

# MARKETBEAT

## TUCSON OFFICE REPORT



4Q09

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### AT A GLANCE

- In its *Recovery for Arizona* report issued in December, the Eller College of Management at the University of Arizona reports that Arizona's "commercial real estate markets are still in the early stages of the down cycle" and it will take years before the market gets back to "normal."
- According to Real Estate Analytics, commercial property prices nationwide have plunged 41% from the 2007 peak and during the next three years more than \$1.4 trillion of commercial real estate loans will need to be refinanced. Smaller banks that focus on these loans will be hard hit.
- While mindful of these dire concerns, the Tucson office market enjoys a measure of stability in large part because the lack of speculative office development has insulated Tucson from a huge overhang of vacant space.
- In the face of limited tenant demand, lease rates continue to soften especially because under-utilized office space is being offered at discount for sublease. Available office inventory has increased, offered with lease incentives such as rent abatement, TI allowance and even full complement of furnishings.
- Purchase activity by owner-occupants and investors is 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.
- Tucson's office market activity during 1<sup>st</sup> quarter of 2010 will serve as a leading indicator whether companies will be coming back into the office market to lease and purchase because the market has "bottomed out" or will continue to delay renewal or relocation decisions in light of economic uncertainty.

### ECONOMIC INDICATORS

	2008	2009F	2010F
National			
GDP Growth	0.4%	-2.5%	2.3%
CPI Growth	3.8%	-0.4%	1.7%
<b>Regional</b>			
Unemployment	5.1%	7.6%	7.7%
Employment Growth	-1.1%	-4.0%	-0.5%

Source: Moody's | Economy.com

### BEAT ON THE STREET

We happily leave the turbulence of 2009 behind as we welcome 2010 with optimism that it will be a better year for commercial real estate in the Tucson Market. Uncertainty and caution still linger, but we must move forward with a positive outlook and an aggressive stance towards the challenges and opportunities the next year will bring.

### MARKET HIGHLIGHTS

#### SIGNIFICANT 2009 NEW LEASE TRANSACTIONS

BUILDING	TENANT	SF	BUILDING CLASS
2051 W Sunset Rd	M3 Engineering	75,000	B
5151 East Broadway Blvd	Tucson College	40,945	A
Tri-Pointe Plaza	Sony Online Enterprises	10,283	B

#### SIGNIFICANT 2009 SALE TRANSACTIONS

BUILDING	BUYER	SF	PURCHASE PRICE
7333-7373 E Rosewood St	BP Gateway Investors, LLC	76,268	\$14,975,000
4001 E Sunrise Dr	Berkley Land Company, Inc.	32,000	\$7,750,000
281-283 N Stone Ave	Prudent Preservation Partners, LLC	14,912	\$830,000

#### SIGNIFICANT 2009 CONSTRUCTION COMPLETIONS

BUILDING	MAJOR TENANT	SF	COMPLETION DATE
Oracle Ina Prof Plaza	Catalina Pointe and Southwest Orthopedic	93,000	11/10
2051 W Sunset Rd	M3 Engineering	75,000	10/10
3360 Hemisphere Loop - Bld 2	Raytheon	72,000	1/09

#### SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	MAJOR TENANT	SF	COMPLETION DATE
3501 E Speedway Blvd	N/A	39,000	8/10
2396-2404 E River Rd	Pima Heart	24,016	3/10

### MARKET STATISTICS

MARKET	INVENTORY	OVERALL VACANCY	DIRECT WTD. GROSS RENTAL RATE psf/yr	AVG.
Ajo/ W. Pima Co.	3,305	0.0%	\$19.60	
Central	9,078,157	11.9%	\$19.50	
Downtown	4,167,074	7.1%	\$17.78	
East	1,118,259	17.7%	\$19.00	
Foothills	1,090,310	10.5%	\$22.01	
South Tucson/Green Valley	270,825	5.5%	\$19.36	
North Tucson/Oro Valley	3,266,485	13.8%	\$20.47	
Northwest Tucson	440,860	32.5%	\$21.00	
Southeast	609,409	13.5%	\$13.37	
Southwest	1,141,306	5.4%	\$15.58	
West	1,274,529	10.7%	\$17.07	
<b>Total</b>	<b>21,750,907</b>	<b>11.1%</b>	<b>\$23.45</b>	



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

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