

MARKETBEAT

TUCSON OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



3Q09

AT A GLANCE

- Anecdotal reports suggest market activity has increased through the third quarter. Statistical reports suggest otherwise. The city-wide overall vacancy is 11 % in a market of 21.6mm square feet. Year to date absorption continues to be negative.
- Despite protestations to the contrary from the banking community, local owner user office building sales have ground to a halt due to more stringent underwriting and appraisal standards. Potential buyers are discouraged from making an acquisition choice due to the increase in equity required.
- Investment activity is nil in a market that is thin to begin with. Here, again, financing is the major deterrent. Buyers and sellers are agreeing on seller financings for short-term loans to weather the drought in the conventional credit market.
- There is very little new construction activity in Tucson. Several small projects will deliver space in the fourth quarter, but no new projects are planned in a market that demands advance sales or pre-leasing. Owners of well-located development parcels are holding their ground in anticipation of better times ahead. We believe that time is still 12-18 months out, but unlike larger markets, Tucson does not suffer from a large overhang of empty, recently completed projects.

ECONOMIC INDICATORS

	2008	2009F	2010F
National			
GDP Growth	0.4%	-2.6%	1.8%
CPI Growth	3.8%	-0.5%	1.7%
Regional			
Unemployment	5.1%	7.4%	8.2%
Employment Growth	-1.1%	-4.0%	-0.5%

Source: Moody's | Economy.com

BEAT ON THE STREET

Vacancies are within a healthy range, with asking lease rates and sales prices holding at reasonable market levels. Still, with the lack of requirements actively seeking the available space, exceptional opportunities exist for tenants and buyers wanting a new home.

MARKET HIGHLIGHTS

SIGNIFICANT 3Q09 NEW LEASE TRANSACTIONS

BUILDING	TENANT	SF	BUILDING CLASS
Tri-Pointe Plaza	Sony Online Enterprises	10,283	B
Rillito Business Park	Monroe & McDonough	7,920	B
1704 W Anklam	Pima Orthopedic	6,695	B

SIGNIFICANT 3Q09 SALE TRANSACTIONS

BUILDING	BUYER	SF	PURCHASE PRICE
281-283 N Stone Ave	Prudent Preservation Partners, LLC	14,912	\$830,000
2916 E Broadway Blvd	American National Red Cross	12,525	\$1,000,000
406 S 4th Ave	Tango International, Inc	3,330	\$575,000

SIGNIFICANT 3Q09 CONSTRUCTION COMPLETIONS

BUILDING	MAJOR TENANT	SF	COMPLETION DATE
395 N Silverbell Rd	Carondelet	66,000	8/09

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
2396-2404 E River Rd	Pima Heart	24,016	3/10

MARKET STATISTICS

MARKET	INVENTORY	OVERALL VACANCY	DIRECT WTD. AVG. GROSS RENTAL RATE psf/yr
Ajo/ W. Pima Co.	3,305	0.0%	\$19.60
Central	8,730,635	11.7%	\$20.03
Downtown	3,620,621	8.0%	\$18.37
East	1,089,442	15.9%	\$18.88
Foothills	1,069,956	10.3%	\$23.53
South Tucson/Green Valley	273,078	3.9%	\$20.08
North Tucson/Oro Valley	3,106,298	12.9%	\$21.91
Northwest	400,960	24.9%	\$20.33
Southeast	607,622	16.9%	\$13.59
Southwest	1,130,869	5.2%	\$15.77
West	1,260,850	10.1%	\$17.53
Total	21,293,636	11.0%	\$23.83

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

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