

# MARKETBEAT

## Tucson

### Industrial Q3 2018



#### TUCSON INDUSTRIAL

##### Economic Indicators

	Q3 17	Q3 18	12-Month Forecast
Tucson Employment	378k	385k	▲
Tucson Unemployment	4.2%	4.2%	▼
U.S. Unemployment	4.4%	3.9%	▼

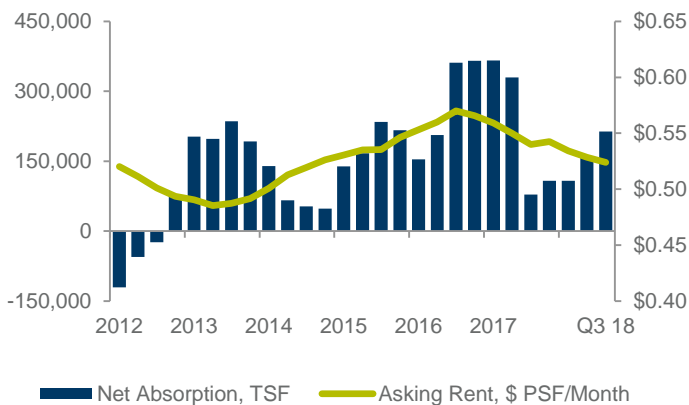
##### Market Indicators (Overall, All Property Types)

	Q3 17	Q3 18	12-Month Forecast
Vacancy	8.2%	5.7%	▼
YTD Net Absorption (sf)	195k	616k	▲
Under Construction (sf)	230k	1.09m	▲
Average Asking Rent*	\$0.53	\$0.51	▲

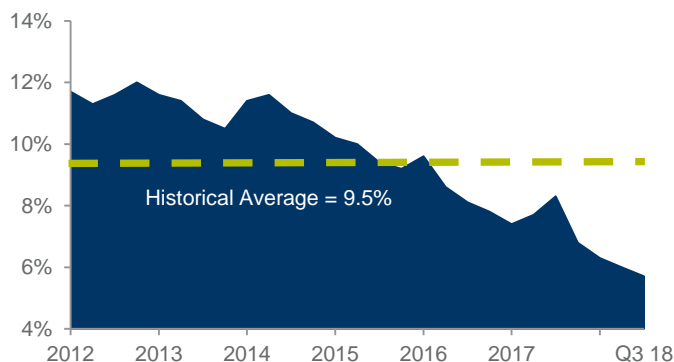
\*Rental rates reflect net asking \$psf/month

##### Overall Net Absorption/Overall Asking Rent

###### 4-QTR TRAILING AVERAGE



##### Overall Vacancy



## Economy

Employment in Metro Tucson has continued to improve, ending the third quarter of 2018 with an increase in jobs of 6,700 from a total of 378,500 in the third quarter of 2017. The Tucson economy will continue this trend of steady growth due to the new industries and large employers that have been attracted to the area.

## Market Overview

The industrial market for the third quarter 2018 continued its strong momentum. Overall vacancy has dropped to 5.7%, well below the historical average of 9.5% and the highest occupancy experienced since 2007. Vacancy is lowest in the office service/flex sector and highest for high-tech space. The majority of the vacancy is in larger spaces over 50,000 square feet (sf). Year-to-date absorption of 616,035 sf was driven by continued expansion in logistics, mining, building materials, and defense-related businesses. Building sales activity is strong with functional inventory selling quickly. Volume through the third quarter 2018 of \$105 million well outpaced 2017's full-year total of \$67 million. Average sale prices per sf are up 12% over 2017, rising from \$68 to \$76 per sf. That being said, investment transactions have slowed due to a lack of sale inventory. Land sale activity is showing signs of life but remains low relative to pre-2007 levels. The general industrial inventory of existing properties suffers from a degree of functional obsolescence. Those projects with ample parking, loading, ceiling heights, and contemporary design will see the strongest absorption and appreciation in rents and pricing. Significant projects under construction include a 230,134 sf cross-dock rail-served facility at Century Park and Amazon's 857,400 sf distribution center scheduled for completion in Q2 2019.

## Outlook

Absorption will continue a strong and positive trend. Expect to see meaningful activity in larger blocks of space and buildings. The economic development pipeline is the strongest it has been in several years. Rents in spaces under 10,000 sf will continue to rise with the most significant rent increases in lease space under 3,000 sf. Speculative construction will return to the market. Land sale activity will continue to improve as confident business owners choose to control their costs when faced with rising lease rates.

**MARKETBEAT**  
**Tucson**  
**Industrial Q3 2018**



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* (HT)	OVERALL WEIGHTED AVG NET RENT* (MF)	OVERALL WEIGHTED AVG. NET RENT* (OS)	OVERALL WEIGHTED AVG NET RENT* (WD)
Downtown	419	4,142,419	13,400	1.8%	-26,864	0	N/A	\$0.45	\$1.03	\$0.78
Northeast	237	2,664,058	104,708	7.5%	50,714	0	N/A	\$0.58	\$0.75	\$0.44
Northwest/Oro Valley	730	9,750,592	13,955	2.7%	4,499	8,800	\$0.83	\$0.67	\$0.74	\$0.64
Palo Verde	532	6,623,872	31,168	4.5%	95,566	0	\$0.49	\$0.33	\$0.68	\$0.58
Park/Ajo	257	3,767,793	213,033	5.7%	112,867	0	\$0.68	\$0.09	\$0.65	\$0.44
South/Green Valley	12	187,683	0	0.6%	0	0	N/A	N/A	N/A	N/A
Southeast	98	5,809,659	0	3.2%	50,551	1,087,534	N/A	\$0.62	N/A	\$0.92
Southwest/Airport	257	9,309,112	127,552	12.4%	328,702	0	\$0.69	\$0.42	\$0.50	\$0.42
West Outlying	5	13,892	0	0.0%	0	0	N/A	N/A	N/A	N/A
<b>TUCSON TOTALS</b>	<b>2,547</b>	<b>42,269,080</b>	<b>503,816</b>	<b>5.7%</b>	<b>616,035</b>	<b>1,096,334</b>	<b>\$0.71</b>	<b>\$0.44</b>	<b>\$0.65</b>	<b>\$0.49</b>

\*Rental rates reflect asking \$psf/month

HT = High Tech MF = Manufacturing OS = Office Service/Flex WD = 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	1,230	21,314,364	156,992	5.3%	537,933	130,498	866,200	\$0.47
Manufacturing	714	12,493,568	330,648	5.2%	123,259	199,395	230,134	\$0.42
Office Service/Flex	423	3,352,931	16,176	4.2%	46,378	11,326	0	\$0.61
High Tech	180	5,108,217	0	9.1%	-91,535	-85,975	0	\$0.68

**Key Lease Transactions Q3 2018**

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
2450 N Flowing Wells Rd	22,398	Sun Valley Supply	Renewal	Central
2811 N Flowing Wells Rd	15,320	American Technologies, Inc.	Direct	Central
4340 E Tennessee St	14,000	Undisclosed	Direct	Northeast
3543 E Golf Links Rd	12,640	Black Rock Chemical	Direct	Palo Verde

**Key Sales Transactions Q3 2018**

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
6221-6223 S Palo Verde Rd	120,810	3D Investments/ Glen Una Management Company, Inc	\$16,415,00/\$136	Southwest/Airport
6270 S Country Club Rd	84,900	Nelipak Corp/ Westmed, Inc	\$2,648,400/\$31	Southwest/Airport
4100 & 4151 E Michigan St	60,149	FRC Holdings of Tucson, LLC/ Jude Baker, LLC	\$1,112,500/\$18	Northeast
700-702 E Fair St	35,736	Fairprop, LLC/ Gonzalez 2002 Family Trust	\$750,000/\$21	Park./Ajo

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