

MARKETBEAT TUCSON



Office Q3 2020

	YoY Chg	12-Mo. Forecast
9.4% Vacancy Rate	▲	▲
-181K YTD Net Absorption, SF	▼	▼
\$20.91 Asking Rent, PSF	▲	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS Q3 2020

	YoY Chg	12-Mo. Forecast
376.4K Tucson Employment	▼	▼
5.9% Tucson Unemployment Rate	▲	▼
8.8% U.S. Unemployment Rate	▲	▼

Source: BLS, Arizona Commerce Authority

ECONOMY:

Amid the COVID-19 pandemic, more than 20,000 businesses in Arizona received economic relief from the federal government. Arizona's unemployment rate has fallen from 10.7% in July to 5.9% in September due to nearly 80,000 jobs being added in August. Job gains were posted across ten private sectors, with the largest increases seen in health services, education, and transportation. After reaching a high of 13.1% in April, Tucson's unemployment correlated closely to the state's, falling from 10.7% in July to 5.9% in September versus a national unemployment rate of 8.8%.

SUPPLY AND DEMAND:

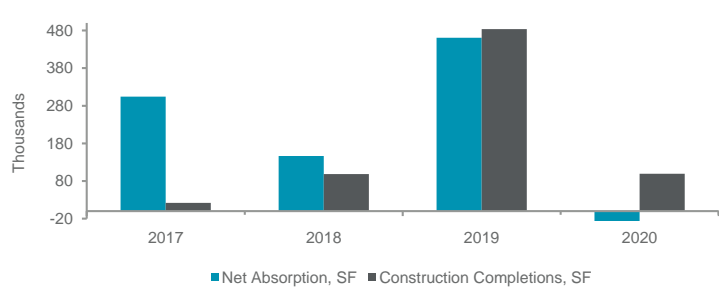
Demand for commercial office space is undergoing shifts amid much speculation, though not at the rapid pace seen in retail and hospitality due to longer lease terms. Two divergent dynamics are laid bare by the pandemic's effects on space use. First, a likely rebound on densification will occur for some employers, and others will shift to temporary or permanent work-from-home and flexibility. Couple these longer term changes with traditional election-year hesitancy on the part of corporate America, and the crystal ball is murky. The strongest macro underpinning for the commercial market is in-migration and housing activity. With an influx of people, the labor and consumer pools enhance demand for commercial space. Tucson's active residential real estate market, spurred by record low mortgage rates and a national population on the move, signals higher commercial demand ahead.

With negative quarterly absorption of 108,666 square feet (sf) in Q3, the Tucson office market's vacancy rate rose to 9.4%, still well below the 12.1% peak in Q3 2013. Of concern, absorption has been negative for four consecutive quarters with year-to-date totaling 181,650 sf. Users are beginning to look past the election season, and lease terms are trending shorter (one to three years). With softer demand, the pendulum has not swung entirely to the tenant's benefit, but landlords are recognizing the need to be responsive to retain tenants.

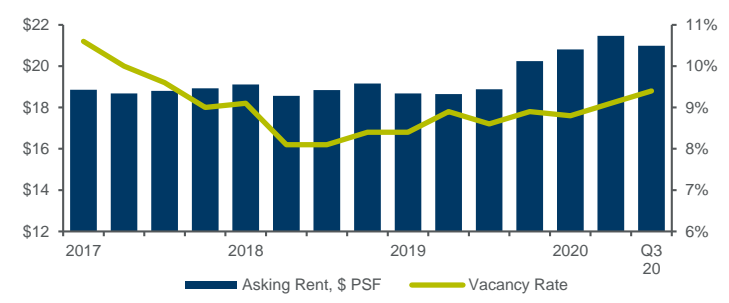
PRICING:

The average asking lease rate market-wide rose \$0.10 to \$20.91 per square foot (psf) over the previous quarter and stood at its highest rate post-Global Financial Crisis (GFC). Asking class A rents averaged \$25.27 psf. Both sales volume and price per sf in Tucson have been trending up gradually over the last several years. Third quarter activity was bolstered by the \$11.5 million 535 N Wilmot Road sale at \$291 psf and 1985 E River Road for \$10.6 million (\$250 psf). With total quarterly sales of \$30.3 million, volume was higher than Q2 of 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	10,309,818	43,588	1,359,088	13.6%	-84,901	-114,955	258,839	196,716	\$20.09	\$22.63
Downtown	5,844,555	1,364	254,325	4.4%	1,112	33,136	100,462	345,000	\$24.38	\$26.80
East	1,258,673	4,922	167,775	13.7%	-3,275	1,309	22,404	0	\$18.08	N/A
Foothills	1,430,652	1,418	104,082	7.4%	16,401	-1,565	32,464	0	\$26.15	N/A
Green Valley/South	360,543	0	13,920	3.9%	0	1,174	0	0	\$20.98	N/A
North/Oro Valley	3,706,293	7,258	276,437	7.7%	-4,010	23,098	103,334	12,737	\$24.00	\$25.17
Northwest	513,196	0	76,486	14.9%	-28,767	-16,079	6,270	0	\$18.16	N/A
Southeast	536,071	0	11,824	2.2%	600	300	0	0	\$14.42	N/A
Southwest	2,105,604	23,373	31,195	2.6%	-18,017	-21,967	2,650	237,914	\$23.55	\$28.75
West	1,760,405	91,200	146,044	13.5%	12,191	-86,101	9,078	0	\$20.13	N/A
TUCSON TOTALS	27,825,810	173,123	2,441,176	9.4%	-108,666	-181,650	535,501	792,367	\$20.91	\$25.27

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	TENANT	SF	TYPE
20 East Congress Street**	Downtown	Southwest University of Visual Arts	18,500	New
603 North Wilmot Road	Central	HealthTrio	12,000	Renewal*
6060 North Fountain Plaza Drive	North/Oro Valley	Woman's Imaging Center	11,400	New
5151 East Broadway Boulevard**	Central	Maxim Healthcare Services	7,267	Renewal*
5501 North Oracle Road	North/Oro Valley	Allure Medical, LLC	4,365	New

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

KEY SALES TRANSACTIONS Q3 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
1985 East River Road	Foothills	Marc D. Fleischman / Town West Realty, Inc.	42,536	\$10.6M / \$250
535 North Wilmot Road	Central	Schomac Group Inc. / Remedy Medical Properties	39,577	\$11.5M / \$291
7810-7840 East Broadway Boulevard	East	KeyBank National Association / Larsen Baker, LLC	29,954	\$680K / \$22
6840 East Broadway Boulevard	Central	WJS Properties Inc / Louis River, LLC	18,052	\$1.15M / \$63
3830 East Bellevue Street Our Town Family Center	Central	Our Town Family Center, Inc. / Chabad of Tucson, Inc.	7,439	\$908.5K / \$122

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