

MARKETBEAT RETAIL SNAPSHOT



TUCSON, AZ

A Cushman & Wakefield Research Publication

Q4 2014

ECONOMIC OVERVIEW



Metro Tucson ended November with a total of 372,000 non-agriculture jobs, gaining 5,200 jobs year-over-year (YOY), an annualized job growth rate of 1.4%. Personal income rose 2.7% locally over a year earlier, while statewide retail sales were up 1.9% YOY. Tucson home prices ended 2014 with a respectable 4.6% gain in median selling price.

HomeGoods, a division of TJX Companies, announced intent to open a western distribution center in Tucson, an operation employing up to 900 with an estimated economic impact of nearly \$900 million. HomeGoods received Pima County approval and awaits a tax incentive decision from the City in February. The real estate is being brokered in part by Cushman & Wakefield | PICOR.

RETAIL MARKET OVERVIEW

Tucson's retail market experienced continued improvement throughout 2014, with net annual absorption of 410,000 square feet (sf) which was not as strong as 2013, yet respectable. Average asking rents ended 2014 at \$14.27 per square foot (psf), essentially hovering in familiar territory throughout the previous four quarters, a trend common to many U. S. retail markets.

For the critical holiday season, national shopping center sales rose 3.6% year-over-year (YOY), the best performance since 2011. Lower fuel prices meant more discretionary funds for consumers and a bright sales outlook into the new year.

Grocer activity was up in the Tucson retail scene, with Natural Grocers announcing its market entry with two store openings at Broadway/Kolb and Broadway/Country Club, to be followed by two units in the River/Craycroft and Orange Grove/Oracle areas. Haggen's, a small Washington chain, was awarded 10 Arizona stores, including three in Tucson, as a result of the Safeway/Albertsons merger. Johnny Gibson's long-awaited Downtown Market is expected to open early Q2 2015.

Mattress Firm's announced purchase of Sleep America signaled further consolidation and movement in that category, leaving only a few independent retailers.

Re-tenanting of the Broadway/Wilmot corner continued with commitments from Raising Cane's, Kneaders and Corner Bakery, all new to Tucson. Insite's East Grant/Tanque Verde midblock center in the Costco and Target trade area opened 100% leased.

Investment sales rose in Q4, with 12 sales over \$1 million. Sahuarita Plaza was the most significant sale of the quarter, a collaborative

effort of the Tucson and Phoenix platforms of Cushman & Wakefield selling to a California investor for \$12.2 million. At \$246.3 million, 2014 sales volume was up 74% over 2013.

OUTLOOK

National momentum is creating economic opportunities in Tucson. After a strong holiday season for restaurants, the projected focus is on experiences in retail, from dining to entertainment. Downtown Tucson will see growing vibrancy with the Tucson Modern Streetcar in full operation between downtown and the University of Arizona.

Arizona retail sales are forecast to grow 2.1% in 2015. The Tucson growth forecast is more nominal at 1.2%, achieving stronger growth in 2016 and beyond.

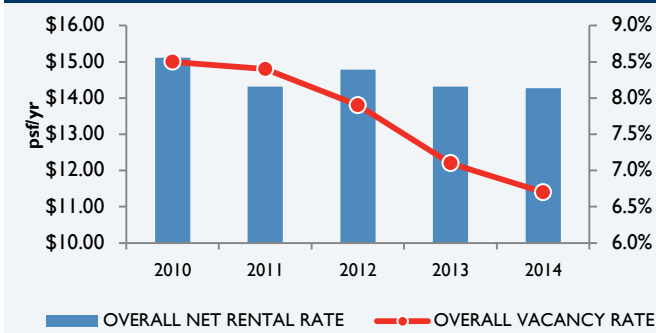
Sources: Arizona Daily Star, CoStar Group, Eller College, ICSC

ECONOMIC INDICATORS

NATIONAL	2013	2014	2015F
GDP Growth	2.2%	2.4%	3.7%
CPI Growth	1.5%	1.7%	1.1%
Consumer Spending Growth	2.4%	2.5%	3.8%
Retail Sales Growth	4.2%	4.1%	4.8%
REGIONAL	2013	2014	2015F
Household Income	\$44,500	\$46,000	\$47,600
Population Growth	0.4%	0.3%	2.1%
Unemployment	7.0%	6.3%	5.7%

Source: Moody's Analytics

OVERALL RENTAL VS. VACANCY RATES



Source: CoStar Group