

# MARKETBEAT TUCSON

Office Q2 2023



YoY  
Chg

12-Mo.  
Forecast

**9.4%**  
Vacancy Rate



**170K**  
YTD Net Absorption, SF



**\$22.72**  
Asking Rent, PSF



(Overall, All Property Classes)

## ECONOMIC INDICATORS Q2 2023

YoY  
Chg

12-Mo.  
Forecast

**399K**  
Tucson  
Employment



**3.4%**  
Tucson  
Unemployment Rate



**3.6%**  
U.S.  
Unemployment Rate



Source: BLS

## ECONOMY:

In the second quarter of 2023, the US economy continued to exhibit resilience, with favorable implications for commercial real estate. Year-over-year (YOY) median household income grew from \$69,700 to \$72,900, supporting consumer spending and retail sales. Real GDP was up 2.1%, indicating strength amid economic headwinds. Of significance, the consumer price index reflected 11 consecutive months of decreasing inflation, dropping from 8.6% to 4.0% YOY. In Tucson positive trends persisted, with median household income rising from 3.2% YOY. Nonfarm employment increased 1.5%, reflecting a stable, if not robust, job market. The unemployment rate declined from 3.7% to 3.4%, suggesting improved labor conditions.

## SUPPLY AND DEMAND:

The Tucson office market is steadily recovering from the pandemic, with tenants adapting to changing dynamics such as hybrid scheduling and condensed workforces. The Tucson office market shows small improvements from the previous quarter, with the vacancy rate dropping to 9.4%, however, the current 2.7 million square feet (sf) on the market still warrants attention. The market conditions offer tenants increased options and leverage in negotiating lease terms and allowances.

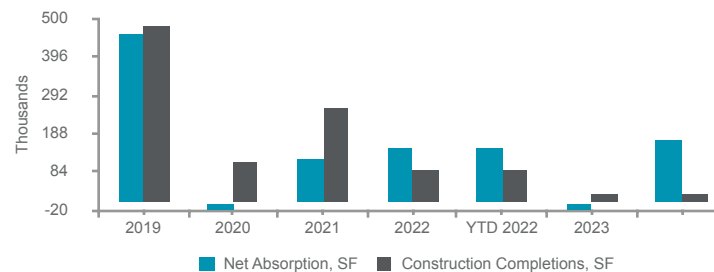
While office investment sales have declined, triple net leased medical properties remain a promising segment, commanding higher sales prices per sf due to the strong presence of medical users driving sustained demand. The Foothills submarket is thriving for office investments, while the Central Business District in Downtown Tucson is working on regaining demand.

The industry faces challenges from inflation and supply chain issues, resulting in increased prices for new construction projects. Rising interest rates further impede new development. Despite these challenges, two noteworthy construction projects are underway in Tucson: a 16,137 sf medical building in Oro Valley, estimated for completion in July 2023, and a 14,593 SF medical office in Central Tucson, set to be completed by September 2023. These projects reflect the significant demand from medical users that are driving the office market. Leasing activity in Tucson remains popular within the range of 1,500-3,000 sf, and there remains an influx of behavioral health practices due to available government funding.

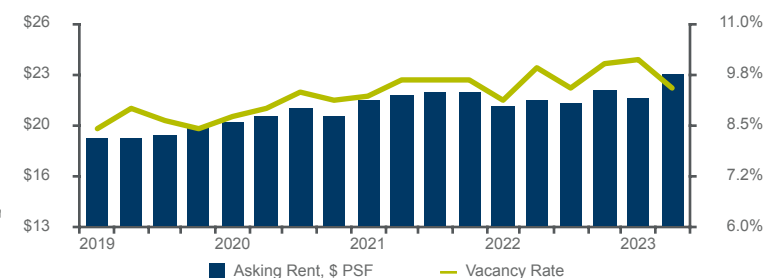
## PRICING:

The average lease rate for Tucson office space is \$21.30 per square feet (sf) representing a slight increase of \$1.42 psf from Q1. This positive trend indicates the stability of rental prices. Among the submarkets, the Foothills area has the highest asking rent of \$28.24 psf, closely followed by the Southwest submarket at \$27.62 psf. On the other hand, East Tucson offers the lowest rate at \$15.61 psf. In terms of investment sales, office properties have an average sale rate of \$186 psf. Notably, the focal point of investment sales has predominantly been in central Tucson.

## SPACE DEMAND / DELIVERIES



## OVERALL VACANCY & ASKING RENT





## Office Q2 2023

## 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	9,845,741	51,184	1,026,286	11.7%	60,509	43,381	209,292	14,593	\$24.22	\$24.49
Downtown	5,761,935	24,260	144,226	2.6%	51,795	51,204	43,950	0	\$27.43	\$27.26
East	2,352,765	59,765	224,684	11.9%	12,326	15,847	11,482	0	\$16.69	\$20.00
Foothills	2,423,979	0	111,083	8.0%	-17,092	5,925	23,953	0	\$28.34	N/A
Green Valley/South	381,669	0	23,656	6.2%	7,454	-2,553	26,298	0	\$22.46	\$25.96
North/Oro Valley	3,376,756	1,460	349,215	8.8%	62,877	12,397	41,730	22,137	\$24.06	N/A
Northwest	535,101	0	20,485	3.8%	-2,485	11,534	9,097	0	\$19.25	N/A
Southeast	723,097	15,833	173,423	25.0%	0	0	8,316	8,400	\$18.08	N/A
Southwest	853,391	0	118,375	4.9%	-10,410	16,167	0	130,000	\$28.80	\$29.25
West	2,551,279	122,426	206,374	22.0%	59,608	15,763	5,475	0	\$17.95	N/A
<b>TUCSON TOTALS</b>	<b>28,805,712</b>	<b>274,928</b>	<b>2,397,807</b>	<b>9.4%</b>	<b>224,582</b>	<b>169,665</b>	<b>379,593</b>	<b>175,130</b>	<b>\$22.72</b>	<b>\$24.90</b>

\*Rental rates reflect full service asking

## KEY LEASE TRANSACTIONS Q2 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
537-545 North 6th Avenue	Downtown	Undisclosed	12,100	New Lease
1161-1181 North El Dorado Plaza	Central Tucson	Mindflex Counseling Services	10,686	New Lease
5860 North La Cholla Boulevard**	North Tucson/Oro Valley	Tucson Medical Center	10,105	New Lease
177 North Church Avenue**	Downtown	Undisclosed	7,425	New Lease
5151 East Broadway Boulevard**	Central Tucson	Undisclosed	6,783	New Lease

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

## KEY SALES TRANSACTIONS Q2 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
2202 North Forbes Boulevard	West	Holualoa Forbes, LLC. / Arizona Department of Public Safety	58,367	\$8.2M / \$140.49
2500 North Pantano Road	East	Undisclosed / Bob Camino Principal, LLC.	29,200	\$1.4M / \$48.25
4640 East Sunrise Drive	Foothills	Undisclosed / 4640 East Sunrise Drive, LLC.	15,702	\$3.1M / \$200.61
3425 East Grant Road	Central	City of Tucson / Undisclosed	7,098	\$800K / \$112.71
801 North Wilmot Road	Central	MAJK Ventures, LLC. / KEYS CD, LLC.	5,816	\$502K / \$86.31

## KEY CONSTRUCTION COMPLETIONS YTD Q2 2023

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
22004 North Camino Principal	East	Undisclosed	1,610	Undisclosed/Undisclosed

## Kate Zimmerman

Marketing Manager

+1 520 546 2743 / kzimmerman@picor.com

## Aracely Castillon

Intern

+1 520 748 7100 / acastillon@picor.com

## A CUSHMAN &amp; WAKEFIELD RESEARCH PUBLICATION

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 52,000 employees in 400 offices and 60 countries. In 2022, the firm had revenue of \$10.1 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. It also receives numerous industry and business accolades for its award-winning culture and commitment to Diversity, Equity and Inclusion (DEI), Environment, Social and Governance (ESG) and more. For additional information, visit [www.cushmanwakefield.com](http://www.cushmanwakefield.com) or follow @CushWake on Twitter.

©2023 Cushman & Wakefield. All rights reserved. The information contained within this report is gathered from multiple sources believed to be reliable. The information may contain errors or omissions and is presented without any warranty or representations as to its accuracy.

[cushmanwakefield.com](http://cushmanwakefield.com)