

	YoY Chg	12-Mo. Forecast
7.3% Vacancy Rate	▲	▲
-397K Net Absorption, SF	▼	▼
\$0.53 Asking Rent, PSF	▼	▬

Overall, Net Asking Rent

ECONOMY:

Amid the COVID-19 pandemic, more than 20,000 businesses in Arizona received economic relief from the federal government. Arizona's unemployment rate has fallen from 10.7% in July to 5.9% in September due to nearly 80,000 jobs being added in August. Job gains were posted across ten private sectors, with the largest increases seen in health services, education, and transportation. After reaching a high of 13.1% in April, Tucson's unemployment correlated closely to the state's, falling from 10.7% in July to 5.9% in September versus a national unemployment rate of 8.8%.

SUPPLY & DEMAND:

Supply remains flat with only one new industrial project under construction. Talk suggests numerous proposed industrial developments with 5,000-10,000 square feet (sf) bays. Supply of small bay industrial (under 5,000 sf) will remain stable until rents grow by 35%-50%. With continued absorption of small bays, vacancy rates in the Downtown and Palo Verde submarkets are at an all-time low of 2.3% and 3.4%, while the Park/Ajo submarket dropped from 12.5% to 9.9% vacancy rate.

While the industrial market has felt some COVID-19 effects, overall vacancy has risen only slightly to 7.3%. Vacancies in the Downtown submarket have filled quickly. Most industrial demand is fueled by the housing market, as builders need trade-related suppliers and services. The housing forecast is positive due to in-migration from California and other states. We can expect healthy demand as long as the housing market, defense, and mining industries remain strong.

Land demand remains muted with a stable inventory of available buildings for sale and lease. User acquisitions of industrial buildings continue despite the virus' impact on the economy. Investment activity is also balanced, with a limited number of properties on the market for sale.

PRICING:

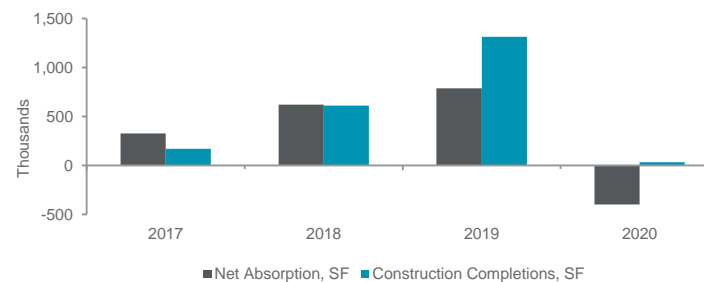
Asking rents have been stable and rising slightly market-wide, with the largest increases in the Northwest submarket where rates are up 8.0% over 12 months. Build-out plays a crucial role in rental rates increasing; spaces with more warehouse relative to office are in higher demand. Spaces with heavy office build-out are more challenging to fill, and lease rates are flat given the pandemic' disruption of the office market. The Palo Verde submarket has also experienced rent increases, seeing 4.0%-5.0% over the past 12 months. We would expect rental rate pressure to spill over into the Park/Ajo and Airport submarkets. Mid to large-sized bays will also experience rent pressure, as the demand for distribution space continues unabated.

ECONOMIC INDICATORS Q3 2020

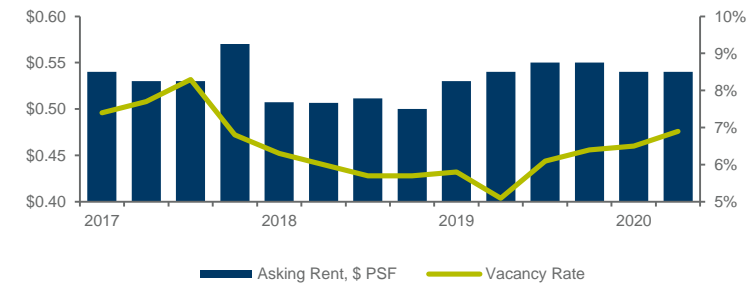
	YoY Chg	12-Mo. Forecast
376.4K Tucson Employment	▼	▼
5.9% Tucson Unemployment Rate	▲	▼
8.8% U.S. Unemployment Rate	▲	▼

Source: BLS, Arizona Commerce Authority

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



MARKETBEAT TUCSON



Industrial Q3 2020

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	4,137,381	141,298	3.4%	-6,999	-38,552	0	0	\$0.54	\$1.50	\$0.54
Northeast	2,837,385	96,091	3.4%	32,469	6,952	0	0	\$0.65	\$0.55	\$0.65
Northwest/Oro Valley	9,767,338	392,928	4.0%	-100,506	-145,448	0	0	\$0.57	\$0.62	\$0.57
Palo Verde	6,622,419	155,171	2.3%	-5,767	2,664	0	0	\$0.53	\$0.65	\$0.53
Park/Ajo	3,915,046	385,771	9.9%	91,728	89,007	0	0	\$0.50	\$0.62	\$0.50
South/Green Valley	188,308	0	0.0%	0	0	0	0	N/A	N/A	N/A
Southeast	7,135,205	479,624	6.7%	-84,432	-86,763	0	0	\$0.75	\$0.88	\$0.75
Southwest/Airport	9,650,236	1,583,065	16.4%	-116,160	-225,279	0	0	\$0.47	\$0.65	\$0.47
West Outlying	13,892	0	0.0%	0	0	0	0	N/A	N/A	N/A
TUCSON TOTALS	44,267,210	3,233,948	7.3%	-189,667	-397,419	0	0	\$0.43	\$0.73	\$0.50

*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	22,837,965	1,539,231	6.9%	86,501	-59,308	0	0	\$0.50
Manufacturing	11,767,871	980,947	8.3%	-102,250	-115,838	0	0	\$0.43
Office Service / Flex	9,661,374	713,770	8.9%	-173,468	-222,273	0	0	\$0.73

*Does not include renewals

KEY LEASE TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	TENANT	SF	TYPE
7775 North Casa Grande Highway	Northwest/Oro Valley	Lasertel Inc	71,059	Renewal*
350 South Toole Avenue, Suite A&B	Downtown	unknown	45,795	New
777 East MacArthur Circle, Suite 131-141	Park/Ajo	Parts Authority	34,560	New

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
3850 East 44th Street*	Palo Verde	CJ Southwest Property Partners / 44th Street Logistics Center LLC	49,226	\$1.53M / \$31
6450 East Valencia Road	Southeast	Royal Properties LLC / Hodges Development Properties LP	24,000	\$3.25M / \$135
2115 East Valencia Road, 1st Floor	Southwest/Airport	Valencia Ventures Group LLC / Tippetts Commercial Properties LLC	13,000	\$1.21M / \$92
2775 East Ganley Road	Southwest/Airport	Cotlow Company /	10,000	\$635K / \$63

*Cushman & Wakefield | PICOR transaction

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