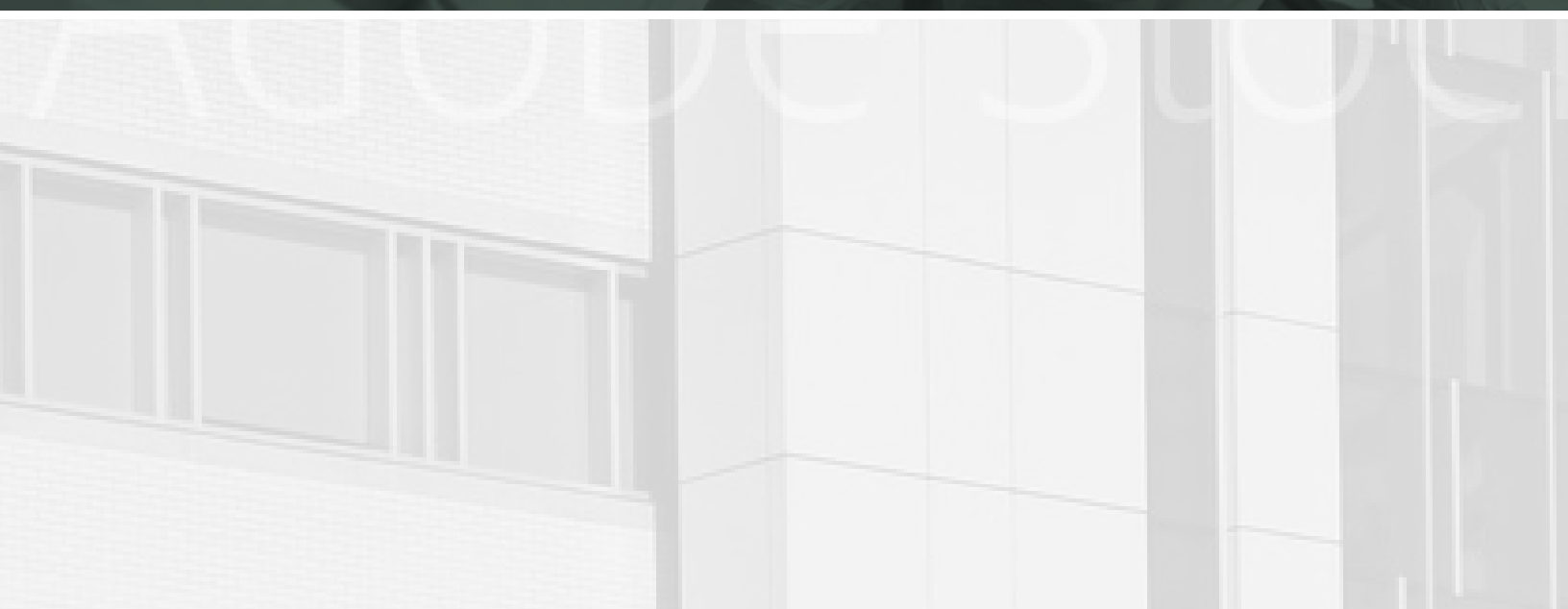




MEDICAL OFFICE DEVELOPMENT MARKET UPDATE

Q1 2020



Q1 2020 MEDICAL OFFICE DEVELOPMENT MARKET UPDATE

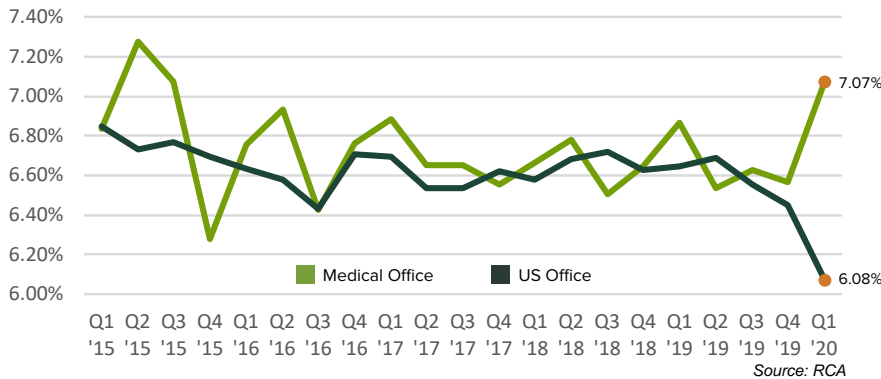
Medical office building (MOB) sales slowed modestly in Q1 2020 from Q4 2019 levels. However, year-over-year transaction volume increased by 36%, and price per square foot increased by 87%. Medical office properties accounted for 20% of Q1 2020 office transactions—up from 4% the previous quarter—underscoring solid demand for this coveted asset class.

MOB transactions maintained high volume and favorable pricing at the beginning of Q1 2020, similar to the performance observed throughout 2019. Despite a significant increase in sales volume year-over-year, we expect some slowing due to COVID-19. We believe that Q1 2020 data does not fully present the financial and economic impact of the crisis, as many of the transactions were already closed or through due diligence at the onset of the outbreak. Despite market uncertainty, we have observed investors, including private equity funds, non-publicly traded REITs, and Delaware Statutory Trusts, continue to focus on executing their core strategy—deploying capital into high-quality assets. We have not seen evidence of decreased valuations from this buyer class.

Cap rates remained at historical lows in Q1 2020, on par with Q4 2019 levels, with a reported average of 6.6% nationwide. We expect to see a slight increase through the remainder of 2020 due to the economic effects of COVID-19; however, given the strong buyer pool and reduced supply in market, we do not anticipate a material spike given the desirable investment attributes of this asset class (most notably long-term leases, strong and stable tenants), and overall growth in the healthcare industry. Long-term demand for medical office space is expected to remain high, supported by trends such as an aging population and movement to outpatient care within communities.

The pandemic has created a high level of uncertainty in commercial real estate lending. Although the 10-year Treasury yield remains at historical lows and is a low-cost source of long-term financing for investors, lenders are becoming more hesitant to deploy capital as their available funds dwindle, which is likely to slow overall transaction volume.

MEDICAL OFFICE CAP RATES INCREASE AS COVID-19 IMPACTS ECONOMY



Q1 2020 MARKET AT A GLANCE

147

Q1 2020 TRANSACTIONS

\$2.2b

Q1 2020 SALES VOLUME

▲ 36%

INCREASE FROM Q1 2019

\$301

AVERAGE PRICE/SF Q1 2020

▼ 1%

PRICE/SF DECREASE FROM Q1 2019

7.0%

12-MONTH AVERAGE CAP RATE

INDUSTRY TRENDS & REGIONAL REVIEWS

INDUSTRY TRENDS

Cap rates remained at historical lows during Q1 2020 meeting Q4 2019 with a reported average of 6.6% nationwide; however, we expect to see a slight increase as we look forward to the remainder of the year due to the COVID-19 pandemic.

The pandemic has also created a high level of uncertainty in commercial real estate lending. Although the 10-Year Treasury Yield remains at historical lows providing low-cost, long-term debt for investors, lenders are more hesitant to lend as their available funds dwindle, which will slow overall transaction volume.



SOUTHEAST

Tennessee-based Montecito Medical Real Estate was active in Q1 2020, predominantly in

the Southeast region where their activity accounted for nearly 6% of total transactions. Montecito's largest transaction was the acquisition of a Class A MOB and ambulatory surgery center (ASC) in Tyler, Texas. Acquired from the Musculoskeletal Institute of Tyler*, the 63,574 square foot property sold for \$17.4 million, which is nearly 20% higher than the average transaction value for the region and 13% higher than the national average in Q1 2020. Built in 2000, the

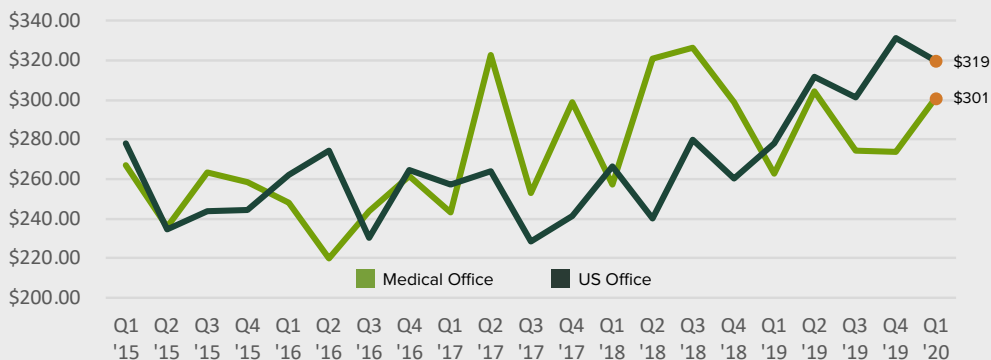
orthopedic clinic and ASC is occupied by Azalea Orthopedic & Spine and Baylor Scott & White Texas Spine & Joint Hospital.

**Disclosure: BGL's Healthcare Real Estate team served as the exclusive advisor to The Musculoskeletal Institute of Tyler in this transaction.*

Healthcare Realty Trust Incorporated (NYSE: HR) acquired a 15,964 square foot, multi-tenant MOB with lab space from M&M Equity Investments LLC. The property was built in 2005 and is located in Raleigh, North Carolina. The \$6.3 million sale price is 4% higher than the Q1 2019 regional average. The \$396 per square foot (PSF) sale price is 34% higher than the regional average price per square foot in Q1 2020.

Virginia-based Anchor Health Properties acquired a five-story, Class A, 77,469 square foot MOB in Palm Beach Gardens, Florida. The asset sold for \$24.3 million, which is 58% and 6% higher than the national and regional averages for Q1 2020. The building was 84.3% leased at the time of sale. Occupancy was noted as having increased nearly 15% over the 18 months preceding the sale. Known as Gardens Medical Pavilion, the property is the only MOB located along PGA Boulevard.

MEDICAL OFFICE PRICE/SF INCREASED TO \$301



Source: RCA

REGIONAL REVIEWS



MID-ATLANTIC

New York-based investment company Global Net Lease (NYSE: GNL) acquired a

two-property portfolio from RVG Management & Development. The property, consisting of a 16,956 square foot single tenant MOB and a 9,962 square foot multi-tenant MOB, sold for \$13.2 million. The \$491 PSF sale price is 43% higher than the regional average sale price and 133% higher in price per square foot when compared to Q1 2019.

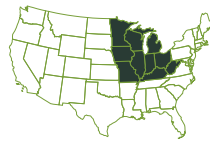


NORTHEAST

Life sciences real estate development company IQHQ, Inc., acquired a 285,556

square foot property located on Brookline Avenue in Boston, Massachusetts. The property was acquired from Chicago-based Equity Commonwealth (NYSE: EQC) for \$270 million. The transaction set a price per square foot record for the Northeast region of \$945 and was 115% and 156% higher than the regional averages for Q1 2020 and Q1 2019, respectively. The acquisition follows the recent announcement of IQHQ's \$770 million capital raise that will enable the company to invest in additional life sciences projects.

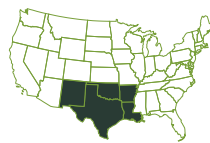
Illinois-based MBRE Healthcare completed the \$320 million acquisition of a 100% occupied, multi-tenant building from New York-based, private developer The Krog Group. Located in Waltham, MA, the property houses several medical groups including Southtowns Surgery Center. The \$744 PSF sale price represents premiums of 489% and 132% above the Q1 2020 and Q1 2019 regional averages, respectively.



MIDWEST

Wisconsin-based, privately held Hammes Real Estate Partners acquired a 60,231

square foot, 100% leased, multi-tenant MOB from McLean County Orthopedics. The property, known as the Center for Integrated Wellness, is located in Bloomington, Illinois. The \$21.6 million sale price is nearly 185% above the regional average transaction value for Q1 2020, and at \$358 PSF, is 41% and 39% higher than the regional averages in Q1 2020 and Q1 2019, respectively.



SOUTH CENTRAL

Illinois-based, privately owned real estate investment management firm Harrison Street

Real Estate Capital acquired The University of Texas MD Anderson Cancer Center building in The Woodlands area of Conroe, Texas from The Howard Hughes Corp. (NYSE: HHC). The 208,000 square foot medical office building sold for \$115 million, or \$553 PSF. The sale price represents an average price per square foot premium in excess of 100% and accounted for 52% of total reported transaction volume for the region in Q1 2020. The sale was completed on a tax-free basis for federal income tax purposes as part of a Reverse 1031 Exchange involving the company's December deal with Occidental.



INTERMOUNTAIN

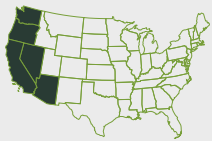
Healthcare Realty Trust Incorporated (NYSE: HR) acquired the Highlands Ranch Campus,

a three-property MOB portfolio in Highlands Ranch, Colorado from Bancroft Capital. At the time of sale, the property was 93% leased with

REGIONAL REVIEWS

Kaiser Permanente, Centura Health, and Children's Hospital Colorado occupying 36% of the space. The portfolio totals nearly 144,000 square feet and transacted at \$232 PSF which is within 10% of the regional average for Q1 2020.

Nebraska-based, privately held Noddle Development acquired Nebraska Medicine Village Pointe Health Center from Dana Magid Development. Located in Omaha, Nebraska, the three-story, 96,764 square foot MOB transacted for nearly \$30.1 million. The \$311 PSF price is approximately 24% higher than the regional average for Q1 2020. The total transaction value represents a 23% premium above the region's total transaction value for Q1 2020.



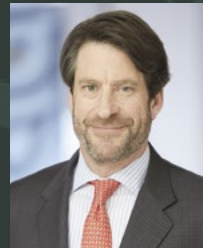
WEST

Privately held, Texas-based GMD Medical Properties, LLC purchased the Camelback

Medical Plaza in Phoenix, Arizona. The property previously sold in 2013 for \$2.8 million with 55% occupancy, in 2018 for \$7.3 million with 100% occupancy, and in Q1 2020 for \$9.25 million with 97% occupancy. The 46,697 square foot, four-story property was built in 1981 with renovations completed in 2014, equating to a price per square foot of \$198.

Healthcare Realty Trust Incorporated (NYSE:HR) purchased the 79,539 square foot Taj Mahal MOB located in Laguna Hills, California. The property consists of a 100% occupied, four-story building that was constructed in 1964 and modernized in 2011. The \$42 million transaction (\$528 PSF) represents a 26% increase in the quarterly regional average price per square foot.

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BGL HEALTHCARE REAL ESTATE

BGL's Healthcare Real Estate team is a leading advisor to private and institutional healthcare organizations, having completed over \$3 billion in real estate transactions. We are recognized for our deep understanding of all asset types, broad-based relationships, and expertise in complex transaction structures which help our clients maximize the value of their real estate assets.

Together with BGL's Healthcare & Life Sciences investment banking team, we offer an integrated approach to sustainable relationships.

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