

HOUSTON HEALTHCARE MARKET

YEAR-END 2016

Houston Healthcare Continues Growth Trajectory

Job cuts not indicative of market fundamentals

OVERVIEW

The chase for market share

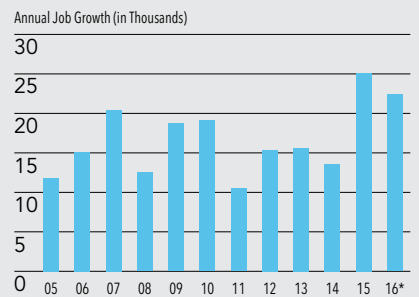
The Houston healthcare market continued to expand through the fourth quarter as hospital systems looked to increase market share through acquisitions, partnerships, and adding new facilities. The development pipeline remains active with over 5.5 million SF in various stages of construction. Much of this activity is set to serve the growing suburban populations in the North, West, and Southwest areas of Houston. According to the most recent Texas Health Market Review, the Houston area has added 1,000 hospital rooms over the past 5 years with average utilization of 70.4%, up from 67.4% in 2013 and indicative of trend of slowing inpatient utilization despite network growth. Hospital networks are combating the decrease in utilization by replacing semi-private rooms with private rooms to limit the number of net new beds. Regardless of strong underlying fundamentals, two systems, MD Anderson & Memorial Hermann, announced job cuts over the period. MD Anderson announced plans to eliminate up to 1,000 positions as short-term profitability woes driven by a technology implementation impacted operations. Alternatively, Memorial Hermann looked to cut just over 100 management positions in order to flatten and streamline their organizational structure. Neither moves are indicative of systemic woes, as both networks are actively hiring, and overall hospital profitability in Texas remains strong. All in all, the primary business goal of provider systems continues to be chasing growth in geographic reach, number of patients seen, and revenues.

Medical Office Building Stats

	MOB COUNT	TOTAL MOB SF
All MOBs	553	35,778,503
Construction	9	492,840
Off Campus	421	17,339,762
On Campus	132	18,438,741
Sold Past 12 Mos	12	1,386,280

SOURCE: Revista, Transwestern

HEALTHCARE JOB GROWTH HOUSTON METRO AREA



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

Notable Q4 Leases

TENANT	SQUARE FEET	LEASE TYPE	BUILDING	SUBMARKET
Sovereign Health of California	57,605 SF	New Lease	17506 Red Oak Drive	FM 1960/I-45 North
TX Alcohol and Drug Testing Service	22,580 SF	New Lease	Lantern Bend Medical Plaza	FM 1960/I-45 North
MHMRA	14,047 SF	Renewal	3600 S Gessner Dr	Westchase

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MARKET INDICATORS

Market fundamentals remain strong

Healthcare market fundamentals continue to be solid in the Houston region as population growth combined with an aging demographic (12.3% - 62 years and over) provide an expanding base requiring healthcare services. Additionally, the advancement of technology in healthcare is helping to extend lives longer, resulting in increased consumption of healthcare services as elder care needs become more prevalent. This growth and evolution all underscore an increasing need for healthcare services both in specialization and in proximity to patients – to which Houston-area hospital systems are aggressively chasing. As a result, the healthcare sector continued add the most jobs in Houston over the year, totaling 22,400 jobs over the 12 months ending in November.

SUPPLY AND DEVELOPMENT

Construction pipeline robust

Currently, there is just over 5.5 million SF of hospital and MOB construction underway across the Houston metro. Large institutional construction remains extremely active as hospital networks look to increase market share and fill demand created by consistent population growth in the suburbs. 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

All systems go

The forecast for the Houston healthcare market is sustained strength, even as a new administration looks to repeal and replace the ACA. Primed off a rapidly increasing and aging population base, Houston healthcare networks are continually striving to increase their market share by expanding services to where end-users reside. Considering an improving economy overall, healthcare fundamentals will remain healthy through the balance of 2017.

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 Q4 Transactions

PROPERTY	SUBMARKET	SALE PRICE	CAP RATE	SELLER	BUYER
Kingwood Medical Arts Building	Kingwood/Humble	Undisclosed	Undisclosed	Kingwood Healthcare Partners, LP	HCP

SOURCE Real Capital Analytics, Revista, Transwestern

Notable MOBs Under Construction

BUILDING	SUBMARKET	SF	EXPECTED DELIVERY
Memorial Hermann - Medical Plaza 4	The Woodlands	173,000	Feb-17
Memorial Hermann Convenient Care Center	Northeast	45,000	Jun-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
Shadow Creek Ranch Professional Plaza I	South	101,000	Oct-17
Cypress Creek Lakes	290 Corridor	29,000	Dec-17
Total		413,000	

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
Memorial Hermann The Woodlands	The Woodlands	34,000	Sep-17
Houston Methodist	Texas Medical Center	1,000,000	Dec-17
Houston Methodist The Woodlands	The Woodlands	470,000	Jul-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	Feb-19
Edith Irby Jones Healthcare Center	South	118,000	Feb-17
Houston VA Medical Center	Texas Medical Center	140,100	Sep-17
Total		5,176,800	

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.

