

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

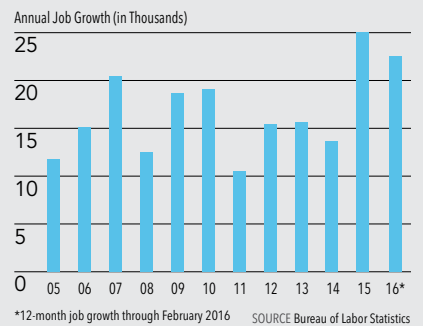
The healthcare sector has been robust, adding 22,100 jobs over the 12 months ending in February. The healthcare and social assistance subsector comprised the largest component of this growth, adding 14,400 jobs over this period. Texas Children's Health Plan will be hiring 500 new employees after being 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

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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, Revisita, 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.

