

THIRD QUARTER 2014

PHOENIX

RETAIL

Voit
REAL ESTATE SERVICES

MARKET CHANGE

Compared to the Previous Quarter:

Vacancy

DOWN

Net Absorption

POSITIVE

Lease Rates

DOWN

Transactions

UP

Deliveries

UP

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HIGHLIGHTS

- **Encouraging Numbers** - The Phoenix retail market continued its trek towards recovery in the third 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 just over 872,000 square feet of positive absorption in the third quarter, marking the fourteenth 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 666,799 square feet of retail construction underway at the end of the third quarter of 2014, an increase compared to the first quarter of 2014. The Phoenix retail market delivered 250,530 million square feet of retail space in 2014 so far, low compared to historical averages.
- **Vacancy** - Vacancy dropped slightly in the third quarter, as the Phoenix economy continued its move to recovery. Direct/sublease space (unoccupied) finished the third quarter of 2014 at 10.05%, a drop from the previous year's rate of 10.71%. The lowest vacancy rate of all submarkets was found in Airport Area, at 5.87%.
- **Availability** - Direct/sublease space available for the third quarter of 2014 came in at 11.36%, down from the previous quarter and a 6.12% decrease when compared to the prior year's rate of 12.10%.
- **Lease Rates** - The average asking triple-net lease rate per month per square foot in Phoenix in the third quarter was \$13.80, down twenty-one 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 872,319 square feet of positive net absorption in the third quarter

of 2014, marking the fourteenth consecutive quarter of positive net absorption, and giving the market a total of just over 8.7 million square feet of positive absorption for the last 14 quarters.

- **Transaction Activity** - Leasing activity checked in at nearly 1.1 million square feet, a slight decrease from the previous quarter's figure of 1.6 million square feet. Sales increased compared to second quarter's posting of 1.7 million square feet, up to around 3.3 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 6.3% in July 2014, a decrease from January 2014's rate of 6.8%. 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, July added 14,300 nonfarm jobs: 300 in construction and 4,400 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 lease 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

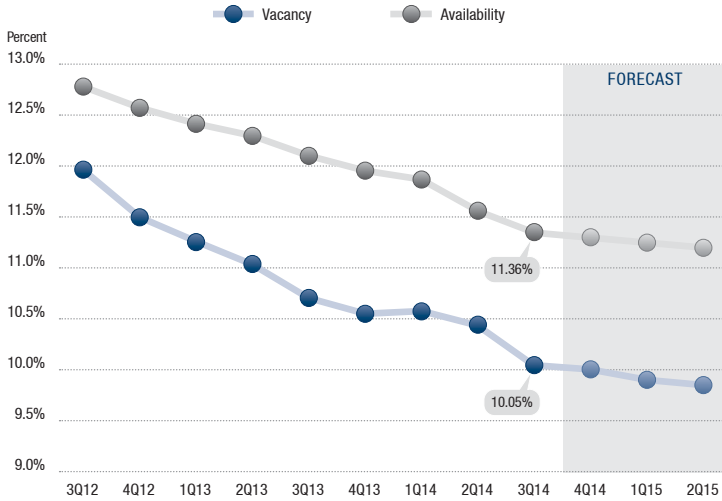
- **Construction** - We anticipate a small amount of retail construction in the near future, giving demand further opportunity to catch up to supply. Expect power centers, which have among the lowest vacancy and availability rates currently, to lead the way as development gradually returns.
- **Employment** - 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% 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 9.85%, by the end of the second quarter of 2015.

OVERVIEW

| | 3Q14 | 2Q14 | 3Q13 | % of Change vs. 3Q13 |
|---------------------------|-----------|-----------|-----------|----------------------|
| Vacancy Rate | 10.05% | 10.43% | 10.71% | (6.16%) |
| Availability Rate | 11.36% | 11.56% | 12.10% | (6.12%) |
| Average Asking Lease Rate | \$13.80 | \$14.01 | \$14.04 | (1.71%) |
| Sale & Lease Transactions | 4,428,220 | 3,350,177 | 4,956,038 | (10.65%) |
| Gross Absorption | 2,365,235 | 2,049,827 | 2,168,789 | 9.06% |
| Net Absorption | 872,319 | 361,371 | 773,019 | n/a |

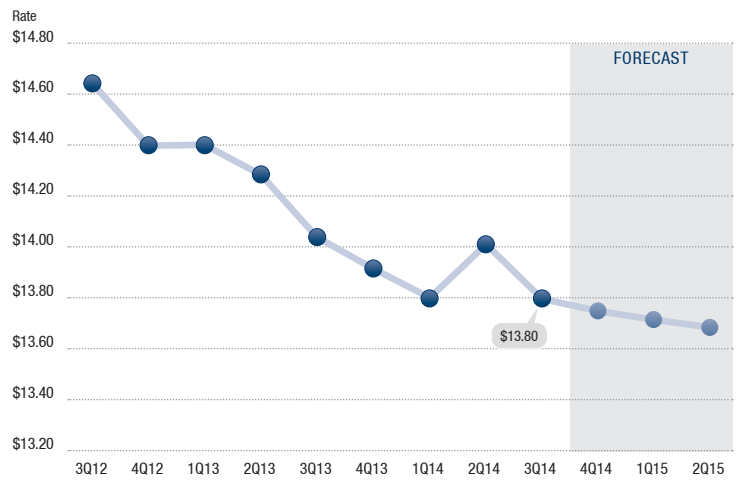
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



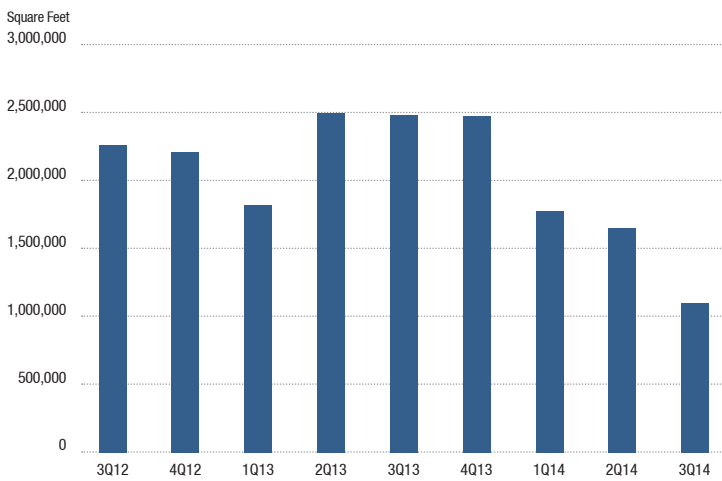
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



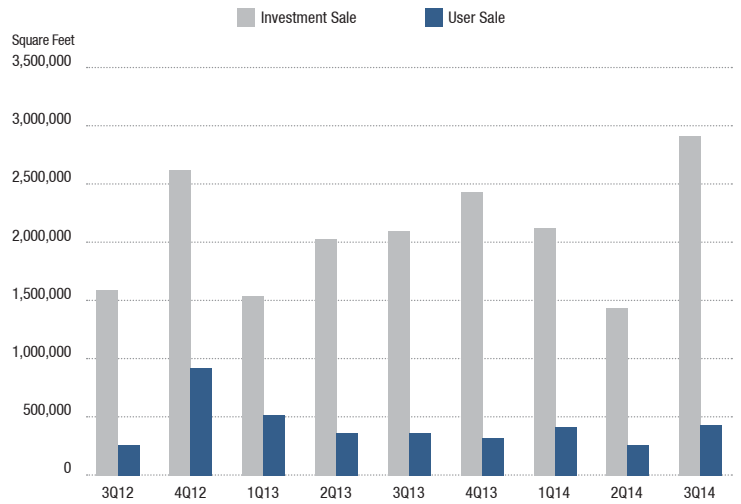
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



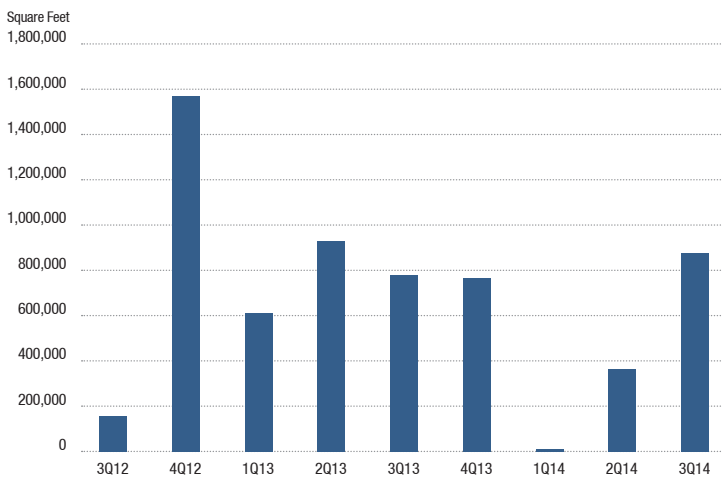
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

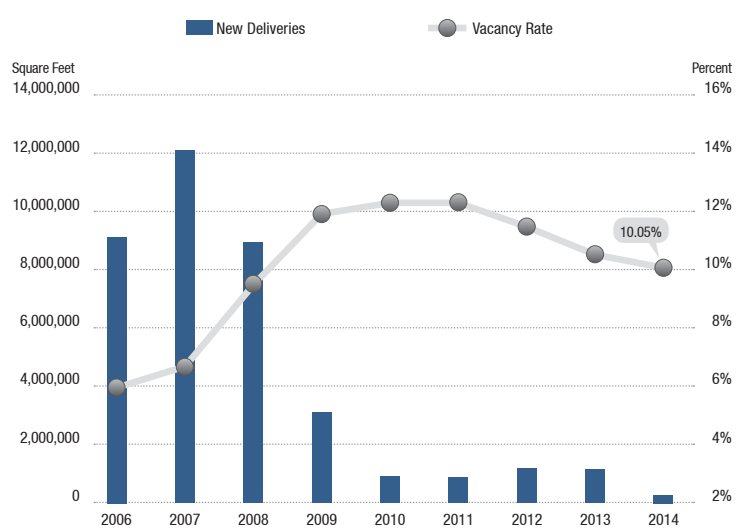


NET ABSORPTION

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 3Q2014 | Square Feet Available | Availability Rate 3Q2014 | Average Asking Lease Rate | Net Absorption 3Q2014 | Net Absorption 2014 | Gross Absorption 3Q2014 | Gross Absorption 2014 |
| Airport Area | | | | | | | | | | | | | |
| Airport Area | 403 | 3,801,938 | 0 | 558,875 | 241,639 | 6.36% | 436,310 | 11.48% | \$12.24 | 30,539 | 16,033 | 52,903 | 103,539 |
| South Tempe / Ahwatukee | 238 | 1,496,937 | 0 | 18,500 | 69,495 | 4.64% | 95,422 | 6.37% | \$15.48 | 11,555 | 24,501 | 30,912 | 74,376 |
| Airport Total | 641 | 5,298,875 | 0 | 577,375 | 311,134 | 5.87% | 531,732 | 10.03% | \$12.72 | 42,094 | 40,534 | 83,815 | 177,915 |
| Downtown Phoenix | | | | | | | | | | | | | |
| Downtown Phoenix | 737 | 6,521,356 | 0 | 163,204 | 871,042 | 13.36% | 901,712 | 13.83% | \$13.56 | (62,693) | (127,014) | 51,222 | 178,748 |
| Downtown Phoenix Total | 737 | 6,521,356 | 0 | 163,204 | 871,042 | 13.36% | 901,712 | 13.83% | \$13.56 | (62,693) | (127,014) | 51,222 | 178,748 |
| East Valley | | | | | | | | | | | | | |
| Chandler | 748 | 16,386,221 | 82,000 | 657,070 | 1,870,863 | 11.42% | 2,158,690 | 13.17% | \$13.92 | 42,659 | 38,355 | 156,600 | 504,544 |
| Gateway Airport | 117 | 2,736,008 | 0 | 532,412 | 172,066 | 6.29% | 306,791 | 11.21% | \$14.88 | 160 | 19,797 | 7,852 | 56,337 |
| Gilbert | 696 | 13,300,463 | 36,328 | 2,103,364 | 1,097,558 | 8.25% | 1,213,548 | 9.12% | \$14.76 | 34,878 | 39,399 | 145,205 | 338,970 |
| Queen Creek | 65 | 1,362,533 | 62,858 | 314,352 | 117,405 | 8.62% | 95,585 | 7.02% | \$18.12 | 10,991 | 12,584 | 15,492 | 28,842 |
| Red Mountain / Mesa | 1,709 | 28,845,698 | 75,298 | 1,151,258 | 4,641,147 | 16.09% | 5,034,448 | 17.45% | \$12.24 | 127,342 | (122,252) | 312,446 | 800,131 |
| Tempe | 467 | 8,111,623 | 4,500 | 498,452 | 614,089 | 7.57% | 590,939 | 7.29% | \$16.56 | 151,045 | 79,511 | 222,584 | 442,757 |
| East Valley Total | 3,802 | 70,742,546 | 260,984 | 5,256,908 | 8,513,128 | 12.03% | 9,400,001 | 13.29% | \$13.56 | 367,075 | 67,394 | 860,179 | 2,171,581 |
| North Phoenix | | | | | | | | | | | | | |
| East Phoenix | 696 | 8,415,108 | 1,500 | 54,688 | 826,294 | 9.82% | 1,125,420 | 13.37% | \$12.60 | 231,304 | 230,719 | 274,409 | 422,904 |
| Glendale | 773 | 11,148,405 | 80,892 | 303,010 | 1,280,725 | 11.49% | 1,446,150 | 12.97% | \$11.28 | 9,834 | 226,746 | 78,180 | 408,526 |
| N. Phoenix / I-17 | 826 | 16,080,376 | 0 | 175,245 | 2,384,006 | 14.83% | 2,699,169 | 16.79% | \$13.08 | 70,065 | 192,359 | 152,352 | 539,426 |
| Sun City | 226 | 3,212,781 | 17,394 | 90,263 | 357,803 | 11.14% | 371,868 | 11.57% | \$14.40 | 6,162 | 12,931 | 16,557 | 68,431 |
| North Phoenix Total | 2,521 | 38,856,670 | 99,786 | 623,206 | 4,848,828 | 12.48% | 5,642,607 | 14.52% | \$12.60 | 317,365 | 662,755 | 521,498 | 1,439,287 |
| North Scottsdale | | | | | | | | | | | | | |
| Carefree | 132 | 1,735,656 | 0 | 34,510 | 204,442 | 11.78% | 216,735 | 12.49% | \$18.96 | 10,840 | 20,954 | 18,141 | 43,751 |
| Fountain Hills | 81 | 691,912 | 0 | 85,265 | 78,070 | 11.28% | 88,311 | 12.76% | \$15.00 | 11,425 | 9,659 | 12,030 | 25,878 |
| North Scottsdale | 529 | 14,782,557 | 114,895 | 111,638 | 945,840 | 6.40% | 1,142,493 | 7.73% | \$18.60 | 63,860 | 60,557 | 117,674 | 406,358 |
| North Scottsdale Total | 742 | 17,210,125 | 114,895 | 231,413 | 1,228,352 | 7.14% | 1,447,539 | 8.41% | \$18.12 | 86,125 | 91,170 | 147,845 | 475,987 |
| Northwest Phoenix | | | | | | | | | | | | | |
| Anthem | 117 | 2,512,472 | 4,307 | 105,624 | 134,958 | 5.37% | 146,179 | 5.82% | \$15.48 | 29,857 | 12,091 | 36,347 | 67,587 |
| Central Peoria / Arrowhead | 421 | 10,032,985 | 0 | 203,475 | 696,313 | 6.94% | 752,338 | 7.50% | \$14.76 | 8,389 | 31,497 | 130,793 | 335,757 |
| Deer Valley | 129 | 2,040,391 | 0 | 2,519 | 203,481 | 9.97% | 208,075 | 10.20% | \$24.84 | 7,014 | 43,361 | 13,703 | 72,142 |
| Surprise | 266 | 4,769,046 | 94,000 | 1,357,236 | 311,625 | 6.53% | 315,761 | 6.62% | \$17.76 | 13,156 | 21,625 | 41,050 | 117,077 |
| Northwest Phoenix Total | 933 | 19,354,894 | 98,307 | 1,668,854 | 1,346,377 | 6.96% | 1,422,353 | 7.35% | \$16.80 | 58,416 | 108,574 | 221,893 | 592,563 |
| Scottsdale | | | | | | | | | | | | | |
| Central Scottsdale | 834 | 15,290,124 | 7,000 | 772,092 | 1,156,982 | 7.57% | 1,245,856 | 8.15% | \$22.20 | (35,606) | 83,282 | 111,051 | 465,122 |
| South Scottsdale | 374 | 4,012,241 | 0 | 22,140 | 457,612 | 11.41% | 601,868 | 15.00% | \$14.28 | (17,713) | 54,738 | 51,893 | 173,708 |
| Scottsdale Total | 1,208 | 19,302,365 | 7,000 | 794,232 | 1,614,594 | 8.36% | 1,847,724 | 9.57% | \$19.80 | (53,319) | 138,020 | 162,944 | 638,830 |
| South Mountain | | | | | | | | | | | | | |
| Ahwatukee Foothills | 165 | 3,171,000 | 0 | 0 | 292,505 | 9.22% | 351,636 | 11.09% | \$16.80 | (8,237) | (23,992) | 8,655 | 43,209 |
| Laveen | 68 | 1,370,855 | 15,800 | 624,373 | 79,959 | 5.83% | 79,959 | 5.83% | \$20.28 | (13,971) | 25,258 | 12,121 | 53,975 |
| South Mountain | 98 | 2,033,393 | 0 | 45,342 | 87,283 | 4.29% | 90,715 | 4.46% | \$12.72 | 2,517 | 31,894 | 7,242 | 55,914 |
| South Mountain Total | 331 | 6,575,248 | 15,800 | 669,715 | 459,747 | 6.99% | 522,310 | 7.94% | \$16.92 | (19,691) | 33,160 | 28,018 | 153,098 |
| West Phoenix | | | | | | | | | | | | | |
| Goodyear | 209 | 3,382,551 | 17,525 | 296,670 | 474,684 | 14.03% | 521,074 | 15.40% | \$14.52 | 32,270 | 40,387 | 42,875 | 110,449 |
| Loop 101 / I-10 | 134 | 2,618,567 | 26,255 | 524,250 | 114,092 | 4.36% | 125,632 | 4.80% | \$19.44 | 18,028 | 44,422 | 21,390 | 63,452 |
| N. Goodyear / Litchfield | 185 | 4,284,934 | 15,472 | 1,863,510 | 268,301 | 6.26% | 271,492 | 6.34% | \$16.68 | 13,655 | 1,709 | 23,636 | 65,299 |
| North Buckeye | 4 | 104,011 | 0 | 0 | 5,720 | 5.50% | 2,635 | 2.53% | \$0.00 | 0 | (5,720) | 0 | 0 |
| South Buckeye | 132 | 1,399,879 | 0 | 365,604 | 35,529 | 2.54% | 43,529 | 3.11% | \$23.52 | 50,993 | 67,263 | 53,093 | 70,860 |
| Tolleson | 231 | 2,531,515 | 0 | 216,155 | 130,668 | 5.16% | 150,898 | 5.96% | \$12.96 | (840) | 53,270 | 7,350 | 81,271 |
| West Phoenix / Maryville | 460 | 8,070,215 | 0 | 77,131 | 622,907 | 7.72% | 758,871 | 9.40% | \$9.84 | 35,706 | 43,991 | 73,145 | 169,254 |
| West Phoenix Total | 1,355 | 22,391,672 | 59,252 | 3,343,320 | 1,651,901 | 7.38% | 1,874,131 | 8.37% | \$12.84 | 149,812 | 245,322 | 221,489 | 560,585 |
| Maricopa County | | | | | | | | | | | | | |
| NE Outlying | 1 | 4,722 | 0 | 0 | 0 | 0.00% | 0 | 0.00% | \$13.56 | 0 | 0 | 0 | 0 |
| W Outlying | 102 | 693,258 | 0 | 0 | 52,959 | 7.64% | 67,682 | 9.76% | \$13.56 | 656 | 3,135 | 8,852 | 13,303 |
| Maricopa County Total | 103 | 697,980 | 0 | 0 | 52,959 | 7.59% | 67,682 | 9.70% | \$13.56 | 656 | 3,135 | 8,852 | 13,303 |
| Pinal County | | | | | | | | | | | | | |
| Apache Junction | 134 | 1,589,943 | 0 | 100,581 | 109,122 | 6.86% | 121,877 | 7.67% | \$9.84 | (3,024) | (14,567) | 12,708 | 48,261 |
| Outlying Pinal County | 748 | 7,611,924 | 10,775 | 2,707,756 | 719,533 | 9.45% | 769,909 | 10.11% | \$9.00 | (10,497) | (9,931) | 44,772 | 133,693 |
| Pinal County Total | 882 | 9,201,867 | 10,775 | 2,808,337 | 828,655 | 9.01% | 891,786 | 9.69% | \$9.12 | (13,521) | (24,498) | 57,480 | 181,954 |
| Phoenix Total | 13,255 | 216,153,598 | 666,799 | 16,136,564 | 21,726,717 | 10.05% | 24,549,577 | 11.36% | \$13.80 | 872,319 | 1,238,552 | 2,365,235 | 6,583,851 |
| Malls | 169 | 17,017,954 | 60,000 | 2,785,110 | 1,377,813 | 8.10% | 1,655,437 | 9.73% | \$28.56 | 99,283 | (178,189) | 120,849 | 290,181 |
| Power Centers | 759 | 30,847,504 | 57,272 | 3,641,481 | 1,729,681 | 5.61% | 2,122,003 | 6.88% | \$25.20 | (20,423) | 134,894 | 76,091 | 438,883 |
| Shopping Centers | 4,640 | 104,591,793 | 65,043 | 2,994,645 | 14,913,057 | 14.26% | 15,986,534 | 15.28% | \$13.32 | 546,835 | 1,082,963 | 1,494,587 | 4,167,606 |
| Specialty Centers | 47 | 2,060,720 | 210,255 | 2,219,173 | 133,169 | 6.46% | 127,558 | 6.19% | \$11.64 | (15,248) | (20,910) | 10,500 | 15,726 |
| General Retail | 7,640 | 61,635,627 | 274,229 | 4,496,155 | 3,572,997 | 5.80% | 4,658,045 | 7.56% | \$13.44 | 261,872 | 219,794 | 663,208 | 1,671,455 |
| Phoenix Total | 13,255 | 216,153,598 | 666,799 | 16,136,564 | 21,726,717 | 10.05% | 24,549,577 | 11.36% | \$13.80 | 872,319 | 1,238,552 | 2,365,235 | 6,583,851 |

Lease rates are on a triple-net basis.

MAJOR TRANSACTIONS**Sales Transactions**

| Property Address | Submarket | Square Feet | Sale Price Per SF | Buyer | Seller |
|--|--------------------------|-------------|-------------------|---------------------------------|------------------------------------|
| 15277-15433 W. McDowell Rd. – 8 Properties | N Goodyear /Litchfield | 318,656 | \$139.65 | Haagen Company, LLC | Evergreen Development Company |
| 3075 W. Ray Rd. – 4 Properties | Chandler | 240,090 | \$283.23 | TA Associates Realty | Lane Pursuits, Inc. |
| 9201 N. 29th Ave. – 4 Properties | N Phoenix /I-17 Corridor | 200,306 | \$33.85 | Store Capital | Conn's |
| 9820 W. Lower Buckeye Rd. – 7 Properties | Tolleson | 141,031 | \$134.72 | CIRE Partners | Tate Capital Real Estate Services |
| 16835 E. Shea Blvd. – 5 Properties | Central Scottsdale | 140,478 | \$70.47 | Sander Development Company | Retail Properties of America, Inc. |
| 1530-1550 W. Southern Ave. | Red Mountain / Mesa | 140,000 | \$31.79 | Phoenix Rising Investments, LLC | HSL Properties, Inc. |

Lease Transactions

| Property Address | Submarket | Square Feet | Transaction Date | Tenant | Owner |
|-------------------------|---------------------|-------------|------------------|----------------|---|
| 1858 W. Baseline Rd. | Red Mountain / Mesa | 28,260 | Jul-14 | Biaz Market | A & A Biaz |
| 25410 S. Arizona Ave. | Chandler | 27,600 | Jul-14 | Goodwill | Arizona Partners Retail Investment Group, LLC |
| 1826 W. Baseline Rd. | Red Mountain / Mesa | 24,724 | Jul-14 | Atos, Inc. | Atos, Inc. |
| 7366 E. Shea Blvd. | Central Scottsdale | 24,000 | Jul-14 | LA Fitness | Wr A Shea & Scottsdale, LLC |
| 1325 E. Florence Blvd. | Outlying Pinal | 20,500 | Sep-14 | Planet Fitness | Larsen Baker |
| 1042-1140 N. Higley Rd. | Red Mountain / Mesa | 19,953 | Jul-14 | Epic Thrift | Fortuna Asset Management |

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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