

YoY Chg 12-Mo. Forecast

9.9%
Vacancy Rate

-365K
YTD Net Absorption, SF

\$23.54
Asking Rent, PSF

(Overall, All Property Classes)

ECONOMIC INDICATORS Q1 2024

YoY Chg 12-Mo. Forecast

402K
Tucson Employment

4.1%
Tucson Unemployment Rate

3.8%
U.S. Unemployment Rate

Source: BLS

ECONOMY:

As we ended 2024's first quarter (Q1), the U.S. economy signaled continued resilience, with mixed expectations ahead. The narrative was bright for Tucson, where household income rose appreciably by 2.9% over the year, reaching \$68,500, playing a role in propelling consumer spending. Robust real GDP expansion of 3.1% nationally bolstered talk of a soft landing. Inflation, which had been steadily retreating, settled at a CPI increase of 3.0%, a notable deceleration versus the 5.7% posted a year earlier. Tucson's nonfarm employment charted moderate growth, with a 0.7% increase. Meanwhile, Tucson's unemployment rate ticked up negligibly to 4.1%, indicative of a stable labor market. Amid economic optimism and stable employment, Tucson mirrored the broader national trends toward sustained economic growth.

SUPPLY AND DEMAND:

The vacancy rate in Tucson's office market increased to 9.9% for Q1 of 2024, reflecting the gradual return of larger blocks of space to the market post pandemic as leases rolled over. Of note, medical office space remained in high demand and represented a significant portion of Tucson's office market activity.

Med-spa facilities gained traction, with physicians and paraprofessionals seeking sites away from traditional medical centers. Landlords were strategizing ways to market large spaces, contemplating dividing properties into smaller units, or exploring alternative uses depending on zoning regulations. The Northwest and Foothills submarkets remained the most sought-after locations.

Significant leasing activity for the quarter included Broadpath Inc. leasing 21,881 square feet (sf) in Central Tucson, the American Red Cross leasing 12,312 sf in Central Tucson, a homecare provider securing a 10,927 sf space in Downtown Tucson, and Fiji Water Company leasing 10,644 sf in central Tucson.

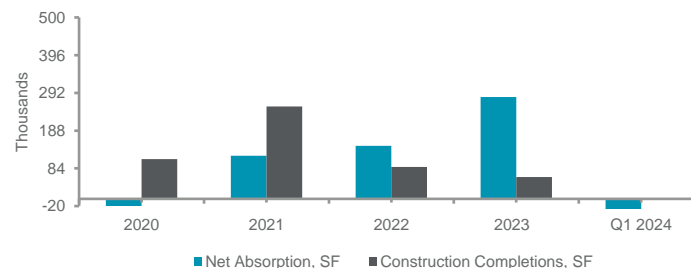
Building sales remained surprisingly robust, especially for properties under 3,000 sf, unaffected by higher interest rates. Key sales in Q1 include Vertical Ventures purchasing a 141,501 sf building in Southwest Tucson for \$24.5 million, Bourn Companies acquiring a 125,000 sf property in Central Tucson for \$5 million, and Virtus Real Estate Capital purchasing a 60,160 sf office facility in Oro Valley for \$12.7 million.

Construction costs remained high, compounded by delays in obtaining permits and lingering supply chain issues. However, notable projects like The University of Arizona's new Arizona Public Media building broke ground with a 61,500 sf building located at the Tech Park at the Bridges. Additionally, a new 55,000 sf JTED building, housing medical training programs in partnership with the University of Arizona and Banner Health, is also set to be completed in Q2.

PRICING:

Asking lease rates remained stable, ticking up slightly from the previous quarter, with an average rate of \$23.54 per square feet (psf). Notably, higher rates were quoted in the Foothills submarket at \$28.36 psf. Conversely, more affordable rates prevail in the East and West submarkets, averaging around \$17.00 to \$19.00 psf, full service. Investment sales continued to thrive in Oro Valley and Central Tucson, with the average sale price consistent with the previous quarter at \$148 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 | YTD OVERALL ABSORPTION (SF) | YTD LEASING ACTIVITY (SF) | UNDER CNSTR (SF)** | OVERALL AVG ASKING RENT (ALL CLASSES)* | OVERALL AVG ASKING RENT (CLASS A)* |
|----------------------|-------------------|--------------------|--------------------|----------------------|------------------------------------|-----------------------------|---------------------------|--------------------|--|------------------------------------|
| Central | 10,629,675 | 36,202 | 1,338,657 | 11.1% | -184,425 | -184,425 | 61,705 | 0 | \$25.40 | \$25.42 |
| Downtown | 6,380,101 | 24,260 | 158,422 | 2.9% | -15,326 | -15,326 | 21,884 | 0 | \$23.69 | \$28.20 |
| East | 1,312,031 | 4,922 | 232,445 | 16.5% | -27,505 | -27,505 | 7,259 | 0 | \$17.02 | \$18.17 |
| Foothills | 1,435,506 | 7,622 | 117,723 | 6.5% | 6,694 | 6,694 | 0 | 0 | \$28.36 | 0 |
| Green Valley/South | 381,510 | 0 | 27,844 | 5.1% | -4,328 | -4,328 | 1,625 | 0 | \$23.95 | 0 |
| North/Oro Valley | 3,964,312 | 7,497 | 338,065 | 7.5% | -59,623 | -59,623 | 39,996 | 0 | \$27.40 | \$26.06 |
| Northwest | 536,778 | 0 | 5,695 | 1.1% | 5,815 | 5,815 | 1,042 | 4,000 | \$21.70 | 0 |
| Southeast | 720,360 | 15,833 | 210,145 | 27.1% | -66,816 | -66,816 | 0 | 0 | \$19.18 | 0 |
| Southwest | 2,414,114 | 0 | 63,235 | 2.6% | -1,855 | -1,855 | 0 | 65,000 | \$30.93 | \$29.42 |
| West | 1,510,846 | 134,556 | 175,266 | 18.6% | -17,252 | -17,252 | 2,302 | 0 | \$17.80 | 0 |
| TUCSON TOTALS | 29,285,233 | 230,892 | 2,667,497 | 9.9% | -364,621 | -364,621 | 135,813 | 69,000 | \$23.54 | \$25.45 |

*Rental rates reflect full service asking

**UC was revised after U.S. Tables were released

KEY LEASE TRANSACTIONS Q1 2024

| PROPERTY | SUBMARKET | TENANT | RSF | TYPE |
|------------------------------------|-----------|-------------------------------|---------|-----------|
| 6400 East Grant Road** | Central | Broadpath Inc. | 21, 881 | Renewal |
| 2916 East Broadway Boulevard | Central | American Red Cross | 12,312 | New Lease |
| 440 North Bonita Avenue** | Downtown | ITC Personal In-Home Care LLC | 10,927 | New Lease |
| 5210 – 5285 East Williams Circle** | Central | Fiji Water Company, LLC | 10,644 | New Lease |
| 3295 West Ina Road** | Northwest | Pathways of Arizona, LLC | 10,201 | Renewal |

**At least one party represented by Cushman & Wakefield | PICOR

KEY SALES TRANSACTIONS Q1 2024

| PROPERTY | SUBMARKET | SELLER / BUYER | SF | PRICE/\$ PSF |
|-----------------------------------|------------------|--|---------|--------------------|
| 3360 East Hemisphere Loop | Southwest | Net Lease Office Properties / Vertical Ventures | 141,501 | \$24.5M / \$173.67 |
| 5411 East Williams Boulevard** | Central | Orion Office REIT Inc. / Bourn Companies | 125,000 | \$5M / \$40.00 |
| 6320 North La Cholla Boulevard | North/Oro Valley | Healthcare Trust of America, Inc. / Virtus Real Estate Capital | 60,160 | \$12.7M / \$211.30 |
| 6261 North La Cholla Boulevard | North/Oro Valley | Healthcare Trust of America Inc. / Virtus Real Estate Capital | 55,372 | \$11.2M / \$203.05 |
| 1161-1181 North El Dorado Plaza** | Central | Catarina of Tucson / El Dorado Partnership | 33,536 | \$5.6M / \$203.05 |

**At least one party represented by Cushman & Wakefield | PICOR

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