

MARKETBEAT INDUSTRIAL SNAPSHOT

TUCSON, AZ

A Cushman & Wakefield Alliance Research Publication

Q3 2013



ECONOMIC OVERVIEW

Arizona job growth outpaced the national rate as the state continued to recover. Statewide improvement in job gains was primarily found in the Phoenix metropolitan area, with only 1,300 new jobs in the Tucson region since July 2012.

According to Forbes magazine and Moody's Analytics, Arizona ranks No. 1 nationally for projected job growth over the next five years, forecasted to increase 3.0% with an annual economic growth of 4.6%. The housing recovery statewide positively impacted construction jobs in both Phoenix and Tucson, but permits remained low, relative to historic norms. Conventional lending is recovering and inventory remained below the balance point at 3.5 months while finished lot supply is scarce.

MARKET VACANCY CONTINUES IMPROVEMENT

Occupancy gains of 213,087 square feet (sf) marked the fourth consecutive quarter of positive absorption. Improved demand decreased the vacancy 0.6% to 10.8%, a level not achieved since Q2 09. The Northwest submarket finished third quarter with the lowest vacancy in Tucson at 7.3%.

Some seasonal slowing in activity occurred in August, with mining-related uses the most positive highlight. A continued absence of large users, job creators and enhancers, remained the fundamental underlying market concern.

Average asking rates remained soft by historical standards, but increased 6.0% over the previous quarter. Actual transaction rates did not increase, but isolated tests of rent increases, particularly in smaller incubator projects, were successful and may indicate opportunity for rent movement after years of decline and stagnation.

BUYERS SENSE THE MARKET BOTTOM

Users and investors sensed the market floor was reached, signaling a timely entry point for purchase. Three investment sales of significance occurred in the third quarter at aggressive pricing: HSL's purchase of the 253,000-sf former Texas Instruments plant near the Tucson Airport; Castlerock Investments' 41,000 sf purchase of a midtown business park; Larsen Baker's acquisition of Madera Business Park, a 35,200-sf property in South Tucson.

User sales were still dominated by small building sales well below replacement cost with a high percentage of REO sales.

Sources: Univ. of AZ Eller College, CoStar Group, Tucson Assoc. of Realtors

OUTLOOK

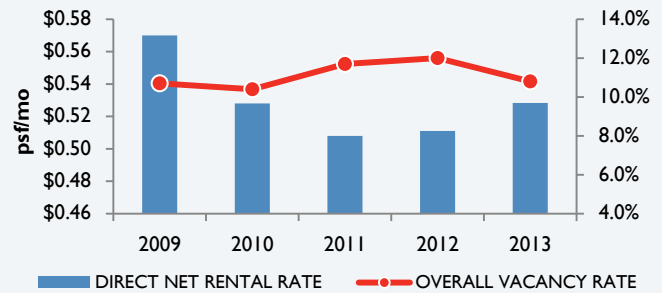
The statewide economic forecast calls for modest growth for the balance of the year, accelerating in 2014 and 2015 and outpacing the nation's rate of growth. Personal income growth fueled by predicted job gains is also expected to accelerate over the same period, having a positive impact on retail sales.

Locally, a troubling trend of companies leaving the market persists, signaling a fragile environment for job growth. Tucson's reliance on public employers remains a limiting factor. Expect small business to drive incremental growth while the region's reputation as a hub for innovation and entrepreneurship takes hold.

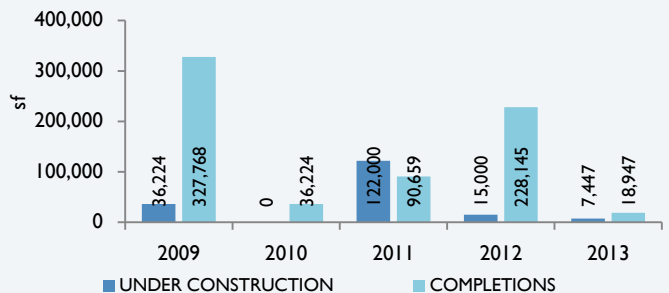
STATS ON THE GO

	Q3 2012	Q3 2013	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	11.6%	10.8%	0.8pp	▼
Direct Asking Rents (psf/yr)	\$0.52	\$0.53	1.9%	▲
YTD Leasing Activity (sf)	753,306	1,228,659	63%	◄►

DIRECT RENTAL VS. VACANCY RATES

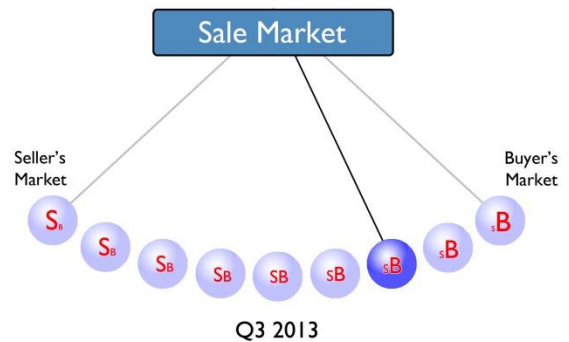
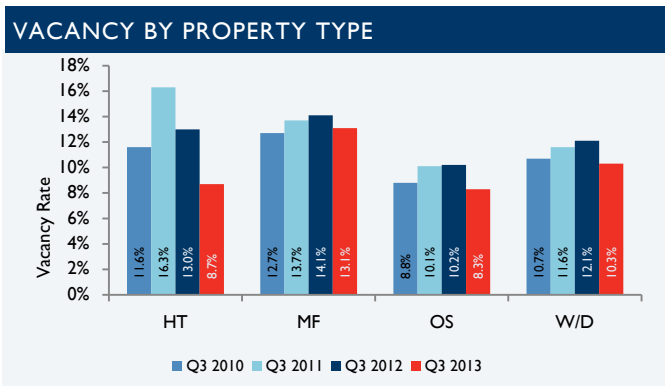


UNDER CONSTRUCTION VS. COMPLETIONS



SUBMARKET	INVENTORY	OVERALL VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD OVERALL NET ABSORPTION	DIRECT WEIGHTED AVERAGE NET RENTAL RATE
Downtown	4,029,260	5.4%	71,816	0	0	22,832	\$0.42
Eastside	2,512,795	13.6%	60,990	0	0	36,095	\$0.48
Northwest/Oro Valley	9,240,923	7.3%	354,964	0	3,947	149,584	\$0.59
Palo Verde	6,292,111	8.8%	201,940	0	15,000	57,805	\$0.49
Park/Ajo	3,607,034	10.1%	258,309	0	0	104,706	\$0.49
South/Green Valley	67,629	3.3%	0	0	0	(2,200)	\$0.00
Southeast	5,765,718	11.5%	116,840	7,447	0	(10,560)	\$0.54
Southwest/Airport	7,610,663	19.6%	98,355	0	0	54,097	\$0.54
TOTALS	39,126,133	10.8%	1,163,214	7,447	18,947	412,359	\$0.53

* RENTAL RATES REFLECT ASKING \$PSF/MO



HT= HIGH TECH MF = MANUFACTURING OS = OFFICE SERVICE W/D = WAREHOUSE/DISTRIBUTION

MARKET HIGHLIGHTS				
SIGNIFICANT Q3 LEASE TRANSACTIONS	SUBMARKET	TENANT/BUYER	PROPERTY TYPE	SQUARE FEET
1625 S Euclid	Park/Ajo	TMI Acquisition LLC	Warehouse	42,549
1085 W Grant	Northwest	Hensley Beverage	Warehouse	19,749
5151 S Bantam*	Palo Verde	Kaman Industrial Technologies	Manufacturing	18,249
2165 N Forbes*	Northwest	United Freight Service	Warehouse	17,618
SIGNIFICANT Q3 SALE TRANSACTIONS	SUBMARKET	BUYER	PURCHASE PRICE	SQUARE FEET
6730 S Tucson Blvd	Southwest/Airport	HSL Properties	\$3,750,000	253,393
Central Point Business Plaza	Central	Castlerock Investments LLC	\$4,000,000	54,488
2540 N Jackrabbit	Northwest	Switchgear Solutions	\$2,300,000	45,731
SIGNIFICANT LAND SALES	SUBMARKET	BUYER	PURCHASE PRICE	ACRES
S Palo Verde/Hemisphere Loop	Palo Verde	Wabash Hillcrest Regency, LP	\$260,000	1.54
6149 N Travel Center Dr	Northwest	Alfonso & Lily Coronado	\$400,000	1.50
SIGNIFICANT Q3 CONSTRUCTION COMPLETIONS	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
4904 N Shamrock	Northwest	VW4 LLC	Q3 2013	3,947
SIGNIFICANT PROJECTS UNDER CONSTRUCTION	SUBMARKET	MAJOR TENANT	COMPLETION DATE	SQUARE FEET
9398 E Old Vail Road	Southeast	N/A	Q4 2013	7,447

*RENEWAL – NOT INCLUDED IN LEASING ACTIVITY STATISTICS

Source: CoStar Group