

# MARKETBEAT

## Tucson

### Industrial Q3 2017



#### TUCSON INDUSTRIAL

##### Economic Indicators

	Q3 16	Q3 17	12-Month Forecast
Tucson Employment	374k	374k	▲
Tucson Unemployment	4.7%	4.6%	▼
U.S. Unemployment	4.9%	4.4%	▼

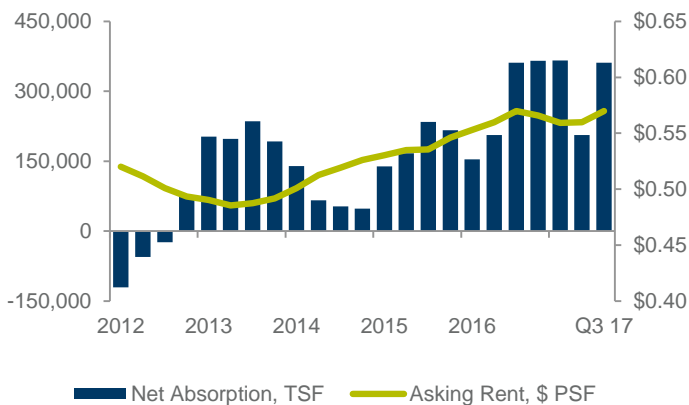
##### Market Indicators (Overall, All Property Types)

	Q3 16	Q3 17	12-Month Forecast
Vacancy	8.1%	8.2%	▼
YTD Net Absorption (sf)	978k	195k	▲
Under Construction (sf)	160k	230k	▲
Average Asking Rent*	\$0.57	\$0.53	▲

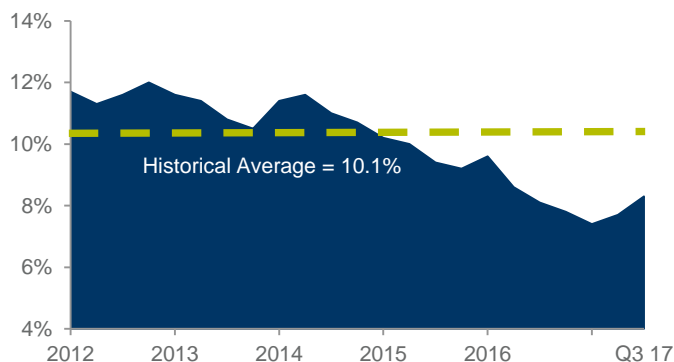
\*Rental rates reflect net asking \$psf/year

##### Overall Net Absorption/Overall Asking Rent

###### 4-QTR TRAILING AVERAGE



##### Overall Vacancy



## Economy

The economic outlook remains positive nationally and in the Tucson region. The year-end 2017 U.S. real GDP forecast shows 2.2% growth year over year, with 2018 expected to be 2.4%. Natural disasters such as the recent hurricanes and fires are not the optimal way to maintain economic growth, however federal and insurance funding should boost economic activity throughout these impacted areas and beyond. The U.S. seasonally adjusted unemployment rate stands at 4.4%, with Arizona posting 5.0% statewide, and the Tucson metro area at 4.9%. Year-to-date 2017, Arizona ranks 13 out of 50 states for job growth. Over the same period, new home permits for Tucson are up 18.2% to 2,152, compared to 1,821 for the same period last year.

## Market Overview

The industrial market in Tucson has largely arrived at an equilibrium in lease negotiations between Landlord and Tenants. Vacancy experienced a slight uptick in the past two consecutive quarters, but this is viewed as a natural ebb-and-flow as tenants move around our market, rather than an indication of trouble. It is estimated that a certain fixed percentage of the vacancy rate, possibly between 2-4%, can be considered “functionally obsolete”, and therefore results in a higher-than-actual vacancy rate. The other factor in vacancy is the lack of larger requirements, resulting in stagnant activity in the available spaces over 100,000 square feet (SF). There are currently 62 buildings in Tucson that are 100,000 SF or larger, totaling 11.6 million SF. There is an 11% vacancy rate (1.2 MSF available). That leaves the rest of the market of smaller buildings with a vacancy rate of 7.2%.

Industrial sales remain brisk, with continued interest in investment as well as strong owner/user properties. Construction activity continues to center around build-to-suit for users, as opposed to speculative investment construction. This is due to the fact prevailing rental rates have not yet risen to a level that justifies the rents required for new construction, which are estimated in the \$0.75/SF - \$1.00/SF NNN in most cases.

## Outlook

The near-term outlook for the Tucson Industrial market, absent some notable occurrence in our business community, continues to be more of the same, which includes a strong-and-stable occupancy rate, slowly rising rental rates and solid sales activity. However, in the event that the Rosemont Copper mine commences construction, or another large employer lands in Tucson and absorbs some of our larger long-term vacancies, the outlook will improve quickly given that there is very little functional vacancy remaining in the market.

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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	418	4,282,403	33,996	2.9%	73,266	0	N/A	\$0.22	\$1.00	\$0.66
Northeast	227	2,676,341	44,933	10.6%	-39,927	0	N/A	\$0.58	\$0.75	\$0.55
Northwest/Oro Valley	722	9,851,316	53,167	4.0%	30,875	0	\$0.72	\$0.64	\$0.67	\$0.56
Palo Verde	528	6,773,690	11,692	5.4%	55,178	0	\$0.48	\$0.44	\$0.79	\$0.55
Park/Ajo	258	3,891,117	84,529	9.9%	-7,041	0	\$0.48	\$0.26	\$0.50	\$0.44
South/Green Valley	12	187,683	0	1.0%	3,619	0	N/A	N/A	N/A	N/A
Southeast	96	5,895,540	0	9.2%	-29,212	230,134	N/A	\$0.62	N/A	\$0.79
Southwest/Airport	246	9,147,588	8,125	15.2%	108,534	0	\$0.74	\$0.46	\$0.50	\$0.46
West Outlying	3	13,892	0	0	0	0	N/A	N/A	N/A	N/A
<b>TUCSON TOTALS</b>	<b>2,510</b>	<b>42,719,570</b>	<b>236,442</b>	<b>8.2%</b>	<b>195,292</b>	<b>230,134</b>	<b>\$0.73</b>	<b>\$0.46</b>	<b>\$0.63</b>	<b>\$0.51</b>

\*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)	CURRENT QTR. OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL WEIGHTED AVG. NET RENT
Warehouse/Distribution	1,184	21,741,208	22,536	9.0%	-41,126	-10,586	0	\$0.51
Manufacturing	723	12,530,947	133,829	8.0%	124,398	-28,507	230,134	\$0.46
Office Service/Flex	444	4,095,450	80,077	5.9%	14,626	-13,883	0	\$0.63
High Tech	159	4,351,965	0	6.9%	97,394	85,713	0	\$0.73

### Key Lease Transactions Q3 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
505 E. 17 <sup>th</sup> Street	33,600	A&M Business Interior Services	Lease	Downtown
4617 S. Contractors Way	15,489	Arizona Laminate	Lease	Northeast
5120 S. Julian Drive	14,049	Jump	Lease	Palo Verde
10831 N. Mavinee Drive	6,032	Net Medium	Lease	Northwest/Oro Valley

### Key Sales Transactions Q3 2017

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
6855-6751 S. Lisa Frank Ave	113,546	Rockefeller Group/ Harsch Investment Properties	\$10,125,000/\$89	Southwest/Airport
4775 S. 3 <sup>rd</sup> Ave	48,537	Koalin Arizona Cultured Stone Products/ Gebrnder Dorfner GmbH & Co.	\$2,535,000/\$52	Park/Ajo
8020 N. Business Park Dr	11,745	Banner Enterprises, LLC/ LEL Arizona, LLC	\$1,058,000/\$90	Northwest/Oro Valley
4740 N. La Cholla Blvd	10,965	Delcor, LLC / Chip & Jim.Com, LLC	\$1,260,796/\$114	Northwest/Oro Valley

\*Portfolio sale price

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