

# MARKETBEAT

## Tucson

### Industrial Q3 2016



#### TUCSON INDUSTRIAL

##### Economic Indicators

	Q3 15	Q3 16	12-Month Forecast
Tucson Employment	367k	378k	▲
Tucson Unemployment	5.4%	5.4%	▼
U.S. Unemployment	5.2%	4.9%	▼

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

	Q3 15	Q3 16	12-Month Forecast
Vacancy	9.4%	8.1%	▼
Net Absorption (sf)	416k	978k	▼
Under Construction (sf)	805k	160k	▲
Average Asking Rent*	\$0.53	\$0.57	▲

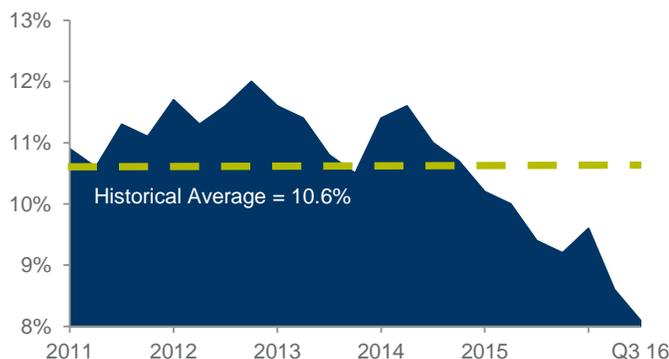
\*Rental rates reflect net asking \$psf/year

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

###### 4-QTR TRAILING AVERAGE



##### Overall Vacancy



## Economy

Greater Tucson was recently named the third fastest-growing (employment) metro area over 500,000 population by Bloomberg, with year-over-year job growth of 4.2% in July and total employment of 378,050. The national housing recovery has improved Tucson's prospects for population growth and is expected to spur construction. Arizona was the only state in the U. S. to experience month-over-month construction job gains in July 2016, and was one of three states to report year-over-year construction job growth. Nationally, September consumer confidence was at the highest level since 2007.

## Market Overview

Tucson's industrial vacancy continued its positive trajectory, improving by 50 basis points over Q2 2016 to end at 8.1%, the lowest level recorded since Q4 2008. With the completion of HomeGoods' 858,288-square-foot (SF) distribution center, total net absorption to date in 2016 exceeded 1.2 million square feet (MSF), marking the first year over one MSF since 2006. The pendulum has moved to center in a balanced landlord/tenant market. Concessions are minimal and pressure is occurring on lease rates in some submarkets, particularly in the northwest, where rents have increased 10.0% to 15.0% over the last 18 months. The strongest part of the market is in the 5,000- to 10,000-SF range, with the preponderance of activity in that size level. Spaces over 50,000 SF still suffer from limited demand.

As a bellwether of the market's health, after the lease of 55,000 SF with additional land, occupancy at the UA Tech Park stands at roughly 95%, with several transactions on the horizon which would bring the park to virtually full occupancy.

The sale market saw heightened activity, both from investors and end users. Buyers accustomed to an environment of distressed pricing are beginning to see increased competition for product and pressure on pricing and values.

Three user projects were under construction, including Worldview's 150,000-SF facility and approximate 20,000-SF buildings for both Old Dominion and Switchgear Solutions.

## Outlook

Tucson's existing businesses, both large and small, have been quietly growing headcounts and have accounted for the Tucson region's path to vibrancy over 24 months. Meaningful collaboration between public and private sectors has facilitated many hiring decisions and recent employment announcements will add future, positive impact. Planned hiring by Caterpillar (600 jobs), Worldview (448), ADP (400), C3 (1,132), Samsung SmartThings (80), and Tucson Medical Center (61) combine for a forecasted economic impact of over \$3 billion. Other job announcements have occurred, with more expected. Future opportunities will arise from innovation and tech in the sharing economy, as well as job growth's positive influence on the housing market.

**MARKETBEAT**  
**Tucson**  
**Industrial Q3 2016**



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	413	4,125,324	59,926	4.2%	35,293	0	N/A	\$0.58	\$0.59	\$0.62
Northeast	226	2,574,897	0	6.7%	4,509	0	\$0.83	\$0.57	\$1.20	\$0.60
Northwest/Oro Valley	720	9,527,323	135,593	4.4%	8,645	19,811	\$0.80	\$0.63	\$0.68	\$0.56
Palo Verde	530	6,507,787	105,388	6.5%	21,882	0	\$0.39	\$0.42	\$0.49	\$0.55
Park/Ajo	257	3,708,869	65,746	8.8%	67,304	0	\$0.49	\$0.61	N/A	\$0.52
South/Green Valley	12	187,783	0	0	0	0	\$0.75	N/A	N/A	N/A
Southeast	94	5,847,980	115,507	8.5%	163,605	0	\$0.92	\$0.77	\$0.48	\$0.60
Southwest/Airport	247	8,850,572	15,528	15.2%	901,095	140,160	\$0.73	\$0.48	\$0.50	N/A
West Outlying	3	13,892	0	0	0	0	N/A	N/A	N/A	\$0.45
<b>TUCSON TOTALS</b>	<b>2,502</b>	<b>41,344,427</b>	<b>497,688</b>	<b>8.1%</b>	<b>1,202,333</b>	<b>159,971</b>	<b>\$0.78</b>	<b>\$0.52</b>	<b>\$0.57</b>	<b>\$0.50</b>

\*Rental rates reflect asking \$psf/year

HT = High Tech MF = Manufacturing OS = Office Service/Flex WD = Warehouse/Distribution

	TOTAL BLDGS	INVENTORY (SF)	YTD USER SALES ACTIVITY (SF)	OVERALL VACANCY RATE	YTD CURRENT QTR. OVERALL NET ABSORPTION (SF)	OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL WEIGHTED AVG. NET RENT
Warehouse/Distribution	1,175	20,387,952	237,305	8.4%	1,024,291	870,060	20,160	\$0.50
Manufacturing	724	12,462,855	31,059	7.4%	95,191	53,500	0	\$0.52
Office Service/Flex	444	4,143,149	229,324	8.4%	-43,126	-37,960	19,811	\$0.57
High Tech	159	4,350,471	0	7.6%	125,977	92,281	120,000	\$0.77

**Key Lease Transactions Q3 2016**

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Spectra-Physics/Newport Corporation 3301-3321 E. Global Loop	60,600	Confidential	New	Southwest/Airport
1085 W. Grant Rd	19,790	CTP Carrera, Inc.	Sublease	Northwest/Oro Valley
3990 S. Evans Blvd	16,176	Delta Airlines	Renewal	Park/Ajo
Tucson Airport Center-2859 E. Elvira Rd	15,000	First Choice Logistics	New	Southwest/Airport

**Key Sales Transactions Q3 2016**

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
5580 S. Nogales Hwy	109,229	Garold & Carol Brown / WAA GST Exempt Trust	\$774,405 / \$7	Southwest/ Airport
9280 E. Old Vail Rd	106,507	Diamond Ventures / Arcadia, Inc.	\$4,550,000 / \$43	Southeast
5551 W. Coca Cola Pl	95,388	Coca-Cola Building Co./ Swire Pacific Holdings, Inc.	\$5,645,464 / \$59	Northwest/ Oro Valley
4700 S. Overland Dr	45,675	Legacy Property Management / Edna H Gray	\$6,080,000 / \$133	Palo Verde

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