

FIGURES | TUCSON RETAIL MARKET | Q4 2024

# Vacancy Remained Steady in the Tucson Retail Sector

► 6.4%

Vacancy Rate

▼ 10,474

SF Net Absorption

▼ 100,000

SF Construction

▲ \$16.48

NNN / Lease Rate

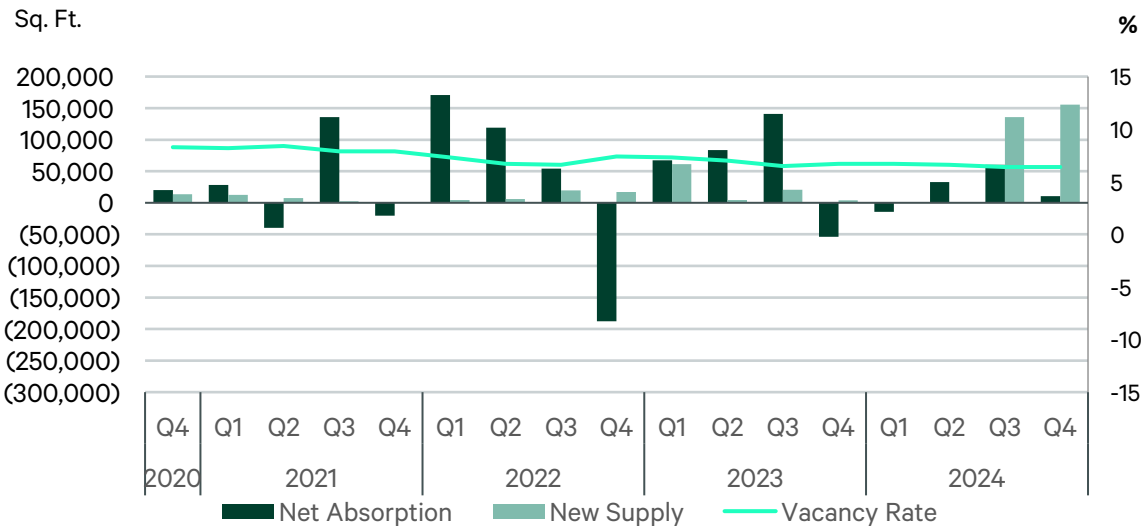
Note: Arrows indicate change from previous quarter.

KEY TAKEAWAYS

- Net absorption remained in positive territory in for the third consecutive quarter in Q4 2024, amounting to 10,474 sq. ft.
- The market recorded 155,300 sq. ft. of deliveries as the Fry’s Marketplace in Gladden Farms was completed. The total amount of space underway now sits at 100,300 sq. ft.
- Tucson average asking rates increased 5% quarter-over-quarter to \$16.48 per sq. ft. NNN.

Tucson exhibited solid fundamentals during the fourth quarter of 2024, as the retail sector continues to benefit from the region’s healthy demographics. Net absorption remained in positive territory for the third consecutive quarter, keeping vacancy steady at 6.4%, which matched the 4-year low. Also, the average asking rent increased by 2.0% in Q4 2024 to \$16.48 per sq. ft., eclipsing the trailing 4-year average by \$0.69 per sq. ft. The recent big box delivery and no new ground breakings resulted in overall construction activity declining during the fourth quarter, falling to just 100,000 sq. ft. underway.

FIGURE 1: Supply and Demand



Source: CoStar Group

## Availability and Vacancy

Vacancy remained flat during the fourth quarter at 6.4%. This rate was down 30 bps from 1 year prior and was 150 bps below the rate 3 years ago. Central Tucson recorded a 70 bps quarter-over-quarter decline to 8.6%. However, despite the decrease, this remained the highest rate among local submarkets. North Tucson experienced a 20 bps vacancy decline during the fourth quarter to 5.6%. South Tucson was the only submarket that registered a vacancy increase, as the rate jumped by 110 bps to 3.5%. Still, despite the recent rise, the submarket maintained the lowest vacancy rate in Tucson.

The market-wide availability rate decreased by 40 bps to 7.4% in Q4 2024. South Tucson maintained the tightest availability among local submarkets, boasting a rate of 5.2%, marking a 50 bps quarter-over-quarter decline. Meanwhile, Central Tucson recorded the highest rate among all submarkets, with local availability registering at 9.2%. Availability in North Tucson fell by 60 bps during Q4 2024 to 6.5%, which was the highest quarterly decrease among submarkets.

## Lease Rates

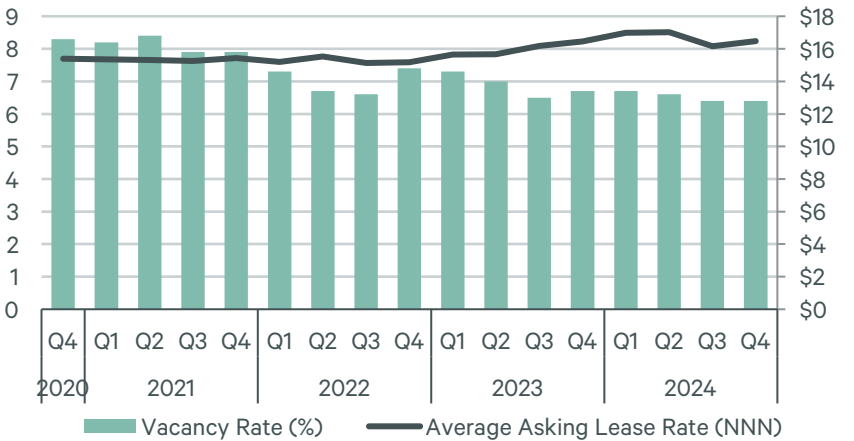
The average asking NNN lease rate was \$16.48 per sq. ft. in Q4 2024—a 2% rise from Q3 2024. and a 0.2% increase relative to 1-year prior. North Tucson continued to lead all submarkets in rent growth during Q4 2024, with the average local asking rent elevating by 2.0% quarter-over-quarter to \$21.77 per sq. ft. Asking rent in Tucson’s South submarket rose marginally by 0.8% during the quarter to \$11.83 per sq. ft., while average lease rates in Central Tucson rose by 1.5% to \$16.63 per sq. ft, which is the submarket’s highest average asking rate since 2009.

## Net Absorption and Leasing Activity

The Tucson retail market recorded 10,474 sq. ft. of positive net absorption, during Q4 2024. Tenant demand was strongest in Central Tucson, as the submarket recorded 66,331 sq. ft. of positive net absorption during the fourth quarter. North Tucson also recorded positive tenant demand, as roughly 15,079 sq. ft. was taken off the market in Q4 2024. Conversely, Tucson’s South submarket registered 70,936 sq. ft. of negative net absorption during the quarter, as the Curacao space at Southgate Shopping Center became available.

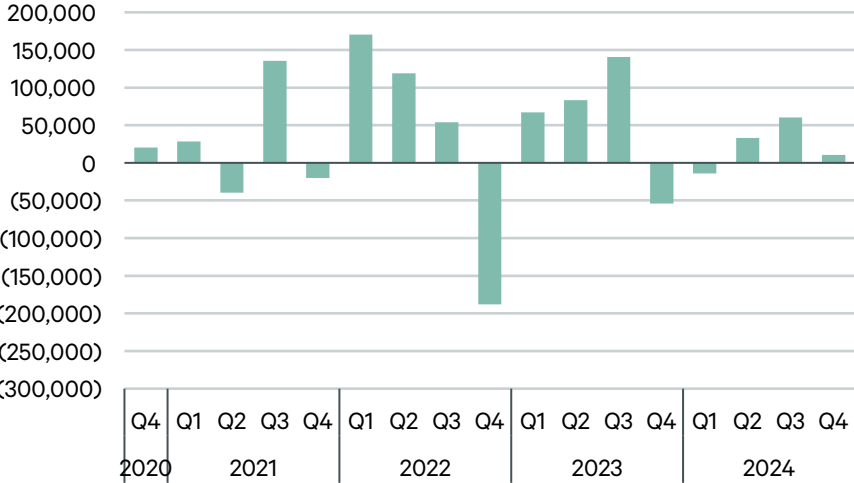
The Tucson market experienced 203,339 sq. ft. of gross absorption in Q4 2024, which does not account for move outs. Some of the notable new leases signed during the quarter include The Picklr for 30,162 sq. ft, Burlington for 28,874 sq. ft, Hibbet Sports for 7,500 sq. ft., Daiso for 7,400 sq. ft. and Kahu Hawaiian BBQ for 5,901 sq. ft.

FIGURE 2: Overall Vacancy and Lease Rate



Source: CoStar Group

FIGURE 3: Net Absorption (Sq. Ft.)



Source: CoStar Group

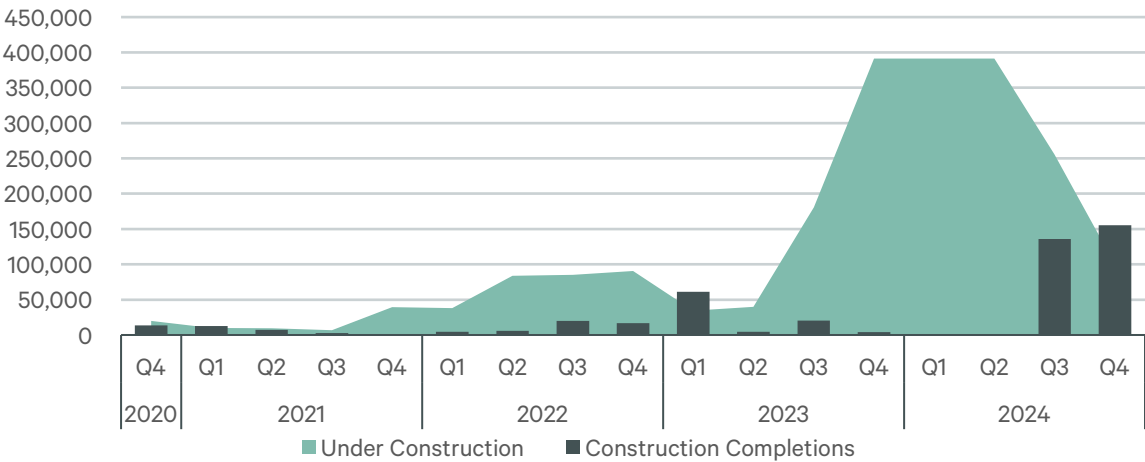
## Development Activity

Development activity remains modest in the Tucson metro, as elevated debt, land and construction costs have made it much more difficult for new speculative projects to pencil. Fry’s Marketplace at Gladden Farms was completed during Q4 2024, resulting in 155,300 sq. ft. of deliveries during the quarter. Roughly 100,000 sq. ft. remains in the pipeline, comprised of one big box large retailer, which is Bass Pro Shops in the Marketplace at the Bridges. This project is expected to be completed in early 2025. With no speculative projects under construction entering the new year, supply-side pressure should remain minimal over the near-to mid term.

## Economic Outlook

The U.S. economy surpassed expectations, largely driven by a resilient consumer benefiting from increased household wealth, rising real incomes, and a strong labor market. As a result, CBRE has raised its forecast for 2025's average GDP growth by 60 basis points to 2.3%. Generally, strong economic growth combined with Federal Reserve rate cuts would boost commercial real estate (CRE) performance. However, capital markets are uncertain about how low rates will fall in 2025, as persistent core inflation and policy uncertainties exert upward pressure on long-term rates. On a positive note, real estate capital markets have shown improvement recently, with tightening lending spreads and increased credit issuance. Lending conditions are gradually becoming more favorable, with multifamily loan-to-value ratios trending slightly upward. A stronger debt market and recovering real estate market fundamentals are expected to lead to a noticeable increase in investment in the coming quarters.

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



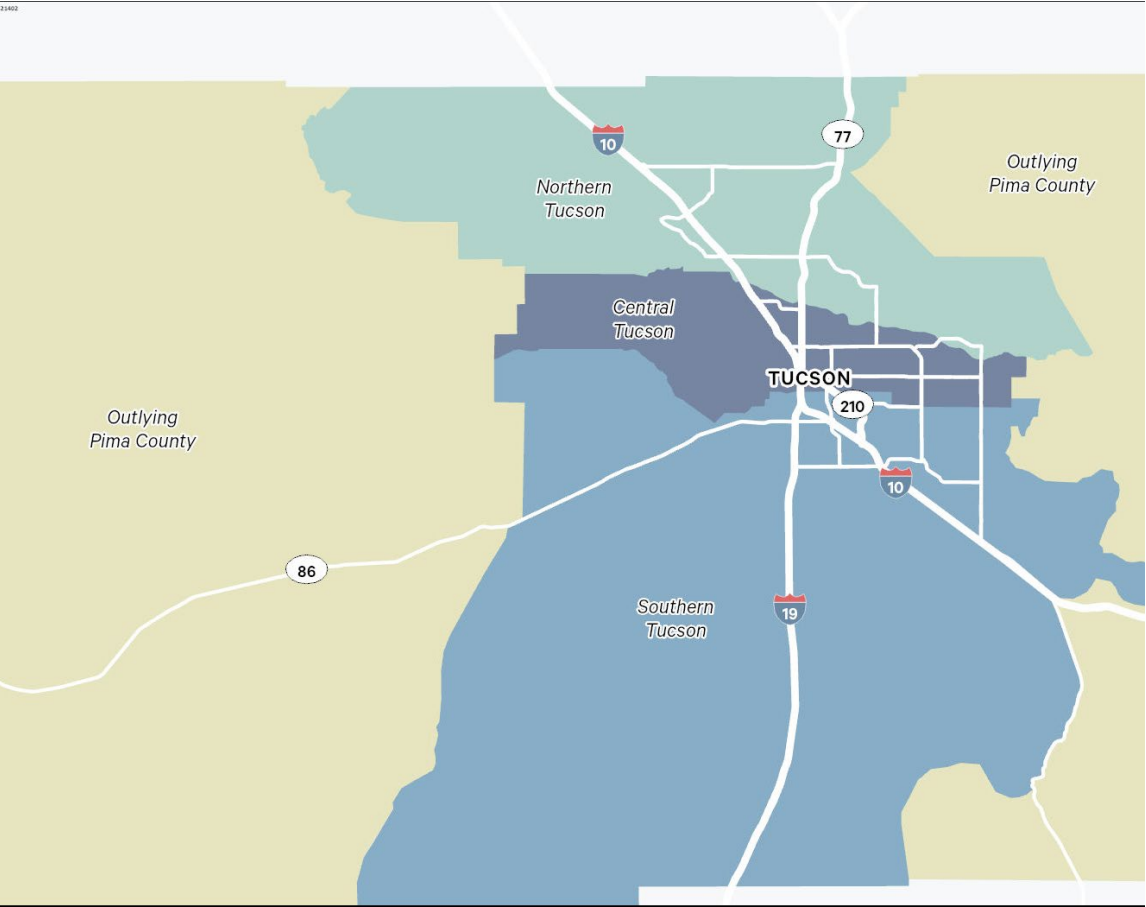
Source: CoStar Group.

FIGURE 5: Submarket Stats

	Net Rentable Area	Availability %	Vacancy %	Net Absorption Q4 2024	Net Absorption 2024 YTD	Gross Activity Q4 2024	Under Construction	Construction Completions	Avg. Direct Asking Lease Rate (\$PSF/NNN)
Central	11,021,747	9.2%	8.6%	66,331	62,897	139,194	0	0	\$16.63
North	8,119,312	6.5%	5.6%	15,079	(53,593)	38,348	0	155,300	\$21.77
South	6,390,490	5.2%	3.5%	(70,936)	80,396	25,797	100,000	0	\$11.83
Tucson Total	25,531,549	7.4%	6.4%	10,474	89,700	203,339	100,000	155,300	\$16.48

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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