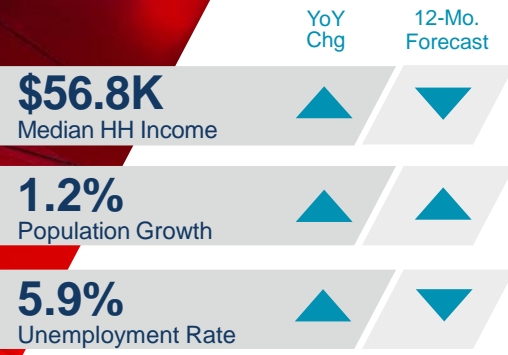


TUCSON

Retail Q3 2020

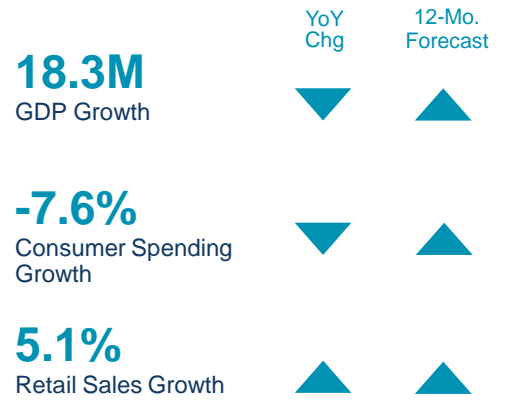
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Source: BLS (Economic Indicators are representative of specific county or MSA.)

U.S. ECONOMIC INDICATORS Q3 2020



Source: BEA, Census Bureau

ECONOMY:

Amid the COVID-19 pandemic, more than 20,000 businesses in Arizona received economic relief from the federal government. Arizona's unemployment rate has fallen from 10.7% in July to 5.9% in September due to nearly 80,000 jobs being added in August. Job gains were posted across ten private sectors, with the largest increases seen in health services, education, and transportation. After reaching a high of 13.1% in April, Tucson's unemployment correlated closely to the state's, falling from 10.7% in July to 5.9% in September versus a national unemployment rate of 8.8%.

SUPPLY OR DEMAND:

As in most markets in the United States, the Tucson retail real estate market was strained to adapt to the realities of COVID-19 era business. Some large format retailers already pressured by online retailing and changing consumer preferences have simply been unable to continue operation. The second quarter closing of Macy's at Park Place Mall (153,511 square feet (sf)) was followed by JC Penney's at El Con (220,291 sf). These closures have happened on the heels of bankruptcy proceedings for GNC, Victoria's Secret, Pier One Imports, Stein Mart, Papyrus, Stage, Brooks Brothers, Tuesday Morning, and others impacting shopping malls most heavily. As a result, malls in Tucson currently post the highest vacancy rate of any retail subtype at 10.9%. This stands in stark contrast to low vacancy rates at Power Centers (2.1%) and General Retail (2.9%). The lower vacancy rates in both subgroups may be due to a combination of greater potential for adaptive reuse (office, medical, etc.) and the relative tolerance to COVID-19 impacts as open air structures. Overall aggregate retail vacancy rates will continue to appear high until these major mall vacancies are either re-tenanted or, more likely, re-purposed. Unfortunately, the stresses of the current pandemic have not been restricted to malls and large retailers. The Tucson restaurant market lost some mainstays and community favorites with the recent closure of Athens on 4th, Alibaba Mediterranean, Rincon Market, Gee's Garden, and Café Poca Cosa. Restricted operating guidelines set forth by the Pima County Health Department have created a restaurant business environment that many local operators simply cannot withstand.

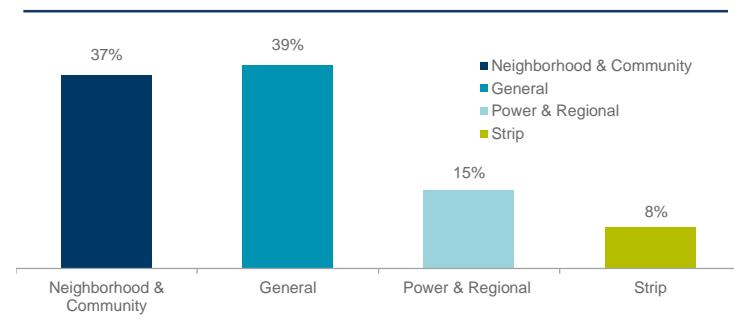
PRICING:

Even under the current COVID-19 related constraints, the end of the Q3 saw a 12-month rent growth of 2.5% year-over-year to post an average triple net (NNN) market rent of \$17.86 per square foot (psf) per year. This is an excellent indicator of the overall vibrancy of the retail market in Tucson. Positive rent growth at a 6.4% vacancy rate highlights that the vacancy statistics are skewed by shopping mall and big box vacancy. When mall inventory and vacancy are backed out of the overall retail inventory and vacancy, the result is a non-mall vacancy rate of 5.9%, consistent with the positive, but moderate, rent growth that the Tucson retail market has experienced.

RENT / VACANCY RATE



AVAILABILITY BY PRODUCT TYPE



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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	9,620,997	3,042	759,245	7.9%	(192,767)	-299,178	0	\$17.56
Central West	7,277,971	12,912	263,223	3.8%	31,586	-18,340	6,000	\$16.64
Downtown	1,854,237	0	125,088	6.7%	(67,155)	-30,648	6,065	\$17.49
East	9,651,575	17,490	943,527	10.0%	(51,028)	-5,332	10,000	\$17.12
Foothills	4,915,935	3,855	135,721	2.8%	(11,725)	77,753	8,571	\$22.03
North/Oro Valley	2,581,923	2,736	198,703	7.8%	(18,571)	43,909	24,490	\$21.41
Northeast	301,578	0	44,291	14.7%	991	-15,678	0	\$17.90
Northwest	4,444,052	3,797	270,163	6.2%	12,541	59,539	4,000	\$18.42
South	6,757,526	14,560	321,194	5.0%	8,805	44,948	15,800	\$14.95
South/SW Outlying	1,818,767	0	83,054	4.6%	(912)	-6,894	8,534	\$18.36
Southeast	1,834,684	0	145,608	7.9%	(2,400)	11,956	6,807	\$17.83
Southwest	2,924,365	0	144,311	4.9%	0	34,289	0	\$20.15
West	1,227,449	0	28,068	2.3%	0	-2,449	0	\$18.51
TUCSON TOTALS	55,211,059	58,392	3,462,196	6.4%	-290,635	-106,125	90,267	\$17.86

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	TENANT	SF	TYPE
5480 East 22nd Street	South	Dollar Tree	14,560	New
3000 East 22nd Street	South	Family Dollar	9,556	New
22nd Street Auto Mall	East	RNR Tire Express	5,324	New
Broadway Plaza 7835 East Broadway Blvd	East	Isle Of Games	3,435	New

KEY SALES TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
8019 East Golf Links Road	East	GRD Tucson, LLC / FSC 8PS Tucson AZ, LLC	15,125	\$8.9M / \$590
10390 North La Canada Drive	North/Oro Valley	SOD Brookside, LLC / Deerwood Investments Utah, LLC	14,958	\$5.7M / \$381
5480 East 22nd Street	Central East	Shapiro Family Tucson, LLC / SRMM Investment, LLC	14,560	\$4.1M / \$282
8400 North Cracker Barrel Road	Northwest	CBOCS WEST INC / Oak Street Real Estate Capital	9,138	\$3.9M / \$430

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