

MARKETBEAT

Tucson

Office Q3 2019



TUCSON OFFICE

Economic Indicators

	Q3 18	Q3 19	12-Month Forecast
Tucson Employment	382.1	390.9	▲
Tucson Unemployment	4.4%	4.7%	▼
U.S. Unemployment	3.8%	3.7%	▲

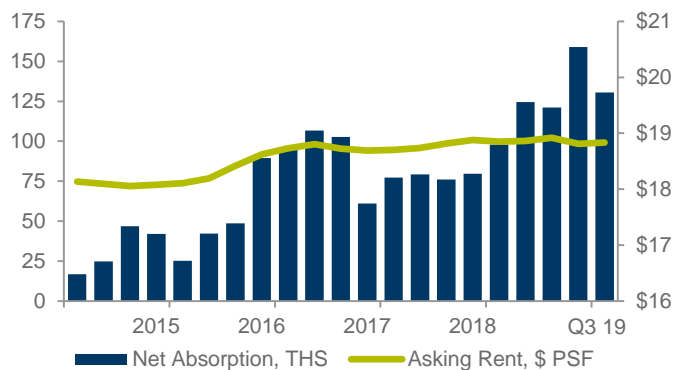
Market Indicators (Overall, All Classes)

	Q3 18	Q3 19	12-Month Forecast
Vacancy	8.1%	8.6%	▼
YTD Net Absorption (sf)	188k	326k	▲
Under Construction (sf)	335k	153k	▲
Average Asking Rent*	\$18.84	\$18.88	▲

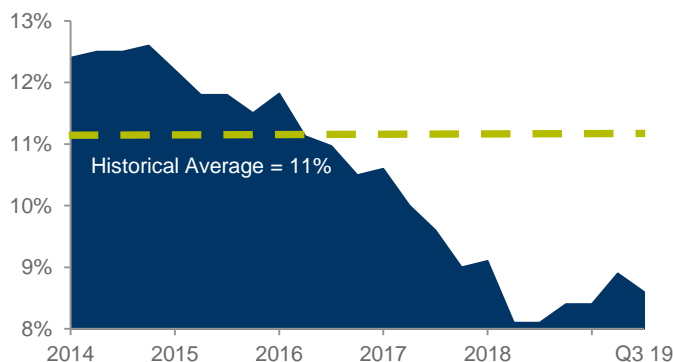
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

Tucson Median household income is up 2.6% over the past year and US consumer spending growth is up 4.1%. Labor and materials costs continue to increase, effectively increasing development cost. Recent openings of Gunnison Project Copper Mine and South 32 Mine in Patagonia has spurred growth in Southern Arizona Mining and the businesses that support the mining industry. Recent residential master planned communities such as Lazy K, Rocking K, and Gladden Farms continue to move forward, spurring job growth in the construction industry and absorption of industrial property for contractors and construction supplies distributors. Tucson population growth has grown 1.4% over the past year. California residents and companies are increasingly moving to Tucson as California costs continue to rise. US unemployment continued to decrease to 3.7%.

Market Overview

Vacancy rates trended up by almost 1% to 9.0% during the previous quarter. The southwest and southeast Tucson Metropolitan area as well as the Green Valley/South submarkets remain strong with vacancy rates at 2.7% or lower. Higher vacancy rates continue to prevail in East Tucson (14.3%), Northwest Tucson (12.7%) and Central Tucson (12.7%). Market rent remained stable from Q3 2018 to Q3 2019 at \$18.88 SF.

Vacancies were at 8.6% while overall absorption increased by 25,810 SF in the recent quarter. Year to date, over 516,000 SF have leased in 2019. Construction has slowed from over 300,000 SF in Q3 2018 to 153,000 SF in Q3 2019.

Outlook

Indications from the marketplace hint at growth trends remaining level with more than a few bright spots. The professional and medical office space markets will continue positive steps towards expansion in the central and northwest markets led by the Pima Medical Campus; Innovation Park in the northwest continues to fill availability, while La Cholla Corporate is seeing the last few plots of land developed across from the Foothills Mall. The Foothills Mall continues its march towards multi-use redevelopment under the Bourn Companies banner. The Bridges, in the south market area, is revving up towards ground-breaking with their mixed-use project including 65 acres of office and flex development. Flexible office space is in higher demand, driven by multiple national firms continuing to review and choose Southern Arizona as a new home. Use types include research and development, proto-typing, data centers and call centers. What used to be more of a niche market - Flex space - is emerging as a driver for growth in our metropolitan area.

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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	10,121,037	40,354	1,243,934	12.7%	13,806	-22,584	216,214	86,716	\$18.53	\$23.27
Downtown	5,614,974	1,364	260,166	4.7%	-1,449	163,410	35,942	64,000	\$22.93	\$27.23
East	1,258,929	4,922	174,860	14.3%	-7,169	-27,098	34,462	0	\$15.43	NA
Foothills	1,354,626	0	65,709	4.9%	-8,856	10,603	36,052	0	\$21.85	NA
Green Valley/South	360,287	0	9,665	2.7%	9,788	5,107	206	0	\$20.63	NA
North/Oro Valley	3,675,455	4,995	280,010	7.8%	-5,215	10,256	58,979	2,768	\$20.51	\$26.00
Northwest	484,658	0	61,404	12.7%	2,635	8,313	6,243	0	\$19.98	NA
Southeast	522,060	0	11,824	2.3%	7,476	9,102	17,298	0	\$18.19	NA
Southwest	2,012,781	0	17,449	0.9%	13,468	168,565	27,537	0	\$11.99	NA
West	1,556,042	0	135,974	8.7%	1,326	317	83,178	0	\$15.55	NA
TUCSON TOTALS	26,960,849	51,635	2,260,995	8.6%	25,810	325,991	516,111	153,484	\$18.88	\$24.38

*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	3,437,816	34,453	591,887	18.2%	-32,835	125,720	89,759	86,716	\$24.86	\$24.38
Class B	18,459,035	15,488	1,556,574	8.5%	102,950	249,409	383,775	66,768	\$18.25	\$18.30
Class C	5,063,998	1,694	112,534	2.3%	-44,305	-49,138	42,577	0	0	0

Key Lease Transactions Q3 2019

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
100-150 N. Tucson Blvd*	12,000	Florence Immigrant and Refugee Rights Project, Inc	New	Central
6377 E. Tanque Verde Rd	11,154	Arizona Endovascular Center	New	Central
300 S. Craycroft Rd*	10,362	ICR, Inc.	New	Central
7458-7464 N. La Cholla Blvd	8,403	Golder Engineering	New	North/Oro Valley

*C&W | PICOR transaction

Key Sales Transactions Q3 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
2202 N. Forbes Blvd	58,367	Tenet Healthcare/ Holualoa Companies	\$2,600,000 / \$44	West
8333 N. Silverbell Rd	35,000	Wells Fargo Home Mortgage/ Harvest Commercial Capital, LLC	\$2,450,000 / \$70	Northwest
181 S. Tucson Blvd - Broadmoor Center	20,496	David Crane Denton/ Hector Jimenez	\$900,000 / \$44	Central
1891 N. Oracle Rd	9,044	Kenneth H Huey Jr./ Daniel Kennedy	\$520,841 / \$57	West

*C&W | PICOR transaction

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