

2020
VISION

Forecasting the future

Let us point you in the right direction -
There are signs everywhere if you know where to look.



OFFICE PROPERTIES | ENTREPRENEURIAL OWNER/USER

Micro-Area-Partnerships (MAPS)

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GOOD HEALTH... THE MEDICAL REAL ESTATE MARKET IN METRO PHOENIX

INCREASING DEMOGRAPHIC DEMAND

As a share of GDP, national healthcare spending has increased from 6 percent in 1965 to more than 16 percent in 2005. It is projected to reach 20 percent of GDP in 2016. While inflation accounts for some of this increased growth rate, demographics are a major factor as baby boomers age, reaching Medicare eligibility in 2010. With our excellent desert climate, Arizona, in general, and Metropolitan Phoenix, in particular, have been destinations for retirees and for those relocating for health reasons. It is likely that much of these expenditures will find their way into the Valley of the Sun and continue to feed the already significant demand within the healthcare industry.

MEDICAL MARKET GROWTH

According to the Arizona Hospital and Healthcare Association (AHHA), Arizona ranks 47th in the nation for the number of hospital beds per capita, with 2.0 inpatient hospital beds per 1,000 people, versus 2.8 per thousand nationally. Undersupply, combined with one of the nation's highest expected population growths (64.8 percent from 2000-2020), has resulted in an explosion of planned hospital construction. According to an AHHA survey conducted in 2006, Arizona's hospitals planned to invest \$3.3 billion in expansion and construction projects through 2011, creating an expected 14,900 jobs per year.

The spillover effect of hospital construction on the commercial office sector in central Phoenix has been noticeable. Not only has the demand for medical office space increased in the areas surrounding hospital campuses, but new physician offices, outpatient treatment and care facilities, and medical-related businesses have been, and are expected to continue to be, a major driving force in leased office space absorption and building purchases. These categories have already seen a significant growth factor in the past, especially in the smaller, owner-user building categories, such as office condominiums, with healthcare providers having invested in themselves and reaping benefits through ownership rather than renting.

INVESTMENT IMPACT

For the real estate investment community, the result has been a movement to take advantage of one of the healthiest growing commercial categories. The character of medical tenants has proven to be an added attraction. Medical office tenants are often reluctant to leave due to the investment in their build-out and the marketing investment accrued by providing local service from a long recognized location. While the initial investment for a landlord may be greater due to more costly improvements associated with medical tenants, longer leases and renewals can more than offset that expense.

THE RIPPLE EFFECT

Hospital expansion creates a ripple effect far beyond healthcare jobs. Arizona's hospitals generate economic waves that impact families, communities and the state.

DIRECT EFFECT

- 73,300 Arizona hospital employees

RIPPLE EFFECT

- 81,400 additional jobs due to goods and services purchased by hospital employees
- 37,400 jobs generated by hospital purchases

TOTAL EFFECT

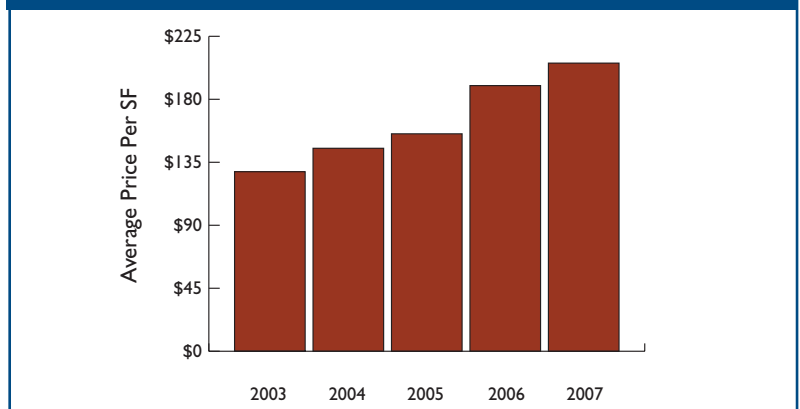
- 192,100 Arizona jobs generated by hospitals
- \$7.9 billion in compensation to hospital employees and their suppliers
- \$11.5 billion contributed by hospitals to Arizona's economy (gross state product)

Source: Arizona Hospital and Healthcare Association



Not only has the demand for medical office space increased in the areas surrounding hospital campuses, but new physician offices, outpatient treatment and care facilities, and medical-related businesses have been, and are expected to continue to be, a major driving force in leased office space absorption and building purchases.

▶ AVERAGE PRICE PER SF—MEDICAL OFFICE

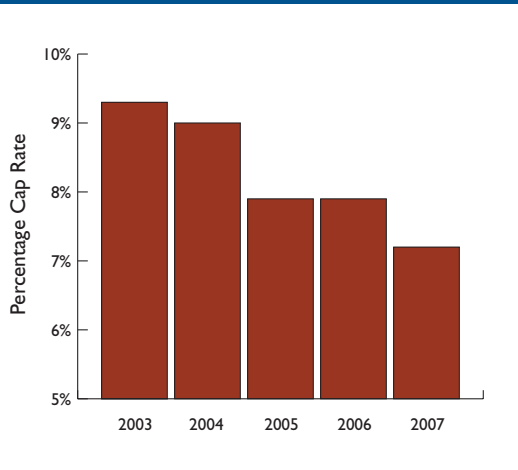


Source: CoStar

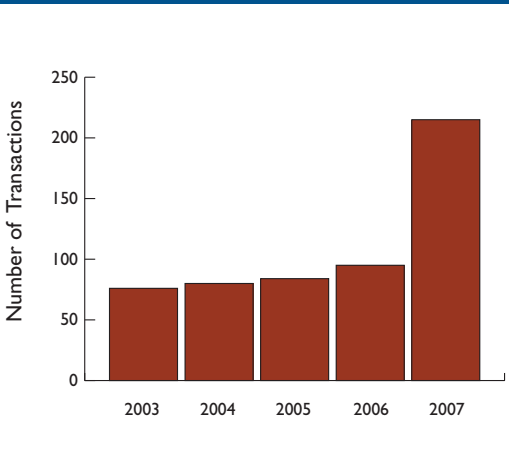
The result has been an overall increase in medical office transactions and prices, with steadily declining cap rates in this category. From 2003 to 2007, average cap rates dropped from the low 9 percent to the low 7 percent range. As the popularity of the medical office category grew, transaction volume for this product type saw a dramatic increase in 2007.

While each opportunity must be evaluated on its own merits, it would be reasonable to assume that the market has been making a bet on safer tenancy. As we move through uncertain times ahead, betting on the expected future demand of the healthcare sector is an investment that (pardon the pun) is in good health.

▶ AVERAGE CAP RATES MEDICAL OFFICE



▶ MEDICAL OFFICE TRANSACTIONS



BUILDING, BUYING OR CONVERTING FOR MEDICAL TENANTS

The technical requirements for medical tenants servicing patients or engaging in medical research can be challenging and include the following issues.

Patient accessibility issues. While most new buildings are accessible per ADA (Americans with Disabilities Act) regulations, medical tenants may require extra accessibility features, such as electronic door openers, railings or larger than standard elevators suitable for patients on gurneys.

Constant power supply. A backup power supply may be necessary if the tenant plans to perform in-suite surgery or requires refrigeration of medical supplies.

Plumbing requirements. Many practices require plumbing in exam rooms and nurses stations.

Controlled hazardous waste disposal. Special services exist for biohazard waste disposal.

Extra janitorial needs. Cleanliness is paramount to a medical practice and cleaning staff has to be responsive and sensitive to special cleaning requirements.

Above average parking requirements. Owing to the nature of medical practices, most municipalities require above average parking for medical space to accommodate the higher load of visitor traffic. Not all buildings can accommodate the necessary parking, which is commonly five or more spaces per thousand square feet.

Medical tenants have special needs. Ensure that your property manager and real estate advisor understand these needs and enjoy the challenges of working with sophisticated and savvy owners and tenants.

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2007 SIGNIFICANT MEDICAL OFFICE SALES

PHOENIX

4550 E. Bell Road
29,050 sf
\$5.37 million
Cap rate: N/A

SCOTTSDALE

Scottsdale at Mescal
10900 N. Scottsdale Road
48,457 sf
\$10.75 million
Cap rate: N/A

WEST VALLEY

Plaza Town Center
9165 W. Thunderbird Road, Peoria
26,170 sf
\$7.50 million
Cap rate: 6.5%

EAST VALLEY

Gilbert Emergency Hospital
5656 S. Power Road, Gilbert
31,452 sf
\$10.49 million
Cap rate: N/A

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