

ECONOMIC INDICATORS

National

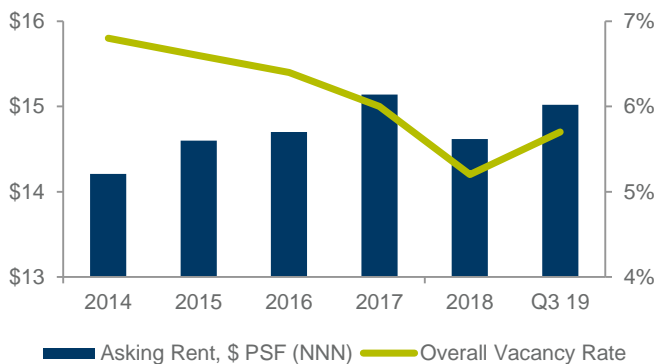
	Q3 18	Q3 19	12-Month Forecast
GDP Growth	3.1%	2.1%	▲
CPI Growth	2.6%	1.8%	▲
Consumer Spending Growth	5.9%	4.1%	▲
Retail Sales Growth	5.6%	3.7%	▲

Regional

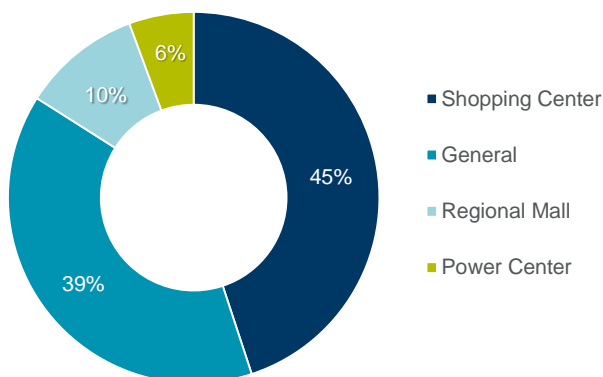
	Q3 18	Q3 19	12-Month Forecast
Median Household Income	\$52,900	\$54,300	▲
Population Growth YOY	1.2%	1.4%	■
Unemployment	4.4%	4.7%	▼

Q3 2019 data are based on latest available data. Growth rates are year-over-year. Source: BLS, BOC, Moody's Analytics

Rental Rate vs. Overall Vacancy



Availability by Type



Economy

Tucson Median household income is up 2.6% over the past year and US consumer spending growth is up 4.1%. Labor and materials costs continue to increase, effectively increasing development cost. Recent openings of Gunnison Project Copper Mine and South 32 Mine in Patagonia have spurred growth in Southern Arizona Mining and the businesses that support the mining industry. Recent residential master planned communities such as Lazy K, Rocking K, and Gladden Farms continue to move forward, spurring job growth in the construction industry and absorption of industrial property for contractors and construction supplies distributors. Tucson population has grown 1.4% over the past year. California residents and companies are increasingly moving to Tucson as California costs continue to rise. US unemployment improved to 3.7% and Tucson's improved to 4.7%.

Market Overview

The Tucson Retail Real Estate Market had a very slight uptick in vacancy in the third quarter to 5.4% from 5.3% in the second quarter of 2019. The market experienced 29,247 square feet (sf) of negative net absorption while the overall retail inventory expanded to 54.1 million square feet (msf), a net increase in inventory of 64,580 sf. The oddity of expanding inventory in a period of increasing vacancy clearly indicates the influence of the added importance of location and market position in today's retail market. Location is paramount and new properties in better locations are in demand; leaving obsolete properties vacant. During this same time period, vacancy in shopping centers went from 8.4% to 8.2% due to absorption in this property type of 48,219 sf. While this movement may seem inconsequential to the overall market, it is interesting to note the difference compared to the movement in shopping mall vacancy. Shopping mall vacancy went from a relatively low 4.3% vacancy rate in the second quarter to 6.2% in the third quarter; a 48% increase in vacancy in just one quarter. Power center vacancy during the same period moved up from just .5% all the way up to 2.2% from the second to third quarter.

Outlook

The national retail real estate market is undergoing radical change. Locally, neighborhood centers are gaining ground in occupancy due to the internet resistance of grocery and proximity to the consumer, while enclosed shopping malls are feeling the deepest effects of change. Effective adaptive reuse of department store spaces will ensure continued success of these properties. Failure to adapt these properties to modern expectations will leave the malls behind. The partial Sears conversion to Round 1 entertainment is a recent, positive example.

# MARKETBEAT

## Tucson

Retail Q3 2019



SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	OVERALL VACANCY RATE	OVERALL CURRENT NET ABSORPTION (SF)	OVERALL YTD NET ABSORPTION (SF)	UNDER CONSTRUCTION (SF)	OVERALL AVERAGE ASKING RENT (NNN)
Central East	1,162	8,578,675	5.4%	2,101	24,102	12,100	\$14.17
Central West	766	7,254,352	3.4%	35,239	65,571	0	\$11.93
Downtown	317	1,868,012	5.0%	6,273	-29,093	0	\$20.10
East	783	9,965,235	8.1%	-68,532	-223,978	2,896	\$14.59
Foothills	295	5,177,295	3.6%	3,356	-30,342	0	\$21.01
North/Oro Valley	181	2,534,671	9.4%	-47,019	-32,862	5,280	\$20.25
Northeast	25	350,322	13.8%	-14,000	-23,985	0	\$19.78
Northwest	283	4,235,394	6.3%	-38,808	-8,713	7,800	\$15.79
South	991	6,573,009	4.7%	39,864	22,530	39,858	\$14.02
South/SW Outlying	147	1,795,794	4.2%	7,202	-24,909	0	\$13.73
Southeast	140	1,818,418	7.5%	3,164	9,907	4,490	\$18.85
Southwest	198	2,732,002	6.2%	18,584	81,767	2,000	\$26.18
West	175	1,195,274	2.2%	22,029	35,297	0	\$17.61
<b>TUCSON TOTALS</b>	<b>5,463</b>	<b>54,078,453</b>	<b>5.7%</b>	<b>-30,547</b>	<b>-134,708</b>	<b>74,424</b>	<b>\$15.31</b>

\*Rental rates reflect gross asking \$psf/year

SUBUSE	TOTAL BLDGS/CTRS	INVENTORY (SF)	OVERALL VACANCY RATE	OVERALL CURRENT NET ABSORPTION (SF)	OVERALL YTD NET ABSORPTION (SF)	UNDER CONSTRUCTION (SF)	OVERALL AVERAGE ASKING RENT (NNN)
General Retail	3,790	21,120,904	2.7%	83,588	206,414	21,124	\$15.31
Mall	71	5,610,334	7.3%	-128,560	-324,433		\$12.32
Power Center	112	3,044,994	2.1%	-49,594	-48,026	41,200	\$27.56
Shopping Center	1,490	24,302,221	8.3%	64,019	31,337	12,100	\$14.92

### Key Lease Transactions Q3 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
3601 E. Broadway Blvd	71,698	Cinemark	Renewal	Central East
2940 S. 6th Ave	9,932	Goode Deals Liquidation Store	Lease	South
3102-3160 E. Fort Lowell Rd	7,480	Vineyard City Church	Lease	Central
7215 E. 22nd St	4,000	Shades of Grey Tattoo	Lease	East

### Key Sales Transactions Q3 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Oro Valley Marketplace	515,259	Vestar / Town West Realty, Inc.	\$45,000,000 / \$87	North/Oro Valley
Two Oracle Place - 7315 N. Oracle Rd	53,524	Romano Real Estate / Richard Volk	\$3,700,000 / \$69	Foothills
Tucson Marketplace - 150,250 N. Pantano Rd	29,523	Novarus Capital Group Inc. / Bernard J MacElhenny, Jr.	\$3,700,000 / \$125	East
Santa Cruz Plaza	34,000	Kamran Gharibian / Satyakumar Bhavanasi	\$1,706,250 / \$50	South

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