2022 SPECIAL REPORT

CBRE

# Investor and Developer Survey Results

CBRE U.S. HEALTHCARE & LIFE SCIENCES CAPITAL MARKETS

# Investor and Developer Survey Results

**Dear Healthcare Real Estate Providers, Investors & Developers,**

CBRE's U.S. Healthcare & Life Sciences Capital Markets is pleased to present the 2022 findings of our twelfth annual Investor & Developer Survey. Our main goal in creating the survey was to discover key patterns and forces driving the healthcare and life sciences real estate industry, which we anticipate will allow our clients to better understand the state of the market and potential trends for the coming year.

We would be pleased to create a customized benchmark comparison of the responses of your firm to responses from the national sample. Please contact the U.S. Healthcare & Life Sciences Capital Markets team via email at chris.bodnar@cbre.com or lee.asher@cbre.com to coordinate a presentation of our findings or request a personalized benchmarking of your firm's assets.

Thank you to all the participants in this year's survey.


U.S. Healthcare & Life Sciences Capital Markets Investments Properties

**Chris Bodnar**
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**Lee Asher**
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U.S. Healthcare & Life Sciences Capital Markets Debt & Structured Finance

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First Vice President

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Senior Vice President

Key patterns and forces influencing the healthcare real estate industry.

# Methodology

- This year's survey contained two (2) COVID-19 pandemic-related questions and 31 questions surrounding various facets of the healthcare and life sciences real estate markets.
- The survey was distributed to approximately 500 of healthcare real estate's most influential healthcare real estate trusts (REITs), institutional healthcare investors, private capital investors, and developers throughout the United States, with 104 providing responses.
- To ensure the accuracy of our survey results, we removed all duplicate responses from the same firms to ensure results are not overstated.

# Survey Highlights

**This primary study generated qualitative industry data that provides a view of investor and developer return expectations, investment criteria, and - most crucially – market shifts and progressions that these major influencers anticipate in the coming year. Some of the most intriguing results of this year's study include:**

## COVID-19

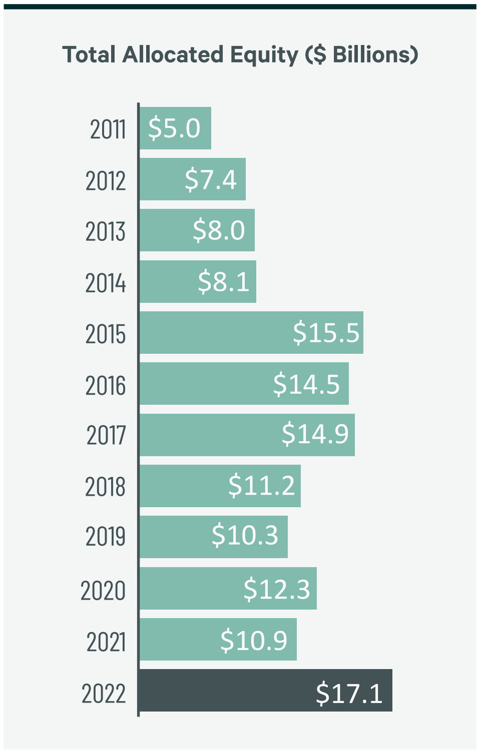
The healthcare real estate industry has long been lauded by economists and industry professionals as being a recession-resistant sector with low correlation to greater economic and geopolitical trends.  The onset of the COVID-19 pandemic has been the latest iteration supporting the resilience of the sector with 85% of respondents to the survey confirming their belief that the healthcare real estate industry to be recession resistant, compared to 80% in 2021.

85%

**believe healthcare real estate industry is recession resistant**

## Investment Criteria

Survey results suggest a very significant increase in capital allocated to healthcare real estate for 2022. In 2021, the total capital allocation provided by respondents in our survey was $10.9 billion, while actual transaction volume for 2021 ended at nearly $16 billion. This year, the total capital allocation from those unique firms who provided a figure (65 out of 86 firms) totaled $17.1 billion, which represents a 57% increase compared to 2021. Based on this trend and CBRE's knowledge of additional capital sources entering the market, we approximate at least **$25 billion** of capital allocated to healthcare real estate in 2022.



## Return Requirements

Approximately 79% of respondents predicted that a market capitalization rate for Class A on-campus product will be less than 5.50% in 2022, compared to 58% in 2021 and 51% in 2020. Meanwhile, **96% of poll respondents predicted that a Class A off-campus product's market capitalization rate would be less than 6.00% in 2022**, compared to 67% in 2021 and 55% in 2020. This can be ascribed to the ongoing increase in demand for high-quality healthcare real estate, the resiliency of healthcare real estate during the pandemic, and new funding sources actively exploring alternatives to traditional real estate products, such as office, industrial, multi-family and retail.

Class A on-campus medical office continues to command a higher price than Class A off-campus medical office.

## Planned Investment Activity

The overwhelming majority of survey respondents (84%) indicated plans to be "Net Buyers" of healthcare real estate in 2022. Of these respondents, 100% of all healthcare REITs and institutional healthcare investors who responded consider themselves to be "Net Buyers." Only 26% of Healthcare Real Estate owners responded that they considered themselves to be a "Net Seller" of medical office product in 2022.

84%

**plan to be "Net Buyers" of healthcare real estate in 2022**

## Life Sciences

Despite all the challenges to other commercial real estate sectors throughout the Covid-19 pandemic, the life sciences market has never been stronger. The life sciences industry in the U.S. saw a record level of venture capital funding in the past year, hitting a record high of $32.5B in 2021 (CBRE Report). In 2022, approximately 40% of the survey participants responded that life sciences real estate, particularly those occupied by biotech or pharmaceutical firms, should command a cap rate below 5.00%.

$32.5B+

**life sciences venture capital funding in 2021**

## Supply & Demand

Most respondents anticipate greatest increases in demand for behavioral health centers and life science assets in 2022. The investment in U.S. life sciences real estate increased by 62% last year, with further growth of at least 10% expected in 2022, according to a CBRE research report. Both medical office buildings and behavioral health are the second highest in demand for investors. The pressures and stress on the general population from COVID-19 have had mental health repercussions that are driving demand for behavioral health services and in turn are being funded at higher levels at both the state and federal levels, sparking real estate demand in the area. High-acuity healthcare facilities such as skilled nursing facilities and wellness centers will have reduced demand in 2022 compared to 2021, according to respondents.

62%

**increase in U.S. life sciences real estate investment in 2021**

# Market Fundamentals

While commercial real estate markets were severely disrupted in mid-2020, the healthcare space was largely unfettered in 2021 despite two COVID-19 variants taking hold in the second half of the year. Healthcare real estate portfolios around the country have proven to be incredibly stable with 99% of respondents indicating that their healthcare real estate portfolio occupancy was either the 'Same' or 'Higher' compared to the previous year. The healthcare industry was truly tested by the pandemic and highlighted the growing desire for better care delivery and easier patient access. Both desires contributed to the growth of healthcare real estate.

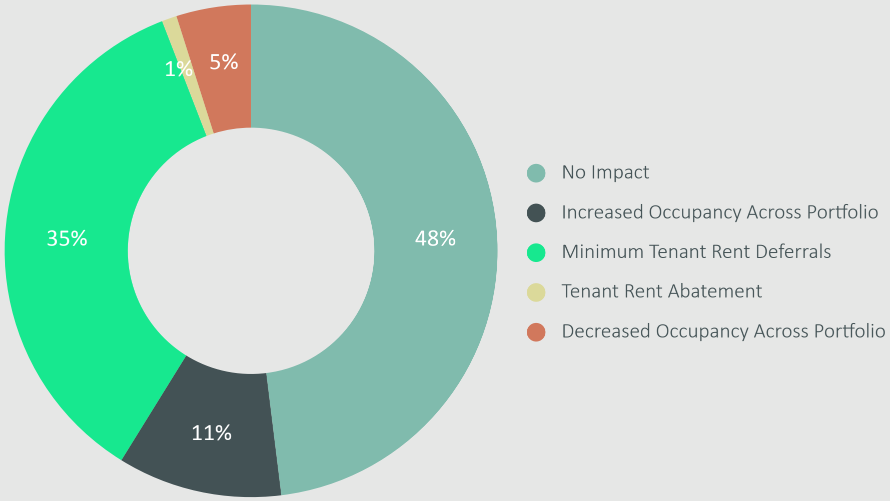
**Healthcare real estate portfolios around the country have proven to be incredibly stable.**

# Survey Results

## COVID-19

**Q How would you best characterize the impact of COVID-19 to your healthcare portfolio in 2020?**

The largest group of survey responders (48%) indicated that their healthcare portfolio had 'No Impact' due to COVID-19, followed by 35% of the respondents that indicated that COVID-19 had 'Minimum Tenant Rent Deferrals' on their portfolio. Only 6% of respondents indicated that COVID-19 severely impacted their healthcare portfolio from either 'Significant Tenant Rent Deferrals' (0%), 'Tenant Rent Abatement' (0.98%), and 'Decreased Occupancy across Portfolio' (4.9%).



Q

**Do you believe the healthcare real estate industry to be recession resistant?**

Healthcare has historically been resistant to economic downturns. Some economists and healthcare analysts consider the healthcare real estate industry to be “recession-proof” because it has served as a buffer against the normal cyclical business cycle. The emergence of the COVID-19 pandemic is the most recent example to put that theory to the test, and 85% of respondents believe that the healthcare real estate industry is recession resistant.

85%

**believe healthcare real estate industry is recession resistant**

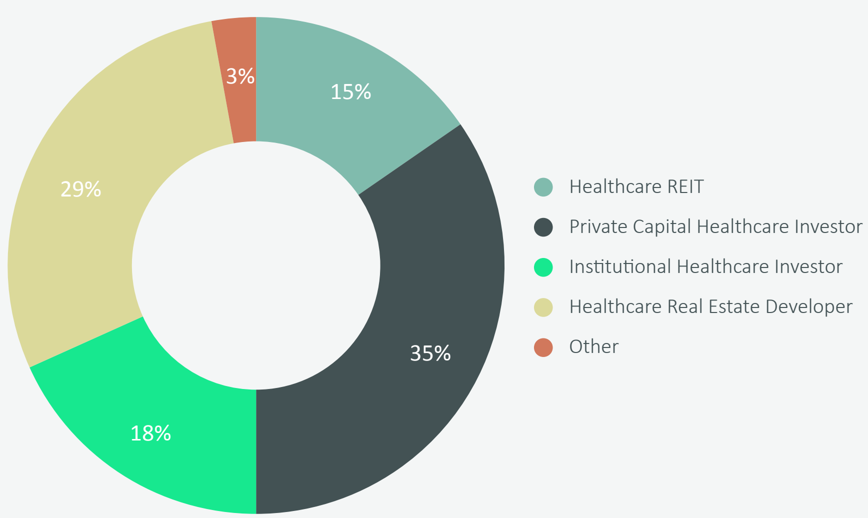
The detailed results of CBRE's U.S. Healthcare & Life Sciences Capital Markets 2022 Investor & Developer Survey are as follows:

## Profile of Participating Firms

Q

**Please describe the type of company you represent.**

We received responses from a diverse range of respondents, with no single investor or developer category accounting for more than 35% of the total.

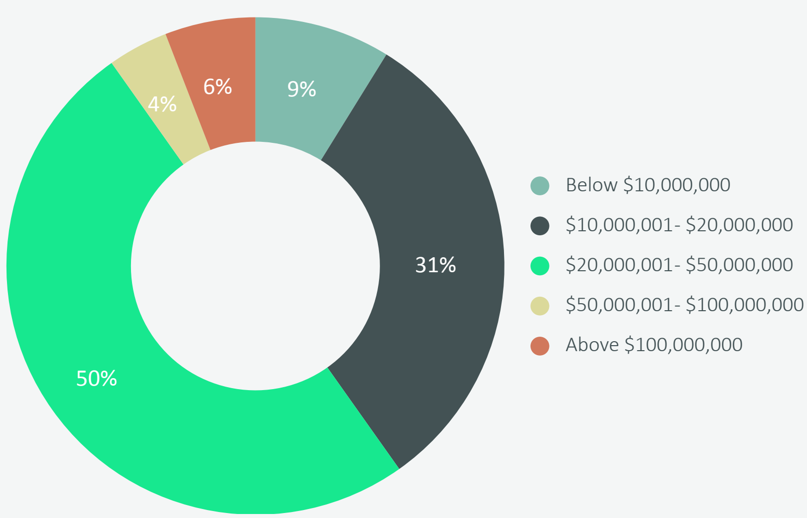


# Investment Criteria

Q

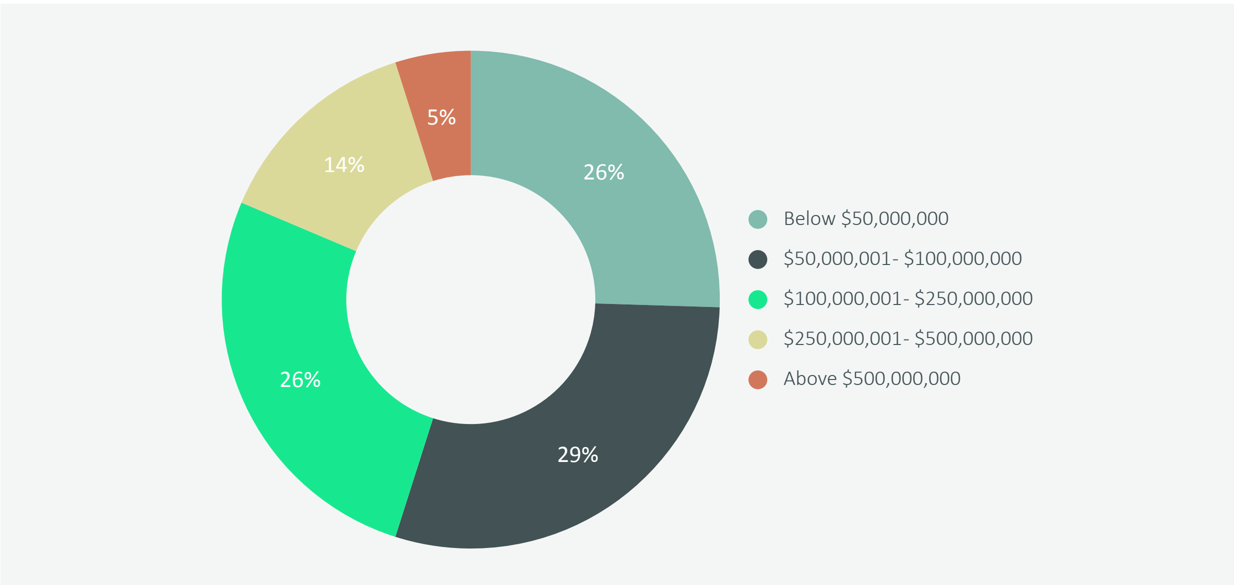
**What is your preferred single-asset healthcare real estate transaction size?**

When asked to specify their preferred healthcare real estate transaction size, most respondents (81%) chose between transactions valued at '$10,000,001 - $20,000,000' and transactions valued at '$20,000,001 - $50,000,000.' This response was especially common among those who identified as developers or private capital investors. Developers and institutional investors account for 100% of respondents who prefer transactions with a value of '$50,000,001 - $100,000,000.' Most notably, 51% of private capital investors are targeting a transaction size of '$20,000,001 - $50,000,000.' The average single asset sale price for a medical office building was $9,015,074 in the US in 2021, according to RCA data. Survey responses suggest higher demand and competition for larger single assets. This will continue to provide premium pricing compared to smaller assets.



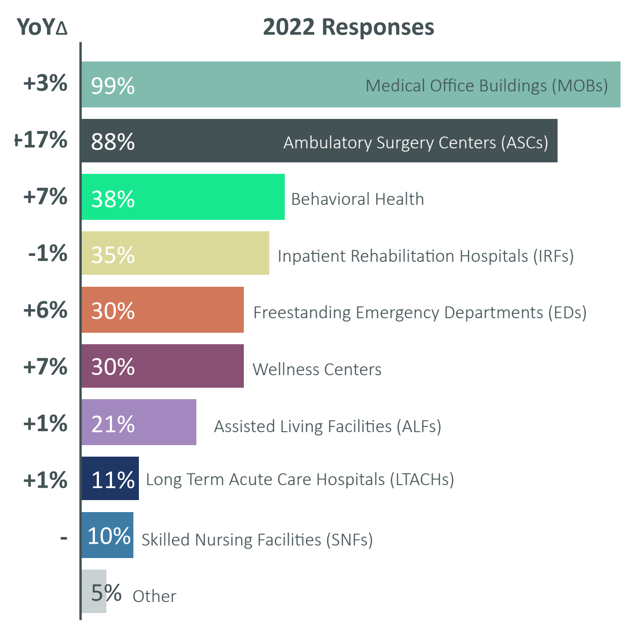
## What is your preferred portfolio healthcare real estate transaction size?

When asked to specify their preferred portfolio transaction size, 81% of all respondents target portfolio deals below $250,000,000. Specifically, 90% of both developers and private capital investors are targeting investments below $250,000,000. Alternatively, only 5% of investors are targeting portfolio deals above $500,000,000, including respondents who identified as a REIT, private capital or institutional healthcare investor.



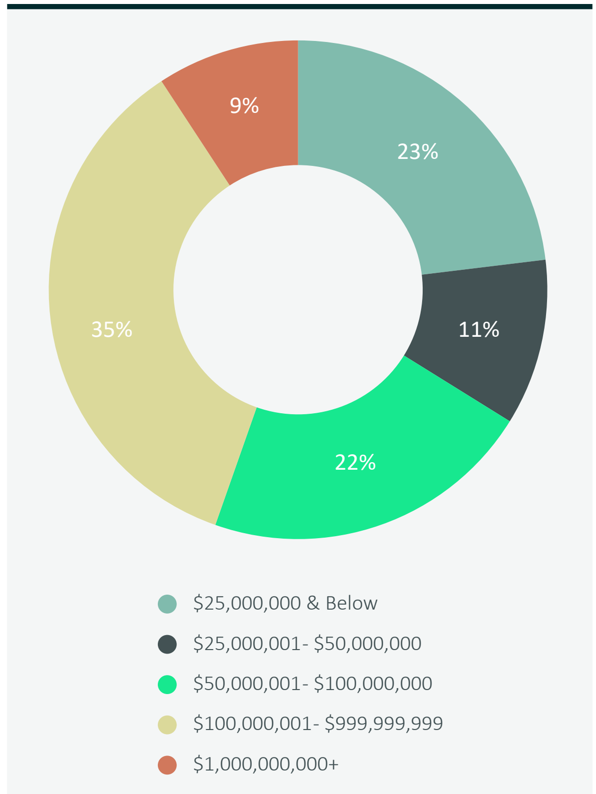

## Which types of healthcare real estate properties meet your acquisition criteria?

In 2022, once again, most respondents indicated that they were most interested in Medical Office Buildings (99%) when asked which types of healthcare real estate properties meet their acquisition criteria. Ambulatory Surgery Centers (ASCs) saw the largest increase, up 17% from 2021 followed with Behavioral Health and Wellness Centers with a 14% increase. Overall, acquisition criteria remained relatively unchanged year over year with minor 1% increases or no change across all product types.



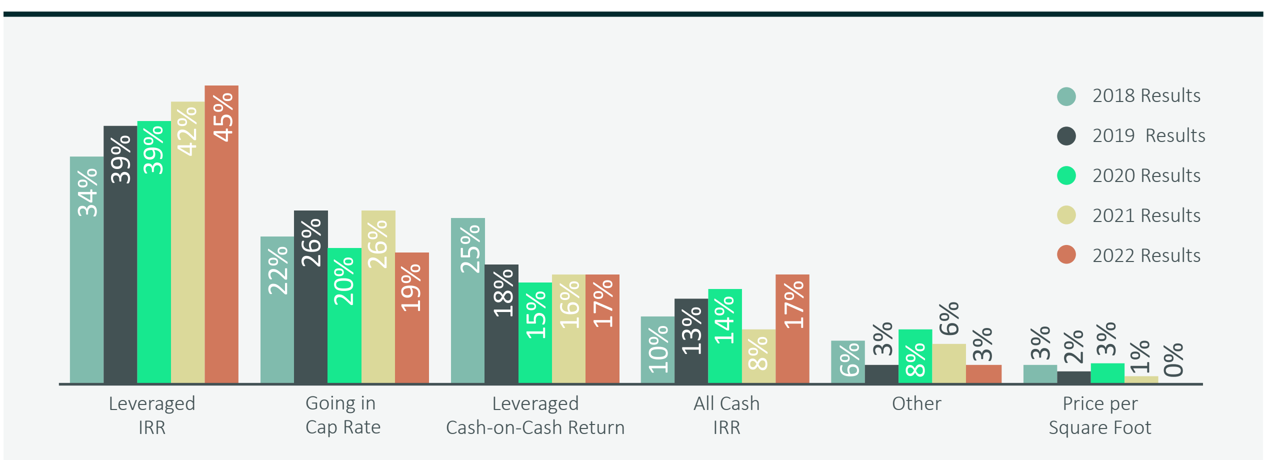
## How much equity has your firm allocated to healthcare real estate investment and development activity in 2022?

Of the 86 exclusive firms who responded to this question, 65 disclosed an approximate total of $17.1 billion worth of equity that has been allocated for healthcare real estate investments and developments in 2022, which is approximately 107% of the total market transaction volume that traded in 2021. This represents an impressive increase from the amount of equity allocated in pre-pandemic times, approximately 66% increase from 2019. It should be noted that two firms indicated that they are allocating an unlimited amount of capital to healthcare real estate investments for 2022.




## What measurement of investment return do you rely on most?

The largest group of respondents (45%) identified 'Leveraged IRR' as the most important investment methodology, followed by 'Going in Capitalization Rate' (19%), and 'Leveraged Cash on Cash Return' and 'All Cash IRR' were both valued at 17%. Respondents' investment methodology continues to shift toward 'Leveraged IRR,' with a 32% positive change over the last five years. Developers and private capital investors dominated the 'Leveraged IRR' category, accounting for roughly 76% of the responses. The majority of respondents who chose 'Leveraged Cash on Cash Return' or 'Leveraged IRR' as their preferred investment methodology were private investors and developers, with 82% and 76%, respectively. This remained in line with the 2021 survey results.



# Asset Financing

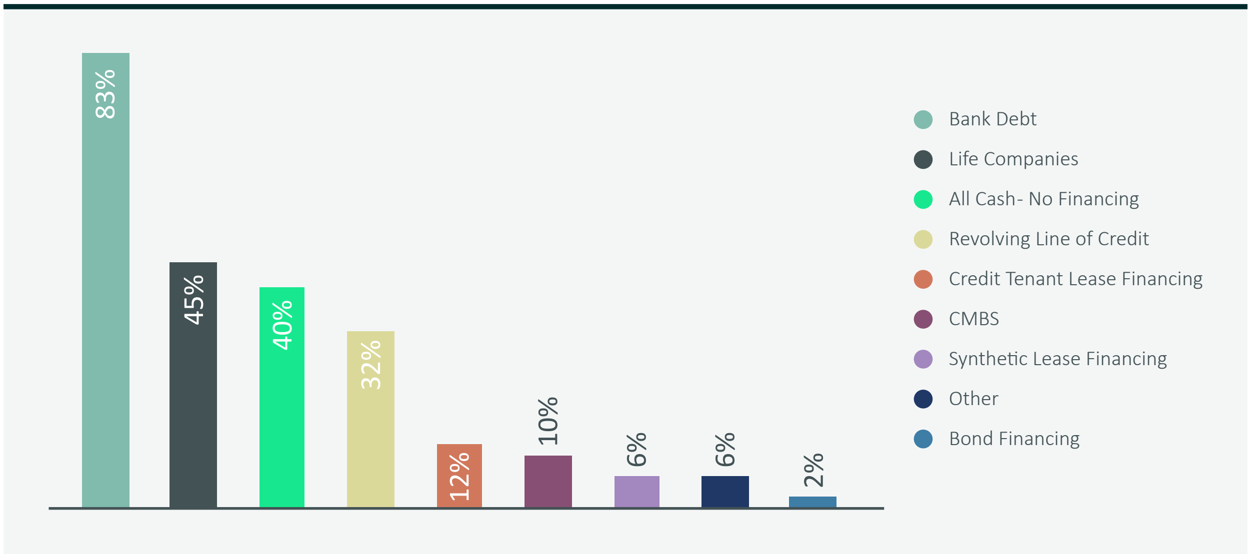
Q

**What types of financing sources are you utilizing?**

Over the last three years, 'Bank Debt' has remained the most popular financing source among respondents (83%), followed by debt from 'Life Companies' (45%), and 'All Cash' (40%) from funds on their balance sheet. Fifty-six percent of healthcare REIT respondents said they would use 'All Cash - No Financing.' Only 20% of developers and institutional healthcare investors said they would use 'All Cash,' while 92% of private healthcare investors said they would use 'Bank Debt.' 'Revolving Line of Credit' and 'Life Companies' saw the greatest year-over-year increase in utilization, with a 4% and a 6% increase, respectively.

83%

**utilize 'Bank Debt' as financing source**



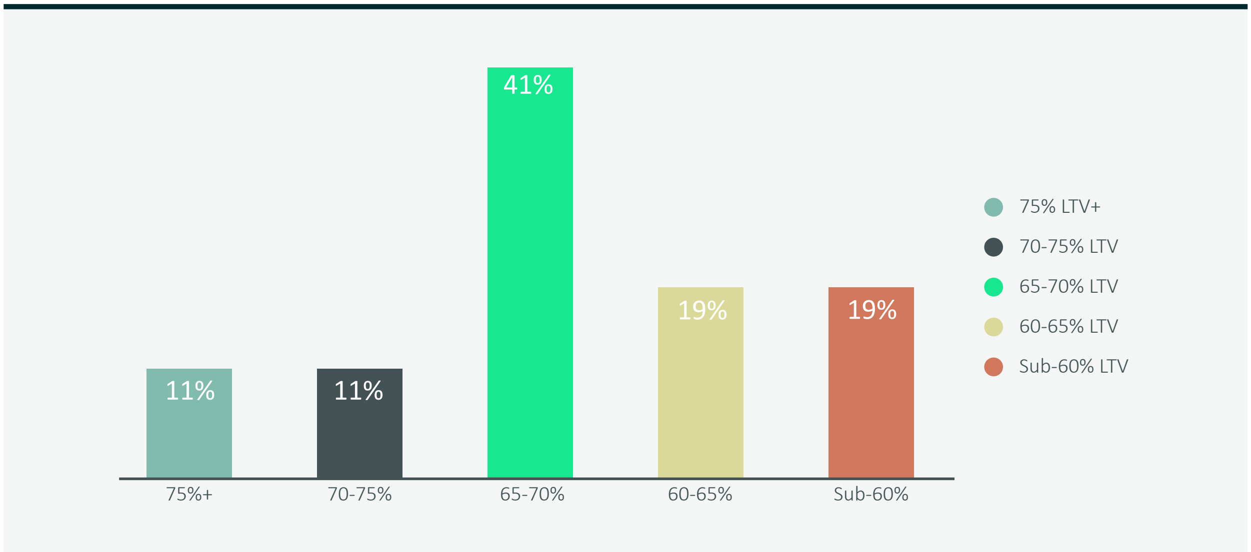
Q

## What level of financing do you most often target?

Overall, survey respondents indicated a preference for 'standard' levels of debt with the three most popular answers being '65-70%' LTV (41%), '60-65%' LTV (19%) and 'Sub-60%' LTV (19%). Sixty-four percent of healthcare REITs who responded indicated that they would target 'Sub-60%' LTV while 53% of healthcare real estate developers who responded targeted a leverage point of 70% or higher.

65-70%

**most preferred leverage point**

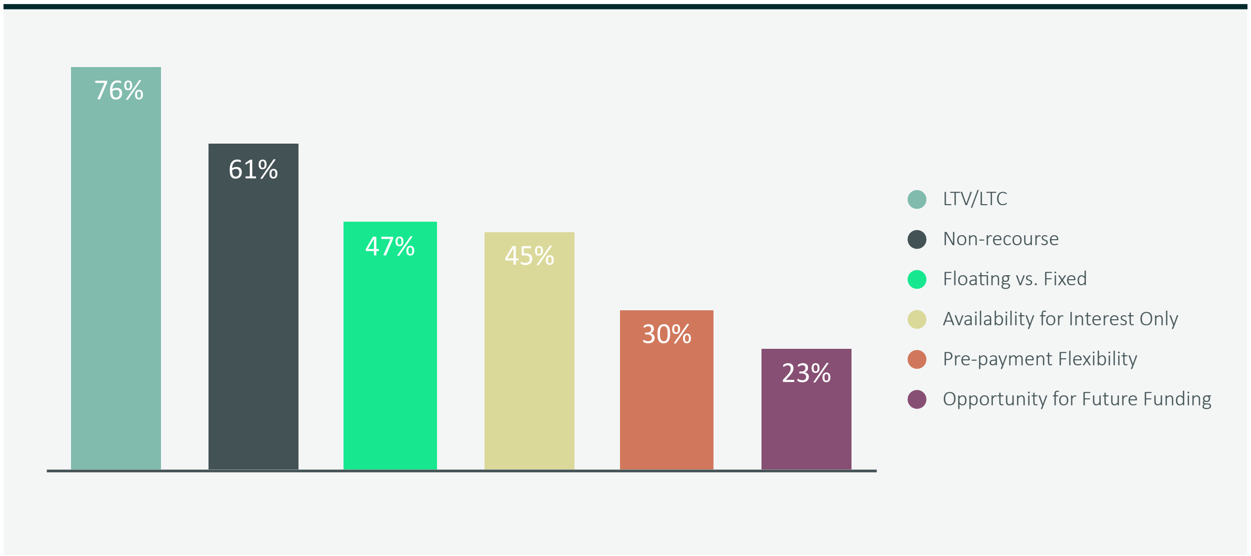


## Q When financing an asset, what terms are most important when choosing a lender/loan?

The single most important aspect of a loan to the healthcare real estate investors polled was recourse vs non-recourse; it was selected by 76% of respondents and was the number one answer. The next most important terms of a loan were 'LTV/LTC' (61%), 'Pre-payment Flexibility' (47%), 'Availability for Interest Only' (45%), 'Floating vs Fixed' (30%), and lastly 'Opportunity for Future Funding' (23%). Sixty-eight percent of respondents who chose 'Non-recourse' were private capital investors or real estate developers.

**76%**

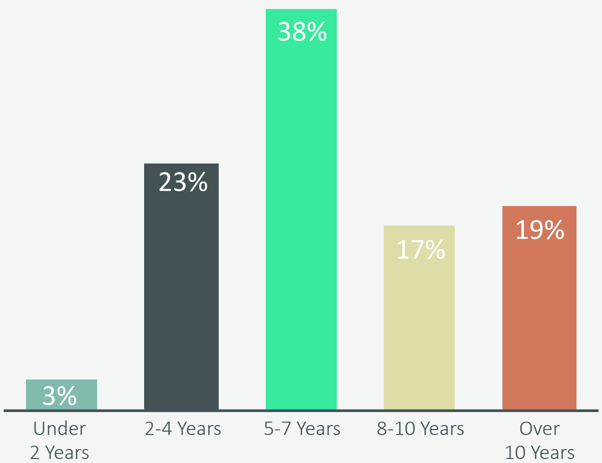
**ranked recourse vs non-recourse as most important loan aspect**




Q

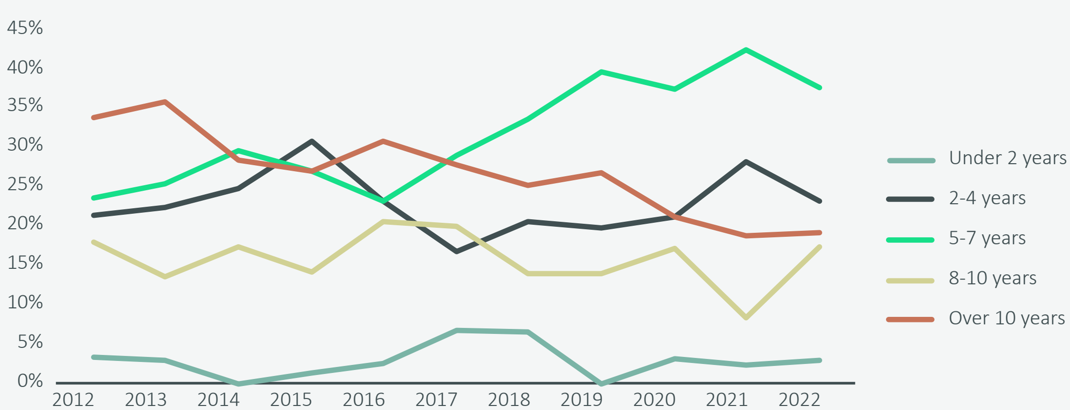
## What is the average hold time frame for your investments?

Over the last eight years, the average hold-time for respondents' healthcare real estate investments has become more concentrated; '5-7 years' continues to be ranked first (38%), followed by '2-4 years' (23%), then 'more than 10 years' (19%), then '8-10 years' (17%), and finally 'Under 2-years' (3%). Seventy-five percent of the healthcare REITs that replied indicated an average hold time of 'Over 10-years,' with healthcare real estate developers and private capital investors being the only types of investors that indicate a hold time of 'Under 2-years.' Investors have increased their investment hold-time since the pandemic, with year-over-year replies for average hold-time of 7 years or less down by 13% and responses for a hold-time of 8 years or more increasing by 35%.




38%

**ranked 5-7 years as the #1 hold-time for healthcare real estate investments**



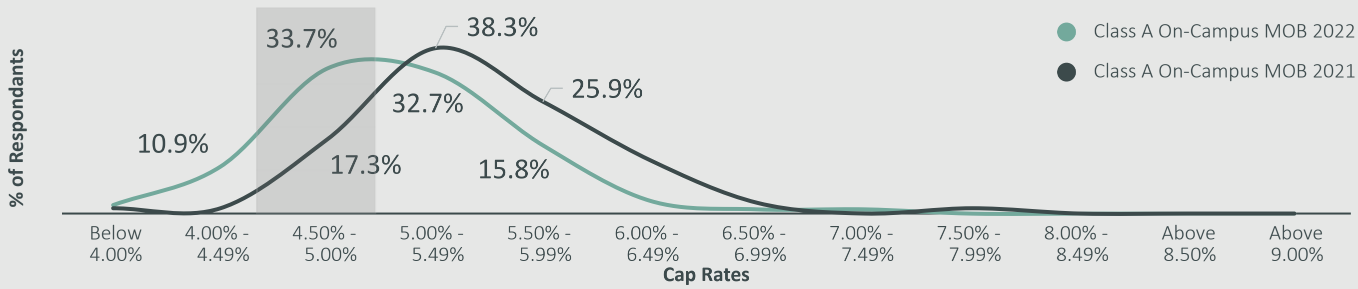
# Return Requirements

**Q**

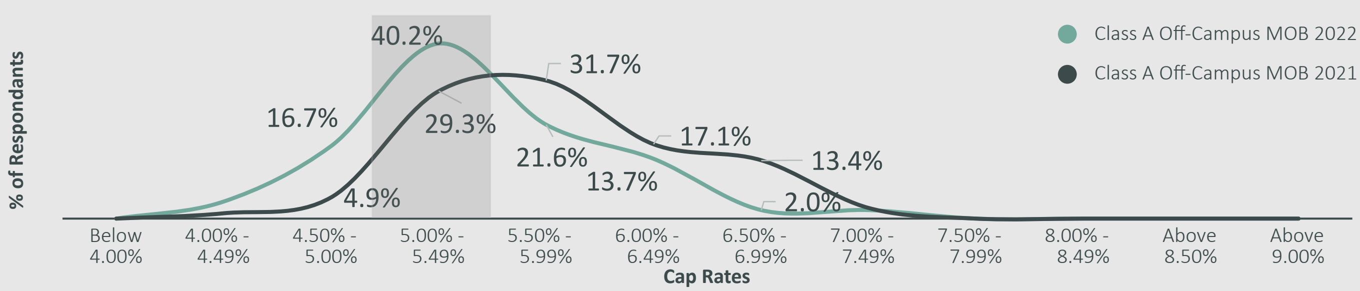
**What will be a "market" capitalization rate for multi-tenant medical office in 2022?**

Investors' pricing expectations have continued to shift with approximately 79% of respondents predicting that a market capitalization rate for Class A on-campus product will be less than 5.50% 2022 (36% increase from 2021 responses), with 47% choosing a cap rate below 5.00% (135% increase over 2021 responses). We observe a similar shift in investor pricing sentiment for off-campus assets with 82% of respondents predicting that a Class A off-campus asset's market capitalization rate would be less than 6.00% in 2022, compared to 67% in 2021 and 55% in 2020.

## CLASS A ON-CAMPUS MEDICAL OFFICE - CAP RATES

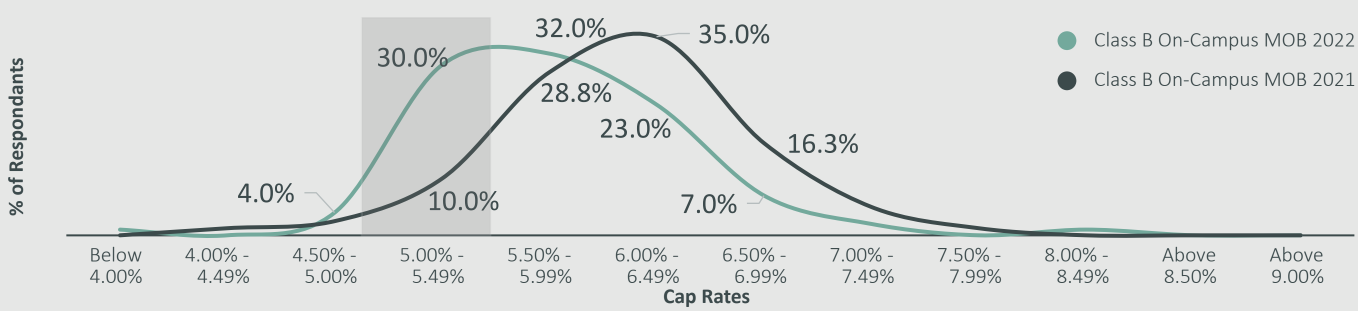



## CLASS A OFF-CAMPUS MEDICAL OFFICE - CAP RATES

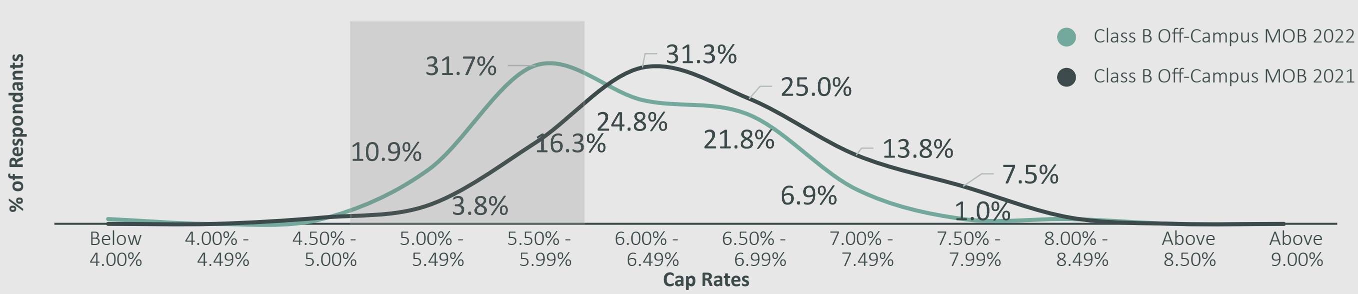



Investors indicated that pricing is becoming more aggressive for Class B on-campus medical office buildings year over year. Thirty percent of investors anticipate a cap rate between 5.00% - 5.50% with 67% of the survey respondents indicating a market capitalization rate would be less than 6.00%. This aggressive shift in pricing expectation is even more noticeable for Class B off-campus buildings. Forty-five percent of all respondents in 2022 specified a cap rate below 6.00% compared to only 21% of respondents in 2021.

## CLASS B ON-CAMPUS MEDICAL OFFICE - CAP RATES




## CLASS B OFF-CAMPUS MEDICAL OFFICE - CAP RATES



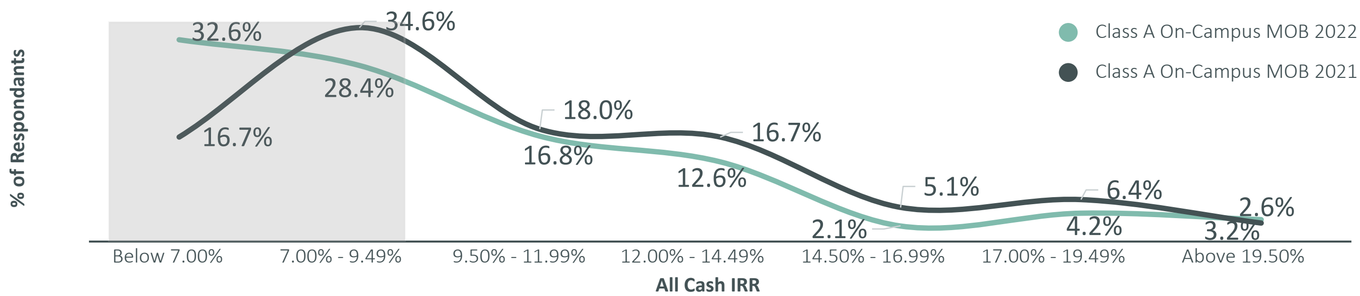
## Q What is your target 10-year Internal Rate of Return (All-Cash) for multi-tenant medical office in 2022?

In line with the previous year, investor sentiment displays a favoring towards lower rates of return. For 2022, the number one target all-cash IRR range for Class A products was 'Below 7.00%', up 16% from 2021. Across all asset types, the majority of respondents target between '7.00% - 9.49%' with responses between 24%-30% depending on the product type.

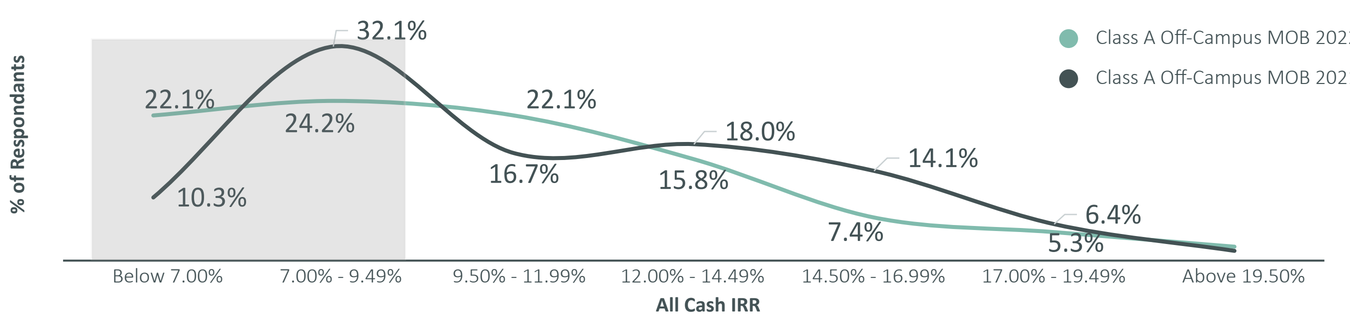
Investor perception for Class B on-campus product continues to follow a similar bell curve to the previous year. Ninety-two percent of respondents continue to feel this product type will target a '7.00% or higher' all-cash IRR. The survey results for Class B off-campus were wide-ranging as approximately 76% of respondents indicated a target all-cash IRR between '7.00% - 14.49%.'

Seventy percent of the responses from healthcare REITs and institutional healthcare investors indicated that they are targeting all-cash IRRs below 9.5% and remain the most aggressive on healthcare assets across all product types. For private capital investors, 64% indicated a target return of 9.50% and below. Developers were more conservative with 73% of their responses indicating a target all-cash IRR of above a 9.50% for 2022. This demonstrates a flight to quality for assets demonstrated by significantly more investors aiming for lower return requirements for Class A assets relative to Class B assets.

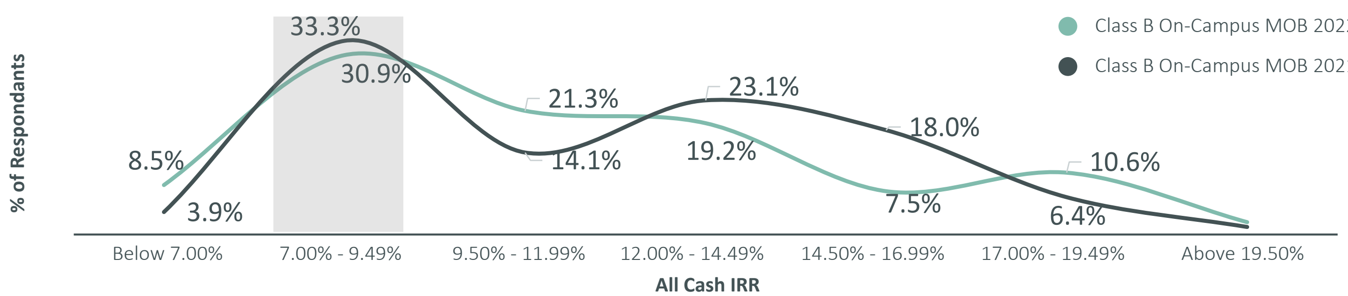
### CLASS A ON-CAMPUS MEDICAL OFFICE - ALL-CASH IRR



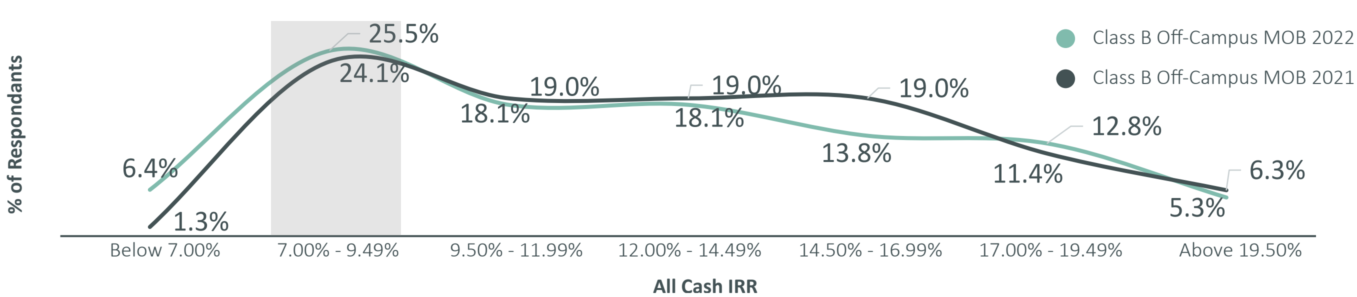

### CLASS A OFF-CAMPUS MEDICAL OFFICE - ALL-CASH IRR



## CLASS B ON-CAMPUS MEDICAL OFFICE - ALL-CASH IRR




## CLASS B OFF-CAMPUS MEDICAL OFFICE - ALL-CASH IRR



Q

**What will be a "market" capitalization rate for the following single-tenant healthcare investments in 2022? Assume 10 years of lease term remaining and average credit.**

Single-tenant medical office buildings (MOBs) are expected to remain the most competitively priced asset type, with 76% of the respondents expecting the market cap rate to be below a 5.50% cap rate. Investors in single-tenant ambulatory surgery centers indicated a slightly more conservative expectation, with 78% of survey respondents expecting a market cap rate range between 4.50% - 6.00%.

| CAP RATE | Above 9.00% | 8.50% - 8.99% | 8.00% - 8.49% | 7.50% - 7.99% | 7.00% - 7.49% | 6.50% - 6.99% | 6.00% - 6.49% | 5.50% - 5.99% | 5.00% - 5.49% | 4.50% - 5.00% | 4.00% - 4.49% | Below 4.00% |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Medical Office Building | 1% | 0% | 0% | 0% | 1% | 2% | 6% | 13% | 29% | 33% | 12% | 2% |
| Freestanding Emergency Department | 0% | 0% | 0% | 3% | 7% | 15% | 23% | 25% | 15% | 12% | 0% | 1% |
| Ambulatory Surgery Center | 0% | 0% | 0% | 1% | 2% | 5% | 10% | 23% | 33% | 22% | 2% | 1% |
| Wellness Center | 1% | 0% | 1% | 5% | 8% | 16% | 29% | 23% | 10% | 4% | 0% | 1% |
| Acute Care Hospital | 0% | 0% | 0% | 7% | 13% | 14% | 21% | 23% | 14% | 6% | 1% | 1% |
| Long Term Acute Care Hospital | 1% | 1% | 6% | 10% | 13% | 19% | 13% | 17% | 10% | 6% | 0% | 3% |
| Rehabilitation Hospital | 0% | 0% | 0% | 7% | 7% | 21% | 32% | 19% | 7% | 5% | 0% | 3% |
| Behavioral Hospital | 0% | 1% | 3% | 8% | 21% | 17% | 26% | 13% | 7% | 1% | 0% | 3% |
| Skilled Nursing Facility | 8% | 6% | 11% | 14% | 11% | 15% | 14% | 11% | 3% | 5% | 0% | 3% |

# Planned Investment Activity

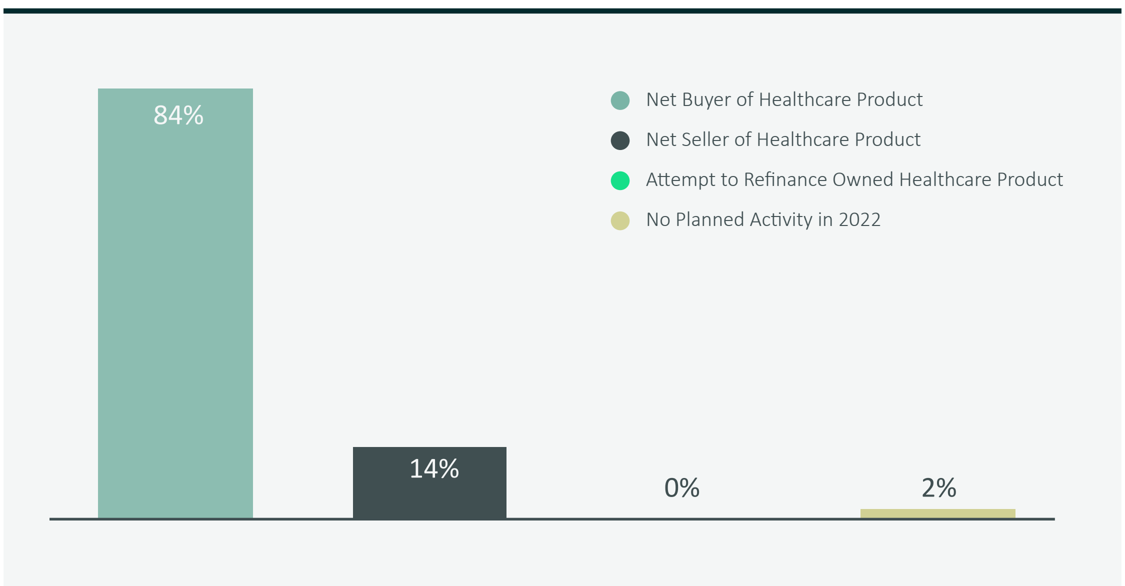
Q

**For 2022, how would you characterize your medical office investment activity?**

The overwhelming majority of survey respondents (84%) indicated plans to be “Net Buyers” of healthcare real estate in 2022. Of these respondents, 100% of all healthcare REITs, 84% of private capital investors and 100% of all institutional healthcare investors who responded consider themselves to be “Net Buyers.”

84%

**plan to be “Net Buyers” of healthcare real estate in 2022**



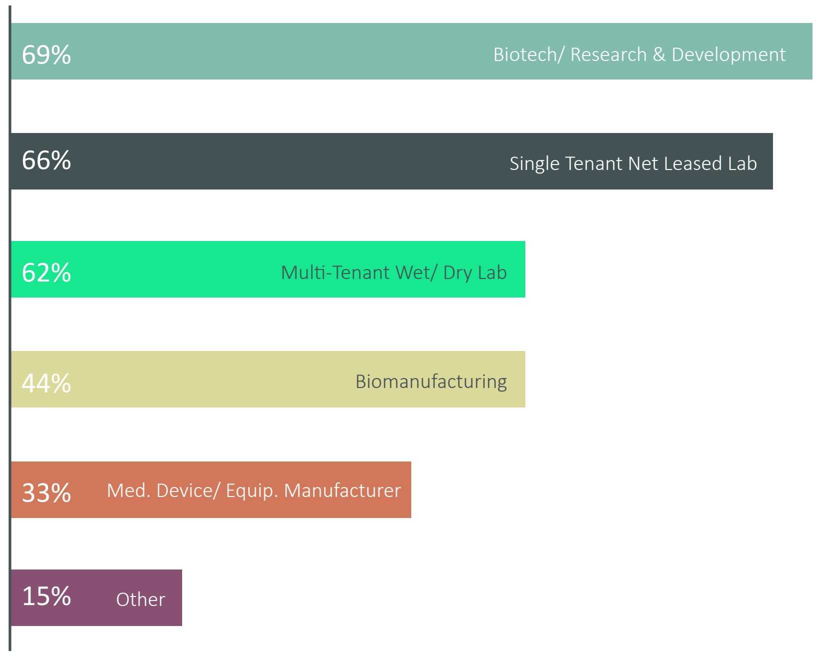
# Life Sciences

Q

**What types of life sciences real estate properties meet your acquisition criteria?**

Amid commercial real estate's uneven year of setbacks and recovery, at least one thing was made clear: Life sciences real estate emerged as a highly desirable product type.

Biotech is booming, driven by a jump in private and public funding for R&D, technological advancements in data processing and gene sequencing and strong demand drivers including an aging population and the need to stymie rising healthcare costs. In 2022, the results showed a large demand for biotech / R&D life sciences properties. Coming in close were single-tenant net leased lab space and multi-tenant lab space.




Q

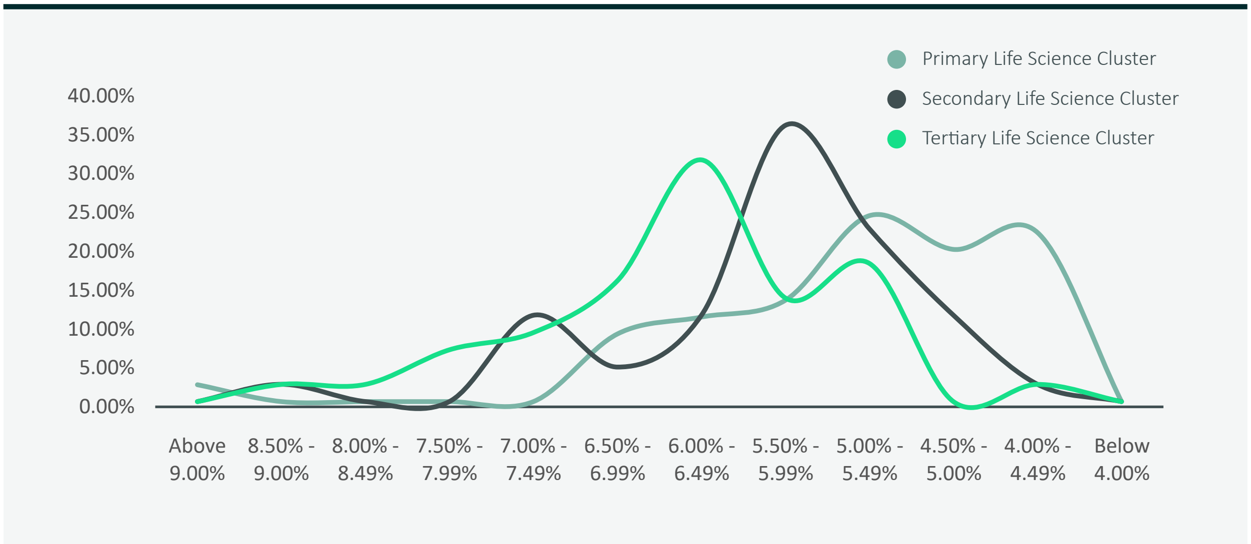
**What will be a "market" capitalization rate for the following single-tenant life sciences investments in 2022? Assume 10 years of lease term remaining and investment-grade credit.**

Single-tenant biotech firms are expected to be the most competitively priced asset type, with 20% of the respondents expecting the market cap rate to be within 4.50% and below. The majority of the asset types hovered in the 6.00% and below cap rate range.

| CAP RATE | Above 9.00% | 8.50% – 8.99% | 8.00% – 8.49% | 7.50% – 7.99% | 7.00% – 7.49% | 6.50% – 6.99% | 6.00% – 6.49% | 5.50% – 5.99% | 5.00% – 5.49% | 4.50% – 5.00% | 4.00% – 4.49% | Below 4.00% |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Biotech Firm | 2% | 0% | 0% | 0% | 0% | 7% | 11% | 20% | 22% | 18% | 13% | 7% |
| Pharmaceutical Company | 0% | 0% | 2% | 0% | 0% | 7% | 9% | 22% | 20% | 22% | 9% | 9% |
| Medical Device Manufacturer | 0% | 0% | 2% | 2% | 2% | 10% | 12% | 33% | 19% | 17% | 2% | 0% |
| Medical Equipment Manufacturer | 0% | 2% | 0% | 2% | 5% | 7% | 17% | 33% | 17% | 14% | 2% | 0% |
| Digital Healthcare | 2% | 0% | 2% | 0% | 7% | 5% | 29% | 17% | 19% | 17% | 2% | 0% |
| Genomics | 2% | 0% | 0% | 2% | 2% | 4% | 18% | 24% | 18% | 20% | 4% | 4% |

## What will be a "market" capitalization rate for multi-tenant life sciences property in 2022?

To no surprise, primary life sciences markets displayed the lowest projected cap rates in 2022, with 65% of all respondents choosing between '5.50% and below'. Boston, the San Francisco Bay Area and San Diego remain the premier markets, experiencing the strongest demand and tightest space availabilities. The majority of secondary life sciences clusters fell in the '5.50% - 5.99%' range. Raleigh-Durham, Philadelphia and Washington, D.C. are rapidly rising markets. While the Dallas, Atlanta and Phoenix areas are beginning to emerge as hot spots for life sciences product.

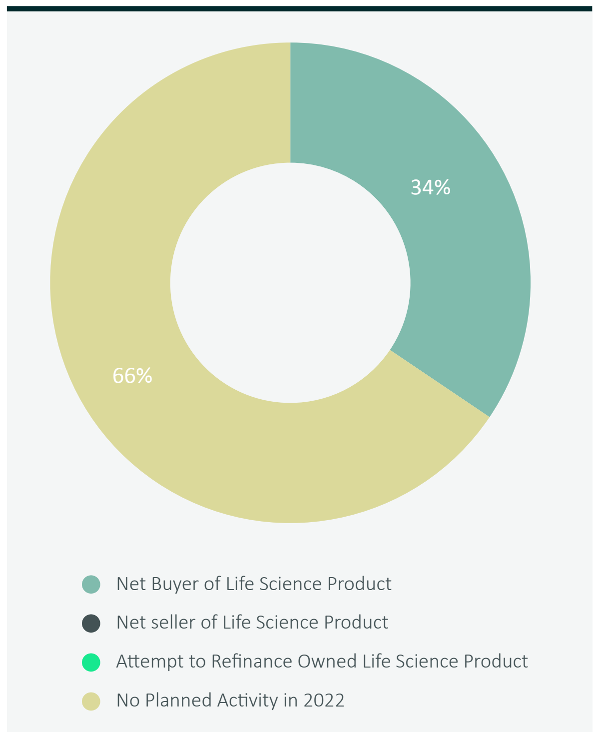



## For 2022, how would you characterize your life sciences investment activity?

Of the investors surveyed, 90 respondents answered this question with 34% indicating they plan to be net buyers of life sciences product in 2022.

34%

**net buyers of life sciences product**



# Supply vs. Demand

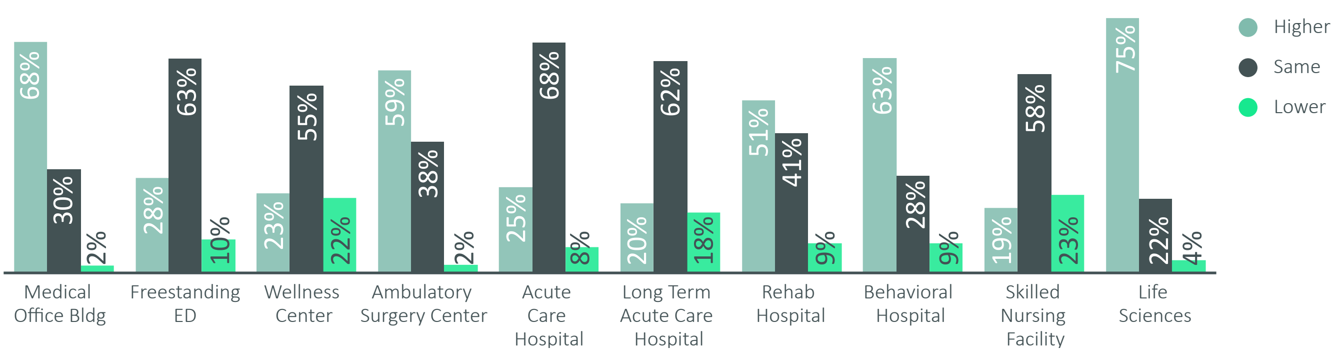
## Q Where do you see investment demand and supply for the following product types in 2022 compared to 2021?

The majority of respondents anticipate higher demand for behavioral health centers and life sciences assets in 2022. This is hardly surprising given that the life sciences sector is witnessing unprecedented expansion because of an increase in both public and private investment, as well as a post-pandemic sense of urgency and commercial potential. The investment in U.S. life sciences real estate increased by 62% last year, with further growth of at least 10% expected in 2022, according to a CBRE research report. Both medical office buildings and behavioral health centers are the second highest in demand to investors. The repercussions from COVID-19 have displayed extraordinary influence on behavioral health services, sparking real estate demand in the area. High-acuity healthcare facilities are shedding favor as investors predict that skilled nursing facilities and wellness centers will have reduced demand in 2022 compared to 2021.

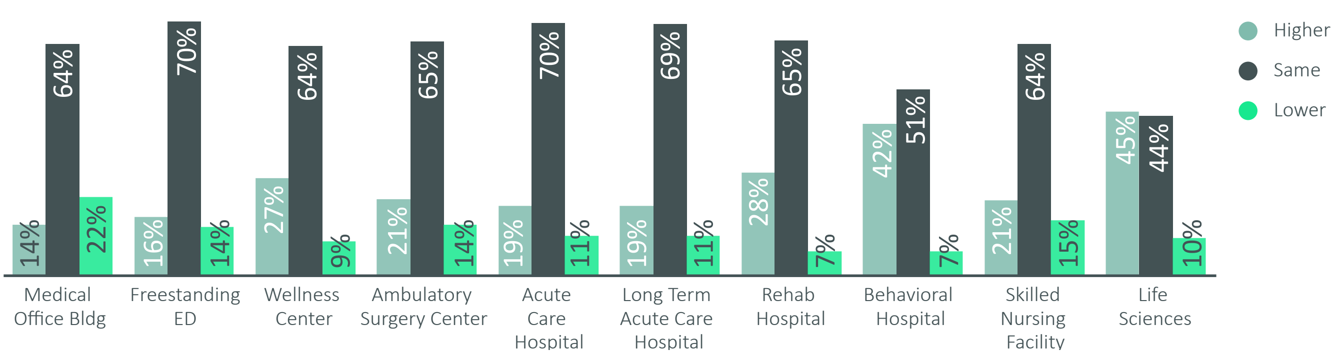
While not directly reported in the survey, our team has observed that behavioral health has become attractive to investors due to the more attractive yields attained with higher going-in cap rates compared to other medical office subtypes. Over the years, the reimbursement rate for behavioral health services has dramatically improved with Medicare and Medicaid. This has greatly influenced a drive for healthier behavioral health tenants.

On the side of supply, investors are anticipating a lower supply of medical office space. This may largely be attributed to the current development pipeline. Currently, much of the development figures display built-to-suit projects and not a lot of projects are available to be acquired. Life sciences assets are expected to see a shortage of supply in the coming year despite a robust life sciences conversion pipeline in most primary cluster markets. New life sciences hubs are being built around the country. Boston, San Francisco, and San Diego remain the dominant markets. Raleigh-Durham, Philadelphia, Washington, D.C., and Denver/ Boulder are rising rapidly. The Dallas, Atlanta, and Phoenix markets have begun to emerge over the past year.

## DEMAND FOR ASSETS




## SUPPLY OF ASSETS



# Market Fundamentals

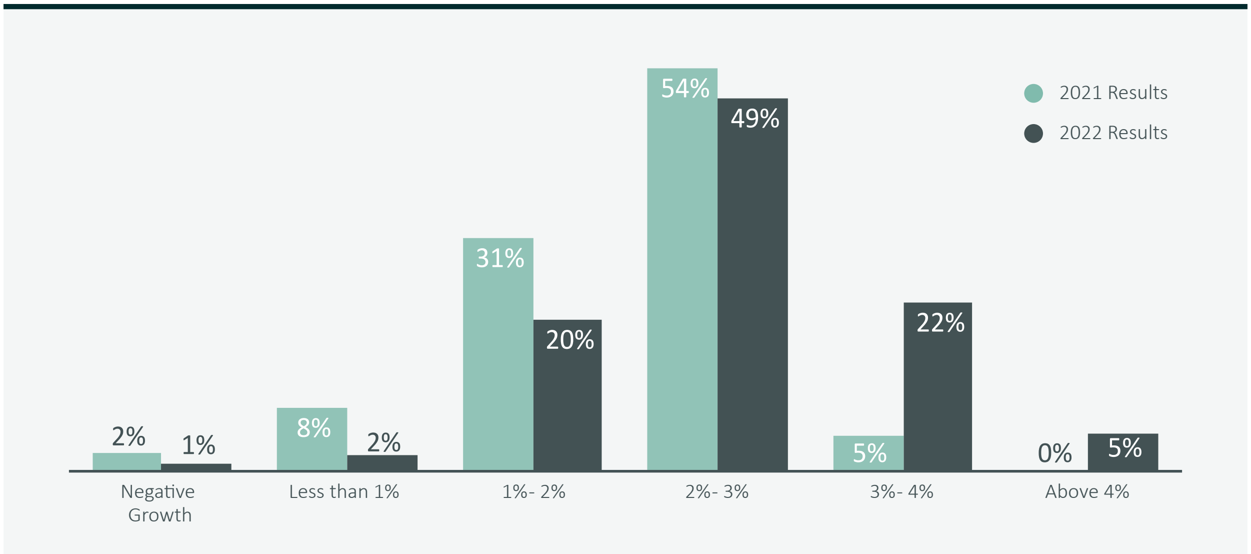
Q

**Where would you project annual growth for medical office lease rates in the coming year?**

While most investors continue to project annual growth in healthcare real estate lease rates to be in the 2-3% range, our 2022 respondents also expressed a significant shift in expectation for larger rent increases. Over ten years of survey data, only 6% of respondents on average believe lease rates will grow by more than 3% annually. However, in 2022 this figure increased to 27% of respondents. We attribute this significant spike to both inflation expectations as well as continued growth in demand for healthcare real estate space across the country.

54%

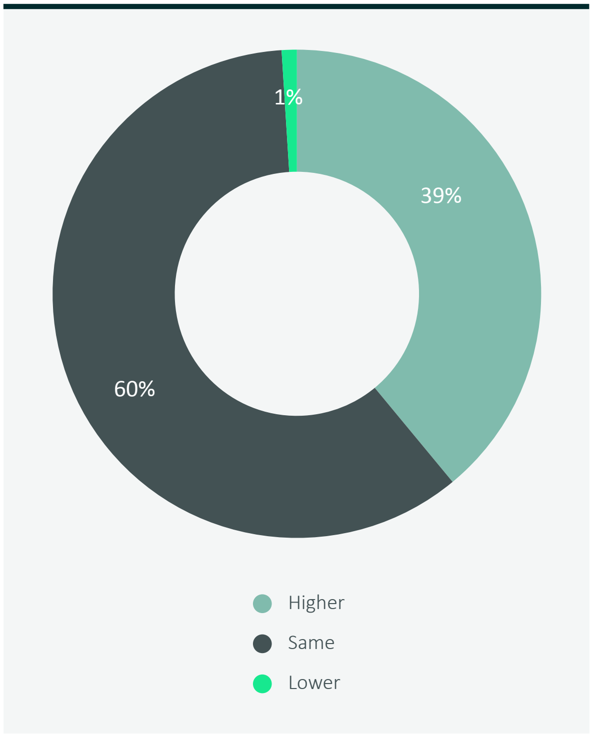
**expect healthcare real estate lease rates to rise by at least 2%**



Q

### Where is the occupancy of your medical office portfolio compared to a year ago?

While commercial real estate markets were severely disrupted in mid-2020, recoveries were well underway by year-end with the majority of respondents (60%) stating that their healthcare real estate portfolio occupancy was the 'Same' compared to the previous year, while only 1% stated that their portfolio occupancy was 'Lower' than last year.




60%

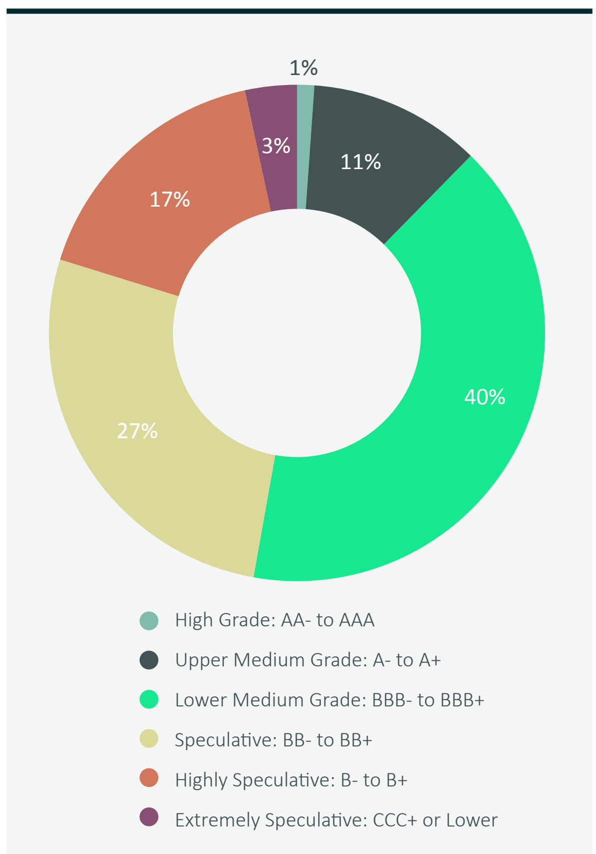
**of healthcare real estate portfolio occupancy remained the same**

# Health System Monetization & Development Criteria

A portion of the survey was dedicated to healthcare real estate investors and developers seeking monetization or development opportunities with health systems.

### Q What is the minimum hospital credit rating you would consider for investment?

Compared to the previous year the main shift in sentiment was away from 'Upper Medium Grade A- to A+', which decreased by 7 percentage points from the previous year from 18% of respondents in 2021 to 11% of respondents in 2022. Of those surveyed, the largest share responded with 'Lower Medium Grade of BBB- to BBB+' credit (41%), followed by 'Speculative Grade of BB- to BB+' credit (27%), then 'Highly Speculative B- to B+' (17%) and ''Upper Medium Grade A- to A+' responded with 11%. The predominant choice since 2012 continues to be 'Low Medium Grade: BBB- to BBB+.' Investors have continued to grow in their comfort level with hospital credit rating below investment grade with 47% of respondents interested in that range in 2022, up 20 percentage points since 2012.




40X/0.65
160/0.17

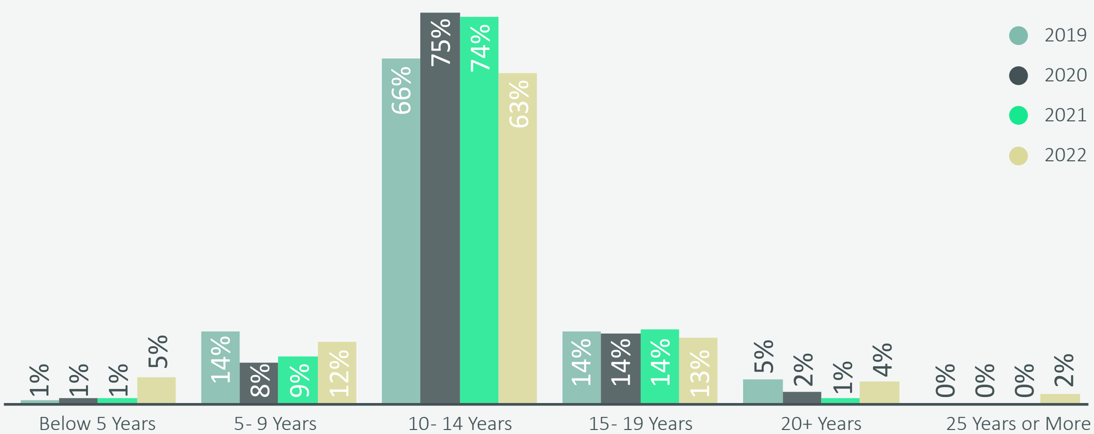
Q

## What is the minimum lease term you would consider for a sale-leaseback by a health system?

83% of the survey respondents indicated that the minimum lease term for a sale-leaseback by a health system would need to be for at least 10 years, while most of the respondents (63%) indicated a need for a lease term of at least '10 to 14 years'. The limited variance over the last 4 years survey results reveal a settling out over time of investor comfort with lease terms in the 10–14-year range.

83%

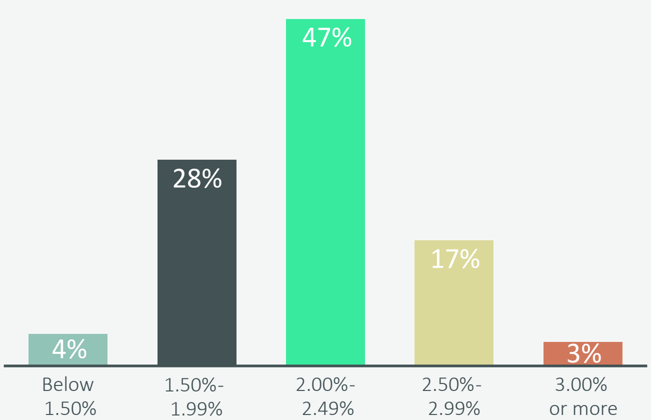
**minimum 10-year lease term for a sale-leaseback**




Q

## What is the minimum annual rental rate escalation you would consider for a sale-leaseback by a health system?

Responses to this question have exhibited a similar bell curve of responses over the history of this survey, with the largest group of survey respondents (47%) stating that they would require at least a '2.00% - 2.49%' annual rental rate escalation. Approximately 32% of the respondents indicated that they would accept an annual rental rate escalation of 1.99% or less, and 20% of the respondents indicated that they would require an annual rental rate escalation of 2.50% or more. Investors are signaling becoming more aggressive on healthcare assets despite the looming inflationary pressures.

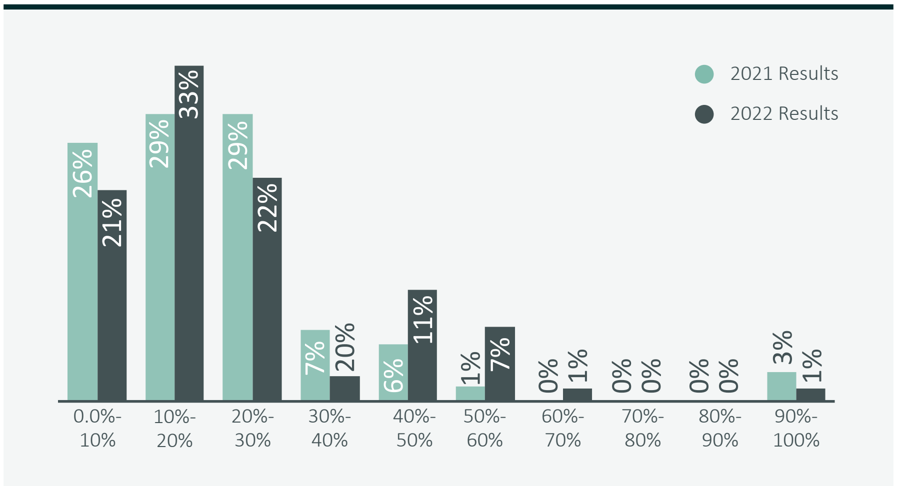



47%

**require at least a 2.00% - 2.49% annual rent escalation**

## Q In your experience, what percent of the time do hospitals exercise their Right of First Refusal (ROFR) to purchase the medical buildings on their campus as outlined in a typical ground lease?

The majority of survey respondents (90%) indicated that hospitals exercised their Right of First Refusal (ROFR) less than 50% of the time. While most hospitals continue to waive their right to purchase, a growth in the number of hospitals that exercise their right to acquire will boost competition for available assets.

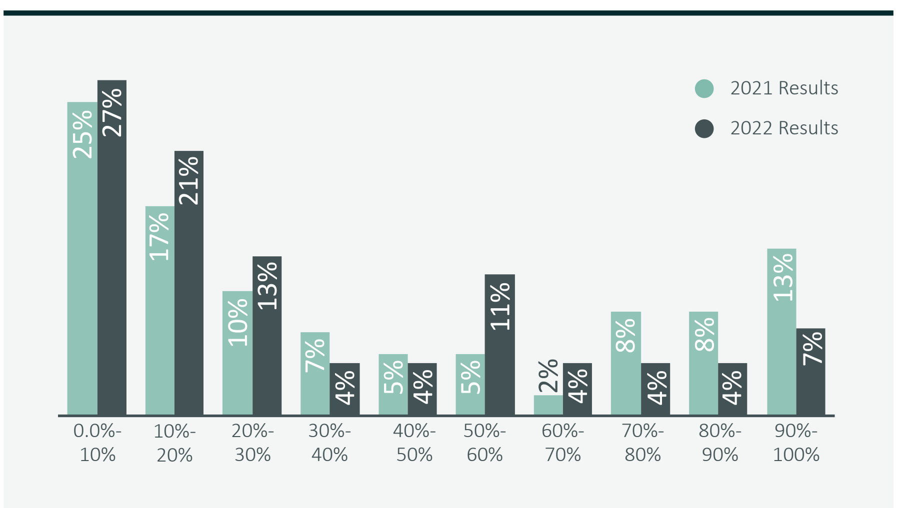



90%

**report ROFR exercised less than 50% of the time**

## Q In your experience, what percent of the time does the hospital have a price floor on their purchase option as part of the ground lease?

61% of respondents indicated that they see a price floor on a purchase option included in the ground lease up to 30% of the time, while only 16% of respondents indicated that they see a price floor on ground lease purchase options more than 70% of the time.



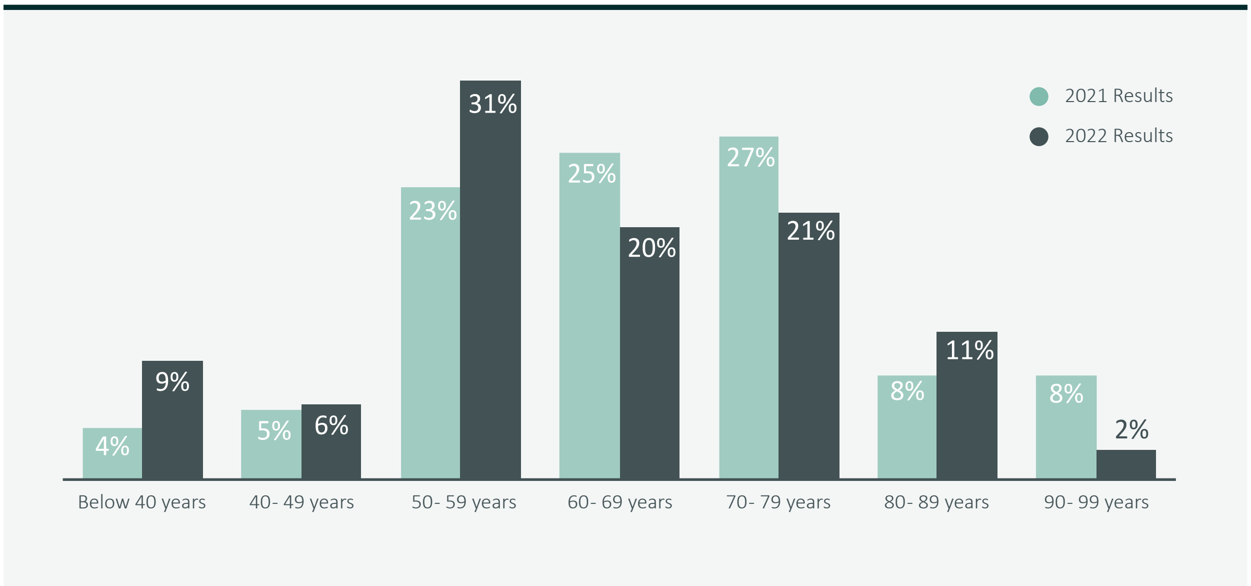
Q

**What is the minimum ground lease term you would consider for investment (including extension options)?**

Results suggest a slightly larger investor appetite for assets with a shorter ground lease term, with 14% more investors selecting less than 60 years as their minimum threshold compared to 2021. It is also interesting to note that in 2021, majority of respondents preferred '70-79 years' of remaining term. Investor preference for '70-79 years' or higher displays a 21% decrease year over year.

# >50 Year

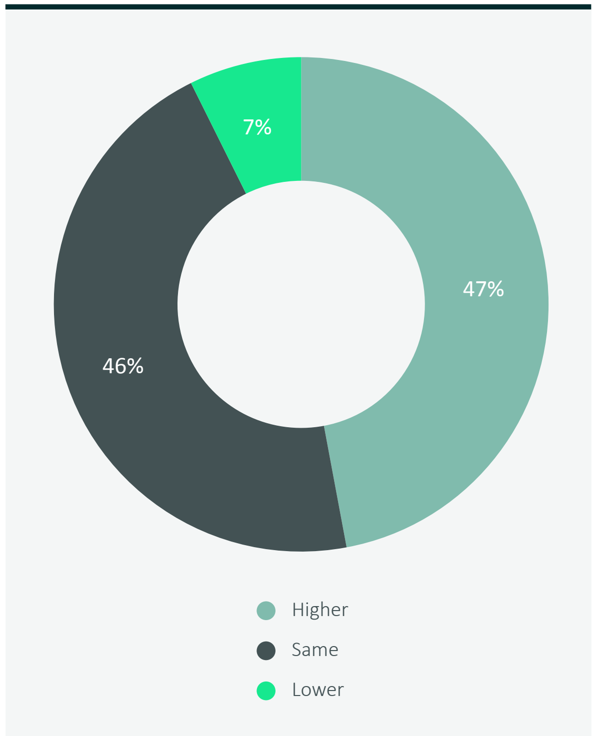
**remaining ground lease term preference**



# Healthcare Real Estate Development

**Q For developers, where do you expect health system development RFP activity to be in 2022 compared to a year ago?**

In 2022, 93% of respondents expected development RFP activity to stay the same or be higher. 65% of Developers expect RFP activity to increase in 2022 while only 40% of Institutional investors believe that RFP activity will increase. The COVID-19 pandemic has greatly impacted the need for healthcare facilities, but with strong healthcare fundamentals and highly active investors, deal opportunities are becoming scarce.




93%

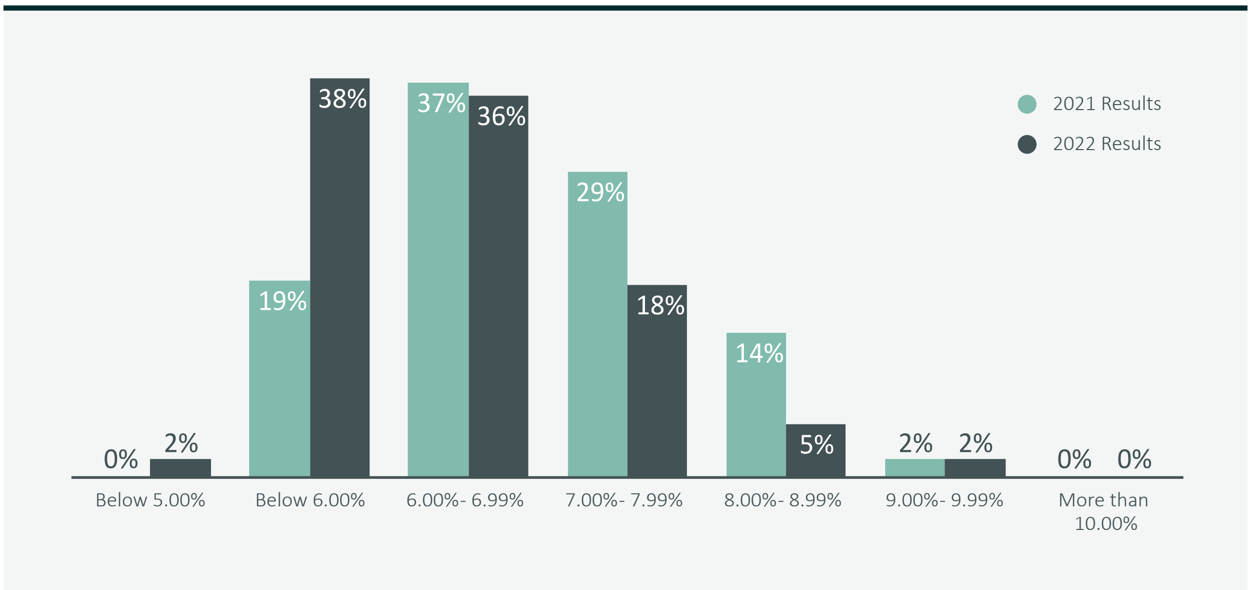
**expect development RFP activity to stay the same or go higher in 2022**

## For developers, what is the minimum lease constant you would consider for a healthcare development opportunity meeting your highest standards?

Most 2022 respondents (93%) indicated that they would require a minimum lease constant for a development opportunity of at least 8.00%. Reviewing the trends over time, developers seem to be more comfortable with a lower lease constant as time passes, trending toward the '7.00% - 7.99%' range. In 2019, 74% of the respondents indicated that they would consider a lease constant below 8.00% for a new development. This increased to 77% of the respondents in 2020 and 85% of the respondents in 2021 indicated that they would consider a lease constant below 8.00%.

93%

**would consider a minimum least constant for a development opportunity of at least 8.00%**

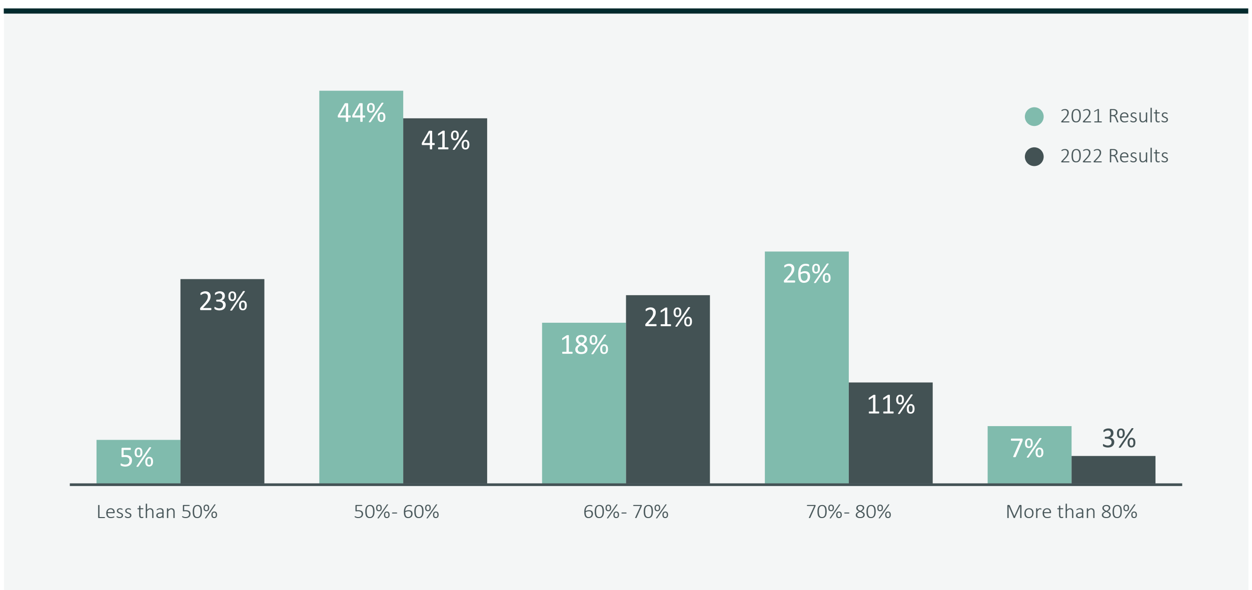


## Q For developers, what is the minimum pre-leased threshold percentage you (or your lender) would consider for a medical office development meeting your highest standards?

Over half (64%) of all respondents indicated the necessity for medical office developments to be at least 60% preleased for projects satisfying their highest development standards. As the market continues to recover from the downturn of the COVID-19 pandemic, developers are increasing their risk adversity with 23% of respondents signifying a need for less than 50% of preleasing in the building. This indicated a 12 percentage point increase compared to pre-pandemic levels in 2019.

64%

**prefer at least 60% pre-leasing**



# Contacts

CBRE

## About CBRE's Healthcare Capital Markets

CBRE Group, Inc. (NYSE:CBRE), a Fortune 500 and S&P 500 company headquartered in Dallas, is the world's largest commercial real estate services and investment firm (based on 2021 revenue). The company has more than 105,000 employees (excluding Turner & Townsend employees) serving clients in more than 100 countries.

Our U.S. Healthcare Capital Markets Group specializes in providing healthcare real estate investors with acquisition, disposition, and recapitalization strategies; assisting healthcare providers with strategic capital planning (including monetization and capital raising efforts); and advising health systems and physician groups in the developer selection process.

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