

# Phoenix

## Medical Market Report First Quarter 2019

### Quick Stats

**\$24.20**

Full service average asking rental rate per square foot for first quarter 2019.

**12.2%**

Vacancy rate in the first quarter, up 20 bps from fourth quarter 2018.

**118 K**

Square foot absorption for first quarter 2019.

**443 K**

Square foot of medical office space under construction.

**\$107.3 M**

Total investment sales for first quarter 2019.

## Medical Office Building Market Eyes Healthy Year

Momentum is a healthy word choice when it comes to describing the Valley's medical office building market. After a brisk 2018 in which population and employment growth – including 4,000 new jobs in the medical field – drove medical real estate demand for medical office space and outpatient care centers will again be high in 2019. Growth in medical-related fields is up more than 50 percent from gains posted during the same period in 2017. The forecast for the Valley's medical office market also remains positive. Medical office space vacancy fell to 12 percent at the end of 2018, the lowest level in 10 years.

### Rental Rates

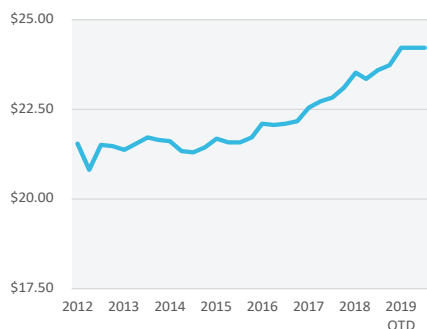
The average asking rental rate for the first quarter of 2019 was \$24.20 per square foot

(psf) full service. The rate represents an increase of 6.6% from the first quarter 2018 of \$22.70 psf and 3% from fourth quarter 2018 of \$23.50 psf. The Scottsdale Airpark led the way with a full service average asking rate of \$44.74 psf. It was followed by the Camelback Corridor with an average of \$30.62 psf, a 31.2% increase over first quarter 2018.

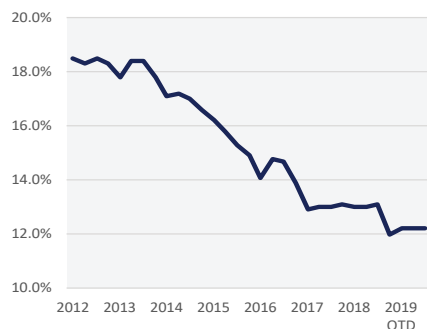
### Vacancy

Medical office building vacancy for the quarter was 12.2%. This represented a slight increase from fourth quarter 2018 (12.0%) but lower than first quarter 2018 (13.0%). Vacant direct space for the quarter was 3.162 msf, while there was an additional 113,495 sf of sublease space available.

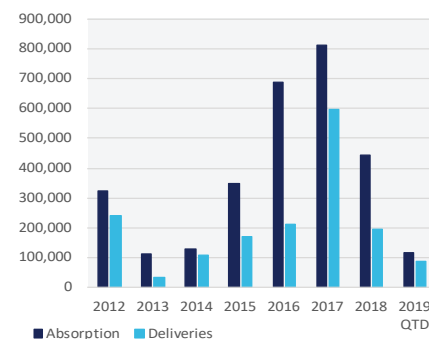
## Rental Rates



## Vacancy Rates



## Absorption & Deliveries



## Top Leases

Tenant	Name	Submarket	Square Feet	Type
Banner Medical Group	9165 W. Thunderbird Rd	Arrowhead	26,116	Direct
-	5222 E. Baseline Rd	Superstition	15,559	Direct
-	10484 W. Thunderbird Blvd	Arrowhead	13,711	Direct
-	5222 E. Baseline Rd	Superstition	9,356	Direct
Oliver Street Dermatology	10900 N. Scottsdale Rd	Central Scottsdale	8,234	Direct

## Top Sales

Buyer	Name	Submarket	Square Feet	Sale Price	Price/SF
Anchor Health Properties	La Ronde Center	Arrowhead	106,503	\$25,250,000	\$237
HSRE-MPCCA Phoenix MOB, LLC	Grunow Memorial Medical Center	Midtown/Central Phoenix	51,465	\$12,350,000	\$240
GMR Chandler Dobson, LLC	2095 W. Pecos Portfolio	Chandler	18,723	\$7,698,691	\$411
Edgewood REIT	Commons at Pierpont	Superstition	19,455	\$5,800,000	\$298
Anderson Capital Partners	Deer Valley Dental Village	Arrowhead	17,030	\$5,625,000	\$330

## Top Projects Under Construction

Property	Submarket	Completion	Total SF	% Preleased/Owned
Wexford	Downtown	4Q20	200,000	-
Maricopa Integrated Health System	Glendale	2Q20	127,000	-
Mercy Gilbert II	Gateway Airport/Loop 202	3Q19	80,000	72.5%
AKOS Medical Campus	Glendale	3Q19	68,000	41.2%
Mercy Medical Commons	Gateway Airport/Loop 202	3Q19	56,000	39.3%

## Trends to Watch

The Phoenix Market will see continued growth in population while vacancy should remain at historic lows.



**#1 in Population Growth**  
Phoenix-Mesa-Scottsdale metro gained 96,268 people in the last 12-month period, with an average gain of 263 per day.



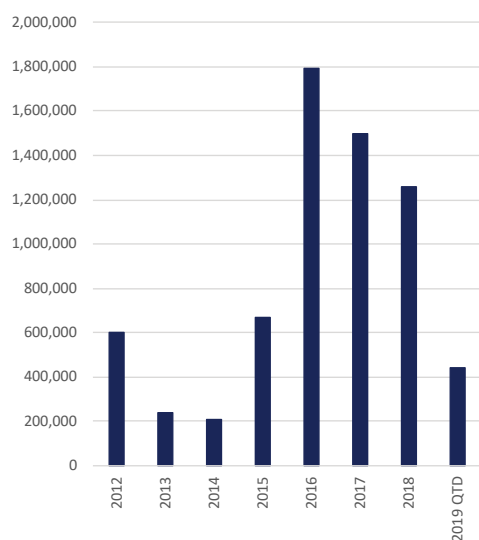
**12.2%**  
Vacancy is near a historical low with minimal new spec development apart from projects underway in Gilbert and Queen Creek.



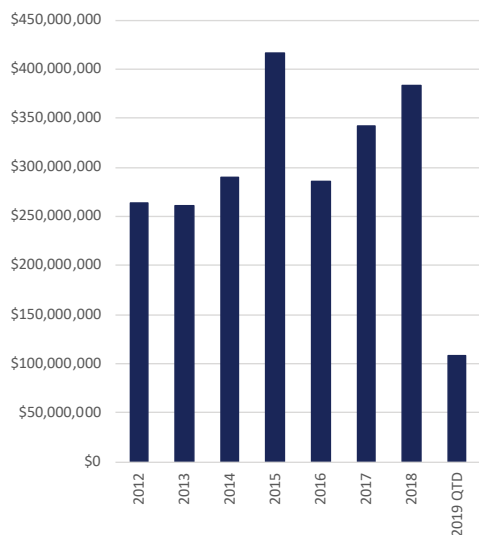
**Build-to-Suit**  
The Phoenix Market is seeing and increase in build-to-suit projects for large and specialty users.

## Employment increases in the medical field drove demand for medical office space and outpatient care centers.

### Under Construction



### Investment Sales



### Leasing

First quarter absorption was 118,057 sf with delivery of new medical office properties of 86,856 sf. Net absorption was strongest in the Chandler Submarket with 41,532 sf and West I-10 Submarket with 40,005 sf.



#### Plaza Town Center

Banner Medical Group took the most space in the first quarter: 26,116 sf at Plaza Town Center, located at 9165 W. Thunderbird Road, in Sun City; and 13,711 sf at Banner Sun City – Lakes Club, located at 10484 W. Thunderbird Blvd., also in Sun City. Of the top 5 leases, two occurred in the Superstition Corridor Submarket at 5222 E. Baseline in Gilbert for 15,559 and 9,356 sf.

### Construction

The Metro Phoenix medical office building market has projects totaling 442,736 sf under construction. The Glendale Submarket leads the way for projects set to deliver in the second and third quarters of 2020. Maricopa Integrated Health System broke ground in January on a 127,000-sf medical facility at Grand Avenue and Cotton Crossing in Peoria. The first 68,000 sf medical building at AKOS Medical Campus in Avondale is planned for third quarter 2019 completion and will feature a multispecialty surgery center. It will also include urgent care, outpatient imaging, and physical therapy services. The Downtown Submarket boasts the largest project under construction, Wexford Science

and Technology. Arizona State University, Ventas Inc., and the City of Phoenix broke ground in January on the new Phoenix Biomedical campus expansion near the SWC of Garfield and Fifth Streets. The \$77 million project totals 200,000 sf with planned delivery in fourth quarter 2020. In the Gateway Airport/Loop 202 Submarket, spec projects Mercy Gilbert II MOB, with 80,000 sf, and Mercy Medical Commons MOB, with 56,000 sf, will deliver in the third quarter.

### Investment Sales

Investment sales totaled a robust \$107.3 million in the first quarter, with 217 transactions. Anchor Health Properties purchased La Ronde Center in the Arrowhead Submarket for \$25.25 million (\$237 psf). Located at 14620 North Del Webb Blvd., in Sun City, the single-story building totaling 106,503 SF was built 1972 as a retail center and was completely renovated in 2015 and 2016 into an integrated health and wellness campus.



#### La Ronde Center

HSRE-MPCCA Phoenix MOB, LLC acquired Grunow Memorial Medical Center in Midtown Phoenix for \$12.35 million (\$240 psf). The property is 90 percent leased to 12 tenants, including DaVita Dialysis. GMR Chandler Dobson, LLC purchased 2095 W. Pecos Portfolio in Chandler for \$7.7 million (\$298 psf). The top 5 sales in first quarter totaled nearly \$57 million with a \$266 psf average.

## Market By The Numbers

Submarket	Total RBA (SF)	Vacant Space Direct	Vacant Space Sublease	Class A Vacancy Rate	Class B Vacancy Rate	Class C Vacancy Rate	Available Space Direct	Available Space Sublease	Net Absorption (SF)	Avg. Ask Total (FS)
44th St Corridor	224,840	16,576	0	0.8%	16.0%	7.0%	34,238	5,080	1,020	\$22.02
Airport Area	186,092	1,220	11,200	0.0%	8.5%	2.2%	12,420	11,200	3,800	\$21.90
Arrowhead	2,413,838	330,446	6,096	34.9%	13.0%	18.3%	396,182	9,611	-536	\$25.20
Camelback Corridor	475,562	17,262	9,928	3.7%	5.6%	9.3%	41,987	12,502	-4,881	\$30.62
Central Scottsdale	1,385,653	170,298	0	6.6%	13.8%	0.0%	193,444	57,628	-5,403	\$25.27
Chandler	1,688,138	108,494	8,663	-	6.8%	9.8%	174,490	9,814	41,532	\$24.74
Deer Valley/Airport	1,403,074	168,793	4,574	11.8%	13.1%	6.8%	204,648	5,992	-3,643	\$26.07
Downtown	654,757	32,653	0	0.0%	9.8%	0.0%	32,653	0	14,768	\$24.42
Gateway/Airport/Loop 302	1,355,344	125,785	0	2.5%	10.1%	0.0%	201,302	15,970	-12,561	\$27.78
Glendale	1,089,276	133,311	27,730	12.2%	16.3%	5.2%	193,466	27,730	26,110	\$26.70
Loop 303/Surprise	1,153,161	146,787	5,357	0.0%	14.1%	0.0%	165,802	5,357	12,103	\$26.56
Mesa Downtown	122,635	14,897	0	-	0.0%	15.7%	23,705	0	-12,897	\$18.18
Mesa East	1,207,520	154,934	0	-	11.2%	16.0%	166,181	0	-2,033	\$18.50
Midtown	1,211,640	47,227	0	-	5.2%	2.5%	77,884	0	8,471	\$19.52
Midtown/Central Phoenix	1,347,599	219,213	0	-	21.2%	3.1%	237,806	0	-19,789	\$18.44
North Phoenix/Cave Creek	61,149	0	3,000	-	4.9%	-	1,768	3,000	-600	\$22.00
North Scottsdale/Carefree	373,068	44,986	0	-	12.0%	13.9%	56,965	0	7,875	\$21.98
North I-17	200,929	23,245	0	-	11.6%	-	45,434	0	12,825	\$24.61
Northwest Outlying	35,877	-	-	-	-	-	0	-	2,279	\$19.44
NW Phoenix	1,669,558	370,618	19,695	-	31.7%	12.7%	474,323	21,848	-345	\$18.46
Paradise Valley	1,274,780	201,514	2,172	28.8%	14.7%	7.9%	234,781	3,916	-15,638	\$17.71
Piestewa Peak Corridor	300,458	82,462	6,813	30.9%	35.8%	17.2%	89,539	6,813	0	\$28.00
Pinal County	684,906	83,781	0	-	14.5%	1.9%	87,566	0	-10,161	\$13.69
Scottsdale Airpark	802,046	45,981	0	7.0%	5.5%	-	103,476	29,074	7,682	\$44.74
Scottsdale South	868,893	115,163	0	-	15.1%	11.4%	120,914	2,000	-20,753	\$21.48
South Tempe/Ahwatukee	520,036	76,367	5,060	-	16.4%	2.8%	87,512	5,060	4,035	\$19.97
Southwest Outlying	23,406	2,450	0	-	33	0	2,450	0	6,435	\$27.42
Southwest Phoenix	184,577	0	0	-	0.0%	0.0%	15,448	0	20,186	\$26.87
Superstition Corridor	1,716,065	181,367	1,550	0.0%	10.6%	11.5%	254,260	5,929	8,811	\$15.90
Tempe	989,459	182,585	0	-	21.7%	12.1%	208,724	1,552	9,360	\$24.92
West I-10	1,255,149	63,758	1,657	-	5.1%	39.4%	77,057	1,657	40,005	\$28.42
<b>Total</b>	<b>26,879,485</b>	<b>3,162,173</b>	<b>113,495</b>	<b>12.0%</b>	<b>12.4%</b>	<b>9.7%</b>	<b>4,016,425</b>	<b>241,733</b>	<b>118,057</b>	<b>\$24.20</b>

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