

FIGURES | TUCSON RETAIL MARKET | Q1 2023

Tucson Retail Experienced Substantial Net Absorption to Start the Year



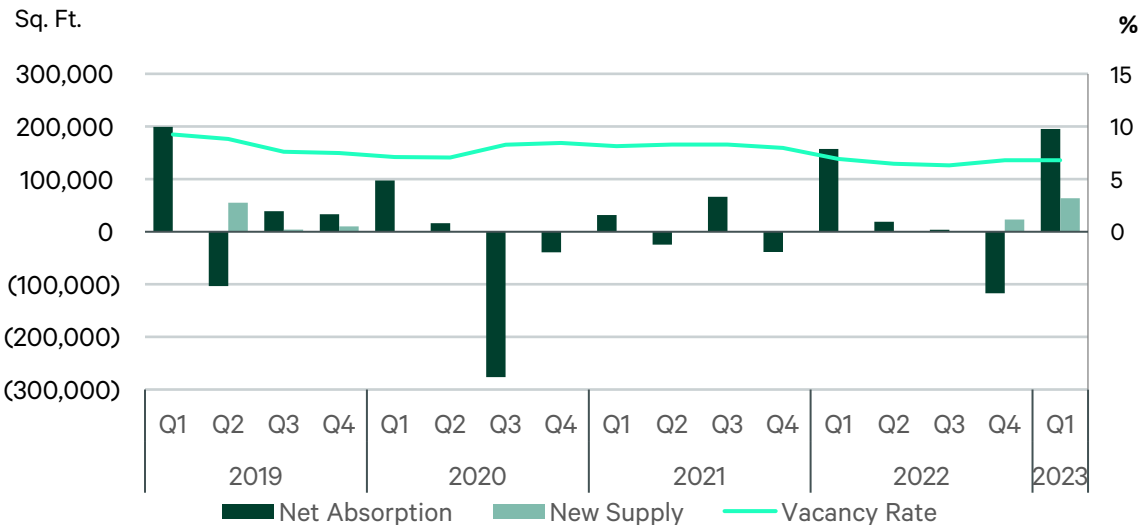
Note: Arrows indicate change from previous quarter.

KEY TAKEAWAYS

- 195,365 sq. ft. of net absorption occurred in Q1 2023, along with 297,725 sq ft. of gross activity.
- Construction activity increased from the year prior even though 63,500 sq. ft. delivered in the first quarter.
- Tucson average asking lease rates increased \$0.11 from the prior quarter to \$17.44.

The Tucson retail market experienced one of the best performing quarters in several years, with high net absorption, increased construction activity and low vacancy. Tucson’s national exposure as a premier retail and lifestyle location is evident, seen by the increase in leasing activity and high net absorption for the quarter. As the Tucson market heads in the direction of creative forms of retail experiences, development activity increased to 80,516 sq. ft. under construction.

FIGURE 1: Supply and Demand



Source: CBRE Research, Q1. 2023

Availability and Vacancy

Vacancy remained unchanged quarter-over-quarter at 6.8%. The Northwest submarket, the largest in Tucson, dropped 30 basis points (bps) to 5.0%. The most significant increase in vacancy was in the Southeast submarket, which reached 6.5% vacancy, but remained slightly below market average.

The market-wide availability rate increased 30 bps to 8.6% in Q1 2023. Both the Southeast and Southwest submarkets experienced upticks in availability reaching 9.0% and 7.9%, respectively. The Northwest submarket recorded an availability rate of 6.9%, which remained unchanged from Q4 2022.

Lease Rates

The average asking direct NNN lease rate was \$17.44 in Q1 2023—a 0.7% increase from Q4 2022. Tucson retail continued its upward trend in lease rates with a 5.4% growth in lease rates over the past year. As highly sought after retail locations become more limited each quarter, increases in asking rates for the spaces that remained followed.

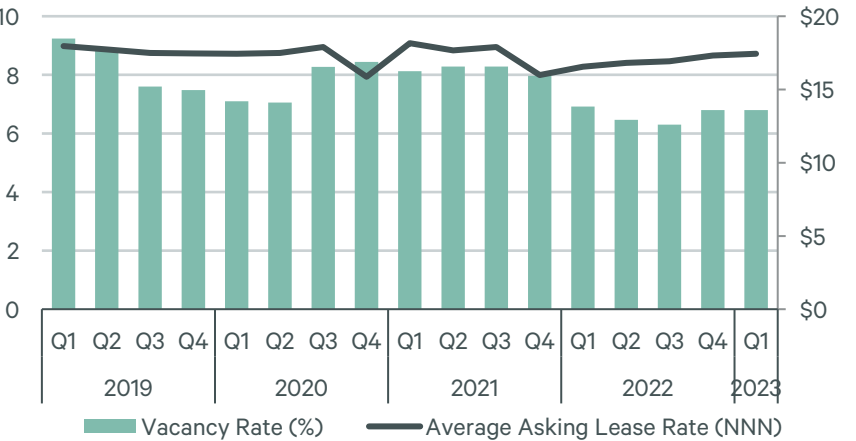
The Northwest submarket average asking lease rate decreased to \$17.71 but remained above the Tucson market average. The Central submarket remained a cost-efficient option for retailers with an average asking rate of \$14.39 per sq. ft. The largest increase in asking rates was in the Southeast submarket at \$22.26 per sq. ft., well above the market average.

Net Absorption and Leasing Activity

The Tucson retail market recorded 195,365 sq. ft. of positive net absorption, driven primarily by several big box space leases and preleased construction deliveries. Overall absorption was partially offset by several large move-outs including Bed Bath and Beyond and Big Lots. The Central submarket had half of the recorded net absorption in the quarter, which accounted for 137,975 sq. ft, due to minimal move-outs and several health and wellness companies which leased over 10,000 sq. ft. vacant spaces. The Southwest submarket accounted for the second most net absorption, made up mainly of construction deliveries.

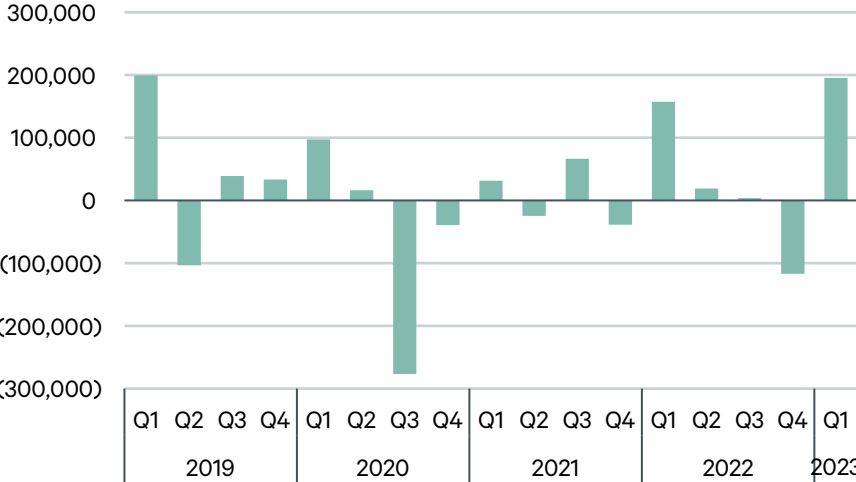
The Tucson market experienced an impressive 297,725 sq. ft. of gross activity in Q1 2023. The largest leases signed in the quarter were by Floor & Décor, Spirit Halloween and Bullfrog Spas, as these companies leased or renewed space. The Central submarket recorded over 150,000 sq. ft. of gross activity, more than half of the leasing activity for the quarter.

FIGURE 2: Overall Vacancy and Lease Rate



Source: CBRE Research, Q1 2023.

FIGURE 3: Net Absorption (Sq. Ft.)



Source: CBRE Research, Q1 2023.

Development Activity

The 50,000 sq. ft. Main Event entertainment center delivered at The Landing shopping center in Q1 2023, continuing Tucson’s momentum of new retail on the market. Retail product construction increased to 80,516 sq. ft., which marked a four-year high in square footage under construction in the Tucson retail market.

The highly anticipated Fry’s shopping center is planned within the Marana area and is expected to break ground in Q2 2023, catering to the rapidly expanding community in the Northwest submarket. Lastly, partial demolishing of the Foothills Mall was underway, as a mixed-use project in the former space is planned to better serve the community.

Outlook

The Tucson retail market continues a healthy trend of activity that is expected to remain strong in the subsequent quarters. Positive indicators from the quarter point to retail’s resilience despite economic uncertainty, an encouraging sign to developers and lenders planning new construction projects. The Tucson population continues to experience modest but consistent growth thanks to growing recognition for its scenery, food and other amenities. Retail product will flourish in the long run as economic headwinds dissipate and the Tucson market continues steady growth.

FIGURE 4: Under Construction and New Supply (Sq. Ft.)



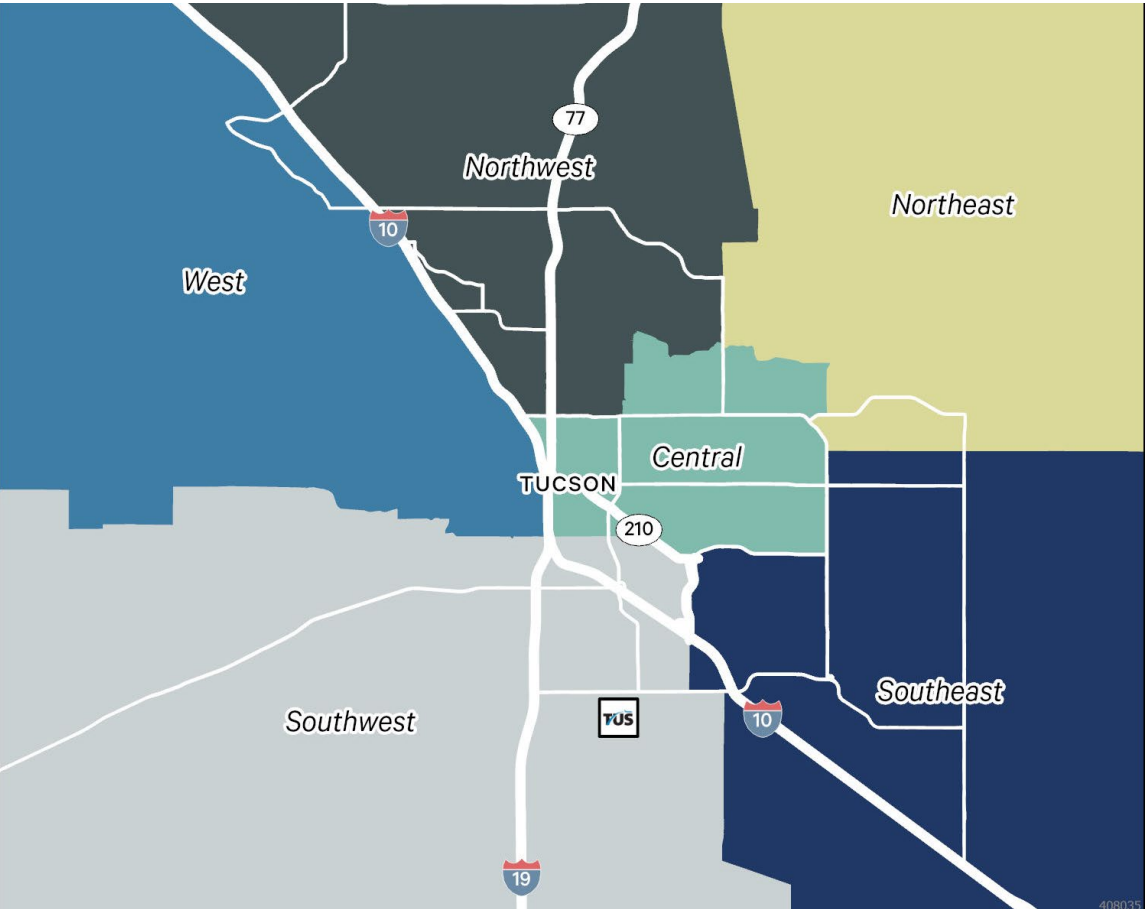
Source: CBRE Research, Q1 2023.

FIGURE 5: Submarket Stats

	Building Count	Net Rentable Area	Availability %	Vacancy %	Net Absorption Q1 2023	2023 YTD	Gross Activity Q1 2023	Under Construction	Construction Completions	Avg. Direct Asking Lease Rate (\$PSF/NNN)
Central	56	4,969,866	12.4%	11.1%	137,975	137,975	151,294	21,600	0	\$14.39
Northeast	14	1,177,763	10.2%	6.3%	(666)	(666)	4,381	0	0	\$20.31
Northwest	85	9,484,456	6.9%	5.0%	14,494	14,494	46,337	0	0	\$17.71
Southeast	27	2,889,732	9.0%	6.5%	(16,630)	(16,630)	17,381	0	0	\$22.26
Southwest	26	4,177,746	7.9%	6.9%	59,238	59,238	77,378	58,916	63,500	\$15.38
West	10	1,063,372	4.5%	2.3%	954	954	954	0	0	\$12.25
Tucson Total	218	23,762,935	8.6%	6.8%	195,365	195,365	297,725	80,516	63,500	\$17.44

Source: CBRE Research, Q1 2023.

Market Area Overview



Definitions

Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant. Availability Rate: Total Available Sq. Ft. divided by the total building Area. Average Asking Lease Rate: A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage. Building Area: The total floor area sq. ft. of the building, typically taken at the “drip line” of the building. Gross Activity: All sale and lease transactions completed within a specified time period. Excludes investment sale transactions. Gross Lease Rate: Rent typically includes real property taxes, building insurance, and major maintenance. Net Absorption: The change in Occupied Sq. Ft. from one period to the next. Net Lease Rate: Rent excludes one or more of the “net” costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate. Occupied Sq. Ft.: Building Area not considered vacant. Vacancy Rate: Total Vacant Sq. Ft. divided by the total Building Area. Vacant Sq. Ft.: Space that can be occupied within 30 days.

Survey Criteria

Includes all retail shopping centers 30,000 sq. ft. in Tucson Metro. Buildings which have begun construction as evidenced by site excavation or foundation work.

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