

MARKETBEAT TUCSON



Office Q1 2021

	YoY Chg	12-Mo. Forecast
9.3% Vacancy Rate	▲	▲
16.2K YTD Net Absorption, SF	▼	▼
\$20.67 Asking Rent, PSF	▲	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS Q1 2021

	YoY Chg	12-Mo. Forecast
373.1K Tucson Employment	▼	▲
7.0% Tucson Unemployment Rate	▲	▼
6.0% U.S. Unemployment Rate	▲	▼

Source: BLS, Moody's Analytics

ECONOMY:

In Q1 2021, the Tucson market recorded nonfarm employment of 373,100 jobs. The unemployment rate increased from 4.8% in Q1 2020 to 7.0% in Q1 2021, but a strong improvement from the 7.9% unemployment rate in Q4 2020. Median household income rose 15.5% to \$64,900 compared to Q1 2020. Residential home sales inventory remains very low, with limited supply forcing pricing up 25.5% year-over-year.

SUPPLY AND DEMAND:

During Q1 2021, the Tucson office market 'stayed the course' from activity patterns that have been in place during Q3 and Q4 2020. Overall market vacancy remained stable at 9.3%. Of note, the Central, East and West submarkets posted the highest vacancy rates at 13% and up, while Downtown and Southwest submarkets reflect strong demand with vacancy rates of 3% and up. The Foothills submarket also reflects continuing lease-up, with an 8% vacancy rate. Average lease rates ticked up slightly to \$20.67 per square foot (psf). While total inventory remained stable, it's worth noting that significant new construction is underway in the Downtown, Southwest and Central markets, which not coincidentally are submarkets with the lowest vacancy rates. We anticipate that Q2 2021 will turn the corner towards increasing demand for office space. In light of Arizona's low rate of COVID-19 infections and encouraging vaccination trends, companies will be returning to their offices in increasing numbers. Pent-up demand is likely to become evident as decision makers feel more comfortable evaluating their near- and long-term office requirements.

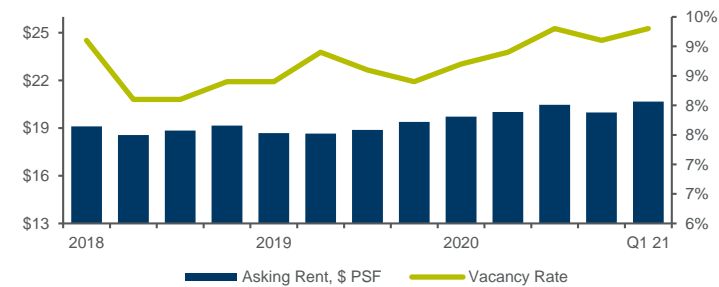
PRICING:

The average Tucson lease rate increased slightly by \$0.05 psf or 0.2% in the last quarter showing a slowing of rental rate growth. The market sale price increased by \$0.69 psf. Cap rates increased from 7.4% to 11.8% which is likely a reflection of slower leasing activity and a slight increase in vacancies in Q1 2021. The median cap rate increased 1.5%, while the median building price dropped 6.2%, most likely due to a few large properties selling well below market rate.

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	10,451,431	20,888	1,339,180	13.0%	128,660	128,660	24,492	196,716	\$20.88	\$22.52
Downtown	5,880,039	1,364	193,946	3.3%	-68,724	-68,724	3,069	345,000	\$21.88	\$25.67
East	1,260,137	4,922	162,137	13.3%	37,241	37,241	13,544	0	\$18.10	N/A
Foothills	1,434,711	1,418	113,487	8.0%	-18,957	-18,957	2,357	0	\$26.66	N/A
Green Valley/South	360,845	0	20,841	5.8%	0	0	0	0	\$21.74	N/A
North/Oro Valley	3,669,509	7,258	342,990	9.5%	-60,836	-60,836	21,820	6,737	\$25.14	\$24.93
Northwest	521,295	0	73,788	14.2%	-1,491	-1,491	3,890	0	\$18.20	N/A
Southeast	544,180	0	9,813	1.8%	2,261	2,261	15,863	0	\$14.42	N/A
Southwest	2,105,604	23,373	52,307	3.6%	3,800	3,800	0	237,914	\$23.40	\$28.75
West	1,760,668	0	236,812	13.5%	-5,689	-5,689	5,000	0	\$19.82	N/A
TUCSON TOTALS	27,988,419	59,223	2,545,301	9.3%	16,265	16,265	90,035	786,367	\$20.67	\$24.58

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q1 2021

PROPERTY	SUBMARKET	TENANT	SF	TYPE
1400 North Wilmot Road**	Central	TMC Healthcare	82,058	New
15-19 East Toole Avenue	Downtown	Campfire Cycling	6,000	New
283 North Stone Avenue	Downtown	Historic Bates Mansion LLC	5,948	New
3219-3233 N 1st Avenue	West	Keeper of the Grumper Foundation	5,000	New
5151 East Broadway Boulevard* **	Central	Konica Minolta	4,848	Renewal

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

KEY SALES TRANSACTIONS Q1 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$PSF
1400 North Wilmot Road*	Central	TMC Holdings, Inc. / HSRE-MPCCA Tucson Mob, LLC	187,690	Undisclosed
655 East River Road	North/Oro Valley	Banner Health / River People, LLC	39,385	\$2.04M / \$52
345 East Toole Avenue	Downtown	Macarthur Tucson, LLC / Moreno Valley Gateway II, LLC	24,260	\$4.6M / \$189
5700 East Pima Street*	Central	Pamela F Heward Family Revocable Trust / TGOT Holdings, LLC	20,337	\$2.3M / \$113
4067 East Grant Road	Central	Walnut Grant, LLC / Equilibrium Villas, LLC	10,879	\$995K / \$91
5150 East Glenn Street*	Central	Sunrise Properties Leasing, LLC / Buyer Indy House LLC & Tiburon, LLC	10,410	\$3.25M / \$312

*Represented by Cushman & Wakefield | PICOR

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