

MARKETBEAT TUCSON



Office Q4 2019

	YoY Chg	12-Mo. Forecast
8.9% Vacancy Rate	▲	▼
461K YTD Net Absorption, SF	▲	▲
\$20.24 Asking Rent, PSF	▲	▲

(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2019

	YoY Chg	12-Mo. Forecast
391.2K Tucson Employment	▲	▲
4.6% Tucson Unemployment Rate	▲	▼
3.6% U.S. Unemployment Rate	▼	▲

Source: BLS

ECONOMY:

Tucson's regional economy continued to track positively alongside state and national metrics at the end of 2019. Personal income was up 5.4% year over year from \$446.6 M to \$470.7 M, consistent with the overall state of Arizona increase of 5.9% but behind the Phoenix area increase of 6.7%. Total non-farm employment continued to increase by 1.5% up to 387,200 jobs from the previous 2018 figure of 381,500 jobs. The employment categories experiencing the greatest growth were manufacturing, construction, healthcare, and leisure and hospitality. Similar increases are predicted for 2020 and 2021 with a flattening in growth occurring in 2022. Population growth in the Tucson area matched its prior modest annual increase of 0.8% and is expected to increase at that same rate through 2022.

SUPPLY AND DEMAND:

Inventory of office product for sale increased, with 511,000 square feet (sf) of listings added. Notable sales included the West Coast Capital Partners' acquisition of 510,523 sf in the Williams Center and Cambric Center, purchased from the Colton Family Trust. 2019 saw eight buildings built or renovated totaling 744,805 sf. This is the highest level of completions in fifteen years of data and included Caterpillar, GEICO, and Pima Medical Institute. With three projects under construction at year end totaling 176,000 sf, and many more offered for pre-lease, inventory will grow in 2020 and 2021.

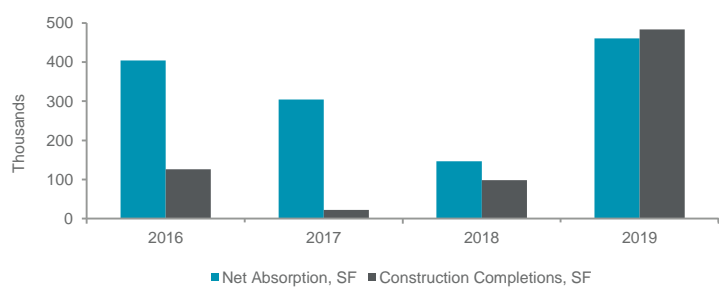
Due to slight negative absorption in Q4, Tucson's 2019 overall office vacancy rate rose .3% to 8.9%. Despite this quarterly anomaly, annual overall net absorption clocked a healthy 460,732 sf.

PRICING:

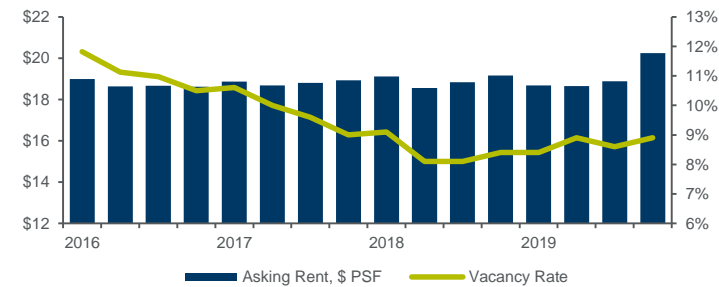
The average asking lease rate increased measurably year over year from \$19.16 per square foot (psf) to \$20.24 psf, a gain of 5.6%, while the average Class A asking rate rose 7.5% from \$23.82 to \$25.60 psf. The submarkets experiencing the largest rent increases were Downtown and East Tucson; conversely Northwest Tucson had the greatest decline. New office development could be in the offing if rents continue to trend upward in 2020, especially for Class A space. Tucson office rents are 65% below the national average making economics attractive for companies to move operations to the market. Forecasted supply increases will likely create a flattening of the marketwide rental rate growth curve.

A healthier economy and relatively high cap rates (averaging 8.0%) have spurred an uptick in Tucson investment activity. Sales prices in 2019 averaged \$147 psf. Buyers have primarily been local or regional players, with private and yield-motivated investors expected to enter the market in higher numbers bolstering sales volume in 2020.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



MARKET STATISTICS

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 AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Central	10,114,702	38,074	1,302,796	13.3%	-51,835	-78,200	332,850	196,716	\$18.64	\$22.65
Downtown	5,678,874	1,364	254,128	4.5%	6,038	234,075	61,399	0	\$25.33	\$27.43
East	1,253,369	4,922	171,204	14.1%	1,178	-12,800	38,707	0	\$17.56	N/A
Foothills	1,354,626	0	85,449	6.3%	-22,226	-11,323	49,203	16,000	\$22.91	N/A
Green Valley/South	360,543	0	13,589	3.8%	-5,429	1,178	2,344	0	\$20.34	N/A
North/Oro Valley	3,696,640	4,995	269,800	7.4%	9,809	25,774	95,067	0	\$20.50	\$26.00
Northwest	484,658	0	60,552	12.5%	852	20,365	6,243	0	\$18.37	N/A
Southeast	535,560	0	11,824	2.2%	0	14,122	17,298	0	\$18.22	N/A
Southwest	2,021,555	0	53,541	2.6%	-36,092	282,463	27,537	50,000	\$13.14	N/A
West	1,759,388	0	151,143	8.6%	-15,169	-14,922	90,598	0	\$16.62	N/A
TUCSON TOTALS	27,259,915	49,355	2,374,026	8.9%	-112,874	460,732	721,246	262,716	\$20.24	\$25.60

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	TENANT	SF	TYPE
2929 East Corona Road	Southwest	Undisclosed	101,436	New
3675 East Britannia Drive	Southwest	US Department of Veterans Affairs	80,000	Renewal*
10900-10910 North Stallard Place	North/Oro Valley	U of A College of Veterinary Medicine	38,010	New
5151 East Broadway Boulevard**	Central	VeriFone, Inc.	14,500	New
120-140 North Tucson Boulevard**	Central	Florence Immigrant and Refugee Rights Project, Inc.	12,000	New

*Renewals not included in leasing statistics **Represented by Cushman & Wakefield | PICOR

KEY SALES TRANSACTIONS Q4 2019

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
5180-5285 East Williams Circle - Williams Centre II	Central East	The Colton Company/West Coast Capital Partners	366,960	\$47.5M / \$129
Cambric Corporate Center	Foothills	The Colton Company/West Coast Capital Partners	143,563	\$20.8M / \$145
6760 North Oracle Road	North/Oro Valley	Dabdoub Investments, LLC/Tinalden Property Services, LLC	17,520	\$2.9M / \$163
2127 East Speedway Boulevard	Central	Holualoa Speedway Office, LLC/2127 E. Speedway Office, LLC	13,903	\$1.78M / \$128
2501 East Elm Street	Central	George G. and Janet Christiansen/Vishal & Sunny Patel	10,020	\$825K / \$82

KEY CONSTRUCTION COMPLETIONS 2019

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
3050 South ML King Jr Way	Southwest	Geico	200,000	Arizona Board of Regents/Bourn Companies
875 Cushing Street	Downtown	Caterpillar	150,000	Mission District Partners, LLC/Rio Nuevo Multipurpose Facilities District

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