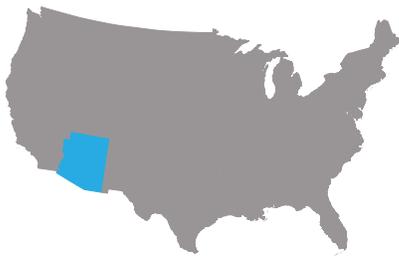


PHOENIX | ARIZONA RESEARCH & FORECAST REPORT



Vacancy Ticks Higher as Tenant Demand Patterns Shift

THE BROADER VIEW

The Greater Phoenix medical office market continues to be impacted by larger changes in the healthcare delivery system. Specifically, the ongoing consolidation in the industry is driving tenant demand into on-campus facilities, putting stress on the off-campus facilities that account for nearly 90 percent of the total inventory in the Greater Phoenix market. Despite some short-term volatility brought about in part by the implementation of the Affordable Care Act, the long-term drivers of local medical office space demand remain quite strong. Population and employment growth are forecast to accelerate, local economic growth continues to outpace the national rate of expansion and healthcare continues to expand more rapidly than the overall economy.

CURRENT CONDITIONS

After closing 2013 on a high note, employment growth in Greater Phoenix leveled off in the first quarter. Gains totaled just 1,300 positions during the first three months of the year, the fewest new jobs added in any one quarter since 2011. Year over year, employment growth has been more robust, expanding by 2.3 percent with the addition of more than 41,000 jobs. One year ago at this time, however, annual growth was closer to 50,000 new jobs, or 3 percent.

The healthcare segment followed the larger economic trend, with no net gain or loss recorded in the first three months of the year. Growth has been recorded over the longer term, however, with 5,500 new positions added during the past 12 months, a 2.5 percent expansion. Growth in this sector of the economy is likely to accelerate before year end; during the past five years, an average of 6,400 healthcare positions have been created annually, with the strongest gains typically recorded in the second halves of years.

Vacancy in the Greater Phoenix medical office market rose in the first quarter, topping 20 percent after briefly dipping below 20 percent at the end of 2013. The rate ended the first quarter at 20.4 percent, up from 19.5 percent at year-end 2013.

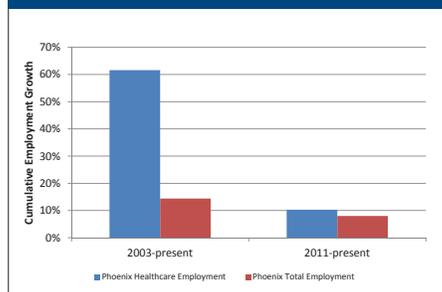
Vacancy in on-campus buildings has slowly ticked higher in recent quarters, but the rate remains lower than in off-campus buildings. Vacancy in on-campus buildings ended the first quarter at 13.1 percent, up from 12.2 percent one year ago. Despite some quarterly volatility, vacancy in on-campus facilities has been quite stable over the longer-term, averaging 12.4 percent over the past five years.

In off-campus buildings, the vacancy rate ended the first quarter at 22.5 percent, up 90 basis points year over year. Vacancy in off-campus buildings was driven higher by negative net absorption of

MARKET INDICATORS

	Q1 2014	Q1 2013
TOTAL VACANCY	↑	↔
ON-CAMPUS VACANCY	↑	↑
COMPLETIONS	-	-
NET ABSORPTION	↓	↓
ON-CAMPUS NET ABSORPTION	↓	↓
ASKING RENTS	↑	↓

GREATER PHOENIX EMPLOYMENT



more than 142,000 square feet during the quarter. Tenant move-outs were concentrated in Scottsdale, where negative net absorption totaled nearly 85,000 square feet in the first quarter.

Investment activity for non-condo medical office buildings slowed modestly in the first quarter after an active second half of last year. Still, the pace of sales at the start of 2014 was up more than 30 percent from one year earlier. The median sales price year to date has reached \$107 per square foot, up from \$80 per square foot in 2013. Cap rates are in the low- to mid-7 percent range, down slightly from 2013 levels.

Sales of medical office condos slowed nearly 30 percent from 2012 to 2013, and transaction activity in the first quarter was similar to last year's pace. Some of the slowing sales velocity can be attributed to a decline in REO property transactions, which accounted for roughly 25 percent to 35 percent of all sales activity from 2011-2013, but have been limited in recent months. As a result, property prices are pushing higher, even as fewer buildings are changing hands. The median price in condo sales in the first quarter was \$167 per square foot, up more than 50 percent from the 2013 median of \$110 per square foot. Sales of medical office condos thus far in 2014 have been concentrated in the Southeast Valley cities Chandler and Mesa as well as the Deer Valley submarket of the Northwest Valley.

485 offices in 63 countries on 6 continents

United States: 146
 Canada: 44
 Latin America: 25
 Asia Pacific: 186
 EMEA: 84

- \$2.1 billion USD in annual revenue
- 1.46 billion square feet under management
- 15,800 professionals worldwide

(Based on 2013 results)

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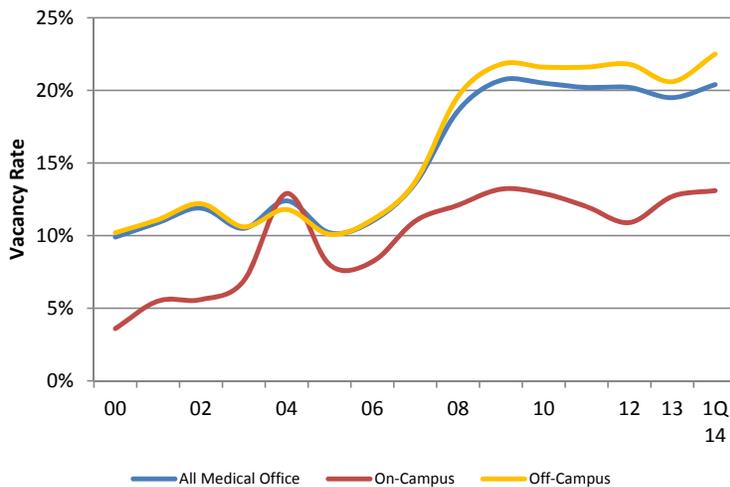
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