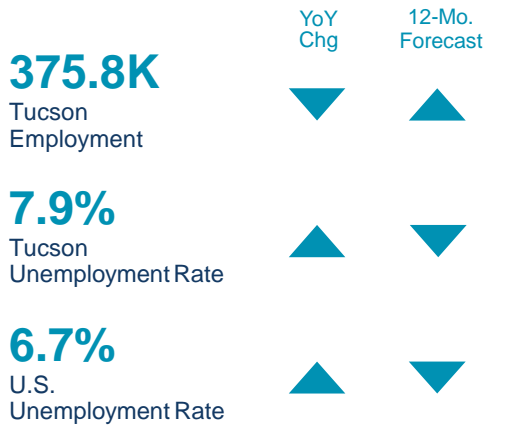


ECONOMIC INDICATORS Q4 2020



Source: BLS

ECONOMY:

As of January 2021, Arizona leads the nation in the rate of new COVID-19 infections. This correlates with many small businesses closing over the last couple of months and increase in unemployment. Unemployment in the State of Arizona and Pima County rose to 7.8% and 7.9% respectively as compared to the U.S. at 6.7%. The highest rate of unemployment is among the younger workforce 16–19-year-olds with 20.1% and 20- 24-year-olds with 9.4%. By educational attainment, unemployment is highest amongst those with a bachelor’s degree or higher. Arizona has experienced a 3.3% increase in unemployment from last year and Pima County a 3.7% increase during the same time-period. Job gains by industry were greatest in Trade, Transportation & Utilities which added 6,100 jobs, Leisure & Hospitality which added 3,100 jobs, Financial Activities with 1,700 jobs and Construction with 6,000 jobs. The population in the state grew 1.5% in 2020.

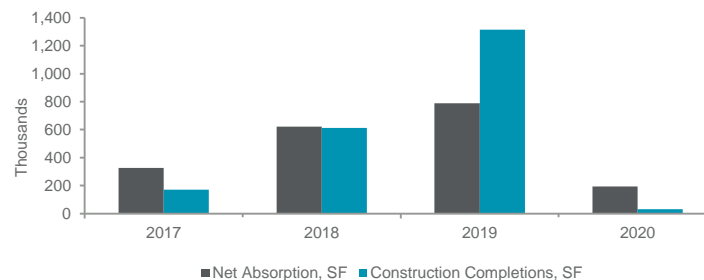
SUPPLY & DEMAND:

Despite the general economic challenges faced by the local economy due to continued COVID-19 restrictions, the Industrial market remained robust throughout the second half of 2020, finishing the year with a strong overall positive net absorption of 192,932 square feet (sf) and a healthy vacancy rate of 5.6%. Leasing and sales activity remained steady across all size categories during Q4 2020, including a notable uptick in activity within the over-100,000 sf logistics segment in particular. Coinciding with the remaining low inventory of larger distribution spaces, two separate developers will be breaking ground in the first part of 2021 on new warehouse/distribution projects near the Airport. Harsch Investment Properties had success in 2020 with the partial lease-up of its new 157,000 sf speculative development near the Airport and recently announced plans to break ground on new 229,000 sf project at Country Club Rd. and Medina Rd. for an early 2022 completion. This will complement developer Benjamin Day’s 76,000 sf Daybreak Distribution Center project on Tucson Blvd. near Valencia Rd. that will break ground in mid-February 2021. Investor demand is strong for leased industrial investments, but there is little inventory, as sellers wait for the economy to stabilize. This may be a missed opportunity to sell at the top of the market, as increased federal government debt could drive up interest rates and hurt prices.

PRICING:

Pricing remained generally steady throughout 2020, with the exception of the Northwest Tucson submarket which saw modest increases. However, in response to increasingly-limited inventory, particularly for higher-quality larger warehouse/distribution space as well as small-bay incubator projects, lease rates are expected to climb throughout 2021. Well-priced properties within the sale market, particularly within the hard-to-find investment property segment, may likely see competing offers due to pent-up buyer demand carrying over from 2020. Corresponding with this, the increasing scarcity of higher-quality available buildings is anticipated to trigger an uptick in general interest for well-located vacant land parcels.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



MARKETBEAT TUCSON



Industrial Q4 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 | 4,166,343 | 79,519 | 1.9% | 69,179 | 26,621 | 0 | 0 | \$0.00 | \$1.50 | \$0.58 |
| Northeast | 2,848,724 | 242,786 | 8.5% | -19,517 | -12,594 | 0 | 0 | \$0.00 | \$0.57 | \$0.60 |
| Northwest/Oro Valley | 9,759,991 | 379,029 | 3.9% | -4,182 | -160,930 | 12,237 | 0 | \$0.49 | \$0.65 | \$0.74 |
| Palo Verde | 6,634,229 | 284,016 | 4.3% | -148,380 | -156,716 | 0 | 0 | \$0.70 | \$0.72 | \$0.55 |
| Park/Ajo | 3,932,046 | 103,226 | 2.6% | 299,599 | 381,606 | 0 | 0 | \$0.55 | \$0.68 | \$0.49 |
| South/Green Valley | 189,308 | 0 | 0.0% | 0 | 0 | 0 | 0 | \$0.00 | \$0.00 | \$0.00 |
| Southeast | 7,180,412 | 474,344 | 6.6% | 7,780 | -79,843 | 0 | 0 | \$0.00 | \$0.88 | \$0.75 |
| Southwest/Airport | 9,666,499 | 929,398 | 9.6% | 431,067 | 194,788 | 0 | 0 | \$0.40 | \$0.70 | \$0.46 |
| West Outlying | 13,892 | 0 | 0.0% | 0 | 0 | 0 | 0 | \$0.00 | \$0.00 | \$0.00 |
| TUCSON TOTALS | 44,391,444 | 2,492,318 | 5.6% | 635,546 | 192,932 | 12,237 | 0 | \$0.43 | \$0.75 | \$0.51 |

*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 | 22,981,733 | 1,263,843 | 5.5% | 23,069 | -80,734 | 12,237 | 0 | \$0.51 |
| Manufacturing | 11,727,895 | 479,892 | 4.1% | 501,055 | 385,217 | 0 | 0 | \$0.43 |
| Office Service / Flex | 9,681,816 | 748,583 | 7.7% | 111,422 | -111,551 | 0 | 0 | \$0.75 |

*Does not include renewals

KEY LEASE TRANSACTIONS Q4 2020

| PROPERTY | SUBMARKET | TENANT | SF | TYPE |
|---------------------------|-------------------|---|---------|------|
| 6700 South Pella Drive* | Southwest | Undisclosed | 237,500 | New |
| 2000 East Silverlake Road | Palo Verde | Goodwill Industries of Southern Arizona | 25,008 | New |
| 2650 East Elvira Road | Southwest/Airport | Edmund Optics, Inc. | 21,225 | New |

*Cushman & Wakefield | PICOR transaction

KEY SALES TRANSACTIONS Q4 2020

| PROPERTY | SUBMARKET | SELLER / BUYER | SF | PRICE / \$ PSF |
|--|----------------------|---|---------|----------------|
| Arizona Daily Star 4850 South Park Avenue | Park/Ajo | Star Publishing Company & Citizen / AZ Opportunity LLC | 220,816 | \$3.3M / \$15 |
| 7475 East Old Vail Road | Southeast | Americas Best Self Storage LLC / Vault at Old Vail Road LLC | 41,280 | \$3.2M / \$78 |
| 4475 South Coach Drive | Palo Verde | Archway Development / Tucson AZ IV SGF LLC | 15,000 | \$5.3M / \$354 |
| 4875 North Shamrock Place | Northwest/Oro Valley | Shamrock 3 LLC / Shamrock 4875 LLC | 10,140 | \$975K / \$96 |

MARY J. UTERMOHLEN

Marketing Coordinator

+1 520 546 2708 / mary@picor.com

BARBI REUTER, RPA

Chief Executive Officer

+1 520 546 2744 / breuter@picor.com

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