

MARKETBEAT TUCSON



Office Q3 2022

YoY Chg 12-Mo. Forecast

9.4%
Vacancy Rate



317K
YTD Net Absorption, SF



\$20.90
Asking Rent, PSF



(Overall, All Property Classes)

ECONOMIC INDICATORS Q3 2022

YoY Chg 12-Mo. Forecast

394.2K

Tucson
Employment



3.3%

Tucson
Unemployment Rate



3.5%

U.S.
Unemployment Rate



Source: BLS

ECONOMY:

In the third quarter of 2022 employment in the Tucson metropolitan area totaled 394,200 jobs, up 2.9% over Q3 2021. The unemployment rate dropped from 4.6% in Q3 2021 to 3.3% in Q3 2022. Household formation grew 1.9% year-over-year (YOY). Nationally, consumer spending was up 7.9% and retail sales were up a strong 8.9% YOY. As the Fed works to moderate inflation, many economists expect it to linger. Within Arizona, statewide growth is expected to far outpace the U.S. in the long run.

SUPPLY AND DEMAND:

Tucson's office vacancy rate is at 9.4% with total inventory of 28,811,928 square feet (sf). Post-pandemic, call center operators found that they could operate with a home-based workforce. As a result, nearly two million sf of call center space has been vacated in the Tucson metro area. Opportunities for adaptive reuse are under consideration by property owners who are weighing the cost benefit of converting the space to alternate uses.

Medical and associated healthcare uses remain the strongest facet of the Tucson office sector, particularly in the midtown submarket. Hospice users have been active along with behavioral health requirements. Downtown office activity remains hindered by parking limitations, and planned office developments are moving to fill multifamily demand in the city core.

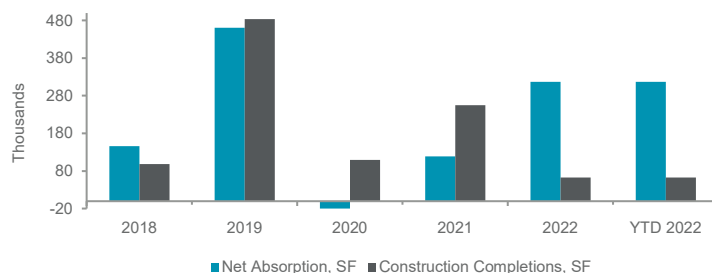
While only one construction project was completed in Q3 (18,500 sf in Central Tucson), 573,904 sf is under construction.

Supply of product for sale is constrained with plenty of investors still looking for properties to buy, many now willing to capitalize on shorter lease terms of two-three years instead of the typical five-year term or net leased deals.

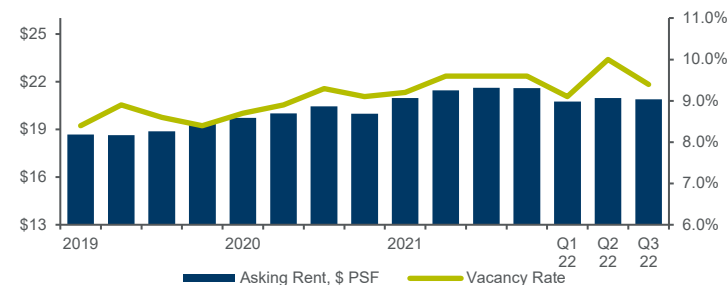
PRICING:

In the lease market, the overall average asking rental rate in Tucson is \$20.90 per square feet (psf) with the highest asking rate of \$29.35 psf in Southwest Tucson and the lowest of \$11.34 psf in Southeast Tucson. With regard to sale prices, a few properties that have been on the market for an extended period of time are holding firm on price believing that inflation is on their side, while lenders are saying that increasing interest rates will moderate sale prices.

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	10,464,077	10,035	1,047,726	1,046,928	169,273	428,665	230,027	0	\$21.90	\$22.92
Downtown	6,223,042	24,260	149,270	173,530	-20,439	18,282	44,961	345,000	\$21.14	\$30.04
East	1,305,008	71,894	226,079	297,973	21,666	-196,601	25,157	0	\$15.52	\$20.00
Foothills	1,369,398	55,168	96,566	151,734	-1,054	40,367	85,381	0	\$26.33	N/A
Green Valley/South	362,323	0	16,442	16,442	-300	-2,087	669	0	\$22.35	N/A
North/Oro Valley	3,851,043	6,843	267,727	263,737	-16,871	1,101	45,949	84,504	\$25.58	\$26.23
Northwest	524,005	0	24,854	24,854	25,137	14,027	50,451	10,000	\$18.00	N/A
Southeast	713,116	15,833	165,270	181,103	2,780	-4,133	3,216	14,400	\$11.34	\$10.50
Southwest	2,390,248	0	114,107	114,107	409	78,714	35,511	120,000	\$29.35	\$31.00
West	1,609,668	134,556	299,949	434,505	4,173	-61,222	2,342	0	\$19.77	0
TUCSON TOTALS	28,811,928	318,589	2,407,990	2,704,913	184,774	317,113	523,664	573,904	\$20.90	\$20.50

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
2945 West Ina Road	Northwest	Marana Health Center	29,382	Direct
6400 East Grant***	Central	Broadpath Inc	21,881	Renewal
1730 East River Road	Foothills	Undisclosed	16,007	Sublease
4801 East Broadway Boulevard	Central	Cross Country Mortgage	7,788	Direct
899 North Wilmot Road	Central	Marana Health Center	7,618	Direct

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

KEY SALES TRANSACTIONS Q3 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
3535 East Valencia Road	Southwest	Griffin Realty Trust / Workspace Property Trust	100,273	\$113.71
1650 East Fort Lowell Road**	Central	CODAC Health, Recovery & Wellness / Undisclosed	19,558	\$142.40
180 West Magee Road	North/Oro Valley	Sidney Kohn / Eddy Chernecki	14,969	\$188.07
1150 North Country Club Road	Central	Reginald E Barr / Undisclosed	14,358	\$160.19
850 North Kolb Road	East	Undisclosed / Undisclosed	11,750	\$170.21

**Represented by Cushman & Wakefield | PICOR

KEY CONSTRUCTION COMPLETIONS YTD 2022

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
5550 E Hampton St	Central	Copperstate OB/GYN and Associates	18,500	Undisclosed

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