

MARKETBEAT

Tucson

Industrial Q1 2019



TUCSON INDUSTRIAL

Economic Indicators

	Q1 18	Q1 19	12-Month Forecast
Tucson Employment	379k	385k	▲
Tucson Unemployment	4.3%	4.7%	▼
U.S. Unemployment	4.1%	3.8%	▼

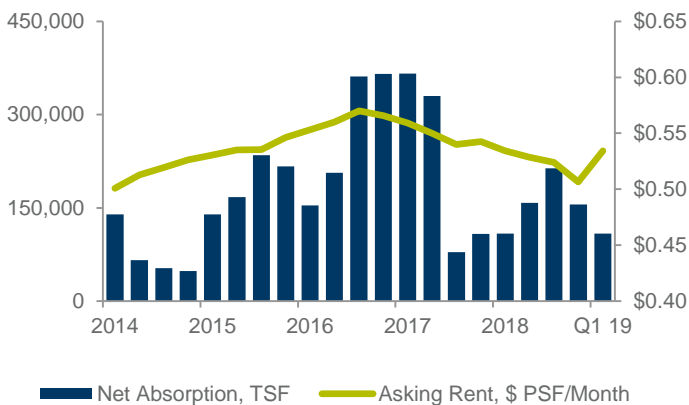
Market Indicators (Overall, All Property Types)

	Q1 18	Q1 19	12-Month Forecast
Vacancy	6.3%	5.8%	▼
YTD Net Absorption (sf)	57k	-35k	▲
Under Construction (sf)	243k	1.32M	▼
Average Asking Rent*	\$0.51	\$0.53	▲

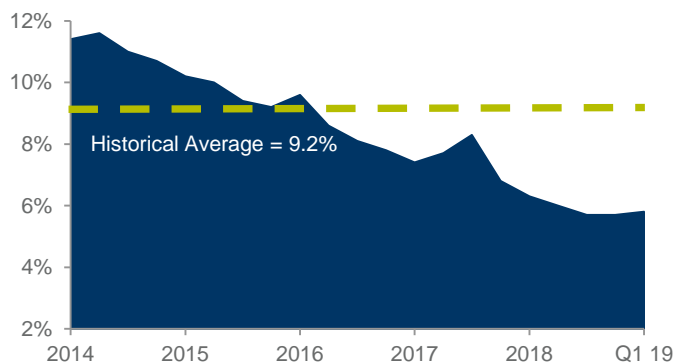
*Rental rates reflect net asking \$psf/month

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The state of Arizona is riding an employment high with over 110,000 jobs added in 2018 and continued momentum into 2019, with employment growth ranking third in the nation for the first two months of the year. Tucson continued to experience full employment, ending February at a 4.5% unemployment rate and adding 5,400 jobs over the past year. Occupational areas expected to have the highest growth in the next 12 months are Architecture and Engineering at 9.0%, Computer and Mathematical at 6.4% and Construction and Extraction at 6.1%. Tucson's average home sales price of \$259,466 was up 4.2% year over year, while new home permits were up 5.2% in the same time period. Taxable retail sales statewide were up 4.9% in January over the prior year.

Market Overview

Ending with a slight increase in overall vacancy quarter over quarter, the Tucson industrial market's performance was reflective of a point of overall stability after two years of unprecedented absorption. Available inventory is expected to continue to tighten in buildings with spaces under 5,000 square feet (sf), as well as within some of the higher-quality vacancies in larger blocks. As national shopping trends shift brick-and-mortar retail demand increasingly to eCommerce, local demand from retailers and logistics companies for related warehouse and distribution space has followed suit. Amazon is nearing completion of both an 850,000 sf fulfillment center near Interstate 10 and Kolb and a 50,000 sf last-mile delivery facility near the I-10 and I-19 interchange. Total industrial space under construction Q1 totaled 1.32 million square feet, inclusive of these two projects. Several national companies are in the market for supplemental warehousing facilities. Sales activity has also been off to a strong start in 2019, with first quarter volume of \$30.0 million up 37.3% over the same quarter 2018. Sale prices for the quarter averaged \$91.71 per square feet, consistent with pricing throughout 2018.

Outlook

In contrast to the frenzy of activity during the prior two years, overall market activity will continue at a more stabilized, moderate pace. This is not reflective of a slowdown in general market interest, but instead a decreasing supply of higher-profile, functional space alternatives, particular for national credit users. In spite of this market appetite for newer higher-quality inventory, the slow pace of rent growth is not yet high enough to spur significant speculative construction in the near term. One bright spot which has been anticipated and welcomed is the notable uptick in market interest from larger warehouse users (over 100,000 sf). Should a few of these translate to completed lease transactions, overall market occupancy could reach unprecedented levels and place increased pressure on new development.

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SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	YTD USER SALES ACTIVITY (SF)	OVERALL VACANCY RATE	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL WEIGHTED AVG NET RENT* (MF)	OVERALL WEIGHTED AVG. NET RENT* (OS)	OVERALL WEIGHTED AVG NET RENT* (W/D)
Downtown	419	4,184,037	10,957	1.9%	-18,111	0	\$0.50	\$0.64	\$0.69
Northeast	236	2,680,252	52,936	10.1%	41,180	0	\$0.75	\$0.59	\$0.56
Northwest/Oro Valley	735	9,806,698	0	3.9%	-120,421	8,800	\$0.61	\$0.61	\$0.56
Palo Verde	541	6,638,812	29,492	2.4%	48,455	0	\$0.68	\$0.58	\$0.57
Park/Ajo	261	3,821,503	2,987	6.1%	14,204	49,500	\$0.55	\$0.45	\$0.45
South/Green Valley	12	187,683	0	0.0%	1,000	0	N/A	N/A	N/A
Southeast	98	5,927,606	0	3.5%	500	1,091,334	\$0.65	\$0.71	\$0.75
Southwest/Airport	260	9,398,810	0	12.2%	-1,683	166,500	\$0.43	\$0.45	\$0.45
West Outlying	5	13,892	0	0.0%	0	0	N/A	N/A	N/A
TUCSON TOTALS	2,567	42,659,293	96,372	5.8%	-34,876	1,316,134	\$0.47	\$0.63	\$0.50

*Rental rates reflect asking \$psf/month

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

SUBUSE	TOTAL BLDGS	INVENTORY (SF)	YTD USER SALES ACTIVITY (SF)	OVERALL VACANCY RATE	YTD OVERALL NET ABSORPTION (SF)	CURRENT QTR OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL WEIGHTED AVG. NET RENT
Warehouse/Distribution	1,213	21,484,110	96,372	4.8%	8,381	8,381	1,303,534	\$0.50
Manufacturing	886	11,488,873	0	5.5%	-39,885	-39,885	3,800	\$0.47
Office Service/Flex	468	9,686,310	0	8.3%	-3,372	-3,372	8,800	\$0.63

Key Lease Transactions Q1 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
2301 S. Friebus Ave	28,500	Heating & Cooling Supply	Renewal	Palo Verde
1861 W. Grant Rd, Suite 105	14,500	Bath Planet of Tucson, LLC	Sublease	Northwest/Oro Valley
2155 N. Forbes Blvd, Suite 101	12,083	SOLO Corporation	Leased	Northwest/Oro Valley
230 E. 27th St, Suite 101	5,376	Rosemont Copper Company	Lease	Park/Ajo

Key Sales Transactions Q1 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
3601 E. Britannia Dr	57,600	Davis Selected Advisors / Bond Filipenko Commercial Properties	\$12,450,000 / \$216	Southwest/Airport
2106 N. Forbes Blvd	40,166	MRI Saddlehorn Investment Fund II, LLC / Pamela K. Tyson	\$1,950,000 / \$49	Northwest/Oro Valley
4551 S. Alvernon Way	29,800	HS Tucson AZ, LLC / Walter & Sons LLC	\$2,586,155 / \$87	Palo Verde
3785 E. 34th St	29,525	34th Street Penguins, LLC, 34th Street Investment Partners, LLC, and Gayle Brickman / E. 34th St., LLC	\$1,665,000 / \$56	Palo Verde

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