

MARKETBEAT RETAIL SNAPSHOT



TUCSON, AZ

A Cushman & Wakefield Research Publication

Q2 2014

ECONOMIC OVERVIEW



The unemployment rate for the Tucson metro area as of May 31st was 5.8%, 60 basis points (bps) lower than year end and 50 bps below the national rate. Decreased government spending impacted both Tucson's market momentum and activity. Home prices and inventory flattened in the second quarter, while the inventory of Tucson residential listings increased.

Retail sales statewide were up 7.6% over the prior May, with strength in durable goods, increasing 8.0%. In addition to durable consumer goods, building material sales jumped significantly year-over-year, and overall retail sales outpaced employment growth.

RETAIL MARKET OVERVIEW

Market fundamentals continued to improve as supply tightened. Second quarter positive net absorption of 129,159 square feet (sf) represented the ninth consecutive quarter on a positive trajectory. At 6.5%, vacancy reached its lowest mark since Q4 2008, a predictor of slowing absorption. Continued market firming put upward pressure on asking rents, which increased 2.3% over the previous quarter to \$14.52 per sf.

Activity and absorption for the quarter was markedly more distributed and diverse. That being said, of the market's largest true retail leases, second quarter activity trended toward automotive uses and discount retailers. Downtown saw a key puzzle piece solidified with its first specialty food market signed: The 5,000 sf Johnny Gibson Downtown Market in the heart of the entertainment district. Mattress Firm's acquisition of Bedmart will likely result in future store consolidation and availabilities.

The first quarter saw the opening of a 99,594 sf Walmart at Houghton Town Center. New construction includes the redevelopment of Broadway and Wilmot by a local developer where demolition has begun for phased rebuilding. A new-to-market Cheddar's is being built at El Con Mall in midtown and is expected to put pressure on other restaurants in the sit down family category.

El Con, one of the market's four major malls, sold in the second quarter representing a significant investment transaction for Tucson at \$81.7 million. With pent up demand, it is a great time to be a seller. Cap rates and interest rates are low, and appetite is high for retail investment property, both single tenant and multi-tenant.

Multiple offers are the norm, and values are increasing. User purchase activity remains relatively quiet.

OUTLOOK

Downtown will continue to shine brightly for development and absorption, with the late July opening of the Modern Streetcar and the return of student residents. We expect new construction to increase as Tucson approaches a stabilized vacancy rate; particularly if consumer confidence continues to improve. Look for continued stabilization and gradually increasing rental rates. Supply of investment grade property may remain limited, but demand will be high from investors when sellers are ready to divest or trade.

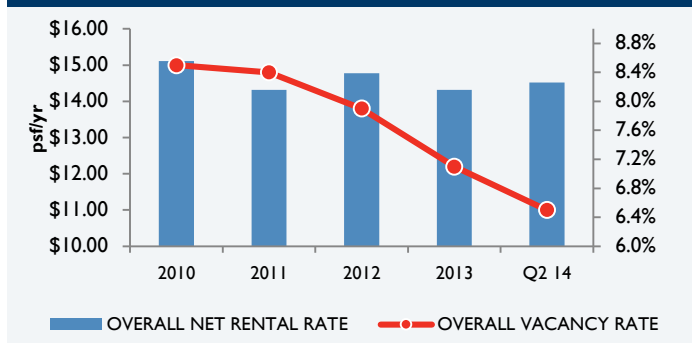
Sources: Arizona Daily Star, CoStar Group, Eller College, Tucson Assoc. of Realtors

ECONOMIC INDICATORS

NATIONAL	2013	2014F	2015F
GDP Growth	1.9%	1.7%	3.7%
CPI Growth	1.5%	1.9%	2.2%
Consumer Spending Growth	2.0%	2.4%	3.8%
Retail Sales Growth	4.2%	4.1%	5.8%
REGIONAL	2013	2014F	2015F
Household Income	\$44,500	\$45,900	\$47,800
Population Growth	0.4%	0.3%	2.2%
Unemployment	7.0%	6.4%	5.8%

Source: Moody's Analytics

OVERALL RENTAL VS. VACANCY RATES



Source: CoStar Group