

Intelligent Investment

U.S. Healthcare & Life Sciences Capital Markets

REPORT

Investor & Developer
Survey Results
2024

CBRE



To Healthcare Real Estate Providers, Investors and Developers

CBRE U.S. Healthcare Capital Markets presents the 2024 findings of our 14th annual Investor & Developer Survey. The survey uncovers key patterns and forces driving the healthcare and life sciences real estate industry, allowing our clients to better understand the state of the market and potential trends for the coming year.

We would be pleased to create a customized benchmark comparison of the responses of your firm and the national sample. Please contact the U.S. Healthcare Capital Markets team via email at Chris.Bodnar@cbre.com to coordinate a presentation of our findings or request a personalized benchmarking of your firm's assets.

Thank you to all the participants in this year's survey.

Sincerely,


CBRE U.S. Healthcare Capital Markets Investment Properties and BlackBirch Capital



Chris Bodnar
CBRE
Vice Chair and
Managing Director



Brannan Knott
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Jaime Jones Vantsa
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Investment Sales Manager

Methodology

- This year’s survey contained 32 questions on various facets of the healthcare and life sciences real estate market.
- The survey was distributed to approximately 500 of real estate’s most influential healthcare real estate trusts (REITs), institutional healthcare investors, private capital investors and developers throughout the United States, with a 20%+ response rate.
- To ensure the accuracy of our survey results, we removed duplicate responses from the same firm as a measure to not exaggerate or inflate results for specific questions.



Highlights

This primary study generated qualitative industry data that provides an understanding of investor and developer return expectations, investment criteria and, most importantly, market shifts and progressions that these key professionals anticipate in the coming year. Among the most intriguing findings of this year's study include the following:

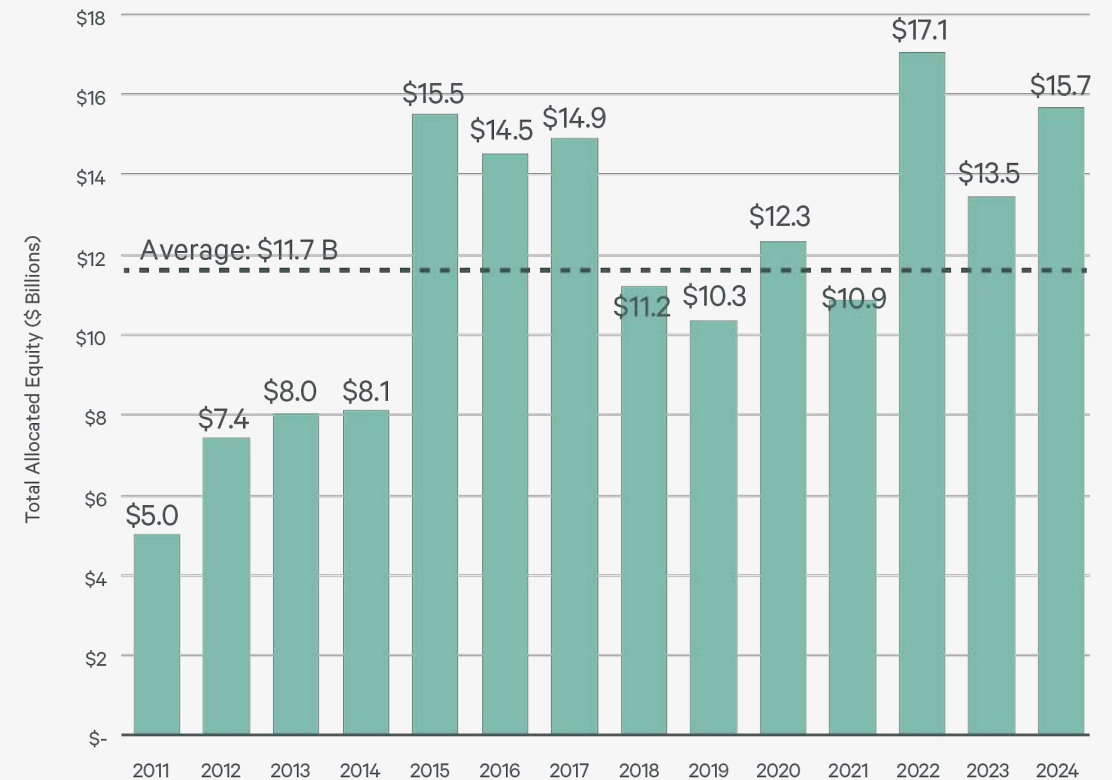


Investment Criteria

The 2024 survey results suggest that more capital is being allocated to healthcare real estate compared to 2023, with a steadily increasing forecasted transaction volume of \$15.7 billion, which is significantly above the historical average of \$11.7 billion. The 2024 total aims to be more than 90% of the record allocation of \$17.1 billion in 2022. Furthermore, the 2024 total represents a 17% year-over-year increase from \$13.5 billion in 2023.

We attribute the increased allocation to healthcare real estate's stability in times of volatility and shifts away from other property types experiencing challenges, such as traditional office.

Figure 1: Capital Allocation to Healthcare Real Estate



Highlights (continued)



2024 Challenges

Higher interest rates and general uncertainty in the economy's current direction continue to impact commercial real estate markets. For the second year in a row, most healthcare real estate investors (75%) identify rising interest rates as the greatest challenge they expect to face in 2024, indicating their continued focus on debt markets and close attention to future actions of the Federal Reserve. The Fed held interest rates steady at its January 2024 policymaking meeting. This marks the fourth consecutive meeting with no change to rates since July 2023, when the committee increased the Fed funds rate to 5.25% to 5.50%, the highest target rate range since 2001. While it seems unlikely that there will be any further rate hikes in 2024, the timing of potential rate cuts remains uncertain. CBRE anticipates the Fed could start lowering rates around mid-year 2024, however inflation must first lower to a sustainable sub-2% rate. Inflation, as measured by headline CPI, currently stands at 3.1%.



Top-Performing Markets

Investors continue to be drawn to high-performing markets, particularly in the Sun Belt region, with Dallas/Fort Worth, Atlanta and Nashville as favorites among investors in 2024. The Sun Belt has experienced continual growth due to its business-friendly environment, lower cost of living and mild climate. Currently, the Sun Belt region represents approximately 50% of the national population, making it an attractive destination for investment opportunities.

In 2024, investor preferences were not as heavily weighted towards the Sun Belt, with only three markets landing in the top five list, as compared to all five in 2023.

Investors appear to be warming up to sunnier year-round climates, as both Phoenix (#2) and Miami/South Florida (#4) moved into the top five in 2024.



Return Requirements

Compared to our 2023 survey, cap rates have increased 50 basis points (bps) on average across all quality classes (Class A/B and on/off-campus), and on-campus assets have a 50-bps premium compared to off-campus assets. Around 71% of respondents predict that a market cap rate for Class A on-campus product will be less than 6.50% in 2024 (compared to 85% in 2023). Meanwhile, 80% of poll respondents (compared to 86% in 2023) predict that the cap rate for Class A, off-campus MOBs will be less than 7.0% in 2024.

While healthcare fundamentals remain strong, interest rates and economic uncertainty have steadily pushed cap rates and return metrics up from the historical lows experienced at the beginning of 2022.



Planned Investment Activity

The majority (69%) of survey respondents indicate plans to be net buyers of healthcare product in 2024. Of the respondents, 79% of all private capital and 93% of institutional healthcare investors consider themselves to be net buyers.

Though only 14% of respondents expect to be net sellers of healthcare product in 2024, this represents a year-over-year increase of 6%. This gain may be due to a loan maturity, forcing investors to choose to sell versus refinance at higher interest rates, or they may need a liquidity event. It may also be influenced by the completion of construction projects, since developers account for 60% of the net seller makeup in 2024.

Highlights (continued)



Market Fundamentals

Interest rate increases by the Federal Reserve through mid-2023 heavily impacted commercial real estate markets. Healthcare portfolios around the country have proven to be incredibly stable, with 97% of respondents indicating that their medical outpatient portfolio occupancy is either the same or higher compared to the previous year.

Investors and developers continue to believe that healthcare rental rates will grow at a tenable rate, with most investors (72%) anticipating an annual rent growth of 2%-4%.



Life Sciences

Despite the slowdown in commercial real estate, the life sciences market continues to grow. The life sciences industry in the U.S. saw a record level of venture capital funding in 2021, hitting a new high of \$33 billion. Though venture capital annual funding as of Q3 2023 was down by 46.3% from its peak in Q4 2021, in Q3 2023 it increased for the first time since its record high and was roughly 17% higher than the pre-pandemic average during 2018-2019. The amount of venture capital expected in 2024 is estimated at \$10.3 billion (CBRE Report).

Of respondents who plan to be active in the life sciences sector in 2024, just over one third (34%) indicated they were net buyers, a year-over-year decrease of 18%. Of this group, 75% of private capital investors and 100% of all institutional healthcare investors consider themselves to be net buyers.



01

Profile of Participating Firms

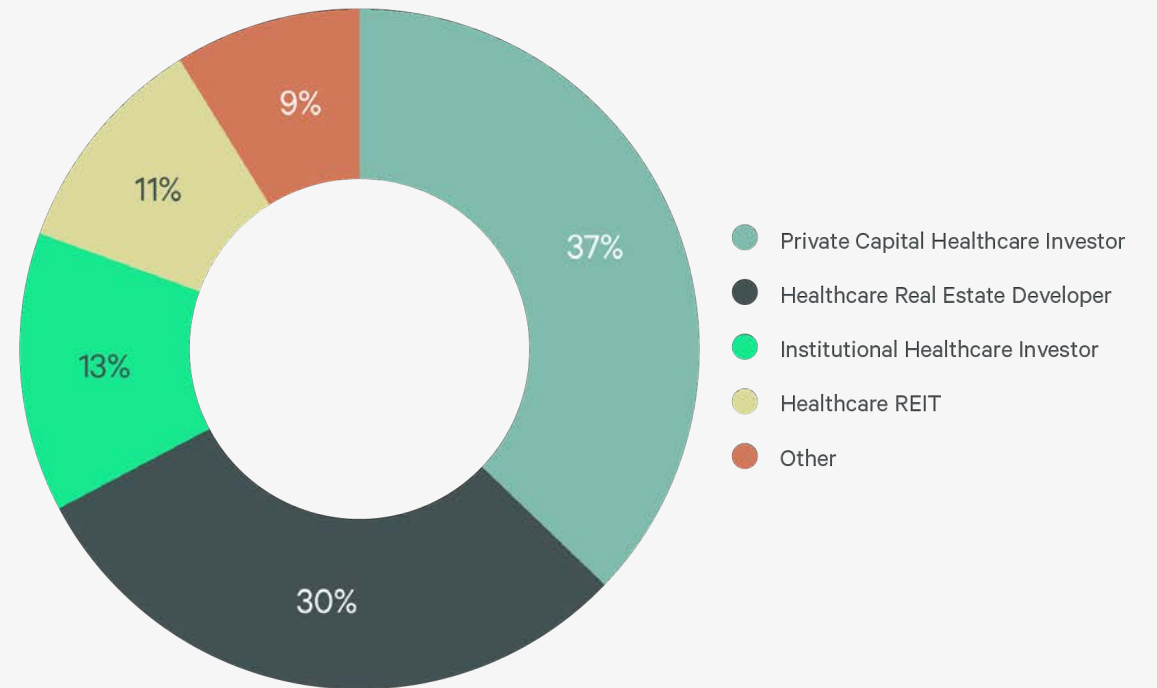
Question 1

Type of Healthcare Investor

Our survey drew a wide range of responses, with private capital healthcare investors accounting for the largest type represented at

37%

Figure 2: Type of Healthcare Investor



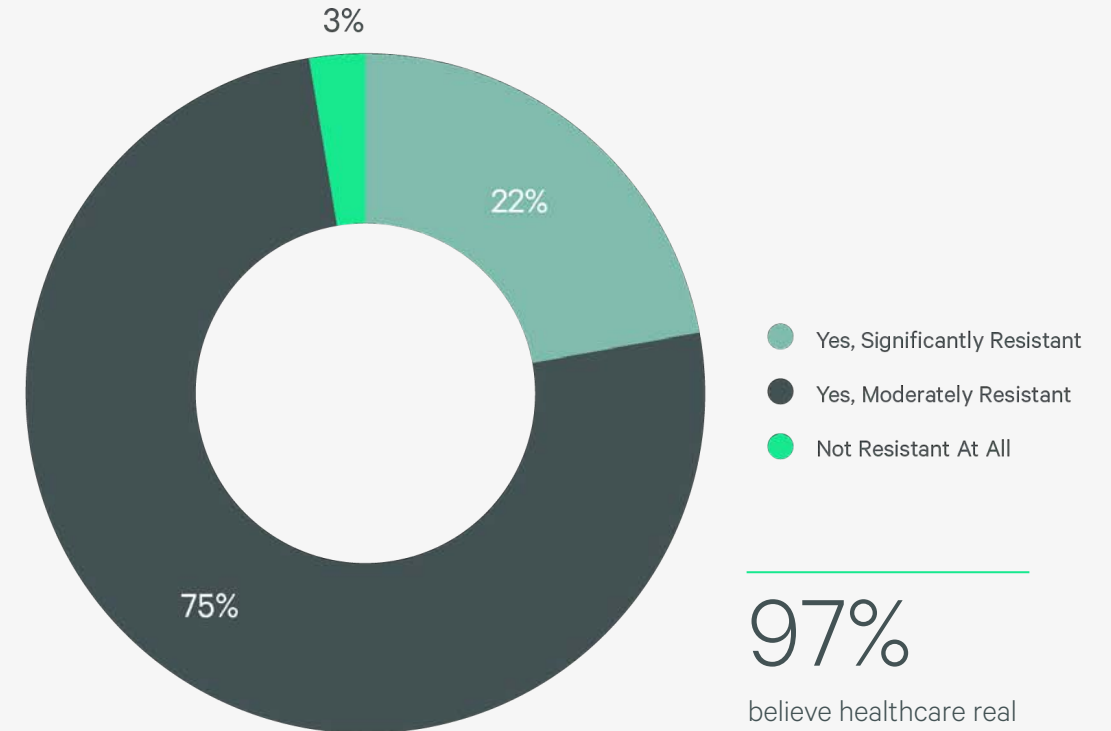
Question 2

Do you believe the healthcare real estate industry to be recession-resistant?

The economy and commercial real estate industry have experienced turbulence over the last 18 months caused largely by interest rate hikes and resulting market instability. Compared to the more challenged traditional office sector, healthcare real estate assets are typically stable and highly desirable, resulting in an increased flow of capital from the office sector to healthcare.

Healthcare real estate has historically served as a refuge for investors during economic downturns and the industry proved its resiliency during the COVID-19 pandemic. Nearly all (97%) of respondents believe that healthcare real estate is “significantly resistant” (22%) or “moderately resistant” (75%) to recessions.

Figure 3: Healthcare Real Estate Sector Resiliency



97%

believe healthcare real estate is at least moderately recession resistant

Question 3

What are possible headwinds that could impact the MOB market in 2024?

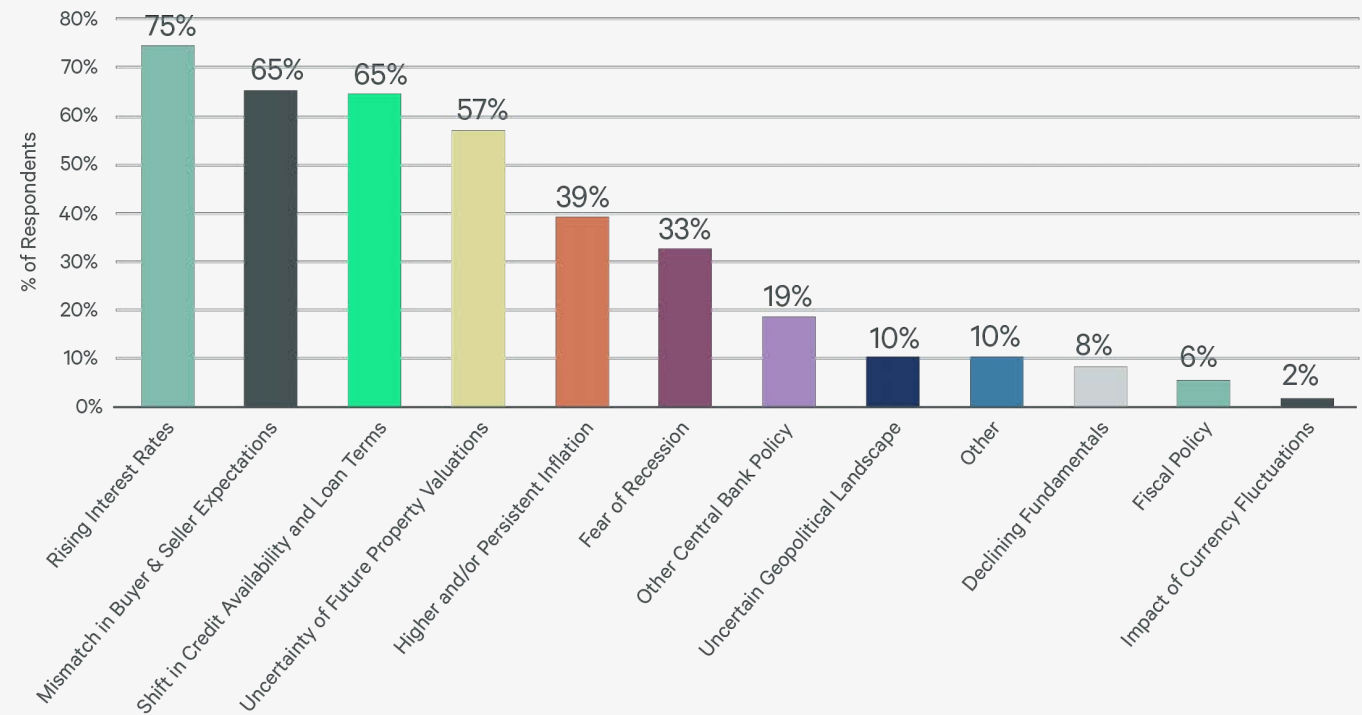
Respondents' most-cited concerns are "rising interest rates" (75%), "mismatch in buyer and seller expectations" (65%), "shift in credit availability and loan terms" (64%), and "uncertainty of future property valuations/shift in cap rates" (57%).

One third of the respondents have a "fear of recession" in 2024 (33%).

75%

foresee "Rising Interest Rates" as the greatest challenge in 2024

Figure 4: Real Estate Challenges in 2024



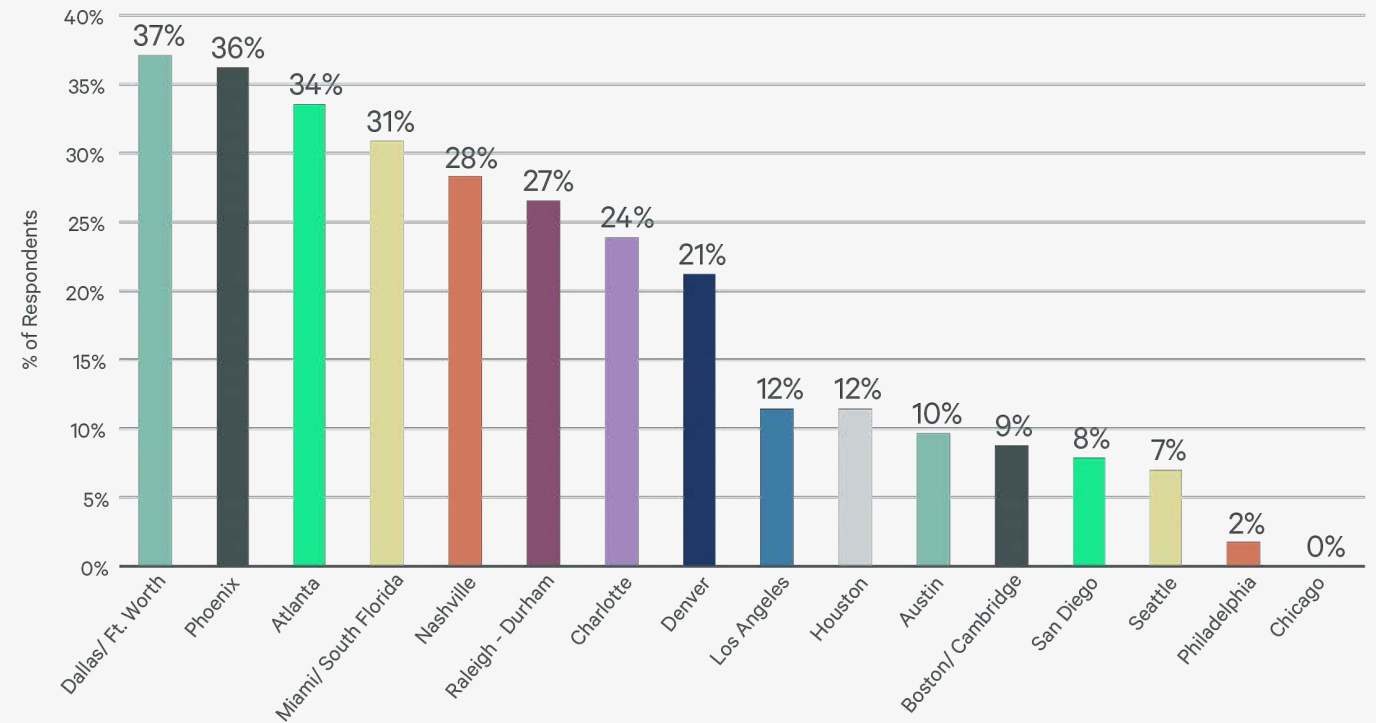
Question 4

Which markets do you expect to be top performing in 2024 for medical outpatient buildings?

Healthcare real estate investors are prioritizing the fastest-growing markets, versus the largest markets by population. In 2023, respondents significantly preferred Sun Belt metros with strong job and population growth, with all top five markets being preferred by 49% to 59% of the respondents. In 2024, the rankings are not as heavily weighted. Though the Dallas/Fort Worth market is still viewed as the top market, it is preferred by just 37% of respondents (compared to 59% in 2023). Comparatively, in 2024 Atlanta garnered 34% (49% in 2023) and Nashville 28% (52% in 2023) of respondents.

Investors appear to be warming up to sunnier year-round climates. Phoenix was preferred by 37% of respondents and Miami/South Florida by 31% of respondents, both moving into the top five in 2024.

Figure 5: Top Healthcare Markets for 2024



Question 4 (continued)

Which markets do you expect to be top performing in 2024 for medical outpatient buildings?

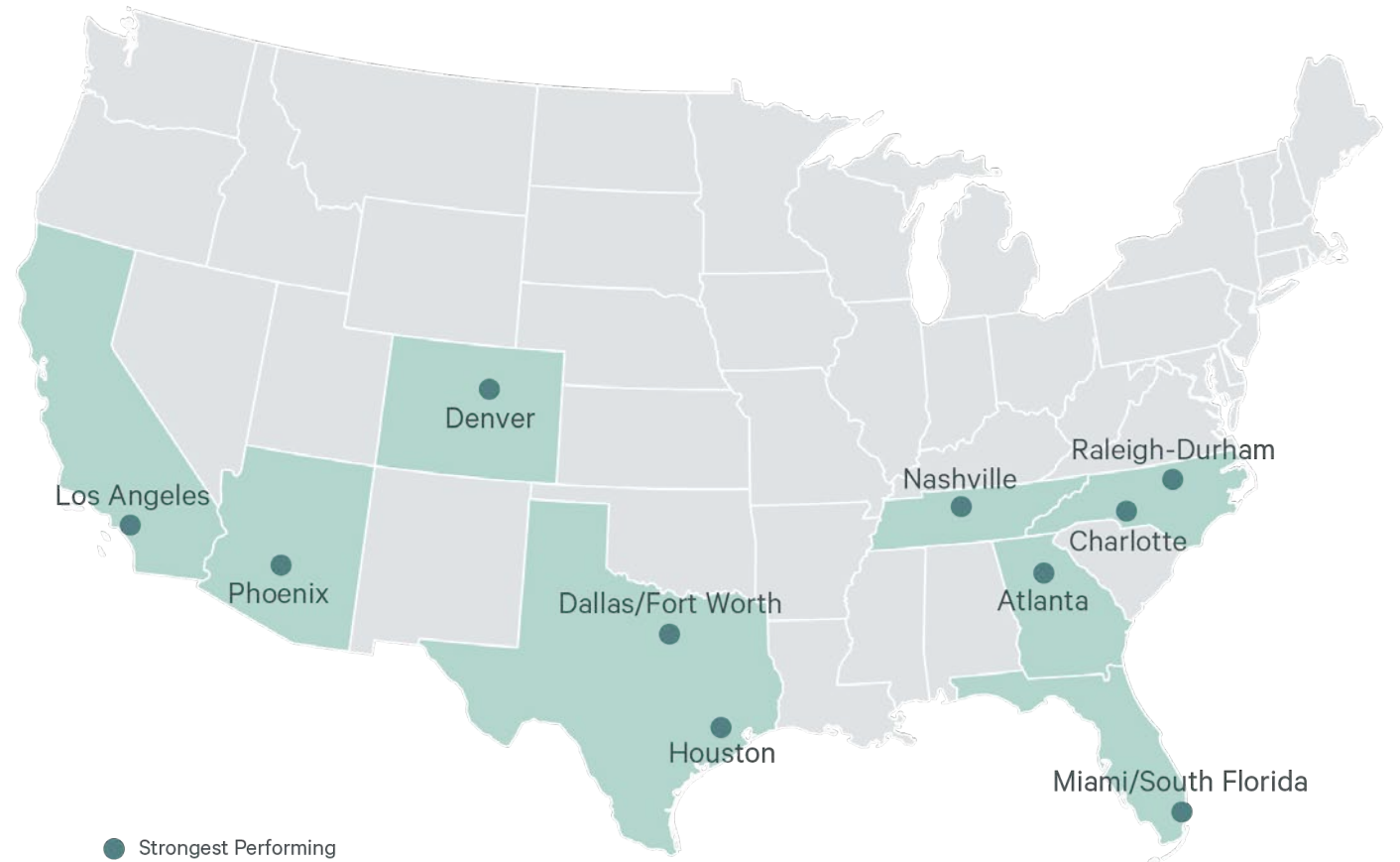
Ranking

1. Dallas/Fort Worth, TX
2. Phoenix, AZ
3. Atlanta, GA
4. Miami/South Florida, FL
5. Nashville, TN
6. Raleigh-Durham, NC
7. Charlotte, NC
8. Denver, CO
9. Los Angeles, CA
10. Houston, TX

37%

expect Dallas/Fort Worth to be a top performing market

Figure 6: Expected Top Performing Healthcare Markets for 2024



02

Investment Criteria

Question 5

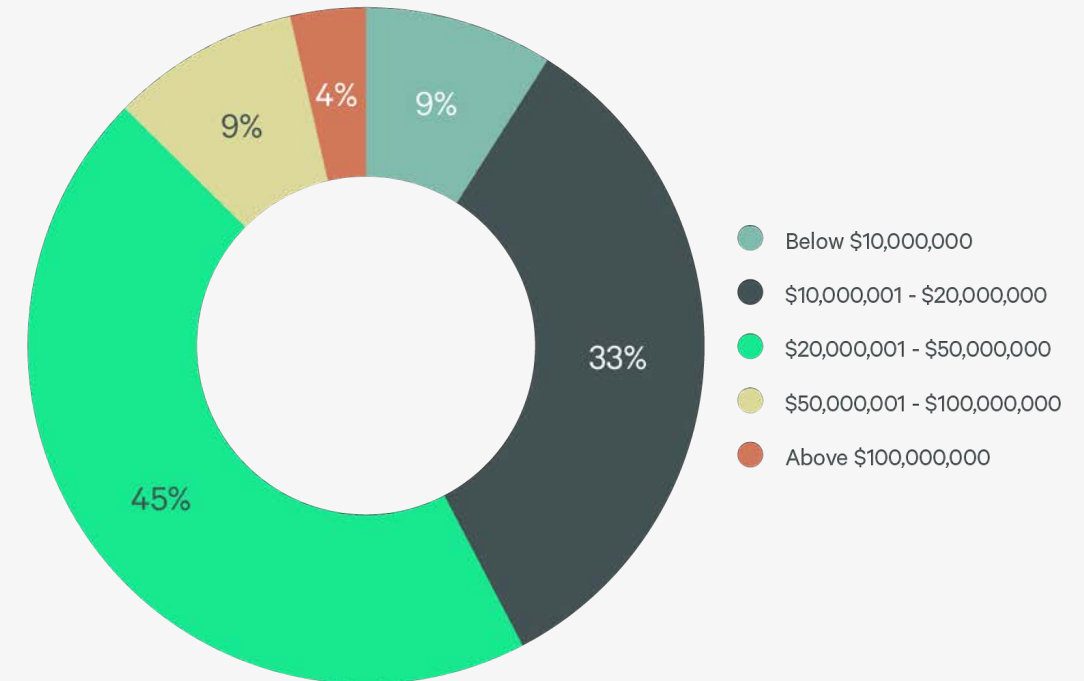
What is your preferred single-asset healthcare real estate transaction size?

Most respondents (78%) prefer transactions valued between \$10-\$50 million, consistent with 2022 and 2023 survey results. This \$10-\$50 million range is popular (70%) among developers and private capital investors. The \$20-\$50 million range is the most preferred transaction size of a single category, with 73% of institutional investors selecting this category.

Healthcare developers account for 60% of those who prefer transactions ranging from \$50-\$100 million, with REITs following at 30%. For the largest transactions, developers make up one third of those who prefer transactions above \$100 million, along with institutional and private capital investors.

For smaller transactions, private capital investors account for 50% of those who prefer transactions valued below \$10 million, and 56% of those who prefer transactions between \$10-\$20 million.

Figure 7: Preferred Single-Asset Transaction Size



Question 6

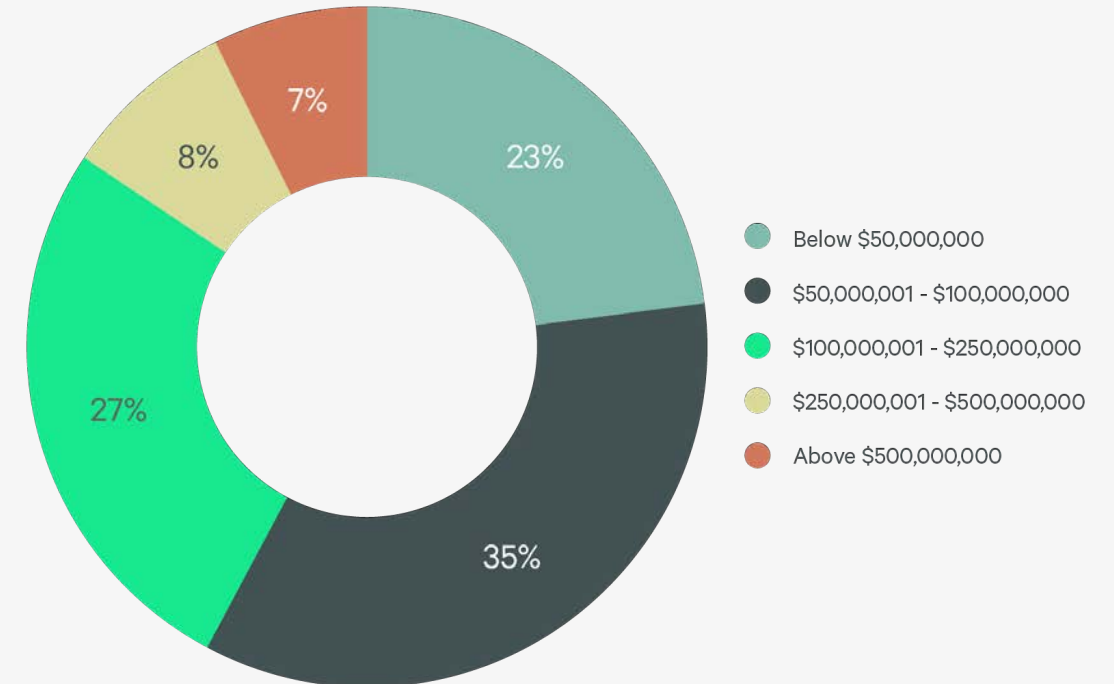
What is your preferred portfolio healthcare real estate transaction size?

Most respondents (85%) prefer portfolios up to \$250 million, consistent with 2023 survey results.

For transactions larger than \$250 million, developers (44%) and private capital investors (33%) prefer transactions in the \$250-\$500 million range. Portfolios with valuations above \$500 million are most preferred by REITs (42%).

Private capital investors make up over half (52%) of those who prefer transactions under \$50 million, and over one third (39%) of those who prefer transactions from \$50-\$100 million.

Figure 8: Preferred Portfolio Transaction Size

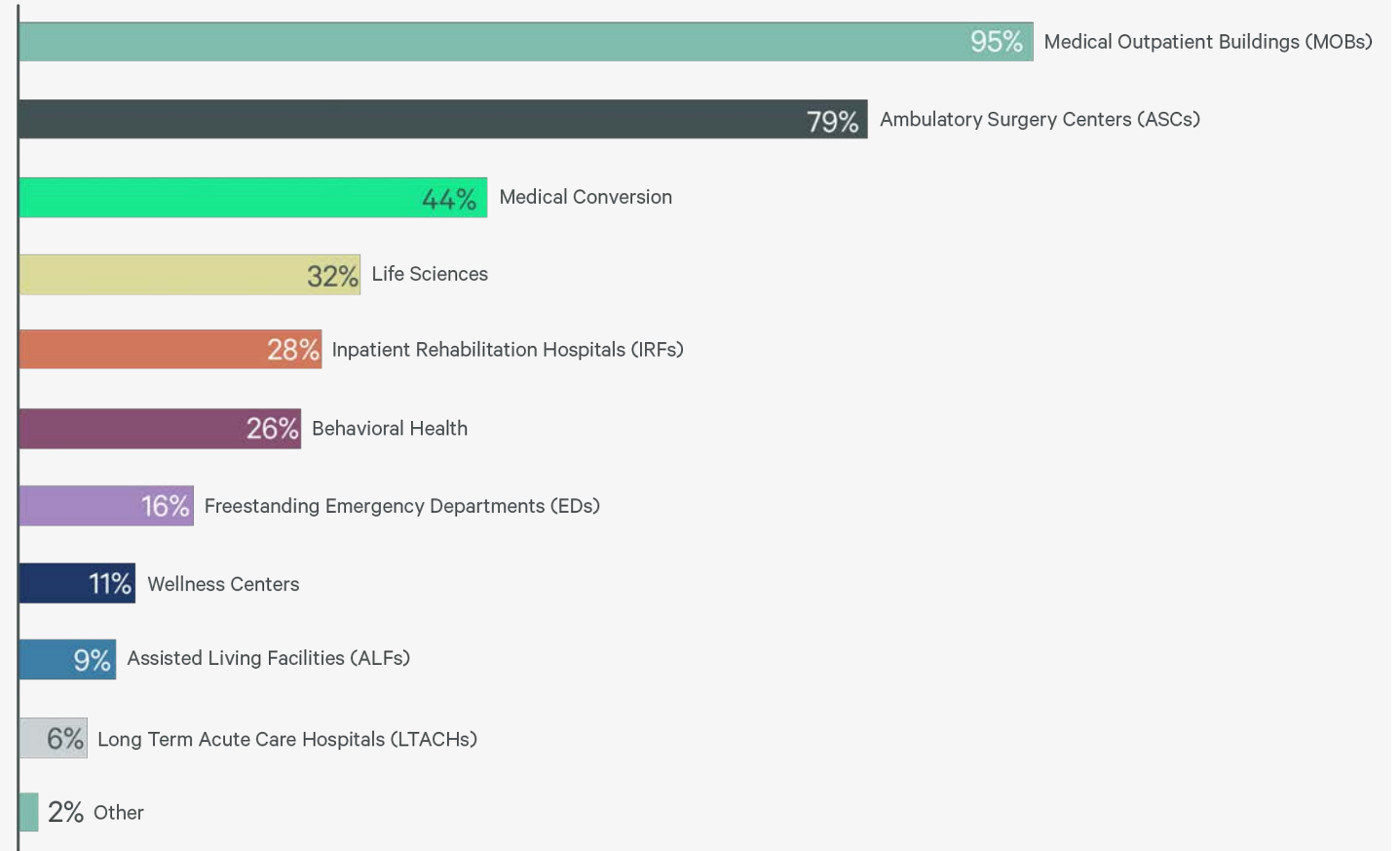


Question 7

Which types of healthcare real estate properties meet your acquisition criteria?

Consistent with previous surveys, nearly all respondents (95%) cited medical outpatient buildings (MOBs) as the most appealing in 2024. Life Sciences saw the largest increase from the 2023 survey, up significantly by 32%, followed by ambulatory surgery centers (ASCs), up by 5%. Assisted living facilities (ALFs) and medical conversions saw the largest decrease from the 2023 survey, down by 6% and 5%, respectively.

Figure 9: Acquisition Criteria – Healthcare Assets

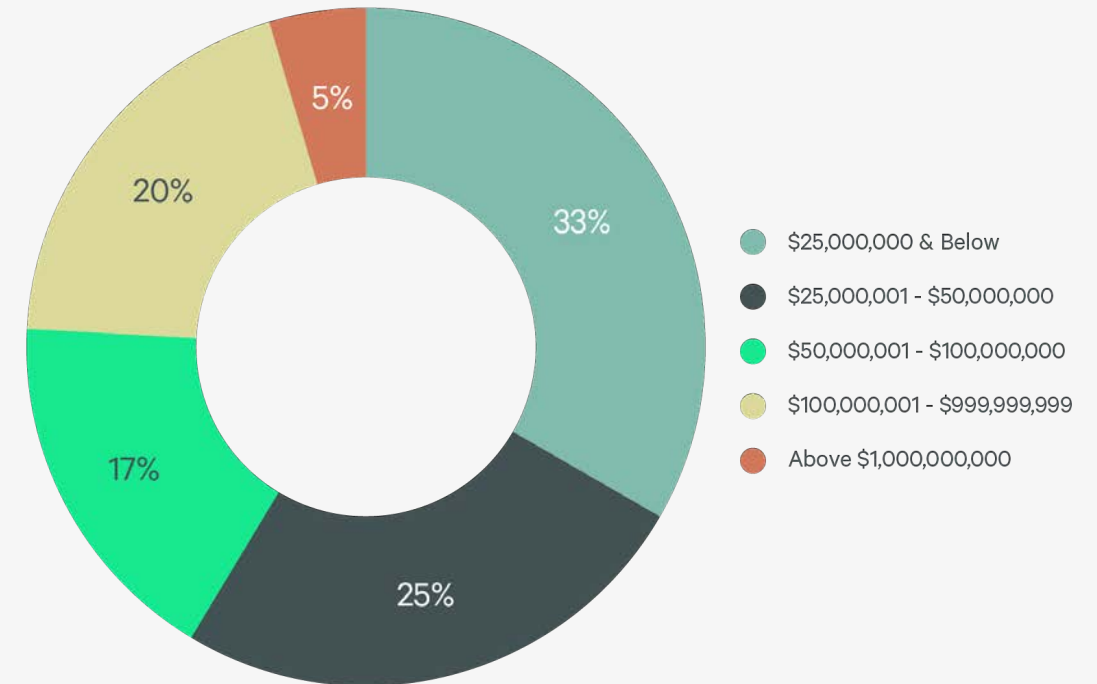


Question 8

How much equity has your firm allocated to healthcare real estate investment and development activity in 2024?

Of the 90 firms that responded to this question, 87 disclosed an approximate total of \$15.7 billion worth of equity allocated for healthcare real estate investments in 2024. This represents a 17% increase in healthcare investment allocation year-over-year (up from \$13.5 billion in 2023) and a 51.7% increase compared to pre-pandemic capital allocations (up from \$10.3 billion in 2019). Though the 2024 capital allocations are 92% of 2022's record setting year (with an unprecedented total of \$17.1 billion of capital allocations), it represents a steady increase from 2023 and demonstrates the improved stability in healthcare real estate transactions.

Figure 10: Equity Allocated to Healthcare Real Estate



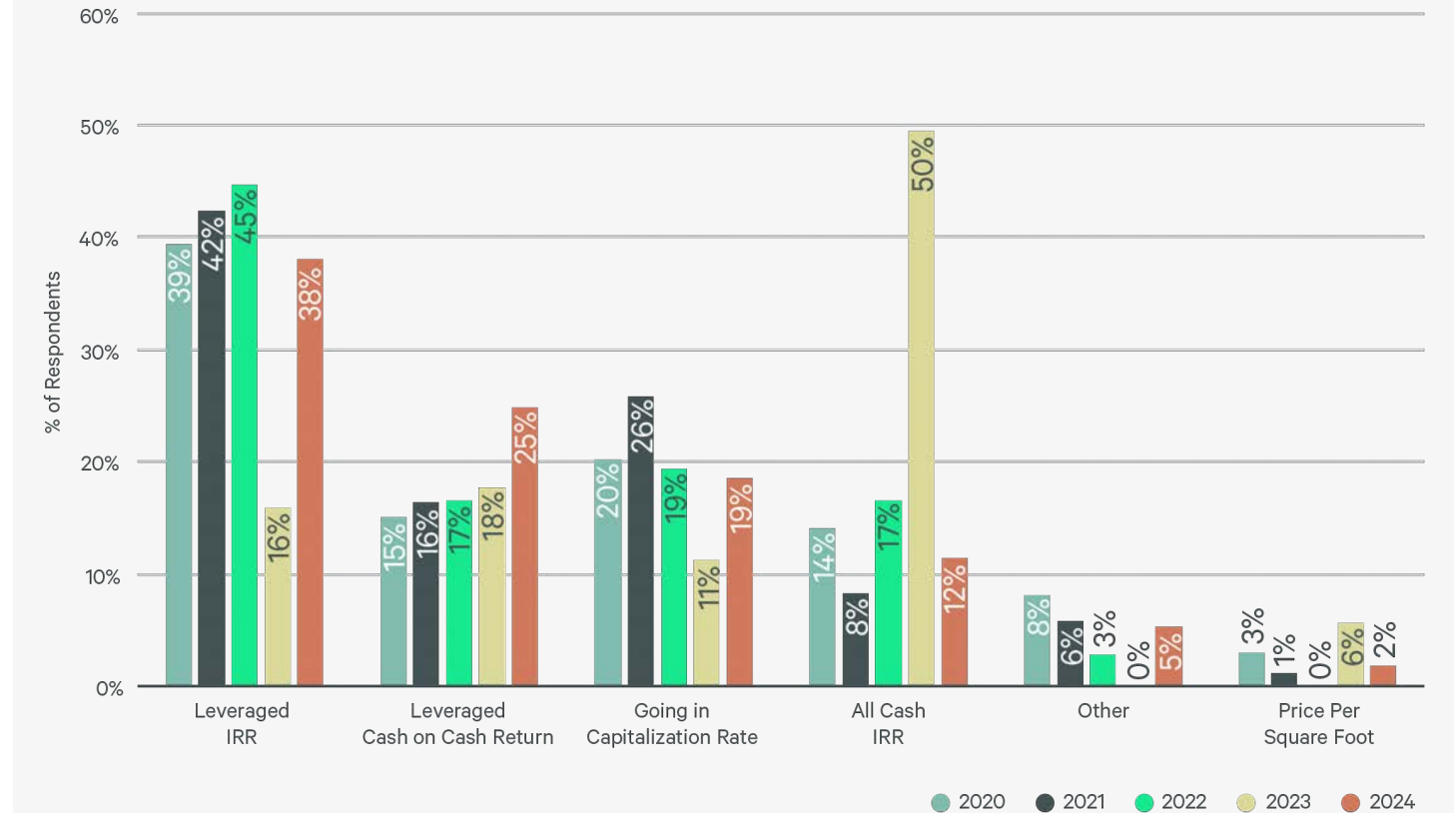
Question 9

What measurement of investment return do you rely on most?

Only 12% of respondents named “all-cash IRR” as the most important investment methodology in 2024, down 38% year-over-year from 2023 (50%). The shift from all-cash IRRs back to leveraged IRRs suggests that healthcare real estate investors expect some stability in the debt markets and will rely on debt financing when underwriting in 2024. Further, “leveraged IRR” ranked the highest at 38% in 2024, which represents a year-over-year increase of 22%, and “leveraged cash-on-cash return” also increased by 7% in 2024.

The return to traditional financing by the majority (63%) of respondents reflects investors' familiarity with and acceptance of current financing rates. This suggests that investors have adjusted their investment strategies to align with the prevailing debt market conditions and perceive debt as a viable tool to support their investment activities, and plan to continue utilizing debt for their investments in 2024.

Figure 11: Investment Methodology



Question 10

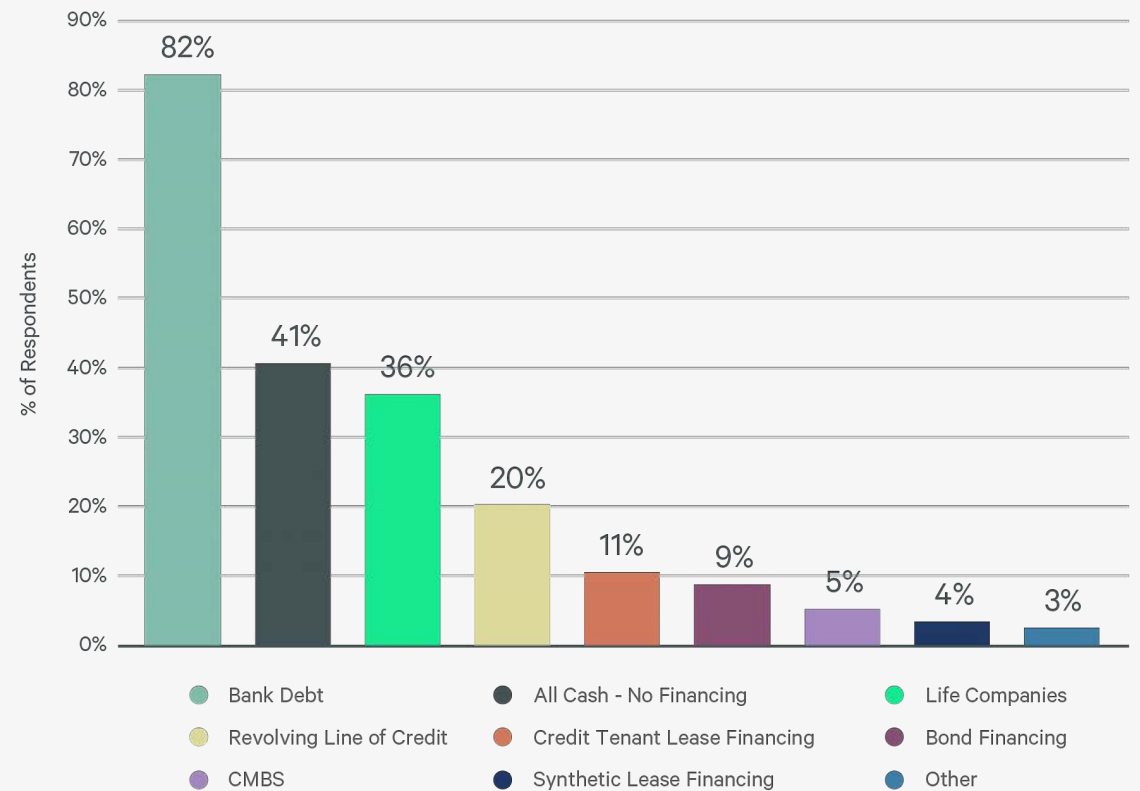
What types of financing sources are you utilizing?

Bank debt has remained the most popular financing source among respondents (82%) for the past five years, followed by all-cash (41%) and debt from life companies (36%), which is consistent with previous years.

Across the board, utilization has decreased in 2024: Bank debt saw a year-over-year decrease of 7%, revolving line of credit saw a year-over-year decrease of 6%, CMBS loans saw a year-over-year decrease of 4%, and all-cash and debt from life companies both saw a year-over-year decrease of 2% in their respective categories.

No significant increases have occurred amongst the other debt sources, suggesting that investors may be diversifying their financing strategies, or may intend to identify alternate sources of financing such as debt funds and in-house or institutional investors in 2024. According to the CBRE Q4 2023 U.S. Lending Report, alternative lenders accounted for 30% of non-agency loan volume in Q4 2023, up from approximately 19% in Q4 2022.

Figure 12: Financing Sources



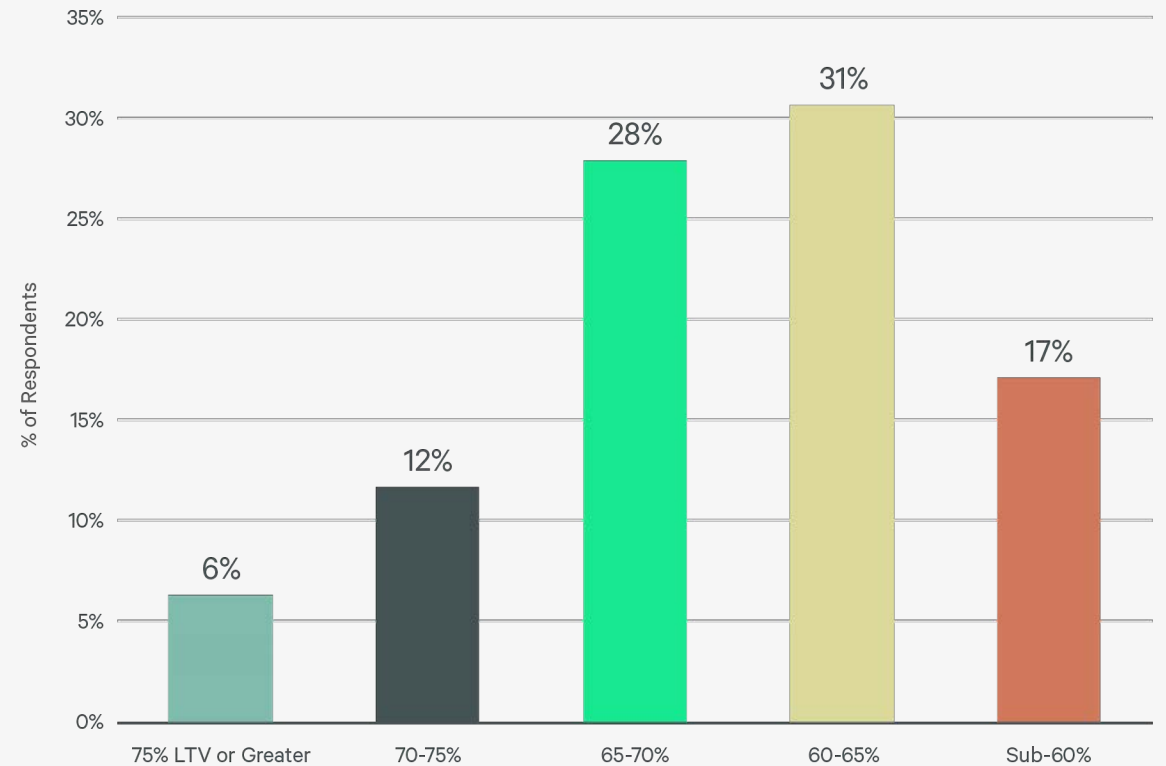
Question 11

What level of financing do you most often target?

Overall, survey respondents prefer various debt levels, with no response garnering more than a third of responses. Most (71%) selected a range of 60-75% loan-to-value (LTV) ratio. Developers stated the majority (84%) of their investments fall in this category.

While developers account for the majority (80%) that accept a higher leverage point of 75% LTV or greater, REITs strongly prefer lower leverage with sub-60% LTV for more than half of their investments (56%). Institutional investors also desire sub-60% LTV on almost half of their investments (46%).

Figure 13: Target Leverage



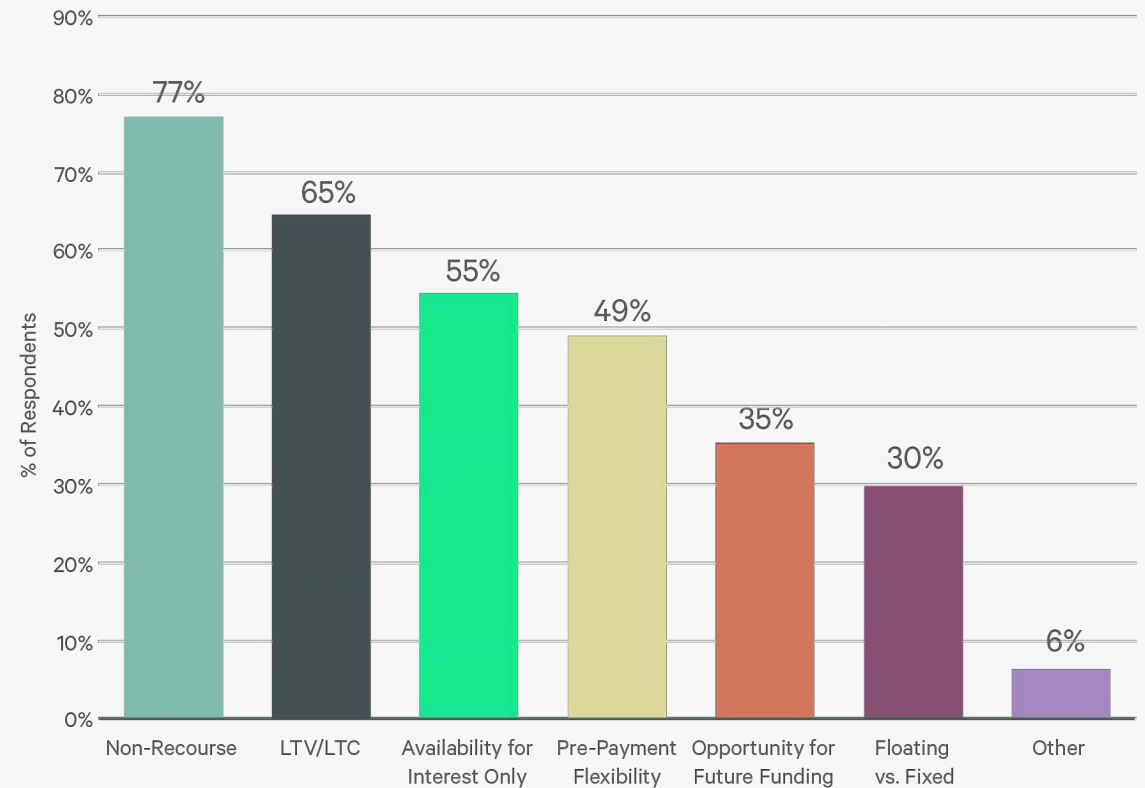
Question 12

When financing an asset, what terms are most important when choosing a lender/loan?

Healthcare real estate investors cited recourse vs. non-recourse (77%) as the most important financing term, which is in-line with previous years but decreased by 7% from 2023. Approximately 74% of respondents who chose non-recourse are private capital investors or real estate developers.

Availability for interest-only requirements increased by 12% from the previous year. The opportunity for future funding also increased by 8.5% from 2023, demonstrating investors' changing needs and preferences as we enter the 2024 marketplace.

Figure 14: Key Financing Point



Question 13

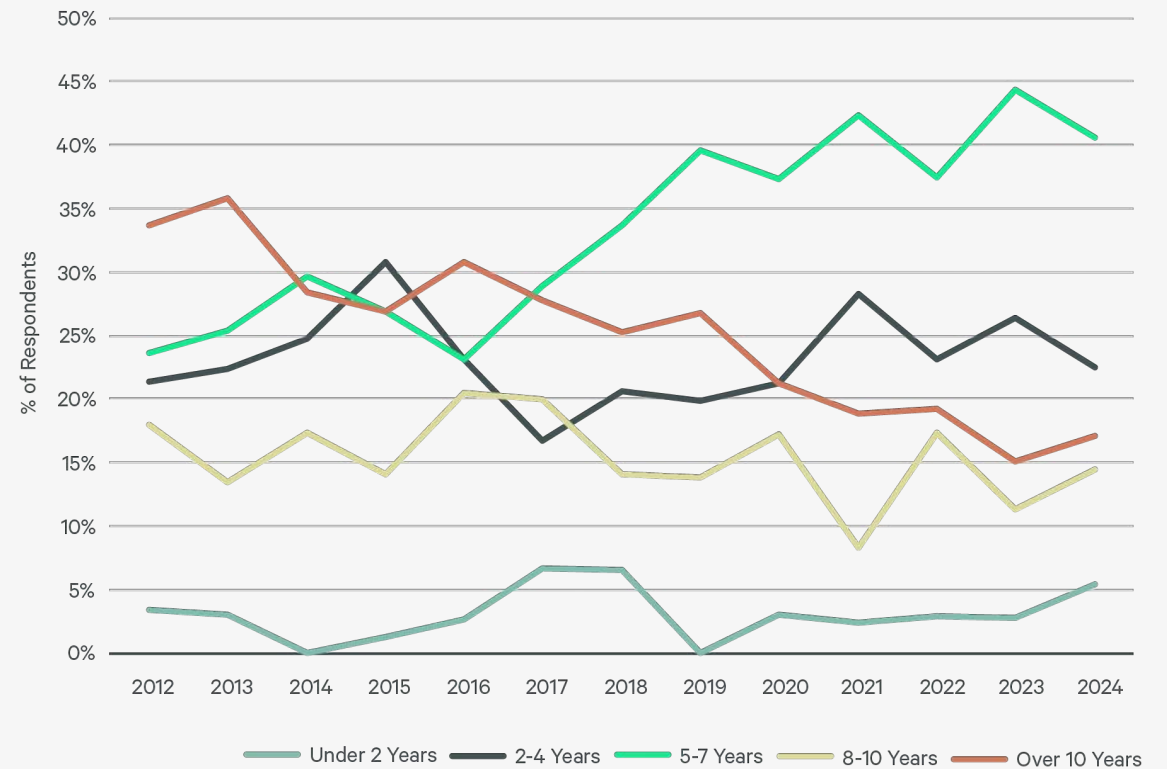
What is the average hold time for your investments?

Over the last 12 years, respondents' average hold time has declined from over 10 years to two to seven years. In 2024, 5-7 years continued to be ranked first (41%), followed by 2-4 years (23%), over 10 years (17%), 8-10 years (14%) and under two years (5%).

Healthcare real estate developers are the only investor type that indicate a hold time of under two years. Private capital investors make up 60% of the respondents who selected 5-7 years, and 42% who selected 2-4 years. Institutional investors strongly prefer hold periods of 5-10 years (79%).

Of the healthcare REITs that replied, 92% indicate an average investment horizon of over 10 years. Investors have slightly increased their projected hold period, with year-over-year responses for a hold time of more than eight years increasing by 5%.

Figure 15: Average Hold Period



03

Return Requirements

Question 14

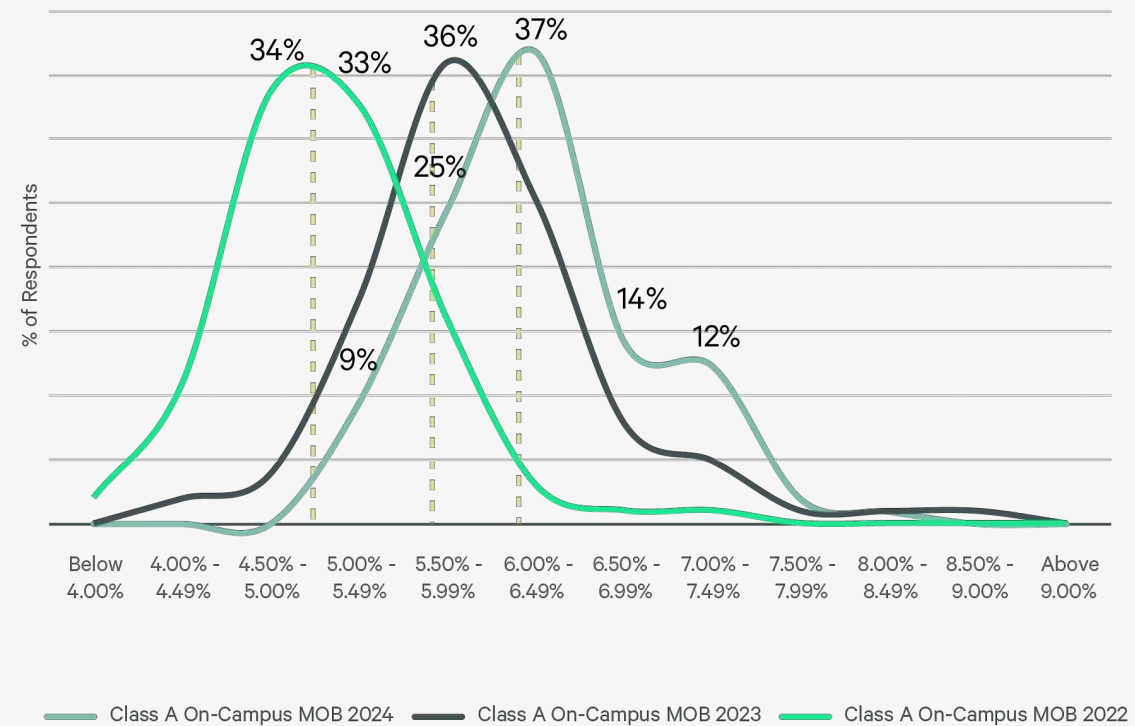
What will be the “market” capitalization rate for multi-tenant medical offices in 2024?

The medical office investment market cooled off in the second half of 2022 and through most of 2023. Recent market conditions have put downward pressure on pricing and have created a decrease in investor value expectations. Across all property types, investors indicate that cap rates have increased 50 basis points year-over-year, and 125 basis points over the last two years.

Class A Product

On-Campus: The majority (61%) of respondents predict that a market cap rate for Class A on-campus product will range between 5.50% - 6.50% in 2024. 37% of investors believe that the most common cap rate will hover between 6.00% - 6.49%, as compared to 2023 where 36% of respondents chose cap rates between 5.50% - 5.99%.

Figure 16: Class A On-Campus Medical Office Cap Rates



Question 14 (continued)

What will be the “market” capitalization rate for multi-tenant medical offices in 2024?

Off-Campus: We observed a similar shift in investor pricing sentiment for Class A off-campus assets, with 66% of respondents predicting cap rates between 6.00% - 6.99%. The most selected range (36%) was a 6.50% - 6.99% cap rate range, as compared to 2023 where the most common response (40%) was 6.00% - 6.49%, and 2022 where the most common response (40%) was 5.00%-5.49%.

Class B Product

Pricing became less aggressive for Class B on-campus MOBs year-over-year, with Class B on-campus assets pricing at about a 50-bps premium to Class B off-campus assets. For Class B assets, most investors anticipated a cap rate between 6.50% - 7.49% for on-campus buildings and 7.00% - 7.99% for off-campus buildings.

Figure 17: Class A Off-Campus Medical Office Cap Rates

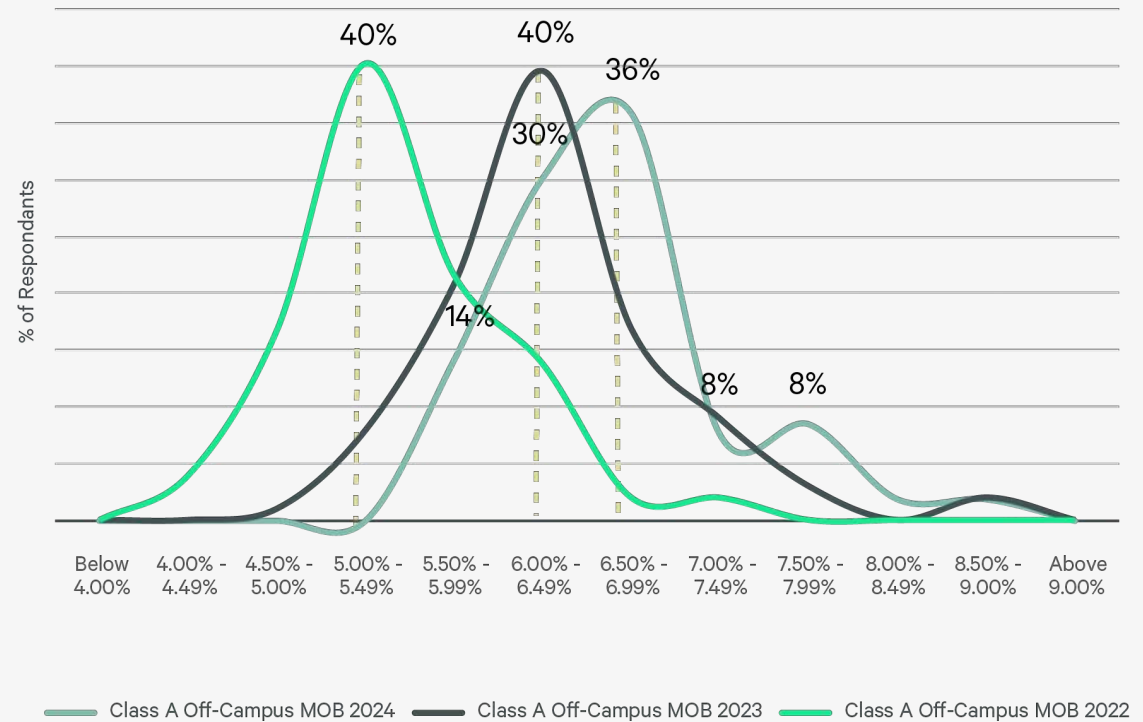


Figure 18: Class B On-Campus Medical Office Cap Rates

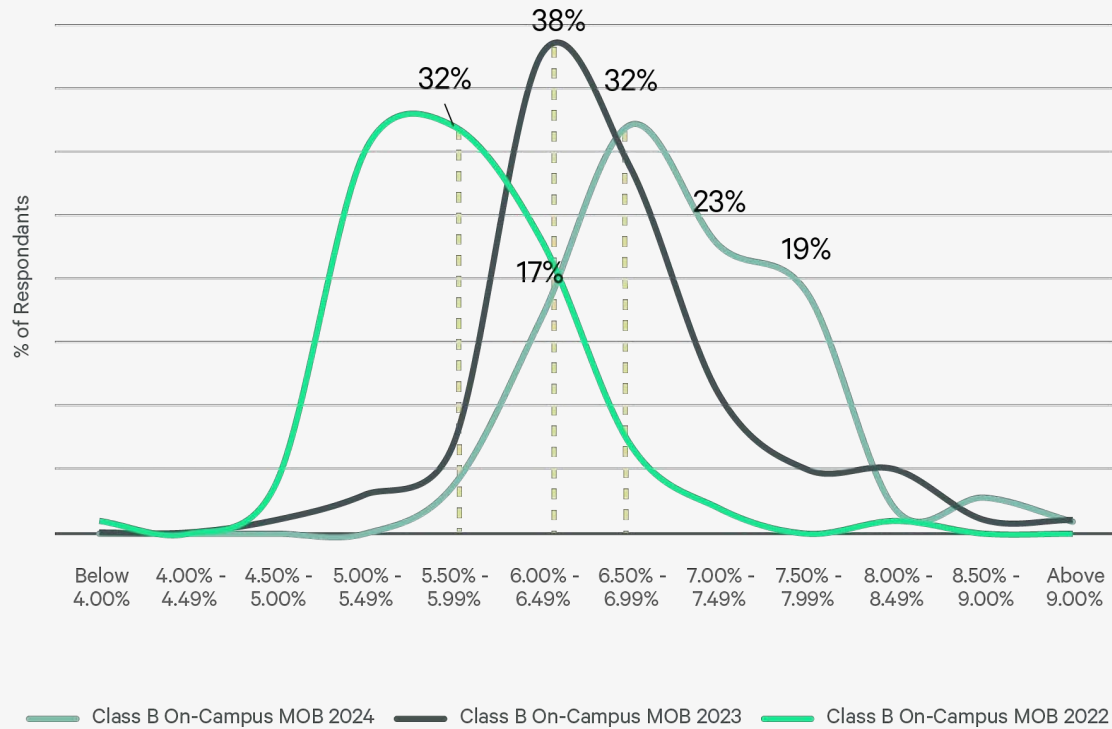
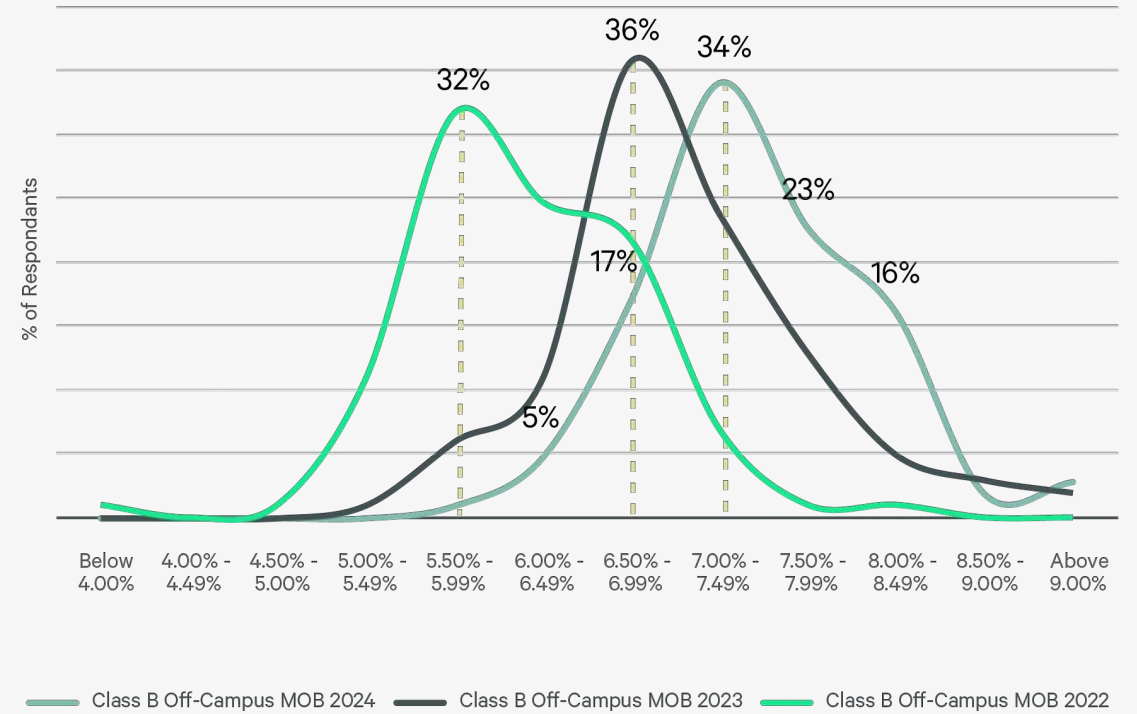


Figure 19: Class B Off-Campus Medical Office Cap Rates



Question 15

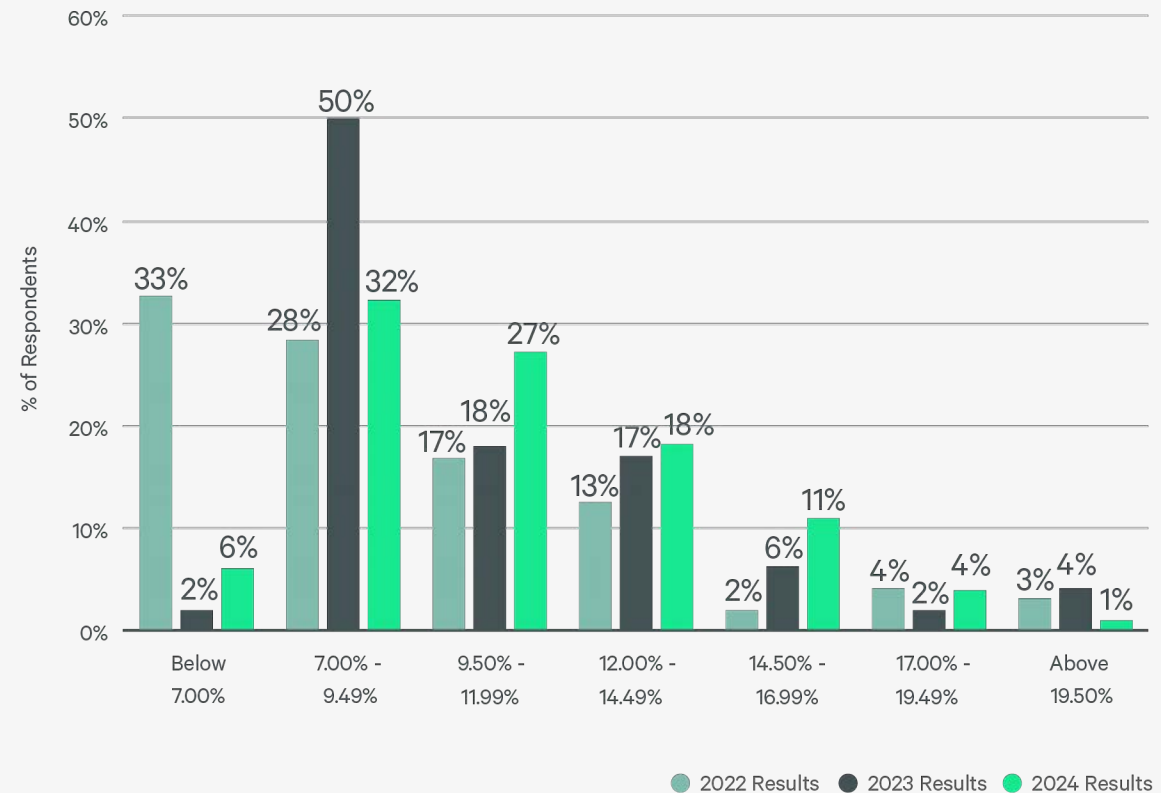
What is your target 10-year IRR (all-cash) for multi-tenant MOBs in 2024?

Higher costs of capital and interest rates increased the return requirements for most healthcare investors in recent years. Even if investors held their levered IRR requirements, the run-up in interest rates have increased all-cash IRR requirements for investors.

Class A Product

On-Campus: Only one third (38%) of 2024 respondents targeted an all-cash IRR for Class A on-campus product below 9.50%, compared to approximately half (52%) in 2023. The “9.50% - 11.99%” range saw the largest increase to 27%, up from 18% in 2023 and further demonstrating less risk tolerance than in previous years. The majority (62%) of investors and developers now expect a target all-cash IRR of at least 9.50% and higher, which is a 14% year-over-year increase from 2023, and a 23% increase from 2022.

Figure 20: Class A On-Campus Medical Office: All-Cash IRRs



Question 15 (continued)

What is your target 10-year IRR (all-cash) for multi-tenant MOBs in 2024?

Off-Campus: Similar to Class A on-campus, the Class A off-campus product also demonstrated a lower investor and developer risk tolerance; 67% of respondents target an all-cash IRR of 9.50% and higher, with expectations trending for even higher returns.

Class B Product

On-Campus: Most (86%) of investors in Class B on-campus product identified an all-cash IRR of 9.50% and higher, and more than half (57%) expect at least 12.0% returns.

Off-Campus: 88% of investors in Class B off-campus product target an all-cash IRR of at least 9.50%, and 69% of respondents target returns of 12.0% and higher.

Figure 21: Class A Off-Campus Medical Office: All-Cash IRRs

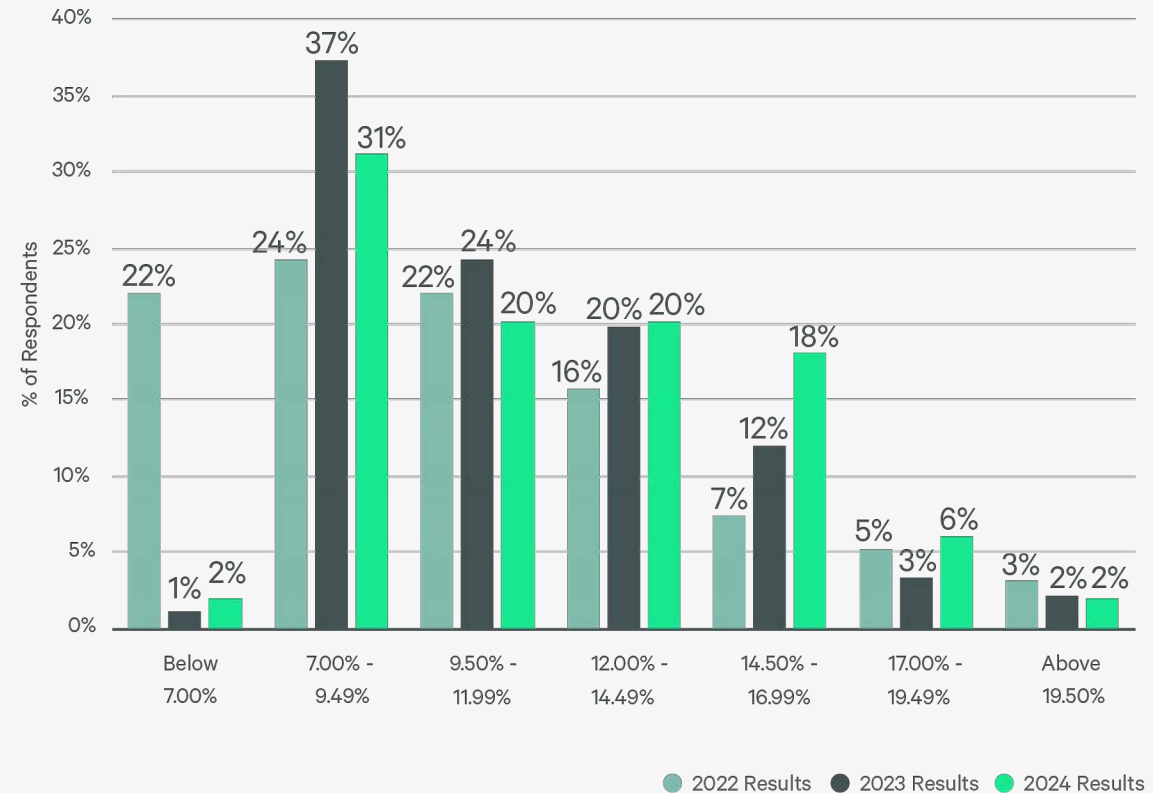


Figure 22: Class B On-Campus Medical Office: All-Cash IRRs

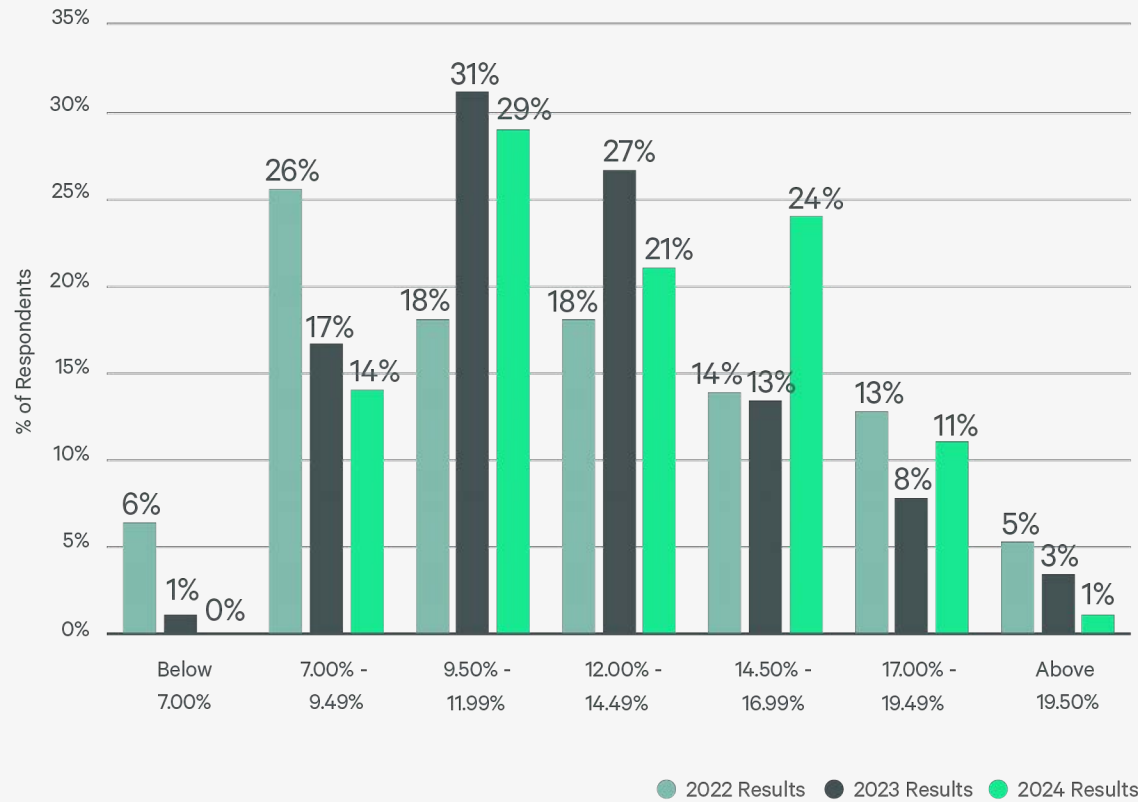
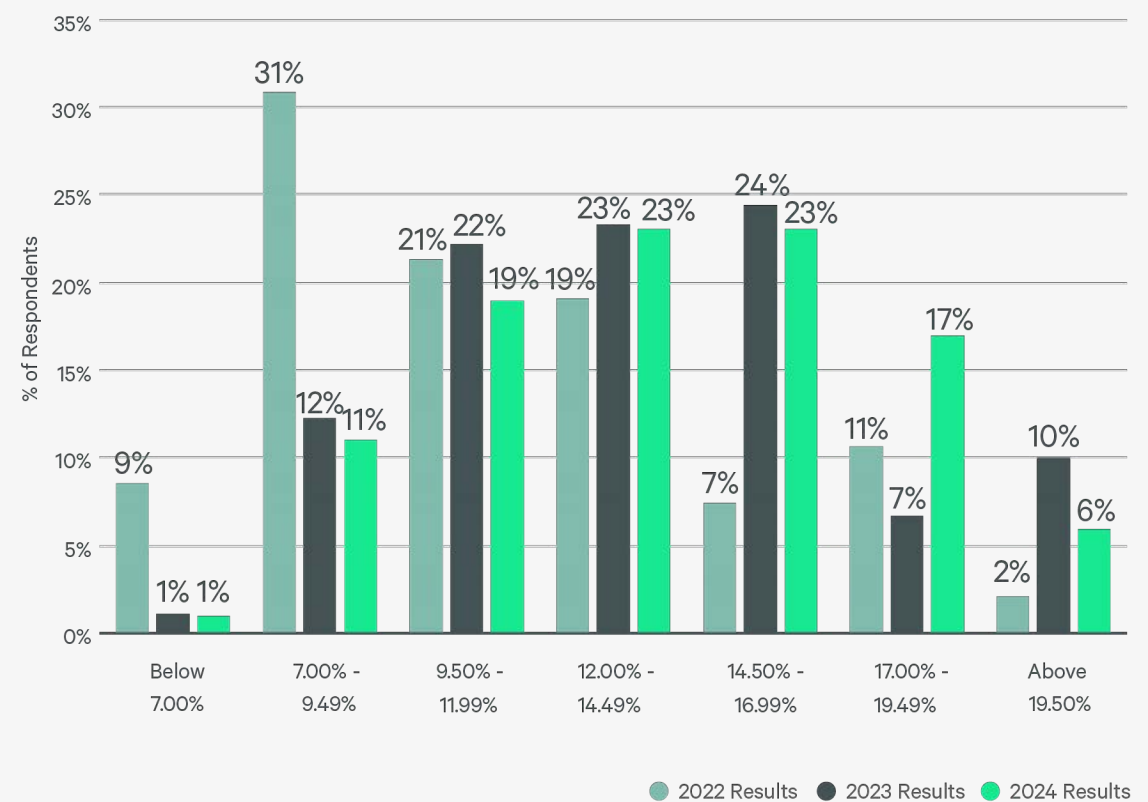


Figure 23: Class B Off-Campus Medical Office: All-Cash IRRs



Question 16

What will be a market cap rate for the following single-tenant healthcare investments in 2024? Assume 10 years of lease term remaining and average credit.

Single-tenant MOBAs are expected to remain among the most competitively priced asset types, with 67% of respondents anticipating a market cap rate of less than 6.50%. Ambulatory surgery centers follow close behind, with 55% pricing ASCs below a 6.50% cap rate.

As expected, cap rates shifted higher across the board but remained the most consistent for MOBAs and ASCs. This year's survey included Life Sciences, with 71% of respondents anticipating a cap rate of less than 7.00%.

Figure 24: Market Cap Rate for 2024 Healthcare Investments

CAP RATE	Above 9.00%	8.50% - 8.99%	8.00% - 8.49%	7.50% - 7.99%	7.00% - 7.49%	6.50% - 6.99%	6.00% - 6.49%	5.50% - 5.99%	5.00% - 5.49%	Below 5.00%
Medical Outpatient Building	0%	1%	1%	5%	6%	20%	37%	24%	5%	0%
Freestanding Emergency Department	1%	3%	6%	13%	27%	25%	11%	14%	0%	0%
Ambulatory Surgery Center	0%	2%	2%	3%	11%	26%	33%	21%	1%	0%
Wellness Center	5%	3%	11%	20%	33%	18%	8%	3%	0%	0%
Acute Care Hospital	5%	7%	14%	19%	22%	15%	16%	3%	0%	0%
Long-Term Acute Care Hospital	8%	11%	17%	25%	15%	11%	11%	3%	0%	0%
Rehabilitation Hospital	3%	10%	11%	24%	20%	18%	11%	4%	0%	0%
Behavioral Hospital	8%	8%	19%	23%	22%	13%	6%	3%	0%	0%
Life Sciences	1%	4%	3%	12%	9%	30%	22%	17%	3%	0%

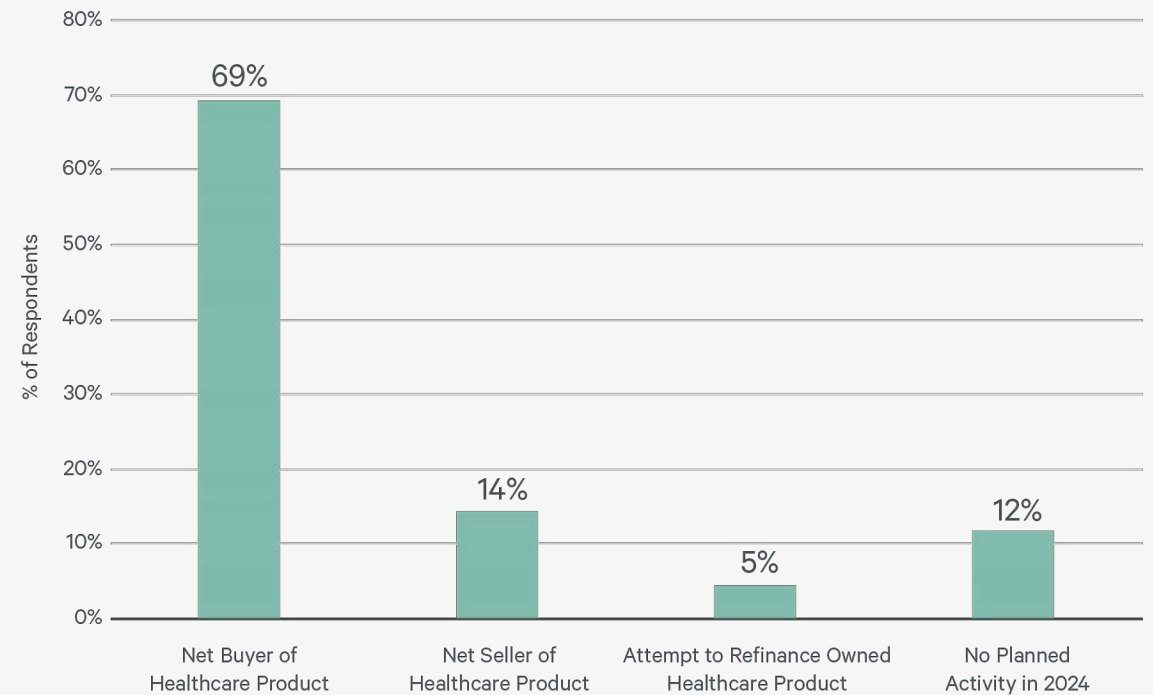
Question 17

For 2024, how would you characterize your MOB investment activity?

The majority of survey respondents (69%) indicate plans to be net buyers of healthcare product in 2024. 79% of all private capital investors and 93% of all institutional healthcare investors consider themselves to be net buyers.

14% of respondents expect to be net sellers of healthcare product in 2024, which represents a year-over-year increase of 6%. This gain may be due to a loan maturity, forcing investors to choose to sell versus refinance at higher interest rates, or they may need a liquidity event. It may also be influenced by completion of construction projects, since developers make up 60% of the net seller makeup in 2024.

Figure 25: Net Healthcare Activity for 2024



04

Life Sciences

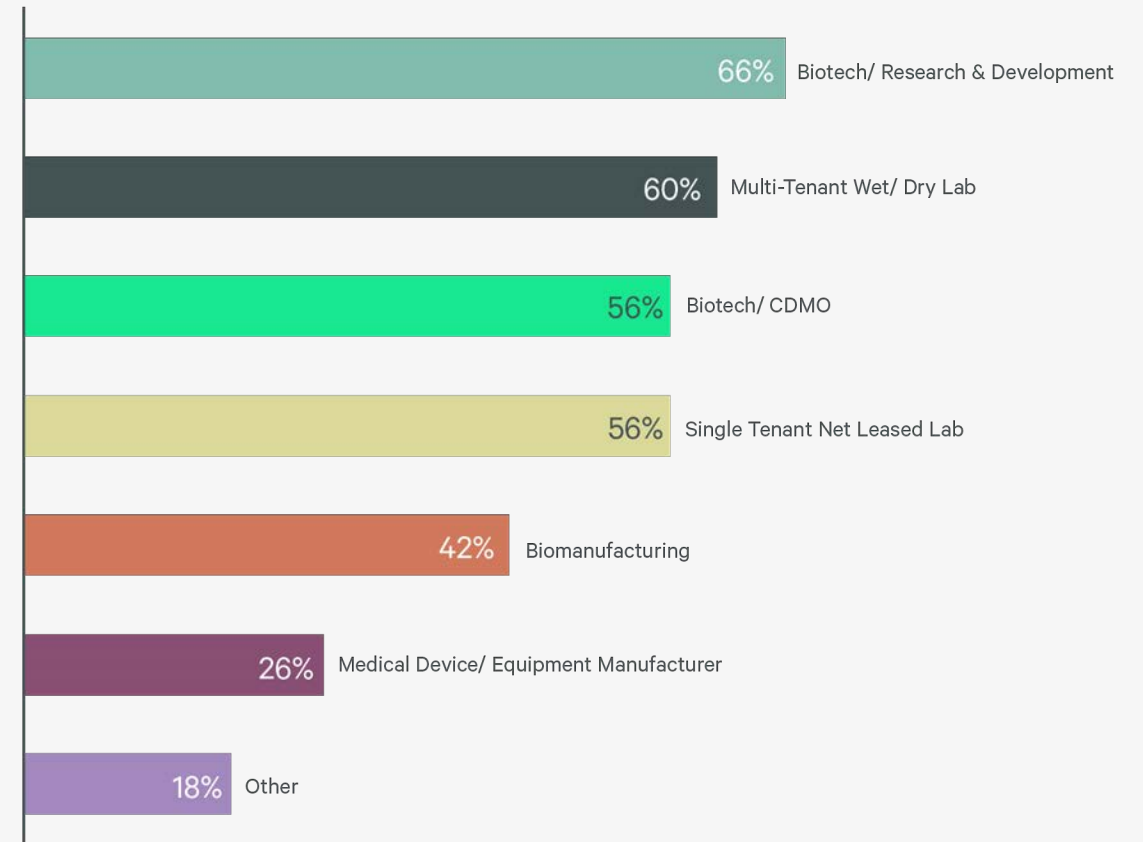
Question 18

What types of life science real estate properties meet your acquisition criteria?

The rapid growth of the life sciences sector in recent years is expected to continue in 2024 but at a more moderate pace. According to the CBRE 2024 U.S. Life Sciences Outlook Report, venture capital annual funding as of Q3 2023 was down by 46.3% from its peak in Q4 2021, however in Q3 2023 it increased for the first time since 2021 and was roughly 17% higher than the pre-pandemic average during 2018-2019. The amount of venture capital expected in 2024 is difficult to predict, but the expectation of lower interest rates in 2024 may spark a recovery, with an estimated \$10.3 billion in venture capital dry powder awaiting deployment for life sciences companies.

According to the 2024 survey respondents, biotech/R&D properties continue to be the favored (66%) life sciences product type, followed by multi-tenant lab space (60%), up 7% from 2023, and biotech/CDMO (56%), which was a new addition to this year's survey.

Figure 26: Acquisition Criteria – Life Science Real Estate



Question 19

What will be a market cap rate for the following single-tenant life science investments in 2024? Assume 10 years of lease term remaining and investment-grade credit.

Of the 39 investors and developers who answered this question, Lab Space is expected to have the most competitive pricing, with 72% of respondents anticipating a market cap rate of 7.00% and below, followed by Manufacturing (GMP) with 83% of respondents expecting a market cap rate below 7.50%.

Both asset classes ranged from 5.50% to 7.50%, a 200-bps spread, indicating that there is still significant pricing discovery in the market.

Figure 27: Market Cap Rate for 2024 Life Science Investments

CAP RATE	Above 9.00%	8.50% - 8.99%	8.00% - 8.49%	7.50% - 7.99%	7.00% - 7.49%	6.50% - 6.99%	6.00% - 6.49%	5.50% - 5.99%	5.00% - 5.49%	4.50% - 5.00%	4.00% - 4.49%	Below 4.00%
Lab Space	3%	0%	5%	5%	15%	28%	26%	15%	3%	0%	0%	0%
Manufacturing (GMP)	3%	3%	3%	8%	25%	33%	19%	3%	3%	0%	0%	0%



Question 20

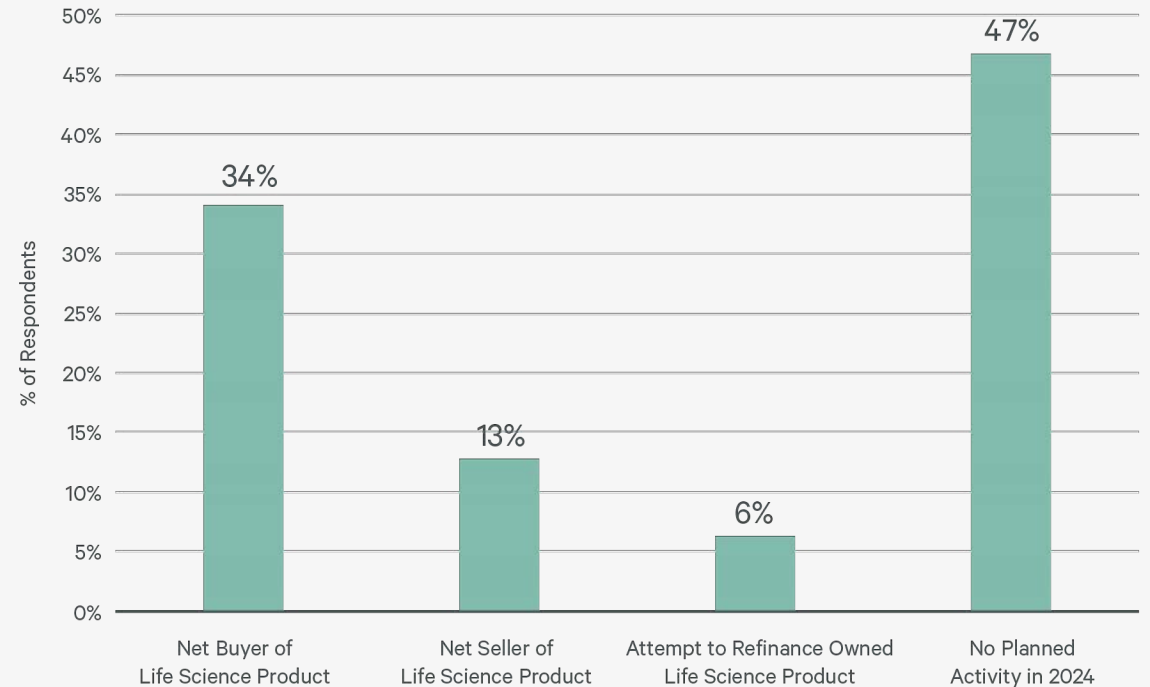
For 2024, how would you characterize your life science investment activity?

Of the 47 investors and developers who answered this question, just over one third (34%) indicated they were net buyers of the life science product in 2024, a year-over-year decrease of 18%. Of this group, 75% of private capital investors and 100% of all institutional healthcare investors consider themselves to be net buyers.

13% of respondents to this question expect to be net sellers of healthcare product in 2024, which represents a year-over-year increase of 8%. This gain may be due to investors needing a liquidity event or are facing a loan maturity and must choose to sell versus refinance at higher interest rates. The net seller makeup includes 40% developers, 40% private capital investors and 20% REITs.

Almost half (47%) of respondents have no planned life sciences activity in 2024. Only 6% of respondents, which are all developers, will attempt to refinance.

Figure 28: Life Science Investment Activity for 2024



Supply vs. Demand

Questions 21 & 22

Where do you see investment demand and supply for healthcare assets in 2024 compared to 2023?

Many respondents believe that demand will remain the same for 80% of the healthcare product types, with none expected to have decreased demand. It is anticipated that demand for medical outpatient buildings (MOB) and ambulatory surgery centers (ASC) will increase slightly in 2024.

On the supply side, investors generally anticipate no change in the supply. A moderate increase in supply is expected in the MOB, ASC, behavioral hospitals and medical conversion product types.

Overall, supply and demand are expected to remain consistent in 2024, with a potential to have an increase among certain product types. 2024 may be viewed by many investors as a repositioning or reorganizing year with the hope that the market, just like supply and demand, will balance and stabilize.



Demand

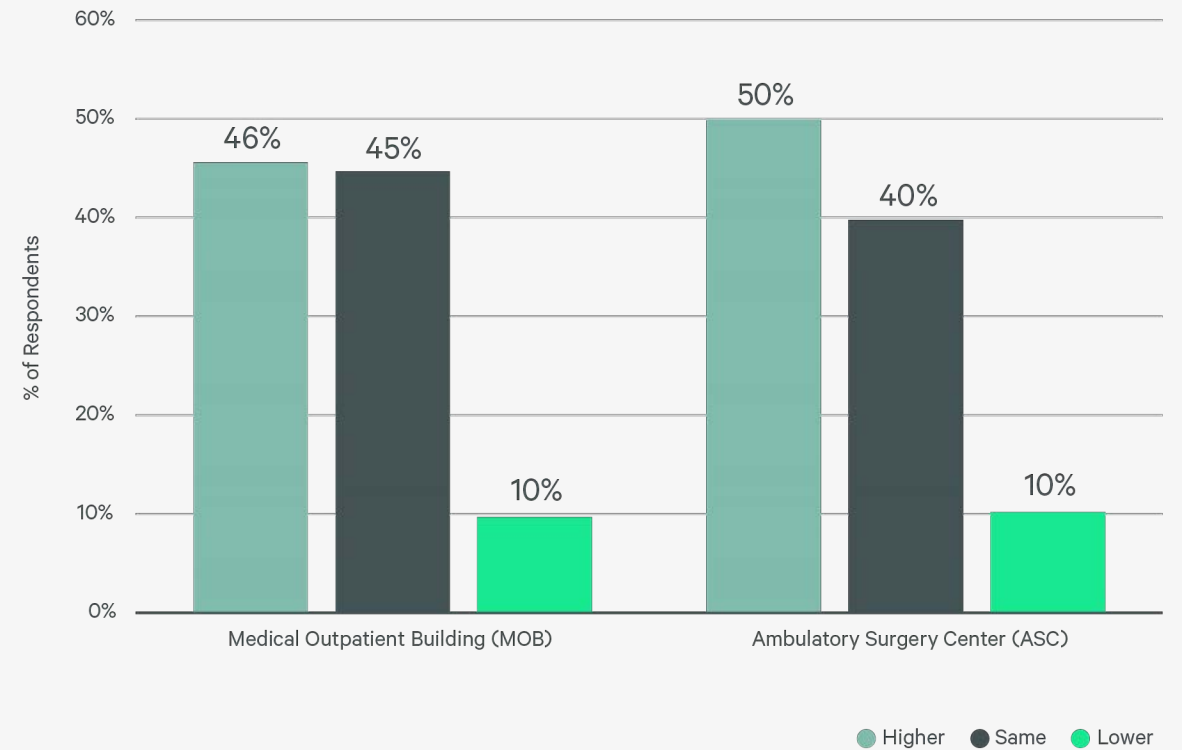
Questions 21 & 22 (continued)

Where do you see investment demand in 2024 compared to 2023?

Demand is expected to stay consistent this year compared to last year. Overall, responses anticipating that demand will stay the same across all 10 product types increased on average from 43% in 2023 to 53% in 2024. Expectations that demand will increase across all product types gained 7% from the previous year, up to 24% in 2024.

Respondents anticipate that medical outpatient buildings (MOB) and ambulatory surgery centers (ASC) will see a slight increase in demand in 2024.

Figure 29: Investment Demand for Healthcare Assets



Supply

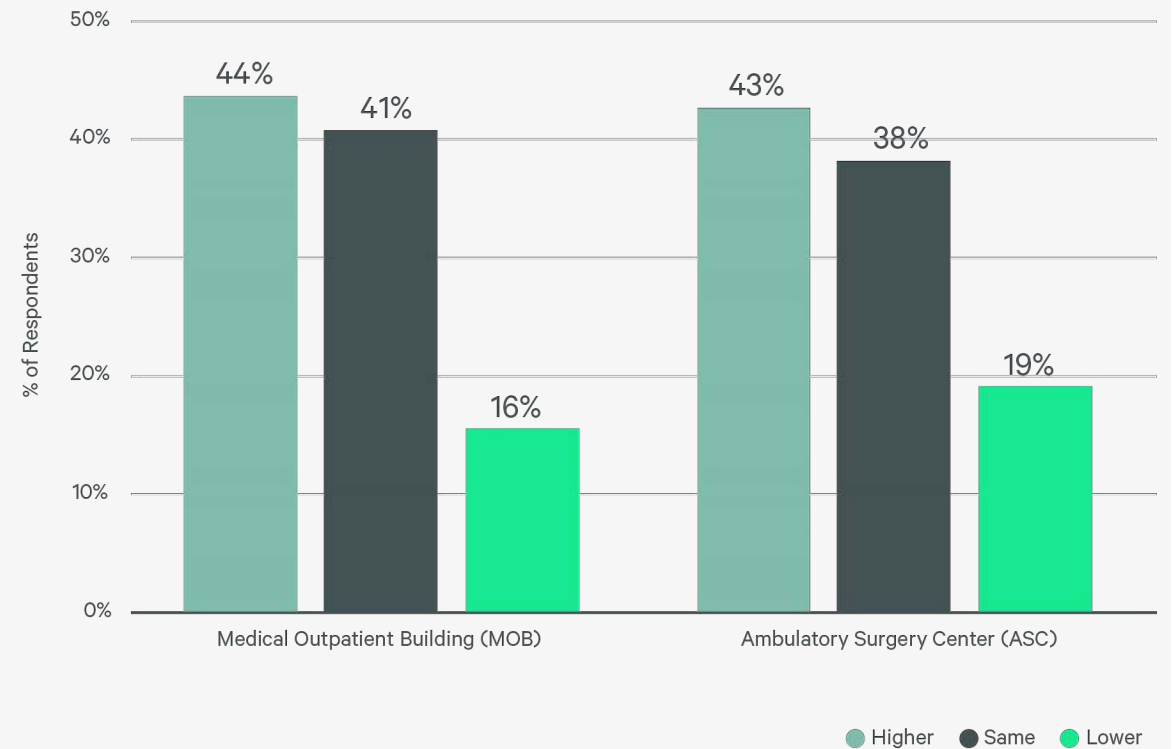
Questions 21 & 22 (continued)

Where do you see investment supply (for sale product) in 2024 compared to 2023?

On the supply side, investors generally anticipate no change in the supply of all healthcare real estate assets for sale, responding with “same” at an average rate of 45% across all 10 product types. Respondents expecting a “lower” supply decreased to 17%, down from 48% in 2023 when many investors decided to hold unless they faced a maturity (fund or loan) or needed a liquidity event.

Respondents anticipate that MOB and ASC product types will see a slight increase in supply in 2024.

Figure 30: Investment Supply of Healthcare Assets



05

Market Fundamentals

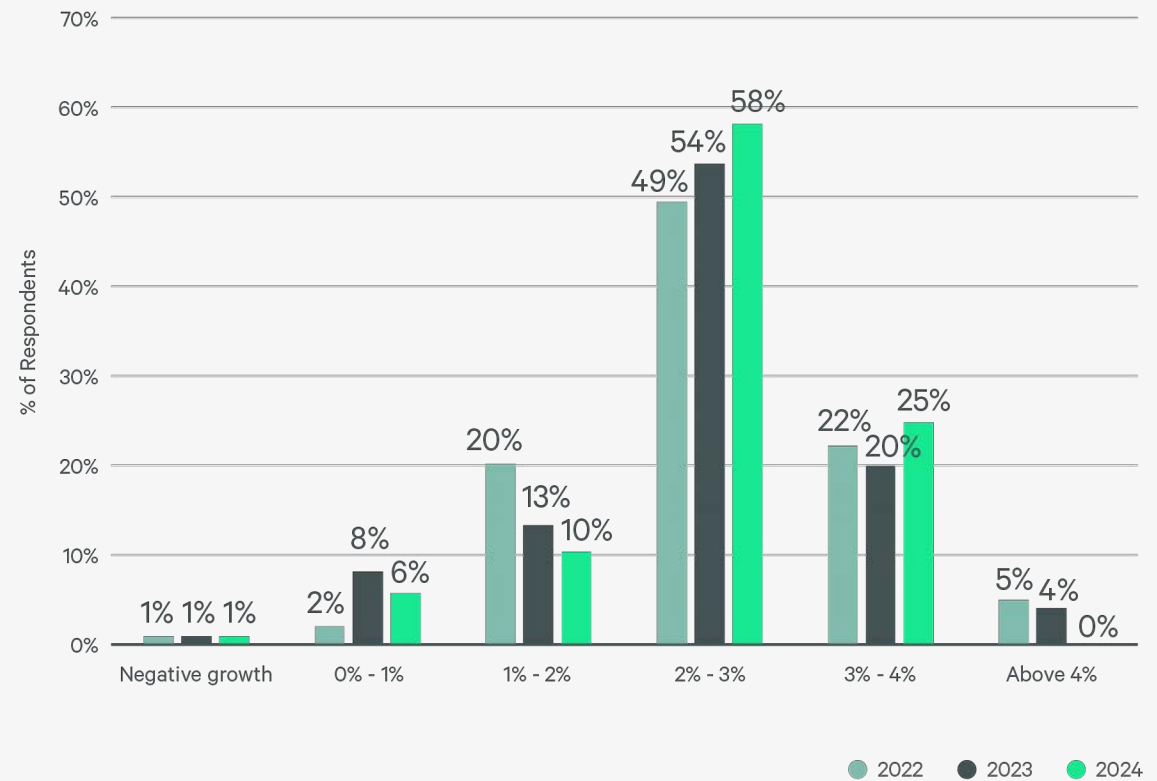
Question 23

Where would you project annual growth for MOB lease rates in 2024?

Investors and developers continue to believe that healthcare rental rates will grow at a tenable rate, with most investors (83%) anticipating an annual rent growth of 2%-4%.

Despite economic headwinds and record inflation, less than 1% of respondents believe rental rates will be negative. This is evidence of investor confidence in the stability of the healthcare real estate sector.

Figure 31: Projected Rent Growth 2024



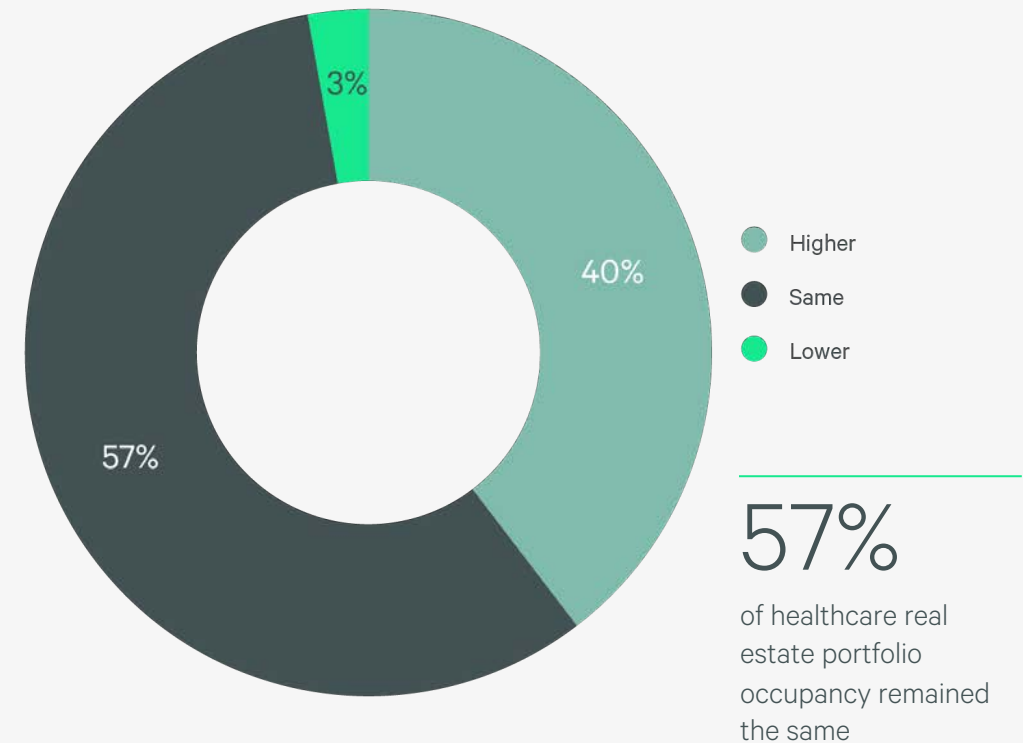
Question 24

How does the occupancy of your MOB portfolio compare to a year ago?

While commercial real estate capital markets were disrupted in the last year by rising interest rates, fundamental healthcare sector performance was largely unaffected, with 57% of respondents stating that their medical outpatient portfolio occupancy is the same compared to the previous year. Some 40% of responders indicate that occupancy is higher while only 3% state that their portfolio occupancy is lower than last year.

Despite higher costs of capital due to rising interest rates and declining stock prices, the fundamentals behind the healthcare sector remain strong.

Figure 32: Healthcare Portfolio Occupancy Year-over-Year



57%
of healthcare real estate portfolio occupancy remained the same

06

Health System Monetization and Development Criteria

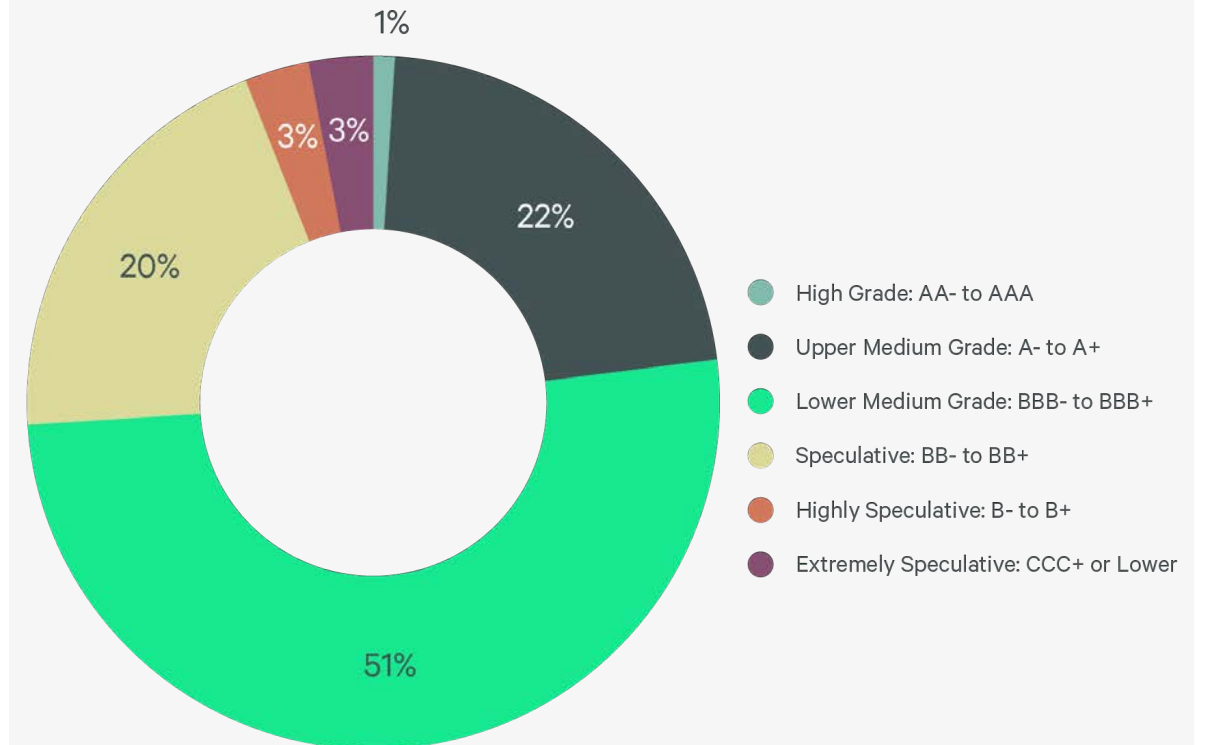
A portion of the survey was dedicated to medical office investors and developers seeking monetization or development opportunities with health systems.

Question 25

What is the minimum hospital credit rating you would consider for investment?

Over half (51%) of respondents would consider “Lower Medium Grade: BBB- to BBB+”, as investors drew a clear line in risk profile at investment grade credit. 23% of investors and developers prefer a higher aversion to risk and would only consider “Above Lower Medium Grade: A- & Higher”, which is in line with the previous year. Debt capital is most certainly fueling this investor sentiment, as lenders are focused equally on risk and commensurate credit rating.

Figure 33: Minimum Hospital Credit Rating

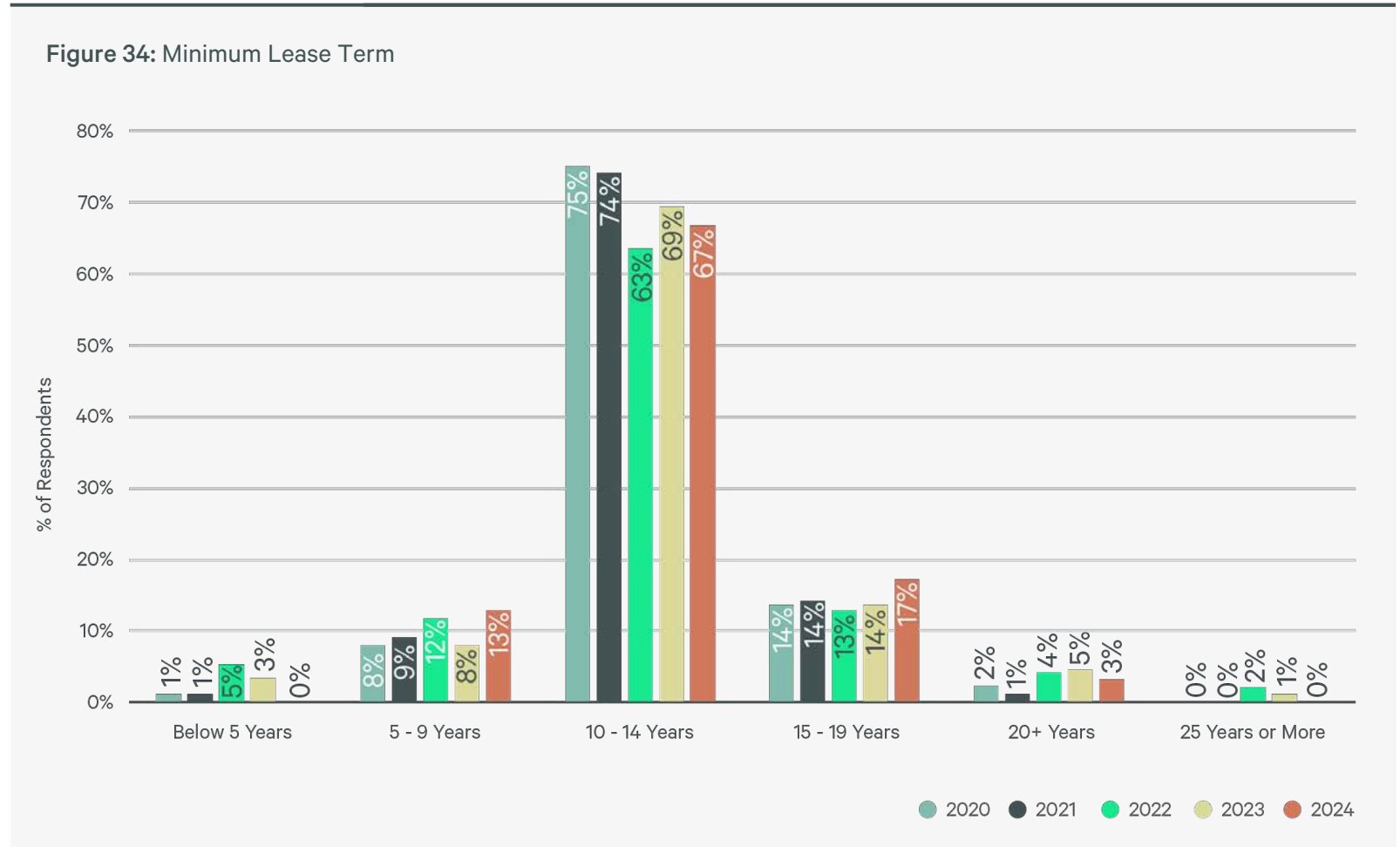


- High Grade: AA- to AAA
- Upper Medium Grade: A- to A+
- Lower Medium Grade: BBB- to BBB+
- Speculative: BB- to BB+
- Highly Speculative: B- to B+
- Extremely Speculative: CCC+ or Lower

Question 26

What is the minimum lease term you would consider for a sale-leaseback by a health system?

Over the last five years, survey results revealed a settling over time of investor comfort with lease terms of at least 10-14 years. In 2024, responses showed almost no deviation from that trend with the 10-14 years' response decreasing 2% year-over-year to 67%, but still in line with historical trends.



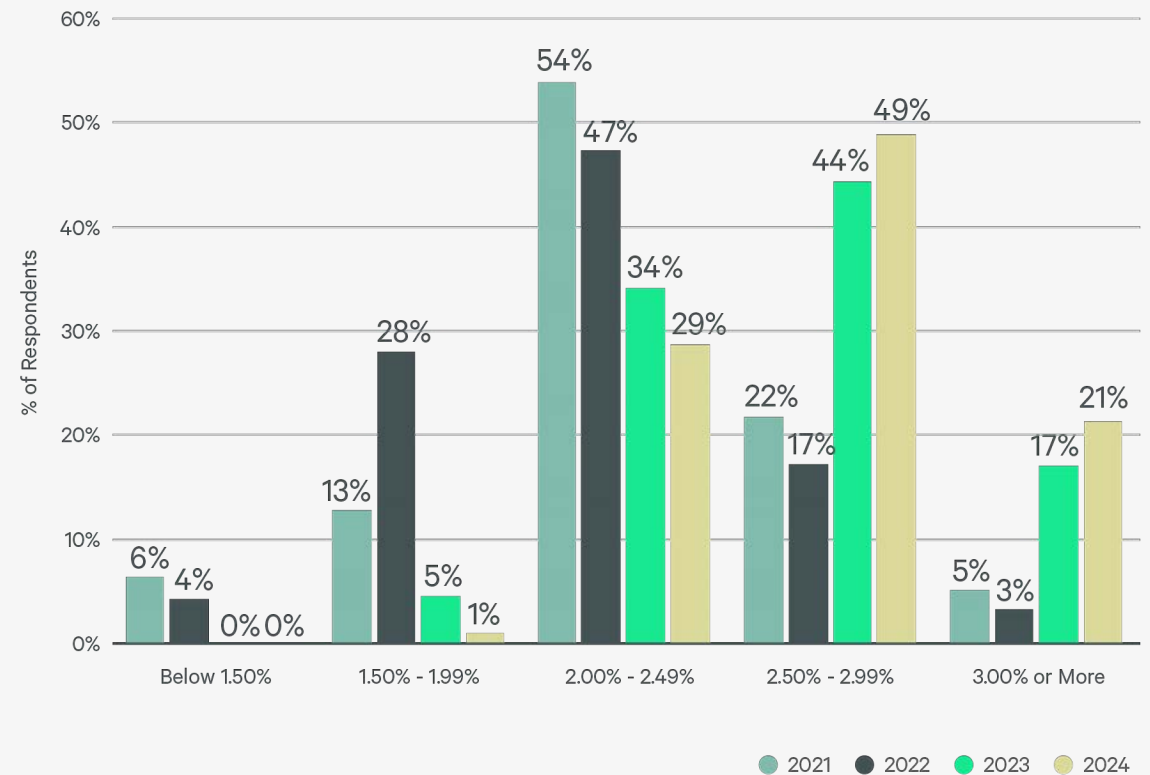
Question 27

What is the minimum annual rental rate escalation you would consider for a sale-leaseback by a health system?

In line with inflationary trends, rental rate escalation expectations shifted to the highest in the history of this survey, with almost half of respondents (49%) stating that they will require at least a 2.50% – 2.99% annual rental rate escalation, which is a year-over-year increase of 5%. Only 1% indicate that they will accept an annual rental rate escalation of less than 2.00%, which decreased by 4% year-over-year and the lowest in the history of this survey.

70% indicate that they will require an annual rental rate escalation of 2.50% or more, a 9% increase from 2023. When annual inflation peaked at 9.1% in June 2022, it was the highest on record since 1981. Though inflation has cooled significantly to 3.1% as of January 2024, investors are still pushing for higher rent escalations.

Figure 35: Minimum Annual Rent Escalations



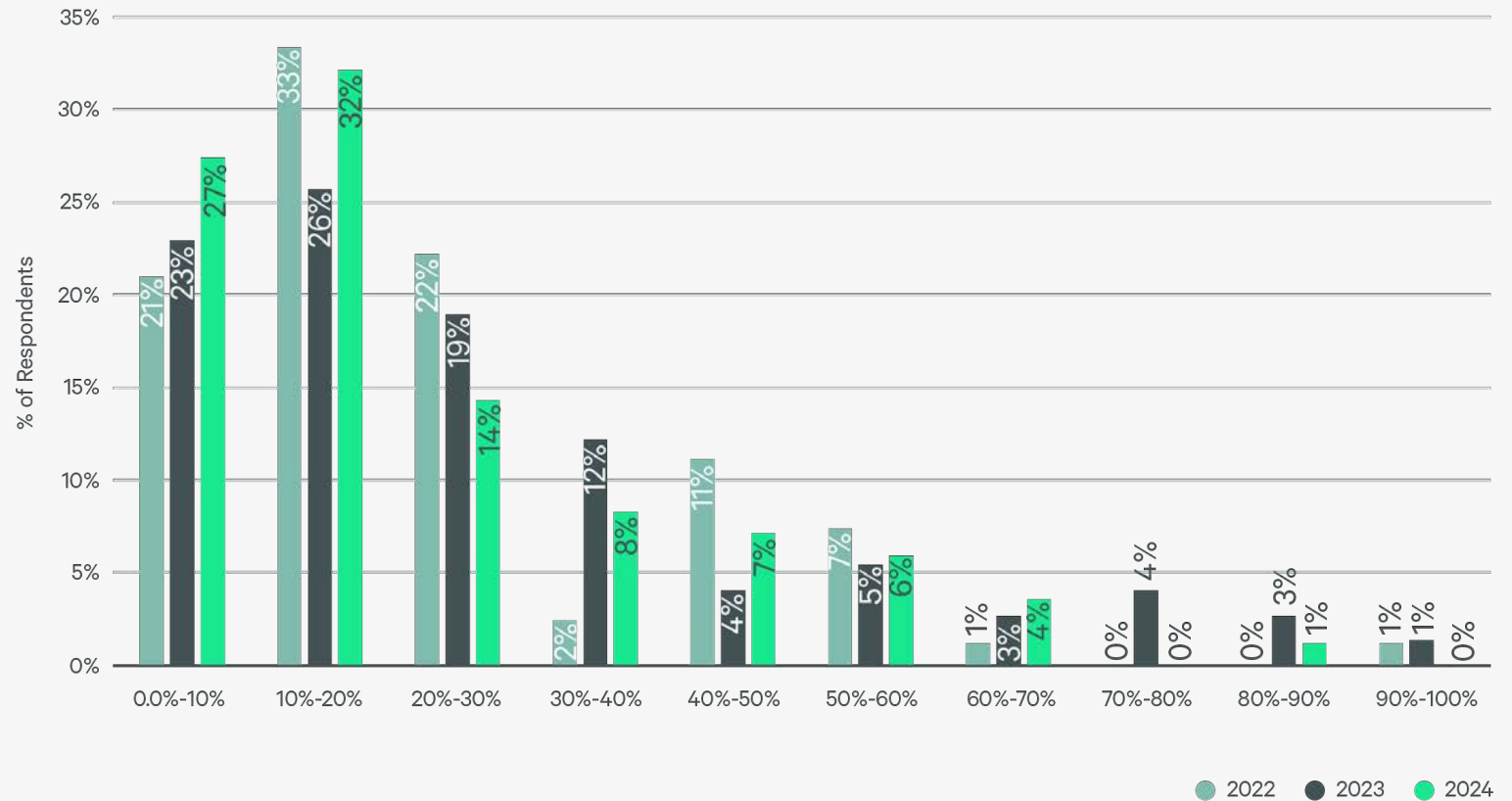
Question 28

In your experience, what percent of the time do hospitals exercise their ROFR to purchase the medical buildings on their campus as outlined in a typical ground lease?

The majority (89%) indicates that hospitals exercise their Right of First Refusal (ROFR) less than 50% of the time. Consistent with previous years, about one third (32%) of survey respondents are seeing ROFRs exercised 10-20% of the time.

Most hospitals continue to waive their right to purchase assets on their campus as they conserve capital and utilize their balance sheet to optimize their inpatient activities.

Figure 36: Hospital ROFR Usage



Question 29

What is the minimum ground lease term you would consider for investment (including extension options)?

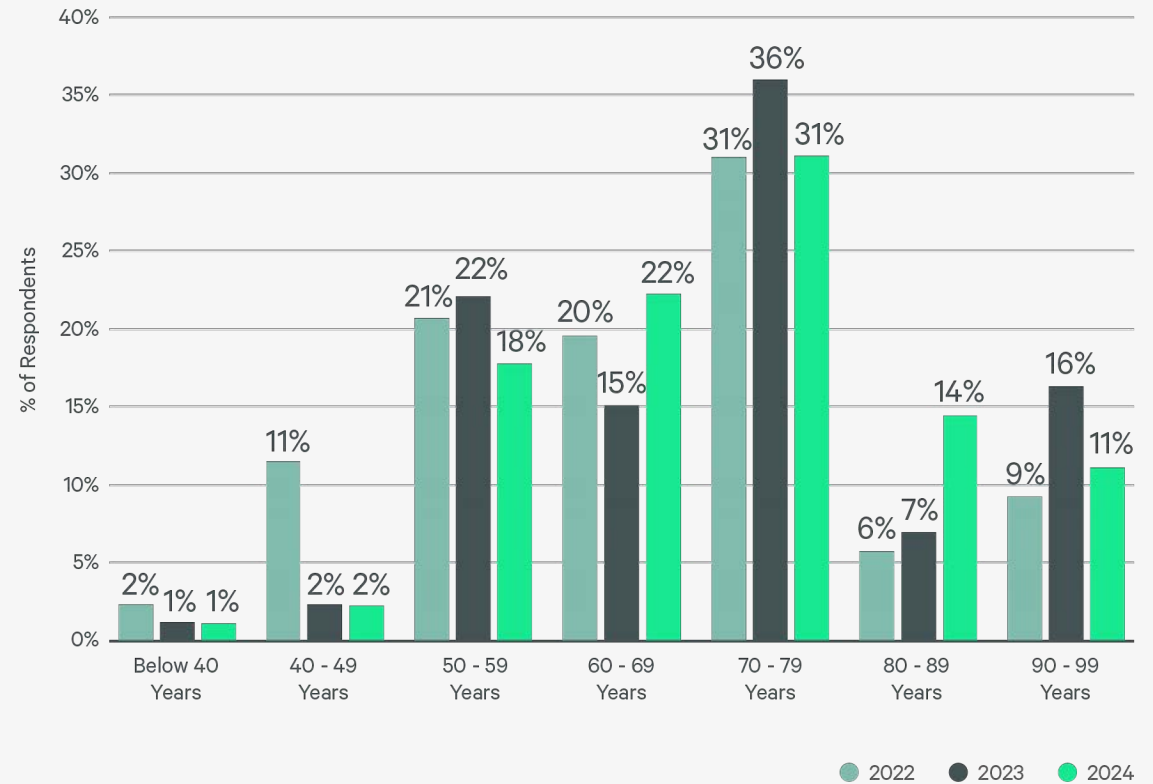
Results suggest that most (79%) healthcare investors and developers continue to prefer ground lease terms over 60 years, a 7% year-over-year increase in 2024. Over half (57%) prefer terms over 70 years.

Investor preference for more than 80 years of ground lease term increased by 7% year-over-year, where one quarter (26%) of respondents selected a term over 80 years.

>70 Years

remaining ground lease term preference

Figure 37: Minimum Ground Lease Term



07

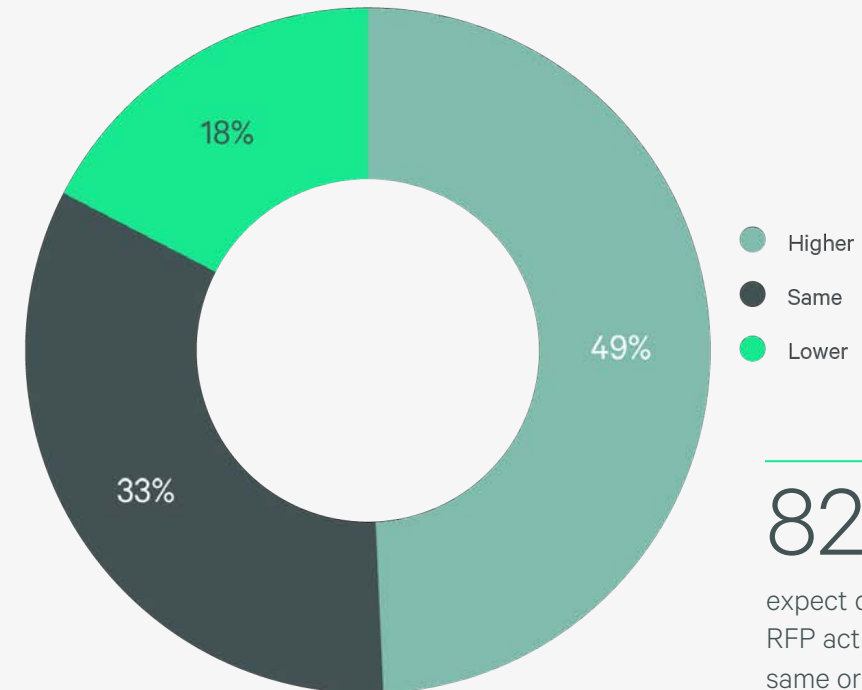
Medical Office Development

Question 30

For developers, where do you expect health system development RFP activity to be in 2024 compared to a year ago?

Overall, developers expect an increase in RFP activity, where almost half (49%) of respondents anticipate that development RFP activity will increase in 2024, up from 25% in 2023. Only 18% anticipate that development RFP activity will decrease in 2024, down from 35% last year.

Figure 38: Health System RFP Activity for 2024



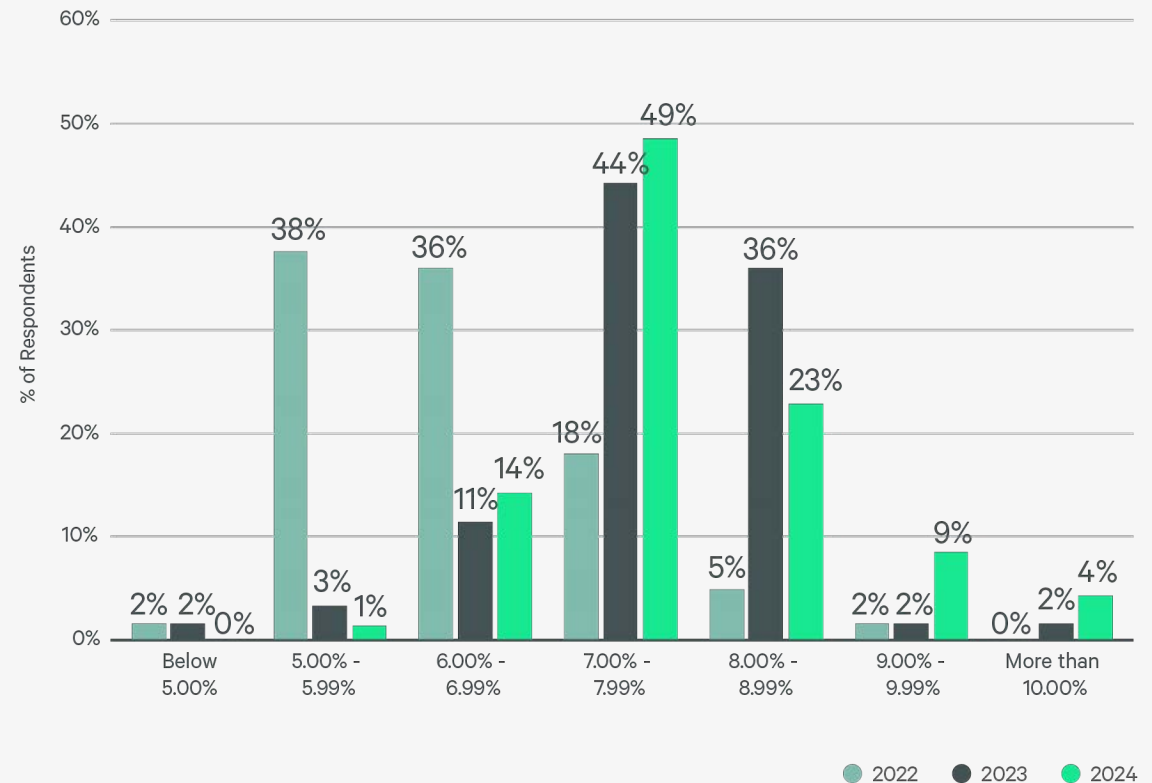
Question 31

For developers, what is the minimum lease constant you would consider for an MOB development meeting your highest standards (assuming current market conditions)?

For 2024, developers indicate they are requiring a higher lease constant compared to years prior, with almost half (49%) selecting 7.00% - 7.99%, up 5% from 2023.

The higher lease constant is consistent with debt and capital markets movements as developers indicate a higher risk aversion in 2024. Higher lease constants coinciding with increased construction costs has pushed rental rates on new construction well above the second-generation market.

Figure 39: Minimum Development Yield



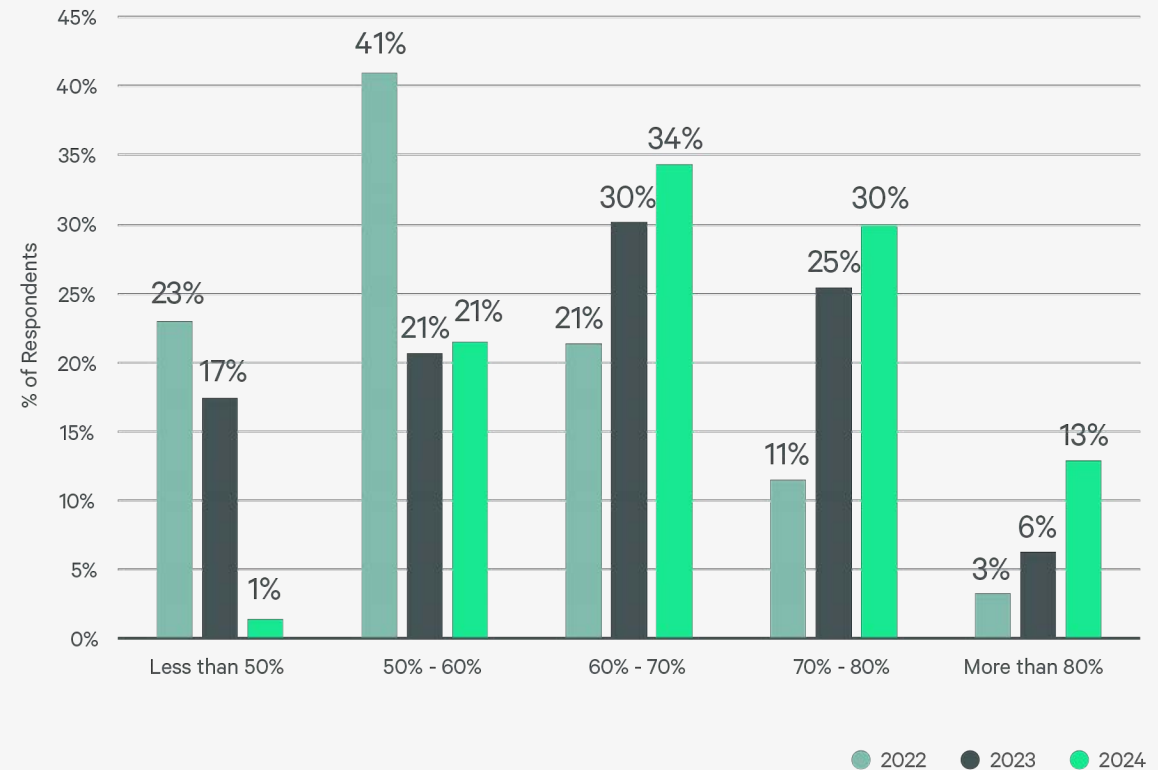
Question 32

For developers, what is the minimum pre-leased threshold percentage you (or your lender) would consider for an MOB development meeting your highest standards?

In 2024, only one of the 70 developers who answered this question would accept an MOB development that is less than 50% pre-leased. Over the last two years, the 50% minimum threshold has ultimately become a hard line for developers, increasing from 77% of respondents in 2022, to 83% in 2023 and up to 99% in 2024.

The majority (77%) of developers state that MOB developments must be 60% or more pre-leased for projects to meet their strictest development criteria. Up from 6% in 2023, 13% of developers in 2024 will not proceed unless more than 80% of the project is pre-leased, demonstrating the increasingly stringent lender underwriting standards, as well as a higher cost of capital, that developers are faced with today.

Figure 40: Minimum Pre-leasing Threshold



Contacts

About CBRE's Healthcare Capital Markets

CBRE Group, Inc. (NYSE: CBG), a Fortune 500 and S&P 500 company headquartered in Dallas, is the world's largest commercial real estate services and investment firm and is the leading real estate advisor to the healthcare industry. With offices in 400 markets across the world, CBRE's more than 70,000 professionals provide exceptional outcomes for clients in 60+ countries by combining local market insight, broad services, specialized expertise and premier tools and resources. Our U.S. Healthcare Capital Markets group specializes in providing healthcare real estate investors with acquisition, disposition and recapitalization strategies; assisting healthcare providers with strategic capital planning (including monetization and capital raising efforts); and advising health systems and physician groups in the developer selection process.

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