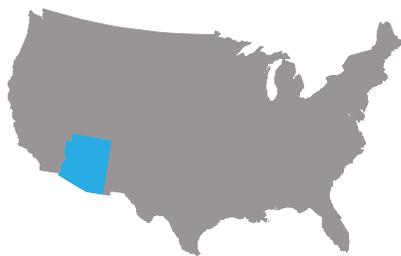


PHOENIX | ARIZONA RESEARCH & FORECAST REPORT



Strengthening Demand Drivers Fuel Vacancy Improvement

THE BROADER VIEW

The Greater Phoenix medical office market strengthened in the second half of 2014, setting the stage for continued improvement in 2015. Economic growth, employment in the healthcare sector and net absorption of medical office space all surged in the second half of the year, and with these drivers forecast to remain in place in 2015, tenant demand for medical office real estate is likely to persist. While the macro forces will support demand, there is also the reality that the healthcare delivery system is changing and medical providers are in different stages in adjusting to the new environment. Practices continue to merge and to be acquired by hospital systems, trends that are resulting in some leasing churn and sales of owner-occupied buildings. In addition, suite layouts are changing in response to the new economic realities, with tenants beginning to allocate less space for file storage. While these trends are influencing activity and causing some short-term volatility in the medical office market, the long-term population and demographic trends support a favorable outlook.

CURRENT CONDITIONS

Employment in Greater Phoenix closed 2014 on an upswing, with strong growth in both the third and fourth quarters. For the year, an estimated 50,000 jobs were added, representing growth of nearly 3 percent. This marked the third consecutive year of gains of roughly 50,000 jobs per year. Payroll growth, coupled with the expanding local population, will continue to fuel demand for healthcare services.

While nearly all segments of the local economy are expanding, some of the most robust growth has been in the healthcare sector. In 2014, more than 20 percent of the jobs created in Greater Phoenix were in the healthcare sector, which grew by 5.1 percent with the addition of an estimated 11,300 positions. Over the past five years, healthcare employment has expanded by nearly 20 percent, and net absorption of medical office space has totaled more than 785,000 square feet.

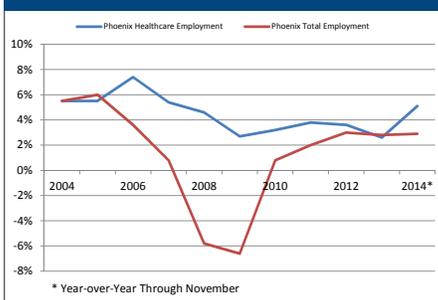
Vacancy in the Greater Phoenix medical office market closed 2014 at 18.1 percent, a 50 basis point improvement from the third quarter and a 90 basis point dip from the end of 2013. This marked the fifth consecutive year of vacancy improvement, and the pace has quickened after only modest dips from 2010-2012. Vacancy is improving due to both supply and demand trends. On the supply side, new development has been limited over the past two years, and only 22,000 square feet of new space was delivered in 2014. Demand is also picking up, with net absorption totaling more than 160,000 square feet in 2014, a 7 percent increase from the 2013 total. This was the third straight of accelerating net absorption.

Market improvement is being led by off-campus buildings, which were hardest hit during the recession. Vacancy in off-campus buildings fell 100 basis points in 2014 to 19 percent, including a 50 basis point

MARKET INDICATORS

	Q4 2014	Q4 2013
TOTAL VACANCY	↓	↓
ON-CAMPUS VACANCY	↑	↓
COMPLETIONS	↑	—
NET ABSORPTION	↓	↑
ON-CAMPUS NET ABSORPTION	↓	↑
ASKING RENTS	↓	↓

GREATER PHOENIX EMPLOYMENT



drop in the fourth quarter. Net absorption in off-campus buildings reached nearly 175,000 square feet during 2014, down slightly from the 2013 total.

In on-campus buildings, vacancy has been trending higher. The rate rose 80 basis points in 2014 to end the year at 13 percent. This included a 30 basis point increase in the fourth quarter. Vacancy in on-campus facilities has increased by nearly 300 basis points since reaching a cyclical low in mid-2012.

Sales of medical office condos ticked up 18 percent from the third quarter to the fourth quarter, with activity concentrated in Scottsdale, Chandler and Gilbert. For the full year, sales of medical office condos increased by 14 percent from 2013 levels. Prices also pushed higher in 2014, with the metrowide median price rising 15 percent from the 2013 median to \$127 per square foot. Pricing generally varies by city, with the highest median prices in Gilbert and Scottsdale, at \$170 per square foot and \$169 per square foot, respectively. In Chandler, where more medical office condos sold than in any other Valley city, the median price was \$135 per square foot. Another city with a significant amount of activity is Mesa, where the median price was \$102 per square foot in 2014.

Sales activity for non-condo medical office buildings accelerated in the fourth quarter. Despite the increase in the fourth quarter, sales activity in 2014 was down approximately 17 percent from 2013 levels. While sales of medical office condos are concentrated in suburban areas, nearly half of the non-condo sales were in the city of Phoenix in 2014. The median price rebounded in 2014, reaching \$121 per square foot, while cap rates dipped slightly into the mid-7 percent range on average.

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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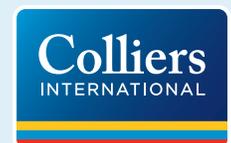
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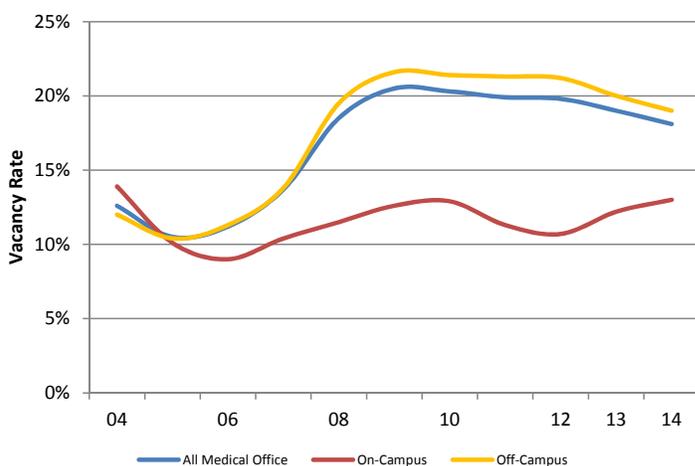
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