

MARKETBEAT

TUCSON OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



2Q10

AT A GLANCE

- In its June 2010 economic update, the Eller College of Management at the University of Arizona reports "the healing process has begun." This statement is tempered by statistical data that show most key financial drivers remaining weak and inconsistent. Unemployment has increased due to a return of discouraged workers to the job market. Housing remains a problem with high inventories of existing stock, foreclosures and flat or declining pricing. Retail sales have improved and state sales tax revenues are increasing.
- Static or gradually improving, Tucson's office market reflects this uncertainty. The lease market is by far the strongest in terms of activity. Tenants are reaping the harvest of a depressed market and gaining significant rent and improvement concessions.
- The market for office investment properties has been very quiet through the first two quarters. Demand for ownership of small owner-user office buildings is also depressed, and prices for shell buildings have dipped below \$170 per square foot.
- Reflecting the expanding demand for health services, the medical office market is relatively robust. Practices are growing even in the face of healthcare reform and possible reductions in Medicare reimbursements.

ECONOMIC INDICATORS

National	2009	2010F	2011F
GDP Growth	-2.4%	3.1%	3.9%
CPI Growth	-0.3%	1.8%	2.1%
Regional			
Unemployment	8.3%	9.2%	9.1%
Employment Growth	-5.1%	-1.4%	0.3%

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

BEAT ON THE STREET

There are still many reasons in this market for participants to be nervous and cautious, however we are seeing a bit more sale and leasing activity in the recent period. This is primarily due to the exceptional opportunities available to those buyers and tenants willing to take action.

MARKET HIGHLIGHTS

SIGNIFICANT 2Q10 NEW LEASE TRANSACTIONS

BUILDING	TENANT	SF	BUILDING CLASS
4892 N Stone Ave	Tucson Heart Hospital	18,976	B
1200 N Country Club	H.O.P.E. Inc.	11,500	B
7235 Paseo del Norte	Natural Life Chiropractic	6,000	B

SIGNIFICANT 2Q10 SALE TRANSACTIONS

BUILDING	BUYER	SF	PURCHASE PRICE
6262 N Swan Rd	Skyline Corporate Center	20,477	\$3,178,300
2567-2581 N 1st Ave	Gage Real Property Investments	10,516	\$93,000
2375 N Wyatt Dr, Ste 105	GHSO, LLC	8,296	\$125,000

SIGNIFICANT 2Q10 CONSTRUCTION COMPLETIONS

BUILDING	MAJOR TENANT	SF	COMPLETION DATE
Tanque Verde Place	Dr. Arenas	10,585	6/10
Swan Lee Offices	The Heart Group of So AZ	8,500	6/10

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	MAJOR TENANT	SF	COMPLETION DATE
88 E Broadway Blvd	Unisource/TEP HQ	170,000	12/10
2015 W River Rd	Sundt	47,000	2/11

MARKET STATISTICS

MARKET	INVENTORY	OVERALL VACANCY	DIRECT WTD. AVG. GROSS RENTAL RATE pst/yr
Ajo/ W. Pima Co.	3,305	0.0%	\$19.50
Central East Ret	18,943	0.0%	\$19.53
Central	9,376,784	13.5%	\$19.68
Downtown	4,109,936	7.6%	\$17.76
East	1,143,601	13.5%	\$18.16
Foothills	151,208	12.0%	\$22.10
South Tucson/Green Valley	273,049	5.6%	\$20.60
North Tucson/Oro Valley	3,354,333	14.3%	\$20.16
Northwest	439,737	32.2%	\$19.67
South/Green Valley	3,450	0.0%	\$19.60
Southeast	613,056	7.4%	\$13.65
Southwest	1,198,760	6.5%	\$15.36
West	1,291,608	12.6%	\$16.00
Total	22,977,770	11.9%	\$19.05

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

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