

MARKETBEAT

Tucson

Industrial Q3 2019



TUCSON INDUSTRIAL

Economic Indicators

	Q3 18	Q3 19	12-Month Forecast
Tucson Employment	382.1	390.9	▲
Tucson Unemployment	4.4%	4.7%	▼
U.S. Unemployment	3.8%	3.7%	▼

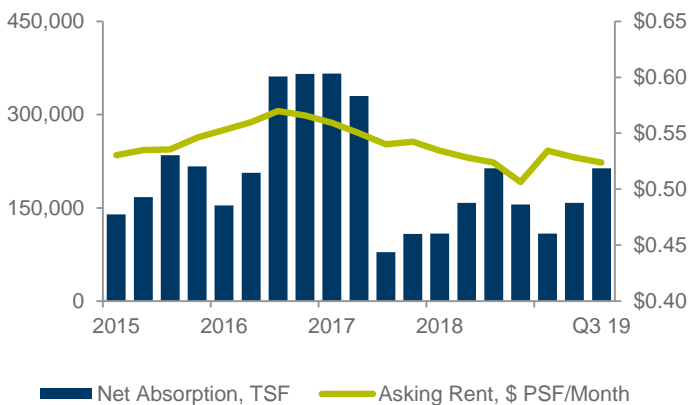
Market Indicators (Overall, All Property Types)

	Q3 18	Q3 19	12-Month Forecast
Vacancy	5.7%	6.1%	▼
YTD Net Absorption (sf)	616k	919k	▲
Under Construction (sf)	1.09M	157k	▼
Average Asking Rent*	\$0.51	\$0.55	▲

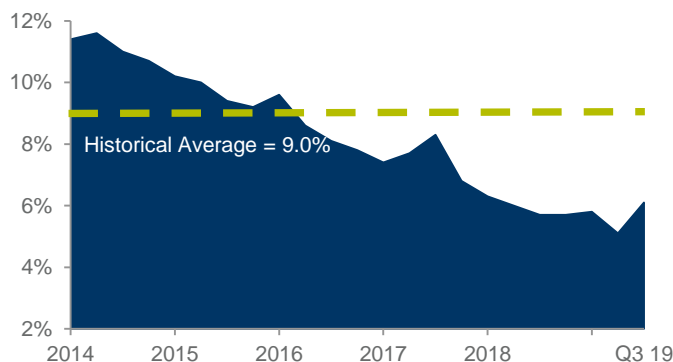
*Rental rates reflect net asking \$psf/month

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Tucson Median household income is up 2.6% over the past year and US consumer spending growth is up 4.1%. Labor and materials costs continue to rise, effectively increasing development costs. Recent openings of Gunnison Project Copper Mine and South 32 Mine in Patagonia have spurred growth in southern Arizona mining and the businesses supporting the mining industry. Residential master-planned communities such as Lazy K, Rocking K, and Gladden Farms continue to advance, spurring job growth in the construction industry and absorption of industrial properties for contractors and construction supply distributors. Tucson's population has grown 1.4% over the past year. California residents and companies are increasingly moving to Tucson as California costs of doing business and living continue to rise. US unemployment improved to 3.7% as Tucson's slightly increased to 4.7% from a year ago.

Market Overview

The Tucson industrial market remained stable through Q3 2019. While the overall market vacancy rose one percentage point from the second quarter to 6.1%, this change is impacted by several large back-office (call center) spaces that have recently come on the market which is included in the available space. Aside from call center availabilities, however, the industrial market remained tight and primarily a landlord/seller's market. High absorption during the quarter is actually carry-over from late Q2 2019 and is primarily related to the Amazon distribution center coming online. In addition, the market vacancy is overstated by 90 basis points due to inclusion of 423,036 square feet (sf) of space in four buildings currently occupied, but available.

Rents remained firm but relatively flat, with just enough vacancy in the market and a lack of new speculative construction to tamp-down what would otherwise contribute to accelerating rents during this strong market cycle. The divide between rents on existing space and what is needed for most new construction persists, which is holding back land sales and new speculative construction in the market.

On the sale side, investor interest maintained velocity, with regional investors flocking to tertiary markets such as Tucson in search of cap rates exceeding those in the competitive, primary markets. Marketwide sales prices have averaged approximately \$93 per for the last six quarters. Smaller user properties are also seeing robust purchase and sale activity.

Outlook

Several large tenants remain interested in locating in Tucson, which would further compress our vacancy if other market factors hold steady. Despite some national forecasts and early indicators of future headwinds, the Tucson industrial market shows no tangible signs of slowdown and should continue on its current pace into the new year.

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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	418	4,148,427	10,957	1.5%	-7,986	0	\$0.88	N/A	\$0.60
Northeast	238	2,695,753	73,773	8.5%	73,100	0	\$1.20	\$0.55	\$0.57
Northwest/Oro Valley	746	9,874,866	103,732	4.3%	-169,496	0	\$0.68	\$0.75	\$0.57
Palo Verde	542	6,641,774	49,188	1.5%	106,714	0	N/A	\$0.40	\$0.56
Park/Ajo	263	3,972,101	6,947	11.5%	-197,335	0	\$0.59	\$0.31	\$0.47
South/Green Valley	12	188,308	0	0.5%	98	0	N/A	N/A	N/A
Southeast	104	7,034,352	14,000	6.5%	886,900	0	\$0.65	\$0.88	\$0.75
Southwest/Airport	258	9,305,374	8,551	10.3%	227,247	157,000	\$0.41	\$0.59	\$0.48
West Outlying	3	13,892	0	0	0	0	N/A	N/A	N/A
TUCSON TOTALS	2,584	43,874,847	267,148	6.1%	919,242	157,000	\$0.44	\$0.70	\$0.51

*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	1,215	22,608,979	174,855	4.9%	1,082,829	30,699	157,000	\$0.51
Manufacturing	844	11,598,103	66,257	8.2%	-341,742	-338,895	0	\$0.44
Office Service/Flex	468	9,667,765	26,036	6.5%	178,155	81,172	0	\$0.70

Key Lease Transactions Q3 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
3770 S. Park Ave	25,000	Pepperidge Farm	Lease	Park/Ajo
2380 E. Medina Rd	23,479	Texas Instruments	Lease	Southwest/Airport
3850 E. 44th St	20,400	Tire & Wheel Wholesale	Lease	Palo Verde
3690-3700 S. Palo Verde Rd	15,960	ITW	Lease	Palo Verde

Key Sales Transactions Q3 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
3130 S. Dodge Blvd	45,000	Joan Dusenberry Marris / Elliott Partners	\$2,800,000 / \$62	Palo Verde
2500 N. Coyote Dr	35,800	Rob Rauh, Tr / The Clover Company	\$2,285,000 / \$64	Northwest/Oro Valley
3248 N. Freeway Industrial Loop	34,419	Long Meadow Ranch, Inc / The Clover Company	\$2,495,000 / \$72	Northwest/Oro Valley
4000 E. Michigan St	16,473	Synergy Petroleum / Michigan Tucson Property LLC	\$1,280,331 / \$78	Northeast

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