

# MARKETBEAT

## TUCSON OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



2Q09

### AT A GLANCE

- The expansion of the Tucson office market over the last five years has occurred largely through development of "built for sale" condo office product. Nearly 1.5 million square feet of new small office buildings have been built. As a consequence, very little speculative development has occurred and most of the new condo product has been absorbed. Sales prices for free-standing owner user buildings have declined approximately 20% and the market is extremely quiet.
- Market conditions continued to deteriorate in the 2<sup>nd</sup> Quarter. Office vacancies have climbed to 13% market-wide and rents are adjusting downward. There is no depth of demand in the market and landlords have few options when negotiating with a prospective tenant.
- Market conditions and the financing market preclude any significant multi-tenant office development. While there is little or no activity in the land market, we see owners holding firm on their pricing having decided to ride out the storm when the low supply of development parcels will once again support their expectations.
- There have been few significant office investment property sales through the second quarter. The tide of 1031 buyers has evaporated and those investors who are active seem to be looking for depressed property opportunities. We are not seeing distressed sales thus far.
- Other sectors of the commercial real estate market are certainly under pressure in Tucson, but the office market seems to be fairly stable and constant. This is largely due to the lack of available speculative development that is crushing other markets.

### MARKET HIGHLIGHTS

#### SIGNIFICANT 2Q09 LEASE TRANSACTIONS

| BUILDING             | TENANT                      | SF     | BUILDING CLASS |
|----------------------|-----------------------------|--------|----------------|
| Joesler Village      | State Farm Mutual Auto Ins. | 13,037 | B              |
| 3900 E Broadway Blvd | Western Emulsions, Inc.     | 9,400  | B              |
| 1704 W Anklam Rd     | AKDHC                       | 6,887  | B              |

#### SIGNIFICANT 2Q09 SALE TRANSACTIONS

| BUILDING              | BUYER                      | SF     | PURCHASE PRICE |
|-----------------------|----------------------------|--------|----------------|
| 4001 E Sunrise Dr     | Berkley Land Company, Inc. | 32,000 | \$7,750,000    |
| 2870 N Swan Rd        | 4-D Properties             | 4,957  | \$1,150,000    |
| 7474 N La Cholla Blvd | PHJ Buildings, LLC         | 2,550  | \$520,000      |

#### SIGNIFICANT 2Q09 CONSTRUCTION COMPLETIONS

| BUILDING               | MAJOR TENANT | SF    | COMPLETION DATE |
|------------------------|--------------|-------|-----------------|
| 3320 N Country Club Rd | N/A          | 6,886 | 5/09            |

#### SIGNIFICANT PROJECTS UNDER CONSTRUCTION

| BUILDING              | MAJOR TENANT                             | SF     | COMPLETION DATE |
|-----------------------|------------------------------------------|--------|-----------------|
| Oracle Ina Prof Plaza | Catalina Pointe and Southwest Orthopedic | 93,000 | 6/10            |
| 2051 W Sunset Rd      | M3 Engineering                           | 75,000 | 10/09           |
| 395 N Silverbell Rd   | Carondelet Health Network                | 66,000 | 8/09            |

#### ECONOMIC INDICATORS

| National          | 2008  | 2009F | 2010F |
|-------------------|-------|-------|-------|
| GDP Growth        | 1.1%  | -3.0% | 1.2%  |
| CPI Growth        | 3.8%  | -0.6% | 1.7%  |
| Regional          |       |       |       |
| Unemployment      | 5.1%  | 7.0%  | 7.1%  |
| Employment Growth | -1.1% | -4.0% | -0.5% |

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

#### MARKET STATISTICS

| MARKET                    | INVENTORY         | OVERALL VACANCY | DIRECT WTD. GROSS RENTAL RATE psf/yr | AVG. |
|---------------------------|-------------------|-----------------|--------------------------------------|------|
| Central                   | 8,763,871         | 12.1%           | \$20.01                              |      |
| Downtown                  | 3,530,758         | 8.0%            | \$18.70                              |      |
| East                      | 1,100,781         | 14.6%           | \$18.88                              |      |
| Foothills                 | 1,092,310         | 12.5%           | \$23.22                              |      |
| South Tucson/Green Valley | 276,146           | 5.8%            | \$20.08                              |      |
| North Tucson/Oro Valley   | 3,156,282         | 12.6%           | \$21.96                              |      |
| Northwest                 | 460,632           | 21.3%           | \$19.89                              |      |
| South east                | 609,133           | 16.1%           | \$13.59                              |      |
| South west                | 1,413,516         | 17.1%           | \$15.71                              |      |
| West                      | 1,187,326         | 12.8%           | \$17.73                              |      |
| <b>Total</b>              | <b>21,590,755</b> | <b>12.2%</b>    | <b>\$19.43</b>                       |      |

### BEAT ON THE STREET

In spite of attractive lease and sale opportunities, tenants and buyers remain on the sidelines, hesitant to make a move due to the continued economic uncertainty.



For industry-leading intelligence to support your real estate and business decisions, go to Cushman & Wakefield's Knowledge Center at [www.cushmanwakefield.com](http://www.cushmanwakefield.com).

PICOR Commercial Real Estate Services,  
a Cushman & Wakefield Alliance Member  
1100 North Wilmot Road, Suite 200  
Tucson, AZ 85712  
(520) 748-7100  
[www.picor.com](http://www.picor.com)



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

This report contains information available to the public and has been relied upon by Cushman & Wakefield on the basis that it is accurate and complete. Cushman & Wakefield accepts no responsibility if this should prove not to be the case. No warranty or representation, express or implied, is made to the accuracy or completeness of the information contained herein, and same is submitted subject to errors, omissions, change of price, rental or other conditions, withdrawal without notice, and to any special listing conditions imposed by our principals.  
©2009 Cushman & Wakefield, Inc. All rights reserved.

Please consider your environmental responsibility before printing this report.