Economy
Preliminary BLS data reported that Metro Tucson added 12,999 jobs year-over-year through February 2016, with total employment of 455,754 and an unemployment rate of 5.2%. These results demonstrate significant positive progress for the Tucson labor market. If preliminary figures hold, this level of employment would represent a record and the lowest rate of unemployment since April 2008.

Market Overview
Vacancy in the Tucson retail market remained at 6.6% in the first quarter, in line with the stability reported over a two-year span.

Comparing year-over-year Q1 net absorption, the delta represented 139.0% more space absorbed in Q1 2016 than was lost in Q1 2015.

The top leases are highlighted on page two and were led by Midtown Mercantile Merchants, a 29,211-square-foot (sf) C&W | PICOR transaction. Expansion of eateries, led by quick-service restaurants, remained the strongest market driver, with medical uses a close second.

New openings included El Pollo Loco and Krispy Kreme near Broadway/Craycroft, Taco Bell at Houghton/Old Vail, Chick-Fil-A at Kolb/Grant, and MOD Pizza and Smashburger in the northwest. By this writing, Charro Steak, Batch, and Elvira’s opened in downtown Tucson. In the medical retailing trend, C&W | PICOR leased the former Hollywood Video location at Broadway/Houghton to TMC One for clinic space.

Grocery activity included the reopening of two Safeway/Albertson’s stores reclaimed from the Haggen’s bankruptcy: Broadway/Harrison and Speedway/Silverbell. Natural Grocers is under construction at River/Craycroft, to be accompanied by a second Tucson Kneaders Bakery. Walmart’s expansion at Speedway/Kolb demonstrated the challenges of infill expansion and the post-recessionary trend of movement into higher density sites.

Look for upcoming openings by Nordstrom Rack and Dunkin Donuts under construction on the east side, and McAlister’s Deli and Starbucks developments at First/Wetmore.

The forthcoming closure of three Sports Authority stores, part of the national liquidation, is symptomatic of challenges faced by mid-level retailers in a barbell market where high-end and discounters prevail.

Sales activity in Q1 included 24 sales, 13 of which traded hands over $1 million. At $34.6 million, quarterly sales volume was below the pace for the prior eight quarters, while the average sale price of $148.03 per sf was more similar to pricing seen in 2013 and 2014.

Outlook
The forecast is slightly more optimistic than cautious, thanks to higher economic development activity and employment gains. Tucson City Council advancement of the Broadway alignment plan signals progress and removes uncertainty from a key gateway to downtown Tucson. The Tangerine Road widening has commenced in the northwest, and home builder activity is trending up.
MARKETBEAT
Retail Snapshot Q1 2016
Tucson

<table>
<thead>
<tr>
<th>SUBMARKET</th>
<th>TOTAL BLDGs</th>
<th>INVENTORY (SF)</th>
<th>OVERALL VACANCY RATE</th>
<th>OVERALL CURRENT NET ABSORPTION (SF)</th>
<th>OVERALL YTD NET ABSORPTION (SF)</th>
<th>UNDER CNSTR (SF)</th>
<th>UNDER AVERAGE RENT (NNN)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central East</td>
<td>1,161</td>
<td>8,411,464</td>
<td>8.7%</td>
<td>(58,915)</td>
<td>(58,915)</td>
<td>0</td>
<td>$13.03</td>
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<tr>
<td>Central West</td>
<td>761</td>
<td>6,954,603</td>
<td>4.6%</td>
<td>7,270</td>
<td>7,270</td>
<td>63,112</td>
<td>$13.48</td>
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<tr>
<td>Downtown</td>
<td>312</td>
<td>1,754,831</td>
<td>5.7%</td>
<td>(13,743)</td>
<td>(13,743)</td>
<td>0</td>
<td>$19.58</td>
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<tr>
<td>East</td>
<td>768</td>
<td>9,718,210</td>
<td>7.9%</td>
<td>27,323</td>
<td>27,323</td>
<td>32,503</td>
<td>$13.98</td>
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<tr>
<td>Foothills</td>
<td>281</td>
<td>4,727,142</td>
<td>6.6%</td>
<td>539</td>
<td>539</td>
<td>19,155</td>
<td>$18.78</td>
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<tr>
<td>North/Oro Valley</td>
<td>172</td>
<td>2,456,203</td>
<td>9.0%</td>
<td>(1,658)</td>
<td>(1,658)</td>
<td>0</td>
<td>$15.65</td>
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<tr>
<td>Northeast</td>
<td>25</td>
<td>353,098</td>
<td>12.9%</td>
<td>(2,750)</td>
<td>(2,750)</td>
<td>0</td>
<td>$12.42</td>
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<tr>
<td>Northwest</td>
<td>266</td>
<td>3,833,323</td>
<td>5.3%</td>
<td>19,751</td>
<td>19,751</td>
<td>0</td>
<td>$15.98</td>
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<tr>
<td>South</td>
<td>969</td>
<td>6,263,665</td>
<td>5.1%</td>
<td>37,792</td>
<td>37,792</td>
<td>19,200</td>
<td>$13.85</td>
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<tr>
<td>South/SW Outlying</td>
<td>137</td>
<td>1,694,314</td>
<td>5.6%</td>
<td>(9,109)</td>
<td>(9,109)</td>
<td>2,600</td>
<td>$14.57</td>
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<tr>
<td>Southeast</td>
<td>110</td>
<td>1,402,627</td>
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<td>11,183</td>
<td>11,183</td>
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<td>$19.33</td>
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<tr>
<td>Southwest</td>
<td>170</td>
<td>2,407,653</td>
<td>4.0%</td>
<td>6,874</td>
<td>6,874</td>
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<td>$15.68</td>
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<tr>
<td>West</td>
<td>132</td>
<td>868,641</td>
<td>10.2%</td>
<td>(2,477)</td>
<td>(2,477)</td>
<td>0</td>
<td>$16.39</td>
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<tr>
<td>TUCSON TOTALS</td>
<td>5,264</td>
<td>50,845,774</td>
<td>6.7%</td>
<td>22,080</td>
<td>22,080</td>
<td>136,570</td>
<td>$15.59</td>
</tr>
</tbody>
</table>

*Rental rates reflect gross asking $psf/year

SUBMARKET | TOTAL BLDGs | INVENTORY (SF) | OVERALL VACANCY RATE | OVERALL CURRENT NET ABSORPTION (SF) | OVERALL YTD NET ABSORPTION (SF) | UNDER CNSTR (SF) | UNDER AVERAGE RENT (NNN) |
-----------|-------------|----------------|----------------------|--------------------------------------|-------------------------------|-----------------|--------------------------|
General Retail | 3,630* | 18,792,843 | 3.9% | 12,469 | 12,469 | 92,293 | $13.35 |
Mall | 6 | 5,178,424 | 2.8% | 0 | 0 | 0 | $24.20 |
Power Center | 8 | 3,231,348 | 1.9% | 0 | 13,433 | 0 | $21.86 |
Shopping Center | 551 | 23,141,470 | 10.3% | (3,822) | (3,822) | 44,277 | $14.56 |
Specialty Center | 2 | 501,689 | 0% | 0 | 0 | 0 | $16.42 |

Key Lease Transactions Q1 2016

PROPERTY | SF | TENANT | TRANSACTION TYPE | SUBMARKET |
----------|----|--------|------------------|-----------|
Speedway Retail Center | 29,211 | Midtown Mercantile Merchants, LLC | Lease | Central East |
6431 N. Thornydale Rd | 19,500 | Tucson Furniture Connection | Lease | Northwest |
3840-3870 W. River Rd | 18,125 | Bealls Outlet | Lease | Foothills |
5045 E. Speedway Blvd | 18,000 | Speedway Antique Mall | Lease | Central East |

Key Sale Transactions Q1 2016

PROPERTY | SF | SELLER/BUYER | PRICE / $PSF | SUBMARKET |
----------|----|-------------|--------------|-----------|
130 E. Congress St | 21,755 | Chicago Store / Ronald & Patricia Schwabe | $1,850,045 / $85 | Downtown |
605 W. Ajo Wy – Walgreens | 14,490 | Shamie Development / RCK Properties | $7,750,000 / $535 | South |
1900 S. 6th Ave - Walgreens | 13,500 | Jeffrey A Morris Group / Takeesh, LLC | $3,582,600 / $265 | South |

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