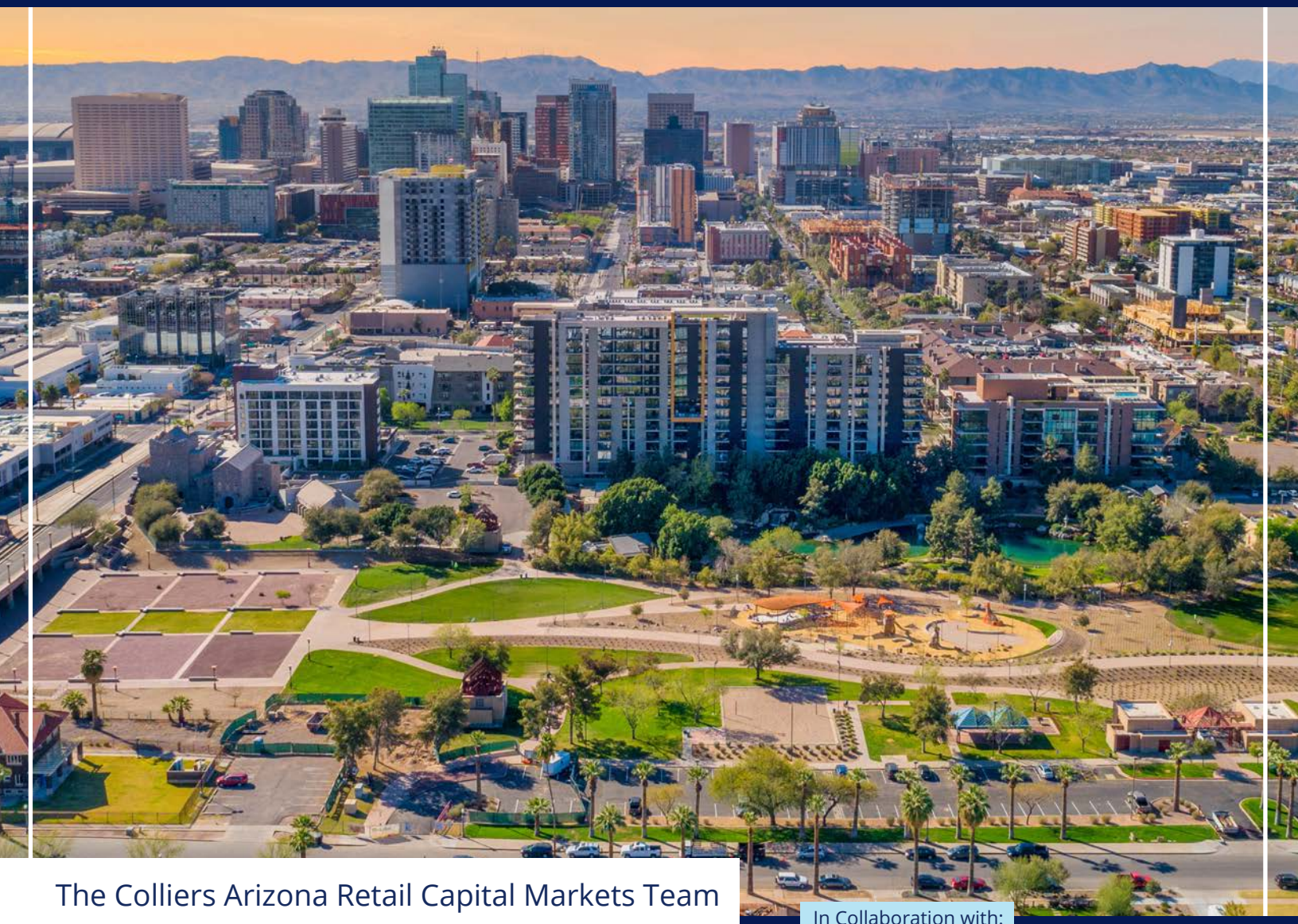
Retail Capital Markets

2023 Year End Report



The Colliers Arizona Retail Capital Markets Team

MINDY KORTH
Executive Vice President
Direct +1 602 222 5005
mindy.korth@colliers.com

JENNY BASSETT
Real Estate Analyst
Direct +1 602 222 5158
jenny.bassett@colliers.com

KELSEY ROBINSON
Senior Client Services Coordinator
Direct +1 602 222 5041
kelsey.kuller@colliers.com

ALYSSA SMITH
Graphic Designer
Direct +1 602 222 5041
alyssa.smith@colliers.com

In Collaboration with:

EL WARNER
Vice Chair
Direct: +1 949 724 5690
el.warner@colliers.com

CAITLIN ZIRPOLO
Vice President
Direct: +1 949 724 5640
caitlin.zirpolo@colliers.com

CHARLEY SIMPSON
Senior Vice President
Direct +1 949 724 5680
charley.simpson@colliers.com

ALYSSA MERA
Senior Associate
Direct +1 949 724 5635
alyssa.mera@colliers.com

Statistics Snapshot | **2023**

Metropolitan Phoenix

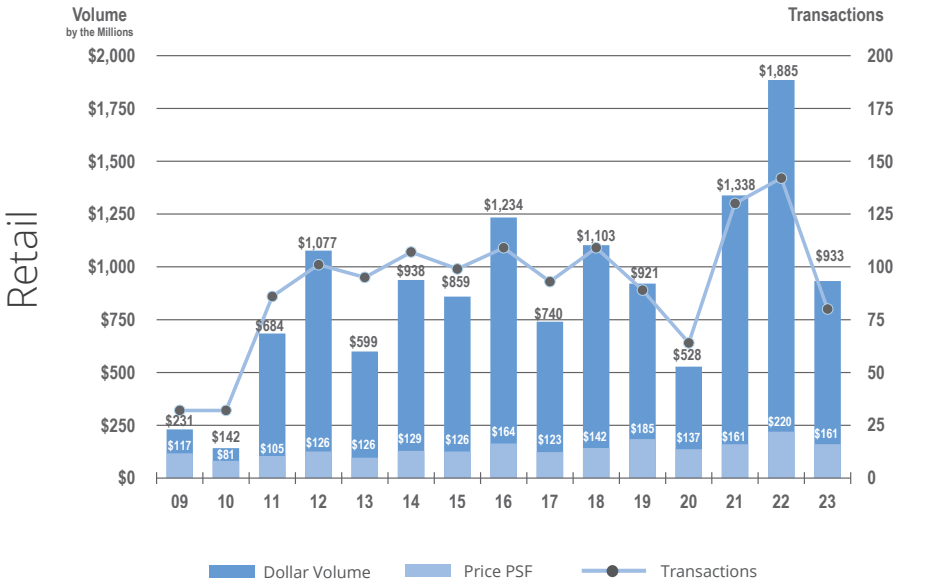
2023 was characterized by continued increases in interest rates that peaked in October and receded, somewhat, by year-end. Despite gloomy reports elsewhere, job and population growth, along with the expansions by our talented tech sector kept Arizona in the spotlight, not only domestically, but globally.

Retail | Quick Stats

	CURRENT	2023 v 2022
VACANCY	4.2%	↓
LEASE RATES	$16.56	↑
NET ABSORPTION	2,952,485	↓
COMPLETIONS	1,357,091	↑

Historical Sales | **2023**

Historical Volume vs. Avg PSF and Number of Transactions

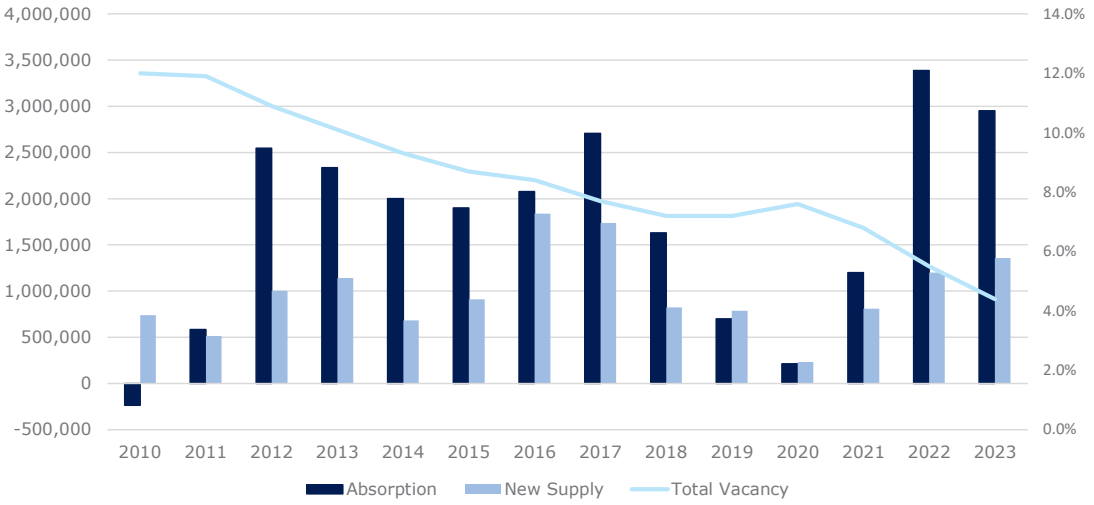


Metro Phoenix was highlighted in 2023

- 2023 Super Bowl generated $1.3 billion in economic activity for Phoenix MSA.
- Phoenix Sky Harbor International Airport reached a new milestone last year, with 2023 as the busiest year in the airport's 95-year history serving 49 million passengers.
- The Diamondbacks shocked the world and "embraced the chaos" with their underdog run to the World Series bringing in over $10 million in revenue to the Phoenix MSA.
- Maricopa County is #1 for talent attraction for the fourth consecutive year released by Lightcast.
- Google announced it will make a $600 million investment in Mesa to build a new data center.
- Arizona State University, recognized as the #1 innovation university, is ranked 40th in the U.S. among top universities by QS World University Rankings for 2024 — up from 47th in the 2023 rankings.
- Arizona Commerce Authority announced 61 companies representing 13,000 jobs were awarded since July 2023; and a pipeline of +400 companies that together account for 140,000 jobs are actively considering Arizona.

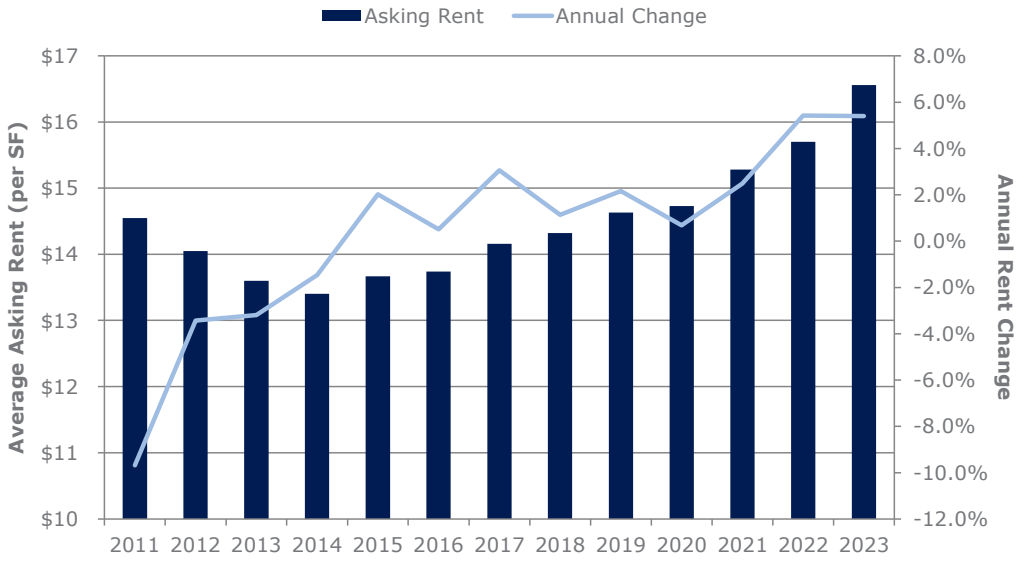
Historical Absorption, Deliveries and Vacancy Rates| **2010 - 2023**

Retail



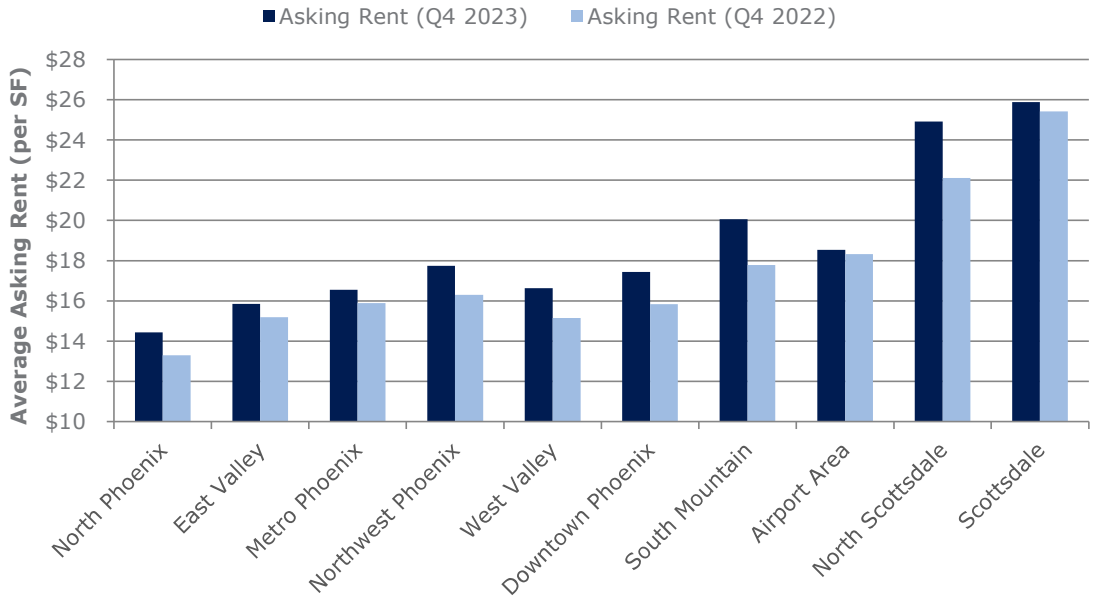
Asking Rents| **2011 - 2023**

Retail



Asking Rents by Submarket| **Q4 2023 vs Q4 2022**

Retail



Market Makers

Feature: **June**

2023 retail sales volume was a “normal” volume

Following a record high in 2022, retail sales and PSF prices dropped by 46% and 19% in 2023, a more “normal” volume for greater Phoenix. Cap rates ticked up due to more expensive acquisition financing, but not dollar for dollar. Buyers and sellers sidelined for a while. By year end, activity had picked up.

JAN

5225-5235 E Southern Ave, Mesa, AZ
Size/Percent Leased: 57,345 SF / 100%
Sales Price: $18.5M ($323 PSF)

FEB

5221-5229 S Power Rd, Mesa, AZ
Size/Percent Leased: 28,894 SF / 90%
Sales Price: $11.8M ($408 PSF)

MAR

6750 W Peoria Ave, Peoria, AZ
Size/Percent Leased: 112,838 SF / 91%
Sales Price: $14.7M ($131 PSF)

APR

2060-2150 S Power Rd, Mesa, AZ
Size/Percent Leased: 94,258 SF / 93%
Sales Price: $16.7M ($177 PSF)

MAY

1144, 1166 S Gilbert Rd, Gilbert, AZ
Size/Percent Leased: 81,879 SF / 100%
Sales Price: $23.9M ($292 PSF)

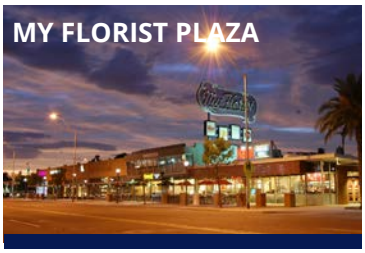
JUNE

4730-4748 E Indian School Rd, Phoenix, AZ
Size/Percent Leased: 69,497 SF / 98.4%
Sales Price: $25.3M ($364 PSF)

JULY

3205-3329 E Bell Rd, Phoenix, AZ
Size/Percent Leased: 173,303 SF / 81.0%
Sales Price: $31.3M ($181 PSF)

AUG



1601-1607 N 7th Ave, Phoenix, AZ
Size/Percent Leased: 21,933 SF / 100.0%
Sales Price: $10.5M ($479 PSF)

SEPT

860, 874, 894 E Warner Rd, Gilbert, AZ
Size/Percent Leased: 48,541 SF / 100.0%
Sales Price: $9.3M ($192 PSF)

OCT

14651-14987 N Northsight Blvd, Scottsdale, AZ
Size/Percent Leased: 112,113 SF / 100.0%
Sales Price: $27.4M ($244 PSF)

NOV

3510-3648 W Southern Ave, Phoenix, AZ
Size/Percent Leased: 89,389 SF / 100.0%
Sales Price: $11.5M ($129 PSF)

DEC

1380-1474 N Litchfield Rd, Goodyear, AZ
Size/Percent Leased: 232,577 SF / 100.0%
Sales Price: $59.0M ($254 PSF)

Value-Add Market Makers

Value-Add Opportunities Exist Under Various Scenarios

The following nine value-add sales represent 20% of total retail investment sales dollars spent. With historically high occupancies, and growing rents, value-add buyers have to dig a bit deeper, yet the nature of retail real estate is ever evolving, leaving opportunities along the way.

AMC THEATRES AT ARIZONA CENTER

565 N 3rd St, Phoenix, AZ
Size/Percent Leased: 95,540 SF / 100%
Sales Price: $27.0M ($283 PSF)

This 2.7 acre site sold at $228 PSF to the land area. The buyer specializes in redevelopment within downtown Phoenix, and plans to go vertical with a mixed-use project.

VACANT SEARS BLDGS
Arrowhead and Desert Sky Mall

Glendale and Phoenix, AZ
Size: 119,366 SF / 142,750 SF
Price: $8.9M ($75 PSF) / $7.1M ($50 PSF)

Seritage sold two former Sears buildings. The purchaser of the Arrowhead location plans to develop a grocery store and the purchaser of the Desert Sky location is planning a Hispanic Entertainment Venue.

ACACIA CREEK VILLAGE SHOPS

10050 N Scottsdale Rd, Scottsdale, AZ
Size/Percent Leased: 28,500 SF / 100%
Sales Price: $15.0M ($526 PSF)

Located just south of Shea Blvd, this 4.73 acres was purchased for its land value ($73 PSF). The parcel will be redeveloped into a 215-unit muti-family project and is slated to start construction later in 2024.

KOHL'S AT CACTUS PLAZA

15357 W Cactus Rd, Surprise, AZ
Size/Percent Leased: 96,268 SF / 0%
Sales Price: $5.7M ($59 PSF)

SimonCRE purchased this property from Kohl's after relocating them to one of their projects in Surprise, AZ. This versatile 3.12-acre site is now available for sale or lease.

SUPERSTITION SPRINGS POWER CENTER (portion)

6247, 6321-6341 E Southern Ave, Mesa, AZ
Size/Percent Leased: 51,230 SF / 49%
Sales Price: $5.6M ($110 PSF)

At 49% leased, this was a risky investment for anyone except this long-term investor who had already assembled much of the other portions of this retail hub.

EoS FITNESS CONVERSION

4 locations in Metro Phoenix, AZ
Size/Percent Leased: 222,822 SF / 100%
Sales Price: $21M ($94 PSF)

Barclay Group purchased four former grocery stores from Safeway/ Albertsons and immediately flipped them with EoS Fitness as the tenant for $53.2M to Realty Income Corporation.

METRO PAVILION

9602-9802 N Metro Pkwy, Phoenix, AZ
Size/Percent Leased: 61,530 SF / 64%
Sales Price: $6.5M ($106 PSF)

Immediately west of Metrocenter Mall, this 9.44-acres was purchased as a covered land play by a California private investor with patient money.

METROCENTER MALL

9617, 10002 N Metro Pky, Phoenix, AZ
Size/Percent Leased: 880,848 SF / 0%
Sales Price: $40.8M ($46 PSF)

A world-class development team has taken a long view to reimagine this 52-acre campus into a vital hub for this central Phoenix community. More to follow!

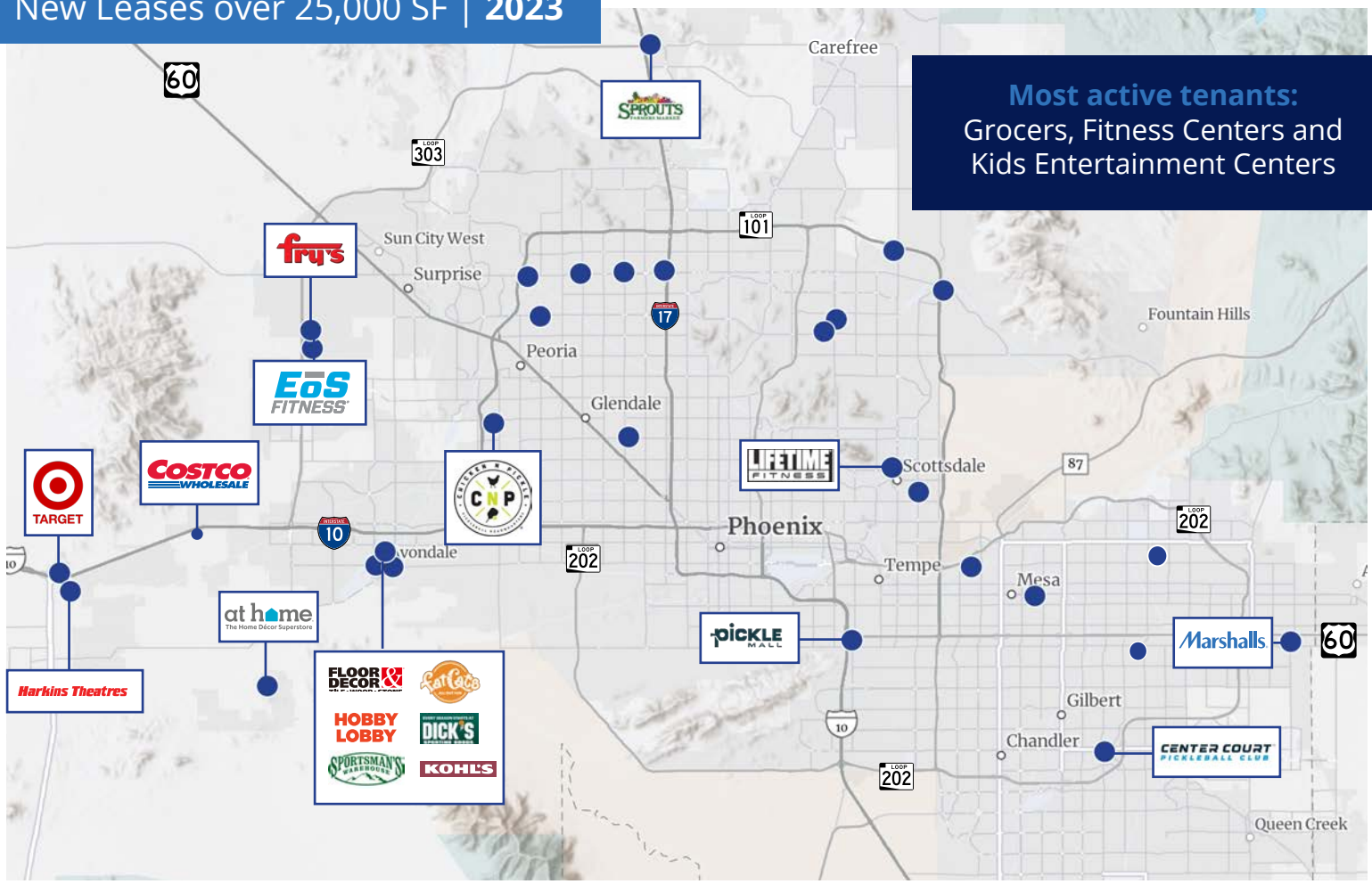
AT HOME

12025 N 32nd St, Phoenix, AZ
Size/Percent Leased: 151,197 SF / 100.0%
Sales Price: $4.3M ($28 PSF)

This 10.7-acres, $9.23 PSF to the land, is adjacent to SR-51. Occupied by At Home, it was purchased in a national portfolio of 14 properties of varying tenants.

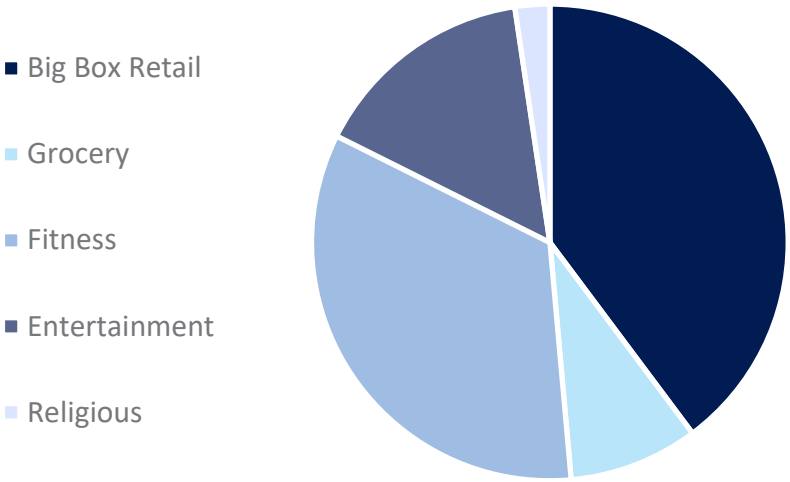
New Retail Leases and Developments | **2023**

New Leases over 25,000 SF | **2023**



Most active tenants:
Grocers, Fitness Centers and Kids Entertainment Centers

New Lease Types | **2023**



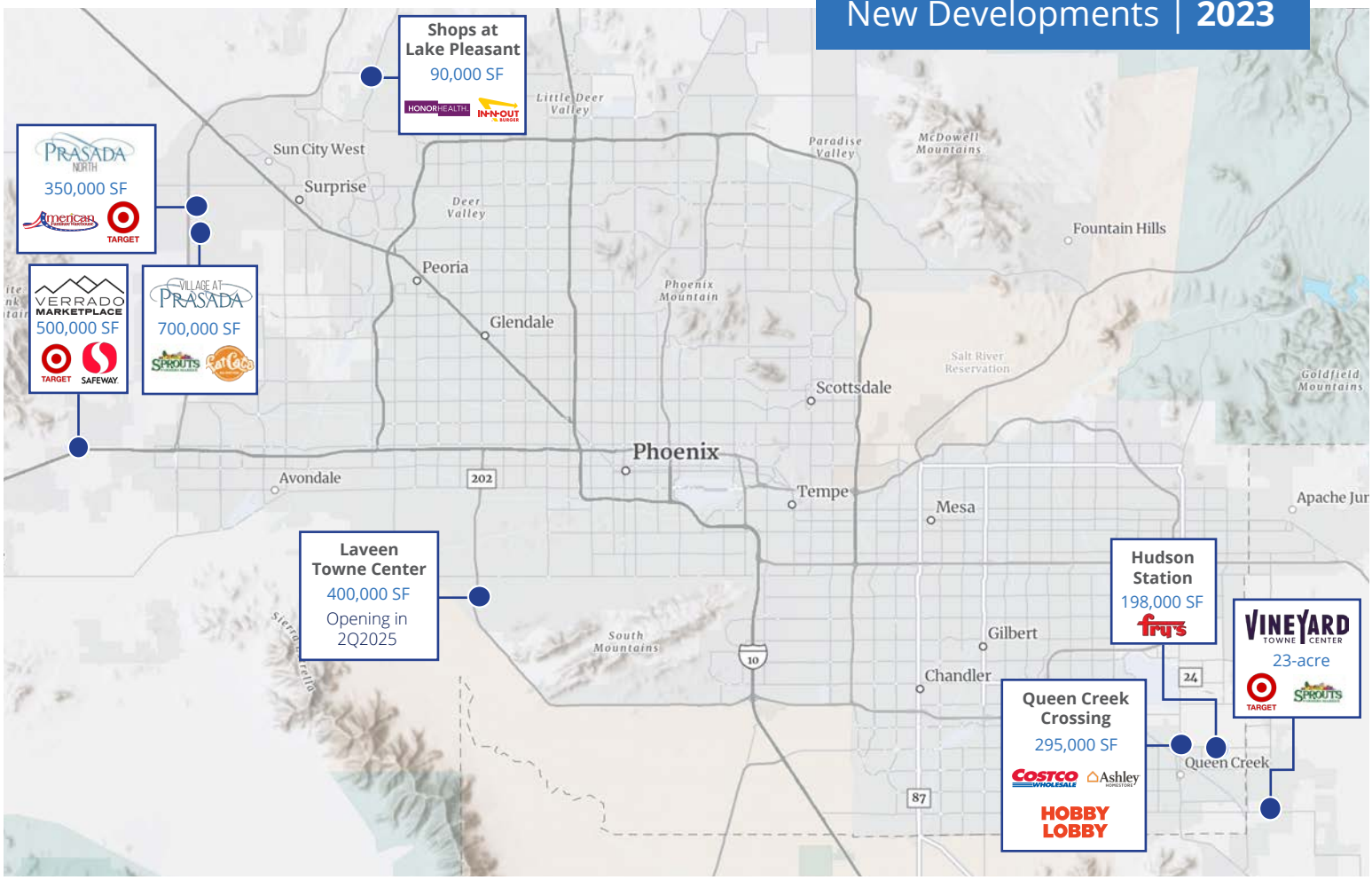
There were **32 new retail leases** totaling **1.81 million SF** in 2023 that were **larger than 25,000 SF.**

As depicted on the map above, following the area's **rapid residential growth, two-thirds** of these transactions, **totaling 1.34 million SF**, were in the **West Valley,** including **12** of the **15 largest retail leases.**

Costco, **Target, At Home**, and **Fry's** were among the largest leases, but also **19 sporting and entertainment venues** represented **one-half** of the largest leases completed in 2023.

2023 was the year of the Pickleball!

New Developments | **2023**



- After more than 15 years of minimal retail deliveries, there are **2.2 million square feet** under construction, of which **80% is pre-leased**
- This is a result of **all-time low vacancy** levels of less than **5%** across greater Phoenix
- In fact, three areas were among the **top five** submarkets across the **US** for retail **net absorption** in **2023: #1**: West Phoenix, **#2**: East Phoenix, and **#4**: North Phoenix
- **Target**, **Costco**, **Safeway**, **Fry's**, **Sprouts**, and all the subanchors and mainstay restaurants, shops, and services are filling out their networks within these new centers

Overview

Rising interest rates throughout 2023 affected buyer and seller motivations either to sell and pay off a low interest rate loan; or buy with more expensive debt than previously available.

Available at Year End 2023

At the end of 2023, there were 22 multi-tenant retail properties for sale that were larger than 20,000 SF, of A and B quality, and occupied at 80% or higher.

# of Properties	On the Market
7	Less than 90 Days
7	Three to Six Months
10	Six Months or Longer

Overall, the average asking cap rates were 6.77%, with the higher quality or grocery-anchored centers at the lower cap rates.

The properties in the market the longest were either under contract, having found the market to transact, or were out of market on their pricing.

Sold During 3rd and 4th Quarter 2023

Many of the properties that sold in the second half of 2023 either moved through the market quickly or were repriced to meet market.

During the third and fourth quarters of 2023, there were 17 sales of multi-tenant retail properties (+20,000 SF; +80% occ, A&B) that took an average of 153 days from when they were brought to market and closed.

Averaging 97% occupancy, asking prices of these properties ranged from cap rates of 6.25% to 8.01%, averaging 7.03%.

Closing prices ranged from cap rates of 6.32% to 8.42%, averaging 7.35%, a difference of 4.56% between offering and closing prices.

	Avg Asking Cap	Avg Closing Cap
3Q2023	6.92%	7.26%
4Q2023	7.14%	7.44%
Total 2H2023	7.03%	7.35%

With interest rates peaking in October 2023, cap rates trended higher as well to meet buyers' leveraged expectations. Certain private capital, all cash buyers were active during the second half of 2023, and paid the lowest cap rates, generally between 6.32% and 6.80%.

Well priced assets moved swiftly through the market

New Retail Developments follow Residential Growth

With the completion of Loop 303, and the west and east Loop 202, the newest residential communities are in the west and southeast of the valley. This is where all the new retail developments are being built.

Expect High Occupancies to Persist Despite New Deliveries

The addition of 2.2 million square feet of retail developments, with more in the pipeline, will likely have a neutral impact on the historically high occupancies of existing centers that are in established neighborhoods. Further, the new deliveries at current high construction costs may positively impact increases in asking rents that have already been growing by more than 5% annually during the past several years.

Store Closures will Create Opportunities for Other Users

Retailers evolve, and recently dollar stores - namely many Family Dollar and all 99 Cent Stores - will close. These stores are of a generic configuration, some of them as stand-alone buildings at busy intersections. This creates opportunities for other tenants to find existing space in otherwise fully-occupied trade areas. In fact, some stores that had previously been much larger, are finding the use of internet sales enables them to use smaller spaces.

Smaller Spaces are Reliable and Backfill Quickly

Service providers and quick serve restaurants typically occupy spaces less than 2,500 square feet, which size range will continue to represent more than two-thirds of executed leases. These are reliable tenants, and fast to backfill.

Retail Space Use has Evolved to include Services and Entertainment

Retail centers also evolve. Many customers resorted to internet shopping, slowing in-store sales that encouraged store closures, thus making way for other uses of these spaces. These highly visible locations, surrounded by customers day and night have attracted medical providers, personal and business service providers, quick serve restaurants, indoor entertainment venues, and fitness centers leading to historically high occupancies across greater Phoenix.

Value-Add Opportunities Exist Under Many Scenarios

There are still many value-add retail opportunities, but they are less obvious. The trend of acquiring a very low occupancy center to backfill or an obsolete center to redevelop has passed its peak. Value-add opportunities today come in a range of scenarios as illustrated in the nine examples described in this report.

Greater Phoenix Continually Attracts New Retail Investors

New to the market investors are regularly discovering the benefits of investing in greater Phoenix, and pricing has remained relatively steady despite the higher cost of capital.

Retail 101 Rules are as Critical as Ever

Location and site design are always in style. Neighborhood and regional demographics, traffic patterns, accessibility, cost of living, and tenant synergy are as critical as ever.

About Us

The Colliers Difference

We are enterprising. Colliers International is an industry leading global real estate company with more than 18,000 skilled professionals operating in 66 countries.

We see beyond the bricks and mortar to analyze how property acquisition, ownership and disposition can accelerate the success of your financial portfolio.

We don't just talk about our values, we live them. Our values reflect the essential character and quality of our relationships with our clients that guide the strategic decisions related to our business.

We distinguish our property marketing services in two ways: We segment your prospects, and we drive prospects through a "transaction filter" to make the best use of marketing resources.

We offer a more informed decision-making advantage. Colliers valuation and advisory services' research-driven reports provide insight into property fundamentals, competition and the overall market dynamics affecting value.

Warner Retail Team

The Warner Retail Team has the experience and track record to successfully sell assets nationwide. Each of our team's capabilities combined with Colliers' unsurpassed network of retail professionals - including 400 dedicated retail professionals in 163 offices throughout the United States - results in best-in-class marketing platforms, cutting-edge technologies, and unmatched buyer relationships to fully expose each assest we list to the right buyer pool.

$1 BILLION / $14 BILLION
annual team / total team transaction volume

500+ TRANSACTIONS
sold across the U.S.

#1 RETAIL INVESTMENT SALES TEAM
at Colliers

What to Watch in 2024 and beyond

U.S. Commercial Real Estate

[Commercial Real Estate Outlook 2024: The Kiplinger Letter]
(Kiplinger, January 18, 2024)

[2024 Outlook Report: Navigating Equilibrium, Distress, and Anticipated Policy Easing in Commercial Real Estate]
(Colliers, December 8, 2023)

[2024 Global Investor Outlook]
(Colliers, November 28, 2023)

[Commercial Real Estate 2024: Adapting to New Realities]
(The Wall Street Journal, October 31, 2023)

U.S. Housing Market

[Housing market predictions: Six experts weigh in on the real estate outlook in 2024]
(USA Today, January 1, 2024)

Arizona Economy

[Metro Phoenix inflation rate among nation's lowest in 2023]
(KJZZ, January 11, 2024)

[Minimum wage increases in Arizona for 2024]
(KPNX-12 News, January 1, 2024)

[2024 Arizona State Economic Outlook]
(Comerica, December 12, 2023)

U.S. Economy

[Economic Forecast for the US Economy]
(The Conference Board, February 7, 2024)

[U.S. economy added 353,000 jobs in January, much better than expected]
(CNBC, February 2, 2024)

[U.S. winning world economic war]
(AXIOS, January 31, 2024)

The Colliers Arizona Retail Capital Markets Team

MINDY KORTH
Executive Vice President
Direct +1 602 222 5005
mindy.korth@colliers.com

JK JACKSON
Vice President
Direct: +1 602 222 5115
jk.jackson@colliers.com

KRISTINA REMON
Senior Associate
Direct: +1 602 222 5101
kristina.remon@colliers.com

In Collaboration with:

EL WARNER
Vice Chair
Direct: +1 949 724 5690
el.warner@colliers.com

CAITLIN ZIRPOLO
Vice President
Direct: +1 949 724 5640
caitlin.zirpolo@colliers.com

JENNY BASSETT
Real Estate Analyst
Direct +1 602 222 5158
jenny.bassett@colliers.com

KELSEY ROBINSON
Senior Client Services Coordinator
Direct +1 602 222 5041
kelsey.kuller@colliers.com

ALYSSA SMITH
Graphic Designer
Direct +1 602 222 5041
alyssa.smith@colliers.com

CHARLEY SIMPSON
Senior Vice President
Direct +1 949 724 5680
charley.simpson@colliers.com

ALYSSA MERA
Senior Associate
Direct +1 949 724 5635
alyssa.mera@colliers.com

This document/email has been prepared by Colliers for advertising and general information only. Colliers makes no guarantees, representations or warranties of any kind, expressed or implied, regarding the information including, but not limited to, warranties of content, accuracy and reliability. Any interested party should undertake their own inquiries as to the accuracy of the information. Colliers excludes unequivocally all inferred or implied terms, conditions and warranties arising out of this document and excludes all liability for loss and damages arising there from. This publication is the copyrighted property of Colliers International and/or its licensor(s). © 2024. All rights reserved