

MARKETBEAT

Tucson

Office Q2 2019



TUCSON OFFICE

Economic Indicators

	Q2 18	Q2 19	12-Month Forecast
Tucson Employment	380.6k	386.5k	▲
Tucson Unemployment	4.4%	4.8%	▼
U.S. Unemployment	3.9%	3.6%	▼

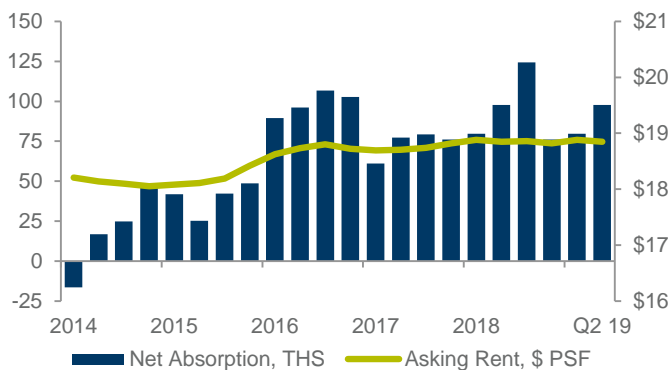
Market Indicators (Overall, All Classes)

	Q2 18	Q2 19	12-Month Forecast
Vacancy	8.1%	8.9%	▼
YTD Net Absorption (sf)	146k	291k	▲
Under Construction (sf)	223k	160k	▲
Average Asking Rent*	\$18.85	\$18.65	▲

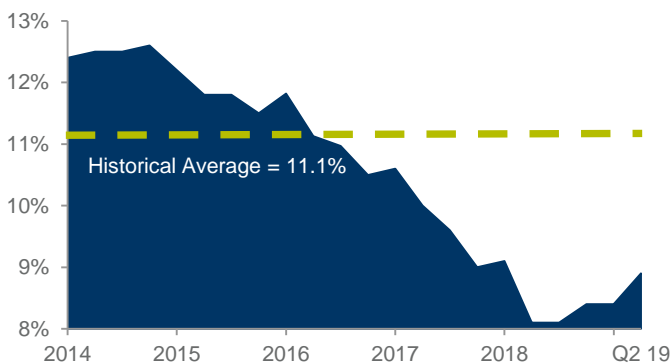
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



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.

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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	10,156,853	44,907	1,349,731	13.7%	-20,139	-40,370	118,286	86,716	\$18.29	\$23.05
Downtown	5,595,372	1,364	258,717	4.6%	-38,297	157,078	7,289	64,000	\$22.70	\$27.23
East	1,257,782	0	175,613	14.0%	-16,164	-2,929	22,317	0	\$15.33	N/A
Foothills	1,353,288	2,450	57,403	4.4%	19,987	16,759	29,645	0	\$21.73	N/A
Green Valley/South	360,287	0	19,453	5.4%	0	-3,181	0	0	\$20.95	N/A
North/Oro Valley	3,680,091	1,694	277,519	7.6%	-1,412	17,210	22,100	9,505	\$19.93	\$26.00
Northwest	484,658	0	64,039	13.2%	36,734	16,878	3,608	0	\$21.45	N/A
Southeast	522,060	0	20,300	3.9%	8,822	5,646	8,822	0	\$17.93	N/A
Southwest	1,826,665	0	10,293	0.6%	46,160	125,721	26,481	0	\$12.67	N/A
West	1,663,638	3,885	133,415	8.3%	-2,535	-1,009	11,006	0	\$15.46	N/A
TUCSON TOTALS	26,900,694	54,300	2,333,978	8.9%	33,156	291,803	249,554	160,221	\$18.65	\$24.30

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

	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	3,214,951	28,644	515,238	16.9%	-34,536	158,555	3,854	86,716	\$24.85	\$24.30
Class B	18,448,593	20,077	1,619,924	8.9%	75,538	138,081	221,072	73,505	\$18.51	\$18.20
Class C	5,237,150	5,579	198,816	3.9%	-7,846	-4,833	24,628	0	\$18.50	\$14.86

Key Lease Transactions Q2 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
3535 E. Valencia Rd*	23,373	Imperfect Foods, Inc.	Sublease	Southwest
3131 E. Broadway Blvd*	16,999	Sonora Behavioral Health Hospital, LLC	New	Central
3945 E. Paradise Fall Dr	10,984	OneOncology West, LLC	New	Central
300 S. Craycroft Rd*	10,914	ICR, Inc.	New	Central

*C&W | PICOR transaction

Key Sales Transactions Q2 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
380 E. Fort Lowell Rd	21,760	Walter Hoge / Lee & Michelle Banks	\$3,500,000 / \$161	West
4892 N. Stone Ave	18,976	Healthcare Realty Trust Incorporated / Harrison Street Capital	\$3,484,491 / \$184	North/ Oro Valley
82 S. Stone Ave	14,000	COPE Community Services, Inc./ 82Stone LLC	\$1,450,000 / \$104	Downtown
1704 W. Anklam Rd	13,744	Healthcare Realty Trust Incorporated / Harrison Street Capital	\$2,750,041 / \$200	Downtown

*C&W | PICOR transaction

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