

ARIZONA | MEDICAL OFFICE

Q4 2020

Accelerating success.

Q4 2020:

Key Takeaways

- > The year that seemed to never end has finally concluded. COVID-19 cases spiked again as the colder winter months arrived in Arizona, but with the help of a business-minded governor, the state did not enter a second lockdown like many neighboring states had to unfortunately bare. The vaccine distribution provides a path to normalization, which should lead to an economic catch up and optimism for the year ahead to deliver pent-up growth. From the peak of unemployment in April hitting an all-time high of 12.5 percent, metro Phoenix has gradually and diligently been moving in a positive direction. The area has recovered nearly 79 percent of the initial jobs lost. In the months of October and November the Ambulatory Health Care Service industry increased jobs by 2.12 and 3.02 percent respectively, compared to the same months last year. Colleges and universities are experiencing increased enrollment in medical-related programs because of the high demand for healthcare employees in Phoenix.
- > Maricopa County ranked #1 in Talent Attraction, according to EMSI's 2020 Talent attraction scorecard that was released in December of 2020. Key highlights from the score showed that larger metro areas like Los Angeles (finished at the bottom of the list) are struggling to retain talent, and mid-sized markets made up more than half of the top 100 (601 total).

Greater Phoenix Medical Office Market

The Medical Office market added 26,451 square feet of inventory in the fourth quarter, including a 16,000-square-foot building fully leased to BioLife Plasma Services in the Glendale submarket. This submarket led the market with the most product delivered in 2020. In addition, a 10,451-square-foot building in the West I-10 submarket was completed and fully leased to Estrella Women's Health Center.

Net Absorption during fourth quarter reached 111,974 square feet, marking the fourth consecutive quarter of positive net absorption, and

Market Indicators Relative to prior period	Market Last Quarter	Market Q4 2019
Vacancy	↓	↓
Completions	↓	↓
Net Absorption	↑	↑
Asking Rents	↑	↑
Fourth Quarter Employment Trends*		
Total Nonfarm Phoenix Metro	↑	↓
Healthcare Employment Phoenix Metro	↑	↑
Total Nonfarm United States	↑	↓
Healthcare Employment United States	↑	↓

*Source: Bureau of Labor Statistics

Summary Statistics	Phoenix MOB Market
Vacancy Rate	13.2%
Change from Q4 2019 (bps)	-50
Net Absorption (thousands SF)	111
New Construction (thousands SF)	26
Under Construction (thousands SF)	344
Asking Rents Per Square Foot Per Year	\$22.28
Change from Q4 2019	5.3%

Greater Phoenix Medical Office Market (continued)

ending 2020 with a total 485,566 square feet of positive absorption.

Glendale, which led net absorption for the past two quarters, was passed by the West I-10 submarket in the fourth quarter, followed by Central Scottsdale and Loop 303/Surprise rounding out the top three submarkets.

Vacancy dropped to 13.2 percent, 50 bps lower year-over-year and 20 bps lower over-the-quarter. Available Sublease space decreased by 16.0 percent over-the-quarter and increased 32.2 percent compared to fourth quarter of 2019.

Investment sales volume captured momentum during the fourth quarter, increasing 45.2 percent over-the-quarter, but decreasing 8.5 percent over-the-year to \$66.5 million. The median price per square foot increased 18.4 percent over-the-quarter to the current \$174 per square foot. This figure is below the 2019 year-end price by 21.1 percent. Cap rates remain low at below eight percent.

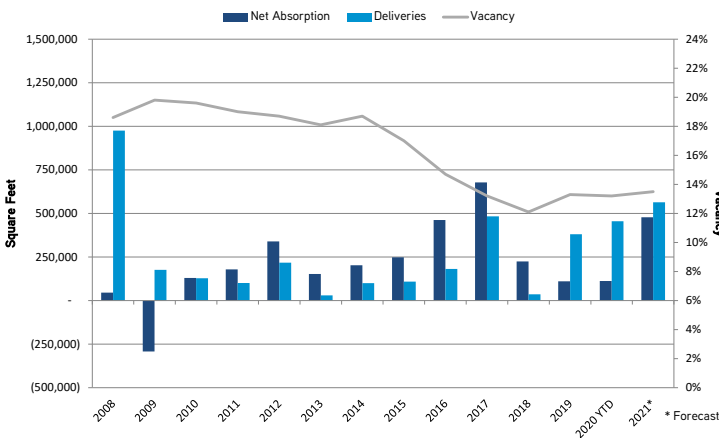
Rental rates stayed strong throughout the quarter, increasing 1.2 percent since third quarter and elevating 5.3 percent year-over-year to end 2020 at \$22.28 per square foot.

Recent Transactions in the Market

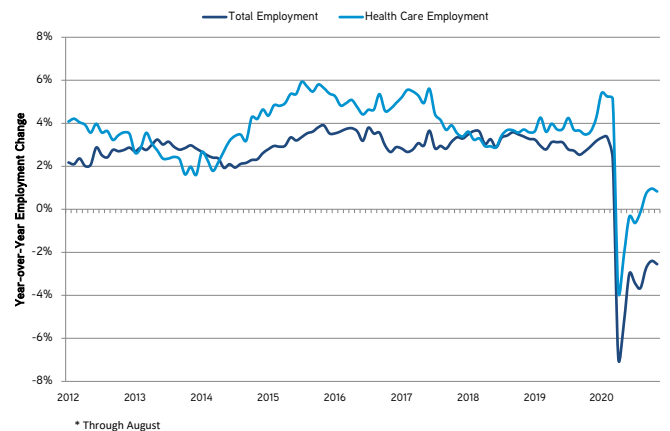
MEDICAL OFFICE SALE ACTIVITY						
Property Address	Submarket	Sale Date	Sale Price	Size SF	Sale Price SF	Class
Spectrumn Medical Commons/3367 S Mercy Rd	Gateway Airport/ Loop 202	12/30	\$21,200,000	43,355	\$489	A
875 S Dobson Rd	Chandler	10/27	\$9,718,000	20,084	\$484	B
Agua Caliente/6868 E Becker Ln	Central Scottsdale	12/30	\$4,396,113	11,400	\$359	B

MEDICAL OFFICE LEASE ACTIVITY					
Building Name/Address	Submarket	Lease Type	Tenant	Size SF	Class
N Dobson Rd	Central Scottsdale	Direct/New	Banner Health	80,000	A
7340 E Thomas Rd	Scottsdale South	Sublease / New	Arizona Prostate Cancer Center	9,189	C
Gilbert Mercy II/3370 S Mercy Rd	Gateway Airport/ Loop 202	Direct / New	Allergy, Asthma & Immunology	7,810	A

Historical Absorption, Deliveries and Vacany Rates



Employment Overview



Vacancy:

- Direct Vacancy in the Greater Phoenix MOB market remains below 15 percent at 13.2 percent, well below 2011 levels of 20 percent. Available sublease space was not as abundant as during third quarter, decreasing 16.0 percent over-the-quarter.
- The total amount of available sublease space equates to less than 1.2 percent of the entire MOB inventory. Central Scottsdale took the largest hit year-over-year, increasing 715 percent. However, the space is quickly being absorbed decreasing 3.5 percent over-the-quarter. Available Sublease space currently makes up 4.45 percent of the entire submarket inventory.
- Downtown North submarket ended the year with the lowest vacancy rate at 2.3 percent, 20 bps lower than third quarter, but higher 40 bps year-over-year. West I-10, Airport Area, Camelback Corridor and Southwest Phoenix submarkets rounded off the top five lowest vacancies with 3.3 percent, 4.2 percent, 4.4 percent, and 5.7 percent, respectively.
- Northwest Phoenix, West I-10, Glendale, Midtown/Central Phoenix and Chandler posted the greatest decreases in vacancy year-over-year, declining by 250 bps, 170 bps, 100 bps, 100 bps and 80 bps, respectively.
- Forecast:** The rapid population growth in Metro Phoenix creates a higher demand for healthcare. Population is expected to increase at a 1.5 percent annual rate as more companies and investors focus on Phoenix as a priority market. Projects under construction are pre-leased at an astonishing rate of 76.7 percent. The continued sprawl of the city will create more demand for new construction in the West Valley and Southeast Valley.

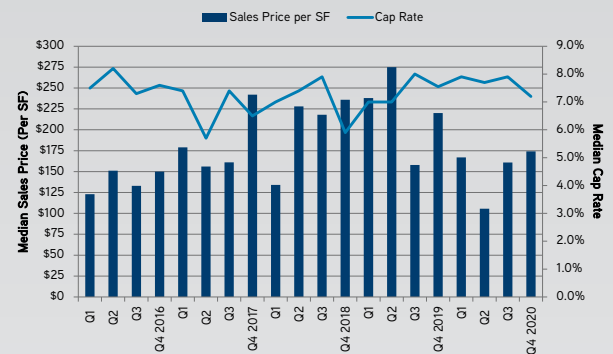
Rents:

- Rental rates managed to increase 1.2 percent over-the-quarter and 5.3 percent year-over-year, settling at \$22.28 per square foot. Over the past five years, rates have only decreased once. Average rental rates have produced an over-the-quarter increase of 0.72 percent, and a year-over-year average improvement of 2.61 percent.
- The Southwest Phoenix submarket posted the largest increase in rents year-over-year, rising 16.8 percent to the current \$24.50. West I-10 submarket had the second largest increase year-over-year at 11.3 percent and posted the largest increase over-the-quarter of 4.6 percent to \$25.98, marking the highest rents in Metro Phoenix. Chandler, Scottsdale Central and Downtown South rounded off the top five year-over-year increases at 9.3 percent to \$19.99, 8.4 percent to \$25.90 and 7.2 percent to \$25.74, respectively.
- Forecast:** Demand for healthcare will stay strong in Phoenix, forcing rents within Medical Office market to continue increasing. Leasing activity has not fully recovered to 2019 levels, but the activity is expected to gain more traction as 2021 unfolds.

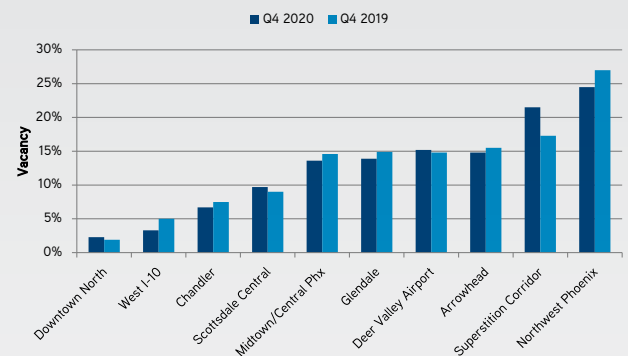
Investment Trends:

- Investment sales volume (Colliers research tracks deals over 10,000 SF and \$1 million) increased 45.2 percent over-the-quarter, ending at \$66,531,873, but remained below 2019 levels by 8.5 percent. This increase was heavily driven by the \$21.2 million sale of Spectrum Medical Commons, a 43,355-square-foot, multi-tenant building in Gateway Airport/Loop 202 submarket.
- Annual investment sales could not compete with 2019, mainly caused by the low volume of sales in second and third quarter. Sales decreased 49.8 percent year-over-year ending 2020 at \$191.8 million.

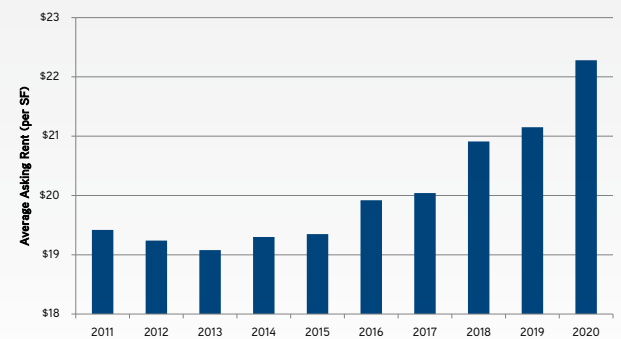
Medical Office Building Sales Trends



Vacancy Among Major Submarkets



Asking Rent Trends



Medical Office Market

EXISTING PROPERTIES		DIRECT VACANCY		SUBLEASE AVAILABLE		TOTAL AVAILABLE	DIRECT VACANT	NET ABSORPTION - SF		NEW SUPPLY - SF		UNDER CONSTR. AVG. RENT	
BLDGS.	TOTAL INVENTORY SF	SF	RATE	SF	RATE	Q4-20	Q4-19	CURRENT PERIOD	YTD	CURRENT PERIOD	YTD	SF	RATE (FS)
CENTRAL BUSINESS DISTRICT													
Downtown North													
28	1,241,943	28,150	2.3%	1,356	0.1%	2.4%	1.9%	2,540	(4,544)	-	-	-	\$21.27
Downtown South													
6	843,009	97,239	11.5%	13,162	1.6%	13.1%	11.9%	(1,448)	2,790	-	-	-	\$25.74
SUBURBAN													
44th St. Corridor													
4	71,031	13,938	19.6%	-	0.0%	19.6%	19.6%	18,000	0	-	-	-	-
Airport Area													
3	133,529	5,559	4.2%	8,841	6.6%	10.8%	4.2%	(5,559)	-	-	-	-	\$14.39
Arrowhead													
61	1,642,161	243,000	14.8%	5,681	0.3%	15.1%	15.5%	15,706	56,960	-	53,794	128,000	\$24.67
Camelback Corridor													
11	479,137	21,065	4.4%	2,092	0.4%	4.8%	9.3%	13,828	23,514	-	-	-	\$20.81
Chandler													
59	1,163,054	77,498	6.7%	-	0.0%	6.7%	7.5%	7,396	10,257	-	-	65,000	\$19.99
Deer Valley Airport													
36	1,283,504	195,321	15.2%	6,615	0.5%	15.7%	14.8%	2,531	18,360	-	27,500	-	\$25.53
Gateway Airport/Loop 202													
32	963,402	147,234	15.3%	-	0.0%	15.3%	11.4%	(3,579)	14,481	-	58,647	61,500	\$23.96
Glendale													
26	1,083,699	150,792	13.9%	10,221	0.9%	14.9%	14.9%	12,793	191,051	16,000	211,500	-	\$25.18
Loop 303/Surprise													
36	1,030,654	135,187	13.1%	3,093	0.3%	13.4%	13.5%	20,347	21,283	-	19,500	-	\$23.36
Mesa Downtown													
5	79,402	20,968	26.4%	-	0.0%	26.4%	19.6%	(6,995)	(5,428)	-	-	-	\$12.00
Mesa East													
39	799,474	107,524	13.4%	43,050	5.4%	18.8%	12.7%	(19,690)	(6,217)	-	-	-	\$17.95
Midtown/Central Phoenix													
35	1,200,174	163,391	13.6%	19,418	1.6%	15.2%	14.6%	(21,070)	11,412	-	-	-	\$21.86
Northwest Phoenix													
55	1,469,648	360,224	24.5%	4,372	0.3%	24.8%	27.0%	(2,652)	56,228	-	-	-	\$17.47
Paradise Valley													
40	1,107,864	192,389	17.4%	19,166	1.7%	19.1%	18.2%	(7,194)	8,891	-	-	-	\$21.53
Piestewa Peak Corridor													
8	297,822	67,786	22.8%	-	0.0%	22.8%	24.5%	(443)	5,066	-	-	-	\$19.33
Scottsdale Airpark													
32	833,939	85,721	10.3%	9,096	1.1%	11.4%	9.0%	13,481	(10,559)	-	-	-	\$24.09
Scottsdale Central													
51	1,429,356	138,914	9.7%	63,661	4.5%	14.2%	9.0%	23,121	(9,891)	-	-	90,000	\$25.90
Scottsdale South													
26	619,293	76,324	12.3%	1,841	0.3%	12.6%	17.9%	19,488	34,239	-	-	-	\$21.37

Medical Office Market

EXISTING PROPERTIES		DIRECT VACANCY		SUBLEASE AVAILABLE		TOTAL AVAILABLE	DIRECT VACANT	NET ABSORPTION - SF		NEW SUPPLY - SF		UNDER CONSTR	AVG. RENT	
BLDGS.	TOTAL INVENTORY SF	SF	RATE	SF	RATE	Q4-20	Q4 -19	CURRENT PERIOD	YTD	CURRENT PERIOD	YTD	SF	RATE (FS)	
SUBURBAN														
South Tempe/Ahwatukee														
16	373,946	61,331	16.4%	-	0.0%	16.4%	20.7%	8,939	15,910	-	-	-	\$18.08	
Southwest Phoenix														
9	183,048	10,356	5.7%	-	0.0%	5.7%	-	-	23,801	-	34,157	-	\$24.50	
Superstition Corridor														
50	1,634,059	351,048	21.5%	11,503	0.7%	22.2%	17.3%	(24,352)	(67,764)	-	-	-	\$22.17	
Tempe														
22	497,847	61,554	12.4%	-	0.0%	12.4%	15.0%	12,970	17,917	-	-	-	\$17.35	
West I-10														
22	1,137,114	36,978	3.3%	9,716	0.9%	4.1%	5.0%	33,816	77,809	10,451	81,427	-	\$25.98	
GRAND TOTAL														
712	21,598,109	2,849,491	13.2%	232,884	1.1%	14.3%	13.7%	111,974	485,566	26,451	486,525	344,500	\$22.28	
QUARTERLY TOTALS														
2020 4Q	712	21,598,109	2,849,491	13.2%	232,884	1.1%	14.3%	13.7%	111,974	485,566	26,451	486,525	344,500	\$22.28
2020 3Q	704	21,224,333	2,949,038	13.2%	282,752	1.1%	14.7%	13.9%	87,913	329,434	106,000	460,074	280,951	\$22.02
2020 2Q	701	21,118,333	2,900,953	13.7%	241,147	1.1%	14.5%	13.7%	169,788	241,521	265,697	354,074	299,451	\$21.60
2020 1Q	694	20,841,660	2,834,097	13.6%	241,267	1.2%	14.3%	13.6%	71,733	71,733	88,377	88,377	576,124	\$21.51
2019 4Q	691	20,764,259	2,837,460	13.7%	191,633	0.9%	14.1%	13.7%	(75,463)	(33,738)	73,416	73,416	471,574	\$21.15

As new, corrected or updated information is obtained, it is incorporated in both current and historical data, which may invalidate comparison to previously issued reports.

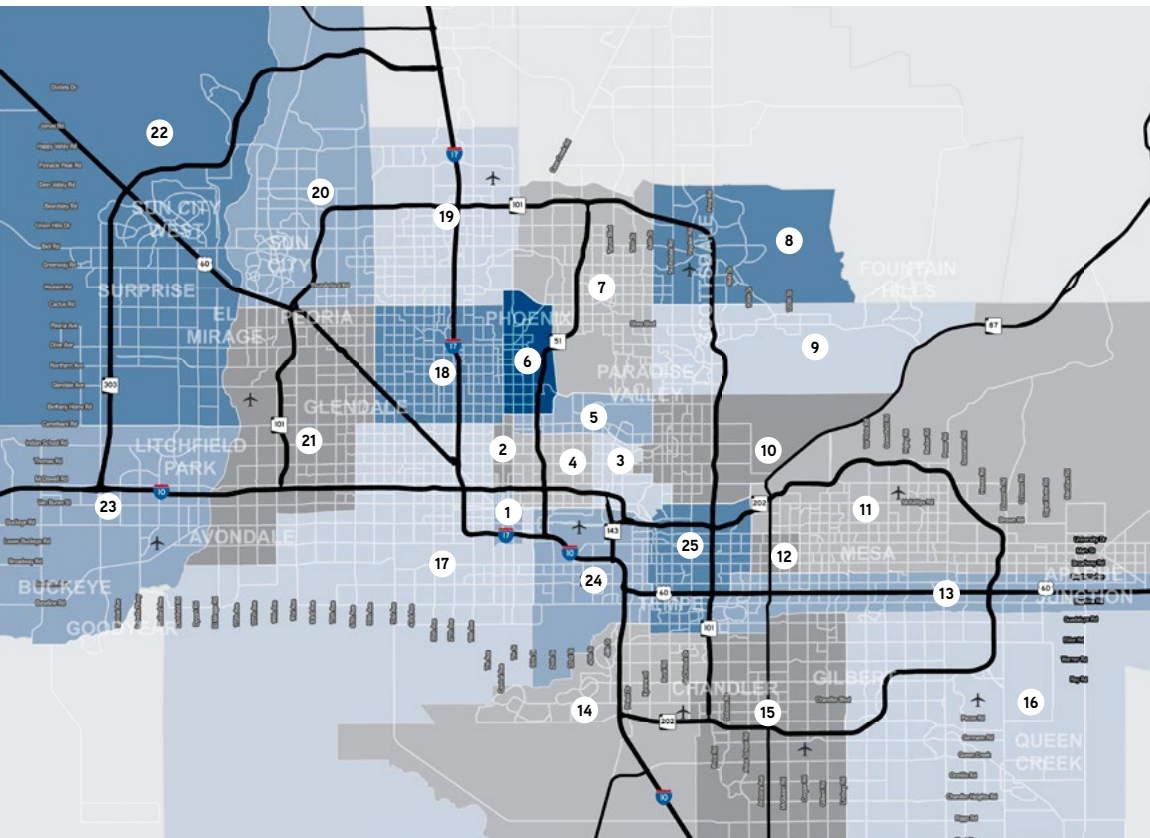
Outlook:

The outlook for the Greater Phoenix Medical Office market remains extremely positive. Phoenix is moving up to become a top tier market, competing with larger markets for corporate headquarters and attracting more people to the well-developed labor force. There is strong, pent-up demand from companies that signed short-term renewals during the pandemic because of the unknown factor. New construction will continue to thrive because of the increased demand.

Vaccine progress will stand out as a dominant market narrative throughout 2021. As confidence grows, we will experience a transition year, moving back to services from goods, and to in-person from

virtual. The scars of 2020 will remain vivid from businesses that did not survive, but the market is in a great position to continue pushing forward.

In the midst of the COVID-19 outbreak, information and data are emerging at a quick and uneven rate. The information contained herein has been obtained from sources deemed reliable at the time the report was written. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.



1. Downtown South
2. Downtown North
3. 44th St. Corridor
4. Midtown/Central Phoenix
5. Camelback Corridor
6. Piestewa Peak Corridor
7. Paradise Valley
8. Scottsdale AirPark
9. Central Scottsdale
10. Scottsdale South
11. Mesa East
12. Mesa Downtown
13. Superstition Corridor
14. South Tempe/Ahwatukee
15. Chandler
16. Gateway Airport/Loop 202
17. West Phoenix
18. Northwest Phoenix
19. Deer Valley/Airport
20. Arrowhead
21. Glendale
22. Loop 303/Surprise
23. West 1-10
24. Airport Area
25. Tempe

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