

# MARKETBEAT

## TUCSON OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



3Q10

### AT A GLANCE

- For the most part, Tucson Office Market activity has remained fairly consistent throughout the year, with no exception in this 3<sup>rd</sup> quarter of 2010. Consistency is a positive sign, however, it is still unclear whether this is a sign of more activity to come, or simply where the market is going to stay for some time.
- Despite this consistency, Landlords are still willing to offer attractive rental rates, concessions, and generous tenant improvement allowances. This practice will likely continue until the air of uncertainty clears. Savvy general office and medical tenants are taking advantage by locking in very attractive rental rates.
- Purchase activity is still virtually nil because of the difficulty to secure 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.
- Valuation methods show a large difference between pricing of office and medical properties from an owner/user perspective and those evaluated from an investor perspective. Per square foot purchase prices for users still remain fairly high, while numbers for investment sales are much lower due to a market wide drop in rental rates and an increase in cap rates. These two valuation methods will likely equalize in the future, with the likely result being the reduction in psf user pricing.

### ECONOMIC INDICATORS

National	2009	2010F	2011F
GDP Growth	-2.6%	2.7%	3.1%
CPI Growth	-0.3%	1.6%	1.6%

Regional	2009	2010F	2011F
Unemployment	8.3%	8.8%	8.9%
Employment Growth	-5.1%	-1.5%	-0.1%

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

### BEAT ON THE STREET

Uncertain whether the market has indeed "bottomed out", buyers and tenants continue to be hesitant whether they should take advantage of today's attractive sale and lease opportunities.

### MARKET HIGHLIGHTS

#### SIGNIFICANT 3Q10 NEW LEASE TRANSACTIONS

BUILDING	TENANT	SF	BUILDING CLASS
2255 W Ina Rd	GSA	19,873	B
64 E Broadway Blvd	The Providence Service Corporation	16,000	B
178-186 E Broadway	N/A	8,800	C

#### SIGNIFICANT 3Q10 SALE TRANSACTIONS

BUILDING	BUYER	SF	PURCHASE PRICE
7750-7764 E Broadway Blvd	Jefferson-Pilot Investments, Inc	47,407	\$2,990,000
6080 N La Cholla Blvd	Northwest Hospital, L.L.C.	34,009	\$8,650,000
44 E Broadway Blvd	The Providence Service Corporation	32,000	\$2,992,500

#### SIGNIFICANT 3Q10 CONSTRUCTION COMPLETIONS

BUILDING	MAJOR TENANT	SF	COMPLETION DATE
3501 E Speedway	SMCA	19,000	9/10
Swan Lee Offices	N/A	7,525	9/10

#### SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	MAJOR TENANT	SF	COMPLETION DATE
88 E Broadway Blvd	Unisource/TEP HQ	170,000	2/11
2015 W River Rd	Sundt	50,000	2/11

### MARKET STATISTICS

MARKET	INVENTORY	OVERALL VACANCY	DIRECT WTD. AVG. GROSS RENTAL RATE pst/yr
Ajo/ W. Pima Co.	3,756	0.0%	\$19.50
Central	9,412,132	13.7%	\$19.74
Downtown	4,150,606	7.9%	\$17.52
East	1,154,101	13.7%	\$18.15
Foothills	1,156,994	14.4%	\$21.96
South Tucson/Green Valley	274,285	6.1%	\$20.25
North Tucson/Oro Valley	3,351,771	14.4%	\$20.23
Northwest	439,147	30.3%	\$19.34
Southeast	596,132	6.0%	\$13.63
Southwest	1,187,858	6.4%	\$15.36
West	1,291,967	14.4%	\$16.14
<b>Total</b>	<b>23,018,749</b>	<b>12.2%</b>	<b>\$19.09</b>

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\*Market terms & definitions based on NAIOP standards.



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