

FIGURES | TUCSON INDUSTRIAL MARKET | Q2 2023

Net Absorption Declined but Overall Leasing Activity Remained Healthy

▲ 3.0%

Vacancy Rate

▼ (217K)

SF Net Absorption

► 1.8M

SF Construction

▼ \$0.85

NNN / Lease Rate

Note: Arrows indicate change from previous quarter.

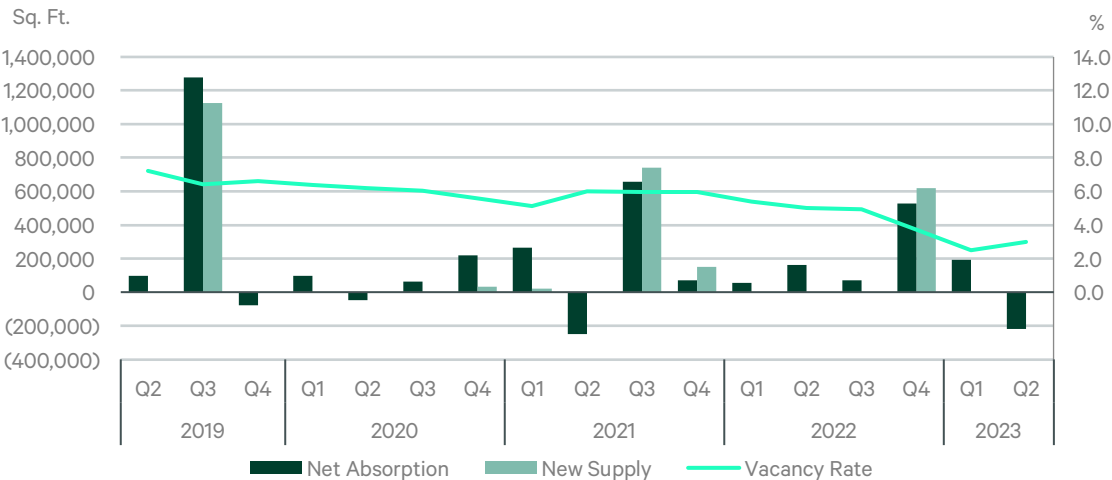
KEY TAKEAWAYS

- Vacancy increased 50 basis points (bps) quarter-over-quarter to 3.0% in Q2 2023.
- The industrial market saw 415,430 sq. ft. of gross absorption, where the strongest activity occurred in the Airport, Northwest and Southeast submarkets.
- Overall net absorption turned down in Q2 2023 to -216,740 sq. ft.
- Construction activity remained flat with 1,793,041 sq. ft. under construction and no deliveries in Q2 2023.

The Tucson industrial market had healthy leasing activity with 415,430 sq. ft. of gross absorption. The market saw significant move-in activity despite a downturn in overall net absorption.

The vacancy rate increased slightly to 3.0% as move-outs outpaced leasing activity in Q2 2023. Under construction projects located in the Northwest and Airport submarket that were anticipated to deliver this quarter have not yet materialized, which helped keep vacancy rates somewhat stable. Lastly, direct average asking NNN lease rates declined slightly to \$0.85 per sq. ft.

FIGURE 1: Supply and Demand



Source: CBRE Research, Q2 2023.

Availability and Vacancy

Industrial space availability increased 100 bps to 3.7%, equivalent to 1.5 million sq. ft. of space at the end of Q2 2023. Availability in the Airport submarket jumped 270 bps to 6.4%. The North Central submarket saw availability cut in half down to 2.7%, the largest decline in the market for the second quarter. Most other submarkets had slight upticks in availability or remained largely flat. The Southeast and West Central submarkets held the lowest availability rates in Tucson at 1.7% and 1.9%, respectively. Conversely, the Northeast submarket had the highest availability rate for another consecutive quarter at 11.4%.

Tucson’s total vacancy increased 50 bps to 3.0% in Q2 2023 with 1.2 million sq. ft. of vacant space. The overall market remained tight on vacant space, indicating stable industrial demand relative to inventory. The vacancy rate in the Airport submarket jumped 240 bps to 5.9% as nearly 300,000 sq. ft. of vacant space entered the market. The East Central, Northeast and Northwest submarkets also saw a combined 10,000 sq. ft. of new vacant space. Sub-1.0% vacancy rates were recorded in both the Southeast and Southwest submarkets.

Lease Rates

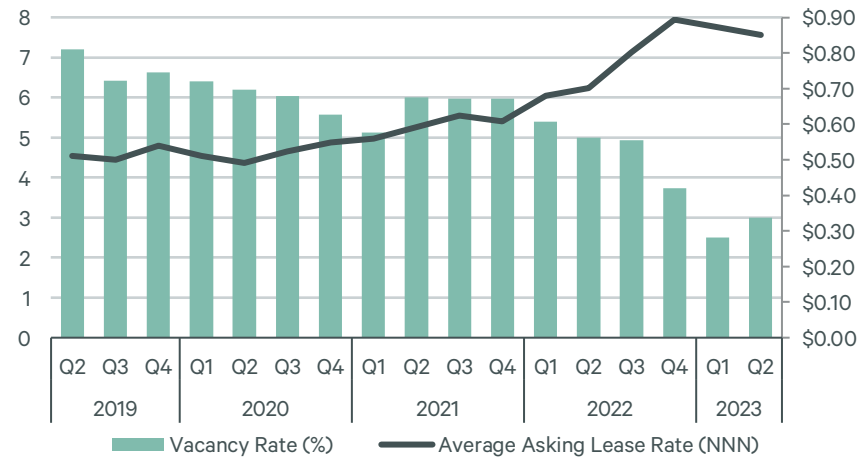
The direct average asking NNN lease rate declined slightly to \$0.85 per sq. ft. in but remained up 21.2% compared to one year prior. Asking lease rates remained largely stable across submarkets. After a notable jump in Q1 2023, the average asking rate in the Southeast submarket turned back down by \$0.15, reaching a market-wide low of \$0.62 per sq. ft. The relatively small Northeast submarket again held the highest average asking rate at \$1.41 per sq. ft. Low vacancy continued to bolster asking rate growth, but the Tucson market remained a highly competitive and geographically advantageous locale for industrial users.

Net Absorption and Leasing Activity

The Tucson industrial market captured 415,430 sq. ft. of gross leasing activity in Q2 2023. However, overall net absorption turned down by -216,740 sq. ft., driven primarily by new large vacancies in the Airport submarket. Leasing activity was strongest in the Airport, Northwest and Southeast submarkets. Just three submarkets saw positive net absorption.

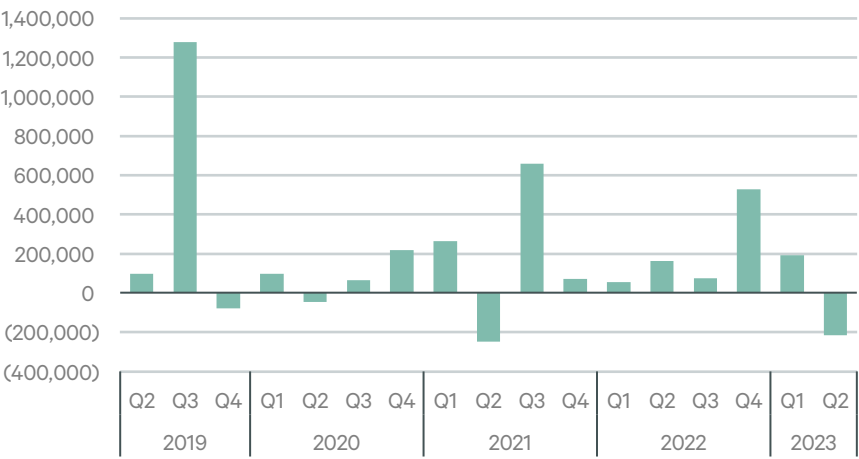
The Airport submarket recorded 101,774 sq. ft. of leasing activity, with a 65,303 sq. ft. lease signed by Cactus Portable Storage and an owner-user building acquisition at 2425 E Medina Rd. The Southwest submarket recorded a notable 65,250 sq. ft. warehouse leased by Pima County.

FIGURE 2: Overall Vacancy and Lease Rate



Source: CBRE Research, Q2 2023.

FIGURE 3: Net Absorption (Sq. Ft.)



Source: CBRE Research, Q2 2023.

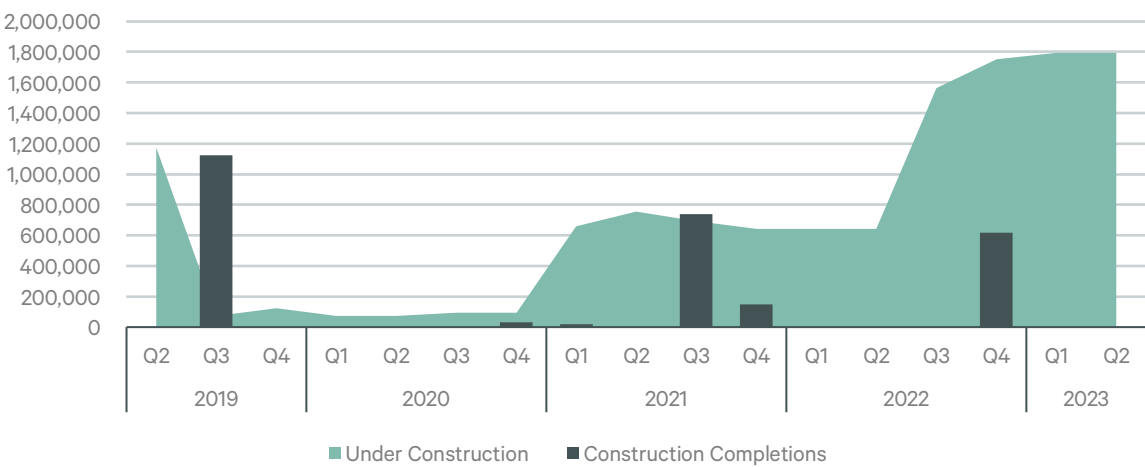
Development Activity

Tucson industrial development remained steady for a second consecutive quarter with no deliveries and 1.8 million sq. ft. under construction. A handful of projects expected to deliver in Q2 2023 were delayed slightly but continued to make progress. Expect to see new deliveries in the latter half of the year. This includes 946,415 sq. ft. at the Southern Arizona Logistics Center, 40,000 sq. ft. at Campbell Landing and 806,000 sq. ft. Tucson Commerce Center. The industrial pipeline is strong with other planned projects at the Southern Arizona Logistics Center, I-10 International and the Southern Arizona Regional awaiting groundbreaking.

Outlook

Tucson industrial has remained stable through the first half of 2023 with near-flat net absorption, minimal change in asking lease rates, steady leasing activity and a humming development pipeline. With continued steady tenant demand and low vacancy, these trends are expected to continue through the latter half of the year. As high growth and development continues throughout the Sun Belt, Tucson is expected to capitalize on tenants looking to leverage advantageous geography and competitive affordability.

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

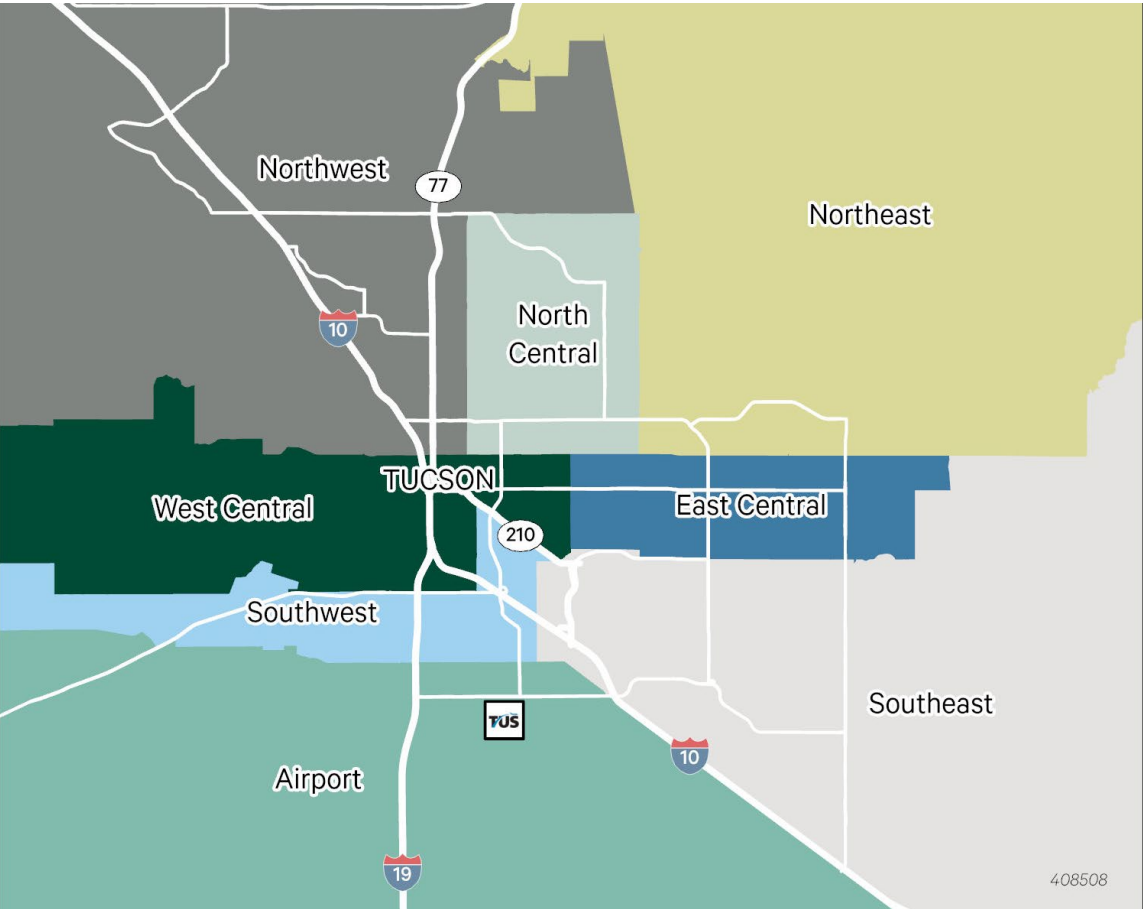


Source: CBRE Research, Q2 2023.

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)
					Q2 2023	2023 YTD			
Airport	162	10,956,144	3.7%	3.5%	(266,927)	(195,153)	846,606	0	\$0.80
East Central	44	1,189,709	5.6%	4.7%	(5,152)	(8,838)	0	0	\$0.86
North Central	11	191,587	5.4%	2.7%	0	(256)	0	0	\$0.80
Northeast	15	1,045,095	11.3%	11.3%	(1,200)	(1,200)	0	0	\$1.41
Northwest	268	7,023,918	2.9%	2.8%	(4,157)	(56,733)	946,435	0	\$0.76
Southeast	251	12,593,094	1.3%	1.2%	39,353	210,710	0	0	\$0.62
Southwest	105	2,877,358	1.1%	1.0%	15,574	82,626	0	0	\$0.82
West Central	179	4,458,840	2.1%	1.7%	5,769	(56,431)	0	0	\$0.78
Tucson Total	1,035	40,335,745	3.7%	3.0%	(216,740)	(25,275)	1,793,041	0	\$0.85

Source: CBRE Research, Q2 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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