

SECOND QUARTER 2014

PHOENIX RETAIL



MARKET CHANGE

Compared to the Previous Quarter:



Net Absorption



Lease Rates



Transactions DOWN



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HIGHLIGHTS

- Encouraging Numbers The Phoenix retail market continued its trek towards recovery in the second quarter of 2014. Both vacancy and availability continued to decrease, exhibiting some of the lowest rates seen since the first quarter of 2009. The Phoenix market also posted nearly 368,000 square feet of positive absorption in the second quarter, marking the thirteenth consecutive quarter of the positive streak. While these are encouraging indications, continued stability and job growth will be needed in coming quarters to further recovery.
- Construction There was 940,658 square feet of retail construction underway at the end of the second quarter of 2014, an increase compared to the second quarter of 2014. The Phoenix retail market delivered 123,700 million square feet of retail space in 2014 so far, low compared to historical averages.
- Vacancy Vacancy dropped slightly in the second quarter, as the Phoenix economy continued its move to recovery. Direct/sublease space (unoccupied) finished the second quarter of 2014 at 10.26%, a drop from the previous year's rate of 10.95%. The lowest vacancy rate of all submarkets was found in South Mountain, at 6.56%.
- Availability Direct/sublease space available for the second quarter of 2014 came in at 11.43%, down from the previous quarter and a 6.39% decrease when compared to the prior year's rate of 12.21%.
- Lease Rates The average asking triple-net lease rate per month per square foot in Phoenix in the second quarter was \$14.01, up twenty-one cents from the previous quarter. As vacancy rates continue to decrease, look for asking lease rates to begin to increase gradually in some submarkets in coming quarters, as consumer spending increases.
- Absorption The Phoenix retail market posted 367,939 square feet of positive net absorption in the second quarter of 2014,

marking the thirteenth consecutive quarter of positive net absorption, and giving the market a total of nearly 8.5 million square feet of positive absorption for the last three years.

- Transaction Activity Leasing activity checked in at nearly 1,188,393 square feet, a slight decrease from the previous quarter's figure of 1.5 million square feet. Sales also decreased compared to first quarter's posting of 1.5 million square feet, down to around 968,000 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 6.8% in May 2014, a decrease from January 2014's rate of 7.6%. Sectors with strong job growth included transportation, construction, financial activities, and education/health services. Phoenix has created a new niche for itself in high tech manufacturing. Phoenix's projected total annual employment growth will be among the strongest in the nation. According to Arizona Department of Administration, May added 25,410 nonfarm jobs: 1,180 in construction and 3,850 in the education & health services sector. The number of jobs has increased in the first half of 2014 and we anticipate this trend continuing for the remainder of 2014.
- Overall The Phoenix retail market's future is looking brighter
 as it continues to gain traction. We are seeing decreases in the
 amount of vacant and available space, as well as stabilization
 in average asking least rates. The market has posted positive
 absorption figures for just over three years consecutively, with
 increasing amounts each year. With few new deliveries in the
 pipeline to apply upward pressure on vacancy, the market
 should continue to recover.

FORECAST

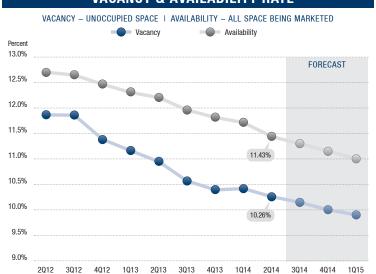
- **Construction** We anticipate a small amount of retail construction in the near future, giving demand further opportunity to catch up to supply. Expect power centers, which have among the lowest vacancy and availability rates currently, to lead the way as development gradually returns.
- **Employment** We anticipate job growth of around 2.6%, or 59,000 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, along with a new sector of high tech manufacturing, to grow rapidly with large companies opening plants and factories.
- 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 about 35 basis points, to around 9.9% by the end of the first quarter of 2015.

OVERVIEW

	2014	1014	2013	% of Change vs. 2Q13
Vacancy Rate	10.26%	10.42%	10.95%	(6.30%)
Availability Rate	11.43%	11.71%	12.21%	(6.39%)
Average Asking Lease Rate	\$14.01	\$13.80	\$14.28	(1.89%)
Sale & Lease Transactions	2,735,099	4,111,814	4,877,610	(43.93%)
Gross Absorption	1,944,838	2,160,119	2,768,068	(29.74%)
Net Absorption	367,939	25,564	925,772	n/a

RETAIL

VACANCY & AVAILABILITY RATE



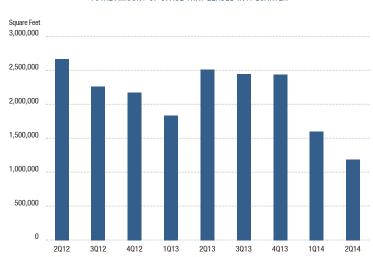
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS

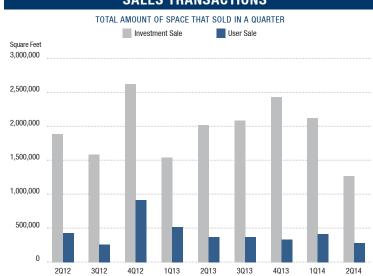


LEASE TRANSACTIONS



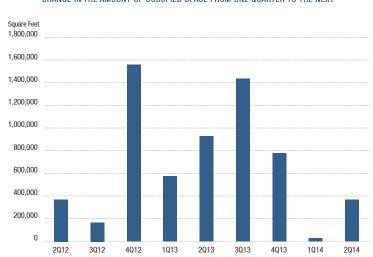


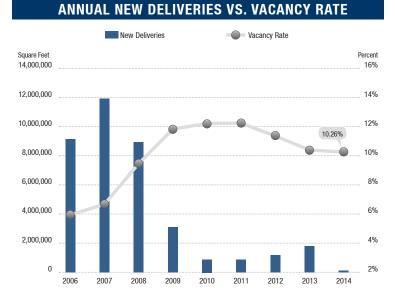
SALES TRANSACTIONS



NET ABSORPTION







RETAIL

		INVENTORY			VACANCY & LEASE RATES					ABSO	RPTION		
	Number of Bldgs.	Net Rentable Square Feet	Square Feet U / C	Square Feet Planned	Square Feet Vacant	Vacancy Rate 202014	Square Feet Available	Availability Rate 202014	Average Asking Lease Rate	Net Absorption 202014	Net Absorption 2014	Gross Absorption 202014	Gross Absorption 2014
Airport Area													
Airport Area	402	3,800,791	0	558,875	271,678	7.15%	438,610	11.54%	\$15.21	9,113	(14,506)	24,869	50,636
South Tempe / Ahwatukee	237	1,500,732	0	18,500	84,050	5.60%	114,234	7.61%	\$13.23	(1,700)	920	8,873	31,438
Airport Total	639	5,301,523	0	577,375	355,728	6.71%	552,844	10.43%	\$14.91	7,413	(13,586)	33,742	82,074
Downtown Phoenix													
Downtown Phoenix	730	6,488,706	7,000	158,422	789,095	12.16%	843,841	13.00%	\$14.23	(17,202)	(65,421)	67,519	124,326
Downtown Phoenix Total	730	6,488,706	7,000	158,422	789,095	12.16%	843,841	13.00%	\$14.23	(17,202)	(65,421)	67,519	124,326
East Valley										(, ,	, , ,		
Chandler	748	16,355,462	0	787,783	1,908,553	11.67%	2,179,284	13.32%	\$13.33	1,710	2,855	135,388	347,459
Gateway Airport	116	2,732,040	0	527,412	1,900,555	6.30%	308,108	11.28%	\$14.92	18,985	19,637	32,070	48,485
Gilbert	694	13,902,816	25,787	2,108,109	1,099,029	7.91%	1,154,703	8.31%	\$14.99	2,786	28,534	69,939	190,483
Queen Creek	63	1,340,341	0	463,535	122,796	9.16%	123,610	9.22%	\$19.05	2,869	7,193	4,869	13,350
Red Mountain / Mesa	1,700	28,816,390	75,298	1,173,583	4,735,561	16.43%	5,186,994	18.00%	\$12.11	(34,051)	(231,462)	156,204	476,485
Tempe	463	8,080,778	0	502,952	746,398	9.24%	676,365	8.37%	\$16.65	33,742	(73,934)	142,793	217,773
East Valley Total	3,784	71,227,827	101,085	5,563,374	8,784,563	12.33%	9,629,064	13.52%	\$13.32	26,041	(247,177)	541,263	1,294,035
North Phoenix													
East Phoenix	694	8,398,466	0	45,688	1,037,028	12.35%	1,118,864	13.32%	\$12.45	(9,383)	519	77,938	147,210
Glendale	772	11,143,889	66,200	299,510	1,104,261	9.91%	1,269,073	11.39%	\$12.79	162,425	228,673	219,569	330,346
N. Phoenix / I-17	827	16,105,300	18,000	23,945	2,459,291	15.27%	2,717,972	16.88%	\$13.47	49,112	99,025	204,056	358,207
Sun City	224	3,204,970	17,394	90,263	363,465	11.34%	384,633	12.00%	\$14.62	4,204	6,769	32,755	51,874
North Phoenix Total	2,517	38,852,625	101,594	459,406	4,964,045	12.78%	5,490,542	14.13%	\$13.21	206,358	334,986	534,318	887,637
North Scottsdale													
Carefree	131	1.734.136	0	34,510	214,271	12.36%	227,004	13.09%	\$18.49	5,484	10,625	9,655	25,110
Fountain Hills	81	695,550	0	85,265	89,495	12.87%	102,117	14.68%	\$14.65	(7,580)	(1,766)	0	13,848
North Scottsdale	529	14,765,313	0	151,033	1,000,202	6.77%	1,172,302	7.94%	\$18.28	73,866	1,945	181,538	288,684
North Scottsdale Total	741	17,194,999	0	270,808	1,303,968	7.58%	1,501,423	8.73%	\$17.82	71,770	10,804	191,193	327,642
Northwest Phoenix													
Anthem	117	2,512,472	4,307	105,624	178,933	7.12%	146,442	5.83%	\$15.73	(23,512)	(31,884)	1,500	16,140
Central Peoria / Arrowhead	419	10,024,923	4,307	209,975	701,384	7.00%	721,966	7.20%	\$14.66	(5,048)	31,426	72,218	204,964
Deer Valley	130	2,047,123	0	2,519	214,266	10.47%	229,544	11.21%	\$24.25	16,533	39,308	19,404	58,439
Surprise	266	4,781,269	94,372	1,334,230	320,681	6.71%	326,596	6.83%	\$17.42	11,933	8,469	29,412	76,027
Northwest Phoenix Total	932	19,365,787	98,679	1,652,348	1,415,264	7.31%	1,424,548	7.36%	\$16.73	(94)	47,319	122,534	355,570
Scottsdale													
Central Scottsdale	830	15,245,967	0	779,430	1,109,518	7.28%	1,332,179	8.74%	\$21.62	101,444	129,006	196,904	357,921
South Scottsdale	375	4,019,842	0	22,140	439,899	10.94%	584,172	14.53%	\$13.99	8,214	72,451	31,244	121,815
Scottsdale Total	1,205	19,265,809	0	801,570	1,549,417	8.04%	1,916,351	9.95%	\$18.96	109,658	201,457	228,148	479,736
South Mountain	,	, ,		,	, ,		, ,			,	,	,	,
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Ahwatukee Foothills Laveen	165 66	3,175,741 1,359,583	0	0 849,273	280,943 60,216	8.85% 4.43%	303,925 79,406	9.57% 5.84%	\$16.81 \$20.24	(27,928) 15,093	(12,430) 39,229	10,100 17,718	34,554 41,854
South Mountain	98	2,035,251	0	45,342	89,800	4.41%	92,032	4.52%	\$12.75	16,928	27,652	28,111	46,947
South Mountain Total	329	6,570,575	0	894,615	430,959	6.56%	475,363	7.23%	\$16.86	4,093	54,451	55,929	123,355
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West Phoenix										(00.010)	(100)		
Goodyear	207	3,322,680	11,912	296,670	490,538	14.76%	540,033	16.25%	\$14.71	(20,216)	(183)	16,843	59,274
Loop 101 / I-10 N. Goodyear / Litchfield	134 188	2,618,577 4,343,333	600,000 9,613	524,250 1,872,469	132,774 277,992	5.07% 6.40%	132,815 286,340	5.07% 6.59%	\$20.45 \$16.57	5,957 (9,386)	25,750 (9,118)	11,978 21,978	41,066 40,647
North Buckeye	100	104,011	9,013	1,072,409	5,720	5.50%	5,720	5.50%	\$0.00	(5,720)	(5,720)	21,970	40,647
South Buckeye	132	1,405,270	0	363,756	86,522	6.16%	93,122	6.63%	\$23.58	9,902	16,270	9,902	17,767
Tolleson	232	2,562,772	0	154,310	152,808	5.96%	179,301	7.00%	\$12.40	633	21,860	2,340	41,671
West Phoenix / Maryville	458	8,091,301	0	74,631	648,113	8.01%	710,483	8.78%	\$10.46	(20,922)	(80)	47,559	92,548
West Phoenix Total	1,355	22,447,944	621,525	3,286,086	1,794,467	7.99%	1,947,814	8.68%	\$13.25	(39,752)	48,779	110,600	292,973
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Maricopa County	4	4 700	0	0	^	0.000/	^	0.000/	@10 EC	0	0	0	^
NE Outlying W Outlying	1 103	4,722 700,082	0	0	0 44,015	0.00% 6.29%	71,677	0.00% 10.24%	\$13.56 \$13.56	0 10,663	0 11,663	0 12,135	0 13,635
Maricopa County Total	103	700,082	0	0	44,015	6.24%	71,677	10.24%	\$13.56	10,663	11,663	12,135	13,635
, ,	104	704,004	U		44,010	J.Z4 /0	71,077	10.17 /0	ψ10.00	10,000	11,000	12,133	10,000
Pinal County													
Apache Junction	133	1,580,603	0	100,581	82,089	5.19%	99,619	6.30%	\$10.02	(701)	11,966	18,064	35,553
Outlying Pinal County	744	7,570,293	10,775	2,588,603	710,840	9.39%	807,554	10.67%	\$9.60	(10,308)	(1,738)	29,393	88,421
Pinal County Total	877	9,150,896	10,775	2,689,184	792,929	8.67%	907,173	9.91%	\$9.64	(11,009)	10,228	47,457	123,974
Phoenix Total	13,213	216,571,495	940,658	16,353,188	22,224,450	10.26%	24,760,640	11.43%	\$14.01	367,939	393,503	1,944,838	4,104,957
Malls	311	22,882,236	0	3,795,749	1,744,541	7.62%	2,139,803	9.35%	\$27.77	72,133	(261,997)	87,799	202,591
Power Centers	591	24,090,488	0	3,061,963	1,368,444	5.68%	1,723,153	7.15%	\$21.51	(8,343)	59,758	69,451	223,333
Shopping Centers	4,633	104,870,719	21,500	3,953,025	15,277,491	14.57%	16,137,358	15.39%	\$13.61	362,607	570,517	1,370,118	2,659,336
Specialty Centers	47	2,060,720	0	837,800	117,921	5.72%	109,421	5.31%	\$9.67	2,735	(5,662)	2,735	5,226
General Retail	7,631	62,667,332	919,158	4,704,651	3,716,053	5.93%	4,650,905	7.42%	\$12.95	(61,193)	30,887	414,735	1,014,471
Phoenix Total	13,213	216,571,495	940,658	16,353,188	22,224,450	10.26%	24,760,640	11.43%	\$14.01	367,939	393,503	1,944,838	4,104,957

Lease rates are on a triple-net basis.

MAJOR TRANSACTIONS

Sales Transactions					
Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
925-1107 S. Gilbert Rd.	Red Mountain/Mesa	238,613	\$15.09	Brenden Holdings LI, LLC	Daniel Araf
3049-3131 E. Indian School Rd.	Central Scottsdale	154,219	\$108.16	Larry Van Tuyl	Bashas' Supermarket
1440-1560 W. Warner Rd. – 3 Properties	Gilbert	117,448	\$63.86	BH Properties, LLC	C-III Asset Management
18631 N. 19th Ave. – 3 Properties	N Phoenix/1-17 Corridor	110,188	\$93.48	Ethan Christopher, LLC	Donahue Schriber Commercial Real Estate
1133 N. Ellsworth Rd. – 3 Properties	Red Mountain/Mesa	87,198	\$114.80	Glenwood Development Co.	Donahue Schriber Commercial Real Estate
11420 N. 19th Ave.	N Phoenix/I-17 Corridor	61,590	\$16.24	Harrison Properties	Church for the Nations

Lease Transactions					
Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
1919-1949 E. Camelback Rd. – Renewal	Central Scottsdale	50,000	May-14	Best Buy	Camelback Colonnade Spe, LLC
6209-6249 E. Main St.	Red Mountain/Mesa	45,500	May-14	Covered Wagon Antiques	Mesa Main Street Plaza, Inc.
758 W. Bell Rd.	Central Peoria/Arrowhead	20,000	Jun-14	The Container Store	Vp-Tcs, LLC
2012 N. Scottsdale Rd.	South Scottsdale	18,650	Apr-14	Johnson Wellness	Rock Church Assembly of God
1717 E. Southern Ave.	Tempe	16,180	Apr-14	Epic Thrift	McClintock Trade Partners
4725 E. Carefree Hwy.	Anthem	13,969	Apr-14	Pet Club	Em-50 Uav Darkco, LLC

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

SUBMARKETS

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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