

MARKETBEAT TUCSON



Office Q2 2021

| | YoY Chg | 12-Mo. Forecast |
|--|---------|-----------------|
| 9.5% Vacancy Rate | ▲ | ▲ |
| -112K YTD Net Absorption, SF | ▼ | ▼ |
| \$21.03 Asking Rent, PSF | ▲ | ▼ |

(Overall, All Property Classes)

ECONOMIC INDICATORS Q2 2021

| | YoY Chg | 12-Mo. Forecast |
|---|---------|-----------------|
| 377K Tucson Employment | ▲ | ▲ |
| 6.8% Tucson Unemployment Rate | ▼ | ▼ |
| 5.9% U.S. Unemployment Rate | ▼ | ▼ |

Source: BLS, Moody's Analytics

ECONOMY:

In Q2 2021, the Tucson market recorded nonfarm employment of 380,400 jobs. The unemployment rate improved dramatically from 8.3% in May 2020 to 6.8%, as the effects of the pandemic began to normalize. Median household income decreased by 11.9% compared to Q2 2020. Arizona's April retail sales grew 45.5% year-over-year with housing permits up a full 71.0%. Single family home sales volume was up 12.0% year-over-year through June and the median sales price increased 25.1% for the same period.

SUPPLY AND DEMAND:

In Q2, Tucson's post-pandemic office market began to re-center itself, as vaccinations became more widespread, and employers planned their return to office strategies. Vacancy rose to 9.5%, with an expectation it will approach 10.0% by year-end before stabilizing. Activity was strongest in the healthcare-related fields, with hospice, home health care, counseling and therapy uses most prevalent.

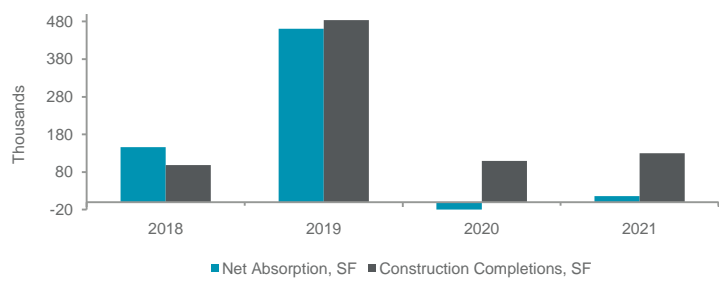
Demand for investment property has continued apace, with limited supply given the challenges of finding investment property to trade into. Construction includes the University of Arizona's 118,000 sf Refinery project at the Bridges, which it will partially occupy. Also underway is Northwest Medical Center 45,000 sf medical office building and 52-bed regional hospital campus on Houghton Road that could spark nearby medical development activity.

With widespread vaccination availability, while other commercial sectors have rebounded more quickly, the office market remains in a state of flux. Office-using employers are assessing their short and long-term space needs and testing models. De-densification expands some footprints, while hybrid and flex work schedules call for rethinking the traditional office layout.

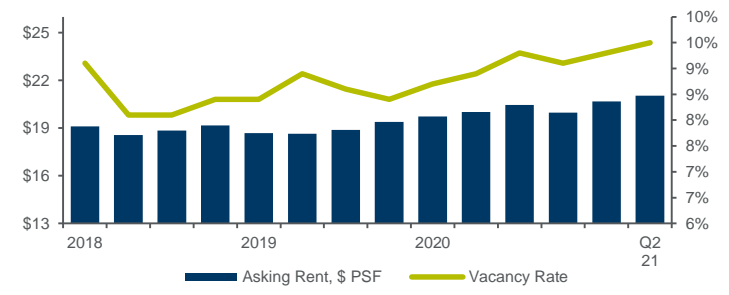
PRICING:

Lease rates were stable, despite landlords becoming more aggressive on concessions to attract and retain those tenants up for renewal. Construction costs skyrocketed throughout the pandemic, largely due to demand increases and supply chain challenges, but certain goods are beginning to normalize. Cap rates for top-quality NNN-leased office and medical investment property ranged from 6.25% to 7.0%. As we look ahead, investors are carefully watching tax proposals that would impact capital gains treatment and like-kind exchanges.

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 | 10,456,457 | 13,774 | 1,316,420 | 12.7% | -20,545 | 122,643 | 93,815 | 66,716 | \$21.22 | \$22.83 |
| Downtown | 6,140,067 | 3,500 | 210,207 | 3.5% | -14,017 | -82,741 | 35,541 | 345,000 | \$21.82 | \$26.86 |
| East | 1,300,886 | 4,922 | 149,206 | 11.8% | -2,362 | 37,479 | 71,242 | 0 | \$18.24 | N/A |
| Foothills | 1,337,792 | 23,084 | 119,252 | 10.6% | -26,133 | -45,310 | 11,702 | 0 | \$26.82 | N/A |
| Green Valley/South | 361,070 | 0 | 15,858 | 4.4% | 4,983 | 4,983 | 0 | 0 | \$21.13 | N/A |
| North/Oro Valley | 3,686,586 | 3,301 | 322,018 | 8.8% | 23,333 | -40,753 | 53,948 | 6,737 | \$25.36 | \$25.23 |
| Northwest | 522,735 | 0 | 65,595 | 12.5% | 8,693 | 7,202 | 3,890 | 0 | \$18.22 | N/A |
| Southeast | 544,180 | 0 | 4,794 | 0.9% | 3,000 | 5,011 | 15,388 | 45,000 | \$14.00 | N/A |
| Southwest | 2,149,863 | 23,373 | 52,307 | 3.5% | 3,900 | 7,450 | 2,398 | 237,914 | \$11.75 | \$28.75 |
| West | 1,753,932 | 134,556 | 235,602 | 21.0% | -122,321 | -128,260 | 20,557 | 0 | \$19.81 | N/A |
| TUCSON TOTALS | 28,253,568 | 206,510 | 2,491,259 | 9.5% | -141,469 | -112,296 | 308,481 | 701,367 | \$21.03 | \$24.66 |

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q2 2021

| PROPERTY | SUBMARKET | TENANT | SF | TYPE |
|--|------------------|-------------------------|--------|---------|
| 7333-7373 East Rosewood Street* ** | East | CGI Federal Inc | 50,000 | Renewal |
| 5255-5285 East Williams Circle, Suite 3000 | Central | P3 Health Partners | 17,228 | Direct |
| 5255-5285 East Williams Circle, Suite 1000 | Central | EDUVision | 8,668 | Direct |
| 5390 East Erickson Drive** | Central | Quality of Life | 7,586 | Direct |
| 6740 North Oracle Road | North/Oro Valley | Action Behavior Centers | 6,511 | Direct |

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

KEY SALES TRANSACTIONS Q2 2021

| PROPERTY | SUBMARKET | SELLER / BUYER | SF | PRICE / \$PSF |
|--|------------------|--|--------|-----------------|
| 4585 East Speedway Boulevard* | Central | Eugene B & Erena Pamfiloff / Serenity Holdings III LLC | 31,647 | \$3.65M / \$115 |
| 6303 East Tanque Verde Road | Central | 6303 Tanque Verde LLC / Thorinson LLC | 29,864 | \$3.3M / \$110 |
| 5625-5679 East Grant Road* Grant Road Place | Central | Camino Modern Ventures LLC / REM Investment Group | 20,057 | \$2.7M / \$134 |
| 7520 North Oracle Road, 2nd Floor - 200* | North/Oro Valley | Redus One LLC / Calor LLC | 11,476 | \$1.91M / \$166 |
| 4955 North Shamrock Place | West | Kash Property Management Inc / Dias Properties LLC | 11,339 | \$1.38M / \$121 |

*Represented by Cushman & Wakefield | PICOR

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

A CUSHMAN & WAKEFIELD RESEARCH PUBLICATION

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 50,000 employees in 400 offices and 60 countries. In 2020, the firm had revenue of \$7.8 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow @CushWake on Twitter.

©2021 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.

picor.com | cushmanwakefield.com