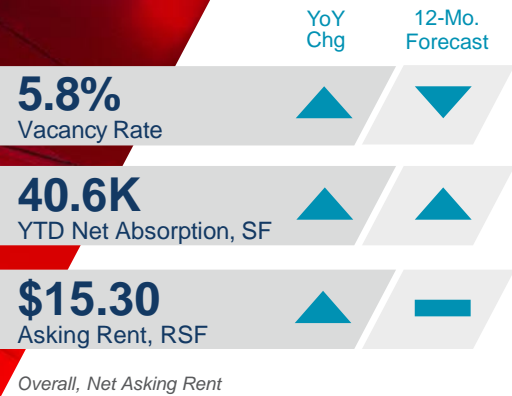


# TUCSON

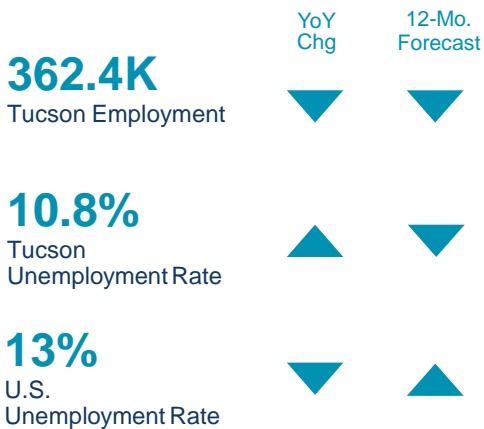
Retail Q2 2020

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## U.S. ECONOMIC INDICATORS Q2 2020



Source: BLS

## ECONOMY:

The disruption caused by the COVID-19 pandemic is unprecedented in modern history. The sudden economic impact of the State of Arizona's shutdown/stay at home order in mid-March posed unique challenges to the Tucson retail market. While all retailers were affected, food and beverage operators, gyms and hospitality operators bore the brunt of the impact. Curtailed travel and tourism decimated hotel occupancy, low demand depressed fuel prices, and restaurants struggled to remain solvent, even when allowed to open with restrictions. Tourism contributes \$3.3 billion annually to Tucson's regional economy. That inflow had effectively been turned off. Whether or not this impact will persist beyond the cyclically slower summer months into the beginning of the fall tourist season is yet to be seen.

## SUPPLY OR DEMAND:

While some retail sectors have suffered greatly, others have flourished during this time. Hardware and home improvement stores are booming as people work from home. Similarly, office supply and information technology providers are backlogged strained to meet demand for home office and distance learning improvements, upgrades, and retrofits. Demand for items such as bicycles and home exercise equipment has never been higher with bike shops and sporting goods stores struggling to maintain inventory. Sales of recreational vehicles such as RVs and sport cycles and vehicles are off the charts. Even sectors of the restaurant business have thrived. Those with strong to-go and drive-through sales substantially mitigated or have been unaffected by this disruption. To-go food such as burgers, pizza, and Asian cuisine are doing well, with Papa John's Pizza posting the strongest growth nationally in second quarter same store sales in the history of the company. The local automotive sales sector has also shifted emphasis from new to used vehicles. Where new car dealers were selling less desirable, high mileage, trade-in vehicles at auction, they are now placing them on the sales lot and selling the cars themselves.

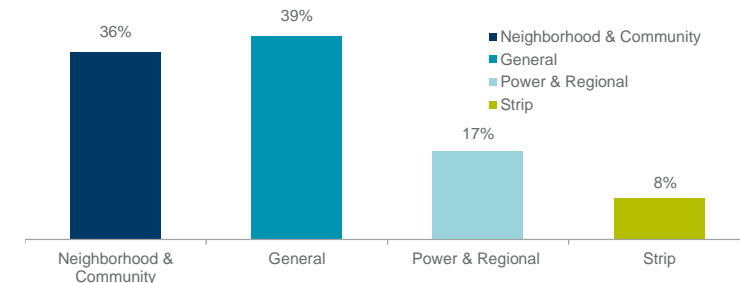
## PRICING:

Pricing is difficult to impossible to predict in times of great change. As the Tucson real estate market works its way through the effects of the COVID-19 pandemic, the duration of disruption will become clearer. It is safe to say that vacancy will increase and put downward pressure on rents as landlords adjust to the current economic conditions. How far vacancy rises and rents fall as a result is a function of science, not economics. Average market rent is a lagging indicator. Average daily asking retail rental rates began the 2nd quarter at \$15.20 per square foot (psf) to a quarterly low at just under \$14.90 psf but recovering to \$15.30 psf by the end of the 2nd quarter. While the statistics imply an upward trend, the reality is that the current and possibly ongoing effects of the current pandemic situation are expected to create increased downward pressure on retail rental rates.

## RENT / VACANCY RATE



## AVAILABILITY BY PRODUCT TYPE



# TUCSON

Retail Q2 2020

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## MARKET STATISTICS

| SUBMARKET            | INVENTORY (SF)    | SUBLET VACANT(SF) | DIRECT VACANT (SF) | OVERALL VACANCY RATE | CURRENT QTR OVERALL NET ABSORPTION(SF) | YTD OVERALL NET ABSORPTION (SF) | UNDER CNSTR (SF) | OVERALL AVG ASKING RENT (NNN)* |
|----------------------|-------------------|-------------------|--------------------|----------------------|--|---------------------------------|------------------|--------------------------------|
| Central East         | 9,543,822         | 3,042             | 487,345            | 5.1%                 | -16,802                                | -19,787                         | 0                | \$13.61                        |
| Central West         | 7,552,710         | 34,662            | 261,442            | 3.9%                 | 43,101                                 | -36,625                         | 1,760            | \$12.37                        |
| Downtown             | 1,836,284         | 0                 | 121,191            | 6.6%                 | -5,557                                 | -8,295                          | 6,065            | \$20.81                        |
| East                 | 10,055,971        | 22,960            | 901,329            | 9.2%                 | -14,453                                | 19,371                          | 0                | \$15.46                        |
| Foothills            | 4,839,697         | 3,855             | 111,140            | 2.4%                 | 12,941                                 | 24,987                          | 41,132           | \$22.11                        |
| North/Oro Valley     | 2,557,188         | 2,736             | 182,610            | 7.2%                 | 61,260                                 | 58,839                          | 17,750           | \$21.26                        |
| Northeast            | 301,578           | 0                 | 47,482             | 15.7%                | 11,250                                 | -1,753                          | 0                | \$21.11                        |
| Northwest            | 4,390,920         | 0                 | 303,110            | 6.9%                 | -4,190                                 | -32,214                         | 0                | \$15.26                        |
| South                | 6,798,564         | 14,560            | 324,827            | 5.0%                 | -13,208                                | 16,538                          | 35,900           | \$13.76                        |
| South/SW Outlying    | 1,830,260         | 0                 | 78,773             | 4.3%                 | -16,827                                | -3,905                          | 0                | \$10.07                        |
| Southeast            | 1,839,297         | 0                 | 143,096            | 7.8%                 | -4,325                                 | 11,888                          | 28,165           | \$15.04                        |
| Southwest            | 2,888,165         | 0                 | 155,241            | 5.4%                 | 9,317                                  | 9,317                           | 11,000           | \$27.14                        |
| West                 | 1,227,375         | 0                 | 20,388             | 1.7%                 | 0                                      | 2,295                           | 0                | \$19.08                        |
| <b>TUCSON TOTALS</b> | <b>55,661,831</b> | <b>81,815</b>     | <b>3,137,974</b>   | <b>5.8%</b>          | <b>62,507</b>                          | <b>40,656</b>                   | <b>141,772</b>   | <b>\$15.30</b>                 |

\*Rental rates reflect full service asking

## KEY LEASE TRANSACTIONS Q2 2020

| PROPERTY                     | SUBMARKET    | TENANT       | SF     | TYPE     |
|------------------------------|--------------|--------------|--------|----------|
| 6900 East Sunrise Drive      | Foothills    | Bashas'      | 52,556 | Renewal* |
| 902 West Irvington Road      | South        | AutoZone     | 29,048 | New      |
| 4951 East Grant Road         | Central East | Hanger, Inc. | 5,904  | New      |
| 6155 East Broadway Boulevard | East         | Golf Stop    | 4,536  | Renewal* |

\*Renewals not included in leasing statistics

## KEY SALES TRANSACTIONS Q2 2020

| PROPERTY                                      | SUBMARKET    | SELLER / BUYER  | SF     | PRICE / \$ PSF  |
|---|--------------|---|--------|-----------------|
| Mission Plaza<br>4601-4679 East Speedway Blvd | Central East | William K. Langfan / Brad Litwin  | 57,945 | \$3.4 M / \$60  |
| 3655 East Grant Road                          | Central East | Wells Fargo Advisors /<br>El Rio Community Health Center                | 30,600 | \$1.8 M / \$59  |
| 3700 East Fort Lowell Road                    | Central East | Henry A & Shirley Goldman Family Trust /<br>West Coast Capital Partners | 18,210 | \$1.3 M / \$73  |
| 4685 E Grant Rd - Walgreens                   | Central East | Walgreens Boots Alliance /<br>Sun Trust Equity Funding LLC /Trust       | 15,608 | \$6.5 M / \$415 |

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