

# HEALTHCARE REAL ESTATE MARKET NEWSLETTER

## Semiannual Healthcare Real Estate Market Overview

### HEALTHCARE REAL ESTATE NEWSLETTER METRO PHOENIX: FOURTH QUARTER 2018

#### 4Q 2018 Overview / 2019 Look Ahead

The end of 2018 will be a hard act to follow with a whopping \$1.37 billion in healthcare projects in the planning stages or breaking ground in Metro Phoenix. What does that say about the state of healthcare real estate in the Valley and around the country?

It says two reliable trends will continue into 2019: the healthcare facilities real estate sector continues to grow, transform, and embrace change; it continues to experience a brisk demographic tailwind with a population that is living longer and requiring more healthcare needs and facilities.

Leading the Valley's healthcare construction boom is the \$648 million Mayo Clinic expansion announced this past fall. It will double the size of the Phoenix campus with a final phase in 2023, adding 1.4 million sf to the existing 1.7 million sf with additional clinic space, support services, and infrastructure and creating approximately 2,000 new jobs, including 200 physician jobs, by 2029.

Other major projects in the pipeline are a \$195 million expansion at Chandler Regional Medical Center; \$170 million HonorHealth Sonoran Medical Center Campus in North Phoenix; \$150 million Banner Health Medical Center in Chandler; \$106 million Banner Boswell Medical Center expansion in Sun City; and \$100 million Mercy Gilbert Medical Center expansion.

The momentum of healthcare facilities trading will carry over to 2019 as the sales of larger, investor-owned buildings continue to accelerate. Sales in the first half of 2018 outpaced the same period in 2017 by 25 percent. Prices rose and cap rates averaged in the low- to mid-7 percent range. The median price in sales during second quarter was \$190 per square foot.

In one of biggest deals in 2018, Inland Real Estate Acquisitions, LLC closed on the purchase of a portfolio of eight medical office buildings in Mesa, Chandler, Gilbert, Glendale, and Scottsdale. The properties, leased to one of the largest cancer and research center providers in Phoenix with more than 600 employees and 70 physicians, total 146,245-sf of medical office space. Specializing in a variety of cancer treatment procedures, the facilities offer patients chemotherapy, hormonal, targeted and biological therapies, three-dimensional radiation, modulated radiation, stereotactic radiosurgery and volumetric arc therapy. Additionally, the properties conduct all the administrative medical billing processes and have eight radiation vaults.

The forecast for the Valley's medical office market also remains positive. Growing population and employment growth are driving improvements in medical real estate as employers added more than 34,000 new jobs during the first half of 2018. This includes 4,000 jobs in the healthcare field. Growth in healthcare-related fields is up more than 50 percent from gains posted during the first half of 2017.

Closing out the year, vacancy of medical office space fell to its lowest level in 10 years.

The medical office market rebounded with positive net absorption and no new projects completed during the quarter. This caused the vacancy to inch lower to 14.2 percent.

Nationally, 12 health systems announced or unveiled facility expansions and renovations totaling \$1 billion or more per system. Included is Valley-based Banner Health, which has 386 active construction projects totaling \$1.7 billion in six states and projects in Phoenix and Tucson.

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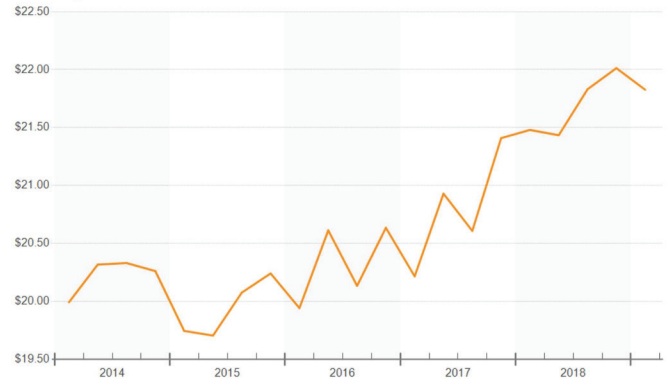
## Semiannual Healthcare Real Estate Market Overview

### Vacancy and Rental Rates

**Vacancy Rate**

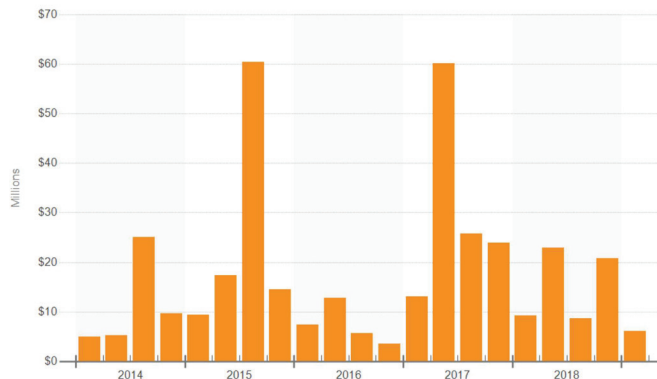


**Gross Asking Rent Per SF**

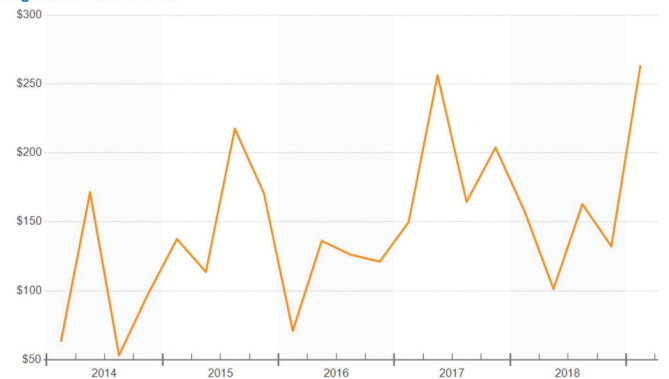


### Sales Volume and Average Per Square Foot

**Sales Volume**



**Average Sale Price Per SF**



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### Medical Office Sales



#### **PORTFOLIO SALE**

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

**17 Other Properties in 8 States**

MB Real Estate Services, Inc. bought 18 medical office properties (838,000-sf) on August 1, 2018 from Montecito Medical Real Estate for \$330,000,000 (\$460.45 per sf) at an average cap rate of 5.80%. The portfolio was 97% leased at the time of sale and sold within approximately six months.



#### **PORTFOLIO SALE**

**685 and 695 S. Dobson Road, Chandler, AZ 85224 • 3855 S. Val Vista Drive, Gilbert, AZ 85297 • 5810 W. Beverly Road, Glendale, AZ 85306 • 6111 E. Arbor Avenue, Mesa, AZ 85206 • 700 W. Warner Road, Chandler, AZ 85225 • 8880 E. Desert Cove Avenue, Scottsdale, AZ 85260 • 3686 S. Rome Street, Gilbert, AZ 85297**

On October 26, 2018, Inland Real Estate Group, Inc. out of Oak Brook, IL bought this 142,585-sf eight building medical office portfolio from Ironwood Cancer & Research Centers for \$74,250,000 (\$520.74 per sf) at a 5.90% cap rate. The transaction was a sale/leaseback, and all the properties were 100% leased at the time of sale.



#### **Arizona Business Park**

**15401 N. 29th Avenue, Phoenix, AZ 85053**

Montecito Medical Real Estate bought this 36,678-sf medical office building on September 5, 2018 for \$14,420,000 (\$393.15 per sf) from Retinal Consultants of Arizona, Ltd. at a 6.3% cap rate reflecting a Net Operating Income of \$908,000. The property was 100% occupied at the time of sale.



**14520 W. Granite Valley Drive  
Sun City West, AZ 85375**

100% leased at the time of sale, The CORE Institute sold their 40,004-sf medical office building to Medical Properties of America on July 31, 2018 for \$12,749,400 (\$318.70 per sf). Seller will be a 2.5% partner in the buying entity. The sale is for improvements and the ground lease, which expires November 1, 2061.





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### **Camelback Medical Plaza** **5040 N. 15th Avenue, Phoenix, AZ 85015**

On November 1, 2018, Camelback Medical Plaza was sold by Centum Health Properties to Gold Coast Investments for \$7,300,000 (\$156.33 per sf). Home to Midtown VA Clinic, Arizona Kidney Disease and Hypertension Center (AKDHC) and Sun Shine Pediatrics, the property was 100% leased at the time of sale.



### **Lakes Medical Plaza II** **10494 W. Thunderbird Road, Sun City, AZ 8535**

The CORE Institute sold this 17,796-sf medical office building on August 1, 2018 for \$5,250,600 (\$345.25 per sf) to Medical Properties of America, with \$12,837,600 in new debt with Pinnacle Bank for improvements and ground lease.



### **PORTFOLIO SALE** **Osborn Medical Plaza** **3320-3330 N. 2nd Street, Phoenix, AZ 85004**

MBRE Healthcare sold this two building 64,085-sf medical office portfolio to Kayne Anderson Capital Advisors, LP on August 9, 2018 for \$5,000,000 (\$78.02 per sf) as an investment, with financing from Capital One NA of \$498,558,042. Arizona Kidney and Hypertension occupies the 3320 N. 2nd Street 13,307-sf building and the 3330 N. 2nd Street building is occupied by a variety of medical office users.



### **PORTFOLIO SALE** **Brookside Bell Professional Park, 15264 W. Brookside Lane,** **Building A, Surprise, AZ 85374** **4137 N. 108th Avenue, Phoenix, AZ 85037**

On September 12, 2018, 15264 W. Brookside Lane and 4137 N. 108th Avenue with a collective 15,612-sf, sold for \$4,250,000 (\$272.23 per sf) to CP Medical – Arizona, LLC by LABRS, LLC (Seller). Desert Valley Pediatrics is a tenant in both buildings.



### **Virginia Court** **2601 N. 3rd Street, Phoenix, AZ 85004**

This 40,000-sf medical office building sold on December 17, 2018 for \$4,150,000 (\$103.75 per sf). 86.9% leased at the time of sale and after only 121 days on the market, Virginia South, LLC sold the property to Windsor West Court, LLC with no buyer broker.

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### **3333 N. 7th Avenue Phoenix, AZ 85013**

On December 12, 2018, MCR Companies sold to Chris Carson this 13,424-sf Lifewell Midtown Clinic building for \$3,700,000 (\$275.63 per sf). Located close to Dignity Health St. Joseph's Hospital and Medical Center, the property, which was built in 1961 and renovated in 2016, was 100% leased at the time of sale.



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

On October 4, 2018, the 16,919-sf medical office building sold for \$3,400,000 (\$200.96 per sf). The Seller, 6 Turns, LLC, was motivated to sell to realize gains and move onto another project. The sale also included 1.50 acres of land. The property is currently under renovation with a completion date estimated in July 2019.



### **Missouri Professional Plaza 1277 E. Missouri Avenue, Phoenix, AZ 85014**

Missouri Medical Plaza, LLC sold this 25,200-sf medical office building for \$3,000,000 (\$119.05 per sf) with \$165,000 credit for deferred maintenance. The building is an Al Beadle (Architect) building, which partially attracted Next Gen North Phoenix, LLC to this structure. The property was financed, closed with a 5% cap rate, and is built-out as a dental facility.



### **32nd Street Medical 10255 N. 32nd Street, Phoenix, AZ 85028**

Colver Living Trust bought 32nd Street Medical, a 10,344-sf medical office building, for \$2,800,000 (\$270.69 per sf). ST Real Estate, LLC, in a sale/leaseback, sold the property in four months at 100% occupancy. Tenants include a laser surgery center, medical spa, OB/GYN and anesthesiologist. Currently 600-sf is offered as a time share in the surgery center by Avison Young (Julie Johnson and Alexandra Loye).



### **Maryvale Medical Center 4550 N. 51st Avenue, Phoenix, AZ 85031**

Maricopa Integrated Health System (MIHS) bought this 47,075-sf medical office building on December 21, 2018 for \$2,750,000 (\$58.42 per sf) from Maryvale Holdings, LLC. The property was 16.1% leased at the time of sale and sits on 3.47 acres. The Buyer had also bought the Maryvale Hospital next door to renovate and convert to a behavioral health hospital.



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### **3724 N. 3rd Street Phoenix, AZ 85012**

100% leased at the time of sale, Truxton Psychiatric Medical Group sold this 19,259-sf medical office building on November 28, 2018 for \$2,200,000 (\$233.13 per sf), with \$1,200,000 in Seller-carried debt, to Windsor West Ventures, LLC. Caliber Anesthesia, Valley Wide Health and Pain Stop Clinics are among the tenants in the building.



### **North Ranch Medical/Dental Center 6345 E. Bell Road, Scottsdale, AZ 85254**

On December 10, 2018, National Safe Harbor Exchanges, Inc. (Jacksonville, FL) bought this 9,900-sf medical office building from Oak Realty Partners, Inc. for \$1,850,000 (\$186.87 per sf). The sale was an auction sale and was 63.4% leased at sale date. The tenants in the building are a mixture of medical and dental.



### **810 W. Bethany Home Road Phoenix, AZ 85013**

Arizona Medical Association sold this 22,956-sf medical office, single story building for \$1,150,000 (\$75.14 per sf) to Phoenix Unlimited, LLC. The sale was an owner/user opportunity. The new owner is a natural flower elixir company called LotusWei that has been featured in major publications and will occupy at least 51% of the building.



### **Warner Medical Park 604 W. Warner Road, Building B, Chandler, AZ 85225**

Sold on October 22, 2018, the 10,240-sf medical office built in 1987 sold for \$1,050,000 (\$102.54 per sf) to Asia Warner Investment, LLC by Warner Medical Park, LLC. The property was 100% leased at the time of sale and no brokers were involved.



### **1801 E. Southern Avenue, Buildings 1 & 2 Mesa, AZ 85204**

Two buildings at 1801 E. Southern Avenue sold on December 5, 2018 for \$1,050,000 (\$112.61 per sf) to Caffall Dental Building, LLC from Good Foxhole, LLC. Located in the Superstition Corridor Submarket, the buildings total 9,324-sf on 1.16 acres.

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### Healthcare Proposed/Under Construction



#### **AKOS Medical Campus** **10825 W. McDowell Road, Avondale, AZ 85323**

Due for completion in the 4th quarter, 2019, the property is due to break ground by 2nd quarter due to National Healthcare Realty's closing of their construction financing. They anticipate groundbreaking in the 2nd quarter. The property is 41.2% leased and will have a lease rate of \$28.00 to \$35.00 per sf, Full Service.



#### **Mountain View Medical Center** **10555 N. Tatum Boulevard, Paradise Valley, AZ 85254**

The Paradise Valley Planning Commission will begin reviewing plans for a three-phase reconstruction of Mountain View Medical Center. The current 57,729-sf multi-tenant medical office single story building built in 1982 on 10.16 acres will be redeveloped into 93,282-sf in four buildings built in 3 phases.



#### **Grand Vita** **10309 E. Hampton Avenue, Mesa, AZ 85209**

±20 acres of vacant land in Mesa is proposed for the development of a medical, commercial and residential mixed-use campus. In October 2018 the Mesa Planning and Zoning Board approved a rezoning request for the property located near Crismon Road and Southern Avenue. The Developer is Khangura Development, LLC.



#### **Lincoln Plaza Medical Center Redevelopment** **7125 E. Lincoln Drive, Paradise Valley, AZ 85253**

The 25,367-sf Lincoln Plaza Medical Center has two medical office buildings on 2.12 acres. Proposed for one 34,000-sf two-story medical office, the property will have 146 parking spaces at a ratio of 4.7:1,000-sf. The existing 100% leased property will be demolished.



#### **Paradise Valley Medical Center** **7101 E. Jackrabbit Road, Paradise Valley, AZ 85253**

Paradise Valley Town Council introduced a Special Use Permit Amendment to allow for the construction of a new 10,000-sf medical office building within the existing ±54,000-sf Paradise Valley Medical Center on 8.47 acres.



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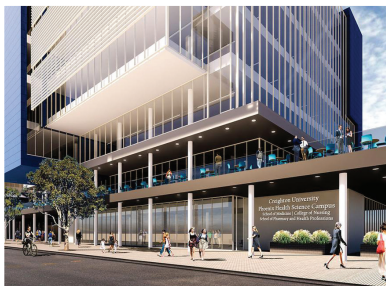
### **Copper Springs Behavioral Health Hospital** **3755 Rome Street, Gilbert, AZ 85297**

Copper Springs Behavioral Health Hospital has made several attempts to build in Gilbert. In December 2018, the Gilbert Town Council introduced a Final Plat for a new 96-bed behavioral health hospital located at Val Vista Drive and Germann Road. The 70,421-sf single story hospital consists of two phases on 7.56 acres.



### **Gilbert Family General Hospital** **3319 S. Val Vista Drive, Gilbert, AZ 85297**

A 16,058-sf single story "micro hospital" is planned in Gilbert on 1.48 acres of commercial land. The developer, Coaction Development Group, will include in the small format hospital: emergency services, a surgical suite, four in-patient bedrooms, treatment and triage, imaging, pharmacy, kitchen, staff lounge and support areas.



### **Creighton University Medical School** **SEC Central Avenue & Catalina Drive, Phoenix, AZ 85013**

Creighton University plans to build a \$150,000,000 medical school at Park Central Mall next to St. Joseph's Hospital and Medical Center. Plans are for training 700 medical students in two buildings totaling 300,000-sf on the southeast corner of the mall property at Central Avenue and Catalina Drive. Creighton expects to break ground in spring 2019 with expected completion of July 2021.



### **Greywood Professional Offices** **500 S. Gilbert Road, Chandler, AZ 85225**

MGB Development (Kent Gregory) is planning a 15,000-sf single-story medical office building on two acres in Chandler. In a public meeting on September 5, 2018, the Chandler Planning and Zoning Commission approved a preliminary plat for a medical office building located at Gilbert and Warner Roads.



### **Sierra Bloom** **SEC Loop 101 and N. 90th Street, Scottsdale, AZ 85258**

Arrowhead Builders, an Oklahoma-based general contractor began construction on this 43-acre wellness campus which will feature behavioral health, assisted living and memory care and multi-tenant medical offices and retail. The builder will start construction on a 78,577-sf 199-key Holiday Inn as part of the mixed-use master plan, scheduled to open first quarter 2020.



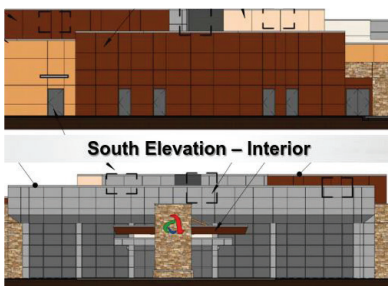
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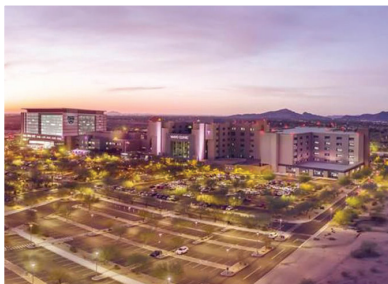
### **Mercy Medical Commons II** **3951 S. Mercy Road, Gilbert, AZ 85297**

MedProperties Group broke ground in November on a  $\pm 56,000$ -sf, three-story medical office building located on the corner of Mercy Road and Rome Street across from Dignity Mercy Gilbert Medical Center. The CORE Institute has signed a  $\pm 20,000$ -sf lease for space on the first and second floors.



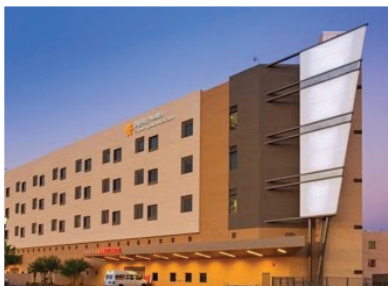
### **Abrazo Micro-Hospital at Surprise Farms Gateway** **16850 W. Bell Road, Surprise, AZ 85388**

Surprise Micro-Hospital, LLC (Pinecroft Realty) bought 5.8 acres for \$755,743.20 at Surprise Farms Gateway for a 32,425-sf micro-hospital, with new construction debt of \$10,190,000 with Siemens Financial Services. On December 20th the property was brought before the Surprise Planning and Zoning Commission for approval. Frontage for the Micro-Hospital will be along SR-303.



### **Mayo Clinic Expansion** **5777 E. Mayo Boulevard, Phoenix, AZ 85054**

The Mayo Clinic expansion plan will nearly double the size of the Phoenix campus over five years. The Arizona Forward Project will add 1.4 million sf of building space to the existing 1.7 million, with expanded clinical capacity, support services and infrastructure, while increasing the number of inpatient beds from 280 to 374 by 2023. Estimated cost: \$648,000,000.



### **Chandler Regional Medical Center Expansion** **1955 W. Frye Road, Chandler, AZ 85224**

This Dignity Health project will include a new five-story patient care tower and new parking structure, along with eight new surgical suites and expansions of key outpatient services and operational departments. The new patient care structure, called "Tower D," will create space for 132 additional patient beds. Anticipated completion: 2020. Estimated cost: \$194,800,000.



### **Banner Health Medical Center in Chandler** **SEC Alma School Road and Loop 202, Chandler, AZ 85248**

The first Chandler hospital for Banner Health will be a four-story, 240,000-sf hospital adjacent to the existing Banner Health Center. The hospital, which has not yet been named, will open with 120 beds, and offer imaging, surgery, labor and delivery, intensive care and an emergency room. The hospital will have room for expansion as the community needs require more services. Estimated cost: \$150,000,000.

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### **HonorHealth Sonoran Medical Center** **33423 N. 32nd Avenue, Phoenix, AZ 85085**

HonorHealth broke ground on its sixth hospital on December 7, 2018 at Interstate 17 and Dove Valley Road in north Phoenix. The three-story, 210,000-sf medical center will be built on the campus that currently houses the Sonoran Health and Emergency Center. The site will include an inpatient hospital, ambulatory surgery center and outpatient center. Expected completion: September 2020. Estimated cost: \$170,000,000.



### **Mercy Gilbert Medical Center Expansion** **3555 S. Val Vista Drive, Gilbert, AZ 85297**

A joint venture between Dignity Health and Phoenix Children's Hospital, Arizona's only nationally recognized pediatric hospital, will aim at offering superior women and children's services in Gilbert. The five-story medical tower will include 24 labor and delivery rooms, 48 postpartum beds, along with an emergency department dedicated to obstetrics. Anticipated opening: 2020. Estimated cost: \$100,000,000.



### **Banner Boswell Medical Center Expansion** **10401 W. Thunderbird Boulevard, Sun City, AZ 85351**

This project became a two-phase expansion, beginning in March with the announcement that Banner Health and the Sun Health Foundation were teaming up to construct a \$60,400,000 emergency room on the campus. In late September, Banner Health's board of directors approved expanding the project to include a new six-story patient tower shell. Banner Health and its construction partners determined that building the two projects at the same time would ultimately save on costs and be less disruptive to the medical center's operations. The new patient tower, which will partially sit atop the new emergency room, will become the new main entry point for the hospital when completed in the fall of 2020. Estimated cost: \$106,000,000.

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### FOR MORE INFORMATION IN HEALTHCARE REAL ESTATE PLEASE CONTACT:



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As Principal of Avison Young and Co-Leader of their National Healthcare Affinity Group, Julie has been an expert in healthcare real estate for about 25 years and uses her strong analytic skills to assist clients with demographic and market studies, as well as investment and lease analyses. Her in-depth knowledge of healthcare properties, senior housing, managed care, healthcare reform issues and healthcare tenant improvements make her a valuable resource to her clients.

Julie uses her strong analytical skills to assist clients with demographic and market studies as well as investment analysis and lease analysis. Her in-depth knowledge of healthcare properties, senior housing, managed care, healthcare reform issues and healthcare tenant improvements makes her a valuable resource to clients. Her knowledge of and extensive relationships with Valley hospitals and healthcare providers, along with years of research and involvement in numerous real estate transactions, qualify her as an expert in the field.



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Alexandra provides real estate solutions for owners and occupants of medical office and office properties. She 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.

Loye was featured as an "Emerging National Leader in Healthcare" by Real Estate Forum magazine in 2015 and in 2017 received the prestigious National Connect Next Generation of Healthcare award. She was also featured in AZ Big Media "People & Projects to Know 2017". Alexandra was the Top Producer in the Avison Young Arizona office in 2016 and 2017 and received Avison Young Circle of Excellence Market Leader Award in 2018.

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