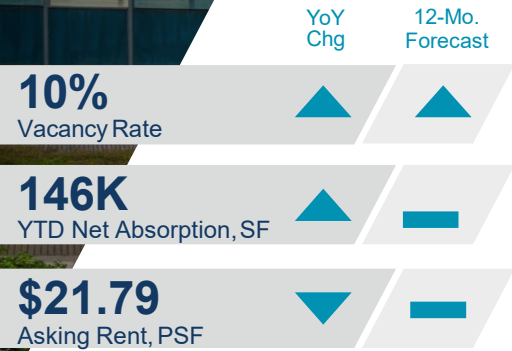


MARKETBEAT TUCSON

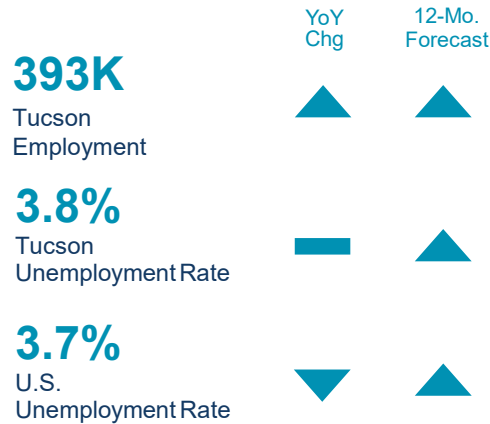


Office Q4 2022



(Overall, All Property Classes)

ECONOMIC INDICATORS Q4 2022



Source: BLS

ECONOMY:

Tucson's fourth quarter of 2022 employment increased to 393,000 jobs, up 2.2% over Q4 2021. At 3.8%, the local unemployment rate matched that of the same quarter a year prior and is forecast to increase in the year ahead. Household formation grew 1.9% year-over-year (YOY) with median household income increasing 5.8% YOY from \$60,100 to \$63,600. Nationally, consumer spending grew at a healthy 8.5% rate and retail sales were similarly up 8.4% YOY. Inflation persisted over 7.0%, high relative to recent years, while consumer and corporate balance sheets remain cash strong.

SUPPLY AND DEMAND:

Throughout 2022, the Tucson office market was challenged by post-pandemic disruption to work patterns and reconsideration of layout and use of space. The office vacancy rate rose slightly to 10.4% on the total available inventory of 28,887,249 square feet (sf). The Refinery at the Tech Park was completed, adding 120,000 sf to the market; otherwise, healthcare and ancillary medical practices continue to be the largest driver of new activity.

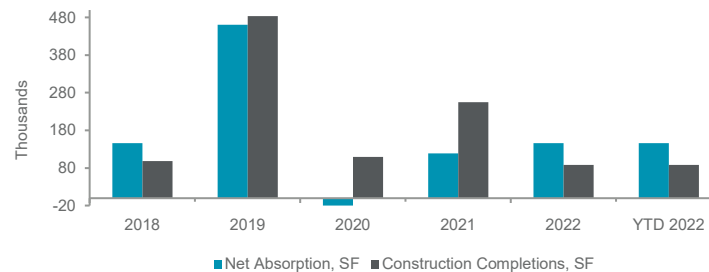
With employers working through hybrid models for their workforces, many businesses are considering smaller spaces upon lease renewal. Work from home has particularly challenged call center/telemarketing users and is only worsening as leases come up for renewal with a reduced in-person workforce. Available large blocks of space suitable for office, back office, and call center uses equal about two million sf and will likely increase.

While investors continued seeking viable opportunities, rising debt costs put a damper on speculation. Given the higher interest rate environment, seller financing is growing in popularity, and some owners are willing to carryback financing to get deals done. The owner occupancy sector differed, as businesses constructing purpose-built facilities bit the bullet and borrowed to move projects forward. Overall sales volume for 2022 was up 3.6% YOY to \$177.4 million, but well below the volumes seen in 2019 and 2020.

PRICING:

The busy Foothills submarket has been able to drive rates up, but otherwise rental prices in Tucson remained stable. Many owners have also been creative in utilizing incentives to move transactions forward. The overall average asking rental rate in Tucson is \$21.79 per sf with the highest average of \$29.34 in SW Tucson and the lowest of \$11.34 in SE Tucson. The average price per sf sold in 2022 was up significantly over 2021 from \$149 per sf to \$190 per sf.

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	10,446,303	10,035	1,167,186	11.8%	-134,560	296,281	406,843	0	\$23.14	\$25.13
Downtown	6,265,469	24,260	160,317	3%	-11,047	7,235	50,873	0	\$21.17	\$30.03
East	1,305,008	71,895	230,768	23%	-4,690	-203,515	29,543	0	\$15.75	\$20.00
Foothills	1,368,933	33,502	83,506	8.5%	34,726	75,093	144,465	0	\$26.31	\$0.00
Green Valley/South	374,838	0	21,103	5.6%	-4,661	3,252	2,790	0	\$22.35	\$0.00
North/Oro Valley	3,897,933	4,821	340,412	10.1%	-57,603	-48,641	89,106	50,305	\$25.66	\$26.39
Northwest	524,661	0	22,019	4.2%	2,835	16,862	52,851	10,000	\$19.30	0
Southeast	702,316	15,833	165,270	25.8%	2,835	-4,133	3,216	8,400	\$11.34	\$10.50
Southwest	2,390,448	0	122,542	5.1%	-8,435	70,279	50,511	120,000	\$29.34	\$30.78
West	1,611,340	134,556	305,184	27.3%	-5,235	-66,457	3,506	0	\$19.77	0
TUCSON TOTALS	28,887,249	294,902	2,618,307	10%	-185,835	146,256	833,704	188,705	\$21.79	\$22.50

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
333 East Wetmore Road***	West	Centene Management Company, LLC	26,004	Renewal
1840-1860 East River Road	Foothills	Undisclosed	25,439	New
3755 North Business Center Drive**	North/Oro Valley	Undisclosed	16,500	New
1600 East Idea Lane	Southwest	Undisclosed	15,000	New
3300 East Sunrise Drive	Foothills	NP Photonics (Amazon)	14,471	New

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

KEY SALES TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
6390 East Broadway Boulevard	Central	6390 LLC / 6390 Broadway LLC	21,920	\$100.37
2210 East Fort Lowell Road**	Central	DFP Properties LLC / Cachita Ltd Ptp	14,500	\$165.52
7490 North Oracle Road**	North/Oro Valley	Oracle Medical Plaza Phase II LLC / MCP Tucson Endo, LLC	11,960	\$255.00
502 North Silverbell Road**	Downtown	Serenity Holdings III LLC / 502 Silverbell LLC	11,302	\$81.77
4582 North 1st Avenue	Foothills	4582 N First, LLC / Emerson Vail Partners LLC	10,261	\$107.20

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