

MARKETBEAT TUCSON

Office Q1 2023



YoY
Chg

12-Mo.
Forecast

10.1%

Vacancy Rate



-62.4K

YTD Net Absorption, SF



\$21.30

Asking Rent, PSF



(Overall, All Property Classes)

ECONOMIC INDICATORS Q1 2023

YoY
Chg

12-Mo.
Forecast

398.4K

Tucson
Employment



3.9%

Tucson
Unemployment Rate



3.5%

U.S.
Unemployment Rate



Source: BLS

ECONOMY:

In the first quarter of 2023, the US economy demonstrated higher than expected job growth. With robust hiring each month, somewhat tempered in March at 236,000 jobs, the labor market showed remarkable resilience. Job growth in a tight labor market is expected to drive the next interest rate hike from 25 to 50 basis points. Focusing on Arizona and the Tucson MSA, upward revisions in employment data for 2021 and 2022 reflected a healthy regional economy. Tucson's nonfarm employment rose from 392.5k in Q1 2022 to 398.4k in Q1 2023, while the unemployment rate increased from 3.4% to 3.9%. The consumer price index dropped for an eighth straight month to 5.7, and Tucson's outlook remained positive, with median household income up 3.6% year-over-year and population growth at a steady pace.

SUPPLY AND DEMAND:

The Tucson office market continues to see a rippling effect from the pandemic as employers try to entice employees back to the office. Although vacancy rates have remained at 10.1%, the negative net absorption rate of -62,372 square feet (sf) is a cause for concern as available inventory of 2,914,919 sf remains on the market. The post-pandemic hybrid work schedule has led to a trend in larger office spaces being vacated or becoming available for sublease, which has been seen in larger submarkets since the pandemic.

Medical users are currently the driving force for office investment sales, as they often require larger and newly developed properties. Out-of-state medical care groups are attracted to Tucson due to the high demand for senior care. Some medical practices are expanding throughout the city. Additionally, some office owners are converting space to industrial uses, making investment sales in the industrial side noticeable. Despite rising interest rates, buyers are still showing interest in the office market.

Most leases being sought range from 1,500 – 3,000 sf, which is typical in Tucson. Due to the demand for improving emotional well-being since the pandemic, established and start-up mental health groups are more active in the market. However, landlords are hesitant to accept companies that target their clientele population, making it to find long-term leases. Furthermore, many properties are not receiving the necessary updates needed as construction prices remain high. Although lease rates are holding steady, lease terms are beginning to trend upward.

PRICING:

The high-end and low-inventory Foothills submarket has experienced an increase in lease rates, but rental prices in Tucson remain consistent overall. The highest average asking rental rate is \$28.24 per square foot (psf) in the Foothills submarket, while the lowest is \$15.61 psf in East Tucson. Significant sales transactions include 4001 East Sunrise Drive, which sold for \$9 million, 6502-6564 East Carondelet Drive for \$1.4 million, and 1241-1245 North Wilmot for just shy of \$1 million.

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	10,533,114	40,978	1,184,660	11.7%	-65,769	-65,769	91,526	14,593	\$22.81	\$24.13
Downtown	6,233,554	24,260	170,556	3.1%	-3,797	-3,797	8,457	0	\$21.54	\$27.43
East	1,315,105	71,894	227,247	22.7%	-3,647	-3,647	5,180	0	\$15.61	\$20.00
Foothills	1,389,335	0	94,175	6.8%	21,455	21,455	17,549	0	\$28.24	\$0.00
Green Valley/South	396,853	0	27,860	7%	-10,007	-10,007	10,268	0	\$22.46	\$0.00
North/Oro Valley	3,900,479	4,821	384,884	10.1%	-9,103	-9,103	18,230	38,422	\$25.12	\$24.57
Northwest	535,005	0	18,000	3.4%	14,019	14,019	1,100	4,000	\$19.30	\$0.00
Southeast	702,316	15,833	165,270	25.8%	0	0	0	8,400	\$17.50	\$0.00
Southwest	2,383,937	0	107,965	4.5%	28,478	28,478	0	130,000	\$27.62	\$29.25
West	1,520,268	134,556	245,461	25%	-34,001	-34,001	9,364	0	\$17.95	\$0.00
TUCSON TOTALS	28,909,966	292,342	2,626,078	10.1%	-62,372	-62,372	161,673	195,415	\$21.30	\$21.65

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q1 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1840-1860 East River Road**	Foothills	South32	13,918	New Lease
1849 North Kolb Road**	Central Tucson	Action Behavior Centers LLC	10,758	New Lease
151 West Orange Grove Road**	Foothills	Learn & Play Preschool	8,912	New Lease
7400 North Oracle Road	North Tucson/Oro Valley	Undisclosed	7,066	New Lease
2475 East Water Street	Central Tucson	Max Behavioral Health	6,900	New Lease

*Renewals not included in leasing statistics **At least one party represented by Cushman & Wakefield | PICOR

KEY SALES TRANSACTIONS Q1 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
4001 East Sunrise Drive	Foothills	Berkeley Land Company, Inc./ Vanbarton Group	36,364	\$9M/\$247.50
2122 North Craycroft Road	Central	Undisclosed/Arizona Eye Consultants	14,644	Undisclosed
2224 North Craycroft Road	Central	Undisclosed/Arizona Eye Consultants	11,634	Undisclosed
6502-6564 East Carondelet Drive	Central	Radiology Ltd./ Undisclosed	11,036	\$1.4M/\$129.66
1241-1245 North Wilmot**	Central	Demeter Medical Properties, LLC/ DesertEasySky, LLC	7,607	\$999K/\$131.44

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

KEY CONSTRUCTION COMPLETIONS YTD 2023

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
1402 East Tucson Marketplace Boulevard	Southwest Tucson	OrthoPro Occupies	12,000	Undisclosed/Undisclosed
00 Cortaro Farms Road	Northwest Tucson	N/A	10,000	Undisclosed/Undisclosed

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