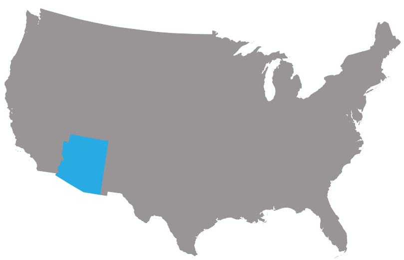
PHOENIX | ARIZONA

RESEARCH & FORECAST REPORT

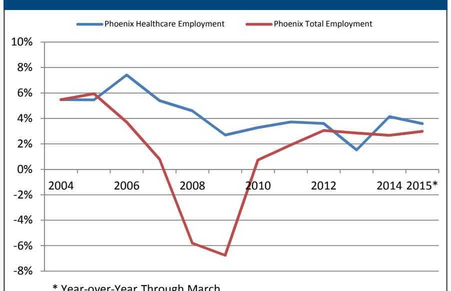


Strengthening Population Growth to Drive Healthcare Demand

MARKET INDICATORS

	Q1 2015	Q1 2014
TOTAL VACANCY	↑	↑
ON-CAMPUS VACANCY	↓	↑
COMPLETIONS	—	—
NET ABSORPTION	↓	↓
ON-CAMPUS NET ABSORPTION	↑	↓
ASKING RENTS	↓	↑

GREATER PHOENIX EMPLOYMENT



* Year-over-Year Through March

THE BROADER VIEW

The Greater Phoenix medical office market is being supported by demographic factors, with the expanding local population base fueling demand for healthcare services. These trends should continue in the years ahead, following a lull brought on by the recession. While the long-term sources of demand are in place, the healthcare industry continues to adjust to the changing regulatory climate. Mergers and acquisitions continue to impact the market, and a few large transactions by healthcare systems have made headlines to this point in 2015.

CURRENT CONDITIONS

The traditional sources of medical office space demand are on the rise in Greater Phoenix, as both population growth and employment expansion have resumed in the market. The latest population figures show annual growth of approximately 1.5 percent in 2014, representing the addition of more than 65,000 residents. Employment is on a similar upswing, with approximately 50,000 jobs added each year since 2012. Healthy performance continued in the first quarter; employment in Greater Phoenix has expanded by 3 percent in the past 12 months, with 54,700 jobs having been added.

The return of population growth is sparking employment gains in population-serving sectors including healthcare. In 2014, more than 9,000 healthcare positions were added in the Phoenix metro area, the strongest year of growth in the sector since 2007. The pace of expansion slowed somewhat in the first quarter, but over the past 12 months, healthcare employment has expanded by 3.6 percent with the addition of 7,900 positions.

Vacancy in the Greater Phoenix medical office market ticked higher in the first quarter, rising 10 basis points from the end of 2014 to 18.2 percent. Despite the slight uptick to start the year, the vacancy rate has improved by 150 basis points during the past 12 months. Net absorption in that time has been more than 283,000 square feet, outpacing the delivery of new space by more than 250,000 square feet.

After trending higher over the past two years, vacancy in on-campus medical office buildings reversed course and improved during the first quarter. The rate retreated 110 basis points to 11.9 percent in the first quarter, with net absorption totaling nearly 30,000 square feet.

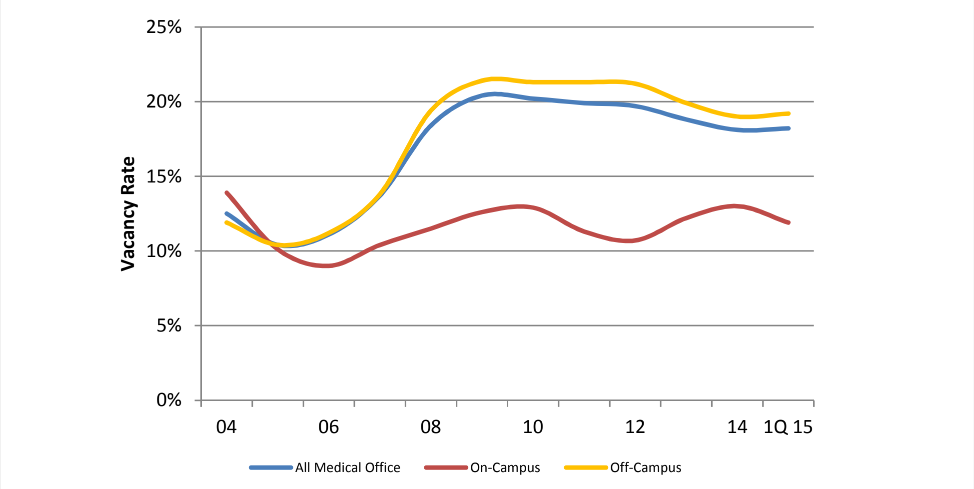
In off-campus buildings, vacancy inched up 20 basis points in the first quarter, but at 19.2 percent, the rate has still improved 170 basis points during the past 12 months. Net absorption in off-campus buildings over the past year has totaled more than 268,000 square feet, led by nearly 110,000 square feet in Scottsdale and more than 90,000 square feet in the Southeast Valley. Vacancy in these two regions of the market averages approximately 19 percent, but there has been rapid improvement over the past 12 months. A year ago, medical office vacancy in Scottsdale was over 23 percent, and the rate in the Southeast Valley was over 21 percent. These areas both feature sizable inventories of medical office space, but are also home to some of the strongest population and employment growth in metro Phoenix.

While construction of new space has been modest in recent years, there are some projects in the development pipeline. Two medical office projects totaling nearly 120,000 square feet in the West Valley are under way, which could cause vacancy to tick higher as the buildings come online over the next 12-18 months.

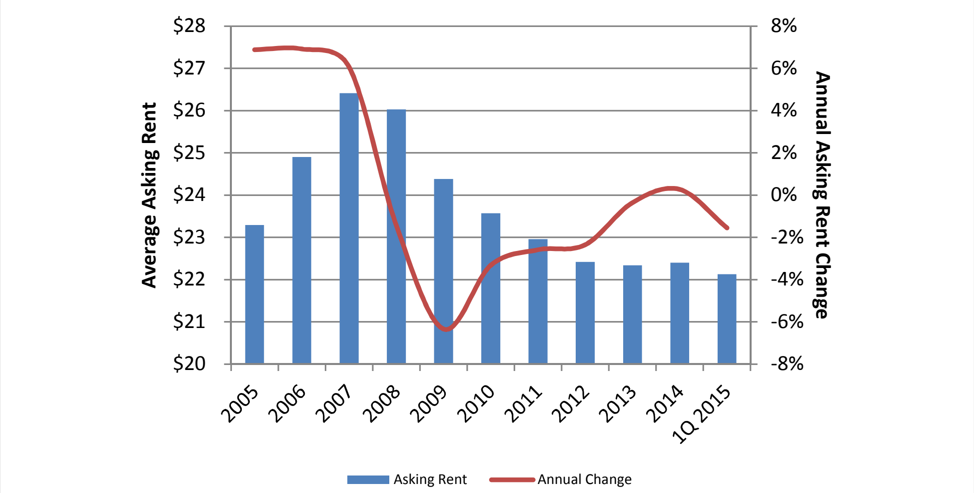
Sales of medical office condos were fairly steady in the first quarter. Half of the transaction activity during the first quarter occurred in the West Valley, with transactions in Glendale, Peoria and Surprise. The median price in these West Valley transactions was $207 per square foot, up from $148 per square foot last year. Transactions in the Southeast Valley accounted for 25 percent of the total activity in the first quarter, with properties trading at a median price of $86 per square foot, while fewer condos sold in Scottsdale, where the median price was $141 per square foot, compared to a median price of $165 per square foot in 2014.

Sales activity for non-condo medical office buildings accelerated by approximately 10 percent in the first quarter, and sales velocity has been fairly consistent since the beginning of last year. The median price in transactions during the first quarter was $95 per square foot, down from $121 per square foot in 2014. The median price has been dragged down somewhat by the mix of properties changing hands, with a few high-vacancy buildings selling. Cap rates have risen slightly over the past 12 months, averaging in the mid- to high-7 percent range.

MEDICAL OFFICE VACANCY



MEDICAL OFFICE ASKING RENTS



502 offices in 67 countries

United States: 140
Canada: 31
Latin America: 24
Asia: 39
Australia/New Zealand: 160
EMEA: 108

- $2.3 billion USD in annual revenue
- 1.7 billion square feet under management
- 16,300 professionals

(Based on 2014 results)

COLLIERS INTERNATIONAL

PHOENIX
2390 E. Camelback Road, Ste 100
Phoenix, Arizona 85016

TEL +1 602 222 5000
FAX +1 602 222 5001

SCOTTSDALE
14080 N. Northsight Blvd.
Scottsdale, Arizona 85260

TEL +1 480 596 9000
FAX +1 480 948 0502

Bob Mulhern
Managing Director | Greater Phoenix
bob.mulhern@colliers.com

Jim Keeley, SIOR, CCIM
Founding Partner | Scottsdale Office
jim.keeley@colliers.com

Pete O'Neil
Research Manager | Greater Phoenix
pete.oneil@colliers.com

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