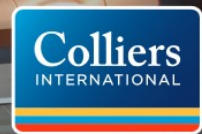


Research & Forecast Report

ARIZONA | MEDICAL OFFICE

Q2 2020



Accelerating success.

Q2 2020:

Key Takeaways

- > The Phoenix-Mesa-Scottsdale MSA unemployment rate peaked in the month of April at 12.5 percent. An estimated 310,530 workers filed for unemployment, an increase of 214 percent when compared to employment figures from February of this year, immediately before the effects of COVID-19 impacted the local, national and global economy. In the week ending April 4th Maricopa county had 47,986 initial Unemployment Insurance claims, which was led by the Accommodation and Food Service sector struggling because of closures caused by Governors Ducey's Stay-at-Home order.
- > On May 15th the executive order was lifted, and Arizona's economy was quick to get back on track to its previous healthy economy. Of the 51 metropolitan areas with a 2010 Census population of 1 million or more, Phoenix-Mesa-Scottsdale had the lowest jobless rate of 8.3 percent in the month of May. Our city was followed by Birmingham-Hover, AL and Hartford-West and Hartford-East, CT at 8.7 percent. Phoenix-Mesa-Scottsdale also had the smallest unemployment increase over-the-year, rising only 4.3 percent in May. Hospital and Nursing & Residential Care Facilities industries had the smallest loss of jobs in May relative to other categories of the Education and Health Services supersector, decreasing 0.15 and 0.25 percent, respectively.
- > According to a recent report published by Wallethub, eight valley cities ranked among the top 15 cities whose unemployment rates are bouncing back, based on a weighted score measuring unemployment from May 2019 and January 2020 against May 2020. This report measured the 150 most populated cities in the US.
- > Dignity Health noted that the number of in-hospital patients has been doubling every nine days. Due do the increase of positive Covid cases in Arizona, Governor Ducey issued a second closure of all gym, bars, and movie theaters on June 29th for 30 days. Hospital leaders fear that if a vaccine is not available before flu season hits in the fall that they will not have capacity to manage the influx of patients.



Market Indicators Relative to prior period	Market Last Quarter	Market Q2 2019
Vacancy	↓	↑
Completions	↑	↑
Net Absorption	↑	↑
Asking Rents	↑	↑
First 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	13.8%
Change from Q2 2019 (bps)	20
Net Absorption (thousands SF)	192
New Construction (thousands SF)	244
Under Construction (thousands SF)	642
Asking Rents Per Square Foot Per Year	\$21.58
Change from Q2 2019	4.3%



Key Takeaways (continued)

Greater Phoenix Medical Office Market

The Medical Office market added 244,956 square feet of inventory in the second quarter with a vacancy of only 18 percent within these projects. Second quarter brought the largest new supply of medical office space since third quarter 2017 when 411,926 square feet were delivered. Approximately 192,001 square feet of net absorption took place during second quarter, marking the second consecutive quarter of positive net absorption and highest since fourth quarter of 2018.

Vacancy settled at 13.8 percent, 20 bps higher year-over-year, but decreased 50 bps over-the-quarter.

Investment sales volume drastically decreased 82 percent over-the-quarter and 89 percent over-the-year to \$11 million. The median price per square foot declined for the second consecutive quarter to \$106 per square foot, and fell below the five-year median of \$189. Cap rates remain low and below 8 percent.

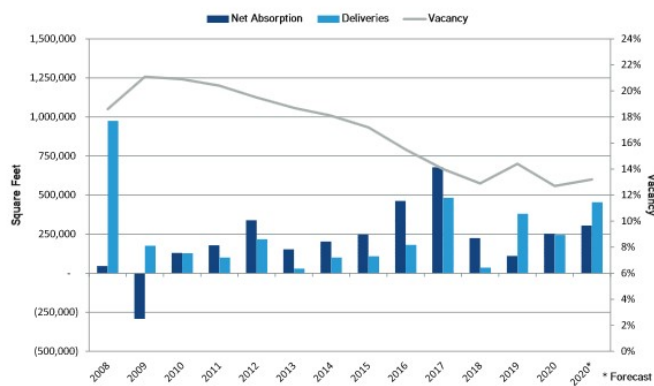
Glendale submarket was one of the primary drivers of positive net absorption led by Maricopa Integrated Health Systems' move into its newly constructed 127,000-square-foot building. Northwest Phoenix, Arrowhead, Gateway Airport/Loop 202 and Mesa East round off the top five submarkets posting positive net absorption.

Recent Transactions in the Market

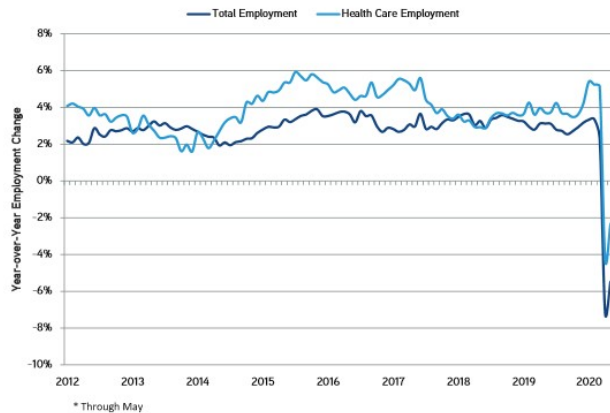
MEDICAL OFFICE SALE ACTIVITY						
Property Address	Submarket	Sale Date	Sale Price	Size SF	Sale Price SF	Class
3225 N Civic Center Plaza	Scottsdale South	4/8	\$2,090,000	10,230	\$204	B
300 E Osborn Rd	Midtown	6/16	\$2,429,000	19,128	\$127	B
15600-15650 N Black Canyon Hwy	Deer Valley/Airport	5/7	\$1,245,000	11,800	\$105	B

MEDICAL OFFICE LEASE ACTIVITY					
Building Name/Address	Submarket	Lease Type	Tenant	Size SF	Class
14753 W Mountain View Blvd	Loop 303/Surprise	Direct / New	Regency Specialties	19,500	A
13481 W McDowell Rd	West I-10	Direct / New	Cigna Healthcare	8,169	B
7125 E Lincoln Dr	Scottsdale South	Direct / New	Clear Dermatology & Aesthetics Center	6,143	B

Historical Absorption, Deliveries and Vacany Rates



Employment Overview



Vacancy:

- › Vacancy in the Greater Phoenix MOB market remains below 15 percent and well below 20 percent last witnessed in 2012. Despite minor deviations, vacancy has generally trended downward since Q3 2012's high. An estimated 53 percent of the 642,157 square feet currently under construction is pre-leased.
- › Downtown North and South, Mesa Downtown, West I-10 and Chandler reported the lowest vacancies this quarter, 3.1%, 5.4%, 6.9%, 6.9% and 8.9%, respectively.
- › Central Scottsdale, Midtown/Central Phoenix and Northwest Phoenix each decreased vacancy by more than 10 percent year-over-year, 35.5%, 19.0%, and 12.0%, respectively.
- › **Forecast:** The healthcare field is one of the top industries (number of jobs) affected by COVID-19. This industry will have a lower financial risk, which will make it one of the fastest industries to recover. Topped with the rapid growth of Metro Phoenix population, healthcare will be in higher demand. Since 53 percent of construction is pre-leased, new inventory will not force vacancy to drastically increase.

Rents:

- › Rental rents managed to increase 0.7 percent over-the-quarter, and 4.3 percent year-over-year settling at \$21.58 per square foot. Since Q2 2017, rates have only decreased one quarter and have averaged an over-the-quarter increase of 0.76 percent, and a year-over-year average of 2.54 percent.
- › Year-over-year asking rents increased the most in Central Scottsdale and South Tempe/Ahwatukee submarkets, rising 8.9 percent to \$26.14, and 6.8 percent to \$17.63 per square foot, respectively. Rounding out the top five submarkets showing year-over-year rent growth are Deer Valley, which increased 5.2 percent to \$25.24; Paradise Valley increased 4.7 percent to \$21.62; and Northwest Phoenix increased 4.3 percent to \$16.94. Glendale submarket ended the quarter with the highest quarter-over-quarter increase of 2.9 percent at \$25.26, and Scottsdale Central submarket closed the quarter with the highest rents at \$26.14, increasing 0.8 percent over-the-quarter.
- › **Forecast:** Healthcare will remain in high demand. Asking rents within the Greater Phoenix MOB market are expected to softly increase next quarter. However, the unknown Coronavirus factors will significantly influence leasing activity. Until tenants are fully confident about returning to work, deals will be slow to complete.

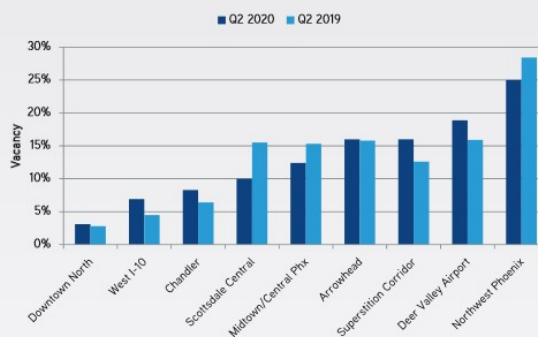
Investment Trends:

- › Investment sales volume (Collier research tracks deals over 10,000 SF and \$1 million) sharply fell to only \$11.6 million within just five transactions during second quarter. The median price per square foot dropping as well, to \$106 per square foot.
- › Removing size and dollar requirements, the median price per square foot was \$184, marking a decrease of just 5.2 percent over-the-quarter, and 23 percent year-over-year. We note that deals are closing on smaller spaces, rather than larger ones.
- › Medical Office Condo investment sales volume showed competitive activity this quarter, decreasing only 2.7 percent over-the-quarter to \$13.5 million. The median price per square foot decreased 7.4 percent to \$217.

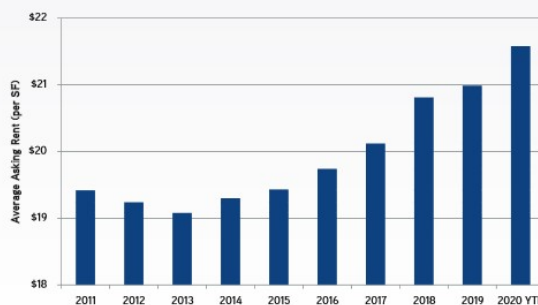
Medical Office Building Sales Trends



Vacancy Among Major Submarkets



Asking Rent Trends



Medical Office Market

EXISTING PROPERTIES		DIRECT VACANCY		SUBLEASE VACANCY		TOTAL VACANCY			NET ABSORPTION - SF		NEW SUPPLY - SF		UNDER CONSTR. AVG. RENT	
BLDGS.	TOTAL INVENTORY SF	SF	RATE	SF	RATE	SF	Q4-19	Q4-18	CURRENT PERIOD	YTD	CURRENT PERIOD	YTD	SF	RATE (FS)
CENTRAL BUSINESS DISTRICT														
Downtown North														
24	1,116,984	33,360	3.0%	1,356	0.1%	34,716	3.1%	2.8%	(5,900)	(9,754)	-	-	-	\$19.12
Downtown South														
6	674,069	36,496	5.4%	-	0.0%	36,496	5.4%	6.1%	(1,885)	(1,885)	-	-	227,000	\$13.14
SUBURBAN														
44th St. Corridor														
4	72,403	31,938	44.1%	-	0.0%	31,938	44.1%	17.6%	0	0	-	-	-	\$23.50
Airport Area														
8	263,854	-	0.0%	-	0.0%	-	0.0%	0.0%	0	-	-	-	-	\$15.00
Arrowhead														
60	1,624,757	254,731	15.7%	4,742	0.3%	259,473	16.0%	15.8%	28,620	43,229	26,393	51,794	128,000	\$23.45
Camelback Corridor														
9	354,325	28,382	8.0%	9,928	2.8%	38,310	10.8%	10.4%	(2,918)	(2,918)	-	-	-	\$23.79
Chandler														
58	1,143,754	80,237	7.0%	14,133	1.2%	94,370	8.3%	6.4%	5,684	5,684	13,416	13,416	-	\$18.63
Deer Valley Airport														
35	1,114,868	205,728	18.5%	4,574	0.4%	210,302	18.9%	15.9%	(39,906)	(23,460)	-	-	-	\$25.24
Gateway Airport/Loop 202														
33	1,094,163	164,264	15.0%	-	0.0%	164,264	15.0%	9.0%	20,067	4,007	58,647	58,647	39,000	\$24.56
Glendale														
24	999,299	114,392	11.4%	2,096	0.2%	116,488	11.7%	18.9%	131,444	144,970	127,000	127,000	68,000	\$25.26
Loop 303/Surprise														
34	1,008,654	163,386	16.2%	10,174	1.0%	173,560	17.2%	12.3%	9,746	(8,760)	19,500	19,500	30,000	\$23.17
Mesa Downtown														
9	185,346	12,723	6.9%	-	0.0%	12,723	6.9%	5.1%	-	2,817	-	-	-	\$11.31
Mesa East														
40	805,975	108,545	13.5%	2,995	0.4%	111,540	13.8%	15.1%	11,198	42,628	-	-	-	\$17.09
Midtown/Central Phoenix														
33	1,161,846	144,489	12.4%	-	0.0%	144,489	12.4%	15.3%	(19,106)	32,504	-	-	-	\$20.47
Northwest Phoenix														
52	1,407,391	342,333	24.3%	9,322	0.7%	351,655	25.0%	28.4%	46,596	44,633	-	-	-	\$16.94
Paradise Valley														
39	1,082,451	198,159	18.3%	10,471	1.0%	208,630	19.3%	21.9%	(6,656)	(5,246)	-	-	-	\$21.62
Piestewa Peak Corridor														
8	295,431	71,310	24.1%	-	0.0%	71,310	24.1%	24.1%	346	1,542	-	-	-	\$18.63
Scottsdale Airpark														
30	798,559	89,661	11.2%	21,184	2.7%	110,845	13.9%	4.3%	(1,117)	(21,610)	-	-	-	\$24.45
Scottsdale Central														
50	1,314,534	126,116	9.6%	5,984	0.5%	132,100	10.0%	15.5%	(2,298)	(1,064)	-	-	90,000	\$26.14
Scottsdale South														
24	594,235	104,060	17.5%	1,841	0.3%	105,901	17.8%	12.1%	11,083	8,037	-	-	-	\$21.55

Medical Office Market

EXISTING PROPERTIES		DIRECT VACANCY		SUBLEASE VACANCY		TOTAL VACANCY			NET ABSORPTION - SF		NEW SUPPLY - SF		UNDER CONSTR.	AVG. RENT
BLDGS.	TOTAL INVENTORY SF	SF	RATE	SF	RATE	SF	Q4-19	Q4 -18	CURRENT PERIOD	YTD	CURRENT PERIOD	YTD	SF	RATE (FS)
SUBURBAN														
South Tempe/Ahwatukee														
16	359,381	69,291	19.3%	11,500	3.2%	80,791	22.5%	23.1%	5,102	11,260	-	-	-	\$17.63
Southwest Phoenix														
12	254,835	-	0.0%	-	0.0%	-	0.0%	0.0%	0	0	-	-	50,157	\$24.01
Superstition Corridor														
50	1,654,843	259,444	15.7%	5,000	0.3%	264,444	16.0%	12.6%	(6,588)	(17,140)	-	-	-	\$21.85
Tempe														
23	537,847	69,431	12.9%	2,000	0.4%	71,431	13.3%	15.0%	6,592	9,090	-	-	-	\$17.34
West I-10														
20	1,131,015	65,520	5.8%	12,407	1.1%	77,927	6.9%	4.5%	1,897	5,665	-	40,000	10,000	\$23.90
GRAND TOTAL														
701	21,050,819	2,773,996	13.2%	129,707	0.6%	2,903,703	13.8%	13.6%	192,001	264,229	244,956	310,357	642,157	\$21.58

QUARTERLY TOTALS

2020 2Q	701	21,050,819	2,773,996	13.2%	129,707	0.6%	2,903,703	13.8%	13.6%	192,001	264,229	244,956	310,357	642,157	\$21.58
2020 1Q	668	20,170,177	2,798,395	13.9%	136,318	0.7%	2,934,713	14.5%	13.4%	24,349	24,349	78,817	78,817	854,197	\$21.42
2019 4Q	657	20,032,966	2,796,188	14.0%	90,665	0.5%	2,886,853	14.4%	13.9%	(2,367)	110,409	98,817	380,269	790,040	\$20.99
2019 3Q	643	19,180,306	2,484,036	13.0%	124,992	0.7%	2,609,028	13.6%	13.9%	98,576	6,216	80,000	211,852	451,794	\$21.16
2019 2Q		18,955,485	2,524,216	13.3%	139,714	0.7%	2,663,930	14.1%		(152,827)		0		446,001	\$21.07

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.

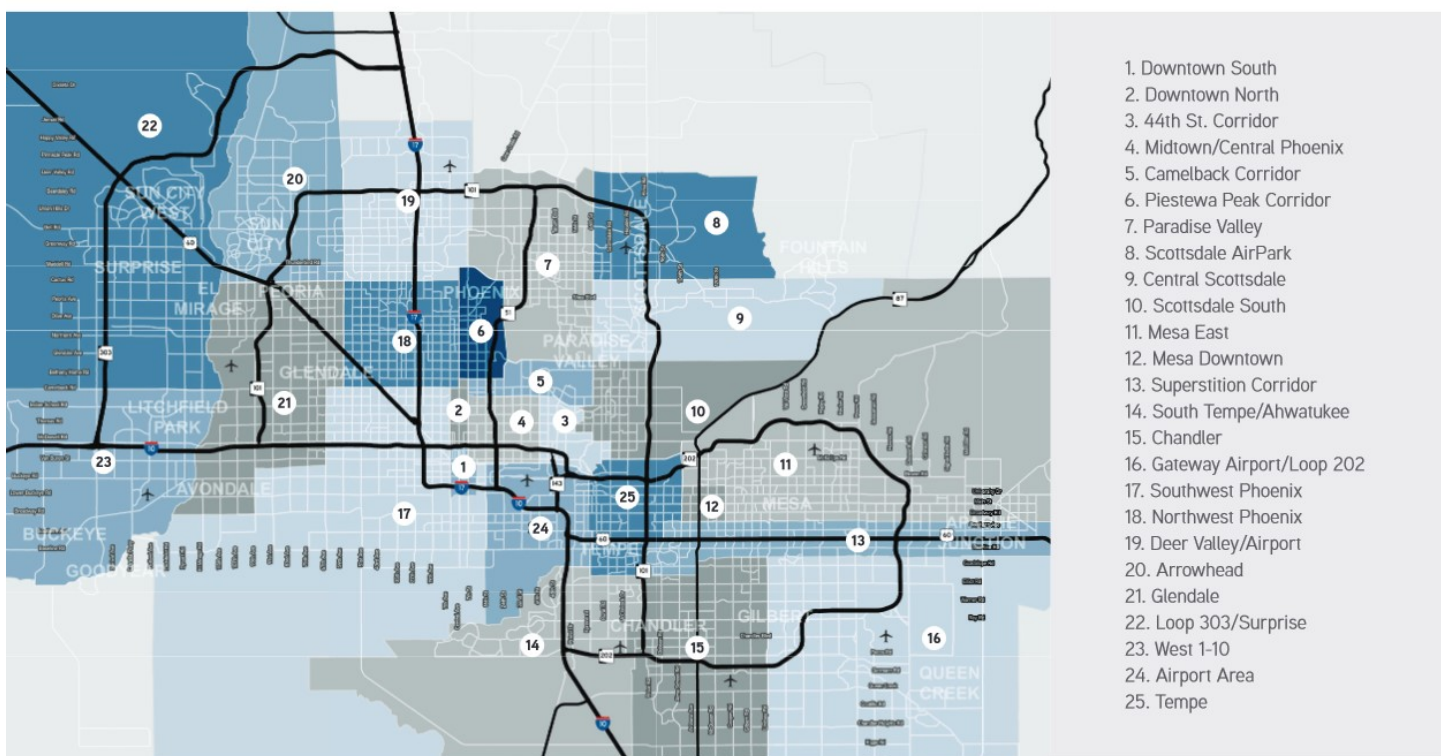
Outlook:

The Medical Office forecast remains extremely positive for the tail end of 2020. Healthcare is expected to be one of the quickest industries to bounce back from the pandemic. Leasing and investment sales activity took an uncontrolled slowdown in the second quarter. There is a conglomerate of paused deals waiting to be completed. More demonstrated confidence will be required to finish the transactions. Investors are still in the market looking to secure deals, but the due diligence phase has significantly increased because both the lenders and investors require a high percentage of certainty to move forward.

July 31st will be a crucial day for the commercial real estate market and the entire economy, because the additional \$600 supplement benefit is set to expire. An extension is viewed under two different lenses. One would argue that an added benefit would hinder the

economy because some employees are making more money not returning to work. On the other hand, if an employer cannot open their business, there is zero cash flow to pay employees. This unresolved policy question will be the primary focus in the weeks ahead.

In the midst of the COVID-19 outbreak, information and data is 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.



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