# FIRST QUARTER 2014
## PHOENIX
# RETAIL

Voit
REAL ESTATE SERVICES

## MARKET CHANGE

*Compared to the Previous Quarter:*

**Vacancy**
FLAT

**Net Absorption**
POSITIVE

**Lease Rates**
DOWN

**Transactions**
DOWN

**Deliveries**
UP

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VOIT Real Estate Services


## HIGHLIGHTS

- **Encouraging Numbers -** The Phoenix retail market continued its trek towards recovery in the first quarter of 2014. Both vacancy and availability displayed healthly decreases from the previous year, exhibiting the lowest rates since the first quarter of 2009. The Phoenix market also posted nearly 42,000 square feet of positive absorption in the first quarter, marking the twelfth consecutive quarter of the positive streak. While these are encouraging indications, continued stability and job growth will continued to be needed in coming quarters to further recovery.
- **Construction -** There was 200,434 square feet of retail construction underway at the end of the first quarter of 2014- a slight increase compared to the fourth quarter of 2013. The Phoenix retail market delivered 1.7 million square feet of retail space in 2013, the most since 2009 but still low compared to historical averages. The overall lack of new construction should continue to ease upward pressure on vacancy in the coming year.
- **Vacancy -** Vacancy flattened out in the first quarter, as the Phoenix economy moved closer to recovery. Direct/sublease space (unoccupied) finished the first quarter of 2014 at 10.32%, a healthy drop from the previous year's rate of 11.17%. The lowest vacancy rate of all submarkets was found in the Airport Area, at 6.62%.
- **Availability -** Direct/sublease space available for the first quarter of 2014 came in at 11.64%, down from the previous quarter and a 5.44% decrease when compared to the prior year's rate of 12.31%.
- **Lease Rates -** The average asking triple-net lease rate per month per square foot in Phoenix started the year at $13.80, down twelve cents from the previous quarter. As vacancy rates continue to decrease, look for asking lease rates to flatten out and begin to increase gradually in some submarkets in coming quarters, as consumer spending increases.
- **Absorption -** The Phoenix retail market posted 41,809 square feet of positive net absorption in the first quarter of 2014, marking the twelfth consecutive quarter of positive net absorption and giving the market a total of nearly 8.4 million square feet of positive absorption for the last three years.
- **Transaction Activity -** Leasing activity checked in at nearly 978,000 square feet, a decrease from the previous quarter's figure of 2.1 million square feet. Sales also decreased compared to the fourth quarter of 2013, posting 2 million square feet, down around 970,000 square feet. This statistic can have some lag time in being reported, so look for these figures to end up somewhat higher in the next report. Details of the largest transactions can be found on the back page of this report.
- **Unemployment -** The unemployment rate in the Phoenix-Mesa-Glendale Metropolitan area was 7.3% in February 2014, a slight decrease from January 2014's rate of 7.5%. Sectors with strong job growth included transportation, construction, financial activities, and education/health services. According to Arizona Department of Administration, February added 25,480 nonfarm jobs including 1,260 in construction and 3,828 in the education & health services sector. Over 2013, the number of jobs increased; we anticipate this trend continuing in 2014.
- **Overall -** The Phoenix retail's future is looking brighter, as the market continues to gain traction. We are seeing decreases in the amount of vacant and available space, as well as stabilizing in average asking least rates. The market has posted positive absorption figures for three consecutive years, with increasing amounts each year. With few new deliveries in the pipeline to apply upward pressure on vacancy, the market should continue to recover. While these are positive indicators, cautious optimism still prevails, as job creation will need to continue in order to drive the demand needed to sustain growth in the Phoenix retail market.

## FORECAST

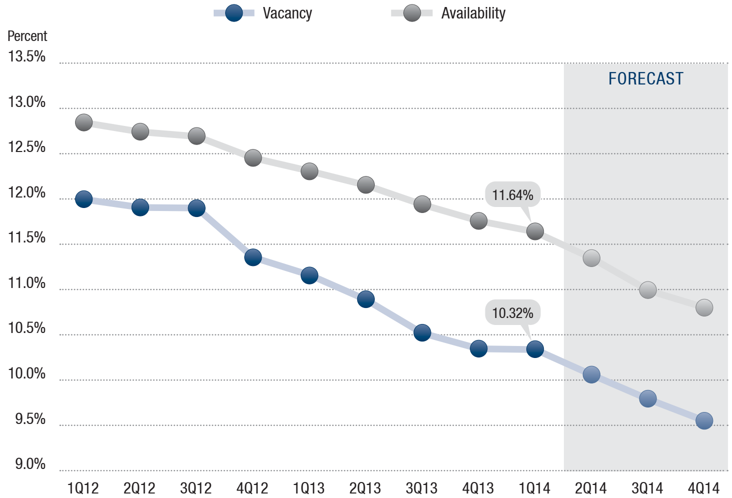
- **Construction -** We anticipate continued low rates of retail construction for the near future, giving demand further opportunity to catch up to supply. Expect power centers, which have among the lowest vacancy and availability rates currently, to lead the way as development gradually returns.
- **Employment -** We anticipate a job growth of around 2.6%, or 59,00 jobs, in the Phoenix Metropolitan area over the year. Look for industries like professional & business services, construction, and education & health services to lead the way in employment growth.
- **Lease Rates -** Expect average asking lease rates to increase by 1%–2% by the end of 2015.
- **Vacancy -** We anticipate vacancy rates continuing to descend in the coming quarters, dropping by 80 basis points, to around 9.55%, by the end of 2015.

## OVERVIEW

| | 1Q14 | 4Q13 | 1Q13 | % of Change vs. 1Q13 |
|---|---|---|---|---|
| Vacancy Rate | 10.32% | 10.33% | 11.17% | (7.61%) |
| Availability Rate | 11.64% | 11.75% | 12.31% | (5.44%) |
| Average Asking Lease Rate | $13.80 | $13.92 | $14.40 | (4.17%) |
| Sale & Lease Transactions | 3,004,798 | 5,096,995 | 3,861,466 | (22.19%) |
| Gross Absorption | 1,986,283 | 2,439,551 | 2,269,690 | (12.49%) |
| Net Absorption | 41,809 | 800,615 | 551,014 | N/A |

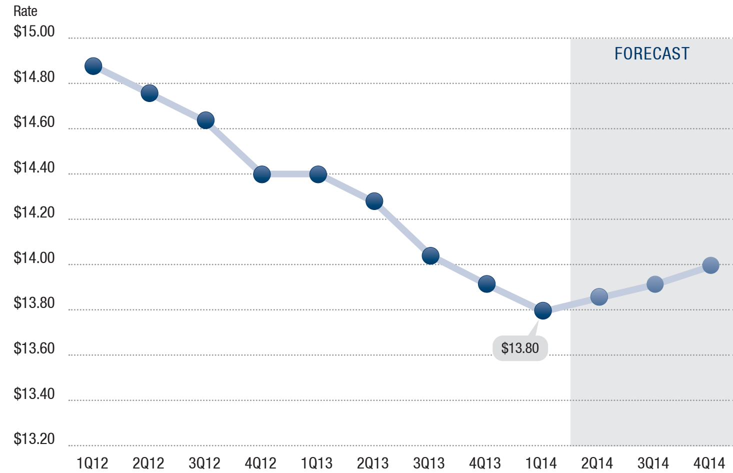
## VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



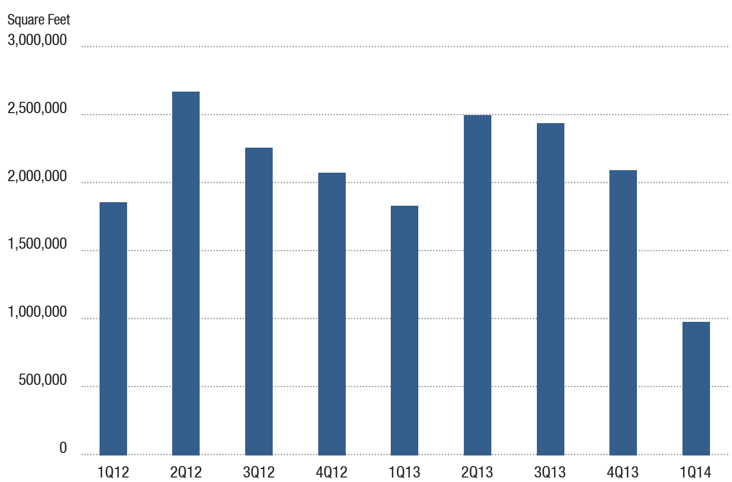

## AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



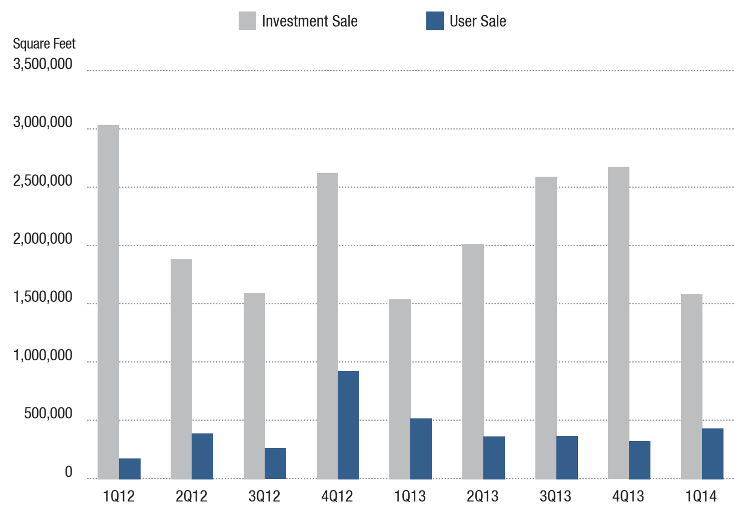

## LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



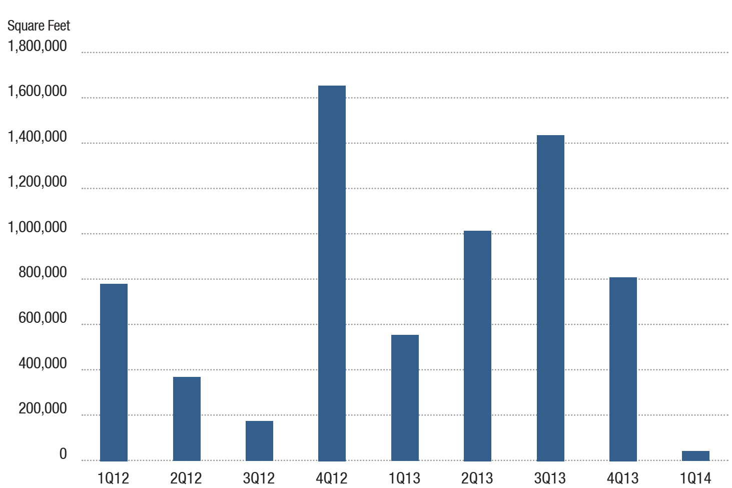

## SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

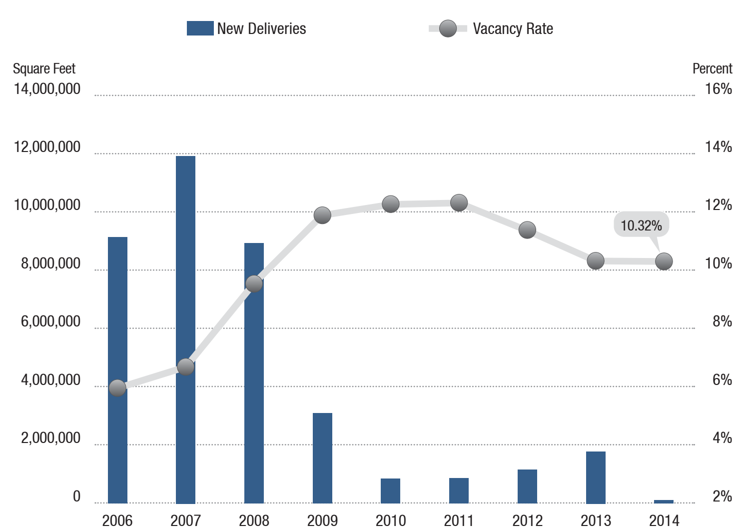



## NET ABSORPTION

CHANGE IN THE AMOUNT OF OCCUPIED SPACE FROM ONE QUARTER TO THE NEXT




## ANNUAL NEW DELIVERIES VS. VACANCY RATE



| | INVENTORY | | | | VACANCY & LEASE RATES | | | | | ABSORPTION | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number of Bldgs. | Net Rentable Square Feet | Square Feet U / C | Square Feet Planned | Square Feet Vacant | Vacancy Rate 1Q2014 | Square Feet Available | Availability Rate 1Q2014 | Average Asking Lease Rate | Net Absorption 1Q2014 | Net Absorption 2013 | Gross Absorption 1Q2014 | Gross Absorption 2013 |
| **Airport Area** | | | | | | | | | | | | | |
| Airport Area | 401 | 3,869,729 | 0 | 584,775 | 273,949 | 7.08% | 445,436 | 11.51% | $15.12 | (16,777) | 44,082 | 25,767 | 155,416 |
| South Tempe / Ahwatukee | 233 | 1,510,868 | 0 | 25,900 | 82,350 | 5.45% | 99,757 | 6.60% | $12.36 | (4,780) | 14,650 | 15,165 | 48,756 |
| Airport Total | 634 | 5,380,597 | 0 | 610,675 | 356,299 | 6.62% | 545,193 | 10.13% | $14.52 | (21,557) | 58,732 | 40,932 | 204,172 |
| **Downtown Phoenix** | | | | | | | | | | | | | |
| Downtown Phoenix | 721 | 6,424,135 | 0 | 106,369 | 698,391 | 10.87% | 874,846 | 13.62% | $13.44 | 21,537 | 106,325 | 56,707 | 357,077 |
| Downtown Phoenix Total | 721 | 6,424,135 | 0 | 106,369 | 698,391 | 10.87% | 874,846 | 13.62% | $13.44 | 21,537 | 106,325 | 56,707 | 357,077 |
| **East Valley** | | | | | | | | | | | | | |
| Chandler | 742 | 16,346,983 | 12,000 | 809,096 | 1,924,330 | 11.77% | 2,201,102 | 13.46% | $13.44 | (53,922) | 379,532 | 133,375 | 963,154 |
| Gateway Airport | 113 | 2,582,372 | 0 | 281,654 | 191,211 | 7.40% | 318,607 | 12.34% | $14.40 | 652 | (5,732) | 16,415 | 37,563 |
| Gilbert | 683 | 13,821,435 | 35,787 | 1,779,444 | 1,107,558 | 8.01% | 1,120,605 | 8.11% | $14.88 | 18,205 | 1,090,093 | 117,142 | 1,383,046 |
| Queen Creek | 64 | 1,345,907 | 0 | 301,680 | 125,665 | 9.34% | 122,839 | 9.13% | $19.08 | 4,324 | 25,903 | 8,481 | 35,986 |
| Red Mountain / Mesa | 1,678 | 28,767,565 | 21,700 | 1,198,046 | 4,697,465 | 16.33% | 5,309,588 | 18.46% | $11.88 | (197,207) | 504,507 | 313,421 | 1,611,502 |
| Tempe | 457 | 8,017,596 | 0 | 487,852 | 677,833 | 8.45% | 742,322 | 9.26% | $16.80 | (107,676) | 108,740 | 74,980 | 381,350 |
| East Valley Total | 3,737 | 70,881,858 | 69,487 | 4,857,772 | 8,724,062 | 12.31% | 9,815,063 | 13.85% | $13.20 | (335,624) | 2,103,043 | 663,814 | 4,412,601 |
| **North Phoenix** | | | | | | | | | | | | | |
| East Phoenix | 689 | 8,403,537 | 0 | 27,688 | 1,032,936 | 12.29% | 1,297,083 | 15.43% | $12.36 | 8,811 | 53,083 | 69,272 | 418,694 |
| Glendale | 757 | 10,997,197 | 7,000 | 309,781 | 1,157,599 | 10.53% | 1,304,217 | 11.86% | $12.12 | 57,115 | 30,633 | 100,707 | 320,891 |
| N. Phoenix / I-17 | 821 | 16,196,707 | 18,000 | 28,145 | 2,516,563 | 15.54% | 2,771,718 | 17.11% | $12.60 | 42,589 | 40,807 | 147,847 | 574,572 |
| Sun City | 221 | 3,198,166 | 0 | 103,707 | 363,273 | 11.36% | 376,311 | 11.77% | $14.52 | 6,461 | 25,267 | 19,119 | 187,516 |
| North Phoenix Total | 2,488 | 38,795,607 | 25,000 | 469,321 | 5,070,371 | 13.07% | 5,749,329 | 14.82% | $12.72 | 114,976 | 149,790 | 336,945 | 1,501,673 |
| **North Scottsdale** | | | | | | | | | | | | | |
| Carefree | 131 | 1,729,048 | 0 | 34,510 | 213,753 | 12.36% | 230,422 | 13.33% | $19.56 | 11,143 | (32) | 15,455 | 67,200 |
| Fountain Hills | 79 | 687,017 | 0 | 85,265 | 81,915 | 11.92% | 96,539 | 14.05% | $14.64 | 5,814 | (4,173) | 13,848 | 37,140 |
| North Scottsdale | 526 | 14,747,698 | 0 | 110,145 | 1,039,849 | 7.05% | 1,125,828 | 7.63% | $19.32 | (50,125) | 192,963 | 107,146 | 587,615 |
| North Scottsdale Total | 736 | 17,163,763 | 0 | 229,920 | 1,335,517 | 7.78% | 1,452,789 | 8.46% | $18.60 | (33,168) | 188,758 | 136,449 | 691,955 |
| **Northwest Phoenix** | | | | | | | | | | | | | |
| Anthem | 115 | 2,495,508 | 0 | 109,931 | 150,242 | 6.02% | 165,009 | 6.61% | $15.72 | 8,657 | 20,567 | 9,011 | 95,843 |
| Central Peoria / Arrowhead | 416 | 9,982,209 | 0 | 120,556 | 695,456 | 6.97% | 716,928 | 7.18% | $15.00 | 36,754 | (24,815) | 107,545 | 300,806 |
| Deer Valley | 129 | 2,052,186 | 0 | 18,715 | 222,755 | 10.85% | 227,339 | 11.08% | $24.00 | 22,334 | 5,468 | 39,035 | 39,464 |
| Surprise | 263 | 4,780,525 | 90,672 | 1,337,410 | 332,614 | 6.96% | 351,348 | 7.35% | $16.68 | (3,464) | 31,500 | 45,615 | 115,670 |
| Northwest Phoenix Total | 923 | 19,310,428 | 90,672 | 1,586,612 | 1,401,067 | 7.26% | 1,460,624 | 7.56% | $16.80 | 64,281 | 32,720 | 201,206 | 551,783 |
| **Scottsdale** | | | | | | | | | | | | | |
| Central Scottsdale | 827 | 15,362,518 | 0 | 909,445 | 1,256,095 | 8.18% | 1,369,839 | 8.92% | $21.24 | 3,984 | 230,620 | 144,060 | 669,644 |
| South Scottsdale | 375 | 4,017,965 | 0 | 21,640 | 449,113 | 11.18% | 581,478 | 14.47% | $13.44 | 63,237 | (13,571) | 88,371 | 159,440 |
| Scottsdale Total | 1,202 | 19,380,483 | 0 | 931,085 | 1,705,208 | 8.80% | 1,951,317 | 10.07% | $18.24 | 67,221 | 217,049 | 232,431 | 829,084 |
| **South Mountain** | | | | | | | | | | | | | |
| Ahwatukee Foothills | 164 | 3,229,009 | 0 | 0 | 246,459 | 7.63% | 269,441 | 8.34% | $16.56 | 22,054 | 378,864 | 24,454 | 157,991 |
| Laveen | 63 | 1,257,812 | 0 | 618,673 | 83,582 | 6.65% | 83,582 | 6.65% | $18.24 | 24,136 | 63,268 | 24,136 | 451,208 |
| South Mountain | 96 | 2,003,751 | 0 | 7,622 | 106,728 | 5.33% | 86,310 | 4.31% | $12.72 | 10,724 | 15,293 | 18,836 | 32,621 |
| South Mountain Total | 323 | 6,490,572 | 0 | 626,295 | 436,769 | 6.73% | 439,333 | 6.77% | $16.56 | 56,914 | 457,425 | 67,426 | 641,820 |
| **West Phoenix** | | | | | | | | | | | | | |
| Goodyear | 201 | 3,296,508 | 0 | 158,561 | 452,732 | 13.73% | 491,309 | 14.90% | $14.52 | 20,153 | 17,078 | 42,431 | 186,384 |
| Loop 101 / I-10 | 132 | 2,613,501 | 0 | 1,118,850 | 138,731 | 5.31% | 154,264 | 5.90% | $20.40 | 19,793 | 61,612 | 29,088 | 148,771 |
| N. Goodyear / Litchfield | 188 | 4,343,333 | 0 | 1,882,082 | 268,606 | 6.18% | 280,888 | 6.47% | $16.20 | 268 | 39,185 | 18,669 | 113,356 |
| North Buckeye | 4 | 104,011 | 0 | 0 | 0 | 0.00% | 5,720 | 5.50% | $0.00 | 0 | 0 | 0 | 0 |
| South Buckeye | 131 | 1,405,116 | 0 | 354,622 | 97,605 | 6.95% | 97,605 | 6.95% | $23.52 | 5,187 | 7,224 | 6,684 | 37,284 |
| Tolleson | 225 | 2,557,589 | 0 | 134,310 | 157,281 | 6.15% | 179,774 | 7.03% | $13.08 | 17,387 | 66,219 | 35,491 | 109,691 |
| West Phoenix / Maryville | 451 | 8,065,727 | 4,500 | 74,631 | 624,129 | 7.74% | 722,280 | 8.95% | $10.44 | 23,904 | 87,708 | 41,693 | 488,447 |
| West Phoenix Total | 1,332 | 22,385,785 | 4,500 | 3,723,056 | 1,739,084 | 7.77% | 1,931,840 | 8.63% | $13.08 | 86,692 | 279,026 | 174,056 | 1,083,933 |
| **Maricopa County** | | | | | | | | | | | | | |
| NE Outlying | 1 | 4,722 | 0 | 0 | 0 | 0.00% | 0 | 0.00% | $13.56 | 0 | 0 | 0 | 0 |
| W Outlying | 97 | 675,386 | 0 | 0 | 42,245 | 6.25% | 75,832 | 11.23% | $13.56 | 500 | 8,396 | 1,000 | 39,579 |
| Maricopa County Total | 98 | 680,108 | 0 | 0 | 42,245 | 6.21% | 75,832 | 11.15% | $13.56 | 500 | 8,396 | 1,000 | 39,579 |
| **Pinal County** | | | | | | | | | | | | | |
| Apache Junction | 129 | 1,565,612 | 0 | 106,581 | 81,388 | 5.20% | 99,493 | 6.35% | $9.48 | 11,967 | 26,053 | 16,789 | 56,384 |
| Outlying Pinal County | 738 | 7,535,193 | 10,775 | 2,564,769 | 700,532 | 9.30% | 740,953 | 9.83% | $9.84 | 8,070 | (59,137) | 58,528 | 183,456 |
| Pinal County Total | 867 | 9,100,805 | 10,775 | 2,671,350 | 781,920 | 8.59% | 840,446 | 9.23% | $9.84 | 20,037 | (33,084) | 75,317 | 239,840 |
| **Phoenix Total** | **13,061** | **215,994,141** | **200,434** | **15,812,455** | **22,290,933** | **10.32%** | **25,136,612** | **11.64%** | **$13.80** | **41,809** | **3,568,180** | **1,986,283** | **10,553,517** |
| Malls | 335 | 23,654,761 | 0 | 3,795,749 | 1,846,224 | 7.80% | 2,213,929 | 9.36% | $27.12 | (335,113) | 278,405 | 32,898 | 625,512 |
| Power Centers | 588 | 24,047,323 | 0 | 3,061,963 | 1,378,724 | 5.73% | 1,647,551 | 6.85% | $20.88 | 35,295 | 199,117 | 12,106 | 516,058 |
| Shopping Centers | 4,579 | 104,356,834 | 21,500 | 3,953,025 | 15,296,023 | 14.66% | 16,136,134 | 15.46% | $13.44 | 221,561 | 1,533,175 | 1,412,627 | 5,981,379 |
| Specialty Centers | 47 | 1,862,391 | 0 | 837,800 | 192,528 | 10.34% | 191,793 | 10.30% | $9.72 | (8,397) | 290,575 | 2,491 | 369,525 |
| General Retail | 7,512 | 62,072,832 | 178,934 | 4,163,918 | 3,577,434 | 5.76% | 4,947,205 | 7.97% | $12.48 | 128,463 | 1,266,908 | 526,161 | 3,061,043 |
| **Phoenix Total** | **13,061** | **215,994,141** | **200,434** | **15,812,455** | **22,290,933** | **10.32%** | **25,136,612** | **11.64%** | **$13.80** | **41,809** | **3,568,180** | **1,986,283** | **10,553,517** |

Lease rates are on a triple-net basis.

# MAJOR TRANSACTIONS

## Sales Transactions

| Property Address | Submarket | Square Feet | Sale Price Per SF | Buyer | Seller |
|---|---|---|---|---|---|
| 10653-10893 N. Scottsdale Rd. | Central Scottsdale | 160,228 | $277.73 | WRA Shea & Scottsdale, LLC | Karlin Real Estate |
| 3201-3225 E. Camelback Rd. | Central Scottsdale | 25,150 | $485.09 | Hannay Realty Advisors | Camelback East Shops, Inc. |
| 1201-1217 E. Washington St. | SC N of Salt River | 73,184 | $150.74 | Epoch Properties, Inc. | Lafferty Development, Inc. |
| 6206 E. Test Dr. – 2 Properties | Red Mountain / Mesa | 45,242 | $225.65 | Automotive Investment Group | A & A Property Management |
| 29455 N. Cave Creek Rd. | Carefree | 29,646 | $269.85 | Westwood Financial Corporation | Park West Development Company |
| 6838 N. 7th St. | East Phoenix | 14,490 | $545.20 | James R. Dahl | Becovic Management Group |

## Lease Transactions

| Property Address | Submarket | Square Feet | Transaction Date | Tenant | Owner |
|---|---|---|---|---|---|
| 5150 W. Northern Ave. | Glendale | 27,780 | Jan-14 | Stardust Non Profit Building Supplies, Inc. | CIRE Partners |
| 5350 W. Indian School Rd. | W. Phoenix / Maryvale | 25,840 | Jan-14 | Ross Dress for Less | John F. Long Properties, LP |
| 3975 E. Thomas Rd. | Airport Area | 22,613 | Feb-14 | Jeg Fit Thomas | JRW Investments |
| 7720 W. Bell Rd. | Central Peoria / Arrowhead | 18,321 | Jan-14 | Furniture Warehouse Factory Direct | Rolling Hills View Center, LP |
| 2600 S. Market St. | Gilbert | 7,500 | Jan-14 | Patio Furniture | De Rito Partners, Inc. |
| 19120 N. Pima Rd. | North Scottsdale | 7,200 | Feb-14 | Cymedica | Hawthorn Retirement / Harvest Development |

## SUBMARKETS

**AIRPORT AREA**
Airport Area, South Tempe, Ahwatukee

**DOWNTOWN PHOENIX**
Downtown Phoenix

**EAST VALLEY**
Chandler, Gateway Airport, Gilbert, Queen Creek, Red Mountain, Mesa, Tempe

**NORTH PHOENIX**
East Phoenix, Glendale, North Phoenix / I-17, Sun City

**NORTH SCOTTSDALE**
Carefree, Fountain Hills, North Scottsdale

**NORTHWEST PHOENIX**
Anthem, Central Peoria, Arrowhead, Deer Valley, Surprise

**SCOTTSDALE**
Central Scottsdale, South Scottsdale

**SOUTH MOUNTAIN**
Ahwatukee Foothills, Laveen, South Mountain

**WEST PHOENIX**
Goodyear, Loop 101 / I-10, North Goodyear, Litchfield, North Buckeye, South Buckeye, Tolleson, West Phoenix, Maryville

**MARICOPA COUNTY**
Northeast Outlying, West Outlying

**PINAL COUNTY**
Apache Junction, Outlying Pinal County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