

WINTER 2018

National Healthcare Real Estate Investor Update

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As Interest Rates Creep, Door Opens for Institutional Medical Investors

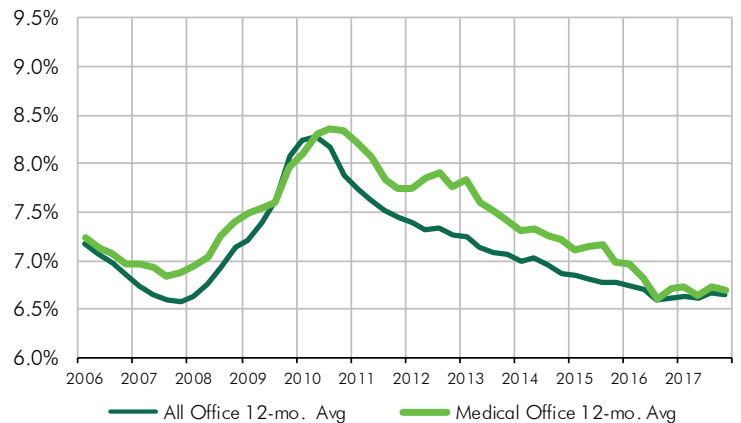
2017 was a record-breaking year for medical office sales with volume totaling \$10.2 billion. Almost a quarter of that volume was attributed to one large deal, the \$2.6 billion Duke Realty medical office portfolio, purchased by Healthcare Trust of America (NYSE: DOC). Nine months since that record trade, the 10-year treasury rate has almost doubled, increasing from 1.49% in June 2017 to 2.88% in March. With stock prices for publicly traded REITs typically moving opposite of treasury rates, the outlook for the REIT sector has become slightly more bearish with the average stock price for the top 5 publicly traded health care REITs declining more than 15% since the beginning of the year. As such, the door has opened for institutional medical office investors. In fact, the last two large portfolio deals that traded include the PHT Medical Office Portfolio (1.4 million SF) and the IRET Medical Office Portfolio (1.3 million SF), both of which were purchased by institutional core funds.

New entrants to the medical office sector continue to be lured by attractive yields relative to other core commercial product types (such as multi-family and industrial), the cyclical stability of an industry that added jobs every month during the Great Recession and the ongoing demand by an aging population. This has caused not only the largest institutional investors in the U.S. to focus on this sector, but foreign capital is also actively in the market seeking partnerships that have operating partners with healthcare expertise. This imbalance in supply and demand for medical investments should continue to keep pricing stable for the time being, despite the recent movement in interest rates.

Cap Rates [non-weighted]

Note: Graphs and Data Courtesy of Real Capital Analytics.

4Q17 - 6.67%



Price Per Square Foot [\$/\$F]

Note: Graphs and Data Courtesy of Real Capital Analytics.

4Q17 - \$297



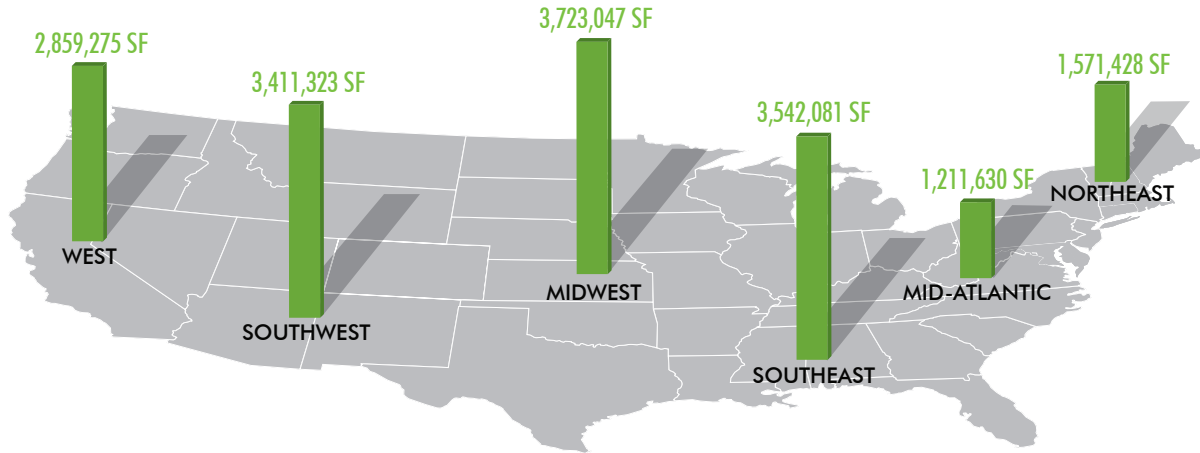
4Q17 Medical Office Sales Volume

REGION	#	VOLUME	AVG. \$/PSF
West	59	\$432,223,556	\$328
Southwest	29	\$193,194,700	\$255
Southeast	90	\$1,334,159,193	\$330
Midwest	41	\$343,016,233	\$272
Northeast	21	\$193,583,761	\$218
Mid-Atlantic	17	\$156,436,482	\$237
TOTAL	257	\$2,652,613,924	\$297

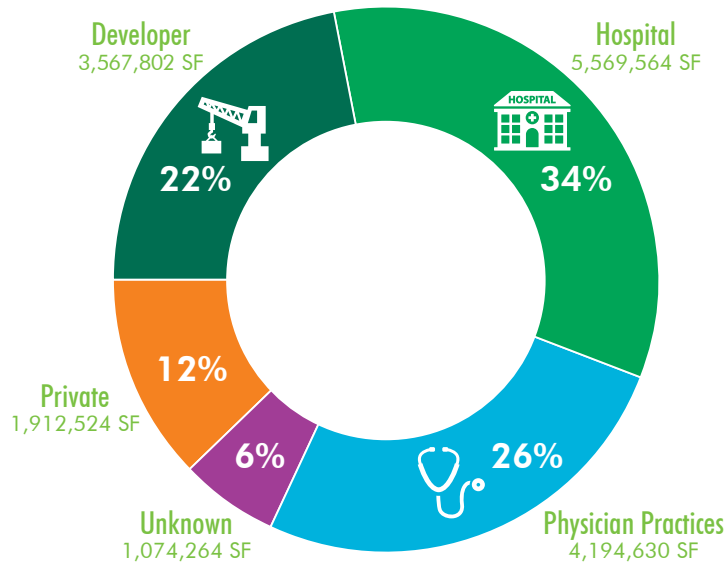
Note: Data Courtesy of Real Capital Analytics.

Medical Office Building Construction Data

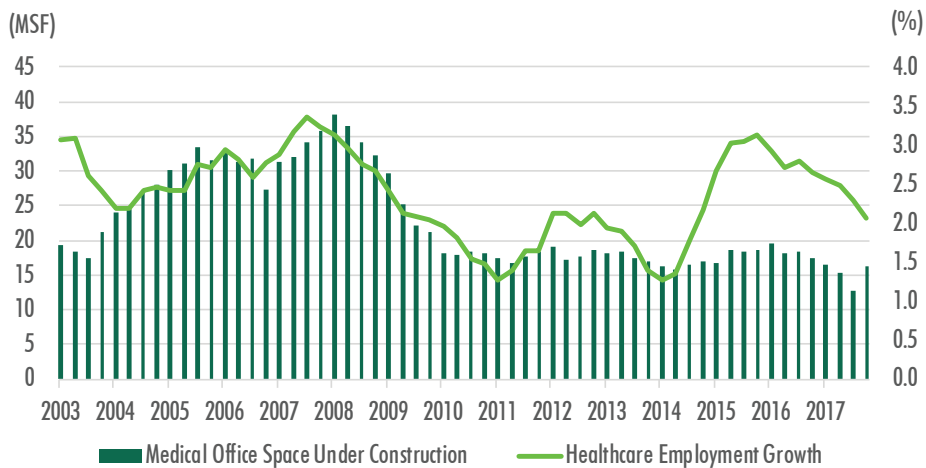
Medical Office Building Under Construction by Region



Medical Office Building Under Construction by Owner



Medical Office Space Under Construction vs. Growth in Healthcare Employment



Source: CBRE EA/Dodge Pipeline, BLS, Moody's Analytics

Select 4Q17 Healthcare Real Estate Transactions by Region

DATE	PROPERTY NAME	CITY, STATE	YEAR BUILT	PRICE	SQ.FT.	\$/SQ.FT.	REGION
Nov-17	San Diego Medical Office Portfolio (2)	San Diego, CA	1989, 1990	\$34,800,000	\$101,633	\$342	WEST
Oct-17	La Paz Plaza	Mission Viejo, CA	1979 Ren.1996	\$32,375,028	51,766	\$625	
Dec-17	Marin Cancer Institute	Larkspur, CA	1964 Ren.1992	\$32,000,000	45,277	\$707	
Nov-17	5620 Mesmer Avenue	Culver City, CA	1978 Ren.1995	\$24,000,000	24,570	\$977	
Dec-17	Panorama Orthopedics & Rockwell Medical Plaza	Highlands Ranch, CO/ Rockwall, TX	2014, 2015	\$26,800,000	55,545	\$482	SOUTHWEST
Oct-17	UC Health Center	Boulder, CO	1982 Ren.1992	\$21,250,000	53,122	\$400	
Dec-17	Northpoint IV	Dallas, TX	1979	\$19,250,000	117,481	\$164	
Nov-17	Advanced Diagnostics Healthcare Clinic	Houston, TX	1998 Ren.2005	\$17,500,000	23,300	\$751	
Dec-17	Center Pointe I & II	Sandy Springs, GA	1984	\$155,986,000	363,778	\$429	SOUTHEAST
Dec-17	Hock Plaza	Durham, NC	2004	\$142,000,000	327,161	\$434	
Nov-17	Meadows & Ohly Atlanta Portfolio (4)	Georgia	Various	\$112,100,000	290,926	\$385	
Dec-17	Physicians Realty Trust Gwinnett MOB Portfolio (3)	Georgia	Various	\$100,000,000	272,656	\$367	
Nov-17	Aurora Health Care Portfolio (2)	Milwaukee, WI	2001-2002	\$61,500,000	129,629	\$474	MIDWEST
Nov-17	St Joseph County VA Clinic	Mishawaka, IN	2017	\$47,650,000	86,363	\$552	
Dec-17	Doctors Office Building III	Hoffman Estates, IL	2005	\$28,750,000	99,526	\$289	
Dec-17	Apple Valley Medical Center	Apple Valley, MN	1986	\$21,500,000	58,870	\$365	
Dec-17	Concord Health (3) & Southern Maine Medical Center	New Hampshire, Maine	Various	\$61,809,957	212,415	\$291	NORTHEAST
Dec-17	Crystal Run Healthcare Newburgh	Newburgh, NY	1900 Ren.1946	\$32,537,500	66,000	\$493	
Nov-17	Summit Executive Center	Summit, NJ	2011 Ren.2012	\$30,333,500	65,518	\$463	
Nov-17	7-11 South Broadway	White Plains, NY	1953 Ren.2003	\$9,600,000	74,100	\$130	
Dec-17	Merrifield-Fairfax Medical Campus	Fairfax, VA	2009	\$62,500,000	119,788	\$522	MID-ATLANTIC
Oct-17	Battlefield Corporate Center	Chesapeake, VA	1987	\$20,750,480	96,720	\$215	
Nov-17	McLean Plaza	McLean, VA	1974 Ren.2009	\$15,880,000	66,603	\$238	
Nov-17	Landsowne Medical Plaza	Landsowne, VA	2000	\$8,400,000	66,875	\$126	

Note: Data Courtesy of Real Capital Analytics, CoStar, RealQuest, Press Articles, and CBRE Research.

Capital Markets Update

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Debt Market Update for Medical Properties

The debt capital markets responded to the notable election with an approximate 50 basis points increase in intermediate and long-term rates. That said, from any historical perspective, this remains a great time to be a borrower. Debt capital is available for healthcare properties from multiple sources and at very low rates. Lenders continue to see making real estate mortgages as an effective risk/reward strategy relative to other investment opportunities.

The debt markets for medical properties remain healthy. Lenders are underwriting more conservatively than a year ago, especially commercial banks. The lender pool for medical office buildings remains stronger and deeper than the lender pool for all other types of healthcare properties such as surgery centers and acute care hospitals.

- Debt yield remains one of the most critical underwriting constraints, regardless of lender type.
- Historically low fixed interest rates remain, especially at the five to ten-year range in the interest rate curve. At least two Fed rate increases are expected in 2017, each of 25 basis points.
- CMBS platforms have stabilized since the first half of 2016, adding some liquidity for deals that might otherwise have to be financed under more conservative terms by other lender types. Exceptions for CMBS production in 2017 are generally equal to 2016 production.
- Today, we have a fully functioning market, but on-book lenders are highly selective and are dealing with new regulatory impacts such as Basel III and Dodd-Frank.
- Life company loan allocations for 2017 are about 5% higher than the 2016 allocations.
- Construction loans remain difficult to obtain due to new banking regulations that require more capital be set aside by the lender funding such loans. Debt funds have become more active as construction lenders, but at rates that are much higher than what borrowers have been accustomed to receiving from banks.

Money Rates (as of 3/26/2018)

Sources: Bloomberg, Wall Street Journal, BankRate.com

	3/26/2018	MONTH AGO	YEAR AGO
Tax Exempt AAA Rate (10-year GBA Rate)	\$2.52	\$2.48	\$2.30
Prime	4.75%	4.50%	4.00%
5-Yr US Treasury	2.62%	2.62%	1.94%
10-Yr US Treasury	2.83%	2.87%	2.42%
1-M LIBOR	1.87%	1.62%	0.98%
Dow Jones Average	23,533	25,309	20,656
10-Yr. Swap Spread	2.84%	2.89%	2.44%

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