

MARKETBEAT TUCSON



Office Q4 2020

	YoY Chg	12-Mo. Forecast
9.2% Vacancy Rate	▲	▲
-19K YTD Net Absorption, SF	▼	▬
\$20.52 Asking Rent, PSF	▲	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2020

	YoY Chg	12-Mo. Forecast
375.8K Tucson Employment	▼	▲
7.9% Tucson Unemployment Rate	▲	▼
6.7% U.S. Unemployment Rate	▲	▼

Source: BLS

ECONOMY:

As of January 2021, Arizona leads the nation in the rate of new COVID-19 infections. This correlates with many small businesses closing over the last couple of months and increase in unemployment. Unemployment in the State of Arizona and Pima County rose to 7.8% and 7.9% respectively as compared to the U.S. at 6.7%. The highest rate of unemployment is among the younger workforce 16-19 year-olds with 20.1% and 20-24 year-olds with 9.4%. By educational attainment, unemployment is highest amongst those with a bachelor's degree or higher. Year-over-year, Arizona has experienced a 3.3% increase in unemployment from last year and Pima County a 3.7% increase during the same time-period. Job gains by industry were greatest in Trade, Transportation & Utilities which added 6,100 jobs, Leisure & Hospitality which added 3,100 jobs, Financial Activities with 1,700 jobs and Construction with 6,000 jobs. The population in the state grew 1.5% in 2020.

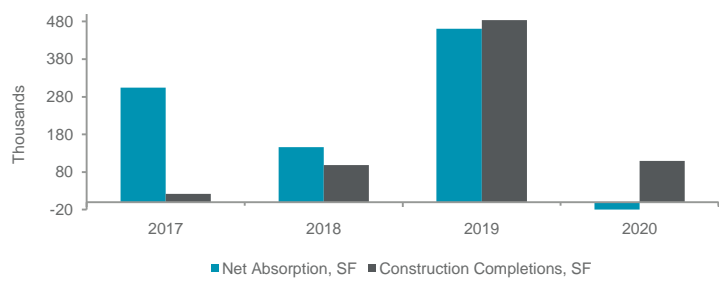
SUPPLY AND DEMAND:

Tucson had a strong showing to finish 2020, with 162,000 square feet (sf) of office space coming off the market during the final quarter of 2020. Quarterly absorption contracted to negative 19,000 sf from the previous quarter's negative 181,000 sf. The vacancy rate dropped two-tenths of a percent to 9.2% from 9.4%, basically keeping the rate static; while the overall average rental rate for the metro area dropped to \$20.52 per square foot (psf), from that of \$20.91 psf in Q3 2020. The shift is subtle but, shows landlords are pro-actively responding to a changing marketplace, enticing tenants with more advantageous deal terms. The highest demand was found in the downtown area, the lowest activity and demand being on the east side of Tucson. The residential market continues to be red-hot in the metro area, indicating activity must spill over into the commercial market, though the metrics are saying it is not quite happening, yet. Sales activity remains strong, with medical property sales in the northwest leading all areas of metro Tucson.

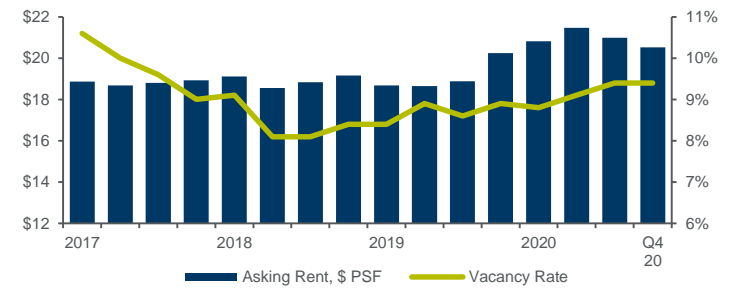
PRICING:

Since the onset of the COVID-19 pandemic, the Tucson market has seen a reasonably stable average asking lease rate across the market, ending the year at \$20.52 psf. The longer it takes to get employees back into the office and the longer it takes for employers to determine what their optimal space size is, the more pressure on landlords to be more aggressive in their pricing and concession offerings. In addition, the increasing availability of sublease space will create additional pressure for more aggressive pricing and concessions by landlords. Sales pricing is primarily being affected by lender pullback and lack of higher quality investor and user properties helping to keep cap rates lower and price per square foot higher.

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	10,318,795	29,193	1,384,335	13.7%	-5,969	-112,431	356,452	200,716	\$20.22	\$22.74
Downtown	5,866,135	1,364	112,912	1.9%	127,388	215,549	105,967	345,000	\$21.71	\$25.58
East	1,264,673	4,922	206,878	16.7%	-42,103	-37,794	34,313	0	\$18.13	N/A
Foothills	1,432,062	1,418	116,704	8.2%	-12,622	-14,187	65,065	0	\$26.29	N/A
Green Valley/South	360,845	0	20,841	5.8%	-6,921	-5,747	0	0	\$21.64	N/A
North/Oro Valley	3,706,549	7,258	276,904	7.7%	-1,961	11,631	105,800	12,737	\$24.50	\$25.05
Northwest	515,338	0	72,797	14.1%	3,689	-12,390	6,270	0	\$18.20	N/A
Southeast	544,180	0	11,824	2.2%	0	300	0	0	\$14.42	N/A
Southwest	2,105,604	23,373	55,857	3.8%	45,778	26,811	2,650	237,914	\$23.40	\$28.75
West	1,739,166	0	223,582	12.9%	-5,329	-91,430	11,648	0	\$19.78	N/A
TUCSON TOTALS	27,853,347	67,528	2,482,634	9.2%	101,950	-19,688	688,165	796,367	\$20.52	\$24.62

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q4 2020

PROPERTY	SUBMARKET	TENANT	SF	TYPE
5255 East Williams Circle, Suite 1050	Central	Eduvision	20,692	New
350 South Williams Boulevard	Central	Script Save	11,138	New
6390 East Broadway Blvd, Suite 100	Central	Solace Behavioral Health	10,910	New
6430 North Swan Road	Foothills	Undisclosed	6,958	New
5255 East Williams Circle, Suite 2080	Central	Commerce Bank of AZ	5,002	New

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

KEY SALES TRANSACTIONS Q4 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
Rancho Vistoso Urgent 13101 North Oracle Road	North/Oro Valley	Healthpeak Properties, Inc. / Cypress West Realty Partners	51,000	\$7.2M / \$142
6130 North La Cholla Boulevard, Building I	North/Oro Valley	Healthpeak Properties, Inc. / Cypress West Realty Partners	42,000	\$3.28M / \$78
2120 North Ina Road	North/Oro Valley	Nanini Northwest, Inc. / Woodridge Apartments Holding LLC	34,710	\$10.4M / \$299
6130 North La Cholla Boulevard, Building II	North/Oro Valley	Healthpeak Properties, Inc. / Cypress West Realty Partners	26,000	\$2.29M / \$88
2030 East Speedway Boulevard	Central	Heim & Company / Undisclosed	13,386	\$1.92M / \$143

BARBI REUTER, RPA

Chief Executive Officer

+1 520 546 2744 / breuter@picor.com

MARY J. UTERMOHLEN

Marketing Coordinator

+1 520 546 2708 / mary@picor.com

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