

# MARKETBEAT

## Phoenix

### Retail Q2 2018



#### ECONOMIC INDICATORS

National	Q2 17	Q2 18	12-Month Forecast
GDP Growth	2.2%	3.0%*	▲
CPI Growth	1.9%	2.8%*	▲
Consumer Spending Growth	2.7%	2.5%*	▲
Retail Sales Growth	4.3%	5.3%*	▲

\*Q2 18 Estimates. Values represent year-over-year % change  
\*\*Forecast by Cushman & Wakefield.

Regional	Q2 17	Q2 18	12-Month Forecast
Household Income	\$60,620	\$62,139	▲
Population Growth	2.3%	2.4%	▲
Unemployment	4.2%	4.2%	▬

Moody's data buffet for HH Income, Population Growth

#### Economy

The Metro Phoenix job market continues to improve, adding 56,700 jobs year-over-year through the second quarter of 2018. During the same time period, the unemployment rate remained constant at 4.2%.

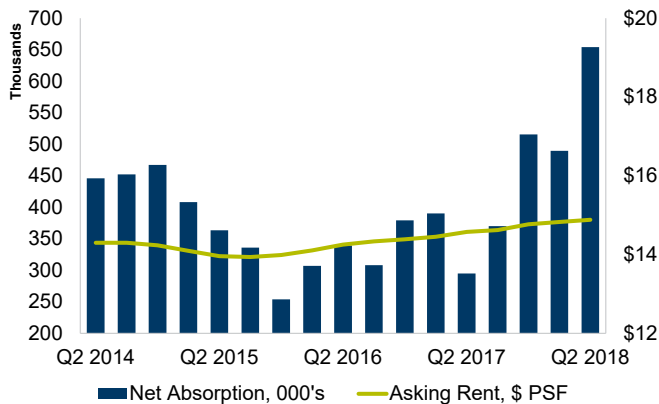
#### Market Overview

During the second quarter of 2018, vacancy in the Metro Phoenix retail market was 9.0%. This is the lowest vacancy rate since the first quarter of 2008, which was recorded at 8.7%, marking a decade low vacancy rate. The vacancy rate dropped -80 basis points (bps) quarter-over-quarter and -160 bps year-over-year. The Southwest Phoenix (6.0%) and East Phoenix (4.7%) submarkets saw the lowest vacancy rates while Central Business District (CBD) submarket (26.3%) and Mesa (11.5%) recorded the highest.

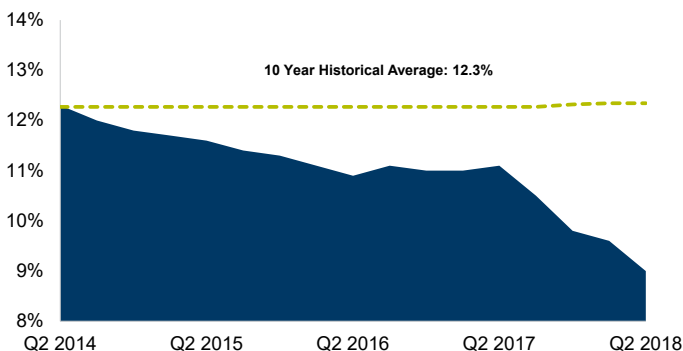
The Metro Phoenix retail market continued to experience positive occupancy growth and absorbed more than 657,000 square feet (sf) during the second quarter of 2018. The North I-17 (239,000 sf) submarket and the Southeast Phoenix (153,000 sf) made up the largest gains of positive absorption. The Scottsdale (-75,000 sf) and North Central Phoenix (-10,000 sf) submarkets saw the most negative absorption. Neighborhood & community, strip and lifestyle centers all saw positive absorption for the second quarter in Metro Phoenix while power & regional centers recorded the only negative absorption. Neighborhood & community centers saw the largest increase with nearly 645,000 sf of positive absorption, bringing the year-to-date (ytd) total absorption to just over 900,000 sf. Power & regional centers recorded -108,000 sf of negative absorption for the second quarter, which brings the ytd total for power & regional centers to -25,000 sf.

The average asking rates for the Metro Phoenix retail market was \$15.19 per square foot (psf) on an annual triple net basis in the second quarter of 2018. This marks a \$0.44 increase from the \$14.75 psf triple net rate in the first quarter of 2018. Average asking rates increased \$0.28 year-over-year, a 3% increase. The CBD submarket saw the largest increase of \$2.34 from \$22.46 to \$24.80 quarter-over-quarter. The higher vacancy rate and average asking rate in CBD are structural, and reflect the makeup of the CBD submarket and the Metro Phoenix retail market.

#### Overall Net Absorption/Overall Asking Rent 4-QTR TRAILING AVERAGE (IN THOUSANDS)



#### Overall Vacancy



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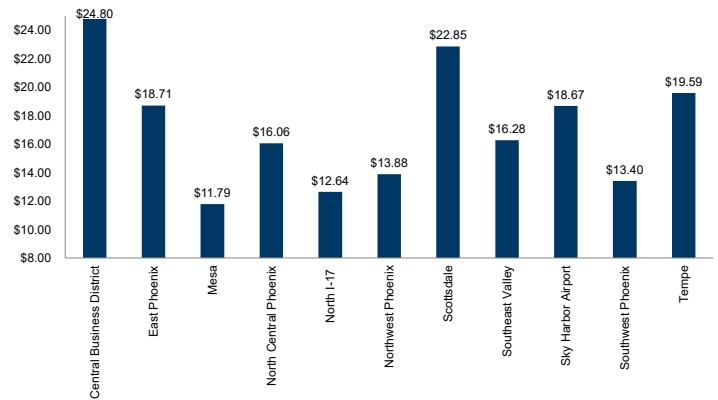
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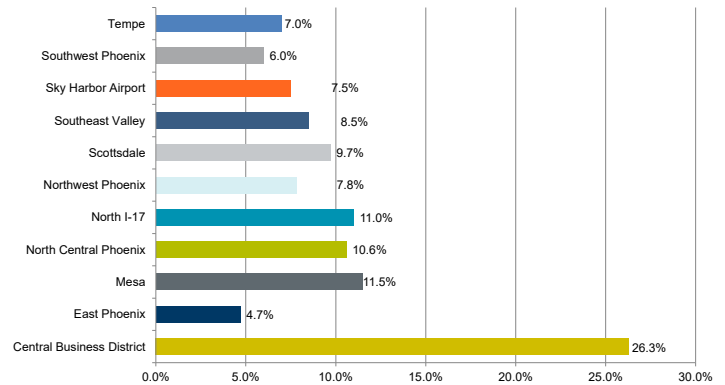
Cushman & Wakefield is tracking 268,136 sf of construction in the Metro Phoenix retail market for the second quarter of 2018. The Southeast Phoenix submarket has the largest amount of new construction at approximately 158,000 sf. The San Tan Pavilions project in the Southeast Valley submarket is the largest, with over 58,000 sf. Approximately 48,000 sf of new supply was added during the second quarter of 2018, which was a decrease from the nearly 87,000 sf added in the previous quarter.

Despite the growth of e-Commerce, brick and mortar locations remain in demand for the Phoenix Metro area. With vacancy at a 10 year low, utilizing existing inventory is in high demand. The addition of new inventory continues to slow down as total square footage of new construction delivered, it is down 51% from the first quarter of 2018 to the second and 66% from the second quarter of 2017. Even with these encouraging numbers for the second quarter of 2018, large scale retailers are facing challenges. The bankruptcy of Claire's and Nine West continue a trend of large scale chain retailers unable to adapt to the changing retail climate. IKEA's withdrawal of their planned location in the Northwest Phoenix submarket shows how a large retailer is scaling back to adjust to the changing consumer market. Smaller local retailers have found ways to connect to consumers with more personalized shopping experiences through localized goods and services without having to cover high overhead costs and excessive inventory. Local retailers will remain at the center of the retail market evolution, as larger companies attempt to adapt to new ways of reaching consumers.

Average Asking Rate by Market (NNN)



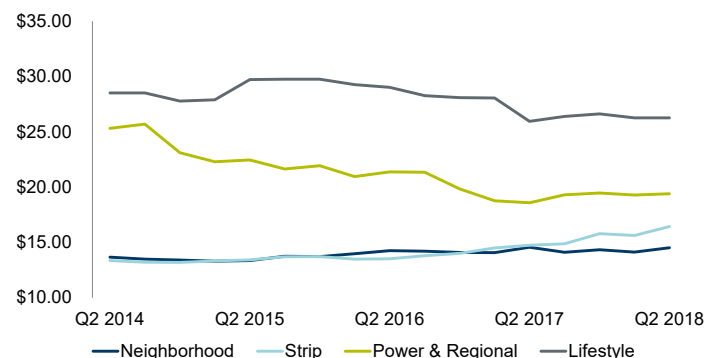
Vacancy Rate by Market



## Outlook

- For the first time in three years, the average asking rate for Lifestyle centers remained the same quarter-over-quarter at \$26.25.
- The Central Business District (CBD) and Southwest Phoenix submarket dropped 420 and 280 bps in vacancy from the first quarter to the second quarter of 2018.
- Neighborhood & community centers continue to show consistency and strength by recording 10 straight quarters of positive absorption.
- Absorption continues to remain strong, recording positive absorption for 28 straight quarters since the fourth quarter of 2011.

Average Asking Rate by Type (NNN)



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SUBMARKET	INVENTORY	SUBLET VACANT	DIRECT VACANT	VACANCY RATE	Q2 NET ABSORPTION	2018 NET ABSORPTION	AVG ASKING RENT (All Classes)
Central Business District	798,617	2,750	207,082	26.3%	33,656	38,770	\$24.80
East Phoenix	6,050,288	0	284,087	4.7%	58,763	95,770	\$18.71
Mesa	7,980,694	20,010	897,037	11.5%	-110	67,965	\$11.79
North Central Phoenix	9,303,898	0	989,456	10.6%	-10,381	-21,213	\$16.06
North I-17	19,943,289	55,489	2,145,153	11.0%	239,369	259,148	\$12.64
Northwest Phoenix	28,526,274	8,159	2,215,461	7.8%	87,591	265,441	\$13.88
Scottsdale	14,963,096	39,300	1,409,684	9.7%	-75,474	-159,647	\$22.85
Southeast Valley	38,981,738	50,215	3,267,469	8.5%	153,758	292,587	\$16.28
Sky Harbor Airport	1,221,983	0	91,813	7.5%	-4,752	-5,934	\$18.67
Southwest Phoenix	3,692,556	50,000	170,031	6.0%	104,041	141,021	\$13.40
Tempe	6,820,986	4,271	472,851	7.0%	70,569	55,826	\$19.59
<b>Total</b>	<b>138,283,419</b>	<b>230,194</b>	<b>12,150,124</b>	<b>9.0%</b>	<b>657,030</b>	<b>1,029,734</b>	<b>\$15.19</b>

Neighborhood & Community	91,486,798	165,143	8,757,041	9.8%	644,945	904,368	\$14.52
Strip	13,299,014	9,150	1,453,956	11.0%	119,895	139,670	\$16.43
Power & Regional Mall	31,738,100	55,901	1,838,224	6.0%	-108,228	-24,499	\$19.39
Lifestyle	1,759,507	0	100,903	5.7%	418	10,195	\$26.25
<b>Total</b>	<b>138,283,419</b>	<b>230,194</b>	<b>12,150,124</b>	<b>9.0%</b>	<b>657,030</b>	<b>1,029,734</b>	<b>\$15.19</b>

ASKING RENTS CONVERTED TO NNN PSF/YR.

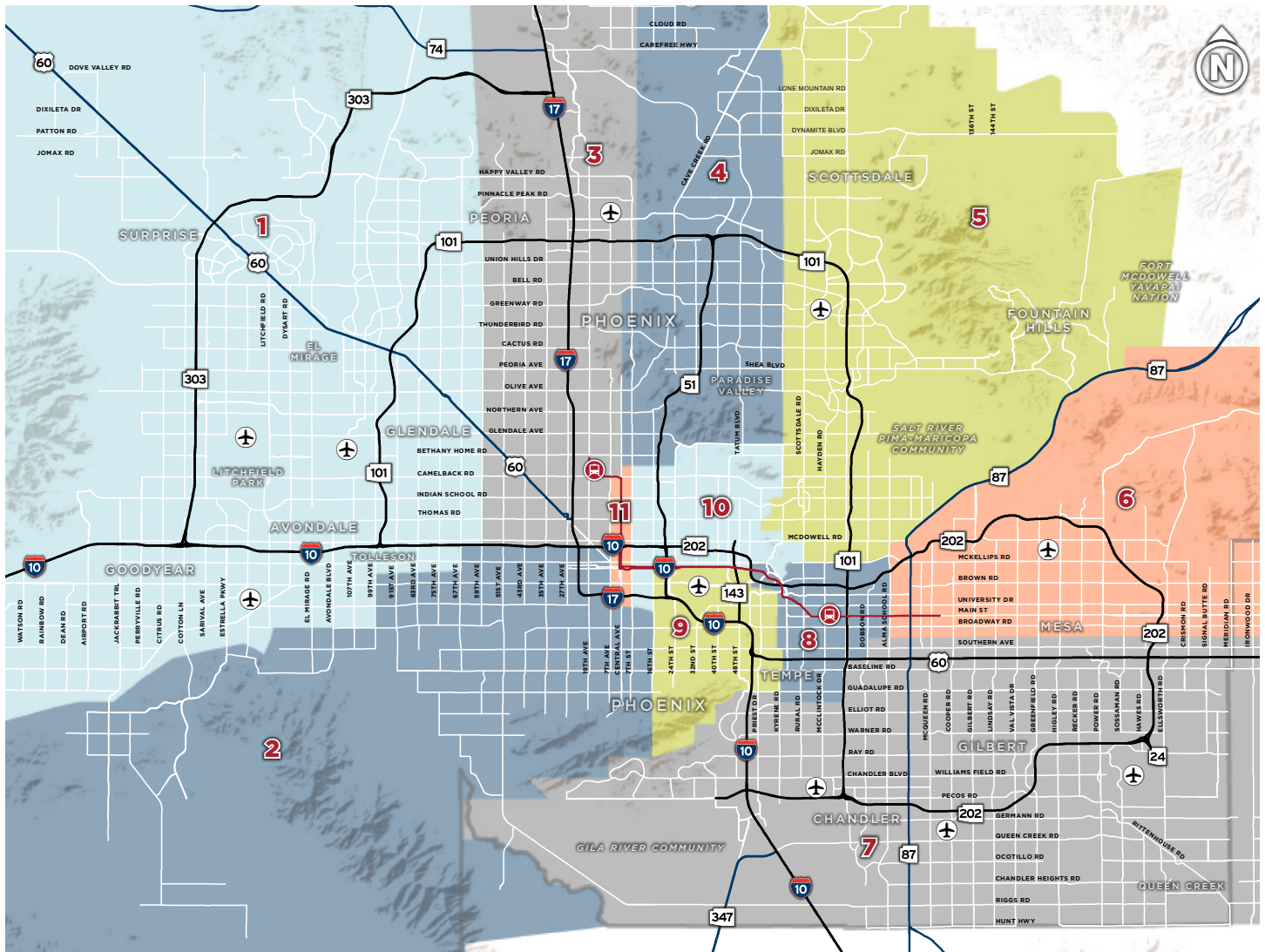
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#### RETAIL SUBMARKETS



- |                       |                           |                        |                                |
|-----------------------|---------------------------|------------------------|--------------------------------|
| 1 - Northwest Phoenix | 4 - North Central Phoenix | 7 - Southeast Valley   | 10 - East Phoenix              |
| 2 - Southwest Phoenix | 5 - Scottsdale            | 8 - Tempe              | 11 - Central Business District |
| 3 - North I-17        | 6 - Mesa                  | 9 - Sky Harbor Airport |                                |

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