MARKETVIEW

Tucson Retail, Q3 2020

# Tucson Retail Net Absorption Turns Negative Amid the Pandemic

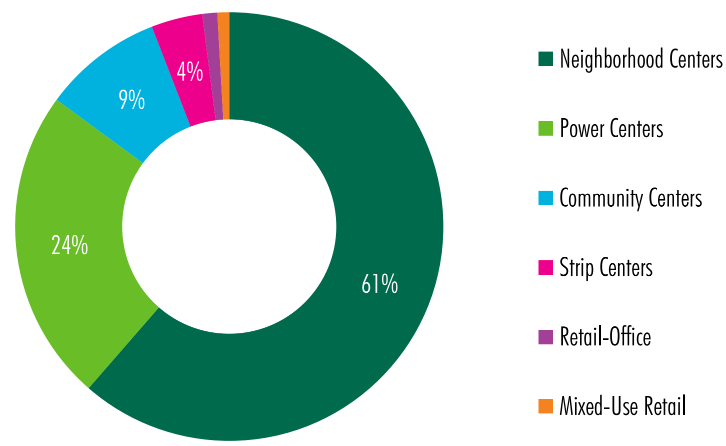
| Vacancy Rate | Net Absorption | Construction | Lease Rate |
|---|---|---|---|
| 8.3% | (276,517) SF | 0 SF | $17.89 NNN |

*Arrows indicate change from previous quarter

**TUCSON VACANCY INCREASES DURING THE PANDEMIC**

The retail market began 2020 strong as retailers absorbed space pushing vacancy down. However, as uncertainty grows, the third quarter vacancy rate increased quarter-over-quarter as the pandemic continues on. Aside from the last four quarters, the current Tucson retail vacancy rate remains the lowest since Q3 2016. The rolling average over four quarters sits at 7.5%.

Figure 1: Vacant Space Distribution




Source: CBRE Research, Q3 2020.

The Tucson retail streak of positive net absorption was snapped shy of five consecutive quarters of growth, ending the third quarter with -276,517 sq. ft. Tucson retail vacancy also increased quarter-over-quarter to 8.3%, up 120 basis points. This is an increase of 70 basis points when compared to the third quarter 2019, when the vacancy rate was 7.6%. Construction has been stagnant for several quarters, forcing tenants to look at existing space available in the metro. With grocery stores leading leasing in Tucson, the trend of redevelopment of former big box spaces will have continued interest in the Tucson market.

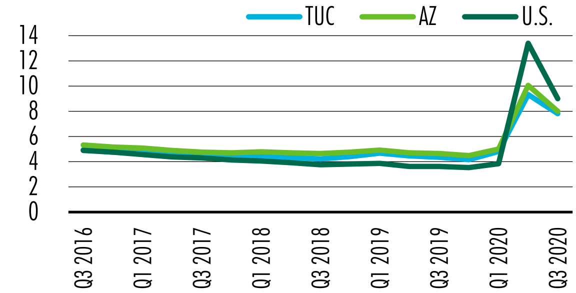
## NET ABSORPTION

The downward trend of net absorption in 2020 continued in the third quarter. Net absorption totaled 97,498 sq. ft. of net absorption in the first quarter of 2020, 16,179 sq. ft. in the second quarter and, the third quarter dropped off significantly, totaling -276,517 sq. ft. Although the market remained positive during the first half of 2020, the third quarter erased all gains from the year, bringing the year-to-date total to -162,840 sq. ft. The Southwest submarket was the only submarket with positive net absorption in the third quarter, totaling 2,106 sq. ft. The gains attributed from the 24,990 sq. ft. owner-user purchase from Mineral World were essentially nullified with the accumulation of smaller vacates within the submarket. The Central submarket was the main contributor to negative net absorption for Tucson, totaling -249,893 sq. ft., which is mainly credited to the large vacancy of 230,037 sq. ft. from JC Penney. Power centers recorded negative net absorption with -258,630 sq. ft., followed by strip centers with -6,536 sq. ft of negative net absorption.

## ASKING LEASE RATES

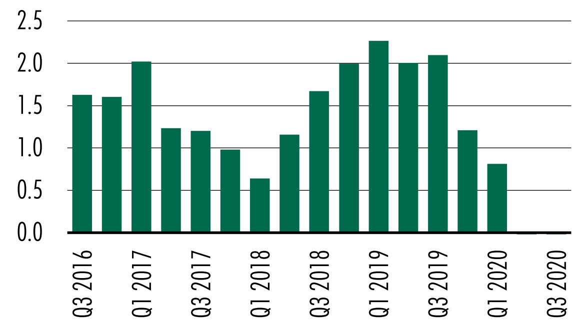
The average asking lease rate in Tucson increased 2.3% year-over-year, ending the quarter at $17.89 NNN per sq. ft. Submarkets reporting an increase in NNN asking rents year-over-year include the Central submarket with asking lease rates increasing 8.2% to $17.48 per sq. ft., Northeast submarket with asking lease rates increasing 23.1% to $21.56 per sq. ft., the Southeast submarket asking lease rates increasing by 21.6% to $19.63 per sq. ft and the Southwest submarket increasing 12.1% to $16.18 per sq. ft. The two submarkets that recorded declining asking NNN lease rates include the Northwest submarket declining 7.7% to $17.24 per sq. ft. and the West submarket declining 18.5% to $20.33 per sq. ft.

Figure 2: Unemployment Rate (%)



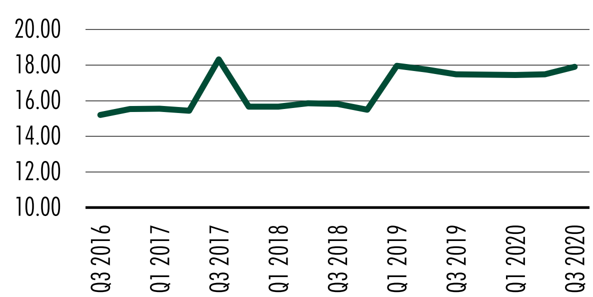

Source: U.S. Bureau of Labor Statistics, Q3 2020.

Figure 3: Year-Over-Year Job Growth (%)



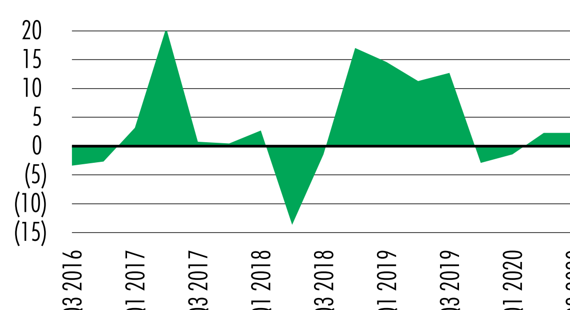

Source: U.S. Bureau of Labor Statistics Q3 2020.

Figure 4: Average Asking Lease Rate ($PSF/YR/NNN)




Source: CBRE Research, Q3 2020.

Figure 5: Year-Over-Year Rent Growth (%)




Source: CBRE Research, Q3 2020.

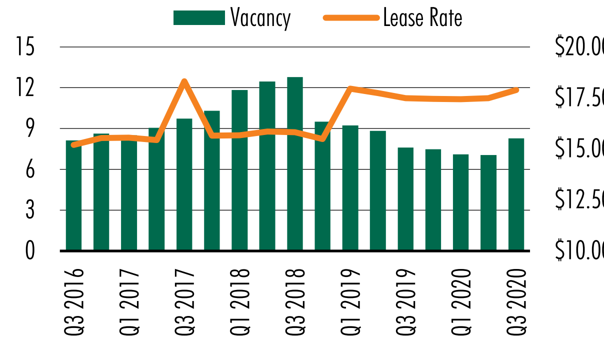
## VACANCY

The year-over-year market-wide vacancy rate increased 70 basis points to 8.3%. Quarter-over-quarter, the vacancy rate increased 120 basis points. Vacancy rates for the West and Southeast submarkets ranked the lowest at the end of the third quarter in metro Tucson at 5.2% and 5.4%, respectively. The Southwest followed closely behind, ending the third quarter at 5.8%. These submarkets consistently have a healthy retail economy attributed to the demographics and housing density. The submarkets that ranked the highest in vacancy were the Central and Northeast submarkets, which ended the third quarter at 14.9% and 9.3%, respectively.

## CONSTRUCTION ACTIVITY

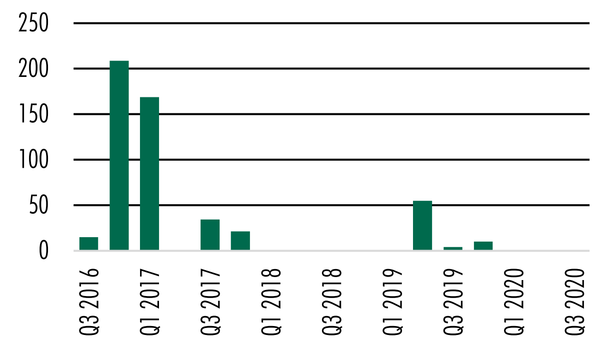
Construction activity has been stagnant due to the rise in available big-box space which has provided additional options for tenants looking to expand. The Tucson retail market is completely user driven as new supply will be limited to build-to-suit development. The trend towards redevelopment of former big box spaces and mixed-use developments is expected to continue, especially in the Southwest where two developments are bringing in new retail, consisting of the 65-acre project at The Landing and the 350-acre project at The Bridges.

Figure 6: Vacancy Rate (%) vs. Lease Rate (NNN)



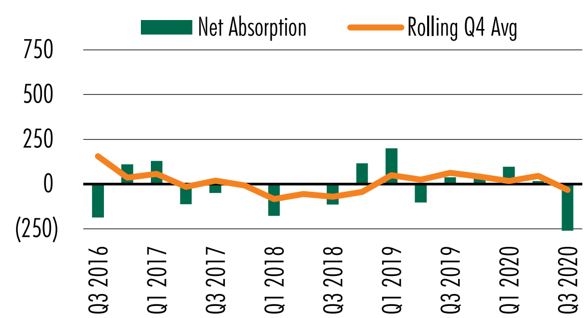

Source: CBRE Research, Q3 2020.

Figure 7: Total Completions (000's)



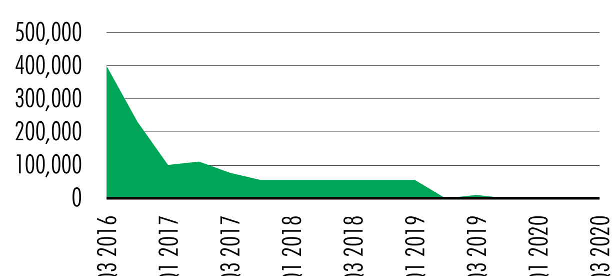

Source: CBRE Research, Q3 2020.

Figure 8: Net Absorption (000's)




Source: CBRE Research, Q3 2020.

Figure 9: Under Construction (SF)




Source: CBRE Research, Q3 2020.

## OUTLOOK

Gloomy economic conditions inspired many governors to ease lockdowns in the third quarter and many offices, restaurants and retailers continue to open. These reopenings have energized activity across the country. However, uncertainty is still ahead. COVID-19 is ramping-up in states that were quick to reopen and at the end of June, Arizona's governor issued an executive order to reverse the reopening of select businesses to limit the spread of COVID-19. Many tenants still need space and are backed up against lease expirations. In the near-term, look for many short-term renewals to dominate the market as tenants pause on big decisions. Despite wide-spread doubt, Tucson continues to be a target location for many companies across the U.S. as business-friendly laws and a large supply of diverse labor make the metro attractive to major-users.

Figure 10: Retail Market Statistics

| Market Area | Bldg. Sq. Ft. | Overall Vacancy (%) | Availability (%) | Current Net Absorption (Sq. Ft.) | Under Construction (Sq. Ft.) | Construction Deliveries (Sq. Ft.) |
|---|---|---|---|---|---|---|
| Community Centers | 2,501,097 | 6.9 | 15.9 | (1,485) | 0 | 0 |
| Freestanding Food | 9,500 | 0.0 | 0.0 | 0 | 0 | 0 |
| Freestanding Non-Foo | 20,889 | 0.0 | 0.0 | 0 | 0 | 0 |
| Neighborhood Centers | 14,478,109 | 8.2 | 10.5 | (5,936) | 0 | 0 |
| Power Centers | 4,767,099 | 9.5 | 11.0 | (258,630) | 0 | 0 |
| Retail-Office | 184,455 | 11.8 | 11.8 | 0 | 0 | 0 |
| Specialty | 79,448 | 4.9 | 39.2 | (3,930) | 0 | 0 |
| Strip Centers | 1,001,985 | 7.4 | 10.1 | (6,536) | 0 | 0 |
| **Tucson Total** | **23,289,453** | **8.3** | **11.3** | **(276,517)** | **0** | **0** |

Source: CBRE Research Q3 2020.

Figure 11: Key Transactions

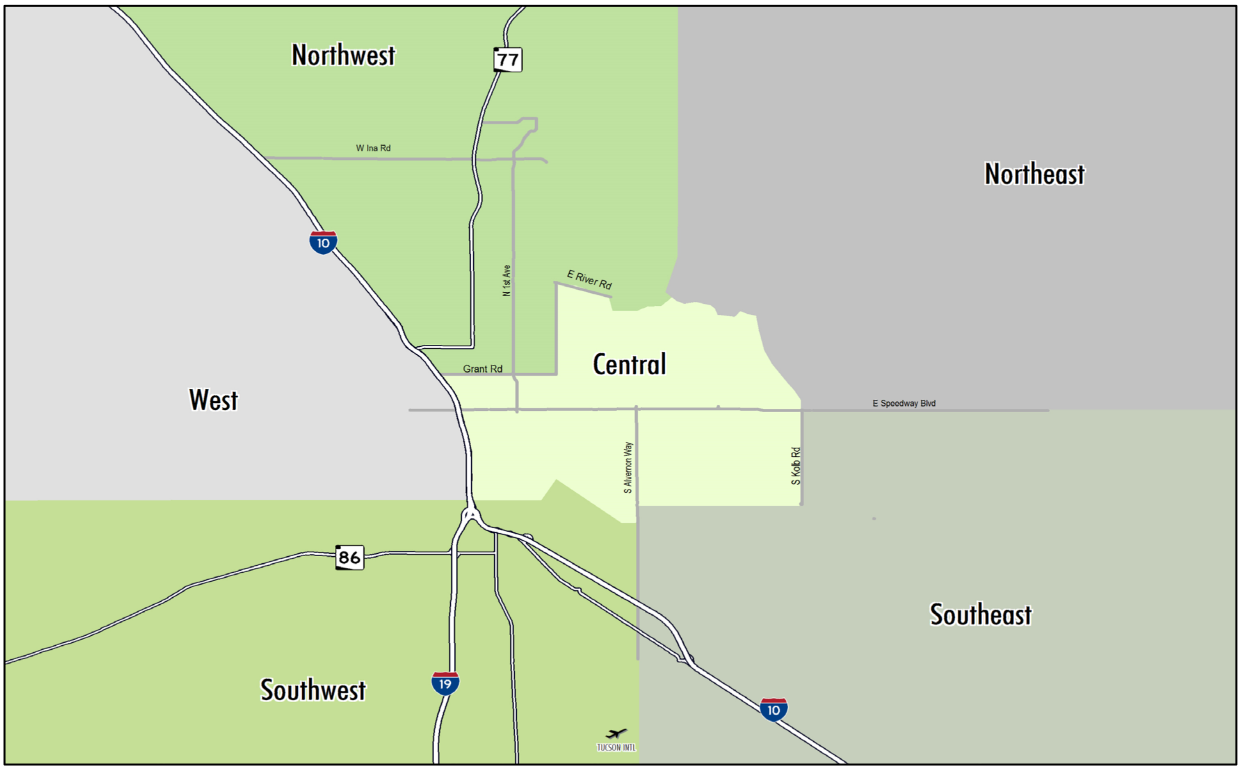
| Occupier | Industry Type | Location | Total Sq. Ft. |
|---|---|---|---|
| Mineral World | Wholesale | Santa Cruz Plaza | 24,990 |

Source: CBRE Research, Q3 2020.

Figure 12: Retail Submarket Statistics

| Submarket | Bldg Count | Bldg SF | Vacancy Rate (%) | Available Rate (%) | Net Absorption | Under Construction (SF) | Construction Deliveries (SF) | Average Lease Rate |
|---|---|---|---|---|---|---|---|---|
| Central | 55 | 4,607,884 | 16.5 | 16.5 | -248893.0 | 0 | 0 | 17.48 |
| Northeast | 15 | 1,177,763 | 9.3 | 12.2 | (1,227) | 0 | 0 | 21.56 |
| Northwest | 84 | 9,459,456 | 7.2 | 11.6 | (20,035) | 0 | 0 | 17.24 |
| Southeast | 27 | 2,889,732 | 5.4 | 8.4 | (6,047) | 0 | 0 | 19.63 |
| Southwest | 26 | 4,091,246 | 5.8 | 6.5 | 2,106 | 0 | 0 | 16.18 |
| West | 8 | 1,063,372 | 5.2 | 10.6 | -2421 | 0 | 0 | 20.33 |
| **Tucson Total** | **215** | **23,289,453** | **8.3** | **11.3** | **(276,517)** | **0** | **0** | **17.89** |

Source: CBRE Research, Q3 2020.




**Tyler Vowels**
*Field Research Analyst*
CBRE | Pacific Southwest Research
2575 E. Camelback Road, Suite 500
Phoenix, Arizona 85016
+1 602 735 5524
tyler.vowels@cbre.com

**Vanessa Vogel**
*Senior Research Analyst*
CBRE | Pacific Southwest Research
2575 E. Camelback Road, Suite 500
Phoenix, Arizona 85016
+1 602 735 5517
vanessa.vogel@cbre.com

To learn more about CBRE Research, or to access additional research reports, please visit the Global Research Gateway at www.cbre.us/research.