

Q2 2018 | HOUSTON

MEDICAL OFFICE MARKET



Market Fundamentals Remain Strong at Mid-Year

Record Breaking Sale in TMC

OVERVIEW

Medical Office Market Continues to Elevate Status

Over the second quarter, Houston medical office metrics remained stable with an increase in asking rents, unchanged total availability, and a slight increase in direct vacancy, largely due to deliveries and Kelsey Seybold vacating 20K SF in the Northeast submarket. Year-over-year direct vacancy has decreased by 0.5% to 11.8%, and total availability also decreased 0.6% to 15.1%. Asking rental rates have risen year-over-year as both availability and vacancy have declined. Investment sales continue to highlight the newfound Blue Chip status of medical office buildings. Just after the close of the quarter, Memorial Hermann Medical Plaza was acquired by LaSalle Investment Management for a record breaking \$405 million. This record breaking price was justified given its prime location, quality product type and long term tenant commitment. Investors remain bullish on the Houston medical office market as healthcare's transformation is increasing credit quality and tenant size in medical office assets.

Although the Houston medical office market continues to shine, healthcare providers are under significant financial pressures that have mitigated growth over the past year. Rising technology costs, lower reimbursement rates, and rising operating costs have healthcare systems struggling to balance books. As such, 2017 was witness to several rounds of layoffs amongst major healthcare systems as well as to a slew of merger and acquisition activity as organizations look to achieve efficiencies of scale. Moving forward, it is anticipated that M&A activity will remain elevated in the elusive chase of profits.

JOB GROWTH

4,000 Healthcare Jobs Created in 2018 Through June

The Houston healthcare sector had a return to strong job growth in the second quarter, with 3,400 jobs created. Although strong in Q2, 12-month totals from ending in June 2018 were just 1,100 jobs created as systems cut jobs due to climbing costs and lowered reimbursement rates. Given the strong underlying demographics and notable population growth throughout the region, continued job growth in the sector is anticipated through 2018.

TRENDLINES

5-YEAR TREND

CURRENT QUARTER

JOB GROWTH



4,000 JOBS
Healthcare Jobs created Q2

ABSORPTION



Flat
Absorption flat Q-O-Q

VACANCY



11.8 %
Increased marginally
Quarter-over-Quarter

TOTAL AVAILABILITY



15.1 %
Remained stable
Quarter-over-Quarter

UNDER CONSTRUCTION



512K SF
Medical Office under construction Q2

RENTAL RATE



\$27.24 PSF
Slight increase from previous quarter

VACANCY AND AVAILABILITY

Vacancy Rises Slightly

Vacancy rates for MOB's in Houston were essentially flat over the quarter, increasing 0.3% to 11.8% at the end of the second quarter. The increase in direct vacancy can be attributed to two MOB deliveries over the quarter, with 42,000 SF of space available. Additionally, Kelsey Seybold vacated 20,000 SF in the Northeast submarket as they build a new, larger clinic in the area. Year-over-year direct vacancy decreased 0.4% from 12.2% in Q2 2017. The Near North submarket continued to record the highest vacancy with 30.0% over the quarter, with Pasadena recording 23.7% vacant, and the Far West recording 17.9%. The TMC recorded the lowest direct vacancy with only 4.6%, up slightly from 4.5% at the end of the previous quarter. Total availability remained stable over the quarter, maintaining at 15.1%.

RENTAL RATES

Rental Rates

Asking rental rates for MOB's increased 0.3% over the quarter to \$27.13 PSF gross. Year-over-year weighted average rental rates increased 3.5%, up from \$26.21 in Q2 2017. Over the quarter, 9 out of 17 submarkets recorded an increase, with the Near North seeing the highest rate bump, up 2.1%, to \$21.99 per SF gross. The second largest increase was the Baytown/Channelview submarket, up 1.3% over the quarter to \$27.71. The most value friendly submarkets are the Near Southwest market at \$21.28, the Near North at \$21.99, and the Pasadena market at \$22.20 per SF gross.

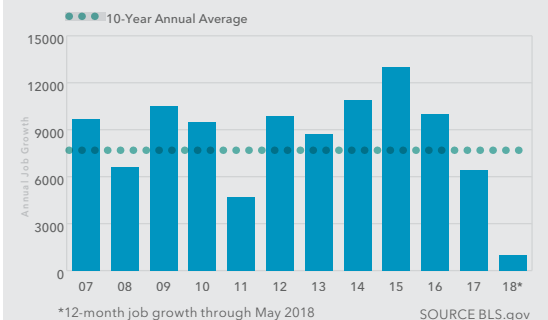
SUPPLY AND DEVELOPMENT

Development Pipeline Remains Full

Two MOB's delivered over the second quarter. 8540 Broadway, a 50% preleased, 50,000 SF MOB delivered in the South submarket. Additionally, a 23,500 SF MOB, 28% preleased, delivered at 12002 S Highway 6 in the Sugar Land market. The construction pipeline remains robust with over 4.8 MSF of healthcare projects underway in the Houston MSA. With the growing population in Houston, hospitals are expanding to keep pace. Currently there is over 4.3 MSF of hospital construction, and just over 500,000 SF under construction at nine medical office projects. Providers are expanding to meet population growth in suburbs around the city. In recent news, Kelsey-Seybold announced it would be building a new 55,000 SF Kingwood clinic, nearly tripling the size of their previous location. This development is still in the planning phase, with a projected completion in the summer of 2019.

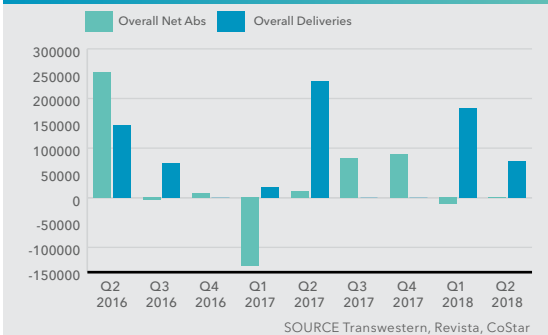
Healthcare Job Growth

Houston Metro Area



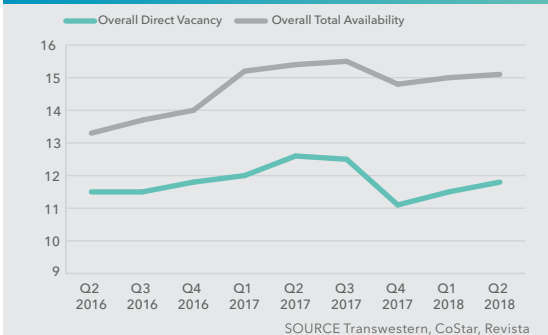
Deliveries vs Absorption

Houston Metro Area



Direct Vacancy

Houston Metro Area



INVESTMENT SALES

Record Breaking Sale in TMC

In recent news, a record breaking sale occurred with Memorial Hermann Medical Plaza selling to LaSalle Investment Management for approximately \$405 M (\$793.57/SF). The 510,000 SF building in the heart of the Texas Medical Center is 99% leased with Memorial Hermann occupying over two-thirds of the facility. Two additional investment sales occurred over the quarter. CBRE Global Investors acquired two buildings, both in the 290 Corridor submarket, the Texas Children's Health Center at 11777 FM 1920 W, a 28,322 SF building, fully leased to Texas Children's, and the Fallbrook Crossing Professional Center, a 30,119 SF building, which is 83.6% occupied.

OUTLOOK

Medical Office Market to Continue Growth

The first half of 2018 showed a rebound in job growth for the health-care sector as struggles with operating margins and reimbursement rates muted growth over 2017. While these struggles will continue for the foreseeable future as companies look to mergers and acquisitions to shore up their books by creating efficiencies of scale; the continued household growth in the Houston market creates pressure on systems to fight for market share in areas of high household growth. As such, the construction pipeline should continue to remain active with healthcare systems trying to expand their feeder networks via suburban locations. Vacancy rates within the sector are anticipated to remain strong through the balance of 2018 with rental rates rising, especially for on campus or campus adjacent product.

Largest Healthcare Systems

Houston Metro Area | 2017

HEALTHCARE SYSTEM	BEDS	LOCAL HOSPITALS
HCA Gulf Coast Division	4,110	15
Memorial Hermann	3,750	15
Houston Methodist	2,765	8
CHI St. Luke's Health	1,563	7
St. Joseph Medical Center	790	2
Harris Health System	770	3
Kindred Healthcare Inc.	736	9
Texas Children's Hospital	713	4
UT MD Anderson Cancer Center	674	1
UT Medical Branch	666	4
Total	16,537	68

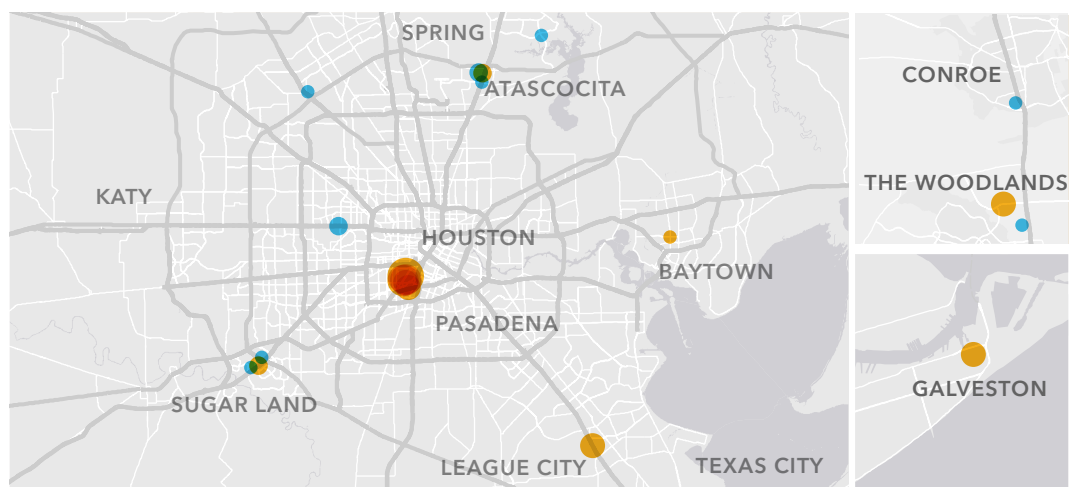
SOURCE: Houston Business Journal

Construction Activity
Hospital SF Range U/C

- 30,000 - 65,000
- 65,001 - 138,000
- 138,001 - 300,000
- 300,001 - 960,000
- 960,001 - 1,340,000

MOB SF Range U/C

- 30,000 - 65,000
- 65,001 - 138,000
- 138,001 - 300,000
- 300,001 - 960,000
- 960,001 - 1,340,000



Notable MOB's Under Construction

BUILDING	SUBMARKET	SF	EXPECTED DELIVERY
7619 Branford Place	Sugar Land	38,600	8/1/2018
Vital Heart & Vein	Northeast	65,000	9/1/2018
Egrets Landing	Sugar Land	30,852	8/1/2018
13219 Dotson	Tomball	30,000	9/1/2018
Vision Park Medical	The Woodlands	51,000	9/1/2018
1020 Riverwood	Conroe	50,000	1/1/2019
Hedwig Place	Near West	102,474	2/1/2019
Memorial Hermann Northeast MOB II	Northeast	100,000	4/1/2019
Memorial Hermann Convenient Care Center	Northeast	45,000	11/1/2019
Total		512,926	

SOURCE Revista, Transwestern

Notable Hospitals Under Construction

BUILDING	SUBMARKET	SF	EXPECTED DELIVERY
Houston Methodist North Tower	Texas Medical Center	960,000	9/1/2018
Memorial Hermann Northeast	Northeast	123,000	12/1/2018
Texas Children's Hospital	Texas Medical Center	640,000	12/1/2018
University of Texas MD Anderson Cancer Center	Texas Medical Center	185,000	1/1/2019
Memorial Hermann Texas Medical Center	Texas Medical Center	1,340,000	3/1/2019
Baylor St Luke's Medical Center McNair Campus	Texas Medical Center	185,000	3/1/2019
Houston Methodist Sugar Land Hospital	Sugar Land	138,000	5/1/2019
University of Texas MD Anderson Cancer Center	The Woodlands	208,000	5/1/2019
Houston Methodist San Jacinto Hospital	Baytown/Channelview	60,000	11/1/2019
UTMB League City	Clear Lake	300,000	4/1/2020
University of Texas Medical Branch John Sealy Hospital	Galveston	200,000	10/1/2020
Total		4,339,000	

SOURCE Revista, Transwestern

Q2 2018 | HOUSTON | MEDICAL OFFICE MARKET

Houston Medical Office Market Indicators

Submarket	Inventory	SF Available Immediately	Direct Vacancy Q1 2018	Direct Vacancy Q2 2018	Total Availability Q2 2018	Under Construction	Net Absorption Q2 2018	Rental Rates Q2	Rent Change Q-O-Q
On Campus	13,511,860	1,147,933	8.4%	8.5%	9.9%	100,000	(6,011)	\$29.37	-0.3%
Off Campus	16,456,249	2,383,221	14.1%	14.5%	19.4%	412,926	5,829	\$26.28	0.5%

Houston Medical Office Market Indicators

Submarket	Inventory	SF Available Immediately	Direct Vacancy Q1 2018	Direct Vacancy Q2 2018	Total Availability Q2 2018	Under Construction	Net Absorption Q2 2018	Rental Rates Q2	Rent Change Q-O-Q
290 Corridor	944,223	124,884	13.4%	13.2%	13.9%	-	1,174	\$27.33	0.3%
Baytown/Channelview	551,820	66,366	11.1%	12.0%	19.6%	-	(5,000)	\$27.71	1.3%
Bellaire	1,159,289	118,297	9.8%	10.2%	16.1%	-	(4,927)	\$26.79	0.2%
Clear Lake	1,629,104	225,259	14.0%	13.8%	14.0%	-	2,865	\$28.44	1.0%
Conroe	1,025,534	96,108	9.9%	9.4%	9.7%	50,000	5,387	\$25.90	-1.2%
Far West	1,420,594	254,542	18.4%	17.9%	18.7%	-	6,214	\$29.37	0.1%
Inner Loop	2,126,413	293,923	13.9%	13.8%	15.4%	-	2,479	\$25.94	1.1%
Near North	1,566,414	470,426	30.0%	30.0%	39.7%	-	34	\$21.99	2.1%
Near Southwest	1,251,661	163,745	13.4%	13.1%	23.1%	-	3,998	\$21.28	-3.6%
Near West	3,721,113	336,768	9.0%	9.1%	12.7%	102,474	(2,940)	\$25.32	-1.8%
Northeast	1,240,857	132,972	9.4%	10.7%	11.2%	210,000	(16,436)	\$27.67	0.7%
Pasadena	758,808	179,535	22.7%	23.7%	24.2%	-	(7,955)	\$22.20	-0.2%
South	857,640	120,122	11.4%	14.0%	15.4%	-	27,284	\$30.09	1.1%
Sugar Land	1,814,218	275,205	14.2%	15.2%	22.1%	69,452	841	\$29.83	-0.1%
The Woodlands	2,215,489	275,754	12.3%	12.4%	16.6%	51,000	(1,424)	\$32.12	-0.2%
TMC	6,553,112	300,752	4.5%	4.6%	6.5%	-	(4,629)	\$32.49	-0.4%
Tomball	1,131,820	96,496	7.9%	8.5%	12.3%	30,000	(7,147)	\$29.23	-2.4%
Total - Houston	29,968,109	3,531,154	11.5%	11.8%	15.1%	512,926	(182)	\$27.13	0.3%

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METHODOLOGY

The information in this report is the result of a compilation of information on office, industrial, retail, multifamily and healthcare properties located in the Houston metropolitan area. This report includes single-tenant, multi-tenant and owner-user properties and excludes properties owned and occupied by a government agency.

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HOUSTON HEALTHCARE MARKET

FIRST QUARTER 2018

TMC Expanding With a Focus on Innovation and Biotech

Medical Office Metrics Tighten

OVERVIEW

TMC3 Makes a Big Move

The TMC in Houston is the largest medical complex in the world at a total of 1,345 acres and 50 million square feet of developed space. In order to improve upon its innovation and life sciences work, it's about to get larger. To promote innovation and compete in biotech, the Texas Medical Center recently announced TMC3, a 30-acre collaborative research campus slated to break ground in 2019. The \$250 million project is a push to put Houston on the map in terms of life sciences and biotech. To fill the gap of innovation in Houston, several institutions have partnered with TMC. Pharma giants and healthcare businesses are expected to follow suit in short term. The founding institutions of TMC3 include: Baylor College of Medicine, Texas A&M Health Science Center, TMC, UTHealth, and the University of Texas MD Anderson Cancer Center. According to TMC, the campus will consist of 1.5 million SF of research space, and 250,000 SF of core labs and amenities. Created to promote collaboration, the 30-acre campus will be developed in the form of a double helix connecting all of the buildings. Also included on the campus is a 410-room hotel and conference center. TMC3 is expected to create nearly 26,000 jobs which bodes well for the city in the long term.

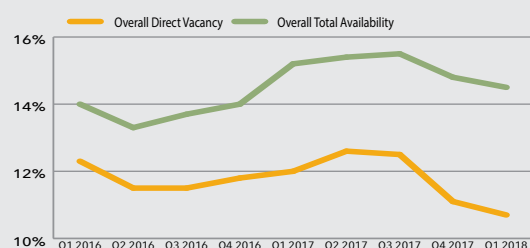
Over the quarter, Houston medical office metrics remained strong as vacancy rates declined, asking rental rates increased, and MOB's continue to represent blue chip investments as depicted in two major portfolio sales over the quarter. With direct vacancy and availability trending downward, asking rental rates for on and off campus medical office buildings increased year-over-year. On campus saw the biggest rate jump, increasing by 4.8%, while off campus rose by 0.6%.

MEDICAL OFFICE STATISTICS

Vacancy and Availability

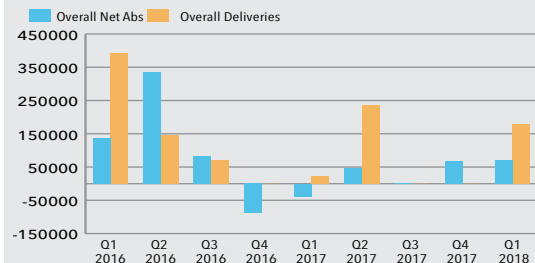
Vacancy rates for MOB's in Houston declined by 0.4% to 10.7% over the first quarter. Year-over-year vacancy also saw a decline, down 0.6% from 11.3% in 2017. The Near North submarket recorded the highest direct vacancy with 27.4%, and the TMC recorded the lowest with 4.1% vacancy.

DIRECT VACANCY HOUSTON METRO AREA



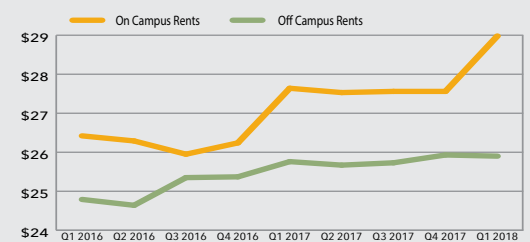
SOURCE: Transwestern, CoStar, Revista

DELIVERIES VS ABSORPTION HOUSTON METRO AREA



SOURCE: Transwestern, Revista, CoStar

RENTAL RATES HOUSTON METRO AREA



SOURCE: BLS.gov

HOUSTON HEALTHCARE MARKET

FIRST QUARTER 2018

MEDICAL OFFICE STATISTICS (CONT.)

Driving TMC's decrease in vacancy is United General Hospital's lease of 44,569 SF at 7501 Fannin, a Class A, 195,000 SF building. Total availability for the market declined 0.3%, to 14.5% for the first quarter, and by 0.8% year-over-year. As population growth continues to occur across the Houston metropolitan area, vacancy and availability should continue to decline in the coming quarters.

Asking Rents

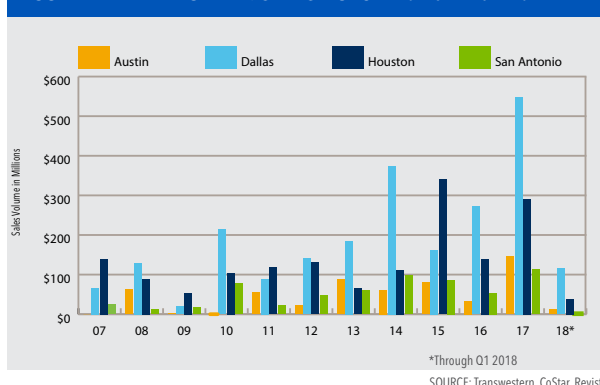
Asking rental rates for Houston area MOB's increased over the first quarter with the weighted average asking rental rate for all space marketed as available for rent increasing by 1.1% to \$26.72 per SF gross over the quarter. Asking rental rates increased by 1.5% year-over-year up from \$26.33 in Q1 2017. Over the quarter, 8 out of the 17 submarkets recorded an overall increase in weighted average rental rates. Only 5 submarkets recorded decreases in same store asking rents, with same store straight line rents averaging an increase of 1.2% over the quarter. As a rule of thumb higher quality space is generally leased first, resulting in decreasing weighted average rental rates with the lower quality space left on the market.

SUPPLY & DEVELOPMENT

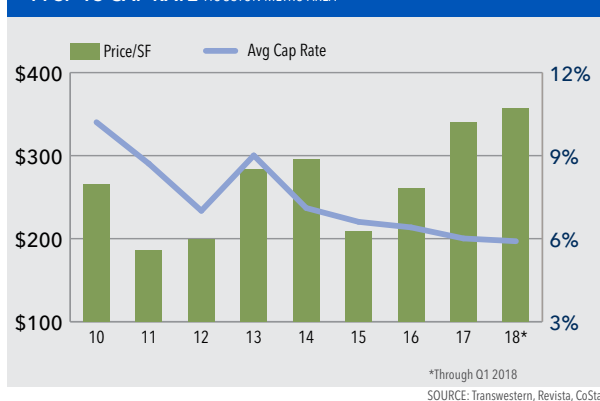
Hospital Construction Drives Activity

The construction pipeline continues to be robust with 5.0 MSF of healthcare projects under construction in the Houston MSA. MOB construction totals just over 500,000 SF with nine buildings in development. With 4.5 MSF of hospital construction, hospitals are expanding to keep up with the growing population trend. Although it has not broken ground, the pipeline is expected to grow as Medistar is planning a 550,000 SF building in the TMC that is expected to start in the second or third quarter. The tower is planned to have large floorplates, a large parking garage, and retail availability at ground level. Medistar is in talks with large providers to occupy space, as it is designed to house hospital, doctor's offices and other healthcare users.

COMPARATIVE MOB INV. SALES VOLUME SELECT METRO AREAS



PPSF VS CAP RATE HOUSTON METRO AREA



Notable MOB Sales Transactions (1Q 2018)

PROPERTY	SUBMARKET	RBA	BUYER	SELLER
The Offices At Pin Oak (5 Bldgs)	Bellaire	504,721	Norvin Healthcare Properties	Griffin Partners
PHT Medical Office Portfolio (4 Bldgs)	Multiple	448,226	Heitman	Bentall Kennedy
Lonza Houston	South	276,770	Zeller Realty Corp	Pinchal & Co
Katy Medical Arts Center	Far West	63,090	IRA Realty Capital	Katy Med-Arts Partners LTD

SOURCE: Real Capital Analytics, Revista, Transwestern

Sales Activity

Over the first quarter, several medical office buildings traded hands including a 17-building MOB portfolio acquired by Heitman. Heitman acquired the 17-building MOB portfolio from Bentall Kennedy on behalf of a state pension fund, including four Houston MOB's. Included in the sale was the 100,000 SF Memorial Hermann Katy Medical Plaza 1 (Far West, 76.4% occ.), the 100,000 SF Memorial Hermann Katy Medical Plaza 2 (Far West, 71.3% occ.), the 118,866 SF Memorial Hermann Sugar Land Medical Plaza 1 (Sugar Land 80.2% occ.), and the 100,000 SF Memorial Hermann Sugar Land Medical Plaza 2 (Sugar Land, 55.1% occ.). Another notable portfolio transaction is Griffin Properties sale of The Offices at Pin Oak Park to Norvin Healthcare Properties. Included in the sale was the 76,000 SF 6700 West Loop (Bellaire, 95% occ.), the 201,000 SF 6750 West Loop (Bellaire, 93% occ.), the 76,000 SF 6800 West Loop (Bellaire, 94.9% occ.), the 73,000 SF 4710 Bellaire Blvd (Bellaire, 84.7% occ.), and the 76,000 SF building at 4747 Bellaire (Bellaire, 82.9% occ.). These buildings are approximately 60% medical users, 40% office and they were 93% occupied at the time of the sale. Investors remain interested in medical office buildings as tenant credit quality improves and space requirements increase across the industry.

JOB GROWTH

Provider Expansion Creating Jobs

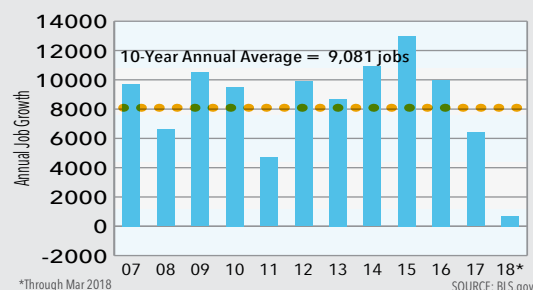
The Houston healthcare sector created 700 jobs over the first quarter. In the 12-months ending in March the sector added 1,200 jobs, a 0.4% increase from March 2017. As healthcare providers expand to meet rising population growth, job growth should continue throughout the year.

OUTLOOK

Long Term Market Indicators Strong

Through 2018 the healthcare sector should see strong activity. With approximately 1.9 million square feet of hospital space set to deliver throughout the remainder of 2018, job growth should increase as major providers look to meet growing demand. Vacancy rates in medical office should continue to decrease, pushing rental rates higher over the coming quarters. As medical office remains a blue chip investment, more investment sales activity is expected throughout the year.

HEALTHCARE JOB GROWTH HOUSTON METRO AREA



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SOURCE: Houston Business Journal

HOUSTON HEALTHCARE MARKET

FIRST QUARTER 2018

Notable MOB's Under Construction

BUILDING	SUBMARKET	RBA	EXPECTED DELIVERY
8520 Broadway St	South	50,000	5/1/2018
7619 Branford Place	Sugar Land	38,600	5/1/2018
12002 S Highway 6	Sugar Land	23,520	6/1/2018
Vital Heart & Vein	Northeast	65,000	7/1/2018
13219 Dotson Rd	Tomball	30,000	9/1/2018
1020 Riverwood	Conroe	50,000	1/1/2019
Hedwig Place	Near West	102,474	2/1/2019
Memorial Hermann Northeast MOB II	Northeast	100,000	4/1/2019
Memorial Hermann Convenient Care Center	Northeast	45,000	11/1/2019
Total		504,593	

SOURCE: Transwestern, Revista

Notable Hospital Expansions/Under Construction

BUILDING	SUBMARKET	SF	EXPECTED DELIVERY
Houston Methodist North Tower	Texas Medical Center	960,000	6/1/2018
Houston Methodist West Hospital	Far West	228,700	7/1/2018
Memorial Hermann Northeast	Northeast	123,000	12/1/2018
Texas Children's Hospital	Texas Medical Center	640,000	12/1/2018
University of Texas MD Anderson Cancer Center	Texas Medical Center	185,000	1/1/2019
Memorial Hermann Texas Medical Center	Texas Medical Center	1,340,000	3/1/2019
Baylor St Luke's Medical Center McNair Campus	Texas Medical Center	185,000	3/1/2019
Houston Methodist Sugar Land Hospital	Sugar Land	138,000	5/1/2019
University of Texas MD Anderson Cancer Center	The Woodlands	208,000	5/1/2019
Houston Methodist San Jacinto Hospital	Baytown/Channelview	60,000	11/1/2019
University of Texas Medical Branch League City	Clear Lake	300,000	4/1/2020
University of Texas Medical Branch John Sealy Hospital	Galveston	200,000	10/1/2020
Total		4,567,700	

SOURCE: Transwestern, Revista

Map Overview of Healthcare Construction

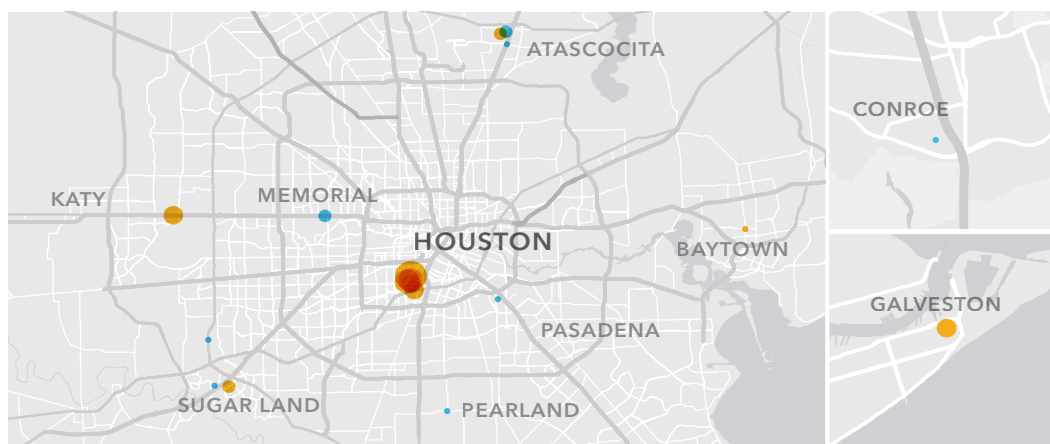
Construction Activity

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MOB SF Range U/C

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- 65,001 - 138,000
- 138,001 - 228,700
- 228,701 - 960,000
- 960,001 - 1,340,000



Houston Medical Office Market Indicators

SUBMARKET	INVENTORY	SF AVAILABLE IMMEDIATELY	DIRECT VACANCY Q4 2017	DIRECT VACANCY Q1 2018	TOTAL AVAILABILITY Q1 2018	UNDER CONSTRUCTION	NET ABSORPTION Q1 2018	Q1 RENTAL RATES	RENT CHANGE Q-O-Q
On Campus	13,511,090	1,062,230	8.2%	7.9%	9.7%	100,000	49,584	\$28.98	5.2%
Off Campus	16,335,576	2,142,781	13.5%	13.1%	18.5%	404,593	21,921	\$25.90	-0.1%

SUBMARKET	INVENTORY	SF AVAILABLE IMMEDIATELY	DIRECT VACANCY Q4 2017	DIRECT VACANCY Q1 2018	TOTAL AVAILABILITY Q1 2018	UNDER CONSTRUCTION	NET ABSORPTION Q1 2018	Q1 RENTAL RATES	RENT CHANGE Q-O-Q
290 Corridor	944,306	154,542	16.5%	16.4%	17.6%	-	1,165	\$27.95	-0.4%
Baytown/Channelview	551,820	56,966	10.2%	10.3%	19.6%	-	(874)	\$31.24	2.9%
Bellaire	1,159,328	114,970	9.1%	9.9%	16.5%	-	(9,619)	\$26.67	0.7%
Clear Lake	1,631,518	232,165	14.8%	14.2%	14.9%	-	16,741	\$27.86	-1.1%
Conroe	1,025,534	89,909	10.4%	8.8%	10.5%	50,000	11,476	\$25.85	-1.4%
Far West	1,420,594	260,756	19.5%	18.4%	19.2%	-	16,618	\$29.30	-0.9%
Inner Loop	2,128,123	287,811	15.0%	13.5%	15.5%	-	27,057	\$25.61	-0.4%
Near North	1,566,414	429,049	25.4%	27.4%	36.3%	-	(30,879)	\$20.12	1.7%
Near Southwest	1,251,661	167,743	13.5%	13.4%	23.7%	-	1,470	\$22.06	4.5%
Near West	3,721,113	307,631	9.1%	8.3%	11.1%	102,474	(17,717)	\$25.44	1.4%
Northeast	1,195,857	74,810	6.0%	6.3%	10.2%	210,000	(1,017)	\$26.94	9.8%
Pasadena	759,334	167,202	24.0%	22.0%	23.2%	-	15,205	\$21.61	-2.2%
South	857,640	97,406	10.8%	11.4%	16.1%	50,000	(4,441)	\$29.06	-1.8%
Sugar Land	1,783,366	252,526	14.4%	14.2%	21.6%	62,119	18,240	\$29.74	2.2%
The Woodlands	2,164,730	163,814	8.5%	7.6%	11.3%	-	20,013	\$32.28	0.4%
TMC	6,553,112	271,327	4.4%	4.1%	6.8%	-	19,109	\$32.63	-1.9%
Tomball	1,132,216	76,384	5.9%	6.7%	10.4%	30,000	(11,042)	\$27.74	-4.4%
Total - Houston	29,846,666	3,205,011	11.1%	10.7%	14.5%	504,593	71,505	\$26.72	1.1%

NOTE Includes medical office buildings 20,000 SF RBA and greater

SOURCE Inventory and vacancy from analysis of CoStar data, net absorption computed by Transwestern

TOTAL AVAILABILITY reflects all space currently being marketed as available for lease. This includes direct, sublet and under construction properties set to deliver within 12 months.

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METHODOLOGY

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HOUSTON HEALTHCARE MARKET

YEAR END 2017

Healthcare Fundamentals Continue to Shine

6,400 Jobs created over 2017

OVERVIEW

Mergers and Acquisitions Reshaping Healthcare

The healthcare market continued to evolve and adapt over the fourth quarter as merger and acquisition (M&A) activity remained prevalent. M&A's have increased in frequency as healthcare providers work to secure profitability by gaining efficiencies of scale. Amongst the most notable M&A's this quarter was Catholic Health Initiatives announcement of a merger with Dignity Health. The combined entity will represent one of the nation's largest not-for-profit hospital systems with a total of 839 locations nationwide. Also announced during the quarter was CVS' pending acquisition of Aetna for \$69 Billion. The move is seen as a way to improve CVS' bargaining power while hedging against a potential entry into the market from Amazon. Finally, Amazon, Berkshire Hathaway, and JPMorgan announced a major joint partnership delving into the healthcare realm to form an independent healthcare company in a move to reduce costs by leveraging technology. The primary theme in each of these transactions are efforts to reduce costs by increasing buying power. As the healthcare market continues to evolve, M&A activity is expected to remain elevated.

JOB GROWTH

2,500 Jobs Created in Q4

Although job growth has slowed moderately, the healthcare sector is still one of the primary drivers of growth in the city. The Houston healthcare sector created 6,400 jobs year-over-year through December 2017, an increase of 2% year-over-year. This growth occurred in spite of several major health systems announcing job cuts throughout the year due to budget constraints. Job growth picked up over the quarter as 2,500 jobs were created. Growth in the sector looks to remain steady over the course of 2018 as providers look to keep pace with the growing population.

MEDICAL OFFICE STATISTICS

Asking Rents

Asking rental rates for Houston medical office buildings (MOB's) increased throughout the fourth quarter. The average asking rental rate in Houston rose 0.6% over the quarter, to end the year at \$26.30 per SF

Medical Office Building Stats

	MOB COUNT	TOTAL MOB SF
All MOBs	397	29,681,498
Construction	7	454,844
Off Campus	305	16,306,322
On Campus	92	13,375,176
Sold Past 12 Mos.	39	2,630,733

SOURCES: Transwestern, Revista, CoStar

Largest Healthcare Systems

Houston Metro Area | 2017

HEALTHCARE SYSTEM	BEDS	LOCAL HOSPITALS
HCA Gulf Coast Division	4,110	15
Memorial Hermann	3,750	15
Houston Methodist	2,765	8
CHI St. Luke's Health	1,563	7
St. Joseph Medical Center	790	2
Harris Health System	770	3
Kindred Healthcare Inc.	736	9
Texas Children's Hospital	713	4
UT MD Anderson Cancer Center	674	1
UT Medical Branch	666	4
Total	16,537	68

SOURCE: Houston Business Journal

HOUSTON HEALTHCARE MARKET

YEAR END 2017

MEDICAL OFFICE STATISTICS (CONT.)

gross. Asking rental rates increased 5.4% year-over-year, up from \$24.95 at the end of 2016. At year's end, 12 out of the 17 submarkets recorded an overall increase in asking rental rates, with the Texas Medical Center recording the highest average rate at \$31.57 per SF gross.

Vacancy and Availability

Vacancy rates for MOB's declined by 0.3% to 11.6% over the fourth quarter, while year-over-year vacancy rose 0.8% from the end of 2016. The Near North submarket recorded the highest direct vacancy with 25.4%, while the TMC recorded the lowest vacancy at 4.4%. Total availability for the market recorded 15.1%, down 0.4% from the third quarter, but up 1.1% year-over-year. Vacancy should continue to decline throughout 2018 as health systems require more space to meet the demands of the growing population.

Sales Activity

Medical office properties have become blue chip investments, regardless of uncertainties of the ACA. Over the quarter, several medical offices changed hands, highlighted by Texas A&M's purchase of the 270,000 SF MOB at 1020 Holcombe Boulevard in the TMC, for use by their EnMed program. Also of note, Boxer Property acquired the 135,586 SF St. Joseph Professional Building in the Inner Loop. The Near North submarket also had activity with the 54,111 SF Cypress Station Medical Center selling to SMB Cypress Station Properties, and the 48,750 SF Lantern Bend Medical Plaza selling to AccuBuild Companies for an undisclosed price.

SUPPLY & DEVELOPMENT

Construction Pipeline Remains Robust

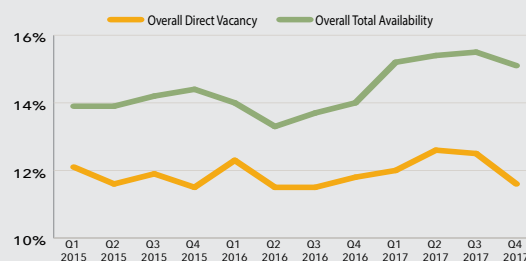
Currently, 4.7 MSF of healthcare projects are being developed in Houston, with hospital construction making up 4.3 MSF of the pipeline. In total, 7 medical office buildings are under construction, comprising of over 454,000 SF. The construction pipeline has begun to reduce as large suburban expansions have delivered over the past two years. However, with the continued population growth and retailization of the healthcare sector, new projects will continue to enter the pipeline.

OUTLOOK

Healthcare To Remain Stable

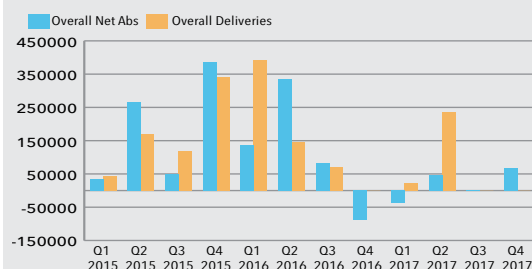
The healthcare sector looks to remain strong through the course of 2018. Strong population growth and a large base at both ends of the age distribution (medical using cohorts) curve will push job growth and medical real estate expansions.

DIRECT VACANCY HOUSTON METRO AREA



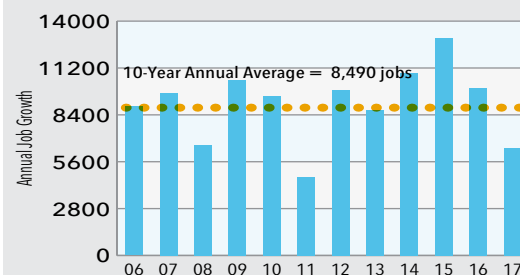
SOURCE: Transwestern, CoStar, Revista

DELIVERIES VS ABSORPTION HOUSTON METRO AREA



SOURCE: Transwestern, Revista, CoStar

HEALTHCARE JOB GROWTH HOUSTON METRO AREA



SOURCE: BLS.gov

Notable MOB Sales Transactions (4Q 2017)

PROPERTY	SUBMARKET	RBA	BUYER	SELLER
1020 Holcombe Boulevard	TMC	270,227	Texas A&M	Norvin Partners
St. Joseph Professional Building	Inner Loop	137,296	Boxer Property	Mission Equities, Inc.
Cypress Station Medical	Near North	54,111	SMB Cypress Station Properties	Cypress Station Medical Plaza II
Lantern Bend Medical	Near North	48,750	AccuBuild Companies	CWCapital Asset Mgmt & Wachovia joint venture

SOURCE: Real Capital Analytics, Revista, Transwestern

Notable MOB's Under Construction

BUILDING	SUBMARKET	RBA	EXPECTED DELIVERY
1439 Highway 6	Sugar Land	20,225	1/1/2018
8520 Broadway St	South	47,500	2/2/2018
Houston Methodist The Woodlands MOB 2	The Woodlands	160,000	3/1/2018
12002 S Highway 6	Sugar Land	23,520	3/1/2018
7619 Branford Place	Sugar Land	38,600	5/1/2018
Vital Heart & Vein	Northeast	65,000	7/1/2018
Memorial Hermann Northeast MOB II	Northeast	100,000	4/1/2019
Total		454,844	

SOURCE: Transwestern, Revista

Notable Hospital Expansions/Under Construction

BUILDING	SUBMARKET	SF	EXPECTED DELIVERY
Ben Taub General Hospital	Texas Medical Center	140,000	3/1/2018
Houston Methodist North Tower	Texas Medical Center	960,000	4/1/2018
Houston Methodist West Hospital	Far West	228,700	7/1/2018
Memorial Hermann Northeast	Northeast	123,000	12/1/2018
Texas Children's Hospital	Texas Medical Center	640,000	12/1/2018
University of Texas MD Anderson Cancer Center	Texas Medical Center	185,000	1/1/2019
Memorial Hermann Texas Medical Center	Texas Medical Center	1,340,000	3/1/2019
Baylor St Luke's Medical Center McNair Campus	Texas Medical Center	185,000	3/1/2019
Houston Methodist Sugar Land Hospital	Sugar Land	138,000	5/1/2019
University of Texas MD Anderson Cancer Center	The Woodlands	108,000	5/1/2019
Houston Methodist San Jacinto Hospital	Baytown/Channelview	60,000	11/1/2019
University of Texas Medical Branch John Sealy Hospital	Galveston	200,000	10/1/2020
Total		4,307,700	

SOURCE: Transwestern, Revista

Houston Medical Office Market Indicators

SUBMARKET	INVENTORY	SF AVAILABLE IMMEDIATELY	DIRECT VACANCY Q3 2017	DIRECT VACANCY Q4 2017	TOTAL AVAILABILITY Q4 2017	UNDER CONSTRUCTION	NET ABSORPTION Q4 2017	Q4 RENTAL RATES	RENT CHANGE Q-O-Q
On Campus	13,375,176	1,192,467	9.1%	8.9%	10.4%	160,000	7,999	\$28.45	0.0%
Off Campus	16,306,322	2,238,206	14.2%	13.7%	19.1%	194,844	60,344	\$25.41	0.7%

SUBMARKET	INVENTORY	SF AVAILABLE IMMEDIATELY	DIRECT VACANCY Q3 2017	DIRECT VACANCY Q4 2017	TOTAL AVAILABILITY Q4 2017	UNDER CONSTRUCTION	NET ABSORPTION Q4 2017	Q4 RENTAL RATES	RENT CHANGE Q-O-Q
290 Corridor	944,306	155,707	17.5%	16.5%	17.5%	-	9,983	\$28.51	-0.8%
Baytown/Channelview	577,320	68,425	10.0%	11.9%	20.1%	-	(10,980)	\$31.12	8.0%
Bellaire	1,159,328	105,351	9.0%	9.1%	17.4%	-	(1,344)	\$26.43	4.7%
Clear Lake	1,642,992	248,906	16.1%	15.1%	15.6%	-	15,100	\$28.38	-4.7%
Conroe	1,031,534	95,934	9.5%	9.3%	9.9%	-	2,258	\$26.33	3.3%
Far West	1,420,594	277,374	19.9%	19.5%	20.6%	-	5,476	\$29.56	-0.1%
Inner Loop	2,096,359	314,868	13.2%	15.0%	16.8%	-	(38,134)	\$25.43	5.4%
Near North	1,633,208	415,164	25.9%	25.4%	33.1%	-	7,951	\$19.54	0.3%
Near Southwest	1,251,661	199,459	15.4%	15.9%	23.6%	-	(6,488)	\$20.23	0.1%
Near West	3,662,639	324,070	10.9%	8.8%	12.3%	-	73,410	\$26.05	0.1%
Northeast	1,141,019	73,793	6.8%	6.5%	12.2%	165,000	(1,064)	\$24.17	-1.3%
Pasadena	723,420	182,407	22.7%	25.2%	26.9%	-	(18,473)	\$22.81	-3.8%
South	855,140	92,965	11.2%	10.9%	19.6%	47,500	2,693	\$31.43	0.2%
Sugar Land	1,736,410	250,541	14.7%	14.4%	19.5%	82,344	4,893	\$28.92	0.7%
The Woodlands	2,156,240	269,931	13.4%	12.5%	15.9%	160,000	(2,347)	\$30.06	-1.6%
TMC	6,553,112	290,436	4.5%	4.4%	6.9%	-	3,964	\$32.39	-0.5%
Tomball	1,096,216	65,342	7.9%	6.0%	7.8%	-	21,445	\$27.30	5.6%
Total - Houston	29,681,498	3,430,673	11.9%	11.6%	15.1%	454,844	68,343	\$26.30	0.6%

NOTE: Includes medical office buildings 20,000 SF RBA and greater

SOURCE: Inventory and vacancy from analysis of CoStar data, net absorption computed by Transwestern

TOTAL AVAILABILITY reflects all space currently being marketed as available for lease. This includes direct, sublet and under construction properties set to deliver within 12 months.

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HOUSTON HEALTHCARE MARKET

MID-YEAR 2017

Systems Continue to Struggle to Adapt Financially

Healthcare Demand Remains Strong

OVERVIEW

Strong Activity in Second Quarter

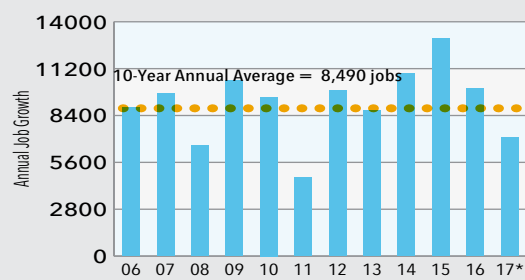
Despite headlines surrounding the operating struggles of several major healthcare providers in Houston, the healthcare real estate market remained hot through the second quarter with a flurry of transactions and a consistent push to bring services out to the consumer. In May, HCA acquired four Houston area suburban hospitals to expand their market share and gain a foothold in growing areas. The properties include the 423-bed Houston Northwest Medical Center, 181-bed Cypress Fairbanks Medical Center, 444-bed Park Plaza Hospital and the 350-bed Tomball Regional Medical Center. In June, Memorial Hermann & Texas Children's each opened suburban area hospitals, with Memorial providing the first acute care facility in Houston's northwest region and Texas Children's opening their colorful location in the Woodlands. Also in June, Everest Medical Properties acquired a fully leased portfolio for \$58 million from a group affiliated with the Richmond Bone and Joint Clinic that included Memorial Hermann Surgical Hospital and Physicians Pavilion in Sugar Land as well as UT Physicians facilities in both Sugar Land and Richmond. The acquisition totaled 147,000 RSF of fully occupied space with an average of 6.7 years remaining in term. In July, Houston Methodist opened a 470,000 SF, 193 bed hospital in the Woodlands near Highway 242 and I-45. Finally, UTMB announced plans to launch a \$156 million expansion for its League City campus which would include a 60-bed hospital and additional building space. The project would be built in two phases with parking and shell medical office space being delivered first and the 60-bed hospital space in the second phase. If approved, the project could be completed by 2020 and would expand League City's hospital bed county to a total of 97 beds.

Medical Office Building Stats

	MOB COUNT	TOTAL MOB SF
All MOBs	567	37,040,107
Construction	14	984,184
Off Campus	435	18,559,752
On Campus	132	18,480,355
Sold Past 12 Mos.	15	1,247,504

SOURCE: Revista, Transwestern

HEALTHCARE JOB GROWTH HOUSTON METRO AREA



*12-month job growth through May 2017

SOURCE: Bureau of Labor Statistics

Notable Q2 Lease Activity

TENANT	SQUARE FEET	LEASE TYPE	BUILDING	SUBMARKET
Elite Sinus Spine and Ortho, LLC	13,200 SF	Renewal	River Oaks Medical Center	Greenway Plaza

HOUSTON HEALTHCARE MARKET

MID-YEAR 2017

MARKET INDICATORS

Rents Keep Rising

Asking rental rates for all classes of medical office buildings (MOB's) continued to rise over the second quarter, ending the period at \$24.30 per SF gross, a 1.4% increase over the first quarter. Asking rates are heavily dependent upon a multitude of factors including location, building quality, features, amenities, demographics and insurance payer mix. That said, for Houston area metro MOB's, asking rents generally range from \$15.00 to \$50.00 per SF gross, with well located urban infill properties (The Medical Center, Museum District, Upper Kirby) at pushing the upper boundary of the range.

JOB GROWTH

Job Growth Returns

Year-over-year job numbers continue to paint the Houston healthcare sector as one of the primary drivers of growth in the city (12,700 jobs created through June 2017). After suffering a bit of a set back in the first quarter of the year, job growth for the sector returned to form, adding a total of 5,700 jobs over the period. Given the strong household growth that pushes the cities expansion, job growth is expected to remain strong for the remainder of the year.

SUPPLY & DEVELOPMENT

Robust Construction Pipeline

At just over 5.6 million SF of hospital and MOB construction underway across the Houston metro, the development pipeline remains highly active. As the industry continues to evolve, follow household growth, and look to more of a retail-centric approach, additional construction projects will be brought to the market. The pipeline should continued to decline though, large campuses supporting suburban growth deliver.

Largest Healthcare Systems

Houston Metro Area | 2016

HEALTHCARE SYSTEM	BEDS	LOCAL HOSPITALS
Memorial Hermann	3,613	12
HCA Gulf Coast Division	2,721	12
Houston Methodist	2,545	7
CHI St. Luke's Health	1,557	7
Tenet Healthcare Corp.	1,113	4
Harris Health System	963	3
Kindred Healthcare Inc.	950	11
St. Joseph Medical Center	792	2
Texas Children's Hospital	683	3
UT MD Anderson Cancer Center	654	1
Total	15,591	62

SOURCE Houston Business Journal

Notable Q2 Transactions

PROPERTY(S)	SUBMARKET(S)	BEDS/RBA	SALES PPSF	BUYER	SELLER
Northwest Medical Center Cypress	Northwest	604,461 SF 423 bed	N/A	HCA	Tenant Healthcare
Fairbanks Medical Center	FM 1960/Hwy 249	247,776 SF 181 bed	N/A	HCA	Tenant Healthcare
Park Plaza Hospital	South Main/Medical Center	248,452 SF 444 bed	N/A	HCA	Tenant Healthcare
Tomball Regional Medical Center	Northwest Outlier	255,949 SF 350 bed	N/A	HCA	CHS
Memorial Hermann Surgical Hospital (2 bldgs)	E Fort Bend Co/Sugar Land	48,790 SF	\$20.2M (alloc.)	Everest Medical Properties	Affiliation of Richmond Bone & Joint
Physicians Pavilion at Sugar Land	E Fort Bend Co/Sugar Land	42,301 SF	\$17.5M (alloc.)	Everest Medical Properties	Affiliation of Richmond Bone & Joint
UT Physicians	E Fort Bend Co/Sugar Land	49,078 SF	\$20.3M (alloc.)	Everest Medical Properties	Affiliation of Richmond Bone & Joint

SOURCE Real Capital Analytics, Revista, Transwestern

Notable MOBs Under Construction

BUILDING	SUBMARKET	SF	EXPECTED DELIVERY
Memorial Hermann - Medical Plaza 2	Northeast	100,000	Mar-18
Memorial Hermann - Medical Plaza 4	The Woodlands	173,000	Nov-17
Memorial Hermann Convenient Care Center	Northeast	45,000	Nov-17
Houston Methodist The Woodlands Bldg 2	The Woodlands	160,000	Mar-18
7619 Branford Place	Sugar Land	38,600	May-18
Integrated Medical Plaza	Clear Lake	75,000	Dec-18
Vision Park Boulevard	The Woodlands	49,840	Feb-18
Total		701,440	

SOURCE Revista, Transwestern

Notable Hospitals Under Construction

BUILDING	SUBMARKET	SF	EXPECTED DELIVERY
Houston Methodist	Texas Medical Center	1,000,000	Dec-17
Houston Methodist Sugar Land Hospital	Sugar Land	138,000	Jul-18
Houston Methodist West Campus	Far West	228,700	Jul-18
Memorial Hermann Northeast	Northeast	123,000	Dec-18
Memorial Hermann Texas Medical Center	Texas Medical Center	1,340,000	Mar-19
Memorial Hermann The Woodlands	The Woodlands	34,000	Sep-17
Baylor St. Luke's Medical Center McNair Campus	Texas Medical Center	900,000	Mar-19
Baylor St. Luke's Medical Center McNair Campus	Texas Medical Center	100,000	Mar-19
Texas Children's West Campus	Far West	640,000	Dec-18
Ben Taub General Hospital	Texas Medical Center	140,000	Mar-18
Houston VA Medical Center	Texas Medical Center	140,100	Sep-17
University of Texas MD Anderson Cancer Center	Texas Medical Center	185,000	Jan-18
Total		4,968,800	

SOURCE Revista, Transwestern

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HOUSTON HEALTHCARE MARKET

FIRST QUARTER 2017

Systems Continue to Struggle to Adapt Financially

Healthcare Demand Remains Strong

OVERVIEW

2017 Off to a Tepid Start

The Houston Healthcare sector has started slowly in 2017 with financial concerns impacting several healthcare systems as they attempt to adapt to a changing marketplace. Industry challenges, such as increasing technology costs, changes in payer mixes, and reimbursement rates have impacted organizations operating models as a whole. While the majority of organization's have effectively adjusted or are adapting to the change, companies such as CHI St. Luke's, Adeptus Health, and Foundation Healthcare have not fared as well, resulting in a tepid start to the year.

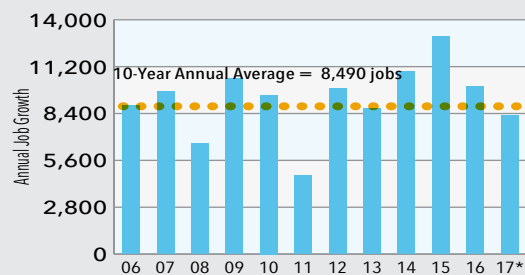
In late March, CHI St. Luke's Health System announced yet another round of layoffs, stating that it would eliminate more than 459 jobs and an additional 161 vacant positions statewide. This is the fourth round of layoffs CHI has announced over the previous two years as the company continues to struggle with lower patient volumes, reduced reimbursement via Medicaid and Medicare, and increased technology-related operating costs. Adeptus Health, a freestanding emergency room operator with over 29 Houston-area locations, appears to be headed for bankruptcy, having announced in March that it would be hiring a restructuring chief. Adeptus has grown rapidly over the past several years, initially opening facilities that lacked hospital network affiliations. This operating model led to problems for both Adeptus and its consumers, as patients were met with exorbitant bills not covered by insurance, and Adeptus faced difficulties with collecting fees directly from patients. Finally, the quarter's largest negative absorption event stemmed from the recent bankruptcy of Foundation Healthcare, which just one year prior, purchased University General Hospital, a 69-bed hospital at 7501 Fannin, for \$33 million.

Medical Office Building Stats

	MOB COUNT	TOTAL MOB SF
All MOBs	565	37,359,495
Construction	12	796,440
Off Campus	433	18,835,634
On Campus	132	18,523,861
Sold Past 12 Mos.	13	1,378,500

SOURCE: Revista, Transwestern

HEALTHCARE JOB GROWTH HOUSTON METRO AREA



*12-month job growth through February 2017 SOURCE: Bureau of Labor Statistics

Notable Q1 Leases

TENANT	SQUARE FEET	LEASE TYPE	BUILDING	SUBMARKET
Trilliant Surgical LTD	44,866 SF	New Lease	Corporate Center Shepherd	Inner Loop
Northwest Diagnostic Clinic	25,007 SF	New Lease	Springwoods Village MOB	The Woodlands
Houston Methodist	24,762 SF	New Lease	Museum Medical Tower	TMC

HOUSTON HEALTHCARE MARKET

FIRST QUARTER 2017

After operating the hospital for less than a year, Foundation was forced to file for bankruptcy, placing 109,000 SF at the Fannin hospital back on the market. Despite the issues surrounding these companies, overall demand in the sector remains healthy as it is fueled by a rapidly growing and aging population base. Healthcare networks will continue to look to increase market share by expanding services to where end-users reside, especially in growing, but underserved, suburban markets.

MARKET INDICATORS

Stable Leasing Activity Pushes Rents

Activity for the quarter remained robust as healthcare providers continue to seek out locations that align with the population growth and an effective insurance payer mix. Early this quarter, TexPharma announced that it will begin construction on a 210,000 SF building situated on 19 acres in Rosenberg, TX. On the leasing side, continued demand for medical office space has resulted in a rapid appreciation of rental rates. For Class A medical office buildings, average NNN asking rents increased by 3.5% annually, and over 1.6% over the quarter, ending at \$24.30 per SF.

JOB GROWTH

Strong Fundamentals Despite Losses

Year-over-year job numbers continue to paint the Houston healthcare sector as one of the primary drivers of growth in the city (8,300 jobs created through February 2017). However, the first two months of 2017 show losses in the sector of 1,900 jobs, occurring primarily in ambulatory and healthcare services. Considering the recent layoffs announced by CHI St. Luke's, the short-term prognosis is for slow to no job growth as the market absorbs the additional losses. That said, the underlying fundamentals of the market are positioned well for long-term growth.

SUPPLY & DEVELOPMENT

Robust Construction Pipeline

At just over 5.1 million SF of hospital and MOB construction underway across the Houston metro, the development pipeline remains highly active. However, there will likely be a significant reduction as several large projects are set to deliver throughout the balance of the year. Additional construction activity over the year will be focused on smaller facilities with negligible impact on the overall pipeline.

Largest Healthcare Systems

Houston Metro Area | 2016

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Memorial Hermann	3,613	12
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Tenet Healthcare Corp.	1,113	4
Harris Health System	963	3
Kindred Healthcare Inc.	950	11
St. Joseph Medical Center	792	2
Texas Children's Hospital	683	3
UT MD Anderson Cancer Center	654	1
Total	15,591	62

SOURCE Houston Business Journal

Notable Q1 Transactions

PROPERTY	SUBMARKET	RBA	SALES PRICE	SELLER	BUYER
San Jacinto Professional Building	Baytown/Channelview	71,760 SF	Undisclosed	TMH Medical Office Building	Houston Methodist Hospital
1431 Studemont	Inner Loop	44,000 SF	Undisclosed	Studemont Venture LP	Inland RE Group

SOURCE Real Capital Analytics, Revista, Transwestern

Notable MOBs Under Construction

BUILDING	SUBMARKET	SF	EXPECTED DELIVERY
Memorial Hermann - Medical Plaza 4	The Woodlands	173,000	May-17
Memorial Hermann Convenient Care Center	Northeast	45,000	Jun-17
Houston Methodist - MOB 2	The Woodlands	160,000	Mar-18
Integrated Medical Plaza	Clear Lake	75,000	Jun-17
7619 Branford Place	Sugar Land	38,599	Sep-17
700 E. Medical Center Blvd.	Clear Lake	30,000	Mar-18
Heritage Place II	Conroe	20,000	May-17
Altus Surgical Hospital	Near Southwest	15,000	May-17
Total		556,599	

SOURCE Revista, Transwestern

Notable Hospitals Under Construction

BUILDING	SUBMARKET	SF	EXPECTED DELIVERY
Memorial Hermann Texas Medical Center	Texas Medical Center	1,340,000	Mar-19
Memorial Hermann Northeast	Northeast	123,000	Feb-19
Memorial Hermann The Woodlands	The Woodlands	34,000	Sep-17
Houston Methodist	Texas Medical Center	1,000,000	Dec-17
Houston Methodist The Woodlands	The Woodlands	470,000	Jul-17
Houston Methodist West Campus	Far West	228,700	Jul-18
Houston Methodist Sugar Land	Sugar Land	138,000	Jul-18
Baylor St. Luke's Medical Center McNair Campus	Texas Medical Center	900,000	Mar-19
Baylor St. Luke's Medical Center McNair Campus	Texas Medical Center	100,000	Mar-19
University of Texas MD Anderson Cancer Center	Texas Medical Center	185,000	Jan-18
Ben Taub General Hospital	Texas Medical Center	140,000	Mar-18
Houston VA Medical Center	Texas Medical Center	140,100	Sep-17
Bay Area Regional Medical Center	Clear Lake	100,000	May-17
Texas Children's West Campus	Far West	75,000	Jun-17
Total		4,973,800	

SOURCE Revista, Transwestern

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HOUSTON HEALTHCARE MARKET

YEAR-END 2016

Houston Healthcare Continues Growth Trajectory

Job cuts not indicative of market fundamentals

OVERVIEW

The chase for market share

The Houston healthcare market continued to expand through the fourth quarter as hospital systems looked to increase market share through acquisitions, partnerships, and adding new facilities. The development pipeline remains active with over 5.5 million SF in various stages of construction. Much of this activity is set to serve the growing suburban populations in the North, West, and Southwest areas of Houston. According to the most recent Texas Health Market Review, the Houston area has added 1,000 hospital rooms over the past 5 years with average utilization of 70.4%, up from 67.4% in 2013 and indicative of trend of slowing inpatient utilization despite network growth. Hospital networks are combating the decrease in utilization by replacing semi-private rooms with private rooms to limit the number of net new beds. Regardless of strong underlying fundamentals, two systems, MD Anderson & Memorial Hermann, announced job cuts over the period. MD Anderson announced plans to eliminate up to 1,000 positions as short-term profitability woes driven by a technology implementation impacted operations. Alternatively, Memorial Hermann looked to cut just over 100 management positions in order to flatten and streamline their organizational structure. Neither moves are indicative of systemic woes, as both networks are actively hiring, and overall hospital profitability in Texas remains strong. All in all, the primary business goal of provider systems continues to be chasing growth in geographic reach, number of patients seen, and revenues.

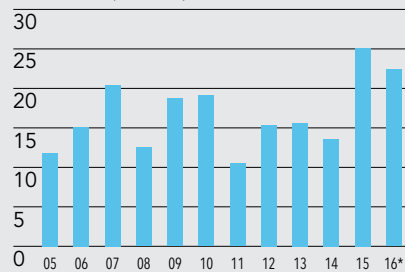
Medical Office Building Stats

	MOB COUNT	TOTAL MOB SF
All MOBs	553	35,778,503
Construction	9	492,840
Off Campus	421	17,339,762
On Campus	132	18,438,741
Sold Past 12 Mos	12	1,386,280

SOURCE: Revista, Transwestern

HEALTHCARE JOB GROWTH HOUSTON METRO AREA

Annual Job Growth (in Thousands)



*12-month job growth through November 2016 SOURCE: Bureau of Labor Statistics

Notable Q4 Leases

TENANT	SQUARE FEET	LEASE TYPE	BUILDING	SUBMARKET
Sovereign Health of California	57,605 SF	New Lease	17506 Red Oak Drive	FM 1960/I-45 North
TX Alcohol and Drug Testing Service	22,580 SF	New Lease	Lantern Bend Medical Plaza	FM 1960/I-45 North
MHMRA	14,047 SF	Renewal	3600 S Gessner Dr	Westchase

HOUSTON HEALTHCARE MARKET

YEAR-END 2016

MARKET INDICATORS

Market fundamentals remain strong

Healthcare market fundamentals continue to be solid in the Houston region as population growth combined with an aging demographic (12.3% - 62 years and over) provide an expanding base requiring healthcare services. Additionally, the advancement of technology in healthcare is helping to extend lives longer, resulting in increased consumption of healthcare services as elder care needs become more prevalent. This growth and evolution all underscore an increasing need for healthcare services both in specialization and in proximity to patients – to which Houston-area hospital systems are aggressively chasing. As a result, the healthcare sector continued add the most jobs in Houston over the year, totaling 22,400 jobs over the 12 months ending in November.

SUPPLY AND DEVELOPMENT

Construction pipeline robust

Currently, there is just over 5.5 million SF of hospital and MOB construction underway across the Houston metro. Large institutional construction remains extremely active as hospital networks look to increase market share and fill demand created by consistent population growth in the suburbs. Memorial Hermann and Houston Methodist comprise over 3.0 million SF of current projects under construction with more expansions planned. The development pipeline is anticipated to remain strong through the end of the year, although there may be a slight drop off as large projects deliver in 2017.

OUTLOOK

All systems go

The forecast for the Houston healthcare market is sustained strength, even as a new administration looks to repeal and replace the ACA. Primed off a rapidly increasing and aging population base, Houston healthcare networks are continually striving to increase their market share by expanding services to where end-users reside. Considering an improving economy overall, healthcare fundamentals will remain healthy through the balance of 2017.

Largest Healthcare Systems

Houston Metro Area | 2016

HEALTHCARE SYSTEM	BEDS	LOCAL HOSPITALS
Memorial Hermann	3,613	12
HCA Gulf Coast Division	2,721	12
Houston Methodist	2,545	7
CHI St. Luke's Health	1,557	7
Tenet Healthcare Corp.	1,113	4
Harris Health System	963	3
Kindred Healthcare Inc.	950	11
St. Joseph Medical Center	792	2
Texas Children's Hospital	683	3
UT MD Anderson Cancer Center	654	1
Total	15,591	62

SOURCE Houston Business Journal

Notable Q4 Transactions

PROPERTY	SUBMARKET	SALE PRICE	CAP RATE	SELLER	BUYER
Kingwood Medical Arts Building	Kingwood/Humble	Undisclosed	Undisclosed	Kingwood Healthcare Partners, LP	HCP

SOURCE Real Capital Analytics, Revista, Transwestern

Notable MOBs Under Construction

BUILDING	SUBMARKET	SF	EXPECTED DELIVERY
Memorial Hermann - Medical Plaza 4	The Woodlands	173,000	Feb-17
Memorial Hermann Convenient Care Center	Northeast	45,000	Jun-17
Memorial Hermann Convenient Care Center	Tomball	30,000	May-17
Heritage Place II	Conroe	20,000	Apr-17
Altus Surgical Hospital	Near Southwest	15,000	Apr-17
Shadow Creek Ranch Professional Plaza I	South	101,000	Oct-17
Cypress Creek Lakes	290 Corridor	29,000	Dec-17
Total		413,000	

SOURCE Revista, Transwestern

Notable Hospitals Under Construction

BUILDING	SUBMARKET	SF	EXPECTED DELIVERY
Memorial Hermann Cypress Medical Center	290 Corridor	321,000	May-17
Memorial Hermann Texas Medical Center	Texas Medical Center	1,340,000	Mar-19
Memorial Hermann The Woodlands	The Woodlands	34,000	Sep-17
Houston Methodist	Texas Medical Center	1,000,000	Dec-17
Houston Methodist The Woodlands	The Woodlands	470,000	Jul-17
Houston Methodist West Campus	Far West	228,700	Jul-18
Houston Methodist Willowbrook	Tomball	25,000	Apr-17
Baylor St. Luke's Medical Center McNair Campus	Texas Medical Center	100,000	Mar-19
Baylor St. Luke's Medical Center McNair Campus	Texas Medical Center	900,000	Mar-19
Texas Children's West Campus	Far West	75,000	Jun-17
University of Texas MD Anderson Cancer Center	Texas Medical Center	185,000	Jan-18
Bay Area Regional Medical Center	Clear Lake	100,000	May-17
Ben Taub General Hospital	Texas Medical Center	140,000	Feb-19
Edith Irby Jones Healthcare Center	South	118,000	Feb-17
Houston VA Medical Center	Texas Medical Center	140,100	Sep-17
Total		5,176,800	

SOURCE Revista, Transwestern

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HOUSTON HEALTHCARE MARKET

THIRD QUARTER 2016

Houston Healthcare Remains Bright

Major healthcare expansions still underway

OVERVIEW

Healthcare market continues to perform

The Houston healthcare market remains strong in the face of adversity while other commercial real estate disciplines struggle to gain traction in a changing economic environment. Job growth within the healthcare sector continues to perform well as hospital systems carry on with existing expansion plans around the metro in order to fulfill the demands created by recent growth in the region. In September, Texas Children's Hospital acquired the iconic O'Quinn Tower as well as Baylor College of Medicine's outpatient clinic in Houston's prestigious Medical Center expanding their TMC presence by approximately 800k SF. Life sciences and biotech continue to display growth as well, with new expansions recently being announced. Most notably, biotech firm Lonza announced plans to add approximately 150k SF of expansion space to its facility currently under construction in Pearland.

JOB GROWTH

Job growth continues at a steady pace

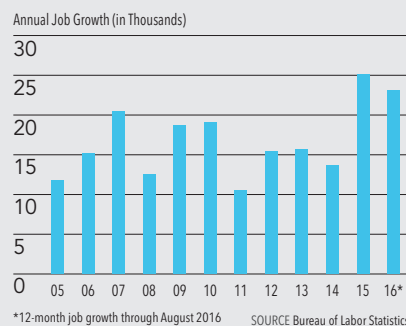
The healthcare sector has continued to add the most jobs in Houston, totaling 23,100 jobs over the 12 months ending in August. The healthcare and social assistance subsector comprised the largest component of growth through the 3rd quarter, adding 12,500 jobs over the rolling 12-month period. Recent observations from the Purchasing Manager's Index indicate that the rate of job growth in the sector could begin to slow as healthcare budgets down throttle to modest expansion levels. However, the continued growth and development of new hospital systems, coupled with the expansion of the life sciences and biotech sectors, will continue creating new jobs through 2017.

Medical Office Building Stats

	MOB COUNT	TOTAL MOB SF
All MOBs	556	36,015,540
Construction	10	542,340
Off Campus	423	17,348,870
On Campus	133	18,666,670
Sold Past 12 Mos	19	2,184,466

SOURCE: Revista, Transwestern

HEALTHCARE JOB GROWTH HOUSTON METRO AREA



Notable Q3 Leases

TENANT	SQUARE FEET	LEASE TYPE	BUILDING	SUBMARKET
Baylor College of Medicine	55,346	New	6624 Fannin	Texas Medical Center
Houston Methodist	25,000	New	5505 West Loop South	Inner Loop
GulfQuest, LLP	15,059	Renewal	1315 St. Joseph Pkwy	Inner Loop
Physician Reliance, LLC	10,972	Expansion	13125 Dotson	Tomball

HOUSTON HEALTHCARE MARKET

THIRD QUARTER 2016

MARKET INDICATORS

Market fundamentals are positive

Healthcare market fundamentals continue to fare well as the recent development cycle has been in reaction to Houston's population growth over the past 4-6 years. Even with a robust development pipeline, vacancy remains tight and demand for space continues to thrive. Increased demand and falling vacancy rates have helped to further escalate rental rates over the course of the year. Looking ahead, the healthcare market will remain strong through the end of 2016, while 2017 should see a stabilization in rents and absorption as the systems catch their breath to see what's in store on the legislative landscape post-election.

SUPPLY AND DEVELOPMENT

Construction pipeline remains active

Currently, there is just under 5.0 million SF of hospital and MOB construction underway across the Houston metro. Large institutional construction remains extremely active, while MOB projects are occurring in several growing submarkets such as the West, Northwest and Northeast. Memorial Hermann and Houston Methodist comprise over 3.0 million SF of current projects under construction with more expansions planned. The development pipeline is anticipated to remain strong through the end of the year, although there may be a slight drop off as large projects deliver in 2017.

OUTLOOK

Continued growth at a more moderate pace

While much of the surrounding market suffers through the energy downturn, the Houston healthcare market drives on boosted by an aging population combined with strong household growth. However, the benefits of these areas are beginning to diminish. Post-election policy changes to the ACA will create hesitancy in decision making, while the demographic cohorts that have driven new supply have largely been accounted for through the existing pipeline. Still, healthcare fundamentals will remain healthy through the balance of 2016 and heading favorably into 2017.

Largest Healthcare Systems

Houston Metro Area | 2015

HEALTHCARE SYSTEM	BEDS	LOCAL HOSPITALS
Memorial Hermann	3,512	12
HCA Gulf Coast Division	2,666	10
Houston Methodist	2,316	7
CHI St. Luke's Health	1,390	6
Tenet Healthcare Corp.	1,178	4
Harris Health System	963	3
Kindred Healthcare Inc.	920	12
St. Joseph Medical Center	792	2
UT MD Anderson Cancer Center	654	1
Texas Children's Hospital	650	2
Total	15,041	59

SOURCE Houston Business Journal

Notable Q3 Transactions

PROPERTY	SUBMARKET	SALE PRICE	CAP RATE	SELLER	BUYER
O'Quinn Medical Tower & Baylor Clinic Building	Texas Medical Center	Undisclosed	Undisclosed	Baylor St. Luke's Medical Center	Texas Children's Hospital
Rotunda Building	Sugar Land	N/A	N/A	Rotunda Ltd.	Woodside Health & Crescendo Commercial joint venture

SOURCE Real Capital Analytics, Revisa, Transwestern

Notable MOBs Under Construction

BUILDING	SUBMARKET	SF	EXPECTED DELIVERY
Memorial Hermann - Medical Plaza 4	The Woodlands	175,000	Feb-17
Memorial Hermann Convenient Care Center	Tomball	30,000	May-17
Heritage Place II	Conroe	20,000	Apr-17
Altus Surgical Hospital	Near Southwest	15,000	Apr-17
Pearland Medical Commons Plaza II	South	47,500	Dec-16
Total		287,500	

SOURCE Revista, Transwestern

Notable Hospitals Under Construction

BUILDING	SUBMARKET	SF	EXPECTED DELIVERY
Memorial Hermann Cypress Medical Center	290 Corridor	321,000	May-17
Memorial Hermann Texas Medical Center	Texas Medical Center	1,340,000	Mar-19
Houston Methodist	Texas Medical Center	1,000,000	Dec-17
Houston Methodist The Woodlands	The Woodlands	34,000	Sep-17
Houston Methodist West Campus	Far West	228,700	Jul-18
Houston Methodist Willowbrook	Tomball	25,000	Apr-17
Baylor St. Luke's Medical Center McNair Campus	Texas Medical Center	100,000	Mar-19
Baylor St. Luke's Medical Center McNair Campus	Texas Medical Center	900,000	Mar-19
Texas Children's West Campus	Far West	75,000	Jun-17
University of Texas MD Anderson Cancer Center	Texas Medical Center	185,000	Jan-18
Bay Area Regional Medical Center	Clear Lake	100,000	May-17
Ben Taub General Hospital	Texas Medical Center	140,000	Dec-17
Edith Irby Jones Healthcare Center	South	118,000	Feb-17
Houston VA Medical Center	Texas Medical Center	140,100	Sep-17
Total		4,706,800	

SOURCE Revista, Transwestern

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HOUSTON HEALTHCARE MARKET

MID-YEAR 2016

Healthcare Continues to Flourish

Nearly \$5 billion in development activity underway

OVERVIEW

Healthcare boosting overall economy

The Houston healthcare market has been helping sustain the economy during this long energy downturn. Hospital systems are still expanding rapidly to meet the robust population growth from 2011 to 2015. The development pipeline remains strong with close to five billion dollars in development either underway or planned by major hospital systems, physician groups and in the life sciences sector throughout the metro. Further advances in technology are changing the scope of how hospitals track patient records and how to provide more efficient care. AT&T Foundry for Connected Health just opened a location in the TMC, one of only six in the world. This new lab will help test ideas for age-in place patients and postoperative patients. This is evidence of how technology will continue to evolve the healthcare industry in the period ahead.

JOB GROWTH

Largest job gains in Houston

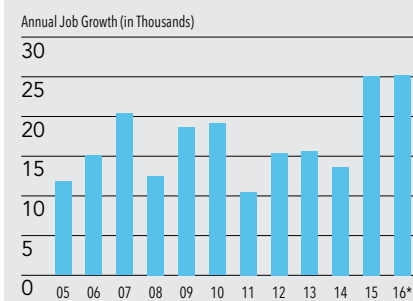
The healthcare sector has been robust, adding 25,200 jobs over the 12 months ending in May. The healthcare and social assistance subsector comprised the largest component of this growth, adding 15,000 jobs over this period. The development of new hospitals will create opportunities for residents seeking employment in the healthcare sector. The growing diversity of the healthcare sector in biotech and life sciences will also boost job growth creation. The Greater Houston Partnership anticipates that the healthcare sector will create the most new jobs of any sector in 2016 as it continues to be a source of strength for the economy.

Medical Office Bldg Stats

	MOB COUNT	TOTAL MOB SF
All MOBs	549	34,720,533
Construction	11	754,731
Off Campus	417	17,055,027
On Campus	132	17,665,506
Sold Past 12 Mos	27	2,591,393

SOURCE: Revista, Transwestern

HEALTHCARE JOB GROWTH HOUSTON METRO AREA



*12-month job growth through May 2016

SOURCE: Bureau of Labor Statistics

Notable Q2 Leases

TENANT	SQUARE FEET	LEASE TYPE	BUILDING	SUBMARKET
Kindred/Gentiva/Girling	28,536	Renewal	6700 & 6750 West Loop South	Inner Loop
Methodist	25,000	New	5505 West Loop South	Inner Loop
Texas Children's Hospital	19,921	New	Corner of MLK Blvd and Griggs Rd	South
Gulf Quest LP	15,059	Renewal	1315 St. Joseph Parkway	Inner Loop
Texas Children's Hospital	13,112	New	2200 Yale	Inner Loop
Baylor College of Medicine	12,517	New	O'Quinn Medical Tower	Texas Medical Center

HOUSTON HEALTHCARE MARKET

MID-YEAR 2016

MARKET INDICATORS

Vacancy still on downward trajectory

The healthcare sector has maintained strong market fundamentals through mid-year 2016. Vacancy rates remain tight due the limited availability of space, especially within the urban core. Net absorption continues to be driven by MOB deliveries in both infill and surrounding suburban submarkets. Rental rates have been pushed further by rising demand and falling vacancy rates. Looking ahead, the healthcare market is expected to thrive as other commercial real estate sectors struggle to gain traction in a changing market.

SUPPLY AND DEVELOPMENT

Construction activity strong

Currently, there is just under 6.0 million SF of hospital and MOB construction underway across the Houston metro. The construction pipeline for MOBs and hospitals, primarily large institutions, continues to thrive, especially in growing submarkets including West, Northwest and Northeast. Memorial Hermann and Houston Methodist make up nearly 4.0 million SF of current projects under construction, with more expansion projects in the pipeline. The population boom over recent years should encourage strong healthcare development as the demand for healthcare facilities remains high.

OUTLOOK

Virtually no challenges for healthcare

The flourishing healthcare market has been driven by an aging population and changes to the Affordable Care Act (ACA). This trend is likely to carry the market through the end of 2016 and into 2017. Large hospital institutions will continue to seek opportunities for new development in expanding suburbs such as The Woodlands, Katy, and Sugar Land. This will extend the length of the development up-cycle for a little longer. The biggest concern for the healthcare market is the upcoming presidential election and the impact it could have on the ACA. The Houston economy will continue to benefit from a robust healthcare market in the period ahead.

Largest Healthcare Systems

Houston Metro Area | 2015

HEALTHCARE SYSTEM	BEDS	LOCAL HOSPITALS
Memorial Hermann	3,512	12
HCA Gulf Coast Division	2,666	10
Houston Methodist	2,316	7
CHI St. Luke's	1,390	6
Tenet Healthcare Corp.	1,178	4
Harris Health System	963	3
Kindred Healthcare Inc.	920	12
St. Joseph Medical Center	792	2
UT MD Anderson Cancer Center	654	1
Texas Children's Hospital	650	2
Total	15,041	59

SOURCE Houston Business Journal

Notable Q2 Transactions

PROPERTY	SUBMARKET	SALE PRICE	CAP RATE	SELLER	BUYER
Imperial Medical Center	Sugar Land	Undisclosed	Undisclosed	Norvin Partners	Harrison Street Realty Capital & Pisula Development joint venture
UT Physicians Multispecialty Practice	Pasadena	\$5.2 million	N/A	Houston Partners Realty, LLC	IRA Realty Capital

SOURCE Real Capital Analytics, Revisa, Transwestern

Notable MOBs Under Construction

BUILDING	SUBMARKET	SF	EXPECTED DELIVERY	VALUE (IN MILLIONS)
Memorial Hermann - Medical Plaza 4	The Woodlands	175,000	Feb-17	\$66.50
Memorial Hermann Convenient Care Center	Tomball	30,000	May-17	\$20.40
Memorial Hermann Cypress	290 Corridor	165,000	Aug-16	\$35.60
Kelsey Seybold Clinic Sienna Plantation	Sugar Land	23,731	Aug-16	\$9.00
Charles A LeMaistre	Texas Medical Center	10,200	Sep-16	\$6.40
Vision Park Boulevard	The Woodlands	50,000	Aug-16	\$7.50
Pearland Medical Commons Plaza I & II	South	95,000	Jun-17	\$16.00
Total		548,931		\$161.4 million

SOURCE Revista, Transwestern

Notable Hospitals Under Construction

BUILDING	SUBMARKET	SF	EXPECTED DELIVERY	VALUE (IN MILLIONS)
Memorial Hermann	The Woodlands	50,000	Sep-16	\$25.0
Memorial Hermann	Sugar Land	185,000	Nov-16	\$78.0
Memorial Hermann Cypress Medical Center	290 Corridor	321,000	Oct-17	\$168.0
Memorial Hermann Texas Medical Center	Texas Medical Center	1,340,000	Mar-19	\$650.0
Houston Methodist	Texas Medical Center	1,000,000	Dec-17	\$697.0
Houston Methodist The Woodlands	The Woodlands	470,000	Jul-17	\$278.0
Houston Methodist West Campus	Far West	228,700	Sep-18	\$115.0
Houston Methodist Willowbrook	Tomball	25,000	Apr-17	\$15.0
Baylor St. Luke's Medical Center McNair Campus	Texas Medical Center	100,000	Sep-16	\$49.0
Baylor St. Luke's Medical Center McNair Campus	Texas Medical Center	900,000	Mar-19	\$916.8
Texas Children's West Campus	Far West	75,000	Jun-17	\$50.0
University of Texas MD Anderson Cancer Center	Texas Medical Center	185,000	Jan-18	\$198.0
Bay Area Regional Medical Center	Clear Lake	100,000	May-17	\$100.0
Ben Taub General Hospital	Texas Medical Center	140,000	Dec-17	\$70.0
Edith Irbby Jones Healthcare Center	South	118,000	Feb-17	\$30.0
Houston VA Medical Center	Texas Medical Center	140,100	Sep-17	\$9.5
Total		5,377,800		\$3.5 billion

SOURCE Revista, Transwestern

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HOUSTON HEALTHCARE MARKET

FIRST QUARTER 2016

Healthcare Remains Red-Hot

Emerging sectors drive expansion

OVERVIEW

Keeping economy afloat

The Houston healthcare market has remained resilient through the oil downturn, emerging as a bright spot in the economy, and area hospitals are expanding at a brisk pace in reaction to the metro's booming growth from 2011 to 2014. For the second consecutive year, Houston led the nation in population growth, driving demand in consumer sectors such as healthcare, retail and education. Currently, close to five billion dollars in development is either underway or planned by major hospital systems, physician groups and in the life sciences sector across the metro. In addition, new technological advances are changing the way hospital systems track medical records and approach patient care. Apple and the Texas Medical Center (TMC) just announced a partnership to create an application, called TMC|Care, that will follow post-surgical patients and monitor recovery.

JOB GROWTH

Largest job growth in metro

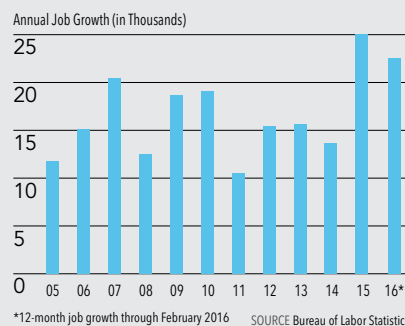
The healthcare sector has been robust, adding 22,100 jobs over the 12 months ending in February. The healthcare and social assistance subsector comprised the largest component of this growth, adding 14,400 jobs over this period. Texas Children's Health Plan will be hiring 500 new employees after being selected by the Texas Health and Human Services Commission as a health plan in its STAR Kids Program. The majority of the new staff will be located in the hospital's recently leased office space in the Bellaire submarket. The Greater Houston Partnership has projected healthcare to be the largest job creator across the metro in 2016.

Medical Office Bldg Stats

	MOB COUNT	TOTAL MOB SF
All MOBs	544	34,535,854
Construction	12	813,731
Off Campus	414	16,989,887
On Campus	130	17,545,967
Sold Past 12 Mos	25	2,494,420

SOURCE: Revista, Transwestern

HEALTHCARE JOB GROWTH HOUSTON METRO AREA



Notable Q1 Leases

TENANT	SQUARE FEET	LEASE TYPE	BUILDING	SUBMARKET
Houston Methodist Primary Care	47,500	Prelease	Pearland Medical Commons 2	South
Memorial Hermann CCC	44,000	New	4533 W Lake Houston Pkwy	Kingwood
Houston Methodist	20,000	New	League Line MOB	Conroe
ERC Intermediate Holdco, LLC	10,251	New	7515 South Main	Texas Medical Center
Houston Methodist Primary Care	10,000	New	4710 Bellaire	Bellaire
Baylor College of Medicine	8,758	New	7515 South Main	Texas Medical Center
Family Medicine	8,000	New	League Line MOB	Conroe

HOUSTON HEALTHCARE MARKET

FIRST QUARTER 2016

MARKET INDICATORS

Vacancy remains tight

Market fundamentals have proven strong in the healthcare sector through the first quarter of 2016. Vacancy rates continue to shrink as limited healthcare supply from the previous cycle makes finding quality space a challenge. Increased demand and falling vacancy rates have led to substantial rental rate growth. Absorption has been driven by numerous medical office building (MOB) deliveries both in the TMC core and suburban areas. Looking ahead, the market will likely continue to flourish even as a weakened economy affects other commercial real estate sectors.

SUPPLY AND DEVELOPMENT

Pipeline continues to ramp up

There is more than 5.5 million SF of hospital and MOB construction currently underway across the Houston metro. Institutional construction activity remains extremely high, while MOB activity is surging in several growing submarkets including West, Northwest and Northeast. The Baylor St. Luke's McNair Campus recently broke ground on Tower 2, a 420-bed patient tower, which is scheduled to deliver in 2019. The entire McNair campus is expected to reach 1.2 million SF and cost approximately \$1.1 billion. With increasing demand for multiple types of healthcare facilities, the construction pipeline should remain steady in the period ahead.

OUTLOOK

All signs point up

The healthcare market has been booming in Houston due to the sheer impact of the Texas Medical Center, a growing and aging population and the Affordable Care Act (ACA). The dust has settled since the ACA's passing in 2010, leading to renewed confidence in the industry and a much needed influx of construction activity. Hospital systems will continue to explore expansion possibilities in growing communities like The Woodlands and Katy. The only question mark on the horizon appears to be the upcoming presidential election and its potential impact on the ACA.

Largest Healthcare Systems

Houston Metro Area | 2015

HEALTHCARE SYSTEM	BEDS	LOCAL HOSPITALS
Memorial Hermann	3,512	12
HCA Gulf Coast Division	2,666	10
Houston Methodist	2,316	7
CHI St. Luke's	1,390	6
Tenet Healthcare Corp.	1,178	4
Harris Health System	963	3
Kindred Healthcare Inc.	920	12
St. Joseph Medical Center	792	2
UT MD Anderson Cancer Center	654	1
Texas Children's Hospital	650	2
Total	15,041	59

SOURCE Houston Business Journal

Notable Q1 Transactions

PROPERTY	SUBMARKET	SALE PRICE	CAP RATE	SELLER	BUYER
1200 Binz	Texas Medical Center	\$60.0 million (\$247/SF)	6.5%	Altera Development Company	Healthcare Trust of America
Bellaire Medical Plaza	Inner Loop	\$6.25 million (\$107/SF)	7.1%	Simpkins Group	Ridgeline Capital Partners
Peakwood Medical (3 building portfolio)	Near North	\$8.5 million	6.5%	Peakwood Professional Building	i3 Interest & Atlas Real Estate Partners joint venture

SOURCE Real Capital Analytics, Revista, Transwestern

Notable MOBs Under Construction

BUILDING	SUBMARKET	SF	EXPECTED DELIVERY	VALUE (IN MILLIONS)
Memorial Hermann - Medical Plaza 4	The Woodlands	175,000	Feb-17	\$66.50
Memorial Hermann Convenient Care Center	Tomball	30,000	May-17	\$20.40
Memorial Hermann Cypress	290 Corridor	165,000	Aug-16	\$35.60
Integrated Medical Plaza	Clear Lake	75,000	Jun-16	\$21.00
Kelsey Seybold Clinic Sienna Plantation	Sugar Land	23,731	Aug-16	\$9.00
Charles A LeMaistre	Texas Medical Center	10,200	Sep-16	\$6.40
Cypress Creek Lakes	290 Corridor	29,000	Jun-16	\$17.00
Vision Park Boulevard	The Woodlands	50,000	Aug-16	\$7.50
Total		557,931		\$183.4 million

SOURCE Revista, Transwestern

Notable Hospitals Under Construction

BUILDING	SUBMARKET	SF	EXPECTED DELIVERY	VALUE (IN MILLIONS)
Memorial Hermann	The Woodlands	50,000	Sep-16	\$25.0
Memorial Hermann	Sugar Land	185,000	Nov-16	\$78.0
Memorial Hermann Cypress Medical Center	290 Corridor	321,000	Oct-17	\$168.0
Memorial Hermann Texas Medical Center	Texas Medical Center	1,340,000	Mar-19	\$650.0
Houston Methodist	Texas Medical Center	800,000	Jun-17	\$512.0
Houston Methodist Sugar Land	Sugar Land	60,000	May-16	\$131.0
Houston Methodist The Woodlands	The Woodlands	470,000	Jul-17	\$278.0
Houston Methodist West Campus	Far West	228,700	Sep-18	\$115.0
Houston Methodist Willowbrook	Tomball	25,000	Apr-17	\$15.0
Baylor St. Luke's Medical Center McNair Campus	Texas Medical Center	100,000	Sep-16	\$49.0
Baylor St. Luke's Medical Center McNair Campus	Texas Medical Center	900,000	Mar-19	\$916.8
Texas Children's West Campus	Far West	75,000	Jun-17	\$50.0
University of Texas MD Anderson Cancer Center	Texas Medical Center	185,000	Jan-18	\$198.0
Bay Area Regional Medical Center	Clear Lake	100,000	May-17	\$100.0
Ben Taub General Hospital	Texas Medical Center	undisclosed	Dec-17	\$70.0
Edith Irby Jones Healthcare Center	South	118,000	Feb-17	\$30.0
Houston VA Medical Center	Texas Medical Center	140,100	Sep-17	\$9.5
Total		5,097,400		\$3.4 billion

SOURCE Revista, Transwestern

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METHODOLOGY

The information in this report is the result of a compilation of information on office, industrial, retail, multifamily and healthcare properties located in the Houston metropolitan area. This report includes single-tenant, multi-tenant and owner-user properties and excludes properties owned and occupied by a government agency.

