

MARKET REPORT

Retail
Tucson Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

4Q/23

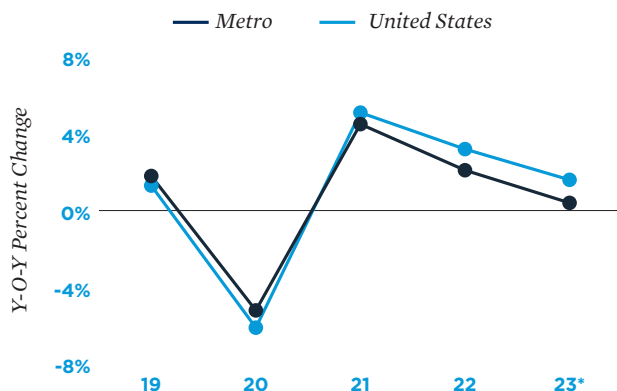
Retailers' Space Demand in Tucson Emulates Much Larger Consumer Markets

Tucson notes highest net absorption among smaller metros.

Tucson's prospects for household gains are motivating an accelerated pace of retailer expansions. Vendors absorbed 271,000 square feet on net over the first half of 2023, the largest figure among any major U.S. metro with less than 75 million square feet of stock. Moving forward, the local household count is on track to jump 5.2 percent over the next three years, which will be the third strongest among major metros with fewer than 800,000 in total. The continued retail space demand this supports is likely to speed up vacancy contraction, as a mere 40,000 square feet was underway across the metro as of October. Competition among tenants seeking newer builds for expansions will position Tucson's retail properties for rent growth, with the sector expected to record gains in the near-term that exceed the trailing half-decade average of 1.5 percent.

Vacant single-tenant space depleting in the core. The segment's rate in Central Tucson fell 210 basis points year-over-year to 7.6 percent entering the third quarter. Fueled by a record local net absorption total, this was the largest drop among any major southwestern submarket with at least 15 million square feet of stock. With dwindling single-tenant options, a higher number of specialty retail tenants keen on Central Tucson appear to be shifting to multi-tenant configurations. In October, at least five separate vendors were slated to move into local shopping centers over 5,000 square feet.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2023 Outlook



**1,500
JOBS**

will be created

EMPLOYMENT:

Employers hire at one-third of the typical yearly pace in 2023, as the job tally grows by 0.4 percent. Office-centric sectors, specifically, are anticipated to lose a net 2,000 roles this year, counterbalancing other additions.



**175,000
SQ. FT.**

will be completed

CONSTRUCTION:

Only 60,500 square feet is slated for delivery in the second half of 2023, the lowest final six-month total since at least 2007. Still, inventory growth will accelerate to 0.4 percent year-over-year, up from 2022's record low.



**40
BASIS POINT**

decrease in vacancy

VACANCY:

This year's mild completions enable vacancy to tick down to 6.5 percent. Much of the fall may materialize from local contractions in Central and South Tucson, where rates fell by at least 40 basis points over the first half.



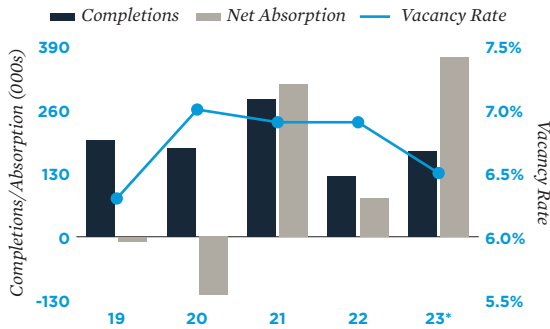
**1.9%
INCREASE**

in asking rent

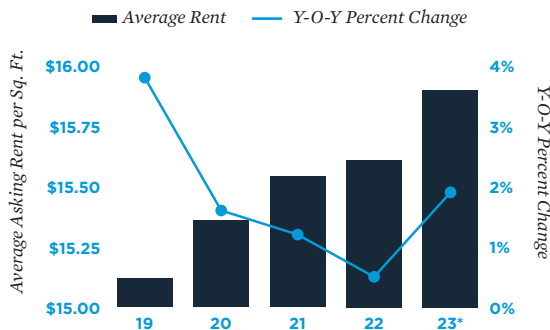
RENT:

Strong household formation cultivates healthy levels of retailer competition for a limited speculative pipeline moving forward, pushing the average asking rent up to \$15.90 per square foot in 2023.

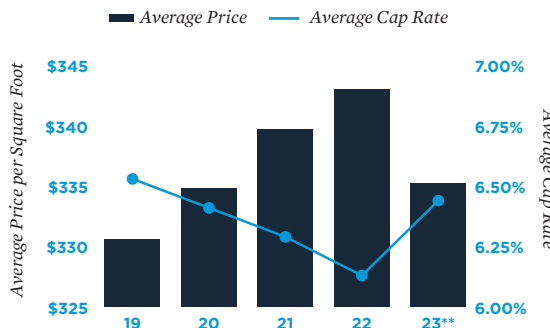
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

2Q 2023 - 12-Month Period



CONSTRUCTION

194,000 sq. ft. completed

- Builders completed 150,000 square feet in South Tucson, comprising most of the 0.4 percent stock growth marketwide in the year ended in June.
- Outside of South Tucson, supply additions were relatively minimal. During the recent 12-month span, North and Central Tucson each added approximately 20,000 square feet, stoking local expansions under 0.3 percent.



VACANCY

0 basis point change in vacancy Y-O-Y

- Supply additions during the year ended in June roughly equated to the overall increase in occupied stock across the market, resulting in the vacancy rate remaining unchanged year-over-year at 6.6 percent.
- Tucson's single-tenant vacancy rate fell 70 basis points to 5.6 percent, while the multi-tenant metric lifted 180 basis points to 9.4 percent.



RENT

2.3% increase in the average asking rent Y-O-Y

- The average asking rent reached \$15.80 per square foot in June, partially fueled by a double-digit percentage rise in the local South Tucson rate.
- Average asking rates in Central and North Tucson fell by 1.1 and 2.0 percent, respectively, over the past year, as high volumes of newer-built spaces were leased out of each submarkets' vacant stock.

Investment Highlights

- More properties changed hands in Central West Tucson over the first eight months of the year, based on preliminary data, than in 2022. Nearly all deals here have been for single-tenant assets, with interest likely to strengthen after the submarket noted record net absorption in the segment over the year ended in June. Many buyers appear to be targeting lower-cost listings to reduce expense-related risk, with all but a few deals penciling under the metro's single-tenant average of \$408 per square foot.
- South Tucson continues to be the focal point for retail trades in the metro, as substantial new single-tenant deliveries spurred opportunities for buyers to trade for net-leased assets. While the local vacancy rate has just recently risen from a record low of 3.1 percent, most fast food and restaurant builds from the 1970s and onward are still commanding premium pricing, at an average of \$460 per square foot in the first eight months.
- Multi-tenant deals in 2023 have been confined to some of the metro's highest-income neighborhoods — Foothills and Central East. As Tucson continues to grow, these areas may host more affluent transplants, stoking interest for expansions from regional and national retailers.