



# HEALTHCARE REAL ESTATE MARKET NEWSLETTER

## Semiannual Healthcare Real Estate Market Overview

### Healthcare Real Estate Market Overview

#### **AMID UNCERTAINTY, IS MEDICAL REAL ESTATE A SURE INVESTMENT?**

Word on the street is that medical real estate remains a hot investment class despite uncertainty over healthcare reform issues. OK, it's not a secret as local and national trends show.

At the Metro Phoenix office of Avison Young we are focusing a lot of our business on investment sales and also sale/leasebacks. There is increasing medical occupancy based on build-to-suits of hospitals, other larger practice groups, and smaller independent practices as physician employment continues in the Valley.

Scottsdale-based REIT Healthcare Trust of America was active this year with an 11-property portfolio acquisition, of which four of the assets were in Arizona and the remaining in California. The portfolio was sold by Heitman for \$150 million.

One of the most visible new construction projects in the Valley is the 16-story, 700,000 SF, \$420-million Banner- University Medical Center Tower in Phoenix on E. McDowell Road.

The healthcare real estate boom is also attracting new developers. Scottsdale-based SimonCRE purchased 2.4 acres in Florence, Pinal County to develop a new 10,000 SF freestanding clinic, Sun Life Family Health Center.

A national report shows that investment in medical real estate is at an all-time high. The total investment amount in 2016 was a little below the record of \$11.6 billion that was set in 2015. Private investors accounted for a majority (\$3.688 billion) of those snatching up medical real estate. REITs followed with \$3 billion; and hospital systems accounted for \$1.7 billion in total investments.

In first quarter 2017, Capital One arranged a half a billion dollar loan to finance Starwood's 12-state, 34-property medical office portfolio, including one property in Tempe, Arizona.

Demographics are one of the drivers of increased demand for healthcare services. An aging U.S. population is generating brisk employment growth and occupier demand for healthcare real estate. Americans 65 and older represented 14.9% of the population in 2015, according to U.S. Census figures. They will account for 19% of the population by 2025 – with more than 65 million strong. It makes sense then that the two fastest-growing occupations from 2014-2024 will be in the healthcare fields, creating 2.3 million new jobs.

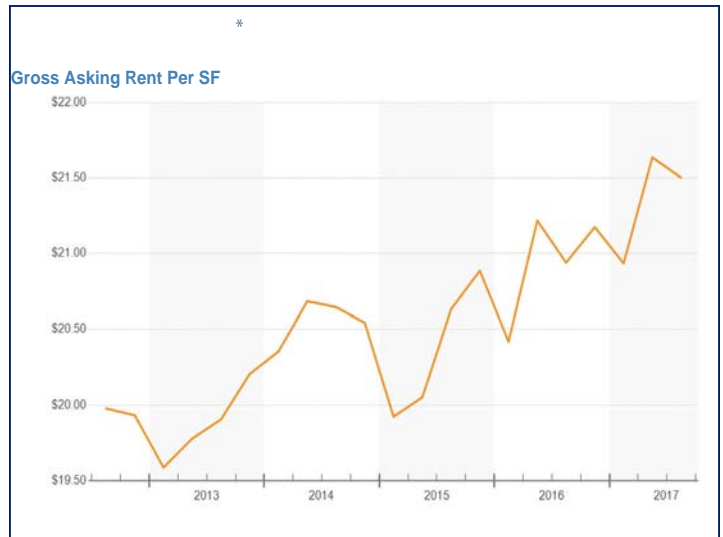
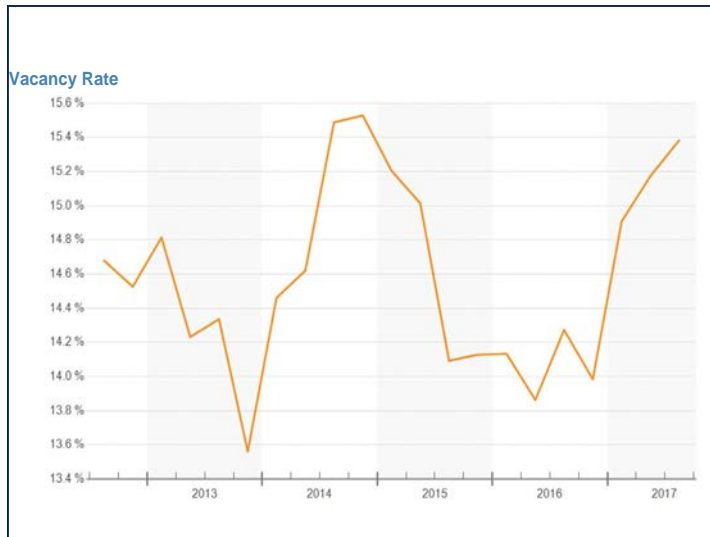
The growth in healthcare employment – 95% since 1990 – is resulting in increased absorption of medical office building space. At the same time, investor demand for these properties is expected to remain high.

In the West, medical real estate tenants are renewing, expanding, and creating new business models as the healthcare debate continues. In a GlobeSt.com interview, Casey Immel of Cypress West Partners based in Orange County, California says, "Uncertainty in the healthcare market is creating strong activity in several Western cities, including Scottsdale. Some of the challenges to healthcare leasing in higher-demand areas are increasing rents and the lack of good, quality space. Rents continue to increase, which presents a challenge to physician facing reimbursement cuts with the high costs of delivering medicine today. With the best markets having low inventory, space is limited and new development is minimal, giving landlords a stronger negotiating position."

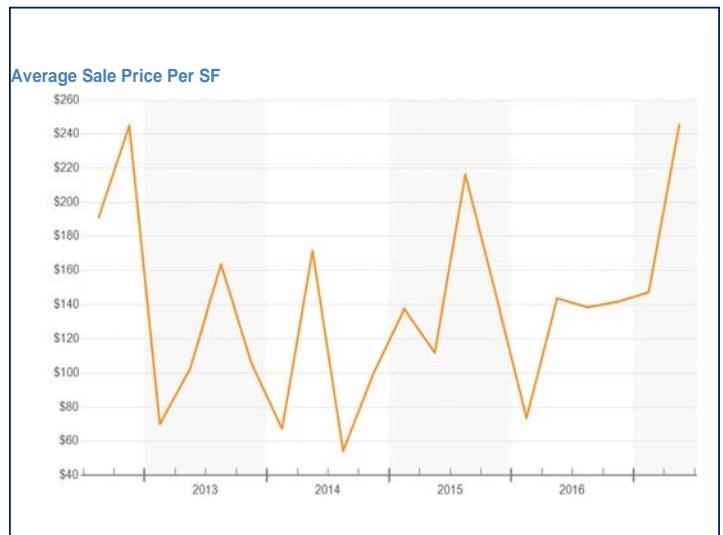
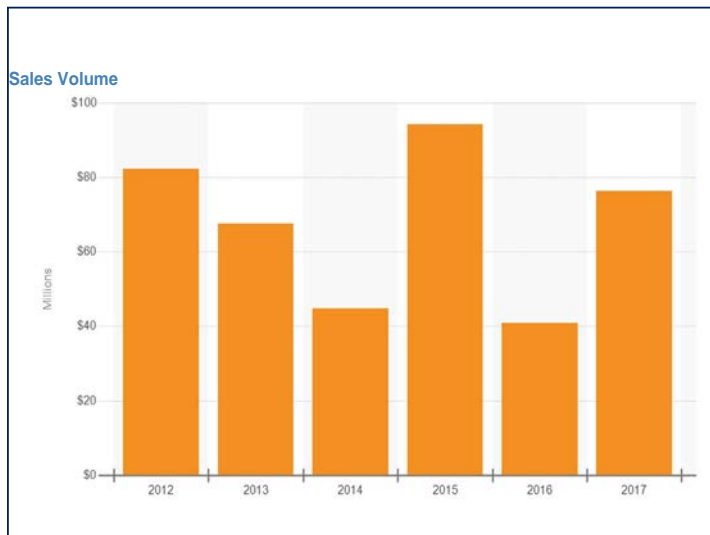
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### Vacancy and Rental Rates



### Sales Volume and Average Per Square Foot



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### Medical Office Sales

#### PORTFOLIO SALE

**Seller:** Heitman

**Buyer:** Healthcare Trust of America

**Properties:** 11-Building Portfolio in Arizona and California (the following four assets are located in Arizona)

**Sale Value:** \$150 million

**Transaction Closed** May 9, 2017



#### **McAuley Building** 500 W. Thomas Road, Phoenix, AZ 85013

The McAuley Building, located on Dignity St. Joseph's campus, sold for \$54 million (\$320.84 per square foot). The multi-tenant 168,307 medical office building is on a ground lease with the hospital and was 86% occupied at the time of sale.



#### **Chandler Medical Building** 485 S. Dobson Road, Chandler, AZ 85224

This 45,280-square foot two-story medical office building sold for \$12.4 million (\$273.85 per square foot), is located on 2.97 acres and was 100% occupied at the time of sale.



#### **Gilbert Health Center** 1501 N. Gilbert Road, Gilbert, AZ 85234

This 34,499-square foot medical office building for \$6.64 million (\$168.11 per square foot) and was 90.8% occupied at the time of sale. Tenants in the building include Dignity Health Urgent Care and Southwest Valley Urology.



#### **Ahwatukee Foothills Health Center** 4545 E. Chandler Boulevard, Phoenix, AZ 85048

Sold for \$5.1 million (\$110.30 per square foot) the building occupancy at the time of sale was 59%.

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**Anthem Medical Plaza**  
3618-3654 W. Anthem Way, Anthem, AZ 85096

West Coast Capital Partners sold Anthem Medical Plaza, a four-building medical complex totaling ±49,874 square feet, for \$10.6 million (\$212.65 per square foot) to Centum Health Properties out of Centennial, CO. At the time of the sale the property was 91% occupied.



**Thunderbird Square**  
13640 N. 99th Avenue, Sun City, AZ 85351

Montecito Medical Real Estate purchased this 35,420-square foot medical office building for \$9.25 million (\$261.16 per square foot) at a 6.85% cap rate from Whiteboard, Inc. The 100% occupied building was built as a retail center in 1974 and renovated in 2012, and is now fully leased to medical practices.



**Surprise Medical Plaza at The City**  
13995 W. Statler, Boulevard, Surprise, AZ 85374

Surprise Medical Plaza was acquired by Boca Raton Florida-based Banyan Medical Partners for \$8.7 million (\$255.52 per square foot) at a 7.06% cap rate. The property was 76.4% leased at the time of the sale. RK-WEM, LLC, the seller had acquired the property in 2011. Banner Health is the anchor tenant with over 20,000 square feet under lease.



**2620 N. 3rd Street**  
Phoenix, AZ 85004

100% occupied at the time of sale, US Egg All American Cookery bought the 18,425-square foot medical office in January 2017 for \$5.35 million (\$290.37 per square foot) the seller was Signal Healthcare, LLC (Howard Simon, MD) and the majority of the building is occupied by SimonMed.



**5th Avenue Professional & Medical Building**  
3411 N. 5th Avenue, Phoenix, AZ 85013

Sold on June 23, 2017, 5th Avenue Professional & Medical Building sold for \$4.2 million (\$107.89 per square foot). Built in 1968, the 38,929-square foot multi-tenant medical office building was sold by Charles M. Estes, PC. to Dansons, Inc., both are local Arizona companies.

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**Westgate Corporate Center**  
6622 N. 91st Avenue, Glendale, AZ 85305

Arizona Kidney Disease and Hypertension Centers (AKDHC) bought this 38,333-square foot two-story office building for \$4 million (\$104.35 per square foot) from Pacifica Real Estate Group. Built in 2009, the property sits on 2.76 acres.



**2255 N. Scottsdale Road**  
Scottsdale, AZ 85257

This 9,760-square foot, Class C, medical office building sold on March 10, 2017 for \$3.92 million (\$401.64 per square foot). Marvin Borsand of Scottsdale, AZ sold the property to Ethan Philpott out of Cave Creek, AZ. The property was 60.9% occupied at the time of the sale.



**Regency Office Park**  
1455 W. Chandler Boulevard, Building A, Chandler, AZ 85224

In a 1031 Exchange, Heritage Partners, LLC (Commercial Cashflow Advisors) bought the 12,912-square foot medical office building for \$3.3 million (\$255.58 per square foot) from EVFP, LLC (East Valley Family Physicians) on March 31, 2017. The Seller signed a 10-year lease in this property in a sale leaseback transaction.



**Palo Verde Cancer Center**  
7410 N. Zanjero Boulevard, Glendale, AZ 85305

Select Healthcare Solutions sold this 10,359-square foot single tenant, 100% occupied medical office building to Westgate Medical Holdings (XCD Realty & Property Management) on February 22, 2017 for \$3.215 million (\$310.36 per square foot) at a cap rate of 7.25%.



**Southern Business Center**  
777 W. Southern Avenue, Mesa, AZ 85210

Native Health acquired this 40,562 square foot multi-tenant office building from Saia Family Limited Partnership on May 1, 2017 for \$3 million (\$73.96 per square foot), with a \$2.4 million new debt with Wells Fargo Bank.

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**Scottsdale Medical Building**  
**3271 N. Civic Center Plaza, Scottsdale, AZ 85251**

Scottsdale Medical Building, located in the heart of Old Town Scottsdale and only 2 minutes from HonorHealth Scottsdale Osborn Medical Center, sold on May 19, 2017 for \$2.65 million (\$156.63 per square foot). The 16,619-square foot medical office building was sold by Hanson Capital Group, LLC to Bryan P. and Shelley O'Keefe in a 1031 exchange and was 39% leased at the time of sale.



**Camel 19 Office Park**  
**5060 N. 19th Avenue, Building 2, Phoenix, AZ 85015**

Dr. Alex Kim out of Chandler, Arizona bought this 52,688-square foot medical office building for \$2.1 million (\$39.86 per square foot) from 5060 North, LLC (Alan Robinson) on March 17, 2017. Vacant at the time of sale, Phoenician Medical will occupy 20,000 square feet, with the remainder being offer to medical and office tenants.

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### Medical Office Proposed/Under Construction



#### **Dignity Health & Arizona General Hospital Emergency Room** 1322 E. McKellips Road, Mesa, AZ 85203

Stapley & Doran Corporation, a Garrett Development entity, is developing a proposed 8,424 emergency room with Dignity Health on 2.16 acres of vacant land in Mesa, AZ. Garrett Development bought the property from Unison Bank on February 17, 2017.



#### **Spectrum Medical Commons** 3367 S. Mercy Road, Gilbert, AZ 85296

Irgens Partners bought 4 acres of vacant land across from Mercy Gilbert Medical Center from Serenity Seniors, LLC on January 20, 2017 for \$2,354,265 (\$13.51 per square foot). Construction is underway of a 44,730 SF two-story, multi-tenant medical office anchored by surgery center operator USPI.



#### **51 Campana** 5200 W. Bell Road, Glendale, AZ 85308

20.74 acres of vacant commercial land on the northwest corner of N. 51st Avenue and W. Bell Road, zoned BP (Business Park), was introduced to the City of Glendale on May 9, 2017 for a mixed use development with office, an emergency medical care facility, retail, and three drive-thru restaurants.



#### **Fiesta Mall** 1445-1455 W. Southern Avenue, Mesa, AZ 85202

Fiesta Mall in Mesa is slated for a \$30 million adaptive reuse and redevelopment after the property sold to Dimension Financial Realty for \$6.72 million (\$21.10 per square foot). The center was sold by online auction by 2005 CMBS, Special Servicer, and plans are for adaptive reuse of 1.2 million square feet of office, medical office and retail. Big box retailers, Macy's, Dillard's and Sears had vacated the property and the City of Mesa welcomes the sale and redevelopment plans.

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### Medical Office Openings



**East Valley Cancer Center**  
7695 S. Research Drive, Tempe, AZ 85284

US Oncology opened their new state-of-the-art ±21,000 square foot cancer center in Tempe on June 14, 2017, offering leading-edge cancer care to the growing East Valley region. The new center was developed and built by Ryan Companies US, Inc.



**Mountain Park Health Center**  
1840 E. Broadway Road, Tempe, AZ 85282

Mountain Park Health Center's newest clinic opened in May, 2017, moving from an 8,000-square foot space near Tempe St. Luke's Hospital to a 32,000-square foot space, allowing them to triple the number of patients. Offering Family Medicine, Pediatrics, and Women's Health, the property broke ground on September 14, 2016. Concord General Contracting Inc. estimated the total construction cost to be \$14 million.

For more information in Healthcare Real Estate please contact:



**Julie A. Johnson, CCIM, Principal**

As a Principal of Avison Young, Julie has been an expert in healthcare real estate in Arizona for about 27 years. She uses her strong analytic skills to assist clients with demographic and market studies, as well as investment and lease analysis. Her in-depth knowledge of healthcare properties, MOB's, Senior Housing, managed care, healthcare reform issues, and healthcare tenant improvements make her a valuable resource to her clients. Julie has been successful at Landlord and Tenant representation as well as investment sales throughout Arizona's healthcare real estate market. [View Julie's listings](#)

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**Alexandra Loye, Principal**

As a Principal of Avison Young, Alexandra provides real estate solutions for owners and occupants of medical office and office properties. Alexandra has advised her clients in various capacities including leasing and sales of medical and office buildings, tenant/buyer representation, and senior housing investment sales and site selection. Through market awareness, time-sensitive project management, prompt communication, and aggressive strategic negotiating tactics, Alexandra is able to provide her clients exemplary service while saving them time and money. [View Alexandra's listings](#).

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