JUNE 2020

TREND report

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The Industrial Issue

Harsch Investment Properties Plans for Better Times

Since acquiring our first industrial park in Tucson in 2015, our strategy at Harsch Investment Properties has been one of growth through acquisition and ground up development. We are very pleased that this strategy has been successful and that is in large part due to how we operate our business in a hands-on way and to the growth in population and business activity in Arizona's metro areas. With the recent completion of a 157,000 square foot state-of-the-art industrial distribution facility at Tucson Airport Distribution Center, our portfolio now exceeds 700,000 square feet of industrial and office space. Activity on the newly completed building has exceeded our expectations with interest from a number of nationally recognized users. We anticipate announcing a lease for a substantial portion of the project in the near future. We plan to continue to grow with our tenants and better serve the Tucson community with an additional 30 acres of developable land that we own in the Tucson Airport area. We are currently in the planning stage for speculative industrial, manufacturing, R&D and distribution development uses or a potential build to suit option.

Harsch's Tucson Airport Distribution Center

A fundamental aspect of our growth strategy is opening a regional office in Tucson to provide the highest level of service to our current and future tenants and to participate in a more active way within the community. Harsch invests heavily in managing our own properties to have a personal touch as we support our tenants with their operation and growth needs. In April 2020, we hired Batoun Herrington, a very talented commercial real estate management veteran with over 20 years of real estate and asset management experience in Arizona. Batoun is very important to Harsch's future in Arizona, where we own and operate existing commercial real estate assets in Tucson, Phoenix, and Oro Valley, as well as the 109 acres of land that we plan to build out as an industrial park in Chandler.

The word pandemic quickly entered the commercial real estate lexicon a number of weeks ago with major concerns for all product types. The real estate industry had been anticipating an eventual recession but had no idea what the trigger would be this time around. This pandemic has been a difficult time for all

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Tucson, Arizona 85719

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JUNE 2020

The Industrial Issue

COVER STORY: HARSCH INVESTMENT PROPERTIES PLANS FOR BETTER TIMES

» by Bill Rodewald

Interior of the Tucson Airport Distribution Center

businesses and workers in Tucson, but it revealed some relative bright spots: industrial real estate and its importance to the supply chain remains an essential part of this country's economy with last mile delivery suddenly becoming an even more critical service. Another potential trend caused by the pandemic might be the predicted population shift away from densely populated cities to communities like Tucson that are spread out with planned industrial hubs.

In the past four years of expanding our portfolio and business in Arizona, we have been incredibly impressed with the working relationship between the business community, government agencies, University of Arizona, and the local commercial real estate brokerage firms. The input from these stakeholders was the driving force in our decision regarding product type and location for our newest development. As a result, we are active participants in the great work done by the economic development agency, Sun Corridor, and The Metro Pima Alliance; as well as the commercial real estate groups like the Certified Commercial Investor Member (CCIM) organization and the Society of Industrial and Office Realtors (SIOR). Given the trends in our industry, the Tucson market and the support we have received in Tucson, we look forward to a very bright future the community.

Harsch Investment Properties is a privately-owned real estate company that acquires, manages and develops properties for its own portfolio. The company owns and operates 27 million square feet of office, multi-tenant industrial, multi-family and retail properties in six western states. Headquartered in Portland, Oregon, Harsch has regional offices in Portland, Seattle, the San Francisco Bay Area, Sacramento, Las Vegas, San Diego, and Arizona.

Bill Rodewald, SIOR is Senior Vice President, San Diego Regional Manager at Harsch Investment Properties. Bill leads the growth of Harsch's Southern California, Arizona, and Utah regions, which total approximately three million square feet of commercial space. He has been instrumental in growing the portfolio in Tucson through acquisition, new speculative construction and build to suit activity aimed at job growth within the region. He can be reached at billr@harsch.com.

» by Gordon Wicker

Industrial market conditions in Tucson had been improving steadily over the past five years, with new development and additional growth from Caterpillar, Amazon (twice), Chamberlain, Rain Bird, additional leasing for expansion for Raytheon, and even a 157,000 square foot speculative project near the airport. New development was racing along, leasing activity and sales to users were up and vacancy rates had collapsed from some 12.5% in 2012 to roughly 5% by mid-year 2019.

Then March happened. Governor Doug Ducey's Executive Order on March 19, 2020 required non-essential business to close effective 5PM on March 20th in response to the Coronavirus outbreak to slow the spread of the disease, with a gradual re-opening of non-essential business in just the past week. Although there has been only a little over a month since the shut-down occurred and there has been consequently limited market activity to make an accurate determination of its impact, let alone projections for market conditions returning to normal, some early impacts are becoming evident.

Broader market projections nationally and internationally point to concerns in the manufacturing sector, particularly from declining demand for non-necessity goods, as well as supply-chain concerns. The good news is that although we're all in the same storm, Tucson is in a different boat. Heavy manufacturing is relatively limited in our corner of the world, and with a heavy influence from military and other government-related entities, both the short and long-term impact of the pandemic on Tucson's industrial market would appear to be somewhat limited in comparison to larger markets. In fact, with the significant increase in on-line retail due to temporary (and maybe not-so temporary) retail store closures, "last-mile" delivery and logistics are experiencing a boom in demand from the already growing e-commerce industry, leading to job growth not just at Amazon, but at grocery stores and other essential business needing to expand logistics as many of us remain at home.

The health and economic impacts of the Coronavirus have obviously most significantly affected the hospitality sector. Office market conditions are likely to deteriorate in the coming months due not only to declining jobs, but also resulting from many companies choosing to downsize their footprints as workers have proven reasonably efficient in work-from-home conditions. There is little doubt that local restaurants and retailers, already operating under tight margins, will be significantly impacted by the pandemic. Multi-family investors and market participants are similarly concerned that with the sharp rise in unemployment (now estimated to be 10% or more locally) leading to combining households amongst renters, and the confluence of low interest rates and high demand for new single-family housing, that an across-the-board vacancy increase may be experienced in the local apartment market.

Could industrial market conditions, at least locally, be the least impacted real estate sector? I believe so. Tucson's larger industrial occupants—Raytheon, Amazon, Caterpillar, Chamberlain and the like will likely see a nominal impact on business operations. Perhaps the greatest effect of the virus in the local industrial market will be on start-ups and smaller shop users in incubator/flex space. This volatile sub-sector was among the slowest to recover from the recession, and will again likely be the hardest hit. Fortunately, very little new incubator space has been added to Tucson's industrial inventory in over a decade, which will soften the blow.

Tucson has generally been relatively conservative in terms of new development, being far more demand driven, with speculative development representing only a small portion of historic activity. Even with the larger developments over the past five years—the 858,000-square foot Home Goods facility, Amazon's 857,000 square foot distribution project, 300,000 square feet of new space for Chamberlain and a 140,000 square foot facility at Spaceport Tucson, the total industrial inventory additions since 2015 have been just over 3 million square feet. By contrast, Metropolitan Phoenix has added nearly 41 million square feet over the same period, nearly equal to the totality of industrial inventory locally. With much of this space being speculative in nature, vacancy amongst this newer product in the valley has already skyrocketed to nearly 22%. Sometimes, being the smaller fish has its advantages.

A review of CoStar Analytics' post-outbreak projections indicates a rise in vacancy locally of about 130 basis points, not exactly "the sky is falling" material. While the long-term impact of the pandemic can't be reasonably projected until we've seen a couple of quarter's worth of changes, some deterioration can reasonably be anticipated.

We're all adjusting to "the new normal," and in fact still trying to figure out what that even means in the larger scheme of things. A second, more devastating wave of the virus, similar to that of the Spanish Flu roughly 100 years ago, could well make real estate market conditions the least of our concerns.

Many economic models had already been predicting slowing GDP growth, declining economic conditions, and even a potential recession by late 2020—before the outbreak. Further, real estate investment activity has historically slowed in the waning months of election years as investors go into a holding pattern as they try to make projections on the impacts of capital gains law changes and other factors that may result from a change in leadership.

Given all these factors, it would certainly be hard to be optimistic about the near-term future of the commercial real estate market. Nonetheless, given the changes in leisure/travel, household sizes, and retail trends being more evident, our local industrial real estate market should fare pretty well by comparison.

Gordon L. Wicker, MAI is President of Quality Valuation, Inc., a Tucson-based commercial real estate appraisal firm. Gordon has 30 years of experience, specializing in the appraisal of industrial, office, retail and land as well as specialty properties. He performs a wide array of services including appraisal, appraisal review, consultation, expert witness and other litigation support. He can be reached at gwicker@QualityValuationInc.com.

big deals

Arizona Investor Buys Desert Pueblo Mobile Home Park for $30 Million

Scottsdale, Arizona based Vanderhout Family Trust through their affiliate MHP #11 LLC paid $30,000,000 for the 55+ Desert Pueblo mobile home park located at 1302 W Ajo Way. The seller was the Ortloff Family Living Trust. This mobile home park was built in 1971, sits on 56.5 acres, and contains 418-units. This park was 87% occupied at the time of sale. The park also includes a 76 space RV park. 4/30/20

Buyer: The Vanderhout Family Trust; HARRIS Manufactured Housing & Commercial Brokerage, Derek Harris (602) 803-6227

Seller: Ortloff Family Living Trust; HARRIS Manufactured Housing & Commercial Brokerage, Derek Harris (602) 803-6227

Sale: $30,000,000; $71,770/space

Size: 418 Spaces

Florida Investor Buys El Conquistador Apartments for $11.55 Million

Coral Gables, Florida based GDL Property Management (Joel Goodell, President), through their affiliate Greenwater El Conquistador LLC, paid $11,550,000 for the El Conquistador apartments located at 1881 E Irvington Rd. The seller was Kornwasser Realty Advisors (Joseph Kornwasser, member) through their affiliate CCA-El Conquistador Apartments, LLC of Los Angeles. El Conquistador apartments was built in 1982, sits on 6.76 acres, and contains 201-units comprised of one- , and two-bedroom units with an average unit size of 379 SF. The property previously sold in June 2017 for $7,540,000. 4/24/20

Buyer: GDL Property Management; Berkadia, Art Wadlund, Clint Wadlund (520) 299-7200

Seller: Kornwasser Realty Advisors; Berkadia, Art Wadlund, Clint Wadlund (520) 299-7200

Sale: $11,550,000; $57,463/Unit

Size: 201 Units

Tucson Investor Buys Sandpiper Apartment Building for $4.7 Million

Tucson, Arizona based Daniel Mandel paid $4,700,000 for the Sandpiper apartment building located at 2401 E Glenn St. The seller was Morton Aronoff. Sandpiper apartments was built in 1975, sits on 1.89 acres and contains 64-units comprised of one- , and two-bedroom units with an average unit size of 604 SF. The property sold with a 5.64% cap rate. The property previously sold in October 1995 for $1,280,000. 4/14/20

Buyer: Daniel Mandel; NAI Horizon, Justin Lanne & Mike Chapman (520) 326-2200

Seller: Morton Aronoff; NAI Horizon, Christopher Itule (520) 326-2200

Sale: $4,700,000; $73,438/Unit

Size: 64 Units

California Investor Buys Apartment Building for $2.75 Million

La Jolla, California based ZFI LLC. (Ankist Zadeyan, manager), paid $2,755,000 for the Eastpointe apartments building located at 8477 E Broadway Blvd. The seller was Bradshaw Apartments LLC. This apartment building was built in 1981, sits on 0.67 acres, and contains 49-units comprised of one- , and two-bedroom units with an average unit size of 400 SF. The property prevously sold in June 2017 for $2,100,000. 4/30/20

Buyer: ZFI LLC.; Joseph Bernard Investment Real Estate, Joe Boyle (520) 428-0850

Seller: Bradshaw Apartments LLC (623) 780-1711

Sale: $2,755,000; $56,224/Unit

Size: 49 Units

Oregon Investor Buys Dutch Bros Coffee Shop for $2.275 Million

Portland, Oregon based Michael & Donna McClaskey paid $2,275,000 for the Dutch Bros Coffee building located at 3901 E 22nd St. The seller was Cole Valley Partners (Zach Bonsall, partner). This Dutch Bros Coffee was built in 2020 and sits on 0.92 acres. This was an all cash transaction. Cole Valley Partners, LLC purchased the site from Kettenbach, LLC for $925,000 ($18.57 PSF) in June 2019. 4/2/20

Buyer: Michael & Donna McClaskey; Cushman & Wakefield of Oregon, Inc., Jim Lewis (503) 279-1700

Seller: Cole Valley Partners; GPS Commercial Advisors, Jesse Rozio, et al (480) 231-3473

Sale: $2,275,000; $2,658/SF

Size: 856 SF

Oregon Investor Buys Winterhaven Center for $2.25M

Tualatin, Oregon based Pascuzzi Investments LLC. (Arthur Pascuzzi, member), paid $2,250,000 for the Winterhaven Center located at 2921 E Fort Lowell Rd. The seller was the Zac the Cat, LLC (Carl Weinstein, member). Winterhaven Center was built in 1986 & sits on 1.01 acres. The property previously sold in June 2004 for $1,175,000. 4/9/20

Buyer: Pascuzzi Investments LLC., Arthur Pascuzzi (503) 639-8891

Seller: CHW Group, LLC., Carl Weinstein (520) 571-9400

Sale: $2,250,000; $152/SF

Size: 14,848 SF

California Investor Buys The Landing Storefront Building for $2.1 Million

Tarzana, California based Alisa Kinori through her affiliate Tamerin LLC paid $2,105,000 for the storefront building located at The Landing, 1226 W Irvington Rd. The seller was Bourn Companies (Don Bourn, President). This storefront was built in 2018 and sits on 0.37 acres. The property was 100% occupied by Long Realty, Zanes Law and Sprint. This was an all cash transaction. 4/29/20

Buyer: Tamerin LLC; Alisa Kinori (818) 642-2064

Seller: Bourn Companies; Marcus & Millichap, Mark Ruble, Jamie Medress & Christopher Lind (602) 687-6700

Sale:

$2,105,000; $436/SF

Size:

4,832 SF

California Investor Buys Dutch Bros Freestanding Building for $2.068 Million

Laguna Niguel, California based Noah Cheatum and Jane Cheatum paid $2,068,000 for the freestanding building located at 1971 W Valencia Rd. The seller was Christifulli Companies and United Development Company. This building was built in 2019 and sits on 1.04 acres. This was an all cash transaction. 4/30/20

Buyer: Jane Cheatum; Lincoln Property Company, Kevin McNeil (949) 333-2111

Seller: Christifulli Companies; Phoenix Commercial Advisors, Danny Gardiner & Chad Tiedeman (602) 957-9800

Sale:

$2,068,000; $2,509/SF

Size:

824 SF

California Investor Buys Dutch Bros Coffee Property for $1.9 Million

Los Gatos, California based Bueno Trust (Ronald & Elizabeth Bueno) paid $1,976,376 for the Dutch Bros Coffee located at 4621 E Grant Rd. The seller was Sage Grant Tucson LLC. This Dutch Bros Coffee was built in 2020 and sits on 0.53 acres. Sage Grant Tucson LLC bought the closed restaurant space last year for $1 million to develop the Dutch Bros drive-thru along with other retail, restaurant and office space. 4/27/20

Buyer: Ronald & Elizabeth Bueno

Seller: Sage Grant Tucson LLC.; Volk Company, Brenna Lacey (520) 326-3200

Sale:

$1,976,376; $2,396/SF

Size:

825 SF

4-D Properties Buys Office Building for $1.9 Million

Tucson, Arizona based 4-D Properties (David DeConcini, partner), paid $1,875,000 for the Stewart Title & Trust office building located at 3939 - 3941 E Broadway Blvd. The seller was James David & Jaime Burke. This office building was built in 1985 and sits on 0.72 acres. The property previously sold in April 1992 for $775,000. 4/6/20

Buyer: 4-D Properties, David DeConcini (520) 325-9600

Seller: James David & Jaime Burke; Cotlow Company, Dean Cotlow (520) 881-8180

Sale:

$1,875,000; $190/SF

Size:

9,850 SF

El Rio Community Health Center Buys Former Bank Building for $1.8 Million

Tucson, Arizona based El Rio Community Health Center (Nancy Johnson, CEO), paid $1,800,000 for the former Wells Fargo bank building located at 3655 E Grant Rd. The seller was Wells Fargo Advisors (Jim Hays, President). This bank building was built in 1968 and sits on 2.07 acres. This was an all cash transaction. El Rio plans to turn the building into a community health center. 4/16/20

Buyer: El Rio Community Health Center; CBRE, Nancy McClure (520) 323-5100

Seller: Wells Fargo Advisors; Buzz Isaacson Realty, Buzz Isaacson & Alex Hardie (520) 529-1300

Sale:

$1,800,000; $59/SF

Size:

30,600 SF

Pyramid Federal Credit Union Buys Office Building for $1.8 Million

Tucson, Arizona based Pyramid Federal Credit Union (Ray Lancaster, President), paid $1,800,000 for the office building located at 4911 E Broadway Blvd. The seller was Santo Tomas Partners LLP. This office building was built in 1979 and sits on 1.13 acres. 4/16/20

Buyer: Pyramid Federal Credit Union; CBRE, Nancy McClure (520) 323-5100

Seller: Santo Tomas Partners, LLP; Cushman & Wakefield|PICOR, Brandon Rodgers & Rick Kleiner (520) 748-7100

Sale:

$1,800,000; $99/SF

Size:

18,200 SF

big deals

big deals

Arizona Investor Buys Two Apartment Buildings for $1.625

Tucson, Arizona based Sunset Capital Partners, LLC (William & Deanna Hennings) paid $1,625,000 for the Carlton apartments located at 4363 E 2nd St. The seller was RGC Apartments LLC (Christopher Dockins, member). The Carlton apartments was built in 1960, sits on 0.14 acres, and contains 36-units comprised of studio, and one-bedroom units with an average unit size of 495 SF. 4/6/20

Buyer: Sunset Capital Partners, LLC; Cushman & Wakefield|PICOR, Allan Mendelsberg & Conrad Martinez (520) 748-7100

Seller: RGC Apartments, LLC; Cushman & Wakefield|PICOR, Allan Mendelsberg & Conrad Martinez (520) 748-7100

Sale: $1,625,000; $45,140/Unit

Size: 36 Units

Southern Arizona Community Church Buys Office Building for $1.5 Million

Green Valley, Arizona based Southern Arizona Community Church (Sandra Pratt, member), paid $1,500,000 for the office building located at 52 W Calle De Las Tiendas. The seller was Raymond & Lila O'Connell. This office building was built in 1995 and sits on 0.89 acres. 4/1/20

Buyer: Southern Arizona Community Church, Sandra Pratt (520) 625-4253

Seller: Raymond & Lila O'Connell (760) 344-3682

Sale: $1,500,000; $115/SF

Size: 12,997 SF

Virginia Investor Buys Truck Terminal Building for $1.5 Million

Richmond, Virginia based Estes Express Lines, Inc. (Robey Estes Jr., CEO), paid $1,500,000 for the truck terminal building located at 2350 W Wetmore Rd. The seller was USF Reddaway Inc. This truck terminal building was built in 1980 and sits on 4.17 acres. 4/15/20

Buyer: Estes Express Lines, Inc., Robey Estes Jr. (804) 353-1900

Seller: YRC Worldwide, Inc., T.J. O'Connor (913) 696-6100

Sale: $1,500,000; $133/SF

Size: 11,249 SF

Equilibrium Partners Buys Casa Larga Apartments for $1.4 Million

Washington, DC based Equilibrium Partners (Dave Chen, Principal), paid $1,440,000 for the Casa Larga apartments located at 6590 E Golf Links Rd. The seller was the Bennett Family Trust. Casa Larga apartment property was built in 1979, sits on 0.99 acres, and contains 36-units comprised of studio, and one-bedroom units with an average unit size of 373 SF. This was an all cash transaction. The property previously sold in April 2004 for $860,000. 4/3/20

Buyer: Equilibrium Partners, Nicholas Tomko (202) 986-0160

Seller: Bennett Family Trust; Cushman & Wakefield|PICOR, Allan Mendelsberg & Conrad Martinez (520) 748-7100

Sale: $1,440,000; $40,000/Unit

Size: 36 Units

California Investor Buys Aspen Groves Apartments for $1.34 Million

Ladera Ranch, California based All N Investments, LLC & Aspen Grove Apartments, LLC (Andrew Schmitz, Manager) paid $1,344,000 for the Aspen Groves apartments located at 1501 S Woodland St. The seller was Brooklyn Group, LLC. Aspen Groves was built in 1980, sits on 0.81 acres, and contains 28-units comprised of studio, one- , and two-bedroom units with an average unit size of 519 SF. The property previously sold in September 2011 for $384,000. 4/17/20

Buyer: All N Investments, LLC & Aspen Grove Apartments, LLC; Cushman & Wakefield|PICOR, Mendelsberg & Martinez (520) 748-7100

Seller: Brooklyn Group, LLC; Cushman & Wakefield|PICOR, Allan Mendelsberg & Conrad Martinez (520) 748-7100

Sale: $1,344,000; $48,000/Unit

Size: 28 Units

West Coast Capital Partners Buys Fort Lowell Retail Building for $1.3 Million

California based West Coast Capital Partners (Phil Skillings, manager) paid $1,325,000 for the freestanding building located 3700 E Fort Lowell Rd. The seller was Tucson One, LLC. This freestanding building was built in 1990 and sits on 1.29 acres. The buyer plans to convert the building to an outpatient medical facility for an undisclosed tenant. The property previously sold in June 2005 for $3,785,000. 4/22/20

Buyer: West Coast Capital Partners, Phil Skillings (480) 425-9400

Seller: Tucson One, LLC; Cushman & Wakefield|PICOR, Robert Tomlinson (520) 748-7100

Sale: $1,325,000; $73/SF

Size: 18,210 SF

Tucson Resale Activity Summary

Year	Month	Active Listings	Units Sold	New Listings	Months Supply	Median Sales Price	Avg. DOM
2019	April	2,900	1,537	2,066	1.9	$218,500	41
	May	2,705	1,671	1,795	1.6	$232,000	37
	June	2,679	1,510	1,899	1.8	$232,000	38
	July	2,525	1,539	1,714	1.6	$233,000	36
	August	2,489	1,423	1,573	1.7	$230,000	36
	September	2,558	1,230	1,576	2.1	$239,575	36
	October	2,711	1,270	1,698	2.1	$239,900	36
	November	2,288	1,144	1,390	2.0	$232,000	34
	December	2,359	1,221	964	1.9	$241,500	37
2020	January	1,713	1,008	1,851	1.7	$235,250	38
	February	1,868	1,168	1,595	1.6	$245,000	42
	March	2,518	1,399	1,849	1.8	$248,250	36
	April	2,282	1,168	1,329	2.0	$249,000	30
	1 mo. change	-9%	-17%	-28%	9%	0%	-17%
	1 yr. change	-21%	-24%	-36%	4%	14%	-27%

Source: TARMLS

Tucson Luxury Market Activity Summary

Year	Month	Active Listings	Units Sold	Months' Supply	Median Sales Price	Avg. DOM	Avg. CDOM
2019	April	181	7	26	$1,250,000	149	234
	May	165	14	12	$1,362,500	127	127
	June	144	12	12	$1,331,000	128	190
	July	138	7	20	$1,100,000	123	171
	August	128	8	16	$1,267,500	77	77
	September	146	14	10	$1,412,500	128	138
	October	149	6	25	$1,115,000	128	204
	November	152	4	38	$1,057,750	58	58
	December	159	13	12	$1,460,875	126	188
2020	January	179	11	16	$1,300,000	78	94
	February	138	8	17	$1,167,500	90	90
	March	135	13	10	$1,130,000	172	287
	April	121	6	20	$1,530,000	83	116
	1 mo. change	-10%	-54%	94%	35%	-52%	-60%
	1 yr. change	-33%	-14%	-22%	22%	-44%	-50%

Source: TARMLS $1+ million Sales

big deals

Residences at Ritz Carlton Home Sells for $2,396,918

Built in 2019, this 4,324 SF Southwestern style home is located on 0.6 acres in Residences at Ritz Carlton, Dove Mountain. Originally listed in March 2019 for $2,348,000, this home was on the MLS for a total of 17 days under one listing. Under this listing, this home sold for 102% of its listing price after 17 days on the market. 4/16/2020

Listing Agent: Peter Oosterhuis, Dove Mountain Realty

Selling Agent: Peter Oosterhuis, Dove Mountain Realty

Sale:
$2,396,918

Address:
6139 W Seven
Saguaros Circle
Marana, AZ 85658

The Gallery at Dove Mountain Home Sells for $1,750,000

Built in 2003, this 4,742 SF Contemporary style home is located on 1.09 acres in Dove Mountain. Originally listed in January 2020 for $1,879,000, this home was on the MLS for a total of 48 days under one listing. Under this listing, this home sold for 107% of its listing price after 48 days on the market. 4/1/20

Listing Agent: Maria Anemone, Long Realty Company

Selling Agent: Matthew James, Long Realty Companyl

Sale:
$1,750,000

Address:
4751 W Long
Ridge Place
Marana, AZ 85658

Catalina Foothills Estates No. 5 Home Sells for $1,600,000

Built in 2020, this 3,853 SF Contemporary style home is located on 1.51 acres in the Catalina Foothills Estates No. 5. Originally listed in March 2020 for $1,600,000, this home was on the MLS for a total of 192 days under one listing. Under this listing, this home sold for 100% of its listing price after 192 days on the market. 4/24/20

Listing Agent: John LaRocca & Jean Barclay, Long Realty Company

Selling Agent: John LaRocca & Jean Barclay, Long Realty Company

Sale:
$1,600,000

Address:
6071 N Vista
Valverde #4
Tucson, AZ 85718

Country Club Estates No. 1 Home Sells for $1,460,000

Built in 1951, this 5,235 SF Ranch style home is located on 0.88 acres in the Country Club Estates No. 1. Originally listed in March 2019 for $1,895,000, this home was on the MLS for a total of 355 days under two listings. Under this listing, this home sold for 91% of its listing price after 155 days on the market. 4/30/2020

Listing Agent: Matthew Bollinger & Karla McMahon, Long Realty Company

Selling Agent: Linzee Whelan, Tierra Antigua Realty

Sale:
$1,460,000

Address:
6345 E Miramar Drive
Tucson, AZ 85715

Pima Canyon Estates Home Sells for $1,415,000

Built in 2001, this 4,532 SF Contemporary style home is located on 0.85 acres in Pima Canyon Estates. Originally listed in January 2020 for $1,495,000, this home was on the MLS for a total of 36 days under one listing. Under this listing, this home sold for 94% of its listing price after 36 days on the market. 4/8/20

Listing Agent: Robin Sue Kaiserman, Long Realty Company

Selling Agent: Tom Campbell, Long Realty Company

Sale:
$1,415,000

Address:
1747 E Desert
Garden Drive
Tucson, AZ 85718

Dove Mountain Home Sells for $1,300,000

Built in 2013, this 4,000 SF Contemporary style home is located on 0.8 acres in Canyon Pass at Dove Mountain. Originally listed in January 2020 for $1,385,000, this home was on the MLS for a total of 53 days under one listing. Under this listing, this home sold for 94% of its listing price after 53 days on the market. 4/15/20

Listing Agent: Oscar Ramirez, Long Realty Company

Selling Agent: Maren Seidler, Long Realty Company

Sale:
$1,300,000

Address:
14313 N Rocking
Ridge Court
Marana, AZ 85658

HIGHLIGHTS FROM PIMA COUNTY REAL ESTATE RESEARCH COUNCIL'S FIRST ZOOM MEETING ON COVID-19 IMPACT

Did you hear a strange rumble in the morning a few weeks back? It was the great Roy Drachman, rolling over in his grave, as the Pima County Real Estate Research Council conducted its first ever quarterly meeting via ZOOM presentations by eight local real estate experts about the impact of COVID-19 on their businesses to date. Back in the early 1960's Roy, along with several other legendary real estate executives (such as Jim Sellers), had the foresight to form the Council, which is rumored to be the oldest, municipal real estate research organization in the nation. Think about it. Close to 60 years of uninterrupted local real estate research. Thanks again, Roy!!

Here is a summary of what our eight experts said:

Rosey Koberlein, CEO, Long Realty The residential real estate market was off to a great start in 2020, with excellent sales activity and rising prices. Then COVID-19 hit, local Long offices closed to the public, and pending contract activity fell by 30%. But surprisingly, things quickly turned around. For the past five weeks, pending contract activity has soared, and is now at a high for the year. Listing inventory for the under $500,000 price range is now under 1.7 months, which helps explain why many properties are receiving multiple offers, with some over the asking price. But wait, there's more good news. Google recently published that Tucson was the nation's #1 marketplace in terms of web-based residential searches pre- COVID to now, with a whopping 165% gain!! Low interest rates should keep demand levels high.

Randy Agron, VP, A.F. Sterling Initially, COVID-19 impact resulted in a 30% national drop in new home sales and a 34% decrease in new home starts. Here in Pima County, 218 single family housing permits were pulled in April, compared to 335 permits in April of 2019. Recently, there has been a significant uptick in both activity and buyer confidence. Homebuying traffic may be down, but almost all current Buyers are very serious Buyers, with less window-shoppers. A shortage of trade workers continues and the time to construct a home has increased approximately 30 days since COVID-19 began to impact the marketplace. Most in the business are cautiously optimistic about the future.

Jerry Hawkins and Kim Cole, Hawkins-Cole Hospitality The Hospitality market was off to a fantastic start this year, with occupancies in excess of 80%. By March, occupancies fell to below 30% and daily rates dropped by at least 20%. With Tucson International airport traffic down 95%, little if any turnaround is expected before October. All proposed projects are now on hold. However, construction continues on four local hotels. Food and beverage income are close to zero, which typically contributes from 30-50% of total hospitality income. No new local, regional, or national meetings are expected to be planned for 6–12 months. Unlike the past recession, Lenders appear to be much more willing to work with Owners. Some are offering 6–12-month forbearance periods.

Ross McCallister, CEO, McCallister Companies McCallister Companies owns and manages 5800 units in Arizona, Texas, and Oklahoma. When COVID-19 hit, the company immediately reached out to all tenants. The result has been a 95% rent collection level in April and, to date, 88% in May. Some tenants have gone on payment plans. The company's Tucson portfolio has performed the best with collection rates of 98% and 96% respectively. Major operational changes such as contactless apartment showings, application processing, and even minor apartment repairs where staff zoom sessions instruct tenants how to make repairs, have been surprisingly successful and well received. Special unemployment benefits have had a positive impact. However, future unemployment trends are a major concern. Nationally, class C projects have suffered the most, and class A the least.

Alex Hardie, Office Broker, Buzz Isaacson Realty The pre-covid marketplace was good, with declining vacancy rates. Overnight, leasing activity went to zero. To date, vacancy rates have increased in Tucson from 7.9% in April 2019 to 8.9%. The future is hard to predict. Some see many companies downsizing and/or increasing square footage per employee from 125 SF per employee back to 200 SF per employee. The immediate focus is on employee health and intense cleaning. Longer term, Landlords will look to technology such as touch-less access and improved HVAC systems and design. Depending on the industry, more shift work may evolve.

Rob Glaser, Industrial Broker/Principal, Cushman & Wakefield|PICOR Tucson's industrial market is comprised of approximately 44 million square feet.

- Half of this is owner-occupied, and half is "for lease" inventory.
- The vacancy rate at the end of the first quarter was 6.1%
- Of the 2.7 million square feet vacant, 52% is in space over 35,000 square feet in 11 properties, many with high degrees of functional obsolescence.
- The majority of the overall "for lease" inventory is in small bays under 10,000 square feet, currently 95% occupied and leased to small businesses. This is the segment of the market that we think is most vulnerable.

Commentary from two of the largest Business Park owners in Tucson:

- EastGroup: 848,000 square feet, is 99% occupied, has 13 tenants in seven buildings—don't anticipate losing any tenants.
- Presson Equity: 1,216,000 square feet, 92% occupied, 469 tenants in 14 Business Park Properties—have lost seven tenants to date and expect to lose twice that many over the next few months. They anticipate their occupancy will drop to 90%. In 2009, their occupancy dropped to 84.5%.

Factors that will positively influence industrial properties locally and may bolster Industrial as the strongest commercial asset:

- Amplification of e-commerce
- Need for last mile delivery
- Retail relocations—who needs to be on Main Street? Food prep and delivery as an example.
- Relocation of manufacturing—near and reshoring including expansion and relocation activity in Sonora, Mexico
- U A Tech transfer prospects
- Raytheon's recent $2 Billion contract
- 5G technology and development which is gaining some momentum in Tucson
- Continued Mining industry growth
- And to leave you on a high note, expansion of the Marijuana industry

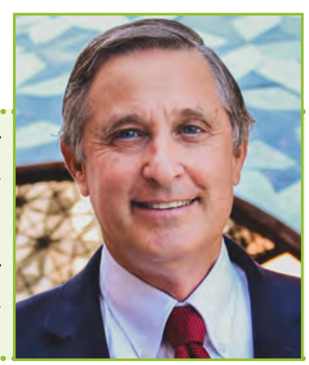
Melissa Lal, President, Larsen Baker With a portfolio of 57 properties of which 80% is retail, Larsen Baker's occupancy rate was 93% in mid-March. That rate has not changed as of mid-May, although they have drafted 100 rent modifications, including 30 extensions and 60 deferrals. Approximately 60% of rents were collected in April and to date, 70% have been collected in May. Surprisingly, 8 new retail leases have recently been executed. All local Banks and Life Companies have been open to possible loan forbearance. The firm has retained a consultant to deal with CMBS servicers who have not been as cooperative so far. The firm is confident of the future with a loan-to-value ratio of only 49%. The next 3–6 months will be critical for many tenants as some work to re-work business plans. Unfortunately, many small businesses will close, forcing both landlords and brokers to become even more creative deal-makers.

Jeannie Nguyen, VP, National Bank of Arizona From 2015 into 2019, the Fed increased interest rates five times. Then in 2019, with an anticipated slow down, rates were decreased. Needless to say, COVID-19 changed life for all loan officers. Some borrowers have made deferral requests. Banks were flooded with PPP loan requests which resulted in 24/7 work schedules. National Bank of Arizona processed 5000 loans, averaging $42,000 per loan approval. However, the Bank is still processing round two requests, which will bring the national PPP loan total to over four billion dollars. At this time, there is some uncertainty with loan forgiveness requirements and constraints. A slow and steady rebound is expected.

Due to a lack of time, land was not discussed and so here are a few insights I can offer. The bad news is that other than fully improved residential lots, demand for raw land is close to zero. The good news is that to date and to my knowledge, very few existing land escrows have been canceled. What has changed is that National Home Builders have requested (and received) extensions from Sellers. Currently, they will not risk putting up non-refundable dollars and they will not close on existing transactions (again, other than fully improved lots). Builders want to be positioned to close on land deals as soon as the market is ready. Personally, I have several multifamily and commercial parcels currently in escrow, and again, Buyers so far, continue to spend planning and engineering dollars, but will not close at this time. Needless to say, demand for land will not return until the word absorption returns to our vocabulary.

The Council will meet (or ZOOM) together on August 20th at the Tucson Association of Realtors. Results of an updated research report on Pima County's residential marketplace will be presented That presentation was scheduled for our May meeting. As luck would have it, all research for the report was completed just before the COVID-19 disruption started, instantly leaving research results obsolete. The Council is honored to have Lucinda Smedley, *TRENDreport* publisher and Principal of Real Estate Consulting Groupy, leading all residential research efforts. To register for the meeting or for membership information, visit pcrerc.com.

Jim Marian is a founding Partner and designated broker for Chapman Lindsey Commercial Real Estate Services LLC. He is also an MRED adjunct lecturer and faculty member at the University of Arizona. He can be reached at jbm@ccim.net.



THE REFINERY COMES OUT FROM GROUND AT UA TECH PARK AT THE BRIDGES

» by Carol Stewart

Tech Parks Arizona has broken ground on the first multi-tenant building at the University of Arizona Tech Park at The Bridges with development partner The Boyer Company.

The first building, named The Refinery, will provide 120,000 square feet of office space for small-to-midsize tech-focused businesses and organizations. The four-story building will also serve as an ecosystem center for invention development and product refinement.

The University of Arizona has committed 50% of the space for commercialization and innovation. Activities housed at The Refinery will include the University of Arizona Applied Research Corp. and the University's cyberoperations program; the new offices for Tech Launch Arizona; an incubator outpost and programming through the University of Arizona Center for Innovation; plus space for students and faculty.

At the groundbreaking, University of Arizona President Robert C. Robbins said the park sends a message to prospective students and faculty. "You can come to the University of Arizona and do great things," Robbins said. "You don't have to go to the Bay Area, you don't have to go to Tech Square (in Atlanta) or the Research Triangle in North Carolina to have the idea to invent the next Amazon or Google. You can do it right here at the University of Arizona, right on this space. This is going to be the catalyst that helps put us on the map and make the world a better place."

"The University of Arizona Tech Park at The Bridges will connect academia and industry in a place where innovation and entrepreneurship will flourish, from concept to consumer. It will be a hub for idea exploration, product development and unique collaboration—one space where we can advance our ability to innovate solutions to address our greatest challenges and develop pathways to move those inventions outward into Arizona and beyond to create real-world impact," explained Dr. Elizabeth "Betsy" Cantwell, senior vice president for research and innovation at the University of Arizona.

"The University of Arizona academic community is dreaming big and creating incredible innovations to make a better world. We are all excited for the energy and opportunities that will be created by placing all of these entrepreneurial resources in one location," stated Doug Hockstad, assistant vice president of Tech Launch Arizona.

The University of Arizona Tech Park at The Bridges is a 65-acre community of innovation within a larger 350-acre mixed-use development project just north of Interstate 10, bordered by Kino Parkway to the east and 36th Street to the north. The Bridges is located 3.5 miles south of the main University of Arizona campus.

"We are working collaboratively with this community and the developer to create a future-focused environment for technology to thrive. We decided to build The Refinery next to the mine, meaning that companies who locate here can mine talent directly from the university campus just down the road. This unique opportunity allows leading-edge technology companies to recruit the best and brightest talent, providing graduates with engaging employment and students with hands-on internships," revealed Carol Stewart, associate vice president for Tech Parks Arizona.

The Boyer Company is headquartered in Salt Lake City and also maintains an office in Phoenix. The company is one of the largest full-service real estate development firms in the Western United States.

Conceptual image of The Refinery building at the UA Tech Park at the Bridges

"We are excited to partner with the University of Arizona and the Tech Park team on what we expect will be the first of many buildings within The Bridges," shared Matt Jensen, a partner, and project manager with The Boyer Company. "This project has been a long time in the making and is the direct result of strong leadership within the university. Boyer is grateful for the trust the university is putting in us as the developer and is committed to making the project a long-term success."

The Refinery building is part of the Technology Zone within the Tech Park at The Bridges with long-term development plans that include up to five office and lab buildings for public, private and academic users. The Technology Zone encompasses 20 acres of land within the park and is one of four planned zones, the others being Corporate, University and Business Zones.

Carol Stewart is Associate Vice President for Tech Parks Arizona at the University of Arizona. She is responsible for the UA Tech Park at Rita Road and the UA Tech Park at the Bridges and serves as president of the Campus Research Corporation. She is also president of the UA Center for Innovation, a technology business incubator serving the University of Arizona and Tucson community. Ms. Stewart is an experienced research park leader with a more than 30-year career serving the academic/not-for-profit sector, as well as the high-tech industry. She can be reached at stewartc@uatechpark.org.

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Thanks to the coronavirus, businesses have been forced to work smarter, faster and more creatively than they did just two months ago.

To capitalize on this forward momentum, now is the perfect time for CEOs to reimagine their business model. Those who step up their game now and outpace their competition will be more prepared to confront the new challenges and opportunities of this new normal and future crises that are sure to come.

Here some of the best practices that we've seen companies implement to survive and thrive during this pandemic, as well as the Great Recession of 2007–2009. All strategies focus on speed, innovation, adaptability, and creativity.

Rethink Your Organization

Now, as the world and businesses begin to open back up, what companies have learned can't be undone. Clear goals, a flatter organization, rapid decisions, delegated responsibility to capable teams, and the need to accelerate sales processes have replaced old models where corporate bureaucracy ruled.

Strategy, roles, personal accountability, and leadership that is focused, supportive, and demanding is more critical.

And expectations between the employee and its employers have changed. Employees now demand their employer puts their safety and the safety of their communities first.

What matters most becomes very clear in a crisis. Businesses must commit to not going back to old ways.

Adapt to New Consumer Trends

CEOs will face some fundamental challenges. One is that consumer opinions, behaviors and purchasing patterns have changed significantly and will continue to do so.

Another challenge is that how the economy comes back to life in each country and city will differ. For example, consumers may feel comfortable going to restaurants before they will consider getting on a plane or going to sporting events.

Early signals of increased consumer demand will likely come suddenly, so businesses must be prepared to analyze these demand signals in real time and adapt quickly to bring products and services back to meet these demands. The speed at which companies can respond will be essential for companies to successfully navigate the recovery.

Establish New Regional/Local Supply-Chain Partnerships

Given current disruptions in global supply chains, adaptability in the entire supply-chain process is essential. This will mean businesses must consider nontraditional collaborations and partnerships with suppliers globally—and regionally—to survive current and future crises.

The coronavirus crisis has taught us that the global-sourcing model in product-driven chains requires new technologies and regional and local suppliers to reliably respond to new consumer-demand patterns in the future.

Implement Routine Action and Accountability

CEOs must establish a regular routine that rewards agility and accountability, such as daily team check-ins, weekly manager reviews, and monthly C-Suite reviews.

Accelerate Use of Digital, Tech, and Analytics

Our world is witnessing what will be remembered as the historic deployment of remote workers and digital access to services across every domain.

COVID-19 has accelerated the global shift to digital, and successful companies will use advanced analytics to combine new sources of data with their own insights to make better and faster decisions and strengthen their connections with customers.

CEOs will need to set an ambitious digital plan to address how their companies can address the new way we work, socialize, travel, get medical care, recreate, and conduct many of the routine activities of life.

Enact New, Flexible Sales Models

According to a survey conducted by McKinsey in April, sixty percent of businesses said that their new remote sales models were proving as much (29 percent) or more (31 percent) effective than traditional channels.

Thus, it is important to identify primary sources of revenue and make critical moves that need to happen now before the recovery fully starts.

This may include launching targeted marketing and sales campaigns to win back loyal customers; developing new customer experiences focused on increased health and safety; adjusting pricing and promotions based on new data; reallocating marketing/sales spending to proven growth sources; training the sales force to support remote selling; creating flexible payment terms; digitizing sales channels; and automating processes to free up sales representatives to sell more.

Embracing the Future of Work

COVID-19 has accelerated the coming of the fourth industrial revolution (when business accelerate the use of more automation and technology).

Employees across all functions have learned how to complete tasks remotely using digital communication and collaboration tools. In operations, manual tasks will continue to decline and there will be an increased need for more analytical and technical support.

This shift to more automation and technology also will call for a substantial investment in workforce training to adopt new skills using digital tools. CEOs need to act now to bring their employees up-to-speed.

Form Strategic Partnerships

Leaders need to move their businesses from a closed organization to an open culture that fosters strategic, mutually beneficial partnerships inside and outside the organization.

Those organizations that make the shift to partnerships using digital platforms and networks have proven to be more successful during a crisis.

Move from running to building your business

CEOs today must disrupt the status quo and move from running their business to building their business by asking a few guiding questions:

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» by Ryan Vondrak

COVID-19 has had unparalleled impact on the world the past 90 days and changed the mindset and behavior for the foreseeable future. As the Chief Capital Markets Officer for NOVA, the impacts from COVID-19 have challenged the Capital Markets globally and I want to share my perspective on how the impact has been felt within the mortgage market. At the onset of March, the mortgage backed securities (MBS) bond market which drives interest rates that borrowers pay began to struggle and show signs of instability. The instability resulted from an oversupply of MBS bonds and not enough demand within the Capital Markets to absorb the supply. The demand for MBS bonds comes from sovereign wealth funds, private equity firms, state retirements funds, mutual funds, and insurance companies. Many entities that buy United States Treasury bonds also buy MBS bonds. The Federal Reserve quickly recognized the warning signs and stepped in on March 23rd with a statement that the United States Government would buy unlimited MBS and Treasury Bonds to provide liquidity within the marketplace. The immediate response to the Federal Reserve entering the market to buy MBS bonds and backstop the market was mortgage rates falling significantly and spurring a refinance boom in a matter of weeks. Borrowers who previously held mortgages with interest rates above 3.5 percent were now able to save hundreds of dollars on a monthly basis as mortgage rates fell to record lows. Mortgage lenders across the country saw borrower applications increase significantly.

The usual MBS bond buyers walked away from the asset due to the uncertainty about the performance of what they were purchasing. An MBS bond like a United States Treasury bond is purchased for the payment stream. Unlike a Treasury bond in which the payment is secured by the United States Government, an MBS bond is secured by the borrower making the mortgage payment. If the borrower stops making the payment, the MBS bond holder does not receive the payment stream for that portion of the bond. When COVID-19 hit and states began to shut down to prevent the spread of the virus, the unemployment rate began to skyrocket and concerns about the borrower's ability to make mortgage payments became real. In addition, the Federal Housing Finance Authority (FHFA) acted and allowed any borrower impacted by COVID-19 to enter forbearance. Forbearance allows the borrower to work with the servicer of the mortgage to postpone the payment of the loan. Demand within the MBS bond market came to a halt due to concerns over the borrower's ability to meet the demands of the mortgage payments, so the Federal Reserve acted and has restored order.

As we enter the last week of May and look forward to June, the Capital Markets are slowly regaining the normal supply and demand that creates a healthy marketplace. Demand for MBS bonds are still on the light side if the government was not actively purchasing in large quantities, however as the economy begins to reopen and employers bring back employees to work, the future looks promising. Rates will continue to remain low for a prolonged period due to the Federal Reserve continuing to remain active in the purchasing of MBS bonds.

Ryan Vondrak is the Chief Capital Markets Officer for Nova Home Loans. Ryan joined NOVA Financial & Investment Corporation in 2010 to support the creation of a Capital Markets Division. Since joining NOVA, Ryan has produced an organized Lock Desk directed by lock policies, hedge strategy and procedures, a Product Development team, a Mandatory team selling to multiple investors and agencies direct, and a Specialty Lending team to manage unique loan programs. He can be reached at ryan.vondrak@novahomeloans.com.

HOW TO RE-IMAGINE YOUR BUSINESS TO THRIVE POST COVID-19

» by Linda Welter

- How do we get better at identifying our points of failure?
- How can we empower teams to solve these failures (through market testing)?
- How can we globally scale the winning business concepts that arise from market testing?

The companies that emerge stronger from the pandemic will disrupt the status quo and step confidently from this crisis into a changed, new world by building new businesses and profit lines that respond to changing consumer needs.

Businesses can't go back to the way they were. Instead, they must rethink how they can become more adaptable and flexible in how they operate, use technology, partner, sell, and compete not only with scale, but also with speed.

Those businesses that can successfully reposition now are the businesses that will thrive in the future.

Linda Welter is CEO & Principal of the Caliber Group, a Tucson-based brand positioning and crisis/issues management firm that provides business consulting, leadership development, and brand marketing strategy to help businesses reposition and build value during challenging times. Linda can be reached at welter@calibergroup.com.

» by James Bradley

In the March issue of *TRENDreport*, I reported on the February 19, 2020 29th Annual CCIM Forecast that occurred. At the forecast all indications were positive as to the future of commercial real estate in Tucson. I did mention that there was this COVID-19 appearing in the economy that might have an impact upon the markets. As we now know, the impact of the COVID-19 pandemic has changed not only our day to day lives, but also the short-term future of commercial real estate in Tucson.

To being with, as an appraiser it is my job to be able to determine the future benefits of owning, renting or investing in real estate. In these uncertain times, this task has become relatively impossible. The following is a statement that I am currently including in all of the appraisals.

The effect of the current and ongoing pandemic outbreak of SARS COV-2 (COVID-19/Coronavirus) throughout the world and the United States on the real estate market is uncertain. A prolonged pandemic could have a significant, though unquantifiable impact on various sectors of the commercial property market. No market data, post pandemic, was available for this analysis. Our interviews with various market participants have not yet indicated material impacts on commercial property markets as of the date of value, though the business slowdown due to various restrictions on travel and public assembly has only recently occurred. While my conclusion is considered valid as of the specified date of value, future impacts to my value conclusion are unclear, depending on the timing and extent of the national and regional economy returning to normal market conditions.

As you can understand, there has not been enough time for the market to reflect the changes that are occurring, let alone let an appraiser the ability to truly weight these changes on any one property. However, I have discussed the various real estate markets to determine where the most impacts will be. This is how I believe the commercial real estate markets in Tucson will be impacted by COVID-19. My observations follow.

Industrial

This sector is considered to be the most stable in the Tucson area. As the other articles in this issue of the TREND report indicated, there should continue to be demand for space in the area by both owners and tenants. My understanding is that the industrial sector will be the least impacted by COVID-19.

Office

The office market in Tucson is bifurcated. There is the medical office market and the traditional office market. All indications are that the medial office market should continue to be strong with demand by both owner users and tenants. However, the traditional office market will have difficulties over the next couple of years. Some of the changes will be the result of many office users having their staff work from home since the middle of March. As many office users and their staff are getting accustomed to working remotely and using conferencing programs like Zoom, the demand for traditional office space should decrease. This will result in the downsizing of the office needs of many existing office users in the market. The impact of remote commuting will have landlords decreasing rental rates, making more concessions and a general increase of office vacancies for a number of years into the future.

Retail

As we are all aware, a number of national retail chains have gone into bankruptcy over the past two months, with more expected to follow this summer. The fall out of these bankruptcies will be a number of vacancies in larger spaces in Tucson. In addition, the difficulties in operating profitably smaller businesses will result in a number of smaller, local operations also going out of business. The combination of these factors will result in a general decrease in rental rates and an increase in vacancy for the next couple of years.

Restaurants

The closure of indoor dining in the middle of March decimated this sector of the market. Most restaurants that stayed open indicated that their business was down over 80%. Even now that restaurants are able to have indoor dining, the new operating restrictions will make many more of the restaurants we previously frequented, difficult to operate successfully. In addition, the inability of restaurants to have buffets and other restrictions is predicted to result in over 25% of all restaurants not reopening or closing in the next year. This will result in rent and the value of most restaurant spaces to decrease dramatically in Tucson in the near term. This sector of the market will be one of the most adversely hit by COVID-19. Of course, those restaurant operations that provide take out and drive-thru food services will be the least impacted.

Lodging

The Tucson market was just seeing growth in the lodging market in late 2019 and early 2020 with two new hotels under construction in downtown. As we are all aware, most travel has essentially ceased in both the business and leisure sectors of the market. This has resulted in a reported decrease of hotel rooms by over 80%. It is expected that due to effects of COVID-19 and the cancellation of most conventions, business travel and leisure travel into the summer, fall and winter of 2020, this sector will see many facilities have severe difficulties. This will result in a number of bankruptcies and loan work outs. The value of lodging facilities is expected to decrease to reflect the decrease in demand. As such, after the two hotels under development are completed, it will likely be years into the future prior to new lodging development in the area.

Multi-Family

The apartment sector of the market will have its own difficulties over the next couple of years. With high unemployment there will be a consolidation of households in the market. This will result in the demand for apartments to decrease over the near term. Rents can be expected to flatten if not decrease for a while and concessions to increase. The multi-family market will also see increased vacancies. However, it is expected that the apartment sector of the Tucson market will not be as adversely impacted as the others noted, and will rebound quickly as employment increases.

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VAIL CROSSINGS UPDATE

» by Randy Emerson

Vail Crossings, a 400 acre strategically located parcel of freeway adjacent development land in Vail was acquired several years ago by investor/developer RMG Vail II, LLC. The property has over a mile of direct frontage on the north side of I-10 between the Colossal Cave/Wentworth Road and I-83 interchanges. The land is hard zoned Pima County CI-1 which permits a wide variety of commercial and industrial uses including manufacturing, R & D, distribution, back office, data center, and fulfillment. A unique feature of Vail Crossings is that the land is also subject to a Pima County horizontal mixed use ordinance which permits up to 50% of the land to be developed for residential, a use otherwise not permitted in CI-1. The land enjoys gentle topography which lends itself to development and other than sewer, is shovel ready.

The owners have been working closely with Pima County on a master sewer service agreement providing for an extension which would connect the property to an existing 15" interceptor at Mary Ann Cleveland and Red Iron Trail, a distance of about 3 miles. Concurrently, the owners are working with The Planning Center to prepare a submittal to Pima County Design Review Committee for approval of a mixed use master plan. The master plan provides for an integrated work-live-play community including 600 new homes and 150 acres of commercial/industrial development. Vail continues to be one of the most active residential submarkets and Vail Crossings will deliver up to 600 production lots to homebuilders by 2022.

Sewer construction is expected to begin by the end of this year with service connected in early 2022. According to economic development experts, Tucson is seeing its share of requirements for "shovel ready" land for large scale projects of 50-100 acres or more. Vail Crossings may be the largest, hard zoned, freeway adjacent industrial parcel in Pima County. Interest in Vail Crossings should increase significantly once sewer is extended to the site. The Tucson industrial market is dynamic and currently has a vacancy rate below 6%. There are few options for a company looking to occupy 200,000+ square feet. A hard zoned, shovel ready 300 acre site adjacent to I-10 creates a rare opportunity for Tucson to compete for nearly any large regional or national requirement.

Randy Emerson is a Partner and the Designated Broker at GRE Partners. Randy focuses primarily on commercial and residential land brokerage. In addition to being a licensed real estate broker, he is also a registered architect. Randy has been involved for 30 years in all facets of real estate including design, entitlement, finance, brokerage, development and marketing. He can be reached at remerson@grepartners.com.

OUR UNCERTAIN WORLD

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Other Commercial Uses

The adverse impact of COVID-19 and the anticipated changes in the behavior of the population will also see changes in demand for other uses including religious facilities, schools and entertainment. As religious organizations have provided on line coverage of services, it can be expected that attendance at physical services may never fully recover. Our educational processes have also changed dramatically in these past three months. On line education will continue to increase into the future with a commensurate decrease in demand for classrooms. This will probably impact educational facilities at all ages. Similarly, entertainment facilities such as movie theaters, concert venues and bars will continue to have difficulties due to changes in consumer behavior and the social distancing requirements over the next year. The long-term impacts are uncertain, but appear to make these facilities difficult to operate in the new norm.

Summary

Tucson had a strong economy going into February 2020 prior to COVID-19 hitting the market. As noted, it can be expected that most sectors of the Tucson commercial real estate market will be adversely impacted. To what extent each of the sectors is impacted remains to be seen. As appraisers we need to understand the changes that are occurring and take those changes into consideration. However, knowing that Tucson should rebound as quickly as any community in the country, hopefully most of this adversity will be short term and Tucson will again become a leader in the nation in terms of employment and population growth, which will allow the commercial sectors of the market to recover quickly.

James S. Bradley, CCIM, MAI is the president elect of the Southern Arizona Chapter of CCIM. He has 35 years of commercial real estate appraisal experience in Arizona and is president owner of Axia Real Estate Appraisers. He can be reached at jim@axiaappraisers.com.

» by Allyson Solomon

MPA has launched a new program, Immersion, aimed at cultivating industry experts and leaders. Immersion is a non-partisan professional and leadership development program whose goal is to provide attendees in depth knowledge about each segment of Southern Arizona's construction, real estate and development sectors. Professional development, industry focused education and civic engagement are a few of the benefits participants will receive from this three-month program.

Each session will be led by established industry professionals and community leaders from both the public and private sector, providing participants beneficial connections in addition to knowledge. Immersion hosts cohort(s) in which participants expand their knowledge of development in our region and become strong industry and community leaders.

MPA's Immersion program is created exclusively for early to mid-career professionals and future industry leaders. It is a great opportunity to learn every segment of the business and network with peers and leaders in our industry. Each class will be comprised of between 20 and 30 industry professionals and will be carefully selected to ensure a variety of disciplines and experiences are represented within it.

The fall 2020 program will run from August 14th through October 23rd. Each course day will be comprised of two topic sessions each lasting two hours, resulting in a total of 12 topics covered over the duration of the program. MPA is accepting applications for our first cohort of 20 participants, applications are due June 30th and can be found on the homepage of our website www.mpaaz.org. The 12 topics being covered in the fall of 2020 are as follows:

Course 1

1. Understanding the significance of land development in Southern Arizona's economy: the historical role that development plays in economic development
   Description: This topic will introduce the concept of land development being an economic development tool. We will explore some of the impactful events and policies that have taken place over the last 30 years that have shaped the industry.
2. Market analysis
   Description: This topic will provide a general understanding of the residential and commercial development markets and how they are drivers of economic development.

Course 2

1. Urban/infill development vs. suburban development
   Description: This topic will cover urban/infill development and how it differs from suburban development. While both types of development require permitting, entitlements, financing and construction, the paths to successfully executing either is quite different.
2. All Things Legal: acquisitions, contracts, legal partnerships and a developer's rights
   Description: This topic breaks down the legal and regulatory aspects involved in acquiring and developing a project as well as the role that state statutes play in the development process. The importance of due diligence will be covered along with the art of negotiating a contract and how it can protect the land/project owner's interests.

Course 3

1. The Public Process: Planning/entitlements/zoning
   Description: This topic will introduce the concept of Specific Plans, Development Agreements, rezoning, permitting and the public approval process. Much of the land development process is following code, this topic helps to layout the path to gaining approval to move forward with a project.
2. Infrastructure, the building blocks of a community: water, wastewater, roads, schools, parks and public transportation.
   Description: For a project to be viable, it must have access to water, wastewater, utilities, roads, schools, parks and public transportation. This topic addresses the process by which use of these are granted and the interconnected role they play in creating a healthy community.

Course 4

1. Working with the jurisdictions and neighborhoods: how the private sector interacts with the public sector to create sustainable development projects.
   Description: This topic explores the process of working with the local municipalities and neighborhoods as a project travels through the public process to gain approval by the local elected bodies. Many projects must undergo a rezoning or a specific plan amendment or a planned area development before they can begin construction.
2. Financing: public/private, capital markets, investors, appraisals, impact fees and incentives
   Description: Where and how to invest money in the development process and how to reduce the risk of investing in the real estate market.

Course 5

1. Site Design/Development Plans/Plats, Architectural Design, Civil Plans
   Description: Great projects require great design teams to address the physical aspects of development that best use the land, zoning and location while creating inspirational spaces. Technical aspects include site selection and planning, optimizing building design, grading, hydrology, utilities and landscape plans.
2. Construction: Selection processes/considerations, administration of the contract
   Description: Great projects also require a great construction team that builds, efficiently, safely and sustainably. This topic explores effective hiring/managing of a construction firm using qualifications based or low bid selection, ensuring a team-based approach and the process of construction administration to successful completion.

Course 6

1. Property management and closing
   Description: Once a project is completed, both residential and commercial, it may need to be sold, leased and or managed. This topic explores the role that commercial brokers play in leasing and

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INDUSTRIAL REAL ESTATE CAPITALIZES ON THE RETAIL DOWNTURN

» by Max Fisher

Despite the massive economic effects from the virus, the Tucson industrial market continues to stay strong. The vacancy rate is 6.1% and we expect that rate to remain around 6–6.5% over the next year. As of May 16, in Arizona alone, 72,523 PPP loans were approved, totaling over $8.6 Billion dollars. The amount received in Tucson is unknown at this time but this significant amount of money has provided a backstop or life line to a lot of small businesses in Tucson. This is a reason why there has not been much change to the occupancy rate in Tucson to date. We also expect small bay industrial to remain strong as most tenants are considered "essential", commodity driven and not affected by closures. Small bay industrial spaces less than 10,000 SF are 95% filled with lease rates increasing 10–20% over the past two years. Larger bay industrial spaces have smaller rent increases and are steadily filling up, mostly driven by the building materials market and Ecommerce distribution.

We can attribute this continued industrial market strength to three main economic drivers; distribution, the mining industry, and the housing market.

As retail starts to feel the effects of the virus shut down, last mile distribution is quickly becoming an emerging market. Lately we have seen expansions from GoPuff, Amazon, Carvana and Doordash. We are confident that other distribution companies and retailers will be forced to follow suit as consumers create more demand for doorstep deliveries. Lately we have seen retailers poking around in the industrial market more than ever. This trend was already beginning pre-virus but the quarantine has accelerated the trend as consumers are stuck at home but still need to buy product.

The second driver is the mining industry. Within the past few years there has been a shift from gasoline powered engines to electric motors. This shift combined with a growing housing market has created more demand for minerals such as copper, zinc and lithium. It just so happens that our region has all three of those minerals. New mines are popping up left and right throughout Arizona. There are also many new land acquisitions North of Tucson that seem to be mining related. There is also rumored to be a massive lithium deposit less than 4 hours away from Tucson. This increased mining activity will attract new suppliers and vendors to the region, similar to Hexagon and Caterpillar.

As the virus continues to damage the economy, the housing market seems to feel little effects. There continues to be multiple offers on listings and renters are having trouble finding housing, especially affordable housing. This high demand, low supply scenario creates a perfect storm for housing developers. This increased development directly benefits the industrial market as the developers need warehouses and industrial yards to store building materials. There is also a huge demand for trades related businesses that serve the housing market. Those trades related businesses typically occupy small to mid-sized industrial property. Some of the larger leases and sales recently were building materials related.

One trend to watch for within the next few years is an increase in domestic manufacturing and a total supply chain shift. Phoenix just landed an Apple related nano-chip manufacturing deal that was previously in China. Elon Musk threatens to move Tesla from California to Texas as the lockdown continues in California. Car manufacturers look to build a manufacturing presence in Arizona and tariff tiffs continue to be an issue. Companies want stability and it seems like domestic manufacturing and distribution solves that problem right now. It seems that most of the country sees the value and importance in brining manufacturing and supply chain back to the US and I think this will create a massive Global shift.

Max Fisher is a commercial broker with Cushman & Wakefield | PICOR. He specializes in the sale and leasing of warehousing, manufacturing, R&D, industrial yard, flex, and distribution properties. He can be reached at mfisher@picor.com.

IMMERSION: DEVELOPING KNOWLEDGE AND RELATIONSHIPS

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selling the land as well as managing developments and properties.

2. Wrap Up: Site Tour
   Description: Participants will enjoy a site tour of a development project, connecting the dots of the previous 11 topics, as the conclusion of this course.

MPA is dedicated to providing advocacy, education and relationship building for the land use and development community of the greater Tucson region. Unique to the region, MPA is an alliance of business, government and non-profit organizations. MPA's goals relate to improving our region's quality of life and economic vitality. Land development is the foundation of economic development and our role in the community is to advocate for balanced residential and commercial land use policies that stimulate economic development and reasonably preserves our natural environment.

Allyson Solomon is the Executive Director of Metropolitan Pima Alliance (MPA). MPA works to create a prosperous community by promoting collaborative real estate policies, building partnerships and finding common ground. She can be reached at allyson@mpaaz.org.

COUNTY B2B COMMITTEES PROMOTE PUBLIC-PRIVATE PARTNERSHIPS

» by Chuck Huckelberry

Like other governments across Arizona, Pima County has worked tirelessly through the COVID-19 pandemic response in an effort to protect public health while continuing to provide essential public services.

Part of this effort has been to provide assistance to the business community, many sectors of which have struggled to stay afloat amid the necessary health safety measures enacted at the state level, which have left many businesses unable to open.

To prepare for the anticipated lifting of Gov. Doug Ducey's "Stay Home, Stay Healthy, Stay Connected" orders, Pima County established a Back to Business Steering Committee in April with the intention of engaging community members from various sectors, including public, private, nonprofit, and faith-based organizations. This was done with the goal of balancing the needs of the business community as they planned to get back to work with the primary concern of public health and safety.

The critical task for the County's Back to Business taskforce was to devise a plan that would safely facilitate the reopening of the community's businesses. This required the establishment of a framework of hygiene and physical distancing standards for businesses to begin to reopen, in a limited and phased manner.

The County invited members of the business community from as many industries as possible to participate. Nearly 130 members of the community answered the call to participate in the Back to Business Steering Committee and the five subcommittees established to address reopening and public health. Over the course of six meetings, this wide swath of the community collected input and weighed the concerns of all the various sectors.

In addition, a County online poll gathered input on the priorities for reopening from nearly 9,000 community members. The majority of those who replied indicated an overwhelming emphasis on worker and public safety as businesses prepare to reopen.

Taking all this input into consideration, County staff drafted temporary code amendments specific to bars, restaurants, gyms, fitness centers, and public and semi-public swimming pools.

The Board of Supervisors discussed these code amendments at two meetings, where with copious feedback from the business community, specificity and clarity were added to allow the business community to more easily adopt the safety measures and comply with the temporary rules.

The adopted rules follow state guidelines under the governor's "Stay Healthy, Return Smarter, Return Stronger" executive order and health recommendations the Centers for Disease Control devised, but also add specific measures to provide the needed guidance to ensure effectiveness.

While these are sensible, common-sense regulations, the County understands they add a new layer to the existing standards. To help alleviate any burdens these temporary regulations created, particularly on the restaurant industry, Pima County has allowed the expansion of food and drink service to areas outside traditional dining areas, including parking lots, sidewalks, vacant portions of adjacent spaces. In addition, temporary shade or tent structures also will be allowed for customer service.

These measures were designed to help restaurants and bars reach their full-service capacities, in some instances even surpass them, while maintaining the required social distancing that has proven effective in reducing the spread of COVID-19.

The hotel and resort regulations adopted sought to facilitate use of pools and spas while protecting the public. These regulations limit capacity of pools and require physical distancing within gyms or other area where patrons may queue or congregate. The temporary regulations also require hand sanitizers be available at or near entrances to the facility, restrooms and in employee work areas.

The County also promoted, but did not require, cashless and minimum touch payment systems to protect customers and staff.

While Pima County fully recognizes these temporary regulations created some inconveniences and logistical challenges for businesses, they were not adopted with the intention of making compliance needlessly difficult. These regulations are intended to facilitate reopening while allowing businesses to reassure the public that their safety will be protected.

The County knows that the vast majority of businesses in the community are conscientious and ethical in their responsibilities to public safety. Their reputations rely on the public feeling safe when patronizing their establishments. Pima County wants to fortify those reputations, by providing a readymade framework for companies to operate within that places even greater emphasis on public health and safety during this uncertain time.

County will also reward businesses that follow the guidelines with a badge that can be placed at their entrances, identifying them as one that is following the County's protective public health measures. These business' names also will be posted on the internet as having received the badge and letting the public know their establishments are working with the Health Department to slow or prevent the spread of the coronavirus.

Through this effort, Pima County has shown that listening to the concerns of the business community and staying mindful of what public health officials tell us about safety during the pandemic can result in a meaningful public-private partnership that serves the best interest of the entire community.

Chuck Huckelberry is the Pima County Administrator, a position he has held since 1993. He earned an Engineering Degree from the University of Arizona and has worked for Pima County since 1974. He can be reasched at CHH@pima.gov.

» by Lucinda Smedley

As I write this month's Editor's Insights, our recently revitalized downtown has been vandalized during the protests with dumpster fires, numerous broken windows of downtown businesses and buildings spray painted. The Governor has issued a Statewide Declaration of Emergency with a week-long evening curfew. Unfortunately, many of the vandalized buildings were restaurants that had only just reopened for business. Despite this temporary setback to our downtown, I am encouraged by the professionalism of our Tucson Police Department led by Chief Chris Magnus, the tremendous work of the Downtown Tucson Partnership led by Kathleen Eriksen and the community response which can be seen in the images below which I took during a drive through downtown on Saturday. I am confident that Downtown Tucson will soon thrive once again.

We are very grateful to the contributors to this month's issue of TREND report focusing on the industrial sector—Bill Rodewald of Harsch Investment Properties, Gordon Wicker of Quality Valuation Inc, Max Fisher with Cushman & Wakefield|PICOR, Randy Emerson with GRE Partners and Carol Stewart with Tech Parks Arizona at the University of Arizona. The issue also includes a CRE market update from Jim Marian of Chapman Lindsey which was presented at the recent PCRERC meeting, a market update from the appraiser perspective authored by Jim Bradley with Axia Appraisers, and a capital markets update from Ryan Vondrak of NOVA Home Loans.

The issue includes a couple of article related to the pandemic insights on the County's B2B committees authored by Chuck Huckelberry, Pima County Administrator, and wisdom from Linda Welter of Caliber Group on how to re-imagine your business to thrive post COVID-19.

Lastly, Allyson Solomon of Metropolitan Pima Alliance has authored an overview of MPA's new program, Immersion which is designed to develop future industry experts and leaders. This is a very exciting non-partisan program that will bring together participants from the public, private and non-profit sectors. More information on the program is available at mpaaz.org.

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