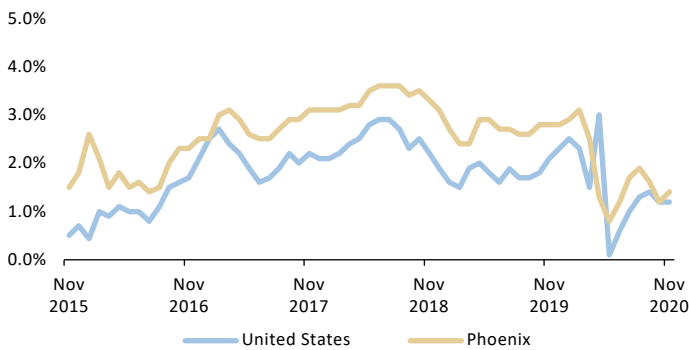
Submarket Statistics								
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Quarterly Deliveries (SF)	All Service Type Rent (Price/SF)	Average NNN Asking Rent (Price/SF)
Airport Area	3,921,174	5,000	4.8%	(10,919)	(25,013)	-	\$16.64	\$19.49
Downtown Phoenix	7,822,278	825	7.1%	25,751	31,486	-	\$17.82	\$18.39
East Valley	2,638,397	-	9.3%	1,417	(9,506)	-	\$15.42	\$15.08
Maricopa County	827,524	-	1.2%	(1,500)	2,696	-	\$17.30	\$28.70
North Phoenix	29,971,499	23,850	11.0%	(80,758)	(559,225)	-	\$12.95	\$12.88
North Scottsdale	15,509,489	-	6.6%	51,052	(260,608)	15,545	\$21.42	\$21.36
North West Phoenix	47,901,621	420,341	6.0%	(35,527)	69,716	6,422	\$15.98	\$16.03
Pinal County	8,815,173	88,500	10.6%	46,079	(115,156)	2,500	\$12.24	\$11.72
Scottsdale	19,839,617	17,200	5.6%	(16,065)	54,756	15,458	\$21.57	\$21.79
South Mountain	8,271,926	-	6.3%	34,310	48,540	6,362	\$17.07	\$17.37
South West Phoenix	8,446,386	14,708	5.5%	18,715	75,276	28,400	\$16.23	\$15.58
South East Phoenix	80,042,749	143,290	8.4%	182,930	305,349	265,824	\$14.91	\$14.68
Market	234,010,833	713,714	7.7%	113,381	(381,689)	340,511	\$15.64	\$15.58

Economic Overview

After a year of employment gains were erased in one month, Phoenix's unemployment rate increased from a record low 3.7% to 12.5% at the height of job losses. Fortunately, the diversification of the local economy has increased resiliency since the last recession. After a brief increase in June and July of 2020, Phoenix unemployment was back down to 5.9% for August 2020 compared to the national rate of 8.5%. However, as COVID-19 cases increased again, unemployment increased yet again in October (7.4%) and November (7.2%), coming in higher than the national average (6.4% in November). Trade, transportation, utilities, financial activities, mining, logging and construction sectors all saw a positive 12-month percent change in November 2020, with leisure and hospitality and information sectors still lagging. The coming months as the state struggles to keep the pandemic under control will likely continue to see negative economic impact until the vaccine is more widely distributed.

Consumer Price Index (CPI)

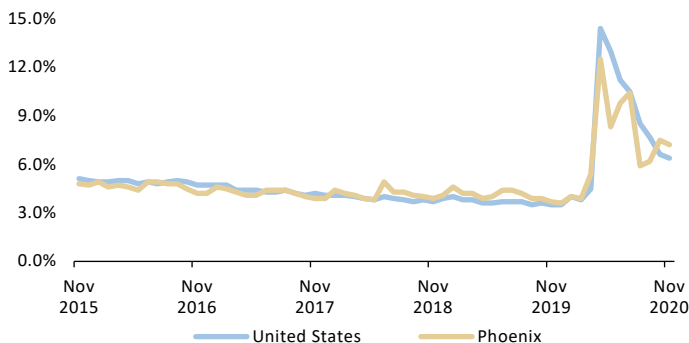
ALL ITEMS, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Unemployment Rate

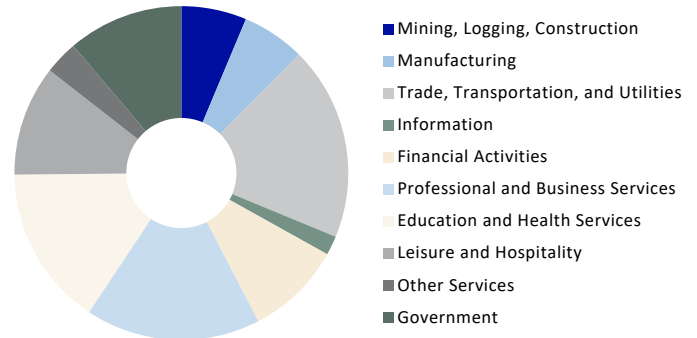
NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

Employment by Industry

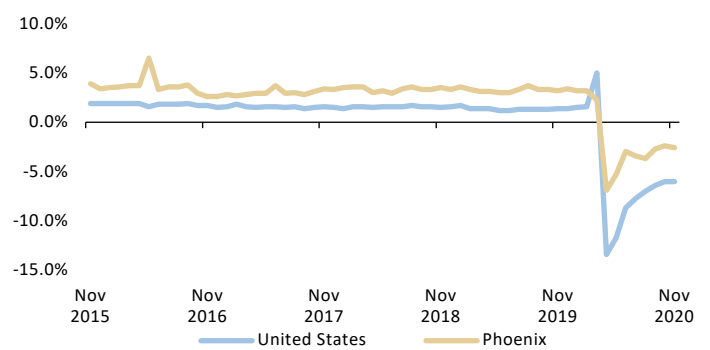
PHOENIX, 2019 ANNUAL AVERAGE



Source: U.S. Bureau of Labor Statistics

Payroll Employment

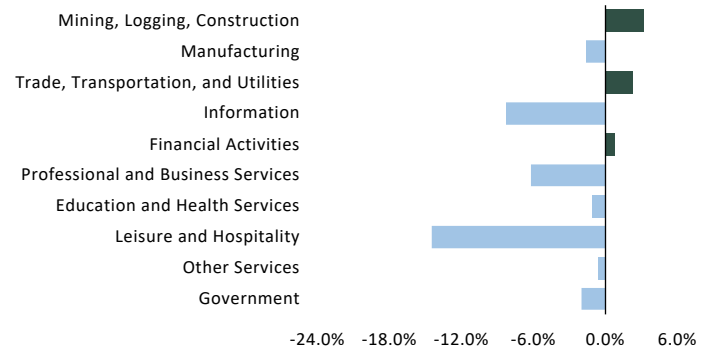
TOTAL NONFARM, NOT SEASONALLY ADJUSTED, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

Employment Growth by Industry

PHOENIX, NOVEMBER 2020, 12-MONTH % CHANGE, NOT SEASONALLY ADJUSTED



Source: U.S. Bureau of Labor Statistics

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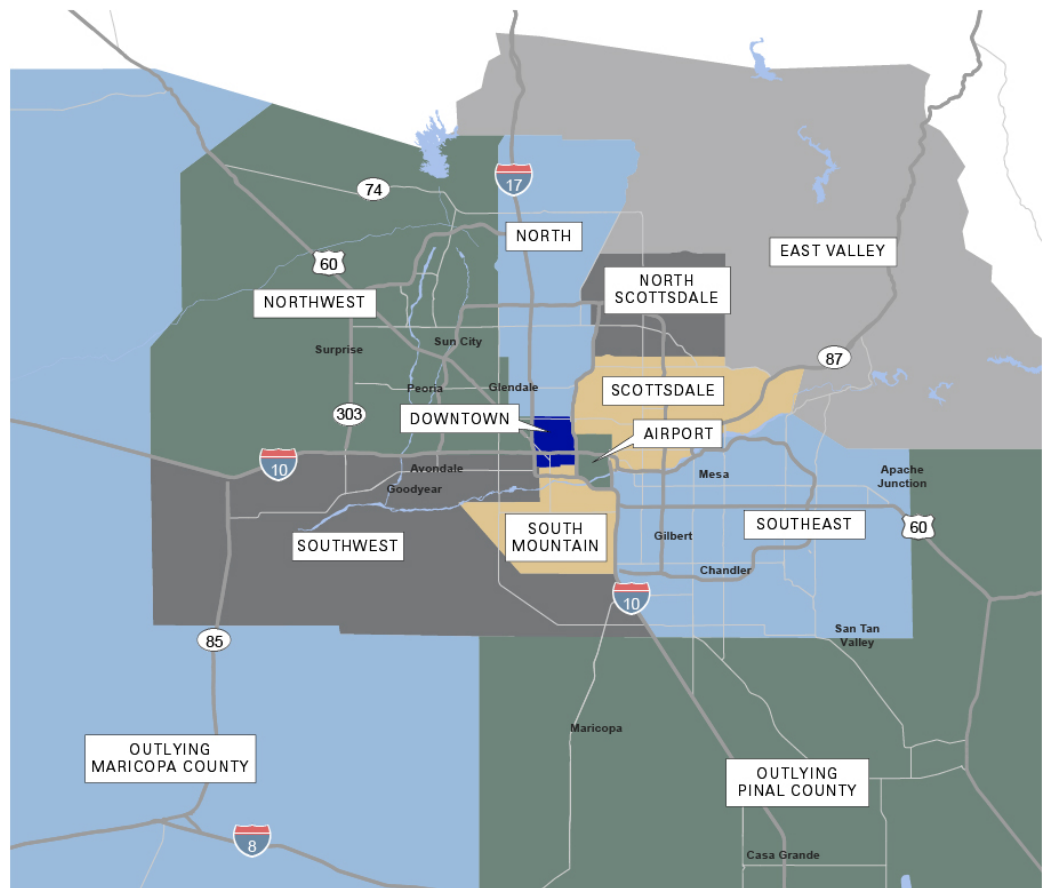
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