



## **Commercial Real Estate Group**

of Tucson LLC

THE TENANT'S ADVOCATE

### Fast Facts on Tucson's Industrial Real Estate Market Third Quarter 2009

#### **The big picture**

Tenants must stay vigilant to changing conditions within commercial real estate as building defaults start to accelerate. An impending wave of defaults will rival that seen in the early 1990s, says Michael Coretz of Commercial Real Estate Group of Tucson.

"Brokers and tenants need to be ready for the possibility that foreclosures, bankruptcies and deed-in-lieu situations will greatly and negatively impact existing commercial real estate leases," says the broker. "TIs, commissions and building improvements all are in jeopardy of not being funded."

Tenants need to get rental offset protection into their leasing documents, Coretz advises.

Space continues to become available in the Tucson industrial real estate market, particularly warehouse space. Flex space availability has risen sharply. Vacancy rates are slightly higher compared to national figures.

Among vacant industrial space in Tucson, 70% is warehouse space and 30% is flex space

Tucson's existing inventory of industrial space consists of 75% flex and 25% warehouse. In comparison, the national inventory is 68% flex and 32% warehouse. No new space is under construction and it is anticipated that no space is scheduled to be available for occupancy in 2010 until the fourth quarter.

Rental rates continue to fall in the Tucson industrial real estate market, although not as steeply a national rental rates. Overall, rental rates in Tucson are lower than national averages.

#### **Tucson numbers**

##### **Total market**

Vacancy rate: 10.7%

For more information contact 520-299-3400

Total vacant space: 4,051,340 square feet  
Vacant sublease space: 258,147 square feet  
Net absorption: -833,911 square feet  
Quoted rental rate: \$7.24, down 2.2% over 2q 2009  
Deliveries: 293,668 square feet total rentable building area (RBA)  
Under Construction (UC): 0 square feet

### **Flex**

Vacancy rate: 12.8%  
Total vacant space: 1,234,721 square feet  
Vacant sublease space: 109,102 square feet  
Quoted rental rate: \$9.26, down 1.8% over 2q 2009

### **Warehouse**

Vacancy rate: 10%  
Total vacant space: 2,816,619 square feet  
Vacant sublease space: 149,045 square feet  
Quoted rental rate: \$6.60, down 2.1% over 2q 2009

### **Markets**

#### **Downtown Tucson**

Vacancy rate: 5.2%  
Total vacancy: 213,432 square feet  
Year-to-date net absorption: -62,520 square feet  
Year-to-date deliveries: 0 square feet  
Under construction: 0 square feet  
Quoted rental rate: \$6.42

#### **Northeast Tucson**

Vacancy rate: 11.6%  
Total vacancy: 314,525 square feet  
Year-to-date net absorption: -83,685 square feet  
Year-to-date deliveries: 20,435 square feet  
Under construction: 0 square feet  
Quoted rental rate: \$8.18

#### **Northwest Tucson/Oro Valley**

Vacancy rate: 9.7%  
Total vacancy: 917,513 square feet  
Year-to-date net absorption: -174,544 square feet  
Year-to-date deliveries: 0 square feet  
Under construction: 26,400 square feet  
Quoted rental rate: \$7.40

#### **Palo Verde**

Vacancy rate: 9.7%

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Total vacancy: 574,569 square feet  
Year-to-date net absorption: -152,359 square feet  
Year-to-date deliveries: 0 square feet  
Under construction: 0 square feet  
Quoted rental rate: \$6.50

#### Park/Ajo

Vacancy rate: 9.2%  
Total vacancy: 334,278 square feet  
Year-to-date net absorption: -100,880 square feet  
Year-to-date deliveries: 23,387 square feet  
Under construction: 0 square feet  
Quoted rental rate: \$6.41

#### South Pima/Green Valley

Vacancy rate: 0%  
Total vacancy: 0 square feet  
Year-to-date net absorption: 0 square feet  
Year-to-date deliveries: 0 square feet  
Under construction: 0 square feet  
Quoted rental rate: \$5.04

#### Southeast Tucson

Vacancy rate: 10.2%  
Total vacancy: 441,486 square feet  
Year-to-date net absorption: 33,007 square feet  
Year-to-date deliveries: 0 square feet  
Under construction: 0 square feet  
Quoted rental rate: \$7.59

#### Southwest Tucson/Airport

Vacancy rate: 16.6%  
Total vacancy: 1,255,537 square feet  
Year-to-date net absorption: -292,930 square feet  
Year-to-date deliveries: 222,246 square feet  
Under construction: 0 square feet  
Quoted rental rate: \$7.61

Source: The CoStar Industrial Report, CoStar Group, [www.costar.com](http://www.costar.com)

### **The local economy**

June 2009

Unemployment: 7.9%

Non-Farm employment: 357,300

Individual average annual earnings: \$39,099 (2007)

Personal income: \$31,647 (2007)

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Source: Economic and Business Research Center, University of Arizona Eller College of Management, [ebr.eller.arizona.edu/indicators](http://ebr.eller.arizona.edu/indicators)

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