

YoY Chg 12-Mo. Forecast

**8.8%**  
Vacancy Rate



**281K**  
YTD Net Absorption, SF



**\$22.84**  
Asking Rent, PSF



(Overall, All Property Classes)

## ECONOMIC INDICATORS Q4 2023

YoY Chg 12-Mo. Forecast

**399K**  
Tucson Employment



**4.0%**  
Tucson Unemployment Rate



**3.7%**  
U.S. Unemployment Rate



Source: BLS

## ECONOMY:

In the fourth quarter (Q4) of 2023, the United States economy continued to exhibit positive signs, though forecasts remained mixed. Tucson's indicators were optimistic. The median household income in Tucson experienced a 3.3% increase year-over-year, reaching \$68,400, contributing to an uptick in consumer spending. On a national scale, real GDP experienced a healthy 2.6% growth, affirming the economy's strength amid lingering recession worries. Inflation, which had been steadily decreasing over the year, saw the consumer price index rise to 3.3%, a significant reduction from the previous year's 7.1%. Employment in Tucson's nonfarm sector saw a modest but positive growth of 1.0%. Additionally, Tucson's unemployment rate marginally increased from 3.9% to 4.0%, reflecting a dynamic job market.

## SUPPLY AND DEMAND:

Despite overriding economic uncertainty, the Tucson office market was active during Q4. The medical sector continued to be a bright spot within the market. Overall sentiment anticipated a strong year-end, creating optimism amid the headwinds. The vacancy rate remained relatively unchanged at 8.8%, attributed to the surplus of available office space. Factors influencing market trepidation included inflationary pressures, interest rates, and the upcoming election.

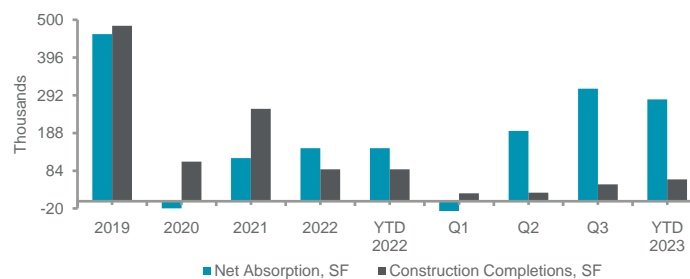
The conversion of large call centers into high-demand properties such as industrial spaces is a noteworthy trend, however, only an option for those properties with original construction that allows such conversion. Limitations include the structure of the building, along with zoning, building codes, location, and unexpected hurdles that come with converting a structure that was designed for a different intent. With call center activity reemerging in some larger markets, the resurgence of requirements in Tucson in the 25-50K square foot (sf) range could be in sight.

Behavioral health uses witnessed a slowdown, but the medical market remained vibrant, with expansions evident across various Tucson submarkets, including Foothills, Central, and Northwest. Notable leasing transactions included Saavi Services for the Blind securing 22,168 sf at Pima Medical Institute, and Rincon Research leasing 19,103 sf in Joesler Village. Investment sales faced challenges due to interest rates and limited high-quality offerings, yet medical properties continued to attract attention, even to the extent of land purchases to build to specifications. Banner Health's sale of three medical office properties to Vanbarton Group for \$19.5 million and the Vantage West Annex Building's \$2.15 million sale to Centria Autism stood out as major transactions.

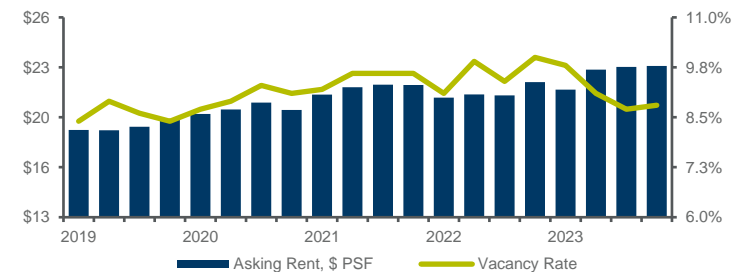
## PRICING:

Lease rates generally remained constant, averaging \$22.84 per square feet (psf), with the Foothills submarket in high demand with limited inventory, while East Tucson held the most affordable average lease rate at \$14.89 psf. Landlords, in response to the competitive market, continued to offer incentives like free rent, substantial tenant improvement allowances, and relocation support. Investment sales remained popular in North Tucson/Oro Valley and Central Tucson, with the average price reaching \$140 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	10,638,170	41,612	1,156,486	9.8%	24,592	29,770	472,991	0	\$24.5	\$24.30
Downtown	6,353,909	29,035	138,321	0.9%	-19,145	29,588	49,602	0	\$22.72	\$28.01
East	1,305,979	41,522	183,512	17.1%	15,099	54,435	34,837	0	\$15.85	\$18
Foothills	1,435,506	7,622	124,417	7.5%	-3,781	-15,031	71,789	0	\$29.60	0
Green Valley/South	381,669	0	23,516	4.5%	-1,691	-2,413	31,013	0	\$23.38	0
North/Oro Valley	3,932,391	5,940	295,169	6.6%	-26,926	79,958	99,680	0	\$25.65	\$25.69
Northwest	554,528	0	11,510	0.4%	2,288	20,509	30,514	4,000	\$20.62	0
Southeast	720,360	15,833	122,425	20.4%	-33,332	30,341	8,316	0	\$18.5	0
Southwest	2,417,455	0	61,380	0.8%	11,106	33,773	3,430	136,000	\$29.1	\$29.10
West	1,510,786	134,556	173,186	20%	2,251	19,894	18,307	0	\$18.48	0
<b>TUCSON TOTALS</b>	<b>29,250,753</b>	<b>276,120</b>	<b>2,289,922</b>	<b>8.8%</b>	<b>-29,539</b>	<b>280,824</b>	<b>820,479</b>	<b>140,000</b>	<b>\$22.84</b>	<b>\$25.02</b>

\*Rental rates reflect full service asking

\*\*Does not include Renewals

### KEY LEASE TRANSACTIONS Q4 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
3350 East Grant Road	Central	Saavi Services for the Blind	22,168	New Lease
333 North Wilmot Road	Central	Rincon Research Corporation	19,103	New Lease
1745 East River Road	Foothills	PSOMAS	12,814	New Lease
5055 East Broadway Boulevard	Central	Regus	10,374	New Lease
5151 East Broadway Boulevard**	Central	Progressive Casualty Insurance Company	8,141	New Lease

\*Renewals not included in leasing statistics

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

### KEY SALES TRANSACTIONS Q4 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
265 West Ina Road	North/Oro Valley	Banner Health / Vanbarton Group	23,570	Undisclosed/ Undisclosed
1891 West Orange Grove Road	North/Oro Valley	Banner Health / Vanbarton Group	15,336	Undisclosed/ Undisclosed
2222-2224 South Craycroft Road**	Southwest	Vantage West Credit Union / Centria Healthcare	13,800	\$2.1M / \$155.80
1 West Wetmore Road	West	Issa Y & Henrietta Z Hallaq / Whelcon Wetmore, LLC	10,166	\$1.4M / \$137.71
512 East Whitehouse Canyon Road	Green Valley/South	Undisclosed/ Undisclosed	7,979	\$425K / \$53.26

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

### KEY CONSTRUCTION COMPLETIONS YTD Q4 2023

PROPERTY	SUBMARKET	MAJOR TENANT	SF	OWNER / DEVELOPER
10569 North Oracle Road	North/Oro Valley	Undisclosed	6,869	Undisclosed/Undisclosed
10568 North Oracle Road	North/Oro Valley	Undisclosed	6,869	Undisclosed/Undisclosed

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