Dave Gallaher, CCIM
Tucson Industrial Realty

This has been the year of "disappearing" buildings. Our prediction for vacancy of industrial buildings for the end of the 3rd Quarter 205 was 19.1%, which ended at 18.6%. While we thought that was aggressive then, let's look at a summary of the past year with regards to market trends and future possibilities for 2006..

LARGEST TRANSACTIONS: There was a lot of activity in the market with investors remaining responsible for the bulk of the larger transactions. According to our information from COMPS, there were eighty-three transactions in 2006 that totaled over $115,000,000. These transactions represented 2,004,978 SF of industrial space. The average sales price per SF was just over $57.73/SF.

Largest Transactions in Dollar Volume & Size

	Buyer	Type	Size	Price	Land
1)	Eddie Chernecky Address: 4650 S. Coach Drive	Investor	128,800 SF	$10,000,000	9.8 ac
2)	Gemstone Properties Address: 3675 E. Britannia	Investor	80,000 SF	$8,375,000	4.55 ac
3)	Tarlow Family I Address: 3321 E. Global Loop	Investor	80,611 SF	$7,680,750	13.8 ac
4)	University Physicians Address: 2701 E. Elvira	User	112,000SF	$5,636,000	
5)	This'l Dew Properties Address: Jefffco Plaza 16612 S. Research Loop	Investor	68,469 SF	$4,500,000	5.24 ac

Vacancy Rates Decline Again

As we all know, this forecast is directly tied to the Metropolitan Land Use Study 3rd Quarter 2005 prepared for the Pima County Real Estate Research Council. According to this study, and to those of us in the business, vacancy rates have been on a downward trend for the past several years. Owner occupied space increased the past year as we continue to see tenants become owners.

Total space in the market only increased by 519,000 SF between 2004 and 2005. Space inventory actually increased only 1.0% during the 2004 / 2005 years.

As the inventory of new product has not increased, demand for space remains relatively strong. Buildings under the 10,000 SF size remain practically non-existent.

Economic Development Events

The biggest economic development success by TREO this past year was assisting the location of Pella Window Manufacturing to the former Weiser Lock facility that consists of 250,000 SF. Pella expects to employ about 200 people.

Several call centers came and went and some of those expanded their original quarters which also helped reduce the overall vacancy rates within the industrial market.

We still have the Slim Fast building available which remains one of Tucson's largest available industrial properties. We all thought it would sell this past year and add several hundred jobs back to the community, but sadly, it did not sell.

The U of A Science Research and Technology Park continued to add more square footage this past year and also helped create more jobs. This year should finally bring the hotel and conference center to this great project. The 340 acre site is home to 30 companies and 7,000 employees.

The bottom line for Tucson's economic development in the future is that we will see another 25,000 new residents in 2006 and the creation of roughly 14,000 jobs. The industrial real estate market will reap some of the benefit of those 14,000 jobs within the manufacturing / warehouse sector. Those jobs will need a place to locate.

Projects That Changed

Last year we talked about a bunch of new building projects that were being discussed and planned by local developers in 2005:

a) Tennessee's Volunteer Industrial Park died a slow death when the developer realized that the County process of development would add too much burden and time to do the project.

b) At Fairview and Grant, P. Douglas's project remains somewhat active but buildings are yet to come out of the ground.

c) Mike Naifeh's project at Palo Verde & S W Gas Road made more sense to flip for a fast expected return.

d) Land prices continue to rise in price making deals harder for developers. Users are finally starting to understand that the old days of pricing really are the old days.

The bottom line here is there remains a market that is going unserved. Where are our development friends? Most of them are actively trading land where it is a lot quicker to make a buck.

What Are Trends for 2006 in Industrial Real Estate?

1) Stable markets will prevail in 2006. Rates will remain fairly unchanged! (except for new development)

2) Record prices for industrial land and buildings will continue with sales of average new construction approaching $90/SF.

3) Finding the right property will still be difficult! If the building exists, there will be "added value" because of the development process and land costs.

4) New investors will continue to buy in Tucson as our business climate of growth and technology continue to make it attractive.

5) The main projections of what will happen in our industrial real estate market:

    Vacancy rates will once again stay on a declining trend. We just don't see enough new construction in the immediate future to adversely affect the downward trend.

    Once again I predict net absorption and a good market for 2006. I believe the overall vacancy rate for industrial space per the Metropolitan Land Use Study will be 17.1% at the end of the 3rd Quarter 2006.

Good Luck to you in 2006