

MARKETBEAT

Tucson

Office Q1 2019



TUCSON OFFICE

Economic Indicators

	Q1 18	Q1 19	12-Month Forecast
Tucson Employment	379k	385k	▲
Tucson Unemployment	4.3%	4.7%	▼
U.S. Unemployment	4.1%	3.8%	▼

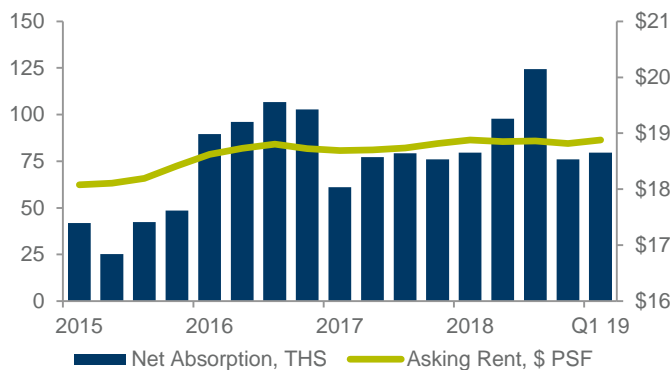
Market Indicators (Overall, All Classes)

	Q1 18	Q1 19	12-Month Forecast
Vacancy	8.9%	8.4%	▼
YTD Net Absorption (sf)	45k	196k	▲
Under Construction (sf)	311k	357k	■
Average Asking Rent*	\$19.11	\$18.68	▲

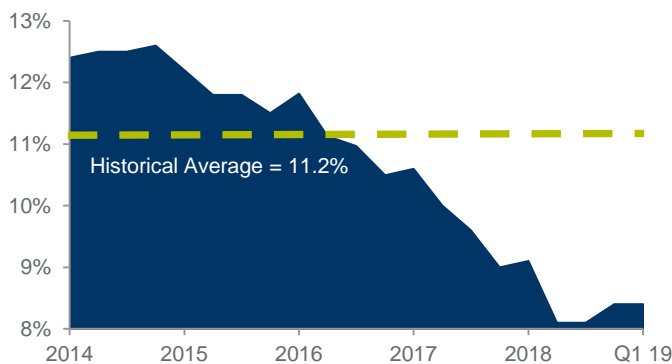
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The state of Arizona is riding an employment high with over 110,000 jobs added in 2018 and continued momentum into 2019, with employment growth ranking third in the nation for the first two months of the year. Tucson continued to experience full employment, ending February at a 4.5% unemployment rate and adding 5,400 jobs over the past year. Occupational areas expected to have the highest growth in the next 12 months are architecture and engineering at 9.0%, Computer and Mathematical at 6.4% and Construction and Extraction at 6.1%. Tucson's average home sales price of \$259,466 was up 4.2% year over year, while new home permits were up 5.2% in the same time period. Taxable retail sales statewide were up 4.9% in January over the prior year.

Market Overview

Tucson office market started 2019 on a positive note with the addition of El Rio's new 50,000 square foot (sf) building. Absorption remained strong with net absorption increasing by 153,874 sf in the first quarter. The highest vacancy rates were seen in the East and Northwest submarkets. Overall market vacancy ended the quarter at 8.4%, while average asking lease rates dipped to \$18.68 per square foot (psf), similar territory to 2017. Office building sale volume increased slightly over the previous quarter, and at \$33.0 million was 66.4% higher than Q1 2018. Prices continued to vary widely from \$34 psf to \$322 psf reflective of the range of stock available for purchase, with average sales psf at \$154.60, trending within the range seen over the previous year. The market will experience two large vacancies in the upcoming quarter as both Caterpillar and GEICO move into new buildings constructed for the companies leaving behind space they were occupying.

Outlook

Federal monetary policy is expected to tighten, and Arizona's GDP is forecasted to tick down slightly from 2.9% in 2018 to 2.8% in 2019. Arizona is on track to retain its Forbes Top 5 rankings for economic momentum and personal income growth. Downtown Tucson's mixed-use development boom will add hospitality to the mix. High demand for hotel beds downtown is being fulfilled with the 170-room Tucson Convention Center hotel by the Caliber Group, The Moxy/Element's 249 rooms, and two Hilton brands at Cathedral Square. Development is blossoming throughout the Tucson metro area. Tucson's infill incentive district and development code is being adopted by other metro areas. Combined with a culture of yes from City leadership and staff, all signs point to renewal and development opportunities in the region.

MARKETBEAT

Tucson

Office Q1 2019



SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)**	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
Central	9,966,341	60,373	1,066,891	11.3%	-25,719	-25,719	21,969	86,716	\$18.11	\$23.08
Downtown	5,576,966	0	230,624	4.1%	193,462	193,462	5,489	64,000	\$21.93	\$27.13
East	1,260,987	0	158,049	12.5%	13,035	13,035	17,945	0	\$15.37	N/A
Foothills	1,344,915	2,450	77,390	5.9%	-3,228	-3,228	12,683	0	\$21.74	N/A
Green Valley/South	360,287	0	19,453	5.4%	-3,181	-3,181	0	0	\$21.04	N/A
North/Oro Valley	3,636,139	5,000	274,521	7.7%	12,975	12,975	1,740	6,737	\$19.68	\$26.00
Northwest	478,783	0	100,273	20.9%	-19,856	-19,856	2,374	0	\$21.38	N/A
Southeast	522,060	0	29,122	5.6%	-3,176	-3,176	0	0	\$17.93	N/A
Southwest	1,843,917	0	56,453	3.1%	29,561	29,561	1,781	200,000	\$12.63	N/A
West	1,657,434	3,885	149,033	9.2%	2,123	2,123	8,757	0	\$14.76	N/A
TUCSON TOTALS	26,647,829	71,708	2,161,809	8.4%	195,996	195,996	72,738	357,453	\$18.68	\$24.10

*Rental rates reflect gross asking \$psf/year

	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	DIRECT AVERAGE ASKING RENT*	OVERALL AVERAGE ASKING RENT*
Class A	3,092,301	25,563	217,483	7.9%	193,091	193,091	1,355	286,716	\$24.63	\$24.10
Class B	18,318,739	42,260	1,749,512	9.8%	-808	-808	66,284	70,737	\$18.19	\$18.11
Class C	5,236,789	3,885	194,814	3.8%	3,713	3,713	5,099	0	\$14.66	\$14.66

Key Lease Transactions Q1 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
7202 E. Rosewood St	17,914	AHCCCS	Lease	East
6400 E. Grant Road, Suite 150 & 160	4,059	Muscular Dystrophy Association, Inc.	Lease	Central
529 W. Wetmore Rd	3,127	Undisclosed	Lease	West
1132 E. Broadway Blvd	2,000	SAGE Counseling, Inc.	Lease	Central

*C&W | PICOR transaction

Key Sales Transactions Q1 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
1701 W. Saint Mary's Rd - Century Medical Plaza	55,000	Healthcare Realty Services Inc./ PMB Real Estate Services	\$2,850,000 / \$52	Downtown
5451 E. Williams Blvd - Williams Centre Technology Campus	49,543	Robertson Properties Group / Allegretti & Company	\$11,025,000 / \$223	Central
40 N. Swan Rd - Forty North Swan Plaza	38,936	Marvin Capital LLC / LLB2 LLC	\$1,325,000 / \$34	Central
2525 E. Broadway Blvd	32,160	Keneth M Silverman / Robert W Assenmacher	\$4,725,000 / \$147	Central

*C&W | PICOR transaction

Cushman & Wakefield | PICOR
5151 E. Broadway, Suite 115
Tucson, Arizona 85711
picor.com

For more information, contact:
Barbi Reuter, President
Tel: +1 520 546 2744
breuter@picor.com

About Cushman & Wakefield

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value by putting ideas into action for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with 48,000 employees in approximately 400 offices and 70 countries. In 2017, the firm had revenue of \$6.9 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

©2019 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.