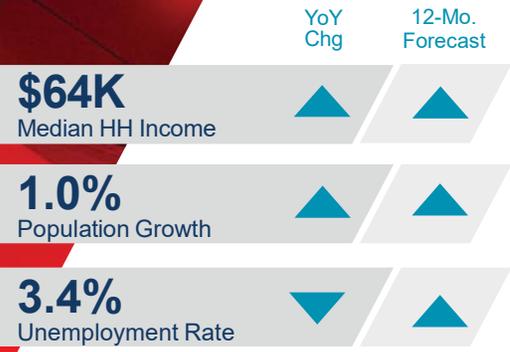


TUCSON

Retail Q2 2023



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

U.S. ECONOMIC INDICATORS Q2 2023



Source: BEA, Census Bureau

ECONOMY:

In the second quarter of 2023, the US economy continued to exhibit resilience, with favorable implications for commercial real estate. Year-over-year (YOY) median household income grew from \$69,700 to \$72,900, supporting consumer spending and retail sales. Real GDP was up 2.1%, indicating strength amid economic headwinds. Of significance, the consumer price index reflected 11 consecutive months of decreasing inflation, dropping from 8.6% to 4.0% YOY. In Tucson positive trends persisted, with median household income rising from \$3.2% YOY. Nonfarm employment increased 1.5%, reflecting a stable, if not robust, job market. The unemployment rate declined from 3.7% to 3.4%, suggesting improved labor conditions.

SUPPLY AND DEMAND:

The Tucson retail commercial real estate market in Q2 showed steady signs of improvement, with continued absorption of 270,000 square feet (sf) over the past 12 months causing a decrease in the overall vacancy rate from 6.2% one year ago to the current 5.6%. This positive trend surpasses the previous 5-year annual average of 230,000 sf of positive absorption, indicating progress. However, local retail rates have increased by only 2.8%, still lagging behind the national average of 3.6%. The market has not yet reached a level that would stimulate speculative retail building and development. New building and development is further stunted due to inflated construction costs and high interest rates. Nationally, the vast majority (87%) of retail construction projects are pre-leased or built-to-suit.

In Q2, Tucson's retail commercial real estate market witnessed strong retail expansion in sectors such as entertainment, fitness/wellness, healthcare, and auto stores. There was also a notable demand for food and beverage establishments, particularly those with drive-thru and grab-and-go setups. Key lease deals included Suvida, a national healthcare provider, securing a 21,888 sf building in west Tucson, Planet Fitness acquiring an 18,125 sf space in the Foothills submarket, and Site 17 Event Center leasing 17,474 sf in downtown Tucson.

On the investment sales side, the Marriot Star Pass Resort & Spa set a new record with a \$112 million sale, while Cottonwood Plaza sold for \$9,086,003 in the Foothills submarket. The market is adjusting to a new debt environment, and as a result, the retail capital market activity remains slow, primarily due to outdated and unrealistic capitalization (cap) rates compared to the cost of available debt. A reduction in interest rates or forced sales of retail assets may be necessary to stimulate activity and create a convergence between cap rates and interest rates.

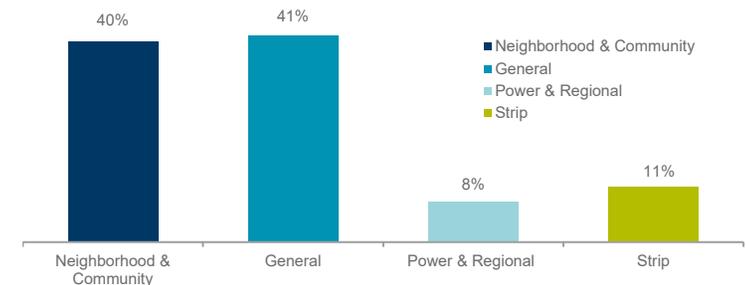
PRICING:

Despite a decline in 2022, retail rental rates have rebounded with a 2.7% increase compared to last year. Tucson's rent growth is projected to continue, particularly in wealthier submarkets, commanding a 25% premium over the market average. Investment sale pricing has remained stagnant, with an average cap rate of 6.14% and an average sale price per square foot of \$195 over the past twelve months.

RENT / VACANCY RATE



AVAILABILITY BY PRODUCT TYPE



SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (NNN)*
Central East	8,890,037	2,070	635,533	7.2%	7,081	87,442	8,497	\$14.01
Central West	7,420,044	14,820	375,247	5.3%	17,634	27,860	0	\$13.46
Downtown	1,920,986	0	49,419	2.6%	14,035	29,970	21,600	\$17.92
East	9,614,816	0	936,807	9.7%	26,256	11,497	0	\$17.33
Foothills	5,786,813	0	180,914	3.1%	-19,534	-28,112	3,700	\$18.70
North/Oro Valley	2,565,945	0	188,257	7.3%	4,670	12,861	4,500	\$20.06
Northeast	316,635	0	55,100	17.4%	0	1,628	7,432	\$16.44
Northwest	4,684,616	1,166	261,239	5.6%	40,586	74,244	0	\$16.80
South	7,072,880	50,000	230,879	4.0%	-17,595	-3,795	9,435	\$14.52
South/SW Outlying	1,964,580	0	54,946	2.8%	-3,487	-7,173	0	\$13.49
Southeast	1,915,262	0	50,908	2.7%	936	17,441	0	\$18.91
Southwest	3,084,646	0	46,258	1.5%	87,821	148,948	8,413	\$23.51
West	888,897	0	32,226	3.6%	-715	4,490	0	\$9.74
TUCSON TOTALS	56,126,157	68,056	3,097,733	5.6%	157,688	377,301	63,577	\$15.58

*Rental rates reflect NNN asking

KEY LEASE TRANSACTIONS Q2 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1201 West Saint Mary's Road	West	Suvida	21,888	New Lease
3840-3860 West River Road	Foothills	Planet Fitness	18,125	New Lease
1 East Toole Avenue	Downtown	Site 17 Event Center	17,474	New Lease
4343 North Oracle Road**	Central West	Parkinson Wellness Recovery Gym	16,040	Renewal
12995-13005 North Oracle Road	North/Oro Valley	Harbor Freight Tools	15,441	New Lease

**At least one party represented by Cushman & Wakefield or Cushman & Wakefield | PICOR

KEY SALES TRANSACTIONS Q2 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
3800 West Starr Pass Boulevard	Northwest	3800 Wspb Buyer, LLC. / SWVP Starr Pass, LLC.	819,852	\$112M / \$136.61
3390 South 6th Avenue	South	Curacao / Undisclosed	90,224	Part of Portfolio / Part of Portfolio
617-665 West Valencia Road	South	Brand One, LLC. / Perdzies Properties, LLC.	46,939	\$4.6M / \$99.97
7252-7356 North Oracle Road	Foothills	Cottonwood Plaza, LLC. / Back to the Future Cottonwood, LLC.	40,939	\$9M / \$221.94
29-55 West Congress Street**	Downtown	BC Limited, LLC. / Hazen Congress, LLC.	19,920	Part of Portfolio / Part of Portfolio

**At least one party represented by Cushman & Wakefield | PICOR

KEY CONSTRUCTION COMPLETIONS YTD 2023

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
4672 South Landing Way	Southwest	Main Event	40,350	Flip Master Funding VII, LLC. / Undisclosed
6003 West Linda Vista Boulevard	Northwest	N/A	22,280	Undisclosed / Undisclosed
1410 East Tucson Marketplace Boulevard	South	Dental Pros	10,000	Undisclosed / Undisclosed

GREG FURRIER Principal, Retail Properties

+1 520 909 6111 / gfurrier@picor.com

NATALIE FURRIER Retail Properties

+1 520 955 7663 / nfurrier@picor.com

DAVE HAMMACK Principal, Retail Properties

+1 520 546 2712 / dhammack@picor.com

AARON LAPRISE Principal, Retail Properties

+1 520 546 2770 / alaprise@picor.com

ANDY SELEZNOV Retail Properties

+1 520 546-2775 / aseleznov@picor.com

ROB TOMLINSON Principal, Retail Properties

+1 520 546 2757 / rtomlinson@picor.com

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 52,000 employees in 400 offices and 60 countries. In 2022, the firm had revenue of \$10.1 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. It also receives numerous industry and business accolades for its award-winning culture and commitment to Diversity, Equity and Inclusion (DEI), Environment, Social and Governance (ESG) and more. For additional information, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

©2023 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.