

MARKETBEAT

Tucson

Industrial Q2 2017



TUCSON INDUSTRIAL

Economic Indicators

	Q2 16	Q2 17	12-Month Forecast
Tucson Employment	373k	372k	▲
Tucson Unemployment	4.9%	4.6%	▼
U.S. Unemployment	4.9%	4.4%	■

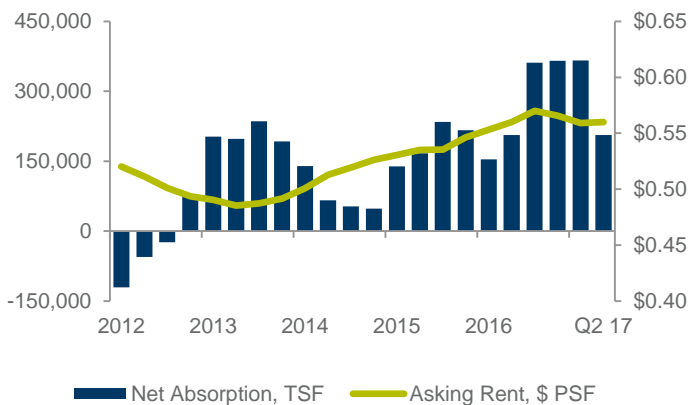
Market Indicators (Overall, All Property Types)

	Q2 16	Q2 17	12-Month Forecast
Vacancy	8.6%	7.7%	▼
YTD Net Absorption (sf)	253k	-126k	▲
Under Construction (sf)	800k	30k	▲
Average Asking Rent*	\$0.57	\$0.53	▲

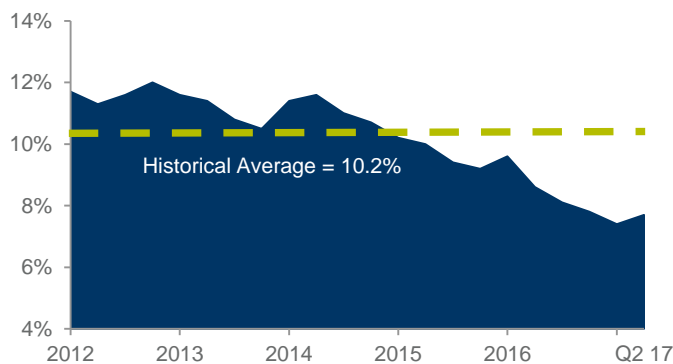
*Rental rates reflect net asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

National consumer sentiment remains favorable amidst signs of positive economic direction. Arizona continues to outpace the nation in job creation, with an unemployment rate back to a level last seen before the Great Recession. Tightening labor markets are translating into faster wage and income growth which should boost retail sales. Overall, the outlook calls for the state's economy to accelerate modestly in the near term. Job growth in the Tucson metro area has accelerated significantly due to recent announcements from large national companies committing to move to the area. While single family home prices rose 6.0% nationally, the one-year price changes for the first quarter 2017 were 8.0% for Phoenix and 5.4% for Tucson. According to Bright Future Real Estate Research, permits for new home construction in metro Tucson in May were up 51.8% from year earlier levels.

Market Overview

The market is more balanced between landlords and tenants as vacancy has dropped to 2006 levels. Despite the slight uptick in vacancy at the end of the second quarter, the market continues to see strong activity in most size ranges. Rents are rising and the unusually high tenant concessions that were experienced during the downturn are disappearing. The exception being buildings and space over 50,000 square feet, where activity is still not occurring. Construction is starting to get bogged down, as the shortage of trade workers is starting to have an impact. This will only get worse as the industrial market continues to improve.

Outlook

Absorption continues to be strong as companies expand and new companies announce relocations to Tucson. Vacancy will be lower in smaller spaces under 10,000 square feet and rents will continue to rise. Activity will improve in larger spaces with improved absorption in this area. Land activity has been anemic for a number of years and will still remain so until sale and lease prices increase closer to cost of new construction.

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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	413	4,278,401	49,785	2.5%	66,266	0	N/A	\$0.22	\$1.00	\$0.66
Northeast	227	2,587,142	0	8.2%	-78,327	0	N/A	\$0.58	\$0.75	\$0.55
Northwest/Oro Valley	722	9,800,261	0	3.8%	24,775	29,811	\$0.72	\$0.64	\$0.67	\$0.56
Palo Verde	528	6,750,902	0	5.0%	52,355	0	\$0.48	\$0.44	\$0.79	\$0.55
Park/Ajo	257	3,902,624	0	9.7%	-112,641	0	\$0.48	\$0.26	\$0.50	\$0.44
South/Green Valley	12	235,683	0	0.6%	1,950	0	N/A	N/A	N/A	N/A
Southeast	96	6,012,040	0	9.3%	-41,911	0	N/A	\$0.62	N/A	\$0.79
Southwest/Airport	246	9,161,694	0	14.8%	-38,604	0	\$0.74	\$0.46	\$0.50	\$0.46
West Outlying	3	13,892	0	0.0%	0	0	N/A	N/A	N/A	N/A
TUCSON TOTALS	2,504	42,742,639	0	7.7%	-126,137	29,811	\$0.72	\$0.46	\$0.65	\$0.51

*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	OVERALL NET ABSORPTION (SF)	YTD CURRENT QTR. OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	OVERALL WEIGHTED AVG. NET RENT
Warehouse/Distribution	1,180	21,718,901	0	8.4%	41,208	97,106	10,000	\$0.51
Manufacturing	723	12,591,759	31,361	7.8%	-151,566	-235,034	0	\$0.46
Office Service/Flex	443	4,081,508	18,424	5.2%	28,009	-17,303	19,811	\$0.65
High Tech	159	4,350,471	0	6.6%	-43,788	-12,991	0	\$0.72

Key Lease Transactions Q2 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
6050 S. Country Club Rd	120,000	Keystone	Lease	Southwest/Airport
6221 S. Palo Verde Rd	60,405	Centene Management Co.	Lease	Southwest/Airport
6992 E. Century Park Dr	60,000	Keefe Group	Lease	Southeast
3775 E. 34 th St	52,233	AB46 Investments, LLC	Lease	Palo Verde

Key Sales Transactions Q2 2017

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
3280 E. Hemisphere Loop	82,737	Pat P Lopez/ West Valley Investment Group	\$6,134,000/ \$74	Southwest/ Airport
3301-3321 E. Global Loop	80,600	Holualoa Companies/ Mercator Properties, LLC	\$13,500,000/ \$167	Southwest/ Airport
2425 E. Medina Rd	46,709	Intercontinental Real Estate Corporation/ Michael & Karen Sharp	\$6,072,170/ \$130*	Southwest/ Airport
840-850 E. 18 th St	31,361	Karney Management Company/ Johnstone Supply	\$1,617,720/ \$51	Downtown

*Portfolio sale price

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