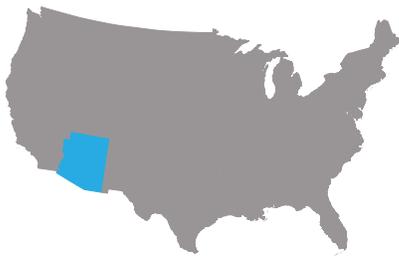


PHOENIX | ARIZONA RESEARCH & FORECAST REPORT



Net Absorption Spikes in the Third Quarter

THE BROADER VIEW

A surge in net absorption was the highlight in the Greater Phoenix medical office market during the third quarter. This marked the fourth time in the past five quarters where net absorption has been positive, during which time tenants have moved into a net of more than 225,000 square feet of space. While tenants are in the early stages of a modest expansion cycle, the current development pipeline contains just a few projects, meaning much of the near-term growth in tenant demand will likely be absorbed in currently vacant space. A few of the primary sources of demand going forward will be resumed population growth and in-migration. Both slowed during the recession, but with both the national and local economies gaining momentum, growth is forecast to accelerate in 2015, supporting population-serving sectors such as healthcare.

CURRENT CONDITIONS

Employment in Greater Phoenix gained some much needed momentum in the third quarter, following modest gains in the first half of the year. Nearly 15,000 jobs were created in the third quarter, bringing the total over the past 12 months to 39,200 positions. This represents growth of 2.2 percent, which is still slightly higher than the national pace of expansion, but lags the 2.8-3.0 percent local growth recorded in the past few years.

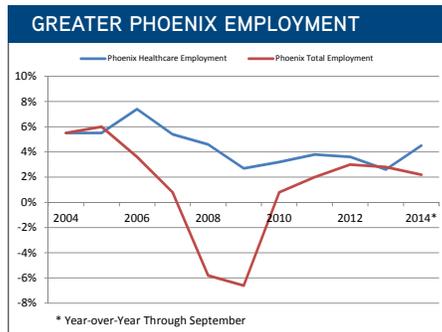
Gains in the healthcare sector have accelerated thus far in 2014, following a slowdown recorded last year. Some of the earlier slowing in the sector was attributable to the uncertainty and consolidation surrounding the implementation of the Affordable Care Act. Future growth, however, will be driven by expanding demand for healthcare, driven in part by resumed population growth in metro Phoenix following a lull of in-migration during the past few years. Year over year through the third quarter, employment in the healthcare sector has expanded by 4.5 percent, with the addition of 9,900 new jobs. Since 2008, local growth in the sector has averaged 3.6 percent per year.

Vacancy in the Greater Phoenix medical office market fell to 18.6 percent in the third quarter, 110 basis points lower than one year ago. This marked the first time in more than five years where the vacancy rate dipped below 19 percent. Prior to the recent decline, vacancy in local medical office buildings had fluctuated within a fairly tight band between 19-21 percent. Net absorption reached its highest quarterly total in nearly two years, topping 155,000 square feet during the third quarter.

Vacancy in on-campus buildings reached 12.7 percent in the third quarter, 30 basis points higher than one year ago, and 270 basis points higher than two years ago. In off-campus buildings, the opposite

MARKET INDICATORS

	Q3 2014	Q3 2013
TOTAL VACANCY	↓	↓
ON-CAMPUS VACANCY	↑	↑
COMPLETIONS	—	—
NET ABSORPTION	↑	↑
ON-CAMPUS NET ABSORPTION	↓	↓
ASKING RENTS	↓	↓



trend is taking shape. Off-campus vacancy dipped below 20 percent for the first time in more than five years during the third quarter. At 19.5 percent, the current rate is 140 basis points lower than one year ago, and 230 basis points below the cyclical peak. Despite the recent improvement, vacancy in off-campus facilities has been elevated since 2008, when more than 900,000 square feet of new space—representing nearly 7 percent inventory growth at the time—was delivered at the onset of the recession.

Sales activity for non-condo medical office buildings ticked higher in the third quarter, but for the most part has been very steady since the second half of 2012. Thus far in 2014, total sales activity is down approximately 10 percent from the same period last year. While velocity levels have ticked somewhat lower, there has not been a corresponding dip in pricing. The median price in buildings sold year to date is \$120 per square foot, up from \$80 per square foot in 2013. In the transactions that closed in the third quarter, the median price surged to \$155 per square foot. Cap rates are averaging in the mid-7 percent to low-8 percent range, similar to levels from one year ago.

After spiking in the second quarter, sales of medical office condos slowed by more than 40 percent in the third quarter. Even after accounting for the recent cooling of transaction activity, year-to-date sales of medical office condos are up 23 percent from the same period one year ago. Prices spiked in the third quarter, with the median sale price reaching \$173 per square foot, bringing the median for all deals closed year to date is \$135 per square foot—23 percent higher than the 2013 median.

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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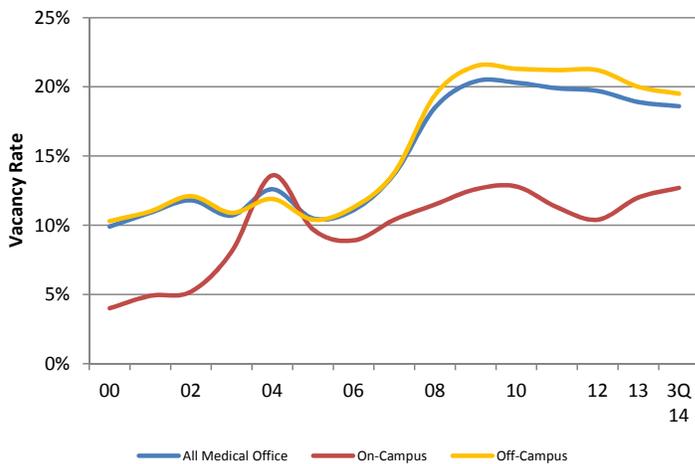
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