

MARKETBEAT RETAIL SNAPSHOT



TUCSON, AZ

A Cushman & Wakefield Research Publication

Q3 2014

ECONOMIC OVERVIEW



With an improving national economic and employment picture slowly lifting all boats, the Arizona and Tucson employment rates followed suit; statewide employment was up 2.1% over a year ago. Residential inventory continued to stabilize and median sale prices gained 6.2%

over prior year. Shared Services Center's expansion announcement netting 200 new jobs made a positive statement about Tucson as a location to service western states.

Retail sales in metro Tucson are up 1.9% year-over-year, while statewide up slightly higher at 2.1%.

RETAIL MARKET OVERVIEW

Tucson's retail market experienced its tenth consecutive quarter of positive absorption, albeit at 82,749 square feet (sf), less robust than previous gains. Asking rents stayed the course at \$14.35 per square foot (psf), essentially ending in the same place as year-end 2013.

The food scene dominated local market activity, as it did nationally, with first-time market entry for Yard House and Tilted Kilt, while Cheddar's was under construction. The market maintained an appetite for burgers, with a new Culver's opening at Tucson Marketplace in the southwest, and Smashburger seeking to increase their store count above additional sites. With descriptors like "craft" and "artisan," the national craze for quick-serve and made-to-order pizza entered the local scene. Chains like Pionics and Pizza Studio opened locations and sought more. Sandwich shops like Potbelly, Jersey Mike's and Firehouse Subs opened or were actively seeking sites. Chipotle was under construction on East Grant while Chik Fil A awaited environmental clearance to build at Tanque Verde & Kolb. Corner Bakery inked an eastside Tucson deal after announcing a planned entry in late 2013. The combined 22 Mattress Firm locations following the Bedmart acquisition will result in rebranding of overlapping stores.

A significant segment of overall activity leaned toward health and wellness, with organic and a healthier lifestyle focus from grocery anchors to fitness and dance locations and athletic gear and sportswear. Notably, Dick's Sporting Goods was pursuing an eastside location to complement its Oro Valley store.

On the investment side, plenty of capital continued to chase a limited supply of investment-grade properties on the market. Single tenant NNN remained the highest pursuit, with Oro Valley a strong

submarket. The largest transaction was the \$7.0-million sale of a northwest specialty veterinarian clinic for \$218.75 psf.

Speculative construction may have reached the tipping point, with smaller multi-tenant strip space under construction on East Grant and North Wilmot after six years of limited construction and development.

OUTLOOK

Look for continued vibrancy in the entertainment and retail sector in downtown Tucson, thanks to a renaissance in full swing. In addition, a significant University area development at Speedway and Campbell crossed its first hurdle with the City Council. We expect continued stabilization and gradually increasing rental rates.

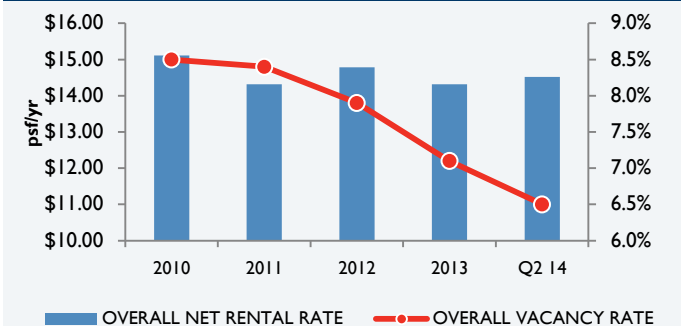
Sources: Arizona Daily Star, CoStar Group, Eller College, Tucson Assoc. of Realtors

ECONOMIC INDICATORS

NATIONAL	2013	2014F	2015F
GDP Growth	2.2%	2.2%	3.5%
CPI Growth	1.5%	1.8%	2.1%
Consumer Spending Growth	2.4%	2.4%	3.6%
Retail Sales Growth	4.2%	4.1%	6.1%
REGIONAL	2013	2014F	2015F
Household Income	\$44,500	\$46,000	\$47,600
Population Growth	0.4%	0.3%	2.1%
Unemployment	7.0%	6.1%	5.5%

Source: Moody's Analytics

OVERALL RENTAL VS. VACANCY RATES



Source: CoStar Group