

MARKETBEAT INDUSTRIAL SNAPSHOT

TUCSON, AZ

A Cushman & Wakefield Alliance Research Publication

Q3 2014



ECONOMIC OVERVIEW

With an improving national economic and employment picture slowly lifting all boats, the Arizona and Tucson unemployment rates followed suit; statewide employment was up 2.1% over a year ago. Residential inventory continued to stabilize and median sale prices

gained 6.2% over prior year. Shared Services Center's expansion announcement netting 200 new jobs made a positive statement about Tucson as a location to service western states.

LEASE MARKET

After several years void of significant prospects, three large users were active in the market, including two local expansions and one new employer. In addition, heavily improved R&D space began to move. Several well-capitalized medical marijuana grow houses with requirements between 18,000 and 40,000 sf were active in the market, thanks to softened local regulations allowing Tucson to compete for sales tax dollars with sites in Maricopa County.

Positive net absorption of 172,000 square feet (sf) marketwide erased the two previous negative quarters, bringing year-to-date absorption to a nominal, yet positive 49,000 sf. Accordingly, the vacancy rate improved from 11.6% mid-year to 11.0%, with positive absorption enjoyed across nearly all submarkets. Rents remained stable.

Continued slight improvement was led by active call center and back office requirements, the most notable, Shared Services Center, leased 60,405 sf in the Airport area, backfilling space previously vacated by Raytheon and announcing 200 net new jobs for the Tucson region.

SALE MARKET

With 1031 exchange activity up, sellers were buyers and trading activity increased, with inbound capital investment largely from southern California. All offerings with reasonable cap rates and credit found interest. The largest investment closing was 3434 E Kleindale, 37,490 sf at \$26.62 per sf; on the user side, 4670 S Palo Verde sold at \$94.16 per sf. The low end market remained active as the investor profile became more diversified.

OUTLOOK

Two buildings are under construction, FedEx Ground's 210,000 sf facility and Freightliner's 49,751 sf building. While only in two facilities, the construction footprint exceeds activity seen since 2009.

With the October opening of the expanded Port of Entry at Tucson's neighboring U. S./Mexico border, wait times to enter the U. S. for trade and commerce have been shortened measurably.

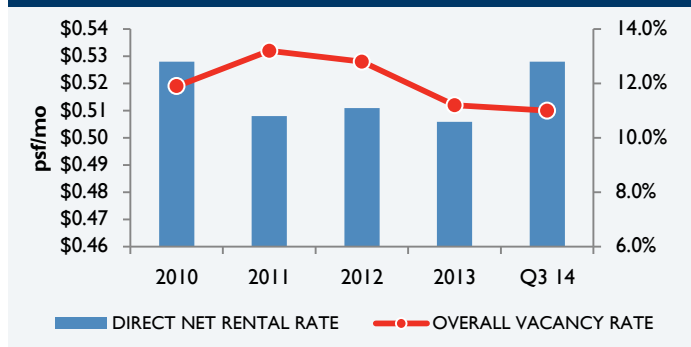
Downtown Tucson's vibe cannot be overstated, a harbinger for positive momentum community wide. The renaissance is in full swing, kick started by the opening of the Modern Streetcar posting higher than projected ridership and a rise in business openings.

Sources: CoStar, EDP&Co, Eller College, Tucson Assoc. of Realtors

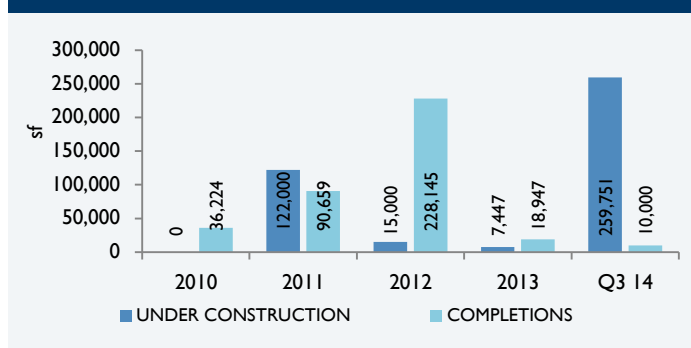
STATS ON THE GO

| | Q3 2013 | Q3 2014 | Y-O-Y CHANGE | 12 MONTH FORECAST |
|------------------------------|-----------|-----------|--------------|-------------------|
| Overall Vacancy | 10.8% | 11.0% | .2pp | ▼ |
| Direct Asking Rents (psf/yr) | \$0.53 | \$0.53 | 0.0% | ▲ |
| YTD Leasing Activity (sf) | 1,340,769 | 1,332,891 | -0.06% | ▲ |

DIRECT RENTAL VS. VACANCY RATES

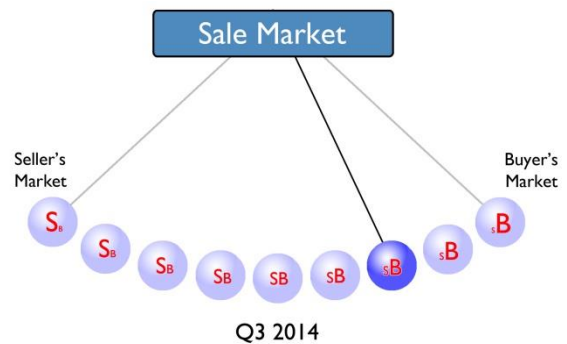
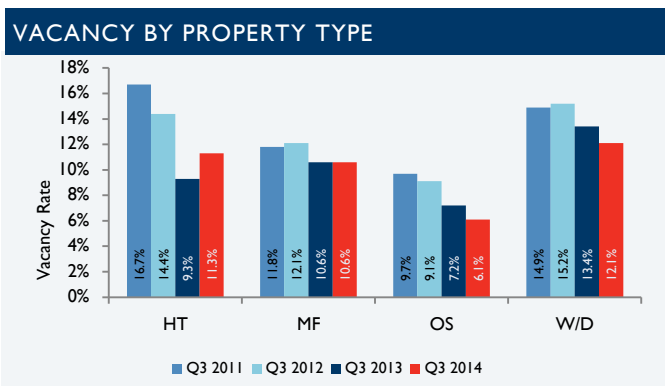


UNDER CONSTRUCTION VS. COMPLETIONS



| SUBMARKET | INVENTORY | OVERALL VACANCY RATE | YTD LEASING ACTIVITY | UNDER CONSTRUCTION | YTD CONSTRUCTION COMPLETIONS | YTD OVERALL NET ABSORPTION | DIRECT WEIGHTED AVERAGE NET RENTAL RATE |
|----------------------|-------------------|----------------------|----------------------|--------------------|------------------------------|----------------------------|---|
| Downtown | 4,081,168 | 5.1% | 70,689 | 0 | 0 | 2,596 | \$0.47 |
| Eastside | 2,519,282 | 11.0% | 122,379 | 0 | 0 | 76,660 | \$0.52 |
| Northwest/Oro Valley | 9,397,097 | 5.6% | 325,501 | 0 | 10,000 | 81,313 | \$0.60 |
| Palo Verde | 6,427,014 | 10.9% | 240,209 | 0 | 0 | 70,821 | \$0.40 |
| Park/Ajo | 3,684,966 | 8.0% | 101,295 | 0 | 0 | 21,620 | \$0.56 |
| South/Green Valley | 72,049 | 1.7% | 1,000 | 0 | 0 | 1,000 | \$0.00 |
| Southeast | 5,782,441 | 14.3% | 99,145 | 0 | 0 | (124,012) | \$0.95 |
| Southwest/Airport | 7,587,007 | 19.9% | 243,868 | 259,751 | 0 | (80,877) | \$0.53 |
| TOTALS | 39,551,024 | 11.0% | 1,204,086 | 259,751 | 10,000 | 49,121 | \$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 |
| 6161 S Palo Verde* | Airport | Amcort Pet Packaging | Warehouse | 83,140 |
| 6223 S Palo Verde | Airport | Shared Service Center | High Tech | 60,405 |
| 6978 E Century Park Rd | Southeast | Chamberlain Group | Warehouse | 60,000 |
| SIGNIFICANT Q3 SALE TRANSACTIONS | SUBMARKET | BUYER | PURCHASE PRICE | SQUARE FEET |
| 3434 E Kleindale | Central | Kris & Stephanie Kirby | \$998,000 | 37,490 |
| 4670 S Palo Verde | Palo Verde | Corsair Management LP | \$2,650,000 | 28,145 |
| 2520 N Jackrabbit | Northwest | Bakehouse Bread Company | \$1,350,000 | 22,550 |
| SIGNIFICANT LAND SALES | SUBMARKET | BUYER | PURCHASE PRICE | ACRES |
| 7001 S Country Club | Airport | Westmoreland Company | \$1,392,603 | 15.5 |
| NW Palo Verde & Corona Rd | Airport | Westmoreland Company | \$1,182,218 | 11.0 |
| SIGNIFICANT Q3 CONSTRUCTION COMPLETIONS | SUBMARKET | MAJOR TENANT | COMPLETION DATE | SQUARE FEET |
| N/A | Northwest | N/A | August 2014 | 10,000 |
| SIGNIFICANT PROJECTS UNDER CONSTRUCTION | SUBMARKET | MAJOR TENANT | COMPLETION DATE | SQUARE FEET |
| 7050 S Palo Verde Rd | Airport | FedEx Ground | June 2015 | 210,000 |
| 5650 E Travel Plaza Way | Airport | Freightliner | October 2014 | 49,751 |

*RENEWAL – NOT INCLUDED IN LEASING ACTIVITY STATISTICS

Source: CoStar Group