

SECOND QUARTER 2015

PHOENIX

RETAIL

MARKET CHANGE

Compared to Previous Quarter:

Vacancy

DOWN



Net Absorption

POSITIVE



Lease Rates

UP



Transactions

DOWN



Deliveries

UP



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HIGHLIGHTS

- **Encouraging Numbers** - The Phoenix retail market continued to improve in the second quarter of 2015. Both vacancy and availability continued to decrease, exhibiting some of the lowest rates seen since 2008. The Phoenix retail market also posted almost 500,000 square feet of positive absorption in the second quarter, marking the seventieth consecutive quarter of positive absorption, for a total of 10.8 million square feet. While these are encouraging indications, continued stability and job growth will be needed in coming quarters to further the recovery.
- **Construction** - There was 486,229 square feet of retail construction underway at the end of the second quarter of 2015. The Phoenix retail market delivered 513,301 million square feet of retail space in 2015 so far; while an increase, it is still low compared to historical averages.
- **Vacancy** - Vacancy dropped in the second quarter, as the Phoenix economy continued its move to recovery. Direct/sublease space (unoccupied) finished the second quarter of 2015 at 9.51%, a drop from the previous year's rate of 10.22%. The lowest vacancy rate of all submarkets was found in Northwest Phoenix, at 6.45%.
- **Availability** - Direct/sublease space available for the second quarter of 2015 came in at 10.82%, down from the previous quarter rate of 10.97% and a 4.42% decrease when compared to the prior year's rate of 11.32%.
- **Lease Rates** - The average asking triple-net lease rate per month per square foot in Phoenix in the second quarter was \$13.97, up 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 473,159 square feet of positive net absorption in the second quarter of 2015, marking the seventeenth consecutive quarter of

positive net absorption, and giving the market a total of 10.8 million square feet of positive absorption for the last 17 quarters.

- **Transaction Activity** - Leasing activity checked in at 1.1 million square feet, a decrease from the previous quarter's figure of 1.2 million square feet. Sales decreased compared to first quarter's posting of 3.2 million square feet, down to around 2.3 million 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 4.9% in April 2015, a decrease from January 2015's rate of 5.8%. Sectors with strong job growth included education & health services, professional and business services, and leisure & hospitality. 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, year over year job growth added 16,700 education & health services jobs, 16,000 professional & business services jobs, and 13,600 in leisure and hospitality jobs. The number of jobs has increased by 64,000 jobs in 2014 and we anticipate this trend continuing through 2015.
- **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 increases in average asking lease rates. The market has posted positive absorption figures for four years consecutively and with few deliveries in the pipeline to apply upward pressure on vacancy, we foresee 2015 being yet another year of growth as the market enters into single digit vacancy for the first time since 2008.

FORECAST

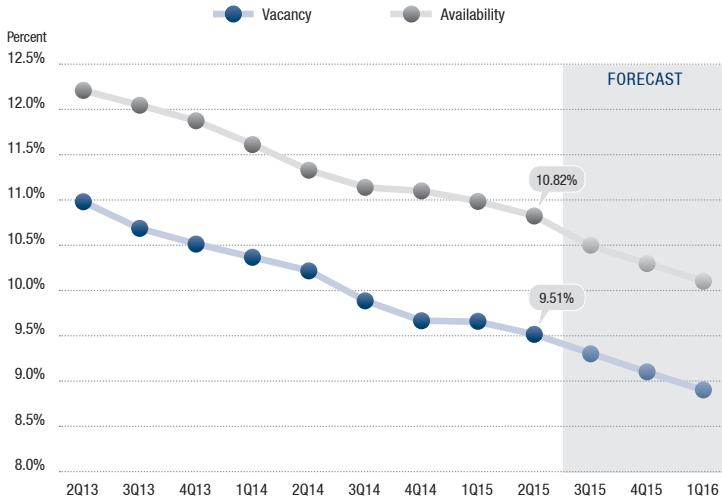
- **Construction** - We anticipate a small amount of retail construction in the near future, giving demand further opportunity to catch up to supply. Expect power centers, which have among the lowest vacancy and availability rates currently, to lead the way as development gradually returns.
- **Employment** - 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, 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% to 3% over the next four quarters.
- **Vacancy** - We anticipate vacancy rates continuing to descend in the coming quarters, dropping by about 20 basis points, to around 8.90%, by the end of the first quarter of 2016.

OVERVIEW

	2Q15	1Q15	2Q14	% of Change vs. 2Q14
Total Vacancy Rate	9.51%	9.66%	10.22%	(6.95%)
Availability Rate	10.82%	10.97%	11.32%	(4.42%)
Average Asking Lease Rate	\$13.97	\$13.80	\$14.01	(0.29%)
Sale & Lease Transactions	3,372,168	4,460,701	3,906,349	(13.67%)
Gross Absorption	1,869,719	1,835,795	2,291,936	(18.42%)
Net Absorption	473,159	302,314	516,358	N/A

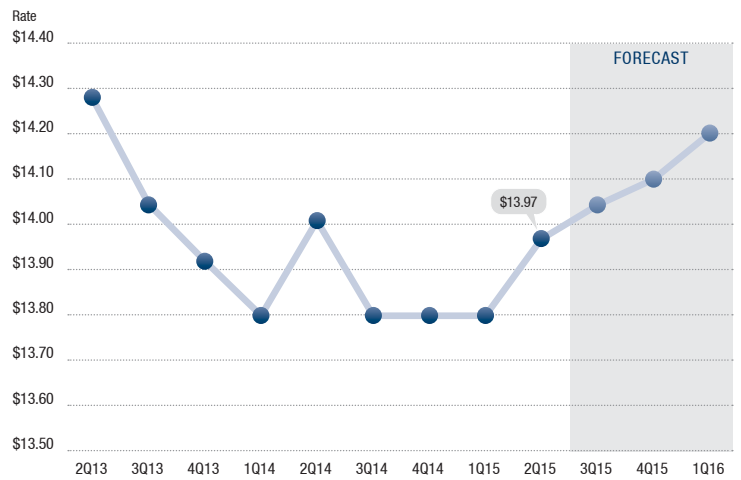
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



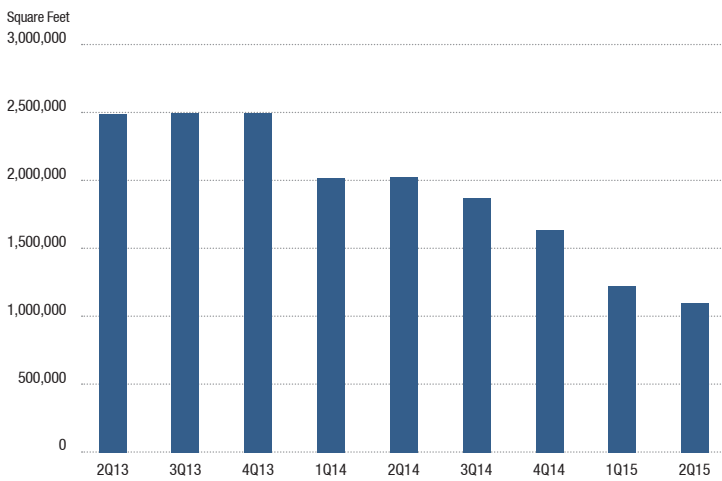
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



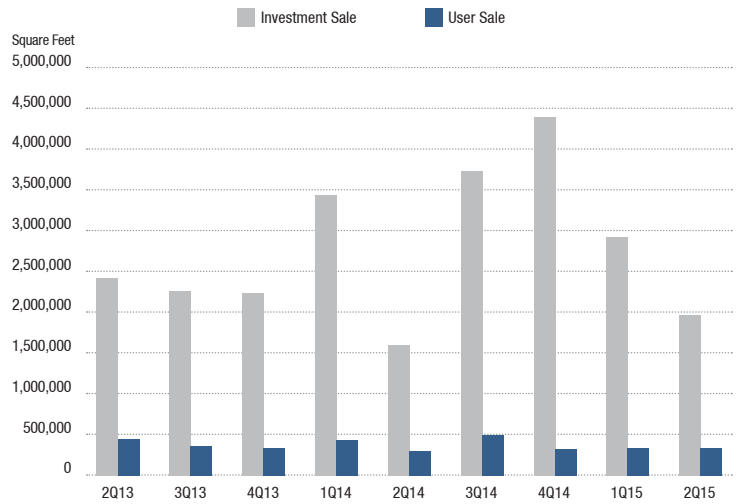
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



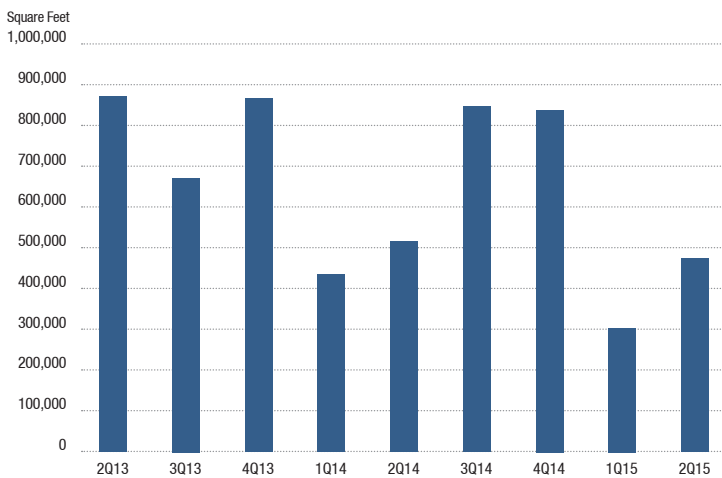
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

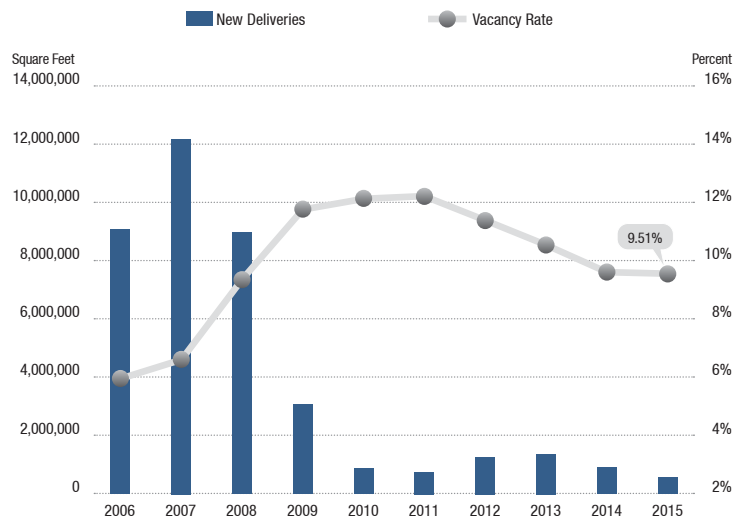


NET ABSORPTION

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 2Q2015	Square Feet Available	Availability Rate 2Q2015	Average Asking Lease Rate	Net Absorption 2Q2015	Net Absorption 2015	Gross Absorption 2Q2015	Gross Absorption 2015
Airport Area													
Airport Area	404	3,780,248	0	0	325,993	8.62%	397,944	10.53%	\$12.56	6,410	5,800	23,999	39,501
South Tempe / Ahwatukee	244	1,530,321	0	18,500	74,406	4.86%	105,006	6.86%	\$11.78	(3,357)	(5,281)	2,551	2,551
Airport Total	648	5,310,569	0	18,500	400,399	7.54%	502,950	9.47%	\$12.54	3,053	519	26,550	42,052
Downtown Phoenix													
Downtown Phoenix	745	6,614,336	12,451	166,574	891,504	13.48%	964,279	14.58%	\$12.26	45,713	53,114	112,156	155,001
Downtown Phoenix Total	745	6,614,336	12,451	166,574	891,504	13.48%	964,279	14.58%	\$12.26	45,713	53,114	112,156	155,001
East Valley													
Chandler	766	17,028,752	21,702	606,749	1,624,834	9.54%	1,922,087	11.29%	\$14.15	205,305	372,439	295,700	627,375
Gateway Airport	118	2,710,267	0	669,691	190,068	7.01%	325,950	12.03%	\$15.84	(1,869)	(16,441)	10,533	11,553
Gilbert	720	13,559,517	117,612	2,864,754	1,067,247	7.87%	1,091,720	8.05%	\$16.04	60,024	77,624	114,468	211,144
Queen Creek	69	1,430,447	11,445	274,704	89,577	6.26%	82,993	5.80%	\$25.78	3,617	52,344	9,769	58,496
Red Mountain / Mesa	1,736	28,818,775	2,894	1,369,314	4,001,348	13.88%	4,400,747	15.27%	\$11.81	157,194	263,022	296,343	620,178
Tempe	489	8,024,196	0	473,761	521,205	6.50%	590,332	7.36%	\$15.11	20,058	(14,598)	91,352	124,733
East Valley Total	3,898	71,571,954	153,653	6,258,973	7,494,279	10.47%	8,413,829	11.76%	\$13.36	444,329	734,390	818,165	1,653,479
North Phoenix													
East Phoenix	712	8,507,371	0	209,683	886,607	10.42%	1,133,186	13.32%	\$13.77	(9,883)	(24,189)	64,424	168,834
Glendale	790	11,285,599	0	408,739	1,274,542	11.29%	1,478,938	13.10%	\$11.02	(64,761)	1,348	100,468	242,090
N. Phoenix / I-17	828	15,835,028	0	266,726	2,440,561	15.41%	2,777,976	17.54%	\$12.31	(52,590)	(77,170)	79,641	138,817
Sun City	228	3,544,546	0	121,730	362,807	10.24%	391,047	11.03%	\$14.43	(1,736)	971	11,961	33,951
North Phoenix Total	2,558	39,172,544	0	1,006,878	4,964,517	12.67%	5,781,147	14.76%	\$12.41	(128,970)	(99,040)	256,494	583,692
North Scottsdale													
Carefree	137	1,752,511	0	17,100	247,276	14.11%	263,164	15.02%	\$18.71	(9,084)	(29,325)	11,905	17,816
Fountain Hills	81	712,097	0	85,265	57,499	8.07%	68,874	9.67%	\$13.72	35,523	44,333	44,383	58,104
North Scottsdale	553	15,080,937	4,600	112,634	961,064	6.37%	1,157,438	7.67%	\$17.98	(5,970)	103,916	93,414	304,130
North Scottsdale Total	771	17,545,545	4,600	214,999	1,265,839	7.21%	1,489,476	8.49%	\$17.91	20,469	118,924	149,702	380,050
Northwest Phoenix													
Anthem	121	2,556,374	0	152,705	135,692	5.31%	123,595	4.83%	\$18.09	654	2,934	4,589	11,333
Central Peoria / Arrowhead	426	10,070,344	0	223,293	665,840	6.61%	760,832	7.56%	\$14.31	2,127	6,099	62,719	86,169
Deer Valley	132	2,047,565	0	33,019	189,198	9.24%	226,113	11.04%	\$24.48	12,742	10,551	14,240	16,406
Surprise	275	4,928,422	0	1,272,396	273,898	5.56%	272,855	5.54%	\$16.60	44,290	63,517	72,472	96,503
Northwest Phoenix Total	954	19,602,705	0	1,681,413	1,264,628	6.45%	1,383,395	7.06%	\$16.35	59,813	83,101	154,020	210,411
Scottsdale													
Central Scottsdale	848	15,281,622	172,689	191,931	1,067,813	6.99%	1,120,053	7.33%	\$22.63	(27,043)	(90,647)	83,416	171,330
South Scottsdale	369	3,967,675	0	23,140	336,616	8.48%	435,175	10.97%	\$13.92	19,400	28,748	27,754	46,912
Scottsdale Total	1,217	19,249,297	172,689	215,071	1,404,429	7.30%	1,555,228	8.08%	\$20.22	(7,643)	(61,899)	111,170	218,242
South Mountain													
Ahwatukee Foothills	167	3,178,528	0	2,400	293,661	9.24%	348,505	10.96%	\$16.01	(1,467)	23,039	20,983	65,655
Laveen	70	1,380,816	14,800	612,848	64,063	4.64%	71,637	5.19%	\$21.06	4,154	7,809	6,699	14,359
South Mountain	100	2,052,357	0	276,070	199,500	9.72%	203,690	9.92%	\$11.42	(9,763)	(85,397)	2,410	13,255
South Mountain Total	337	6,611,701	14,800	891,318	557,224	8.43%	623,832	9.44%	\$16.26	(7,076)	(54,549)	30,092	93,269
West Phoenix													
Goodyear	213	3,318,634	25,613	287,430	427,531	12.88%	550,694	16.59%	\$12.91	38,991	53,192	52,105	96,183
Loop 101 / I-10	141	2,709,066	35,222	1,111,465	170,090	6.28%	186,191	6.87%	\$16.05	3,680	6,833	13,781	21,813
N. Goodyear / Litchfield	196	4,578,240	0	1,925,768	210,090	4.59%	234,037	5.11%	\$16.89	7,287	6,392	21,139	29,890
North Buckeye	4	49,063	0	0	0	0.00%	0	0.00%	\$0.00	0	3,085	0	3,085
South Buckeye	135	1,435,468	31,426	321,254	45,302	3.16%	53,302	3.71%	\$20.67	(14,571)	(15,838)	3,427	5,527
Tolleson	233	2,382,646	25,000	202,415	115,415	4.84%	128,620	5.40%	\$12.96	7,628	23,293	7,638	39,176
West Phoenix / Maryville	466	8,205,609	0	74,155	633,995	7.73%	753,778	9.19%	\$10.83	47,011	(13,772)	66,632	85,318
West Phoenix Total	1,388	22,678,726	117,261	3,922,487	1,602,423	7.07%	1,906,622	8.41%	\$13.01	90,026	63,185	164,722	280,992
Maricopa County													
NE Outlying	1	4,722	0	0	0	0.00%	0	0.00%	\$13.56	0	0	0	0
W Outlying	109	727,895	0	0	59,685	8.20%	71,808	9.87%	\$13.56	(3,120)	(2,726)	0	2,512
Maricopa County Total	110	732,617	0	0	59,685	8.15%	71,808	9.80%	\$13.56	(3,120)	(2,726)	0	2,512
Pinal County													
Apache Junction	139	1,663,168	0	100,581	121,567	7.31%	150,191	9.03%	\$10.91	200	(9,426)	1,900	9,484
Outlying Pinal County	758	7,752,389	10,775	2,656,181	761,051	9.82%	796,451	10.27%	\$13.31	(43,635)	(50,120)	44,748	76,330
Pinal County Total	897	9,415,557	10,775	2,756,762	882,618	9.37%	946,642	10.05%	\$12.73	(43,435)	(59,546)	46,648	85,814
Phoenix Total	13,523	218,505,551	486,229	17,132,975	20,787,545	9.51%	23,639,208	10.82%	\$13.97	473,159	775,473	1,869,719	3,705,514
Malls	170	17,028,430	141,689	2,967,719	1,152,118	6.77%	1,273,577	7.48%	\$28.50	6,350	(18,442)	11,495	33,405
Power Centers	766	30,696,095	0	3,547,481	1,528,473	4.98%	1,828,535	5.96%	\$21.97	34,906	246,879	157,367	534,204
Shopping Centers	4,699	104,742,087	60,458	5,094,764	14,556,106	13.90%	15,728,887	15.02%	\$13.40	146,489	248,813	1,132,220	2,217,797
Specialty Centers	45	1,921,107	0	405,000	56,505	2.94%	102,166	5.32%	\$20.58	2,803	803	4,003	4,003
General Retail	7,843	64,117,832	284,082	5,118,011	3,494,343	5.45%	4,706,043	7.34%	\$14.75	282,611	297,420	564,634	916,105
Phoenix Total	13,523	218,505,551	486,229	17,132,975	20,787,545	9.51%	23,639,208	10.82%	\$13.97	473,159	775,473	1,869,719	3,705,514

Lease rates are on a triple-net basis.

MAJOR TRANSACTIONS**Sales Transactions**

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
34505 N. Scottsdale Rd. (Portion of Portfolio Sale)	South Buckeye	62,310	\$761.22 (Allocated)	Columbia Sussex Corporation	Hilton Worldwide Holdings, Inc.
466 S. Watson Rd. (16 Buildings)	South Buckeye	186,355	\$214.64	Shin Yen Management	Vestar
7306-7388 E. Shea Blvd.	Central Scottsdale	115,189	\$282.14	YAM Properties	Karlin Real Estate
15090 N. Northsight Blvd.	North Scottsdale	88,031	\$131.77	Arizona Partners Retail Investment Group, LLC	GDA Real Estate Services, LLC
21064 W. Main St.	North Buckeye	66,084	\$170.62	Mainstreet Core Properties, LLC	DMB Associates, Inc.

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
1311 E. Bell Rd.	East Phoenix	123,000	Apr-2015	Fry's Food and Drug Store	Smiths Food & Drug Centers
1050 E. Pecos Ave.	Gilbert	54,375	May-2015	Kids That Rip Indoor Skatepark	De Rito Partners, Inc.
13802 N. Scottsdale Rd.	North Scottsdale	27,827	Jun-2015	Natural Grocers	Holualoa Companies
S. Arizona Ave.	Chandler	21,702	Apr-2015	Tractor Supply	Baseline Construction, Inc.
40002-4024 N. 67th Ave.	West Phoenix/Maryvale	21,295	May-2015	Le Paris Reception Hall	S.W. Real Estate Enterprises, LLC

SUBMARKETS**AIRPORT AREA**

Airport Area, South Tempe, Ahwatukee

DOWNTOWN PHOENIX

Downtown Phoenix

EAST VALLEYChandler, 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 MOUNTAINAhwatukee 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 COUNTYApache Junction,
Outlying Pinal County**Please Contact Us for Further Information**

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