

FIGURES | TUCSON RETAIL MARKET | Q2 2024

# Net Absorption Returns Positive in the Tucson Retail Sector

▼ 6.6%  
Vacancy Rate

▲ 32,995  
SF Net Absorption

▶ 391,300  
SF Construction

▲ \$17.02  
NNN / Lease Rate

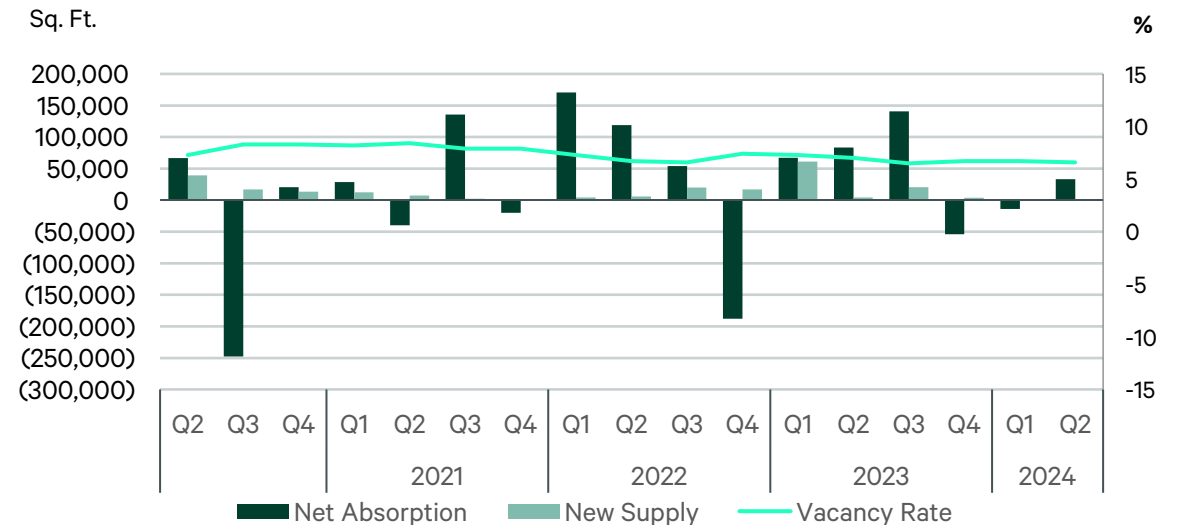
Note: Arrows indicate change from previous quarter.

## KEY TAKEAWAYS

- Net absorption returned to positive territory in Q2 2024, amounting to 32,995 sq. ft. The market posted 159,115 sq. ft. of gross absorption during the quarter, which does not account for tenant move outs.
- Construction activity remained stable, with 391,300 sq. ft. underway in Q2 2024, all of which are user-driven. No new projects broke ground or delivered during the quarter.
- Tucson average asking lease rates increased \$0.03 NNN per sq. ft. from the prior quarter to \$17.02 NNN per sq. ft.

Tenant demand accelerated during the second quarter of 2024. Net absorption returned to positive territory during this span for the first time since Q3 2023. This activity helped lower vacancy by 10 basis points (bps) quarter-over-quarter to 6.6%. Market fundamentals remain tight by historical standards, as the rate is down 60 basis points (bps) from the trailing 3-year average and asking rents continued an upward trajectory for the seventh consecutive quarter, reaching \$17.02 per sq. ft. Construction activity stayed relatively stable with no new groundbreakings or completions occurring during Q2 2024.

FIGURE 1: Supply and Demand



Source: CoStar Group

## Availability and Vacancy

Vacancy fell by 10 bps quarter-over-quarter to 6.6%. This rate was down 40 bps from 1 year prior and was 180 bps below the rate 3 years ago. Central Tucson recorded a 20 bps quarter-over-quarter decrease to 9.4% the highest rate among local submarkets. South Tucson also recorded a 20 bps vacancy decline during the second quarter to 4.4%, which is the lowest rate among all submarkets. North Tucson’s vacancy rate remained the same quarter-over-quarter at 4.9%.

The market-wide availability rate remained relatively steady at 7.6% in Q2 2024. South Tucson maintained the tightest availability among local submarkets, boasting a rate of 5.1%. Meanwhile, central Tucson recorded the highest rate among all submarkets, with local availability registering at 10.2% at the end of the second quarter. Availability in north Tucson rose by 20 bps during Q2 2024 to 5.9%.

## Lease Rates

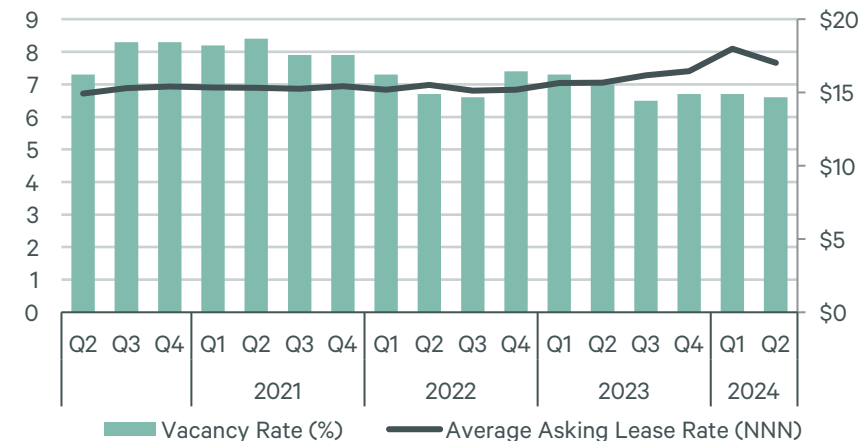
The average asking direct NNN lease rate was \$17.02 per sq. ft. in Q2 2024—a 0.2% increase from Q1 2024. This amounts to an 8.6% gain over the past year. North Tucson registered outsized growth relative to the other submarkets during Q2 2024, with the average local asking rent elevating by nearly 3% quarter-over-quarter to \$20.66 per sq. ft. Asking rent in south Tucson decreased by 2.9% for the quarter to \$18.02 per sq. ft., while average lease rates in central Tucson rose 0.6% to \$16.01 per sq. ft.

## Net Absorption and Leasing Activity

The Tucson retail market recorded 32,995 sq. ft. of positive net absorption, during Q2 2024. Tenant demand was strongest in central Tucson, as the submarket recorded 20,355 sq. ft. of positive net absorption during the second quarter. The south Tucson submarket also recorded positive tenant demand, as roughly 14,304 sq. ft. was taken off the market in Q2 2024. Conversely, north Tucson registered 1,664 sq. ft. of negative net absorption during the quarter.

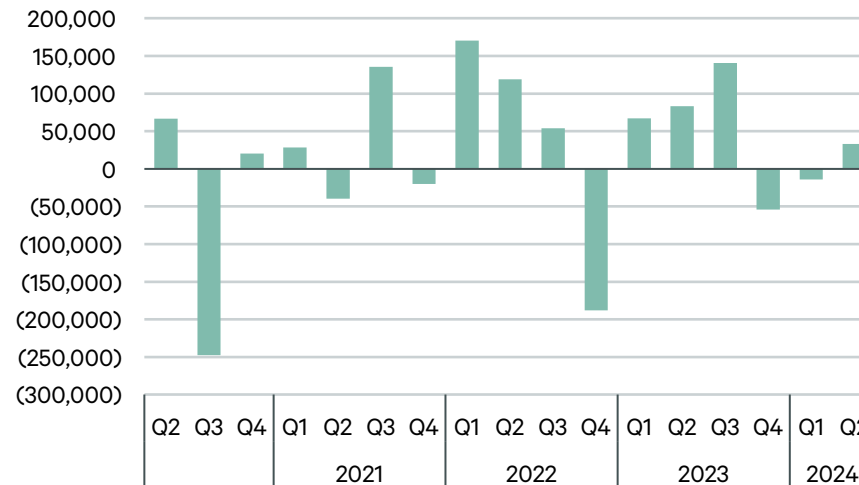
The Tucson market experienced 159,115 sq. ft. of gross absorption in Q2 2024, which marks a slight decline relative to last quarter. Some of the notable new leases signed during the quarter include Dollar Tree for 26,593 sq. ft. at Desert Square Shopping Center, Spirit Halloween for 23,964 sq. ft. at 5555 E Broadway Blvd, Midtown Mercantile for 13,548 sq. ft. at Rancho Center and ArchWell Health for 10,780 sq. ft. at Rincon Plaza.

FIGURE 2: Overall Vacancy and Lease Rate



Source: CoStar Group

FIGURE 3: Net Absorption (Sq. Ft.)



Source: CoStar Group

## Development Activity

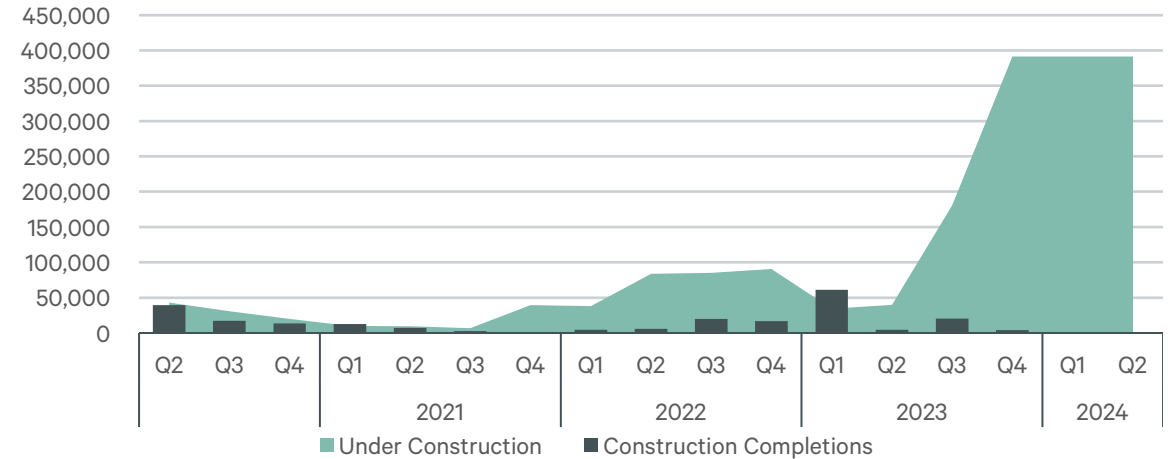
Deliveries and construction starts for shopping centers were non-existent during Q2 2024, with the pipeline remaining at 391,000 sq. ft, all comprised of 3 large retailers. This low level of development has aided Tucson in avoiding supply and demand imbalances which helped keep market fundamentals historically tight. Current projects include Gladden Farms, 155,000 sq. ft. shopping center anchored by Fry’s Marketplace in Marana, a 136,000 sq. ft. Home Depot in Houghton Town Center and a 100,000 sq. ft. Bass Pro Shops in the Marketplace at the Bridges. All 3 of these retailers are expected to open their doors in 2024. With the bulk of under construction product already preleased, supply-side pressure should remain minimal over the near-term in Tucson.

There is roughly 684,000 sq. ft. of proposed retail throughout the metro. The bulk of these projects are planned in higher residential growth areas such as north Tucson. However, many of these plans are unlikely to break ground in the near-term, as current interest rates and construction/labor costs dampen new construction as well as interior tenant improvements.

## Outlook

Tenant demand is steady and market conditions in Tucson remain tight by historical standards as the vacancy rate is 70 bps below the metro’s long-term average. However, the closures of some Family Dollar, Big Lot’s, Conn’s Home Plus, and others feeling financial stress from consumer’s pulling back spending could spur a rise in available space. While the potential for an economic downturn this year may present some short-run risks, prospects over the long-term remain bright. Tucson boasts healthy demographics, as the market has gained nearly 28,000 new residents since 2019 and is projected to add an additional 33,000 new residents over the next 5 years. Furthermore, Tucson has a relatively stable job market, with local unemployment registering at 3.1% as of May 2024, a rate that is 90 bps below the national average. Median household incomes have also increased by 14% since 2019 and are projected to rise an additional 19% over the next 5 years. These factors should continue to support local consumer spending, which will ultimately benefit Tucson retail fundamentals over the long-run.

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



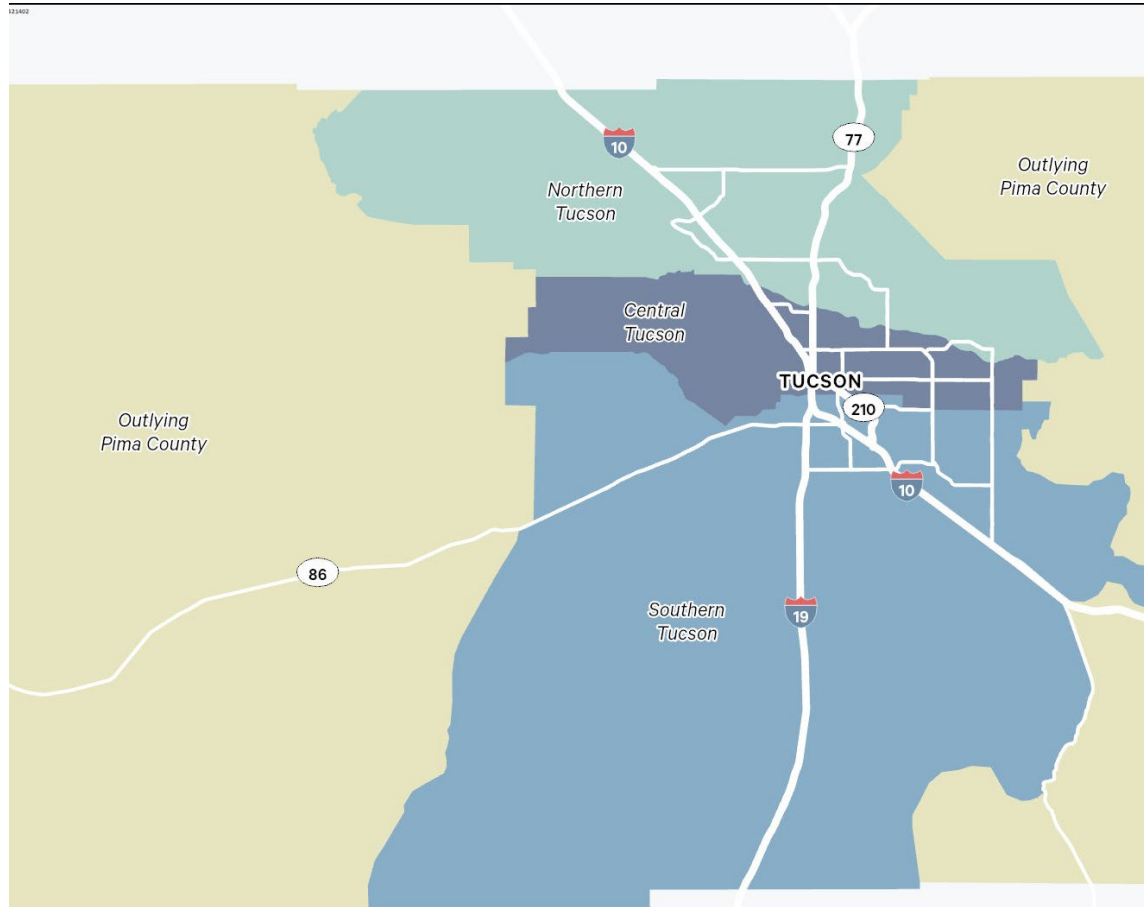
Source: CoStar Group.

FIGURE 5: Submarket Stats

	Net Rentable Area	Availability %	Vacancy %	Net Absorption Q2 2024	Net Absorption 2024 YTD	Gross Activity Q1 2024	Under Construction	Construction Completions	Avg. Direct Asking Lease Rate (\$PSF/NNN)
Central	10,815,643	10.2%	9.4%	20,355	(12,031)	102,010	0	0	\$16.01
North	8,185,493	5.9%	4.9%	(1,664)	4,262	32,809	155,300	0	\$20.66
South	6,403,478	5.1%	4.4%	14,304	26,535	24,296	236,000	0	\$18.02
<b>Tucson Total</b>	<b>25,404,614</b>	<b>7.6%</b>	<b>6.7%</b>	<b>32,995</b>	<b>18,766</b>	<b>159,115</b>	<b>391,300</b>	<b>0</b>	<b>\$17.02</b>

Source: CoStar Group

## 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. or larger in Tucson Metro. Buildings which have begun construction as evidenced by site excavation or foundation work.

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