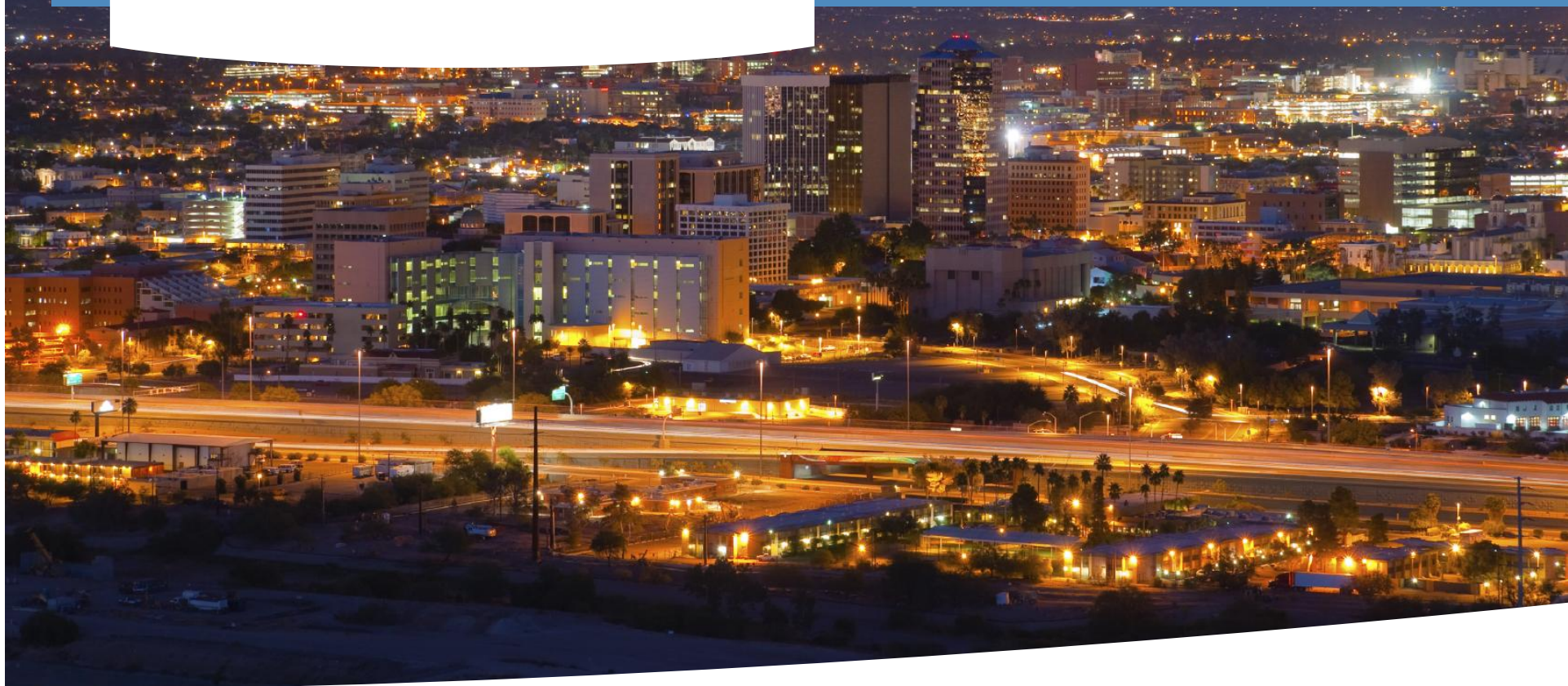


STATE OF THE TUCSON COMMERCIAL MARKET

Barbi Reuter, Principal

JANUARY 29, 2013



TUCSON COMMERCIAL OVERVIEW

MARKET DYNAMICS

OFFICE MARKET

RETAIL MARKET

INDUSTRIAL MARKET

BORDER REGION | SONORA, MEXICO

Market Dynamics



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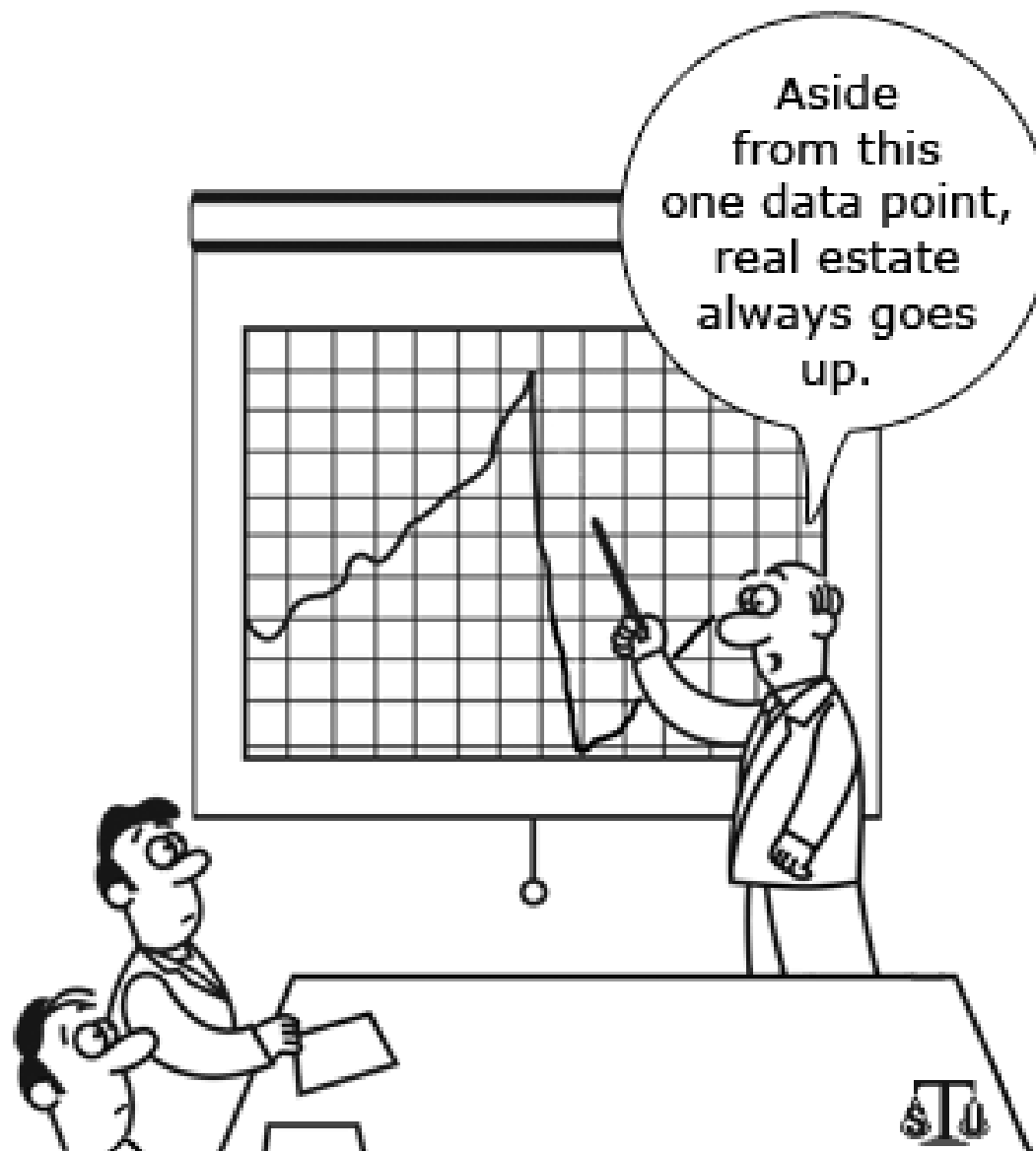


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TUCSON COMMERCIAL MARKET

Stu's Views

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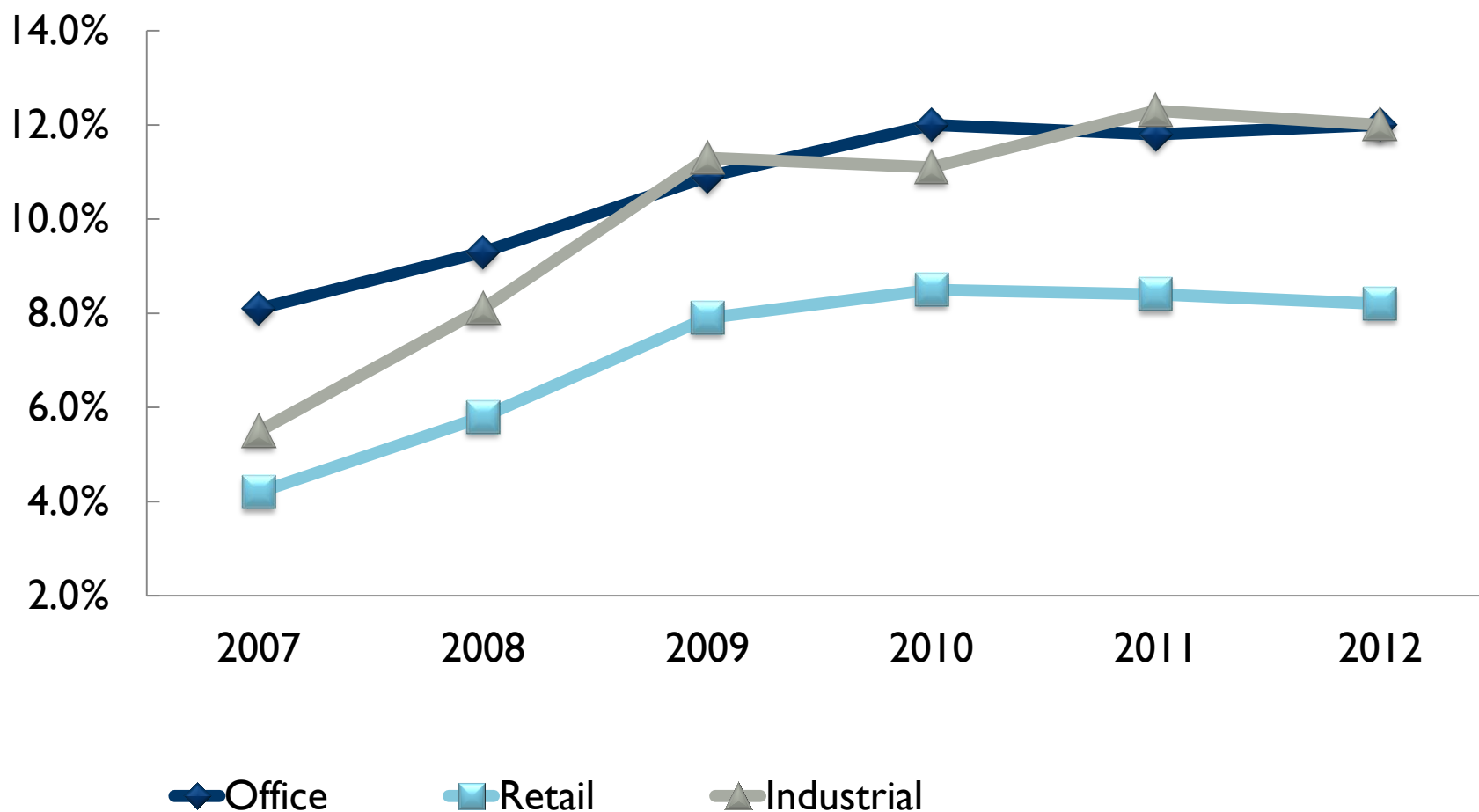


Market Drivers

- Jobs x 3
- Small business health
- A healthy Phoenix
- Housing and construction
- An expensive California
- Healthcare

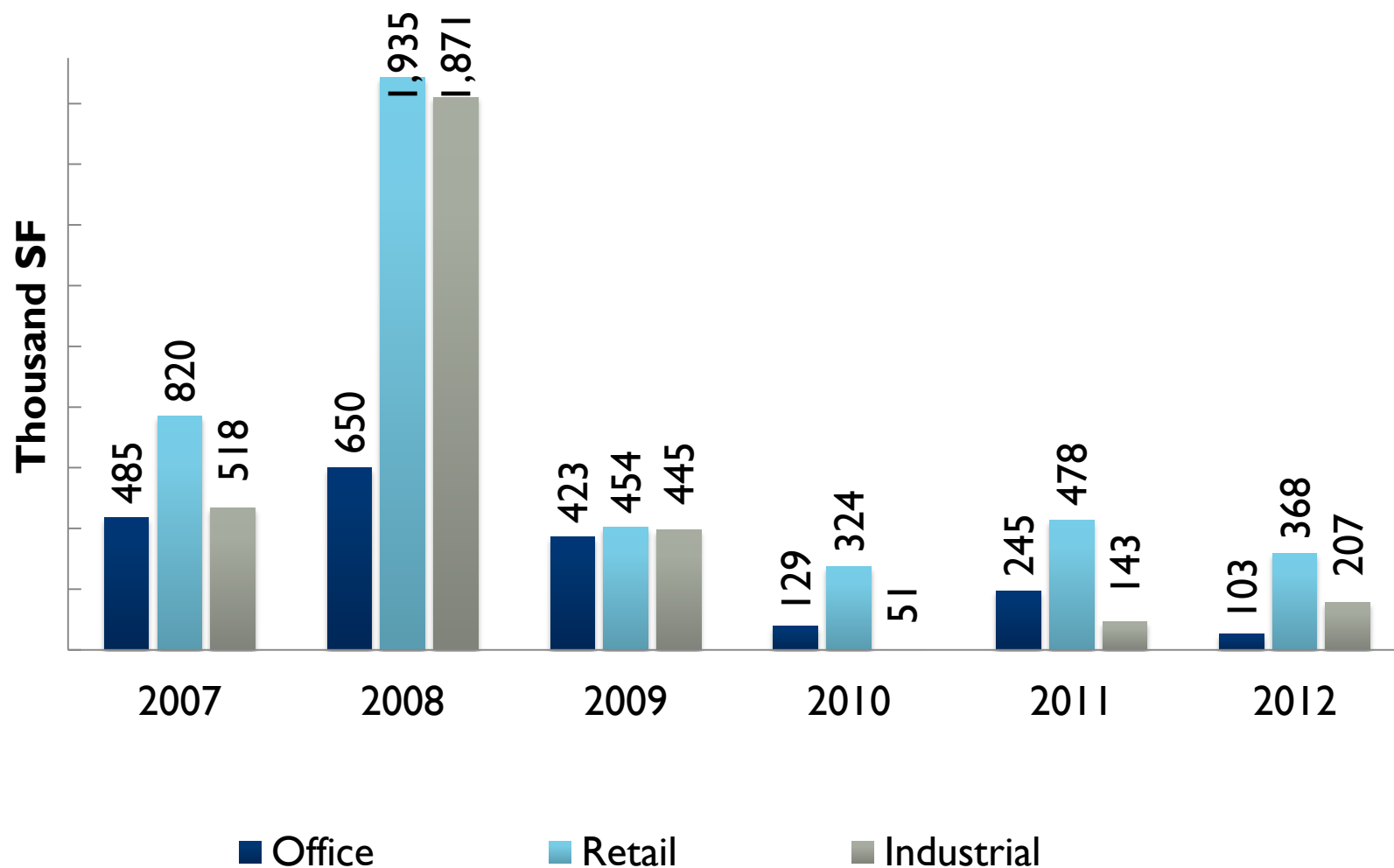


TUCSON COMMERCIAL VACANCY



Source: CoStar Group

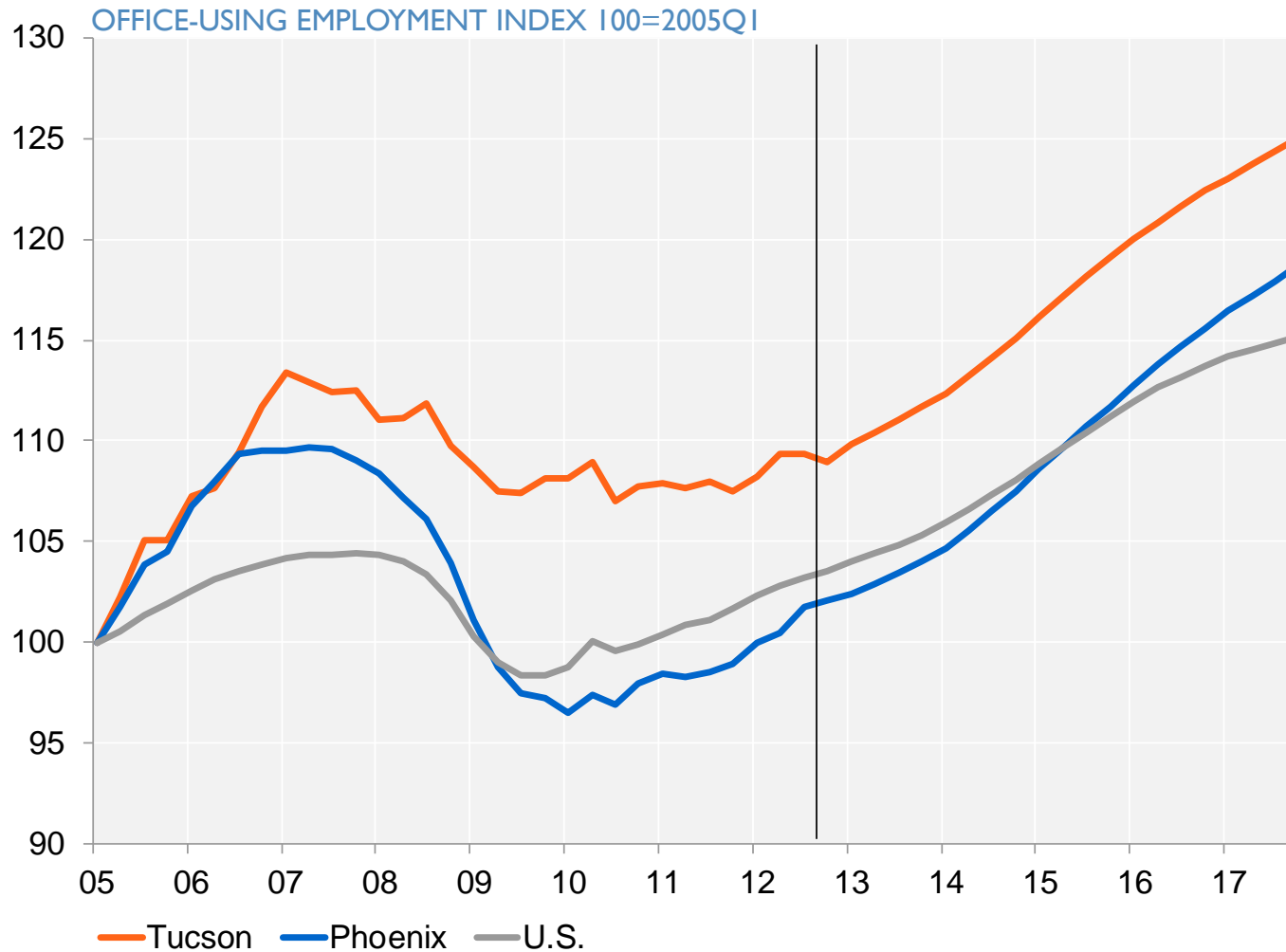
TUCSON CONSTRUCTION COMPLETIONS



Source: CoStar Group

TUCSON RELATIVELY STABLE AND WILL OUTPERFORM U.S.

Office-Using Employment Trend



Sources: Moody's Analytics; CoStar Group; PPR

As of 12Q3

Forecast Growth

Tucson: 14.3%

Phoenix: 16.7%

U.S.: 11.6%



TUCSON COMMERCIAL MARKET

Back from the dead?

Copyright 2004 by Randy Glasbergen.
www.glasbergen.com



“I know I’m not a realtor anymore, but I can’t stop thinking about how much city folks would pay for an acre of this!”

Pulse check

- 2012: “Fun” returned?
- Uncertainty → Stability
- Pessimism → Optimism
- Firming fundamentals – positive absorption across all sectors
- Values, rates, construction lack pressure

Office

TUCSON OFFICE OVERVIEW

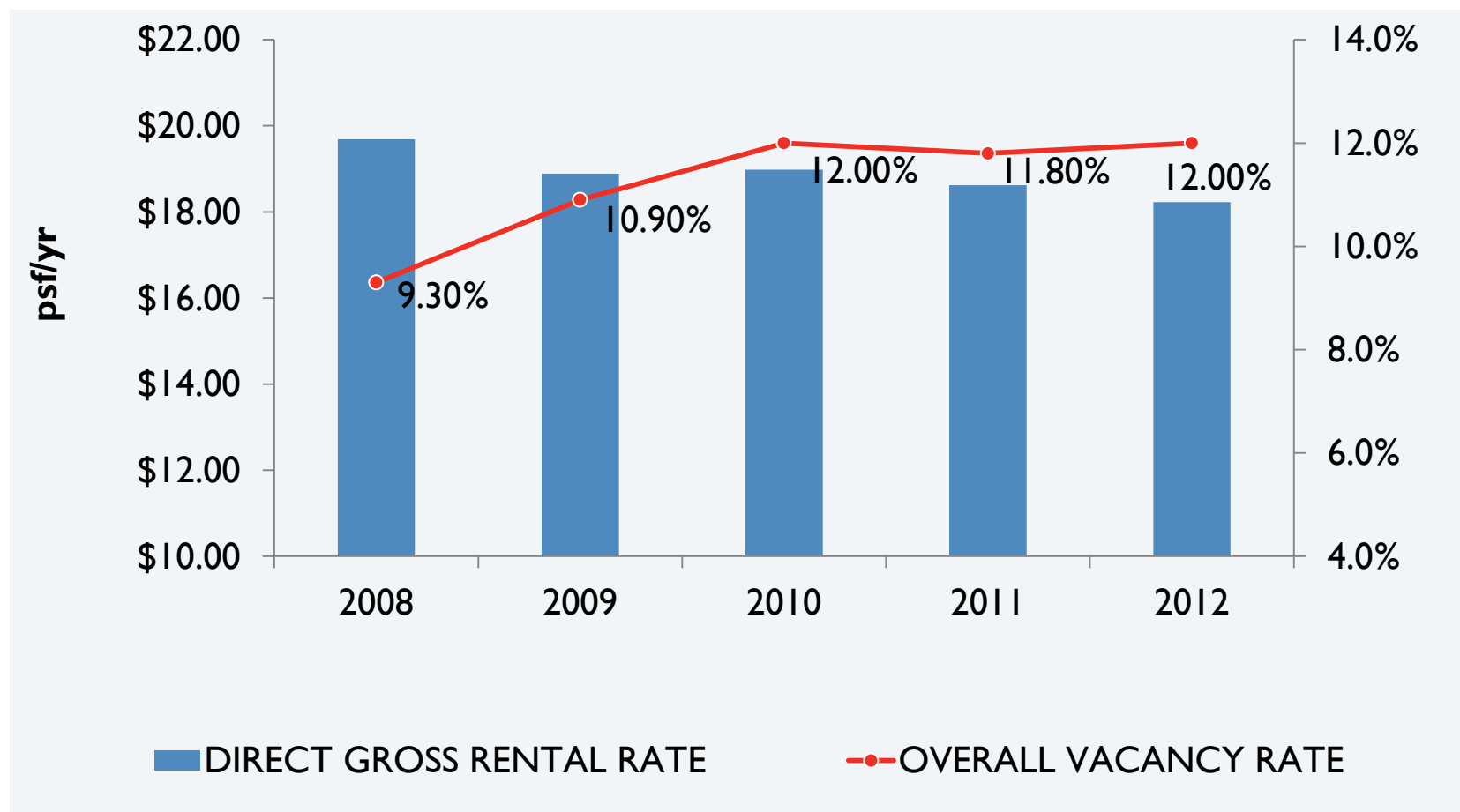
Lease Market

- Strong Q4 absorption – 80K 2012
- 7 years of positive absorption 32-468K
- Flat (stable) rents
- Flat (stable) occupancy



TUCSON OFFICE OVERVIEW

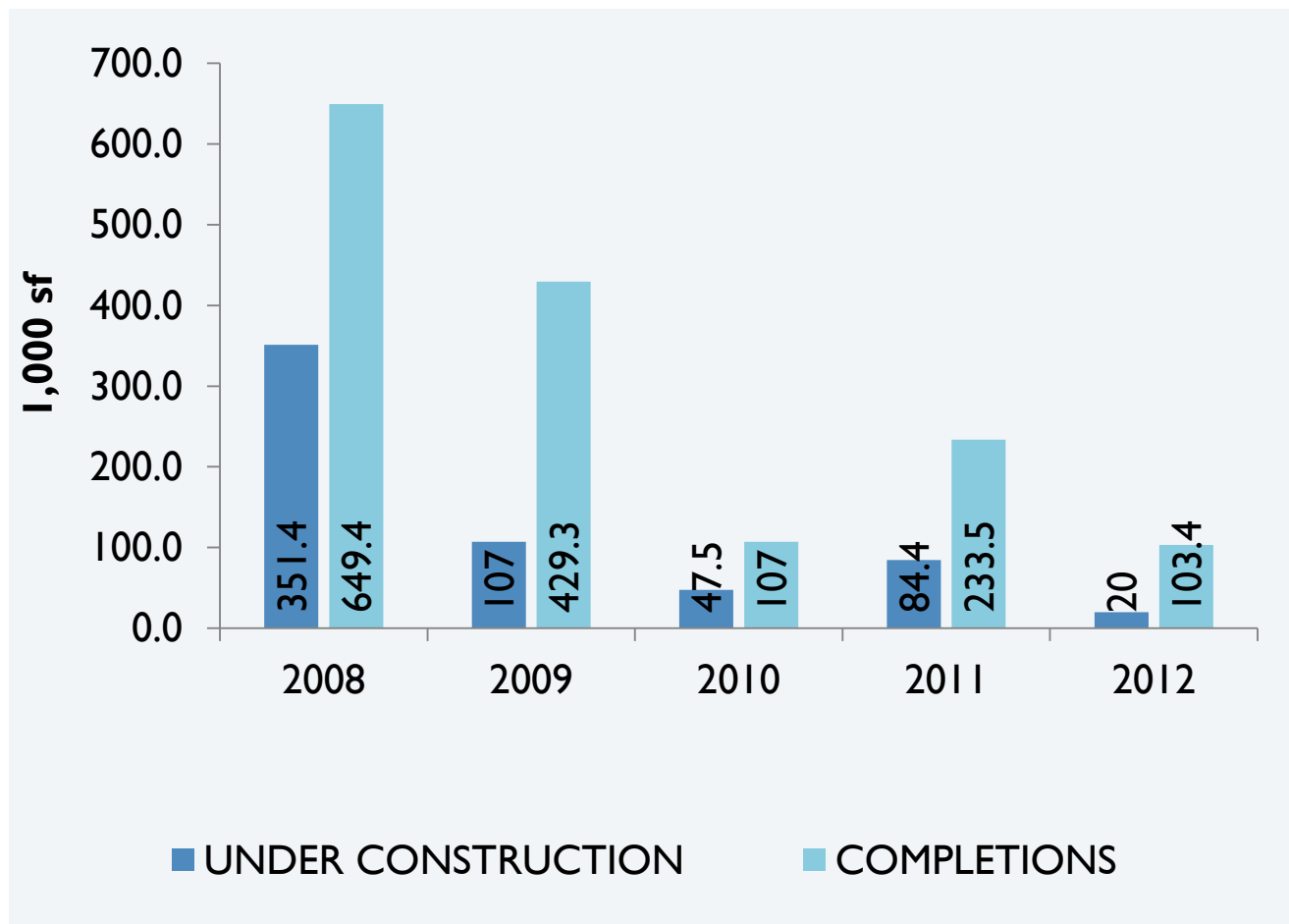
FIVE YEAR RENT & VACANCY TREND



Source: CoStar Group

TUCSON OFFICE OVERVIEW

FIVE YEAR CONSTRUCTION HISTORY



Minimal new construction for three consecutive years

Source: CoStar Group

TUCSON OFFICE OVERVIEW

Sale Market

- Spike in year-end investor sales
- Buyers market – prices below replacement
- No seller impetus
- Small condos trading at 40% off peak



TUCSON OFFICE OVERVIEW

The Year Ahead

THE YEAR AHEAD



TUCSON OFFICE OVERVIEW

2013 “Top 5 List”

1. Stable, low lease rates
2. Flight to quality limits choice space availability
3. New construction virtually nil
4. ...except special-purpose, healthcare uses
5. Investment sales will occur!



Retail



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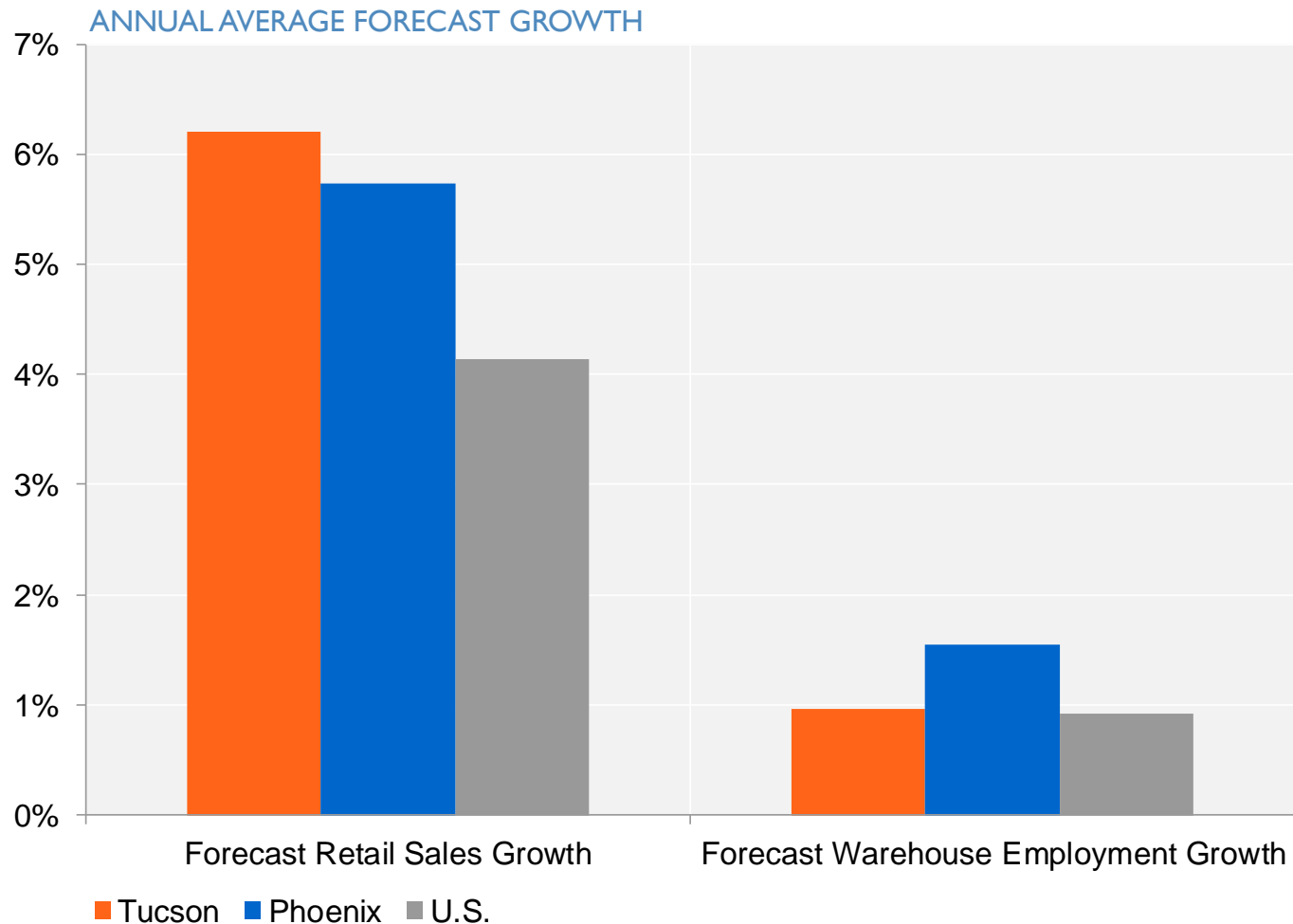
TUCSON RETAIL MARKET

A nod to e-commerce



SOLID PROSPECTS FOR RETAIL

Forecast for Retail and Warehouse Demand Drivers



Sources: Moody's Analytics; CoStar Group; PPR

As of 12Q3

Retail Sales

Tucson: 6.2%

Phoenix: 5.7%

U.S.: 4.1%

Warehouse Employment

Tucson: 1%

Phoenix: 1.5%

U.S.: 0.9%



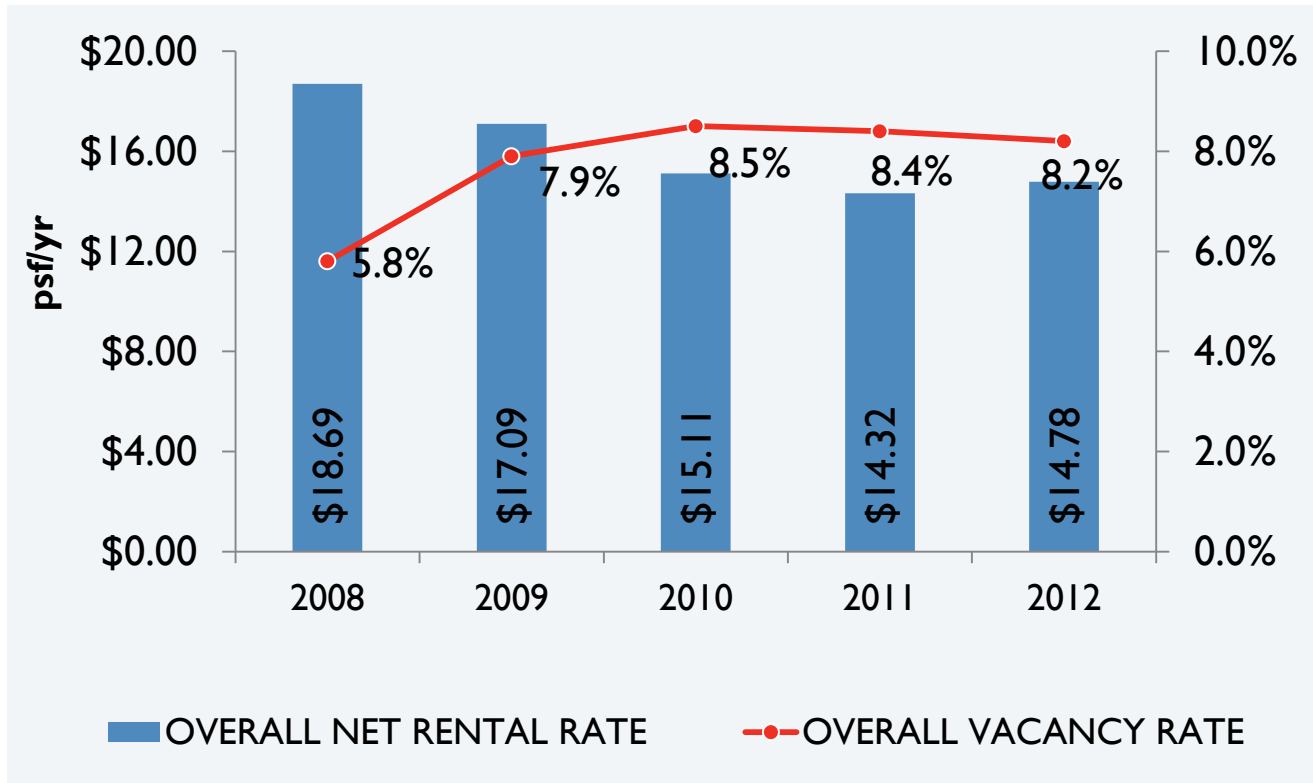
TUCSON RETAIL OVERVIEW

1. Giveaway sales didn't materialize for capital rich investors
2. Annual absorption of 138K
3. Leases about 50/50 landlord/tenant
4. Better projects recovering faster
5. Expansion by QSR, junior anchors, Discount grocers, used cars, fast food



TUCSON RETAIL OVERVIEW

FIVE YEAR RENT & VACANCY TREND

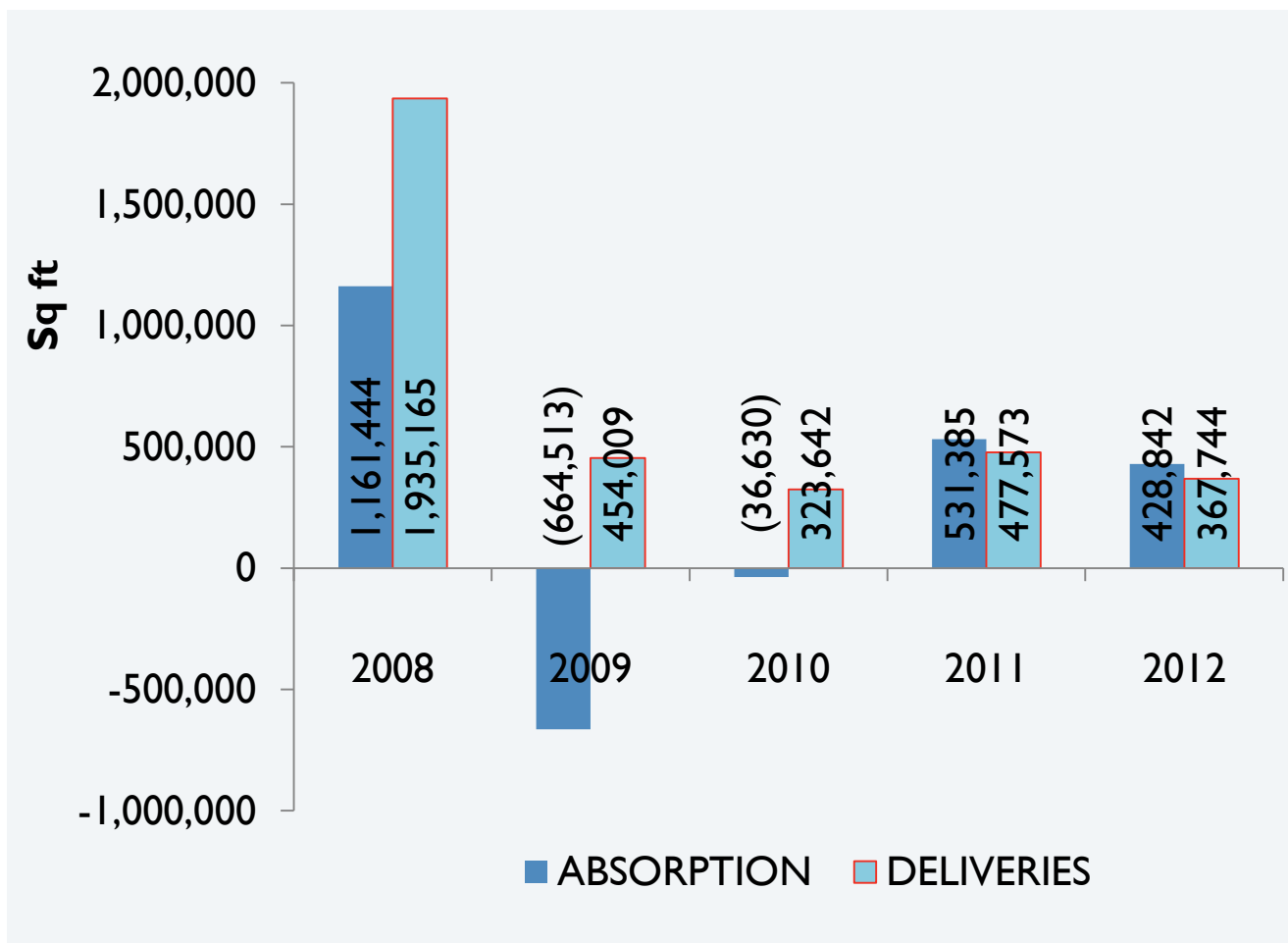


Occupancy and rents stable and improving

Source: CoStar Group

TUCSON RETAIL OVERVIEW

FIVE YEAR CONSTRUCTION HISTORY



More measured and balanced post-recession

Source: CoStar Group

TUCSON RETAIL OVERVIEW

The Year Ahead

The Year Ahead

- Retail sales growth to outpace U.S.
- Fewer store closings
- Downtown renaissance
- New construction user driven
- Trickle-down improvement in B & C
- Investment demand driven by low interest rates & improved fundamentals



Industrial



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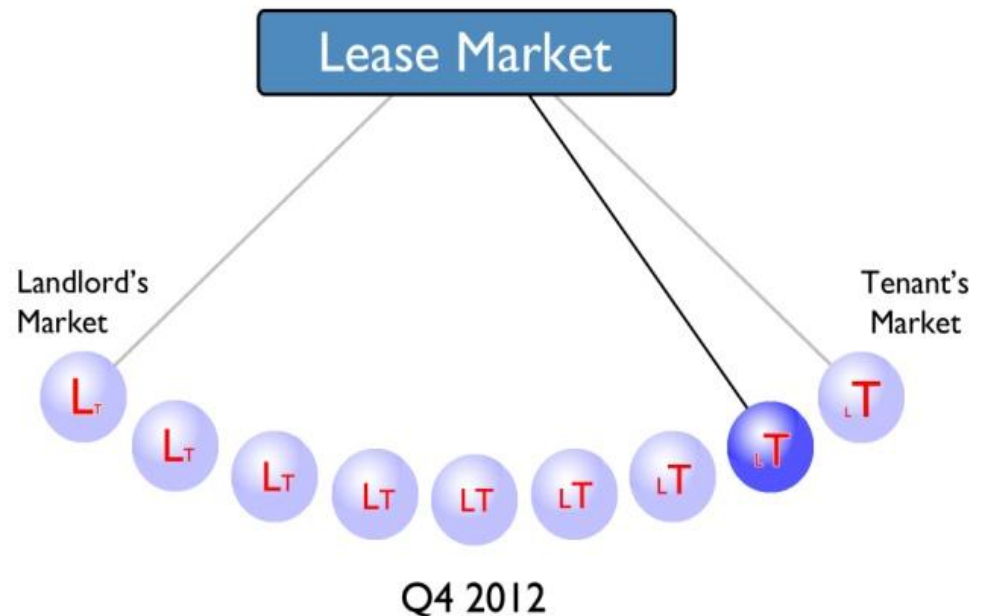
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TUCSON INDUSTRIAL OVERVIEW

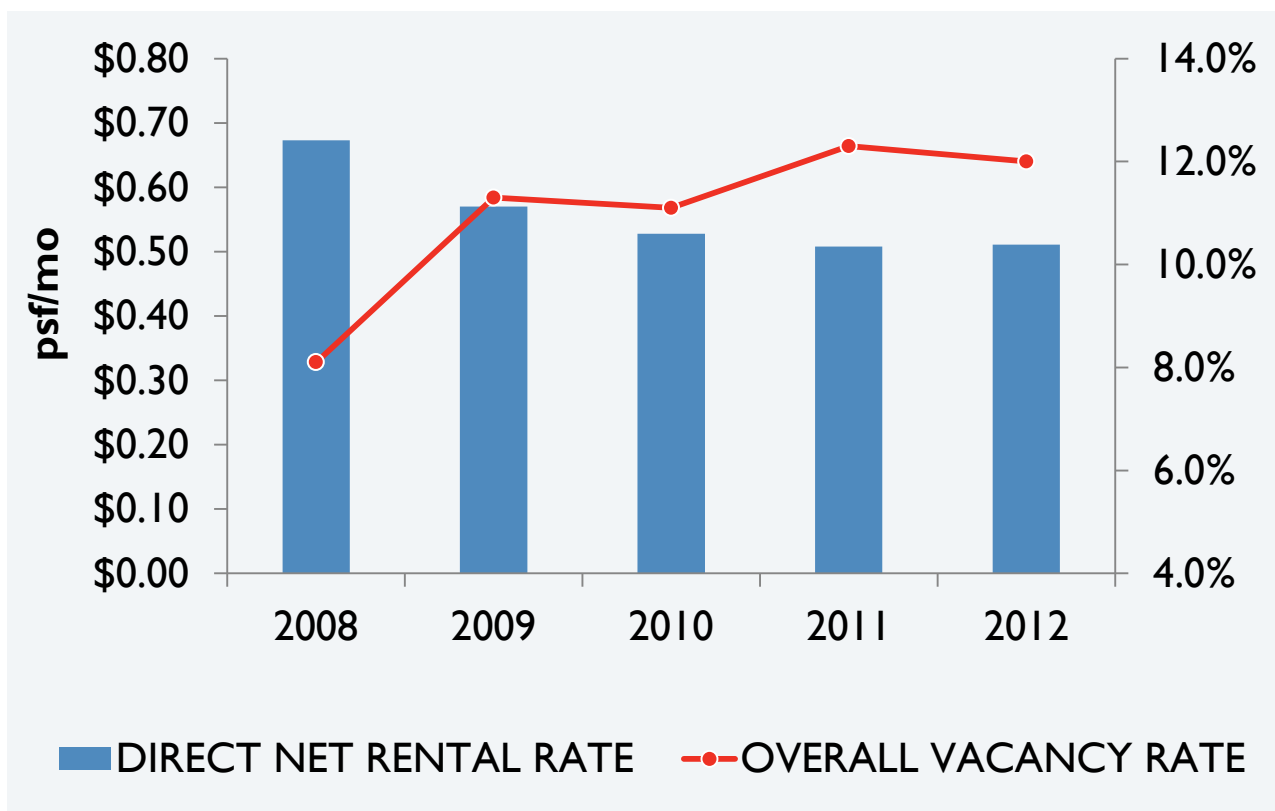
Lease Market

- Stabilizing, far from equilibrium
- 8% vacancy target for balance
- 2012 absorption 300K on heady Q4
- Effective rates have bottomed



TUCSON INDUSTRIAL OVERVIEW

FIVE YEAR RENT & VACANCY TREND

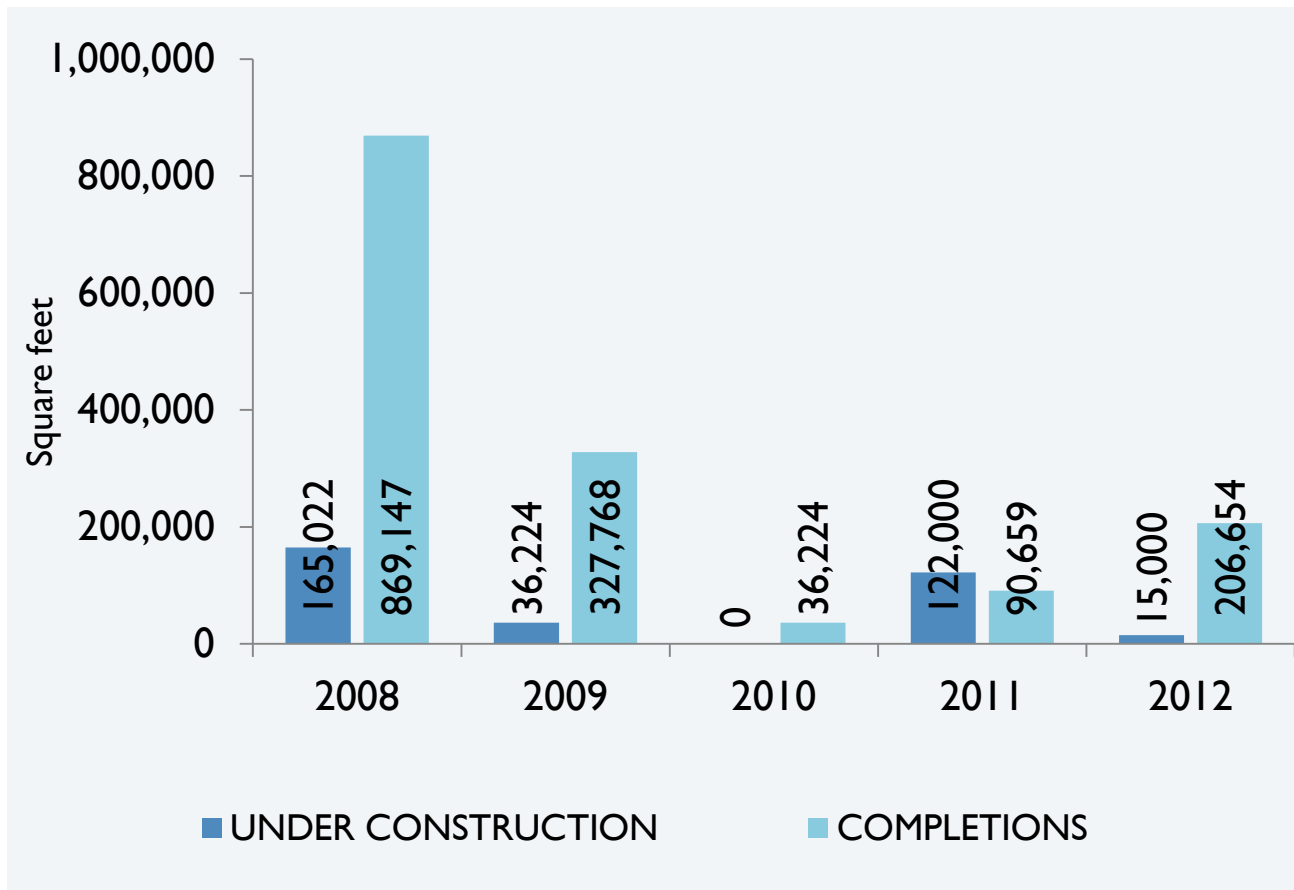


Rents continued to stabilize with slight downward pressure due to high vacancy rate and competition for tenants

Source: CoStar Group

TUCSON INDUSTRIAL OVERVIEW

FIVE YEAR CONSTRUCTION HISTORY



Majority of construction in two projects

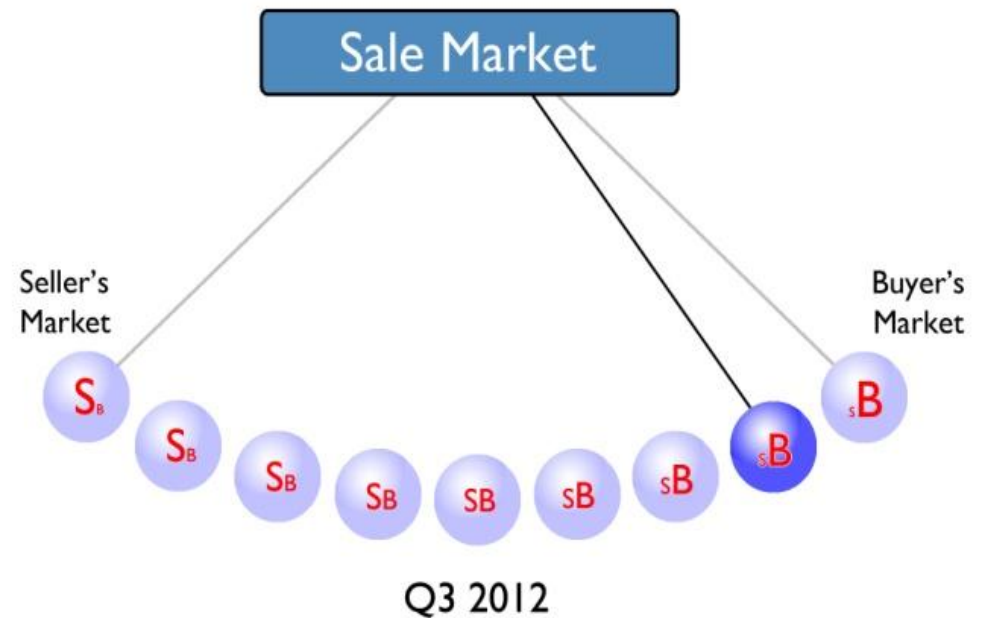
Expect minimal deliveries in 2013

Source: CoStar Group

TUCSON INDUSTRIAL OVERVIEW

Sale Market

- Values remain soft
- 2012 \$ volume up 59% over 2011; SF sold up 78%
- Improving on competitive rates
- REO & distressed inventory still active



TUCSON INDUSTRIAL OVERVIEW

2013 Forecast

1. Closing of facilities – minimal
2. Rent stabilization & pockets of rent growth
3. Continued competition for tenants
4. Selling prices remain under pressure
5. Indicators point to job growth; absorption of inventory



Border Region



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Overview

- Stable Mexican economy
- Growth of the middle class
- Increased competitiveness vs. Asia Pacific
- Educated & trained workforce

Forecast

- Mexican business & investors enter U.S.
- Global firms enter Mexico



Sonora Forecast

- Growth, driven by:
 - Infrastructure
 - Communication systems
 - Skilled workforce
 - Low labor costs
- Vacancies down
- Speculative buildings up
- Lease rates comparable to U.S.



The Year Ahead

- Gradual improvement in fundamentals
- Leading indicators bode well
 - Phoenix
 - Residential
- More renovations; user-driven deliveries
- TUSD site divestiture
- Streetcar line – bright spot
- Growth in cross-border commerce



Nowhere to go but....

Thank you!



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