NATIONAL HEALTHCARE & LIFE SCIENCES REAL ESTATE INVESTOR UPDATE

FALL 2020

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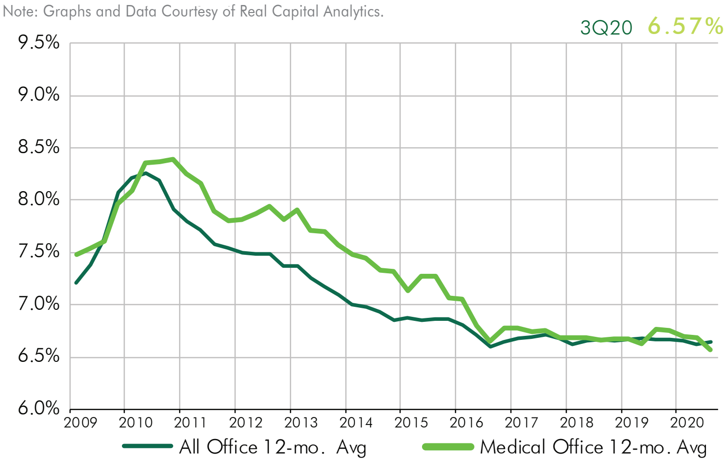
ALL BUYER TYPES HAVE MOVED OFF THE SIDELINES FOR MOB AND LIFE SCIENCES

One of the most significant buying groups for the healthcare, senior housing and life sciences sector has always been the publicly-traded Real Estate Investment Trusts (REITs). However, the REIT sector (like most of the equity markets) saw significant volatility in the first part of the year due to the onset of the COVID-19 pandemic, with only those REITs with a singular focus on medical office and life sciences outperforming the broader REIT indexes. As such, REIT acquisition activity declined from 47% of all healthcare real estate sales in 2Q19 to only 7% in 2Q20 (source: Revista). However, we believe the publicly-traded REIT sector is much better positioned for the second half of the year and that all buying groups have now moved off the sidelines. Many REITs have diversified their equity partnerships with institutional capital to stabilize their buying power. For example, Ventas (NYSE: VTR) closed on a core and core-plus perpetual life fund vehicle earlier this year targeting medical office and life sciences, marking its largest purchase in the vehicle in October with the Genesis South San Francisco life sciences portfolio for $1 billion. Publicly traded REITs, such as Alexandria Real Estate Equities (NYSE: ARE), have recently structured joint venture partnerships with separate institutional funds in a meaningful way throughout various primary life sciences markets.

Investment activity in the third quarter was driven by pent up investor demand and an exceedingly low interest rate environment providing investors with a low cost of capital and additional buying power. Low transaction volume early in the year and limited product on the market today has been an accelerant to cap rate compression sparked by competition from investors to park capital in the second half of the year. According to Real Capital Analytics (RCA), cap rates for medical office compressed by 47 basis points year-over-year, averaging 6.53% for Q3 2020. On that same footing, the average price per square foot increased 10% year-over-year to $283/PSF for Q3 2020. Deal volume for the Q3 2020 reached $1.76 billion, a 10% decrease from Q2 2020 and a 36% decline year-over-year from Q3 2019. While transaction volume is down only slightly for individual properties, there has been a more dramatic drop in portfolio sales, which have decreased more than 50% year-over-year for the third quarter. On the mergers and acquisitions (M&A) side, the $17 billion planned merger between Advocate Aurora Health and Beaumont Health is off and a couple of other mergers have been placed on hold, all citing the pandemic. New M&A activity has been positive with 19 new transactions announced in the third quarter, a 35% growth from the second quarter (according to Kaufman Hall).

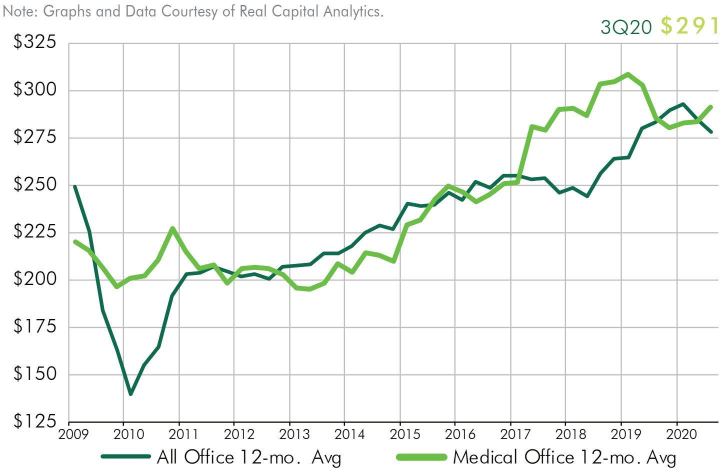
CAP RATES [NON-WEIGHTED]

Note: Graphs and Data Courtesy of Real Capital Analytics.



PRICE PER SQUARE FOOT [$/SF]

Note: Graphs and Data Courtesy of Real Capital Analytics.



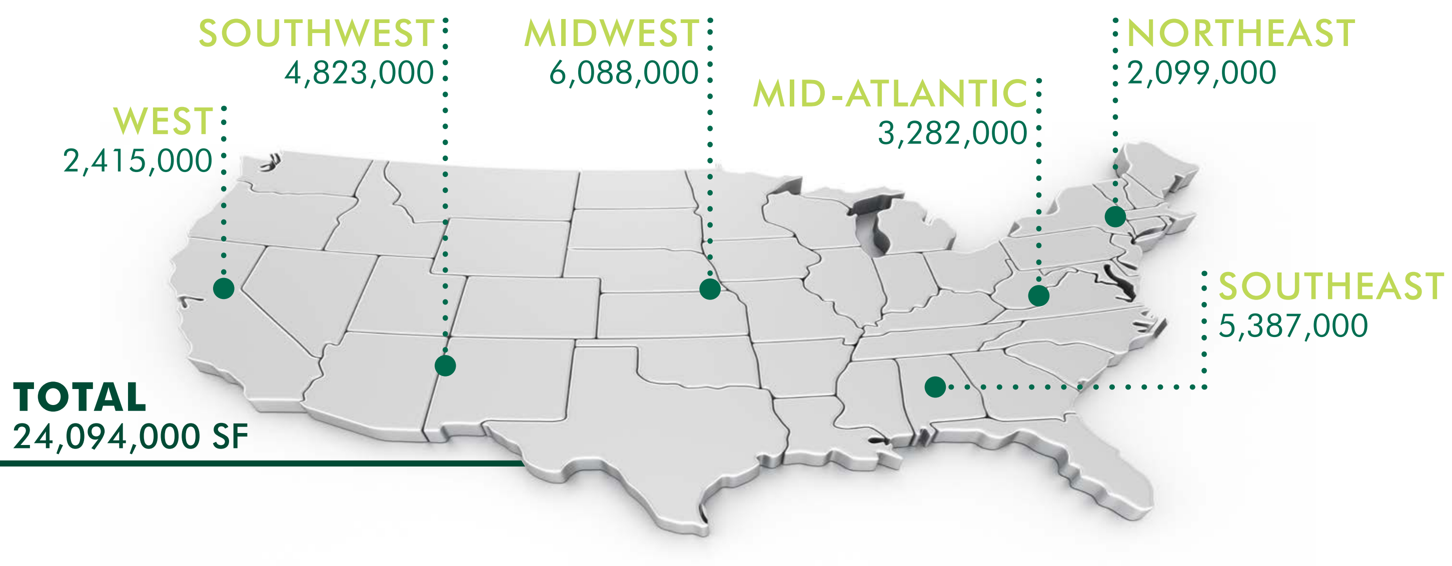
3Q20 MEDICAL OFFICE SALES VOLUME

Note: Data Courtesy of Real Capital Analytics.

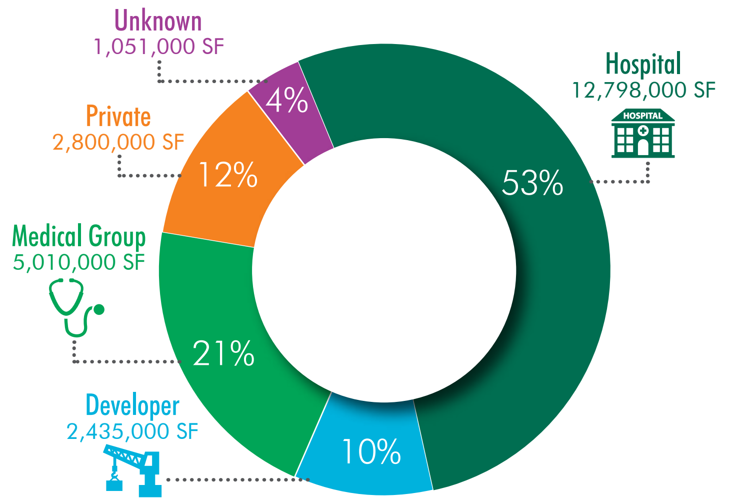
REGION	#	VOLUME	AVG. $/PSF
West	38	$503,818,472	$391
Southwest	28	$263,425,731	$298
Southeast	57	$571,196,321	$304
Midwest	16	$154,266,900	$217
Northeast	9	$163,453,279	$238
Mid-Atlantic	11	$102,027,450	$190
TOTAL	**159**	**$1,758,188,153**	**$294**

MEDICAL OFFICE BUILDING CONSTRUCTION DATA 3Q 2020

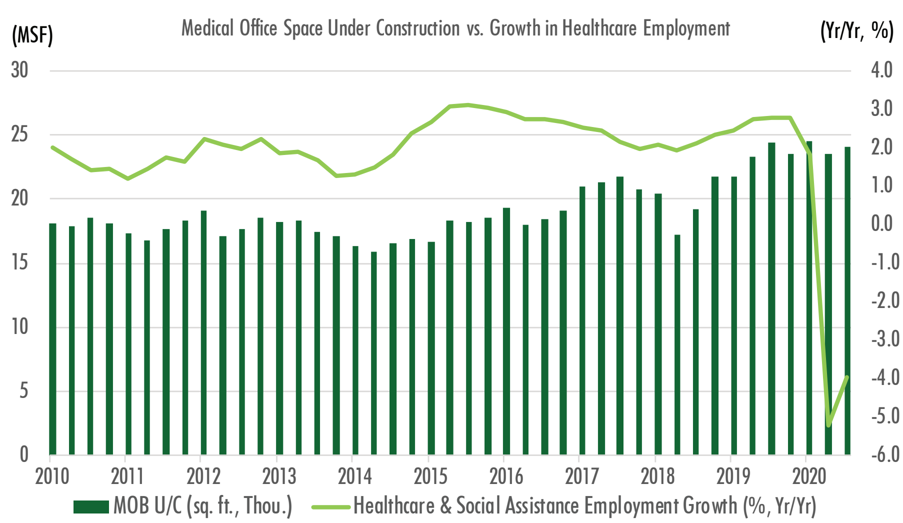
MEDICAL OFFICE BUILDINGS UNDER CONSTRUCTION BY REGION (SF)



MEDICAL OFFICE BUILDINGS UNDER CONSTRUCTION BY OWNER



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 September 2020

SELECT 3Q 2020 HEALTHCARE REAL ESTATE TRANSACTIONS BY REGION

REGION	DATE	PROPERTY NAME	CITY, STATE	YEAR BUILT	PRICE	SQ.FT.	$/SQ.FT.
WEST	Sep-20	Kaiser Permanente	Cupertino, CA	1968	$103,000,000	100,352	$1,026
WEST	Sep-20	Pacifica Medical Plaza **SOLD BY CBRE**	Irvine, CA	1999	$43,000,000	110,400	$389
WEST	Jul-20	Pasadena Medical	Pasadena, CA	2006	$35,000,000	49,785	$703
WEST	Jul-20	Scripps Coastal Medical Center Carlsbad	Carlsbad, CA	2008	$24,750,000	40,655	$609
SOUTHWEST	Jul-20	Mercy Wellness Center	Edmond, OK	2014	$106,468,996	219,000	$486
SOUTHWEST	Sep-20	Invesco Welltower Recap Tranche 1 (2 of 13)	San Antonio, TX	1998	$25,023,009	65,652	$381
SOUTHWEST	Jul-20	Banner Health MOB	Tucson, AZ	1991	$11,500,000	39,577	$291
SOUTHWEST	Aug-20	Centerra Building	Loveland, CO	2009	$9,600,000	29,589	$324
SOUTHEAST	Sep-20	Invesco Welltower Recap Tranche 1 (8 of 13)	Florida	1996-2016	$170,831,758	422,006	$405
SOUTHEAST	Jul-20	Saint Thomas North Tower	Nashville, TN	1998	$33,000,000	151,000	$219
SOUTHEAST	Sep-20	Arkansas Urology	Little Rock, AR	2002	$32,000,000	72,566	$441
SOUTHEAST	Jul-20	Brookhaven Medical Center II	Atlanta, GA	2020	$29,800,000	51,429	$579
MIDWEST	Aug-20	Rock Haven Medical Mall	Harrisonville, MO	2011	$22,500,000	76,000	$296
MIDWEST	Jul-20	10 W Martin Avenue	Naperville, IL	1964	$5,200,000	45,840	$113
MIDWEST	Jul-20	MercyOne	Centerville, IA	2018	$5,000,000	15,748	$318
MIDWEST	Aug-20	Dayton Eye Associates	Beavercreek, OH	1997	$4,150,000	25,356	$164
NORTHEAST	Aug-20	Reliant Medical - Auburn Mall	Auburn, MA	2019	$50,250,000	98,700	$509
NORTHEAST	Aug-20	SteepleChase Cancer Center	Somerville, NJ	2007	$47,800,000	63,000	$759
NORTHEAST	Sep-20	Temple Medical Center	New Haven, CT	1978	$21,000,000	242,930	$86
NORTHEAST	Sep-20	Associated Medical Professionals	Syracuse, NY	1976	$13,260,449	33,836	$392
MID-ATLANTIC	Sep-20	Childrens National Prince Georges County	Lanham, MD	2020	$39,187,450	60,000	$653
MID-ATLANTIC	Jul-20	Franklin Square Professional Center	Rosedale, MD	2014-2016	$22,500,000	96,564	$233
MID-ATLANTIC	Sep-20	Gallery II	Virginia Beach, VA	2007	$6,500,000	32,891	$198
MID-ATLANTIC	Jul-20	2501 Reed Street	Philadelphia, PA	1940	$5,250,000	23,760	$221

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

LIFE SCIENCES CAP RATES STAY RESILIENT THROUGH COVID

Life Sciences cap rates have displayed resiliency through COVID-19, experiencing a moderate blip in April before dropping 70 basis points to an all-time low of 4.2% in August. Traditional Office has experienced a 170 basis point jump in cap rates since the onset of COVID-19, averaging 7.0% as of August 2020. The average cap rate spread between Life Sciences and Traditional Office has widened to 280 basis points during the pandemic. Life Sciences assets have historically traded at a discount to Traditional Office until 2017 when the script-flipped, and assets have traded at a premium ever since.

Life Sciences cap rate compression is driven largely by capital investment and scarcity. The Life Sciences market represents less than 4% of the office market by square footage. 46% of the total supply is owned by just 20 owners with 19% of the total inventory controlled by Alexandria and BioMed. It was recently announced that Blackstone is recapitalizing BioMed's 11.3 million square feet of assets in a transaction valued at $14.6 billion approximately five years after acquiring the then public company in an $8.1 billion transaction. Twenty-five (25) Life Sciences companies have gone public since April 2020, and Venture Capital ("VC") funding is on pace to reach the highest level on record, already surpassing 2019 VC funding. Healthcare has dominated the Initial Public Offering ("IPO") markets accounting for 49% of the IPO activity in 2020, driven mostly by Life Sciences companies. Life Sciences continue to outperform Traditional Office as robust investment into the sector provides vital capital to both start-ups and stalwart Life Sciences firms.

As the lab market matures, new developments such as IQHQ's RaDD on San Diego's bayfront will seek to bring 1.3 million square feet of Life Sciences to a submarket that has yet to enjoy the sector. Key themes in the Life Sciences sector include conversions of existing office assets, emerging markets driven by academically aligned institutions, and strong activity in the capital markets fueling tenant health and growth.

SELECT 3Q 2020 LIFE SCIENCES TRANSACTIONS BY TYPE

	DATE	PROPERTY NAME	CITY, STATE	YEAR BUILT	PRICE	SQ.FT.	$/SQ.FT.
LAB SPACE	Aug-20	Karlin Parmer RTP	Durham, NC	1984-1995	$590,400,000	2,459,466	$240
	Aug-20	3181 Porter Drive	Palo Alto, CA	2019	$115,200,000	99,000	$1,164
	Sep-20	3005 1st Avenue	Seattle, WA	1980 / Ren. 2012	$50,692,500	70,000	$724
	Sep-20	1155 Bryant Street	San Francisco, CA	1919 / Ren. 2016	$18,300,000	28,137	$650
R&D MANUFACTURING	Aug-20	Moderna Pharmaceutical	Norwood, CA	1969/ Ren. 2007 & 2021	$120,000,000	243,000	$494
	Aug-20	WuXi Advanced Therapies	Philadelphia, PA	2004, 2016 & 2019	$83,000,000	366,803	$226
	Jul-20	Sycamore Business Park	Milpitas, CA	1983	$45,500,000	213,519	$213
	Sep-20	Celgene/Bristol-Meyers Squibb	Warren, NJ	1986 / Ren. 2019	$27,100,000	181,210	$150

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

CAPITAL MARKETS UPDATE

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.

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DEBT MARKET UPDATE FOR HEALTHCARE AND LIFE SCIENCES

The debt markets have remained pinned in one of the lowest interest rate environments ever, providing additional buying power for active investors. Retail, Hospitality and Office remain out of favor with Lenders, while Healthcare, Life Sciences, Multifamily and Industrial are still the most desired property types. The Federal Reserve is still signaling that it will keep interest rates around zero for the foreseeable future, but bond pricing has started to climb. The 10-year Treasury, which has floated between 60-70 basis points for the last 30 weeks, has inched higher over the last couple weeks to ±85 basis points, which analysts believe is election related but remains at historic lows.

The "new normal" for financing medical office product continues to target detachment points between 60-65%, with select transactions exceeding 65% and attractive all-in coupons. The pool of lenders screening deals, making a slow V-shaped recovery, are more selective with a major focus on core assets in primary markets but still fighting disjointed credit review and approval processes. Assets with high acuity buildouts, located in tertiary markets and near-term maturity are still soft spots in the market. Debt pricing for medical properties as a whole continues to be very attractive despite index and all-in coupon floors.

KEY POINTS

- Quality real estate and tenancy, achievable underwriting, conservative debt metrics and superior sponsorship remain the focus of lenders in this sector.
- Interest rates are at an all-time low and will likely remain so, as the Federal Reserve has projected no interest rate increases through 2022.

LENDER OVERVIEW

- Life Company lenders that remain in the market are being very selective, mostly focused on core deals in top 100 MSAs with quality sponsorship. All-in pricing on 10-year terms range from 2.75 - 3.75% with LTVs defined by debt service coverage stress tests.
- Bank spreads have widened considerably from pre-COVID-19 levels and most banks have instituted a LIBOR floor of 50 to 100 bps, however all-in coupons remain incredibly attractive.
- Construction loans are available for quality projects with significant pre-leasing and high quality tenancy. Depending on the project, many lenders require full or partial recourse beyond completion, typically tapering off after sustained performance hurdles are hit. For projects that are 100% pre-leased to and guaranteed by investment grade-credit health systems or hospitals, financing up to 70% LTC is available with only completion guarantees required.
- CMBS lenders have been moderately active, large aggregators are back in the market, specifically with larger life sciences deals. However, max LTV's of 65%, pricing higher than banks, defeasance, rigid deal terms, and current issues with forbearance make CMBS an unlikely choice for most borrowers.
- Most debt funds are out of the market, however a number have shored up their balance sheets and/or improved their internal leverage vehicles to once again lend. Acceptance of lower going-in debt yields and projects that can support a 4%+ coupon can expect 65-70% LTC executions.

MONEY RATES (AS OF 11/06/2020)

Sources: Bloomberg, Wall Street Journal, BankRate.com

	11/06/2020	MONTH AGO	YEAR AGO
Tax Exempt AAA Rate (10-year GBA Rate)	0.83%	0.76%	1.53%
Prime	3.25%	3.25%	4.75%
5-Yr US Treasury	0.33%	0.33%	1.66%
10-Yr US Treasury	0.79%	0.78%	1.86%
1-M LIBOR	0.13%	0.14%	1.70%
Dow Jones Average	28,322	28,149	27,462
10-Yr. Swap Spread	0.82%	0.78%	1.88%