

MARKET FUNDAMENTALS

	YOY Chg	12-Month Forecast
10.2% Vacancy Rate	▲	▼
-433K YTD Net Absorption, SF	▲	▲
\$23.98 Asking Rent, PSF	▲	—

(Overall, All Property Classes)

ECONOMIC INDICATORS

	YOY Chg	12-Month Forecast
403.4K Tucson Employment	▲	▲
3.3% Tucson Unemployment Rate	▼	▲
4.1% U.S. Unemployment Rate	▲	▼

Source: BLS

ECONOMY

As Q3 2024 concluded, Tucson's economy demonstrated significant achievements. The median household income rose by 4.7% year-over-year (YOY) to \$70,900, boosting local consumer spending. The nonfarm employment sector expanded modestly by 0.2% YOY, reaching 403,400 jobs.

Notably, Tucson's unemployment rate decreased to 3.3%, lower than the national rate of 4.1%, reflecting a tightening local labor market, while Tucson's population growth outpaced the national average, growing at 1.3% year-over-year, compared to the U.S. rate of 0.5%. This trend underscores Tucson's continued economic strength and resilience, signaling sustained growth and a stable employment environment.

SUPPLY AND DEMAND

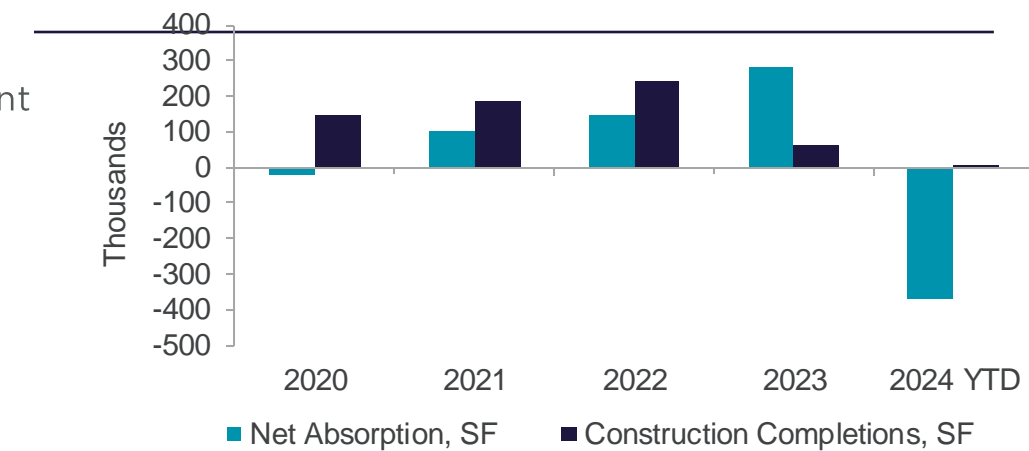
In Q3 2024, Tucson's office market remained stable with a 10.2% vacancy rate, while cap rates averaged 10.7%. This alignment has shifted the focus to owner-user transactions as investors gain comfort with an improving interest-rate environment. The Federal Reserve's projected 50 basis point cut is expected to improve the lending environment and stimulate commerce, including sales and leasing activity. Larger leasing requirements are emerging, particularly in the 10,000-20,000 square feet (sf) range for call centers and other large office users, with tenant confidence reflected in extended lease terms of three to five years. Notable transactions included IMS leasing 15,000 sf at 333 E Wetmore and Tohono O'odham Nation leasing 10,301 sf at 250 S Craycroft.

The medical sector continued to dominate activity and pricing, alongside behavioral therapy, legal services, and engineering. The Northwest submarket is increasingly sought after for medical space. Top sales include 5501 N Oracle Rd (15,947 sf for \$1.7 million) and 3900 E Broadway (9,116 sf for \$2.6 million).

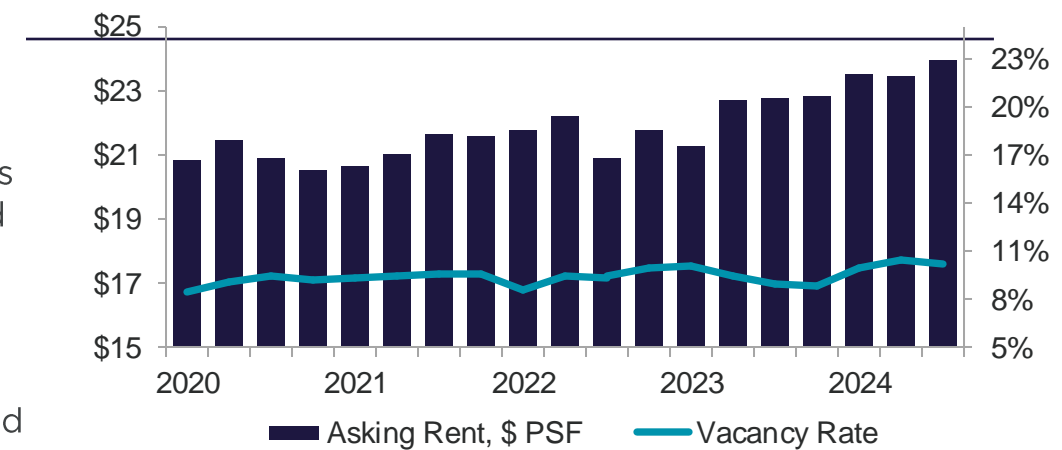
PRICING

The Tucson office market's highest asking rental rates were in the Foothills and North/Oro Valley submarkets. The Northwest submarket led in performance and achieved rates due to strong demand and limited new construction. While activity is steady, continued Federal Reserve rate cuts positively impacting commercial lending may stimulate the market and increase competitive pricing and transaction volume, leading to a cautiously optimistic outlook.

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 (SF)	YTD OVERALL NET ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Central	10,431,242	21,625	1,324,108	11.3%	28,287	-169,001	214,337	0	\$24.63	\$23.94
East	1,313,049	0	194,926	15.2%	1,122	14,548	26,731	0	\$20.61	\$22.43
Foothills	1,460,538	3,487	126,085	6.9%	4,539	2,467	50,368	0	\$29.23	0
Green Valley / South	388,615	0	30,810	5.9%	2,051	-7,294	10,492	0	\$23.69	0
North / Oro Valley	3,879,712	6,646	338,218	7.9%	1,759	-81,607	93,190	0	\$26.91	\$28.95
Northwest	540,778	0	8,040	1.5%	6,056	7,470	23,224	0	\$20.69	\$20.00
Southeast	720,371	15,833	205,495	25.7%	0	-62,166	4,650	0	\$18.19	0
Southwest	2,401,878	0	52,956	2.2%	5,494	8,424	9,428	59,933	\$29.73	\$32.36
West	1,511,536	153,369	228,608	22.7%	-24,146	-84,056	63,771	0	\$19.61	\$21.38
DOWNTOWN TOTALS	6,214,212	27,642	201,559	2.7%	-24,631	-61,845	39,220	0	\$26.54	\$30.45
TUCSON TOTALS	28,861,931	228,602	2,710,805	10.2%	531	-433,060	535,411	59,933	\$23.98	\$25.63

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q3 2024

PROPERTY	SUBMARKET	TENANT	SF	TYPE
333 East Wetmore Road	West	IMS	15,722	New Lease
5255-5285 East Williams Circle	Central	Undisclosed	12,323	New Lease
250 South Craycroft Road	Central	Tohono O'odham Nation	10,301	New Lease
1600 East Idea Lane	Southwest	Action Behavior Centers	9,428	New Lease
1 South Church Avenue	Downtown	Undisclosed	6,962	New Lease

KEY SALES TRANSACTIONS Q3 2024

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE / \$ PSF
5501 North Oracle Road	North Tucson / Oro Valley	Gary Toy / Northoracle, LLC	15,947	\$1.7M / \$ 107
3900 East Broadway Boulevard	Central	XENA LLC / Pratik Investments LLC	9,116	\$2.6M / \$285.21
4003-4009 North Flowing Wells Road	West	SRCO Flowing Wells LLC / Sri Venkat Racherla	6,076	\$500,000 / \$82.29
2171 West Orange Grove Road	North Tucson / Oro Valley	Southern Arizona Realty Holdings LLC / Optima Health Plan	5,040	\$1.8M / \$357.14
3987 E Paradise Falls Dr**	Central	RALE Offices, LLC / Undisclosed	4,343	\$1.0M / \$236.01

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

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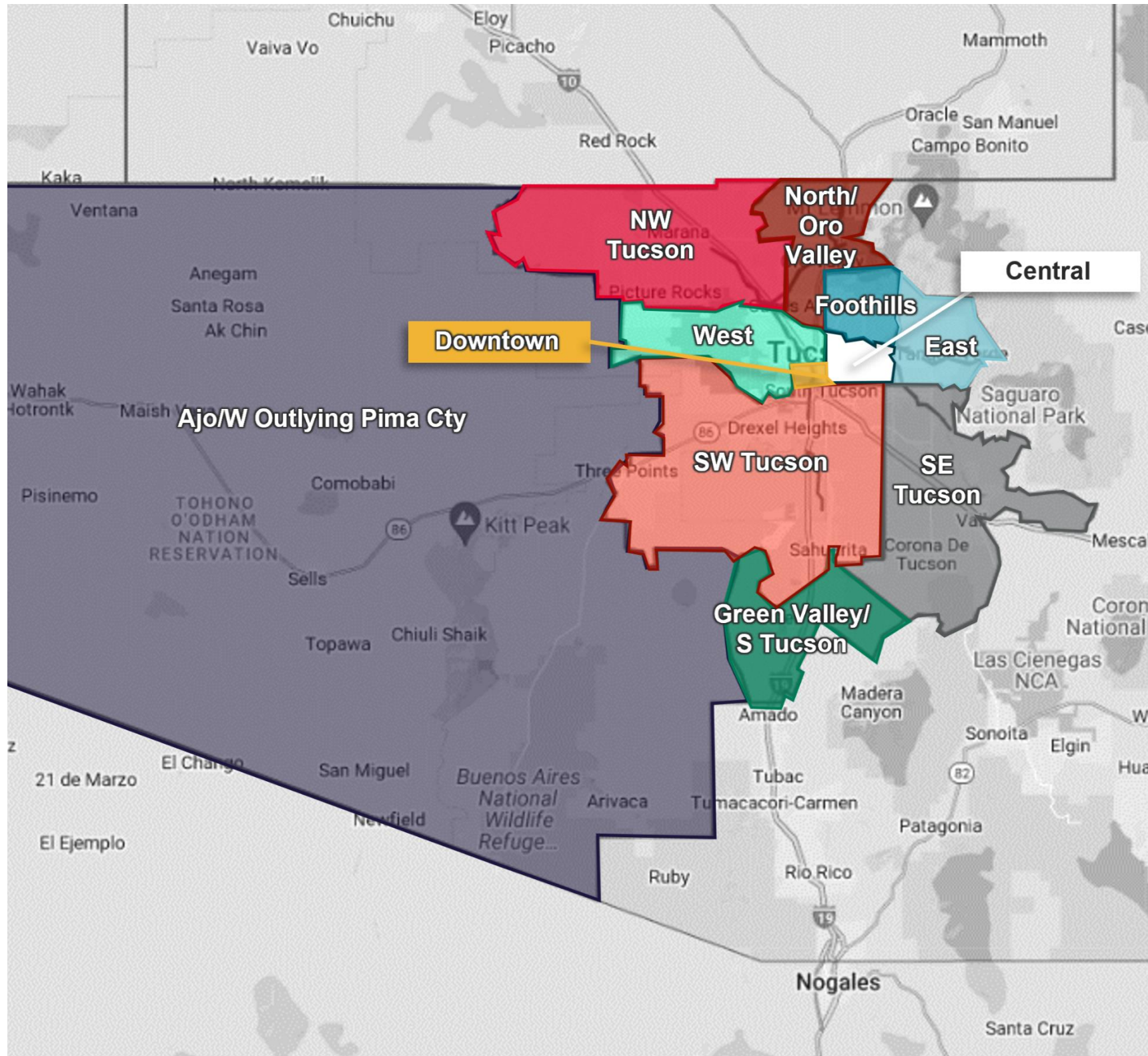
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