

	YoY Chg	12-Mo. Forecast
5.6% Vacancy Rate	▼	▬
293K YTD Net Absorption, SF	▼	▬
\$0.80 Asking Rent, PSF	▲	▲

Overall, Net Asking Rent

ECONOMIC INDICATORS Q3 2023

	YoY Chg	12-Mo. Forecast
399K Tucson Employment	▲	▲
3.4% Tucson Unemployment Rate	▲	▲
3.7% U.S. Unemployment Rate	▲	▲

Source: BLS

ECONOMY

In the third quarter of 2023, the US economy showcased consistent resilience, although predictions for its future varied. In Tucson, encouraging signs were observed. The median household income rose by 4.0% compared to the previous year, bolstering consumer spending. However, consumer confidence did wane slightly in September. Nationally, real GDP grew by 2.4%, demonstrating economic vigor despite some recessionary concerns. After a year of consistent decline in inflation, the consumer price index increased to 3.4%. This is notably lower than the 8.3% recorded the previous year. Metro Tucson's nonfarm employment experienced a positive, modest rise of 1.3%. Furthermore, Tucson's unemployment rate declined from 4.0% to 3.7%, indicating a robust labor market.

SUPPLY AND DEMAND:

In the third quarter, the Tucson industrial market maintained a consistent demand-supply dynamic, marked by limited inventory. After experiencing vacancy below 4.0% in the second quarter 2023, the vacancy rate rose to 5.6% due to delivery of new vacant product to the market. Despite this, there was a positive net absorption of 292,707 square feet (sf).

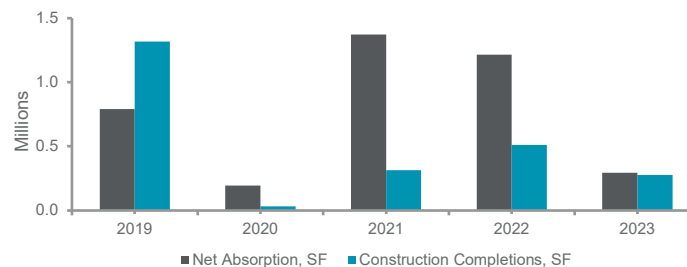
Rental rates were seeing continued upward pressure and ended at \$0.80 per square foot (psf) per month. The manufacturing sector, particularly in autonomous technologies, robotics, batteries, electric vehicles, and mining, continued to surge. Warehouse distribution remained in demand throughout the prominent submarkets. The persistent demand for e-commerce and logistics in Tucson was attributable to the city's positive net in-migration, the demand for quick delivery times on online orders, and the growing market share for online retailing. Sale volume is on pace for its lowest annual total since 2013 due to low inventory of available property with a lack of interest on the part of potential sellers.

Notable ongoing construction projects included the Flint distribution centers. The shells of the Southern Arizona Logistics Center spanning 946,935 sf in NW Tucson/Oro Valley, and two of the three buildings at the Tucson Commerce Center with 786,240 sf in the SW Tucson submarket are complete. The final building is expected to deliver in the fourth quarter of 2023. Additionally, the Campbell Landing project was slated for construction, comprising four 10,000 sf industrial buildings set to commence in the fourth quarter of this year. These new deliveries are the source of nearly all increased vacancy, as opposed to tenants downsizing or vacating existing facilities.

PRICING:

Tucson's industrial market saw rising lease rates due to supply constraints and market volatility, which caused uncertainty in new construction. Despite the price increases, Tucson remained competitive and positioned for growth when interest rates and construction costs stabilize. With industrial rents at \$0.80 psf month, it remained an affordable location to operate. The area's strategic proximity to key trade entry points drove tenant demand, resulting in a 5.0% rent increase in the past year. Industrial asset sales moderated due to higher debt costs and economic uncertainties, with stable sales prices psf for a third consecutive year.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



MARKETBEAT TUCSON

Industrial Q3 2023



MARKET STATISTICS**

SUBMARKET	INVENTORY (SF)	OVERALL VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	CONSTR COMPLETIONS (SF)	OVERALL WEIGHTED AVG NET RENT (MF)	OVERALL WEIGHTED AVG NET RENT (OS)	OVERALL WEIGHTED AVG NET RENT (W/D)
Downtown Tucson	4,161,862	120,484	2.9%	862	-29,852	0	0	\$1.03	\$1.43	\$1.04
Northeast Tucson	2,832,195	33,820	1.6%	84,513	78,144	0	0	\$0.84	\$0.89	\$0.85
NW Tucson/Oro Valley	12,326,089	1,337,419	11.6%	77,135	-8,633	0	950,435	\$0.73	\$1.14	\$0.54
Palo Verde	6,801,575	108,503	1.6%	-29,729	178,002	0	0	0	\$0.76	\$0.78
Park/Ajo	4,079,522	24,948	0.8%	50,489	22,937	0	0	\$0.73	\$0.99	\$0.90
South Pima/Green Valley	216,224	0	0.0%	0	0	0	0	0	0	N/A
Southeast Tucson	7,119,513	5,500	0.2%	1,381	148,838	0	0	0	\$0.94	\$0.92
SW Tucson Airport	12,001,851	1,146,668	10.0%	76,012	-96,728	274,889	571,717	\$0.84	\$0.96	\$0.77
TUCSON TOTALS	49,538,831	2,777,342	5.6%	260,663	292,708	274,889	1,522,152	\$0.83	\$0.88	\$0.72

*Rental rates reflect weighted net asking \$psf/month

**statistics not reflective of the U.S. Marketbeat tables

FX = Flex MF = Manufacturing OS = Office Service/Flex W/D = Warehouse/Distribution

KEY LEASE TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
3760 North Commerce Drive**	NW Tucson/Oro Valley	Marsden Services	66,768	Warehouse
6818 South Country Club Road**	SW Tucson/Airport	Holley Performance Parts	21,840	Warehouse
3850 East 44 th Street**	Palo Verde	Better Box	20,364	Warehouse/Distribution
1601-1639 West Grant Road	NW Tucson/Oro Valley	Better Box	18,000	Warehouse
2705 East Medina Road**	SW Tucson/Airport	MSE Supply	11,680	Manufacturing

*Renewals not included in leasing statistics **At least one party represented by Cushman & Wakefield | PICOR

KEY SALES TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
4601 South 3 rd Avenue	Park/Ajo	Hunter LJ Investments, LLC. / A.O. Smith Corporation	30,000	Undisclosed / Undisclosed
3455-3499 East 34 th Street**	Palo Verde	Kazal Fire Protection / Penske Automotive Parts	15,075	\$1,875,000 / \$124.38
2425 West Curtis Road**	NW Tucson/Oro Valley	Kassaboo LLC / Western American Investments, LLC	10,963	\$2,200,000 / \$200.67

**At least one party represented by Cushman & Wakefield | PICOR

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