

MARKETBEAT

Tucson

Industrial Q2 2019



TUCSON INDUSTRIAL

Economic Indicators

	Q2 18	Q2 19	12-Month Forecast
Tucson Employment	380.6	386.5	▲
Tucson Unemployment	4.4%	4.8%	▼
U.S. Unemployment	3.9%	3.6%	▼

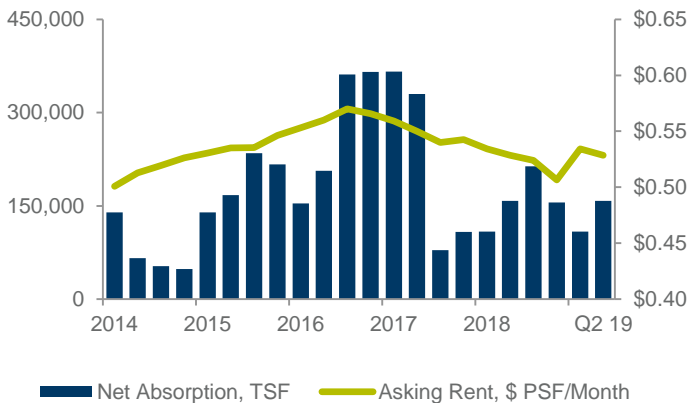
Market Indicators (Overall, All Property Types)

	Q2 18	Q2 19	12-Month Forecast
Vacancy	6.0%	5.1%	▼
YTD Net Absorption (sf)	361k	303k	▲
Under Construction (sf)	543k	1.3M	▼
Average Asking Rent*	\$0.51	\$0.54	▲

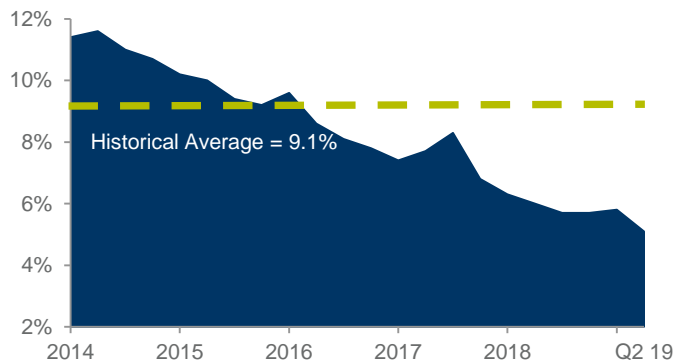
*Rental rates reflect net asking \$psf/month

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Tucson's regional economy tracked positively alongside state and national metrics at the midpoint of 2019. While slightly behind the broader state's GDP of 3.2%, at 2.9%, Tucson's real GDP shined relative to such other western metro areas as San Diego, Salt Lake City, and Las Vegas. Consumer confidence remained strong in both the region and the US, despite tariff concerns. Tucson added 5,900 jobs over the year. Construction, manufacturing, education and healthcare sectors led Tucson's job growth. By mid-year, Tucson was nearing heights of employment not seen since the cycles of 1969 and 1998.

Market Overview

The Tucson industrial market remained strong at midyear, as evidenced by our primary metric: Vacancy rate. Once again, vacancy has ticked-down, this time to 5.1%. Echoing the comments last quarter, Tucson is experiencing a "plateau effect" in the industrial sector in that the dynamic run-up in absorption slowed as the market leveled off at a highly-occupied equilibrium. Accordingly, this plateau resulted in a slow-down in leasing activity, as few options remained available to lease, and in many cases, companies operated existing facilities out of necessity rather than desire. Rents appeared to be rising at a measured pace as well, a natural outcome of the condition of such low vacancy. The gap in the industrial market continued to be seen in spaces over 100,000 square feet (sf), for which activity has been traditionally anemic. Signs of life in this sector have appeared with one recent lease completion over 100 ksf and several others currently in the market.

On the investment side, while volumes for the first half of the year did not match early 2018, average price / sf (psf) continues to climb and at \$93.41 psf in Q2 was the highest average on record. Available inventory has been a contributing factor, with only 1.6 msf on the market the lowest available for sale since pre-recession 2008.

Outlook

In the event that several of the current 100 ksf users in the market do in fact land new leases and absent a market correction, Tucson will see vacancy dip to unprecedented low levels which might force new speculative construction. The outlook for the Tucson industrial market remains strong in the near-term. The mining, distribution and defense industries continue to lead the way, bringing into their orbit smaller vendors and suppliers, and small business is projected to remain stable with continued lateral moves.

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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	420	4,188,805	10,957	2.3%	-33,005	0	\$0.88	N/A	\$0.58
Northeast	237	2,691,840	52,936	8.8%	75,180	0	\$0.75	\$0.55	\$0.56
Northwest/Oro Valley	744	9,875,415	32,968	3.5%	-82,370	8,800	\$0.60	\$0.80	\$0.59
Palo Verde	541	6,638,812	39,423	1.9%	82,785	0	\$0.68	\$0.49	\$0.57
Park/Ajo	262	3,930,303	4,967	4.5%	112,244	0	\$0.59	\$0.24	\$0.48
South/Green Valley	12	188,308	0	2.9%	-4,211	0	N/A	N/A	N/A
Southeast	98	5,936,177	0	3.8%	-13,900	1,091,334	\$0.65	N/A	\$0.75
Southwest/Airport	257	9,396,082	3,750	11.0%	165,869	166,500	\$0.41	\$0.63	\$0.47
West Outlying	3	13,892	0	0.0%	0	0	N/A	N/A	N/A
TUCSON TOTALS	2,574	42,744,717	145,001	5.1%	302,592	1,266,634	\$0.46	\$0.64	\$0.52

*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	1,220	21,565,525	127,882	4.1%	219,730	214,049	1,254,034	\$0.52
Manufacturing	886	11,531,557	17,119	5.2%	-9,899	28,336	8,800	\$0.46
Office Service/Flex	468	9,647,635	0	7.4%	92,761	97,733	3,800	\$0.64

Key Lease Transactions Q2 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
6908 E. Century Park Dr	141,913	Micromex International Corp.	Lease	Southeast
845 E. Ohio St	20,000	Onyx and Ambler	Lease	Palo Verde
2560 N. Huachuca Dr	15,000	Astrodyne International, Inc	Lease	Northwest
5990 S. Country Club Rd	14,260	Air Support Logistics	Lease	Southwest

Key Sales Transactions Q2 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
777 E. MacArthur Cir	113,920	LNR Partners LLC/ Caid Industries	\$4,305,000/ \$38	Park/Ajo
29 th Street Business Plaza	72,190	David Dybvig/ Presson Corporation	\$3,075,000 / \$43	Northeast
602 E. 24th St	34,436	TopBuild Corp./ John G Ochoa	\$940,000/ \$27	Park/Ajo
2002-2044 E. 14th St	22,767	Michael M Williams/ The Rosenthal Trust	\$1,300,000 / \$57	Downtown

Cushman & Wakefield | PICOR
5151 E. Broadway, Suite 115
Tucson, AZ 85711
picor.com

For more information, contact:
Barbi Reuter, President
Tel: +1 520 546 2744
breuter@picor.com

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