

Q2 2022



National Healthcare & Life Sciences Real Estate Investor Update



Medical Office Executive Summary

- ▼ **\$2.9 Billion**
Q2 MOB Sales Volume
- ▼ **6.12%**
average cap rate
- ▲ **31.7 MSF**
under construction

Note: Arrows indicate change from previous quarter

- Medical office transactions slowed in Q2 2022 compared to the previous quarter. Quarter-over-quarter transaction volume dropped to \$2.9 billion from \$3.4 billion, a 14% decrease.
- Despite a decrease in transaction volumes during the quarter, the sector’s YTD sales volume has increased by 50.3% since the first half of 2021.
- Overall medical office cap rates continued to compress into Q2 2022, recorded at 6.12%. The top quartile of transactions saw cap rates move in the opposite direction increasing to 5.4% in Q2, up 22 bps from Q1 2022.
- Lenders begin to slow the pace of funding in Q3 as indices continue to rise.
- Medical Office product under construction reached 31.7 msf in Q2 2022, a 21% increase from a year ago.
- M&A activity between hospitals and health systems in the second quarter of 2022 returned to both trendlines that have been tracking since the pandemic began. This quarter, total transacted revenue reached an all-time high of \$19.2 billion. This more than doubles the total transacted revenue of \$8.5 billion in Q2 2021, when a similar number of transactions were announced according to a report by Kauffman and Hall.

Source: CBRE Research, RCA, Revista, and Kauffman & Hall

Figure 1: 2Q 2022 Medical Office Sales Volume

Region	Transactions	Volume	Volume PSF	Avg. \$/PSF
West	50	\$966,084,442	2,264,402	\$427
Southwest	35	\$496,779,645	1,509,822	\$329
Southeast	68	\$770,043,607	2,211,501	\$348
Midwest	25	\$379,541,678	1,180,063	\$322
Northeast	15	\$164,307,207	556,086	\$295
Mid-Atlantic	13	\$108,190,180	319,741	\$338
TOTAL	206	\$2,884,946,759	8,041,615	\$359

Figure 2: Cap Rates [Non-Weighted]

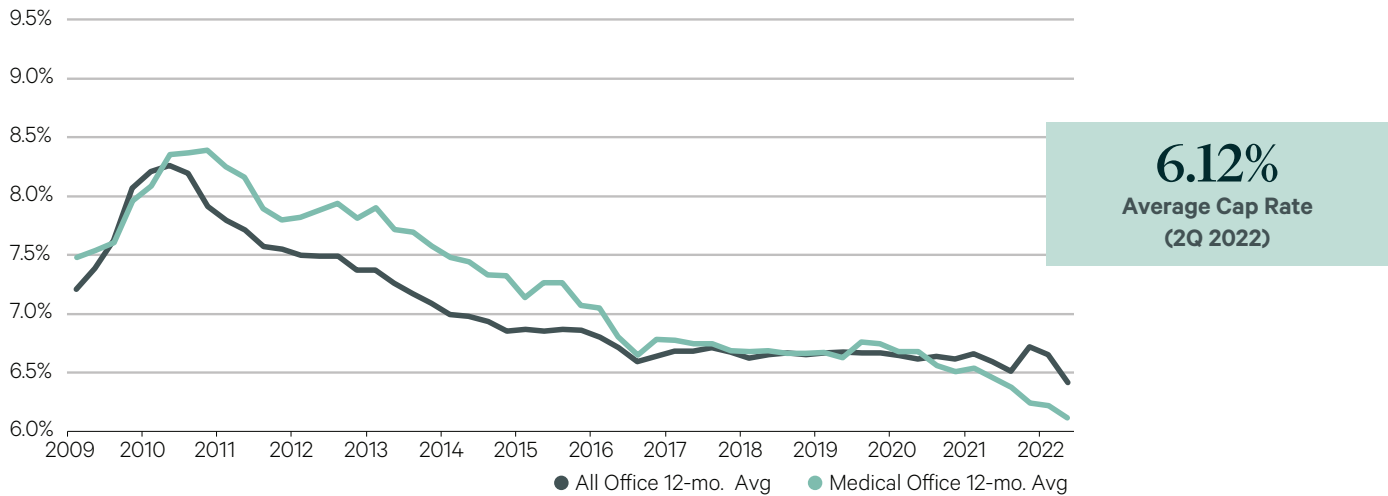
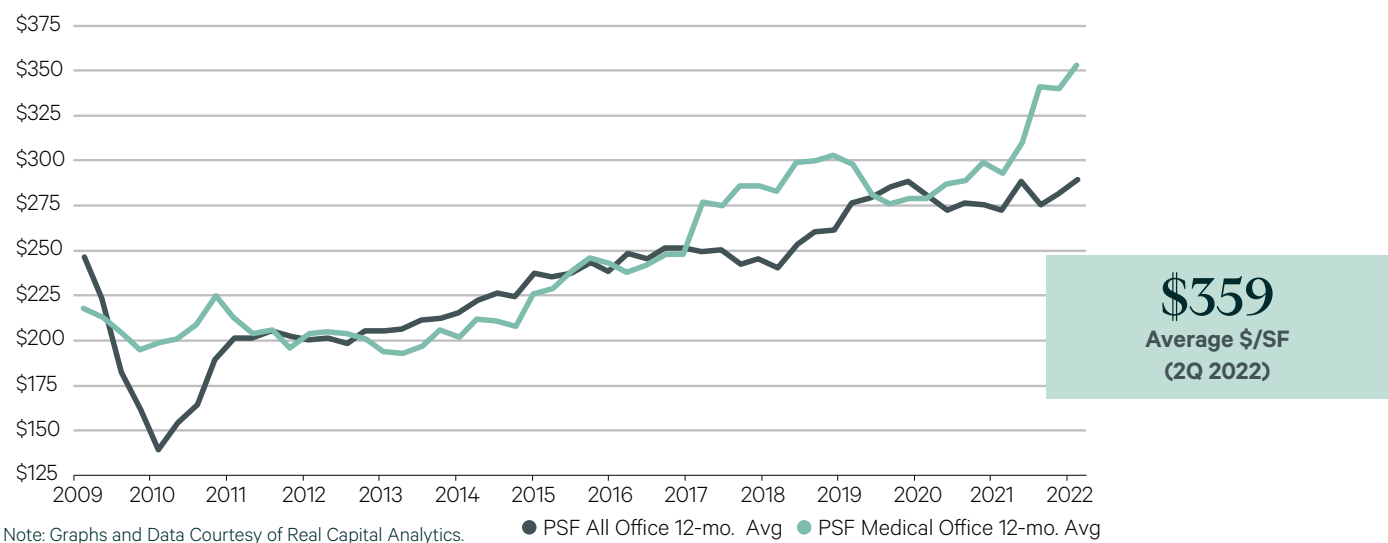


Figure 3: Price Per Square Foot (\$/SF)

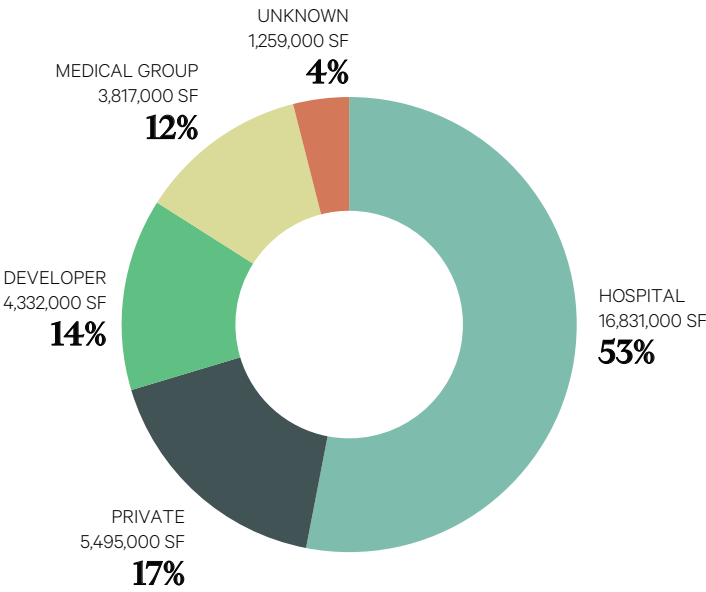


Medical Office Building Construction Data

2Q 2022

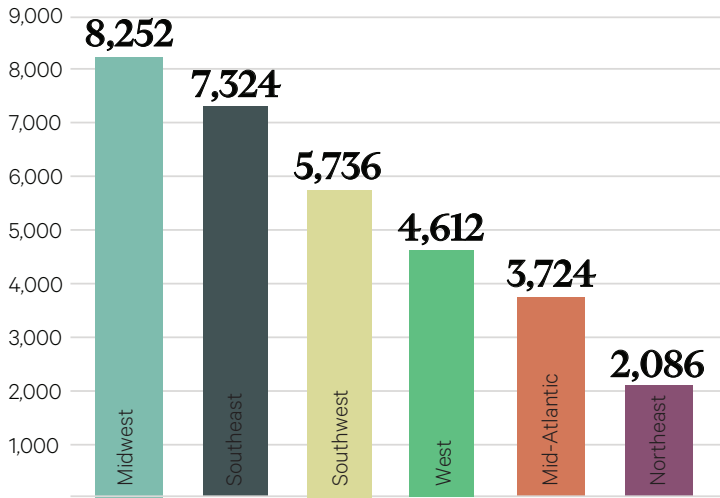


Figure 4: MOB Construction Underway By Owner Type



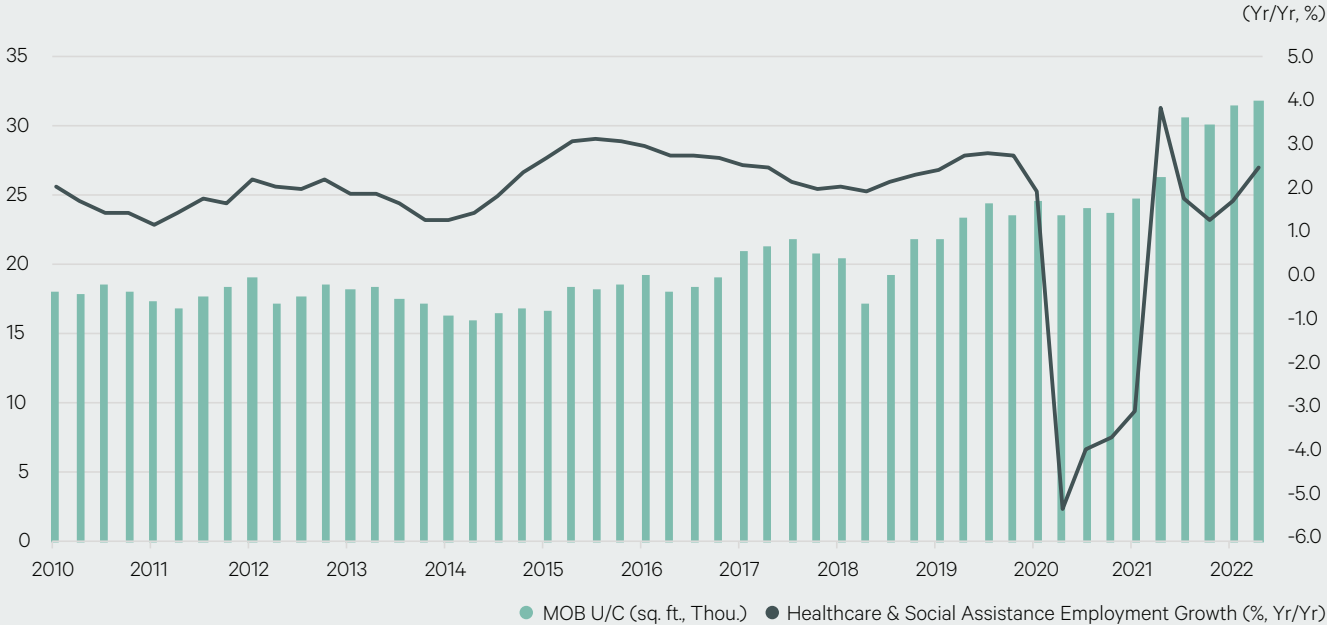
Construction Data Current Through June 2022

Figure 5: Medical Office Building Construction by Region (1,000s SF)



Construction Data Current Through June 2022

Figure 6: Medical Office Space Under Construction vs. Growth in Healthcare Employment



Source: CBRE EA/Dodge Pipeline, BLS, Moody's Analytics
Note: Employment and Construction Data through July 2022

Select 2Q 2022 Healthcare Real Estate Transactions by Region

	Date	Property Name	Location	Year Built	Price	SF	\$/SF
WEST	Apr-22	Beverly Hills & Santa Monica Medical Office Collection SOLD BY CBRE	Los Angeles, CA	1984 - 1986	\$156,300,000	107,538	\$1,453
	Jun-22	Anthem Blue Cross Building	Woodland Hills, CA	1977	\$115,000,000	448,000	\$257
	May-22	Tormed MOB Portfolio SOLD BY CBRE	Torrance CA	1969 - 1973	\$70,000,000	135,000	\$519
SOUTHWEST	Apr-22	Project Emerald (1 of 25)	Bakerfield , CA	2000	\$65,772,000	85,971	\$765
	Apr-22	Project Emerald (14 of 25)	Multiple	1965 - 2021	\$187,120,900	451,687	\$414
	Jun-22	Bissonnet Medical Plaza	Bellaire, TX	2020	\$39,000,000	52,825	\$738
	Apr-22	Vision Park Professional Medical Building	Shenandoah TX	2016	\$36,250,000	76,906	\$471
SOUTHEAST	Jun-22	Medical Towers at Bee Cave	Bee Cave TX	2017	\$23,482,500	41,997	\$559
	Apr-22	Project Emerald (2 of 25)	Florida	1985 - 2017	\$64,678,620	126,397	\$512
	May-22	Interchange Professional Building	Sandy Springs, GA	1979	\$55,467,461	118,245	\$469
	May-22	1800 Northside Forysth Drive	Cumming, GA	2014	\$46,258,869	95,502	\$484
	Jun-22	Crossroads III SOLD BY CBRE	Plantation, FL	2000	\$45,500,000	95,777	\$475

Note: Sales data provided by Real Capital Analytics, Revista, CoStar, RealQuest, SEC Filings, Press Articles, and CBRE Research.

	Date	Property Name	Location	Year Built	Price	SF	\$/SF
MIDWEST	Apr-22	Project Emerald (7 of 25)	Illinois & Minnesota	1979 - 2015	\$149,207,666	394,918	\$378
	Jun-22	Great Lakes IN MOB Portfolio 2022 (2 of 2)	South Bend, IN	2000	\$33,000,000	77,393	\$426
	Apr-22	Stage Equity Partners WI MOB Portfolio 2022 (4 of 4)	Wisconsin	1993 - 2007	\$28,400,000	112,926	\$251
	Apr-22	New Albany Medical Building II	New Albany, OH	2010	\$27,688,000	59,233	\$467
NORTHEAST	Jun-22	Spectra Labs SOLD BY CBRE	Rockleigh NJ	1963	\$50,000,000	204,495	\$245
	Jun-22	Haverhill Medical Office	Haverhill MA	2017	\$22,500,000	30,130	\$747
	Apr-22	Project Emerald (1 of 25)	Haverhill, MA	1950	\$22,207,000	41,021	\$541
	Jun-22	500 W Main Street	Freehold, NJ	1985	\$8,200,000	25,164	\$326
MID-ATLANTIC	May-22	Crossroads Professional Center	Ellicott City MD	1991	\$21,300,000	53,360	\$399
	May-22	Prosperity Plaza	Fairfax, VA	1985	\$21,000,000	96,070	\$219
	Apr-22	Virginia Cancer Institute Medical Building	Henrico, VA	1975	\$15,000,000	35,000	\$429
	May-22	810 Clairton Boulevard	Pleasant Hills, PA	2015	\$14,041,000	33,000	\$425

The Medical Office Building (MOB) asset class has experienced consistent growth in recent years, fueled by increased demand for outpatient services and strong historical performance.





Life Sciences Update

- Life sciences venture capital funding decreased by 13.3% quarter-over-quarter to \$5.8 billion in Q2, but was greater than any other Q2 level prior to 2021.
- Despite caution by small and mid-sized companies, Big Pharma continued to buy up space across the U.S. Overall, the lab vacancy rate of the top 12 U.S life science markets fell by 10 bps in Q2 to 5.2%.
- Total under-construction lab space increased by more than 2 million sq. ft. quarter-over-quarter to 31.3 million sq. ft. Nearly 29 million sq. ft. of the total was speculative development that was 31% preleased as of Q2.
- In 2022, the top buyers of life science product were a mix of existing top owners like Alexandria Real Estate Equities, BioMed Realty (a Blackstone portfolio company), Healthpeak Properties, Ventas, Longfellow, and Harrison Street, as well as emerging players like Canadian pension plan OMERS and CBRE Investment Management.

Source: CBRE Research

Select 2Q 2022 Life Science Transactions

Lab Space

	DATE	Jun-22	Jun-22	Jun-22
	PROPERTY NAME	Seaport Center	300 Third Street (Leasehold)	One Hampshire Street
	CITY, STATE	Cambridge, MA	Boston, MA	Cambridge, MA
	YEAR BUILT	1950	1976	2008
	PRICE	\$708,000,000	\$237,000,000	\$120,000,000
	SQ. FT.	479,294	131,547	104,150
	\$/SQ.FT.	\$1,477	\$1,802	\$1,152

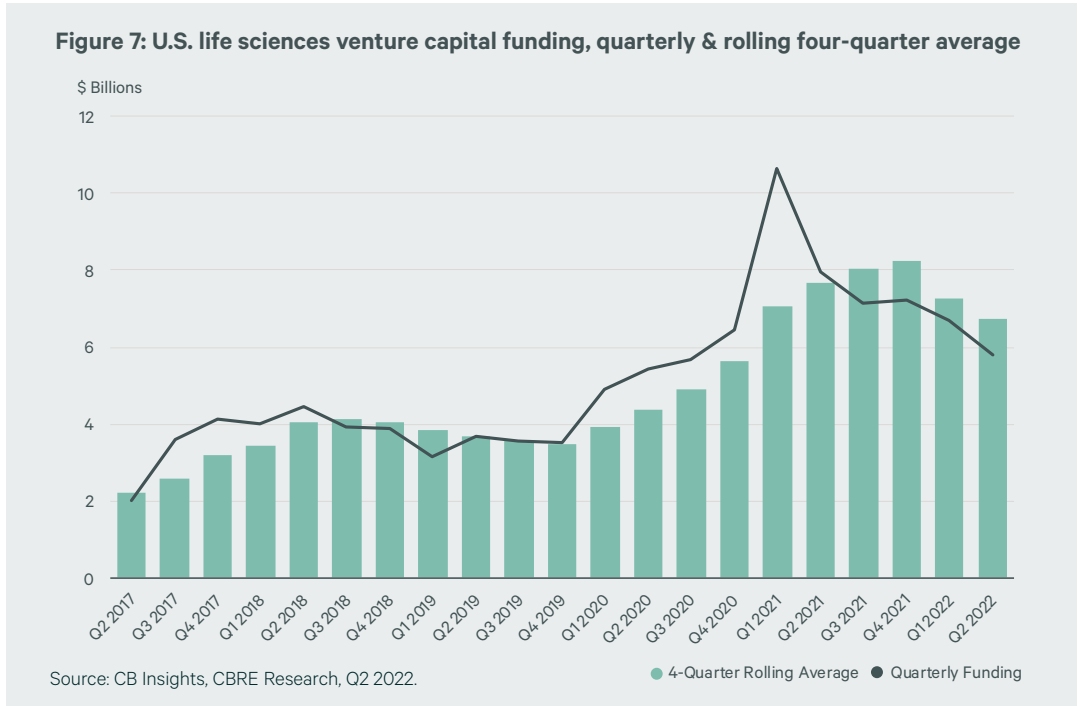
R&D Manufacturing

	DATE	Jun-22	May-22	Jun-22
	PROPERTY NAME	Alexandria RE MA Portfolio 2022 (9)	One Patriots Park	Fremont GMP Portfolio 2022 (3)
	CITY, STATE	MA	Bedford, MA	Fremont, CA
	YEAR BUILT	1950 - 1979	1985	1985 - 1996
	PRICE	\$292,000,000	\$132,000,000	\$101,001,000
	SQ. FT.	375,366	144,750	228,116
	\$/SQ.FT.	\$778	\$912	\$443

Life Science Conversion

	DATE	Jun-22	May-22
	PROPERTY NAME	Park 9 Campus (4)	2950 2970 2990 Wilderness PI (3)
	CITY, STATE	Wellesley, MA	Boulder, CO
	YEAR BUILT	2000	2001
	PRICE	\$202,000,000	\$39,481,551
	SQ. FT.	375,058	72,836
	\$/SQ.FT.	\$539	\$542

Sales data provided by Real Capital Analytics, CoStar, RealQuest, SEC Filings, Press Articles, and CBRE Research.



Venture capital funding for U.S. life sciences companies fell by 13.3% quarter-over-quarter and 27.0% year-over-year in Q2. However, rolling four-quarter average funding was up 54.2% from the start of the COVID-19 pandemic in Q2 2020.



RECENTLY FINANCED: One Discovery Square CLOSED 6/9/2022

Property Overview

- 81,428 RSF Class ‘A’ Life Sciences Facility
- 100% Occupied with 71% Investment Grade-Credit Tenancy
- 9.6 Years of WALT

CBRE negotiated the permanent financing with favorable terms at a highly competitive interest rate



Debt Market Update for Medical Properties

- Market volatility from rising inflation and interest rates cooled the commercial mortgage market in Q2, characterized by wider spreads and more selective underwriting and loan pursuit.
- Market variability has resulted in select banks “taking a pause”, resulting in less liquidity in other lending segments in the market.
- The Federal Reserve increased its short-term federal funds rate by 0.75% in both June and July to a current target range of 2.25% to 2.50%. The Treasury yield curve increased and flattened during Q2 but inverted for two-and 10-year maturities squarely by mid-July.
- Industry-wide CMBS issuance stalled in June amid market volatility and rising spreads. Spreads on 10-year AAA CMBS bond issues reached swaps up 152 bps in early July, up from swaps 130 bps in late March.
- Banks replaced alternative lenders as the leading non-agency lending group in the second quarter. Alternative lenders’ activity was slowed by rising spreads in warehouse lines, A-notes, and collateralized loan obligation (CLO) market. Banks remained fairly active through the quarter, funding a broad mix of permanent, bridge, and construction loans across the real estate market.
- Demand is the key factor in projecting true construction costs, and a continued rise in interest rates has the potential to temper expectations for stronger construction activity once inflation cools. The looming threat of slowing or negative economic growth may cause some projects to pause and could make the debt market a major obstacle. In the event that financing does slow construction activity, our decreased demand scenario projects year-over-year cost growth to be an average of 150 basis points lower than in the baseline scenario. This difference would primarily be felt in late 2023 and 2024, as most projects already in the pipeline are expected to move forward. Select projects with significant preleasing (50% and higher or strong credit anchor tenant) will lease the charge.

Source: CBRE Research and Federal Reserve Bank

Figure 8: SOFR Curve Starting Rate

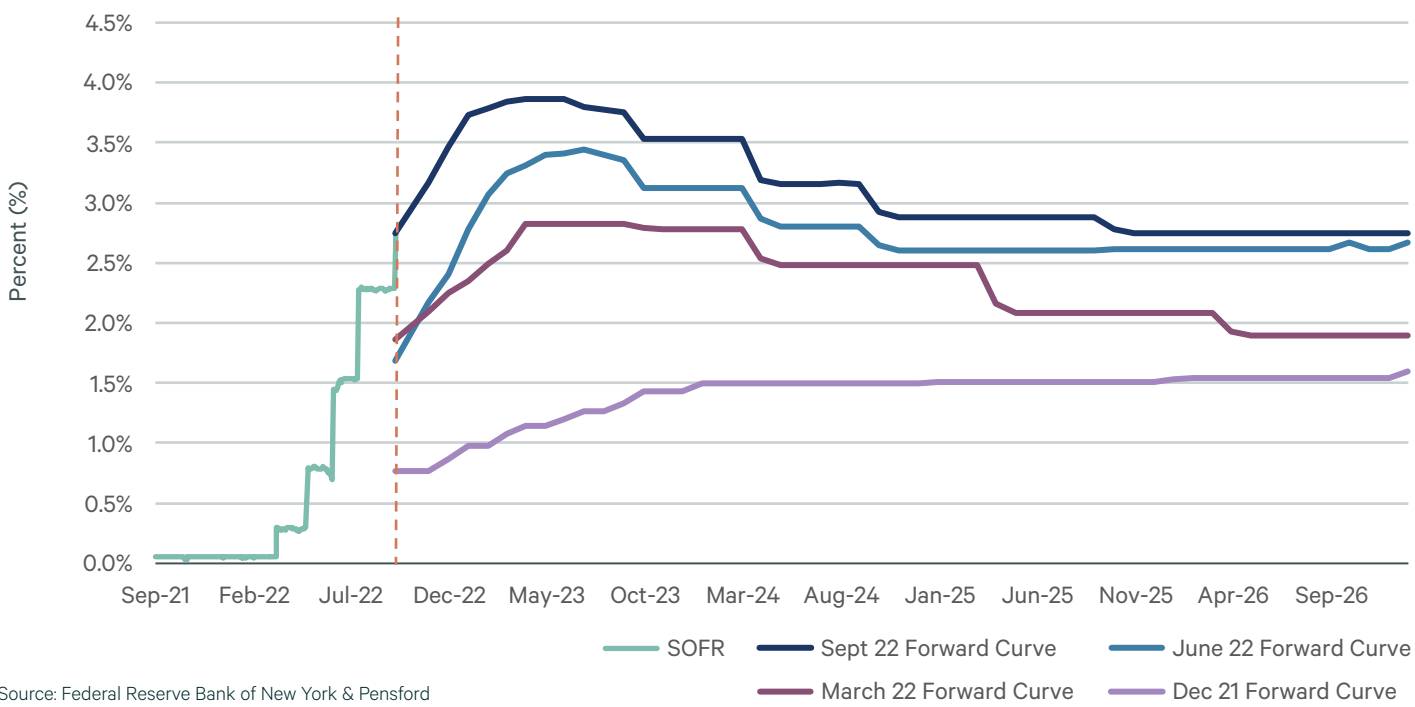


Figure 9: Money Rates

	9/12/2022	Month Ago	Year Ago
Tax Exempt AAA Rate (10 year GBA Rate)	2.74%	2.74%	2.76%
Prime	5.50%	5.50%	3.25%
5-Yr US Treas.	3.47%	2.91%	0.81%
10-Yr US Treas.	3.37%	2.97%	1.33%
30-Day Term SOFR	2.81%	2.52%	0.05%
Dow Jones Avg.	32,381	33,761	34,585
10-Yr. Swap Spread	3.44%	2.89%	1.31%



CBRE U.S. Healthcare & Life Sciences Capital Markets specializes in providing real estate investors with acquisition, disposition and debt & equity recapitalization strategies across the continuum of care, including medical office, life sciences, specialized and general acute care, long-term acute care, and other post-acute care operations.

Contacts

U.S. Healthcare & Life Sciences Capital Markets

Lee Asher

Vice Chairman
+1 404 504 5965
lee.asher@cbre.com

Zack Holderman

Senior Vice President
+1 858 337 9412
zack.holderman@cbre.com

Jordan Selbiger

First Vice President
+1 404 923 1259
jordan.selbiger@cbre.com

Trent Jemmett

Senior Director
+1 858 646 4740
trent.jemmett@cbre.com

Cole Reethof

Associate Director
+1 404 504 7864
cole.reethof@cbre.com

Josiah Gunter

Associate Director
+1 404 504 7936
josiah.gunter@cbre.com

Jesse Greshin

Senior Analyst
+1 860 808 4810
jesse.greshin@cbre.com