

# MARKETBEAT RETAIL SNAPSHOT

## TUCSON, AZ

A Cushman & Wakefield Research Publication



Q1 2015



### ECONOMIC OVERVIEW

Retail sales nationally rose 0.9% in March, the largest gain since a year prior and increasing for the first time since late 2014. Arizona retail sales are expected to increase 0.8% this year, with healthier increases above 5.3% for each of

the next three years.

Tucson's unemployment rate dropped 0.3 percentage point to 5.6% in February, considered close to full employment. That being said, the slow pace of job growth is still of primary concern and impedes stronger market progress.

### RETAIL MARKET OVERVIEW

Tucson's retail market held steady in the first quarter of 2015, with minimal, positive net absorption of 28,520 square feet (sf). Average asking rents were \$14.45 per square feet (psf), essentially unchanged since 2011. Relative to trend, leases completed in Q1 were fewer and of smaller size.

Thanks to achieving the one-million population milestone, interest from retailers was on the upswing. Entertainment users like Escape the Room, typically opening in major markets, are also keen to locate in or near the now-vibrant downtown scene. The national resurgence in food and beverage was evident in Tucson, with The Commoner set to open a northeast gastro pub and nanobrewery, and Obon Sushi + Bar + Ramen launching on Congress Street this summer. McAlister's Deli, Popeye's Chicken, El Pollo Loco, and expansion from established operators such as Smashburger, Starbucks and Chipotle continued. The recycling of traditional retail pace to more service-based uses progressed, with Humana securing eastside and central locations, with two more submarkets planned next year in a 6,000-sf retail format. Store closures have been fairly minimal, with five Radio Shacks in the region to be shuttered. The mattress category continued expansion, although it is expected to slow toward year-end.

First quarter sales volume was fairly robust at \$101 million, representing the highest sales volume since Q3 2012. Pricing was up significantly, driven by the \$46 million Casas Adobes sale for \$492.94 psf. Overall Tucson retail transactions averaged \$250.53 psf in Q1, versus \$144.52 psf for all of 2014.

### OUTLOOK

A County bond initiative will go before Tucson-area voters in November and represents a likely economic stimulus. With Senator McCain and Congresswoman McSally actively working to preserve our military assets, any potential impact of defense cuts may be forestalled for the near term. Downtown's resurgence will continue with the upcoming groundbreaking of the AC Tucson by Marriott hotel. With both a Broadway realignment and Grant Road widening, small businesses will continue to relocate and upgrade building quality.

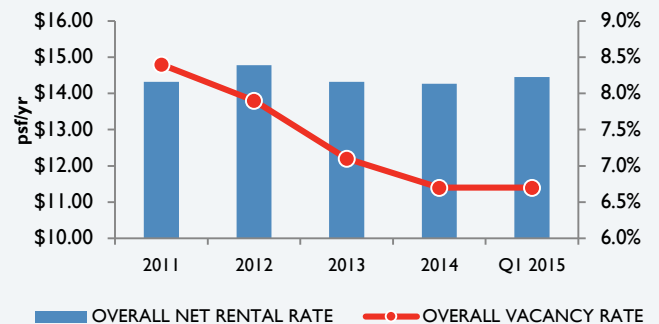
Sources: Reuters, CoStar, Phoenix Business Journal

### ECONOMIC INDICATORS

NATIONAL	2014	2015F	2016F
GDP Growth	2.4%	3.1%	3.5%
CPI Growth	1.6%	0.6%	2.6%
Consumer Spending Growth	2.5%	3.6%	4.2%
Retail Sales Growth	4.0%	2.8%	6.0%
REGIONAL	2014	2015F	2016F
Household Income	\$44,300	\$45,700	\$47,300
Population Growth	0.3%	2.2%	2.7%
Unemployment	6.3%	5.7%	4.8%

Source: Moody's Analytics

### OVERALL RENTAL VS. VACANCY RATES



Source: CoStar Group