

The Real State[®]

The Real State of the Phoenix Commercial Real Estate Market



May 2020

Hospitality Hit Hard: What's Next for Arizona Restaurants and Hotels?

It has been a particularly inhospitable few months for the hospitality industry, as restaurants and hotels in Greater Phoenix and around the state have taken a major hit from the coronavirus pandemic. What is normally a time for bustling activity from MLB Spring Training, festivals, and other tourist activities came and went with barely a whisper.

Stay-at-home orders starting in mid-March put many restaurants in an untenable situation. According to the Arizona Restaurant Association, the state's restaurant industry lost about \$27 million a day from about mid-March through mid-May, shed about 165,000 jobs, and saw the permanent closures of high-profile sites such as Barrio Cafe Gran Reserva. Equally disheartening, many lesser-known restaurants fall into 20 to 25% of small businesses that Phoenix's Economic Development Department projects will not survive the COVID 19 crisis.

Meanwhile, a nearly complete shutdown of leisure and business travel left hotels and resorts idling. According to the Arizona Office of Tourism, hotel occupancy in the Phoenix region was at 33.6% for the week ending May 16 and occupancy is down 52% year over year. (If you are searching for a silver lining, Phoenix has the 8th highest occupancy rate among the top 25 U.S. markets.) In the Phoenix metro area, the number of "watchlist" hotel and resort properties—designated by loan servicers as potentially not paying their mortgages in full or on time—jumped from 56 in March to 76 during May. Among those added to the list this week was Great Wolf, which recently opened a 350-room hotel and water park in Scottsdale. Thinking outside the Valley, destinations in northern Arizona are likely to be negatively impacted during their own high season, due to a lack of international travelers.

In both hotels and restaurants, loosening of restrictions will be paired with visible symbols of safety such as sanitation, contactless transactions, masks, gloves, and Plexiglas—and say goodbye to buffets in either type of property. You can also anticipate creative promotions and discounts, such as resorts that are experimenting with low staycation rates.

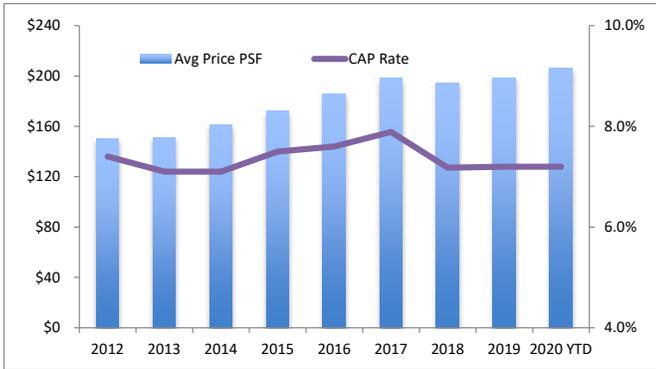
Many of the same qualities that make properties attractive for restaurants make them attractive in general, such as good visibility, easy access, and locations in highly populated areas with solid demographics. As a result, we are already seeing some of these properties put to alternative uses, such as neighborhood-oriented medical services or clinics. Hotels that cannot survive economically may need to be repurposed, as well. Limited-service hotels, for example, have been converted in some instances to multifamily or other affordable housing.

Phoenix is legendary for its long, hot summers—and for the hospitality industry, this one may seem longer than normal. Some entities may be able to ride it out with an assist from PPP loans; others will be left to lobby Congress and state/local government for additional forbearances or other relief measures to get through to the return of the fall tourism season.

Stay Current

To provide you with up-to-the-minute changes in the commercial real estate space due to COVID-19, we update our LinkedIn page on a frequent basis with news and analysis. Follow us here: [R.O.I. Properties – LinkedIn](#).

Office



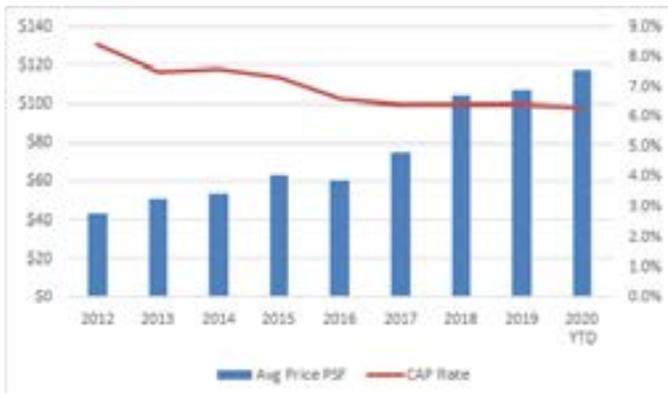
More than \$545M of office product traded so far in 2020, a significant decrease from the \$1B reported the same time last year, according to CoStar. The average price per SF is being reported at \$206/SF, up from the \$196/SF reported in 2019. Cap rates remain steady at 7.2%.

Retail

About \$501M of retail space traded year to date, which is down from the \$886M reported the same time in 2019. CoStar data indicates that the price per SF is \$195/SF, which is up slightly from the \$189/SF reported last year.



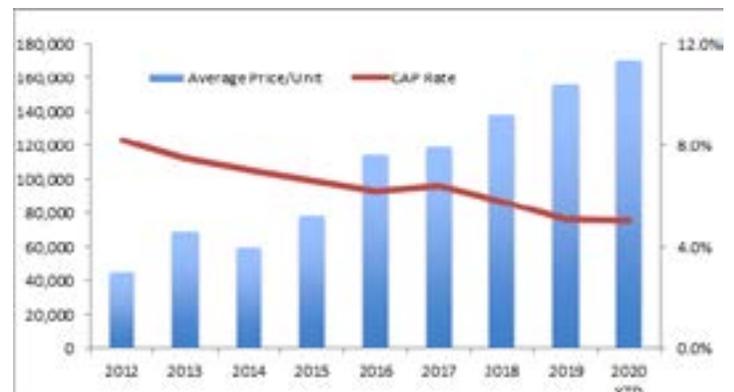
Industrial



The industrial sector is still liquid right now, with over \$1B sold year to date, which is up from \$705M sold this time last year. CoStar reports the price per SF at \$118/SF, up from \$107/SF in 2019, and cap rates at around 6.3% for the year.

Multifamily

The average price per unit for multifamily housing is \$170,448/unit, a cyclical high for the Phoenix market, according to CoStar's most recent figures. (For comparison, 2019 reported an average price per unit at \$155,541/unit.) Cap rates continue to drop, to a reported average of 5%. Year to date, \$1.65B has been sold, down from \$3.8B reported at this time last year.



Residential Snapshot

From April to May 2020, the supply-demand index continued to decline. It appears to have stabilized over the past week, but is still fluctuating. There is still very strong demand and low supply for entry level through move-up homes (product below \$500,000). Listing volume is growing above that, but over the past couple of weeks, there appears to be more demand for “luxury” properties above \$500,000, as properties under contract are increasing.

As we look at market activity, some looming questions remain, including: 1) how the number of current forbearances will impact the market, once the freeze on foreclosures is lifted; and 2) how the projected wave of additional layoffs will impact the market, as PPP funds dry up over the summer. While the Greater Phoenix area should fare better than many other cities, R.O.I. Properties expects the market to turn—and believes that there is still a unique opportunity for sellers while inventory levels remain lower...

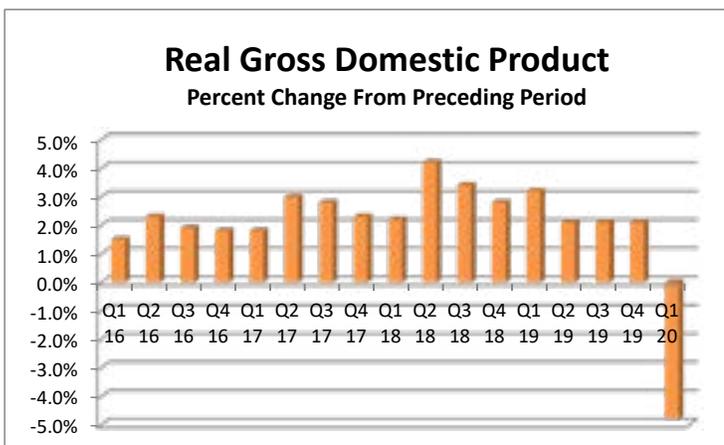
Other notable statistics and trends in the residential market this month include:

- New listings in April ended down 18.5% compared to last year and are down 27.5% so far in May.
- Inventory between \$250K–\$400K is up 36% from March 14, but it’s steadily declining.
- April 2020 ended with an average sale price of \$184.24/SF through the MLS—7.0% higher than last April and 1.3% below March.
- Accepted contracts took quite a ride over the past 12 weeks, as the market plunged for 6 weeks and rebounded for 6 weeks in a near perfect V pattern.

Your Expert Commercial Real Estate Advisors Under All Market Conditions

At R.O.I. Properties, we know/understand the market, and are working hard to ensure that our clients thrive in every real estate market—particularly as market conditions shift. If you would like objective, expert guidance on your individual circumstances, please know that we are here when you need us! Contact us at 602.319.1326.

Real GDP



Real gross domestic product (GDP) decreased at an annual rate of 4.8% in the first quarter of 2020, according to the “advance” estimate released by the Bureau of Economic Analysis. In the fourth quarter of 2019, real GDP increased 2.1%.

The decline in first quarter GDP was, in part, due to the response to the spread of COVID-19, as governments issued “stay-at-home” orders in March. This led to rapid changes in demand, as businesses and schools switched to remote work or canceled operations, and consumers canceled, restricted, or redirected their spending. The full economic effects of the COVID-19 pandemic cannot be quantified in the GDP estimate for the first quarter of 2020, because the impacts are generally embedded in source data and cannot be separately identified.

—Bureau of Economic Analysis

Unemployment

Arizona, U.S. Economic Indicators Unemployment Rate (Seasonally Adj.)

	Apr '20	Mar '20	Apr '19
United States	14.7%	4.4%	3.6%
Arizona	12.6%	6.1%	4.8%
Arizona unadjusted rate	12.9%	6.1%	4.5%

The Arizona seasonally adjusted unemployment rate was 12.6% in April 2020, up from 6.1% in March 2020. The U.S. seasonally adjusted unemployment rate increased from 4.4% in March to 14.7% in April. Over the month, Arizona's seasonally adjusted labor force decreased by 37,870 individuals. Over the year, labor force levels increased by 24,500 individuals or 0.7%.
—Office of Economic Opportunity

“Even with a pretty good rebound in the second half of the year, expect 2020 GDP to decline 5.8%. Full recovery is likely to take till the end of 2021.”—Kiplinger

Articles of Interest

GlobeSt.com – May 28

[Casual Dining Property Pricing Drops Dramatically In Q1](#)

HousingWire – May 15

[8.8% of U.S. mortgages are in forbearance](#)

Elliott D. Pollack & Company – May 26

[The Monday Morning Quarterback](#)

Nation's Restaurant News – May 18

[How the restaurant consumer will change in a post COVID-19 world](#)

The TreppWire Podcast – May 15

[The Impact of COVID-19 on CRE Valuations](#)

Phoenix Business Journal – May 21

[Coronavirus poses new math for Phoenix restaurants that bet big before pandemic](#)

Phoenix Business Journal – May 20

[Phoenix-based REIT: About one-third of tenants requested rent relief](#)

Phoenix Business Journal – May 13

[Valley landlord: PPP loans led to more companies making May rent than expected](#)

AZ Big Media – May 27

[How COVID-19 has accelerated employee demand for office flexibility](#)

AZ Big Media – May 21

[ULI forecast: Pandemic-induced recession will be short, but many unknowns remain](#)