

YoY Chg 12-Mo. Forecast

2.2%

Vacancy Rate



258K

YTD Net Absorption, SF



\$0.83

Asking Rent, PSF



Overall, Net Asking Rent

ECONOMIC INDICATORS Q2 2023

YoY Chg 12-Mo. Forecast

399K

Tucson Employment



3.4%

Tucson Unemployment Rate



3.6%

U.S. Unemployment Rate



Source: BLS

ECONOMY

In the second quarter of 2023, the US economy continued to exhibit resilience, with favorable implications for commercial real estate. Year-over-year (YOY) median household income grew from \$69,700 to \$72,900, supporting consumer spending and retail sales. Real GDP was up 2.1%, indicating strength amid economic headwinds. Of significance, the consumer price index reflected 11 consecutive months of decreasing inflation, dropping from 8.6% to 4.0% YOY. In Tucson positive trends persisted, with median household income rising from \$3.2% YOY. Nonfarm employment increased 1.5%, reflecting a stable, if not robust, job market. The unemployment rate declined from 3.7% to 3.4%, suggesting improved labor conditions.

SUPPLY AND DEMAND:

During Q2, the Tucson industrial market remained healthy and resilient and was not impacted by economic downturns as severely as other markets. The vacancy rate experienced a slight increase, reaching 2.3% year-to-date (YTD) with positive overall absorption of 252,944 square feet (sf). Tucson continued to face high demand with limited inventory while rising construction costs posed challenges for new development. Despite these obstacles, the number of new leases grew with a YOY increase of approximately 1.8%.

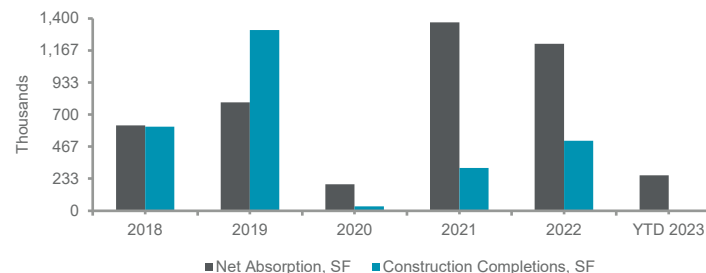
Manufacturing and distribution centers, particularly in submarkets like Southwest Tucson/Airport, Northwest Tucson/Oro Valley, Southeast, and Vail, were the dominant users of industrial space. Pricing pressures and labor shortages tempered construction activity. Notable projects under construction included the Southern Arizona Logistics Center with 946,935 sf in NW Tucson/Oro Valley, the Tucson Commerce Center with 786,240 sf in the SW Tucson submarket, and 187,452 sf in Southeast Tucson.

The market saw increased sale transactions during Q2, with RedSwell, LLC purchasing a 26,830-sf building at 3151 E Drexel for \$2.5 million as an investment property. West Valley Investment Group purchased a 21,578-sf property on 4705 S Coach Drive for \$2.8 million. Additionally, a private sale concluded with the buyer acquiring a 14,900-sf property on 4302 E Tennessee St for \$700,000 for their own use.

PRICING:

Pricing for existing buildings in the Tucson industrial market trended upward due to strong demand and limited availability. Lease rates for certain property types recorded gains as high as \$0.30 per sf per month compared to those in the previous quarter. Additionally, lease terms for smaller spaces have been expanding to 3–5-year durations. The average sale price remains at a notable \$100 per sf. Despite challenges related to inventory scarcity and construction completions, the market remained healthy, with high demand, increasing lease and sale rates, and low occupancy levels. Industrial property investments, particularly in manufacturing and distribution centers, remained attractive and promising. The market continued to draw interest from corporate national groups, driven by post-pandemic growth.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



MARKETBEAT TUCSON

Industrial Q2 2023



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 Tucson	4,161,763	30,998	2.5%	82	-43,152	0	0	\$0.82	\$1.33	\$0.93
Northeast Tucson	2,787,188	99,334	3.6%	17,848	13,592	0	0	\$0.86	\$0.76	\$0.71
NW Tucson/Oro Valley	10,618,355	411,069	4.4%	-99,182	-44,920	950,435	0	\$0.81	\$1.01	\$0.42
Palo Verde	6,489,970	80,754	1.2%	39,763	181,608	0	0	N/A	\$0.65	\$0.87
Park/Ajo	4,050,192	39,117	2%	-4,770	2,799	0	0	\$0.75	\$0.91	\$0.80
South Pima/Green Valley	204,538	0	0%	0	0	0	0	N/A	N/A	N/A
Southeast Tucson	7,106,065	6,901	0.1%	4,035	131,237	0	0	N/A	\$0.78	\$0.83
SW Tucson Airport	10,035,960	351,280	4.1%	-94,975	16,831	846,606	0	\$0.81	\$0.80	\$0.63
TUCSON TOTALS	4,545,031	1,019,453	2.2%	-137,199	257,995	1,797,041	0	\$0.81	\$0.89	\$0.74

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

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

KEY LEASE TRANSACTIONS Q2 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
3760 North Commerce Drive**	NW Tucson/Oro Valley	Unnamed Equipment Repair Company	66,768	Warehouse
6161 S Palo Verde Road**	SW Tucson Airport	National Tire Wholesale	64,744	Warehouse/Distribution
4100 East Michigan Street**	Northeast Tucson	ABC Supply Company	48,000	Warehouse
1679 North Halron Court**	West Tucson	Fluid Truck	33,535	Land
2861 North Flowing Wells Road	NW Tucson/Oro Valley	Alliance Exposition Services, LLC.	25,000	Warehouse/Distribution

*Renewals not included in leasing statistics **At least one party represented by Cushman & Wakefield | PICOR

KEY SALES TRANSACTIONS Q2 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
3151 East Drexel Road	Palo Verde	Undisclosed / RedSwell, LLC.	26,830	\$2.5M / \$93.93
4705 South Coach Drive	Palo Verde	Spell Capital / West Valley Investment Group	21,578	\$2.8M / \$129.77
4302 East Tennessee Street	Northeast Tucson	Undisclosed / Undisclosed	14,900	\$700K / \$46.98

Barbi Reuter, RPA

Chief Executive Officer

+1 520 546 2744 / breuter@picor.com

Kate Zimmerman

Social Media & Graphic Design Coordinator

+1 520 546 2743 / kzimmerman@picor.com

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 52,000 employees in 400 offices and 60 countries. In 2022, the firm had revenue of \$10.1 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. It also receives numerous industry and business accolades for its award-winning culture and commitment to Diversity, Equity and Inclusion (DE), Environment, Social and Governance (ESG) and more. For additional information, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

©2023 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.

cushmanwakefield.com