

MarketView Tucson Office

Quick Stats

	Current	Change from last	
		Yr.	6 Mos.
Vacancy	16.8%	↗	↗
Lease Rates	\$20.40	↘	↘
Net Absorption*	-121,094	↘	↘
Construction	77,187	↗	↗

* The arrows are trend indicators over the specified time period and do not represent a positive or negative value. (e.g., absorption could be negative, but still represent a positive trend over a specified period.)

Hot Topics

- Activity in existing space continues to slow as owners seek stabilized rent rolls.
- Vacancy continues its strong trend upward.
- Construction remains weak except in small design/builds and build-to-suits.
- Unemployment continues to rise, moving into finance and service sectors.
- Sublease space has increased.
- Rental rates have softened further.

The Tucson office market study, which tracks non-owner occupied business and financial services properties greater than 10,000 square feet, shows continued weakness throughout the market as business responds to the recession.

The Tucson office vacancy rate increased to 16.8 percent at mid-year, compared with 14.9 percent at the end of 2008. This upward trend began in the fourth quarter of 2006. The Downtown submarket posted the largest increase, up to 14.8 percent from 9.5 percent in 2008. The East Central and North Central submarkets reported rates of 14.6 percent and 13.5 percent, respectively. This is an increase for East Central and a decrease for North Central. The Northeast posted the highest vacancy rate of 26.5 percent. The Northwest continued to climb, up from 17 percent at year-end 2008 to a current vacancy rate of 19.2 percent.

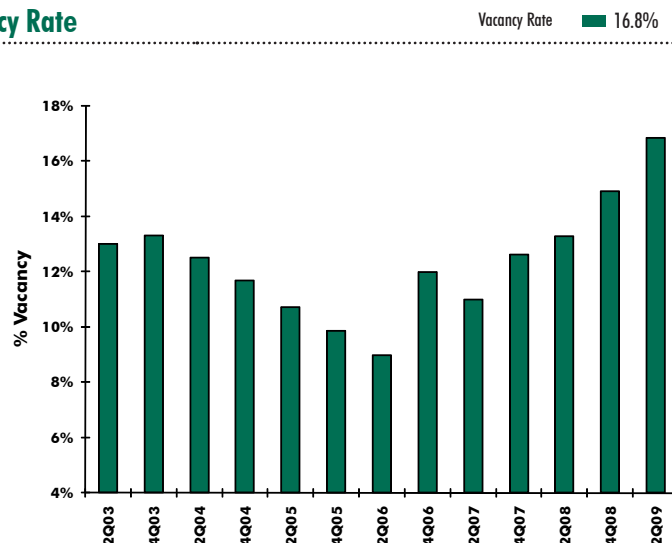
Accompanying the increasing office vacancy rate in the first half of 2009 was negative absorption of 121,094 square feet. The Southeast and West Central submarkets posted positive net absorption at mid-year, due primarily to occupied new construction. The Northeast continued to turn in negative absorption despite some activity late in the period. The North Central area had negative 7,499 square feet of net absorption, which should be considered a sign of strength under current conditions. Downtown halted its trend

of positive absorption with negative 64,252 square feet in the first half of the year.

New construction in the first half of 2009 was modest. A total of 77,187 square feet was added to the base in three buildings. This compares with 42,725 square feet in the second half on 2008 and 113,641 square feet in the full year of 2008. New product opened 34 percent vacant, indicating more build-to-suits than speculative construction. New space was also divided fairly equally between the Northwest, Southeast and West Central areas.

Office asking rental rates softened again in 2009 to an overall average of \$20.40 per square foot. This is down from \$20.89 per square foot at the end of last year. The average triple net asking lease rate is \$19.21 per square foot, compared with \$21.08 per square foot in 2008. With most of the new product being offered at net leased rates, these buildings posted the highest average asking rate of \$27.00 per square foot full service. Modified gross rates averaged \$19.05 per square foot, down slightly from \$19.69 per square foot in 2008, and full service rates were \$20.85 per square foot, down from \$21.38 per square foot. All these rates were down from 2008. Geographically, asking rates remained steady in the Northwest, Northeast and East Central areas. West Central and Downtown each lost about \$1.00 per square foot from 2008. The North Central area dropped from an adjusted \$23.54 per square foot average asking rate to \$22.25 per square foot.

Vacancy Rate



Market Statistics - First-half 2009

Sub-Market	Gross Rentable Area	Vacancy Rate %	Availability Rate	Net Absorption	Construction	Avg. Asking Lease Rates
Downtown	1,213,403	14.8%	15.9%	-64,252	0	\$18.42
East Central	2,528,857	14.6%	16.3%	-32,763	0	\$20.47
North Central	1,711,208	13.5%	13.6%	-7,499	0	\$22.25
Northeast	850	26.5%	26.7%	-28,049	0	\$19.22
Northwest	1,581,117	19.2%	19.1%	-28,975	23,500	\$20.72
Southeast	53,341	37.3%	37.3%	17,573	37,473	\$21.00
West Central	502,322	18.5%	18.5%	22,871	16,214	\$19.80
Totals/Averages	7,591,098	16.8%	17.9%	-121,094	77,187	\$20.40

Economy

Entering the 18th month of a recession, much of the economy appears to be struggling toward a recovery. Debate about “green shoots” is lively but there are indicators the recovery has begun. The main question is what the recovery will look like.

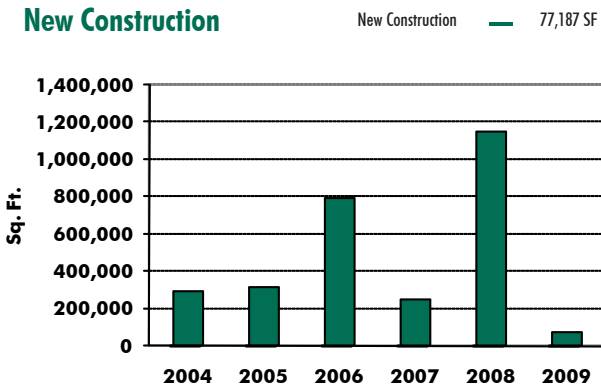
Many indicators, such as retail sales, industrial utilization and inventories, have shown signs of leveling off. Tucson’s retail sales have finally leveled off, after mirroring the dramatic plunge of the national economy. Even the worst indicators have slowed their rates of contraction.

While the outlook for new housing is unchanged, existing product seems to have reached a price point where purchasing has resurfaced. Flushing out the inventory of non-performing product is an important first step to an eventual housing recovery.

Job losses have slowed. While 2008 witnessed large industrial layoffs, 2009 has thus far seen only a moderate reduction in the service sector workforce. This “right sizing” for the new normal will probably not add jobs until stimulus projects are significantly underway.

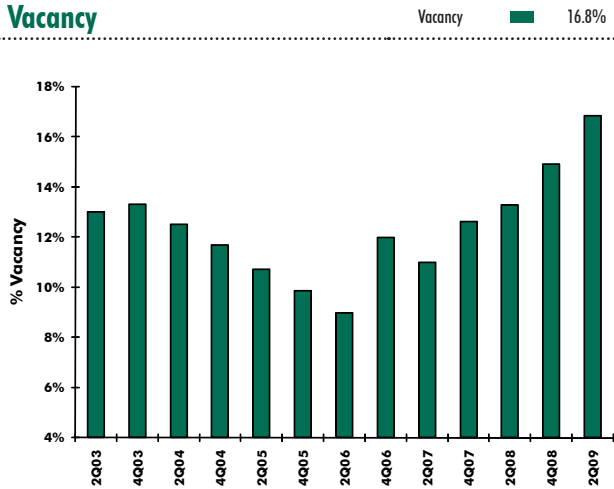
This flattening of economic indicators may not seem like much of a recovery, but at least the contraction seems to be stopping.

New Construction



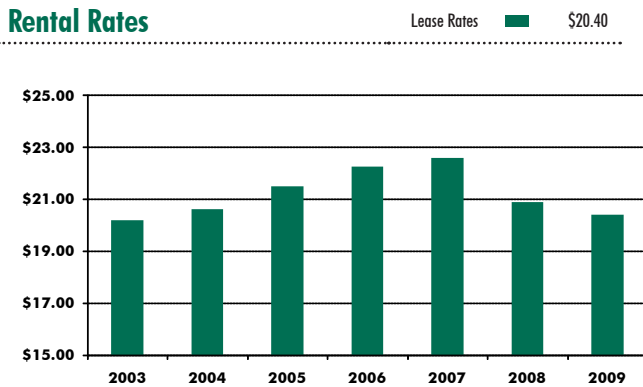
Construction activity in Tucson’s office market continued at a slow but even pace. Mid-year 2009 saw the addition of 77,187 square feet of new office space in three buildings located in three separate areas of town. This compares with the completion of 113,641 square feet in 2008 and 52,568 square feet in 2007. With each of the three new buildings significantly preleased, the new construction vacancy rate at mid-year 2009 was 34 percent.

Vacancy



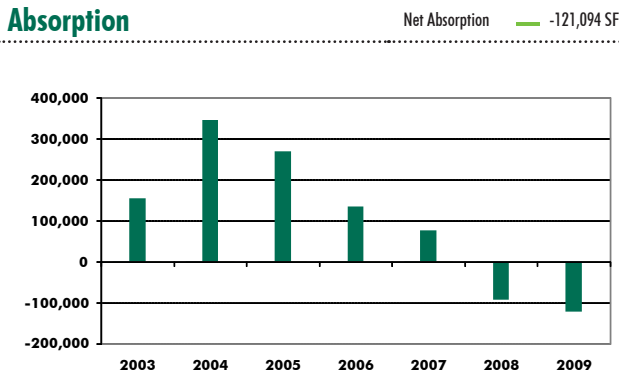
The Tucson office vacancy rate continued to climb, rising from 14.9 percent at the end of 2008 to a mid-year rate of 16.8 percent. This is a jump of 85 percent from a market low of 9 percent in 2006. Two submarkets experienced the largest increase in vacancy in the past six months, the Northeast rising from 23 percent to 26 percent and the Northwest rising from 17 percent to 19 percent.

Rental Rates



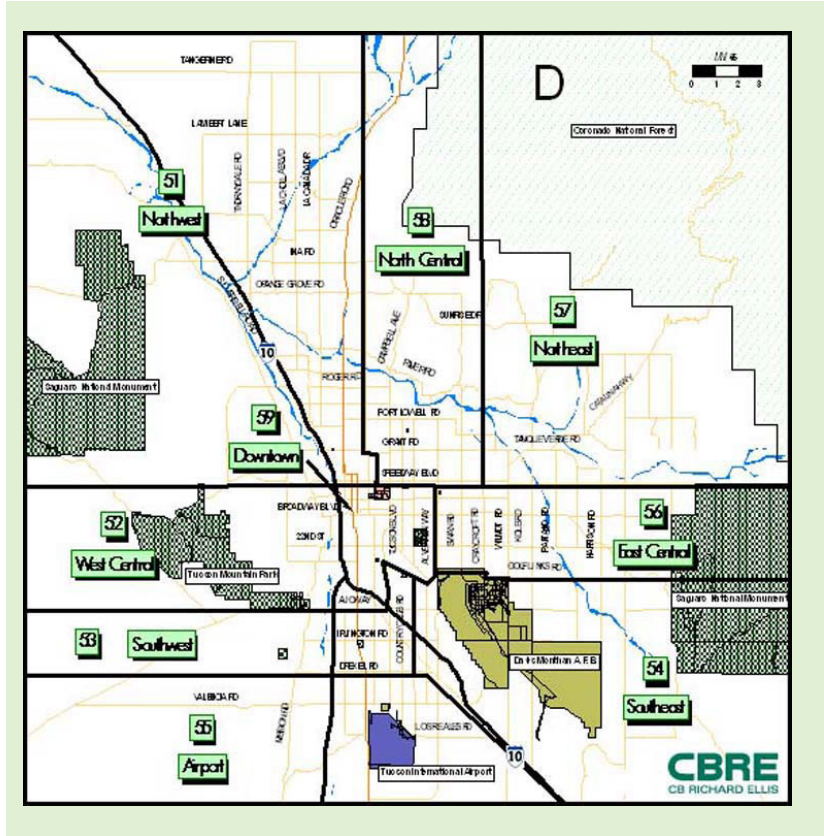
The average asking rental rate in Tucson remains soft at \$20.40 per square foot. This is down from \$20.89 per square foot at the end of 2008. Class A properties averaged \$23.73 per square foot, class B properties averaged \$19.78 per square foot and class C properties averaged \$19.06 per square foot. Full service lease rates averaged \$20.85 per square foot with a high rate of \$27.00 per square foot. Modified Gross lease rates averaged \$19.05 per square foot and net lease rates averaged \$19.92 per square foot with a high of \$26.00 per square foot.

Absorption



Net absorption for the first half of 2009 was negative 121,094 square feet. Net absorption was slightly positive at mid-year 2008 but ended 2008 at negative 93,000 square feet. Downtown experienced the largest loss in occupied space with negative 64,252 square feet. Only the Southeast and the West Central areas posted positive net absorption, however both were due to occupied new construction.

Submarket Map



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Average Asking Lease Rate

Rate determined by multiplying the asking net lease rate for each building by its available space, summing the products, then dividing by the sum of the available space with net leases for all buildings in the summary.

Net Leases

Includes all lease types whereby the tenant pays an agreed rent plus most, or all, of the operating expenses and taxes for the property, including utilities, insurance and/or maintenance expenses.

Market Coverage

Includes all competitive office buildings 10,000 square feet and greater in size.

Net Absorption

The change in occupied square feet from one period to the next.

Net Rentable Area

The gross building square footage minus the elevator core, flues, pipe shafts, vertical ducts, balconies, and stairwell areas.

Occupied Area (Square Feet)

Building area not considered vacant.

Under Construction

Buildings which have begun construction as evidenced by site excavation or foundation work.

Available Area (Square Feet)

Available Building Area which is either physically vacant or occupied.

Availability Rate

Available Square Feet divided by the Net Rentable Area.

Vacant Area (Square Feet)

Existing Building Area which is physically vacant or immediately available.

Vacancy Rate

Vacant Building Feet divided by the Net Rentable Area.

Normalization

Due to a reclassification of the market, the base, number and square footage of buildings of previous quarters have been adjusted to match the current base. Availability and Vacancy figures for those buildings have been adjusted in previous quarters.

For more information regarding the MarketView, please contact:
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