

Qtr 1 2013 Metro-Phoenix Retail Market



RETAIL MARKET UPDATE

The metro-Phoenix retail market experienced a slight improvement in market conditions in the first quarter 2013. The vacancy rate went from 11.2% in the previous quarter to 11.0% in the current quarter. Net absorption was positive 484,603 square feet, and vacant sublease space increased by 35,107 square feet. Quoted rental rates decreased from fourth quarter 2012 levels, ending at \$14.29 per square foot per year. A total of 8 retail buildings with 98,451 square feet of retail space were delivered to the market in the quarter, with 502,733 square feet still under construction at the end of the quarter.

Net Absorption

Retail net absorption was moderate in Phoenix first quarter 2013, with positive 484,603 square feet absorbed in the quarter. In fourth quarter 2012, net absorption was positive 1,614,436 square feet, while in third quarter 2012, absorption came in at positive 132,157 square feet. In second quarter 2012, positive 356,929 square feet was absorbed in the market.

Vacancy

Phoenix's retail vacancy rate decreased in the first quarter 2013, ending the quarter at 11.0%. Over the past four quarters, the market has seen an overall decrease in the vacancy rate, with the rate going from 11.8% in the second quarter 2012, to 11.7% at the end of the third quarter 2012, 11.2% at the end of the fourth quarter 2012, to 11.0% in the current quarter. The amount of vacant sublease space in the Phoenix market has trended up over the past four quarters. At the end of the second quarter 2012, there were 832,538 square feet of vacant sublease space. Currently, there are 1,008,767 square feet vacant in the market.

Rental Rates

Average quoted asking rental rates in the Phoenix retail market are down over previous quarter levels, and down from their levels four quarters ago. Quoted rents ended the first quarter 2013 at \$14.29 per square foot per year. That compares to \$14.34 per square foot in the fourth quarter 2012, and \$14.61 per square foot at the end of the second quarter

2012. This represents a 0.3% decrease in rental rates in the current quarter, and a 2.24% decrease from four quarters ago.

Inventory & Construction

During the first quarter 2013, seven buildings totaling 88,451 square feet were completed in the Phoenix retail market.

Over the past four quarters, a total of 968,842 square feet of retail space has been built in Phoenix. In addition to the current quarter, 15 buildings with 542,958 square feet were completed in fourth quarter 2012, 10 buildings totaling 138,438 square feet completed in third quarter 2012, and 188,995 square feet in seven buildings completed in second quarter 2012.

There were 502,733 square feet of retail space under construction at the end of the first quarter 2013. Some of the notable 2013 deliveries include: 740 W Camelback Rd, a 55,000-square-foot facility that delivered in first quarter 2013 and is now 100% occupied, and 930 E Baseline Rd, a 8,142-square-foot building that delivered in first quarter 2013 and is now 100% occupied.

Total retail inventory in the Phoenix market area amounted to 217,860,510 square feet in 12,787 buildings and 1946 centers as of the end of the first quarter 2013.

Shopping Center

The Shopping Center market in Phoenix currently consists of 1857 projects with 104,350,972 square feet of retail space in 4,453 buildings. In this report the Shopping Center market is comprised of all Community Center, Neighborhood Center, and Strip Centers.

Compliments of: Commercial Specialists

Paul Blum, JD, CCIM

602-369-7575

Paul@KLCommercialGroup.com

Peter McSorley, MBA

602-628-5066

Peter@KLCommercialGroup.com

Arvle Knight, CCIM

602-885-8000

Arvle@KLCommercialGroup.com

Jim Kasten, CCIM, DB

602-677-0655

Jim@KLCommercialGroup.com

For Listings & MORE...
KLCommercialGroup.com



Kasten Long Commercial Group
 2821 E Camelback Road, Ste 600
 Phoenix, Arizona 85016
 602-445-4141

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Over the past four quarters, the Shopping Center vacancy rate has gone from 16.3% at the end of the second quarter 2012, to 16.2% at the end of the third quarter 2012, to 15.5% at the end of the fourth quarter 2012, and finally to 15.3% at the end of the current quarter.

Rental rates ended the first quarter 2013 at \$13.59 per square foot, down from the \$13.68 they were at the end of fourth quarter 2012. Rental rates have trended down over the past year, going from \$13.95 per square foot a year ago to their current levels.

Net absorption in the Shopping Center sector has totaled 1,819,309 square feet over the past four quarters. In addition to the positive 303,341 square feet absorbed this quarter, positive 843,107 square feet was absorbed in the fourth quarter 2012, positive 100,395 square feet was absorbed in the third quarter 2012, and positive 572,466 square feet was absorbed in the second quarter 2012.

Power Centers

The Power Center average vacancy rate was 7.2% in the first quarter 2013. With negative (17,512) square feet of net absorption and no new deliveries, the vacancy rate went from 7.1% at the end of last quarter to 7.2% at the end of the first quarter. In the fourth quarter 2012, Power Centers absorbed positive 161,730 square feet, delivered no new space, and the vacancy rate went from 7.9% to 7.1% over the course of the quarter. Rental started the quarter at \$19.58 per square foot and ended the quarter at \$19.66 per square foot. A year ago, in first quarter 2012, the vacancy rate was 7.2%. Over the past four quarters, Power Centers have absorbed a cumulative (3,332) square feet of space and delivered cumulative 3,000 square feet of space. Vacant sublease space has gone from 62,386 square feet to 143,110 square feet over that time period, and rental rates have gone from \$19.87 to \$20.24.

At the end of the first quarter 2013, there was no space under construction in the Phoenix market. The total stock

General Retail Properties

The General Retail sector of the market, which includes all freestanding retail buildings, except those contained within a center, reported a vacancy rate of 6.4% at the end of first quarter 2013. There was a total of 3,969,643 square feet vacant at that time. The General Retail sector in Phoenix currently has average rental rates of \$13.47 per square foot per year. There are 124,190 square feet of space under construction in this sector, with 17,462 square feet having been completed in the first quarter. In all, there are a total of 7,382 buildings with 62,492,452 square feet of General Retail space in Phoenix.

Specialty Centers

There are currently 8 Specialty Centers in the Phoenix market, making up 1,451,892 square feet of retail space. In this report the Specialty Center market is comprised of Outlet Center, Airport Retail and Theme/Festival Centers. Specialty Centers in the Phoenix market have experienced positive 10,547 square feet of net absorption in 2013. The vacancy rate currently stands at 7.4%, and rental rates average \$12.51 per square foot.

Malls

Malls recorded net absorption of positive 4,695 square feet in the first quarter 2013. This net absorption number, combined with the 7,847 square feet that was built in the quarter had little impact on the vacancy rate as it stayed at 8.7% at the end of the first quarter 2013 like it was a quarter ago. Rental rates went from \$22.26 per square foot to \$22.23 per square foot during that time. In this report the Mall market is comprised of 34 Lifestyle Center, Regional Mall and Super Regional Malls. feet having been completed in the first quarter. In all, there

Retail Absorption and Deliveries

