

TUCSON OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION

4Q10

AT A GLANCE

- With elections in the rear-view mirror, the Tucson market experienced a slight, but noticeable, uptick in lease activity at year-end, largely attributed to a more pro-business sentiment and the extension of tax cuts. Following a 25-40% drop in rents since the market peak, Landlords have been more creative in length of lease and structure of concessions. Renewal activity has, accordingly, been very high.
- Tenants with medical uses continue to face lingering uncertainty on Medicare and insurance reimbursements. The impact of cuts has been significant, and has slowed leasing decisions.
- Office building sales activity remains low by historic standards. While approximately 75% of 2010 sales were to users, the overall volume for 2010 totaled only 628,000 square feet.
- The outlook for 2011 appears to mirror 2010. Expect similar activity and slightly negative absorption.

MARKET HIGHLIGHTS

SIGNIFICANT 2010 NEW LEASE TRANSACTIONS

BUILDING	TENANT	SF	BUILDING CLASS
2255 W Ina	GSA	19,873	B
4892 N Stone Ave	Tucson Heart Hospital	18,976	B
64 E Broadway	Providence Service	16,000	B

SIGNIFICANT 2010 SALE TRANSACTIONS

BUILDING	BUYER	SF	PURCHASE PRICE
7750-64 E Broadway	Jefferson-Pilot Investments, Inc	47,407	\$2,990,000
6080 N La Cholla	Northwest Hospital	34,009	\$8,650,000
44 E Broadway	Providence Service	32,000	\$2,992,500

SIGNIFICANT 2010 CONSTRUCTION COMPLETIONS

BUILDING	MAJOR TENANT	SF	COMPLETION DATE
3501 E Speedway	SMCA	19,000	9/10
2404 E River, Bldg 2	Pima Heart	17,087	3/10
Tanque Verde Place	Dr. Arenas	8,500	6/10

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	MAJOR TENANT	SF	COMPLETION DATE
88 E Broadway	Unisource/TEP HQ	170,000	2/11
275 N Commerce Park Loop	FBI Regional HQ	84,353	4/12
2015 W River	Sundt	50,000	2/11

ECONOMIC INDICATORS

National	2009	2010	2011F
GDP Growth	-2.6%	2.8%	2.8%
CPI Growth	-0.3%	1.6%	1.5%

Regional	2009	2010	2011F
Unemployment	8.3%	8.8%	9.2%
Employment Growth	-5.1%	-1.2%	0.0%

Source: Moody's | Economy.com

BEAT ON THE STREET

"While we do not expect 2011 to be a stellar year for the office market, we predict a bit more activity than in 2010 that will move us one year closer to a recovery."



-- Thomas J. Nieman, Principal

MARKET STATISTICS

SUBMARKET	INVENTORY	OVERALL VACANCY	YTD LEASING ACTIVITY	DIRECT WTD. AVG GROSS RENTAL RATE PSF/YR
Ajo/W Pima Cty	3,756	0.0%	0	N/A
Central	9,451,574	13.7%	204,448	\$19.63
Downtown	4,183,588	7.1%	69,096	\$17.26
East	1,153,553	15.3%	56,281	\$17.61
Foothills	1,112,362	11.6%	40,777	\$21.42
So Tucson/Green Valley	274,285	6.0%	3,358	\$19.82
North/Oro Valley	3,375,763	13.3%	115,854	\$20.15
Northwest	439,147	30.3%	28,998	\$18.73
Southeast	596,132	5.8%	16,955	\$14.91
Southwest	1,187,858	4.9%	7,565	\$14.72
West	1,277,198	13.5%	31,378	\$15.82
TOTAL	23,055,216	12.0%	574,710	\$18.99

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*The market terms and definitions in this report are based on NAIOP standards.



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