

MARKETBEAT

Retail Snapshot Q1 2016

Tucson



CUSHMAN & WAKEFIELD



PICOR

ECONOMIC INDICATORS

National

	Q1 15	Q1 16	12-Month Forecast
GDP Growth	2.9%	2.1%	▲
CPI Growth	-0.1%	1.1%	▲
Consumer Spending	3.3%	2.8%	▲
Retail Sale Growth	2.7%	2.8%	▲

Regional

	Q1 15	Q1 16	12-Month Forecast
Household Income	\$46,434	\$47,566	▲
Population Growth	2.2%	1.6%	▲
Unemployment	5.7%	5.2%	▼

Source: Moody's Analytics

Economy

Preliminary BLS data reported that Metro Tucson added 12,999 jobs year-over-year through February 2016, with total employment of 455,754 and an unemployment rate of 5.2%. These results demonstrate significant positive progress for the Tucson labor market. If preliminary figures hold, this level of employment would represent a record and the lowest rate of unemployment since April 2008.

Market Overview

Vacancy in the Tucson retail market remained at 6.6% in the first quarter, in line with the stability reported over a two-year span. Comparing year-over-year Q1 net absorption, the delta represented 139.0% more space absorbed in Q1 2016 than was lost in Q1 2015.

The top leases are highlighted on page two and were led by Midtown Mercantile Merchants, a 29,211-square-foot (sf) C&W | PICOR transaction. Expansion of eateries, led by quick-service restaurants, remained the strongest market driver, with medical uses a close second. New openings included El Pollo Loco and Krispy Kreme near Broadway/Craycroft, Taco Bell at Houghton/Old Vail, Chick-Fil-A at Kolb/Grant, and MOD Pizza and Smashburger in the northwest. By this writing, Charro Steak, Batch, and Elvira's opened in downtown Tucson. In the medical retailing trend, C&W | PICOR leased the former Hollywood Video location at Broadway/Houghton to TMC One for clinic space.

Grocery activity included the reopening of two Safeway/Albertson's stores reclaimed from the Haggen's bankruptcy: Broadway/Harrison and Speedway/Silverbell. Natural Grocers is under construction at River/Craycroft, to be accompanied by a second Tucson Kneaders Bakery. Walmart's expansion at Speedway/Kolb demonstrated the challenges of infill expansion and the post-recessionary trend of movement into higher density sites.

Look for upcoming openings by Nordstrom Rack and Dunkin' Donuts under construction on the east side, and McAlister's Deli and Starbucks developments at First/Wetmore.

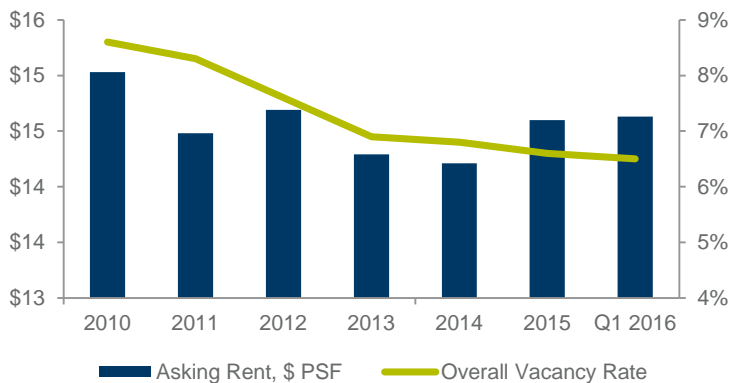
The forthcoming closure of three Sports Authority stores, part of the national liquidation, is symptomatic of challenges faced by mid-level retailers in a barbell market where high-end and discounters prevail.

Sales activity in Q1 included 24 sales, 13 of which traded hands over \$1 million. At \$34.6 million, quarterly sales volume was below the pace for the prior eight quarters, while the average sale price of \$148.03 per sf was more similar to pricing seen in 2013 and 2014.

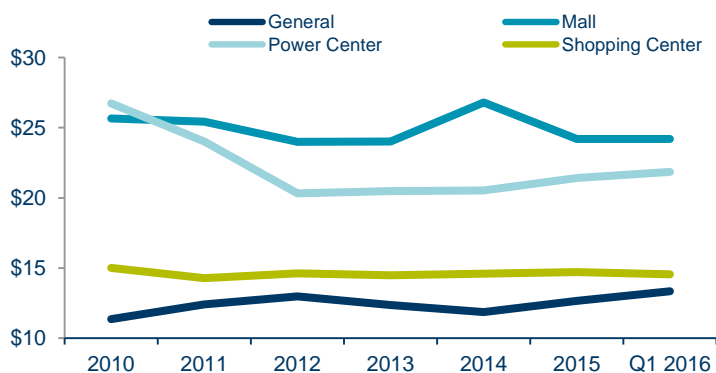
Outlook

The forecast is slightly more optimistic than cautious, thanks to higher economic development activity and employment gains. Tucson City Council advancement of the Broadway alignment plan signals progress and removes uncertainty from a key gateway to downtown Tucson. The Tangerine Road widening has commenced in the northwest, and home builder activity is trending up.

Rental Rate vs. Overall Vacancy



Rent by Type



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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	1,161	8,411,464	8.7%	(58,915)	(58,915)	0	\$13.03
Central West	761	6,954,603	4.6%	7,270	7,270	63,112	\$13.48
Downtown	312	1,754,831	5.7%	(13,743)	(13,743)	0	\$19.58
East	768	9,718,210	7.9%	27,323	27,323	32,503	\$13.98
Foothills	281	4,727,142	6.6%	539	539	19,155	\$18.78
North/Oro Valley	172	2,456,203	9.0%	(1,658)	(1,658)	0	\$15.65
Northeast	25	353,098	12.9%	(2,750)	(2,750)	0	\$12.42
Northwest	266	3,833,323	5.3%	19,751	19,751	0	\$15.98
South	969	6,263,665	5.1%	37,792	37,792	19,200	\$13.85
South/SW Outlying	137	1,694,314	5.6%	(9,109)	(9,109)	2,600	\$14.57
Southeast	110	1,402,627	1.9%	11,183	11,183	0	\$19.33
Southwest	170	2,407,653	4.0%	6,874	6,874	0	\$15.68
West	132	868,641	10.2%	(2,477)	(2,477)	0	\$16.39
TUCSON TOTALS	5,264	50,845,774	6.7%	22,080	22,080	136,570	\$15.59

*Rental rates reflect gross asking \$psf/year

SUBMARKET	TOTAL BLDGS/ CTRS	INVENTORY (SF)	OVERALL VACANCY RATE	OVERALL CURRENT NET ABSORPTION (SF)	OVERALL YTD NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (NNN)
General Retail	3,630*	18,792,843	3.9%	12,469	12,469	92,293	\$13.35
Mall	6	5,178,424	2.8%	0	0	0	\$24.20
Power Center	8	3,231,348	1.9%	0	13,433	0	\$21.86
Shopping Center	551	23,141,470	10.3%	(3,822)	(3,822)	44,277	\$14.56
Specialty Center	2	501,689	0%	0	0	0	\$16.42

Key Lease Transactions Q1 2016

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Speedway Retail Center	29,211	Midtown Mercantile Merchants, LLC	Lease	Central East
6431 N. Thornydale Rd	19,500	Tucson Furniture Connexion	Lease	Northwest
3840-3870 W. River Rd	18,125	Bealls Outlet	Lease	Foothills
5045 E. Speedway Blvd	18,000	Speedway Antique Mall	Lease	Central East

Key Sale Transactions Q1 2016

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
130 E. Congress St	21,755	Chicago Store / Ronald & Patricia Schwabe	\$1,850,045 / \$85	Downtown
605 W. Ajo Wy – Walgreens	14,490	Shamie Development / RCK Properties	\$7,750,000 / \$535	South
1900 S. 6 th Ave - Walgreens	13,500	Jeffrey A Morris Group / Takesh, LLC	\$3,582,600 / \$265	South

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