



## Market Intelligence on Tucson's Office Real Estate End of 2009

### The big picture

The only sure thing about the office real estate market right now is that there's lots of uncertainty of where it's moving in 2010.

"On one hand, vacancy rates continue to increase, rental rates continue to fall and there's nervousness about underwater properties," says Michael Coretz, principle broker at Commercial Real Estate Group of Tucson.

"On the other hand," he adds, "downward activity has started to slow and some markets are seeing more positive activity."

Cash-strapped landlords are quickly learning to work more cooperatively with potential leasees in order to fill their commercial real estate spaces. Business owners will find landlords who are ready to be more flexible with leasing terms, more transparent regarding lease-related costs and less restrictive on tenants' rights that affect day-to-day operations.

"It's still very much a buyer's market when it comes to leases," says Coretz. "We're finding attractive terms in our negotiations on behalf of our clients." He advises that business owners don't delay in obtaining commercial real estate leases in order to take advantage of current market conditions.

The vacancy rate for Tucson's office real estate continues to rise in all property classes, although the increase was only slight for Class B office property. Overall vacancy rates were down in the Foothills and southeast Tucson and essentially unchanged in central and downtown Tucson.

Quoted rental rates rose over the third quarter of 2009 in southeast, northwest and north Tucson and in Oro Valley. They continued to fall in all other areas.

Future deliveries are expected throughout 2010, including nearly 40,000 square feet of currently unleased space in the fourth quarter.

### Tucson numbers

#### Total market

Vacancy rate: 11.5%

Total vacant space: 2,576,595 square feet

Vacant sublease space: 124,774 square feet

Net absorption: 78,820 square feet

Quoted rental rate: \$19.01, down 3.9% over 3q 2009

Deliveries (year to date): 412,442 square feet total rentable building area (RBA)  
Under Construction (UC): 84,801 square feet total RBA  
UC Preleased: 47.5%

### **Class A**

Vacancy rate: 8.2%  
Total vacant space: 278,622 square feet  
Vacant sublease space: 35,125 square feet  
Quoted rental rate: \$18.78, down 18% over 3q 2009

### **Class B**

Vacancy rate: 13.9%  
Total vacant space: 1,931,206 square feet  
Vacant sublease space: 80,946 square feet  
Quoted rental rate: \$20.33, up 1% over 3q 2009

### **Class C**

Vacancy rate: 7.2%  
Total vacant space: 366,767 square feet  
Vacant sublease space: 8,703 square feet  
Quoted rental rate: \$14.32, down 11% over 3q 2009

### **Markets**

#### Central Tucson

Vacancy rate: 11.8%  
Total vacancy: 1,068,182 square feet  
Year-to-date net absorption: -133,067 square feet  
Year-to-date deliveries: 34,450 square feet  
Under construction: 50,200 square feet  
Quoted rental rate: \$19.68

#### Downtown Tucson

Vacancy rate: 7.1%  
Total vacancy: 291,129 square feet  
Year-to-date net absorption: 28,919 square feet  
Year-to-date deliveries: 66,000 square feet  
Under construction: 0 square feet  
Quoted rental rate: \$16.90

#### East Tucson

Vacancy rate: 17.8%  
Total vacancy: 199,422 square feet  
Year-to-date net absorption: -4,135 square feet  
Year-to-date deliveries: 14,000 square feet  
Under construction: 10,585 square feet  
Quoted rental rate: \$16.28

#### Foothills

Vacancy rate: 10.5%

Total vacancy: 114,380 square feet

Year-to-date net absorption: 48,792 square feet

Year-to-date deliveries: 26,312 square feet

Under construction: 24,016 square feet

Quoted rental rate: \$22.83

#### Green Valley/South Tucson

Vacancy rate: 5.2%

Total vacancy: 13,992 square feet

Year-to-date net absorption: -5,198 square feet

Year-to-date deliveries: 0 square feet

Under construction: 0 square feet

Quoted rental rate: \$19.62

#### North Tucson/Oro Valley

Vacancy rate: 14.3%

Total vacancy: 466,843 square feet

Year-to-date net absorption: 90,430 square feet

Year-to-date deliveries: 161,185 square feet

Under construction: 0 square feet

Quoted rental rate: \$25.14

#### Northwest Tucson

Vacancy rate: 32.5%

Total vacancy: 143,241 square feet

Year-to-date net absorption: -51,335 square feet

Year-to-date deliveries: 0 square feet

Under construction: 0 square feet

Quoted rental rate: \$21.36

#### Southeast Tucson

Vacancy rate: 13.4%

Total vacancy: 82,201 square feet

Year-to-date net absorption: 4,256 square feet

Year-to-date deliveries: 1,200 square feet

Under construction: 0 square feet

Quoted rental rate: \$15.26

#### Southwest Tucson

Vacancy rate: 5.4%

Total vacancy: 61,692 square feet

Year-to-date net absorption: 76,392 square feet

Year-to-date deliveries: 96,638 square feet

Under construction: 0 square feet

Quoted rental rate: \$15.74

#### West Tucson

Vacancy rate: 10.6%

Total vacancy: 135,513 square feet

Year-to-date net absorption: 23,766 square feet  
Year-to-date deliveries: 12,657 square feet  
Under construction: 0 square feet  
Quoted rental rate: \$13.67

Source: The CoStar Office Report, CoStar Group, [www.costar.com](http://www.costar.com)

### **The local economy**

September 2009  
Unemployment: 8.2%  
Non-Farm employment: 358,500  
Worker average annual earnings: \$40,220 (2008)

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

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