



Highlights of 2018 Retail Acquisitions and Emerging Real Estate Trends in Tucson

Lauren Schroeder • published in the March 2019 issue

As we begin 2019 and look back at the past year, 2018 proved to be a strong year for retail with the vacancy rate continuing to decrease and positive absorption. It is anticipated that these trends will continue throughout the rest of 2019 in the Tucson market. Overall, Tucson continued to experience increased household incomes and population growth, boosting the support of the retail shopping centers located throughout our city. While the end of the year was certainly captivating, if not worrisome to watch, the economy continues to show indicators of growth as we head into the next year, although not without reservations of what lies ahead after 2019.

We at Thrasher Law Offices had the wonderful opportunity to be a part two of Tucson's biggest retail transactions of 2018 that provide good examples of where retail has been trending and where retail is anticipated to continue to trend into 2019 for the Tucson market. DSW Commercial Real Estate acquired Campbell Plaza, a 190,022 square foot retail center located on the northeast corner of Campbell Avenue and Glenn Street in Tucson, Arizona, in October of 2018. Town West Realty, Inc. acquired Oracle Crossings, 251,194 square foot retail center located south of the intersection of Oracle Road and Magee Road in Tucson, Arizona, in December of 2018.

When speaking with Michael Sarabia, a principal of DSW, he drove home the point that the biggest factor in deciding whether to acquire Campbell Plaza was the location of the retail center. Campbell Plaza is one of the largest pieces of real estate located on the thoroughfare of Campbell Avenue, just one mile north of the University of Arizona. Additionally, Campbell Plaza is a core-plus asset with Albertson's as its anchor tenant. Grocers provide daily needs to consumers and can be stable and consistent tenants that drive traffic to the retail center. Grocers are expected to be challenged in the upcoming years to provide the personalized and technology-driven experience consumers have come to demand in store and online. However, grocers that are able to adapt and invest in automation and logistics, as well as leveraging customer data to better target shoppers, should be able to continue to thrive in a brick and mortar setting.

Sarabia also identified the importance DSW felt that Campbell Plaza be owned and operated by a local company to further increase the value and significance of the centrally located center. Since acquisition, DSW has focused on making improvements to increase curb appeal and diversifying and upgrading the tenant mix to better serve Tucsonans in the area. Improvements DSW has undertaken include installing additional outdoor lighting and pavers at the entrance ways, as well as upgrading the signage for the center to update the aesthetics. In the upcoming years, DSW intends to continue to build and maintain a tenant mix, providing both entertainment and daily services for consumers along Campbell Avenue.

Toby Horvath, a principal of Town West Realty, also indicated that the dynamic location of Oracle Crossings was a factor that drew his group to the center. Oracle Road is the thoroughfare from the Tucson metropolitan to the ever-growing Oro Valley. Oracle Crossings has great visibility from the street and a strong tenant mix. Town West Realty was also drawn to the property because of the institutional quality of the center with approximately 75% of the tenants being national credit tenants.

Similar to Campbell Plaza, Oracle Crossings is anchored by a grocer, Sprouts Farmers Market, which Town West Realty also viewed as a positive when acquiring the center. Oracle Crossings also has Home Goods as an anchor tenant. Owned by TJX Companies, which owns T.J. Maxx and Marshall's as well, Home Goods added 85 stores in 2018 and plans to continue to add more in 2019. Despite the growth of ecommerce, Home Goods, in addition to other companies of TJX, continues to grow and perform well because of its ability to compete in the off-price retail sector which relies on the quick turnover of discounted goods. Other discount retailers such as Ross Dress for Less, who is a tenant at Campbell Plaza, continue to grow and provide strong anchors for retail centers even when faced with the continuing growth of ecommerce.

Kohl's is another tenant of Oracle Crossings that continues to do well in a brick and mortar setting. Kohl's has continued to have consistent positive performance because the retailer has integrated ecommerce and the brick and mortar shopping experience successfully. Kohl's lead the way in exchanging products purchased from other online retailers in their own stores, including purchases from Amazon, which drives foot traffic to Kohl's.

Town West Realty intends to keep its existing tenants in place and paying market rents at Oracle Crossings. Currently all tenants have strong sales providing stable cash flow, which also initially attracted Town West Realty to the center. The acquisition also included all of the pad buildings located in the center, an uncommon find in a retail transaction today. Competitive financing terms, including a low interest rate with maximum leverage over a long amortization period, also made the acquisition more appealing to Town West.

Oracle Crossings and Campbell Plaza exemplify the trends the Tucson market saw in 2018 and continue to expect to see in the 2019 retail marketplace. The foundation principles of retail acquisition remain—location of the center, strong anchor tenants and tenant mix are critical factors to consider when acquiring and operating a center, as well as finding tenants who perform well despite booming ecommerce.

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