

MARKETBEAT

Tucson

Industrial Q4 2018



TUCSON INDUSTRIAL

Economic Indicators

	Q4 17	Q4 18	12-Month Forecast
Tucson Employment	379k	388k	▲
Tucson Unemployment	4.4%	4.7%	▼
U.S. Unemployment	4.1%	3.7%	▼

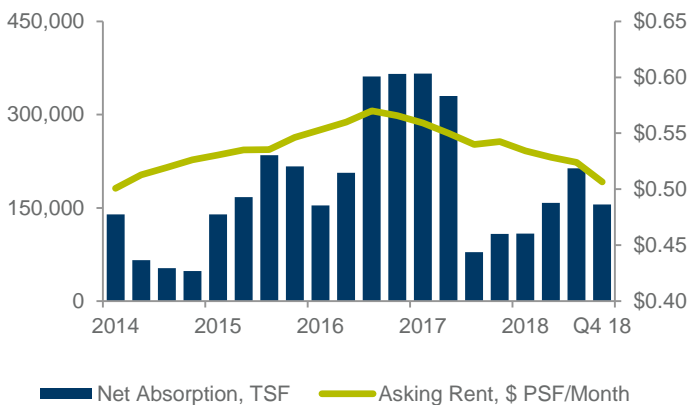
Market Indicators (Overall, All Property Types)

	Q4 17	Q4 18	12-Month Forecast
Vacancy	6.8%	5.7%	▼
YTD Net Absorption (sf)	413k	621k	▲
Under Construction (sf)	230k	1.25m	▼
Average Asking Rent*	\$0.57	\$0.50	▲

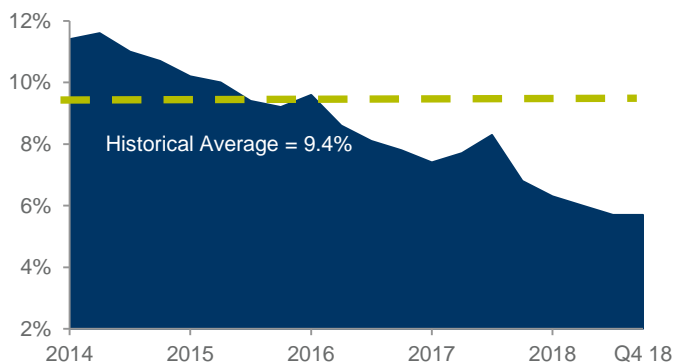
*Rental rates reflect net asking \$psf/month

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The Tucson economy continued to grow robustly in 2018. Total nonfarm employment is up 3.1% over the year, while the manufacturing sector led with a massive 7.9% gain. Aggregate retail sales posted a strong 4.5% gain as consumer sentiment remained buoyant despite the stock market moving into bear territory and the possibility of an inverted yield curve. Tucson personal median income rose 5.4% over the year and population grew by 1.0%. At 2.2%, inflation in Arizona matches that of the nation. A recession resulting from an inverted yield curve occurs 18-24 months after the point of inversion. Accordingly, 2020 would be the earliest recessionary onset, and any economic pullback is expected to be minor. To boost development and investment, 28 census tracts in Pima County were approved as Opportunity Zones, enabled by the Tax Cuts and Job Act of 2017. Coordination between the city and county allowed the region to maximize both the chance of approval and the greatest economic impact.

Market Overview

Positive momentum continued its five-year trend in 2018 in Tucson's industrial market, with vacancy improving to 5.7%, cut in half from its highest point in recent years. At year end, vacancy was lowest in the city center at 1.5% and highest in the Southwest/Airport area at 12.8%. Net absorption was 50.4% stronger than in 2017, and thanks to Amazon's two projects, space under construction has quadrupled year over year. Significantly, Amazon is entering the market with an 850,000 square foot (sf) distribution center under construction in the southeast sector and a new 50,000 sf service center in the southwest. While down, the decrease in average asking rents is likely attributable to higher absorption of more functional space, as actual effective rents are seeing pressure to rise. With inventory tight, one developer broke ground on a new 157,000 sf building with intermediate bay sizes to fill the market void. Others began positioning with land acquisitions pending further rent inflation to support new construction.

Cap rates improved for sellers as demand for quality investment options gave rise to highly-competitive buyer activity. At \$150.3 million, 2018 sales volume was at its peak since 2007 and more than doubled each of the previous nine years.

Outlook

Rents for spaces under 5,000 sf will rise 10-15% in 2019. Expect growing demand among service companies and other construction-related trades. Even at a historically strong occupancy rate, Tucson's market has room to improve, as several high profile, larger buildings over 200,000 sf are ripe to be absorbed, essentially bringing Tucson to full occupancy. With vacancy across the region expected to drop below 5.0% in 2019, market dynamics will shift, and new development will occur as rents justify new construction. Key local employers in mining and aerospace/defense sectors like Raytheon have quietly expanded their employment bases in Tucson, and we have seen a rise in prospects considering bringing jobs to the region.

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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	4,180,409	21,300	1.5%	-15,385	0	N/A	\$0.45	N/A	\$0.72
Northeast	235	2,699,102	109,958	11.5%	-44,787	0	N/A	\$0.55	\$0.75	\$0.44
Northwest/Oro Valley	730	9,665,354	45,766	2.4%	39,384	8,800	\$0.83	\$0.67	\$0.72	\$0.58
Palo Verde	534	6,585,446	45,898	2.8%	173,646	0	\$0.49	N/A	\$0.68	\$0.56
Park/Ajo	257	3,736,298	215,533	5.9%	81,708	0	N/A	\$0.24	N/A	\$0.44
South/Green Valley	12	187,683	0	0.5%	200	0	N/A	N/A	N/A	N/A
Southeast	96	5,855,459	0	3.5%	43,351	1,087,534	N/A	\$0.65	N/A	\$0.92
Southwest/Airport	259	9,375,260	147,052	12.8%	343,491	157,000	\$0.61	\$0.42	\$0.50	\$0.41
West Outlying	5	13,892	0	0.0%	0	0	N/A	N/A	N/A	N/A
TUCSON TOTALS	2,546	42,298,903	585,507	5.7%	621,608	1,253,334	\$0.63	\$0.44	\$0.65	\$0.49

*Rental rates reflect asking \$psf/month

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	1,229	21,313,990	190,494	5.0%	623,819	85,886	1,023,200	\$0.49
Manufacturing	714	12,493,568	350,424	6.3%	-4,484	-127,743	230,134	\$0.44
Office Service/Flex	423	3,352,931	43,089	3.4%	73,909	27,531	0	\$0.65
High Tech	180	5,138,414	1,500	8.7%	-71,636	19,899	0	\$0.63

Key Lease Transactions Q4 2018

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
3391 E. Hemisphere Loop	16,500	Eye Care and Cure Corp., Inc.	Lease	Southwest/Airport
1150 E. Palmdale St	13,550	IMS	Renewal	Park/Ajo
3722 E. 37th St	10,200	TrueNet Communications, Inc	Lease	Palo Verde
2700 E. Executive Dr	9,912	Lincare	Lease	Southwest/Airport

Key Sales Transactions Q4 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
2201 E. Medina Rd	153,500	Intercontinental Real Estate Corporation/ Harsch Investment Properties	\$10,505,000 / \$68	Southwest/Airport
6161 S. Palo Verde Rd	129,047	Colony Capital, Inc/STAG Industrial, Inc	\$10,025,000 / \$77	Southwest/Airport
1501 S. Euclid Ave	23,212	1501 S Euclid Avenue, LLC/ Valmont Industries, Inc	\$800,000 / \$34	Park/Ajo
10861 N. Mavinee Dr	22,755	1650 Kolb Road, LLC/ SN Investment Properties, LLC	\$2,438,024 / \$107	Northwest/Oro Valley

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