

MARKETBEAT TUCSON



Office Q3 2021

	YoY Chg	12-Mo. Forecast
9.6% Vacancy Rate	▲	▲
-15K YTD Net Absorption, SF	▼	▼
\$21.62 Asking Rent, PSF	▲	▼

(Overall, All Property Classes)

ECONOMIC INDICATORS Q3 2021

	YoY Chg	12-Mo. Forecast
384.6K Tucson Employment	▲	▲
6.5% Tucson Unemployment Rate	▼	▼
5.2% U.S. Unemployment Rate	▼	▼

Source: BLS, Moody's Analytics

ECONOMY:

In the third quarter 2021, the Tucson market recorded employment of 384,600 jobs with a positive outlook, up 4.3% over the third quarter 2020. The unemployment rate improved from 7.9% in the third quarter 2020 down to 6.5%. Median household income in Tucson remains steady year-over-year (YOY) at \$57,600, in line with national figures. Population grew 0.9% YOY with a positive outlook, more than double the national gain of 0.4%. Due to pandemic-related supply chain issues, housing permits decreased 14.1% YOY in Tucson but remain up 28% year-to-date. Housing demand is stronger in recent years partly due to migration, but supply constraints limit the number of houses sold. Arizona is experiencing a very healthy recovery in retail sales, up 17.4% YOY even while factoring in a dip in July of this year.

SUPPLY AND DEMAND:

Tucson's office market continues to hold steady, in line with the trend to cautiously return to in-person work. The pandemic has brought an influx of people to Arizona from states like New York, California, and Illinois. However, approximately a third of the workforce remains at-home. Two-year leases are the current norm for non-essential businesses as they navigate strategies with no clear indicators of near-term demand for office space. Essential services such as medicine, insurance and real estate continue to contribute to long-term leases of three years or greater.

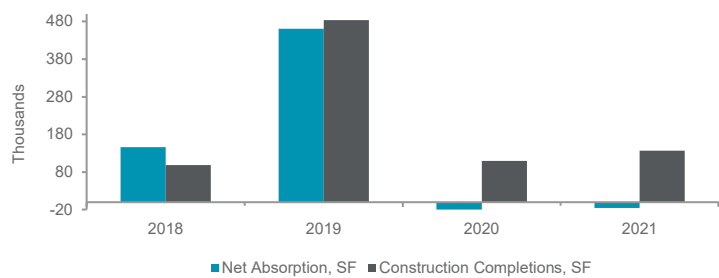
Northwest Medical Center continues construction at the Southwest corner of Houghton Road and Old Spanish Trail, on track for completion in early 2022. Downtown, at East Congress and 1 S. Church, office space is being converted to residential. While office space growth was positive, it is not as high-paced as residential and retail. A few other large office properties could be targets for new uses, while some call centers have begun to reduce their current office space throughout the market.

Development land sales in the third quarter 2021 have increased, with areas of growth including south into Sahuarita, Vail, west toward Star Valley and into the Northwest. Residential land development for single family homes and multifamily followed by retail are mainly benefiting from this growth; student housing and office development has slowed due to the pandemic and quarantine. The demand is high, however supply for land is low due to state and national parks land surrounding the core metro area.

PRICING:

A large notable investment sale this quarter was Mister Car Wash® which sold at \$8.95 million, \$353 per square foot, 6.3% cap rate. The Mister Car Wash® building was constructed in the 1950s and converted into office space shortly before sale. Signed office leases in Tucson for the third quarter 2021 largely remained under 10,000 square foot, showing less growth than other sectors of the commercial market, but still solid for the office sector.

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	10,415,700	14,453	1,313,740	12.8%	27,490	151,873	157,197	66,716	\$21.25	\$22.82
Downtown	6,151,814	0	204,375	3.3%	2,546	-80,195	44,622	345,000	\$21.92	\$27.72
East	1,304,556	4,922	160,709	12.7%	-9,044	28,435	76,824	0	\$18.24	N/A
Foothills	1,342,064	23,084	173,919	14.7%	-53,723	-99,033	28,582	0	\$26.90	N/A
Green Valley/South	361,070	0	18,205	5.0%	-2,347	2,636	0	0	\$21.53	N/A
North/Oro Valley	3,693,323	3,301	271,333	7.4%	68,801	28,048	73,536	31,055	\$24.83	\$25.59
Northwest	523,437	0	67,036	12.8%	-1,441	5,761	3,890	0	\$18.22	N/A
Southeast	544,180	0	4,794	0.9%	2,019	7,030	15,388	45,000	\$14.00	N/A
Southwest	2,200,018	0	72,360	3.3%	22,434	79,884	4,018	237,914	\$27.75	N/A
West	1,759,172	134,556	247,572	21.7%	-11,295	-139,555	21,266	0	\$20.23	N/A
TUCSON TOTALS	28,295,334	180,316	2,534,043	9.6%	45,440	-15,116	425,323	725,685	\$21.62	\$24.89

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q3 2021

PROPERTY	SUBMARKET	TENANT	SF	TYPE
3300 East Sunrise Drive	Foothills	Leman Academy	7,700	Direct
18705 South Frontage Road	Southwest	Administration Office	7,670	Direct
1 South Church Avenue	Downtown	Undisclosed	7,074	Direct
2972 North Campbell Avenue*	Central	Life Skills Autism Academy	5,970	Direct
5210 East Williams Circle, Suite 200	Central	Undisclosed	2,959	Direct

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

KEY SALES TRANSACTIONS Q3 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
222 East 5th Street	Downtown	City of Tucson / Jeff Gahagan	25,350	\$8.95M / \$365
4578 North 1st Avenue	Foothills	Miramonte Homes / Robert Skubiak	14,849	\$1.42M / \$147
877 South Alvernon Way	Central	The Metz Trust UAD / Robert W Assenmacher	12,550	\$1.63M / \$129
5470 East Broadway Boulevard	Central	Larsen Baker, LLC / HBL CPAs	11,800	\$2.73M / \$231
6700 East Speedway Boulevard*	Central	Catalina Technology Properties LLC / David & Christine Tosi	8,702	\$1.5M / \$172

*Represented by Cushman & Wakefield | PICOR

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