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SPEAKERS

Trisha Talbot

- T** Trisha Talbot 00:00

In today's podcast episode I'm narrating DOCPROPERTIES first quarter 2022 Arizona Medical Office report. If you would like a hard copy, you can get it in two ways you can email your request to info@docproperties.com or you can add your email to the podcast newsletter. And you can do that at the top of the podcast webpage at providerspropertiesandperformance.com. Thank you to associate Tula Voutieros for her research efforts on this report.
- T** Trisha Talbot 00:31

This is the Providers Properties and Performance podcast. The podcast that brings together leaders in healthcare and investment real estate to consider the possibilities in future at the intersection of practicing medicine and healthcare real estate investment returns.
- T** Trisha Talbot 00:46

Welcome to the Providers Properties and Performance podcast. I am your host Trisha Talbot. As a healthcare real estate adviser to providers and investors the best solutions occur when the two collaborate together as partners in delivering better patient care. Providers can deliver care to their patients when and where they need it. And investors realize the returns to build and manage facilities. We explore changes in medicine and wellness, the future of healthcare and using real estate as a strategic and financial tool.
- T** Trisha Talbot 01:13

Today's podcast episode I am going to narrate the first quarter of 2022 Arizona Medical Office Market report for DOCPROPERTIES for those of us that get too busy to go through all of our email and read everything that we are sent.

T Trisha Talbot 01:29

The executive summary starts with the Grand Canyon state's economy approach pre pandemic levels by the end of the first quarter of 2022. According to the back to normal Index published by Moody's Analytics and CNN, the state was operating at 97% of where it was in March of 2020.

T Trisha Talbot 01:48

Compared to the United States economy, which trailed at 89%. Statewide, the unemployment rate dropped to 3.3%. Hitting with the Bureau of Labor Statistics qualified as a historical low, not seen in almost 50 years. This was coupled with a 4.5% increase in non farm employment and a continued stream of domestic in migration to the state estimated at 93,026 people.

T Trisha Talbot 02:14

The healthcare industry was on fire to keep up with increased demand, while providers competed for market share and for employees in a tight labor market. Markets across the country rode a strong wave of m&a activity in healthcare spurred by private equity investors and physician groups seeking to expand their presence across the continuum of care.

T Trisha Talbot 02:33

In Arizona, in the first quarter of 2022, this included the completion of the 2.2 billion acquisition of Phoenix based Magellan Health by Centene Corp, a managed care company based in Missouri. Across the healthcare real estate landscape, there was a vibrant pace of construction for health care facilities as well as for medical office buildings by the end of 2022 close to 280,000 square feet of MOB Space and 490,000 square feet for five key healthcare facilities all currently under construction will have been delivered to the Arizona market.

T Trisha Talbot 03:07

This does not include the number of healthcare facilities that are in the final stages of planning and are anticipated to break ground at some point in 2022. Figuring predominantly amongst the active construction projects was Banner Health's planned 330,000 square foot hospital adjacent to its existing health center on the southwest corner of Verado road and I-10 in Buckeye, the state's fastest growing area.

T Trisha Talbot 03:30

The hospital is targeted for completion in 2024 and will include 45,000 square feet of medical office space. Banner's hospital site is across the street from another planned hospital spearheaded by Abrazo health, Banner's competitor, which is projected to break ground in 2022.

T Trisha Talbot 03:48

Capital Markets resting on continued strong leasing market fundamentals remained robust with the dollar value of sales for MOB properties topping the previous four quarters, a drop in the average cap rate for the third consecutive quarter and a relatively sustained average price per square foot, the last of which was indicative of the continued presence of value add and opportunistic investments in the market.

T Trisha Talbot 04:11

Barring a resurgence of the pandemic, which could pose delays in transactional activity, the implications for the healthcare real estate sector in Arizona remain very positive.

T Trisha Talbot 04:21

Moving on to sales activity. Capital Markets kicked off the new year with a sizable number of large MOB sales transactions totaling over 158 million in the first month of the quarter alone. Statewide market sales increased for the fourth consecutive quarter of 163% year over year, with a total value of 327 million by the end of the first quarter of 2022. Increase sales volume was accompanied by continued compression on the average cap rate which closed at 6.21% lower than it was in the previous quarter and representing 115 basis point reduction relative to first quarter of 2021.

T Trisha Talbot 05:01

The average price per square foot remained relatively sustained at \$289 and recorded only a minor decrease of 8% year over year. The lower average price was attributable to value add and opportunistic acquisitions to some degree. One such opportunity was the sale of the properties at 340-350 East Palm Lane in central Phoenix. The acquisition included two MOB's with proximity of each other 340 East Palm lane and 2025 North Third Street and a 5.7 acre parcel of land that's 350 East Palm lane, totaling 125,000 square feet. All of which sold for 1.5 million and \$145 a square foot.

T Trisha Talbot 05:44

The two buildings and the land parcel were an exceptional value add opportunity for the buyer local Family Trust Cats Real Estate, the largest individual property sale was effectuated at 17300 North Perimeter Drive in Scottsdale, a 47,322 square foot MOB in the central Phoenix submarket, which sold for \$23.5 million at \$497 a square foot to Montecito Medical Real Estate, a national owner of medical properties.

T Trisha Talbot 06:15

The market also saw a notable number of medical portfolio sales. More notably, this included a

The market also saw a notable number of medical portfolio sales. More notably, this included a 44 million portfolio purchase by the Wentworth Property Company, a local private developer from Centum Health Properties, a national private developer that comprised over 140,000 square feet at an average price of \$328 a square foot for MOB's in the Sun City, Scottsdale North airpark and North Phoenix Desert Ridge submarkets in the Phoenix metropolitan area.

T Trisha Talbot 06:43

Moving on to leasing activity. Asking rents - the year over year average asking rent per square foot in Phoenix maintained a gradual upward trend with an increase of 4.2% from the \$25.03 cent per square foot in first quarter of 2021 to \$26.08 per square foot in the first quarter of 2022. The largest increase was posted in the Glendale submarket by 21.33% While the south Phoenix notably the highly sought after and fast growing city of Buckeye, and Gilbert Queen Creek submarkets, registered the highest average asking rent per square foot at \$33.30, \$33.33 and \$32.85 per square foot respectively.

T Trisha Talbot 07:27

The lowest asking rent per square foot was recorded in the Mesa submarket at \$22.88. The Mesa market has several Class C, MOB's and some obsolete medical office stock that is targeted for conversion to apartments, as there is a dire need. Overall vacancy edged downward by 88 basis points, a drop from 15.35% in the first quarter of 2021 to 14.58% in the first quarter of 2022.

T Trisha Talbot 07:55

Quarter over quarter, however, the market posted little change. The lowest vacancy was in the south Phoenix submarket of 2.3%, followed by the Chandler submarket at 5.2% vacant. Glendale continued to post the highest vacancy at 29.43%, down only slightly from the previous quarter where it stood at 30.4% and seconded by Penal County at 23.65%.

T Trisha Talbot 08:22

Net absorption - sluggish performance in the quarters net absorption was which came in at only 16,178 square feet was down 86% from first quarter of 2021. Over a 12 month period, however, the market's net absorption was up by 98% over the previous 12 month period, registering a total of 410,022 square feet relative to 206,548 square feet in the previous 12 month period.

T Trisha Talbot 08:54

Notable transactions for sales included 3600 West Tangerine Road in Tucson by Kane Anderson Real Estate buying from Remedy Medical Properties. The price was 10,200,000 the square foot was 14,952 and it was a 682 per square foot at 2145 West 28th Street in Yuma, Arizona Capital

Square Reality and MCR Companies purchased from Ergans partners at 8.9 5 million. It's a 14,000 square foot building which is \$639 price per square foot.

T Trisha Talbot 09:34

At 17300 North Perimeter drive in central Phoenix, as I mentioned above, Montecito Medical Real Estate purchased from Ergans partners the property at \$23,516,070. The property is 47,322 square feet and the price per square foot was 497.

T Trisha Talbot 09:56

6750 - 6780 Thunderbird Road in Sun City Kane Anderson purchased from Remedy Medical Properties at \$13,950,000. It's a 35,755 square foot property at \$390 price per square foot.

T Trisha Talbot 10:15

Mentioned earlier in the report, 340-350 East Palm Lane in central Phoenix, Kats real estate purchase from Cypress West Realty partners at \$18,200,000. It is 125,000 square foot property at \$145 a square foot.

T Trisha Talbot 10:35

At 1910 East Thomas Road in central Phoenix, Caddis Healthcare Real Estate and MCR Companies purchased this property from Arizona Heart at \$13,250,000. The property is 30,797 square feet at a price per square foot of \$430.

T Trisha Talbot 10:53

There's four notable lease transactions. Next Care leased 44,359 square feet in a renewal at 2145 East Baseline Road and in the Tempe submarket. Cardiovascular Associates of Mesa leased 15,733 square feet in a new lease at 37200 North Gantzel Road in the Gilbert Queen Creek submarket and Banner Health leased 15,000 square feet of new space at 2626 East River Road in the Foothills. Hope Bridge leased 10,423 new square feet at 3377 South Price Road in Chandler.

T Trisha Talbot 11:32

Three key construction projects include Buckeye Medical Plaza. It is 45,000 square feet at the southeast quadrant of Watson Road and Sundance Parkway in South Phoenix, and it is to be delivered in August of 2023. It is 0% pre leased. Canyon Trail Professional Center at 740 North Estrella in South Phoenix, a 28,014 square foot building that is 100% pre leased will be delivered in November of 2022.

T Trisha Talbot 12:05

And Oracle Ina Medical Plaza at 7490 North Oracle Road in Tucson, a 24,318 square foot property that is 0% leased will be delivered in September of 2022.

T Trisha Talbot 12:19

All of the sub market statistics are listed in our newsletter if you would like a copy, please email info@docproperties.com to go through those.

T Trisha Talbot 12:30

And I'd like to thank my research associate Tula Voutieros for all of her hard work on the research for this market report. And thank you for listening.

T Trisha Talbot 12:43

I'm grateful for you tuning in to the Providers Properties and Performance podcast. If you enjoyed it, please subscribe rate review and share the podcast with others. As a disclaimer this podcast is intended for educational and entertainment purposes only and not intended for specific real estate investment advice.