

FIGURES | TUCSON INDUSTRIAL MARKET | Q4 2023

Sizable Build-To-Suit Projects Bolster the Local Industrial Pipeline

▲ 6.3%

Vacancy Rate

▼ 177.8K

SF Net Absorption

▲ 2.1M

SF Construction

▲ \$0.86

NNN / Lease Rate

Note: Arrows indicate change from previous quarter.

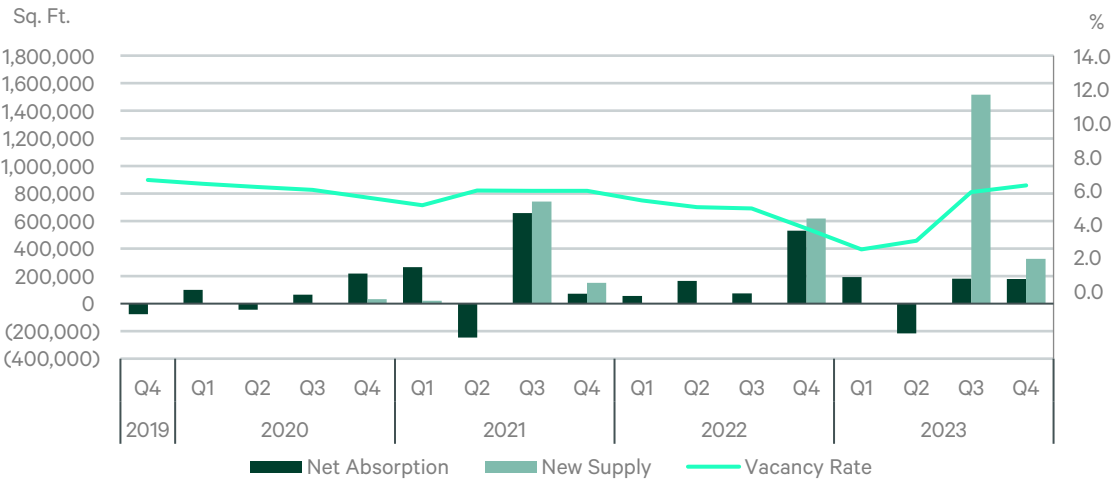
KEY TAKEAWAYS

- Vacancy increased 40 basis points (bps) quarter-over-quarter to 6.3% in Q4 2023.
- Net absorption remained in positive territory for the second consecutive quarter and outpaced the trailing 3-year quarterly average of 127,062 SF.
- Development activity elevated, as roughly 2.1 million sq. ft. broke ground in Tucson during Q4 2023. All projects underway as of December are owner/user with no space availabilities.

Gross leasing activity remained strong, with tenants committing to over 498,000 sq. ft. of industrial space during Q4 2023. This marks a 39% increase in activity in comparison to the prior quarter, indicating local tenant demand remains robust.

Tenant activity was strong during Q4 2023; however, vacancy continued to inch up as roughly 207,000 sq. ft. of newly delivered vacant space entered the market. The bulk of recent completions occurred in the Airport area, lifting the submarket’s vacancy rate above the 10 percent threshold. Nevertheless, the metro still experienced a modest 1.2% increase quarter-over-quarter in the direct average asking NNN rent, as the figure reached \$0.86 per sq. ft.

FIGURE 1: Supply and Demand



Source: CBRE Research, Q4 2023.

Availability and Vacancy

Industrial space availability in Tucson ticked up by 10 bps to 6.8%, equivalent to over 2.8 million sq. ft. of space at the end of Q4 2023. Local availability jumped the highest in the Airport submarket, which recorded an increase of 130 bps quarter-over-quarter. In contrast, availability in the Northeast, Northwest and Southwest submarkets each declined by at least 100 bps during this span. Closing Q4 2023, availability was tightest in the West Central submarket, as the area boasted a rate of 1.7%. Meanwhile, the Northwest submarket posted Tucson’s highest availability rate at 13.2%.

Market-wide vacancy rose 40 bps to 6.3% in Q4 2023 with nearly 2.6 million sq. ft. of vacant space. However, despite this increase, vacancy remains 30 bps below the metro’s year-end 2019 rate, suggesting fundamentals are still tight by historical standards. Much of this increase can be attributed to more than 200,000 sq. ft. of unaccounted for space that delivered to the market this quarter. All speculative supply in Q4 2023 delivered in the Airport submarket, lifting the local vacancy rate by 150 bps to 10.2%. Vacancy also rose in the Southeast submarket to 1.2%, as the area registered over 48,000 sq. ft. of negative net absorption for the quarter. Still, the Southeast submarket maintained the metro’s lowest vacancy rate, and Southwest and West Central Tucson also posted local vacancy rates below 2% in Q4 2023.

Lease Rates

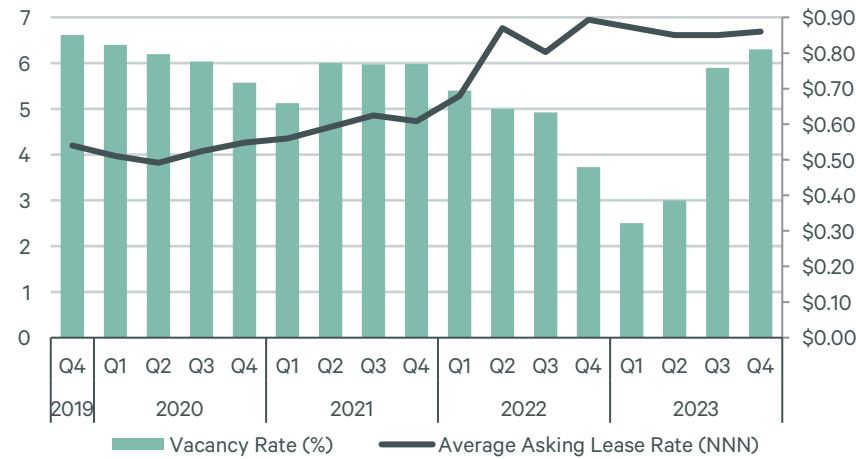
Following two consecutive years of record gains, rent growth in Tucson has begun to normalize. The direct average asking NNN lease rate increased by 1.2% quarter-over-quarter to \$0.86 per sq. ft. in Q4 2023 but is down 3.8% compared to one year prior. The North Central submarket, where vacancy is 300 bps below the market average, recorded the largest jump in asking rents at 3.8%. Conversely, the average asking rent in the Southwest submarket fell by 3.8%, as the area posted negative net absorption in Q4 2023. The average asking rent remained the highest in Northeast Tucson at \$1.41 per sq. ft.

Net Absorption and Leasing Activity

The industrial market captured 498,222 sq. ft. of gross leasing activity and 177,813 sq. ft. of positive net absorption in Q4 2023. Tenant demand was strongest in Northwest Tucson, as the area posted 156,668 sq. ft. of positive net absorption. Nefab Packaging Inc. signed the largest lease this quarter, as the firm committed to 81,000 sq. ft. at 2020 W Prince Rd., while CTI’s 50,000 sq. ft. build-to-suit property delivered in the submarket this quarter,.

Tenant demand also remains strong in the Airport submarket. The area recorded nearly 75,000 sq. ft. of positive net absorption in Q4 2023. Here, Belden expanded its local footprint by 86,850 sq. ft. and Krosswood Doors signed a lease for 57,760 sq. ft. during the past three months ending in December.

FIGURE 2: Overall Vacancy and Lease Rate



Source: CBRE Research, Q4 2023.

FIGURE 3: Net Absorption (Sq. Ft.)



Source: CBRE Research, Q4 2023.

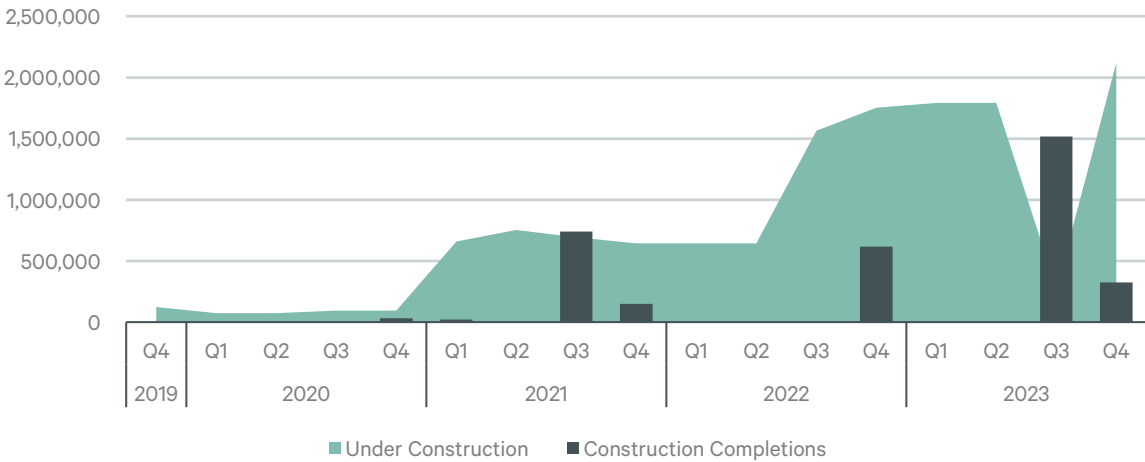
Development Activity

Although deliveries were well below the 1.5 million sq. ft. that completed in Q3 2023, the number of completions during Q4 2023 ranked as the fourth highest quarterly total recorded in the past 3 years. Completions were concentrated in Airport submarket, as the area gained 274,889 sq. ft. of new supply, accounting for nearly 85% of all market deliveries. During this quarter, two sizable build-to-suit projects broke ground, bringing the total amount of under construction product above 2 million sq. ft., headlined by American Battery Factory’s lithium iron phosphate battery cell plant in the Airport submarket. This project is expected to have a significant economic impact in Tucson, providing an estimated 1,000 new jobs upon completion in 2025. Bectin Dickinson’s 120,000 sq. ft. build-to-suit project also broke ground this quarter in the Southeast submarket on the Northeast corner of Kolb and Valencia.

Outlook

Although three consecutive quarters of vacancy increases lifted the rate to the highest level since Q1 2020, Tucson’s industrial sector remains fundamentally healthy. Vacancy is still below pre-pandemic levels, and the average asking rent is \$0.32 higher than the figure recorded at the end of 2019. Also, the market’s availability of developable land, its relative affordability compared to Southern California and Phoenix, proximity to major trade entry points and a growing talent pool that is fueled by the University of Arizona will continue to draw interest from new and expanding tenants. With all 2.1 million sq. ft. of industrial product underway already accounted for and elevated material and labor costs hindering new speculative project starts, vacancy compression is likely over the coming quarters, as existing buildings face minimal competition from new supply.

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

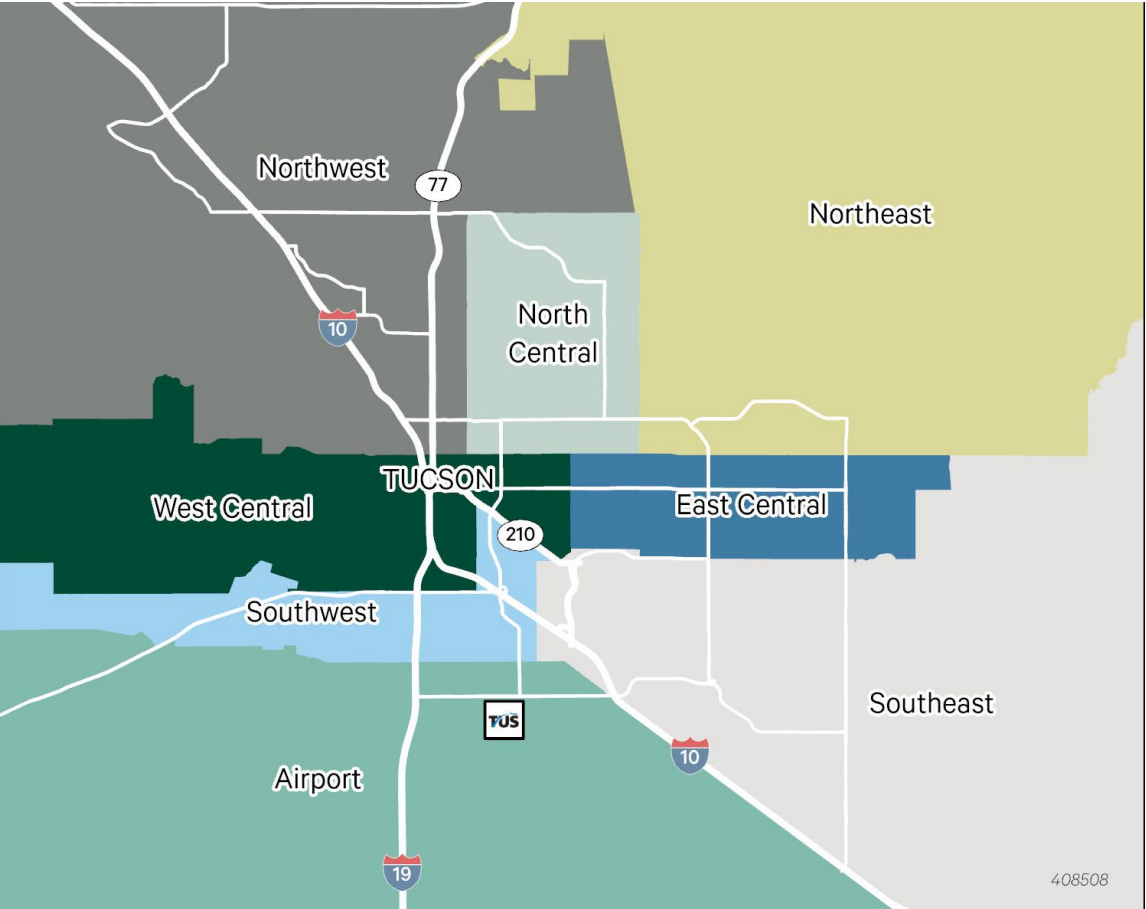


Source: CBRE Research, Q4 2023.

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)
					Q4 2023	2023 YTD			
Airport	169	11,854,206	10.4%	10.2%	74,948	98,695	2,000,000	274,889	\$0.81
East Central	44	1,189,709	5.5%	5.1%	(347)	(8,624)	0	0	\$0.86
North Central	11	191,587	3.3%	3.3%	(1,050)	(1,306)	0	0	\$0.83
Northeast	15	1,045,095	11.3%	11.3%	13,556	0	0	0	\$1.41
Northwest	272	8,031,316	13.2%	12.7%	156,668	125,692	0	50,000	\$0.76
Southeast	252	12,637,598	1.9%	1.0%	(48,131)	188,710	120,000	0	\$0.71
Southwest	105	2,877,358	1.8%	1.6%	(33,256)	49,370	0	0	\$0.77
West Central	179	4,458,840	1.7%	1.4%	15,425	(50,008)	0	0	\$0.74
Tucson Total	1,047	42,285,709	6.8%	6.3%	177,813	402,529	2,120,000	324,889	\$0.86

Source: CBRE Research, Q4 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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