**MARKETBEAT**

**Tucson**

**Industrial Q2 2018**

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**Economy**

Arizona has enjoyed impressive growth in population and income, ending 2017 with job growth at a strong 2.4%. This upward trend continues in 2018, where job gains in the 2.5% range seem likely at year’s end. Tucson’s unemployment rate now sits at a healthy 4.6% level (US Average 4.1%). Similarly, population growth approximates 1.5%, while personal incomes are also making strides, rising at a 4.3% clip. Arizona continues to outpace the national average in these key indicators.

Expansionary fiscal policy poses a potential risk to this continued prosperity at a time when labor markets are significantly tightening. This policy may result in increasing inflation, which is being carefully monitored heading into 2019.

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**Market Overview**

The industrial market in Q2 2018 continued the positive trend experienced in recent years, with strong and consistent momentum. Market-wide industrial vacancy improved to 6.0%, approaching the historic low of 5.0% prior to the crash in 2008. Gains were headlined by the mining, defense and logistics sectors. Hexagon Mining, Caterpillar, Raytheon, Amazon are all names we have become accustomed to hearing in Tucson, and with them come construction, long-term, and indirect jobs, subcontractors, and general business enthusiasm. Of note, medical marijuana-related businesses are finding traction in the industrial sector, as the industry begins to come of age.

Mid-year sales volume was quite strong, posting double the volume seen in 2017 in the first half of the year. Average sale price per sf was on pace for its highest level since 2008. Distressed asset sales have all but evaporated, and plans are in motion for new speculative construction in the industrial sector.

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**Outlook**

Expect an increase in speculative development, marking a return to health for the Tucson market. Harsch Investments announced plans to build a multi-tenant distribution building in the airport submarket, and rumors of new, speculative construction in other submarkets are afoot. In the mining sector, we look forward to Hudbay’s Rosemont project, and the further economic impact on the region. With continued construction, employment, and overall positive economic indicators, we project that the industrial market will stay strong through the remainder of 2018 and beyond.
MARKETBEAT
Tucson
Industrial Q2 2018

<table>
<thead>
<tr>
<th>SUBMARKET</th>
<th>TOTAL BLDGS</th>
<th>INVENTORY (SF)</th>
<th>YTD USER ACTIVITY (SF)</th>
<th>OVERALL VACANCY RATE</th>
<th>YTD OVERALL NET ABSORPTION (SF)</th>
<th>UNDER CNSTR (SF)</th>
<th>WEIGHTED AVG NET RENT* (HT)</th>
<th>OVERALL NET RENT* (MF)</th>
<th>OVERALL NET RENT* (OS)</th>
<th>OVERALL NET RENT* (W/D)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Downtown</td>
<td>418</td>
<td>4,184,435</td>
<td>13,400</td>
<td>1.7%</td>
<td>-21,858</td>
<td>0</td>
<td>N/A</td>
<td>$0.28</td>
<td>$1.00</td>
<td>$0.73</td>
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<tr>
<td>Northeast</td>
<td>232</td>
<td>2,614,706</td>
<td>0</td>
<td>8.6%</td>
<td>2,458</td>
<td>0</td>
<td>N/A</td>
<td>$0.58</td>
<td>$0.64</td>
<td>$0.44</td>
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<tr>
<td>Northwest/Oro Valley</td>
<td>728</td>
<td>9,627,949</td>
<td>13,955</td>
<td>2.8%</td>
<td>4,513</td>
<td>12,600</td>
<td>$0.82</td>
<td>$0.58</td>
<td>$0.74</td>
<td>$0.57</td>
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<tr>
<td>Palo Verde</td>
<td>531</td>
<td>6,497,806</td>
<td>7,939</td>
<td>4.8%</td>
<td>40,120</td>
<td>0</td>
<td>$0.49</td>
<td>$0.37</td>
<td>$0.72</td>
<td>$0.61</td>
</tr>
<tr>
<td>Park/Ajo</td>
<td>257</td>
<td>3,707,786</td>
<td>177,297</td>
<td>7.5%</td>
<td>31,527</td>
<td>0</td>
<td>$0.68</td>
<td>$0.09</td>
<td>$0.53</td>
<td>$0.43</td>
</tr>
<tr>
<td>South/Green Valley</td>
<td>12</td>
<td>187,683</td>
<td>0</td>
<td>0.6%</td>
<td>0</td>
<td>0</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
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<tr>
<td>Southeast</td>
<td>98</td>
<td>5,873,923</td>
<td>0</td>
<td>3.4%</td>
<td>50,551</td>
<td>230,134</td>
<td>N/A</td>
<td>$0.62</td>
<td>N/A</td>
<td>$0.87</td>
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<tr>
<td>Southwest/Airport</td>
<td>249</td>
<td>9,296,988</td>
<td>13,000</td>
<td>13.4%</td>
<td>253,207</td>
<td>300,181</td>
<td>$0.69</td>
<td>$0.42</td>
<td>$0.50</td>
<td>$0.43</td>
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<tr>
<td>West Outlying</td>
<td>5</td>
<td>1,245,019</td>
<td>0</td>
<td>0.0%</td>
<td>0</td>
<td>0</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

**TUCSON TOTALS**

- TOTAL BLDGS: 2,530
- INVENTORY (SF): 43,236,295
- YTD USER ACTIVITY (SF): 225,591
- OVERALL VACANCY RATE: 6.0%
- YTD OVERALL NET ABSORPTION (SF): 360,791
- OVERALL NET RENT*: $0.70
- OVERALL NET RENT*: $0.42
- OVERALL NET RENT*: $0.63
- OVERALL NET RENT*: $0.51

*Rental rates reflect $ps/month

HT = High Tech
MF = Manufacturing
OS = Office Service/Flex
W/D = Warehouse/Distribution

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Key Lease Transactions Q2 2018

**PROPERTY**

- 6161 S Palo Verde: Big O Tires, Direct, SW/Airport
- 3635 E 34th Street: Growers House, Renewal, Palo Verde
- 2901 S 4th Ave: MFG, Direct, Park/Ajo
- 1045 S Highland Ave: N/A, Direct, Downtown

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Key Sales Transactions Q2 2018

**PROPERTY**

- 705 E Ajo Way: Golden Eagle Distributors, RJ Property Management, $13,300,000/$83, Park/Ajo
- South Dodge Business Center: David Dybvig, Reliance Management, $6,491,160/$52, Palo Verde
- 10831-10861 N Mavinee: Matrix Equities, 1650 Kolb Road LLC, $5,625,000/$124, NW/Oro Valley
- 3951 E Columbia: John & Beverly Candrian, Ohana Real Estate Investors, $3,650,000/$140, Northeast

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