

# MARKETBEAT

## Tucson

### Industrial Q4 2017



#### TUCSON INDUSTRIAL

##### Economic Indicators

	Q4 16	Q4 17	12-Month Forecast
Tucson Employment	376k	373k	▲
Tucson Unemployment	4.6%	4.1%	▼
U.S. Unemployment	4.7%	4.1%	▼

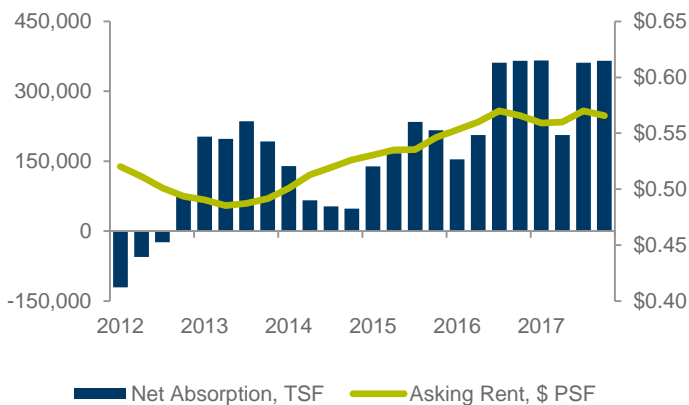
##### Market Indicators (Overall, All Property Types)

	Q4 16	Q4 17	12-Month Forecast
Vacancy	7.8%	6.8%	▼
YTD Net Absorption (sf)	1.5M	413k	▲
Under Construction (sf)	160k	230k	▲
Average Asking Rent*	\$0.56	\$0.57	▲

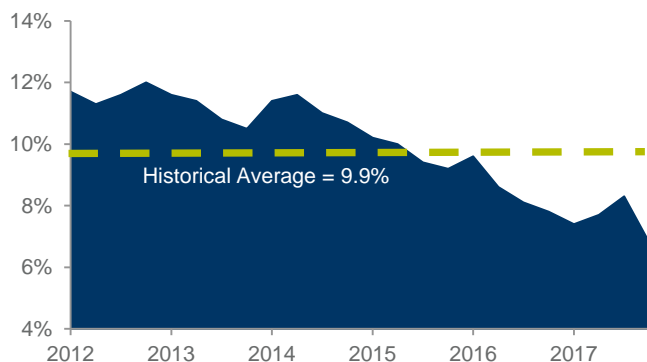
\*Rental rates reflect net asking \$psf/year

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

###### 4-QTR TRAILING AVERAGE



##### Overall Vacancy



## Economy

Tucson's economic health generally tracks that of Arizona and the nation as a whole, which bodes well for our region. Personal income nationally in November was up 3.8% over a year ago. This is good news because inflation over that period was up only about 2.0%. According to Eller College economists, the Tucson MSA job data preliminarily reported by the Bureau of Labor Statistics is likely understated by thousands of jobs, and once adjusted in the spring for actuals, will reflect what is felt in the marketplace: that employment has steadily grown every quarter since Q3 2015. Housing permit activity was up 16.7% year-over-year through November, while median home prices are up 12.2%, all trending very favorably after several years of limited growth.

## Market Overview

The Tucson Industrial Market continued strong momentum as the year 2017 closed out. Another quarter of positive net absorption (131,500 SF) resulted in a 6.8% vacancy rate, under 7.0% for the first time since Q2 2008. This represents a full percentage point improvement year over year.

Average sales prices per square foot have grown 24.9% in two years, from \$54.81 in 2015 to \$68.45 in 2017. Sales volume in 2017 ticked up slightly from the year prior to \$66.3 million. Industrial sales remain strong, with continued interest in investment and owner/user properties. The top sales for this quarter included several investment properties, the largest of which was 110,026 SF building in the southwest/airport submarket.

In concert with strong occupancy, rental rates continue to improve. Rents for space under 20,000 SF are expected to rise in the range of 7%-10% in 2018 with virtually no concessions. Rents for space over 20,000 SF will be flat and won't rise until larger spaces/buildings are absorbed. While rates have not improved enough to justify speculative construction market wide, look for development opportunities in stronger submarkets in the year ahead.

## Outlook

With some demand for land, the sale of freestanding small to intermediate buildings, and the leasing of small to intermediate spaces, all aspects of the market are hitting on all cylinders with the exception of larger availabilities (i.e. those over 200,000 SF). Once one or more of these larger buildings are absorbed, the vacancy rate could dip below 5.0% and open the door for all aspects of new development. Our expectation is that this occurs during 2018.

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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	415	4,156,570	15,739	1.2%	138,290	0	N/A	\$0.21	\$1.00	\$0.75
Northeast	227	2,606,865	0	9.3%	-26,960	0	N/A	\$0.54	\$0.61	\$0.51
Northwest/Oro Valley	721	9,552,371	2,260	3.1%	103,044	0	\$0.83	\$0.55	\$0.68	\$0.55
Palo Verde	527	6,490,037	13,501	5.4%	20,621	0	\$0.70	\$0.44	\$0.72	\$0.60
Park/Ajo	259	3,724,485	0	9.4%	20,468	0	\$0.48	\$0.21	\$0.50	\$0.45
South/Green Valley	12	187,683	0	0.6%	2,419	0	N/A	N/A	N/A	N/A
Southeast	96	5,876,819	0	4.3%	-11,265	0	N/A	\$0.62	N/A	\$0.79
Southwest/Airport	246	10,144,681	12,800	12.7%	166,959	230,134	\$0.74	\$0.43	\$0.50	\$0.46
West Outlying	3	13,892	0	0.0%	0	0	N/A	N/A	N/A	N/A
<b>TUCSON TOTALS</b>	<b>2,506</b>	<b>42,753,403</b>	<b>44,300</b>	<b>6.8%</b>	<b>413,576</b>	<b>230,134</b>	<b>\$0.72</b>	<b>\$0.42</b>	<b>\$0.62</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	1,183	21,738,898	36,227	6.2%	60,456	101,582	0	\$0.51
Manufacturing	718	12,515,905	0	6.5%	291,352	166,954	230,134	\$0.42
Office Service/Flex	446	4,112,263	8,073	5.1%	43,643	29,017	0	\$0.62
High Tech	159	4,386,337	0	9.0%	18,125	-79,269	0	\$0.72

### Key Lease Transactions Q4 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
9538 E. Old Vail Rd	50,400	TuSimple	Lease	Southeast
1890 W. Grant Rd	24,000	World Pac	Lease	Northwest/Oro Valley
9016 S. Rita Rd	21,271	Undisclosed	Lease	Southeast
2001 N. 9 <sup>th</sup> Ave	19,800	PTM Solutions, LLC	Sublease	Northwest/Oro Valley

### Key Sales Transactions Q4 2017

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
2650 E. Elvira Rd	110,026	Zygo Corporation/ Holualoa Companies	\$4,324,000/\$39	Southwest/Airport
1635 S. Research Loop	15,591	Buxton-Smith, LTD./ Presson P.V. Eleven, LLC	\$807,182/\$52	Eastside
1635 S. Research Loop	13,155	Buxton-Smith, LTD./ Presson P.V. Eleven, LLC	\$681,065/\$52	Eastside
5455 S. Nogales Hwy	12,800	Redyns Development, LLC/ Elite Roofing Supply	\$1,103,379/\$86	Southwest/Airport

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