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Phoenix Healthcare Elevated to Core Market

With strong leasing activity and rental rate growth this year, the Phoenix medical office market is poised to see an influx of investment capital in 2019.

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The Phoenix healthcare market is poised to see strong investment demand in 2019. Significant population growth in the metro has been the catalyst for significant medical office activity. Last year, medical office leasing activity was among the strongest in the nation with rental growth that far outpaced the national average. It's no surprise that the dynamic and strong fundamental has attracted investment capital.

"In 2019, the investment market will be strong for healthcare assets," **Julie A. Johnson**, principal and national co-leader of Healthcare Affinity Group at **Avison Young**, tells GlobeSt.com. "This sector has become a core real estate market and the Phoenix area bodes well for leasing as it continues to attract a growing population from both a jobs as well as retirement perspective as the cost of living is favorable, attracting a multi-generational demographic. As more medical office and hospital projects come online, we will see a temporary dip in multi-tenant medical office building occupancy as these new projects lease up. Capital continues to pursue build-to-suit and speculative projects but as construction costs are higher, lease rates will reflect that as well."

Among the fastest growing niches in the healthcare umbrella is urgent care centers. Johnson says that both nationally and in the local Phoenix market, urgent care centers will be the a major trend in 2019, largely because it is a lower cost alternative to emergency rooms. In addition, there will be a focus on outpatient and ambulatory care services. "As emphasis on these types of services continues to evolve, we will see a change in how the space in hospitals is used as well," she says. "For example, fewer inpatient beds will be required for the local population. Overall, the costs will go down for both hospitals and patients creating a better situation for everyone."

The demand for medical office has created a shortage of quality supply, and retail has become an ideal landing for medical office users. This year, the retailization, as Johnson calls is, will continue. "The CVS merger with Aetna was executed in late 2018 and we will experience a true transition of retail and healthcare in the drugstore setting," she explains. "There will be significant remodels in their approximately 10,000 CVS stores to add additional healthcare providers and their services. So by not building any more buildings, there will be a lot more healthcare services provided. There will be an impact on other providers that is yet to be seen as it will tap into local markets."

While some users are turning to retail locations, new construction activity is also rising in the Phoenix market. This year, 336,000 square feet of medical office space will be delivered in Phoenix. Estrella Medical Plaza II in Glendale totals 125,000 square feet and will deliver this year. The project is already 78% pre-leased.

The construction pipeline is growing. There are several major projects in the planning stages that will begin construction this year. "Khangura Development's announced plans for a $200 million mixed-use campus that will combine senior living, medical offices, a hotel, clinic and nursing school on a 20-acre site in Mesa," says Johnson. "Also, the Phoenix branch of the Mayo Clinic will expand its North Phoenix campus, adding upwards of 2,000 jobs. This expansion is estimated to cost $648 million with its first phase completing in fall 2020 and the final phase in mid-2023. The Chandler Regional Medical Center expansion is expected to open in 2020 and is valued at nearly $195 million. These are just a few examples of the growth and testimony to the strength of the industry in the region."

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