

# SECOND QUARTER 2014

## PHOENIX

# RETAIL

# Voit

REAL ESTATE SERVICES

## MARKET CHANGE

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

UP

Transactions

DOWN

Deliveries

DOWN

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VOIT Real Estate Services

## 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

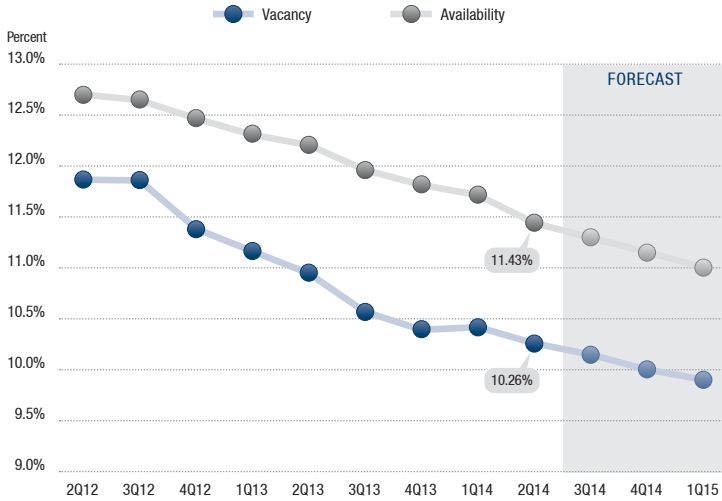
- **Construction** - We anticipate a small amount of retail construction in the near future, giving demand further opportunity to catch up to supply. Expect power centers, which have among the lowest vacancy and availability rates currently, to lead the way as development gradually returns.
- **Employment** - 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

	2Q14	1Q14	2Q13	% 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

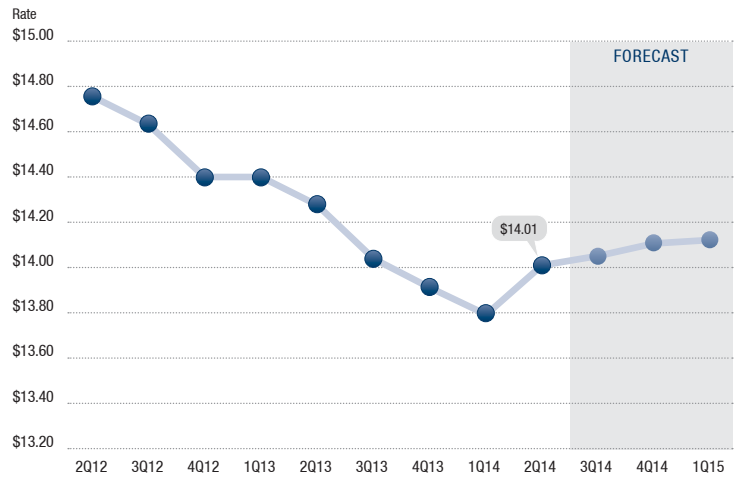
## VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



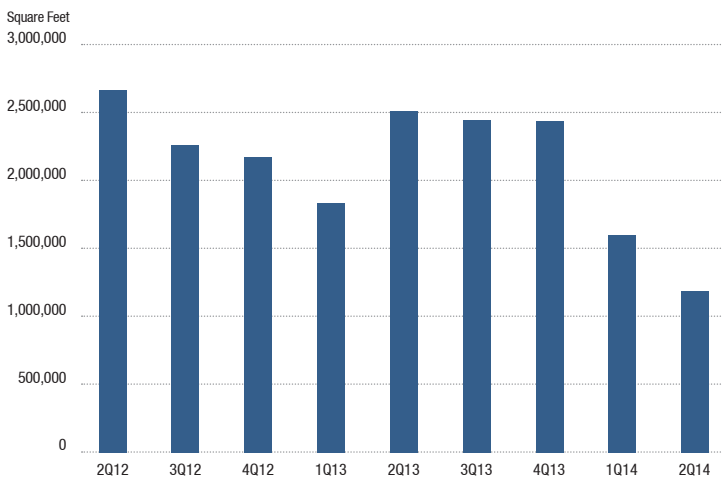
## AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



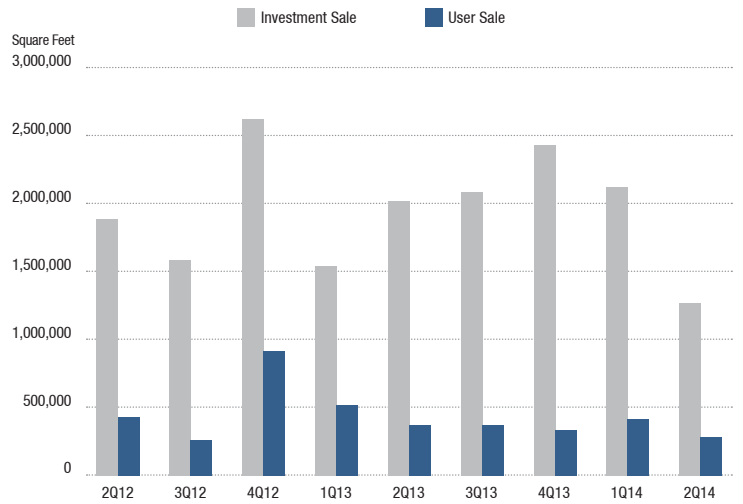
## LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



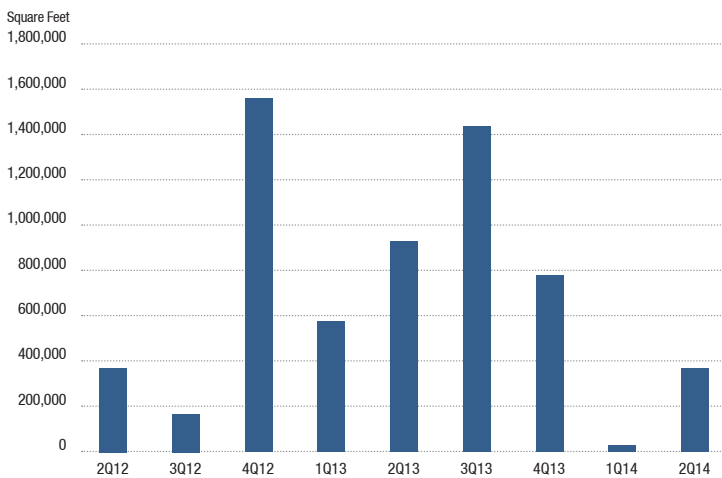
## SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

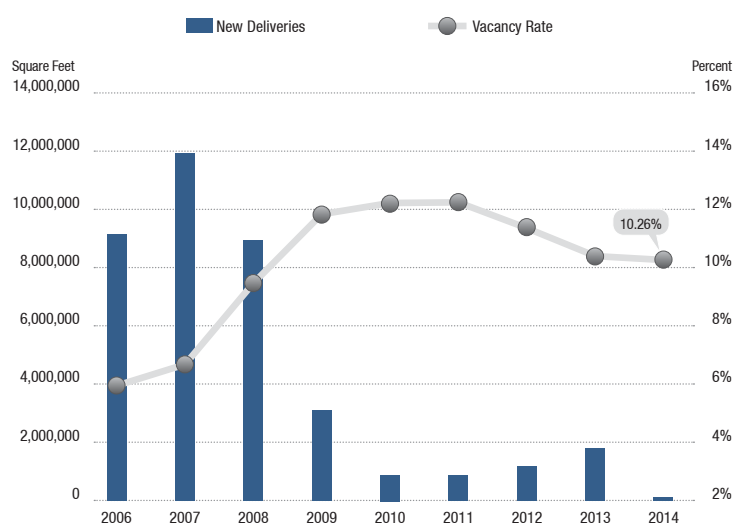


## NET ABSORPTION

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



## ANNUAL NEW DELIVERIES VS. VACANCY RATE





**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

**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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