MarketView
Tucson Industrial

Quick Stats

	Current	Change from last Yr.	Change from last 6 Mos.
Vacancy	9.0%	↑	↑
Lease Rates	$7.22	↘	↘
Net Absorption*	-291,611	↓	↓
Construction	616,856	↑	↓

* The arrows are trend indicators over the specified time period and do not represent a positive or negative value. (e.g., absorption could be negative, but still represent a positive trend over a specified period.)

Hot Topics

- Activity in existing space continues to slow as owners seek stabilized rent rolls.
- Vacancy continues its slow trend upward from record lows.
- The speculative industrial condominium market has been hurt by the slowing economy.
- Sublease space has increased.
- Rental rates have softened further.
- High-quality, high-cube industrial space hits the market in the Airport area.
- Many users continue "wait and see" attitude. Others make a "flight to quality" in location, sponsorship and construction.

Tucson's industrial market continued to slow in the first half of 2009. Existing product mirrored the national and local economies, experiencing a slow but continued increase in vacancy and negative absorption in existing properties.

Vacancy increased to 9 percent, up from 6.7 percent at year-end 2008 and 5.3 percent at the end of 2007. This marks the second year of upward vacancy, rising from an all-time low of 5 percent in the second quarter of 2007. The Airport submarket turned in the highest vacancy with 13.5 percent, up from 6.7 percent in 2008. Other submarkets experiencing an increase in vacancy during the last six months include the Southeast with a 9.7 percent vacancy rate, up from 8.1 percent, and the Northwest with a vacancy of 7.5 percent, up from 5.6 percent. The Northeast held relatively steady, registering 7.5 percent and the Southwest decreased in vacancy to 4.6 percent, down from 6.6 percent in 2008. The vacancy rate for warehouse space jumped from 7.7 percent to 12.7 percent. R&D/Flex product decreased slightly from an adjusted 7.9 percent to 7.8 percent. Manufacturing space, while lower than warehouse, rose from an adjusted rate of 5.9 percent to 8.7 percent.

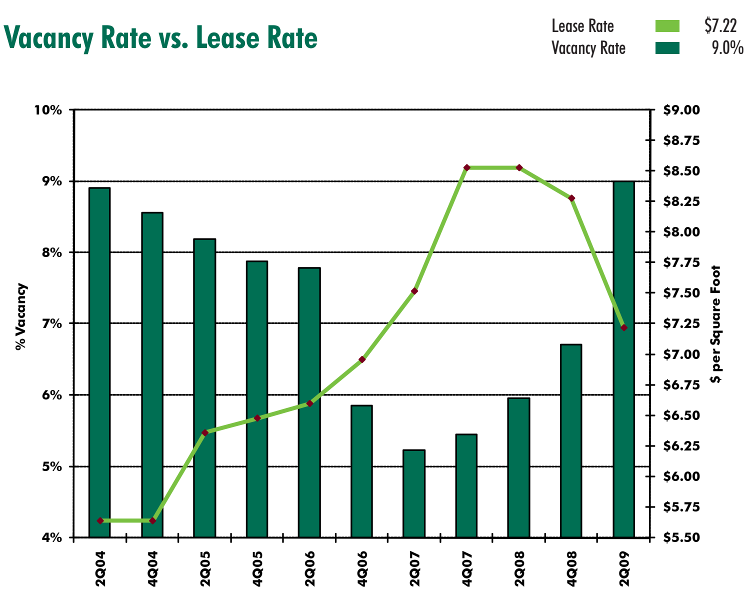
Net absorption of industrial space was negative 291,611 square feet in the first half of 2009. This period had marked differences from the previous six-month period ending 2008. Net absorption last year was a positive 766,667 square feet; however the Target Fulfillment Center on Rita Road represented 975,000 square feet of that positive absorption. Moving into 2009, the Airport area added a large speculative inventory of condo and for lease buildings to the market. The Rockefeller Group's project also added another 113,446 square feet in the first of its three phases, while East Group added 137,000 square feet at Country Club Commerce Center. Warehouse space posted 279,633 square feet of negative net absorption while R&D and specialty buildings added modest positive absorption of existing space.

The year has registered strong construction numbers for Tucson's industrial market, with 616,856 square feet of product completed. Last year, 1.1 million square feet of new product came on-line, but the Target Distribution Center accounted for the bulk of the new space. In the first six months of 2009, 17 new buildings were completed, boasting a vacancy rate of 53 percent. This marks the first significant speculative construction in Tucson this decade. Much of the vacant new construction was in condo projects, which continues to be challenged as leasehold occupancy costs hold steady or move lower. Equally notable is the decline in building permits. While the first half of 2009 brought Tucson significant new space, there isn't much on the horizon.

After several years of gradual increases, topping out in 2007, the average asking lease rate ended 2008 lower, at $8.23 per square foot. This trend has continued in 2009, posting an average asking rent of $7.22 per square foot at mid-year. The average full-service asking rate for flex space is also down, from $13.32 per square foot to $10.81 per square foot. Modified gross rates, which averaged $7.20 per square foot in 2008, are now $6.61 per square foot. Net asking rates averaged $9.36 per square foot in 2008, but by mid-year 2009 had dropped to $8.57 per square foot. Asking rates for warehouse space now average $7.17 per square foot, manufacturing $7.08 per square foot and R&D $9.56 per square foot, all of which are down from the end of 2008.

Notwithstanding the current construction activity, today's Tucson industrial market does not reflect excessive speculative development and is well positioned for further growth as and when the national economy recovers.

Vacancy Rate vs. Lease Rate



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Market Statistics - First-half 2009

Sub-Market	Gross Rentable Area	Vacancy Rate %	Availability Rate	Net Absorption	Construction	Avg. Asking Lease Rates
Airport	8,645,685	13.5	15.1	-339,995	271,946	$8.13
Northeast	1,651,929	7.5	7.5	30,152	0	$8.50
Northwest	7,557,334	7.5	7.5	-116,844	38,913	$7.59
Southeast	10,446,628	9.7	10.5	15,948	198,914	$6.69
Southwest	3,361,634	4.6	5.6	127,188	65,077	$7.36
West Central	5,003,559	5.5	10.7	-8,060	42,006	$6.72
Totals/Averages	**36,666,769**	**9.0**	**10.4**	**-291,611**	**616,856**	**$7.22**

Economy

Entering the 18th month of a recession, much of the economy appears to be struggling toward recovery. Debate about "green shoots" is lively but there are indicators the recovery has begun. The main question is what the recovery will look like.

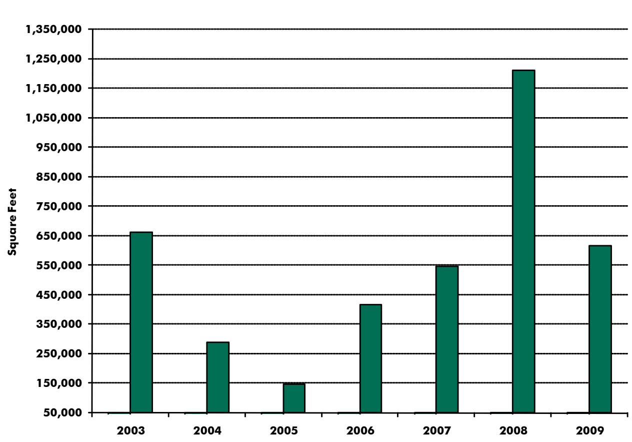
Many indicators, such as retail sales, industrial utilization and inventories, have shown signs of leveling off. Tucson's retail sales have finally leveled off, after mirroring the dramatic plunge of the national economy. Even the worst indicators have slowed their rates of contraction.

While the outlook for new housing is unchanged, existing product seems to have reached a price point where purchasing has resurfaced. Flushing out the inventory of non-performing product is an important first step to an eventual housing recovery.

Job losses have slowed. While 2008 witnessed large industrial layoffs, 2009 has thus far seen only a moderate reduction in the service sector workforce. This "right sizing" for the new normal will probably not add jobs until stimulus projects are significantly underway.

This flattening of economic indicators may not seem like much of a recovery, but at least the contraction seems to be stopping.

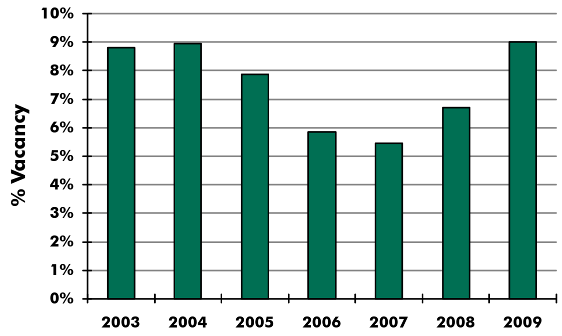
New Construction



Industrial construction for the first half of 2009 totaled 616,856 square feet. This is robust construction activity for this economy, however the permit report indicates very little will be built in the next 12 months. The Southeast and Airport areas accounted for the lion's share of the new product with a combined total of more than 469,000 square feet. In the Southeast, new industrial product stands at 13 percent vacant at mid-year, while the Airport area reports a staggering 94 percent vacancy in new product.

Vacancy

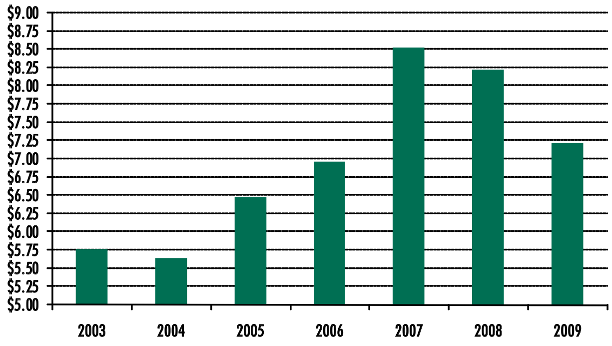
Vacancy 9.0%



Tucson's industrial vacancy rate reached an all time low in 2007, of 5.2 percent. Since then there has been a fairly rapid decline in occupancy, which increased the vacancy rate to 6.7 percent in 2008 and to 9 percent at mid-year 2009. That reflects a 75 percent increase in vacant space over a two year period. Availability, which includes occupied space for sublease, jumped nearly 4 percentage points in the last year to 10.5 percent.

Rental Rates

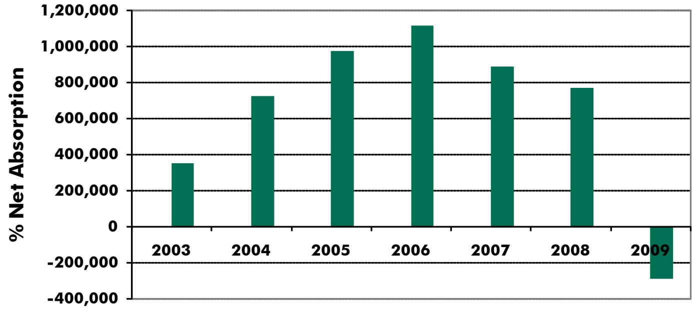
Lease Rates $7.22



The average industrial asking lease rate continued to fall this period to $7.22 per square foot. This represents a reduction of $1.31 per square foot, or 12 percent from its peak in 2007. Full service lease rates, which generally are flex buildings with office build-outs, averaged $10.81 per square foot. Modified gross lease rates, which represent the majority of the market's core manufacturing and warehouse buildings, averaged $6.61 per square foot. Net lease rates, which generally represent newer multi-tenant and build-to-suit product, averaged $8.57 per square foot.

Absorption

Absorption -291,611



Tucson's industrial market experienced net absorption of negative 291,611 square feet, marking the first negative absorption this decade. In 2008 the market experienced negative absorption in its existing space, however a significant amount of positive absorption in occupied new construction, including the 975,000 square foot Target Fulfillment Center, turned the overall net absorption to a positive number. The current period did not experience the robust activity in occupied new construction to create the same affect.

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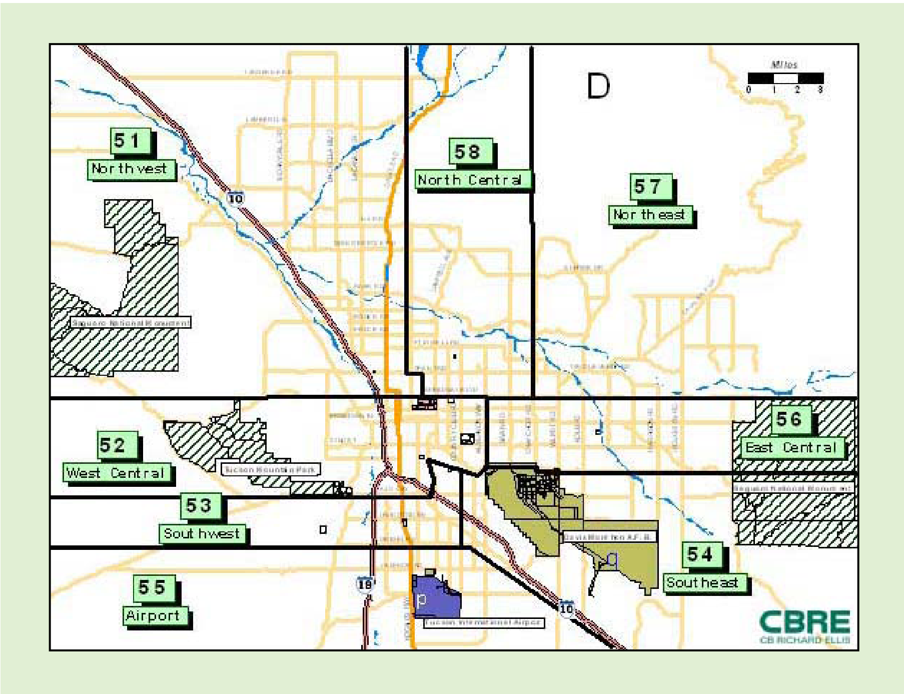
Submarket Map



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Average Asking Lease Rate
Rate determined by multiplying the asking net lease rate for each building by its available space, summing the products, then dividing by the sum of the available space with net leases for all buildings in the summary.

Net Leases
Includes all lease types whereby the tenant pays an agreed rent plus most, or all, of the operating expenses and taxes for the property, including utilities, insurance and/or maintenance expenses.

Market Coverage
Includes all competitive industrial/flex buildings 10,000 square feet and greater in size including owner-occupied buildings.

Net Absorption
The change in occupied square feet from one period to the next.

Net Rentable Area
The gross building square footage minus the elevator core, flues, pipe shafts, vertical ducts, balconies, and stairwell areas.

Occupied Area (Square Feet)
Building area not considered vacant.

Under Construction
Buildings which have begun construction as evidenced by site excavation or foundation work.

Available Area (Square Feet)
Available Building Area which is either physically vacant or occupied.

Availability Rate
Available Square Feet divided by the Net Rentable Area.

Vacant Area (Square Feet)
Existing Building Area which is physically vacant or immediately available.

Vacancy Rate
Vacant Building Feet divided by the Net Rentable Area.

Normalization
Due to a reclassification of the market, the base, number and square footage of buildings of previous quarters have been adjusted to match the current base. Availability and Vacancy figures for those buildings have been adjusted in previous quarters.

For more information regarding the MarketView, please contact:
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