



Phoenix

Q2 2018 / Quarterly Healthcare Market Report

Market Facts

↓ **13.0%**
Class A Vacancy

↑ **13.5%**
Class B Vacancy

↓ **\$28.81**
Class A Average Asking Rate
Full Service

↓ **\$23.26**
Class B Average Asking Rate
Full Service

↑ **\$192.44**
Average Sale
Price/Square Foot

↓ **6.7%**
Medical Office
Average CAP Rate

Market Overview

In second quarter, the Phoenix medical office market grew to 26.3 million square feet (msf). The overall vacancy rate remained at 13.0%, 170 basis points lower than second quarter 2017. Combined average rental rates decreased to \$22.69 per square foot (psf), full service in the second quarter, down slightly from \$22.75 psf, full service in the first quarter of 2018. Absorption dropped in the second quarter of 2018, to 23,386 sf from 25,419 sf in the first quarter. However, market fundamentals remain strong as Phoenix's growing population and increasing demands for the aging population's medical services continues to bode well for the local medical office market.

Top Leases

Tenant	Building	Address	Submarket	Square Feet	Type
The CORE Institute	Grayhawk Medical Plaza	3591 S Mercy Road	Gateway Airport/ Loop 202	20,000	Direct
Advanced Nephrology & Hypertension	IASIS Hospital Campus	10238 E Hampton Avenue	Superstition Corridor	6,231	Direct
The CORE Institute	Edwards Professional Park II	8952 E Desert Cove Avenue	Central Scottsdale	6,024	Direct
Boojum OBGYN	Spectrum Medical Commons	3367 S Mercy Road	Gateway Airport/ Loop 202	4,891	Direct
Arizona Spine and Pain Specialists	Biltmore Medical Mall	2222 E Highland Avenue	Camelback Corridor	4,811	Direct

Top Sales

Buyer	Building	Address	Submarket	Square Feet	Sale Price	Price/ SF
Cypress West Realty Partners	Estrella Healthcare Campus	8921 W Thomas Road	Glendale	39,690	\$13,450,000	\$339
MBRE Healthcare	Westgae Corporate Center	6622 N 91st Avenue	Glendale	38,954	\$12,595,607	\$323
Centum Health Properties	Edwards Medical Plaza	1300 N 12th Street	Central Phoenix	143,185	\$12,500,000	\$87
Griffin-American Healthcare REIT IV	The Surprise Medical Plaza at the City	13995 W Statler Boulevard	Loop 303/ Surprise	34,030	\$11,650,000	\$342
Inland Real Estate Group of Companies	Lake Pleasant Professional Plaza	10230 W Happy Valley Road	Arrowhead	24,363	\$9,750,000	\$400



Market Snapshot

According to the Arizona Office of Economic Opportunity's Medium Series, between 2015 and 2020 the total population of Maricopa County is projected to grow 1.9% annually, and the number of individuals over 65 will increase 4.4%. In the Phoenix Metropolitan Statistical Area (MSA) there were 263,400 healthcare employees in May 2018, a 2.7% annual increase, contributing to the annual 2.3% statewide sector growth.

Several factors contributed to the region's continued popularity for retirees, prime consumers of healthcare services: year-round dry and hot weather ensure continual outdoor recreation, and the appeal to those relocating from cold and wet winters in the Midwest and Northeast. Housing costs remained low compared to other major MSA's, although the housing costs have increased by 5.1% in the past year, according to the Consumer Price Index. As unemployment continues to fall in the Phoenix MSA and the economy improves, young families with children are also relocating, further pushing demand for healthcare services.

Due to favorable demographic trends and public funding for services, healthcare real estate and development is increasingly viewed as a safe investment by fiduciaries and private equity groups. Stable rental and vacancy trends also provide investor confidence. In the second quarter of 2018, 89% of the purchase volume was by

REIT's or other institutional groups, and 11% by private investors/users. Cypress West Realty Partners was the most active purchaser by dollar volume, acquiring Estrella Healthcare Campus for \$13.45 million, or approximately \$339 psf. Although first quarter 2018 median cap rates increased to 7.1% rates slightly declined to 6.7% in the second quarter.

Piestewa Peak Corridor was the most active submarket in the second quarter of 2018, recording over 25,000 sf positive absorption, without which the market's net absorption would have been -1,647 sf. The Scottsdale Airport Submarket had the highest combined average asking rent for the second quarter in a row, at \$29.00 psf, full service, while Downtown Mesa had the lowest combined average rent at \$13.86, full service. Occupancy for the Airport and Southwest Phoenix Submarkets were at 100%. Vacancy rates for the Midtown Submarket's was lowest at 5.0%, and Northwest Phoenix had the highest at 28.7%.

Over 285,000 sf is currently under construction in the region, with 79% preleased. Deliveries slowed in second quarter 2018, but 236,148 sf are expected to be completed in 2018. There are three projects under construction with over 15,000 sf: the four-story expansion of Banner Estrella Hospital Campus at 9305 W. Thomas Road in Phoenix, which will add 64,000 sf of medical office space to the market in late-2018; Credit Union West Corporate Center at 10150 W. Desert River Boulevard, delivering 80,000 sf

to the market in early 2019; and OrthoArizona, at 15215 E. Melrose Street in Gilbert, scheduled for completion in December 2019 with 49,600 sf.

The number of sales increased 92.5% in the second quarter 2018 from first quarter 2018, and dollar volume increased from \$32.0 million to \$159.4 million. It appears that the most desirable value-add medical office deals have already been sold, increasing the sales prices for the remaining properties. The median price psf increased 24.0% from first quarter 2018, and average cap rates declined to 6.7%.

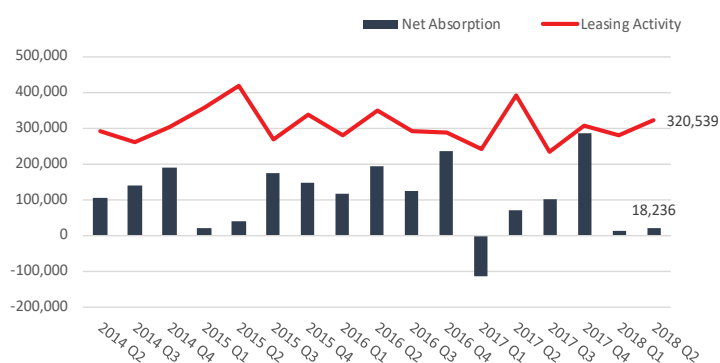
Other large sales in the second quarter included: 9097 E. Desert Cove Drive, sold for \$8.6 million (\$273 psf); 9520 W. Palm Lane, purchased for \$6.4 million (\$128 psf), 20325 N

51st Avenue, which was purchased for \$4.6 million (\$375 psf); and 18301 N 79th Avenue, that sold for \$3.5 million (\$229/psf). After a very slow first quarter, sales volume increased dramatically in the second quarter, and should continue its upward climb throughout 2018.

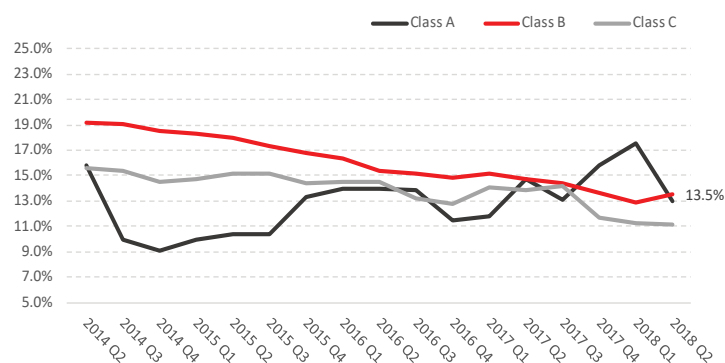


9097 E. Desert Cove Drive

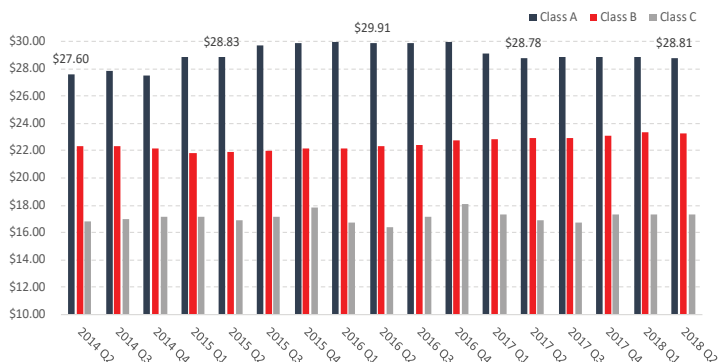
Historical Net Absorption & Leasing Activity



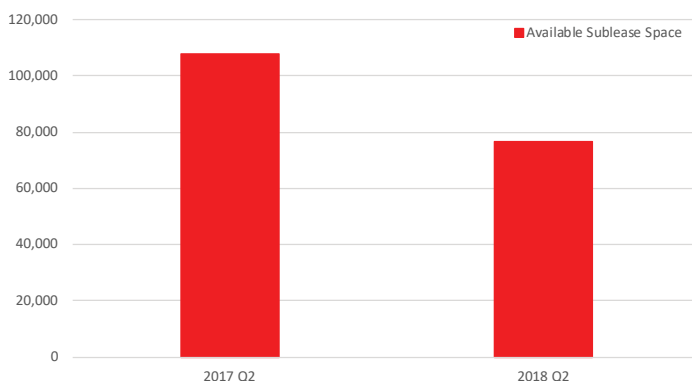
Historical Vacancy



Historical Asking Rental Rate (FSG)



Total Available Sublease Space in the Market



Market By The Numbers

Submarket	Total RBA (SF)	Vacant Space		Class A	Vacancy Rate		Net Absorption (SF)	Avg. Ask Total (FS)
		Direct	Sublease		Class B	Class C		
44th St	167,202	57,704	0	-	43.9%	7.0%	0	\$23.05
Airport Area	193,279	0	0	-	0.0%	0.0%	0	\$28.86
Arrowhead	2,376,805	306,631	4,706	34.9%	10.0%	23.2%	16,639	\$25.73
Camelback Corridor	492,774	49,788	17,015	7.2%	19.5%	10.0%	-6,585	\$25.78
Central Phoenix	1,328,271	230,889	0	-	19.8%	11.3%	-12,297	\$21.80
Central Scottsdale	1,388,211	184,432	0	13.3%	13.7%	4.5%	15,873	\$24.50
Chandler	1,661,071	150,676	13,436	-	0.9%	6.8%	-2,580	\$23.20
Deer Valley/Airport	1,363,467	166,000	0	10.0%	13.2%	6.6%	20,154	\$25.72
Downtown	654,757	38,111	0	0.0%	7.0%	10.0%	0	\$24.33
Downtown Mesa	126,588	2,000	0	-	0.0%	2.0%	9,066	\$13.86
East Mesa	1,178,237	117,767	0	-	12.4%	5.5%	555	\$18.58
Gateway/Airport/Loop 302	1,343,219	134,845	4,077	10.5%	10.4%	0.0%	-998	\$26.28
Glendale	999,933	69,359	20,605	10.5%	7.4%	12.3%	21,640	\$26.23
Loop 303/Surprise	1,175,944	195,361	0	-	17.4%	4.6%	-11,972	\$24.53
Midtown	1,301,378	60,563	4,856	-	4.2%	7.8%	-3,800	\$20.25
North Interstate-17	183,463	35,494	0	-	19.3%	-	0	\$23.32
North Phoenix	61,149	4,026	0	-	6.6%	-	4,410	\$19.82
North Scottsdale	336,795	32,358	0	-	8.5%	15.9%	-370	\$21.53
NW Phoenix	1,600,015	453,254	5,413	-	33.7%	19.6%	-42,259	\$26.88
Paradise Valley	1,227,526	167,152	0	17.8%	14.3%	3.3%	1,511	\$23.59
Piestewa Peak Corridor	300,558	71,338	1,084	29.7%	28.6%	6.0%	25,033	\$24.57
Pinal County	686,167	83,631	0	-	14.4%	1.9%	-9,683	\$20.73
Scottsdale Airport	762,372	52,425	0	11.4%	6.1%	6.9%	-1,025	\$29.00
South Scottsdale	846,140	136,599	0	-	20.1%	12.1%	2,439	\$23.89
South Tempe	526,671	98,143	3,310	-	20.4%	0.0%	194	\$21.31
Southwest Phoenix	184,577	0	0	-	0.0%	0.0%	0	\$15.84
Superstition Corridor	1,813,010	193,805	0	0.0%	10.4%	18.1%	-6,456	\$20.88
Tempe	955,915	204,833	0	12.5%	29.6%	12.2%	7,338	\$21.95
West I-10	1,102,727	59,081	5,717	-	5.7%	39.4%	-3,441	\$25.38
Total	26,338,221	3,356,265	80,219	13.0%	13.5%	11.2%	23,386	\$22.69



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