

## Q3 2020:

### Key Takeaways

- COVID-19 encouraged us to re-evaluate how we track and categorize absorption and vacancy as sublease space became a noteworthy factor here in Greater Phoenix. Previously, if a tenant placed space in the market for sublease and had moved out of the square footage, we categorized the move as negative absorption and increased Sublease Vacancy. However, COVID-19 peeled open a flaw in the previous recordings. The tenant maintains an agreement with the landlord and is contractually obligated to pay rent for the space until a new subtenant has filled the available space even though the tenant has moved out. Because the space remains leased, though perhaps not occupied, we will not consider such vacancy as negative net absorption. Instead, absorption will be tracked on a leased status basis, regardless of tenant occupancy.
- According to the US Bureau of Labor and Statistics, of the 51 metropolitan areas with a 2010 Census population of 1 million or more, Phoenix-Mesa-Scottsdale recorded the smallest unemployment increase from a year earlier in August. Our metropolitan area posted a mere 1.7 percent increase in unemployment to its current 5.9 percent. This posting displays a strong recovery within our market since April when our unemployment peaked at 12.5 percent.
- Opportunity Insights released a report measuring the percentage change of small businesses open in January 2020 compared to September 25th. Phoenix landed in the #8 position at -19 percent, Omaha Nebraska landed with the lowest percent change at -13 percent, whereas San Francisco placed at the bottom of the ranking with a -49 percent change.

### Greater Phoenix Medical Office Market

The Medical Office market added 106,000 square feet of inventory in the third quarter with high vacancy of 47 percent within three projects, focused primarily in the Glendale and Deer Valley submarkets. Net

#### Market Indicators

Relative to prior period

Market  
Last Quarter

Market  
Q3 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

13.7%

Change from Q3 2019 (bps)

100

Net Absorption (thousands SF)

87

New Construction (thousands SF)

106

Under Construction (thousands SF)

587

Asking Rents

\$21.90

Per Square Foot Per Year

Change from Q3 2019

3.8%



## Greater Phoenix Medical Office Market (continued)

Absorption remained positive ending at 87,913 square feet, marking the third consecutive quarter of positive net absorption.

Vacancy settled at 13.7 percent, 100 bps higher year-over-year and 30 bps higher over-the-quarter. Available Sublease space increased by 17 percent over-the-quarter and an astonishing 164 percent since third quarter of 2019.

Investment sales volume drastically increased 250 percent over-the-quarter but decreased 15 percent over-the-year to \$40 million. The

median price per square foot increased 52 percent over-the-quarter to the current \$160 per square foot, and fell below the five-year median of \$189. Cap rates remain low at below eight percent.

For the second consecutive quarter, Glendale submarket was one of the primary drivers of positive net absorption after the delivery and move-in of akos at akos Medical Campus Phase I. Deer Valley/Airport, Paradise Valley, Northwest Phoenix, West I-10, and Scottsdale South submarkets round off the top five in posting positive net absorption.

## Recent Transactions in the Market

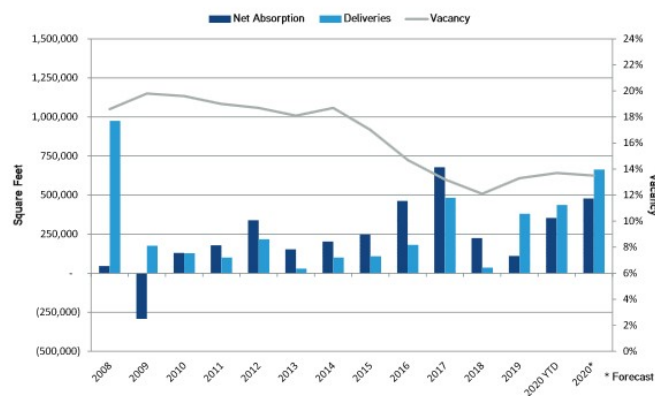
## MEDICAL OFFICE SALE ACTIVITY

Property Address	Submarket	Sale Date	Sale Price	Size SF	Sale Price SF	Class
9201 E Mountain View Rd/Scottsdale Gateway I	Central Scottsdale	7/30	\$27,000,000	107,049	\$252	B
3724 N 3rd St	Midtown	9/18	\$3,950,000	19,259	\$205	B
8787 E Pinnacle Peak Rd/The Alamos Building	Scottsdale Airpark	7/30	\$3,800,000	21,731	\$174	B

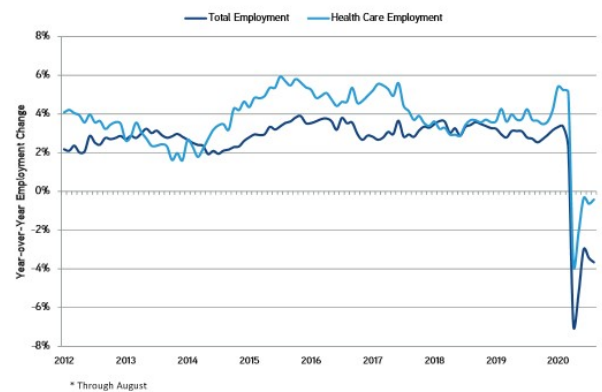
## MEDICAL OFFICE LEASE ACTIVITY

Building Name/Address	Submarket	Lease Type	Tenant	Size SF	Class
Rio 2100/2120 E Rio Salado Pkwy	Tempe	Sublease/New	Bright Health	28,000	A
Physicians Medical Plaza of North Mountain 9250 N 3rd St	Piestewa Peak	Direct / New	HonorHealth	25,711	A
Thunderbird Paseo Medical Plaza 5601 W Eugie Ave	Deer Valley/Airport	Direct / New	Banner Medical Group	13,049	B

## Historical Absorption, Deliveries and Vacany Rates



## Employment Overview





## Vacancy:

- Direct Vacancy in the Greater Phoenix MOB market remains below 15 percent, well below 20 percent last witnessed in 2011. An increase in available sublease space was witnessed throughout Metro Phoenix increasing 17 percent since the previous quarter and 164 percent year-over-year. However, the total amount of sublease space remains less than 1.3 percent of the entire MOB inventory. Central Scottsdale took the largest hit, increasing 215 percent over-the-quarter and making sublease space 4.7 percent of the entire submarket's inventory. Mesa East submarket had the second largest impact of sublease availability in the third quarter, increasing 38 percent over-the-quarter.
- Airport Area, Downtown North, Camelback Corridor, Chandler, and Downtown South reported the five lowest vacancies this quarter, 0.0%, 2.5%, 6.4%, 6.9%, and 7.8%, respectively.
- Glendale, Midtown/Central Phoenix, Scottsdale Central, Northwest Phoenix, and Arrowhead had the greatest decreases in vacancy year-over-year declining by, 20.2%, 18.1%, 12.4%, 6.9%, and 6.3% 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 will focus on Phoenix as a priority market. Since 56 percent of projects under construction are pre-leased, new inventory will not force vacancy to drastically increase. Yet, speculative development will be paused for the next couple month as developers' risk factor has increased due to the uncertainty of workers returning to the office.

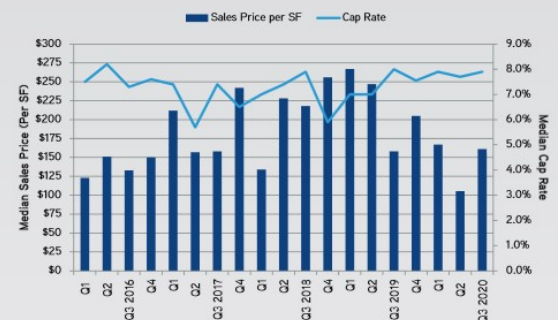
## Rents:

- Rental rates managed to increase 1.4 percent over-the-quarter and 3.8 percent year-over-year, settling at \$21.90 per square foot. During the past 20 quarters, rates have only decreased only once. Average rental rates have averaged an over-the-quarter increase of 0.70 percent, and a year-over-year average improvement of 2.59 percent.
- For the second consecutive quarter Central Scottsdale posted the largest increase in rents year-over-year, increasing 10.1 percent to the current \$26.59. This submarket's rates increased 1.6 percent over-the-quarter, marking the highest rents in Metro Phoenix. Gateway Airport/Loop 202 and Midtown/Central Phoenix followed, both increasing 5.6 percent over-the-year to \$24.59 and \$21.09, respectively. Rounding out the top five submarkets showing year-over-year rent growth; Deer Valley/Airport which increased 5.3 percent to \$25.57 and Northwest Phoenix which increased 4.7 percent to \$17.54. Chandler submarket ended the quarter with the highest quarter-over-quarter increase of 5.0 percent to \$25.26.
- Forecast:** As demand for healthcare continue to expand in the valley, asking rents within Greater Phoenix MOB market are expected to continue increasing. While leasing activity has slowed in the third quarter, it is expected to regain traction to close the year and move into early 2021.

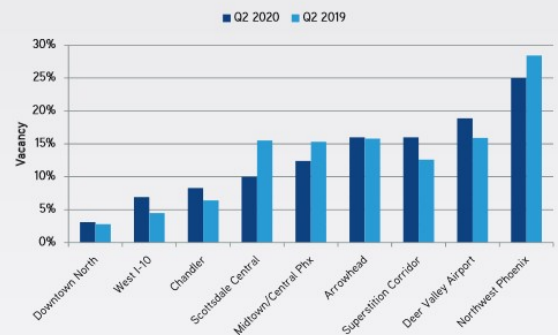
## Investment Trends:

- Investment sales volume (Colliers research tracks deals over 10,000 SF and \$1 million) increased 250 percent over-the-quarter, ending at \$40,717,560. This increase was heavily driven by the \$27 million sale of Scottsdale Gateway I, a 107,049-square-foot building in Central Scottsdale that is home to Honor Health, Matrix Medical and SimonMed.
- Medical Office Condos sales (no price or dollar requirement) favored investors this quarter. Sales volume increased 67 percent year-over-year and 29 percent over-the-quarter to \$15,945,314. The median price per square foot ended at \$233, which is a 9.4 percent increase year-over-year. Scottsdale and the Southeast Valley accounted for 61 percent of the number of deals and represented more than 70 percent of volume, with a median price per square foot of \$279.

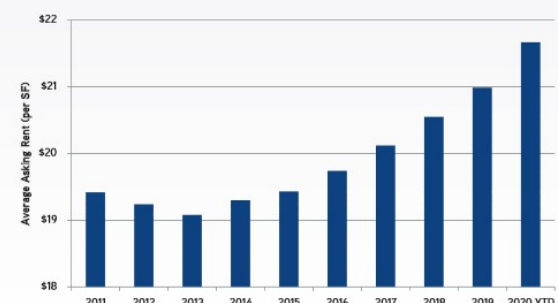
### Medical Office Building Sales Trends



### 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	Q3-20	Q3-19	CURRENT PERIOD	YTD	CURRENT PERIOD	YTD	SF	RATE (F/S)
<b>CENTRAL BUSINESS DISTRICT</b>													
<b>Downtown North</b>													
28	1,222,928	30,690	2.5%	1,356	0.1%	2.6%	1.6%	2,670	(7,084)	-	-	-	\$18.73
<b>Downtown South</b>													
5	469,996	36,496	7.8%	-	0.0%	7.8%	7.4%	-	(1,885)	-	-	227,113	\$14.05
<b>SUBURBAN</b>													
<b>44th St. Corridor</b>													
5	92,703	31,938	34.5%	-	0.0%	34.5%	15.0%	-	(18,000)	-	-	-	-
<b>Airport Area</b>													
3	133,529	-	0.0%	14,400	10.8%	10.8%	4.2%	0	5,559	-	-	-	\$14.56
<b>Arrowhead</b>													
60	1,629,497	253,631	15.6%	4,742	0.3%	15.9%	15.8%	(3,975)	44,329	-	51,794	128,000	\$23.68
<b>Camelback Corridor</b>													
8	201,725	12,858	6.4%	9,928	4.9%	11.3%	6.5%	5,508	3,447	-	-	-	\$23.11
<b>Chandler</b>													
56	1,101,050	75,864	6.9%	12,725	1.2%	8.0%	6.0%	(3,427)	1,743	-	-	65,000	\$19.67
<b>Deer Valley Airport</b>													
36	1,283,504	197,852	15.4%	3,683	0.3%	15.7%	11.4%	35,376	15,829	27,500	27,500	-	\$25.57
<b>Gateway Airport/Loop 202</b>													
30	881,670	143,655	16.3%	-	0.0%	16.3%	8.8%	(2,894)	18,060	-	58,647	61,500	\$24.59
<b>Glendale</b>													
25	1,067,799	147,585	13.8%	10,221	1.0%	14.8%	17.3%	35,307	162,636	68,500	195,500	16,000	\$25.54
<b>Loop 303/Surprise</b>													
35	1,020,654	155,534	15.2%	8,450	0.8%	16.1%	12.5%	7,852	936	-	19,500	-	\$22.86
<b>Mesa Downtown</b>													
5	79,402	13,973	17.6%	-	0.0%	17.6%	9.7%	(1,250)	1,567	-	-	-	\$12.00
<b>Mesa East</b>													
39	797,126	92,854	11.6%	47,849	6.0%	17.7%	13.9%	1,503	10,003	-	-	-	\$17.87
<b>Midtown/Central Phoenix</b>													
33	1,161,846	142,321	12.2%	19,418	1.7%	13.9%	14.9%	2,168	30,087	-	-	-	\$21.09
<b>Northwest Phoenix</b>													
55	1,469,648	357,572	24.3%	4,372	0.3%	24.6%	26.1%	12,261	58,880	-	-	-	\$17.54
<b>Paradise Valley</b>													
39	1,084,197	185,195	17.1%	19,166	1.8%	18.8%	19.7%	12,964	16,085	-	-	-	\$21.55
<b>Piestewa Peak Corridor</b>													
8	295,431	67,343	22.8%	-	0.0%	22.8%	24.7%	3,967	5,509	-	-	-	\$18.80
<b>Scottsdale Airpark</b>													
31	819,939	99,202	12.1%	2,059	0.3%	12.3%	9.8%	(6,383)	(24,040)	-	-	-	\$24.98
<b>Scottsdale Central</b>													
49	1,395,033	128,510	9.2%	65,983	4.7%	13.9%	10.5%	(1,169)	169	-	-	90,000	\$26.59
<b>Scottsdale South</b>													
24	595,081	96,689	16.2%	-	0.0%	16.2%	16.7%	7,371	13,874	-	-	-	\$21.17

## 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	Q3-20	Q3-19	CURRENT PERIOD	YTD	CURRENT PERIOD	YTD	SF	RATE (F/S)
SUBURBAN													
South Tempe/Ahwatukee													
16	372,086	70,270	18.9%	11,500	3.1%	22.0%	22.3%	(979)	6,971	-	-	-	\$17.75
Southwest Phoenix													
9	183,048	10,356	5.7%	-	0.0%	5.7%	-	(10,356)	23,801	-	34,157	-	\$24.01
Superstition Corridor													
50	1,688,293	328,860	19.5%	11,503	0.7%	20.2%	11.8%	(13,454)	(45,576)	-	-	-	\$21.70
Tempe													
22	497,847	74,524	15.0%	-	0.0%	15.0%	15.0%	(6,143)	4,947	-	-	-	\$17.60
West I-10													
20	1,101,015	64,524	5.9%	15,624	1.4%	7.3%	4.6%	10,996	26,712	10,000	50,000	-	\$25.03
GRAND TOTAL													
691	20,645,047	2,818,296	13.7%	262,979	1.3%	14.9%	12.7%	87,913	354,559	106,000	437,098	587,613	\$21.90

### QUARTERLY TOTALS

2020 3Q	691	20,645,047	2,818,296	13.7%	262,979	1.3%	14.9%	12.7%	87,913	354,559	106,000	437,098	587,613	\$21.90
2020 2Q	690	20,866,276	2,795,600	13.4%	227,985	1.1%	14.5%	12.7%	201,815	273,548	265,697	331,098	606,113	\$21.60
2020 1Q	684	20,600,579	2,731,718	13.3%	228,105	1.1%	14.4%	12.4%	71,733	71,733	65,401	64,401	871,810	\$21.51
2019 4Q	682	20,535,178	2,738,050	13.3%	183,153	0.9%	14.2%	12.1%	(75,463)	(33,738)	73,416	73,416	765,711	\$21.13
2019 3Q	680	20,461,762	2,589,171	12.7%	101,106	0.5%	13.1%	13.1%	528	41,705	0	178,752	780,627	\$21.08

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:

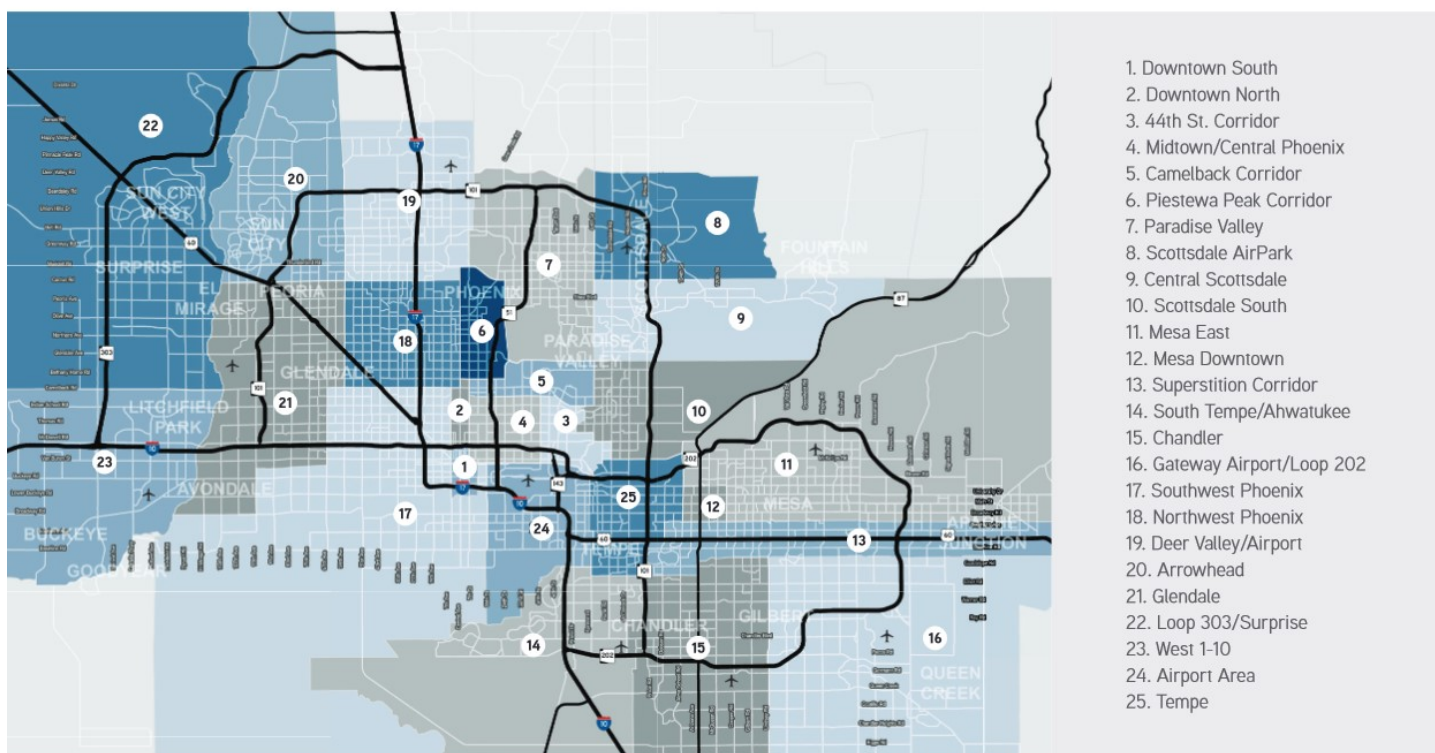
The forecast for the Medical Office market remains extremely favorable for the remainder of 2020. The healthcare industry is rebounding very quickly with employment close to pre-pandemic levels. Leasing activity will pick up slowly because of the uncertainty of companies. As we begin to see the workforce strongly push for a return to the office, this will improve trust and momentum in activity. Investor sales will continue moving forward, encouraging a strong recovery as the demand to be in the Phoenix market continues to gain strength.

According to a local generic drug manufacturer, Phoenix is in a prime position with plenty of opportunity to attract Life Sciences companies. These companies are primarily located in the high tax areas of California and New Jersey and may be looking to improve their

business environment.

The upcoming election has placed Phoenix in the spotlight and positioned us as the nation's top market for political advertising spending. At a local level, there are state propositions that could impact our economy and image as a pro-business city.

*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.*



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