

FIGURES | TUCSON INDUSTRIAL MARKET | Q1 2023

Vacancy Tightens as Leasing Activity Starts the Year off Strong

▼ 2.5%
Vacancy Rate

▼ 191K
SF Net Absorption

▲ 1.8M
SF Construction

▼ \$0.87
NNN / Lease Rate

Note: Arrows indicate change from previous quarter.

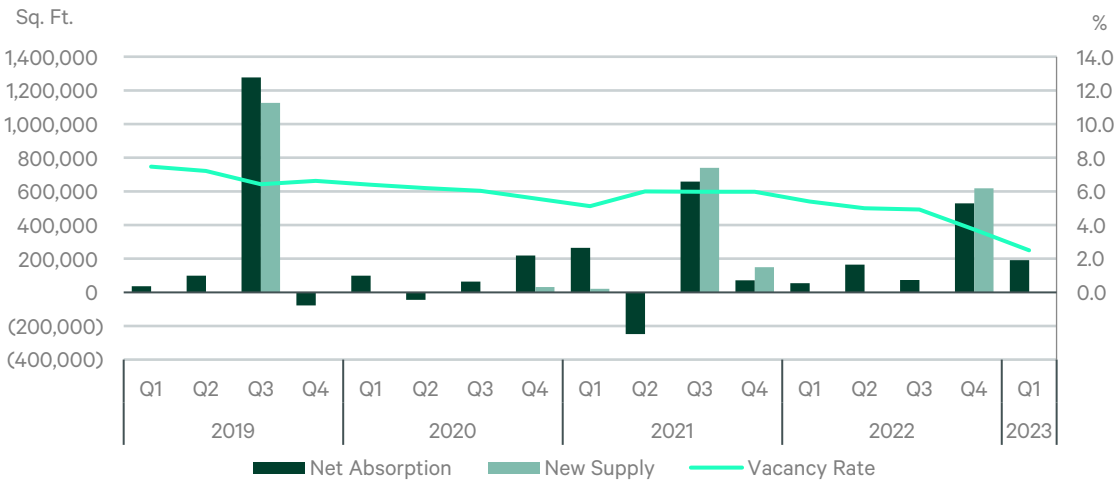
KEY TAKEAWAYS

- Vacancy decreased 120 basis points (bps) quarter-over-quarter to 2.5% in Q1 2023.
- The industrial market captured 389,500 sq. ft. of gross absorption, bolstered by activity in the Southeast submarket.
- Total construction activity increased slightly to 40,000 sq. ft., with no deliveries in Q1 2023.

The Tucson industrial market had healthy leasing activity with 389,500 sq. ft. of gross absorption. While renewals dominated market activity, new leases pushed net absorption to 191,465 sq. ft. in Q1 2023.

The vacancy rate dropped to 2.5% as new leases outpaced move-outs in Q1 2023. The decrease in vacancy was also a result of the lack of new product deliveries in the first quarter. Under construction projects located in the Northwest and Airport submarket are anticipated to deliver in Q2 2023. Lastly, direct average asking NNN lease rates remained nearly flat at \$0.87 per sq. ft.

FIGURE 1: Supply and Demand



Source: CBRE Research, Q1 2023.

Availability and Vacancy

Industrial space availability decreased to 2.7%, equivalent to 1.1 million sq. ft. of space at the end of Q1 2023. Availability in the Airport submarket declined to 3.7% with multiple large new leases. The Northwestern submarket's availability rate of 2.9% was slightly higher than the Tucson average, but the submarket remains a sought-after submarket due to interstate access and proximity to Phoenix. Space available in the Southeast submarket remained scarce, with 1.3% available.

Tucson's total vacancy declined to 2.5% in Q1 2023 with 1.0 million sq. ft. of vacant space. The vacancy rate in the Airport submarket had a quarter-over-quarter decrease of 20 basis points to 3.5% while the Northwest submarket vacancy increased 80 bps to 2.8%. The Southeast submarket vacancy remained tight at 1.2% and remained a desirable market for distribution and manufacturing operations.

Lease Rates

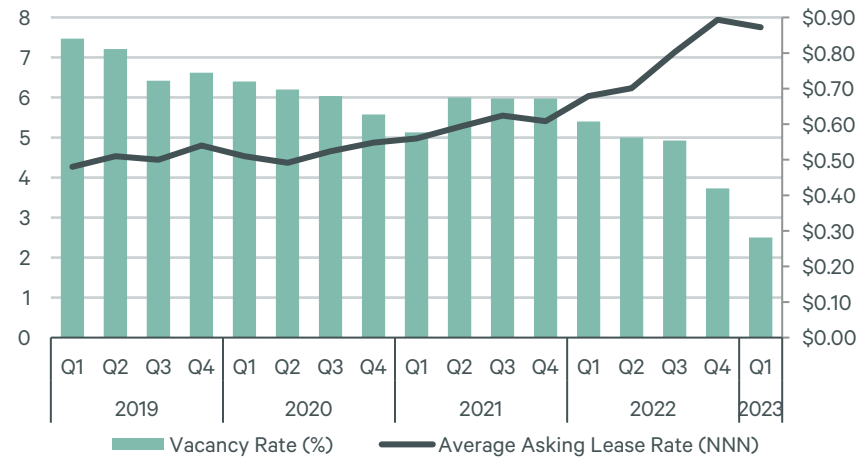
The direct average asking NNN lease rate increased \$0.19 year-over-year to \$0.87 per sq. ft. in Q1 2023—a 28.4% increase year-over-year. Asking rates within the Southeast submarket increased to \$0.78, which represented the most notable rate change. Decreased availability in this submarket continued to put upward pressure on asking rates. The Airport submarket recorded a minor increase in NNN asking lease rate at \$0.83 per sq. ft. With an average asking lease rate of \$0.72 per sq. ft., the Northwest submarket offers tenants a cost-efficient and geographically advantageous option.

Net Absorption and Leasing Activity

The Tucson industrial market had 191,465 sq. ft. of positive net absorption in Q1 2023, driven primarily by the Southeast and Airport submarkets. The Southeast submarket recorded 171,357 sq. ft. of net absorption. The Airport submarket recorded 101,774 sq. ft. of leasing activity, with a 65,303 sq. ft. lease signed by Cactus Portable Storage and an owner-user building acquisition at 2425 E Medina Rd. The Southwest submarket recorded a notable 65,250 sq. ft. warehouse leased by Pima County.

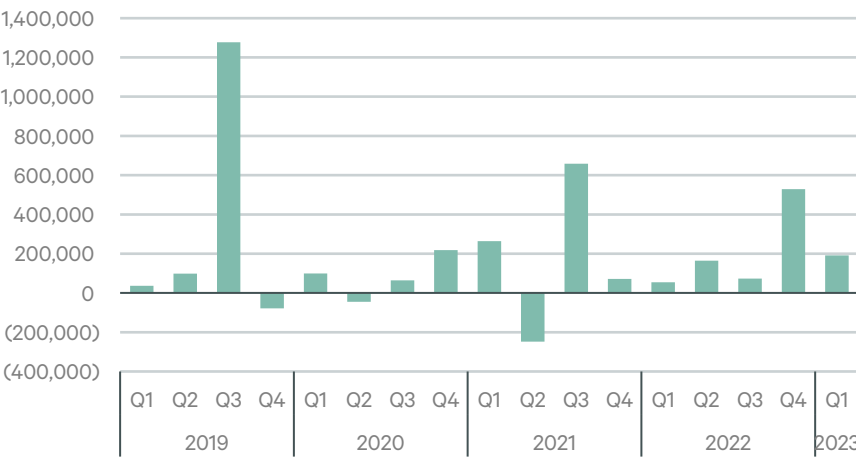
The West Central submarket offset the positive net absorption in the market due to the 60,000 sq. ft. move out of Sam Levitz Furniture Company. The Northwestern submarket followed closely behind with 52,576 sq. ft. of negative net absorption.

FIGURE 2: Overall Vacancy and Lease Rate



Source: CBRE Research, Q1 2023.

FIGURE 3: Net Absorption (Sq. Ft.)



Source: CBRE Research, Q1 2023.

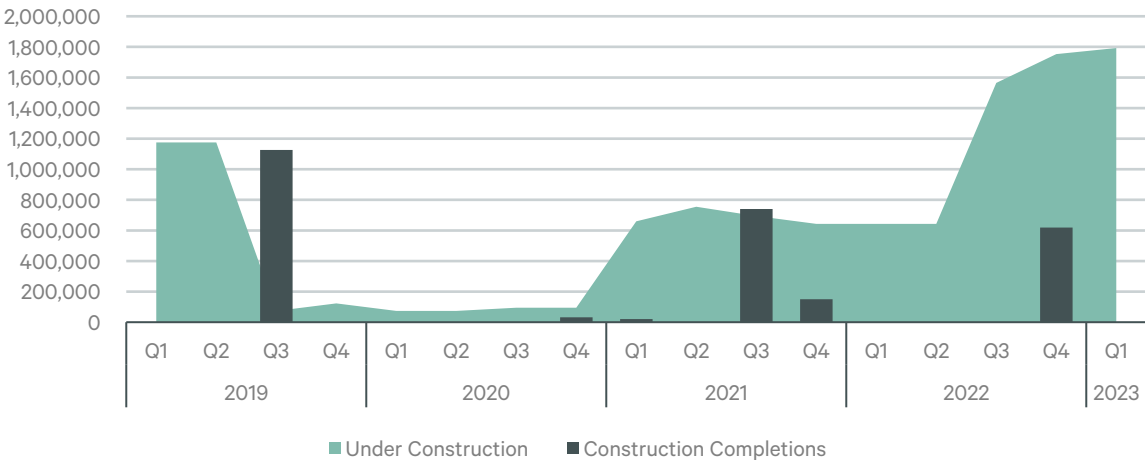
Development Activity

No projects were delivered in Q1 2023, but construction continued for the 1.8 million sq. ft. of industrial product. The 946,415 sq. ft. from buildings 1 and 2 of the Southern Arizona Logistics Center made significant development progress in the Northwestern submarket and are expected to deliver in Q2 2023. The 40,000 sq. ft. Campbell Landing project is near completion as well. The four-building project will serve a much-desired space requirement for tenants looking to fill up to 10,000 sq. ft. The 806,000 sq. ft. Tucson Commerce Center in the Airport submarket is expected to deliver in late 2023. Many projects, such as the remaining Southern Arizona Logistics Center buildings, I-10 International and the newly announced Southern Arizona Regional, remain planned and await construction start dates

Outlook

The Tucson industrial market has had several quarters of consistent growth and these trends are expected to continue in subsequent quarters. With sustained record low vacancy and a strong construction pipeline, Tucson is expected to capitalize on tenants looking to establish or expand operations in the Sun Belt. Prospective projects like American Battery Factory's new manufacturing facility will place the spotlight on Tucson as an optimal manufacturing location further sustaining demand.

FIGURE 4: Under Construction and New Supply (Sq. Ft.)

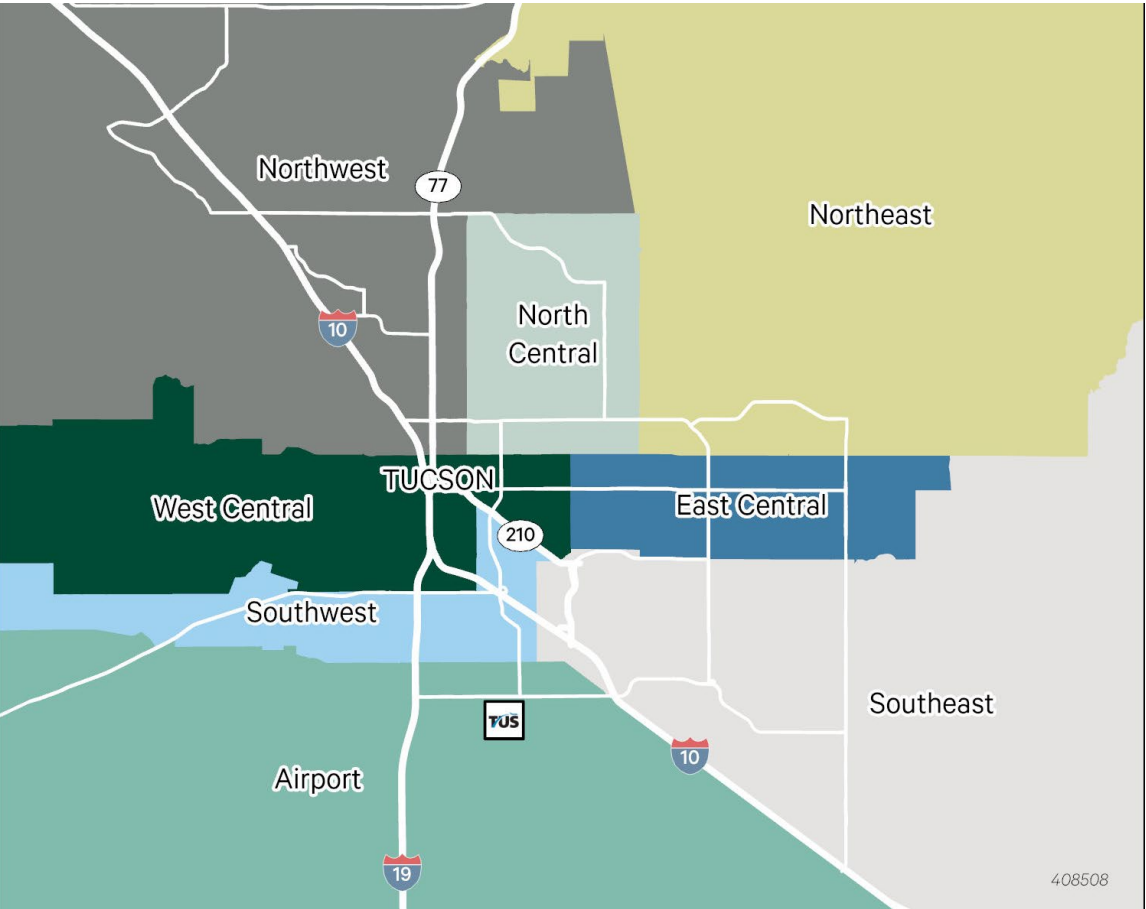


Source: CBRE Research, Q1 2023.

FIGURE 5: Submarket Stats

	Building Count	Net Rentable Area (Sq. Ft.)	Availability (%)	Vacancy (%)	Net Absorption (Sq. Ft.)		Under Construction (Sq. Ft.)	Construction Deliveries (Sq. Ft.)	Avg. Direct Asking Lease Rate (\$PSF/NNN)
					Q1 2023	2023 YTD			
Airport	162	10,956,144	3.7%	3.5%	71,774	71,774	846,606	0	\$0.83
East Central	44	1,189,709	5.6%	4.7%	(3,686)	(3,686)	0	0	\$0.85
North Central	11	191,587	5.4%	2.7%	(256)	(256)	0	0	\$0.83
Northeast	15	1,045,095	11.3%	11.3%	0	0	0	0	\$1.41
Northwest	268	7,023,918	2.9%	2.8%	(52,576)	(52,576)	946,435	0	\$0.72
Southeast	251	12,593,094	1.3%	1.2%	171,357	171,357	0	0	\$0.77
Southwest	105	2,877,358	1.1%	1.0%	67,052	67,052	0	0	\$0.78
West Central	179	4,458,840	2.1%	1.7%	(62,200)	(62,200)	0	0	\$0.77
Tucson Total	1,035	40,335,745	2.7%	2.5%	191,465	191,465	1,793,041	0	\$0.87

Source: CBRE Research, Q1 2023.



Definitions

Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant. Availability Rate: Total Available Sq. Ft. divided by the total building Area. Average Asking Lease Rate: A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage. Building Area: The total floor area sq. ft. of the building, typically taken at the “drip line” of the building. Gross Activity: All sale and lease transactions completed within a specified time period. Excludes investment sale transactions. Gross Lease Rate: Rent typically includes real property taxes, building insurance, and major maintenance. Net Absorption: The change in Occupied Sq. Ft. from one period to the next. Net Lease Rate: Rent excludes one or more of the “net” costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate. Occupied Sq. Ft.: Building Area not considered vacant. Vacancy Rate: Total Vacant Sq. Ft. divided by the total Building Area. Vacant Sq. Ft.: Space that can be occupied within 30 days.

Survey Criteria

Includes all industrial buildings 10,000 sq. ft. in Tucson Metro. Buildings which have begun construction as evidenced by site excavation or foundation work.

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