

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

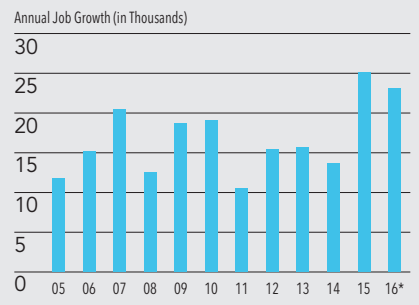
The healthcare sector has continued to add the most jobs in Houston, totaling 23,100 jobs over the 12 months ending in August. The healthcare and social assistance subsector comprised the largest component of growth through the 3rd quarter, adding 12,500 jobs over the rolling 12-month period. Recent 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



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

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

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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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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.

