



Las Vegas

Medical 21Q3

Key Takeaways

- Demand for medical office on pace to beat 2018
- Asking rates continued to increase, reaching \$2.34 psf
- Vacancy decreased to 10.3%, lowest in a decade



Medical Vacancy Hits Decade Low

Southern Nevada's medical office market reached its lowest vacancy rate in a decade this quarter, as the Valley continued to rebound from the lockdowns of 2020. Strong net absorption in all three quarters of 2021 sent vacancy down to 10.3%. The tumbling vacancy rate boosted asking rental rates to \$2.34 psf on a full service gross (FSG) basis.

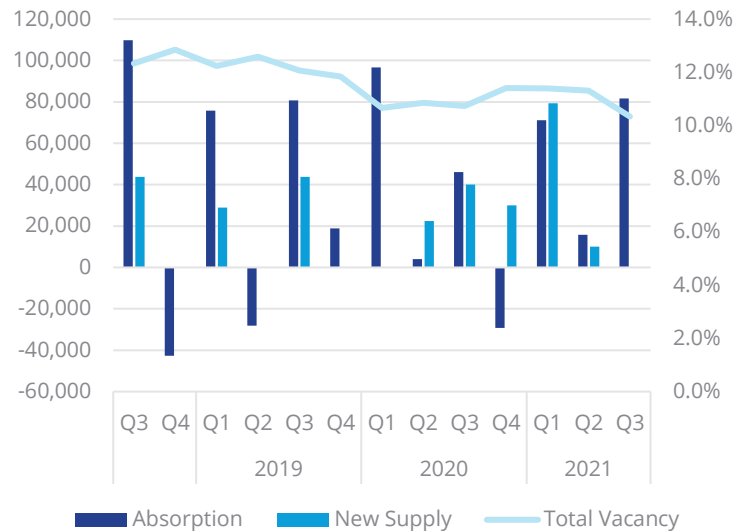
Market Indicators



Historic Comparison

	20Q3	21Q2	21Q3
Total Inventory (in Millions of SF)	8.3	8.4	8.4
New Supply (in Thousands of SF)	40.0	10.0	0.0
Net Absorption (in Thousands of SF)	46.0	15.7	81.6
Overall Vacancy	10.7%	11.3%	10.3%
Under Construction (in Thousands of SF)	0.0	0.0	0.0
Overall Asking Lease Rates (FSG)	\$2.25	\$2.29	\$2.34

Market Graph



Net absorption has been positive for three straight quarters now, bringing medical vacancy down to 10.3%

Recent Transactions



Lease
6283 Valley View
11.3K SF | \$0.93 NNN



Lease
1776 Warm Springs
6.5K SF | \$1.51 NNN



Lease
7455 Washington
5.3K SF | \$1.76 NNN



Lease
2535 Cheyenne
3.4K SF | \$1.37 MG



Lease
4235 Rancho
2.9K SF | \$1.00 NNN



Lease
2650 Lake Sahara
2.3K SF | \$1.60 NNN

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Employment and Taxable Sales

According to DETR, Southern Nevada's healthcare sector added 6,800 jobs between August 2020 and August 2021. Over the same period, the ambulatory health care subsector added 2,800 jobs and hospitals lost 1,400 jobs.

Unemployment in the Las Vegas-Paradise MSA was 8.3% in August 2021. Over the past 12 months, total employment in Southern Nevada increased by 55,600 jobs, a 6.1% increase. Southern Nevada lost 241,900 jobs between February and April 2020 and had regained 71% of those lost jobs by August 2021.

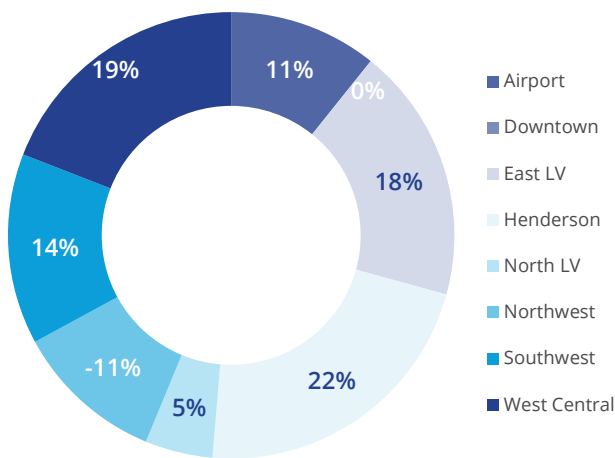
The health care sector had \$27.9 million in taxable sales in the second quarter of 2021, an 11.8% decrease from one year ago. Taxable sales over the same period decreased by 24.4% for hospitals and increased by 4.0% for nursing and residential care facilities and by 21.9% for ambulatory health care services.

Construction and Absorption

No new medical office projects were completed this quarter. One project, the Tarkanian Professional Center, is planned for completion in late 2022. This relative lack of planned medical space, combined with strong demand for medical office, could see new projects added to the drawing board in 2022.

Medical Office Net Absorption

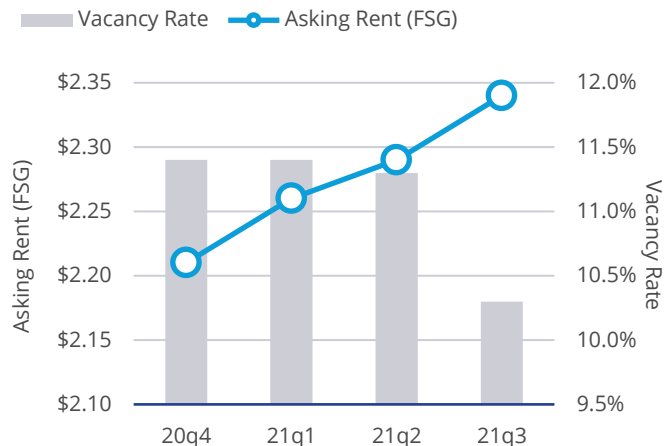
Current Quarter



Source: Colliers International

Vacancy vs. Rents

Past four quarters



Source: Colliers International

Net absorption of medical office space has been positive for three straight quarters, shifting the market from recovery to expansion. Virtually all of the Valley's net absorption occurred in Class C medical product, with both Class A and Class B still showing negative net absorption year-to-date.

Vacancy

Medical office vacancy decreased in the third quarter of 2021 to 10.3%. This was 1 point lower than one quarter ago, and 0.4 points lower than one year ago, and in fact is the lowest medical office vacancy rate we have recorded in a decade.

Class B buildings continued to have the highest vacancy rate among classes at 13.6%, while class C buildings saw their vacancy rate, already the lowest among classes, decrease further to 6.2%. Vacancy increased slightly for class A buildings to 12.1% from last quarter's 12.0%

Vacancy decreased, quarter-over-quarter in the Airport, East Las Vegas, Henderson, North Las Vegas, Southwest and West Central submarkets, and increased in the Northwest submarket.

Rents

The weighted average asking rental rate for medical office space increased to \$2.34 psf FSG in the third quarter, \$0.09 higher than one year ago. Asking rates have been on the rebound from the drudging they took during the lockdown recession, and are now at their highest level in a decade.

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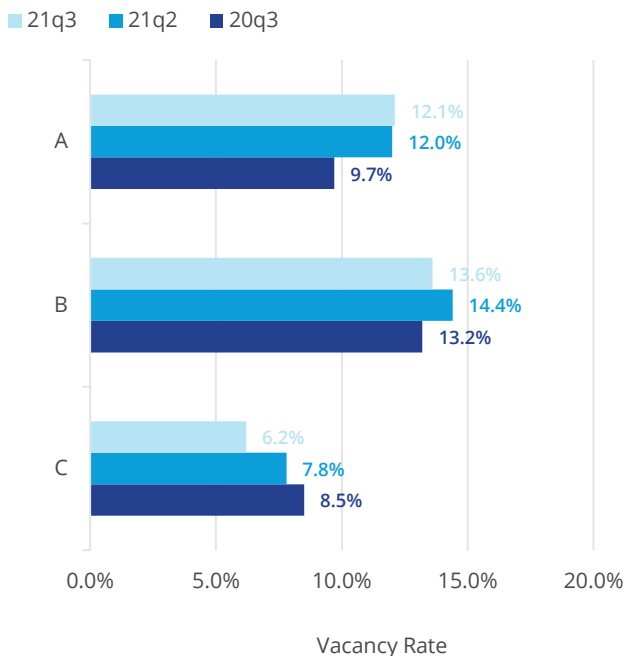
The Valley's highest asking rent rate for medical office was shared by the Airport and Southwest submarkets at \$2.62 psf FSG. They were followed by Northwest at \$2.49 psf and Henderson at \$2.36 psf. Asking rents increased, year-over-year, in Downtown, East Las Vegas, Henderson, Southwest and West Central. Asking rates decreased over the same period in North Las Vegas and Northwest, and remained unchanged in the Airport submarket.

Sales

Investment sales rebounded in the third quarter, bringing year-to-date investment sales volume to \$110.0 million in 10 sales totaling 390,252 square feet with an average sales price of \$281.87 psf. This exceeds investment sales in 2020 with one quarter to spare.

Owner/user sales volume was \$52.9 million in 11 transactions totaling 92,980 square feet with an average price per square foot of \$568.91. This comparatively high unit price is due to the sale of 150 East Harmon Avenue, a medical office building with close proximity to the Las Vegas "Strip".

Medical Office Vacancy by Class



Source: Colliers International

Medical Office Investment Sales

	2019	2020	2021
No. Sales	4	9	10
Total Sales (SF)	74,774	226,758	390,252
Sales Volume (\$MM)	\$15.0	\$77.6	\$110.0
Sales Price/SF	\$201.17	\$342.26	\$281.87
Average Size of Sale (SF)	18,700	25,200	39,000

Forecast

The lockdown recession of 2020 and the furory over health insurance reform during the 2010's created a bumpy road for the healthcare industry, and thus for Southern Nevada's medical office market. At the dawn of a new decade, the market appears to have weathered that storm in good shape.

Vacancy is now the lowest it has been in a decade, and asking rental rates hit a new decade high this quarter. While the changes the healthcare business has endured over the past decade have changed, in some respects, the way medical office space is used and valued, the view from 10,000 feet looks promising. Lingering questions in light of the 2021 recovery/expansion regard the future of Class A and Class B office product.

Overall, we think demand for medical space will remain strong through the remainder of 2021 and into 2022. This year's recovery represents a return of patients to ambulatory care after lockdowns prevented or discouraged that care in 2020. The effect of this return will probably lessen in 2022, but we think demand for office space will remain generally positive.

We also think that low vacancy rates and increasing rental rates could drive more healthcare tenants into professional office space and retail space if new medical office space is not brought onto the market to satisfy demand.

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Sales Activity



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Glossary

Office Classes

Class A: Buildings, often multi-story, with steel frame construction, high-end exterior finishes, distinctive lobbies with upgraded finishes, amenities including on-site security, state-of-the-art communications and data infrastructure and covered parking.

Class B: Buildings, often multi-story, with steel frame, reinforced concrete or concrete tilt-up construction. Class B buildings contain common bathrooms and hallways and their lobbies may have granite and hardwood detailing.

Class C: Buildings of wood frame construction, often garden-style and are built around courtyards.

General Definitions

Direct Lease: Space in a building offered for lease directly by the owner of the building.

Sublease: Space in a building that is offered for sublease by the primary tenant.

Net Absorption: The difference in occupied square footage from one period to another.

Direct Availability Rate: The percentage of total inventory available for direct lease, regardless of whether it is vacant.

Sublease Availability Rate: The percentage of total inventory available for sublease, regardless of whether it is vacant.

Availability Rate: The percentage of total inventory available for direct lease or sublease, regardless of whether that space is vacant or occupied.

Vacancy Rate: The percentage of total inventory that is available for direct lease or sublease that is vacant.



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Subtype	Total Inventory SF	Direct Availability Rate	Sublease Availability Rate	Availability Rate	Vacancy Rate	Vacancy Rate Previous Quarter	Net Absorption Current	Net Absorption YTD	Under Construction SF	Deliveries YTD	Average Direct Asking Rate (FSG)
Downtown/Urban Core											
A	65,000	0.0%	0.0%	0.0%	0.0%	0.0%	0	127	0	0	n/a
B	228,761	20.0%	0.0%	20.0%	20.0%	20.0%	0	0	0	0	\$2.31
C	80,797	0.0%	0.0%	0.0%	0.0%	0.0%	0	127	0	0	n/a
Total	374,558	12.2%	0.0%	12.2%	12.2%	12.2%	0	254	0	0	\$2.31
Suburban											
A	1,513,418	12.0%	1.0%	13.0%	12.6%	12.6%	-416	-14,047	0	0	\$2.66
B	3,250,804	13.6%	0.3%	13.9%	13.1%	14.0%	29,092	-6,755	0	89,330	\$2.39
C	3,271,146	6.6%	0.0%	6.6%	6.3%	8.0%	52,942	189,175	0	89,330	\$1.97
Total	8,035,368	10.4%	0.3%	10.7%	10.3%	11.3%	81,618	168,373	0	178,660	\$2.34
Grand Total											
A	1,578,418	11.5%	1.0%	12.5%	12.1%	12.0%	-416	-14,047	0	0	\$2.66
B	3,479,565	14.0%	0.3%	14.3%	13.6%	14.4%	29,092	-6,628	0	89,330	\$2.38
C	3,351,943	6.4%	0.0%	6.4%	6.2%	7.8%	52,942	189,175	0	89,330	\$1.97
Total	8,409,926	10.5%	0.3%	10.8%	10.3%	11.3%	81,618	168,500	0	178,660	\$2.34

Submarkets by Class

Airport											
A	0	n/a	n/a	n/a	n/a	n/a	0	0	0	0	n/a
B	0	n/a	n/a	n/a	n/a	n/a	0	0	0	0	n/a
C	113,581	1.6%	0.0%	1.6%	1.6%	11.5%	11,222	75,330	0	75,330	\$2.62
Total	113,581	1.6%	0.0%	1.6%	1.6%	11.5%	11,222	75,330	0	75,330	\$2.62
Downtown											
A	65,000	0.0%	0.0%	0.0%	0.0%	0.0%	0	0	0	0	n/a
B	228,761	20.0%	0.0%	20.0%	20.0%	20.0%	0	127	0	0	\$2.31
C	80,797	0.0%	0.0%	0.0%	0.0%	0.0%	0	0	0	0	n/a
Total	374,558	12.2%	0.0%	12.2%	12.2%	12.2%	0	127	0	0	\$2.31
East Las Vegas											
A	0	n/a	n/a	n/a	n/a	n/a	0	0	0	0	n/a
B	720,238	22.3%	0.0%	22.3%	20.3%	22.0%	12,308	6,220	0	0	\$2.28
C	749,706	8.4%	0.0%	8.4%	8.4%	9.4%	7,015	2,287	0	0	\$1.61
Total	1,469,944	15.2%	0.0%	15.2%	14.3%	15.6%	19,323	8,507	0	0	\$2.08
Henderson											
A	508,958	8.7%	0.6%	9.3%	9.3%	10.5%	6,000	18,511	0	0	\$2.72
B	356,568	14.5%	0.8%	15.4%	15.4%	16.0%	2,330	5,763	0	0	\$2.06
C	776,408	8.7%	0.0%	8.7%	8.1%	10.0%	14,639	54,031	0	14,000	\$2.35
Total	1,641,934	10.0%	0.4%	10.4%	10.1%	11.5%	22,969	78,305	0	14,000	\$2.36
North Las Vegas											
A	0	n/a	n/a	n/a	n/a	n/a	0	0	0	0	n/a
B	98,011	24.5%	0.0%	24.5%	24.5%	29.7%	5,074	2,202	0	0	\$2.23
C	193,765	3.1%	0.0%	3.1%	3.1%	3.1%	0	14,250	0	0	\$1.98
Total	291,776	10.3%	0.0%	10.3%	10.3%	12.0%	5,074	16,452	0	0	\$2.18
Northwest											
A	889,160	14.3%	1.4%	15.7%	15.0%	14.3%	-6,416	-37,881	0	0	\$2.63
B	1,128,889	6.7%	0.0%	6.7%	6.4%	5.3%	-12,869	-10,533	0	0	\$2.28
C	239,774	1.6%	0.0%	1.6%	0.8%	4.2%	8,023	397	0	0	\$1.69
Total	2,257,823	9.2%	0.5%	9.7%	9.2%	8.7%	-11,262	-48,017	0	0	\$2.49
Southwest											
A	115,300	8.4%	0.0%	8.4%	8.4%	8.4%	0	5,323	0	0	\$2.83
B	619,399	19.9%	1.1%	21.0%	19.9%	22.2%	14,378	-18,278	0	0	\$2.72
C	326,557	6.7%	0.0%	6.7%	6.7%	6.7%	0	13,018	0	0	\$1.97
Total	1,061,256	14.6%	0.6%	15.2%	14.6%	15.9%	14,378	63	0	0	\$2.62
West Central											
A	0	n/a	n/a	n/a	n/a	n/a	0	0	0	0	n/a
B	327,699	1.7%	0.0%	1.7%	1.7%	4.1%	7,871	7,871	0	0	\$2.63
C	871,355	5.7%	0.0%	5.7%	5.7%	7.1%	12,043	29,862	0	0	\$2.02
Total	1,199,054	4.6%	0.0%	4.6%	4.6%	6.2%	19,914	37,733	0	0	\$2.08
HISTORICAL											
21q3	8,409,926	10.5%	0.3%	10.8%	10.3%	11.3%	81,618	168,500	0	178,660	\$2.34
21q2	8,409,926	11.6%	0.2%	11.8%	11.3%	11.4%	15,691	86,882	0	89,330	\$2.29
21q1	8,399,926	11.5%	0.2%	11.8%	11.4%	11.4%	71,191	71,191	10,000	79,330	\$2.26
20q4	8,320,596	11.6%	0.2%	11.7%	11.4%	10.7%	-29,286	117,506	24,000	35,000	\$2.21
20q3	8,290,596	10.9%	0.2%	11.1%	10.7%	10.9%	46,028	146,792	0	20,000	\$2.25

480 offices in 67 countries on 6 continents

United States: 160
Canada: 49
Latin America: 14
Asia Pacific: 97
EMEA: 108



\$3.3B
in revenue



2B
square feet under management



18,000 +
professionals and staff

About Colliers

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