

# MARKETBEAT

## Medical Snapshot Q1 2016

### Metropolitan Phoenix



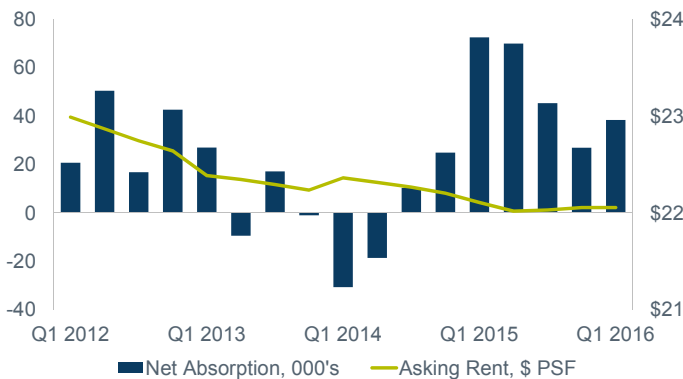
#### PHOENIX MEDICAL

Economic Indicators*	Q1 15	Q1 16	12-Month Forecast
Phoenix Employment	1,889k	1,956k	▲
Phoenix Unemployment	5.6%	4.6%	▼
U.S. Unemployment	5.6%	4.9%	▼

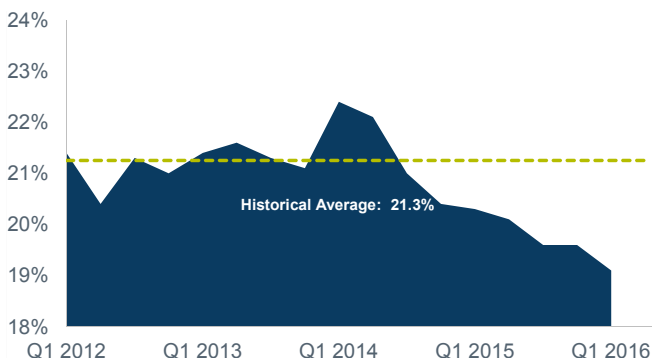
\*Q1 data based on the average of January and February values.

Market Indicators	Q1 15	Q1 16	12-Month Forecast
Overall Vacancy	20.3%	19.1%	■
Net Absorption	17,000	62,000	■
Under Construction	20,000	-	■
Average Asking Rent	\$21.94	\$21.94	■

Net Absorption/Asking Rent  
4Q TRAILING AVERAGE (IN THOUSANDS)



#### Overall Vacancy



#### Economy

The Metro Phoenix economy continues to post positive gains, adding an average of 67,000 new jobs year-over-year through February, with total employment reaching 1,955,850 jobs. During the same time period, the unemployment rate decreased 100 basis points to 4.6%. Of the 67,000 jobs added, 10,800 can be attributed to the health care sector, increasing 4.6% year-over-year..

#### Market Overview

The Medical office building (MOB) sector kicked off the year on a positive note, as move-ins exceeded move-outs by 62,500 square feet (sf). Once again the Central and Northeast submarkets outperformed the rest of the Valley, absorbing 29,000 sf and 39,000 sf, respectively. The Northeast sector alone accounted for nearly 62% of the Q1 2016 absorption. However, the largest move-in was attributed to the US Department of Veteran Affairs taking over 29,000 sf. With space continuously being absorbed, the vacancy rate experienced a significant drop of 50 bps quarter-over-quarter, now posting a rate of 19.1%. This rate is a 120 bps improvement over the past year –and holds position as the lowest rate since 2008. Despite limited inventory and a lack of new development, Class A vacancy is continuing to rise. This product type accounts for merely 10% of the market’s total inventory, while Class B accounts for 77%.

#### MOB USERS WILL CONTINUE TO FOCUS ON EXISTING BUILDINGS THAT MEET DEMAND, BEFORE WARRANTING BUILT-TO-SUIT OPTIONS.

Valleywide, the asking rental rate dropped \$0.17 in the past three months to \$21.94 per square foot (psf) on an annual full service basis. This dip can primarily be attributed to the Central (-1.8%) submarket, dropping 1.8% quarter-over-quarter. Simultaneously, the Southwest submarket experienced the largest increase in average asking rental rate of \$0.40 psf (1.7%) the previous quarter, reaching a final rental rate of \$23.90 psf. As a whole, the Class A (\$30.14 psf) rental rate decreased \$0.56 psf (-1.8%) over the past three months, while Class B (\$22.69 psf) and Class C (\$17.15) both rose \$0.13 psf and \$0.01 psf, respectively.

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MOB users will continue to focus on existing buildings that meet demand, before warranting built-to-suit options.

No MOB construction is on the books at this time, and if demand retains its position we will see the vacancy rate drop, especially in Class B space. The takeaway from this quarter's metrics is the shift in demand from Class A space to Class B and C space. MOB users will continue to focus on existing buildings that meet demand, before warranting built-to-suit options. With the functional obsolescence of existing space, as well as trends under the Affordable Care Act which demand larger space, better parking, and updated infrastructure (especially broadband internet capability), tenants are steering towards nontraditional MOB space.

### Outlook

- According to Moody's Analytics, employment in healthcare and social assistance is forecasted to remain strong with an average growth rate of  $\pm 5\%$  over the next five years.
- MOB users are shifting demand from Class A space to Class B and C space.
- Class A (\$30.14 psf) rental rates decreased \$0.56 psf (-1.8%) over the past three months, while Class B (\$22.69 psf) and Class C (\$17.15) rates both rose \$0.13 psf and \$0.01 psf, respectively.
- The region's continued population growth and forecasted employment gains will drive demand for updated MOB development in the coming years.

SUBMARKET	TOTAL BLDGS	INVENTORY	SUBLET VACANT	DIRECT VACANT	VACANCY RATE	Q4 NET ABSORPTION	2015 NET ABSORPTION	UNDER CONSTRUCTION	AVG ASKING RENT (All Classes)
Central	98	2,980,106	10,892	477,485	16.4%	29,306	29,306	-	\$19.21
Northeast	108	2,891,674	10,404	492,044	17.4%	38,640	38,640	-	\$22.95
Northwest	132	2,765,272	6,950	570,331	20.9%	(1,879)	(1,879)	-	\$23.15
Southeast	141	3,058,082	11,543	658,353	21.9%	9,350	9,350	-	\$22.35
Southwest	37	1,191,293	1,969	220,552	18.7%	(12,925)	(12,925)	-	\$23.90
<b>Grand Total</b>	<b>516</b>	<b>12,886,427</b>	<b>41,758</b>	<b>2,418,765</b>	<b>19.1%</b>	<b>62,492</b>	<b>62,492</b>	<b>-</b>	<b>\$21.94</b>
Class A	12	1,204,534	7,302	159,461	13.8%	(10,760)	(10,760)	-	\$30.14
Class B	369	9,918,185	28,464	1,862,865	19.1%	63,260	63,260	-	\$22.69
Class C	135	1,763,708	5,992	396,439	22.8%	9,992	9,992	-	\$17.15
<b>Grand Total</b>	<b>516</b>	<b>12,886,427</b>	<b>41,758</b>	<b>2,418,765</b>	<b>19.1%</b>	<b>62,492</b>	<b>62,492</b>	<b>-</b>	<b>\$21.94</b>

### About Cushman & Wakefield

Cushman & Wakefield is a global leader in commercial real estate services, helping clients transform the way people work, shop, and live. The firm's 43,000 employees in more than 60 countries provide deep local and global insights that create significant value for occupiers and investors around the world. Cushman & Wakefield is among the largest commercial real estate services firms in the world with revenues of \$5 billion across core services of agency leasing, asset services, capital markets, facilities services (branded C&W Services), global occupier services, investment management (branded DTZ Investors), tenant representation and valuations & advisory. To learn more, visit [www.cushmanwakefield.com](http://www.cushmanwakefield.com) or follow @Cushwake on Twitter.

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