

# NATIONAL HEALTHCARE & LIFE SCIENCES REAL ESTATE INVESTOR UPDATE

## SUMMER 2020

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### MEDICAL OFFICE TRANSACTION VOLUME GAINING MOMENTUM

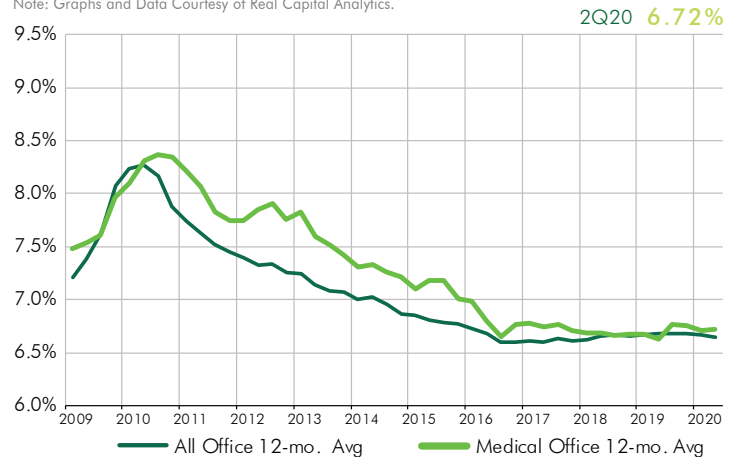
According to Real Capital Analytics (RCA), total MOB sales volume for Q2 2020 was \$1.95 billion, a 39% decrease from Q2 2019 while H1 2020 sales volume totaled \$4.85 billion, only a 13% decrease from H1 2019. After transaction volume slumped during the onset of COVID-19, sales have started to gain momentum as month-over-month volume has increased since April, growing by 13% in May and 49% in June. On the Mergers and Acquisition side, Q2 2020 was close to a six-year high based on the total transaction revenue of just over \$12 billion, according to Kaufman, Hall, and Associates. The second quarter was highlighted by the announcement of two transformational transactions, Advocate Aurora Health's proposed merger with Beaumont Health and Steward Health Care's acquisition by a group of affiliated physicians. As total volume peaked for the quarter, the number of transactions hit a valley, 14 in Q2, suggesting a consolidation of the healthcare industry as deals become larger in value but fewer in numbers. Overall, the second quarter exhibited encouraging MOB transaction volume growth and M&A volume remained strong.

### PATIENT VISITS CLOSING THE GAP ON THE PRE-PANDEMIC BASELINE

After experiencing a significant drop off in healthcare demand at the onset of COVID-19's hold on the U.S., the inelastic demand of healthcare has brought about a truly v-shaped recovery that many sectors of the economy have targeted, but very few have achieved. Ambulatory care practices initially saw a 60% drop in patient visits in mid-March but data from the week of June 14th shows that patient visits were only down 11% compared to the baseline. Not all specialties and age segments were affected equally, as of the week of June 14th, pediatric practices remained down 34% and pulmonology practices experienced a 29% decline. As quite the juxtaposition, visits by patients 75 and older were only down 3% and patient visits by children ages 3-5 were still down 43% (according to a Harvard Analysis of over 1,600 provider organizations representing 50,000 providers). While the drop in patient visits was dramatic and the overall rebound impressive, rent collection for healthcare real estate owners stayed remarkably steady. As of Q2 2020, the public healthcare REITs reported 96%-99% contractual rent collections. A figure which includes 2%-6% of rents that were deferred under deferral agreements, based on Q2 2020 Investor Presentations. A significant rebound in patient visits, higher than expected rent collections, limited rent deferrals and strong M&A activity are all evidence to bolster real estate investor and lender confidence in the resilient nature of the healthcare real estate market.

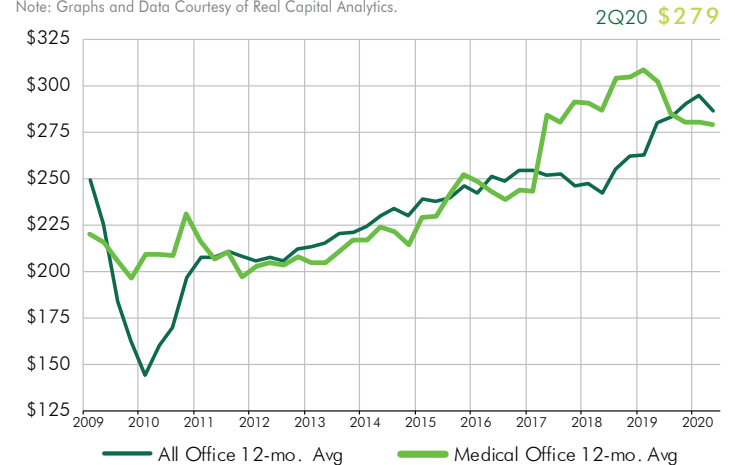
### CAP RATES [NON-WEIGHTED]

Note: Graphs and Data Courtesy of Real Capital Analytics.



### PRICE PER SQUARE FOOT [\$ / SF]

Note: Graphs and Data Courtesy of Real Capital Analytics.



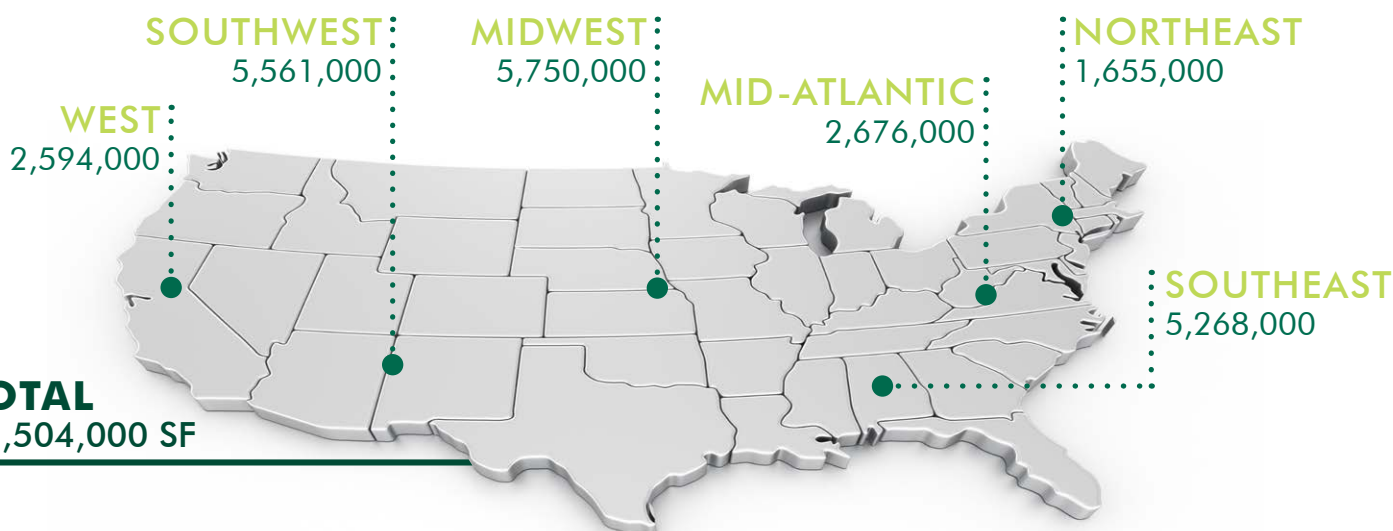
### 2Q20 MEDICAL OFFICE SALES VOLUME

Note: Data Courtesy of Real Capital Analytics.

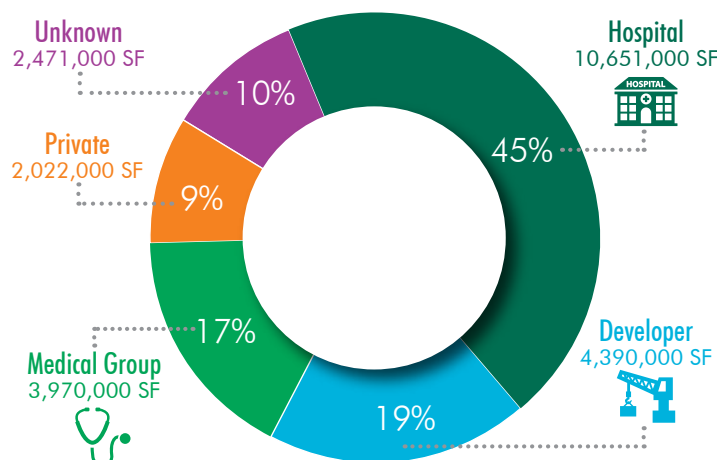
REGION	#	VOLUME	AVG. \$/PSF
West	34	\$527,687,307	\$397
Southwest	17	\$213,020,715	\$289
Southeast	32	\$471,082,824	\$393
Midwest	18	\$296,910,900	\$278
Northeast	12	\$291,898,676	\$292
Mid-Atlantic	12	\$144,643,000	\$178
<b>TOTAL</b>	<b>125</b>	<b>\$1,945,243,421</b>	<b>\$317</b>

# MEDICAL OFFICE BUILDING CONSTRUCTION DATA 2Q 2020

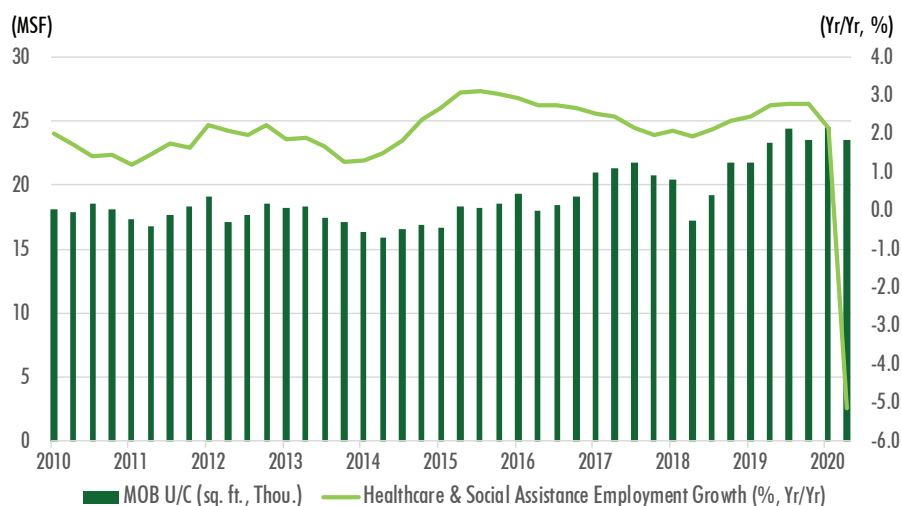
## MEDICAL OFFICE BUILDINGS UNDER CONSTRUCTION BY REGION (SF)



## 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 June 2020

# SELECT 2Q 2020 HEALTHCARE REAL ESTATE TRANSACTIONS BY REGION



	DATE	PROPERTY NAME	CITY, STATE	YEAR BUILT	PRICE	SQ.FT.	\$/SQ.FT.
WEST	Jun-20	Frost Street MOBs	San Diego, CA	1994	\$106,000,000	176,000	\$602
	Jun-20	Welltower US MOB Portfolio Tranche 2 (3 of 13)	AK & OR	2013	\$58,400,000	152,645	\$383
	Jun-20	Clinical Labs of Hawaii <b>SOLD BY CBRE</b>	Aiea, HI	1975	\$45,000,000	76,000	\$592
	Jun-20	The Everett Clinic Founders Building <b>SOLD BY CBRE</b>	Everett, WA	1962	\$20,800,000	218,024	\$300
SOUTHWEST	May-20	Welltower US MOB Portfolio Tranche 1 (2 of 10)	AZ & TX	1995-2005	\$39,895,000	132,614	\$301
	Jun-20	Union Medical Campus	Colorado Springs, CO	1995-1998	\$33,625,000	149,428	\$225
	May-20	US Renal Care Portfolio	Dallas, TX	1978-2017	\$26,922,715	99,072	\$272
	Jun-20	Welltower US MOB Portfolio Tranche 2 (1 of 13)	Oro Valley, AZ	2004	\$20,690,000	67,773	\$305
SOUTHEAST	Jun-20	Welltower US MOB Portfolio Tranche 2 (4 of 13)	AL, FL, AR & KY	2005 & 2010	\$98,952,000	216,296	\$457
	May-20	Welltower US MOB Portfolio Tranche 1 (2 of 10)	AL & NC	1996-2002	\$51,510,000	104,926	\$491
	Apr-20	Department of Veterans Affairs Outpatient Clinic	Mobile, AL	2018	\$39,500,000	79,212	\$499
	Jun-20	Jervey Eye Group Portfolio	Greenville, SC	2000-2018	\$30,500,000	110,000	\$277
MIDWEST	May-20	Welltower US MOB Portfolio Tranche 1 (5 of 10)	IN & IL	2009-2017	\$91,030,000	225,604	\$403
	Apr-20	HSA IL & WI Office Portfolio 2020	IL & WI	1955-2014	\$36,800,000	107,000	\$344
	Apr-20	Premier Health Dayton Portfolio	Dayton, OH	2019	\$35,000,000	91,000	\$385
	Jun-20	Welltower US MOB Portfolio Tranche 2 (3 of 13)	IA & IL	2013-2014	\$31,168,000	95,152	\$328
NORTHEAST	Jun-20	Welltower US MOB Portfolio Tranche 2 (2 of 13)	CT & NJ	2007-2016	\$108,800,000	157,034	\$693
	Jun-20	Manhasset MOB	Manhasset, NY	1990	\$18,150,000	41,500	\$437
	May-20	Doshi Diagnostic Imaging Services	Brooklyn, NY	1931	\$10,500,000	15,325	\$685
	May-20	19 Forest Street	Marlborough, MA	2017	\$8,900,000	14,264	\$624
MID-ATLANTIC	Apr-20	Coleville Medical Campus	Silver Spring, MD	1971-1987	\$33,000,000	197,794	\$167
	Apr-20	Dumfries Health Center	Dumfries, VA	2009	\$19,250,000	99,883	\$193
	Jun-20	Rockland Capital PA Office Portfolio 2020	Philadelphia, PA	1975	\$15,358,000	78,194	\$196
	May-20	Pocono ASC & MOB	Stroudsburg, PA	1950-2013	\$15,180,000	37,976	\$400

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



## LIFE SCIENCE VENTURE CAPITAL INVESTMENT REMAINS STRONG SUPPORTING REAL ESTATE GROWTH

Earlier this year *National Real Estate Investor* stated that Life Sciences “might be the least disrupted commercial real estate sector” partly due to the amount of mission-critical research that is happening alongside the COVID-19 pandemic. Funding from the National Institute of Health (NIH) is expected to break another annual record with \$833 million already spent through May 2020 and expectations for a total of \$2.2 billion by year’s end. Evidence of the resiliency of the life sciences sector can be found in the data provided by publicly traded life sciences REITs such as Alexandria Real Estate Equities (NYSE: ARE) who reported 99.5% accounts receivable in the second quarter and 99.3% in July. In addition, the REIT saw a 15% increase in cash rents and a 37.2% increase in GAAP rents in the second quarter.

While COVID-19 has made clinical trials and research more difficult due to competition for healthcare resources and trouble recruiting for studies, the investment appetite for the biotechnology companies continues to increase. In Q2 2020, investment funds experienced a significant influx of capital for biotech investment. Blackstone closed a \$4.6 billion fund (committing almost \$1B in Q2), Flagship Pioneering raised \$1.1 B, ARCH Venture Partners raised \$1.46B, LSP capped out a \$600M fund and venBio closed a \$349M fund. The abundance of capital for biotechnology companies coupled with the continued expansion outside the traditional cluster markets is accelerating the growth of this real estate sector.

## SELECT 2Q 2020 LIFE SCIENCE TRANSACTIONS BY TYPE



	DATE	PROPERTY NAME	CITY, STATE	YEAR BUILT	PRICE	SQ.FT.	\$/SQ.FT.
LAB SPACE	Apr-20	The Post	Waltham, MA	1968/ Ren. 2019	\$320,000,000	430,000	\$744
	Apr-20	27 Drydock Avenue	Boston, MA	1918 / Ren. 2013	\$270,000,000	289,613	\$932
	Apr-20	BioScienc/Singerman CA Office Portfolio 2020	San Diego, CA	1984-1990 / Ren. 2018	\$158,500,000	224,795	\$705
	Apr-20	Shoreline Center	Redwood City, CA	1985 / Ren. 2017	\$81,000,000	81,569	\$993
R&D MANUFACTURING	Jun-20	Raytheon Portfolio	San Jose, CA	1999-2002 / Ren. 2019	\$95,200,000	142,710	\$667
	Jun-20	South San Jose R&D Portfolio (6)	San Jose, CA	1980-2001	\$53,500,000	257,453	\$208
	Jun-20	Create - MilliporeSigma	Carlsbad, CA	2019	\$40,450,000	146,108	\$277
	May-20	Sorrento Tech Campus	San Diego, CA	1985/ Ren. 2016	\$39,000,000	93,460	\$417

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



## 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.

## INVESTMENT PROPERTIES

**CHRISTOPHER BODNAR**  
VICE CHAIRMAN  
+1 303 628 1711  
CHRIS.BODNAR@CBRE.COM

**LEE ASHER**  
VICE CHAIRMAN  
+1 404 504 5965  
LEE.ASHER@CBRE.COM

**RYAN LINDSLEY**  
SENIOR DIRECTOR  
+1 303 628 1745  
RYAN.LINDSLEY@CBRE.COM

**JORDAN SELBIGER**  
DIRECTOR  
+1 404 923 1259  
JORDAN.SELBIGER@CBRE.COM

## DEBT & STRUCTURED FINANCE

**SABRINA SOLOMIANY**  
FIRST VICE PRESIDENT  
+1 404 536 5054  
SABRINA.SOLOMIANY@CBRE.COM

**COLE REETHOF**  
ASSOCIATE DIRECTOR  
+1 404 504 7864  
COLE.REETHOF@CBRE.COM

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## DEBT MARKET UPDATE FOR HEALTHCARE AND LIFE SCIENCES

The debt markets have finally calmed down, reaching homeostasis, albeit a completely different one than we experienced pre-COVID-19. Debt markets are thin for product that has suffered the most through COVID-19 (anything other than Industrial, Multi-family and low acuity Healthcare) and even thinner for secondary markets and non-stabilized assets. The Federal Reserve printers are still running at full capacity, purchasing bonds on the secondary market, in an effort to increase the money supply and keep the economy from stalling. The 10-year Treasury is currently floating around 0.60%, +/- 5 basis points, which is a 115 basis-point drop from last year, according to the *Wall Street Journal*.

The "new normal" for financing healthcare product looks like 50-65% loan-to-value 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 opaque credit committees. 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, 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 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 3.25 - 3.75% with LTVs defined by debt service coverage stress tests.
- Bank spreads have widened considerably from earlier in the year 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. Depending on the project many lenders require full or partial recourse beyond completion, typically tapering off after sustained performance hurdles are hit.
- CMBS lenders have been on the sidelines for the last few months, though a few, such as Goldman Sachs and Morgan Stanley, have begun to slowly reenter the market. Due to rigid deal terms and current issues with forbearance, this is an unlikely fit for most deals.
- Most Debt Funds are currently out of the market while the few still lending are offering sub-50% LTVs and higher pricing.

## MONEY RATES (AS OF 8/14/2020)

Sources: Bloomberg, Wall Street Journal, BankRate.com

	08/14/2020	MONTH AGO	YEAR AGO
Tax Exempt AAA Rate (10-year GBA Rate)	0.62%	0.80%	1.31%
Prime	3.25%	3.25%	5.25%
5-Yr US Treasury	0.32%	0.30%	1.51%
10-Yr US Treasury	0.71%	0.64%	1.59%
1-M LIBOR	0.16%	0.18%	2.20%
Dow Jones Average	27,897	26,643	25,479
10-Yr. Swap Spread	0.68%	0.59%	1.48%

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