

## National Healthcare Real Estate Investor Update

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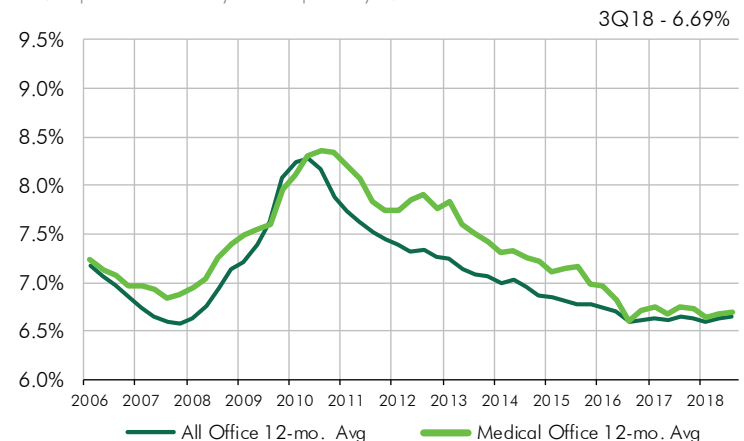
### What Can Disrupt This Cycle?

The U.S. economy added 250,000 jobs in October, well above the consensus estimate of 200,000. Unemployment remained unchanged at 3.7% — the lowest since 1969 — while labor force participation increased by 20 basis points (bps) to 62.9%. Average hourly earnings rose by 5 cents in October and are up by 3.1% over the year. Despite recent stock market volatility, the October jobs report showed solid gains across all sectors of the economy, and wage growth for the year is at post-financial crisis highs. Consumer confidence is at peak levels, and people feel very secure in their jobs. Capital investment is picking up as companies now have had time to implement capital plans to take advantage of the tax benefits now available.

So what can disrupt this cycle? Trade wars, rising interest rates, inflation, global economic slowdown, ballooning deficit? Whatever it is, many investors continue to believe that medical office will be one of the most insulated real estate product types available. Tenants in medical buildings are not typically tied to the global economy, while domestic real estate supply continues to be in check for most markets. In addition, the dismantling of Obamacare is less likely than ever as the Democrats took control of the House of Representatives during the midterm elections, and voters in three of four states (Idaho, Nebraska and Utah) overwhelmingly passed ballot initiatives endorsing further Medicaid expansion. With the Fed likely increasing short-term rates in December, the largest threat continues to be interest rates that continue to rise while the short term to long term rates yield curve continues to flatten, a warning sign of a potential macroeconomic slow down. See page 4 for more information.

### 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.



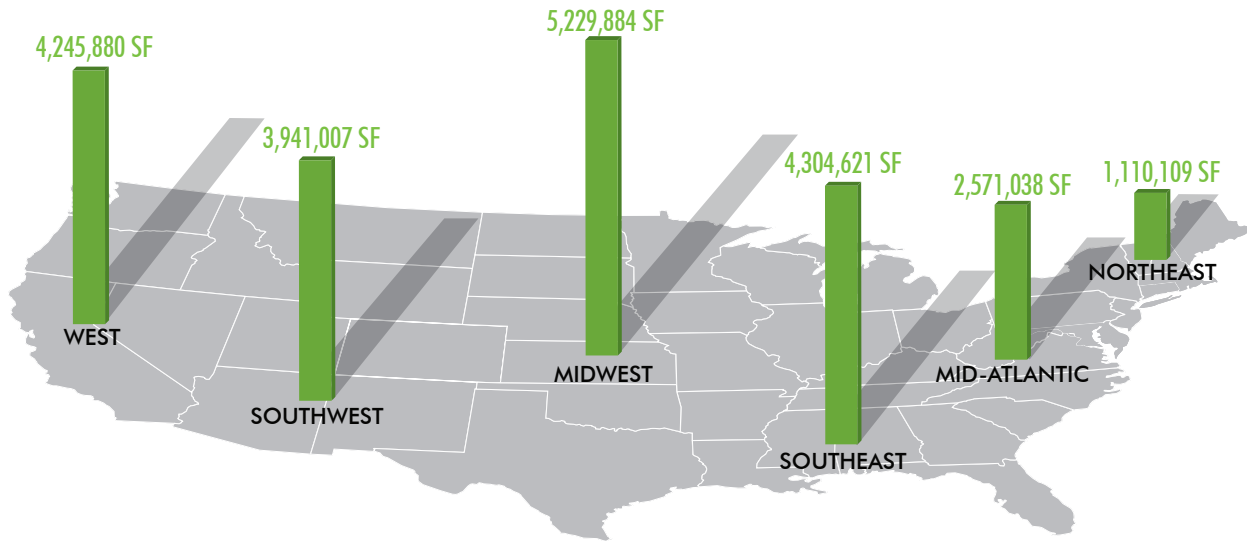
### 3Q18 Medical Office Sales Volume

Note: Data Courtesy of Real Capital Analytics.

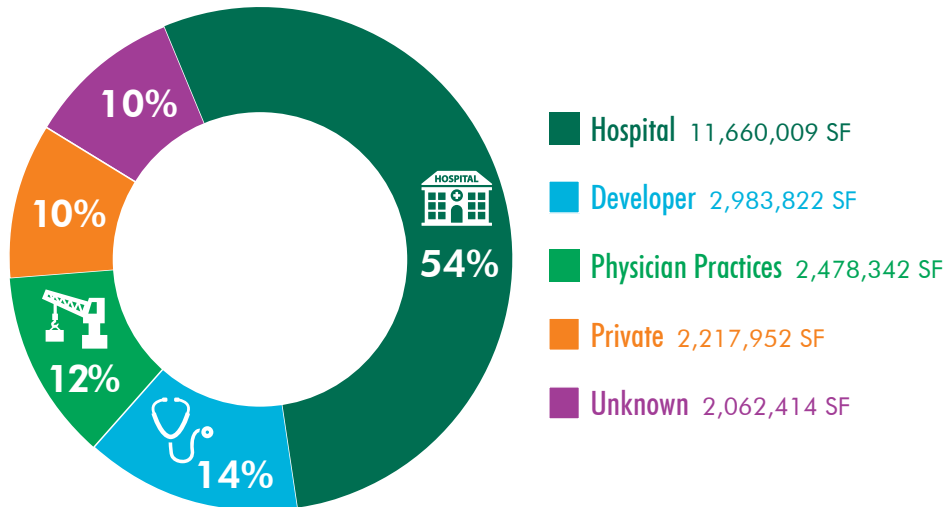
REGION	#	VOLUME	AVG. \$/PSF
West	49	\$398,003,100	\$306
Southwest	25	\$609,631,258	\$516
Southeast	37	\$283,473,091	\$253
Midwest	40	\$342,854,939	\$301
Northeast	16	\$141,491,076	\$286
Mid-Atlantic	17	\$296,607,332	\$245
<b>TOTAL</b>	<b>184</b>	<b>\$2,072,060,796</b>	<b>\$321</b>

# Medical Office Building Construction Data :: 3Q 2018

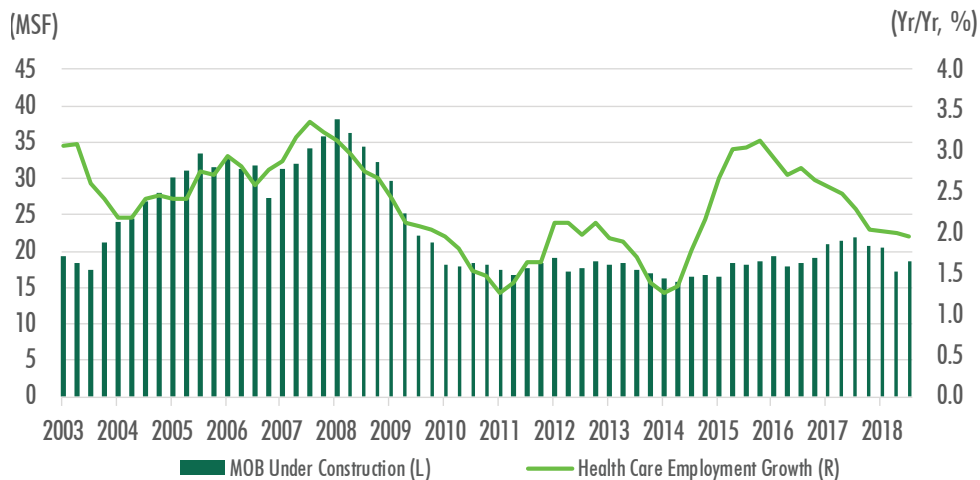
## Medical Office Buildings Under Construction by Region



## 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

# Select 3Q18 Healthcare Real Estate Transactions by Region

DATE	PROPERTY NAME	CITY, STATE	YEAR BUILT	PRICE	SQ.FT.	\$/SQ.FT.	
Sep-18	Yale Wilshire Medical Building	Santa Monica, CA	1964	\$30,560,000	45,881	\$666	WEST
Aug-18	25751 McBean Parkway	Santa Clarita, CA	1989	\$28,000,000	51,407	\$545	
Jul-18	Edmonds Professional Center	Edmonds, WA	1965	\$23,500,000	62,389	\$377	
Aug-18	Sherman Oaks Medical Center	Sherman Oaks, Los Angeles, CA	1997	\$20,000,000	70,574	\$283	
Jul-18	Memorial Hermann Medical Plaza	Houston, TX	2006	\$404,700,000	510,000	\$794	SOUTHWEST
Jul-18	Canyon View Medical Plaza	Grand Junction, CO	2013	\$31,500,000	83,000	\$380	
Aug-18	KSF Orthopaedic Center (Part of Portfolio)	Houston, TX	1985	\$23,019,883	49,868	\$462	
Aug-18	15240 West 64th Avenue	Arvada, CO	2017	\$10,917,110	7,748	\$1,409	
Aug-18	Catalyst HRE Portfolio (16 of 19 Properties)	FL, GA, SC, TN	Multiple	\$84,806,336	315,130	\$269	SOUTHEAST
Jul-18	701 Med Tech Parkway	Johnson City, TN	2008	\$18,200,000	60,600	\$300	
Jul-18	Hollywood Medical Office Building	Hollywood, FL	1975	\$11,500,000	57,815	\$199	
Jul-18	Medical Village Lake Nona	Orlando, FL	2016	\$11,086,000	29,775	\$372	
Jul-18	Green Bay Health Care Center	Green Bay, WI	2013	\$69,320,000	161,525	\$429	MIDWEST
Aug-18	Inland RE Portfolio 2018 (3 of 4 Properties)	Illinois	Multiple	\$33,200,000	97,262	\$341	
Aug-18	Catalyst HRE Portfolio (2 of 19 Properties)	Illinois, Indiana	Multiple	\$19,273,781	87,599	\$220	
Aug-18	Glendale Medical Office Building	Oakland, MI	1990	\$14,250,000	44,181	\$323	
Sep-18	Guild Medical Office Building	Norwood, MA	1914	\$23,500,000	92,763	\$253	NORTHEAST
Aug-18	Brown Medicine	East Providence, RI	2015	\$20,251,022	73,706	\$275	
Aug-18	34 South Bedford Road	Mount Kisco, NY	1978	\$17,500,000	38,799	\$451	
Aug-18	Jordan Hospital Medical Office (Part of Portfolio)	Plymouth, MA	2013	\$12,500,000	30,803	\$406	
Aug-18	435, 465 & 476 South Street (3)	Morristown, NJ	Multiple	\$106,817,000	411,161	\$260	MID-ATLANTIC
Aug-18	Ashburn Farm Professional Plaza	Ashburn, VA	1998 Ren. 2004	\$15,242,300	75,400	\$202	
Sep-18	Lancaster Neuroscience & Spine Portfolio (2)	Lancaster, NJ	1989 / 2009	\$13,235,000	36,145	\$366	
Jul-18	Morristown Medical Arts Center	Morristown, NJ	1980	\$10,550,000	35,881	\$294	

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

# Capital Markets Update

CBRE

## HEALTHCARE CAPITAL MARKETS

**CBRE U.S. Healthcare Capital Markets** specializes in providing healthcare real estate investors with acquisition, disposition and debt & equity recapitalization strategies; assisting healthcare providers with strategic capital planning (including monetization of real estate); and advising health systems and physician groups in the developer selection process.

As the largest real estate services firm in the world and the leading provider of real estate services for the healthcare industry, CBRE combines global reach with local market expertise. With offices in 300 markets and \$144 billion in assets capitalized globally, CBRE is the only Fortune 500 firm in global commercial real estate.

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## Debt Market Update for Medical Properties

The Federal Reserve raised interest rates again in September of this year, which marks the eighth hike since 2015. Policymakers forecast that one more hike may occur this year in December. The short-term rate is now 2.00% to 2.25%. Lenders are still looking to put money into high quality opportunities, however, with the increased rates in 2018, lenders are starting to focus more on debt service coverage ratios and debt yields. Current rates are still significantly lower than they were in 2006 & 2007 when the average 10-year treasury rate was 4.40%. We continue to place excellent debt capital for our clients' healthcare properties from multiple sources and at very low rates with compelling structures.

We continue to see new lenders entering and looking to enter the healthcare space as we discuss opportunities with them. The lender pool for medical office buildings is strong and we are seeing all types of lenders look to place money in this asset class. In addition, we continue to see debt funds further advance in the lending market, providing great opportunities for borrowers with higher leverage needs or greater repositioning requirements.

- Historically low fixed interest rates remain, and the very flat yield curve makes long term fixed rate financing very attractive. On the short end of the curve, we've seen rate increases in March, June and September of 2018 and expect an additional Fed rate increase in 2018 and continuing into 2019. This will likely further flatten the curve as long-term rates have little pressure to rise at this time.
- Banks tend to be the most active lender in the healthcare space, with some notable groups providing a significant portion of funding. Opportunities exist to look outside these more common healthcare lenders as we continue to see interest for funding from other banks, life companies and debt funds. Running a debt process with 20 to 25 lenders forces all lenders in the healthcare space to meet the market and this significantly improves the outcome for our clients.
- CMBS continues to offer liquidity for deals that might otherwise have to be financed under more conservative terms by other lender types. CMBS is very aggressive for certain deals and we continue to see strong interest in the medical office space. At 60% LTV and below, ten years of interest only financing is readily available and at 65% LTV, we expect at least half the term to be interest only.
- Life companies are active in the healthcare space and looking to close deals in 2018 and start building their book for 2019. Life companies offer long term fixed rate deals that open to prepayment at par for the last three years of the loan term and depending on leverage may include some interest only component.

## Money Rates (as of 11/16/2018)

Sources: Bloomberg, Wall Street Journal, BankRate.com

	11/16/2018	MONTH AGO	YEAR AGO
Tax Exempt AAA Rate (10-year GBA Rate)	\$2.69	\$2.77	\$2.03
Prime	5.25%	5.25%	4.25%
5-Yr US Treasury	2.87%	3.02%	2.07%
10-Yr US Treasury	3.07%	3.16%	2.36%
1-M LIBOR	2.30%	2.29%	1.27%
Dow Jones Average	25,413	25,798	23,458
10-Yr. Swap Spread	3.13%	3.23%	2.34%

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