

Office Snapshot Q3 2015

Tucson



TUCSON OFFICE

Economic Indicators

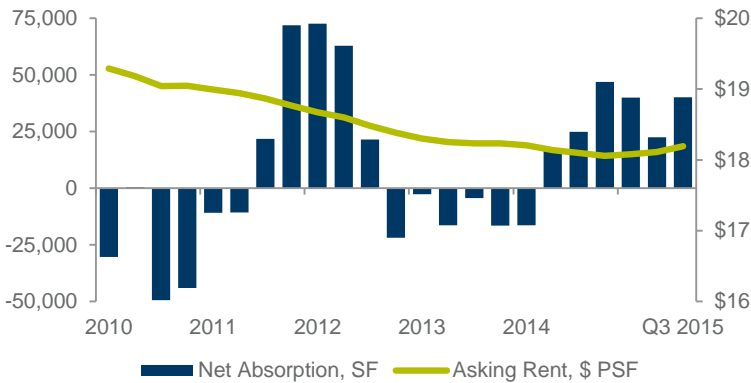
	Q3 14	Q3 15	12-Month Forecast
Tucson Employment	365k	370k	▲
Tucson Unemployment	6.1%	5.3%	▼
U.S. Unemployment	6.1%	5.1%	▼

Market Indicators

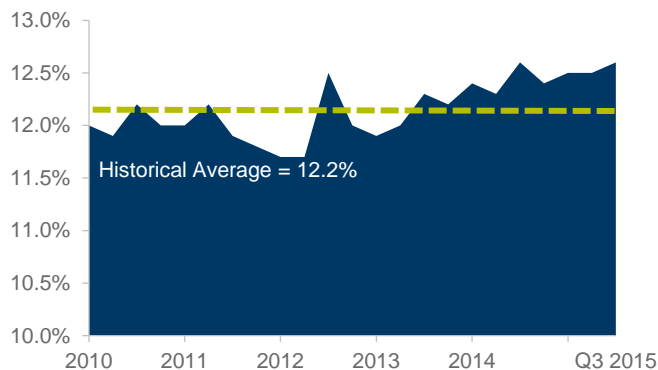
	Q3 14	Q3 15	12-Month Forecast
Overall Vacancy	12.6%	12.6%	▼
Net Absorption	-37k	33k	▲
Under Construction	125k	5k	▲
Overall Average Asking Rent	\$18.05	\$18.38	▲

Net Absorption/Asking Rent

4Q TRAILING AVERAGE



Overall Vacancy



Economy

In an environment marked by stability, metro Tucson added 3,300 jobs year-over-year through August. Educational/Health Services and Professional/Business Services accounted for 78.8% of the job growth, with unemployment improving significantly to 5.3% by September.

Market Overview

Tucson's office overall vacancy improved slightly in the third quarter, ending at 12.6% on positive market-wide absorption of 33,293 square feet (sf). The year's largest lease was effected this quarter by Cushman & Wakefield | PICOR at 4650 N Oracle, where Comcast Cable will house 1,125 new-to-Tucson jobs in the 211,152-sf Tucson Galleria, repurposing previous retail space to office. While lease rates have remained generally flat, more desirable, better-located properties have been able to maintain occupancy and economics.

Sales activity was more robust, with five investment transactions in the quarter and five sales of property over 10,000 sf. The largest sale was Griffin Capital's purchase from Aetna of the 100,273-sf fully-leased building at 3535 E Valencia for \$216.41 per sf, with a leaseback to Aetna also completed. Cushman & Wakefield and Cushman & Wakefield | PICOR represented the seller.

Outlook

While office vacancy rates are similar to those seen three years earlier, positive gains across all commercial property sectors in the third quarter is a positive harbinger for Tucson. Sale of 1 South Church, Tucson's tallest building, to a local investment group will be a strong start to fourth quarter activity. Both broker sentiment and consumer confidence are up, and while job growth is Tucson's highest need, significant infusions of construction dollars are expected to be a boon. This includes the HomeGoods facility, Banner's capital infusion into its hospital system, and any of the approved Pima County bond initiatives in November. Look for continued momentum across the spectrum of healthcare uses, particularly now that the two hospital system acquisitions are complete, Banner of University Medical Center and Tenet/Dignity of Carondelet Health Network.

MARKETBEAT

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Tucson



SUBMARKET	TOTAL BLDGS	INVENTORY	SUBLET VACANT	DIRECT VACANT	OVERALL VACANCY RATE	CURRENT NET ABSORPTION	YTD NET ABSORPTION	UNDER CNSTR	AVERAGE ASKING RENT (ALL CLASSES)*	AVERAGE ASKING RENT (CLASS A)*
Central	1,090	9,415,135	31,984	1,402,221	15.2%	(16,880)	(28,904)	0	\$18.11	\$20.68
Downtown	322	4,846,903	9,175	357,264	7.6%	24,627	73,930	0	\$19.43	\$28.17
East	126	1,239,574	0	291,760	23.5%	10,877	(7,051)	0	\$16.88	-
Foothills	92	1,333,892	2,593	211,945	16.1%	3,333	26,745	0	\$22.86	-
Green Valley/South	47	361,113	880	46,655	13.2%	(1,908)	(1,303)	0	\$18.58	-
North/Oro Valley	317	3,497,518	1,852	373,561	10.7%	7,341	(16,986)	4,500	\$19.24	-
Northwest	46	414,439	0	69,831	16.8%	(1,260)	2,091	0	\$19.75	-
Southeast	36	518,747	0	69,645	13.4%	(2,961)	(12,440)	0	\$16.77	-
Southwest	174	1,638,744	0	86,742	5.3%	19,750	19,189	0	\$11.79	-
West	225	1,497,612	0	159,636	11.4%	(9,626)	(16,996)	0	\$15.94	\$23.00
TUCSON TOTALS	2,475	24,763,677	46,484	3,069,260	12.6%	33,293	38,275	4,500	\$18.38	\$21.21

*Rental rates reflect gross asking \$psf/year

SUMMARY BY CLASS	TOTAL BLDGS	INVENTORY	SUBLET VACANT	DIRECT VACANT	VACANCY RATE	CURRENT NET ABSORPTION	YTD NET ABSORPTION	UNDER CNSTR	AVERAGE ASKING RENT OVERALL*	AVERAGE ASKING RENT DIRECT*
Class A	20	2,616,006	8,000	242,205	10.9%	8,745	(16,603)	0	\$21.21	\$23.22
Class B	1,253	16,993,556	37,604	2,488,302	15.2%	(10,405)	5,198	4,500	\$18.32	\$18.32
Class C	1,202	5,154,115	880	338,753	7.4%	34,953	49,680	0	\$15.37	\$15.27

Key Lease Transactions Q3 2015

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
Tucson Galleria	211,152	Comcast Cable	Lease	West
3535 E Valencia	100,273	Aetna Life Insurance	Lease	Southwest
721 N 4 th Avenue	9,474	Amity Foundation	Lease	Downtown
5151 E Broadway	8,621	El Paso Natural Gas	Renewal	Central

Key Sales Transactions Q3 2015

PROPERTY	SF	SELLER/BUYER	PRICE	SUBMARKET
3535 E Valencia	100,273	Aetna Life/Griffin Capital	\$21,700,000	Southwest
1925 W Orange Grove	43,704	Healthcare Realty Trust/West Coast Capital Partners	\$3,000,000	North/Oro Valley
3131 N Country Club	21,980	North Brentwood Properties/ TDD Properties Inc.	\$910,000	Central

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