

LAS VEGAS | MEDICAL OFFICE

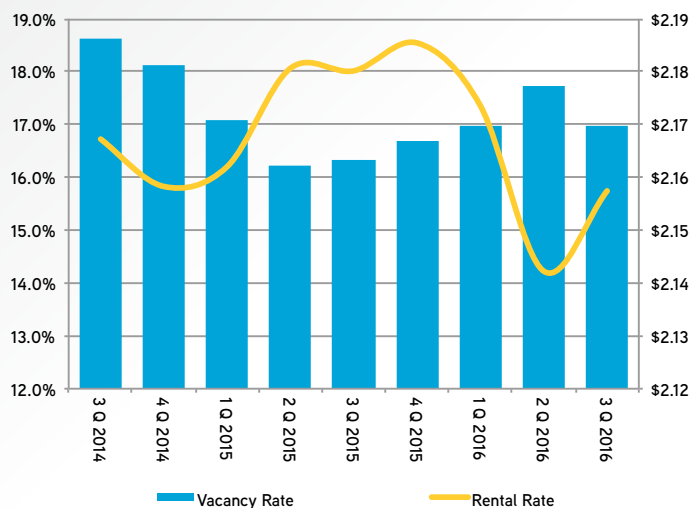
Q3 2016

Medical Office Strikes Back

- > Southern Nevada's medical office market registered its first positive net absorption in five quarters
- > Vacancy dropped to 17 percent
- > Asking rates also turned around, posting a moderate increase

After four quarters of mounting negative net absorption, Southern Nevada's medical office market made an abrupt turn into positive territory. Net absorption rebounded in the third quarter of 2016, reaching 54,493 square feet. This brought vacancy down to 17 percent, a 0.7 point drop from one quarter ago, but still 0.7 points higher than one year ago. The weighted average asking rental rate increased to \$2.16 per square foot (psf) on a full service gross (FSG) basis, a \$0.02 increase over last quarter.

Historical Vacancy Rates and Rental Rates



"The third quarter of 2016 offered a pleasant change of course for the medical office market ..."

Economic Indicators

HEALTHCARE
Employment



HEALTHCARE
Spending



MEDICAL
SF/Job



Market Indicators

Relative to prior period	Q3 2016	Q4 2016*
VACANCY	↓	↓
NET ABSORPTION	↑	↓
COMPLETIONS	↔	↔
RENTAL RATE	↑	↑

*Projected

Summary Statistics

Q3 2016 Las Vegas Market	Q3-2015	Q2-2016	Q3-2016
Vacancy Rate	16.3%	17.7%	17.0%
Asking Rent (PSF, NNN)	\$2.18	\$2.14	\$2.16
Net Absorption (SF)	-6,806	-55,020	54,493
New Completions (SF)	0	0	0

Overall Asking Rents

Per Square Foot	Q3-2015	Q2-2016	Q3-2016
Class A	\$2.59	\$2.58	\$2.55
Class B	\$2.25	\$2.21	\$2.22
Class C	\$1.78	\$1.78	\$1.82

According to the Nevada Department of Employment, Training and Rehabilitation, Southern Nevada’s medical office job market improved in July 2016 (the latest month of data available) compared with July 2015, adding approximately 4,500 jobs in the past twelve months. This does not include jobs at hospitals. Employment that directly impacted medical office projects increased by approximately 1,100 jobs. The medical sector has seen strong job growth for many quarters without that growth impacting demand for medical office space. This quarter, the medical office might have finally caught up with that job growth. Unemployment in the Las Vegas-Paradise MSA stood at 6.7 percent as of July 2016, down from 7.1 percent in July 2015. From 2015 to July 2016, total employment in Southern Nevada has increased by 27,000 jobs.

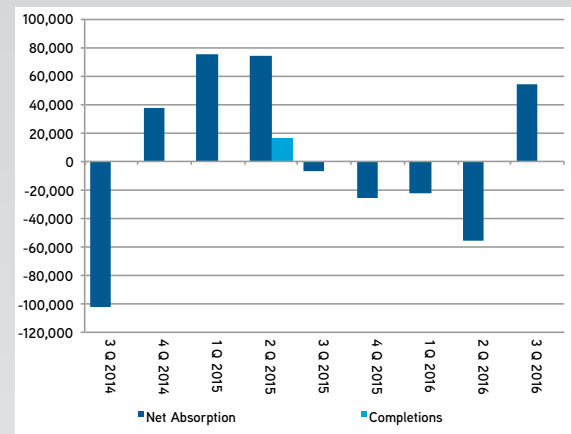
According to the Nevada Department of Taxation, taxable spending on ambulatory health care services in Clark County in the second quarter of 2016 (the most recent quarter of data) totaled \$21.1 million dollars. This represented a 22 percent year-over-year increase in spending. Spending on ambulatory health care appeared to be levelling off in late 2015 and early 2016 until the second quarter’s jump. On the downside, it is unclear how much of this increase in taxable spending is due to more healthcare being purchased versus how much that healthcare costs.

The last time medical office space was completed in Southern Nevada was during the second quarter of 2015, when 16,000 square feet was added to inventory. When the new Henderson Hospital at Union Village is completed, which should be very soon, development of 150,000 square feet of medical office and 190,000 square feet of retail space will follow, though this could still be 12-18 months away. A 211,000 square foot Class A medical office building is now under construction at Cimarron Road and Tenaya Way, and should be completed in 2017. Several new small hospitals for urgent or emergency care are planned in the valley, including the 100,000 square foot Southern Hills Emergency Hospital at Desert Inn & Fort Apache, and four small hospitals being developed by Dignity Health at Craig & Camino Al Norte, Blue Diamond & Decatur, Flamingo & I-215 and Decatur & Sahara.

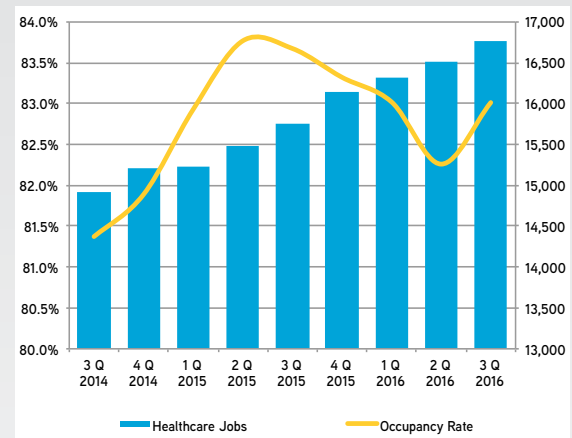
Vacancy in medical office space decreased in the third quarter of 2016 to 17 percent, a decrease of 0.7 points from the second quarter of 2016, but an increase of 0.7 points from one year ago. This quarter’s decrease in vacancy was the first such decrease in four quarters, despite growth in health care-related jobs and spending, and hopefully signals a return to a more normal pattern of growth.

The highest vacancy rates in the third quarter of 2016 were in the Southwest (32.7 percent), North Las Vegas (20.9 percent) and Airport (20.2 percent) submarkets. The lowest vacancy rate is now in Downtown (10.4 percent), followed by East Las Vegas and Henderson at 14.7 percent. Vacancy decreased in Downtown, East Las Vegas and the Southwest, with the largest decrease occurring in the Downtown submarket. Vacancy increased in Henderson, West Central and Northwest, and remained stable in Airport and North Las Vegas.

Historical Net Absorption vs. Completions



Healthcare Jobs vs. Occupancy Rate



Southern Nevada's medical office market saw some positive growth in early 2015, but this growth turned negative during the four quarters between the third quarter of 2015 and the second quarter of 2016. This means that this quarter's positive net absorption is the first growth the market has seen in a year. The 2015/2016 1.4-point increase in vacancy occurred at the same time the Valley added over 1,000 ambulatory healthcare jobs and ambulatory healthcare spending increased by 4.7 percent.

The disconnect between job and spending growth and demand for medical office space can be tied to changes in which healthcare is being delivered, and these changes will continue to plague the market for years to come. In the first place, consolidation within the medical profession, coupled with more efficient space use, is decreasing the amount of space occupied by medical office users. Even when medical users are growing their practices, they may not be growing the size of their office. On top of that, medical practitioners have found it possible to use non-medical office space, such as in professional office buildings and retail centers, for their practices. Both of these factors have hurt demand for medical office space for the past decade. Since 2006, Southern Nevada's medical office market has lost 151,000 square feet of occupancy, while at the same time adding 10,600 ambulatory health care jobs.

The lowest average asking rate for medical office space was in the West Central submarket, at \$1.78 psf, followed by North Las Vegas at \$1.80 psf. The Valley's highest asking rate was in Northwest, at \$2.41 psf, followed by Henderson at \$2.34 psf. Lease rates increased this quarter in Downtown, East Las Vegas and West Central, and decreased in Henderson, North Las Vegas, Northwest and Southwest. It is worth noting that decreases in vacancy in Downtown and East Las Vegas were accompanied by increases in the weighted average asking rates in those submarkets; this suggests that the occupancy of less expensive space was indeed a factor in the increase of the Valley's average asking rate in the third quarter.

Investment sales volume of medical office so far in 2016 amounted to \$9.9 million in three sales totaling 90,000 square feet, with an average sales price of \$110.12 per square foot. These buildings had an average cap rate of 6.8 percent. For comparison's sake, investment sales volume in 2015 was almost \$80 million.

Owner/user sales volume of medical office space so far in 2016 was \$6.1 million in five sales totaling 23,893 square feet. The average sales price was \$255.70. For comparison's sake, owner/user sales volume in 2015 was \$40.9 million in twelve sales totaling 120,543 square feet, with an average sales price of \$339.03.

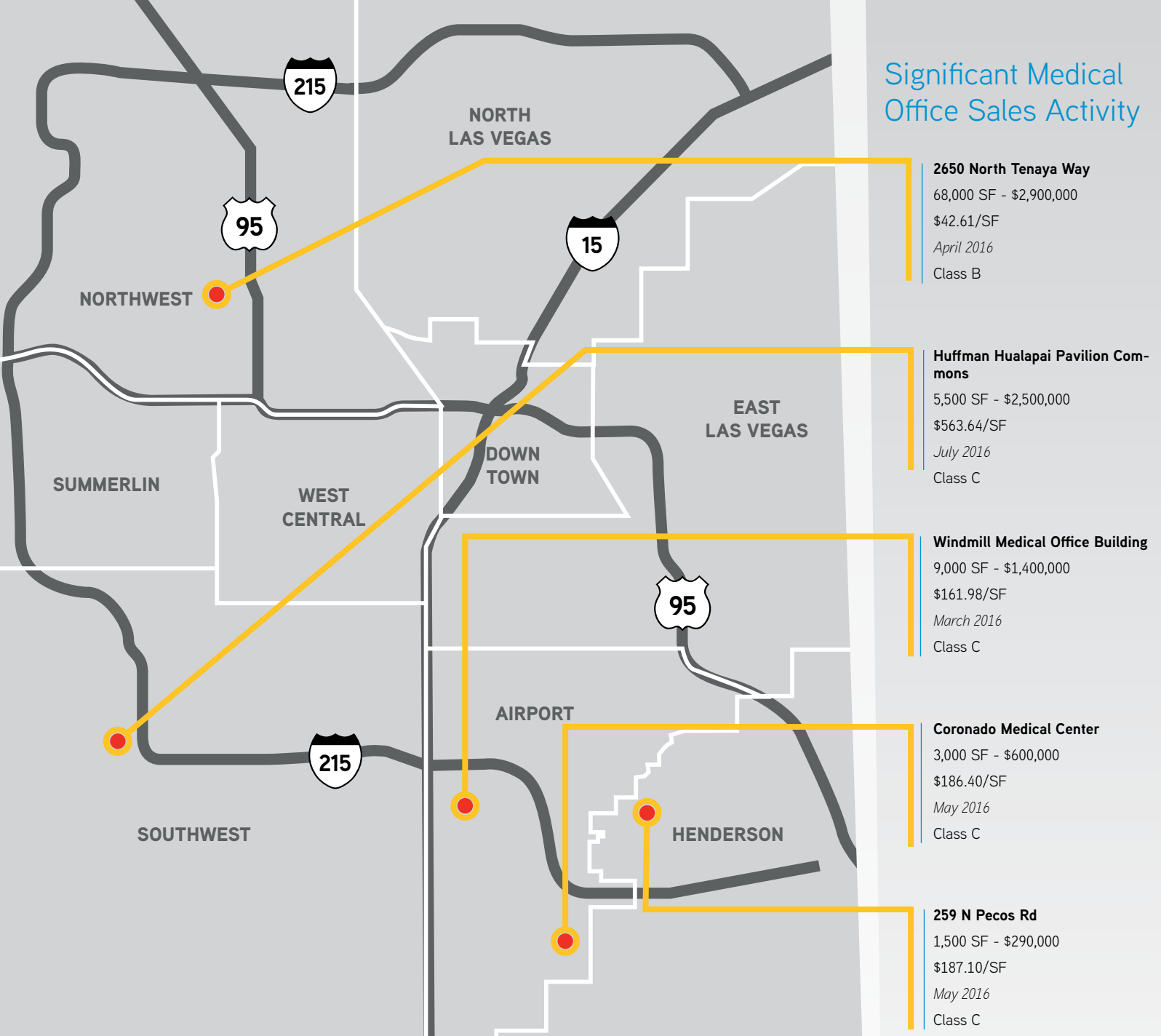
“After four quarters of mounting negative net absorption, Southern Nevada’s medical office market made an abrupt turn into positive territory.”

- John Stater, Research & GIS Manager

The weighted average asking rental rate for medical office space in the third quarter of 2016 was \$2.16 per square foot (psf) on a full service gross (FSG) basis. Asking rents in the third quarter of 2016 were \$0.02 psf higher than one quarter ago and \$0.02 lower than one year ago. The decrease in asking rents experienced last quarter was not surprising, given the weak demand for medical office over the past year. The increase that occurred this quarter may be as much due to less expensive space leaving the market as it was due to actual asking rent increases.

The third quarter of 2016 offered a pleasant change of course for the medical office market, replacing four quarters of negative net absorption with positive net absorption. While the four quarter slide was certainly not good for the market, it was fortunately not quite enough to erase the two strong growth quarters that occurred in early 2015, which means that the medical office market is in better shape now than it was two years ago. In medical office's favor is the continued growth in healthcare employment and maybe the growth in healthcare spending in Southern Nevada. Even if not all of that growth is filtering into medical office buildings, this should help improve demand for medical office space in the long run.

Significant Medical Office Sales Activity



Significant Lease Activity

Property Name	Lease Date	Lease Term	Size	Lease Rate	Tenant
1330 Valley View	Jul 2016	126 months	18,100 SF	\$1.69 NNN	Physicians
Durango Medical Plaza	Jul 2016	136 months	6,900 SF	\$1.86 NNN	Fertility Center
Siena Pavilion	Apr 2016	36 months	4,200 SF	\$1.29 NNN	Physicians
Seven Hills Medical Center	Feb 2016	60 months	2,400 SF	\$1.08 NNN	Management
Sunrise Medical Towers	Jul 2016	36 months	1,300 SF	\$2.06 MG	Sleep Center

Market Comparisons - Las Vegas

Medical Office Market

TYPE	TOTAL INVENTORY SF	DIRECT VACANT SF	DIRECT VACANCY RATE	SUBLEASE VACANT SF	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														
A	-	-	n/a	-	-	n/a	n/a	-	-	-	-	-	-	\$-
B	-	-	n/a	-	-	n/a	n/a	-	-	-	-	-	-	\$-
C	38,000	7,690	20.2%	-	7,690	20.2%	20.2%	-	5,000	-	-	-	-	\$1.92
Total	38,000	7,690	20.2%	-	7,690	20.2%	20.2%	-	5,000	-	-	-	-	\$1.92
DOWNTOWN SUBMARKET														
A	65,000	-	0.0%	-	-	0.0%	0.0%	-	-	-	-	-	-	\$-
B	227,301	25,293	11.1%	-	25,293	11.1%	34.6%	53,445	1,733	-	-	-	-	\$2.28
C	86,997	13,976	16.1%	-	13,976	16.1%	5.8%	(8,958)	(8,958)	-	-	-	-	\$1.60
Total	379,298	39,269	10.4%	-	39,269	10.4%	22.1%	44,487	(7,225)	-	-	-	-	\$2.04
EAST LAS VEGAS SUBMARKET														
A	-	-	n/a	-	-	n/a	n/a	-	-	-	-	-	-	\$-
B	669,264	143,466	21.4%	-	143,466	21.4%	21.1%	(2,173)	11,230	-	-	-	-	\$2.01
C	629,240	47,638	7.6%	-	47,638	7.6%	14.2%	41,553	49,681	-	-	-	-	\$1.72
Total	1,298,504	191,104	14.7%	-	191,104	14.7%	17.7%	39,380	60,911	-	-	-	-	\$1.94
HENDERSON SUBMARKET														
A	421,834	47,080	11.2%	-	47,080	11.2%	11.1%	-296	5,831	-	-	-	80,000	\$2.92
B	320,925	110,100	34.3%	2,515	112,615	35.1%	25.0%	-32,500	(53,090)	-	-	-	-	\$2.17
C	604,216	41,146	6.8%	-	41,146	6.8%	7.9%	3,084	3,027	-	-	27,000	-	\$2.14
Total	1,346,975	198,326	14.7%	2,515	200,841	14.9%	13.0%	(29,712)	(44,232)	-	-	27,000	80,000	\$2.34
NORTH LAS VEGAS SUBMARKET														
A	-	-	n/a	-	-	n/a	n/a	-	-	-	-	-	-	\$-
B	43,921	10,929	24.9%	-	10,929	24.9%	24.9%	-	(5,129)	-	-	-	-	\$1.00
C	158,867	31,525	19.8%	-	31,525	19.8%	19.8%	-	(9,625)	-	-	-	-	\$2.08
Total	202,788	42,454	20.9%	-	42,454	20.9%	20.9%	-	(14,754)	-	-	-	-	\$1.80
NORTHWEST SUBMARKET														
A	807,173	132,832	16.5%	12,346	145,178	18.0%	17.4%	(4,992)	25,656	-	-	80,251	-	\$2.51
B	1,031,717	159,055	15.4%	-	159,055	15.4%	14.6%	(8,642)	(33,813)	-	-	-	-	\$2.38
C	202,434	10,353	5.1%	-	10,353	5.1%	6.1%	2,050	-	-	-	-	-	\$1.50
Total	2,041,324	302,240	14.8%	12,346	314,586	15.4%	14.8%	(11,584)	(8,157)	-	-	80,251	-	\$2.41
SOUTHWEST SUBMARKET														
A	115,300	41,614	36.1%	-	41,614	36.1%	46.4%	11,887	6,130	-	-	-	-	\$2.28
B	380,926	153,403	40.3%	4,440	157,843	41.4%	46.5%	19,245	30,874	-	-	-	-	\$2.35
C	275,170	57,236	20.8%	-	57,236	20.8%	20.0%	(2,134)	(2,512)	-	-	-	-	\$2.01
Total	771,396	252,253	32.7%	4,440	256,693	33.3%	37.0%	28,998	34,492	-	-	-	-	\$2.26
WEST CENTRAL SUBMARKET														
A	-	-	n/a	-	-	n/a	n/a	-	-	-	-	-	-	\$-
B	291,027	27,751	9.5%	-	27,751	9.5%	9.1%	(1,320)	(6,461)	-	-	-	-	\$2.31
C	869,393	168,645	19.4%	-	168,645	19.4%	17.6%	(15,756)	(41,921)	-	-	-	-	\$1.69
Total	1,160,420	196,396	16.9%	-	196,396	16.9%	15.5%	(17,076)	(48,382)	-	-	-	-	\$1.78
MARKET TOTAL														
A	1,409,307	221,526	15.7%	12,346	233,872	16.6%	17.1%	6,599	37,617	-	-	80,251	80,000	\$2.55
B	2,965,081	629,997	21.2%	6,955	636,952	21.5%	22.4%	28,055	(54,656)	-	-	-	-	\$2.22
C	2,864,317	378,209	13.2%	-	378,209	13.2%	14.0%	19,839	(5,308)	-	-	27,000	-	\$1.82
Total	7,238,705	1,229,732	17.0%	19,301	1,249,033	17.3%	18.1%	54,493	(22,347)	-	-	107,251	80,000	\$2.16
QUARTERLY COMPARISON AND TOTALS														
Q3-16	7,238,705	1,229,732	17.0%	19,301	1,249,033	17.3%	18.1%	54,493	(22,347)	-	-	107,251	80,000	\$2.16
Q2-16	7,238,705	1,284,225	17.7%	23,007	1,307,232	18.1%	17.1%	(55,020)	(76,840)	-	-	80,251	107,000	\$2.14
Q1-16	7,238,705	1,229,205	17.0%	6,955	1,236,160	17.1%	16.8%	(21,820)	(21,820)	-	-	-	291,931	\$2.17
Q4-15	7,238,705	1,207,385	16.7%	8,955	1,216,340	16.8%	16.6%	(25,501)	116,729	-	16,000	-	361,931	\$2.19
Q3-15	7,238,705	1,181,884	16.3%	22,436	1,204,320	16.6%	16.5%	(6,806)	142,230	-	16,000	-	361,931	\$2.18
Q2-15	7,238,705	1,175,078	16.2%	20,245	1,195,323	16.5%	17.3%	73,923	149,036	16,000	16,000	-	131,680	\$2.18
Q1-15	7,222,705	1,233,001	17.1%	15,002	1,248,003	17.3%	18.3%	75,113	75,113	-	-	-	131,680	\$2.16

502 offices in 66 countries on 6 continents

United States: **153**

Canada: **34**

Latin America: **24**

Asia Pacific: **231**

EMEA: **112**

\$2.5

billion in
annual revenue*

2.0

billion square feet
under management

16,000

professionals
and staff

*All statistics are for 2015 and include affiliates.

About Colliers International

Colliers International Group Inc. (NASDAQ: CIGI; TSX: CIG) is an industry leading global real estate services company with more than 16,000 skilled professionals operating in 66 countries. With an enterprising culture and significant employee ownership, Colliers professionals provide a full range of services to real estate occupiers, owners and investors worldwide. Services include strategic advice and execution for property sales, leasing and finance; global corporate solutions; property, facility and project management; workplace solutions; appraisal, valuation and tax consulting; customized research; and thought leadership consulting.

Colliers professionals think differently, share great ideas and offer thoughtful and innovative advice that help clients accelerate their success. Colliers has been ranked among the top 100 outsourcing firms by the International Association of Outsourcing Professionals' Global Outsourcing for 11 consecutive years, more than any other real estate services firm.

For the latest news from Colliers, visit Colliers.com or follow us on Twitter (@Colliers) and LinkedIn.

Copyright © 2016 Colliers International.

The information contained herein has been obtained from sources deemed reliable. While every reasonable effort has been made to ensure its accuracy, we cannot guarantee it. No responsibility is assumed for any inaccuracies. Readers are encouraged to consult their professional advisors prior to acting on any of the material contained in this report.

COLLIERS INTERNATIONAL | LAS VEGAS

3960 Howard Hughes Parkway
Suite 150
Las Vegas, Nevada 89169 | USA
+1 702 735 5700
www.colliers.com/lasvegas

MARKET CONTACT:

Mike Mixer
Executive Managing Director | Las Vegas
+1 702 735 5700
mike.mixer@colliers.com

John Stater
Research & GIS Manager | Las Vegas
+1 702 836 3781
john.stater@colliers.com



Accelerating success.