

Q3 2022

National Healthcare & Life Sciences Real Estate Investor Update



Medical Office Executive Summary

▼ \$2.8 Billion
Q3 MOB Sales Volume
(excluding HTA/ HR merger)

▼ 5.95%
Q3 average cap rate

▲ 35.5 MSF
under construction

Note: Arrows indicate change from previous quarter

- Medical Office transaction volume declined slightly quarter over quarter in Q3 coming in at \$2.8 billion compared to \$2.9 billion in the prior quarter. While the data suggests relatively steady volume in Q3, this is expected to decline in the 4th quarter.
- Reported cap rates remained relatively stable averaging 5.95% in Q3 2022 and 6.09% on a trailing 12 month basis which suggests the majority of deals were priced in the second quarter before interest rates made major moves and largely consisted of core deals. It is expected that the data will begin to reflect upward movement in cap rates in Q4.
- Product under construction totaled 35.5 million square feet in Q3 2022, a 16% increase from a year ago with hospitals and health systems comprising over 18.6 million square feet (53%) of the development pipeline, compared to 13.6 million square feet (46%) a year ago.
- New loan origination continues to slow as many national lenders 'hit pause' until 2023, while regional lenders remain relatively active.
- Healthcare M&A activity remains active with 10 announced transactions in Q3 2022 compared to 7 transactions in Q3 2021, according to a Kauffman and Hall report.

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



Figure 1: 3Q 2022 Medical Office Sales Volume

Region	Transactions	Volume	Volume PSF	Avg. \$/PSF
West	44	\$646,332,059	1,451,001	\$445
Southwest	37	\$323,997,300	995,129	\$326
Southeast	62	\$767,268,281	2,031,537	\$378
Midwest	44	\$410,928,209	1,612,231	\$255
Northeast	23	\$426,312,856	683,403	\$624
Mid-Atlantic	18	\$256,315,047	705,945	\$363
TOTAL	228	\$2,831,153,753	7,479,246	\$379
HTA/HR Merger	242	\$6,665,549,580	16,812,538	\$396
TOTAL (incl. merger)	617	\$9,496,703,333	24,313,067	\$391

Figure 2: Cap Rates [Non-Weighted]

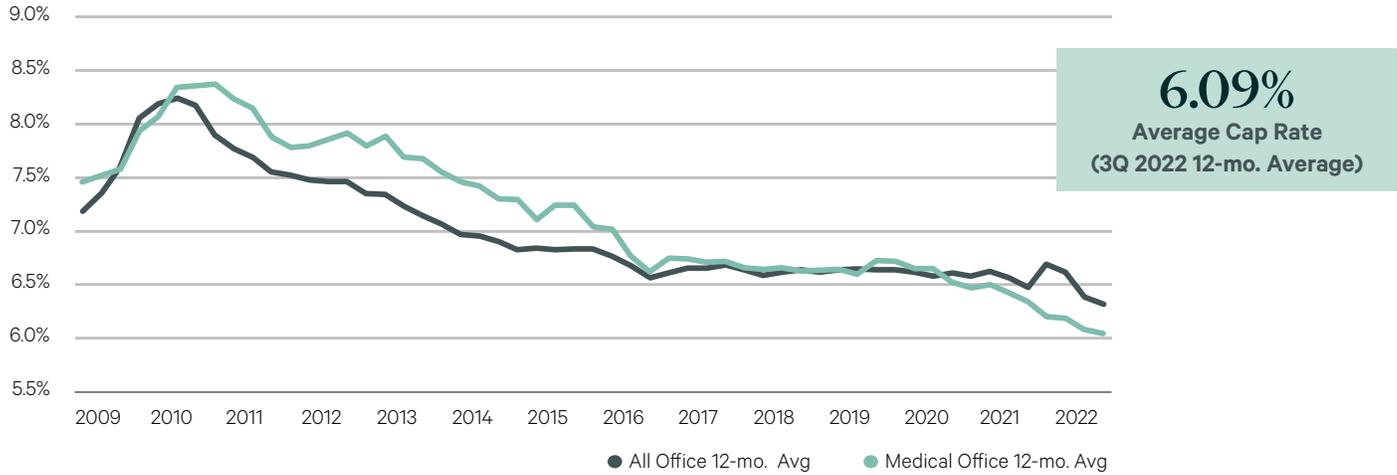
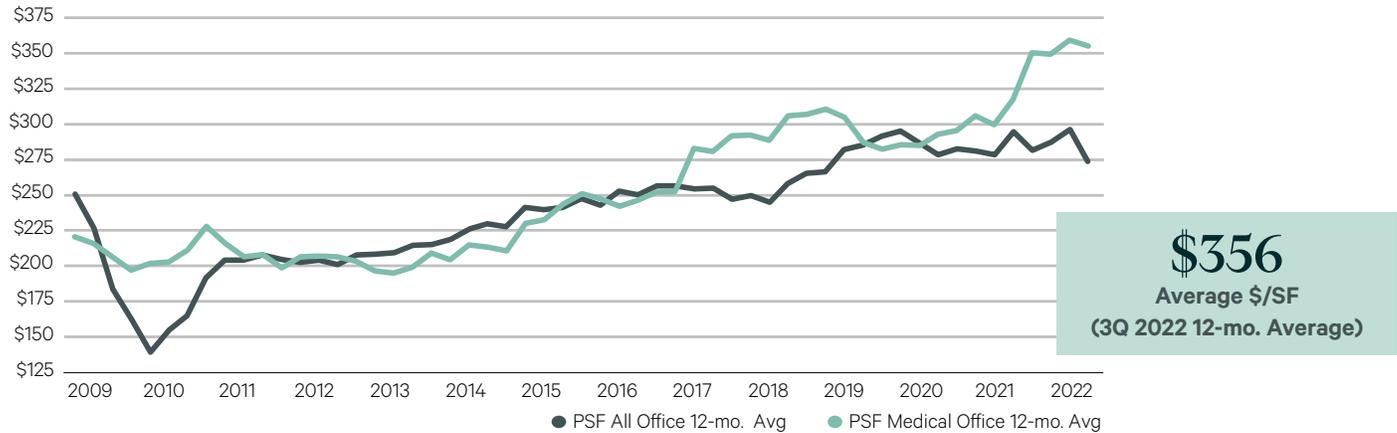


Figure 3: Price Per Square Foot (\$/SF)



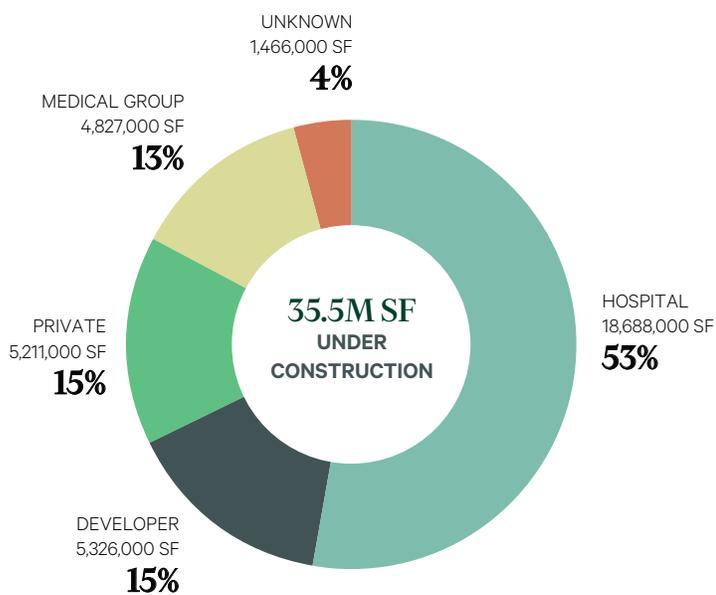
Note: Graphs and Data Courtesy of Real Capital Analytics.

Medical Office Building Construction Data

3Q 2022

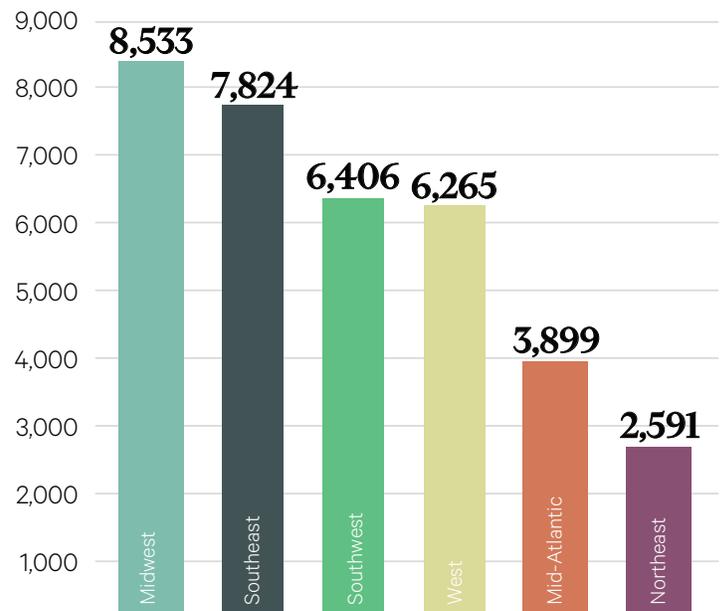


Figure 4: MOB Construction Underway By Owner Type



Construction Data Current Through September 2022

Figure 5: Medical Office Building Construction by Region (1,000s SF)



Construction Data Current Through September 2022



Figure 6: 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 2022

Select 3Q 2022 Healthcare Real Estate Transactions by Region

	Date	Property Name	Location	Year Built	Price	SF	\$/SF
WEST	Jul-22	Great Falls Clinic Campus	Great Falls, MT	2016	\$153,500,000	244,508	\$628
	Aug-22	CBRE IM/ HR Mission Med Portfolio JV (CBRE Buyer Rep)	Mission Viejo, CA	1974 - 1984	\$134,845,000	282,683	\$477
	Jul-22	Magnolia Professional Center	Clovis, CA	2020	\$24,800,000	62,000	\$400
	Jul-22	Othello Square	Seattle, WA	2021	\$19,727,542	43,538	\$453
SOUTHWEST	Jul-22	Nuveen HR Portfolio Acquisition (2 of 10)	McKinney, TX	201 - 2017	\$102,748,078	190,278	\$540
	Aug-22	Park Meadows Medical	Lone Tree, CO	2002	\$14,800,000	34,685	\$427
	Sep-22	Cornerstar Healthcare Plaza	Aurora, CO	2013	\$12,400,000	28,000	\$443
	Sep-22	Highlands Ranch Medical Plaza	Highlands Ranch, CO	1997	\$10,850,000	23,500	\$462
SOUTHEAST	Jul-22	Nuveen HR Portfolio Acquisition (7 of 10)	GA & FL	1985 - 2017	\$115,251,900	278,293	\$414
	Aug-22	Collection Center Medical Office Portfolio 2022 (7 of 11)	AR, FL, GA, MS, TN & AL	1976 - 2012	\$52,430,320	92,712	\$566
	Jul-22	Medical Plaza at Rex	Raleigh, NC	2004	\$43,650,000	105,000	\$416
	Sep-22	Belle Meade Medical Plaza (Sold by CBRE)	Nashville, TN	1982	\$21,833,300	62,717	\$335

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 recent years, fueled by increased demand for outpatient services and strong historical performance.

	Date	Property Name	Location	Year Built	Price	SF	\$/SF
MIDWEST	Jul-22	Beaumont Medical Center	West Bloomfield, MI	1988	\$64,500,000	153,094	\$421
	Aug-22	Saint Peters Surgery Center	Saint Peters, MO	2022	\$18,938,368	46,200	\$410
	Jul-22	Regency Medical Campus Portfolio (3 of 3)	Toledo, OH	1986 - 1987	\$17,163,000	110,510	\$155
	Jul-22	UnityPoint Health Portfolio (2 of 2)	Waterloo, IA	2008 - 2012	\$16,400,000	30,235	\$542
NORTHEAST	Aug-22	Memorial Sloan Kettering Cancer Center	New York, NY	2019	\$185,000,000	90,000	\$2,056
	Sep-22	Calko Medical Center	Brooklyn, NY	2013	\$81,500,000	85,567	\$952
	Aug-22	Patriot Health Care Center	Hackettstown, NJ	2006	\$20,300,000	65,658	\$309
	Sep-22	1135 Broad Street	Clifton, NJ	1984	\$16,000,000	62,535	\$256
MID-ATLANTIC	Jul-22	Nuveen HR Portfolio Acquisition (1 of 10)	Pittsburgh, PA	1998	\$82,000,000	191,612	\$428
	Aug-22	Shady Grove MOB Portfolio (2 of 2)	Rockville, MD	1999 - 2003	\$46,769,897	103,989	\$450
	Jul-22	Surgery Center of Lynchburg	Lynchburg, VA	2001	\$15,955,000	31,600	\$505
	Jul-22	Ruxton Professional Center	Towson, MD	1998	\$15,900,000	56,000	\$284

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



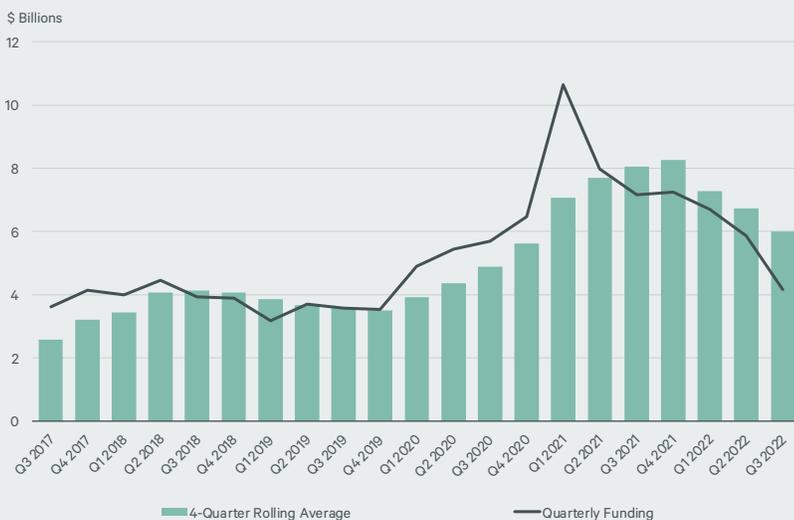


Life Sciences Update

- The overall lab vacancy rate increased by 30 basis points (bps) quarter-over-quarter to 5.3% in Q3, largely due to new supply totaling 2.1 million sq. ft. outpacing absorption of 363,000 sq. ft.
- Life sciences venture capital funding decreased by 29% quarter-over-quarter to \$4.1 billion in Q3, in line with pre-pandemic levels.
- Demand continues to remain strong particularly in mature markets such as Boston, San Francisco, and New York City. At the same time, new markets are quickly gaining traction and attracting new investments as some tenants find established markets too expensive or lacking in the space they require.
- Demand for early-stage life sciences users, typically requiring 10k-40k square feet, remains robust while late-stage life sciences demand, typically 80,000+ square feet, is starting to soften.
- 37.4 million square feet of lab space currently is under-construction, an increase of 4.9 million sq. ft. from the previous quarter, with 88% being built on a speculative basis and approximately 26.3% now pre-leased.

Source: CBRE Research

Figure 7: U.S. life sciences venture capital funding, quarterly & rolling four-quarter average



Source: CB Insights, CBRE Research, Q3 2022.

- **Venture capital funding for U.S. life sciences companies fell by 29% quarter over quarter and 42% year over year in Q3. Quarterly funding has returned to pre-pandemic levels.**
- **VC funding peaked in Q1 2021 at over \$10.5 billion. For the four-quarters ending in Q3 2022, average quarterly funding was above the pre-2021 level at \$6.0 billion, with with fundraising weakening in 2022.**

Select 3Q 2022 Life Science Transactions



Lab Space

DATE	Sep-22	Sep-22	Jul-22	Aug-22
PROPERTY NAME	125 Broadway	Alexandria Peninsula Lab Collection Sale 2022 (3 of 3)	1450 Owens St	The Rowland Institute
CITY, STATE	Cambridge, MA	Various	San Francisco, CA	Cambridge, MA
YEAR BUILT	1990	1978 - 2003	Under Construction	1985
PRICE	\$592,000,000	\$388,000,000	\$209,910,000	\$170,000,000
SQ. FT.	271,000	281,417	191,000	104,500
\$/SQ.FT.	\$2,185	\$1,379	\$1,099	\$1,627



R&D Manufacturing

DATE	Sep-22	Sep-22	Aug-22	Sep-22
PROPERTY NAME	Vertex Pharmaceuticals	Blackstone Science Square	2 Edgewater Dr (Sold by CBRE)	6 Thomas
CITY, STATE	San Diego, CA	Cambridge, MA	Norwood, MA	Irvine, CA
YEAR BUILT	2017	1880	1987	1980
PRICE	\$214,200,000	\$151,000,000	\$24,500,000	\$11,000,000
SQ. FT.	170,523	78,672	98,157	29,442
\$/SQ.FT.	\$1,256	\$1,919	\$250	\$374



Life Science Conversion

DATE	Sep-22	Jul-22	Jul-22	Jul-22
PROPERTY NAME	Scripps Health CA Office Portfolio 2022 (3 of 3)	Boulder 38 Portfolio (6 of 6)	5 Burlington Woods	Research Square
CITY, STATE	San Diego, CA	Boulder, CO	Burlington, MA	Rockville, MD
YEAR BUILT	1982 - 1990	1978 - 1980	1982	1980
PRICE	\$106,380,000	\$85,250,000	\$32,750,000	\$25,500,000
SQ. FT.	226,144	177,216	103,570	85,000
\$/SQ.FT.	\$470	\$481	\$316	\$300



Campus

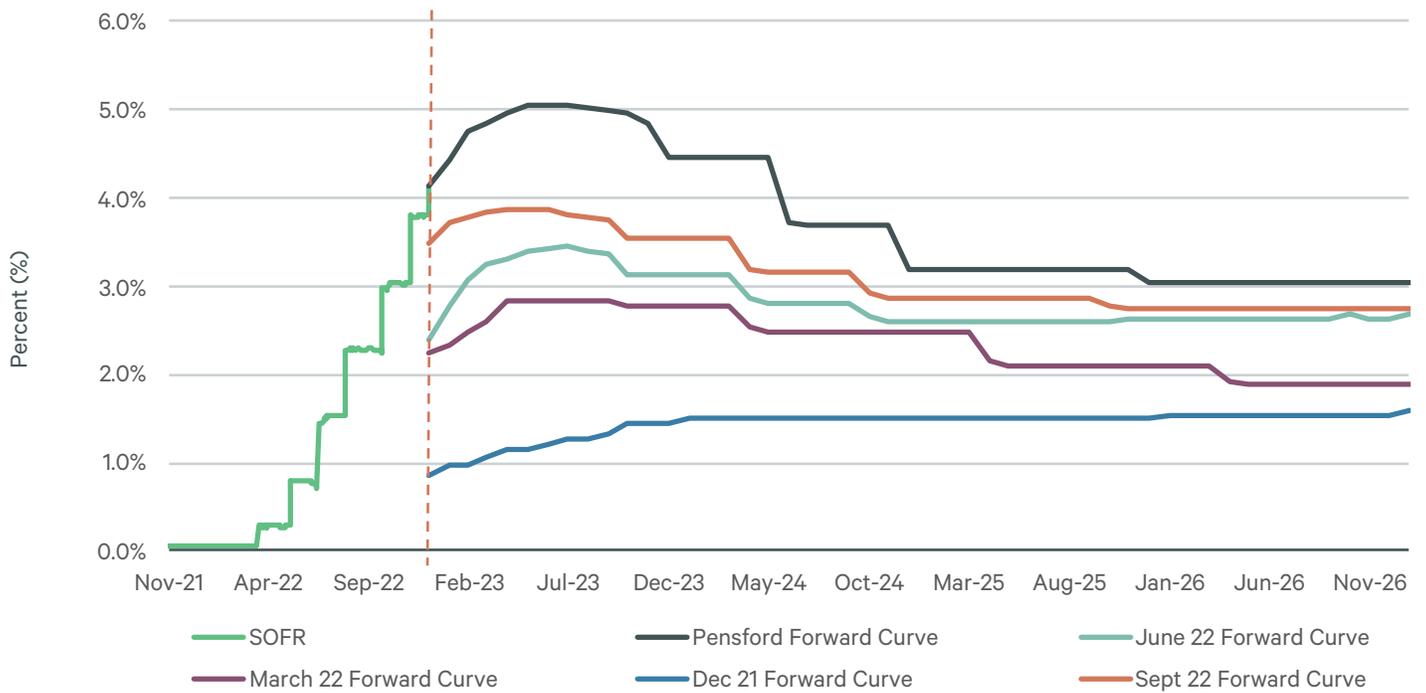
DATE	Sep-22	Sep-22	Sep-22
PROPERTY NAME	Park Point Campus (5 of 5)	Quidel Campus (4 of 4)	North Carolina Research Campus (Sold by CBRE)
CITY, STATE	Durham, NC	San Diego, CA	Kannapolis, NC
YEAR BUILT	2021 - 2022	2005	2012
PRICE	\$380,000,000	\$228,000,000	\$35,000,000
SQ. FT.	662,607	316,531	59,505
\$/SQ.FT.	\$573	\$720	\$588



Debt Market Update for Medical Properties

- After its latest meeting at the beginning of November, the Federal Reserve raised the federal funds rate by 75 basis points (bps), the sixth increase this year, taking it to a range of 3.75% to 4.00% and the highest we've seen since January of 2008. According to the U.S. Central Bank's own projections, the fed funds rate is expected to peak at 4.75% to 5.00% in 2023. These projections stem from inflationary numbers remaining approximately four times higher than the target preferred rate of 2.0%. Based on the comments accompanying the rate hike, the Fed still has work to do in order to curb inflation.
- The Federal Reserve's hawkish stance to reduce inflation continues to result in higher borrowing costs and, as a result, more conservative underwriting and lower loan closing volume in the third quarter. After an elongated period of low borrowing costs of capital, banks are once again focused on debt coverage ratio as an important metric when analyzing deals, generally targeting a minimum 1.25x amortizing or stressed cover. The result is lower detachment points for debt with reduced interest-only periods and a focus on stabilized assets.
- Banks accounted for 46% of loan closings in Q3, up from 38% in Q2 and double their share from a year ago. Banks are more diligent and cautious with their underwriting however, taking longer to produce quotes and general feedback. Banks will remain careful due to market conditions and regulatory pressures. Stabilized asset spreads remain in the low 200's over SOFR for full loans with a renewed focus on hedging for predictable loan covenant health through the loan term.
- CMBS issuance fell to \$13.3 billion in Q3 from \$20.8 billion in Q2 and \$29.2 billion in Q1. CMBS spreads widened making loan quotes less competitive.
- Life insurance companies remain diligent with their pursuit of medical office and life science assets, targeting best-in-class transactions with longer WALT and credit tenancy at moderate leverage points. Although credit spreads are marginally higher, the life insurance companies remain active with spreads in the upper 100's to low 200's over corresponding treasuries.
- The non-bank bridge lenders remain active; however, their internal cost-of-capital has commensurately increased with the debt capital markets resulting in increased credit spreads for the more aggressive business plans.

Figure 8: SOFR Curve Starting Rate



Source: Federal Reserve Bank of New York & Pensford

Figure 9: Money Rates

	12/5/2022	Month Ago	Year Ago
Tax Exempt AAA Rate (10 year GBA Rate)	2.61%	3.37%	1.05%
Prime	7.00%	6.25%	3.25%
5-Yr US Treas.	3.80%	4.33%	1.21%
10-Yr US Treas.	3.60%	4.17%	1.43%
30-Day Term SOFR	4.23%	3.81%	0.05%
Dow Jones Avg.	33,390	34,590	36,338
10-Yr. Swap Spread	3.55%	3.73%	1.59%



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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