

MARKETBEAT TUCSON

Office Q3 2023



YoY
Chg

12-Mo.
Forecast

8.9%

Vacancy Rate



304K

YTD Net Absorption, SF



\$22.78

Asking Rent, PSF



(Overall, All Property Classes)

ECONOMIC INDICATORS Q3 2023

YoY
Chg

12-Mo.
Forecast

399K

Tucson
Employment



3.4%

Tucson
Unemployment Rate



3.7%

U.S.
Unemployment Rate



Source: BLS

ECONOMY:

In the third quarter of 2023, the US economy showcased consistent resilience, although predictions for its future varied. In Tucson, encouraging signs were observed. The median household income rose by 4.0% compared to the previous year, bolstering consumer spending. However, consumer confidence did wane slightly in September. Nationally, real GDP grew by 2.4%, demonstrating economic vigor despite some recessionary concerns. After a year of consistent decline in inflation, the consumer price index increased to 3.4%. This is notably lower than the 8.3% recorded the previous year. Metro Tucson's nonfarm employment experienced a positive, modest rise of 1.3%. Furthermore, Tucson's unemployment rate saw a decrease from 4.0% to 3.7%, indicating a robust labor market.

SUPPLY AND DEMAND:

The Tucson office market is gradually rebounding post-pandemic, with the vacancy rate decreasing from 9.4% to 8.9% compared to the previous quarter. However, the presence of 2.8 million square feet (sf) of available inventory remains a concern, primarily due to office users reevaluating their needs considering hybrid and remote work models. Medical users continue to drive the Tucson office market's growth.

Investment sales have remained stagnant, with prevailing cap rates mostly around 8%. Notably, a significant transaction featured a 5% cap rate, as Banner Health's University of Arizona Cancer Center at 3838 N Campbell sold for \$134,000,000, \$366.73 per sf. Over the past year, the Tucson office market saw \$87.6 million in investment sales, with rising interest rates and economic uncertainties posing challenges. Private buyers and owner/user deals are the primary drivers of activity.

Lease terms are now extending to five-year durations, with a decrease in one two-year lease terms compared to the previous year. Demand remains strong in submarkets with strong household income, for example, the Downtown submarket which has a 1.08% vacancy rate.

Office construction activity in Tucson remained low, but two notable projects were underway in the third quarter. Houghton Crossings Professional Plaza at 7375 South Houghton offered 8,400 square feet of mixed-use space in Rincon Valley, while Townsend Medical at 2121 North Craycroft provided 30,000 sf of Class A medical space, set for completion in June 2024. Even though construction activity remained low, Tucson avoided oversaturation, helping maintain competitive prices in the Tucson office market.

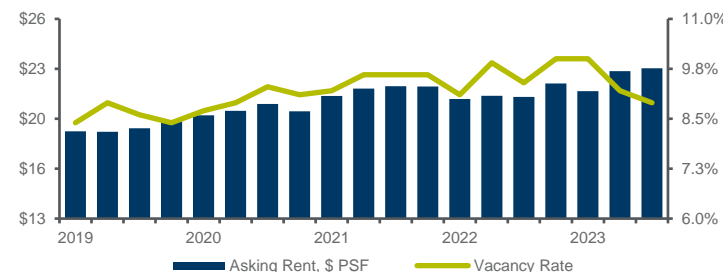
PRICING:

The Tucson office average lease rate stood at \$22.78 per sf, showing a modest uptick of \$1.48 per sf since Q2. This ongoing pattern reflects rental price stability. Among submarkets, the Foothills area commands the highest rent at \$28.47. Conversely, East Tucson offers the lowest rate at \$15.00 per sf. Notably, central Tucson continues to be the primary focus for investment sales.

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	10,351,068	52,761	1,163,858	10.68%	-31,954	1,881	289,932	0	\$23.36	\$24.08
Downtown	6,293,168	29,305	118,906	1.08%	11,448	48,733	46,095	0	\$21.53	\$27.18
East	1,312,182	71,895	193,042	18.88%	23,488	39,336	20,654	0	\$15.00	\$19.47
Foothills	1,411,429	0	128,258	7.78%	-15,815	-11,250	45,077	0	\$28.47	N/A
Green Valley/South	381,669	0	21,825	4.38%	1,831	-722	22,638	0	\$22.50	N/A
North/Oro Valley	3,926,903	3,860	267,761	6.38%	50,462	103,376	84,905	0	\$24.47	\$25.64
Northwest	554,528	0	13,798	1.18%	6,687	18,221	23,192	0	\$19.25	N/A
Southeast	720,360	15,833	109,997	16.28%	63,673	63,673	8,316	0	\$17.50	N/A
Southwest	2,431,199	0	75,783	1.88%	6,500	22,667	3,430	130,000	\$28.10	\$28.72
West	1,510,786	134,556	166,070	20.58%	-1,243	17,643	18,962	0	\$17.95	N/A
TUCSON TOTALS	28,893,292	308,210	2,259,298	8.9%	115,077	303,558	563,201	130,000	\$22.78	\$25.02

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
655 East River Road	North Tucson/Oro Valley	Pima Heart Surgical Center	19,725	New Lease
6401 South Country Club Road**	SW Tucson/Airport	Safelite Auto Glass	12,018	New Lease
4801 East Broadway Boulevard	Central	Total Quality Logistics	7,432	New Lease
3480 East Britannia Drive	SW Tucson/Airport	Kazal Fire Protection Inc	7,266	New Lease
2730 East Broadway Boulevard	Central	Undisclosed	5,055	New Lease

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

KEY SALES TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
3838 North Campbell Avenue	Central	Banner Health / BNR Tucson, LLC	365,383	\$134M / \$366.73
160 East Alameda Street	Downtown	Big Brothers Big Sisters of Southern Arizona / Lifetime Asset Management LLC	14,013	\$1.4M / \$99.91
4745-4753 East Camp Lowell Road	Central	Acosta Farm Properties LP / Southwest Holding Ventures LLC	12,937	\$3.5M / \$272.47
3773 East Broadway Boulevard	Central	Undisclosed / Native Music Coalition	11,271	\$1.25M / \$110.90
6422 East Speedway Boulevard	Central	Lavor & Probstfeld Properties / Undisclosed	7,410	\$1.4M / \$192.31

KEY CONSTRUCTION COMPLETIONS YTD Q3 2023

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
2121 North Craycroft Road	Central	Undisclosed	14,593	Undisclosed/Undisclosed
7375 South Houghton Road	Southeast	Northwest Allied Physicians, LLC	8,400	Undisclosed/Undisclosed

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