

MARKETBEAT RETAIL SNAPSHOT



TUCSON, AZ

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Q2 2015



ECONOMIC OVERVIEW

Home prices increased in June, thanks to inventory at a 21-month low coupled with steady consumer demand and favorable interest rates. U. S. consumer confidence was up significantly, and personal income statewide slightly outpaced the rate of gain nationally. Moody's forecasts Tucson's year-end unemployment to be under 5.7%, with improvement continuing through 2016 and 2017.

RETAIL MARKET OVERVIEW

Tucson's retail market continued an even pace in the second quarter of 2015 ending mid-year at 6.7% vacancy. Average asking rents were \$14.27 per square feet (psf), essentially unchanged since 2011.

Thanks to achieving the one-million population milestone, interest from retailers was not lacking. In addition to Broadway at Kolb, Natural Grocers will open two additional Tucson locations by year end at Broadway & Country Club and Orange Grove & Oracle. The stores will average 12,000 sf. Natural Grocers complements the market entry of Haggen, who purchased three former Safeway and Albertson's stores. Tucson food and beverage users were active, from Commoner & Co. and Kneaders Bakery opening, to downtown activity such as the debut of Hub Ice Cream Factory and the much anticipated Johnny Gibson's Downtown Market. Obon Sushi+Bar+Ramen at downtown Tucson's east end is due to open in late summer. Other active food users included McAlister's Deli, Popeye's Chicken, El Pollo Loco, Tropical Smoothie, Spinfire Pizza, MOD Pizza, Cafe Rio, and continued expansion from operators such as Kneaders, Smashburger, Starbucks and Chipotle. Conversion of traditional retail space to service-based uses progressed, with Humana leasing clinical space in grocery-anchored neighborhood shopping centers at Broadway & Camino Seco and Grant & Alvernon, and planned locations in two more submarkets next year in a 6,000-sf retail format. Store closures have been fairly minimal, with shuttered Radio Shacks largely converting to Sprint and Game Stop stores. The mattress category continued expansion, with Mattress Pro taking locations at Broadway & Pantano and Grant & Swan.

Tucson's investment sales market saw more than its share of opportunistic investors in an undervalued market. While second quarter sales volume was off at \$37.4 million, sales price psf neared \$205.00, thanks to several single-tenant NNN sales. This compared favorably to 2014 Tucson retail sales pricing, which averaged \$144.52

psf, and cap rates were running approximately 100 basis points higher than 2014 at 7.34% for the year to date.

OUTLOOK

In the absence of speculative construction, look for improved vacancy in the second half of 2015. Retailers along the Broadway corridor have mounted pressure on the City government to adopt a final design and give certainty to the business community, which faces frequent neighborhood opposition to any change to the corridor realignment design. Passage of the fall Pima County bond initiatives would represent a stimulus; proposed City charter change would be positive for the region; and the Tucson Metro Chamber is leading efforts to augment direct air service and streamline business approval processes.

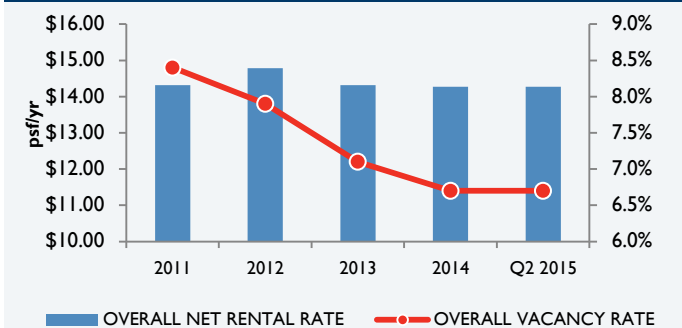
Sources: BLS, CoStar, Eller EBRC, Tucson Assoc. of Realtors

ECONOMIC INDICATORS

| NATIONAL | 2014 | 2015F | 2016F |
|--------------------------|----------|----------|----------|
| GDP Growth | 2.4% | 2.4% | 3.0% |
| CPI Growth | 1.6% | 0.4% | 2.7% |
| Consumer Spending Growth | 2.5% | 3.4% | 3.8% |
| Retail Sales Growth | 3.8% | 2.8% | 5.6% |
| REGIONAL | 2014 | 2015F | 2016F |
| Household Income | \$44,400 | \$45,500 | \$46,800 |
| Population Growth | 0.6% | 1.5% | 1.6% |
| Unemployment | 6.2% | 5.7% | 5.4% |

Source: Moody's Analytics

OVERALL RENTAL VS. VACANCY RATES



Source: CoStar Group