

HOUSTON HEALTHCARE MARKET

MID-YEAR 2017

Systems Continue to Struggle to Adapt Financially Healthcare Demand Remains Strong

OVERVIEW

Strong Activity in Second Quarter

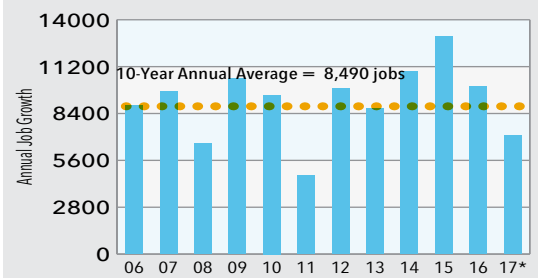
Despite headlines surrounding the operating struggles of several major healthcare providers in Houston, the healthcare real estate market remained hot through the second quarter with a flurry of transactions and a consistent push to bring services out to the consumer. In May, HCA acquired four Houston 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

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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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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.

