REAL ESTATE OUTLOOK

HOUSTON HEALTHCARE MARKET

THIRD QUARTER 2017

Hurricane Harvey Impacts Healthcare

Fundamentals remain flawless

OVERVIEW

Healthcare market drenched by Harvey

The third quarter saw Hurricane Harvey rain down on the Texas coast and place a significant burden on many medical practices across the Houston healthcare sector. According to the Texas Medical Association, just under 140 practices suffered serious damages or were destroyed. Market wide, 44 hospitals, nursing homes and assisted-living facilities required evacuations due to the flooding. Considering the damages that remain to a number of practices throughout the market, it could take well into the new year before all operations are back to normal. That said, fundamentals for the sector remain strong with population growth in both urban and suburban locations driving demand for the providers in near proximity.

Sales activity for the period remained strong, fueled by portfolio transactions. In September, Medical Properties Trust purchased two Houston area hospitals for $244.5 million, including the 458,569 SF George W. Strake Building for $199.6 million and the 102,946 SF St. Joseph Women's Outpatient Center for $44.9 million. Dallas based MedProperties Holdings also acquired three properties; the 56,992 SF OakBend Doctors Center – Grand Parkway, the 49,585 SF OakBend Doctors Center – Southwest, and the 32,100 SF Kingwood Professional Plaza for a total of approximately $55.0 million. A notable delivery this quarter is the 170,000 SF Memorial Hermann MOB in the Woodlands, a facility that will support the needs of continued suburban household growth. While leasing activity was subdued for the quarter, it is anticipated to return to form towards the end of the year.

JOB GROWTH

12,700 Jobs Created Year-over-Year

The healthcare sector is still one of the primary drivers of growth in the city, although job creation was lower this quarter. Year-over-year job numbers for the Houston healthcare sector have declined from 12,700 created through June 2017 to 6,800 created through September 2017. Though a decline from the previous quarter, this still represents a 2.1%

Medical Office Building Stats

	MOB COUNT	TOTAL MOB SF
All MOBs	535	31,056,635
Construction	8	619,600
Off Campus	432	16,230,503
On Campus	95	14,206,532
Sold Past 12 Mos.	34	2,386,917

SOURCES: Transwestern, Revista, CoStar

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

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increase year-over-year. Job growth was low with only 300 jobs for the quarter, but will likely pick up throughout the remainder of the year as strong household growth pushes demand for health-care.

MARKET INDICATORS

Rents and Vacancy

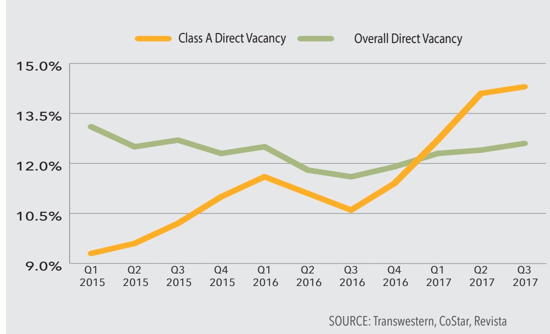
Asking rental rates for all classes of Medical Office Buiding (MOB's) saw little change over the third quarter, finishing the period at an average of $24.90 per SF gross. Asking rates are heavily dependent upon a multitude of factors including location, building quality, features, amenities, demographics and insurance payer mix. 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) pushing the upper boundary of the range. Vacancy rates amongst all classes averaged 12.4% for the third quarter, slightly higher than the 12.2% recorded in the second quarter. Class A properties ended the quarter with slightly vacancy higher than that of the broad market, at 14.3%.

SUPPLY & DEVELOPMENT

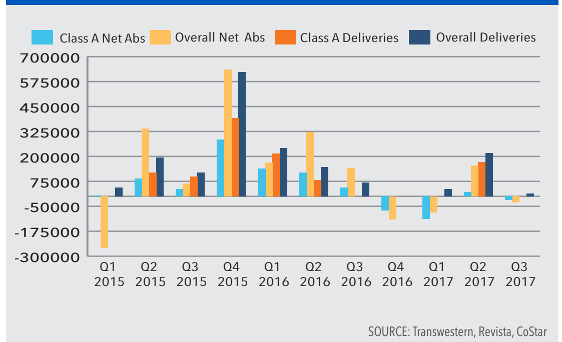
Robust Construction Pipeline

As the industry continues to evolve, developers are paying closer attention to markets with the highest levels of household growth, and looking for sites closer to major retail clusters . We are currently seeing the most transactional activity occurring in the north,west and southwest submarkets of Houston.

DIRECT VACANCY HOUSTON METRO AREA



DELIVERIES VS ABSORPTION HOUSTON METRO AREA



HEALTHCARE JOB GROWTH HOUSTON METRO AREA

Notable Q3 Transactions

PROPERTY(S)	SUBMARKET(S)	RBA	SALES PPSF	BUYER	SELLER
George W. Strake Building	Inner Loop	458,569	$435	Medical Properties Trust	Steward Health Care System
St Joseph Women's Outpatient Center	Inner Loop	102,946	$435	Medical Properties Trust	Steward Health Care System
OakBend Doctors Center - Grand Parkway	Sugar Land	56,992	$371	MedProperties Holdings	Harrison Street Realty Capital
OakBend Doctors Center - Southwest	Sugar Land	49,585	$371	MedProperties Holdings	Harrison Street Realty Capital
Kingwood Professional Plaza	Northeast	32,100	$371	MedProperties Holdings	Pinecroft Realty

SOURCE Real Capital Analytics, Revista, Transwestern

Notable MOBs Under Construction

BUILDING	SUBMARKET	SF	EXPECTED DELIVERY
Memorial Hermann Convenient Care Center	Northeast	45,000	11/1/2017
Houston Methodist The Woodlands MOB 2	The Woodlands	160,000	3/1/2018
MD Anderson West Houston	Far West	175,000	12/1/2018
Heritage Place II	Montgomery	20,000	12/1/2017
7619 Branford Place	Sugar Land	38,600	5/1/2018
Bay Area Medical Center & Medistar MOB	Clear Lake	60,000	9/1/2018
Shadow Creek Ranch Professional Plaza I	South	101,000	10/1/2018
Webster Medical Plaza	Clear Lake	20,000	12/1/2018
Total		**619,600**	

SOURCE Revista, Transwestern

Notable Hospitals Under Construction

BUILDING	SUBMARKET	SF	EXPECTED DELIVERY
Memorial Hermann Texas Medical Center	Texas Medical Center	1,340,000	3/1/2019
Memorial Hermann Northeast	Northeast	123,000	12/1/2018
Houston Methodist North Tower	Texas Medical Center	1,000,000	12/1/2017
Houston Methodist Sugar Land Hospital	Sugar Land	138,000	5/1/2019
University Of Texas MD Anderson Cancer Center	Texas Medical Center	185,000	1/1/2018
Ben Taub General Hospital	Texas Medical Center	140,000	3/1/2018
Houston Methodist West Hospital	Far West	228,700	7/1/2018
Texas Children's Hospital	Far West	640,000	12/1/2018
Baylor St Luke's Medical Center Mcnair Campus	Texas Medical Center	185,000	3/1/2019
Bay Area Regional Medical Center	Clear Lake	43,000	9/1/2019
University Of Texas Medical Branch John Sealy Hospital	Galveston	200,000	10/1/2020
Total		**4,222,700**	

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.

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