

# MARKETBEAT

## Metropolitan Phoenix

### Medical Office Q4 2016



#### PHOENIX MEDICAL

##### Economic Indicators

	Q4 15	Q4 16	12-Month Forecast
Phoenix Employment	1,946K	1,973K	▲
Phoenix Unemployment	5.1%	4.5%	▼
U.S. Unemployment	5.0%	4.8%	▼

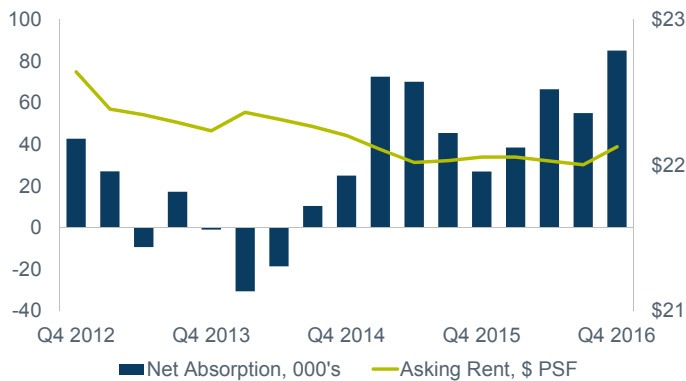
Q4 data based on the average of October and November values.

##### Market Indicators

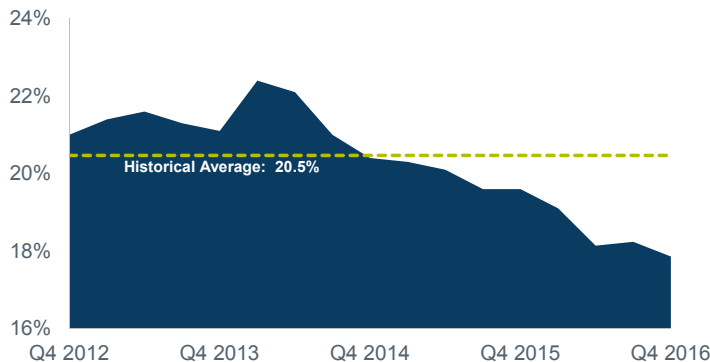
	Q4 2015	Q4 2016	12-Month Forecast
Overall Vacancy	19.6%	17.9%	■
Net Absorption	14,000	134,000	■
Under Construction	73,000	0	■
Average Asking Rent	\$22.11	\$22.60	■

##### Net Absorption/Asking Rent

4-QTR TRAILING AVERAGE (IN THOUSANDS)



##### Overall Vacancy



### Economy

The Metro Phoenix job market continued to show signs of improvement, adding just over 27,000 jobs year-over-year through November. During the same time period, the unemployment rate decreased 60 basis points (BP), dropping to 4.5%. Out of the 27,000 jobs added, nearly 33% (±8,954) can be attributed to the healthcare sector, a 3% increase year-over-year.

### Market Overview

The medical office building (MOB) segment finished 2016 on a positive note, absorbing almost 134,000 square feet (SF) over the last three months. The fourth quarter followed the yearly trend of positive absorption, posting a year-to-date total of over 400,000 SF. This was a massive increase in occupancy growth compared to the 7,000 SF in Q3 2016, and rivaled Q2 2016, which reported 194,000 SF. The Northwest and Southwest submarkets topped all others in terms of net gains for the quarter, recording over 54,000 SF and 72,000 SF, respectively. Vacancy fell to a year-end low of 17.9%, a drop of 30-basis-points (BP) quarter-over-quarter, and 170 BP year-over-year. This is the lowest vacancy has been since Q3 2008 (16.8%). Although Class A vacancy (13.6%) has slightly increased from Q3 2016, Class B (17.9%) and Class C (21.1%) spaces have made up for it with 30 BP and 80 BP decreases, correspondingly, in the same time frame.

The average asking rate in the Metro Phoenix MOB sector increased \$0.48 per square foot (PSF) quarterly, and \$0.49 PSF yearly, closing Q4 2016 at \$22.60 PSF on an annual full service basis. With the exception of the Northwest submarket (which dropped only \$0.02 PSF) all submarkets experienced increases in asking rates during the fourth quarter. Rent growth in the Central submarket was the strongest, increasing \$0.63 PSF and reaching a total of \$19.73 PSF during the last three months. The Southwest submarket remained the most lucrative of the markets, logging a total of \$25.48 PSF. All MOB classes experienced an escalation in quarterly rent as well, with Class A (\$30.18) space rising \$0.53 PSF, Class B (\$22.95) space rising \$0.20 PSF and Class C (\$17.41) space rising \$0.13 PSF.

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Most of the absorption in Q4 2016 took place in smaller sized spaces, only two MOB spaces of the almost 134,000 SF of absorption were over 10,000 SF.

There is currently no MOB construction underway at this time, and if 2017 continues to trend in the same direction as 2016, it can be expected that vacancy will drop to an almost 10 year all-time low. Three new buildings were delivered during Q4 2016 totaling over 100,000 SF, of which just under 90,000 SF was in the form of build-to-suit. Two were built in the Southwest submarket, and one in the Northwest, all of which were Class B. 2016 marks the first year since 2012 in which new MOB space has been built.

### Outlook

- According to Moody's Analytics, employment in Healthcare and Social Assistance is expected to remain strong, with a forecasted increase of  $\pm 16\%$  by the year 2021.
- With vacancy being so low and construction coming to a halt in Q4 2016, rental rates will continue to rise until more MOB's are delivered.
- As more and more space is leased up, companies may look at the alternative of occupying lower class space, leading to more absorption in Class B and C MOB's in the future.
- All five MOB's that delivered in 2016 were Class B, which shows a trend in demand for that product type due to increasing rental rates in Class A buildings.

SUBMARKET	TOTAL BLDGS	INVENTORY	SUBLET VACANT	DIRECT VACANT	VACANCY RATE	Q4 NET ABSORPTION	2016 NET ABSORPTION	UNDER CONSTRUCTION	AVG ASKING RENT (All Classes)
Central	98	2,911,267	12,583	473,106	16.7%	(9,729)	31,994	-	\$19.73
Northeast	108	2,905,869	11,430	418,581	14.8%	12,905	131,881	-	\$23.71
Northwest	132	2,877,282	8,671	525,893	18.6%	54,293	125,838	-	\$23.62
Southeast	141	3,054,464	14,234	677,787	22.7%	4,288	18,875	-	\$22.56
Southwest	37	1,259,935	1,657	179,421	14.4%	72,210	104,618	-	\$25.48
<b>Grand Total</b>	<b>516</b>	<b>13,008,817</b>	<b>48,575</b>	<b>2,274,788</b>	<b>17.9%</b>	<b>133,967</b>	<b>413,206</b>	<b>-</b>	<b>\$22.60</b>
Class A	12	1,380,534	17,565	169,675	13.6%	85,286	144,763	-	\$30.18
Class B	369	9,905,450	31,010	1,740,963	17.9%	42,073	222,070	-	\$22.95
Class C	135	1,722,833	-	364,150	21.1%	6,608	46,373	-	\$17.41
<b>Grand Total</b>	<b>516</b>	<b>13,008,817</b>	<b>48,575</b>	<b>2,274,788</b>	<b>17.9%</b>	<b>133,967</b>	<b>413,206</b>	<b>-</b>	<b>\$22.60</b>

### About Cushman & Wakefield

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