

MARKETBEAT OFFICE SNAPSHOT



TUCSON, AZ

A Cushman & Wakefield Research Publication

Q3 2014



ECONOMIC OVERVIEW

With an improving national economic and employment picture lifting all boats, the unemployment rate for Arizona and the Tucson metro area followed suit. Home sales inventory continued to stabilize and median sale prices gained 6.2% over the prior year. Shared Services Center's expansion announcement netting 200 new jobs made a further positive statement about Tucson as a location to service western states.

HIGHER ED & MEDICAL LEAD THE LEASE MARKET

Slight negative absorption of 42,770 square feet (sf) marketwide brought Q3 14 vacancy to 12.6% overall. More positively, Tucson's class A office space experienced significant improvement over two quarters, with vacancy decreasing from 13.9% Q1 14 to 10.0% Q3 14.

Direct asking lease rates across the market remained in familiar territory with average quoted rates across all classes of space at \$18.11 per square foot (psf). Class A direct asking rates averaged \$21.64 psf, while at \$23.31 psf in the CBD.

Energy and activity in the market were up notably in Q3, a leading indicator for improved market metrics. Medical uses remained a bright spot and market driver, with Genesis OB/GYN expanding 53% to 23,000 sf in the repurposed 2424 N Wyatt building on the Tucson Medical Center campus. Cushman & Wakefield | PICOR began offering their previous 15,000 sf space at 4881 E Grant for sublease.

Growth in the education sector--particularly private higher education institutions--was also palpable. Examples include Carrington College's relocation to the CBD with a net gain in classroom space and Grand Canyon University's expansion on North Campbell.

Downtown Tucson's vibe could not be overstated, demonstrated by a rise in business openings and residential household formation. The renaissance was in full swing upon the opening of the Modern Streetcar posting higher than projected ridership and arena renovations nearing completion. Two tenants located downtown in I S Church, with HDR moving from midtown for a full floor and Regus's Tucson entry signaling market growth.

SALE MOMENTUM CONTINUED TO TREND UP

User purchases trended up with increasing activity over three consecutive quarters and continued to lead the sale landscape, representing 14 of 19 sales in the quarter. Median price for user sales was \$128 psf, 28% higher than in Q2. Overall sales averaged \$132 psf.

Small office condominium sales represented a significant share of the properties traded.

OUTLOOK

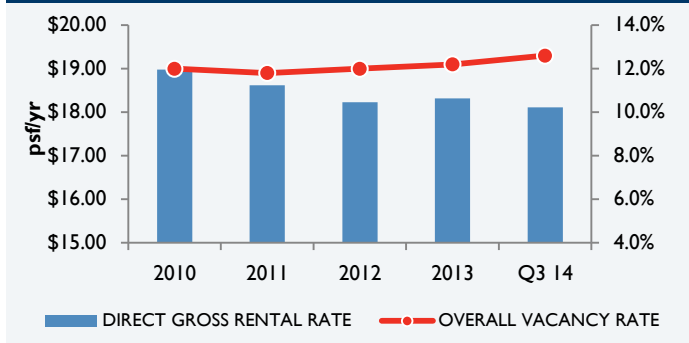
Does the future look bright? We can only believe so. National dynamics of prosperity are being reflected in the Tucson marketplace, with gradual improvement across the board. New construction is at its highest level since 2008, with most underway in the Oro Valley and Foothills submarkets. We remain believers.

Sources: BLS, CoStar, EDP&Co, Tucson Assoc. of Realtors, TREO

STATS ON THE GO

	Q3 2013	Q3 2014	Y-O-Y CHANGE	12 MONTH FORECAST
Overall Vacancy	12.3%	12.6%	0.3pp	▲
Direct Asking Rents (psf/yr)	\$18.25	\$18.11	-0.8%	▲
YTD Leasing Activity (sf)	468,412	605,588	29.3%	▲

DIRECT RENTAL VS. VACANCY RATES



UNDER CONSTRUCTION VS. COMPLETIONS

