

# MARKETBEAT

## Tucson

Retail Q4 2017



### ECONOMIC INDICATORS

#### National

	Q4 16	Q4 17*	12-Month Forecast
GDP Growth	1.8%	2.3%*	▲
CPI Growth	1.8%	2.0%*	▲
Consumer Spending Growth	2.8%	2.6%*	▼
Retail Sales	3.7%	4.3%*	▲

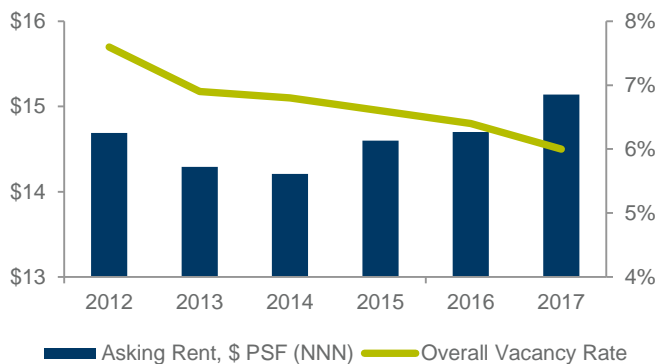
\*Q3 values \*\*Forecast by Cushman & Wakefield. Values represent year-over-year % change.

#### Regional

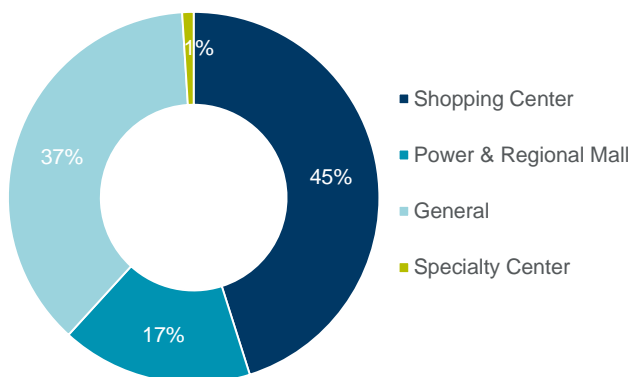
	Q4 16	Q4 17	12-Month Forecast
Household Income	\$47,732	\$49,031	▲
Population Growth YOY	1.1%	1.3%	▲
Unemployment	4.6%	4.1%	▼

Source: Moody's Analytics

### Rental Rate vs. Overall Vacancy



### Availability by Type



### Economy

Tucson's economic health generally tracks that of Arizona and the nation as a whole, which bodes well for the region. Personal income for the U.S. in November was up 3.8% over that in November 2016. This is good news because inflation over that period was up only about 2.0%. According to Eller College economists, the Tucson MSA job data preliminarily reported by the Bureau of Labor Statistics is likely understated by thousands of jobs, and once adjusted in the spring for actuals, will reflect what is felt in the marketplace: that employment has steadily grown every quarter since third quarter 2015. Housing permit activity was up 16.7% year-over-year through November, while median home prices are up 12.2%, all trending very favorably after several years of limited growth.

### Market Overview

Tucson's retail market continued its robust growth with 89,248 square feet (SF) of positive net absorption for this quarter. Demand for space in the retail market continues to be strong with 139,939 SF under construction this quarter. Vacancy ticked-down slightly from 6.2% to 6.0%.

The holiday season of 2017 introduced some notable trends in retail consumption. In-store purchases were up overall compared to last year with apparel being the top seller. The minor increase of 0.8% in online shopping this quarter provided consumers with easy access to price comparisons and a wider range of selection, creating a trend towards buying value brands and higher-quality luxury brands. Discount retailers such as Ross, HomeGoods, and Marshalls showed substantial sales growth in fourth quarter 2017. Middle range retailers re-engineered marketing strategies to bolster sales. We saw a significant number of pop-up stores during the holidays which landlords welcomed to increase shopping center traffic.

81% of households reported their financial situation in 2017 as the same or better than in 2016, up 65% more than from five years ago. Higher income shoppers spent nearly double the market average. Industry speculation over the health of Sears and Kmart suspect that their disappearance from the market would drive shoppers into other department stores leading to great increases in their overall sales. There is an obvious trend in mobile app usage for retail shopping. 22% of consumers used a retailer's app to make a purchase. Brick and mortar retailers recaptured shoppers' attention by creating an incentivized environment by offering discounts before the holidays instead of after.

### Outlook

The Tucson retail market will enjoy further growth and expansion throughout 2018. Vacancy will continue to edge lower and lease rates should increase gradually. Tucson remains a high priority market for regional capital looking for a home. Local capitalization rates typically land 100 basis points higher than many surrounding markets making Tucson a value proposition for investors. As a destination and dynamic southwestern metro area, Tucson's population will continue to grow, with consistent year over year in migration.

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SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	OVERALL VACANCY RATE	OVERALL CURRENT NET ABSORPTION (SF)	OVERALL YTD NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (NNN)
Central East	1,164	8,499,624	7.5%	12,525	91,260	0	\$13.38
Central West	762	7,017,869	6.0%	-30,344	-6,693	0	\$12.68
Downtown	316	1,837,003	5.5%	9,911	16,912	64,000	\$19.01
East	776	9,870,831	5.7%	23,196	197,469	2,904	\$14.46
Foothills	287	5,123,547	4.6%	15,551	28,804	0	\$21.29
North/Oro Valley	181	2,425,357	6.5%	-77,467	74,981	54,000	\$20.44
Northeast	25	353,098	10.1%	-600	-2,441	0	\$19.19
Northwest	273	4,134,069	5.0%	43,804	169,068	0	\$16.09
South	981	6,515,232	5.5%	117,010	43,862	2,844	\$13.58
South/SW Outlying	136	1,686,675	6.8%	4,062	-15,566	0	\$13.59
Southeast	118	1,566,515	8.3%	-22,260	24,500	16,191	\$18.11
Southwest	174	2,535,778	5.1%	-7,540	-8,704	0	\$8.76
West	133	867,605	5.5%	1,400	-20,869	0	\$17.21
<b>TUCSON TOTALS</b>	<b>5,326</b>	<b>52,433,203</b>	<b>6.0%</b>	<b>89,248</b>	<b>592,583</b>	<b>139,939</b>	<b>\$15.14</b>

\*Rental rates reflect gross asking \$psf/year

SUBUSE	TOTAL BLDGS/CTRS	INVENTORY (SF)	OVERALL VACANCY RATE	CURRENT OVERALL NET ABSORPTION (SF)	OVERALL YTD NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (NNN)
General Retail	3,666	19,524,084	3.2%	148,958	241,739	122,664	\$14.70
Mall	8	5,719,136	2.6%	2,200	-1,344	0	\$21.00
Power Center	8	3,536,578	3.0%	-720	191,348	2,844	\$25.27
Shopping Center	554	23,653,405	9.6%	-61,190	160,840	14,431	\$14.85

### Key Lease Transactions Q4 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
7265 N. La Cholla Blvd	6,868	Taramind	New	Foothills
5655 E. River Rd	6,696	Healthcare	New	Foothills
Cottonwood Plaza	6,049	Lifepoint Church	New	Foothills
1806 E. Irvington Rd	6,000	Undisclosed	New	Foothills

### Key Sales Transactions Q4 2017

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
4690 N. Oracle Rd	211,152	Tanager/ Comcast	\$23,500,000/\$111	West
Sahuarita Plaza	138,639	Cole Valley Partners/ LBM Investments	\$14,760,492/\$106	South/SW Outlying
Colonia Verde	98,937	Westwood Financial/ ROK Properties	\$24,500,000/\$247	East
9100 S. Silverbell Rd (Part of Portfolio)	55,164	Albertsons Companies/ Cardinal Capital Partners, Inc	\$6,696,428/\$121	Northwest

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