

Q2 2023

# National Healthcare & Life Sciences Real Estate Investor Update



## Medical Office Executive Summary

▲ \$1.8 Billion  
Q2 MOB Sales Volume

▶ 7.1%  
Q2 Average Cap Rate

▼ \$283  
Q2 Average PPSF

Note: Arrows indicate change from previous quarter

- Healthcare real estate transaction volume in the second quarter totaled \$1.8 billion, on par with the previous quarter. The year-to-date medical office sales volume of \$3.5 billion is down 62% from the \$9.2 billion recorded in the first half of 2022. However, the number of properties exchanged year-to-date is only down 15.6% from the first half of 2022, indicating a slowdown in portfolio transactions with the average deal size year-to-date standing at \$9.6 million.
- Cap rates for medical office averaged 7.1% in Q2 2023, consistent with the previous quarter. On a trailing 12-month basis, cap rates averaged 6.6% at the end of second quarter, representing a 48 bps increase year-over-year. However, most core profile medical assets are trading between 5.50% and 6.00%.
- Healthcare merger and acquisition announcements increased in the second quarter totaled 20, compared to 15 announced M&As in Q1. M&A activity in the healthcare space caught up to pre-pandemic volumes in terms of the total number of transactions and total transaction revenue.

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



**Figure 1: Q2 2023 Medical Office Sales Volume**

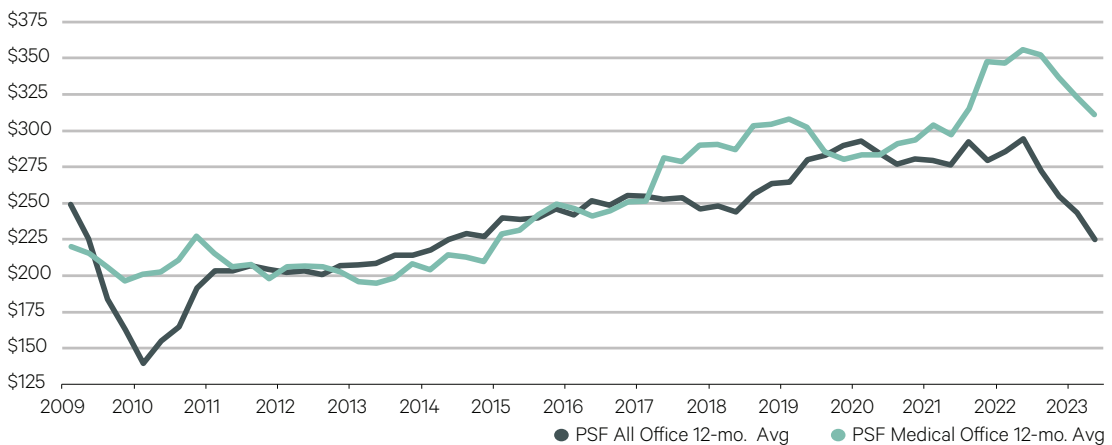
Region	#	Volume (\$)	Volume SF	Average \$/PSF
West	31	\$240,045,899	685,468	\$350
Southwest	27	\$473,861,164	1,453,693	\$326
Southeast	73	\$552,052,323	1,910,616	\$289
Midwest	23	\$117,418,264	368,455	\$319
Northeast	20	\$320,175,000	1,359,504	\$236
Mid-Atlantic	18	\$99,553,451	602,489	\$165
<b>TOTAL</b>	<b>192</b>	<b>\$1,803,106,101</b>	<b>6,380,225</b>	<b>\$283</b>

**Figure 2: Cap Rates [Non-weighted, 12-mo. moving average]**



**6.60%**  
Average Cap Rate  
(Q2 2023 12-mo. Avg.)

**Figure 3: Price Per Square Foot [\$/SF, 12-mo. moving average]**



**\$311**  
Average \$/SF  
(Q2 2023 12-mo. Avg.)

Note: Graphs and Data Courtesy of Real Capital Analytics.

## Select Q2 2023 Healthcare Real Estate Transactions by Region

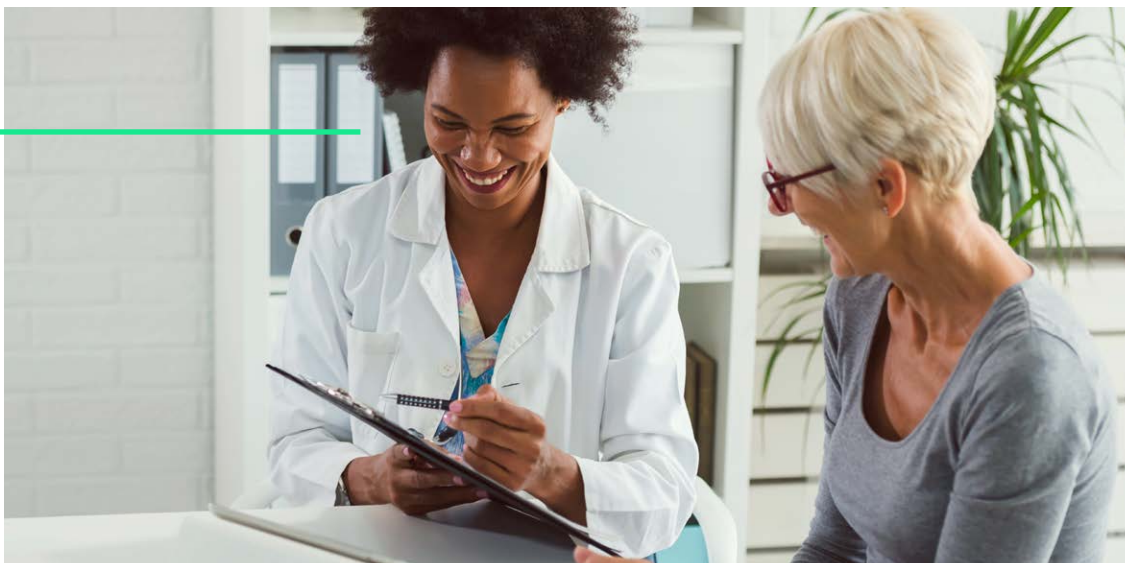
	Date	Property Name	City / State	Year Built	Price	SF	\$/SF
WEST	May-23	The Everett Clinic - Arlington	Seattle, WA	2022	\$32,454,409	68,424	\$474
	May-23	Atlantic Medical Center (SOLD BY CBRE)	Long Beach, CA	1981	\$29,000,000	67,772	\$428
	Apr-23	Wasatch Renal Center	South Salt Lake, UT	2018	\$28,915,000	51,591	\$560
	May-23	Fresno-Herndon Medical Plaza (Phase 1)	Fresno, CA	1993	\$13,880,000	38,621	\$359
SOUTHWEST	Jun-23	Austin VA Clinic (SOLD BY CBRE)	Austin, TX	2013	\$142,000,000	272,636	\$521
	Jun-23	OCOM Portfolio (4 of 4)	Oklahoma City, OK	2001 - 2007	\$66,000,000	132,881	\$497
	Jun-23	Rocky Vista Medical Education (SOLD BY CBRE)	Parker, CO	2008	\$48,350,000	145,080	\$333
	Apr-23	Dry Creek Medical Campus (SOLD BY CBRE)	Englewood, CO	2000 - 2019	\$37,500,000	68,195	\$550
SOUTHEAST	Jun-23	Piedmont Fayette Hospital Campus (2 of 2) (SOLD BY CBRE)	Fayetteville, GA	2006	\$66,700,000	192,363	\$347
	May-23	Colonnade Parkway MOB	Birmingham, AL	2012	\$28,000,000	72,555	\$386
	May-23	Duke Health (SOLD BY CBRE)	Durham, NC	1986	\$20,706,667	56,604	\$366
	Jun-23	AHR Atlanta Medical Office Portfolio (3 of 3) (SOLD BY CBRE)	Atlanta, GA	1945-2009	\$14,610,000	74,650	\$196

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

The Medical Office Building (MOB) asset class has experienced consistent growth in occupancy, retention rates, and market rent despite abnormal market conditions.

	Date	Property Name	City / State	Year Built	Price	SF	\$/SF
MIDWEST	Jun-23	Turner Impact Illinois Health Portfolio 2023 (4 of 4)	Chicago, IL	1911 - 1965	\$24,157,000	44,970	\$537
	Apr-23	Optima Dermatology & Medical Associates	Akron, OH	2022	\$10,650,000	15,500	\$687
	Apr-23	Northdale Plaza	Minneapolis, MN	2007	\$9,900,000	35,340	\$280
	Jun-23	Unity Point - Cedar Falls MOB	Cedar Falls, IA	2015	\$5,635,000	14,434	\$390
NORTHEAST	Jun-23	One Burlington Business Center	Burlington, MA	1984	\$67,270,000	176,465	\$381
	Jun-23	40 Allied Drive	Dedham, MA	1964	\$41,900,000	66,000	\$635
	Jun-23	Silverman Group NJ Office Portfolio 2023 (2 of 2)	Varies	1977 - 2015	\$40,450,000	111,075	\$364
	Apr-23	Chappaqua Crossing <b>(SOLD BY CBRE)</b>	Chappaqua, NY	1939	\$40,000,000	489,972	\$82
MID-ATLANTIC	May-23	Carilion Pediatric Services Center	Roanoke, VA	1973	\$21,600,000	209,000	\$103
	May-23	Centra Medical Group	Danville, VA	2016	\$10,850,000	48,000	\$226
	May-23	FirstCall Medical Center	Laurel, MD	2015	\$10,400,000	8,200	\$1,268
	Jun-23	9135 Piscataway Road	Clinton, MD	1982	\$6,450,000	40,500	\$159

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





## Life Sciences Update

- The average lab/R&D vacancy rate for the top 13 markets tracked by CBRE rose by more than 2% quarter-over-quarter and more than 4% year-over-year to 9.0%. The Q2 vacancy rate exceeded the historical average since 2016. The sharp rise in vacancy was partly due to 3.4 million sq. ft. of new construction deliveries in Q2 that were 45% preleased.
- Life sciences venture capital increased slightly in Q2 after a slow start to the year. After peaking in 2021, rolling-four-quarter venture capital totals have declined, albeit at an increasingly lower rate as investor sentiment improves.
- Nearly 41 million sq. ft. of new life sciences space and conversions were under construction in Q2, with 25% of it preleased. Approximately 12 million sq. ft. is scheduled for delivery this year.

Source: CBRE Research

# Select Q2 2023 Life Science Transactions



## Lab Space

DATE	PROPERTY NAME	CITY, STATE	YEAR BUILT	PRICE	SQ. FT.	\$/SQ.FT.
Jun-23	Alexandria MA Office Portfolio 2023 (5 of 5)	Waltham, MA	1960 - 2001	\$365,000,000	443,356	\$823
May-23	11119 N Torrey Pines Rd	La Jolla, CA	1990	\$86,000,000	72,506	\$1,186
Apr-23	15 Necco Street	Boston, MA	2023	\$66,108,000	345,995	\$1,186



## R&D Manufacturing

Apr-23	149 Hayes Memorial Dr	Carlsbad, CA	2022	\$91,000,000	140,000	\$650
Jun-23	Canon Medical HQ	Tustin, CA	1980	\$32,040,000	117,805	\$272



## Life Science Conversion

Apr-23	959 & 999 Skyway Rd	San Carlos, CA	2000	\$102,000,000	244,010	\$418
May-23	5825 Oberlin Dr	San Diego, CA	1985	\$36,000,000	60,518	\$595
Apr-23	5670 Oberlin Dr	San Diego, CA	1984	\$11,250,000	20,000	\$563

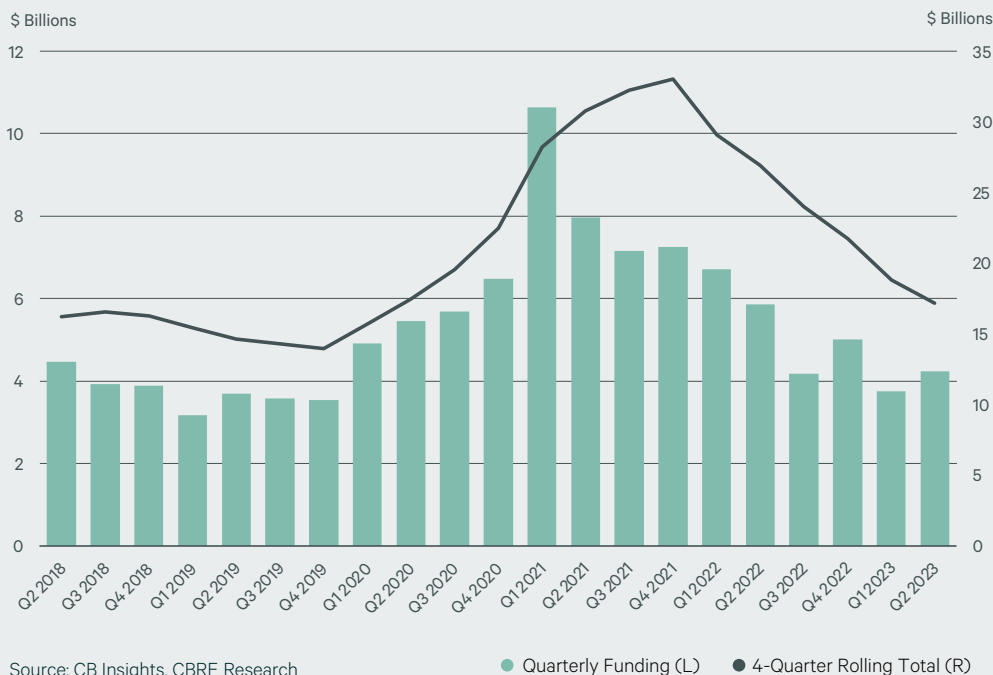


## Campus

Apr-23	120 Via Merida	Westlake Village, CA	1998	\$17,750,000	98,626	\$180
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Sales data provided by Real Capital Analytics, CoStar, RealQuest, SEC Filings, Press Articles, and CBRE Research.

Figure 4: U.S. Life Sciences Venture Capital Funding, Quarterly & Rolling Four-Quarter Average

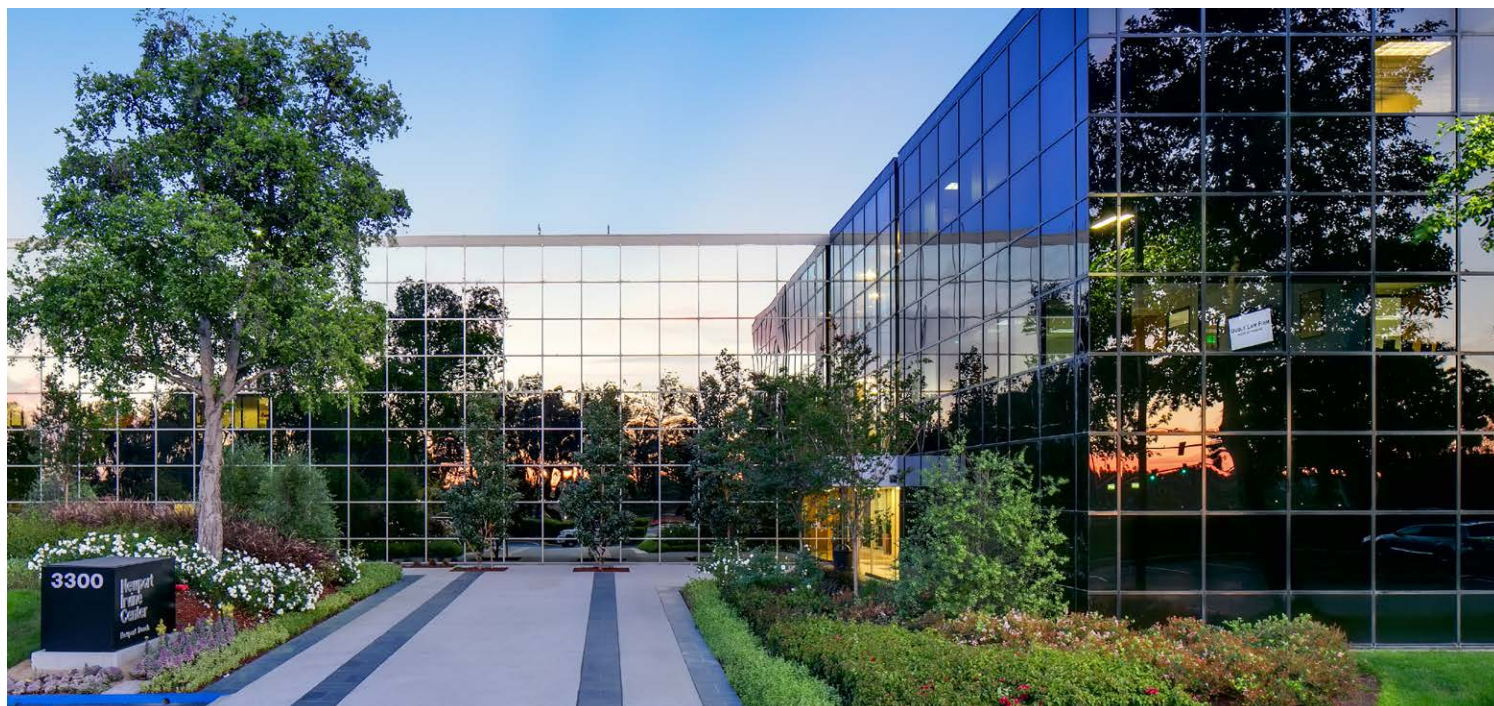


Source: CB Insights, CBRE Research

● Quarterly Funding (L) ● 4-Quarter Rolling Total (R)

## Life sciences venture capital funding

- Life sciences venture capital funding increased slightly quarter-over-quarter in Q2 to \$4.2 billion, bringing the year-to-date total to \$8.0 billion.
- Rolling-four-quarter venture capital funding has been declining every quarter since peaking at \$33 billion in Q4 2021 and totaled \$17 billion in Q2 2023. However, Q2 2023 funding was on par with late 2019 and early 2020 quarterly totals before the pandemic-era surge



# Debt Market Update

- The Federal Reserve’s 25 bps short-term rate hike on July 27th brought the federal funds rate to a target range of 5.25% to 5.50%. With an eye on the labor market, the consensus is the Fed will pause this month with a smaller predicted potential of an increase in Nov (economist survey is ~35% today vs. 60% a few weeks ago). In general, spreads have widened by 10-15 bps through mid-year.
- The Treasury yield curve became more steeply inverted in Q2 as investors anticipated the additional rate increase by the Federal Reserve. The two-year Treasury yield exceeds the 10-year yield by approximately 70 bps as of September 13th, up from 56 bps on March 31st. The gap between Treasuries and Swaps is around 30 bps, depending on the duration.
- Banks continue to prioritize cash-flowing, stabilized assets at moderate leverage with spreads from the upper 100’s to mid-200’s bps, depending on the size and durability of cash flow. Debt funds are targeting value-add transactions with sensible business plans and timelines at spreads from 400-500+ with incrementally more leverage (70-75% LTC). Life Cos are competitive at lower leverage (~50%), long WALT deals, and remain very efficiently priced in the mid-100s bps spread over corresponding treasuries.
- Approximately 43% of bank loans were refinanced, 25% were for construction projects and the remainder were for acquisitions. The percentage of partial- to full-term interest-only loans reached a new record high of 82.1% in Q2.

Source: CBRE Research and Federal Reserve Bank

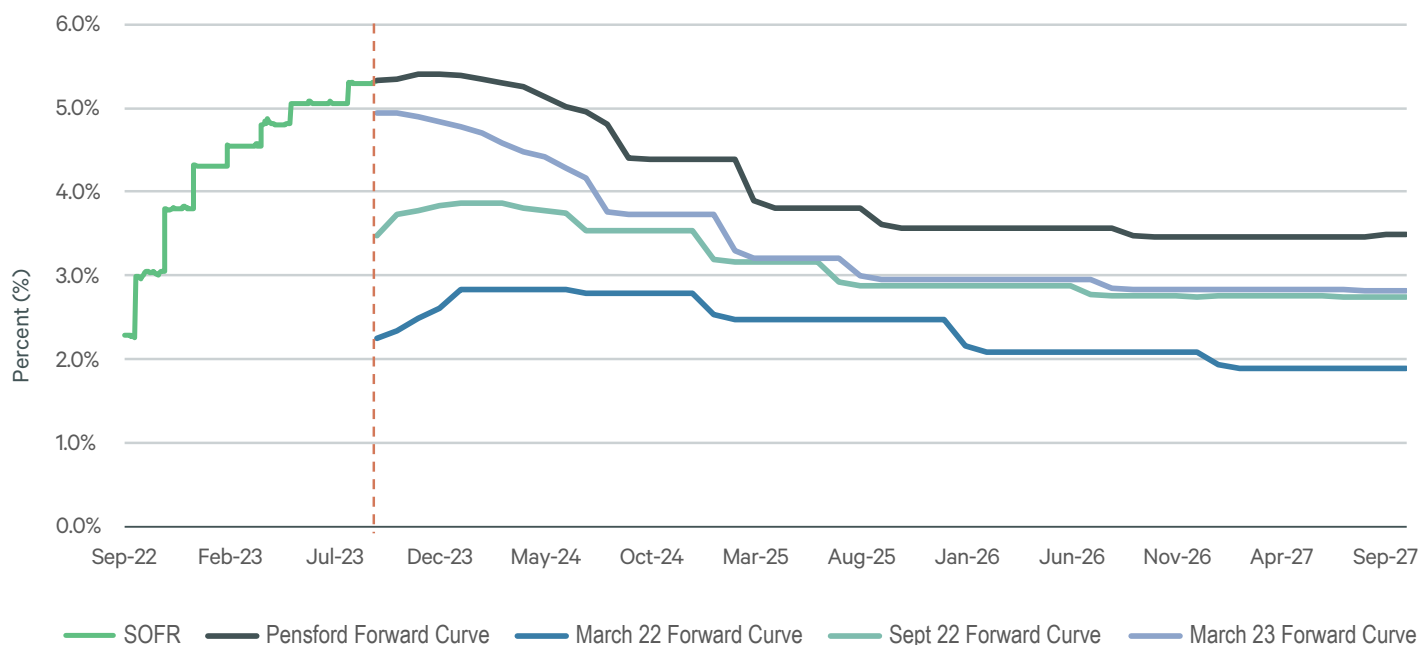
**Figure 5: Loan Volume**

	Loan Volume Q2 2023	Loan Volume Q1 2023	% Change
Banks	43.4%	41.0%	2.4%
Life Cos	26.8%	23.2%	3.6%
Alt Lenders	26.0%	20.1%	5.9%
CMBS	3.8%	15.7%	-11.9%

Source: CBRE Research

\* Does not include agency volume

Figure 6: SOFR Curve Starting Rate




Source: Federal Reserve Bank of New York & Pensford

Figure 7: Money Rates

	9/13/23	8/13/23	9/13/22
Prime	8.50%	8.50%	5.50%
Tax Exempt AAA Rate (10 year GBA Rate)	2.92%	3.13%	3.03%
BBB Corp	6.08%	6.01%	5.35%
30-Day Term SOFR	5.30%	5.30%	2.28%
5-Year Term SOFR Swaps	4.20%	4.13%	3.37%
2-Year Treas.	5.00%	4.90%	3.75%
5-Year US Treas.	4.41%	4.31%	3.59%
10-Year US Treas.	4.27%	4.17%	3.42%
Dow Jones Avg	34,641	35,308	31,105
Difference between Treas. and Swaps*	30 bps	25 bps	25 bps

\*Compares 5Yr Term SOFR and 5Yr UST





The CBRE-BlackBirch Healthcare Capital Markets team fully integrates experts in investment sales, debt & structured finance and investment banking 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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# Contacts

Investment Sales  
Debt & Structured Finance  
Investment Banking

## CBRE

### U.S. Healthcare Capital Markets

**Chris Bodnar**

Vice Chairman & Managing Director  
+1 720 635 2653  
chris.bodnar@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

**Jesse Greshin**

Vice President  
+1 860 808 4810  
jesse.greshin@cbre.com

**Trent Jemmett**

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

**Cole Reethof**

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

**Josiah Gunter**

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

**Jaime Vantsa**

Investment Sales Manager  
+1 303 628 7455  
jaime.jones@cbre.com



**BlackBirch**  
*Capital*

### BlackBirch Capital – Investment Banking

**Dan McNulty**

CEO  
+1 646 634 8694  
dan.mcnulty@blackbirchcapital.io

**Marc Amico**

Managing Director  
+1 917 297 1087  
marc.amico@blackbirchcapital.io

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