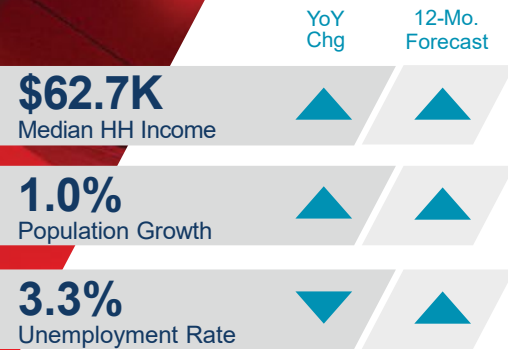


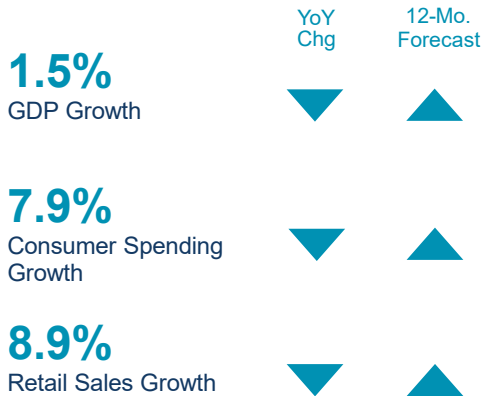
TUCSON

Retail Q3 2022



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

U.S. ECONOMIC INDICATORS Q3 2022



Source: BEA, Census Bureau

ECONOMY:

In the third quarter of 2022 employment in the Tucson metropolitan area totaled 394,200 jobs, up 2.9% over Q3 2021. The unemployment rate dropped from 4.6% in Q3 2021 to 3.3% in Q3 2022. Household formation grew 1.9% year-over-year (YOY). Nationally, consumer spending was up 7.9% and retail sales were up a strong 8.9% YOY. As the Fed works to moderate inflation, many economists expect it to linger. Within Arizona, statewide growth is expected to far outpace the U.S. in the long run.

SUPPLY OR DEMAND:

Strong activity in the retail sector is holding Tucson's retail vacancy rate at 6.3% while lease rates continue to increase. Medical is the most active, followed by restaurant use and fitness. The shortage of second-generation restaurant space is contributing to the willingness of some restaurateurs to venture into new construction. Vacancy rates in the Foothills area is very low, particularly in the Sunrise/Skyline corridor where there are just one or two small open spaces. Southwest Tucson, in the Valencia and Irvington areas are also strong. Activity in the Northwest is also strong, especially in the Tangerine/Oracle area with new construction coming online and filling quickly. In Southeast Tucson, phase two of the Houghton Town Center is getting ready to kick off in Vail with more pads, junior boxes and anchors. Popular consensus is that they will have no problem filling it.

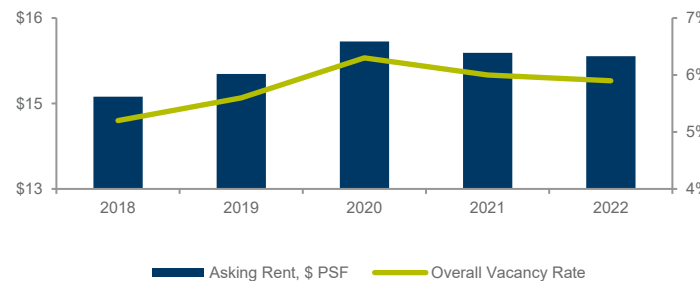
The build-to-suit market is experiencing some hesitancy due to rising construction and material costs. The uncertainty stems from concern locking into a lease rate with a tenant only to have the construction costs come in significantly higher and change the economics of the transaction. As a result, ground leases are on the rise with retailers building for their own use. This is happening with fast food, restaurants and more. While there is currently 150,000 square feet (sf) of retail space under construction, only about 15% of it is available for lease with the rest being build-to-suit for auto parts stores and restaurants. In the investment market, sale volume moderated in Q3 but Tucson is seeing strong interest from out-of-state investors, particularly those from California, due to more favorable cap rates in the region. However, we are seeing cap rates increasing as interest rates are rising.

PRICING:

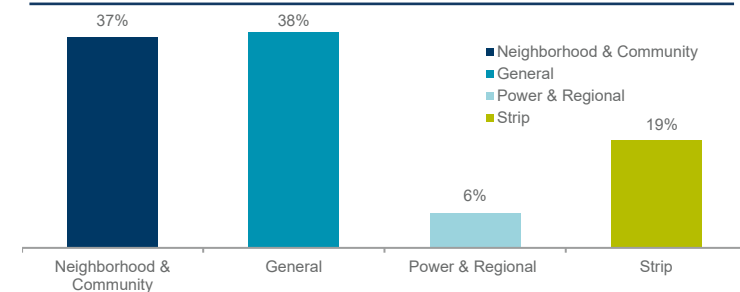
The investment sale market is currently holding its own. The supply of 1031 buyers exchanging out of lower cap rate sales from early 2022 is drying up. We are seeing more traditional buyers expecting yields margined from the new increased cost of debt. The investment market is in a state of transition.

Average price per square foot sold for the quarter is \$144. Forty thousand (40K) sf of retail space at Placita Del Rio at Irvington and I-10 sold for \$5.6 million to a California investor. Several other centers are in escrow as of 3Q and will be reported in Q4.

RENT / VACANCY RATE



AVAILABILITY BY PRODUCT TYPE



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	8,838,495	13,650	694,862	7.90%	-1,862	99,914	0	\$14.59
Central West	7,439,271	0	441,238	5.80%	8,669	-12,830	0	\$13.00
Downtown	1,899,304	0	0	4.50%	6,063	5,424	0	\$16.83
East	9,622,693	3,003	954,794	9.80%	-70,533	10,098	0	\$16.32
Foothills	5,807,210	0	155,763	2.70%	42,045	66,175	0	\$19.99
North/Oro Valley	2,576,130	0	161,460	6.30%	27,116	10,091	0	\$22.11
Northeast	315,833	0	62,418	19.80%	250	250	0	\$16.41
Northwest	4,665,821	0	351,361	7.30%	-2,996	-172,014	0	\$14.63
South	7,084,380	18,095	203,456	3.10%	38,167	97,779	0	\$13.07
South/SW Outlying	2,276,825	0	84,951	3.10%	23,470	84,667	0	\$13.55
Southeast	1,845,447	0	64,126	3.50%	3,165	23,924	0	\$19.89
Southwest	3,023,159	0	62,827	2.10%	-15,450	50,465	0	\$20.58
West	859,177	0	35,516	4.10%	-165	-388	0	\$10.33
TUCSON TOTALS	56,253,745	34,748	3,272,770	5.90%	57,939	263,555	0	\$15.33

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
290 West Fort Lowell Road**	Central West	Parts Authority	21,750	New
2430 South Harrison Road**	East Tucson	Old School Thrift	10,388	New
North Oracle & First Avenue	North/Oro Valley	Undisclosed	9,170	New
500 East 29th Street**	South	Undisclosed	6,400	New

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KEY SALES TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
5950 East Broadway Boulevard	East	Seritage Growth Properties / Evergreen Development Co.	218,829	\$51.12
910-918 West Irvington Road	South	Ashland Group - Millennium LLC / MSC Investments Tucson LLC	34,000	\$155.88
6330 E Golf Links Road	Southeast	Glenwood Development Company / SK Madan	25,600	\$244.73
5950 East Broadway Boulevard	East	Seritage Growth Properties / Evergreen Development Co.	14,000	\$58.15

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