



FOURTH QUARTER 2014

PHOENIX

RETAIL

Voit
REAL ESTATE SERVICES

MARKET CHANGE

Compared to 2013:

Vacancy

DOWN



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 fourth quarter of 2014. Both vacancy and availability continued to decrease, exhibiting some of the lowest rates seen since 2008. The Phoenix market also posted just over 891,000 square feet of positive absorption in the fourth quarter, marking the fifteenth consecutive quarter of positive absorption, for a total of 9.8 million square feet. While these are encouraging indications, continued stability and job growth will be needed in coming quarters to further recovery.
- **Construction** - There was 395,663 square feet of retail construction underway at the end of the fourth quarter of 2014. The Phoenix retail market delivered 374,959 million square feet of retail space in 2014 so far, low compared to historical averages.
- **Vacancy** - Vacancy dropped in the fourth quarter, as the Phoenix economy continued its move to recovery. Direct/sublease space (unoccupied) finished the fourth quarter of 2014 at 9.76%, a drop from the previous year's rate of 10.52%. The lowest vacancy rate of all submarkets was found in Northwest Phoenix, at 6.80%.
- **Availability** - Direct/sublease space available for the fourth quarter of 2014 came in at 11.22%, down from the previous quarter and a 5.87% decrease when compared to the prior year's rate of 11.92%.
- **Lease Rates** - The average asking triple-net lease rate per month per square foot in Phoenix in the fourth quarter was \$13.80, flat 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 891,880 square feet of positive net absorption in the fourth quarter of 2014, marking the fifteenth consecutive quarter of positive net absorption, and giving the market a total of just over 9.8 million square feet of positive absorption for the last 15 quarters.
- **Transaction Activity** - Leasing activity checked in at nearly 1.0 million square feet, a decrease from the previous quarter's figure of 1.4 million square feet. Sales decreased compared to third quarter's posting of 3.7 million square feet, down to around 2.7 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 5.9% in November 2014, a decrease from January 2014's rate of 6.8%. Sectors with strong job growth included professional and business services, retail trade, health care and manufacturing. 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, November added 86,000 professional and business services jobs, 50,000 in retail trade, 59,000 in health care and 28,000 in manufacturing. The number of jobs has increased in 2014 and we anticipate this trend continuing into 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 stabilization in average asking lease rates. The market has posted positive absorption figures for almost four years consecutively and with very few deliveries in the pipeline to apply upward pressure on vacancy, we foresee 2015 being another year of growth as the market enters into single digit vacancy for the first time since 2008.

FORECAST

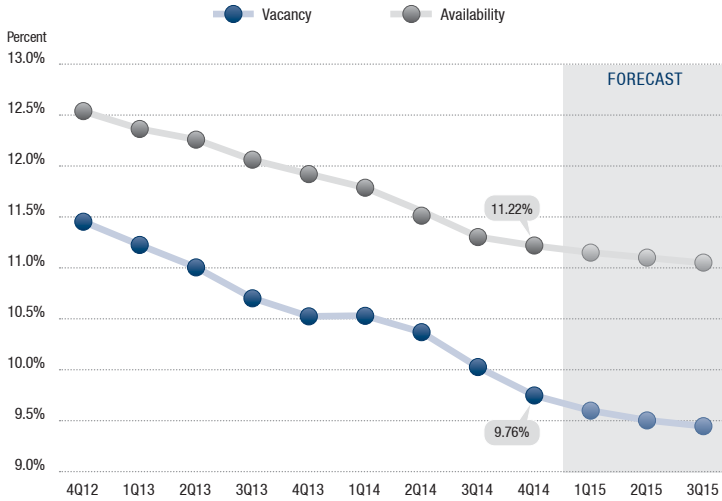
- **Construction** - We anticipate a small amount of retail construction in the near future, giving demand further opportunity to catch up to supply. Expect power centers, which have among the lowest vacancy and availability rates currently, to lead the way as development gradually returns.
- **Employment** - 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 30 basis points, to around 9.45%, by the end of the third quarter of 2015.

OVERVIEW

	2014	2013	2012	% of Change vs. 2013
Total Vacancy Rate	9.76%	10.52%	11.45%	(7.22%)
Availability Rate	11.22%	11.92%	12.53%	(5.87%)
Average Asking Lease Rate	\$13.80	\$13.92	\$14.40	(0.86%)
Sale & Lease Transactions	16,552,557	18,896,766	20,032,582	(12.41%)
Gross Absorption	9,050,034	10,264,803	11,125,544	(11.83%)
Net Absorption	2,271,773	3,098,442	2,961,724	N/A

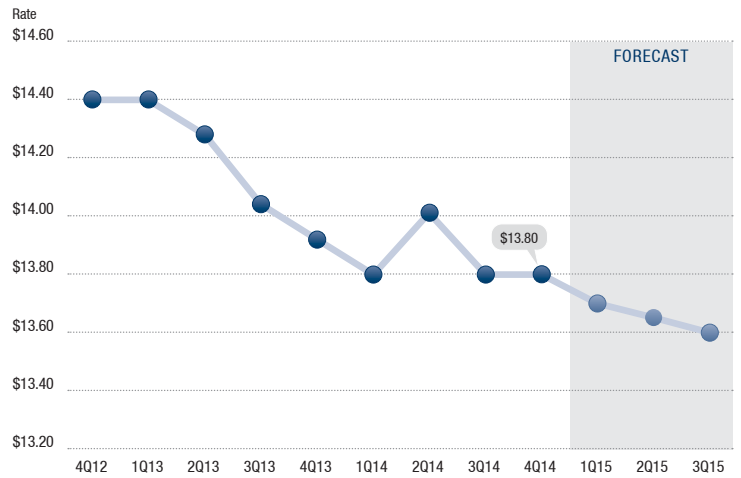
VACANCY & AVAILABILITY RATE

VACANCY – UNOCCUPIED SPACE | AVAILABILITY – ALL SPACE BEING MARKETED



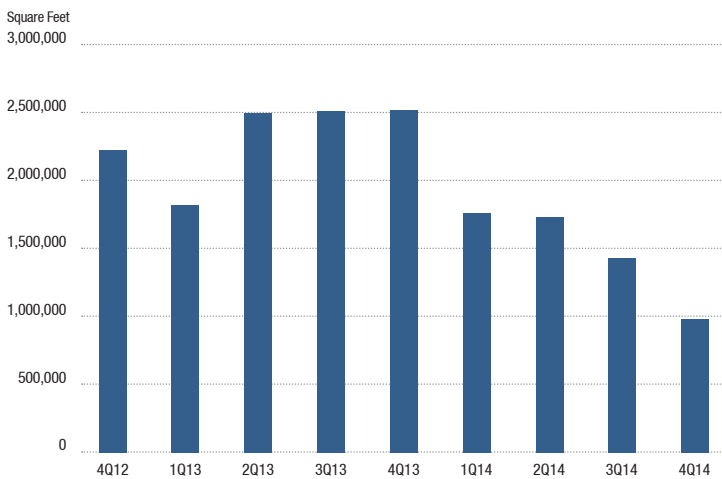
AVERAGE ASKING TRIPLE-NET LEASE RATE

MONTHLY OCCUPANCY COST ON A PER SQ. FT. BASIS



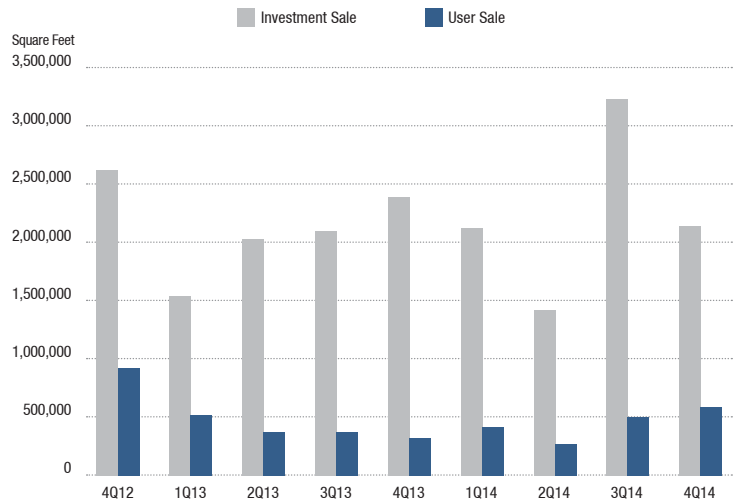
LEASE TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT LEASED IN A QUARTER



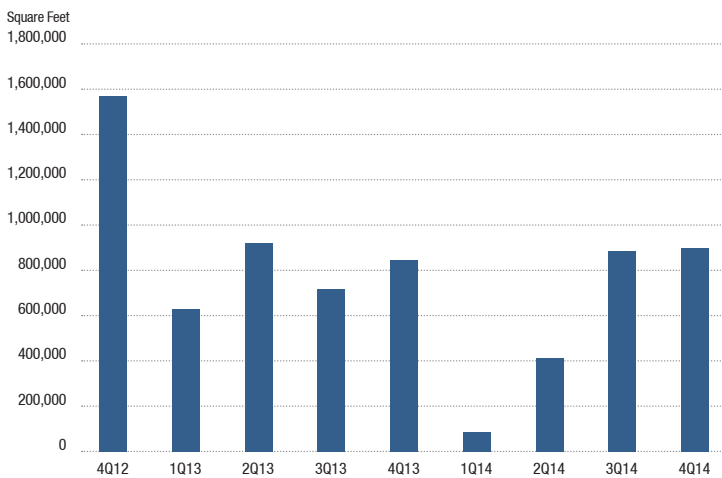
SALES TRANSACTIONS

TOTAL AMOUNT OF SPACE THAT SOLD IN A QUARTER

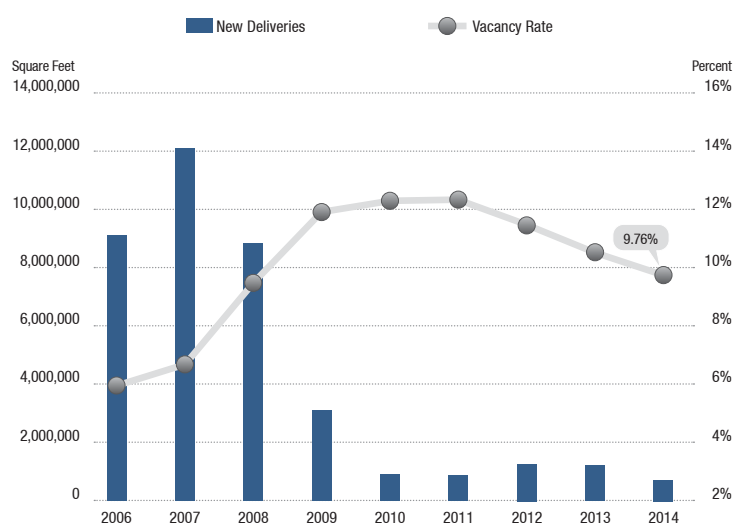


NET ABSORPTION

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 4Q2014	Square Feet Available	Availability Rate 4Q2014	Average Asking Lease Rate	Net Absorption 4Q2014	Net Absorption 2014	Gross Absorption 4Q2014	Gross Absorption 2014
Airport Area													
Airport Area	404	3,810,841	0	0	331,293	8.69%	482,318	12.66%	\$12.36	(88,854)	(73,621)	6,460	109,999
South Tempe / Ahwatukee	241	1,520,828	0	18,500	69,125	4.55%	96,875	6.37%	\$7.80	370	24,871	13,548	87,924
Airport Total	645	5,331,669	0	18,500	400,418	7.51%	579,193	10.86%	\$12.00	(88,484)	(48,750)	20,008	197,923
Downtown Phoenix													
Downtown Phoenix	739	6,500,353	0	166,904	841,392	12.94%	906,380	13.94%	\$13.56	19,840	(72,864)	85,458	264,206
Downtown Phoenix Total	739	6,500,353	0	166,904	841,392	12.94%	906,380	13.94%	\$13.56	19,840	(72,864)	85,458	264,206
East Valley													
Chandler	750	16,339,630	89,500	649,949	1,852,768	11.34%	2,266,075	13.87%	\$14.04	(2,356)	56,450	110,436	614,140
Gateway Airport	118	2,710,383	0	532,412	173,627	6.41%	309,509	11.42%	\$14.88	3,895	18,736	8,499	65,336
Gilbert	706	13,335,426	8,743	2,455,941	1,049,835	7.87%	1,201,737	9.01%	\$14.64	72,665	116,195	103,696	448,904
Queen Creek	65	1,362,631	67,458	292,592	85,908	6.30%	85,908	6.30%	\$18.72	26,472	44,081	26,472	61,567
Red Mountain / Mesa	1,716	28,713,646	9,300	1,178,914	4,388,387	15.28%	4,861,078	16.93%	\$12.24	99,278	99,083	368,742	1,249,586
Tempe	469	8,081,106	0	463,204	553,270	6.85%	569,150	7.04%	\$16.08	103,393	156,830	158,841	573,098
East Valley Total	3,824	70,542,822	175,001	5,573,012	8,103,795	11.49%	9,293,457	13.17%	\$13.44	303,347	491,375	776,686	3,012,631
North Phoenix													
East Phoenix	700	8,377,710	5,359	35,600	854,842	10.20%	1,062,203	12.68%	\$13.56	(54,993)	190,572	97,537	580,234
Glendale	778	11,217,029	0	299,439	1,271,990	11.34%	1,437,112	12.81%	\$11.28	93,799	296,104	159,093	566,926
N. Phoenix / I-17	825	15,889,287	4,604	171,050	2,302,411	14.49%	2,690,359	16.93%	\$12.48	40,549	233,544	156,489	691,512
Sun City	226	3,219,984	0	131,730	351,463	10.92%	375,898	11.67%	\$15.00	25,359	36,665	47,522	115,953
North Phoenix Total	2,529	38,704,010	9,963	637,819	4,780,706	12.35%	5,565,572	14.38%	\$12.60	104,714	756,885	460,641	1,954,625
North Scottsdale													
Carefree	133	1,742,001	0	26,110	216,151	12.41%	234,073	13.44%	\$19.08	(9,055)	15,534	16,450	60,201
Fountain Hills	81	694,355	0	85,265	80,130	11.54%	90,900	13.09%	\$15.72	(2,060)	7,599	36	25,914
North Scottsdale	535	14,885,742	128,478	98,736	924,320	6.21%	1,111,514	7.47%	\$17.40	20,827	84,777	89,290	496,248
North Scottsdale Total	749	17,322,098	128,478	210,111	1,220,601	7.05%	1,436,487	8.29%	\$17.40	9,712	107,910	105,776	582,363
Northwest Phoenix													
Anthem	117	2,512,350	4,307	105,624	138,626	5.52%	148,685	5.92%	\$15.36	10,301	8,423	17,918	71,536
Central Peoria / Arrowhead	421	10,013,151	0	203,475	673,939	6.73%	732,777	7.32%	\$14.64	80,178	53,871	114,430	385,187
Deer Valley	130	2,032,945	0	2,519	196,195	9.65%	209,524	10.31%	\$24.84	3,686	50,647	18,540	90,682
Surprise	269	4,874,472	0	1,263,196	312,503	6.41%	318,634	6.54%	\$16.68	91,922	114,747	114,305	231,382
Northwest Phoenix Total	937	19,432,918	4,307	1,574,814	1,321,263	6.80%	1,409,620	7.25%	\$16.80	186,087	227,688	265,193	778,787
Scottsdale													
Central Scottsdale	837	15,371,597	0	788,342	996,174	6.48%	1,124,707	7.32%	\$22.80	156,271	274,508	211,218	711,781
South Scottsdale	369	4,068,397	0	22,140	367,014	9.02%	513,576	12.62%	\$13.68	21,692	118,736	32,432	207,729
Scottsdale Total	1,206	19,439,994	0	810,482	1,363,188	7.01%	1,638,283	8.43%	\$20.04	177,963	393,244	243,650	919,510
South Mountain													
Ahwatukee Foothills	166	3,176,144	0	0	316,700	9.97%	335,173	10.55%	\$16.44	2,005	(48,187)	11,725	54,934
Laveen	69	1,377,855	18,600	614,573	71,872	5.22%	64,212	4.66%	\$20.64	15,087	40,345	15,087	69,062
South Mountain	98	2,032,215	0	268,842	113,603	5.59%	114,603	5.64%	\$11.04	(25,792)	5,574	8,950	64,864
South Mountain Total	333	6,586,214	18,600	883,415	502,175	7.62%	513,988	7.80%	\$16.32	(8,700)	(2,268)	35,762	188,860
West Phoenix													
Goodyear	210	3,302,674	17,525	296,670	488,792	14.80%	549,046	16.62%	\$14.64	9,722	51,207	40,079	153,086
Loop 101 / I-10	136	2,650,241	3,700	793,165	132,333	4.99%	142,474	5.38%	\$16.80	8,014	52,436	18,756	82,208
N. Goodyear / Litchfield	191	4,473,815	27,314	1,863,170	237,771	5.31%	246,266	5.50%	\$17.04	122,868	121,905	137,678	209,305
North Buckeye	4	49,063	0	0	3,085	6.29%	0	0.00%	\$0.00	2,635	(3,085)	2,635	2,635
South Buckeye	133	1,421,820	0	365,604	29,464	2.07%	37,464	2.63%	\$24.00	31,250	95,258	31,250	98,855
Tolleson	231	2,538,589	0	216,155	132,708	5.23%	159,308	6.28%	\$11.88	1,652	51,230	17,402	98,693
West Phoenix / Maryville	458	8,003,033	0	70,655	620,223	7.75%	754,756	9.43%	\$9.60	(8,150)	40,860	43,684	215,498
West Phoenix Total	1,363	22,439,235	48,539	3,605,419	1,644,376	7.33%	1,889,314	8.42%	\$12.84	167,991	409,811	291,484	860,280
Maricopa County													
NE Outlying	1	4,722	0	0	0	0.00%	0	0.00%	\$13.56	0	0	0	0
W Outlying	103	697,258	0	0	56,959	8.17%	71,682	10.28%	\$13.56	(3,500)	(365)	0	13,303
Maricopa County Total	104	701,980	0	0	56,959	8.11%	71,682	10.21%	\$13.56	(3,500)	(365)	0	13,303
Pinal County													
Apache Junction	134	1,586,973	0	100,581	111,641	7.03%	127,845	8.06%	\$9.84	(5,263)	(17,086)	1,100	49,361
Outlying Pinal County	751	7,609,419	10,775	2,529,676	744,051	9.78%	826,725	10.86%	\$9.12	35,373	26,193	89,318	228,185
Pinal County Total	885	9,196,392	10,775	2,630,257	855,692	9.30%	954,570	10.38%	\$9.24	30,110	9,107	90,418	277,546
Phoenix Total	13,314	216,197,685	395,663	16,110,733	21,090,565	9.76%	24,258,546	11.22%	\$13.80	899,080	2,271,773	2,375,076	9,050,034
Malls	169	17,018,938	60,000	2,785,110	1,198,404	7.04%	1,318,633	7.75%	\$27.84	173,802	(4,387)	202,342	492,523
Power Centers	756	30,473,613	55,113	3,559,315	1,651,989	5.42%	2,033,539	6.67%	\$24.72	80,896	203,858	211,442	641,628
Shopping Centers	4,650	104,708,921	130,246	4,767,189	14,704,147	14.04%	16,078,463	15.36%	\$13.32	365,404	1,534,394	1,330,930	5,554,846
Specialty Centers	47	2,115,259	0	837,800	127,578	6.03%	129,578	6.13%	\$11.52	65,591	44,408	68,961	84,687
General Retail	7,692	61,880,954	150,304	4,161,319	3,408,447	5.51%	4,698,333	7.59%	\$13.68	213,387	493,500	561,401	2,276,350
Phoenix Total	13,314	216,197,685	395,663	16,110,733	21,090,565	9.76%	24,258,546	11.22%	\$13.80	899,080	2,271,773	2,375,076	9,050,034

Lease rates are on a triple-net basis.

MAJOR TRANSACTIONS OF 2014**Sales Transactions**

Property Address	Submarket	Square Feet	Sale Price Per SF	Buyer	Seller
5000 S. Arizona Mills Circle	Tempe	1,220,000	\$288.52	Simon Property Group, Inc.	Taubman Centers, Inc.
15277-15433 W. McDowell Rd. – 8 Properties	N. Goodyear / Litchfield	318,656	\$139.65	Haagen Company, LLC	Evergreen Development Co.
20860 N. Tatum Blvd. – 3 Properties	Paradise Valley	292,801	\$50.00	Regent Properties, Inc.	Ohio Public Employees Retirement
3075 W. Ray Rd. – 4 Properties	Chandler	240,090	\$35.31	TA Associates Realty	Lane Pursuits, Inc.
925-1107 S. Gilbert Rd.	Red Mountain / Mesa	238,613	\$15.09	Astani Enterprises, Inc.	Daniel Araf
4040-4180 S. Arizona Ave. – 10 Properties	Chandler	212,173	\$225.52	Whitestone REIT	RED Development

Lease Transactions

Property Address	Submarket	Square Feet	Transaction Date	Tenant	Owner
500 S. Arizona Mills Circle	Tempe	106,000	Jan-14	At Home	Simon Property Group, Inc.
1919-1949 E. Camelback Rd.	Central Scottsdale	80,328	Jun-14	Floor & Décor	The Macerich Company
8545 S. Emerald Dr.	Chandler	56,600	Mar-14	Main Event USA	Store Capital
6209-6247 E. Main St.	Red Mountain / Mesa	45,500	May-14	Covered Wagon Antiques	Fenton Companies
6952 E. Hampton Ave.	Red Mountain / Mesa	36,000	Jul-14	Tuesday Morning	Kimco Realty Corporation
149 S. Farmer Ave.	Tempe	28,500	Jan-14	The Yard	Pacific Companies

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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