

MARKETBEAT TUCSON



Office Q2 2022

	YoY Chg	12-Mo. Forecast
9.5% Vacancy Rate	▲	▲
123K YTD Net Absorption, SF	▼	▼
\$22.22 Asking Rent, PSF	▲	▬

(Overall, All Property Classes)

ECONOMIC INDICATORS Q2 2022

	YoY Chg	12-Mo. Forecast
389.1K Tucson Employment	▲	▲
3.2% Tucson Unemployment Rate	▲	▲
3.6% U.S. Unemployment Rate	▼	▼

Source: BLS

ECONOMY OR SUPPLY:

In Q2 2022, the Tucson market recorded an employment level of 389,100 jobs, up 3.0% over Q2 2021. The unemployment rate decreased from 5.5% in Q2 2021 to 3.2% in Q2 2022. Household growth was up 2.1% year-over-year (YOY). Nationally, retail sales were up 8.7% YOY. While inflationary pressures continued throughout the quarter, key commodities fueling increased building costs have begun to moderate from their peaks early in 2022.

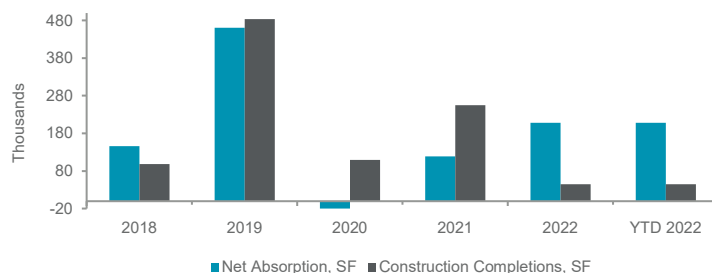
SUPPLY AND DEMAND:

During Q2, overall activity remained static despite more workers returning to the office. National companies were more likely to insist on a return to the office while local employers took more time to work alternatives. The healthcare sector continued swiftly and accounted for much of the strength in Tucson's office market, also marked by the notable opening of Northwest Medical Center's hospital southeast of Tucson at Houghton and Old Spanish Trail. Only two leases over 10,000 square feet (sf) were reported in Q2. The 24,000 sf shell building at Oracle and Ina Professional Plaza will be finished soon despite challenges from supply chain and labor issues. The only investment transaction of note was a portfolio of medical buildings sold by Pinecroft Realty to a Canadian REIT. In another shift to respond to market dynamics, the strength of the industrial sector is prompting some owners of larger office buildings to consider reverting spaces into distribution and warehouse where possible. Downtown Tucson continues to be strong, supported by Rio Nuevo funding, fueled by the streetcar and continued residential development in the city core.

PRICING:

As large leases come up for renewal, call center and large back-office operators are having to face their changing business environment and rethink their entire models. With 1.7 million sf of available call center space, the impact on this sector will have a moderating effect on asking rates. Meanwhile, as smaller leases come up for renewal or expiration, many businesses determine they can operate with less space or fewer locations, driving vacancies slightly higher even as rents continue to inch up past \$22.00 per square feet (psf). On volume of \$75.00 million for the quarter, average sale prices in Tucson were \$176.00 psf, continuing an upward trend since 2016.

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	10,489,400	21,672	1,120,302	11.5%	16,679	256,477	125,119	0	\$21.86	\$22.69
Downtown	6,189,211	24,260	128,831	2.5%	26,052	38,721	25,574	0	\$21.48	\$29.75
East	1,304,458	71,894	247,745	24.5%	-203,033	-218,267	10,858	0	\$16.89	\$20.00
Foothills	1,365,384	55,168	90,713	10.7%	23,169	38,220	39,257	0	\$27.09	N/A
Green Valley/South	362,323	0	16,142	4.5%	0	-1,787	669	0	\$22.01	N/A
North/Oro Valley	3,723,839	0	257,544	6.9%	-6,451	17,972	38,341	38,879	\$25.95	\$26.08
Northwest	524,005	0	49,991	9.5%	-3,391	-11,110	18,658	10,000	\$18.00	N/A
Southeast	597,484	11,544	56,707	11.4%	-6,913	-6,913	2,616	0	\$17.50	N/A
Southwest	2,372,995	0	114,516	4.8%	-67,689	78,305	35,511	120,000	\$29.35	\$31.00
West	1,657,085	134,556	322,677	27.6%	-1,326	-69,015	0	0	\$19.77	N/A
TUCSON TOTALS	28,586,184	319,094	2,405,168	9.5%	-198,544	122,603	296,603	168,879	\$22.22	\$24.85

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
3275 West Ina Road**	Northwest	Bowman Engineering	10,148	Direct
434 East University**	Downtown	Udall Foundation	9,007	Direct
2090 North Kolb Road	East	Arizona Autism	7,919	Direct
3580 West Ina Road	Northwest	Undisclosed	6,788	Direct
4805-4897 East Speedway Boulevard	Central East	Meat Market	6,735	Direct

*Renewal-not included in Leasing Activity Statistics **Represented by Cushman & Wakefield | PICOR

KEY SALES TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
5620 West Cortaro Farms Road	Northwest	Harrison Street Capital / NorthWest Healthcare Properties	30,573	\$668.69
1440 East 15th Street	Central	LXP Industrial Trust / Clay Cooley Chevy DFW	28,591	\$285.05
1055 North La Canada Drive	Green Valley/South	Harrison Street Capital / NorthWest Healthcare Properties	23,905	\$162.31
4892 North Stone Ave	North/Oro Valley	Harrison Street Capital / NorthWest Healthcare Properties	18,976	\$375.69
2404 East River Road	Foothills	Undisclosed / Undisclosed	18,515	Undisclosed

KEY CONSTRUCTION COMPLETIONS YTD 2022

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
2300 South Houghton Road	Southeast	Arizona Arthritis & Rheumatology Associates	45,000	Undisclosed

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