Industrial Developers Show Confidence In Tucson's Local Demand Drivers

▲ 5.5%	▼ (387,456)	▲ 1,018,702	▼ $0.82
Vacancy Rate	SF Net Absorption	SF Construction	NNN / Lease Rate

Note: Arrows indicate change from previous quarter.

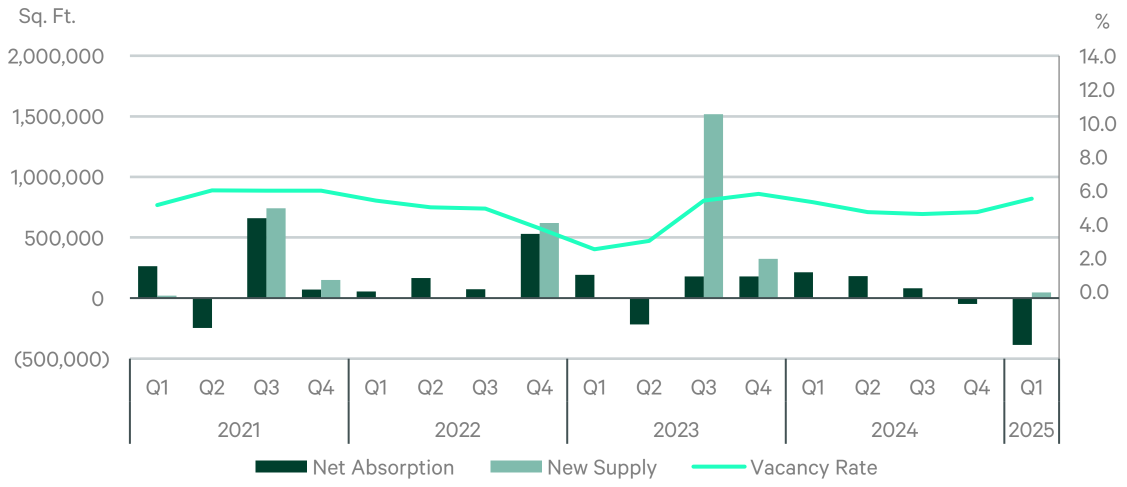
KEY TAKEAWAYS

- Vacancy increased 80 basis points (bps) quarter-over-quarter to 5.5% in Q1 2025.
- Net absorption dipped in negative territory for the second consecutive quarter, as roughly 387,456 sq. ft. of vacant space was added back to the market.
- Development activity increased, with a total of over 1 million sq. ft. of space under construction exiting Q1 2025.

Tenant demand remained slow during Q1 2025 in the Tucson industrial market, as the metro observed 203,952 sq. ft. of gross leasing activity and -387,456 sq. ft. of net absorption in Q1 2025, lifting metro vacancy to 5.5%. Still despite this increase, local vacancy was at least 70 bps lower than other major Southwest markets such as Salt Lake City, San Diego, Las Vegas and Phoenix. Roughly 183,130 sq. ft. of industrial product broke ground during Q1 2025, increasing the total construction pipeline to more than 1 million sq. ft. The average asking rent decreased by 3.5% quarter-over-quarter to $0.82 per sq. ft. NNN. However, the average NNN rate is up 6.9% over the past three years.

CBRE tracked 10.6 million sq. ft. of tenants in the market at the end of the first quarter.

FIGURE 1: Supply and Demand



Source: CBRE Research, Q1 2025.

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Availability and Vacancy

Industrial space availability in Tucson increased by 30 bps quarter-over-quarter to 8.4%, equivalent to more than 3.5 million sq. ft. of available space at the end of Q1 2025. Local availability rose the most in the Airport submarket, recording a jump of 120 bps quarter-over-quarter. Availability in the Southwest and Northwest submarkets also each rose by at least 50 bps during the quarter. Meanwhile, Northeast Tucson was the only submarket that saw local availability fall during the quarter, while availability in North Central, West Central and Southeast submarkets remained the same.

Market-wide vacancy rose 80 bps to 5.5% in Q1 2025. Large moveouts from Microstar Logistics and Home Goods contributed to the jump in vacancy during the quarter. The Airport and Southeast submarkets each observed a 140 bps jump in vacancy, the largest quarter-over-quarter increase among submarkets. Local vacancy also rose in the Southwest and Northwest submarkets, each increasing by at least 60 bps during Q1 2025. In contrast, the East Central and Northeast submarkets were the only areas that posted vacancy declines during the quarter, as the rates fell to 5.0% and 3.1%, respectively. Vacancy remained tight in the Southwest and West Central submarkets, with each area boasting a local rate below 1.5% at the end of Q1 2025.

Lease Rates

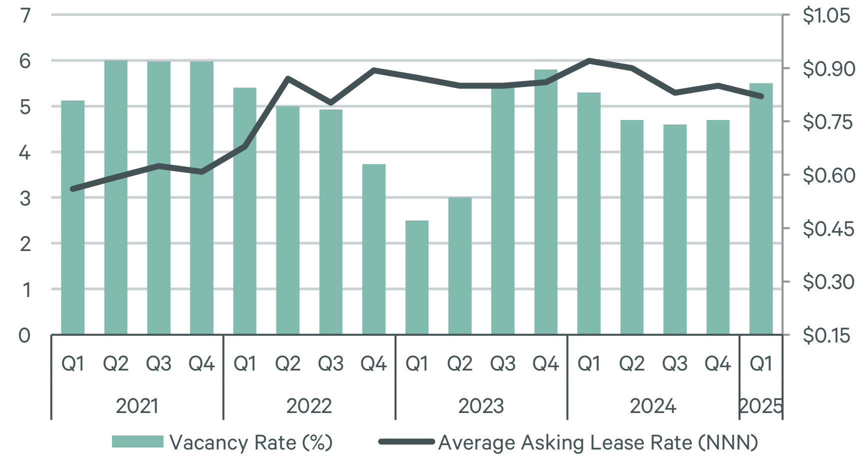
The metro recorded a 3.5% decrease in average rents to $0.82 per sq. ft. Northwest Tucson led all submarkets in rent growth during Q1 2025, as the average asking rate increased by $0.22 during the quarter. Meanwhile, average rents in the Airport, and Southwest submarkets fell by at least $0.03 during the quarter. Although the average rate has fallen from levels achieved in early 2024, the nearly 900,000 sq. ft. of speculative product under construction is expected to have a positive impact on the metro's average asking rent as these projects deliver.

Net Absorption and Leasing Activity

The industrial market captured roughly 203,952 sq. ft. of gross leasing activity and 387,456 sq. ft. of negative net absorption in Q1 2025. The Southeast and Airport submarkets posted -156,443 sq. ft. and -170,760 sq. ft. of net absorption, respectively, contributing to the negative net absorption figure for the metro. However, the East Central, Northeast and West Central submarkets each posted over 2,000 sq. ft. of positive net absorption for the quarter.

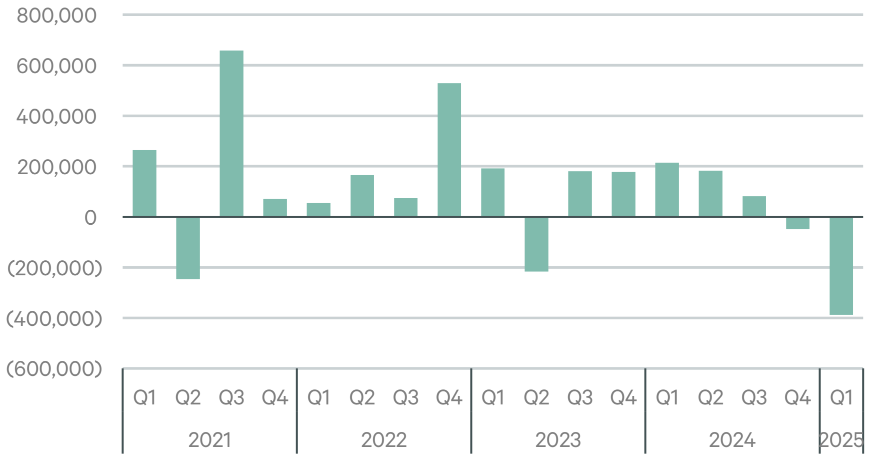
Some of the more notable leases signed this quarter include The American Bottling's renewal for 65,000 sq. ft. at 310 S Toole Ave. Citigroup Technology signed a renewal for 56,195 sq. ft at UA Tech Park. Interceramic Inc. signed a new lease for 29,000 sq. ft. at 6223 S Palo Verde Rd.

FIGURE 2: Overall Vacancy and Lease Rate



Source: CBRE Research, Q1 2025.

FIGURE 3: Net Absorption (Sq. Ft.)



Source: CBRE Research, Q1 2025.

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Development Activity

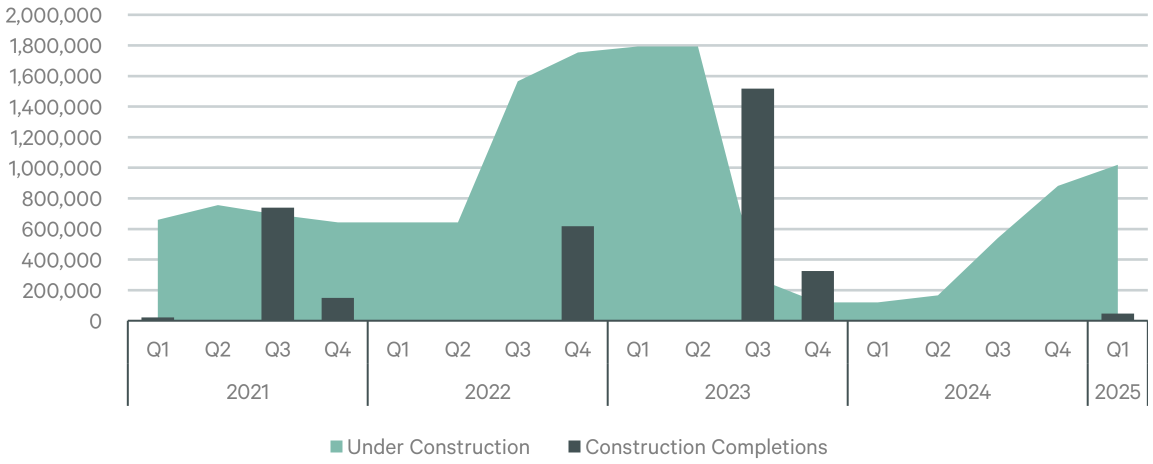
Drexel Commerce Center Buildings A and B broke ground this quarter in the Airport submarket, which amounts to 183,130 sq. ft. This brings the under-construction total in Tucson up to 1,018,702 sq. ft, the highest amount recorded since Q2 2023. Nearly 900,000 sq. ft. of speculative industrial space has broken ground over the past three quarters, which signifies developers' confidence in the local demand drivers present in the Tucson market. Another major project in the planning phase is American Battery Factory. The company plans to build a 2 million sq. ft. gigafactory that will also serve as the firm's global headquarters. This project is expected to create an estimated 1,000 jobs, $1.2 billion in capital investment and $3.1 billion in economic impact to the state of Arizona.

CBRE Economic House View

Policy speculation and announcements are now the key drivers of macro expectations and financial markets. The reality of material trade conflicts this year is now paired with realized softer economic data. Some of this could be due to firms taking a 'wait-and-see' approach as they digest changing trade policy. Consumer sentiment has declined noticeably, albeit much more than actual spending. Consequently, CBRE has revised its GDP growth outlook for this year down to just below 2%.

Despite policy uncertainty, credit markets are more accommodative, with tighter spreads and more issuance compared to a few quarters ago. More fluid credit markets have yet to translate into stronger sales volume, as many institutional owners and reams of dry powder capital remain on the sidelines. The continuation of accretive credit trends and eventual deployment of dry powder will depend on the impact of new policies. Should they prove more inflationary, this would erode recent capital markets progress. If not, and macro impacts are limited, this could give the Fed a green light for further cuts and help unlock capital waiting on the sidelines.

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



Source: CBRE Research, Q1 2025.

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 2025	2025 YTD			
Airport	170	11,881,044	8.4%	6.5%	(170,760)	(170,760)	703,823	25,000	$0.83
East Central	44	1,189,709	6.1%	5.0%	6,308	6,308	0	0	$1.02
North Central	11	191,587	0%	0%	0	0	0	0	-
Northeast	15	1,045,095	3.1%	3.1%	2,350	2,350	0	0	-
Northwest	270	7,989,919	13.0%	10.3%	(48,687)	(48,687)	0	0	$0.93
Southeast	254	12,670,589	9.8%	4.4%	(156,443)	(156,443)	314,879	20,900	$0.79
Southwest	106	2,976,390	4.0%	1.4%	(22,781)	(22,781)	0	0	$0.77
West Central	180	4,471,340	1.3%	0.8%	2,557	2,557	0	0	$0.84
Tucson Total	1,050	42,415,673	8.4%	5.5%	-387,456	(387,456)	1,018,702	45,900	$0.82

Source: CBRE Research, Q1 2025.

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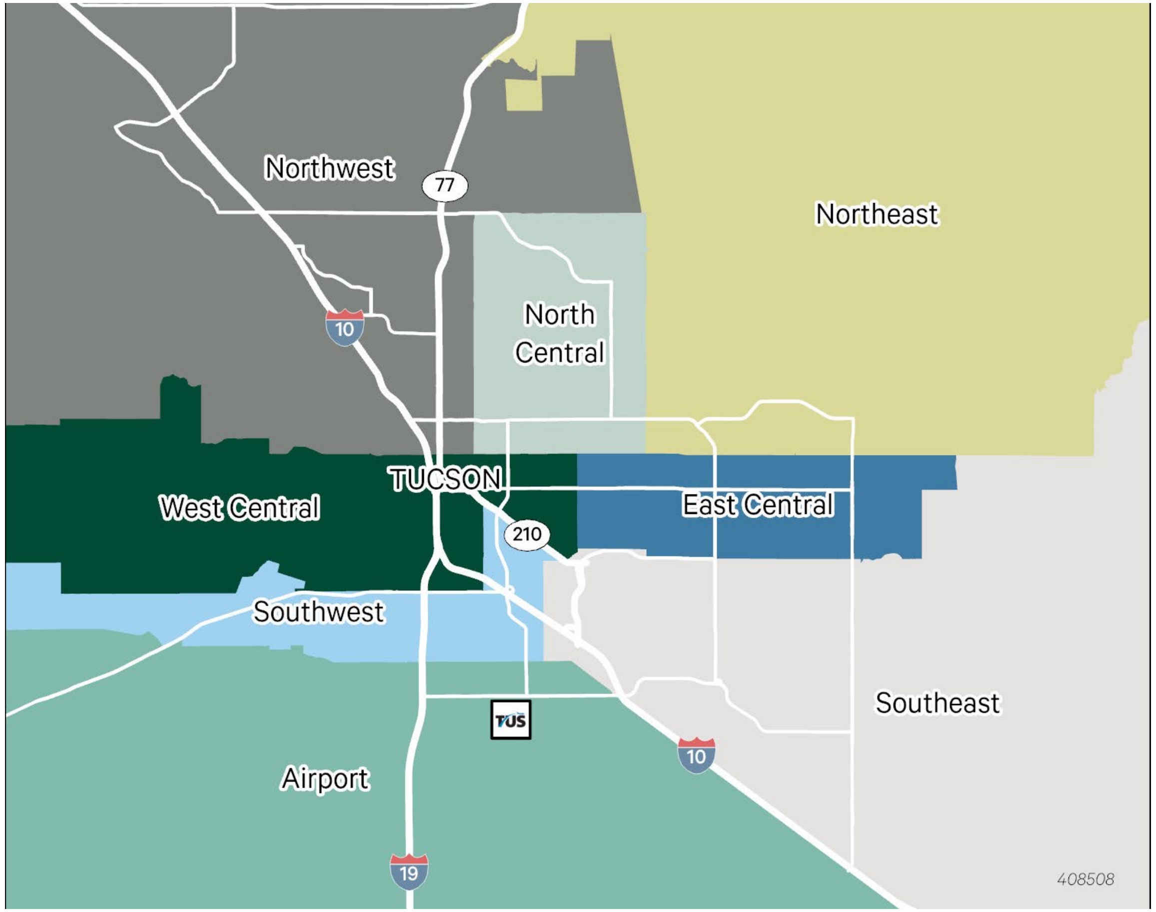

Definitions

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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