

# MARKETBEAT TUCSON



Office Q2 2020

	YoY Chg	12-Mo. Forecast
<b>9.1%</b> Vacancy Rate	▲	▼
<b>-96K</b> YTD Net Absorption, SF	▲	▲
<b>\$21.47</b> Asking Rent, PSF	▲	▲

(Overall, All Property Classes)

## ECONOMIC INDICATORS Q2 2020

	YoY Chg	12-Mo. Forecast
<b>362.4K</b> Tucson Employment	▼	▼
<b>10.8%</b> Tucson Unemployment Rate	▲	▼
<b>13.0%</b> U.S. Unemployment Rate	▲	▼

Source: BLS

## ECONOMY:

The COVID-19 Pandemic and the associated effects of lockdown has significantly impacted the nation and Tucson's economy. In June 2020, Tucson (9.9%) and the State of Arizona (10.3%) had some of the lowest unemployment rates in the nation (11.2%). However, the recent closures are creating upward pressure on Tucson unemployment rates, and as federal bailout money begins to dry up, personal finances of citizens are being placed under strain. The hospitality industry is by far the most affected, as restaurants, hotels, as well as entertainment and tourism are similarly affected. Retail businesses are also being negatively impacted, with an acceleration of online shopping. All that said, there are some economic bright-spots, which include fast food (QSR), and other delivery services. Until COVID-19 subsidies and restrictions can safely be lifted locally and nationally, we will not see true economic health.

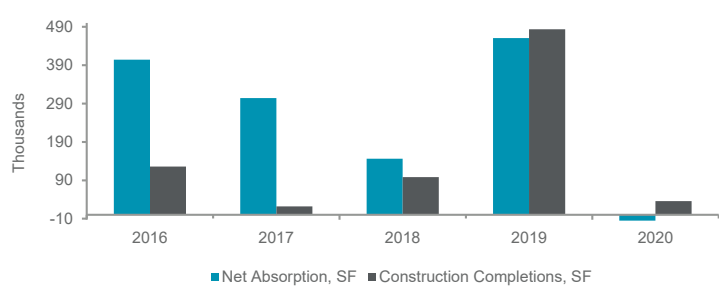
## SUPPLY AND DEMAND:

The future of the local market is a bit like exploring space, it never seems to end and there is an atmosphere of uncertainty. Future utilization of office space and what landlords will have to do in order to facilitate their use, is under debate. There are multiple theories and opinions but no consensus in sight. This is causing many tenants, buyers, owners and lenders to hold off on their planning and execution. Projects under development will continue to move forward, while prospective projects will certainly be put on hold. Many tenants will remain in place, through short term extensions and deals that do continue may benefit from any weakness in the pricing. Clients that do move forward, are looking for guidance and support through the lease, sale or development process. At present it's certainly an alien world, and we welcome the opportunity to work with and guide our clients into the unknown.

## PRICING:

Office users are generally making lateral or downsizing moves to reduce overhead as employees work from home. Tucson Metro office leasing market is responding with a minor contraction, as we see negative absorption, both in quarter-to-date and year-to-date categories: respectively, -26,643 square feet (sf) and -95,825 sf. The Vacancy Rate ticked up two-tenths of a percent to 8.6% while the average lease rate rose from \$20.81 to \$21.47 per square foot (psf), across all classes. The market for sale is still moving, albeit at a slower pace. Tucson office investment and user sales are still opening and closing. In the last quarter, the two largest sales are worth highlighting as they showcase that positioning premise: the first being Welltower's sale of a well tenanted 26,659 sf asset to MBRE Healthcare, for \$187/sf; and A.W. Marrs' owner/user-sale of the former 18,200 sf Pima Community College office building, to Pyramid Federal Credit Union.

## 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	10,254,980	40,297	1,281,954	12.9%	-41,316	-52,395	199,907	224,092	\$19.62	\$23.12
Downtown	5,896,901	1,364	250,437	4.3%	12,600	32,024	14,638	345,000	\$25.81	\$27.47
East	1,259,297	4,922	169,098	13.8%	1,758	4,584	17,417	0	\$18.08	N/A
Foothills	1,430,652	1,418	120,483	8.5%	-34,606	-17,966	26,382	0	\$24.13	N/A
Green Valley/South	360,543	0	13,920	3.9%	-956	1,174	0	0	\$20.38	N/A
North/Oro Valley	3,698,931	12,775	268,839	7.6%	22,414	26,608	71,993	12,000	\$20.59	\$24.09
Northwest	513,196	0	47,719	9.3%	9,137	12,688	6,270	0	\$18.21	N/A
Southeast	536,071	0	12,424	2.3%	-300	-300	0	0	\$14.42	N/A
Southwest	2,022,389	0	57,491	2.8%	-250	-3,920	1,350	287,914	\$25.05	\$28.75
West	1,760,027	91,200	158,235	14.2%	2,876	-98,322	8,078	0	\$18.11	N/A
<b>TUCSON TOTALS</b>	<b>27,732,987</b>	<b>151,976</b>	<b>2,380,600</b>	<b>9.1%</b>	<b>-28,643</b>	<b>-95,825</b>	<b>346,035</b>	<b>869,006</b>	<b>\$21.47</b>	<b>\$26.29</b>

\*Rental rates reflect full service asking

## KEY LEASE TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	TENANT	SF	TYPE
603 North Wilmot Road	Central	HealthTrio	12,000	Renewal*
5155 East Farness Drive	Central	Harmony Medical	5,338	New
5055 East Broadway Boulevard	Central	Undisclosed	4,829	New
2802-2810 North Alvernon Way	Central	Babymoon	4,102	New
2920-2990 North Swan Road	Central	Communications Inc.	3,750	Renewal*

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

## KEY SALES TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
2055 West Hospital Drive	North/Oro Valley	Welltower, Inc / MBRE Healthcare	26,659	\$5M / \$187
4911 East Broadway Boulevard	Central	A W Marrs Inc / Pyramid Federal Credit Union	18,200	\$1.8M / \$98
Oracle-Ina Professional Plaza	North/Oro Valley	Albert E Moussa & Sonia H Armaleh / Retina Associates	14,045	\$2.81M / \$200
52 West Calle De Las Tiendas	Green Valley/South	Raymond L & Lila K O'Connell / Southern Arizona Community Church	12,997	\$1.5M / \$115
2323 South Park Avenue Tucson Urban League	Southwest	The Tucson Urban League Incorporated / Old Pueblo Community Service	11,780	\$313.1K / \$26

## KEY CONSTRUCTION COMPLETIONS 2020

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
6442 E Speedway Blvd	Central	AZ Vascular Specialists	14,000	
1810-1816 E Innovation Park Dr - Lots 29-32	North/Oro Valley		6,000	

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