

FIGURES | TUCSON INDUSTRIAL MARKET | Q4 2024

Development Activity Ramps up in Tucson's Industrial Sector



Note: Arrows indicate change from previous quarter.

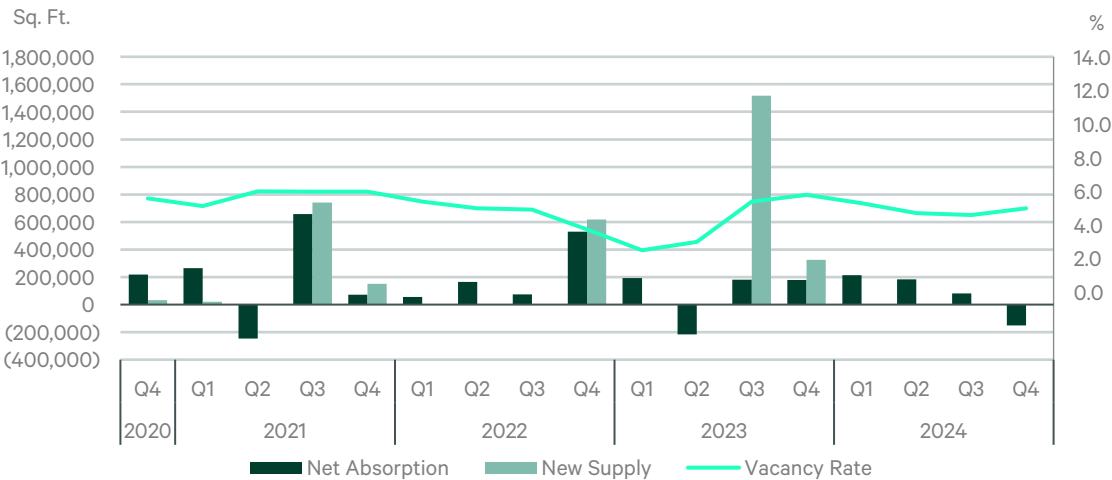
KEY TAKEAWAYS

- Vacancy increased 10 basis points (bps) quarter-over-quarter to 4.7% in Q4 2024.
- Net absorption dipped in negative territory for the first time since Q2 2023, as roughly 49,521 sq. ft. of vacant space was added back to the market.
- Development activity increased, with a total of 881,472 sq. ft. of space under construction exiting Q4 2024.

Tenant demand slowed during Q4 2024 in Tucson, as the metro observed 642,835 sq. ft. of gross leasing activity and -49,521 sq. ft. of net absorption in Q4 2024, lifting metro vacancy to 4.7%. Still, despite this increase, the rate remains below the metro's historical average. Roughly 341,842 sq. ft. of industrial product broke ground during Q4 2024, lifting the total construction pipeline to more than 880,000 sq. ft. Although tenant activity decelerated, the average asking rent registered a 2.4% increase quarter-over-quarter to \$0.85 per sq. ft. NNN. The average asking rent was roughly \$0.08 higher than the average recorded over the past 4 years.

CBRE tracked 9.5 million sq. ft. of tenants in the market at the end of the fourth quarter.

FIGURE 1: Supply and Demand



Source: CBRE Research, Q4 2024.

Availability and Vacancy

Industrial space availability in Tucson increased by 70 bps quarter-over-quarter to 8.1%, equivalent to more than 3.4 million sq. ft. of available space at the end of Q4 2024. Local availability rose the most in Southeast Tucson, recording a jump of 130 bps quarter-over-quarter, as more space became available in the Port of Tucson. Availability in the Airport and Southeast submarkets also each rose by at least 100 bps during the quarter. Meanwhile, the East Central, Northwest and Northeast submarkets each saw local availability drop by at least 10 bps.

Market-wide vacancy rose 10 bps to 4.7% in Q4 2024. However, despite this increase, the rate still fell 110 bps over the past year and is down 130 bps over the past 3 years. The Southeast submarket observed a 50 bps jump in vacancy to 3.0%, the largest quarter-over-quarter increase among submarkets. Vacancy in the Airport submarket remained flat during the quarter at 5.1%. In contrast, the Southwest submarket posted the highest vacancy decline, as the local rate dropped by 30 bps during the quarter to 0.7%. Northwest and Northeast Tucson also each registered vacancy declines of 20 bps during the quarter, bringing their local rates to 9.7% and 12.3%, respectively.

Lease Rates

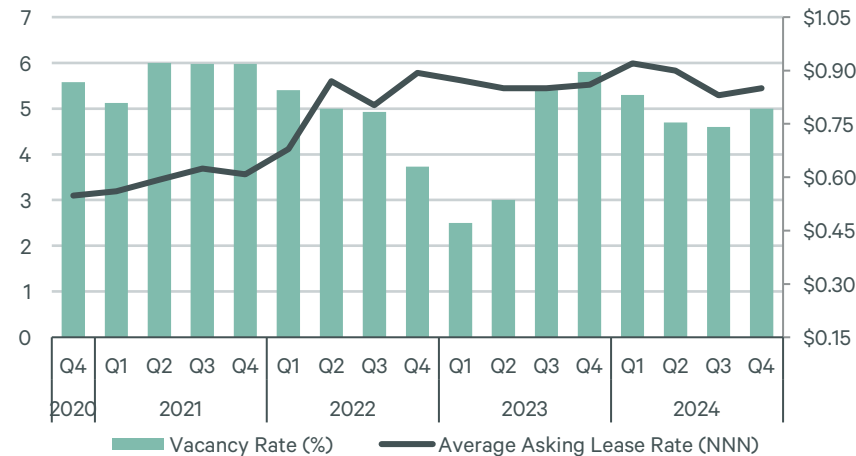
Asking rents rose during the fourth quarter in Tucson. The metro recorded a 2.4% increase in average rents during the fourth quarter to \$0.85 per sq. ft. Although the average asking NNN lease rate is down 1.2 % over the past year, the rate has grown 13.2% over the past 3 years. West Central Tucson led all submarkets in rent growth during Q4 2024, as the average asking rate was lifted by 11.0% during the quarter. Meanwhile, average rents in the East Central, Northeast and Southeast submarkets remained unchanged. Northeast Tucson continued to maintain 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 roughly 642,835 sq. ft. of gross leasing activity and 49,521 sq. ft. of negative net absorption in Q4 2024. The Southeast and Airport submarkets posted -68,115 sq. ft. and -210 sq. ft. of net absorption, respectively, contributing to the negative net absorption figure for the metro. However, the Southwest and Northwest submarkets each posted over 6,000 sq. ft. of positive net absorption for the quarter.

Some of the more notable leases signed this quarter include Calvary Christian Fellowship of Tucson’s renewal for 21,374 sq. ft. at 3850 N Business Center Dr. Stratasys Direct signed a renewal for 13,260 sq. ft. at 3280 E Hemisphere Loop. GBX Racing signed a new lease for 9,300 sq. ft. at 4100 E Michigan Ave.

FIGURE 2: Overall Vacancy and Lease Rate



Source: CBRE Research, Q4 2024.

FIGURE 3: Net Absorption (Sq. Ft.)



Source: CBRE Research, Q4 2024.

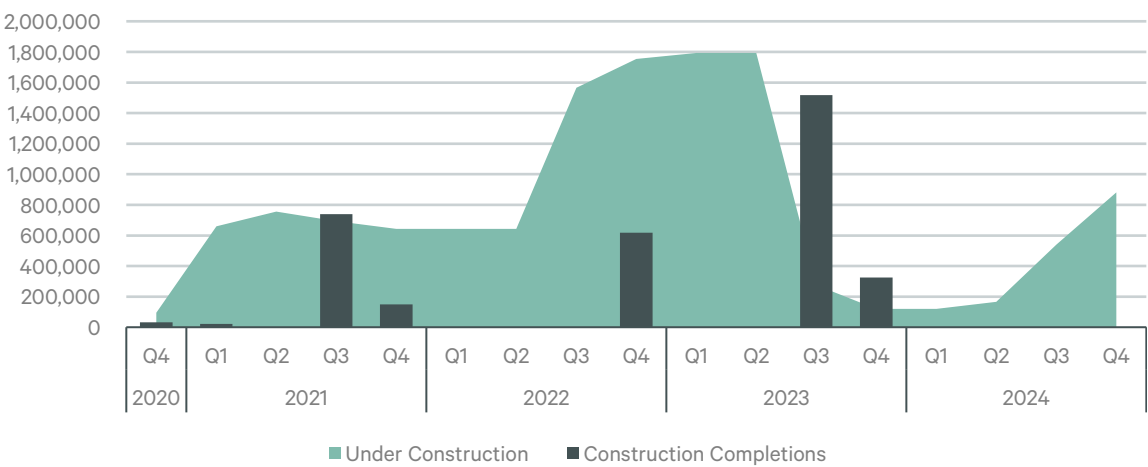
Development Activity

Corona Commerce Center and Butterfield Logistics Center broke ground this quarter in the Airport and Southeast submarkets, which amounts to 341,842 sq. ft. This brings the developers' total in Tucson up to 881,472 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. However, more than 715,000 sq. ft. of speculative industrial space has broken ground over the past two quarters, which signifies developers' confidence in the local demand drivers present in the Tucson market.

Economic Outlook

The U.S. economy surpassed expectations, largely driven by a resilient consumer benefiting from increased household wealth, rising real incomes, and a strong labor market. As a result, CBRE has raised its forecast for 2025's average GDP growth by 60 basis points to 2.3%. Generally, strong economic growth combined with Federal Reserve rate cuts would boost commercial real estate performance. However, capital markets are uncertain about how low rates will fall in 2025, as persistent core inflation and policy uncertainties exert upward pressure on long-term rates. On a positive note, real estate capital markets have shown improvement recently, with tightening lending spreads and increased credit issuance. Lending conditions are gradually becoming more favorable, with multifamily loan-to-value ratios trending slightly upward. A stronger debt market and recovering real estate market fundamentals are expected to lead to a noticeable increase in investment over the coming quarters.

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

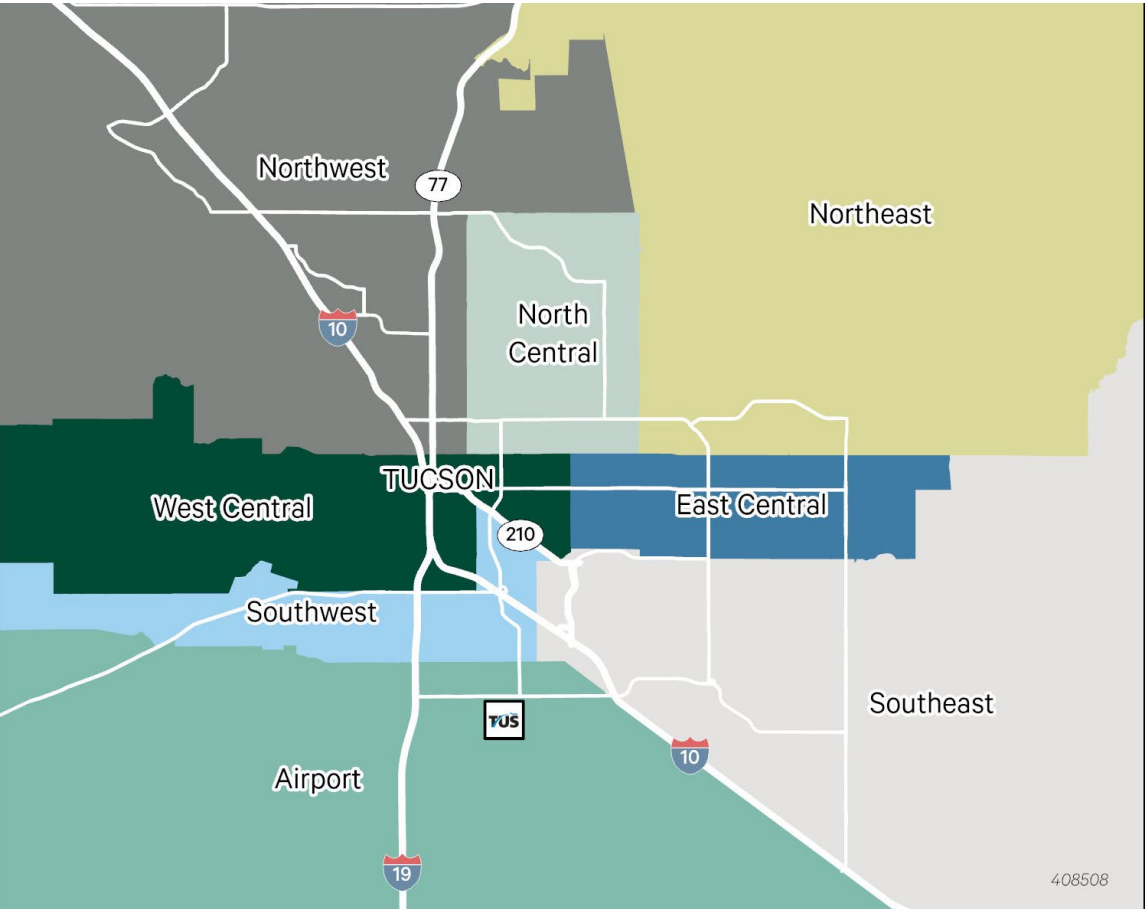


Source: CBRE Research, Q4 2024.

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)
					Q4 2024	2024 YTD			
Airport	169	11,854,206	7.2%	5.1%	(210)	393,002	545,693	0	\$0.85
East Central	44	1,189,709	5.9%	5.5%	1,427	(1,149)	0	0	\$0.90
North Central	11	191,587	0%	0%	0	1,100	0	0	-
Northeast	15	1,045,095	12.3%	12.3%	1,956	(17,950)	0	0	\$1.46
Northwest	270	7,989,919	12.5%	9.7%	6,088	231,257	0	0	\$0.71
Southeast	253	12,649,598	9.8%	3.0%	(68,115)	(252,670)	335,779	0	\$0.66
Southwest	106	2,976,390	3.4%	0.7%	10,722	25,382	0	0	\$0.80
West Central	180	4,471,340	1.3%	0.8%	(1,389)	48,846	0	0	\$0.81
Tucson Total	1,048	42,367,844	8.1%	4.7%	(49,521)	427,818	881,472	0	\$0.85

Source: CBRE Research, Q4 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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