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2023
MID YEAR
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HEALTHCARE & LIFE SCIENCE

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Turning Challenges into Opportunities: The Changing Landscape of Debt

In recent years, the healthcare and life science industries have faced significant changes and challenges, and as the year reaches its midpoint, we need to assess this evolving landscape and identify its opportunities. One area of concern that requires careful attention is the impending wave of loan maturities in the near future. According to research from Colliers Capital Markets, an estimated $2.6 trillion of loan maturities are expected through 2027, presenting a significant challenge for borrowers across various sectors.

This debt situation holds particular significance for the healthcare sector, as rising interest rates and tighter credit underwriting standards create difficulties for borrowers trying to manage their debt. Exploring options for debt management becomes imperative as organizations seek strategies to navigate these financial obstacles. Data acquired by Revista highlights the impact of the debt crisis on the healthcare industry, revealing a substantial slowdown in financing and the number of mortgages for medical office buildings from the past two years to the first half of 2023.

Notably, the debt crisis is further manifested through rising cap rates, both on a quarterly basis and trailing twelve months (TTM), as observed in Revista's data. The changing landscape of debt presents challenges for healthcare real estate investors and lenders, requiring innovative approaches to adapt to the evolving market conditions.

Despite these challenges, demand drivers in healthcare real estate continue to show positive signs of growth. Factors such as increasing healthcare spending, steady employment rates, and a shift towards outpatient facilities provide a strong foundation for long-term growth in the industry. These positive indicators signal potential opportunities for investors and stakeholders in the healthcare and life science sectors.

Looking ahead, opportunities lie in the ability to identify distressed borrowers who are unable or unwilling to refinance their debt. This can present opportunities for investors to acquire assets at a discount from peak pricing observed in previous years. Additionally, a potential rise in foreclosures and bank-seized assets may contribute to the availability of discounted investment opportunities.

Established investors with healthy balance sheets may still have access to loans, albeit possibly at less favorable loan-to-value ratios.

As we navigate the changing landscape of debt in the healthcare and life science sectors, it is essential to remain vigilant, adapt to the evolving market conditions, and seize opportunities that arise from the challenges at hand. By strategically approaching the debt crisis and leveraging the positive demand drivers in healthcare real estate, stakeholders can position themselves for success in the ever-changing market landscape.

TTM MOB Cap Rates Showing 20-30 bps Sequential Rise

		25th	Median	75th	Lowest
2018	Q1	6.8	5.7	5.2	4.2
	Q2	7.0	6.3	5.5	3.9
	Q3	7.2	6.4	5.6	3.4
	Q4	7.2	6.4	5.6	3.2
2019	Q1	7.2	6.6	5.9	3.7
	Q2	7.0	6.3	5.8	4.2
	Q3	7.0	6.2	5.8	4.4
	Q4	6.9	6.2	5.7	4.1
2020	Q1	6.8	6.1	5.5	3.9
	Q2	7.1	6.3	5.6	4.0
	Q3	6.9	6.1	5.5	4.0
	Q4	6.9	6.0	5.5	4.5
2021	Q1	7.0	6.0	5.5	4.7
	Q2	6.8	5.8	5.3	4.0
	Q3	6.9	5.8	5.3	4.0
	Q4	6.7	5.8	5.2	3.5
2022	Q1	6.5	5.6	5.2	3.4
	Q2	6.4	5.7	5.2	3.8
	Q3	6.4	5.6	5.0	3.9
	Q4	6.6	5.6	5.1	4.4
'23	Q1	6.8	5.9	5.4	4.6
	*Q2	----	----	----	----

SOURCE:Revista

**Q2 data not yet available. Report will be updated by end of July and posted to www.ticigroup.com.*

SOURCE:Cartooningforpeace.org

Quarterly MOB Cap Rates Showing 40-100 bps Sequential Rise

		25th	Median	75th	Lowest
2018	Q1	7.2	6.0	4.7	2.9
	Q2	7.3	6.9	6.0	2.9
	Q3	7.2	6.8	5.9	3.3
	Q4	7.3	6.0	5.6	3.7
2019	Q1	7.0	6.7	6.1	5.1
	Q2	6.4	5.7	5.7	4.6
	Q3	7.2	6.4	5.6	4.0
	Q4	6.9	6.1	5.3	2.8
2020	Q1	6.8	6.1	5.4	4.1
	Q2	7.5	6.5	5.9	5.1
	Q3	6.5	5.7	5.3	3.9
	Q4	6.8	5.6	5.4	4.8
2021	Q1	7.0	6.2	5.2	4.8
	Q2	7.0	5.8	5.2	2.5
	Q3	6.9	5.9	5.3	4.1
	Q4	6.0	5.3	4.9	2.8
2022	Q1	6.1	5.5	5.2	4.2
	Q2	6.8	6.0	5.3	4.2
	Q3	6.9	5.5	4.6	4.6
	Q4	6.5	5.6	5.4	4.6
'23	Q1	7.0	6.6	6.2	5.0
	*Q2	----	----	----	

SOURCE:Revista

**Q2 data not yet available. Report will be updated by end of July and posted to www.ticigroup.com.*

MEDICAL OFFICE

The state of the medical office building market has experienced notable changes and challenges, as indicated by data acquired by Revista. Transaction volume has slowed, and cap rates have seen an increase. In particular, the top 50 metros have witnessed a shift in cap rates from 5.8% in the previous year to 6% in the first quarter of this year. Despite these headwinds and tough investor sentiment, there is a silver lining within the medical office building sector.

Massive rent growth has played a significant role in bolstering the value of both recently constructed assets and medical office buildings overall. This growth has allowed medical office buildings to demonstrate more resilience compared to their office counterparts. According to JLL's Healthcare Perspective Report, medical office buildings have maintained a steady average occupancy rate of 92% throughout various market cycles. This consistency showcases the sector's stability and ability to weather economic fluctuations, providing investors with confidence in their investment.

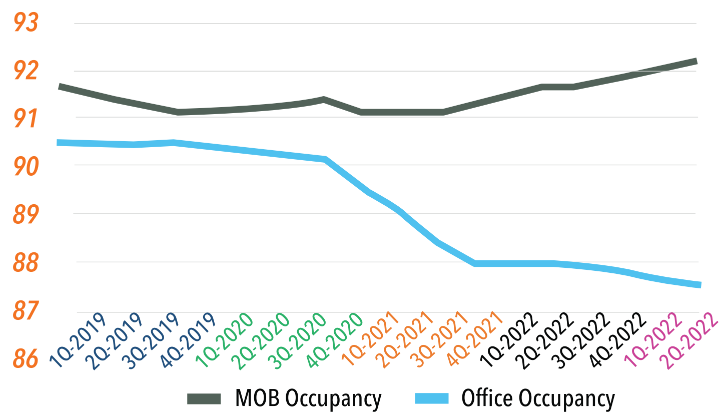
Moreover, the market has embraced the notion of 3% annual rent escalations, as reported by JLL. This practice has become universally accepted. The predictability of revenue streams, along with the economic resilience of the sector and a strong tenant base, contributes to its stability within the current market environment. Medical office buildings have proven to be less volatile than other subclasses within healthcare real estate and general office spaces, offering investors a more secure and reliable investment option in very uncertain market conditions.

Top Transaction Markets First Half 2023

Metro	Annual Volume	Square Feet	Avg $/SF	Avg Cap Rate
US	$20,955,800	55 M	$393	6.3
Top 100	$18,354,800	47.8M	$395	6.2
Top 50	$15,765,000	40.7M	$399	6.0
New York	$1,294,200	2.4 M	$469	6.5
Dallas	$1,078,900	2.8 M	$424	6.0
Houston	$1,017,700	2.7 M	$402	5.9
Los Angeles	$1,038,000	2.3 M	$486	5.4
Atlanta	$1,019,600	2.7 M	$374	5.6
Phoenix	$1,006,000	2.6 M	$378	6.0
Indianapolis	$781,200	1.9 M	$389	5.1
Tampa	$750,300	1.8 M	$425	5.0
Miami	$670,800	1.7 M	$387	6.1

SOURCE: Revista
**Q2 data not yet available. Report will be updated by end of July and posted to www.ticigroup.com.*

Growing Gap Between Office and Mob Occupancy



SOURCE: Revista

Key Strategic Alliance Markets

Markets	Vacancy	Total SF	SF in Progress	Trans Volume (Yr)	Occupancy	Average (NNN)	Rent Growth	# of Trans	Trans Volume	Total SF Sold	Average PPSF	Cap Rates
Birmingham, AL	9.10%	7,424,814	354,800	$181,690,055	90.90%	$26.65	0.40%	10	$181,690,055	459,440	358.10	6.70%
Phoenix, AZ	11.00%	20,555,773	930,534	$918,678,992	89.00%	$23.11	4.60%	49	$918,678,992	2,211,488	395.40	6.25%
Los Angeles, CA	7.80%	60,154,366	1,479,500	$733,269,336	92.20%	$35.73	2.90%	43	$733,269,336	1,873,851	433.60	5.53%
Denver, CO	8.50%	15,264,495	352,158	$407,043,324	91.50%	$22.76	0.70%	21	$407,043,324	1,045,732	398.70	6.50%
Baltimore, MD	5.60%	16,563,886	1,523,147	$107,106,105	94.40%	$23.90	1.70%	5	$107,106,105	302,253	315.00	5.10%
Washington DC, MD	9.10%	24,881,036	1,566,742	$321,751,195	90.90%	$27.02	2.20%	15	$321,751,195	864,678	378.90	8.40%
Miami, FL	6.30%	21,907,777	1,118,214	$639,121,835	93.70%	$26.69	5.70%	32	$639,121,835	1,575,061	427.60	6.16%
Tampa, FL	5.80%	13,760,484	192,000	$620,072,394	94.20%	$22.55	4.50%	32	$620,072,394	1,513,931	412.80	5.10%
Orlando, FL	7.40%	10,210,999	1,024,599	$223,688,431	92.60%	$24.72	3.20%	16	$223,688,431	630,922	389.90	5.95%
Jacksonville, FL	5.70%	9,097,009	585,428	$74,772,521	94.30%	$24.44	1.20%	9	$74,772,521	173,526	454.30	6.40%
Atlanta, GA	8.60%	30,758,308	571,624	$858,495,941	91.40%	$22.48	3.20%	61	$858,495,941	2,389,919	353.10	5.63%
Columbus, OH	8.10%	12,508,344	990,020	$238,682,551	91.90%	$16.33	1.40%	12	$238,682,551	582,478	409.00	5.15%
New Orleans, LA	5.40%	4,847,110	126,000	$46,250,000	94.60%	$30.20	4.70%	3	$46,250,000	106,625	352.30	5.67%
Las Vegas, NV	8.10%	7,943,319	118,540	$147,480,475	91.90%	$22.40	4.10%	13	$147,480,475	425,121	399.80	6.50%
Charlotte, NC	7.50%	11,828,531	773,727	$314,147,210	92.50%	$25.41	2.40%	19	$314,147,210	886,291	343.50	7.17%
Nashville, TN	7.80%	11,893,888	376,634	$119,978,122	92.20%	$21.60	3.70%	10	$119,978,122	350,403	351.90	5.30%
Knoxville, TN	5.80%	4,887,709	47,436	$51,687,000	94.20%	$23.50	2.40%	3	$51,687,000	119,639	483.70	8.00%
Dallas, TX	9.80%	37,393,495	374,217	$1,040,965,486	90.20%	$23.64	3.40%	53	$1,040,965,486	2,492,106	433.40	5.90%
Houston, TX	11.90%	43,166,113	2,752,994	$967,443,239	88.10%	$23.78	2.20%	36	$967,443,239	2,399,881	401.00	5.78%
Austin, TX	9.30%	7,506,625	818,515	$142,102,295	90.70%	$26.82	7.10%	8	$142,102,295	339,271	441.50	4.98%
Richmond, VA	7.40%	8,194,253	81,000	$9,685,000	92.60%	$19.77	1.60%	2	$9,685,000	39,871	309.00	7.50%
Top 50 Metros	7.60%	847,483,940	29,833,988	$13,592,203,988	92.40%	$24.71	2.80%	818	$13,592,203,988	35,864,549	390.20	6.07%
Top 100 Metros	7.40%	1,032,194,460	35,349,291	$16,057,627,659	92.60%	$24.16	2.80%	997	$16,057,627,659	42,692,450	387.00	6.37%

SOURCE: Revista

MEDICAL OFFICE CONTINUED

Long Term Demand Drivers

HEALTHCARE SPENDING

2021 $4.1 Trillion
2022 $4.5 Trillion
2023 $4.7 Trillion (estimated)

STEADY EMPLOYMENT

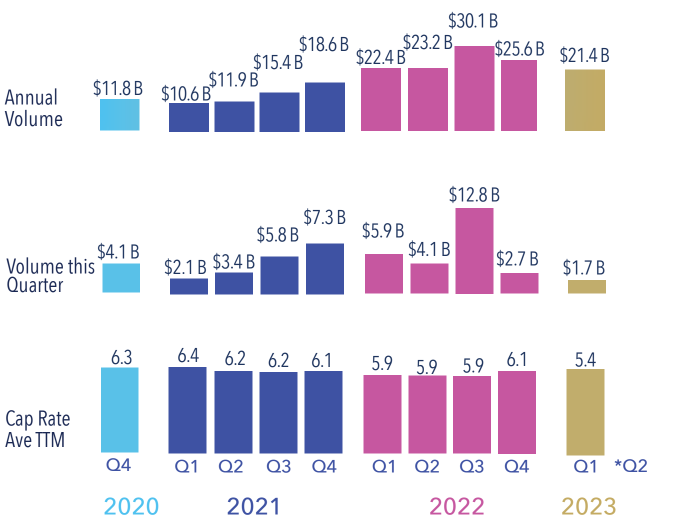
Annual growth rate estimated 2023

3% Physicians Office
4% Ambulatory Surgery Centers
4.2 % Outpatient Care Centers

SOURCE: Revista

US MOB Transaction Activity Slows

MOB Volume and Cap Rate, First Half 2023 (US, Trades, $2.5M+)



SOURCE:Revista

**Q2 data not yet available. Report will be updated by end of July and posted to www.ticigroup.com.*

Annual Increase in Transaction Volume

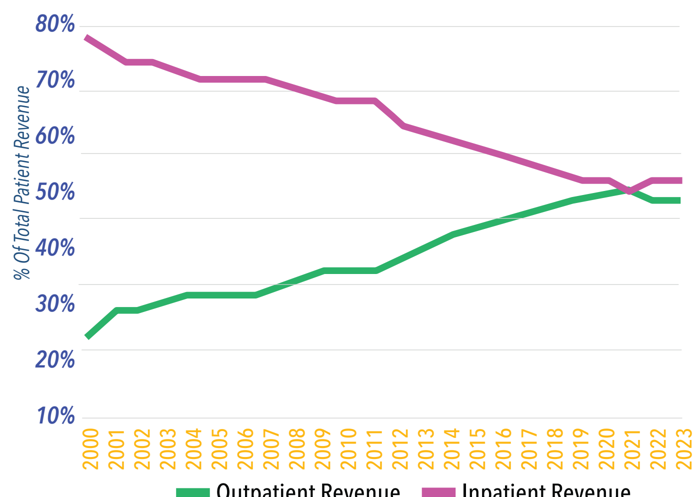
First Half 2023 Volume Lowest Since 2014 (preliminary data)

Year	Quarter	Annual Volume
2018	Quarter 1 Quarter 2 Quarter 3 Quarter 4	$14.4 B $12.6 B $13.1 B $12.6 B
2019	Quarter 1 Quarter 2 Quarter 3 Quarter 4	$11.5 B $11.6 B $11.0 B $12.3 B
2020	Quarter 1 Quarter 2 Quarter 3 Quarter 4	$13.7 B $12.4 B $12.0 B $11.8 B
2021	Quarter 1 Quarter 2 Quarter 3 Quarter 4	$10.6 B $11.9 B $15.4 B $18.6 B
2022	Quarter 1 Quarter 2 Quarter 3 Quarter 4	$22.4 B $23.1 B $30.1 B $25.5 B
2023	Quarter 1 *Quarter 2	$21.0 B -------

SOURCE:Revista

**Q2 data not yet available. Report will be updated by end of July and posted to www.ticigroup.com.*

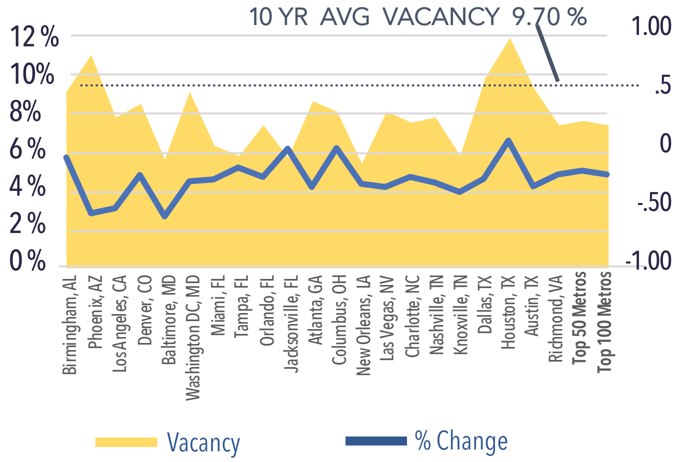
Shift to Outpatient Locations



SOURCE: Revista

MEDICAL OFFICE CONTINUED

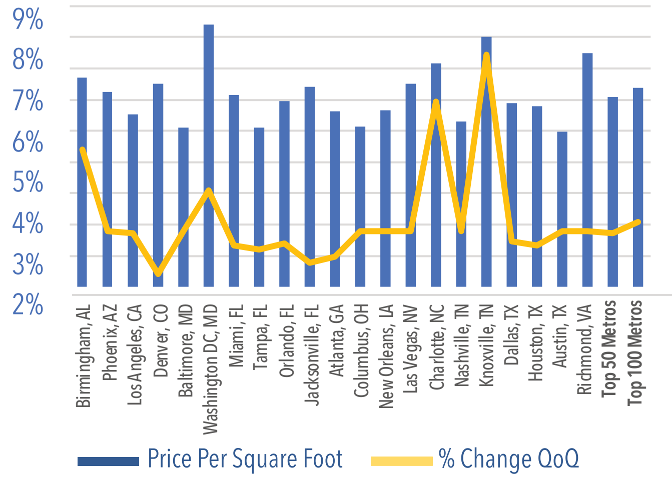
2023 Market Vacancy vs. Change



SOURCE: Revista & Costar

Cap Rates

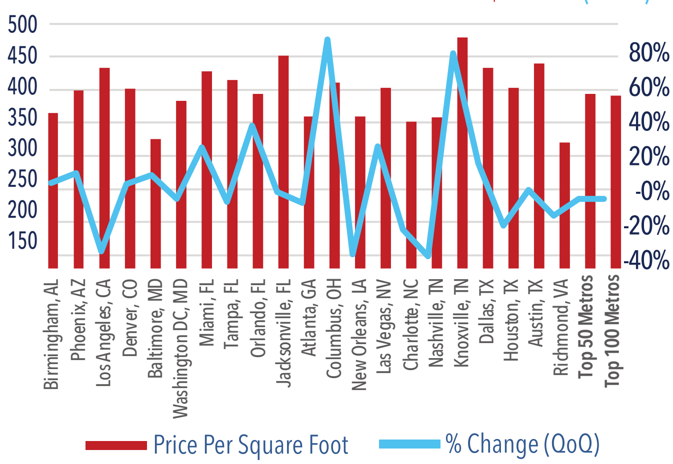
Top 100 Metros
$6.37 (1.57%)



SOURCE: Revista & Costar

Price Per Square Foot ($/SF)

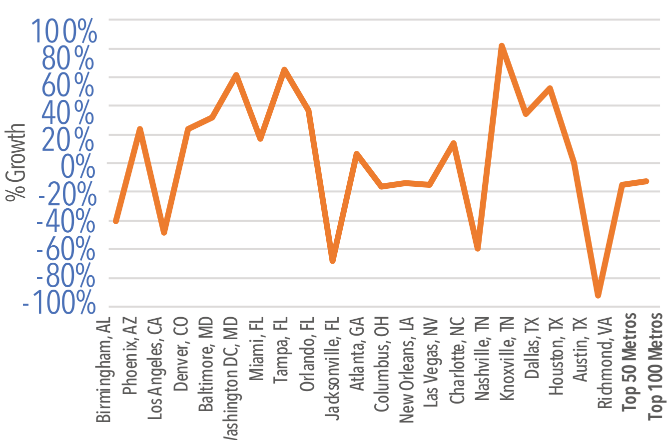
Top 100 Metros
$387 PSF (-1.8%)



SOURCE: Revista & Costar

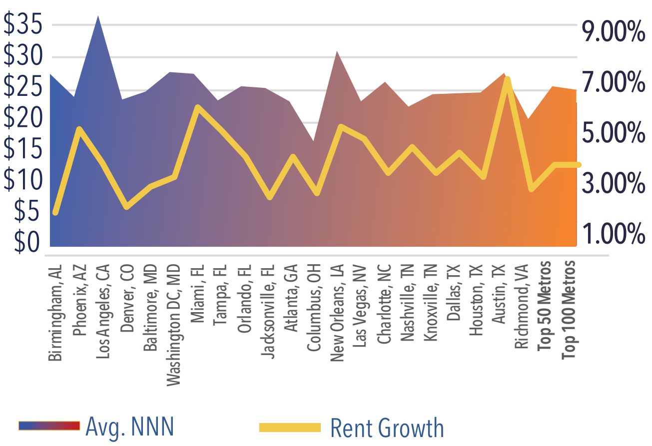
SOURCE: Shutterstock

Transaction Volume Growth (QoQ)



SOURCE: Revista & Costar

2023 Market NNN Rent vs. Growth



SOURCE: Revista & Costar

LIFE SCIENCE

The state of the life science real estate market presents a unique landscape compared to other sub-asset classes within healthcare real estate, particularly in terms of its resistance to economic recessions and financial market stability. While Revista's reported decrease in transaction activity is expected, given current market conditions, a closer examination of the industry reveals promising market drivers for the future.

Data acquired by Cushman and Wakefield highlights a robust construction pipeline, with approximately 25 million square feet of life science space expected to be delivered to the market in the next two years. Despite generally low vacancy rates, sublease space has seen a substantial increase of 65% since 2021, although it still only represents 1.6% of the total space, indicating a relatively tight market. The upcoming new construction projects will likely alleviate saturation in oversaturated or overgrown markets.

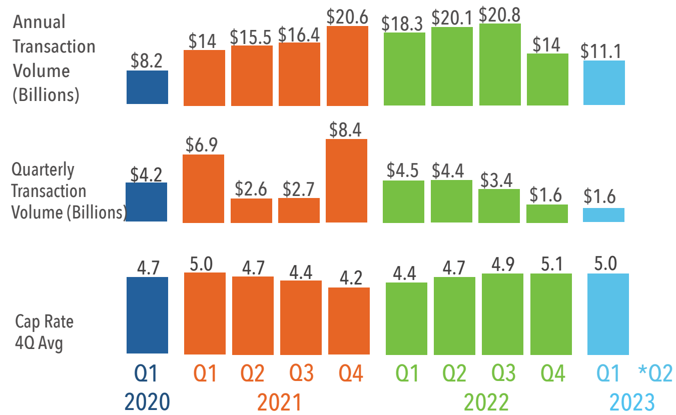
Furthermore, global funding has experienced a decline, totaling $66.6 billion, a 45% decrease from the peak levels of 2021. CBRE supports this data by noting that recent banking system turmoil may lead to further reductions in venture capital funding for the industry in the current year. However, Q1 2023 shows venture capital funding on track to surpass pre-pandemic levels by approximately 20%. National Institutes of Health funding and research expenditures continue to support the industry's growth.

In terms of future demand, clinical trial activity has been a significant driver. Excluding 2021, 2022 witnessed the highest number of ongoing trials in the past two decades. Cushman & Wakefield reports approximately 44,500 active clinical trials across the markets they track. In terms of emerging markets, CBRE identifies Dallas/Fort Worth, Atlanta, and Nashville as hotspots for life science development and growth. Over the course of 2023, labor pools and NIH funding are expected to increase substantially in these markets.

In summary, while the rapid rise of the life science sector may moderate from its exponential growth between 2020 and 2023, investors should maintain a cautiously optimistic outlook for the asset class. Despite challenges such as decreased funding and increased sublease space, the industry demonstrates resilience and promising prospects, driven by robust R&D investments, clinical trial activity, and emerging markets.

Life Science Transaction Activity Slows

Life Science Real Estate TTM Transaction Volume & Cap Rate (US)



SOURCE: Revista

**Q2 data not yet available. Report will be updated by end of July and posted to www.ticigroup.com.*

1450 Owens Street is a seven-story, 467,567 square foot lab and office development in San Francisco Bay Area.

SOURCE: HREI, Alexandria Companies rendering

Top 10 Markets for Life Science Construction - First Half 2023

Top Life Science Real Estate Construction Markets

Market	SF Open	SF Started TTM	SF Completed TTM	SF In Progress	Occupancy Ratio Open Current
BOSTON - CAMBRIDGE	62.8 M	11.5 M	5.2 M	23.8 M	91.69
SAN FRANCISCO	41.0 M	8.5 M	1.6 M	12.7 M	93.09
SAN DIEGO	27.5 M	3.6 M	1.5 M	7.7 M	93.19
PHILADELPHIA	18.4 M	4.6 M	1.6 M	6.0 M	94.59
NEW YORK - NEWARK	34.4 M	2.3 M	0.6 M	3.3 M	88.09
RALEIGH	5.0 M	1.6 M	0.0 M	2.8 M	94.29
WASHINGTON DC	9.6 M	1.9 M	0.7 M	1.8 M	87.49
SAN JOSE - SUNNYDALE	6.8 M	1.7 M	0.1 M	1.6 M	86.69
SEATTLE	7.4 M	0.7 M	0.7 M	1.6 M	87.99
DURHAM-CHAPEL HILL	13.1 M	0.5 M	1.0 M	1.4 M	90.19

SOURCE: Revista

LIFE SCIENCE CONTINUED

Current Life Science Real Estate Fundamentals

	SF Open	SF Absorption YoY	SF Completion	Construction SF in Progress	Occupancy Rate
Q1 2022	292 M	-2.0 M	11.2 M	47.8 M	94.6%
Q4 2022	303 M	2.3 M	14.7 M	69.9 M	92.6%
Q1 2023	308 M	8.6 M	15.9 M	74.3 M	92.6%
***Q2 2023**	----	----	----	----	----

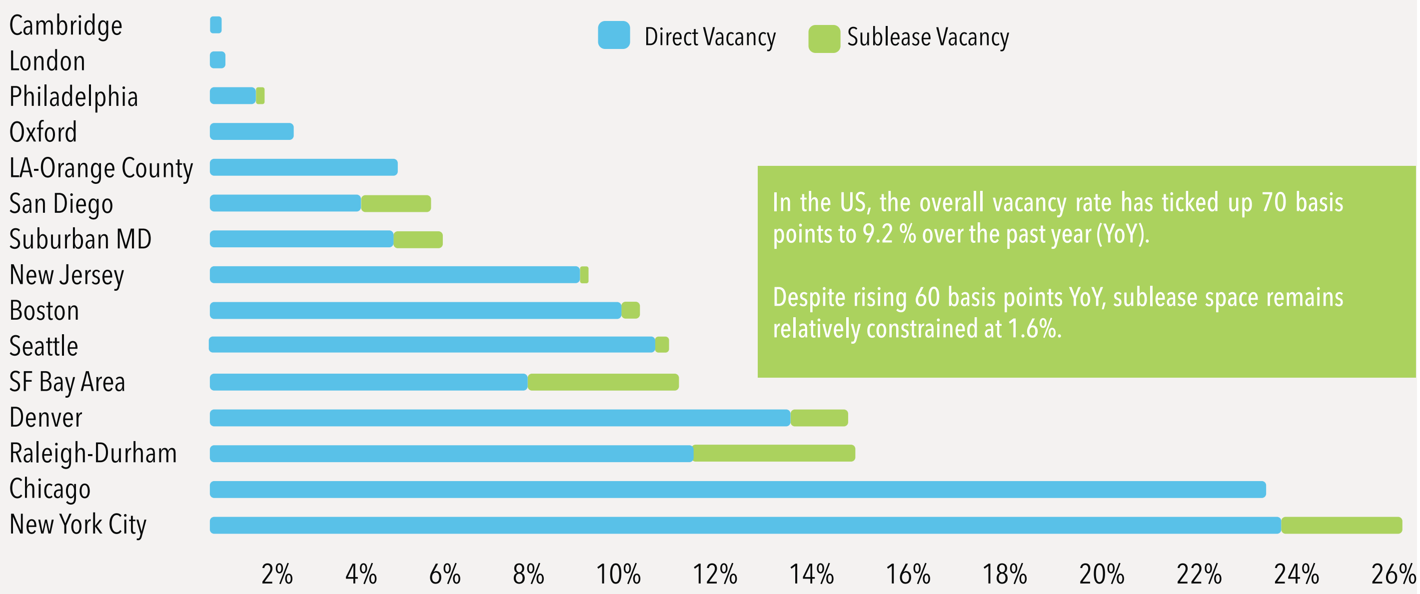
SOURCE: Revista

**Q2 data not yet available. Report will be updated by end of July and posted to www.ticigroup.com.*

BioMed Realty's Dexter Yards project in Seattle.

SOURCE: Bisnow, BioMed Realty Trust

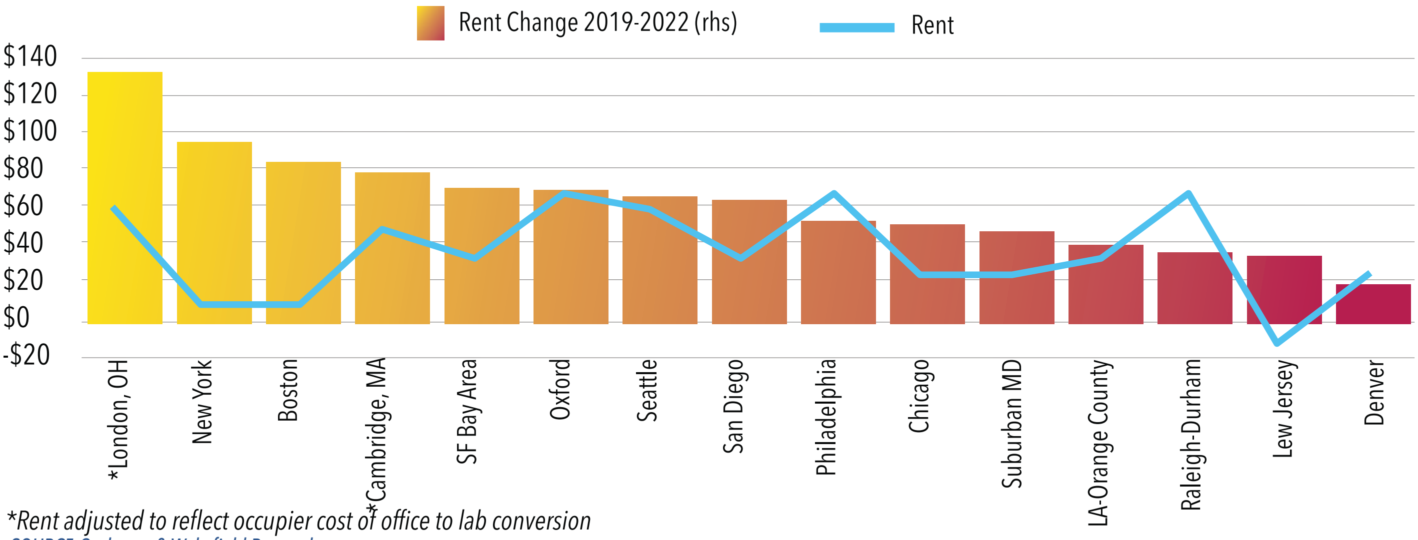
Vacancy Rates by Components



In the US, the overall vacancy rate has ticked up 70 basis points to 9.2 % over the past year (YoY).

Despite rising 60 basis points YoY, sublease space remains relatively constrained at 1.6%.

Life Sciences: Current Rent & 3-Year Growth



**Rent adjusted to reflect occupier cost of office to lab conversion*

SOURCE:Cushman & Wakefield Research

AMBULATORY SURGERY CENTERS

Ambulatory Surgery Centers (ASCs) have become a significant topic in healthcare real estate reports due to their growing presence and importance. The growth in demand for ASCs can be attributed to the aging population's increasing utilization of healthcare services, despite comprising only 30% of the population (ages 55 and above). According to data from the Centers for Medicare and Medicaid Services, outpatient demand for the 55+ age group alone is projected to grow 16.9% by 2025. This growth in demand continues to drive the need for physical real estate investments to complement the rise of telehealth and virtual care in recent years.

JLL's latest healthcare and medical office perspective report reveals that up to a third of hospital revenue is shifting to ASCs, office-based labs, and other ambulatory sites. Competition among healthcare systems, and technological advancements are driving the shift toward outpatient settings. This trend highlights the increasing significance and market presence of ASCs.

Interestingly, the design requirements and environments of contemporary ASCs have also evolved. In a recent article featuring Akshay Sangolli, a medical planner and principal at Page, and Robert Doane, also a principal at Page, the focus is on convenient locations, thoughtful design, and an emphasis on patient safety and comfort as defining characteristics of modern ASCs. These facilities incorporate hotel-like amenities such as welcoming check-in processes, ample natural light, upscale furnishings, and a focus on nature and calming environments, all complemented by well-planned landscaping. Furthermore, involving physicians in the design process has become crucial, as their collaboration and input contribute to creating successful ASC facilities that prioritize both patient and staff experiences, ultimately attracting a large patient base, competent staff, and exceptional specialists.

Moving forward, the ASC market is thriving, driven by the increasing demand for outpatient care from the aging population and the shift towards ambulatory settings. As ASCs play an increasingly significant role in healthcare revenue, the design of these facilities has evolved to prioritize patient safety, comfort, and hospitality, with an emphasis on convenient locations and thoughtful amenities. By aligning design strategies with the needs of patients, staff, and physicians, ASCs can establish themselves as successful and sought-after investments.

10 Private Equity Backed ASCs

SOURCE:Beckers ASC

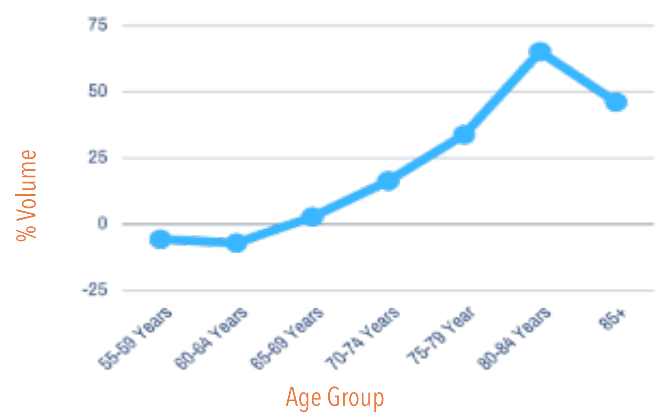
Top 5 ASC Companies by Market Share

USPI Part of Tenet Healthcare	7.3 %
SCA Health Part of Optum	5.3 %
AmSurg, Part of Envision Healthcare	4.3 %
HCA Healthcare	2.5 %
Surgery Partners	2.4 %

SOURCE:Beckers ASC

Outpatient Volume Growth 2020-2030

Forecasted Outpatient Demand by Elderly Age Groups



SOURCE:Jll, Research Advisory Board

BEHAVIORAL HEALTH

The behavioral health real estate market is experiencing a surge in demand driven by increased awareness, changing societal attitudes, and the recognition of mental health as crucial to overall well-being. This growing demand is expected to drive the need for specialized facilities catering to individuals seeking behavioral health treatments. Regulatory changes aimed at improving access, coverage, and reimbursement are shaping the market landscape and creating a more stable investment environment.

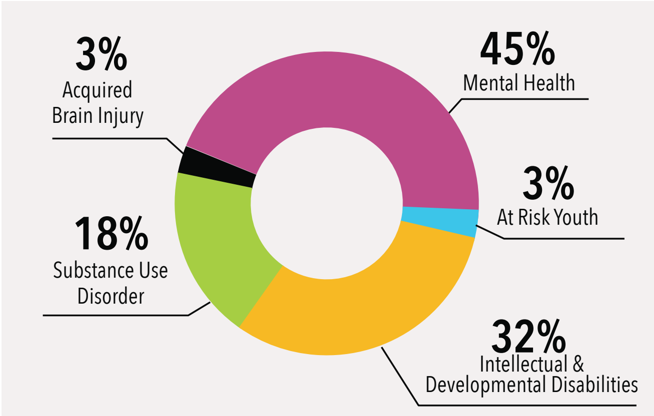
Additionally, there is a noticeable shift towards outpatient care settings, driven by preferences for less restrictive environments, advancements in telehealth, and a focus on early intervention and preventive measures. Investors are actively seeking opportunities to develop or acquire outpatient facilities that meet the evolving needs of patients. The rise in transactions and activity, specifically in the mental health segment, highlights the increasing importance of addressing mental health within the broader behavioral health real estate market.

Looking ahead, the mental health sector is expected to continue its upward trajectory. Data from the Braff Group 2023 Q1 Behavioral Health Report indicates a growing number of transactions in the mental health space, despite an overall market slowdown. As society places greater emphasis on mental health, the demand for specialized facilities and innovative treatment models will persist. It is crucial for stakeholders in the behavioral health real estate market to adapt to these evolving trends, comply with regulatory requirements, and invest in creating environments that support the delivery of high-quality mental healthcare services.

On the other hand, Becker's Behavioral Health has reported significant changes in the behavioral health landscape, including the closing and restructuring of various facilities. Baystate Health in Springfield, Mass., is closing psych units and behavioral health services to make way for a stand-alone behavioral health hospital. Cityblock, a primary care and mental health provider in New York City, plans to restructure, resulting in a 12% reduction in its workforce. St. Dominic Hospital in Jackson, Miss., has closed its behavioral health services and eliminated 157 positions. Cascade Behavioral Health Hospital in Tukwila, Wash., closed due to concerns over staff-to-patient ratios and safety. Comprehensive Healthcare in Yakima, Wash., has closed two facilities.

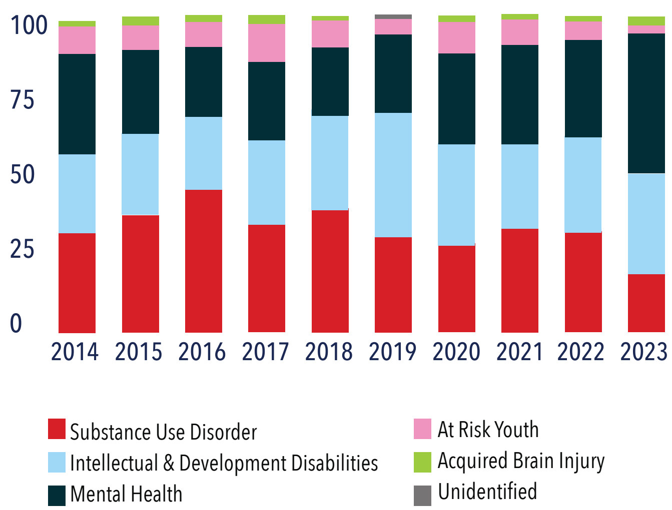
These changes underscore the dynamic nature of the behavioral health sector and the need for organizations to adapt to evolving needs and challenges. It is crucial for stakeholders to stay informed about industry trends and be proactive in responding to the changing behavioral health landscape.

Behavioral Health Deals - 2023-Q1



SOURCE:Braff Group

Behavioral Health Deal Trends



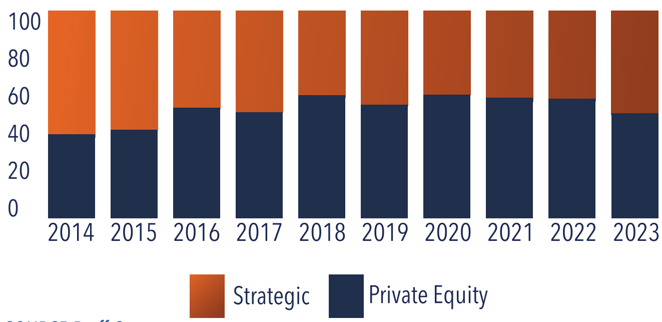
SOURCE:Braff Group

SOURCE:Canva

BEHAVIORAL HEALTH CONTINUED

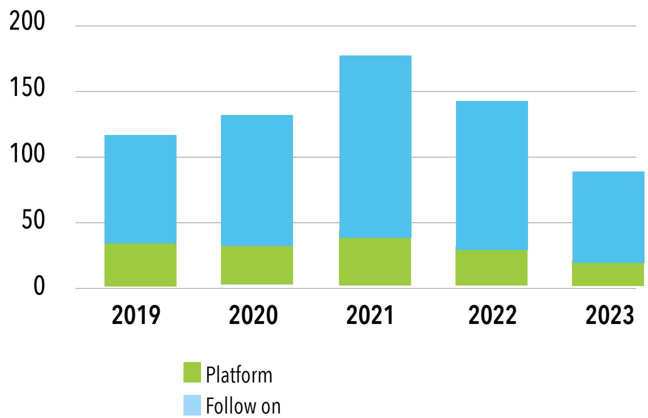
Behavioral Health Buyer Activity

Ratio of Private Equity vs. Strategic Buyer



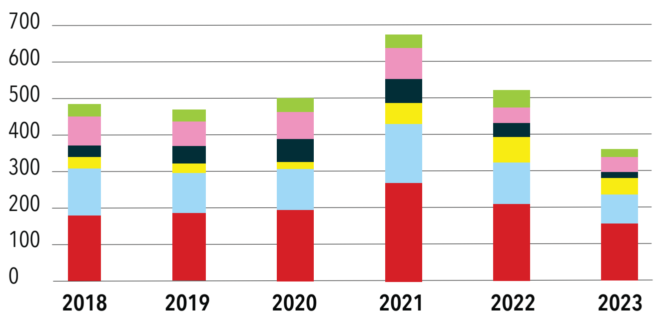
SOURCE:Braff Group

Private Equity Investment



SOURCE:Braff Group

Healthcare Services Deal Flow



2018	2019	2020	2021	2022	2023
31	29	34	36	45	20
71	64	72	80	42	40
35	48	66	67	40	16
31	22	14	50	62	44
124	108	108	156	112	76
176	181	193	267	207	152

Behavioral Health
Home Health
Healthcare Staffing
Hospice
Home Health Equipment
Pharmacy Services

SOURCE:Braff Group

Cornerstone Behavioral Health El Dorado in Arizona was just acquired by Lifepoint Health. The facility currently houses 54 beds and plans to add 50 more.

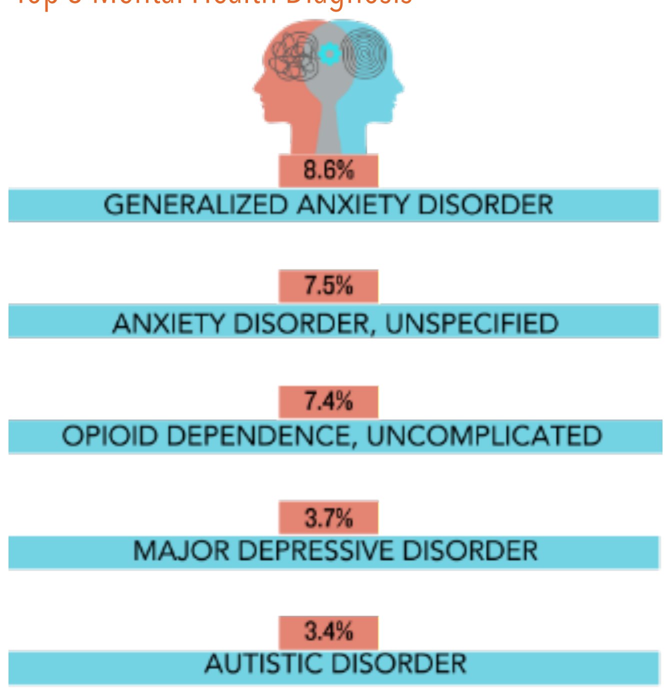
SOURCE: Lifepoint Health

Top 8 Organizations that own Inpatient Psychiatric Facilities by Market Share

Organization	Market Share
Universal Health Services	16.9%
Acadia Healthcare	5.6 %
NY State Office of Mental Health	2.9 %
Oceans Healthcare	2.8 %
Lifepoint Health / Springstone	2.6 %
Signature Healthcare Services	2.1 %
Summit Behavioral Healthcare	1.5 %
Texas Department of State Health Services	1.2 %
All other, 2-9 Facilities	33.6 %
All other, Single Facilities	30.9 %
Total (Rounded)	**100 %**

SOURCE: Healthcare Appraisers

Top 5 Mental Health Diagnosis



SOURCE:Beckers

The healthcare construction sector is experiencing robust activity, Houston, New York, and Miami are leading the way in terms of square footage in progress, according to data acquired by Revista. These markets have each initiated construction projects of over 1 million square feet in the past year, reflecting strong demand. Medical office starts are outpacing completions, indicating the ongoing expansion of healthcare providers' footprints. However, the rising cost of construction poses a challenge, requiring careful cost management and innovative approaches.

In addition to the significant construction activity and rising costs, another notable trend in the healthcare construction sector is the focus on creating innovative and patient-centered environments. Healthcare facilities are increasingly incorporating advanced technologies, sustainable design principles, and evidence-based practices to enhance patient experience and outcomes. This includes the integration of smart building systems, patient monitoring technologies, and flexible design concepts that support adaptability and future growth.

As healthcare providers strive to deliver high-quality care in a competitive landscape, the design and construction of healthcare facilities play a crucial role in meeting the evolving needs of patients and the healthcare industry as a whole.

Hospital Construction Costs Up Significantly

	25th Percentile	Median	Average	90th Percentile
1Q 2020	$0.8 M	$1.3 M	$1.6 M	$3.1 M
2Q 2020	$0.9 M	$1.4 M	$1.6 M	$2.9 M
3Q 2020	$1.0 M	$1.5 M	$1.7 M	$3.0 M
4Q 2020	$1.0 M	$1.5 M	$1.6 M	$2.6 M
1Q 2021	$1.1 M	$1.5 M	$1.7 M	$2.7 M
2Q 2021	$1.1 M	$1.6 M	$1.8 M	$3.0 M
3Q 2021	$1.0 M	$1.5 M	$1.8 M	$3.0 M
4Q 2021	$1.0 M	$1.6 M	$1.8 M	$3.0 M
1Q 2022	$1.0 M	$1.8 M	$1.9 M	$3.1 M
2Q 2022	$1.0 M	$1.8 M	$2.1 M	$3.1 M
3Q 2022	$1.1 M	$1.8 M	$2.3 M	$3.5 M
4Q 2022	$1.1 M	$1.8 M	$2.3 M	$3.8 M
1Q 2023	$1.1 M	$1.8 M	$2.4 M	$3.8 M
2Q 2023	$1.0 M	$1.8 M	$2.2 M	$3.8 M
3Q 2023	$1.1 M	$1.9 M	$2.2 M	$4.0 M
4Q 2023	$1.2 M	$1.9 M	$2.9 M	$4.8 M

SOURCE: Revista

US Construction Report - First Half 2023

General Hospital

	Properties in Progress	$ Volume Progress	SF Progress	SF Completed Past 12 MO	SF Started Past 12 MO
Q1 2022	368	$68.5B	79.1 M	23.2M	29.5 M
Q1 2023	396	$80.8 B	90.7 M	16.5M	28.5 M
*Q2 2023	---	---	---	---	---

Medical Office Building

	Properties in Progress	$ Volume Progress	SF Progress	SF Completed Past 12 MO	SF Started Past 12 MO
Q1 2022	622	$21.9 B	43.2M	19.4 M	24.7 M
Q1 2023	656	$28.4 B	50.1 M	17.0 M	23.6 M
*Q2 2023	---	---	---	---	---

SOURCE: Revista

**Q2 data not yet available. Report will be updated by end of July and posted to www.ticigroup.com.*

Top MOB Construction in Progress by Market

	Properties In Progress	SF In Progress	SF In Progress Vs Inventory	SF Complete in Last 12 Mo.	SF Started in Last 12 Mo.
US	671	51.6 M	3.4	16.4 M	23.8 M
Top 100	456	39.4 M	3.8	12.2 M	19.0 M
Top 50	364	33.1 M	3.9	10.4 M	15.4 M
Houston	23	2.7 M	6.3	0.4 M	1.2 M
New York	24	2.0 M	2.8	0.4 M	1.3 M
Miami	14	1.7 M	7.9	0.0 M	1.1 M
Los Angeles	13	1.6 M	2.7	0.2 M	0.5 M
Washington DC	10	1.6 M	6.4	0.5 M	0.6 M
Cleveland	4	1.6 M	13.4	0.1 M	1.6 M
Baltimore	7	1.4 M	8.6	0.0 M	0.4 M

SOURCE: Revista

One Scottsdale Medical is two-story, 101,136 square foot MOB underway in Scottsdale AZ.

SOURCE: Ryan Companies

If you are not investing in some or all of these improvements, your facility is at risk of becoming obsolete.

In this white paper we speak to investors, analysts, lenders and, often, occupiers of healthcare real estate. In this section on trends, we want to address the current evolution of space design and system upgrades needed in older properties to maintain tenancy.

No, we are not talking about proximity to a hospital or patent demographics. We are specifically commenting on the vast changes being requested, as well as demanded, by doctors, their staff and patients, not to mention regulatory agencies. Therefore, if you are an asset, facility or property manager, you need to read on.

We have mentioned in the past the need to provide/add lounges, break areas and park like settings for doctors and staff. Now, in a post COVID life, patients too are expecting more when returning to see their healthcare providers, and this means how they are met and where and how long they wait. All this should be considered and, while it starts with the provider, it is the facility which helps balance the overall experience. From overflowing parking areas to covered drop off or valet parking, clean and inviting lobbies with amenities in larger buildings, updated lighting, artwork and green space, (roof top gardens, green walls, etc.) is important, as is roomy and fast elevators and ample, bright and sanitized rest rooms in all common areas. This seems obvious, however numerous owners and managers do not pay attention to these small and cost-effective details. This is really just the tipping point as newer properties, upgraded buildings, urgent care facilities and pharmacies are often courting the same patients. Telehealth (as discussed in past white paper editions) certainly plays a part in this, too.

According to a report by JLL research, 63% of respondents said they would be interested in visiting a healthcare facility that featured an additional amenity. 80% of Gen Z and 77% of Millennials said they would be interested in visiting additional amenities at a healthcare facility, compared with 62% of Gen X and only 44% of Baby Boomers.

Facilities with alternative medicine such as chiropractors or acupuncturists was the No. 1 amenity choice for all four generational categories. Restaurants were the top choice for Gen Z and that amenity also ranked high in the other three groups. Fitness centers came in second for Gen Zs and Millennials and the third choice for Boomers. Seniors, in particular, are drawn to amenities, according to Trish Benson, Chief Strategy Officer, Transitions, including relaxation areas and meditation rooms as they can provide a peaceful space to relax, meditate, and relieve stress.

Younger generations stated they would be interested in visiting additional amenities at a healthcare facility, according to JLL. Younger generations were less likely to have a primary care provider, instead preferring urgent care or the hospital emergency room department.

Sarah Cannon Research Institute community hub.

SOURCE: Healthcare Design Magazine

At Providence Newberg Medical Plaza, the infusion bays in the cancer center are surrounded by stunning views.

SOURCE: Healthcare Design Magazine

These trends are obviously important to providers in attracting patients, and owners/investors in maintaining and developing new properties. Continuous advances in healthcare research, diagnostics and treatments should be matched by new methods in architecture design, space planning, and mechanical systems. Owners and investors who pay attention to and implement these trends may expect commensurate returns. Those who ignore the signs of progress risk holding properties that have, or will become, functionally obsolescent. Watch for future editions where we will address even more upcoming changes including, zero energy, AI and metaverse healthcare.

SOURCE: Canva

Four Healthcare Construction and Design Trends to Watch

1 Hospital Project "Sputter"

False starts and holds on healthcare projects are a direct result of the myriad conditions organizations face. They also reflect the imperative upon most systems to reduce cost of care in a meaningful way. While there will always be a need for plant maintenance projects, ground-up and greenfield expenditures must either expand market share, reduce cost of care, or, increasingly, achieve both.

2 Tech-Centric Healthcare

Digital investment still hinges on uncertain industry regulations and consumer uptake. One thing is sure: the pandemic reinforced the concept that building owners and healthcare providers need to adapt their physical infrastructures to support the demands of technology-enabled omnichannel patient experience (PX) systems, clinical care, and digital tools to provide education and enhanced healthcare choices. Buildings must become smarter, the way healthcare leaders and service providers integrate teams, processes, and systems during planning, design, and construction also needs to evolve.

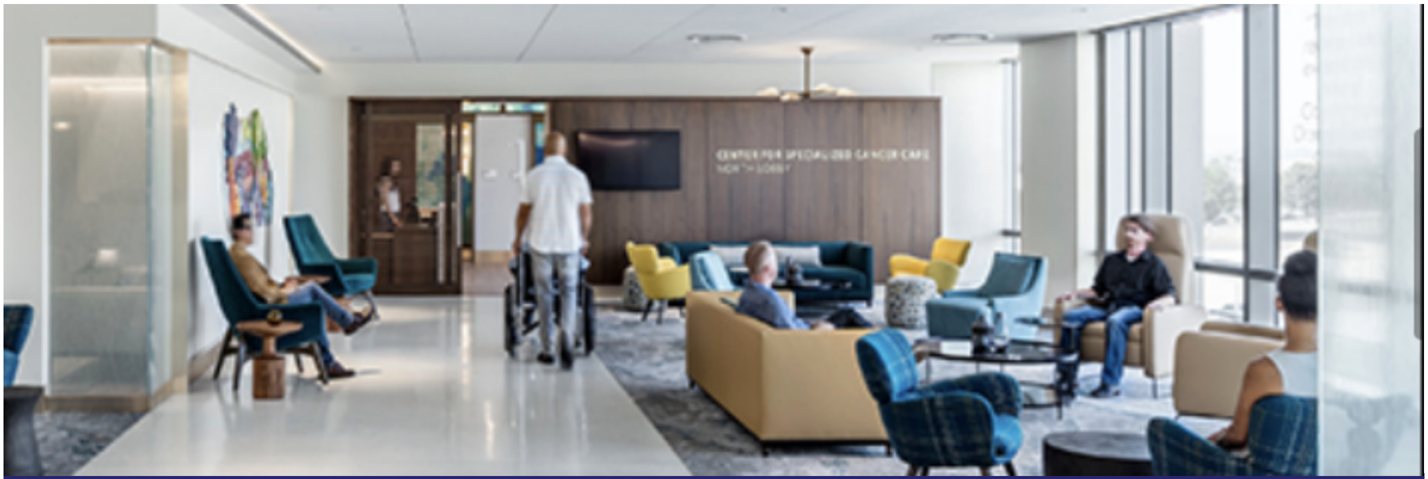
3 Flexibility where Healthcare Is Delivered

Keeping patients out of physical sites of care is a high priority for many providers. A higher priority, however, is to move care to sites where it is more cost effective than in a hospital or in a hospital outpatient department (HOPD). As per a McKinsey report, roughly 30 percent of total provider revenues come from ambulatory care. Future growth sources include urgent care, ambulatory surgery centers, and outpatient behavioral health facilities as well as medical office buildings. The typical 50-year lifespan of health facilities is no longer an assumption for buildings. As providers look to capture market share based on convenience and access, retrofits of non-health facilities will proliferate. In challenging core-and-shell scenarios, healthcare leaders need creative adaptations from partners.

4 Predictive & Prefabricated Building Solutions

A trend gaining traction moves beyond component - based prefabrication and into a realm of predictive real estate solutions. Ranging from micro to macro, these concepts cover prefab elements that can support larger and more varied care distribution systems. This includes the use of prefab elements that can be deployed in repeatable clinical and support spaces. Individual room templates can also be prefabricated to provide consistent care environments across multiple sites. This approach can optimize capex investments and speed-to-market for many healthcare systems, while providing a better patient experience.

SOURCE: Healthcare Design Magazine



City of Hope Orange County Lennar Foundation Cancer Center meets the newest patient demands with an inviting and relaxing waiting area next to large windows.

SOURCE: Healthcare Design Magazine

Medical Office


Menlo Medical Clinic

1300 Crane Street, Menlo Park, CA
Buyer: Morgan Stanley
Date: Jan 11, 2023
Size: 48,000 SF
Price: $68 Million


Renewal Medical Office Building

9777 S. Yosemite Street in Lone Tree, CO
Buyer: Anchor Health
Date: April 26, 2023
Size: 36,541 SF
Price: $13.15 Million


Union Park

5883 Glenridge Drive, Atlanta, GA
Buyer: RX Health & Science Trust
Date: Feb 17, 2023
Size: 178,739 SF
Price: $40 Million

Life Science


Southline Life Science Campus

San Francicso, CA
Buyer: Lane Partners
Date: Jan 18, 2023
Size: 3 Million SF
Price: $373 Million


Arsenal Yards

100 Forge Road, Watertown, MA
Buyer: Boylston, J.P. Morgan
Date: June 21, 2023
Size: 165,000 SF
Price: $150 Million

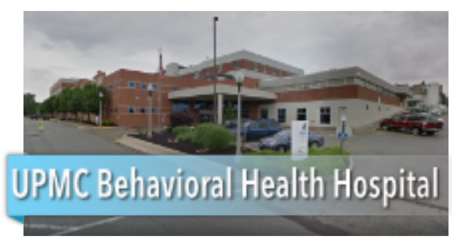

Flatiron Park

Boulder, CO
Developer LSRE & Investor BioMed Realty
Date: March 17, 2023
Size:1 Million SF
Price: $200 Million

Behavioral Health


Discovery Behavioral Health

Chicago, IL
Buyer: Northmarq
Date: March 17, 2023
Size: 30,229
Price: $7.15 Million


UPMC Behavioral Health Hospital

Twin Lakes, PA
University of Pittsburg Medical Expansion
Date: June 30, 2023
Size: 19,300 SF
Price: $16 Million

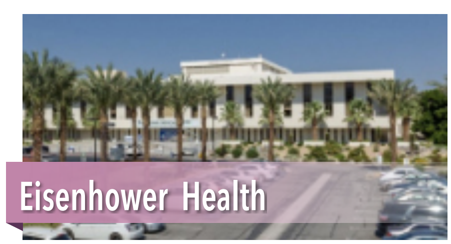

Caro Psychiatric Hospital

Caro, MI
State of Michigan to develop
Date: June 28, 2023
Size: 127,000 SF
Price: $85 Million

Ambulatory Surgery Center


Goldschmidt Outpatient Surgery Center

Jefferson City, MO
Just Opened:
Capital Region Medical Center
Date: Jan 19
Size: 24,000 SF
Price: $20 Million


Eisenhower Health

Ranchero Mirage, CA
Expansion of Cardiology ASC and Pavilion
Date: Feb 23, 2023
Size: $80,000 SF
Price: $156 Million


AdventHealth Daytona Beach

Daytona Beach, FL
JV: Advent Health and Meadows & Ohly
Date: Feb 1, 2023
Size: 60,000 SF
Price: $45.7 Million

SOURCE: Costar, Globest, JLL, Connectcre, Beckers, Businesswire, Flagwire, Northmarq

Lenders Continue to Fund Despite Slowdown in Financing

Most Active Lenders Since July 2022

Lenders	Number of Mortgages (MOBs)	Total SF
Capital One	29	1,189,320
First Citizens Bank & Trust	28	548,942
Wells Fargo	3	356,777
Synovus Bank	30	263,492
BMO Harris Bank	4	235,673
Farmers Merchants Bank	2	140,966
Ally Bank	2	122,492
First Republic Bank	2	111,318
Atlantic Union Bank	4	106,546
Lake Forest Bank & Trust	5	105,546
Webster Bank	2	96,135
Fifth Third Bank	4	71,170

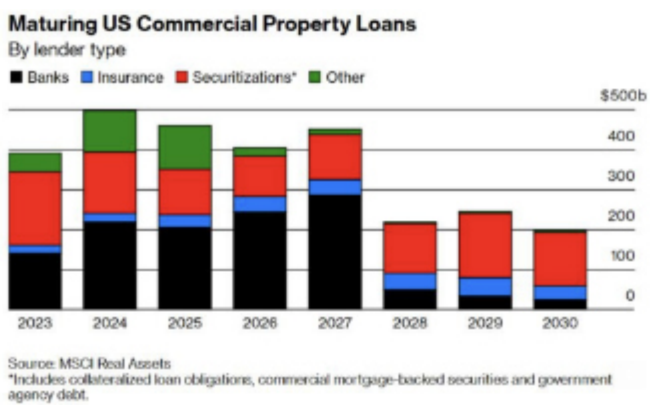
SOURCE: Revista

Number of Mortgages Per Month

Quarter	2021		2022		2023	
Q1	Jan	225	Jan	217	Jan	75
	Feb	150	Feb	168	Feb	114
	Mar	293	Mar	218	Mar	48
Q2	Apr	290	Apr	213		
	May	189	May	211		
	June	228	June	221		
Q3	July	219	July	159		
	Aug	302	Aug	187		
	Sept	228	Sept	150		
Q4	Oct	197	Oct	144		
	Nov	178	Nov	140		
	Dec	397	Dec	146		

SOURCE: Revista

Pascale's Perspective



As of July 5th, ADP indicted private sector jobs increased by 497,000 in June as compared to 267,000 in May (and market estimates of 220,000). The actual report is 209,000 jobs. Coming on the heels of last week's revised Q1 GDP at 2.0% (annualized), the bond market is in typical "good news is bad news" territory. This means that the Fed's hoped for scenario: that "slack" in employment will cool off inflationary pressures (in wages, goods and services) is not yet reality. And in order to get there, the Fed will have to restart rate hikes after last month's "pause." The release of the June Fed meeting minutes provides further insight into their thinking. Members voted unanimously to pause in June as a "prudent" move in order to assess economic data as lagging indicators catch up. The members also noted that "it was still too early to assess with confidence the eventual effects of tighter bank conditions… and its important to monitor closely the potential effects on credit conditions." Translation: If more big banks don't fail during this pause, we feel good about raising rates in July. It looks like they are looking at a "terminal rate" of about 5.60% (the rate is now at 5.10%).

So, odds are looking like 2 more increases, one this month and then another in September or November. The 10-Year Treasury jumped to 4.07% today, now at 4.04%, the 2-Year jumped to a 16-year high at 5.12%.

Regulatory Guidance Update – The highly publicized "Wall of Maturities" facing the commercial real estate sector over the next few years (chart above), combined with stress in the office sector, is creating consternation throughout the industry. Over $1.5 trillion in commercial property loans are coming due by the end of 2025. In order to encourage more accommodation to borrowers and less disruption to the capital markets, the financial regulators issued an important joint statement last week. The Federal Reserve, FDIC, National Credit Union Administration, and the Office of the Comptroller of Currency updated guidance on commercial real estate loan workouts. The regulators are asking banks and other lenders to work with credit-worthy borrowers facing stress in the markets. Lenders are urged to use tools such as forbearance (allowing a borrower to defer one or more payments), allow for partial payments, or other assistance and relief. The regulators are signaling that they will accommodate institutions that follow this guidance. This will play into lenders' preferred playbook in times like this, as it's often in the best interest of the property to allow the sponsor to continue to operate it until market conditions are more favorable. Property owners didn't engage in massive stimulus and rate cutting followed by massive rate increases (oh that was the Fed, so this is like helping clean up the mess?). How long and how much accommodation? This could end up being a question for Congress. The extent of the required "help" depends on the future direction of rates, inflation, global events, etc.

Written by:
David R. Pascale, Jr., Senior Vice President at George Smith Partners

Money Rates as of July 6 , 2023

Prime Rate	8.25 %
1 Month LIBOR	5.19 %
6 Month LIBOR	5.06 %
5 YR SWAP	3.95 %
10 YR SWAP	3.61 %
5 YR TR	4.24 %
10 YR TR	3.93 %
30 YR TR	3.94 %

Source: Fin Facts
Bryan Shaffer, Managing Director, George Smith Partners
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What we foresee....

Three years after the commencement of COVID, we are still not back to normal with inflation, the economy and elections next year. They say to get used to something new takes about three weeks, but three years is too much! I don't want to say this is a new norm because elections will be next year. Some experts claim inflation should be under control, while others state firmly we will be facing a recession. This means we could be facing a fourth year of turmoil. What does that mean for owners of healthcare real estate? The first half of 2023 has seen previously active investors slow down to a crawl. Sellers of key assets are hitting the pause button, waiting, and hoping cap rates will return to favorable levels. This could take several more quarters before becoming a reality. A quiet few investment groups are actively engaging and acquiring, but are extremely selective on asset and product type. Medical office has always been the favorite, but ASCs and behavioral health properties are priced more competitively and gaining favor.

We have been touting this for the past 3 years. Refer to pages 8-10 for the current state of the market for these product types to see which one you either have in your portfolio that are best to sell now, or which ones may be a good fit to acquire for your portfolio.

There are still a select few markets which will hold up even with today's economic climate. Markets such as Phoenix, Houston, Dallas, Atlanta, Miami, and Los Angeles continue to experience growth and likely will for the foreseeable future. See the medical office stats on pages 4-5 for more specifics.

In times like this, off-market opportunities are even more valuable, as many of the assets actively marketed today are not up to most investor standards, or could even be considered obsolete without considerable upgrades and renovation. We have a team of experts in-house that focus on all types of off-market healthcare real estate assets and are ready to speak to you about selling any of your assets to one of our investors, or helping you look for the right acquisition opportunity to add to your current portfolio. Give me or Derrick Bracks a call to discuss how we can assist you in these treacherous times.

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Texas International Consultants, Incorporated is the flagship of The TICI Group of Companies and recently celebrated its centennial anniversary with the third generation of Mendiola's at the helm. This member of the TICI Group is a strategic global consulting and advisory firm dedicated to representing private and public investors on behalf of their commercial real estate in the United States. We advise investors on their existing assets as well as potential acquisition targets along with mergers and acquisitions and sale leasebacks working on behalf of the clients along with their tax and legal advisors.

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Capitol Markets I Acquisition
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Stealth Realty Advisors, LLC was created in 2012 to assist the clients of The TICI Group with their capital market needs. National in scope of services, Stealth is a boutique firm specializing in healthcare real estate. Stealth executives are industry leaders with decades of experience coming from well-known national and institutional public healthcare companies. Handling all aspects of capital markets, including acquisitions, dispositions, tenant representations and finance. Along with its sister company Texas International, it also advises clients on development, build to suits and sale/leasebacks. Our clients are sophisticated private and public individual, corporate and institutional REIT's. Stealth also represents, health systems, individual physicians and physician groups, private equity firms, developers, and lenders.

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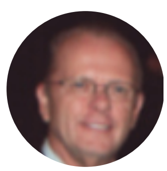

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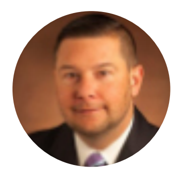
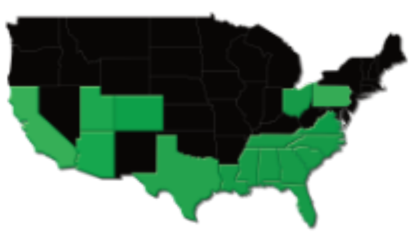


Patrick Dwyer
Vice President Of
Development Zelnik Realty, Ltd.



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