2021

MEDICAL OFFICE BUILDING SECTOR YEAR IN REVIEW

NEWMARK
HEALTHCARE CAPITAL MARKETS

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HEALTHCARE CAPITAL MARKETS

MEDICAL OFFICE BUILDING SECTOR REPORT

A RECORD YEAR FOR MEDICAL OFFICE

TRANSACTION VOLUME AND PRICING

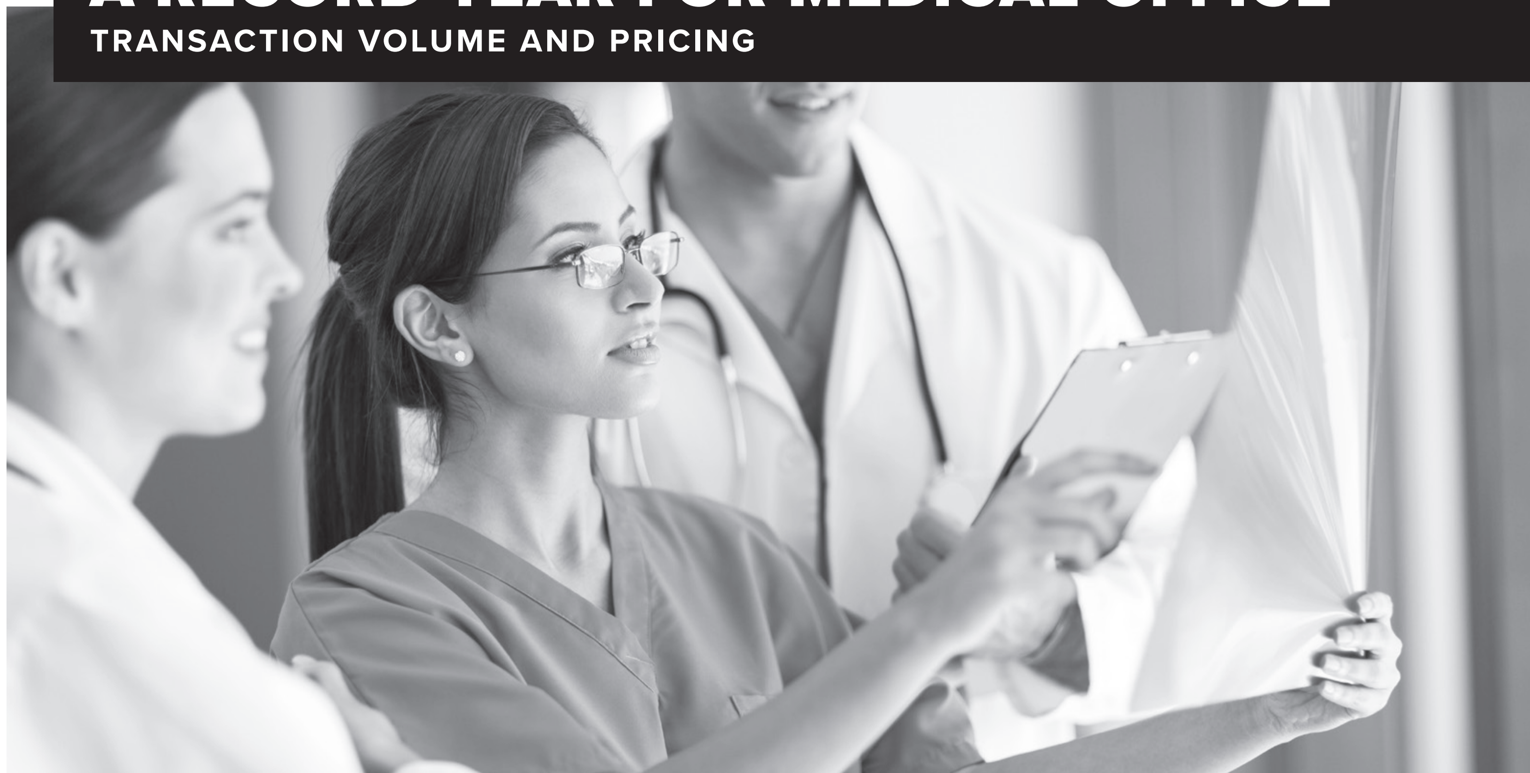
The medical office building (MOB) sector saw a record year in 2021 both in terms of historically-high transaction volume and pricing levels. According to Real Capital Analytics, medical office building and outpatient healthcare facility transaction volume exceeded $15.4 billion in 2021, exceeding previous record set in 2017 of $14.8 billion as the highest totals on record for the history of the asset class. Some sources, which are still aggregating 2021medical office building transaction data as of January 2022, believe that 2021 MOB transactions volume could top $16 billion.

The aggregate transaction volume reflects year-over-year growth of 14.4%. The sharp increase in year-over-year volume represents the largest rise in annual investment levels in any year over the past five years.

Similar to many US alternative CRE asset classes, the MOB sector has benefited from increased investor appetite throughout the COVID-19 pandemic. In comparing MOBs to the US commercial office market, MOB transaction volume is up 13.7% over pre-pandemic levels, compared to the commercial office market which is down about 4.7 percent over the same period.

A RECORD YEAR FOR MEDICAL OFFICE

TRANSACTION VOLUME AND PRICING



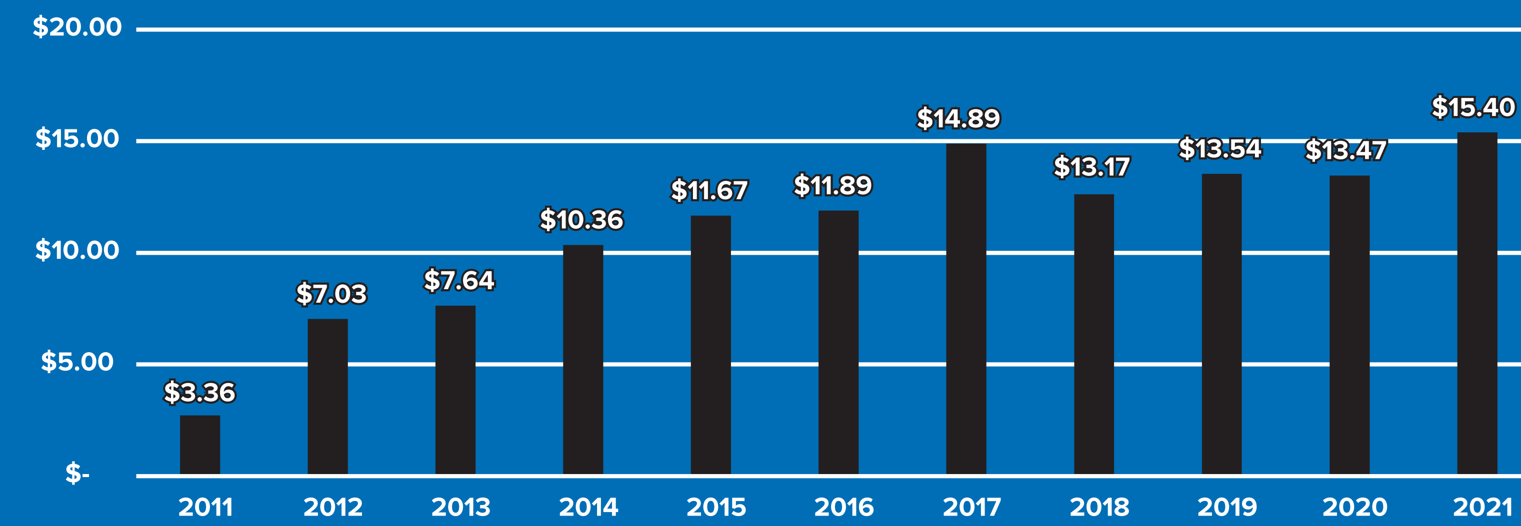
The record surge in transaction volume was reflective of three notable themes observed within the sector this year – 1) the resiliency of medical office in an economic downturn, 2) the entry of new capital seeking investment in US healthcare real estate, and 3) the abundance of dry equity powder as compared to a still limited supply of available product. Both of these trends were key drivers in investment volumes reaching record highs, and also contributed to pricing levels reaching their most aggressive on record for MOBs.

Cap rates for medical office realized continued compression compared to 2020, which previously recorded the lowest cap rates on record for the sector. In 2021, the average and median cap rates for MOB closed the year at 6.1% and 5.7% respectively, both reflecting a 30-basis point tightening over year end 2020 levels.

NEWMARK CLOSED: THE PRIMEMED REALTY MOB PORTFOLIO | 4Q2021

Similarly, price per foot levels broke new records with significant increases reported in 2021. The average and median price per square foot metrics for year end 2021 were $349 and $368, respectively. These average and median levels reflect year-over-year gains of 24% and 22% compared to 2020, a trend that not only speaks to competitive pricing levels but the acknowledgment from institutional investors that replacement costs have risen significantly in the last 12 months.

ANNUAL MEDICAL OFFICE BUILDING TRANSACTION VOLUME ($B)



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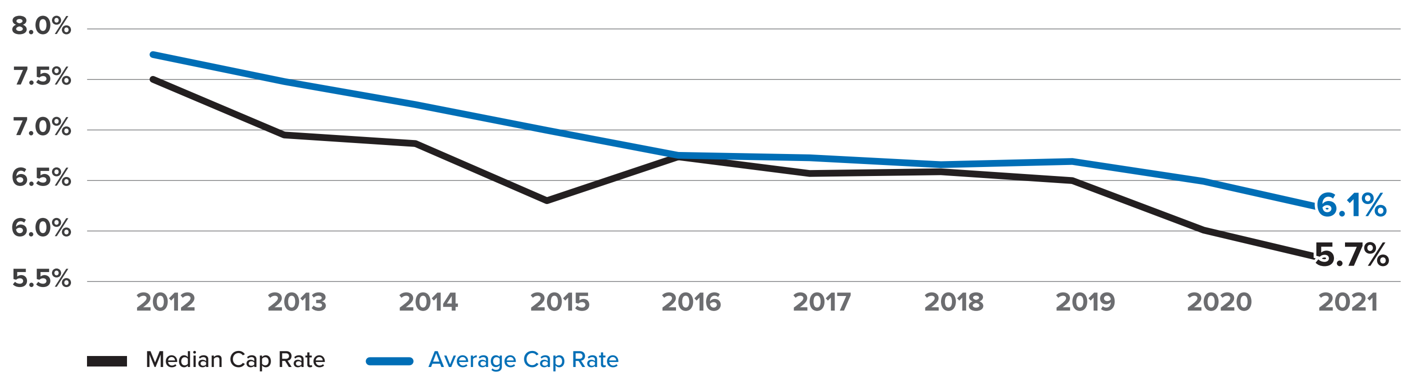
SOURCE: MSCI | REAL CAPITAL ANALYTICS

PRICING TRENDS
MEDICAL OFFICE BUILDING

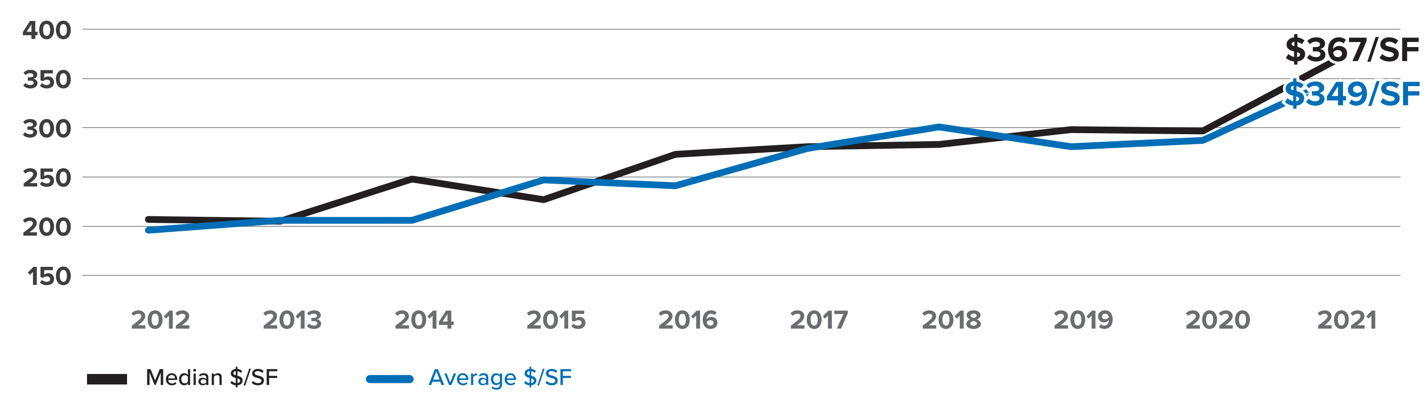
CAP RATE COMPRESSION
(2012-2021)

LOWEST U.S MOB CAP RATE IN 2021
SINGLE ASSET: 3.50% CAP
PORTFOLIO: 4.50% CAP



PRICE PER SQUARE FOOT GROWTH
(2012-2021)

HIGHEST U.S MOB PRICE PSF IN 2021
CALIFORNIA: $1,484/SF
OTHER: $1,087/SF



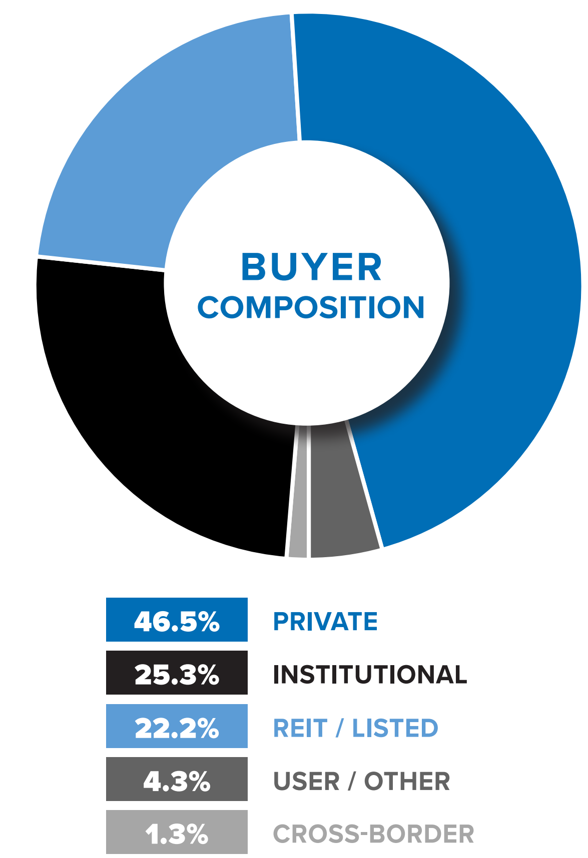
SOURCE: MSCI I REAL CAPITAL ANALYTICS

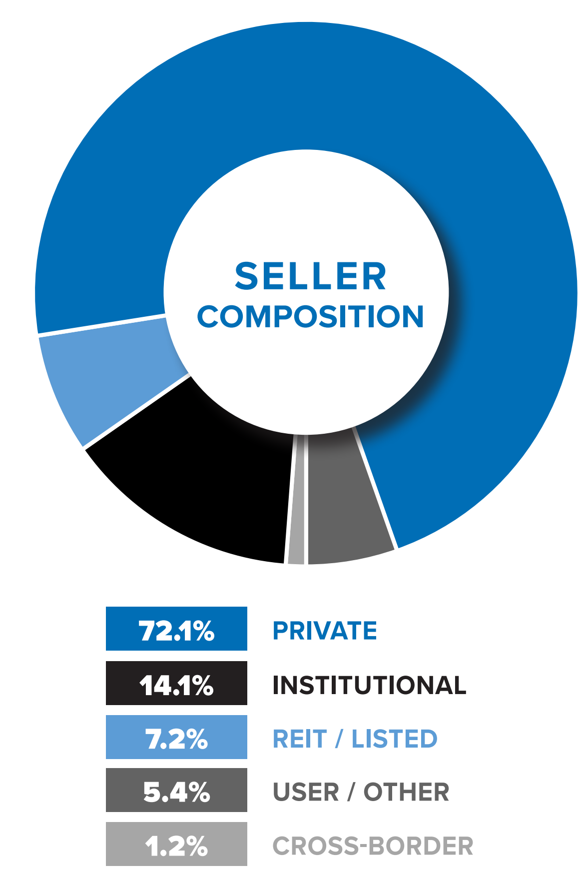
INVESTOR LANDSCAPE

Following a year where stock price performance created significant challenges in 2020, public healthcare REITs returned to acquisition mode in 2021. REITs accounted for 22.2 percent of the buyer pool, a sharp increase of 80 percent from the 12.3 percent reported in 2020. Contrary to 2020, REITs were net buyers of MOBs, as they only accounted for roughly 7.2 percent of sellers in 2021. Still, private capital (namely domestic real estate private equity funds) made up the largest segment of the buyer pool at nearly 47 percent, consistent with the prior year and demonstrating the significance that middle-market and large funds have had on the sector in recent years. Many of these funds are newly raised vehicles with a significant focus on healthcare, as well as large discretionary funds that have increased allocations to medical office away from other property types over the past 24 months.

SOURCE: MSCI I REAL CAPITAL ANALYTICS

BUYER VS SELLER COMPOSITION





NEWMARK CLOSED: INLAND HEALTHCARE PORTFOLIO FINANCING | 3Q2021

NEWMARK CLOSED: SOUTHERN CORE PORTFOLIO SALE | 4Q2021

DEVELOPMENT PULLS BACK OVERALL; A FEW BRIGHT SPOTS OBSERVED

While record levels were noted for acquisition investments, development volume for medical office noted a decline in 2021. Construction starts for the year totaled 9.6 million square feet across 156 properties, while completions totaled 12.1 million square feet across 204 projects. Both construction start and completion square footage levels were down 15.8 and 10.6 percent, respectively, compared to the prior year.

Contributing factors to a decline in development volume include a highly challenging construction market in 2021 that saw costs skyrocket across all asset classes with medical office and specialty healthcare facilities being no exception. MOB construction costs are estimated to be up 15% year over year on average for projects underway. Additionally, many healthcare providers which make pre-leasing commitments to get projects out of the ground were still highly focused on patient care and in triage mode in the face of the pandemic, potentially focusing attention away from new development projects.

While development declined overall, certain segments showed strong activity. There are a few notable areas where development has shown strong growth, both by geographic market and property types. In terms of regional growth, the removal of the CON restriction in Florida combined with significant population growth in the state has resulted in a spike in new development projects being announced by virtually all of major health systems in the state, including acute care projects by Orlando Health, HCA, AdventHealth, and Baptist Health in South Florida, among others. Active development sectors by property type nationally include inpatient rehabilitation facilities, where multiple operators have laid out aggressive new development plans across the country, and academic medical centers, which saw several large scale campus development projects announced in 2021 including the $3 billion, multi-phase mixed use project announced by UC San Diego.

STABILITY IN OPERATIONS REMAINS A KEY DRIVER

MOBs reported average overall occupancy of 91.5% as of third quarter 2021, a 10 bps increase YOY, demonstrating stability and slight improvement over prior year when the sector shined from a resiliency standpoint as occupancy and rent collections outperformed several other major asset classes.

The average rent/SF was $33.90, with year-over-year same store revenue growth reported at 2.3% in 3Q21 according to Revista.

91.5%
AVERAGE OCCUPANCY

10 BPS
Y-O-Y OCCUPANCY GROWTH

$33.90
AVERAGE RENT / SF

2.3%
Y-O-Y SAME STORE GROWTH

SIX TRENDS & TAKEAWAYS

1 New Entry Capital Made Up a Significant Component of the 2021 Investor Pool

As capital allocators looked for attractive risk-adjusted returns in commercial real estate during the early onset of the pandemic, many institutional investors looked to medical office as a safe haven for investment given the resiliency and stability of the property type. 2021 saw significant investment by major institutions that had not been previously active in MOBs in prior years.

Newmark's Healthcare Capital Markets group facilitated the entry of several new capital sources into medical office in 2021, including both domestic (KKR, AEW Capital Management, Principal) and international (KanAM Grund, Gulf Finance House) capital sources.

2 Active Year for Joint Venture Formations

The number of investors and developers that aligned with institutional capital continued to grow in 2021, as well-established healthcare real estate operating partners continue to look towards strategic partnerships with institutional capital as a competitive advantage in a highly competitive pricing environment for MOBs. The number of seeded joint ventures focused on MOBs reached double digits in 2021, most of which with goals to deploy $1 billion+ in gross asset value. Newmark's Healthcare Capital Markets group advised on the formation of several of the notable joint ventures in the sector this year, including KKR's alignment with Cornerstone Companies and Artemis Real Estate Partners joint venture with Rendina Companies, among several others. These alignments represent a growing trend in the way institutional capital is investing in the sector through experienced operators.

3 Historically High Levels of Dry Powder and Allocations to "Alternative" CRE

Through year-end 2021, there is more registered levels of raised and discretionary capital allocated to commercial real estate than ever seen. As a proxy to this point, there is $237 billion of dry powder in closed-end funds alone. Of that, $77 billion of dry powder is allocated to alternative CRE, including medical office. During the same time period $50.4 billion of alternative CRE transacted, imputing 53% greater equity capital demand than supply of available real assets.

Only industrial and multi-family real estate have registered higher equity allocations. That said, yields for industrial and multi-family continue to drive yield compression of alternative real estate including medical office, as core returns for industrial and multi-family are still 100+ basis points lower than core MOBs.

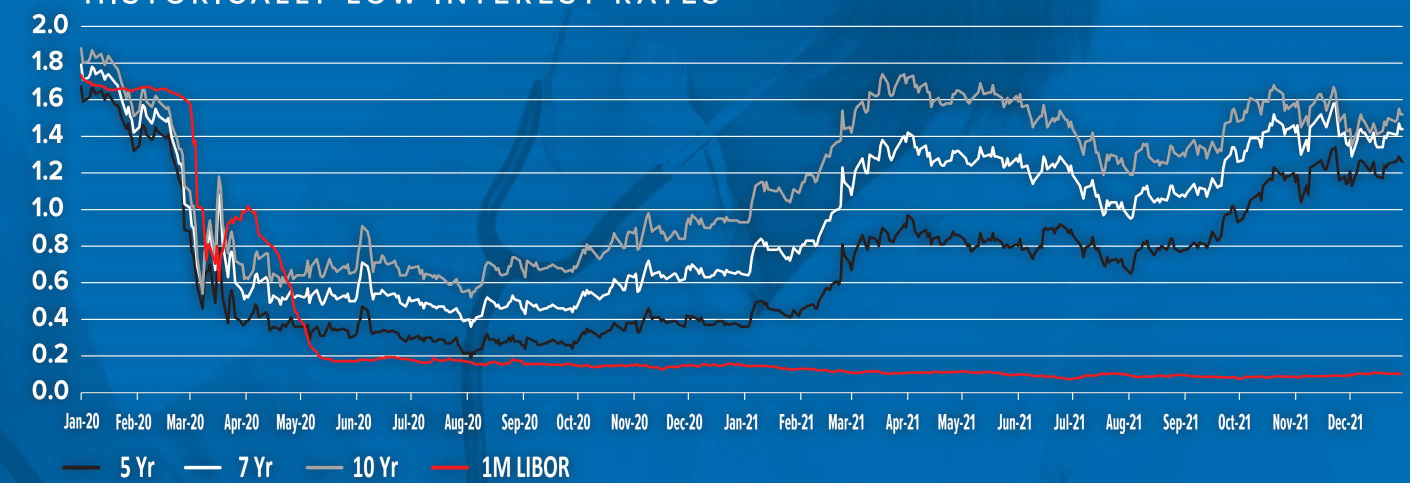
4 Record 2nd Half for Portfolio Transactions

The third and fourth quarter saw record activity for medical office portfolio sales, with over 3.3 billion in transactions recorded. This represents the most active six months of portfolio volume on record for the sector, as aggregators and developers saw significant demand for middle market and large-scale portfolios alike. Examples include the Ryan Companies portfolio sale to Harrison Street, Landmark portfolio sale to Physicians Realty Trust and the Montecito Southern Core portfolio sale to KKR. Portfolios continue to generate premium pricing over single asset trades in the sector has the more large-scale institutional buyers seek to invest in scale. The average portfolio cap rate for medical office portfolios in 2021 was 5.12%, based on price tracking by Newmark Healthcare Capital Markets team, representing a premium of approximately 100 basis points over the overall sector average for the year.

5 Tightening Debt Markets Fueled Competitive Pricing

2021 marked an unprecedented year for competitive financing availability in the healthcare sector. Following a brief tightening of the debt capital markets mid-year 2020 during the early stages of the pandemic, healthcare real estate became a hotbed for lenders seeking quality and stability. The new entrant theme observed in the equity capital markets also applied to debt providers, as more banks, debt funds, life companies and CMBS issuances targeted healthcare as an asset class of focus last year. The result was favorable for borrowers, as the increased liquidity translated to higher leverage availability. The combination of low benchmark rates and tight credit spreads translated to historically low financing rates for MOBs in 2021.

HISTORICALLY LOW INTEREST RATES



6 Growth in the Behavioral Health Sector

As the need for behavioral health continues to rise across the country, providers are increasing their focus on this sector. SCL Health, an 8-hospital non-profit health system, recently announced a joint venture with Acadia Healthcare, a national behavioral healthcare provider in December 2021. Acadia also announced a partnership with Minneapolis-based Fairview Health Services for the development of a new, 144-bed inpatient addiction health treatment hospital in the Twin Cities East Metro submarket. Within the real estate investment market, behavioral continues to become a more mainstream asset class within the broader healthcare continuum. Examples of institutional investors making bets on behavioral in 2021 include Medical Properties Trust's $760m acquisition of inpatient behavioral facilities; Ventas' $58m acquisition of a 100k SF inpatient bahavioral facility in Plano, TX; and Harrison Street's acquisition of two outpatient behavioral facilities totaling ~90k SF as part of the Ryan Companies portfolio.

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#1
Medical Office Building Real Estate Advisor In 2021

$6B
Total Newmark Healthcare Capital Markets Transaction Volume

Source: MSCI | Real Capital Analytics

ALABAMA
Birmingham

ARIZONA
Phoenix

ARKANSAS
Fayetteville
Little Rock

CALIFORNIA
El Segundo
Irvine
Los Angeles
Newport Beach
Pasadena
Sacramento
San Francisco
San Jose
San Mateo
Santa Rosa

COLORADO
Denver

CONNECTICUT
Stamford

DELAWARE
Wilmington

DISTRICT OF COLUMBIA

FLORIDA
Boca Raton
Jupiter
Miami
Palm Beach
Tampa

GEORGIA
Atlanta

ILLINOIS
Chicago

INDIANA
Indianapolis

KENTUCKY
Louisville

LOUISIANA
New Orleans

MARYLAND
Baltimore
Salisbury

MASSACHUSETTS
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MICHIGAN
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MINNESOTA
Minneapolis

MISSOURI
St. Louis

NEVADA
Las Vegas
Reno

NEW JERSEY
Rutherford
East Brunswick
Morristown

NEW YORK
Buffalo/Amherst
New York

NORTH CAROLINA
Charlotte

OHIO
Cincinnati
Cleveland
Columbus

OKLAHOMA
Oklahoma City

OREGON
Portland/Lake Oswego

PENNSYLVANIA
Allentown
Philadelphia
Pittsburgh

TEXAS
Austin
Dallas
Houston

UTAH
Salt Lake City

VIRGINIA
Tysons Corner

WASHINGTON
Seattle

WISCONSIN
Milwaukee

Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at ngkf.com/research.