

FIGURES | TUCSON INDUSTRIAL MARKET | Q3 2024

# Tenant Demand Remains Consistent in the Tucson Industrial Sector

▼ 4.6%

Vacancy Rate

▼ 80,725

SF Net Absorption

▲ 539,630

SF Construction

▼ \$0.83

NNN / Lease Rate

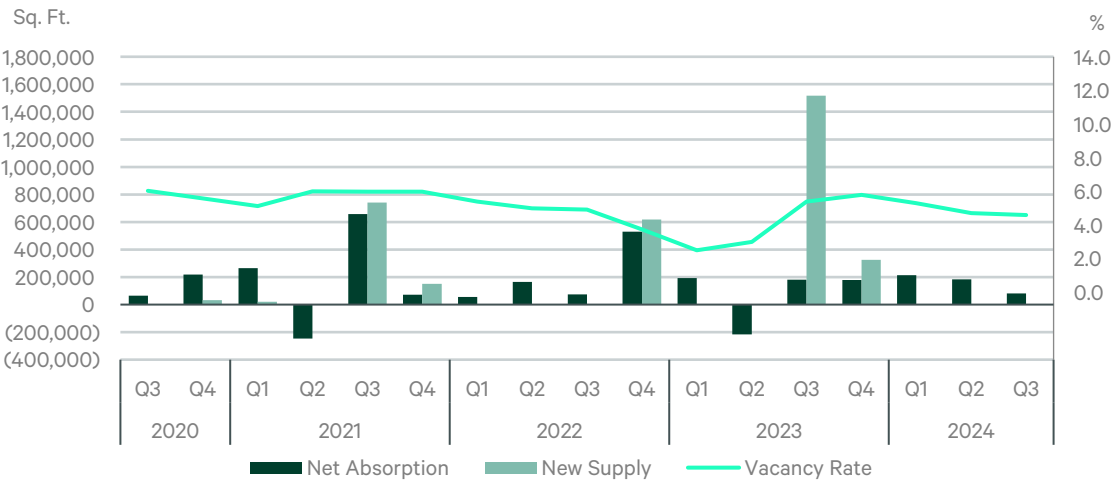
Note: Arrows indicate change from previous quarter.

KEY TAKEAWAYS

- Vacancy fell by 10 basis points (bps) quarter-over-quarter to 4.6% in Q3 2024.
- Net absorption remained in positive territory for the fifth consecutive quarter, as roughly 655,152 sq. ft. of space has been taken off the market over the past year.
- Development activity increased, with a total of 539,630 sq. ft. of space under construction exiting Q3 2024.

Tenant demand continues to remain consistent in Tucson, as the metro observed 848,618 sq. ft. of gross leasing activity and 80,725 sq. ft. of net absorption in Q3 2024, lowering metro vacancy to 4.6%. This marks the lowest rate the metro has seen since Q2 2023, before the market delivered over 1.8 million sq. ft. of new product, which increased the overall vacancy rate substantially. Roughly 373,790 sq. ft. of industrial product broke ground during Q3 2024, lifting the total construction pipeline to nearly 540,000 sq. ft. Although tenant activity remained strong, the average asking rent registered a decline quarter-over-quarter to \$0.83 per sq. ft. NNN. Despite the decrease, the average asking rent was still nearly \$0.10 higher than the average recorded over the past 4 years.

FIGURE 1: Supply and Demand



Source: CBRE Research, Q3 2024.

## Availability and Vacancy

Industrial space availability in Tucson increased by 90 bps quarter-over-quarter to 7.4%, equivalent to more than 3.1 million sq. ft. of available space at the end of Q3 2024. Local availability rose the most in Southeast Tucson, recording a jump of 180 bps quarter-over-quarter. This was due to roughly 500,000 sq. ft. of space in the Port of Tucson becoming available. These spaces will become vacant in Q4 and will likely raise the overall vacancy rate for the market. Meanwhile, the West Central submarket registered a 110 bps decline in availability, ending the quarter at 1.2%.

Market-wide vacancy dropped 10 bps to 4.6% in Q3 2024, a rate that is 20 bps below the metro’s trailing 3-year average. This marks a 80 bps decrease in vacancy over the past year, and a 140 bps decline over the past 3 years. Strong tenant demand in the Southwest submarket helped lower the local vacancy rate by 80 bps to 1.0%. The Northwest submarket recorded a vacancy decline of 40 bps for the quarter to 9.9%. In contrast, the East Central submarket posted the highest vacancy increase, as the local rate jumped 90 bps during the quarter to 5.3%. Vacancy was the tightest in the West Central and Southwest submarkets, with each of these areas recording a local vacancy rate at or below 1%.

## Lease Rates

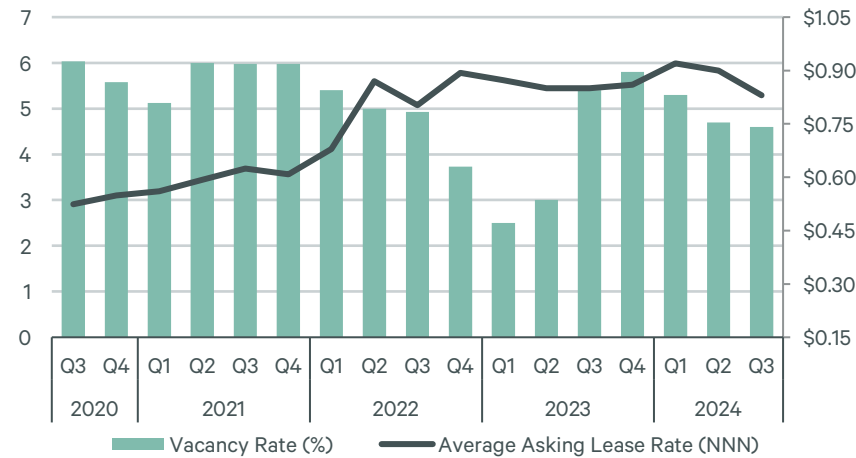
Asking rents declined for the second straight quarter in Tucson. The metro recorded a 7.8% decline in average rents during the third quarter. Still, despite this decrease, the average asking NNN lease rate is still well above historical averages and has grown 11.0% over the past 3 years. Southwest Tucson led all submarkets in rent growth during Q3 2024, as the average asking rate was lifted by 18.9% during the quarter. The East Central submarket also experienced marginal rent gains during Q3 2024. Northeast Tucson maintained the metro’s highest average asking rent, posting a rate above \$1.00 per sq. ft.

## Net Absorption and Leasing Activity

The industrial market captured over 840,000 sq. ft. of gross leasing activity and 80,725 sq. ft. of positive net absorption in Q3 2024. Tenant demand was strongest in the Northwest submarket, as the area posted 38,996 sq. ft. of positive net absorption. The West Central, Southwest and Airport submarkets also recorded a combined 47,035 sq. ft. of positive net absorption during the second quarter.

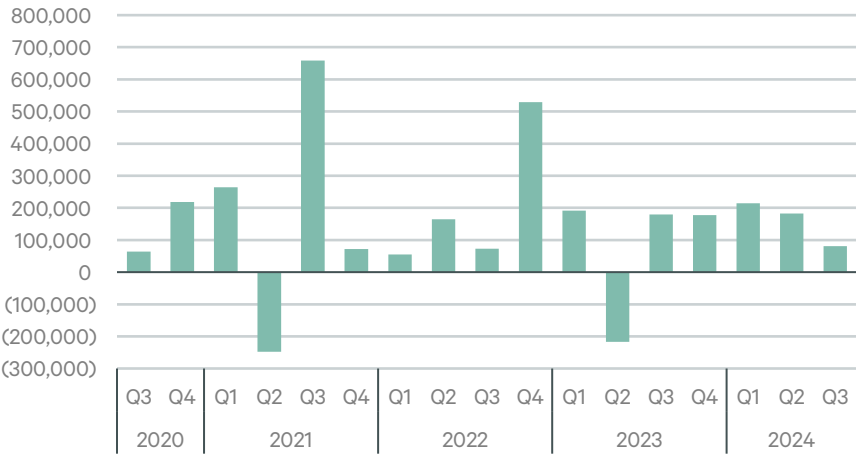
Some of the more notable leases signed this quarter include Microstar Logistics expansion of 72,169 sq. ft. at 6990 S Alvernon Way, Ideal Institute for 31,680 sq. ft. at 1440 S Euclid Ave, Elevate for 24,587 sq. ft. at 6221 S Palo Verde Blvd, Rockless Manufacturing for 24,380 sq. ft. at 4261 S Country Club Dr. and Avanti for 20,900 sq. ft. at 4736 S Butterfield Dr.

FIGURE 2: Overall Vacancy and Lease Rate



Source: CBRE Research, Q3 2024.

FIGURE 3: Net Absorption (Sq. Ft.)



Source: CBRE Research, Q3 2024.

## Development Activity

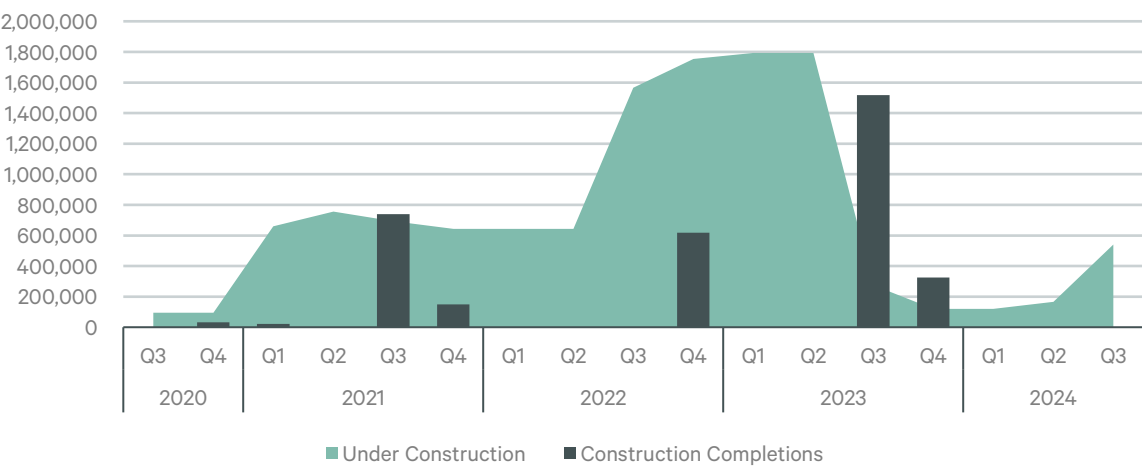
I-10 International buildings B and C broke ground this quarter in the Airport submarket, which amounts to 373,790 sq. ft. This brings the under construction total in Tucson up to 539,630 sq. ft, the highest amount recorded since Q2 2023. Still, the development pipeline has not reached the levels achieved from 2021 to mid 2023, when the market averaged over 1 million sq. ft. under construction. American Battery Factory also announced it will move forward on its project in Tucson in late 2024, which will add an additional 2 million sq. ft. to the development pipeline once the groundbreaking commences.

## Macro Economic Summary

Soft landings are rare, but recent data suggest that this outcome for the economy is increasingly likely. Business investment is holding its own and consumer distress is confined to a few vulnerable segments. Discretionary spending, such as travel, is generally on a par with last year although many signs indicate the post-pandemic spending boom is over. The key threat to consumption is a rollover in the labor market although the recent bump in unemployment appears benign, mainly driven by an increase in participation. A reason for concern is the decline in the share of private industries that are creating jobs. On the other hand, companies are not shedding workers at a particularly high rate. The labor market has slowed, but it is not slumping.

While many are focused on November’s election the most consequential policy lever has already been pulled via the FOMC’s 50 bps September cut and signaling another 50 by year-end. This easing of financial conditions combined with continued economic growth should support modest hiring and consumption that precedes tighter commercial space market fundamentals. This backdrop will breathe fresh wind into real estate transactions markets and coincides with other signals that cap rates have peaked and may be starting to fall in some sectors.

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

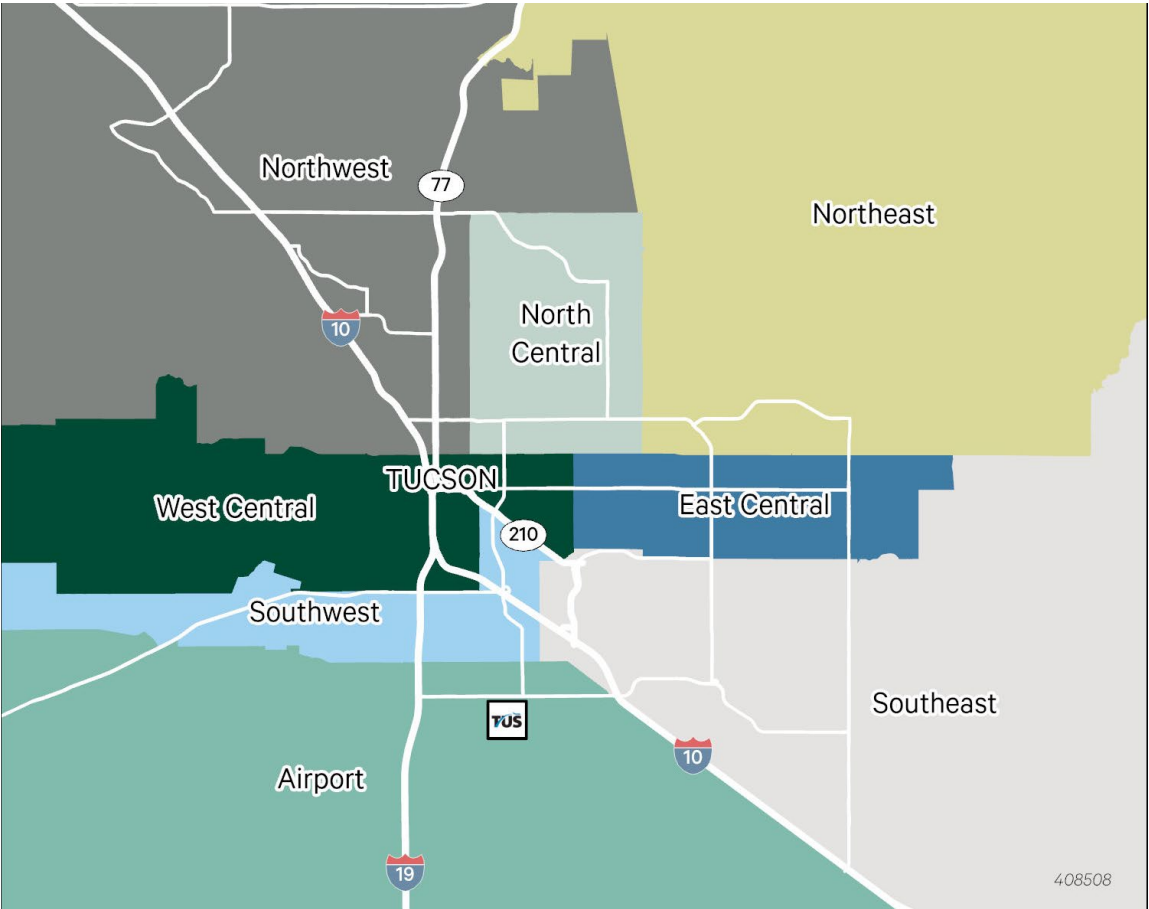


Source: CBRE Research, Q3 2024.

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)
					Q3 2024	2024 YTD			
Airport	172	11,854,206	6.1%	5.1%	8,210	393,212	398,730	0	\$0.86
East Central	44	1,189,709	6.0%	5.3%	(10,896)	(2,576)	0	0	\$0.90
North Central	11	191,587	0%	0%	0	1,100	0	0	N/A
Northeast	15	1,045,095	12.5%	12.5%	0	(19,906)	0	0	\$1.46
Northwest	270	7,989,919	12.6%	9.9%	38,996	225,169	0	0	\$0.72
Southeast	255	12,649,598	8.5%	2.5%	5,590	(184,555)	140,900	0	\$0.66
Southwest	106	2,976,390	2.4%	1.0%	23,375	14,660	0	0	\$0.88
West Central	179	4,458,840	1.2%	0.5%	15,450	50,235	0	0	\$0.73
Tucson Total	1,052	42,355,344	7.4%	4.6%	80,725	477,339	539,630	0	\$0.83

Source: CBRE Research, Q3 2024.



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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