

# MARKETBEAT

## TUCSON OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



2Q08

### AT A GLANCE

- Tucson's current office market is comprised of 19.9 million square feet (msf). 9.9% of the overall market was vacant at the end of the second quarter. The North submarket posted the highest vacancy (14.3%), while Central was the healthiest at 7.7%.
- Absorption over the past three years has been robust and consistent, averaging some 200,000 sf per year. Due to national economic uncertainties, statistics indicate a 25% reduction in absorption year to date.
- As a consequence of reduced absorption in 2008, available for-lease inventory is expected to increase to 15%, its highest level since 2004. Further, the construction of build-for-sale office condominiums will slow due to reduced buyer demand.
- Based on Tucson's favorable economic climate, such a downturn in the local office market is expected to be short-term in duration, with a resumption of market growth by mid-2009.

### ECONOMIC INDICATORS

National	2006	2007	2008F
GDP Growth	2.9%	2.2%	1.6%
CPI Growth	3.2%	2.9%	3.6%
Regional			
Unemployment	3.9%	3.7%	4.3%
Employment Growth	2.8%	2.0%	-0.5%

Source: Arizona Department of Commerce, Moody's|Economy.com

### BEAT ON THE STREET

The market continues to adjust, reflecting deteriorating economic conditions and lower consumer sentiment. Built for sale statistics show a slowing of demand, particularly in perimeter locations. Landlords are aggressive in this buyer's market fighting to retain and attract new tenants to their properties. Development activity proceeds cautiously and only at the premier locations.

### MARKET HIGHLIGHTS

#### SIGNIFICANT 2Q08 NEW LEASE TRANSACTIONS

BUILDING	TENANT	SF	BUILDING CLASS
Crossroads Festival	Genesis ObGyn	15,000	A
2343 E Broadway	Southern AZ Legal Aid	14,000	B
TriPointe Plaza	National Semiconductor	12,753	B

#### SIGNIFICANT 2Q08 SALE TRANSACTIONS

BUILDING	BUYER	SF	PURCHASE PRICE
Academy Medical Center	Grubb & Ellis Healthcare REIT	40,969	\$8,100,000
Northwest Prof. Plaza	Windrose NW Prof. Plaza Properties	32,846	\$6,150,000
4625 E Broadway	Linc Dog, LLC	17,100	\$1,400,000

#### SIGNIFICANT 2Q08 CONSTRUCTION COMPLETIONS

BUILDING	MAJOR TENANT	SF	COMPLETION DATE
Hemisphere Corp Ctr I	N/A	102,350	6/08
971-973 W Wetmore	Hughes Federal CU	30,047	4/08

#### SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	MAJOR TENANT	SF	COMPLETION DATE
Hemisphere Corp Ctr II & III	N/A	172,750	9/08
St. Joseph Medical Plaza II	St. Joseph's Hospital	150,454	9/08
Oracle Medical Plaza	Southwest Orthopedic	93,000	7/08

### MARKET STATISTICS

MARKET	INVENTORY	OVERALL VACANCY	YTD LEASING ACTIVITY	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE psf/yr
Central	11,112,246	7.7%	140,011	\$23.50
East	1,632,730	11.9%	50,930	\$0.00
North	3,323,874	14.3%	23,541	\$0.00
Northeast	1,904,270	10.6%	49,018	\$0.00
South/Green Valley	1,391,340	11.6%	12,350	\$0.00
West/NW	536,840	8.9%	22,505	\$23.00
<b>Total</b>	<b>19,901,300</b>	<b>8.7%</b>	<b>298,355</b>	<b>\$23.40</b>



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

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