

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

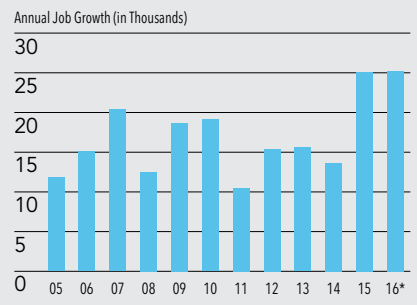
The healthcare sector has been robust, adding 25,200 jobs over the 12 months ending in May. The healthcare and social assistance subsector comprised the largest component of this growth, adding 15,000 jobs over this period. The development of new hospitals will create opportunities for residents seeking 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

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MARKET INDICATORS

Vacancy still on downward trajectory

The healthcare sector has maintained strong market fundamentals through mid-year 2016. Vacancy rates remain tight due to 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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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.

