

TUCSON INDUSTRIAL

Economic Indicators

	Q1 16	Q1 17	12-Month Forecast
Tucson Employment	371k	373k	▲
Tucson Unemployment	5.2%	4.7%	▼
U.S. Unemployment	4.9%	4.8%	▼

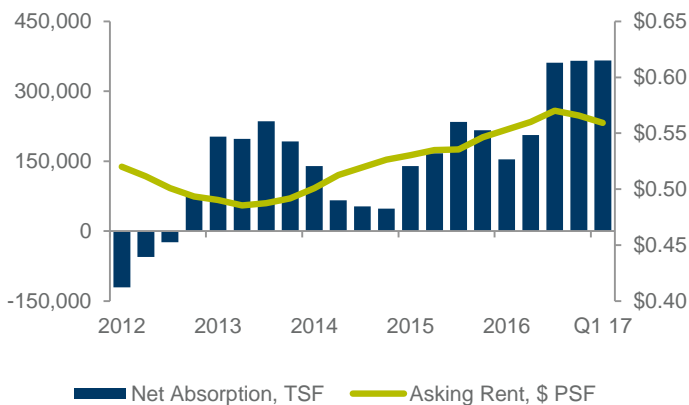
Market Indicators (Overall, All Property Types)

	Q1 16	Q1 17	12-Month Forecast
Vacancy	9.6%	7.4%	■
YTD Net Absorption (sf)	-28k	50k	▲
Under Construction (sf)	805k	50k	■
Average Asking Rent*	\$0.58	\$0.54	▲

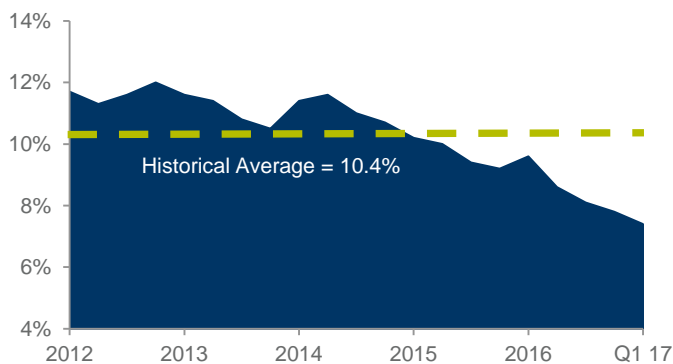
*Rental rates reflect net asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Arizona's economy closely follows the national trend, calling for continued growth through 2017. Arizona expects gains in jobs, residents, and income to outpace the national average. Recent announcements by Caterpillar, Vector Industries, Raytheon, Comcast and Ascensus are strong indicators of this trend. Tucson is on track to increase jobs by over 11,000 in the period from Q2 2016 through Q2 2017. While focusing on past and current performance, businesses in the region will maintain a watchful eye toward broader factors such as regulatory policy, immigration, trade, value of the dollar, and potential federal tax reform. The impact of the new minimum wage ordinances recently passed in Arizona, among other states, will reveal a clearer picture of what to expect in the coming months.

Market Overview

Tucson's industrial market continued forward progress in the first quarter of 2017. Net positive absorption of about 50,000 square feet (SF) improved the overall vacancy rate to 7.4%, Tucson's lowest mark since Q3 2008. The submarket with both the lowest vacancy and the largest inventory at nearly 10 million SF, was Northwest Tucson, with a vacancy rate of 4.3%. With occupancy above 92.5% and no speculative space under construction, competitive pressure will result in upward movement in rents. A 25% increase in rents must occur for new construction to be financially viable. This is clearly the next step in Tucson's industrial recovery. While no leases were completed in the largest vacancies during the quarter (those over 100,000 SF), activity in larger spaces was at its highest level in recent history.

Three multi-tenant investment properties sold during the second quarter totaling 102,760 SF at approximately \$5,840,000 in total sale price. Cap rates ranged from 7.5% to 8.5%. In addition to investment transactions, eight industrial buildings sold during the quarter to end users.

At quarter's end, three buildings were under construction. Two will be owner-occupied, and the third is a 10,000 SF speculative single-tenant building for lease or sale in the northwest. Given a tight supply in the northwest sector, two additional buildings being advertised for lease will be constructed once a tenant commits.

Outlook

While the change in administration spells optimism to the business sector from a regulatory and tax standpoint, southern Arizona has strong commerce ties to Mexico and is directly impacted by shifts in trade policies. In the year ahead, tight supply signals an end to most tenant lease concessions such as free or reduced rent. As rent increases gain momentum throughout the Tucson industrial market, new speculative space can be constructed. Expect large tenants to sign and occupy Tucson's long-standing availabilities over 100,000 SF. Recovery in Tucson's three largest employment sectors (homebuilding, defense/government and copper mining) will spur increased employment and absorption of space. Growth in the e-commerce sector will continue to benefit warehouse and logistics space.

MARKETBEAT

Tucson

Industrial Q1 2017



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 (HT)	OVERALL WEIGHTED AVG. NET RENT (MF)	OVERALL WEIGHTED AVG. NET RENT (OS)	OVERALL WEIGHTED AVG. NET RENT (WD)
Downtown	417	4,311,834	1,435	3.6%	34,161	0	N/A	\$0.83	\$1.00	\$0.61
Northeast	236	2,745,723	6,600	7.3%	(19,701)	0	N/A	\$0.58	\$1.20	\$0.61
Northwest/Oro Valley	734	9,792,717	19,749	4.3%	(20,699)	29,811	\$0.74	\$0.64	\$0.66	\$0.58
Palo Verde	535	6,712,877	8,535	6.4%	(179)	0	\$0.41	\$0.44	\$0.47	\$0.55
Park/Ajo	258	3,842,476	2,184	6.8%	977	0	\$0.41	\$0.41	\$0.50	\$0.46
South/Green Valley	12	220,683	0	2.0%	(300)	0	N/A	N/A	N/A	N/A
Southeast	96	5,941,480	0	8.8%	(10,831)	0	\$1.00	\$0.75	\$0.48	\$0.57
Southwest/Airport	253	9,119,433	8,125	13.8%	58,657	20,160	\$0.74	\$0.45	\$0.50	\$0.45
West Outlying	4	24,661	0	0.0%	0	0	N/A	N/A	N/A	N/A
TUCSON TOTALS	2,545	42,711,884	46,628	7.4%	42,085	49,971	\$0.76	\$0.49	\$0.55	\$0.49

*Rental rates reflect asking \$psf/year

HT = High Tech 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)	YTD CURRENT QTR. OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL WEIGHTED AVG. NET RENT
Warehouse/Distribution	1,169	21,580,859	18,675	8.5%	35,300	35,300	30,160	\$0.49
Manufacturing	740	12,633,370	12,634	6.0%	17,649	17,649	0	\$0.49
Office Service/Flex	461	4,147,184	15,319	6.4%	(6,460)	(6,460)	19,811	\$0.55
High Tech	175	4,350,471	0	7.3%	(4,404)	(4,404)	0	\$0.76

Key Lease Transactions Q1 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
3280 E. Hemisphere Loop	16,437	Statasys	Renewal	Southwest/Airport
501 S. Toole Ave.	15,719	Hood Distribution/McEwen Group	Renewal	Downtown
3741 N. Business Center Dr.	13,440	Arizona Kawasaki KTM Triumph	Lease	Northwest/Oro Valley
4175 S. Fremont Ave.	11,406	Filter Products Corp	Lease	Park/Ajo

Key Sales Transactions Q1 2017

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
2301-2341 S. Friebus Ave.	46,550	Oak Properties/ Brandon Rodgers	\$1,750,000/\$39	Palo Verde
Broadbent Business Park	41,252	Del Mar Investment Group/ Brandon Rodgers	\$2,469,000/\$60	Northwest/Oro Valley
4619 N. Highway Dr.	20,800	4619 N Highway, LLC/ Little Linden, LLC	\$372,278/\$18	Northwest/Oro Valley
4675 S. Coach Dr.	16,246	Rainin Tucson, LLC/ 4676 S. Coach, LLC	\$1,600,000/\$98	Palo Verde

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