



Commercial Real Estate Group
of Tucson LLC

THE TENANT'S ADVOCATE

Market Intelligence on Tucson's Office Real Estate Third Quarter 2009

The big picture

Tenants must stay vigilant to changing conditions within commercial real estate as building defaults starts to accelerate. An impending wave of defaults will rival that seen in the early 1990s, says Michael Coretz of Commercial Real Estate Group of Tucson.

"Brokers and tenants need to be ready for the possibility that foreclosures, bankruptcies and deed-in-lieu situations will greatly and negatively impact existing commercial real estate leases," says the broker. "TIs, commissions and building improvements all are in jeopardy of not being funded."

Tenants need to get rental offset protection into their leasing documents, Coretz advises.

With the right precautions, however, tenants still can find opportunities for attractive office lease terms in Tucson with rental rates remaining flat through the third quarter of 2009. A slight dip in rates was recorded from mid-year through September. This compares to national figures of rental rates continuing on a downward slide.

Sublet vacancies make up 95% of the available office space in Tucson, just slightly more than the national market (93%).

Most of the available office space in Tucson is Class B space, 77 percent of all vacancies. Class C makes up 13% and Class A makes up 10%. In contrast, national vacancies consist of 46% in Class B, 40% in Class A and 14% in Class C.

With construction drastically falling, future available office space in Tucson is expected to dry up by the second quarter of 2010.

Tucson numbers

Total market

Vacancy rate: 11.2%

Total vacant space: 2,458,039 square feet
Vacant sublease space: 123,551 square feet
Net absorption: 39,685 square feet
Quoted rental rate: \$19.77, down 1.4% over 2q 2009

Deliveries (year to date): 242,364 square feet total rentable building area (RBA)
Under Construction (UC): 175,837 square feet total RBA
UC Preleased: 79%

Class A

Vacancy rate: 7.5%
Total vacant space: 252,983 square feet
Vacant sublease space: 33,875 square feet
Quoted rental rate: \$22.97, down 3% over 2q 2009

Class B

Vacancy rate: 13.7%
Total vacant space: 1,886,369 square feet
Vacant sublease space: 80,973 square feet
Quoted rental rate: \$20.14, down 1.1% over 2q 2009

Class C

Vacancy rate: 6.60%
Total vacant space: 318,687 square feet
Vacant sublease space: 8,703 square feet
Quoted rental rate: \$16.13, down 1.1% over 2q 2009

Markets

Central Tucson
Vacancy rate: 11.7%
Total vacancy: 1,022,020 square feet
Year-to-date net absorption: -107,705 square feet
Year-to-date deliveries: 34,450 square feet
Under construction: 11,200 square feet
Quoted rental rate: \$20.02

Downtown Tucson

Vacancy rate: 7.1%
Total vacancy: 300,638 square feet
Year-to-date net absorption: 19,410 square feet
Year-to-date deliveries: 66,000 square feet
Under construction: 0 square feet
Quoted rental rate: \$18.51

East Tucson

Vacancy rate: 16.6%
Total vacancy: 172,937 square feet

Year-to-date net absorption: -2,150 square feet
Year-to-date deliveries: 8,500 square feet
Under construction: 5,500 square feet
Quoted rental rate: \$18.86

Foothills

Vacancy rate: 10.8%
Total vacancy: 118,734 square feet
Year-to-date net absorption: 38,258 square feet
Year-to-date deliveries: 20,132 square feet
Under construction: 30,196 square feet
Quoted rental rate: \$23.47

Green Valley/South Tucson

Vacancy rate: 3.9%
Total vacancy: 10,568 square feet
Year-to-date net absorption: -1,774 square feet
Year-to-date deliveries: 0 square feet
Under construction: 0 square feet
Quoted rental rate: \$20.21

North Tucson/Oro Valley

Vacancy rate: 13%
Total vacancy: 410,853 square feet
Year-to-date net absorption: 7,467 square feet
Year-to-date deliveries: 20,082 square feet
Under construction: 124,303 square feet
Quoted rental rate: \$22.24

Northwest Tucson

Vacancy rate: 32.1%
Total vacancy: 141,512 square feet
Year-to-date net absorption: -49,606 square feet
Year-to-date deliveries: 0 square feet
Under construction: 0 square feet
Quoted rental rate: \$20.29

Southeast Tucson

Vacancy rate: 16.9%
Total vacancy: 102,604 square feet
Year-to-date net absorption: -16,647 square feet
Year-to-date deliveries: 1,200 square feet
Under construction: 0 square feet
Quoted rental rate: \$13.60

Southwest Tucson

Vacancy rate: 4.6%
Total vacancy: 51,412 square feet
Year-to-date net absorption: 82,034 square feet
Year-to-date deliveries: 92,000 square feet
Under construction: 4,638 square feet

Quoted rental rate: \$16.14

West Tucson

Vacancy rate: 10.1%

Total vacancy: 126,761 square feet

Year-to-date net absorption: 10,825 square feet

Year-to-date deliveries: 0 square feet

Under construction: 0 square feet

Quoted rental rate: \$17.51

Source: The CoStar Office Report, CoStar Group, www.costar.com

The local economy

June 2009

Unemployment: 7.9%

Non-Farm employment: 357,300

Individual average annual earnings: \$39,099 (2007)

Personal income: \$31,647 (2007)

Source: Economic and Business Research Center, University of Arizona Eller College of Management, ebr.eller.arizona.edu/indicators

Compiled and presented by Commercial Real Estate Group of Tucson. For more information, contact Michael Coretz, 520-299-3400, michael@cretucson.com or visit www.tucson-commercial-real-estate.com.