



Fast Facts on Tucson's Industrial Real Estate Market End of 2009

The big picture

The only sure thing about the industrial real estate market right now is that there's lots of uncertainty of where it's moving in 2010.

"On one hand, vacancy rates continue to increase, rental rates continue to fall and there's nervousness about underwater properties," says Michael Coretz, principle broker at Commercial Real Estate Group of Tucson.

"On the other hand," he adds, "downward activity has started to slow and some markets are seeing more positive activity."

Cash-strapped landlords are quickly learning to work more cooperatively with potential leases in order to fill their industrial flex and warehouse spaces. Business owners will find landlords ready to be more flexible with leasing terms, more transparent regarding lease-related costs and less restrictive on tenants' rights that affect day-to-day operations.

"It's still very much a buyer's market when it comes to leases," says Coretz. "We're finding attractive terms in our negotiations on behalf of our clients." He advises that business owners don't delay in obtaining leases in order to take advantage of current market conditions.

The vacancy rate change for industrial commercial real estate in Tucson was essentially flat compared to the third quarter of 2009, a sign that the downward trend may have slowed or stopped. Rates were down in downtown Tucson, northeast Tucson and the northwest Tucson/Oro Valley area. It was flat for the Park/Ajo area and continued to rise in the other areas.

Quoted rental rates were up slightly from the third quarter of 2009 for downtown Tucson and the southwest/airport area, but continued to fall in all other areas of the Tucson metropolitan area.

Warehouse space makes up 30 percent of the vacancies in the Tucson industrial real estate market, while 70 percent is flex space. Vacant direct space makes up 94 percent of the Tucson market and vacant sublet space makes up 6 percent.

Tucson numbers

Total market

Vacancy rate: 11.1%

Total vacant space: 4,212,501 square feet

Vacant sublease space: 246,979 square feet

Net absorption: 36,919 square feet

Quoted rental rate: \$6.91, down 4.4% over 3q 2009

Deliveries: 3,600 square feet total rentable building area (RBA)
Under Construction (UC): 14,400 square feet total RBA
UC Preleased: 0%

Flex projects

Vacancy rate: 13.1%
Total vacant space: 1,258,305 square feet
Vacant sublease space: 106,934 square feet
Quoted rental rate: \$9.03, down 2% over 3q 2009

Warehouse projects

Vacancy rate: 10.5%
Total vacant space: 2,954,196 square feet
Vacant sublease space: 140,045 square feet
Quoted rental rate: \$6.39, down 3% over 3q 2009

Markets

Downtown Tucson
Vacancy rate: 4.8%
Total vacancy: 194,861 square feet
Year-to-date net absorption: -43,949 square feet
Year-to-date deliveries: 0 square feet
Under construction: 0 square feet
Quoted rental rate: \$6.91

Northeast Tucson
Vacancy rate: 10.9%
Total vacancy: 296,867 square feet
Year-to-date net absorption: -67,527 square feet
Year-to-date deliveries: 20,435 square feet
Under construction: 0 square feet
Quoted rental rate: \$7.54

Northwest Tucson/Oro Valley
Vacancy rate: 8.8%
Total vacancy: 836,982 square feet
Year-to-date net absorption: -117,291 square feet
Year-to-date deliveries: 27,600 square feet
Under construction: 0 square feet
Quoted rental rate: \$6.96

Palo Verde
Vacancy rate: 10.4%
Total vacancy: 615,281 square feet
Year-to-date net absorption: -193,071 square feet
Year-to-date deliveries: 0 square feet
Under construction: 0 square feet
Quoted rental rate: \$5.71

Park/Ajo

Vacancy rate: 9.6%
Total vacancy: 353,248 square feet
Year-to-date net absorption: -119,850 square feet
Year-to-date deliveries: 23,387 square feet
Under construction: 0 square feet
Quoted rental rate: \$5.99

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: \$0

Southeast Tucson
Vacancy rate: 12.8%
Total vacancy: 562,861 square feet
Year-to-date net absorption: -57,768 square feet
Year-to-date deliveries: 3,600 square feet
Under construction: 14,400 square feet
Quoted rental rate: \$6.81

Southwest Tucson/Airport
Vacancy rate: 17.9%
Total vacancy: 1,352,401 square feet
Year-to-date net absorption: -322,374 square feet
Year-to-date deliveries: 222,246 square feet
Under construction: 0 square feet
Quoted rental rate: \$7.89

Source: The CoStar Industrial Report, CoStar Group, <http://www.costar.com>

The local economy

September 2009
Unemployment: 8.2%
Non-Farm employment: 358,500
Worker average annual earnings: \$40,220 (2008)

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

Compiled and presented by Commercial Real Estate Group of Tucson. For more information, contact Michael Coretz, 520-299-3400, michael@cretucson.com or visit www.tucson-commercial-real-estate.com,