

# MARKETBEAT

## TUCSON OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



4Q08

### AT A GLANCE

- During the fourth quarter, the continuing impact of the country's economic crisis has been evidenced in the Tucson office market.
- Vacancy is expected to increase slightly and sale of investment and owner-occupied offices will see further slowing.
- In order to retain current tenants, landlords will likely provide incentives to secure lease renewals. These incentives can take the form of increased improvement allowances and beneficial occupancy without rent payment.
- This is a good time for credit-worthy tenants to purchase their own offices due to low interest rates and the decline in the cost of constructing interior improvements.
- Due to the conservative posture of the Tucson office market, the downturn's severity will be somewhat blunted locally versus the extreme circumstances in many larger metro areas.

### ECONOMIC INDICATORS

National	2007	2008	2009F
GDP Growth	2.0%	1.2%	-1.5%
CPI Growth	2.9%	4.2%	0.9%
Regional			
Unemployment	3.7%	4.7%	4.1%
Employment Growth	0.9%	-1.7%	-0.8%

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

### BEAT ON THE STREET

Local market conditions have deteriorated in response to national economic conditions, but Tucson has avoided substantial speculative development, and consequently we do not expect our real estate "recession" to mirror those of many larger markets.

### MARKET HIGHLIGHTS

#### SIGNIFICANT 2008 LEASE TRANSACTIONS

BUILDING	TENANT	SF	BUILDING CLASS
5401/5421 E. Williams	Texas Instruments	100,000	A
333 E Wetmore	Aker Business Services	52,008	A
5401/5421 E. Williams	Texas Instruments	25,000	A

#### SIGNIFICANT 2008 SALE TRANSACTIONS

BUILDING	BUYER	SF	PURCHASE PRICE
Williams Center Tech Campus	BP WCTC Investors, LLC	196,848	\$39,825,000
Academy Medical Center	G&E Healthcare REIT	40,969	\$8,100,000
Northwest Professional Plaza	Windrose NW Prof Plaza Properties	32,846	\$6,150,000

#### SIGNIFICANT 2008 CONSTRUCTION COMPLETIONS

BUILDING	MAJOR TENANT	SF	COMPLETION DATE
Hemisphere Corporate Center I	N/A	102,350	6/08
St. Joseph's Medical Plaza I	St. Joseph's Hospital	98,000	3/08
Pulte Homes Building	Pulte Homes	40,000	3/08

#### SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	MAJOR TENANT	SF	COMPLETION DATE
Oracle Ina Prof Plaza	Catalina Point Medical	93,000	12/09
2051 W. Sunset Road	M3 Engineering	75,000	10/09
Puente Nuevo Plaza	Bancroft Law	74,000	12/09

### MARKET STATISTICS

MARKET	INVENTORY	OVERALL VACANCY	DIRECT WTD. AVG. CLASS A GROSS RENTAL psf/yr
Central	8,538,604	10.1%	\$23.66
Downtown	3,464,734	5.7%	\$23.25
East	1,084,773	16.1%	\$0.00
Foothills	1,051,893	11.9%	\$0.00
South Green Valley	263,788	5.5%	\$0.00
North Tucson Oro Valley	3,003,501	12.3%	\$0.00
Northwest	425,033	22.7%	\$0.00
Northeast	10,000	100.0%	\$0.00
Southeast	1,724,692	3.9%	\$0.00
Southwest	1,437,349	15.8%	\$0.00
West	1,140,483	10.9%	\$25.00
<b>Total</b>	<b>22,144,850</b>	<b>9.8%</b>	<b>\$23.75</b>



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

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