

	YoY Chg	12-Mo. Forecast
6.4% Vacancy Rate	▲	▼
789K Net Absorption, SF	▼	▲
\$0.55 Asking Rent, PSF	▲	▲

Overall, Net Asking Rent

ECONOMIC INDICATORS Q4 2019

	YoY Chg	12-Mo. Forecast
391.2K Tucson Employment	▲	▲
4.6% Tucson Unemployment Rate	▲	▼
3.6% U.S. Unemployment Rate	▼	▲

Source: BLS

ECONOMY:

Tucson's regional economy continued to track positively alongside state and national metrics at the end of 2019. Personal income was up 5.4% year over year from \$446.6M to \$470.7M, consistent with the overall state of Arizona increase of 5.9% but behind the Phoenix area increase of 6.7%. Total non-farm employment continued to increase by 1.5%, up to 387,200 jobs from the previous 2018 figure of 381,500 jobs. The employment categories experiencing the greatest growth were manufacturing, construction, healthcare, and leisure and hospitality. Similar increases are predicted for 2020 and 2021 with a flattening in growth occurring in 2022. Population growth in the Tucson area matched its prior modest annual increase of 0.8% and is expected to increase at that same rate through 2022.

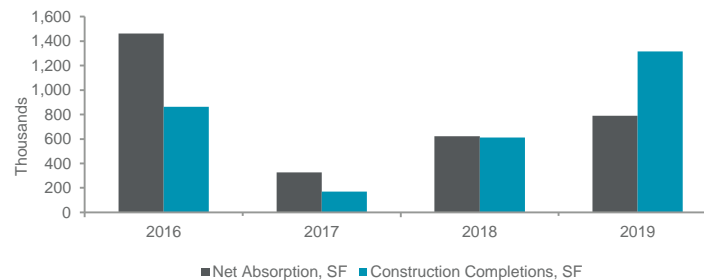
SUPPLY & DEMAND:

Seven buildings were constructed in 2019, and with completion of Harsch's 157,000 square foot (sf) distribution facility in the airport submarket, vacancy ticked up slightly in the fourth quarter. The picture for 2019 was very strong, with construction completions totaling 1.35 million sf (msf), overall positive annual net absorption of 789,070 sf, and 32,000 sf under construction. The majority of vacant availabilities for lease were in spaces of 30,000 sf or greater. Sales volume in Q4 of \$62.1M exceeded all quarters since Q4 2008.

PRICING:

Rents for smaller business park space under 10,000 sf have increased by 5.0-7.0% during 2019. We expect similar rent growth in 2020 as the market continues to tighten. In larger spaces, especially over 30,000 sf, rents will remain unchanged until more absorption of larger blocks occurs. Overall sale prices in 2019 averaged a record \$94.05 per square foot (psf). Despite a smaller pool of investment availabilities, industrial sale activity will remain active in 2020 with user building pricing expected to increase by as much as 10%. Cap rates will generally fall in the 7%-8% range. Industrial land sale activity remained slow but showed signs of improvement. We expect land pricing to remain flat but activity to gain momentum.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



MARKETBEAT TUCSON

Industrial Q4 2019



MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	CONSTR COMPLETIONS (SF)	OVERALL WEIGHTED AVG NET RENT (MF)	OVERALL WEIGHTED AVG NET RENT (OS)	OVERALL WEIGHTED AVG NET RENT (W/D)
Downtown	4,148,363	123,576	3.1%	-53,896	-65,776	0	0	\$0.88	\$0.58	\$0.00
Northeast	2,709,880	210,221	8.5%	22,839	80,567	0	0	\$1.20	\$0.57	\$0.55
Northwest/Oro Valley	9,724,591	252,407	2.8%	157,085	-24,651	0	0	\$0.51	\$0.64	\$0.75
Palo Verde	6,622,318	154,035	2.4%	-40,853	49,253	0	0	\$0.00	\$0.53	\$0.40
Park/Ajo	3,971,511	451,332	12.4%	-7,192	-204,527	0	0	\$0.59	\$0.47	\$0.31
South/Green Valley	188,308	0	0.0%	902	1,000	0	0	\$0.00	\$0.00	\$0.00
Southeast	7,087,672	359,724	5.5%	64,039	943,735	0	0	\$0.00	\$0.75	\$0.88
Southwest/Airport	9,526,887	1,261,641	14.2%	-180,954	9,469	32,000	157,000	\$0.41	\$0.50	\$0.63
West Outlying	13,892	0	0.0%	0	0	0	0	\$0.00	\$0.00	\$0.00
TUCSON TOTALS	43,993,422	2,812,936	6.4%	-38,030	789,070	32,000	157,000	\$0.43	\$0.71	\$0.53

*Rental rates reflect weighted net asking \$psf/year

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

SUBTYPE	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	CONSTR COMPLETIONS (SF)	OVERALL WEIGHTED AVG NET RENT
Warehouse / Distribution	22,819,570	1,373,380	6.6%	-188,384	856,334	32,000	157,000	\$0.53
Manufacturing	11,594,394	807,355	7.4%	136,418	-220,696	0	0	\$0.43
Office Service / Flex	9,579,458	632,201	6.7%	13,936	177,471	0	0	\$0.71

*Does not include renewals

KEY LEASE TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	TENANT	SF	TYPE
2685 North Flowing Wells Road	Northwest/Oro Valley	Undisclosed	17,400	New
3774 East 43rd Place	Palo Verde	Expert Restaurant Supply	16,195	New
3557 East Golf Links Road	Palo Verde	Flooring Systems	12,640	New

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
6991 East Southpoint Road Southpointe Distribution Center	Southeast	EastGroup Properties, Inc. / Rain Bird Corporation	272,000	\$14.1M / \$52
Grant Interstate Commons*	Northwest	Sloat Family Partnership, LLLP / Grant Clover Commons, LLC	74,134	\$6.7M / \$90
3381 East Global Loop	Southwest/Airport	Iron Mountain Incorporated / Gladstone Commercial Corporation	66,919	Portfolio Sale
775 West Silverlake Road*	Park/Ajo	Scannell Properties / Spitzer Enterprises LLC	49,500	\$17.7M / \$357

*Cushman & Wakefield | PICOR transaction

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