

Retail Construction Booming



More than any other trend in commercial real estate, the rush of retailers toward the power center concept has changed the appearance of the metropolitan Phoenix landscape. Of the 10 million square feet of shopping center space which opened in 2007, more than 75% of the total was located within power centers. Though the amount of new inventory added in 2008 may be somewhat less than last year, there is no doubt that the lion's share of what comes on-line will be in a large open-air configuration.

The power center idea has proved quite adaptable to accommodating a relatively wide variety of stores. Moving on from what was originally an aggregation of large discount-oriented stores, a number of tenants previously found mostly in an enclosed mall or neighborhood shopping center environment are now commonly found at power centers. As a result, both the number of tenants as well as the total square footage of improvements have risen over the over the past few years.

Naturally, one of the concerns raised about any tendency toward domination of a market by a particular type of property is whether there is a risk of building in excess of demand. While the answer to this question typically can only be answered after the facts have played out, there are some signs that the prime sites may well be spoken for. Historically, this type of property has performed best when located very near freeway access. With most of the prospective building sites already improved, the effort to serve the population somewhat removed from a freeway has begun in earnest.

Though talk of a trade radius around a shopping center is common, consumers relate more to the length of time it takes to get somewhere rather than the distance. Because of this and the longer time it takes to travel the same distance on surface streets, it seems logical to expect power centers removed from the freeway network to attract fewer shoppers from shorter distances than those properties immediately served by a freeway. While it is too early to be certain of the outcome of this situation, it seems reasonable to presume the size of centers would decrease and frequency of locations would increase.

There is no question that the total amount of shopping center space which opened in 2007 and will open in 2008 is in excess of the potential demand for such development. However, the pattern of the past several years is expected to continue; the new inventory is indeed filled, but this occurs at the expense of older centers. This situation will be aggravated by the slowing economy and a reduction in the rate of population growth in the Phoenix area. Under the circumstances, the overall vacancy is destined to rise.

One likely positive aspect of the present environment will be a halt to the budding surge in development of unanchored specialty centers which became the plague of the market in the 1980s. Fortunately, this time around these designed-to-fail properties had just begun to be built in any appreciable number. Hopefully the wholesale failure of tenants at these locations will cause lenders to cease funding these turkeys.

ABOUT



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