

MARKETBEAT RETAIL SNAPSHOT



TUCSON, AZ

A Cushman & Wakefield Alliance Research Publication

Q3 2012



ECONOMIC OVERVIEW

Metropolitan Tucson's unemployment improved, ending at 7.6% in August versus 8.6% the previous August and better than statewide unemployment which remained at 8.3%. The state of Arizona is currently ranked sixth in the nation in job creation, boding well for progress locally.

While job creation will be the primary driver of overall market health in Tucson, the housing market shows signs of continued stabilization, with positive downward trends in foreclosure notices and trustee's sales. Median September 2012 sales were up 25% year over year.

RETAIL MARKET OVERVIEW

Minimal change occurred in the Tucson retail market during the third quarter. Vacancy edged to 8.6% on virtually flat absorption of negative 9,031 square feet (sf). On the positive side, asking rents increased from \$14.45 to \$14.72 per square foot (sf), with rents highest in the southeast submarket and lowest in the west.

The Hispanic shopper's importance to the Tucson retail market continues to grow, with influence from both sides of the Arizona/Mexico border. Curacao, a consumer electronics and appliance chain catering to Spanish speakers, opened a 90,312-sf store after choosing to wait out the recession. Mexican shoppers spend approximately \$1 billion in Tucson stores and restaurants each year, according to the Metro Tucson Convention and Visitors Bureau.

Active and expanding retail sectors include fitness retailers (Chuze, Planet Fitness and LA Fitness all taking down new locations), mattress dealers (Mattress Firm and BedMart), as well as expansion in the food service business, from fast food to fast casual and sit down. Such activity is an early indicator of increased consumer confidence.

"Better burger" chains such as Smashburger, Five Guys, Culver's, and Freddy's Steakburger are all opening new locations in Tucson. Other new retailers to the market include Conn's Electronics and Buy Buy Baby in the former Linens 'n Things space at Foothills Mall. Walmart remains active in the region, opening at The Bridges at Ajo and Kino and developing a Neighborhood Market format on the eastside at Broadway and Camino Seco.

Investment sales of retail centers show improvement in price per sf, with first half 2012 sales prices at \$152 psf, up 15% over the same period in 2011.

OUTLOOK

Despite a fairly flat quarter with regard to underlying market fundamentals, Tucson is gradually moving toward a more balanced retail market. Concessions are less generous than in recent years, and tenants wield less leverage, while they still have the upper hand. Expect University-area student housing developments and the 2013 completion of the Tucson Modern Streetcar to drive related retail interest along the route.

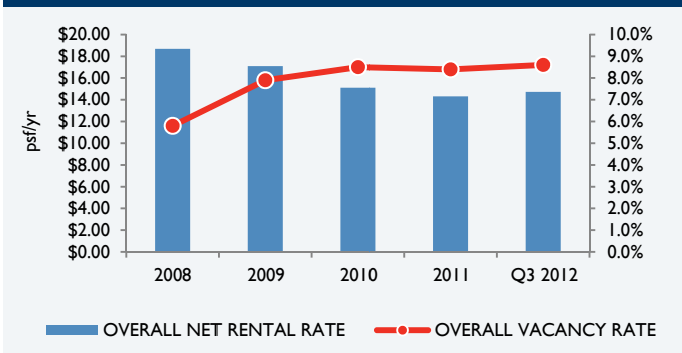
With Amazon and other internet retailers now required to pay sales tax in California, progress may be made toward a national solution, a move heralded by brick and mortar retailers here and throughout the nation.

ECONOMIC INDICATORS

NATIONAL	2011	2012F	2013F
GDP Growth	1.8%	2.3%	2.4%
CPI Growth	3.1%	2.1%	2.3%
Consumer Spending Growth	2.5%	2.0%	2.5%
Retail Sales Growth	8.0%	4.9%	3.8%
REGIONAL	2011	2012F	2013F
Household Income	\$44,082	\$45,319	\$47,146
Population Growth	0.8%	0.8%	2.2%
Unemployment	8.4%	7.6%	8.2%

Source: Moody's Analytics

OVERALL RENTAL VS. VACANCY RATES



Source: CoStar Group