

FIGURES | TUCSON OFFICE MARKET | Q1 2025

Vacancy Reaches a Four-Year High in Tucson's Office Sector

▲ 16.2%

Vacancy Rate

▲ (28,904)

SF Net Absorption

▶ 0

SF Construction

▲ \$23.82

FSG / Lease Rate

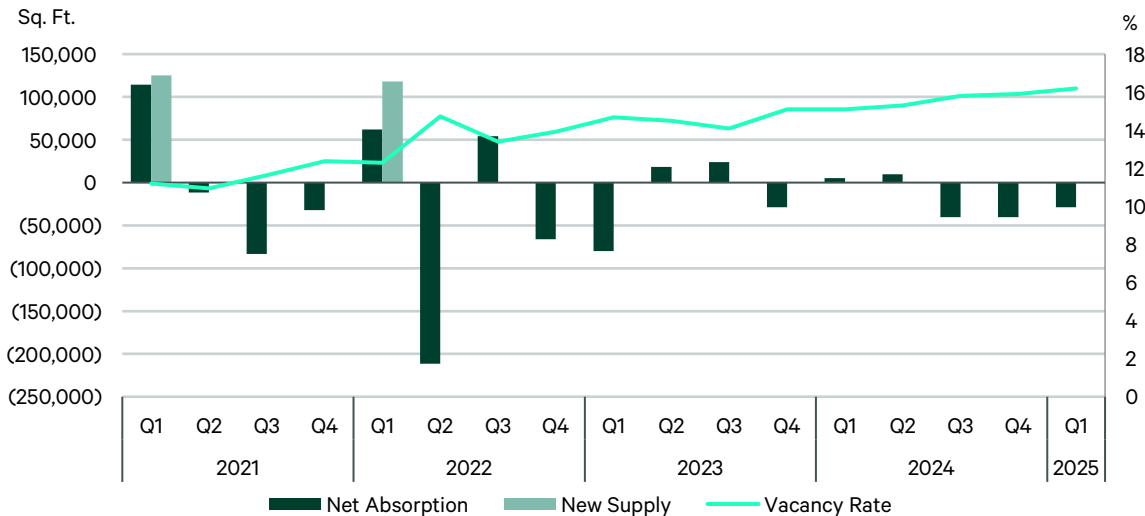
Note: Arrows indicate change from previous quarter.

KEY TAKEAWAYS

- No supply was added to the pipeline for the 12th consecutive quarter.
- Net absorption remained in negative territory for the third straight quarter, as more than 28,000 sq. ft. was added back to the market during Q1 2025.
- The direct average asking full-service gross (FSG) lease rate increased by 2.0% quarter-over-quarter to \$23.82 per sq. ft.

Net absorption dipped into the red for the third consecutive quarter in Q1 2025, lifting the metro vacancy rate to 16.2%, marking a new four-year high. Elevated construction costs and financing continue to hinder new development as no new projects delivered or broke ground during Q1 2025. The direct average FSG lease rate increased by 2.0% quarter-over-quarter to \$23.82 per sq. ft. Tenant demand was strongest in Class B offices, posting 16,395 sq. ft. of positive net absorption for the quarter. Meanwhile, tenant demand in Class A offices fell in negative territory, lifting vacancy in the segment to 15.1%.

FIGURE 1: Supply and Demand



Source: CBRE Research, Q1 2025.

Availability and Vacancy

Office space availability in Tucson remained flat in Q1 2025 at 17.5%. Two of Tucson’s 8 submarkets recorded a quarter-over-quarter decrease, with Northeast Tucson registering the largest decline among local submarkets. Availability remains the tightest in the Southwest and Downtown submarkets, with both these areas boasting a local rate of 5.8%. Availability rose the most in Northwest Tucson, as the rate jumped 220 bps to 18.9%. Meanwhile, availability remained elevated in the East Central submarket, at 25.1%.

Vacancy increased by roughly 30 bps during Q1 2025 to 16.2%. Northwest and North Central Tucson recorded the largest increases among submarkets this quarter, while East Central Tucson registered a 130 bps vacancy decline during the quarter. Vacancy remained tightest in Class C space at 13.4%, as vacancy in this class cut remained flat during the quarter. Vacancy in Class A spaces was at 15.1% due to a 90 bps jump in this segment, while the rate in Class B offices fell by 30 bps during Q1 2025 to 17.7%. As of Q1 2025, vacancy was lowest in the Downtown and Southwest submarkets, with each area posting a local rate of 5.8%, which is more than 1,000 bps below the market average.

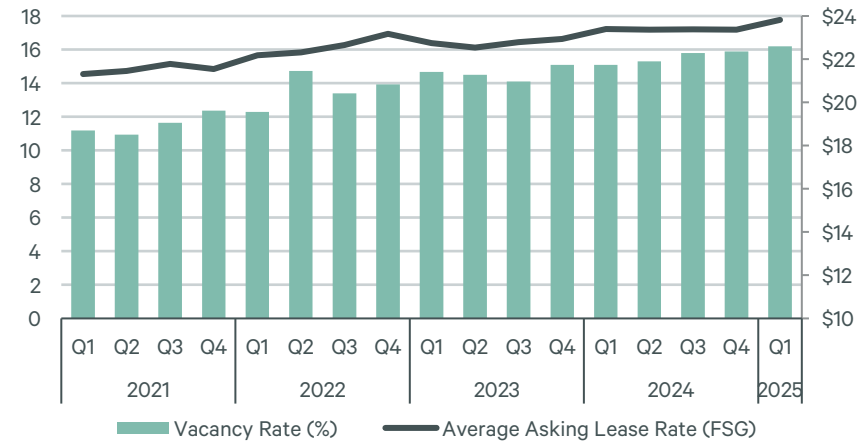
Lease Rates

The average asking lease rate increased by 2.0% quarter-over-quarter to \$23.82 per sq. ft. FSG in Q1 2025. The rate is up 1.8% over the past year and has grown 2.5% over the past three years. Rents in the Class B segment remained steady during this quarter at \$21.83 per sq. ft. Class A properties posted a small rent increase of \$0.01 for the quarter, while the average Class C rate increased by \$0.14 during this span. The East Central submarket led Tucson in lease rate growth, recording 5.6% gains during the quarter to \$25.13 per sq. ft. Meanwhile, the average asking rates in Northeast and North Central Tucson fell by 2.9% and 4.3%, respectively, leading all submarkets in rent declines.

Net Absorption and Leasing Activity

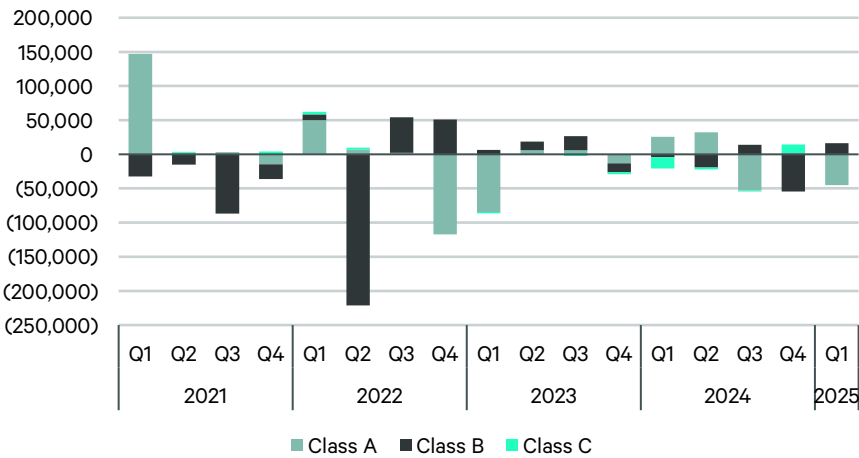
The Tucson office market posted 28,904 sq. ft. of negative net absorption and 92,442 sq. ft. of gross leasing activity in Q1 2025. Tenant demand was strongest in Class B offices, with the segment registering 16,395 sq. ft. of positive net absorption in the quarter. However, tenant demand was in the red for Class A offices, as this segment registered 45,299 sq. ft. of negative net absorption. East Central Tucson recorded 37,772 sq. ft. of positive net absorption in Q1 2025, leading all submarkets. Meanwhile, areas such as Northwest and North Central Tucson each posted negative net absorption totals of -62,289 sq. ft. and -7,067 sq. ft., respectively. The largest lease signed in the quarter was for 23,704 sq. ft. by Tucson Medical Center. Other notable leases signed this quarter include Verifone for 13,196 sq. ft, Christopher Gurten Insurance Agency for 7,040 sq. ft, Bayada Home Health Care for 6,432 sq. ft, Johnson and Chang Dentistry for 5,763 sq. ft. and HyperFiber for 5,027 sq. ft.

FIGURE 2: Overall Vacancy and Lease Rate



Source: CBRE Research, Q1 2025.

FIGURE 3: Net Absorption by Class (Sq. Ft.)



Source: CBRE Research, Q1 2025.

Development Activity

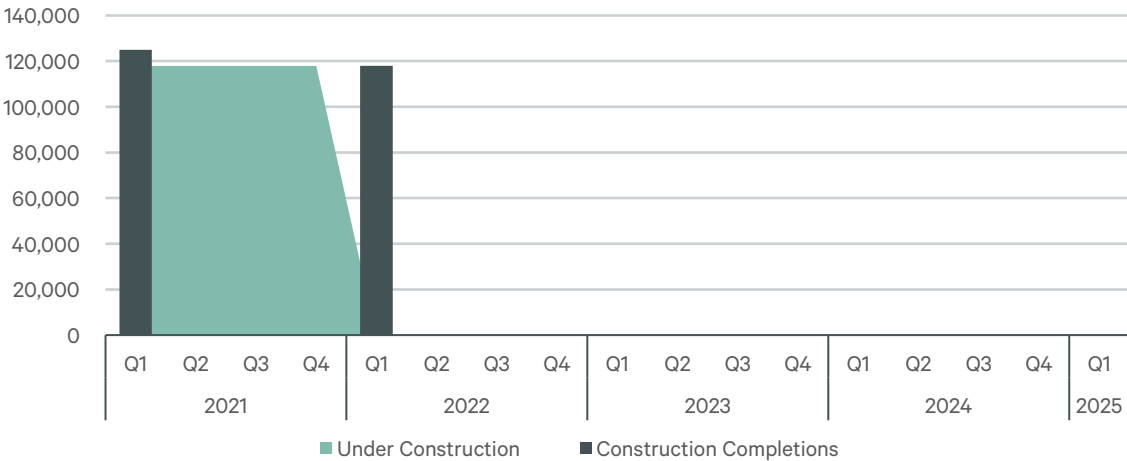
Tucson recorded it's eleventh consecutive quarter with no construction activity in Q1 2025. Builders are taking a more cautious approach and have been reluctant to start new projects as the uncertainty regarding the future utilization of office space continues to deter new development. Difficulty financing large speculative projects and elevated office vacancy compared to pre-pandemic levels will likely keep constriction levels low in the near-to-mid term until more clarity emerges in the economy. As of Q1 2025, there was just over 850,000 sq. ft. of planned projects in the construction pipeline, mainly comprising of small-to-mid sized office properties in the 5,000 sq. ft. to 10,000 sq. ft. range.

CBRE Economic House View

Policy speculation and announcements are now the key drivers of macro expectations and financial markets. The reality of material trade conflicts this year is now paired with realized softer economic data. Some of this could be due to firms taking a 'wait-and-see' approach as they digest changing trade policy. Consumer sentiment has declined noticeably, albeit much more than actual spending. Consequently, CBRE has revised its GDP growth outlook for this year down to just below 2%.

Despite policy uncertainty, credit markets are more accommodative, with tighter spreads and more issuance compared to a few quarters ago. More fluid credit markets have yet to translate into stronger sales volume, as many institutional owners and reams of dry powder capital remain on the sidelines. The continuation of accretive credit trends and eventual deployment of dry powder will depend on the impact of new policies. Should they prove more inflationary, this would erode recent capital markets progress. If not, and macro impacts are limited, this could give the Fed a green light for further cuts and help unlock capital waiting on the sidelines.

FIGURE 4: Under Construction and New Supply (Sq. Ft.)

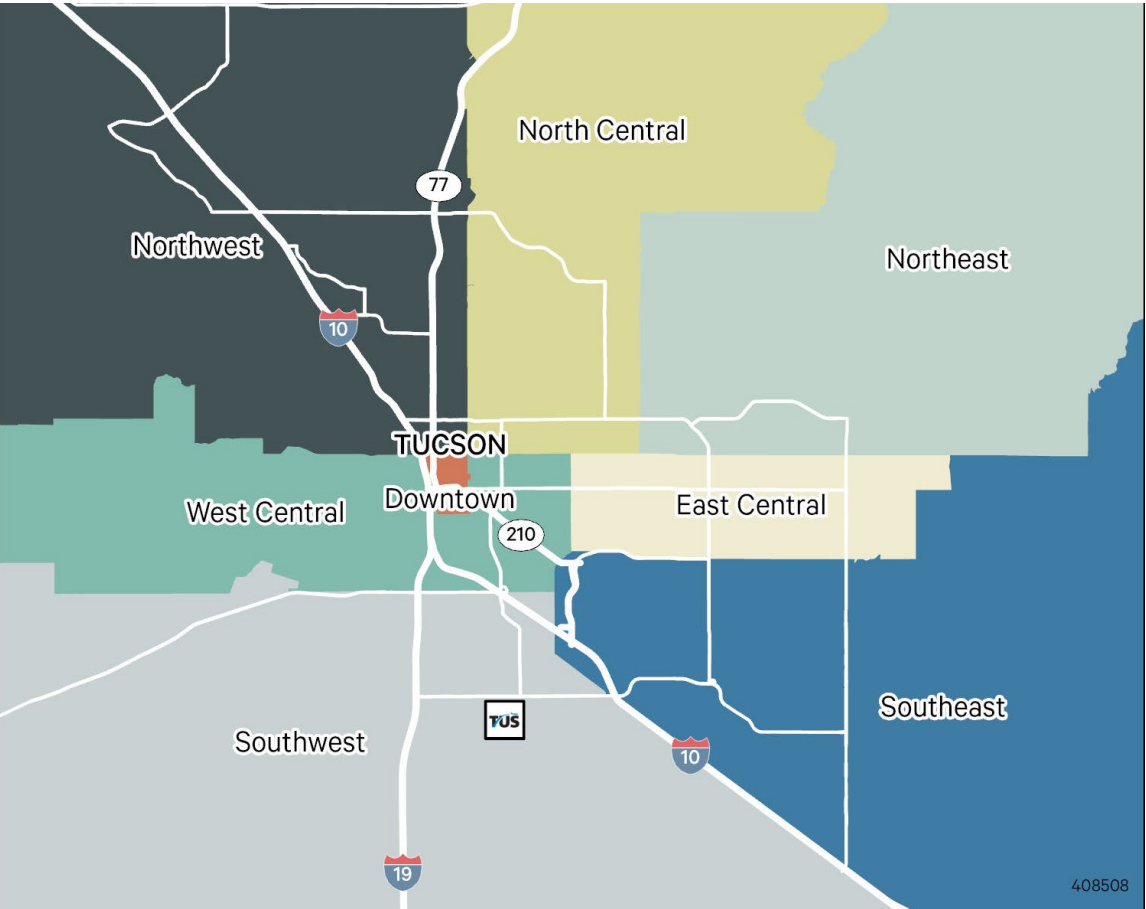


Source: CBRE Research, Q1 2025.

FIGURE 5: Submarket Stats

	Building Count	Net Rentable Area (Sq. Ft.)	Availability (%)	Vacancy (%)	Net Absorption (Sq. Ft.)		Under Construction (Sq. Ft.)	Construction Deliveries (Sq. Ft.)	Avg. Direct Asking Lease Rate (\$PSF/FSG)
					Q1 2025	2025 YTD			
Downtown	20	835,676	5.8%	5.8%	-7	-7	0	0	\$21.42
East Central	61	2,922,396	25.1%	23.5%	37,772	37,772	0	0	\$25.13
North Central	85	2,150,505	10.3%	7.7%	-7,067	-7,067	0	0	\$24.67
Northeast	53	995,019	13.9%	12.2%	930	930	0	0	\$18.46
Northwest	72	2,418,204	18.9%	18.4%	-62,289	-62,289	0	0	\$22.70
Southeast	3	234,789	73.4%	73.4%	0	0	0	0	-
Southwest	2	118,273	5.8%	5.8%	0	0	0	0	-
West Central	23	914,892	7.6%	7.6%	1,757	1,757	0	0	\$27.95
Tucson Total	319	10,589,754	17.5%	16.2%	-28,904	-28,904	0	0	\$23.82

Source: CBRE Research, Q1 2025.



Definitions

Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant. Availability Rate: Total Available Sq. Ft. divided by the total building Area. Average Asking Lease Rate: A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage. Building Area: The total floor area sq. ft. of the building, typically taken at the “drip line” of the building. Gross Activity: All sale and lease transactions completed within a specified time period. Excludes investment sale transactions. Gross Lease Rate: Rent typically includes real property taxes, building insurance, and major maintenance. Net Absorption: The change in Occupied Sq. Ft. from one period to the next. Net Lease Rate: Rent excludes one or more of the “net” costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate. Occupied Sq. Ft.: Building Area not considered vacant. Vacancy Rate: Total Vacant Sq. Ft. divided by the total Building Area. Vacant Sq. Ft.: Space that can be occupied within 30 days.

Survey Criteria

Includes all office buildings 10,000 sq. ft. in Tucson Metro. Buildings which have begun construction as evidenced by site excavation or foundation work.

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