

YoY Chg 12-Mo. Forecast

10.5%
Vacancy Rate ▲ ▲

-487K
YTD Net Absorption, SF ▼ ▼

\$23.43
Asking Rent, PSF ▲ —

(Overall, All Property Classes)

ECONOMIC INDICATORS Q2 2024

YoY Chg 12-Mo. Forecast

405K
Tucson Employment ▲ ▲

3.4%
Tucson Unemployment Rate ▲ ▲

4.1%
U.S. Unemployment Rate ▲ ▲

Source: BLS

ECONOMY:

As the second quarter (Q2) of 2024 concluded, the U.S. economy maintained its strength, though projections remained mixed. Tucson stood out with significant economic achievements. The median household income saw a notable rise of 4.5% year-over-year, reaching \$69,800, which boosted local consumer spending. Nationally, the real GDP growth rate edged up to 2.9%, reinforcing the resilience of the economy amid ongoing financial discussions. Despite a slight uptick in inflation to 3.4%, it was still a substantial moderation from the previous year's levels. In Tucson, the nonfarm employment sector expanded modestly by 0.9%, and, notably, the unemployment rate decreased to 3.4%, reflecting a tightening labor market. These trends underscore Tucson's growing economic vibrancy within the broader national context, signaling sustained growth and a stable employment environment.

SUPPLY AND DEMAND:

The vacancy rate in Tucson's office market remained relatively stable, with a slight increase to 10.5% during Q2 2024. Tucson continues to outperform larger cities, remaining less affected by broader macroeconomic trends. The medical market remains a bright spot, with sustained high demand and limited supply of better-quality product. The scarcity of inventory for medical properties, coupled with rising construction costs, has driven premium prices for turnkey properties.

Medical users actively sought to expand or open new practices. Given the low availability of medical office build outs, many are willing to undertake conversions themselves post-purchase or agree to longer lease terms (seven-plus years) with landlords. A notable trend is the conversion of large office properties to industrial use, driven by high industrial demand, provided the ceiling heights meet requirements. This trend presents an opportunity for owners to shift to meet market demand in a time of high call-center vacancy.

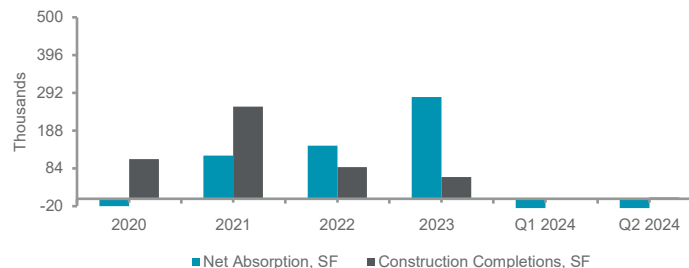
Central Tucson, Northwest Tucson, and the Foothills submarkets continued to be hot spots in the market. There was strong demand for freestanding medical buildings and smaller offices around 2,500 square feet (sf), which often lease or sell within just a few weeks.

Notable leases included the Pain Institute of Southern Arizona, which secured 8,190 sf on the second floor at 1020 S Harrison. The second largest lease was at 1760-1790 E River, where an undisclosed tenant leased 8,018 sf. Significant sales for Q2 featured the Pioneer Building downtown, which sold for \$3.8 million, or \$37.63 per square feet (psf), 4825 N Sabino Canyon, which sold for \$2.7 million (\$107 psf), and 3773 E Broadway, which sold for \$925,000 (\$82.07 psf).

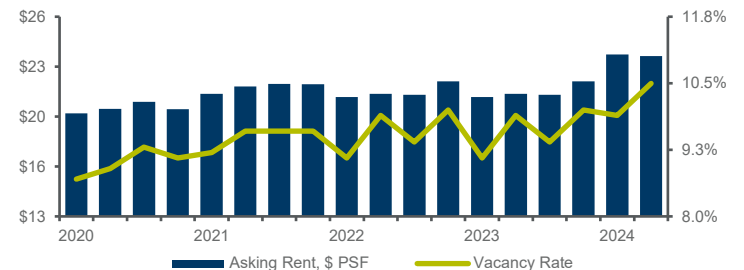
PRICING:

Landlords sought tenants willing to commit to lease terms of three or more years, especially for larger spaces, and offered significant tenant improvement allowances for the right tenants. Prices for medical properties continued to rise, with buyers willing to pay a premium. In contrast, larger office buildings, call centers, and downtown properties saw discounted prices, illustrating a dichotomy in the market between these two extremes.

SPACE DEMAND / DELIVERIES



OVERALL VACANCY & ASKING RENT



MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)**	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Central	10,457,472	59,102	1,355,759	12.02%	-38,860	-216,466	147,795	0	\$23.87	\$26.57
Downtown	6,343,845	27,641	172,046	3.2%	-21,290	-40,922	26,616	0	\$22.61	\$29.64
East	1,322,028	0	217,888	13.5%	41,737	10,364	21,251	0	\$20.39	\$19.61
Foothills	1,436,002	0	134,668	9.4%	-13,608	-11,220	39,286	0	\$28.83	0
Green Valley/South	382,455	0	27,332	7.1%	-3,773	-12,407	10,264	0	\$23.60	0
North/Oro Valley	3,878,085	7,470	362,494	8.2%	-29,708	-85,046	66,020	0	\$26.63	\$27.50
Northwest	540,778	0	10,201	1.9%	-4,791	5,309	19,857	0	\$20.47	0
Southeast	720,371	15,833	196,400	26.0%	367	-62,166	4,650	0	\$17.97	0
Southwest	2,373,352	0	62,384	2.6%	-3,432	-9,595	0	59,933	\$29.52	\$30.86
West	1,510,484	138,601	246,292	21.1%	-52,375	-65,342	40,618	0	\$20.42	\$16.56
TUCSON TOTALS	28,964,872	248,647	2,785,464	10.5%	-125,733	-487,491	376,357	59,933	\$23.43	\$25.12

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q2 2024

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
1020 South Harrison Road	East	Pain Institute of Southern Arizona	8,190	New Lease
1760-1790 East River Road	Foothills	Undisclosed	8,018	New Lease
3300 East Sunrise Drive	Foothills	NOVA Home Loans – Sunrise Branch	7,622	New Lease
1760-1790 East River	Foothills	Undisclosed	7,583	New Lease
2424 North Wyatt Drive**	Central	ADI ASC, LLC	7,473	New Lease

**At least one party represented by Cushman & Wakefield | PICOR

KEY SALES TRANSACTIONS Q2 2024

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
100 North Stone Avenue	Downtown	Holualoa Pioneer LLC / Pioneer Tucson LLC	100,771	\$3.7M / \$37.63
4825 North Sabino Canyon Road**	East	Ron W Brown / Undisclosed	25,675	\$2.7M / \$107.42
3773 East Broadway Boulevard	Central	Native Music Coalition / Gortari Capital LLC.	11,271	\$925K / \$82.07
6452 East Carondelet Drive**	Central	AM Properties, LLC. / Golden Parachute Properties, LLC.	11,200	\$3.2M / \$290.18
325 West Franklin Street	Downtown	Kingan Place LLC / Undisclosed	7,300	\$1.9M / \$266.28

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