

INVESTMENT FORECAST

Retail
Tucson

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

2026

Largely Filled Development Pipeline Supports Stable Occupancy, Despite Ongoing Headwinds

Demand trends vary by tenancy type. Household income growth ranking in the top quartile of major markets in 2025, coupled with the relative affordability of space, bodes well for Tucson's retail market ahead. Several headwinds are apparent, however. Employment growth remains among the weakest in the nation, while the metro also enters 2026 with one of the highest vacancy rates among major markets. Nonetheless, upward vacancy pressure appears unlikely in the coming year, as the incoming delivery slate is nearly fully pre-leased as of early 2026, while net absorption rebounded in the second half of last year. This was in part driven by improving demand for sub-10,000-square-foot single-tenant spaces, which had previously faced a wave of relinquishments. Meanwhile, despite increased backfilling from entertainment and fitness concepts and discount retailers, weaker leasing activity among other conventional big-box retailers in late 2025 points to continued pressure on larger multi-tenant space in the coming year.

Caution among some big-box tenants guides investment. Shifting demand dynamics are increasingly reflected in investor sentiment, as single-tenant assets recorded nearly a 50 percent increase in trading last year, while multi-tenant assets declined slightly. Investors targeting multi-tenant properties may remain on the sidelines until tenant demand improves, though pockets northeast of Downtown have shown stronger leasing momentum that could attract selective interest. Meanwhile, rapidly improving single-tenant leasing in the affluent Oro Valley and Catalina Foothills areas is poised to draw attention. The same trend is evident in the Casas Adobes-Park Place Mall area, where sub-\$5 million commitments are frequently traded.

2026 MARKET FORECAST

-0.4%



Employment: Tucson will post a third straight year of declining employment amid weakness across traditionally office-using and government sectors. By year-end, the metro will shed 1,500 roles.

260,000
sq. ft.



Construction: Completions accelerate in 2026 as the metro's total inventory is forecast to expand by 0.6 percent. Still, this pace of development matches the trailing decade's annual average.

-10 bps



Vacancy: Improving leasing activity outweighs accelerating deliveries, pushing vacancy down to 6.6 percent by year-end, nearly in line with the metro's long-term average.

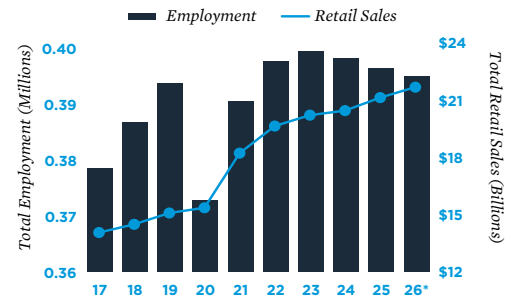
+1.2%



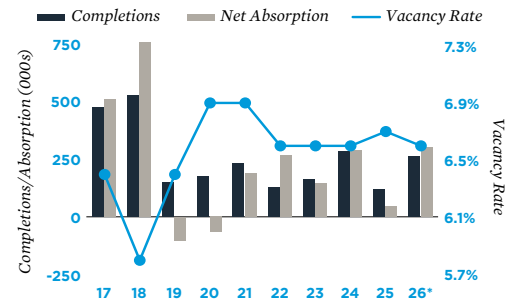
Rent: Following last year's modest decline in average asking rent, a slight decrease in vacancy supports a return to measured growth, pushing the year-end rate to \$16.95 per square foot.

INVESTMENT: *Rio Nuevo-supported reinvestment in 2026 continues to aid downtown fundamentals, with TIF funding reducing risk in hotel, retail, and other placemaking projects, sustaining investor interest nearby.*

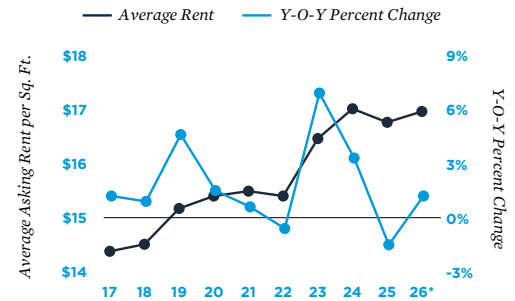
Economic Trends



Supply and Demand



Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of January 2026. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guarantee regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.