

# PHOENIX MEDICAL OFFICE MARKET REPORT

Q3 2023

## ECONOMIC SNAPSHOT FOR PHOENIX

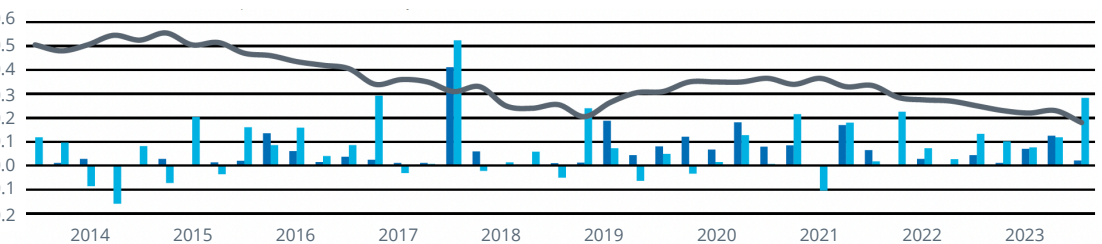
**3.9%** AVERAGE WAGE GROWTH

**4.0%** UNEMPLOYMENT RATE

**3.7%** INFLATION RATE

### DELIVERY IMPACT ON KEY INDICATORS

Delivered SF Net Absorption SF Vacancy Rate



Source: CoStar, Transwestern

## MEDICAL OFFICE MARKET HIGHLIGHTS

- Healthcare is having a strong year, and it is forecast to continue well into 2024. The sector is dealing with the same overarching hurdles that all asset classes are seeing, such as higher construction costs, cost of capital, and labor shortages. For healthcare, the impact of these hurdles are tempered because physician groups and hospitals have been more agreeable to longer term leases and are willing to pay current lease rates in order to meet their business growth demands.
- We are seeing interest from investment and development groups who don't typically focus on Phoenix medical office. COVID really showcased the stability and growth potential in Phoenix, with low vacancy rates and growing rents making it one of the better long-term investments.
- The Phoenix healthcare sector remains well positioned to have a strong year in 2024, but not without challenges. The biggest challenge to the local healthcare market in the upcoming year is a continuation of inflated construction costs. Tenant Improvements are considerably higher than historical averages, making it much more difficult for a Landlord and Tenant to come to terms, deals are getting done, but they are taking longer.

### TRENDLINES

| MEDICAL OFFICE ALL CLASSES    | Q3 2023 | Q3 2022 | ONE-YEAR TREND | FIVE-YEAR AVERAGE | 12-MONTH FORECAST |
|-------------------------------|---------|---------|----------------|-------------------|-------------------|
| INVENTORY (MSF)               | 21.9    | 21.7    | ↔              | 21.3              | ↔                 |
| NET ABSORPTION (THOUSANDS SF) | 282.8   | 133.4   | ↑              | 81.5              | ↔                 |
| OVERALL VACANCY RATE          | 12.6%   | 14.0%   | ↓              | 14.8%             | ↓                 |
| OVERALL VACANT SF (MSF)       | 2.7     | 3.0     | ↓              | 3.1               | ↓                 |
| UNDER CONSTRUCTION (MSF)      | 0.2     | 0.2     | ↔              | 0.3               | ↓                 |
| ASKING RENT, NNN (PSF)        | \$23.45 | \$23.35 | ↑              | \$22.02           | ↑                 |
| SALES VOLUME (MILLIONS)       | \$73.5  | \$45.0  | ↑              | \$94.8            | ↑                 |


Source: Bureau of Labor Statistics, CoStar, Real Capital Analytics, Transwestern

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## NOTABLE LEASES

| TENANT  | ADDRESS                      | SUBMARKET   | TYPE | SF LEASED |
|---|------------------------------|-------------|------|-----------|
| PHOENIX HEART   | 13028 W Rancho Santa Fe Blvd | West Valley | New  | 15,000    |
| PEAK CARDIOVASCULAR   | 12361 W Bola Dr              | West Valley | New  | 11,196    |
| ACTIVE FRIENDLY CARE  | 2511 W Indian School Rd      | West Valley | New  | 7,830     |
| GI ALLIANCE  | 10752 N 89th Pl              | Scottsdale  | New  | 4,531     |
| ALIUM HEALTH  | 13555 W McDowell Rd          | West Valley | New  | 3,815     |

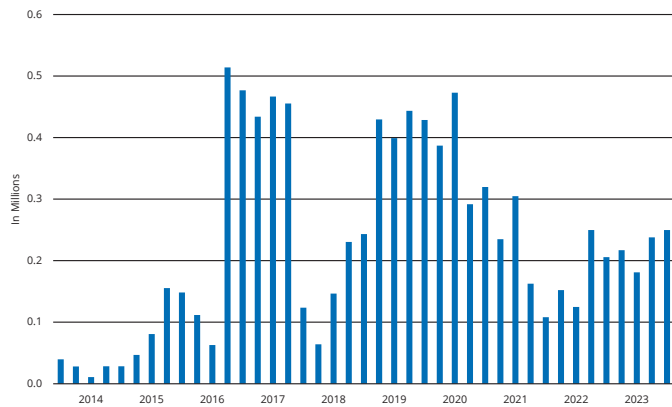
 = Transwestern deal

## NOTABLE SALES

| ADDRESS                | SUBMARKET   | SALES PRICE  | BUILDING SF | PRICE PSF | BUYER                         | SELLER                           |
|------------------------|-------------|--------------|-------------|-----------|-------------------------------|----------------------------------|
| 14416 W MEEKER BLVD    | West Valley | \$33,250,000 | 71,515      | \$465     | Montecito Medical Real Estate | Banner Health                    |
| 37200 N GANTZEL RD     | East Valley | \$23,300,000 | 61,302      | \$380     | Hammes Partners               | The Plaza Companies              |
| 13920 W CAMINO DEL SOL | West Valley | \$4,625,000  | 17,800      | \$260     | Dr. Sharam Danesh             | Creative Realty Management Group |

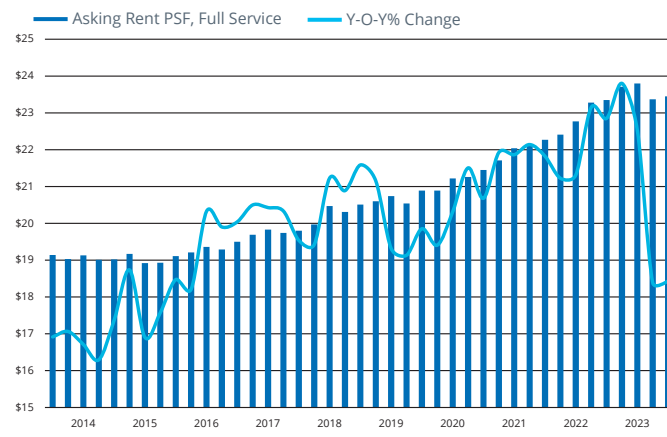
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## UNDER CONSTRUCTION



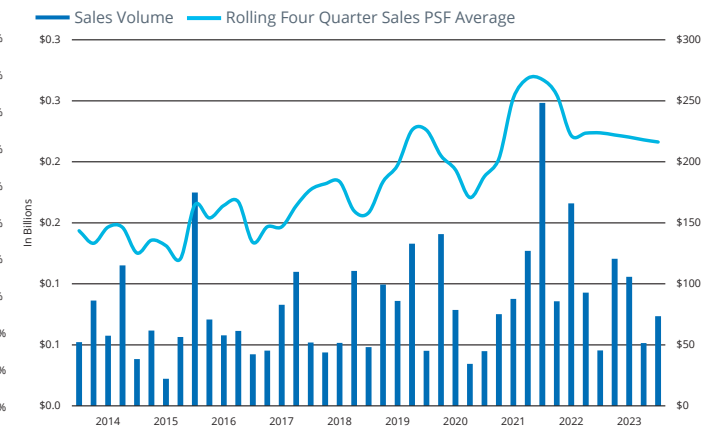
Source: CoStar, Transwestern

## ASKING RENT



Source: CoStar, Transwestern

## SALES VOLUME



Source: CoStar, Real Capital Analytics, Transwestern