

TUCSON OFFICE

Economic Indicators

	Q1 15	Q1 16	12-Month Forecast
Tucson Employment	366k	376k	▲
Tucson Unemployment	5.7%	5.2%	▼
U.S. Unemployment	5.6%	4.9%	▼

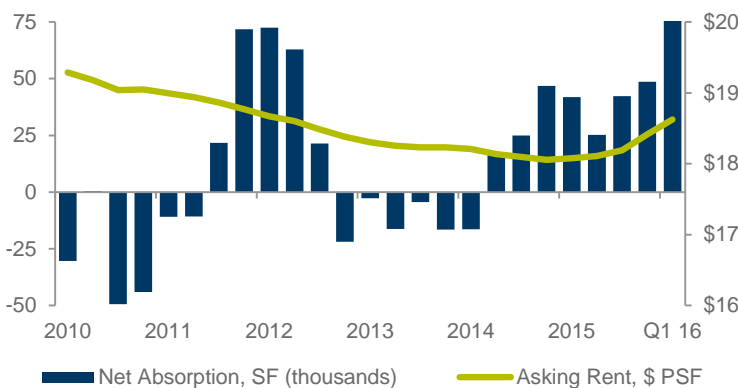
Market Indicators (Overall, All Classes)

	Q1 15	Q1 16	12-Month Forecast
Vacancy	12.5%	11.8%	▼
Net Absorption (sf)	33k	173k	▲
Under Construction (sf)	25k	0	▲
Average Asking Rent*	\$18.17	\$18.99	▲

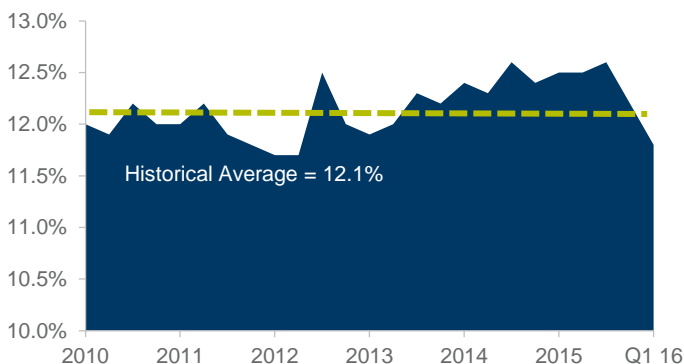
*Rental rates reflect gross asking \$psf/year

Overall Net Absorption/Overall Asking Rent

4Q TRAILING AVERAGE



Overall Vacancy



Economy

Preliminary BLS data reported that Metro Tucson added 12,999 jobs year-over-year through February 2016, with total employment of 455,754 and an unemployment rate of 4.8%. These results demonstrate significant positive progress for the Tucson labor market. If preliminary figures hold, this level of employment would represent a record and the lowest rate of unemployment since April 2008.

Market Overview

The gradual improvement in office market metrics continued; positive absorption of 172,875 square feet (sf) brought overall market vacancy down 200 bps to 11.8%. Increased activity in the small-business sector, with more leases signed under 2,000 sf mirrored similar activity driving the industrial market. That being said, Tucson remained in contention for multiple employers of potential engineering and financial service positions, which would bring meaningful positive momentum for both the wage base and professional office absorption.

The first quarter construction completions totaled 108,950 sf, of which the largest were two expansions illustrating the significance of the community's medical sector: Ventana Medical's 56,600 sf in Oro Valley and El Rio Community Health Center's 36,950 sf at Manning House downtown.

Consistent with the lease market, value pricing created impetus for activity and investment, though overall volume at \$11.3 million was low, after record volume of \$98.4 million in the previous quarter. Medical users represented six of the nine user office building sales in the market. With no buildings under construction and optimism on the rise, we forecast that pent-up demand for quality space may spur development of new medical and professional office product in the quarters ahead.

Outlook

The forecast is slightly more optimistic than cautious, as it has been in previous quarters, thanks to higher economic development activity, employment gains, and improvement in other underlying market fundamentals. With iconic midtown space seeing significant capital investment and modernization at 5151 E Broadway (now being represented by our firm) and large floor plates available in Williams Centre, competition between downtown and midtown may heat in the coming months. Tucson City Council advancement of the Broadway alignment plan would also signal progress and allow for commencement of construction in 2018.

MARKETBEAT

Office Snapshot Q1 2016

Tucson



SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVERAGE ASKING RENT (ALL CLASSES)*	OVERALL AVERAGE ASKING RENT (CLASS A)*
Central	9,647,641	15,280	1,369,299	14.8%	18,433	18,433	96,484	0	\$18.77	\$23.71
Downtown	4,888,406	2,573	336,866	7.1%	43,458	43,458	12,390	0	\$19.58	\$28.63
East	1,244,452	0	235,791	19.8%	11,332	11,332	4,923	0	\$16.44	0
Foothills	1,344,834	2,989	208,116	10.3%	9,990	9,990	10,876	0	\$22.66	0
Green Valley/South	361,113	880	45,559	12.9%	1,096	1,096	0	0	\$18.64	0
North/Oro Valley	3,641,555	1,852	349,287	10.1%	94,829	94,829	26,383	0	\$19.29	0
Northwest	402,027	0	62,410	15.5%	808	808	1500	0	\$19.63	0
Southeast	507,434	0	55,545	10.9%	0	0	0	0	\$15.73	0
Southwest	1,741,860	0	98,856	6.0%	(2,450)	(2,450)	0	0	\$11.46	0
West	1,495,661	37,311	164,772	14.2%	(4,621)	(4,621)	5,682	0	\$15.26	\$23.00
TUCSON TOTALS	25,274,983	60,885	2,926,501	11.8%	172,875	172,875	158,238	0	\$18.99	\$24.77

*Rental rates reflect gross asking \$psf/year

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	DIRECT AVERAGE ASKING RENT*	OVERALL AVERAGE ASKING RENT*
Class A	2,647,698	0	281,243	10.6%	42,546	42,546	8,098	0	\$24.73	\$24.67
Class B	17,354,978	60,005	2,256,032	14.1%	101,973	101,973	135,217	0	\$18.18	\$18.20
Class C	5,272,307	880	389,226	7.4%	28,356	28,356	19,010	0	\$14.73	\$14.78

Key Lease Transactions Q1 2016

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
New World Plaza	23,810	Arizona Community Physicians	Renewal	Central
Courtyard Center	9,703	Broadpath	Lease	Central
Tri Pointe Plaza	6,074	NH Learning Group	Lease	Central
The Chase Building	5,990	The Planning Center	Lease	Downtown

Key Sales Transactions Q1 2016

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
698 E Wetmore	32,040	First Ave/Wetmore Office Plaza, LLC/ 3430 Sunrise, LLC	\$4,600,000 / \$144	West
2222 N Craycroft	14,786	2222 North Craycroft, LLC/ DSBNG Craycroft, LLC	\$690,000 / \$47	Central
1926 E Fort Lowell	8,246	James & Patricia Conway/ 1926 Dt Lowell, LLC	\$930,000 / \$113	Central
1690 N Stone	6,320	Bank of the West/ The Gabriella Kats Trust	\$275,000 / \$44	West

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