

MARKETBEAT

TUCSON OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



1Q10

AT A GLANCE

- As the realities of the current economy settle in, many business owners are realizing that recovery is not imminent, and that life goes on. With this renewed spirit comes a greater awareness of measures to improve efficiency and reduce costs, or in other words, adapt to the current market. Business owners are taking advantage of opportunities to lock in great rental rates, and as a result, office leasing activity has picked up during the first quarter of 2010.
- Despite the uptick in activity, landlords are still willing to offer attractive rental rates, concessions, and generous tenant improvement allowances. This practice will likely continue until some sense of stability and consistency returns to the market.
- Purchase activity by owner-occupants and investors is still virtually nil because of the difficulty securing commercial financing. The occasional investment sale is due to the seller's agreement to provide short-term financing, thereby enabling the buyer to weather the drought in the conventional credit market.
- Tucson's office market activity during second quarter of 2010 should indicate whether recent activity is in fact a sign of recovery, or simply a momentary upturn in a volatile economy.

ECONOMIC INDICATORS

National	2009	2010F	2011F
GDP Growth	-2.4%	2.8%	3.7%
CPI Growth	-0.3%	1.9%	2.1%
Regional			
Unemployment	8.3%	8.7%	N/A
Employment Growth	-4.8%	-0.7%	3.0%

Source: AZ DOC | Eller College | Moody's | Economy.com

BEAT ON THE STREET

Leasing momentum is rising in the Tucson office market, while sales interest is demonstrating some activity. Landlords and owners are realizing what it takes to negotiate a lease and sale. Tenants and potential buyers show optimism to take advantage of exceptional opportunities.

MARKET HIGHLIGHTS

SIGNIFICANT 1Q10 NEW LEASE TRANSACTIONS

BUILDING	TENANT	SF	BUILDING CLASS
1650 E Ft Lowell Rd	CODAC Behavioral Health	15,857	B
64 E Broadway Blvd	The Providence Services Corporation	10,674	B
3295 W Ina Rd	The Providence Services Corporation	10,207	B

SIGNIFICANT 1Q10 SALE TRANSACTIONS

BUILDING	BUYER	SF	PURCHASE PRICE
5447 E 5th St	SP2 Properties, Inc	21,410	\$2,200,000
1650 E Fort Lowell Rd	Serenity Holdings VII, LLC	19,430	\$1,651,550
55 E Helen St	Found at Last, LLC	9,057	\$900,000

SIGNIFICANT 1Q10 CONSTRUCTION COMPLETIONS

BUILDING	MAJOR TENANT	SF	COMPLETION DATE
2404 E River Rd- Bldg 2	Pima Heart	17,087	3/10

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	MAJOR TENANT	SF	COMPLETION DATE
Monte V Corporate Center	SMSC	39,000	7/10
Tanque Verde Place	Dr. Arenas	10,585	6/10
Swan Lee Offices	The Heart Group of So AZ	8,500	10/10

MARKET STATISTICS

MARKET	INVENTORY	OVERALL VACANCY	DIRECT WTD. GROSS RENTAL RATE pst/yr	AVG. GROSS RENTAL
Ajo/ W. Pima Co.	3,305	0.0%	\$19.60	
Central	9,263,729	13.6%	\$19.81	
Downtown	4,077,651	7.4%	\$17.92	
East	1,133,421	14.8%	\$18.50	
Foothills	1,098,679	11.8%	\$21.98	
South Tucson/Green Valley	273,049	5.9%	\$20.48	
North Tucson/Oro Valley	3,397,336	13.5%	\$20.07	
Northwest	439,737	35.5%	\$19.37	
South/Green Valley	3,450	0.0%	\$19.60	
Southeast	613,056	10.5%	\$13.65	
Southwest	1,144,865	6.4%	\$15.59	
West	1,351,231	10.1%	\$16.40	
Total	22,799,509	12.0%	\$19.06	

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*Market terms & definitions based on BOMA and NAIOP standards.

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