

MARKETBEAT

Tucson

Retail Q1 2019



CUSHMAN & WAKEFIELD



PICOR

ECONOMIC INDICATORS

National

	Q1 18	Q1 19*	12-Month Forecast**
GDP Growth	2.6%	2.9%	▲
CPI Growth	2.2%	1.6%	▲
Consumer Spending Growth	2.4%	3.2%	▲
Retail Sales Growth	4.9%	4.2%	▲

*Q1 19 Estimates. Values represent year-over-year % change.

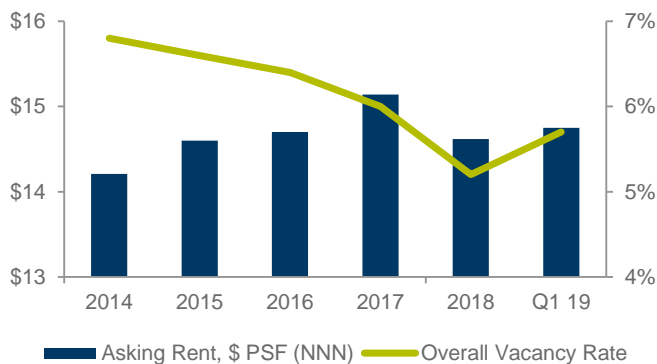
**Forecast by Cushman & Wakefield

Regional

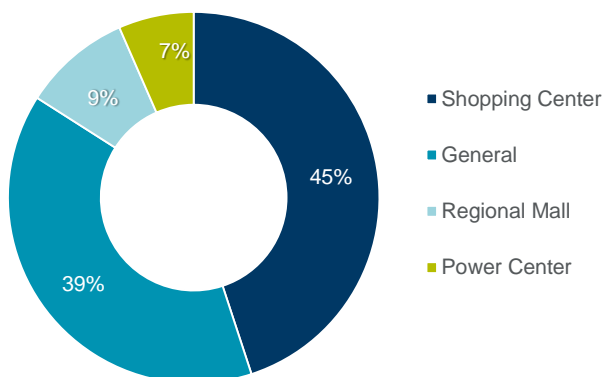
	Q1 18	Q1 19*	12-Month Forecast
Household Income	\$52,254	\$53,947	▲
Population Growth YOY	1.2%	1.4%	▲
Unemployment	4.3%	4.7%	▼

Source: Moody's Analytics

Rental Rate vs. Overall Vacancy



Availability by Type



Economy

The state of Arizona is riding an employment high with over 110,000 jobs added in 2018 and continued momentum into 2019, with employment growth ranking third in the nation for the first two months of the year. Tucson continued to experience full employment, ending February at a 4.5% unemployment rate and adding 5,400 jobs over the past year. Occupational areas expected to have the highest growth in the next 12 months are Architecture and Engineering at 9.0%, Computer and Mathematical at 6.4% and Construction and Extraction at 6.1%. Tucson's average home sales price of \$259,466 was up 4.2% year-over-year, while new home permits were up 5.2% in the same time period. Taxable retail sales statewide were up 4.9% in January over the prior year.

Market Overview

The first quarter of 2019 closed out with an apparent alarming shift in reported absorption. Compared to positive absorption of retail space in the fourth quarter of 2018 of 178,424 square feet (sf), the first quarter ended with negative absorption of -18,054 sf. This statistic is, however, misleading. The closure of Tucson's last Kmart department store at Broadway Blvd and Kolb Rd accounts for -145,152 sf of negative absorption by itself. If that one vacancy were backed out of the total absorption for the entire Tucson retail market, the true absorption would be positive 127,098 sf – much more in line with the overall rapid pace of the retail real estate market in Tucson. Of the fifteen retail submarkets in Tucson, only three experienced negative absorption of retail space: East (-184,000 sf including the 145,152-sf former Kmart), North/Oro Valley (-21,300 sf), and West Tucson (-8,300 sf). Interestingly, the Southwest Tucson retail submarket led the overall Tucson market with 48,673 sf of positive absorption with a twelve-month absorption of positive 108,000 sf – third in the market behind Southeast (+194,000 sf) and South (+120,000 sf). The burgeoning Southwest submarket also laid claim to the largest investment sale in the Tucson market. A 25,000-sf section of the Santa Cruz Plaza sold to CRE Strategic Investments LLC (Safco Capital Corporation, Seller) for \$2,475,000 (\$99 per square foot). Tenants were Davita Dialysis and Desert Sports and Fitness. With the development of The Landing on the northwest corner of the intersection at Irvington and Interstate 19, the Southwest submarket continues to grow in inventory and market prominence.

Outlook

A vibrant economy and excellent employment figures continue to drive retail spending. Absorption remains strong in the Tucson retail real estate market and is expected to remain that way throughout the remainder of the year. New deliveries will keep pace with demand as retail continues to expand.

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SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	OVERALL VACANCY RATE	OVERALL CURRENT NET ABSORPTION (SF)	OVERALL YTD NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (NNN)
Central East	1,163	8,482,007	5.3%	15,984	15,984	3,760	\$13.93
Central West	767	7,269,094	4.6%	-18,795	-18,795	0	\$11.80
Downtown	317	1,851,635	4.7%	-15,403	-15,403	0	\$19.64
East	786	9,958,953	7.5%	-165,431	-165,431	4,989	\$14.72
Foothills	291	5,277,626	4.0%	-42,805	-42,805	0	\$20.51
North/Oro Valley	183	2,587,691	7.9%	1,623	1,623	0	\$20.43
Northeast	25	354,139	9.7%	-9,985	-9,985	0	\$18.57
Northwest	276	4,150,063	5.3%	15,261	15,261	0	\$17.63
South	994	6,658,153	5.5%	417	417	0	\$13.36
South/SW Outlying	145	1,808,853	3.9%	-26,551	-26,551	5,124	\$13.13
Southeast	139	1,789,176	6.4%	9,398	9,398	21,872	\$17.51
Southwest	194	2,708,265	6.3%	48,673	48,673	7,040	\$9.16
West	175	1,193,948	4.5%	7,074	7,074	0	\$12.82
TUCSON TOTALS	5,455	54,089,603	5.6%	-180,540	-180,540	42,785	\$14.75

*Rental rates reflect gross asking \$psf/year

SUBUSE	TOTAL BLDGS/CTRS	INVENTORY (SF)	OVERALL VACANCY RATE	CURRENT OVERALL NET ABSORPTION (SF)	OVERALL YTD NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (NNN)
General Retail	3,737	21,132,378	2.7%	76,738	76,738	16,532	\$14.62
Mall	6	5,092,717	3.8%	-193,699	-193,699	0	\$12.00
Power Center	8	3,545,640	3.0%	-5,310	-5,310	0	\$28.75
Shopping Center	559	24,318,868	9.0%	-58,269	-58,269	26,253	\$14.45

Key Lease Transactions Q1 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
2615 S. 6 th Ave	11,504	Café Santa Rosa	Direct	South
3960 N. Stone Ave	9,180	Iglesia Cristo Vive	Direct	Central West
3342-3354 S. 6 th Ave	6,700	Melrose	Direct	South
3007 E. Speedway Blvd	2,307	Dave's Bar-B-Que	Direct	Central East

Key Sales Transactions Q1 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Santa Cruz Plaza- 3662-3672 S. 16 th Ave	25,000	Safco Capital Corporation/ CRE Strategic Investments LLC	\$2,475,000/\$99	South
La-Z-Boy- 2040 W. Ina Rd	17,867	Beef St Real Estate, LLC/ VEREIT Real Estate L.P.	\$6,171,893/\$345	Foothills
1580 Tucson Marketplace Blvd	9,223	Fullerton Properties, Inc./ Shafer Commercial Seating	\$4,134,000/\$448	South
3751 S. Pantano Rd	9,100	Golden Aspen Investments LLC/Thomas Investments Limited Partnership	\$1,905,100/\$209	Southeast

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