

MARKETBEAT

TUCSON OFFICE REPORT



1Q08

AT A GLANCE

- Lease rates in class A and B offices accelerated in 2007 but the trend has not continued in 2008. Concessions are being offered by landlords as an incentive to secure renewals and new tenants.
- New office construction continues to move forward. In excess of one million square feet of new office space is under active planning in some 30 + developments. In light of the market's economic uncertainties, this pace of new development could represent a supply for the next three or four years. Pricing of new for-sale and for-lease office inventory continues to increase. Inflationary pressures, burdensome municipal impact fees and the increasing cost of zoned developable land are primary reasons.
- Cap rates for investment property are expected to remain in the low to mid-7% range. High-quality investment properties will still command premium pricing, however.

ECONOMIC INDICATORS

| National | 2006 | 2007 | 2008F |
|-------------------|------|------|-------|
| GDP Growth | 2.9% | 2.2% | 1.5% |
| CPI Growth | 3.2% | 2.8% | 3.0% |
| Regional | | | |
| Unemployment | 3.9% | 3.7% | 4.2% |
| Employment Growth | 2.8% | 2.0% | 2.9% |

BEAT ON THE STREET

"The first quarter showed a softening trend in pricing and rental rates and of velocity in the market. The lease of several large vacancies has improved overall vacancy rates, but the pace of activity in standard second generation space is slowing as landlords compete against vacant space to retain tenants. Texas Instruments leased 100,000-sf in the Williams Centre absorbing two vacant 50,000-sf former AOL buildings. Demand for larger call center facilities remains strong in our market with little availability."

-Tom Knox, SIOR
Principal, Commercial Office Properties

MARKET HIGHLIGHTS

SIGNIFICANT 1Q08 NEW LEASE TRANSACTIONS

| BUILDING | TENANT | SF | BUILDING CLASS |
|------------------------------------|--------------------------------|---------|----------------|
| 5401-5421 E. Williams Center Blvd. | Texas Instruments, Inc. | 100,000 | A |
| 201 N. Bonita | Social Security Administration | 23,100 | A |
| Puente Nuevo Plaza | Rick Engineering | 16,900 | A |
| 1840-1860 E. River Rd. | Voyager Expanded Learning | 12,828 | B |

SIGNIFICANT 1Q08 SALE TRANSACTIONS

| BUILDING | BUYER | SF | PURCHASE PRICE |
|-----------------------------------|------------------------|---------|----------------|
| Williams Center Technology Campus | BP WCTC Investors, LLC | 196,848 | \$39,825,000 |
| Alliance Bank Building | Arbor Properties | 25,256 | \$6,375,000 |
| 2855 W. Master Pieces Dr. | Pima County | 9,800 | \$1,900,000 |

SIGNIFICANT 1Q08 CONSTRUCTION COMPLETIONS

| BUILDING | MAJOR TENANT | SF | COMPLETION DATE |
|------------------------------|-----------------------|--------|-----------------|
| St. Joseph's Medical Plaza I | St. Joseph's Hospital | 98,000 | 03/08 |
| Pulte Homes Building | Pulte Homes | 40,000 | 03/08 |
| Sunnyvale Plaza | N/A | 15,644 | 03/08 |

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

| BUILDING | MAJOR TENANT | SF | COMPLETION DATE |
|------------------------|----------------------|--------|-----------------|
| Oracle Medical Plaza | Southwest Orthopedic | 93,000 | 05/09 |
| Magee Corporate Center | N/A | 83,000 | 10/09 |
| Puente Nuevo Plaza | Rick Engineering | 73,000 | 10/09 |

MARKET STATISTICS

| MARKET | INVENTORY | OVERALL VACANCY | YTD LEASING ACTIVITY | DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE psf/yr |
|--------------------|------------|-----------------|----------------------|---|
| Central | 11,175,025 | 8.2% | 10,175 | \$20.44 |
| East | 1,653,776 | 13.7% | 19,391 | \$18.35 |
| North | 3,048,931 | 15.6% | -64,125 | \$23.00 |
| Northeast | 2,062,333 | 7.8% | 9,685 | \$20.65 |
| South/Green Valley | 1,354,287 | 3.7% | 15,844 | \$13.16 |
| West/Northwest | 504,998 | 8.9% | 2,654 | \$20.93 |

*Market terms & definitions based on BOMA and NA/OP standards.

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