

Retail Snapshot Q3 2015

Tucson



ECONOMIC INDICATORS

National	Q3 14	Q3 15	12-Month Forecast
GDP Growth	2.4%	2.5%	▲
CPI Growth	1.6%	0.2%	▲
Consumer Spending Growth	2.7%	3.3%	▲
Retail Sales Growth	3.8%	2.5%	▲

Regional	Q3 14	Q3 15	12-Month Forecast
Household Income	\$44,400	\$45,600	▲
Population Growth	0.6%	1.5%	▲
Unemployment	6.1%	5.3%	▼

Source: Moody's Analytics

Economy

Metro Tucson added 3,300 jobs year-over-year through August. Educational/Health Services and Professional/Business Services accounted for 78.8% of the job growth, with unemployment improving significantly to 5.3% by September.

Market Overview

Tucson retail, like other property sectors, enjoyed improvement as the marketwide vacancy dropped to 6.8% on positive absorption of 452,409 square feet (sf). The majority of the absorption was a result of the opening of the 360,000-sf Tucson Premium Outlets in Marana and the Cushman & Wakefield | PICOR Comcast office lease at the Tucson Galleria taking 211,000 sf out of the retail inventory.

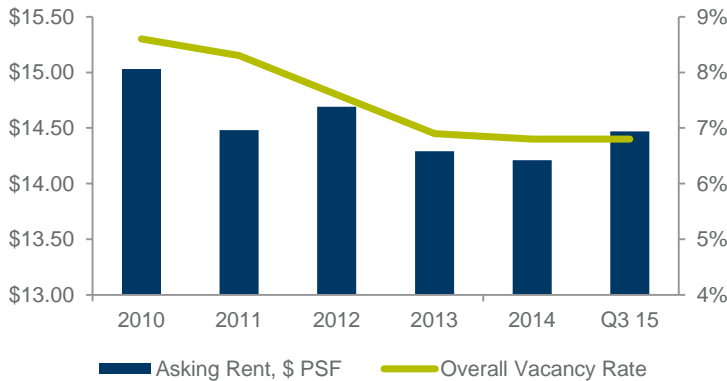
The grocery sector saw continued ebbs and flows, as Haggen's failed market entry resulted in the closing of all three Tucson stores. With all located in established residential locations, the current marketwide shortage of second-generation big box space may present an opportunity for alternate uses, counting niche grocers as another potential user to backfill the space. With two stores open in Tucson, Natural Grocers continued construction on their third location, slated to open in early 2016 at Broadway and Country Club, while they cleared their site at the southeast corner of River and Craycroft for a fourth unit.

Restaurants remained active with Raising Cane's under construction at Broadway/Wilmot while pursuing additional locations. New Mexico-based Lotaburger's two Tucson sites are under development at Speedway west of Country Club and Valencia west of I-19. Prep & Pastry and Sauce announced plans to locate in new space near Tanque Verde & Grant, while Chick-Fil-A's grading began at that corner. The three McMahon's properties were sold by the bankruptcy court with the Swan and Ft. Lowell mixed-use development as an office conversion, 6464 E Tanque Verde purchased by a speculative investor, and the Broadway/Alvernon's location purchased by HSL, the adjacent property owner, who intends to have an operator reopen the restaurant.

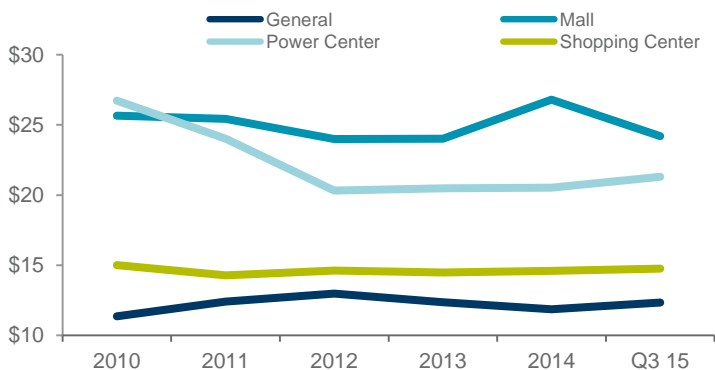
Outlook

Both broker sentiment and consumer confidence are up, and while job growth is Tucson's highest need, significant infusions of construction dollars are expected to be a boon. Look for medical uses to disperse into neighborhoods, and continued momentum downtown with the planned 30-story residential tower by Aerie Development adjacent to 1 South Church Ave. When built, the retail dynamic in downtown Tucson will change, with energy growing toward Downtown's west end.

Rental Rate vs. Overall Vacancy



Rent by Type



MARKETBEAT

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SUBMARKET	TOTAL BLDGS	INVENTORY	VACANCY RATE	CURRENT NET ABSORPTION	YTD NET ABSORPTION	UNDER CNSTR	AVERAGE ASKING RENT (NNN)
Central East	1,162	8,951,215	7.9%	28,986	(50,214)	0	\$12.93
Central West	752	7,184,989	8.7%	19,748	(9,261)	5,773	\$13.30
Downtown	310	1,748,147	5.5%	(1,337)	(5,429)	0	\$16.24
East	768	9,726,765	6.8%	40,527	17,052	17,285	\$13.69
Foothills	280	4,720,823	6.8%	(27,146)	(36,217)	0	\$18.39
North/Oro Valley	168	2,485,931	8.5%	4,436	44,842	0	\$16.55
Northeast	25	351,802	13.2%	(3,025)	(3,385)	0	\$14.54
Northwest	265	3,817,211	5.9%	392,463	395,877	0	\$15.54
South	962	6,072,869	5.6%	(3,674)	1,303	76,894	\$13.30
South/SW Outlying	136	1,706,604	5.6%	(8,565)	(12,394)	12,325	\$14.37
Southeast	105	1,364,591	1.7%	5,658	14,510	0	\$19.59
Southwest	167	2,327,976	5.0%	(3,162)	10,662	0	\$16.15
West	131	865,854	2.9%	7,500	5,537	0	\$16.26
TUCSON TOTALS	5,237	51,324,777	6.8%	452,409	372,883	112,277	\$14.47

*Rental rates reflect gross asking \$psf/year

TYPE	TOTAL BLDGS/CENTERS	INVENTORY	VACANCY RATE	CURRENT NET ABSORPTION	YTD NET ABSORPTION	UNDER CNSTR	AVERAGE ASKING RENT (NNN)
General Retail	3,606	19,082,332	4.2%	34,386	22,809	112,277	\$12.33
Mall	6	5,172,641	2.6%	26,953	35,024	0	\$24.20
Power Center	9	3,476,561	8.2%	(10,534)	(26,256)	0	\$21.30
Shopping Center	550	23,091,554	9.8%	41,604	(18,694)	0	\$14.75
Specialty Center	2	501,689	0.0%	360,000	360,000	0	\$0.00

Key Lease Transactions Q3 2015

PROPERTY	SF	TENANT	PROPERTY TYPE	SUBMARKET
El Con Mall	25,000	Marshall's	Lease	Central East
3838 N Oracle	24,799	dd's Discounts	Lease	Central West
5251 E Speedway	22,960	Summit Hut	Lease	Central East

Key Sales Transactions Q3 2015

PROPERTY	SF	SELLER/BUYER	PRICE	SUBMARKET
Rancho Vistoso Center	84,098	CW Capital	\$4,000,000	North/Oro Valley
15884 N Oracle	21,702	Catalina Development Group LLC	\$5,166,666	North/Oro Valley

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