



LAS VEGAS | NEVADA

RESEARCH & FORECAST REPORT



Medical Office Reborn

The first quarter of 2013 reversed the largely negative fourth quarter of 2012, with positive net absorption in the medical office market and, therefore, decreased vacancy. The average asking lease rate remained stable at \$2.11 per square foot (psf) on a Full Service Gross (FSG) basis. There were no new completions of medical space in the first quarter, though there are rumblings of new projects on the horizon.

According to the Nevada Department of Employment, Training & Rehabilitation, between January 2012 and January 2013, a net of 600 jobs were lost in the health care sector (minus jobs in ambulatory health care services and hospitals). On a quarter-by-quarter basis, the health care sector had been adding jobs, slowly but steadily, from the third quarter of 2009 to the second quarter of 2011. Starting in the third quarter of 2011, this trend reversed itself for three quarters, with Southern Nevada losing 2,300 health care jobs. Over the past three quarters, job growth has wavered, and Southern Nevada now has 18,700 health care workers outside of ambulatory services and hospitals. Unemployment in the Las Vegas-Paradise MSA stood at 10.2 percent as of January 2013, down from 12.5 percent in January 2012. Over the same period, total employment in Southern Nevada has increased by 18,900 jobs, the majority in leisure and hospitality, trade, transportation and utilities and construction.

Vacancy in medical office space decreased in the first quarter of 2013, dropping to 20.7 percent from 21.1 percent in the fourth quarter of 2012. Compared to one year ago, vacancy has increased by 0.5 points. The highest vacancy rates posted in the first quarter of 2013

MARKET INDICATORS

	Q1-13	Q2-13 PROJECTED
VACANCY	↓	↓
NET ABSORPTION	↑	→
CONSTRUCTION	→	→
RENTAL RATE	→	→

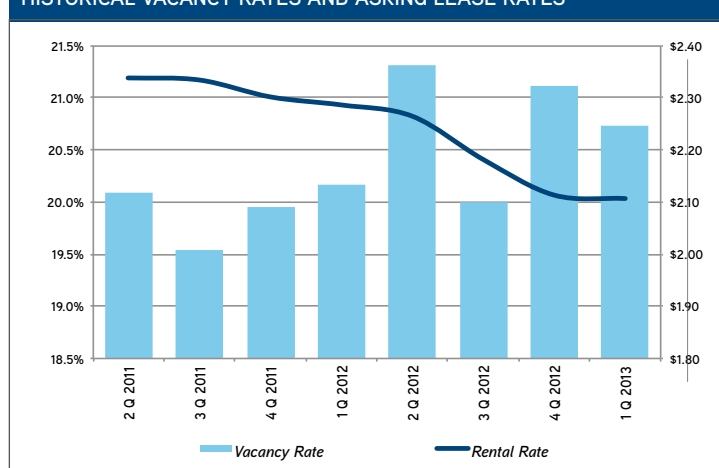
CLARK COUNTY ECONOMIC DATA

	2013	2012
Unemployment Rate (Jan)	10.2%	12.5%
Visitor Volume (Jan YTD)	3.1 MM	3.2 MM
Gaming Revenue (Jan YTD)	\$0.8 BB	\$0.9 BB
Taxable Sales*	\$16.3 BB	\$15.4 BB
Commercial Occupancy (Q1)	85.1%	83.7%

SOURCE: THE CENTER FOR BUSINESS & ECONOMIC RESEARCH, UNLV

*Compares 2013 to 2012, the most recent stats available

HISTORICAL VACANCY RATES AND ASKING LEASE RATES



“2013 will probably be a year of experiment and adaptation more than a year of outright progress for Southern Nevada’s medical office market.”

John M. Stater
Colliers, Research & GIS Manager



were in the Southwest (40.4 percent) and East Las Vegas (23.8 percent) submarkets. Downtown continued to boast the market's lowest vacancy rate at 5.6 percent.

Generally, vacancy was on the rise in 2012, and given the difficulties faced by medical office space in this changing industry, could very well rise through most of 2013. Not only are the days of private practice falling to the rise of medical groups, who require less space to do the same work, but the need for efficiency and lower prices are shifting medical resources from the traditional medical office buildings (MOB's) of the past to new concepts that often take space in retail centers to be closer to their patients. In leases we have tracked over the past four years, tenants engaged in "health services" took 59 percent of the space they leased in professional office buildings, 21 percent in retail properties and only 18 percent in office buildings dedicated to medical use.

Southern Nevada posted 20,530 square feet of net absorption in the first quarter of 2013, a distinct improvement from both one quarter ago and one year ago. While net absorption was negative in both 2011 and 2012, 2012 showed an improvement over 2011 and it is possible this trend will continue. It is difficult to get excited about an improving bad situation, but for now, we might have to be satisfied with that trend. Gross absorption for the first quarter totaled 99,000 square feet, equal to the average

quarterly gross absorption posted in 2012 and 20,000 square feet higher than the average gross absorption posted in 2011.

The amount of distressed medical office space (i.e. properties that have received a notice of default or are at some stage in the foreclosure process) neither increased nor decreased in the first quarter of 2013, remaining at 1,278,000 square feet. There is currently 76,000 square feet more of distressed medical office now than one year ago. Sales of distressed medical office have been weak over the past year, and in the first quarter of 2013 no distressed medical office was sold, though to be fair, very little of it is actively marketed for sale.

The weighted average asking rental rate remained at \$2.11 psf FSG this quarter, the third straight quarter in which the asking rental rate was \$2.11 psf FSG. After dropping \$0.41 between 2008 and 2010, the average asking rate for medical office jumped in the first quarter of 2011, and then began another downward slide. The Valley's highest average asking rate was in the Northwest submarket, at \$2.44 psf. The lowest average asking rate was in neighboring North Las Vegas, at \$1.20 psf.

Medical office sales were weak in 2012, with a total sales volume of \$18,125,000 and an average price of \$102.94 psf. In 2013, sales volume stood at \$13,960,000, representing

MARKET SUMMARY

	Q1-13	Q4-12	Q3-12
Vacancy Rate	20.7%	21.1%	20.2%
Asking Rent (PSF, NNN)	\$2.11	\$2.11	\$2.29
Net Absorption (SF)	20,530	-59,066	-11,670
New Completions (SF)	0	0	0

LEASE & SALES ACTIVITY

LEASE ACTIVITY

PROPERTY ADDRESS	LEASE DATE	LEASE TERM	SIZE SF	LEASE RATE	TYPE
Horizon West Business Centre	Dec 2012	65 months	5,000 SF	\$1.49 MG	Physician
Campbell Court	Jan 2013	62 months	4,000 SF	\$1.18 MG	Physician
Horizon West Business Centre	Dec 2012	49 months	2,000 SF	\$2.45 MG	Physician
Campbell Court	Oct 2012	65 months	2,000 SF	\$1.23 MG	Physician
Horizon West Business Centre	Oct 2012	120 months	2,000 SF	\$0.82 NNN	Physician

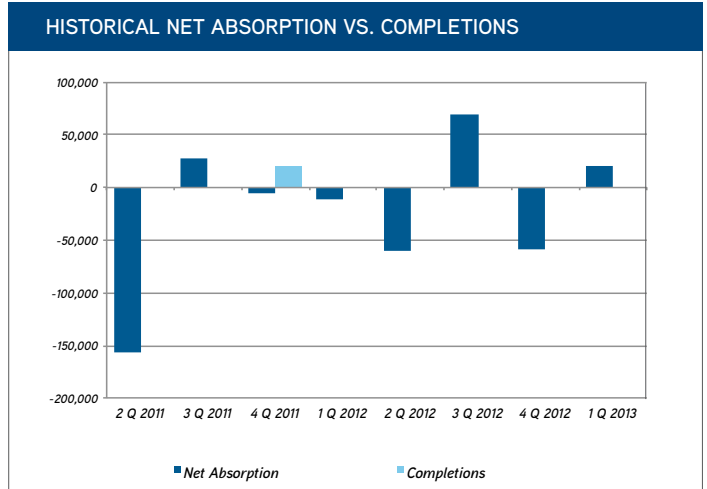
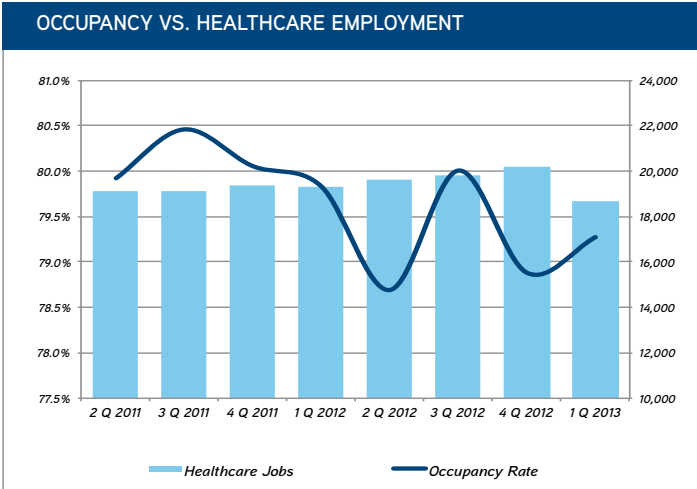
SALES ACTIVITY

PROPERTY ADDRESS	SALE DATE	SALE PRICE	SIZE SF	PRICE/SF	CLASS
Parkway Medical Plaza	Jan 2013	\$13,960,000	82,000 SF	\$171	Class B
Longford Medical Center	Jun 2012	\$12,600,000	131,000 SF	\$96	Class A
Summit Medical	Dec 2012	\$4,275,000	24,000 SF	\$182	Class C
Desert Inn Medical Park	Jun 2012	\$1,100,000	19,000 SF	\$59	Class C
Pageantry Horizon Park	Apr 2012	\$150,000	3,000 SF	\$50	Class C

MARKET COMPARISONS

MEDICAL OFFICE MARKET

SUBMARKET	BLDGS	TOTAL INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	SUBLEASE VACANT SF	SUBLEASE VACANCY RATE	TOTAL VACANT SF	VACANCY RATE CURRENT QUARTER	VACANCY RATE PRIOR QUARTER	NET ABSORPTION CURRENT QTR SF	NET ABSORPTION YTD SF	COMPLETIONS CURRENT QTR SF	COMPLETIONS YTD SF	UNDER CONSTRUCTION SF	PLANNED CONSTRUCTION SF	WEIGHTED AVG ASKING RENTAL RATE
AIRPORT SUBMARKET																
Airport	2	38,000	5,073	13.4%	-	0.0%	5,073	13.4%	13.4%	-	-	-	-	-	-	\$1.95
Downtown	9	229,001	10,756	4.7%	-	0.0%	10,756	4.7%	4.7%	-	-	-	-	-	-	\$1.95
East Las Vegas	15	781,499	194,233	24.9%	-	0.0%	194,233	24.9%	26.1%	(4,900)	(4,900)	-	-	-	-	\$1.94
Henderson	36	895,338	189,962	21.2%	-	0.0%	189,962	21.2%	20.5%	(5,119)	(5,119)	-	-	-	-	\$2.24
North Las Vegas	10	100,443	19,551	19.5%	-	0.0%	19,551	19.5%	6.3%	-	-	-	-	-	-	\$1.20
Northwest	19	1,719,456	250,505	14.6%	-	0.0%	250,505	14.6%	14.7%	(11,079)	(11,079)	-	-	-	-	\$2.44
Southwest	27	621,448	218,305	35.1%	8,364	1.3%	226,669	36.5%	40.8%	35,209	35,209	-	-	-	-	\$2.26
West Central	60	871,284	201,157	23.1%	2,881	0.3%	204,038	23.4%	23.7%	6,419	6,419	-	-	-	-	\$1.66
MARKET TOTAL	178	5,256,469	1,089,542	20.7%	11,245	0.2%	1,100,787	20.9%	21.4%	20,530	20,530	-	-	-	-	\$2.11
QUARTERLY COMPAISON AND TOTALS																
Q1-13	178	5,256,469	1,089,542	20.7%	11,245	0.2%	1,100,787	20.9%	21.3%	20,530	20,530	-	-	-	-	\$2.11
Q4-12	178	5,256,469	1,110,072	21.1%	11,245	0.2%	1,121,317	21.3%	20.0%	(59,066)	(61,723)	-	-	-	-	\$2.11
Q3-12	178	5,256,469	1,051,006	20.0%	2,881	0.1%	1,053,887	20.0%	21.4%	69,085	(2,657)	-	-	-	-	\$2.18
Q2-12	178	5,256,469	1,120,091	21.3%	2,881	0.1%	1,122,972	21.4%	20.2%	(60,072)	(71,742)	-	-	-	-	\$2.26
Q1-12	178	5,256,469	1,060,019	20.2%	2,280	0.0%	1,062,299	20.2%	20.0%	(11,670)	(11,670)	-	-	-	-	\$2.29
Q4-11	178	5,256,469	1,048,349	19.9%	2,260	0.0%	1,050,609	20.0%	19.5%	(5,048)	(226,942)	20,000	20,000	-	-	\$2.30



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a single sale of an 81,834 square foot medical office property at an average sales price of \$170.59 psf. Southern Nevada currently has 64,000 square feet of medical office space for sale on an investment basis, at an average asking price of \$135.75 psf. Medical product available for sale on an owner/user basis totaled 36,000 square feet at an undisclosed sales price.

Many eyes are on the medical office market these days, primarily because they are waiting to see what effect new government policies might have on it. 2012 was not a banner year for the medical office market, with rising vacancy rates and negative net absorption, and one explanation for this lack of activity (or lack of positive activity) was the wait-and-see attitude taken by medical practitioners in regards to the new Affordable Care Act. Now that folks have waited and seen, it's time to see what they are going to do with the new medical landscape into which they have been dropped. So far, it looks like more of the same. While medical practitioners now know, to some extent, what lies ahead of them, they are still figuring out how to adapt to it. Likewise, owners of medical space are trying to figure out what they must do to attract these medical practitioners to their buildings – what rents will the market bear, what tenant improvements (perhaps extensive improvements to serve medical groups instead of private practitioners) are required, etc. 2013 will probably be a year of experiment and adaptation more than a year of outright progress for Southern Nevada's medical office market.

482 offices in 62 countries on 6 continents

United States: 140
Canada: 42
Latin America: 20
Asia Pacific: 195
EMEA: 85

- > \$2.0 billion in annual revenue
- > 1.12 billion square feet under management
- > Over 13,500 professionals

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