

Phoenix

Medical Office Market Report Third Quarter 2019

Quick Stats

\$23.06

Full service average asking rental rate per square foot for medical office space in third quarter 2019

13.9%

Class A medical office vacancy rate in the third quarter, up 40 bps from third quarter 2018

5th

Rank of Metro Phoenix nationally for new medical construction activity

1.1 M

Square feet of medical office space under construction

\$85.6 M

Total medical office investment sales for third quarter 2019

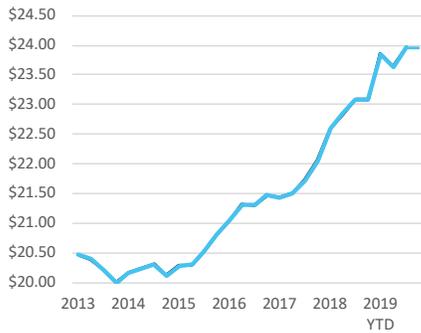
The Shifting Medical Real Estate Landscape

As an investment category, medical real estate is attracting increasing interest as returns on other property types diminish and the demand for medical services rises. While many consider the sector "recession proof," there are a few indicators that Metro Phoenix faces challenges. For instance, lackluster absorption, adjusting to changing demographic demands, and technological advances that require intensive capital investment for next generation facilities are all high hurdles to overcome.

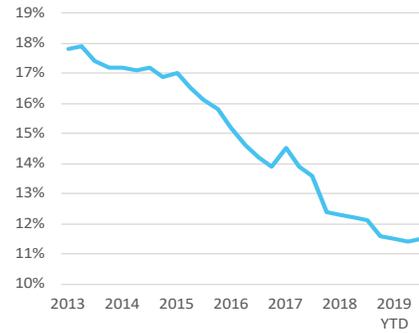
The average age in Maricopa County is 36, slightly below the national average of 38. The Metro area ranks at or near the top for population growth, and the in-migration profile is skewing younger to meet the Valley's rising demand for highly skilled workers. The region is still an attractive retirement option, but its reputation as simply a snowbird and retirement capital is long outdated.

Residents seeking quality healthcare options today want convenient proximity to medical services. This drives developers to think beyond campus-based centralization and more toward decentralized satellite facilities that must also offer state-of-the-art technology. Physicians are also driving this latest wave to differentiate their practices from competitors. Practices that are affiliated with larger healthcare systems but not located on campus must be able to assure patients that personal data records are shared and stored securely. Developers must build advanced facilities with full digital capabilities. Leasing agents need to think creatively about adaptive reuse of non-traditional sites, as in malls, to widen the net for tenant options. An edge on competition can be gained by offering the most current data to show prospective tenants intensive demographic profiles and current traffic counts especially in non-traditional sites.

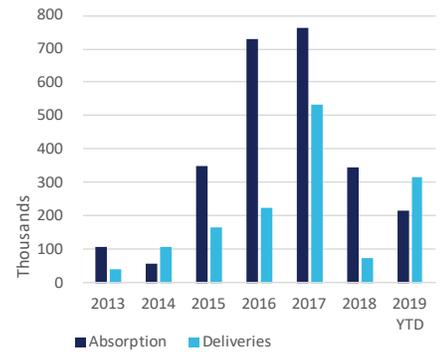
Rental Rates



Vacancy Rates



Absorption & Deliveries



Top Leases

Tenant	Name	Submarket	Square Feet	Type
Radiation Oncology	Banner Health, Del E. Webb Campus	Loop 303/ Surprise	10,324	Direct
US Healthwork	2010 N. 75th Avenue	Glendale	7,345	Renewal
-	Abrazo Arrowhead Hospital Campus	Arrowhead	6,832	Direct
-	Scottsdale Medical Center	Scottsdale South	6,792	Direct
Valley OB/GYN Association	HonorHealth Scottsdale Osborn MC	Scottsdale South	6,721	Renewal

Top Sales

Buyer	Name	Submarket	Square Feet	Sale Price	Price/SF
Cypress West Realty Partners	Desert Mountain Medical Plaza	Central Scottsdale	40,495	\$8,500,000	\$210
Canvass Real Estate LLC	Warner Century Plaza	South Tempe/ Ahwatukee	21,082	\$7,750,000	\$368
William L. Peterson	Scottsdale Airpark Plaza	Scottsdale Airpark	40,018	\$6,354,430	\$159
Boomerang Capital Partners	Desert Mirage Medical Plaza	Surprise	36,080	\$6,275,000	\$174
HSRE Banner Mesa MOB LLC	Sandstone East	Mesa East	11,308	\$4,880,000	\$432

Top Projects Under Construction

Property	Submarket	Completion	Total SF	% Preleased/Owned
Wexford	Downtown	Q4 2020	227,000	54.4%
Maricopa Integrated Health System	Glendale	Q2 2020	127,000	100.0%
AKOS Medical Campus	Glendale	Q1 2020	68,000	41.2%
Mercy Medical Commons II	Gateway Airport/ Loop 202	Q1 2020	56,000	34.6%
The Fields at Verrado	West I-10	Q4 2019	40,000	27.5%

Trends to Watch

Healthcare real estate design is evolving to respond not only to patients and families, but also the workforce that spend most of their time in such facilities.



Patient-focused Design

More attention is being paid to interior design elements like color, lighting, and furniture to make formerly-institutional environments more like class A offices or hotels.



Workforce-focus Design

Developers are including more staff amenities like comfortable break rooms with better food options and more sensible floor plans to decrease distances between stations.

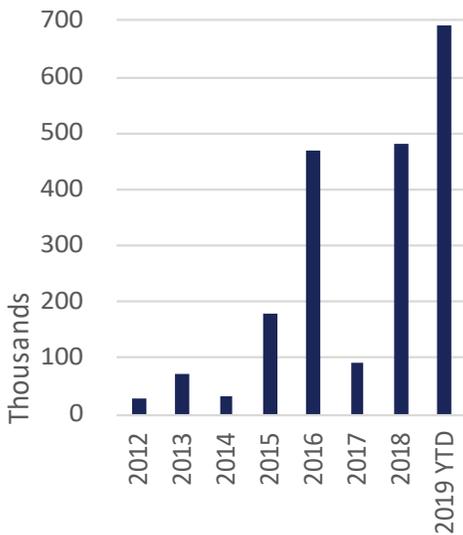


All-ages Design

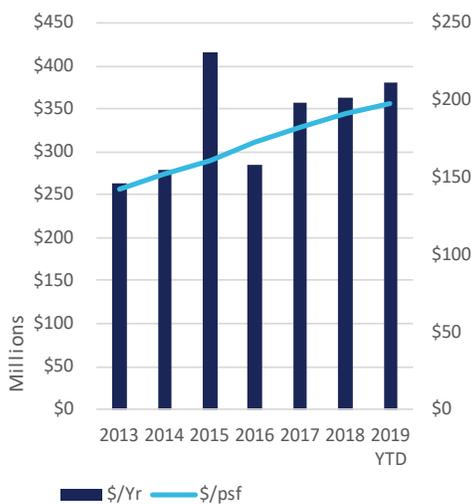
Designing for multi-generational use and comfort creates healthier, more inclusive environments that meet the needs of a wider range of ages under one roof.

A current vacancy rate of 11.3% is a vast improvement from the height of the recession in 2009 when rates topped 20%.

Under Construction



Investment Sales



Rental Rates

Healthcare real estate properties have not kept pace with rental rate growth and have fallen behind the upward trend of other property types. Year-over-year rent growth for Metro Phoenix, according to the healthcare real estate data provider Revista, is among the bottom five major markets in the US at 1.8% for the third quarter. \$23.06 per square foot (psf) average full service rental rates are still a bargain for tenants.

Vacancy

As with sluggish rental rate growth, vacancy rates for Metro Phoenix are fairly high and trail most of the other national markets. Of 125 markets tracked by Revista, Metro Phoenix ranks 123 for occupancy. Still, a current overall vacancy rate of 11.3% is a vast improvement from the height of the recession in 2009 when rates topped 20%.

Leasing

A radiation oncology office at Banner Health's Del E. Webb campus in Sun City West was the quarter's biggest square footage lease at 10,324 sf. An undisclosed tenant signed a 6,832 sf lease on the Abrazo Arrowhead Hospital campus in Glendale in July for \$31.50 psf.



Banner Health - Del E. Webb Campus

Construction

Metro Phoenix ranked 5th nationally for healthcare real estate construction

activity. 14 Medical office building (MOB) projects are currently in progress as well as two hospitals. Total MOB square footage under construction currently total 1,117,488 and hospitals cover 276,500 sf.

Maricopa Integrated Health System recently announced a fund for expansion. Its 127,000 sf, \$70 million new facility, the West Valley Ambulatory Care Center, near downtown Peoria is scheduled for delivery in June 2020. It will employ up to 300 professionals with a training facility for 400 doctors and 1,000 nurses. It is scheduled to open in April, 2020.



West Valley Ambulatory Care Center

Completions include the Mercy Gilbert Medical Office II, an 80,429 sf facility that opened in August, and Banner Ironwood MOB II, a 60,000 sf building that opened in July at Scottsdale's Ironwood Medical Center campus.

Investment Sales

Third quarter sales volume of \$85.6 million dropped 10% from Q2. However, year-to-date totals are already 5% above last year's annual figure. Cypress West Partners acquired Desert Mountain Medical Plaza in the quarter's largest transaction at \$8.5 million. The plaza sits next to HonorHealth Scottsdale Shea Medical Center, a 425-bed hospital with more than 2,000 physicians.

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	101,929	16,923	0	-	21.5%	7.0%	15,723	0	(1,200)	-
Airport Area	172,092	220	0	-	0.0%	0.4%	220	0	1,000	\$21.90
Arrowhead	2,431,304	295,202	4,686	33.9%	9.2%	13.0%	271,014	2,048	29,536	\$24.69
Camelback Corridor	492,957	32,358	11,797	3.9%	11.4%	10.9%	32,358	11,797	(7,258)	\$27.32
Central Scottsdale	1,414,720	146,919	50,149	7.5%	10.8%	0.0%	136,280	5,149	16,998	\$26.41
Chandler	1,722,034	127,728	10,663	0.0%	8.3%	4.5%	127,728	10,663	(10,647)	\$31.46
Deer Valley/Airport	1,447,572	176,699	4,574	5.3%	12.2%	11.8%	157,236	4,574	14,527	\$25.30
Downtown	676,931	34,611	0	0.0%	9.3%	0.0%	34,611	0	14,999	-
Gateway/Airport/Loop 302	1,468,906	101,291	1,973	0.0%	7.3%	0.0%	98,297	1,973	87,448	\$27.66
Glendale	1,104,932	152,266	27,730	22.2%	14.9%	6.7%	142,256	27,730	(7,477)	\$27.21
Loop 303/Surprise	1,234,916	152,171	8,330	0.0%	13.9%	0.0%	150,524	8,330	(2,837)	\$26.58
Mesa Downtown	123,811	23,680	0	-	-	-	22,936	0	(876)	-
Mesa East	1,247,461	159,604	0	-	12.6%	12.8%	158,497	0	3,730	\$18.76
Midtown	1,276,448	32,438	1,356	-	3.4%	-	32,438	1,356	11,143	\$21.88
Midtown/Central Phoenix	1,298,137	180,094	0	-	17.4%	6.4%	177,701	0	14,602	\$20.42
North Phoenix/Cave Creek	61,149	0	3,000	-	4.9%	-	0	3,000	0	\$20.74
North Scottsdale/Carefree	417,924	45,333	0	-	10.2%	14.3%	45,333	0	(1,459)	\$35.17
North I-17	206,906	27,461	0	-	12.6%	-	26,073	0	1,634	-
Northwest Outlying	40,277	1,015	0	-	4.7%	0.0%	1,015	0	0	-
NW Phoenix	1,843,685	393,624	5,150	-	26.1%	12.1%	384,350	5,150	(14,404)	\$18.83
Paradise Valley	1,325,510	229,313	0	25.6%	17.2%	4.9%	222,868	0	22,072	\$18.57
Piestewa Peak Corridor	370,538	81,012	1,200	28.0%	22.3%	11.2%	81,012	1,200	6,281	\$26.83
Pinal County	689,354	85,587	0	-	14.5%	3.2%	85,587	0	4,892	\$13.69
Scottsdale Airpark	892,767	91,345	1,150	7.0%	9.8%	-	88,098	950	(47,692)	\$26.52
Scottsdale South	840,262	120,172	10,723	-	15.6%	11.3%	103,274	10,723	(44,698)	\$24.00
South Tempe/Ahwatukee	531,926	91,739	3,310	-	16.9%	0.0%	87,489	3,310	(4,132)	\$17.38
Southwest Outlying	27,486	0	0	-	0.0%	0.0%	0	0	2,450	-
Southwest Phoenix	184,577	0	0	-	0.0%	0.0%	0	0	0	-
Superstition Corridor	1,721,463	164,437	6,550	0.0%	9.9%	9.7%	163,185	6,550	5,278	\$19.35
Tempe	1,060,396	198,862	0	0.0%	15.0%	21.3%	191,220	0	(8,022)	\$26.56
West I-10	1,255,149	49,872	0	-	3.7%	0.0%	46,172	0	6,083	-
Total	27,683,519	3,211,976	152,341	13.9%	11.8%	10.2%	3,083,495	104,503	91,971	\$23.06

The data contained in this market report is obtained from The CoStar Group, Inc., and Revista, and is used under licensed permission. The report is based on all Metro Phoenix markets for medical buildings, regardless of size. It includes sublease space only upon the date of availability, and includes any owner and renter occupied space.



Platinum member

avisonyoung.com

