

MARKETBEAT TUCSON



Office Q4 2021

	YoY Chg	12-Mo. Forecast
9.6% Vacancy Rate	▲	■
99.7K YTD Net Absorption, SF	▲	■
\$21.60 Asking Rent, PSF	▲	■

(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2021

	YoY Chg	12-Mo. Forecast
383.7K Tucson Employment	▲	▲
4.9% Tucson Unemployment Rate	▼	▼
4.2% U.S. Unemployment Rate	▼	▼

Source: BLS, Moody's Analytics

ECONOMY:

At year end, the Tucson metro area reported employment of 383,700 jobs, a 3.2% increase over the previous year. Household income rose 3.5% from \$51,800 Q4 2020 to \$53,600. Regional unemployment stood at 4.9%, 70 basis points (bps) higher than the national average but improved dramatically over the previous quarter. In good news for the state, Arizona had recovered all jobs lost during the pandemic by November. Housing remained strong with Tucson named a top ten "Hidden Gem" market by the National Association of Realtors and median sales prices up 20.8% over November 2020. Projected interest rate adjustments by the Fed in 2022 to check inflation may temper the frenetic pace of demand.

SUPPLY AND DEMAND:

While overall net absorption for Q4 2021 was a positive 108,083 square feet (sf), Q4 2021 in Tucson's office market has essentially been a continuation of the last 18 months. The market remained flat as occupiers sought short-term extensions and the rare, larger tenant searches for new space took time in the decision-making process. The strongest lease and sale activity was seen in the Foothills and the Sunrise and Campbell corridors with the Foothills sub-market a prime destination for financial service firms. In a market favoring tenants, opportunities arose for occupiers to renegotiate upon lease renewal, with options to blend, extend and downsize. Often users downsize and move up to a higher quality office building for the same price. Investors may find this market opportune to buy in or expand holdings at a discount.

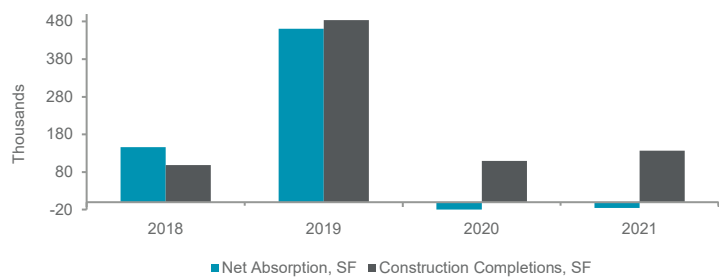
Medical office demand remains high, with medical requirements and retrofitting costs such that many practices opt to build new. As opposed to many professional offices that remain closed while employees work from home, healthcare uses remains active and significant, both for lease and for purchase.

In downtown Tucson, eight stories of One South Church were purchased in 2021 for conversion to a boutique hotel. Though momentum in the downtown office market has been minimal, medical and apartment developers are viewing vacant office projects and call centers that could potentially be rehabbed for their uses.

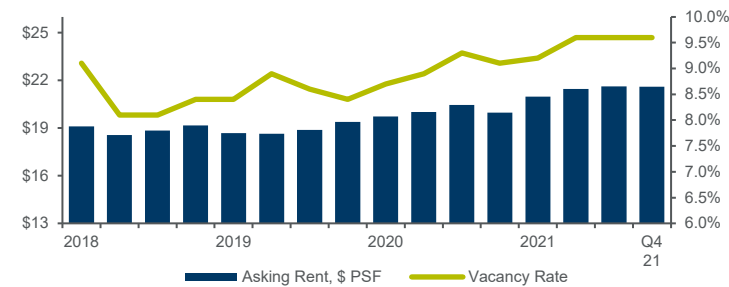
PRICING:

Both class A and overall average asking lease rates increased nominally year-over-year. Market-wide sales volume increased slightly from 2019 to 2020 but dropped 23.0% in 2021 to \$171.9M. Despite decreased volume, average price per square foot (psf) has steadily increased each year since 2017, with Tucson's average sale prices in 2021 at \$154 psf.

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	10,508,921	18,843	1,430,876	13.8%	2,622	157,245	228,685	66,716	\$21.27	\$22.82
Downtown	6,167,772	24,260	165,286	3.1%	18,361	-61,834	65,000	345,000	\$21.33	\$27.72
East	1,304,556	5,724	92,848	7.6%	66,359	94,794	77,524	0	\$18.42	N/A
Foothills	1,342,064	48,238	132,888	13.5%	15,877	-83,156	36,784	0	\$26.91	N/A
Green Valley/South	361,727	0	18,221	5.0%	-1,818	818	3,454	0	\$21.48	N/A
North/Oro Valley	3,693,309	3,301	268,182	7.4%	378	32,383	91,743	24,318	\$24.85	\$25.59
Northwest	522,607	0	35,237	6.7%	28,155	33,916	7,534	0	\$18.27	N/A
Southeast	547,680	11,544	4,794	3.0%	-11,544	-4,514	15,388	45,000	\$16.78	N/A
Southwest	2,320,185	0	72,821	3.1%	-461	79,423	4,018	120,000	\$27.79	\$29.25
West	1,759,172	134,556	257,418	22.3%	-9,846	-149,402	21,266	0	\$20.22	N/A
TUCSON TOTALS	28,527,993	246,466	2,478,571	9.6%	108,083	99,673	551,396	718,948	\$21.60	\$24.91

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q4 2021

PROPERTY	SUBMARKET	TENANT	SF	TYPE
2625 North Craycroft Road**	Central	AOR Management Company of Arizona, LLC	28,389	Direct
5100 East Broadway Boulevard	Central	Archwell Health	7,068	Direct
2100 North Rosemont Boulevard, Suite 100 & 100**	Central	TMC Sleep Lab	6,548	Direct
5255-5285 East Williams Circle 6th Fl	Central	The Innova Group	6,082	Direct
250 South Craycroft Road, Suite 350	Central	Dearman Systems	3,808	Direct

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

KEY SALES TRANSACTIONS Q4 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
1111-1141, 1161-1181 North El Dorado Place	East	HSL Dorado Place Office, LLC / Central Barrio Development	84,677	\$2.5M / \$29
7333-7373 East Rosewood Street	East	1510NA, LLC / Tucson AZ IV FGF LLC	76,268	\$18.94M / \$248
40 East Congress Street - City Park	Downtown	BP City Park Investors LLC / Undisclosed	65,062	Undisclosed
10 East Broadway Boulevard	Downtown	Cope Properties LLC / Equilibrium QOZB II K LLC	38,000	\$3.02M / \$79
6363 North Swan Road*	Foothills	Lilak LLC / Dome Ventures LLC	22,825	\$6.33M / \$277

*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

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