

TUCSON

Retail Q1 2023



	YoY Chg	12-Mo. Forecast
\$63K Median HH Income	▲	▲
0.9% Population Growth	▬	▲
3.9% Unemployment Rate	▲	▲

Source: BLS (Economic Indicators are representative of specific county or MSA.)

U.S. ECONOMIC INDICATORS Q1 2023

	YoY Chg	12-Mo. Forecast
1.9% GDP Growth	▼	▲
9.4% Consumer Spending Growth	▼	▲
5.3% Retail Sales Growth	▼	▲

Source: BEA, Census Bureau

ECONOMY:

In the first quarter of 2023, the US economy demonstrated higher than expected job growth. With robust hiring each month, somewhat tempered in March at 236,000 jobs, the labor market showed remarkable resilience. Job growth in a tight labor market is expected to drive the next interest rate hike from 25 to 50 basis points (bps). Focusing on Arizona and the Tucson MSA, upward revisions in employment data for 2021 and 2022 reflected a healthy regional economy. Tucson's nonfarm employment rose from 392.5k in Q1 2022 to 398.4k in Q1 2023, while the unemployment rate increased from 3.4% to 3.9%. The consumer price index dropped for an eighth straight month to 5.7, and Tucson's outlook remained positive, with median household income up 3.6% year-over-year (YOY) and population growth at a steady pace.

SUPPLY AND DEMAND:

The Tucson retail commercial real estate market in Q1 2023 showed positive signs. The vacancy rate dropped from 6.2% at the end of 2022 to 5.9% at the end of the Q1. Ten of the 13 submarkets experienced positive absorption during the last quarter, indicating continued demand for retail space.

Lease rates remained generally flat. Landlords have made efforts to adjust lease rates to track inflation, with marginal success. The food industry dominated the retail landscape with healthy menu players such as Salad-and-Go aggressively seeking new locations, Flower Child opening its first location in Campbell Plaza, and True Food Kitchen is under construction at La Encantada. The coffee segment is also continuing aggressive expansion, with Starbucks leading the way in new store count. Car washes seem to be in rapid expansion mode with Mister Car Wash leading in location count and concepts, "Clean Freak" which was recently acquired by Circle K Corporation, and other local and regional players following.

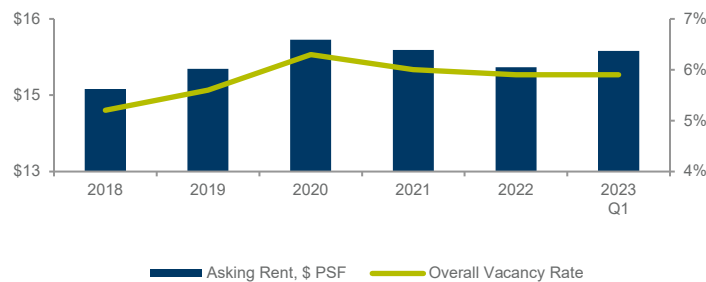
Retail continues to expand in Sahuarita, Green Valley, and the Vail area paralleling new residential growth. The far southwest side is also experiencing significant retail growth in what has been a long-underserved submarket. The investment market is transitioning due to rapidly increasing interest rates and associated yield requirements, and consequently the volume of transactions has slowed. Lenders are more cautious now than last year, and the uncertainty over the regional banks has added hesitation to the lending market.

Floor and Décor will relocate into a larger space which will breathe new life into the 1970's Kmart building at Broadway and Kolb. The construction completion of the Main Event Entertainment, a 40,350 square foot project situated on South Landing Way and I-10 recently opened. The demolition of the Foothills Mall has finally begun. Concerns around supply chain issues have tapered. Retail construction pricing remained relatively flat.

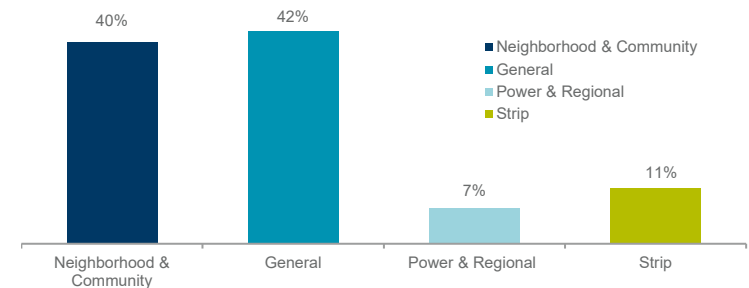
PRICING:

The average sales price per square foot (psf) stands at \$183 psf, showing an increase from Q4 2022. Asking lease rates across the Tucson market remain relatively steady, averaging \$15.37 psf, similar to last year. Given the high cost of construction, developers and users are increasingly exploring the option of adaptive reuse, focusing on repurposing existing improvements.

RENT / VACANCY RATE



AVAILABILITY BY PRODUCT TYPE



SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (NNN)*
Central East	8,842,554	870	647,303	7.3%	76,059	76,059	8,497	\$14.03
Central West	7,414,652	14,820	392,881	5.5%	10,226	10,226	0	\$12.75
Downtown	1,936,461	0	65,451	3.4%	13,938	13,938	21,600	\$15.82
East	9,543,367	0	964,689	10.1%	-17,559	-17,559	4,174	\$17.53
Foothills	5,809,175	4,245	155,737	2.8%	-7,180	-7,180	5,700	\$18.92
North/Oro Valley	2,584,324	0	190,327	7.4%	6,391	6,391	4,400	\$19.58
Northeast	315,833	0	55,100	17.4%	1,628	1,628	7,432	\$16.42
Northwest	4,686,194	1,166	314,505	6.7%	31,152	31,152	34,180	\$15.50
South	7,059,116	50,000	206,805	3.6%	18,679	18,679	10,845	\$14.49
South/SW Outlying	1,960,719	0	51,459	2.6%	-3,686	-3,686	3,360	\$14.21
Southeast	1,918,283	0	53,044	2.8%	15,305	15,305	0	\$18.83
Southwest	3,082,021	0	134,079	4.4%	61,127	61,127	15,899	\$19.79
West	871,264	0	31,511	3.6%	5,205	5,205	0	\$10.04
TUCSON TOTALS	56,023,963	71,101	3,262,891	5.9%	211,285	211,285	116,087	\$15.37

*Rental rates reflect NNN asking

KEY LEASE TRANSACTIONS Q1 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
7055 East Broadway Boulevard**	East	Floor and Decor	60,637	New Lease
815-885 East Grant Road**	Central West	Mind 24-7	22,500	New Lease
4343 North Oracle Road	Central West	Parkinson Wellness Recovery Gym	16,040	Renewal
5919 East Broadway Boulevard	East	Bullfrog Spas	11,253	New Lease
13550 East Colossal Cave Road	Southeast	Superstar Carwash	10,731	New Lease

**At least one party represented by Cushman & Wakefield or Cushman & Wakefield | PICOR

KEY SALES TRANSACTIONS Q1 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
5555-5605 East River Road	Foothills	First Washington Realty, Inc./Sunbelt Investment Holdings, Inc.	67,657	Part of Portfolio/Part of Portfolio
4909 North La Canada Drive	Foothills	STORE Capital Corporation/GIC Real Estate	32,000	Part of Portfolio/Part of Portfolio
3959-3979 North Oracle Road**	Central West	Big Lots/Red Mountain Retail Group, Inc.	29,451	\$2.3M/\$81.23
7671 East Broadway Boulevard	East Tucson	Store Capital Corporation/GIC Real Estate	21,878	Part of Portfolio/Part of Portfolio
320 South Wilmot Road	East Tucson	K-gam 302/320 South Wilmot LLC/CAP Storage Wilmot, LLC	16,318	\$1.9M/\$119.50

**At least one party represented by Cushman & Wakefield | PICOR

KEY CONSTRUCTION COMPLETIONS YTD 2023

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
4672 South Landing Way	Southwest	Main Event Tucson	40,350	FIP Master Funding VII LLC/Undisclosed
1410 East Tucson Marketplace Boulevard	South	Dental Pros	10,000	Undisclosed/Undisclosed
3761 East Broadway Boulevard	Central East	Portillo's Hot Dogs	7,800	Undisclosed/Undisclosed

GREG FURRIER Principal, Retail Properties

+1 520 909 6111 / gfurrier@picor.com

NATALIE FURRIER Retail Properties

+1 520 955 7663 / nfurrier@picor.com

DAVE HAMMACK Principal, Retail Properties

+1 520 546 2712 / dhammack@picor.com

AARON LAPRISE Principal, Retail Properties

+1 520 546 2770 / alaprise@picor.com

ANDY SELEZNOV Retail Properties

+1 520 546-2775 / aseleznov@picor.com

ROB TOMLINSON Principal, Retail Properties

+1 520 546 2757 / rtomlinson@picor.com

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