



Phoenix

Q1 2018 / Quarterly Healthcare Market Report

Market Facts

↑ 17.5%
Class A Vacancy

↓ 12.9%
Class B Vacancy

↓ \$28.87
Class A Average Asking Rate

↑ \$23.32
Class B Average Asking Rate

↓ \$153.36
Average Sale Price/Square Foot

↑ 7.2%
Medical Office Average CAP Rate

Market Overview

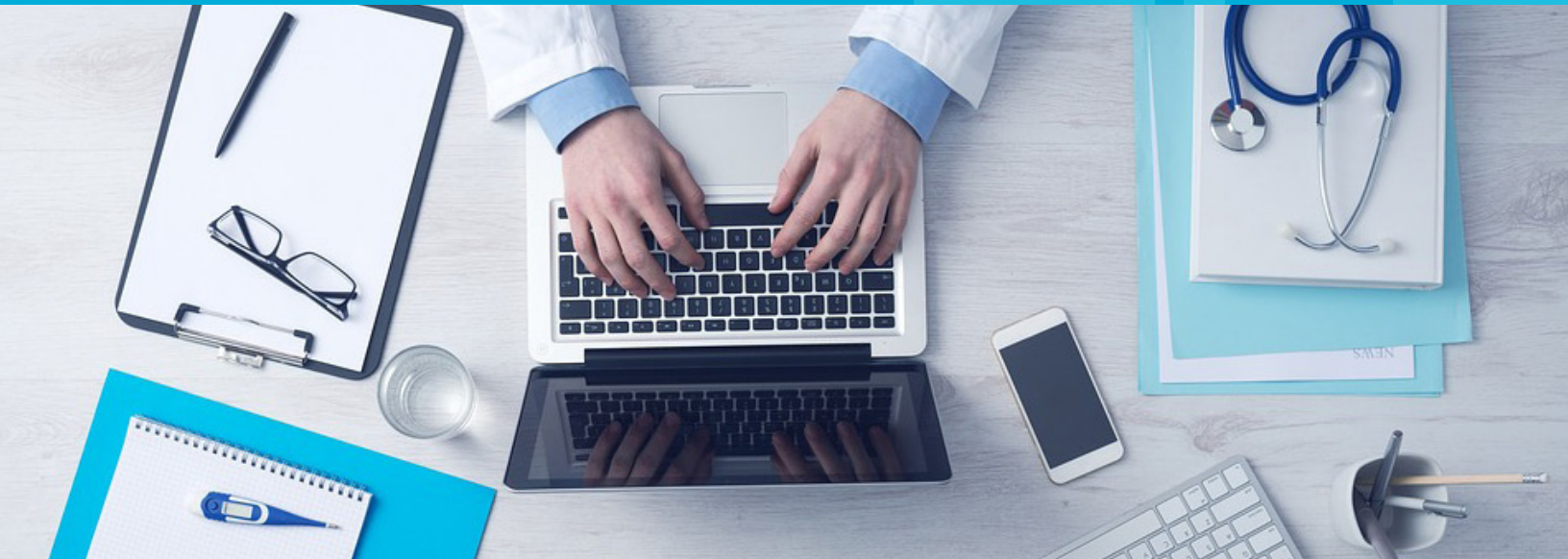
The Phoenix medical office market grew to 25.8 million square feet (msf) and the first quarter overall vacancy rate dropped to 13.0%, 170 basis points lower than first quarter 2017. Average rental rates increased to \$22.75 per square foot (psf) in the first quarter, up slightly from \$22.42 psf in the fourth quarter of 2017. Absorption dropped in the first quarter of 2018, to 25,419 sf from 286,375 sf in the fourth quarter of 2017. However, market fundamentals remain strong as Phoenix's growing population and the increasing demands of an aging population for medical services continues to bode well for the local medical office market.

Top Leases

Tenant	Building	Address	Submarket	Square Feet	Type
ABC Pediatric Eye Specialists	McDowell Medical Center	1010 E McDowell Rd.	Midtown/Central Phoenix	12,776	Direct
Pain Stop Clinic	Spectrum Medical Commons	3367 S Mercy Rd.	Gateway Airport/ Loop 202	6,483	Direct
Cancer Treatment Centers of America	Santa Fe Plaza	9755 N 90th St.	Central Scottsdale	6,250	Direct
Pain MDS Ambulatory Surgical Center	Arrowhead Healthcare	SWC 59th Ave. & Kings Ave.	Arrowhead	6,175	Direct
Arrowhead Health Management	Arrowhead Healthcare	SWC 59th Ave. & Kings Ave.	Arrowhead	6,175	Direct

Top Sales

Buyer	Building	Address	Submarket	Square Feet	Sale Price	Price/SF
Tierra Management LLC	Lincoln Plaza Medical Center	7125 E Lincoln Dr	South Scottsdale	25,367	\$5,750,000	\$227
Arroyo Holdings	Baseline Professional Plaza	2451 E Baseline Rd	Superstition Corridor	39,053	\$5,300,000	\$136
Scott O'Connor	Scottsdale Old Town Plaza	7287 E Earll Dr	South Scottsdale	6,328	\$1,540,000	\$243
Lee W Harding	Baseline Crossings	8435 E Baseline Rd	Superstition Corridor	6,019	\$1,460,000	\$243
Dennis Berg	Venture Court Professional Plaza	41810 N Venture Dr	North I-17	9,211	\$1,406,400	\$153



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%. Also, healthcare is the leading industry in the State. In the Phoenix Metropolitan Statistical Area (MSA) there were 262,100 healthcare employees in February 2018, a 2.8% annual increase, contributing to the annual 3.0% statewide sector growth.

Several factors contribute to the region's continued popularity with 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. 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 first quarter, 66% of the 2018 purchase volume was by REIT's or other institutional groups, and 34% by private investors/users. Tierra Management LLC was the most

active purchaser by dollar volume, acquiring Lincoln Plaza Medical Center for \$5.75 million, or approximately \$227 psf. Median cap rates increased from 7.0% in second quarter 2017, to 8.0% in the third quarter, before ending the fourth quarter at 6.2%. First quarter 2018 median cap rates increased to 7.1%.

Paradise Valley was the most active submarket in the first quarter of 2018, recording nearly 42,000 sf positive absorption, without which the market's net absorption would be -16,337 sf. The Scottsdale Airport Submarket had the highest average asking rent at \$29.08 psf, while Downtown Mesa had the lowest rent at \$13.03; and the Airport and Southwest Phoenix Submarkets were 100% occupied. Of the 12 submarkets with over 1.0 msf, the West I-10 Submarket's vacancy rate was lowest at 4.6%, and Northwest Phoenix had the highest at 26.1%.

Over 209,000 sf is currently under construction in the region, with 56.1% preleased. Deliveries slowed in first quarter 2018, but 159,990 sf are expected to be completed in 2018. There are two 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 125,000 sf of medical office space to the market in late-2018; and OrthoArizona, under construction at 15215 E Melrose Street in Gilbert, scheduled for completion in December 2019 with 49,600 sf.

The number of sales increased 23.0% in the first quarter

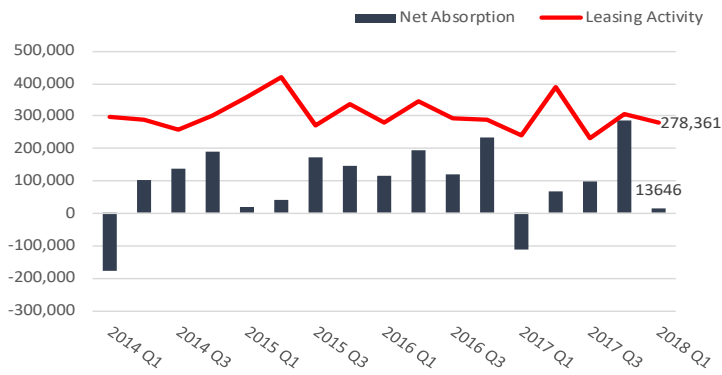
2018; however, dollar volume decreased 47.9%. It appears that the most desirable value-add medical office deals have already been sold, increasing the sales prices for the remaining properties. Total square footage sales volume was down 10.9% from fourth quarter 2017, while the median price psf increased 10.8%.

Other large sales in the first quarter included: 2451 E Baseline Road, which sold for \$5.3 million (\$136 psf); 7287 E. Earll Drive, purchased for \$1.5 million (\$243 psf), 8435 E. Baseline Road, which was purchased for \$1.5 million (\$243 psf); and 41810 N. Venture Drive, that sold for \$1.4 million (\$153/psf). Although 2018 has started out slowly, the volume should pick-up in the next quarter.

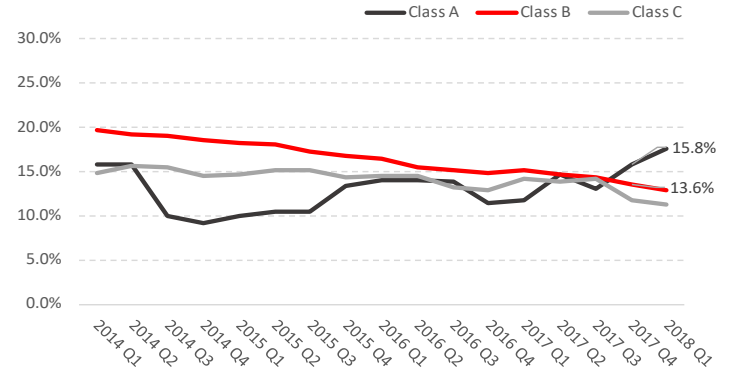


2451 E Baseline Road Medical Office Building

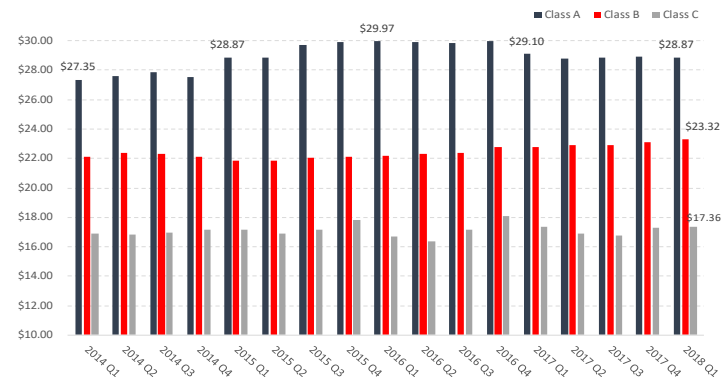
Historical Net Absorption & Leasing Activity



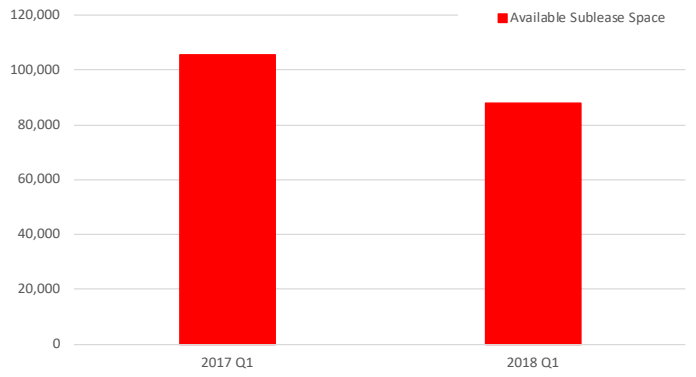
Historical Vacancy



Historical Asking Rental Rate (FSG)



Total Available Sublease Space in the Market



Market By The Numbers

Submarket	Total RBA (SF)	Vacant Space		Vacancy Rate			Net Absorption (SF)	Avg. Ask Total (FS)
		Direct	Sublease	Class A	Class B	Class C		
44th St	110,807	57,704	0	-	49.4%	7.0%	2,670	\$25.38
Airport Area	193,279	0	0	-	0.0%	0.0%	0	\$28.86
Arrowhead	2,338,002	316,248	0	47.4%	9.2%	24.8%	33,506	\$25.42
Camelback Corridor	458,178	63,795	12,496	12.6%	24.1%	9.3%	-9,627	\$23.34
Central Phoenix	1,330,229	227,940	0	-	19.7%	10.9%	-7,767	\$21.84
Central Scottsdale	1,387,022	176,176	5,121	15.2%	13.4%	0.0%	-10,656	\$24.49
Chandler	1,656,954	150,075	7,255	-	9.6%	8.4%	27,401	\$23.12
Deer Valley/Airport	1,355,537	185,554	0	10.0%	14.9%	9.0%	31,444	\$24.76
Downtown	654,757	23,343	0	0.0%	7.0%	0.0%	14,768	\$24.33
Downtown Mesa	129,315	13,793	0	-	0.0%	13.4%	1,165	\$13.03
East Mesa	1,171,062	117,527	0	-	11.6%	7.2%	-5,190	\$18.18
Gateway/Airport/Loop 302	1,330,599	127,901	6,176	17.7%	9.6%	0.0%	5,195	\$25.98
Glendale	958,274	86,252	20,605	13.4%	8.1%	18.4%	-8,477	\$27.60
Loop 303/Surprise	1,187,962	183,389	0	-	16.1%	4.9%	9,615	\$23.83
Midtown	1,198,401	57,087	0	-	4.0%	7.1%	-9,383	\$20.31
North Interstate-17	183,463	35,494	0	-	19.3%	-	-2,046	\$24.39
North Phoenix	61,149	8,436	0	-	13.8%	-	0	\$19.82
North Scottsdale	325,279	37,515	0	-	10.8%	15.9%	-7,389	\$22.35
NW Phoenix	1,597,578	409,645	6,763	-	29.1%	20.6%	-20,776	\$17.11
Paradise Valley	1,132,658	131,572	0	19.1%	11.9%	3.1%	41,756	\$22.24
Piestewa Peak Corridor	298,091	60,873	36,582	55.4%	25.2%	2.4%	-41,150	\$24.57
Pinal County	667,851	73,948	0	-	13.1%	1.9%	-2,232	\$20.88
Scottsdale Airport	752,003	47,644	3,756	11.4%	6.0%	-	-2,838	\$29.08
South Scottsdale	843,270	124,692	0	-	18.5%	11.1%	-17,118	\$24.02
South Tempe	515,359	91,345	16,025	-	22.0%	0.0%	-4,656	\$22.90
Southwest Phoenix	171,552	0	0	-	0.0%	0.0%	5,864	\$14.46
Superstition Corridor	1,727,105	162,507	0	0.0%	9.5%	13.0%	5,460	\$21.16
Tempe	960,807	209,471	1,500	15.3%	30.0%	12.5%	-6,948	\$22.85
West I-10	1,102,727	43,755	7,302	-	4.4%	39.4%	2,828	\$24.38
Total	25,799,270	3,223,681	123,581	17.5%	12.9%	11.3%	25,419	\$22.75



Intelligent
Real Estate
Solutions

Avison Young

2777 East Camelback Road, Suite 230
Phoenix, AZ 85016
T 480.994.8155 F 480.994.8599
avisionyoung.com



Platinum member