

## **THE SYNERGY REPORT MID-YEAR 2008**

### **NORTHWEST MARKET**

The northwest office market once again leads with more new construction taking place than any of the other office sub-markets in the metropolitan Tucson area. As the fastest growing area in Tucson, the northwest office market boasts not only the office development projects currently underway, but many more still in the pipeline. New office condominium projects are planned all along the Oracle Corridor from Ina Road, north to Catalina and west to Interstate 10.

These small office condominiums/buildings continue to attract business owners that would rather own than pay rent. These same business owners want the ease of parking close to their office and having their office close to their home. The typical office user requires approximately 1,500 to 2,500 square feet, usually on the first floor. We have seen the price for these “shell” buildings range from as low as \$165 to \$205 per square foot, depending on where they are located. It should be noted that Land costs play a large part in the price discrepancy.

The northwest office leasing market is currently experiencing a slow down, with more vacant office space available for the first time in many years. However, if you were looking for 2,500 square feet you would have several options, but if you were looking for contiguous space over 5,000 square feet you would be limited to only one or two opportunities. The current northwest rental rates that we are seeing for Class “A” range from \$25 - \$30; Class “B” rents range from \$18 - \$24 and Class “C” rents range from \$15 - \$17 per square foot.

### **METROPOLITAN TUCSON MARKET**

At the end of the second quarter the Tucson Office Market reported a vacancy rate of 9.9% with over 128,204 square feet of positive absorption. The entire Metropolitan Tucson office market inventory consists of approximately 20,359,943 square feet with 163,713 square feet of that number representing 5 new office buildings that were completed in the

second quarter. The average Tucson office rent in the first half of 2008 was \$20.58 per square foot.

Unlike Scottsdale or the Phoenix area, Tucson has very little sub-lease space (71,800 sq ft) available now that the First Magnus space has been absorbed.

Several new office/condominium projects are currently under construction in the City and scheduled to be completed by the end of the first quarter of 2009. The pricing on these “shell” buildings start as low as \$190 and go up to as high as \$235 per square foot. There is still a demand for these small office buildings and we are seeing record resale numbers for this type of product.

Information taken from the Metropolitan Tucson Land Use Study and CoStar Group