



BUSINESS OUTLOOK FOR COMMERCIAL REAL ESTATE 2013 **By Dave Gallaher, CCIM, Tucson Industrial Realty LLC**

As many of you know, this is the time of year for annual forecasts and predictions of real estate activity for the coming year. The Southern Arizona Chapter of CCIM recently held their forecast last week and we will comment on that later. This past Friday I attended the MPA (Metropolitan Pima Alliance) annual forecast and we had several guests do several presentations. The first part of the program was presented by members of the Town of Marana Development Services. Besides this week's golf tournament, there are many positive things happening in northern Pima County.

There were 514 Single Family permits issued in 2013 as compared to 335 in 2011. This northern part of the County accounts for a good share of the total permits issued County wide. Meritage Homes officials mentioned they have three new model home communities opening this week in time for the gala of the golf tournament. Commercial activity was slow with 130 certificates of occupancy issued in 2012 but this will pick up in 2013. The Twin Peaks interchange promises to bring new growth into the area. Pulte Homes is opening a new project near the Ritz Carlton. There are several new multi family projects that will add almost 450 new apartments into the market. The Town of Marana Health Center is adding 126 units of multi family (senior) to the sector. Two projects west of the Tucson Mountains are being put back together after being abandoned in 07/08 under different owners. DR Horton is one of the newer players. Their new project Oasis Hills is coming together quickly.

New road projects are being finalized by the RTA for 2016. There will be a new interchange for Ina/I-10 and Tangerine Rd will be expanded to four lanes in 2016.

The second half of the forecast was presented by Bob "Good News" Bach who is the National Director of Market Analytics and came from Chicago. Bob is with Newmark Grubb Knight Frank (think Grubb and Ellis). He is predicting a GDP in 2013 of 2% which is not much different from where we have been. He is predicting 4% in 2014. The new payroll taxes on workers will take awhile to be accounted for with personal spending. Inflation will stay in the 2% area and this will be closely watched by the Federal Reserve. Ten year treasuries yielded 1.8% at the end of December and may reach 2% near the end of the year. While there is some concern about inflation down the road, as interest rates may rise, cap rates may increase also. This generally means that prices may see some decline. Bob's forecast was the opposite of this and predicts that as rates rise, cap rates may decline and we will see some increase in commercial real estate values. Commercial real estate continues to offer good to moderate returns as compared to other investments. Remember, "Good News Bob" works for a large commercial real estate firm.

Tucson is still down 25,900 jobs from our employment peak in 2007. While Phoenix has improved more rapidly, Tucson is slower to recover. I wish someone would tell this to Pima County and maybe make accommodation for the growth and expansion of small business easier. Tucson is at the bottom of the market with such places as Cincinnati, Birmingham, and Albuquerque as far as economic recovery.

Industrial vacancy rates nationally will be reduced as the small recovery gathers steam. Average rental rates are bouncing along the bottom and should increase mid year by a small amount. Retail center should improve but local neighborhood centers will struggle. The average cap rates for industrial will be in the 8% range nationally and slightly higher at 9% locally for the coming year.

So we have some good news and not so good news. Economic recovery for many businesses tends to be slow. We see this first hand in some of the various vacancies for manufacturing facilities with some of the larger sales made to investment groups vs actual users of the properties.

It was an interesting presentation and in line with other predictions both locally and nationally. If you would like further information or have any questions, please feel free to call us at Tucson Industrial Realty, LLC at 520-294-1610.