Economy
Tucson’s regional economy tracked positively alongside state and national metrics at the midpoint of 2019. While slightly behind the broader state’s GDP of 3.2%, at 2.9%, Tucson’s real GDP shined relative to such other western metro areas as San Diego, Salt Lake City, and Las Vegas. Consumer confidence remained strong in both the region and the US, despite tariff concerns. Tucson added 5,900 jobs over the year. Construction, manufacturing, education and healthcare sectors led Tucson’s job growth. By mid-year, Tucson was nearing heights of employment not seen since the cycles of 1969 and 1998.

Market Overview
The Tucson office market experienced strong activity in the second quarter. Overall vacancy rates remained stable at 8.9%. The Southwest submarket posted the lowest vacancy rate at 0.6%, followed by Southeast (3.9%), Foothills (4.2%), and Downtown (4.6%). Higher vacancy rates in the 13.0% - 14.0% range, prevailed in the East, Northwest and Central submarkets. Average lease rates increased slightly also, with the largest increase occurring in the sublet market.

Office inventory increased by approximately 253,000 square feet (sf), largely due to the delivery of two significant corporate buildings for Caterpillar and GEICO. Approximately 160,000 sf of office space remained under construction in the second quarter.

At $61.1 million, sales volume represented one of the two highest quarters since 2011 and was up 86.2% over the first quarter. Cap rates ticked up to 8.4%. Sale prices remained consistent in 2018 at $156 per sf.

Outlook
We expect strength in the market throughout 2019 with increased activity due to growth by local, regional and national firms, and we forecast strength into 2021. Several out of state and international businesses are considering locating to Tucson, while other local employers are managing and exploring growth. Minimal new construction, except for leased or mostly leased projects, should drive positive absorption and rent pressure. Speculative medical and office buildings are being marketed at the Pima Medical Institute Campus and 75 Broadway, and construction will be driven by 50% prelease commitments. Major downtown development remains a bright spot with commercial, hospitality and residential activity. Demographic shifts will drive continued growth in the healthcare industry, resulting in expansions and new construction.
## Tucson Office Q2 2019

### MARKETBEAT

| SUBMARKET          | INVENTORY (SF) | SUBLET VACANT (SF) | DIRECT VACANT (SF) | DIRECT LEASES (SF) | VACANT RATE | OVERALL VACANCY RATE | CURRENT QTR VACANT (SF) | OVERALL NET ABSORPTION (SF) | YTD LEASING ACTIVITY (SF) | OVERALL NET ABSORPTION (SF)** | UNDER CNSTR (SF) | YTD OVERALL NET ABSORPTION (SF) | DIRECT LEASES (SF) | VACANT RATE | OVERALL VACANCY RATE | VACANT RATE | OVERALL VACANCY RATE |
|--------------------|---------------|------------------|-------------------|-------------------|---------------|---------------------|---------------------|--------------------------|--------------------------|---------------------------|-----------------|-----------------|---------------------|---------------|-------------------|-------------------|
| Central            | 10,156,853    | 44,907           | 1,349,731         | 13.7%             | -20,139       | -20,139             | -40,370             | 118,286                  | 86,716                   | 18,29                       | 2305            | 75,538          | 13,744              | 8.9%          | 277,519           | 515,238           |
| Downtown           | 5,595,372     | 1,364            | 258,717           | 4.6%              | -38,297       | -38,297             | 157,078             | 7,289                    | 64,000                   | 22,271                     | 27.23           | 291,803         | 175,613              | 10.293        | 515,238           | 29,600            |
| East               | 1,257,782     | 0                | 175,613           | 14.0%             | -16,146       | -16,146             | -2,929              | 22,317                   | 0                        | 15,33                       | N/A             | 0               | 0                   | 0             | 0                 | 13,744            |
| Foothills          | 1,353,288     | 2,450            | 57,403            | 4.4%              | 19,987        | 19,987              | 16,759              | 29,645                   | 0                        | 21.73                       | N/A             | 0               | 0                   | 0             | 0                 | 0                |
| Green Valley/South | 360,287       | 0                | 19,453            | 5.4%              | 0             | 0                   | -3,181              | 0                        | 0                        | 20.95                       | N/A             | 0               | 0                   | 0             | 0                 | 0                |
| North/Oro Valley   | 3,680,091     | 1,694            | 277,519           | 7.6%              | -1,412        | -1,412              | 17,210              | 22,100                   | 9,505                    | 19.93                       | 26.00           | 1,009           | 1,009               | 0             | 15,46             | 0                |
| Northwest          | 484,658       | 0                | 64,039            | 13.2%             | 36,734        | 36,734              | 16,878              | 3,608                    | 0                        | 21.45                       | N/A             | 0               | 0                   | 0             | 0                 | 0                |
| Southeast          | 522,060       | 0                | 20,300            | 3.9%              | 8,822         | 8,822               | 5,646               | 8,822                    | 0                        | 17.93                       | N/A             | 0               | 0                   | 0             | 0                 | 0                |
| Southwest          | 1,826,665     | 0                | 10,293            | 0.6%              | 46,160        | 46,160              | 125,721             | 26,481                   | 0                        | 12.67                       | N/A             | 0               | 0                   | 0             | 0                 | 0                |
| West               | 1,663,638     | 3,885            | 133,415           | 8.3%              | -2,535        | -2,535              | -1,009              | 11,006                   | 0                        | 15.46                       | N/A             | 0               | 0                   | 0             | 0                 | 0                |

**TUCSON TOTALS**

| INVENTORY (SF) | SUBLET VACANT (SF) | DIRECT VACANT (SF) | DIRECT LEASES (SF) | VACANT RATE | OVERALL VACANCY RATE | CURRENT QTR VACANT (SF) | OVERALL NET ABSORPTION (SF) | YTD LEASING ACTIVITY (SF) | OVERALL NET ABSORPTION (SF)** | UNDER CNSTR (SF) | YTD OVERALL NET ABSORPTION (SF) | DIRECT LEASES (SF) | VACANT RATE | OVERALL VACANCY RATE | VACANT RATE | OVERALL VACANCY RATE |
|----------------|------------------|-------------------|-------------------|---------------|---------------------|---------------------|--------------------------|--------------------------|---------------------------|-----------------|-----------------|---------------------|---------------|-------------------|-------------------|
| 26,900,694     | 54,300           | 2,333,978         | 8.9%              | 33,156        | 291,803             | 249,554             | 160,221                  | 18,976                   | 23,373         | 1,619            | 133,415             | 8.3%          | -2,535           | -1,009             |

*Rental rates reflect gross asking $/psf/year
**Does not include Renewals

### Key Lease Transactions Q2 2019

#### PROPERTY

- **3535 E. Valencia Rd**
  - SF: 3535
  - Tenant: Perfect Foods, Inc.
  - Transaction Type: Sublease
  - Submarket: Southwest

- **3131 E. Broadway Blvd**
  - SF: 3131
  - Tenant: Sonora Behavioral Health Hospital, LLC
  - Transaction Type: New Lease
  - Submarket: Central

- **3945 E. Paradise Fall Dr**
  - SF: 3945
  - Tenant: OneOncology, West, LLC
  - Transaction Type: New Lease
  - Submarket: Central

- **300 S. Craycroft Rd**
  - SF: 300
  - Tenant: ICR, Inc.
  - Transaction Type: New Lease
  - Submarket: Central

*C&W | PICOR transaction

### Key Sales Transactions Q2 2019

#### PROPERTY

- **380 E. Fort Lowell Rd**
  - SF: 380
  - Seller/Buyer: Walter Hoge / Lee & Michelle Banks
  - Price / SPFSF: $3,500,000 / $161
  - Submarket: West

- **4892 N. Stone Ave**
  - SF: 4892
  - Seller/Buyer: Healthcare Realty Trust Incorporated / Harrison Street Capital
  - Price / SPFSF: $3,484,491 / $184
  - Submarket: North/Oro Valley

- **82 S. Stone Ave**
  - SF: 82
  - Seller/Buyer: COPE Community Services, Inc. / 82Stone LLC
  - Price / SPFSF: $1,450,000 / $104
  - Submarket: Downtown

- **1704 W. Anklam Rd**
  - SF: 1704
  - Seller/Buyer: Healthcare Realty Trust Incorporated / Harrison Street Capital
  - Price / SPFSF: $2,750,041 / $200
  - Submarket: Downtown

*C&W | PICOR transaction

---

**About Cushman & Wakefield**

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 51,000 employees in 400 offices and 70 countries. In 2018, the firm had revenue of $8.2 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.