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2023
YEAR END
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HEALTHCARE & LIFE SCIENCE

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Capitol Markets I Acquisition
Disposition I Tenant Representation

As 2023 drew to a close, the healthcare landscape encompassing Behavioral Health, Ambulatory Surgery Centers (ASCs), Medical Outpatient Buildings (MOBs), Life Sciences, and Construction, underwent significant transformations, reflective of both challenges and evolutionary progress within the industry.

In the behavioral health sector, a marked slowdown in mergers and acquisitions set the tone for the year. This trend, starting in late 2022, persisted throughout 2023, despite the looming specter of a recession and potential rate hikes. However, the sector rebounded with promising indicators for 2024, spurred by factors like the anticipated end of Federal Reserve rate increases and a rise in institutional loan volumes. A survey by Behavioral Health Business highlighted staffing as a critical issue, yet growth opportunities were identified in treating underserved populations and expanding mental health services. The year also saw a notable increase in telehealth services, underscoring its burgeoning role in the healthcare domain.

Meanwhile, the ASC industry was characterized by heightened acquisition interest, particularly from private equity firms. The challenges of recruiting and retaining both surgeons and staff were pivotal, leading to the emergence of strategic partnerships as a key solution and offering benefits such as improved payer contracts and operational support. Experts in the field advised ASC owners to focus on strategic partnerships and consider future acquisitions, anticipating a continued upward trajectory in this sector.

The MOB sector experienced significant growth and transformation, driven by strategic acquisitions and evolving market dynamics. Notable was the expansion of foreign investment, such as GFH Financial Group from Bahrain, of Big Sky Asset Management in Dallas, which underscored the sector's resilience amidst broader commercial real estate challenges. Despite a downturn in sales volumes and a general market volatility, the MOB sector remained an attractive investment opportunity, buoyed by its stable client base and long-term leases.

SOURCE: Canva

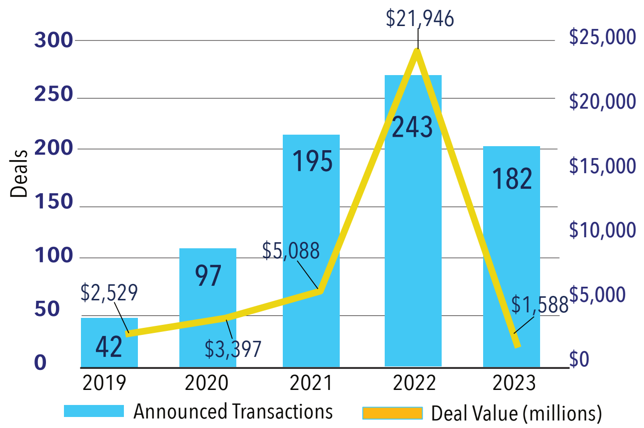
Life Sciences saw a decrease in funding which led to a more cost-conscious approach, affecting leasing activities. However, significant deals, such as the funding secured by Synnovation Therapeutics and Ailos Bio, demonstrated the sector's continued vitality. Government support played an integral role, with initiatives like the Colorado Office of Economic Development's grants and Philadelphia's designation as a Regional Technical and Innovation Hub bolstering the sector.

Construction, particularly in healthcare, exhibited a noticeable downturn in various segments. Projects affiliated with hospitals saw a slight decrease in numbers but an increase in scale and investment, suggesting a strategic shift in focus. The Medical Outpatient Building (MOB) construction segment mirrored this trend, with a decrease in the number of projects but stability in overall investment.

The year also brought to the forefront significant trends in healthcare facility design and construction. A focus on reducing the embodied carbon footprint, integrating advanced digital technologies, and addressing the evolving needs of healthcare workforces were prevalent. Facilities continue incorporating features catering to staff needs, reflecting a shift from a solely patient-centric focus.

In summary, 2023 was a year marked by evolution and adaptation across various sectors of the healthcare industry. Despite facing numerous challenges, these sectors demonstrated resilience, innovation, and a readiness to embrace change, setting the stage for continued growth and transformation in 2024.

Healthcare Real Estate Transactions 2019-2023



SOURCE: LevinPro HC

MEDICAL OUTPATIENT

The medical outpatient building (MOB) sector, along with the wider commercial real estate market, underwent significant transformations. These changes were driven by strategic acquisitions, evolving market dynamics, and new emerging trends. This comprehensive review reflects on the pivotal developments of the year and their impact on the industry.

However, the broader commercial real estate market faced its share of challenges. A critical issue was the high level of distress, approaching nearly $85.8 billion, particularly in sectors like office spaces and retail. This distress, indicative of tough market conditions, was exacerbated by the looming potential for even greater financial strain.

Despite historically being a bastion of stability, medical outpatient buildings were not insulated from the prevailing market volatility. Sales volumes saw a significant drop, about 62% lower than in previous years. Factors like limited debt availability and rising capitalization rates significantly influenced this downturn. Nevertheless, the sector continued to display strong fundamentals, such as steady occupancy and rate increases. In the face of these challenges, medical outpatient buildings continue as an attractive investment opportunity. Its resilience to economic fluctuations, stable client base, long-term leases, and minimal speculative development added to its appeal. Robust occupancy rates, averaging 92.4% across the top 50 metropolitan areas, and a 2.2% year-over-year growth in average net rent per square foot underscored its capacity to maintain and incrementally increase revenue, even amidst economic uncertainties.

SOURCE: Jonny Hawkins

Construction trends in medical outpatient properties also showed significant momentum and optimism for future growth. The total square footage in these metropolitan areas stood at an impressive 860,461,638, with an additional 26,538,678 square feet under construction. This active construction signaled confidence in the continued demand for healthcare services and a commitment to expanding the sector's infrastructure to meet this need.

As the year concluded, the sustained premium value of on-campus MOBs by investors was clear, maintaining their high worth in the market despite overall flat capitalization rates. The sector's resilience, combined with expected demand driven by an aging U.S. population highlighted its potential for growth despite the year's challenges.

In summary, 2023 was a year of both trials and opportunities in medical outpatient buildings and the broader commercial real estate product. Despite facing distress and volatility, it showcased resilience and continued to draw investor interest, supported by solid market fundamentals and strategic investments. These dynamics set the stage for potential growth and innovation in 2024.

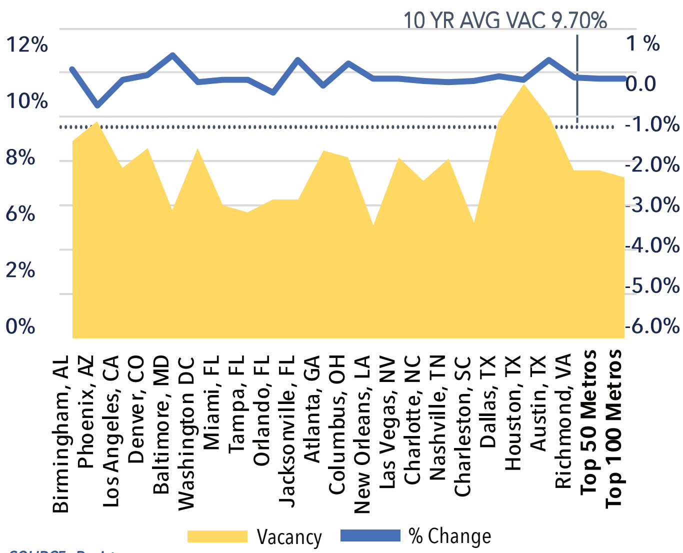
Value Add 25th, Median Institutional Cap Rates up over 100 BPS

	25th Percentile	Median	75th Percentile	Lowest
1Q 2020	6.8	6.1	5.5	3.9
2Q 2020	7.1	6.3	5.6	4.0
3Q 2020	6.9	6.1	5.5	4.0
4Q 2020	6.9	6.0	5.5	4.5
1Q 2021	7.0	6.0	5.5	4.7
2Q 2021	6.8	5.8	5.3	4.0
3Q 2021	6.9	5.8	5.2	4.0
4Q 2021	6.7	5.8	5.2	3.5
1Q 2022	6.5	5.6	5.2	3.4
2Q 2022	6.4	5.7	5.2	3.8
3Q 2022	6.4	5.6	5.1	3.9
4Q 2022	6.5	5.7	5.2	4.4
1Q 2023	6.7	6.0	5.4	4.6
2Q 2023	7.0	6.1	5.7	4.8
3Q 2023	7.2	6.5	6.2	5.0
4Q 2023	7.3	6.8	6.4	4.6

SOURCE: Revista

MEDICAL OUTPATIENT CONTINUED

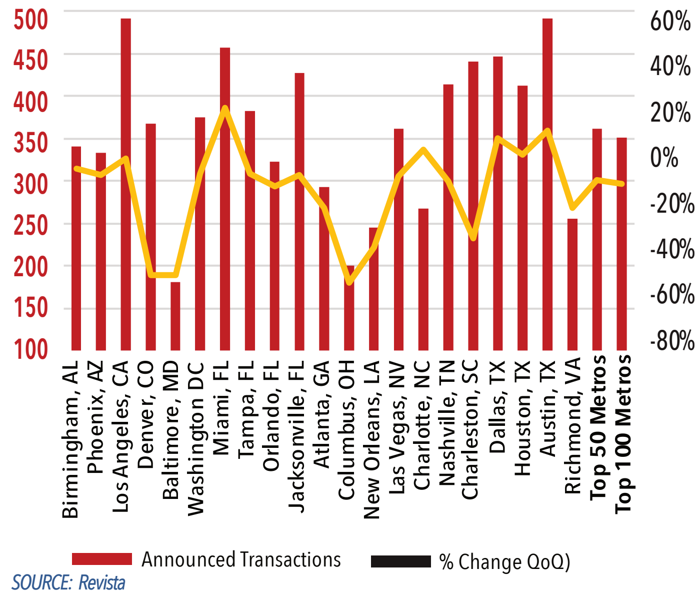
2023 Market Vacancy vs. Change



SOURCE: Revista

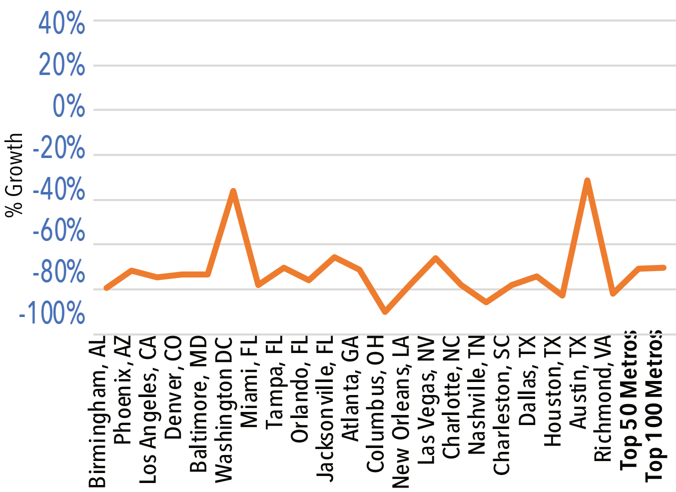
Price Per Square Foot ($/SF)

Top 100 Metros
$351.20 (.3%)



SOURCE: Revista

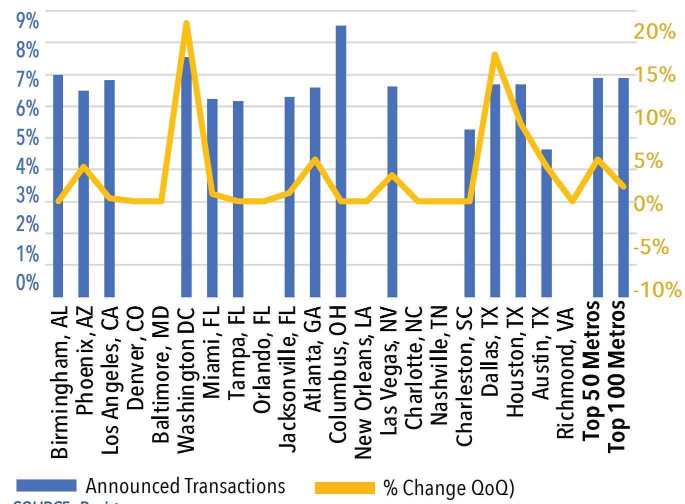
Transaction Volume Growth (QoQ)



SOURCE: Revista

Cap Rates (Non-weighted)

Top 100 Metros
6.9 % (1.62%)



SOURCE: Revista

Top 10 MOB Demand Markets

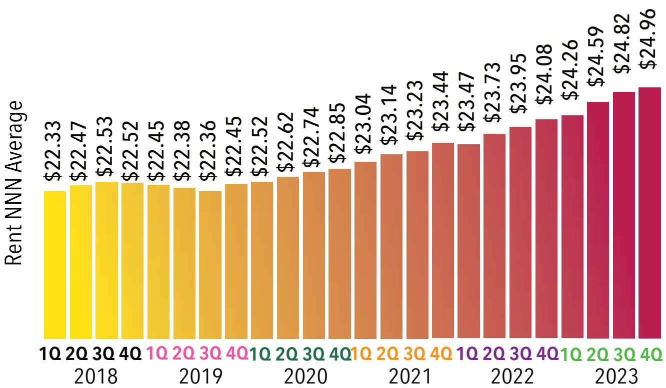
Ranked by TTM Net Absorption SF

Market	Total SF	Net Absorption TTM SF	Occupancy Rate	Rent NNN Average	YoY Rent Growth SS (%)	Construction SF In Progress	Construction SF In Progress vs. Inventory
Phoenix	20.8 M	400 K	91.6 %	$23.92	4.6	0.8 M	3.9 %
Los Angeles	60.0 M	349 K	92.8 %	$35.22	2.4	1.7 M	2.8 %
Houston	44.4 M	269 K	89.2 %	$23.59	1.2	2.1 M	4.7 %
Philadelphia	30.7 M	258 K	92.1 %	$22.78	0.9	.08 M	2.8 %
Atlanta	30.8 M	231 K	92.0 %	$22.94	2.8	.03 M	1.1 %
Boston	26.3 M	215 K	94.3 %	$27.08	1.9	0.3 M	1.2 %
New York	73.3 M	210 K	94.2 %	$29.23	2.6	1.9 M	2.6 %
Washington DC	24.7 M	180 K	91.4 %	$27.17	1.5	1.7 M	6.8 %
Orlando	10.8 M	165 K	94.5 %	$24.70	2.6	0.7 M	6.5 %
San Antonio	12.4 M	121 K	89.4 %	$28.27	1.4	0.7 M	5.4 %

SOURCE: Revista

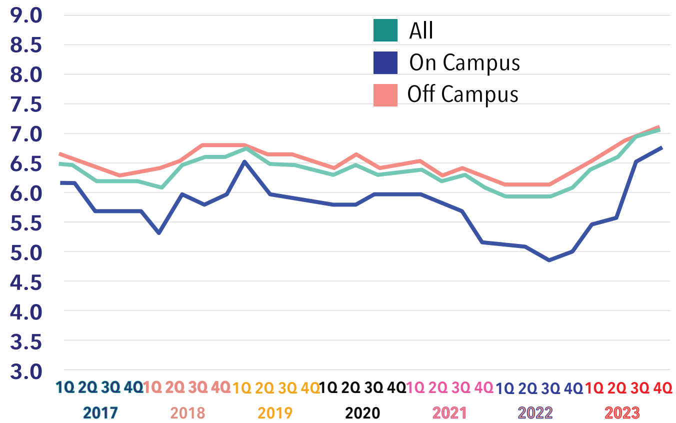
MEDICAL OUTPATIENT CONTINUED

Average NNN Rent up over 10% since shutdowns



SOURCE: Revista

MOB Cap Rates

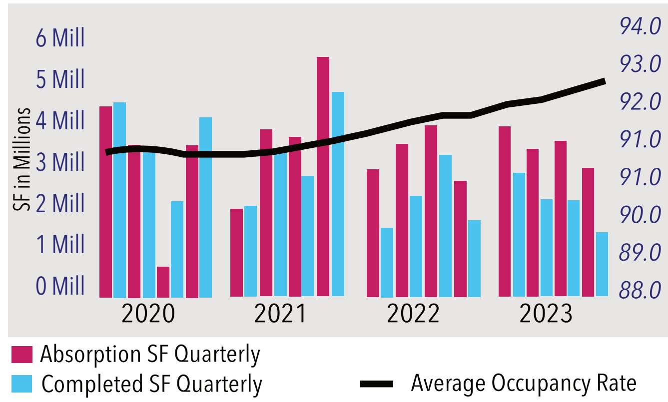


SOURCE: Revista

Orchard Plaza Medical Outpatient Building in Fresno, CA broke ground in December. Once completed this building will feature 146,000 SF, 4 floors, 500 parking spaces and 27-EV charging stations. Multiple healthcare services will range from primary care and family medicine to more specialized radiology and oncology services.

SOURCE: The Business Journal

MOB occupancy climbs amid record low completion



SOURCE: Revista

Strategic Alliance Markets

Markets	Inventory (SF)	Vacancy (%,SF)	Under Construction (SF)	YoY Rent Growth (%)	Market Rate Lease ($/SF)	Market Rate Sale ($/SF)	Average Cap Rate
Top 100 Metros	1,052,682,555	7.3%	31,513,610	2.30%	$24.31	$351	6.9%
Top 50 Metros	864,310,701	7.6%	26,790,326	2.3 %	$24.89	$361	6.9%
Birmingham, AL	7,662,464	8.9%	354,800	1.60%	$27.85	$341	7.0%
Phoenix, AZ	21,180,002	9.8%	727,974	4.50%	$24.02	$333	6.5%
Los Angeles, CA	60,093,702	7.7%	1,482,000	2.40%	$35.26	$492	6.8%
Denver, CO	15,018,586	8.6%	366,542	1.70%	$23.15	$368	0.0%
Baltimore, MD	16,440,361	5.8%	1,430,540	1.70%	$24.18	$181	0.0%
Washington DC,	25,850,400	8.6%	1,676,138	1.90%	$26.54	$374	7.5%
Miami, FL	23,388,386	6.0%	1,328,900	3.20%	$27.37	$457	6.2%
Tampa, FL	13,999,622	5.7%	460,000	2.80%	$23.04	$382	6.2%
Orlando, FL	10,982,953	6.3%	730,544	2.40%	$24.44	$322	0.0%
Jacksonville, FL	9,476,137	6.3%	590,366	3.50%	$24.22	$427	6.3%
Atlanta, GA	31,357,081	8.5%	248,907	2.80%	$22.94	$293	6.6%
Columbus, OH	13,532,597	8.2%	282,520	3.80%	$16.90	$200	8.5%
New Orleans, LA	4,953,851	5.1%	278,000	1.30%	$29.49	$245	0.0%
Las Vegas, NV	8,066,926	8.2%	155,000	3.00%	$22.97	$362	6.6%
Charlotte, NC	12,274,440	7.1%	595,943	1.80%	$25.96	$267	0.0%
Charleston, SC	3,872,494	5.2%	77,525	0.40%	$25.46	$440	5.3%
Nashville, TN	12,406,939	8.1%	371,000	1.80%	$21.73	$413	0.0%
Dallas, TX	37,254,967	9.8%	1,298,972	2.6 %	$24.36	$446	6.7%
Houston, TX	45,334,800	11.5%	2,114,957	1.2 %	$23.42	$411	6.7%
Austin, TX	8,150,251	10.0%	348,885	3.0 %	$27.29	$491	4.6%
Richmond, VA	8,267,152	7.6%	66,000	2.7	$19.86	$256	0.0%

SOURCE: Revista

LIFE SCIENCES

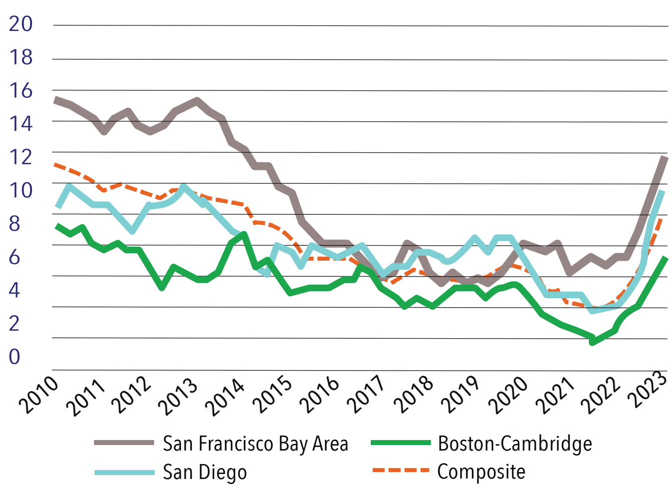
Life Sciences in the year-end of 2023 demonstrated remarkable resilience and adaptability, despite facing several challenges. Funding for life sciences companies saw a decrease from previous highs, leading to a more cost-conscious approach in the industry. This slowdown in capital influx affected leasing activities within the sector, signaling a shift in the market dynamics. Nevertheless, significant funding deals were still made, such as the nearly $70 million Series A funding secured by Synnovation Therapeutics in Philadelphia and the $245 million raised by Ailos Bio in the Boston-Cambridge market.

Government support played a critical role in bolstering the life sciences marketplace. Notable examples include the Colorado Office of Economic Development and International Trade awarding $7.8 million to various companies and researchers, and Philadelphia's designation as a Regional Technical and Innovation Hub for life sciences.

Leasing activity and expansions highlighted the sector's underlying strength. ACON Laboratories' sublease of nearly 100,000 square feet in San Diego and AstraZeneca's full-building lease in Maryland were significant examples of the life sciences tenants' growing real estate commitments.

The D.C.-Baltimore life sciences real estate market, a major hub, experienced a slowdown influenced by rising interest rates and a reduction in venture capital funding. Despite these challenges, the region maintained a low vacancy rate, indicating market resilience. The conservative development strategy adopted in this area resulted in less speculative construction compared to other markets, contributing to its stability.

Vacancy Rates in Top Three Lab/R&D Markets



SOURCE: CBRE Research

The life sciences real estate market overall showed signs of robust growth, with Revista tracking over 428 million square feet of properties and an 80 million square foot construction pipeline, largely driven by investors. This growth is underscored by the high demand for lab spaces and R&D facilities, with key clusters in Boston, the Bay Area, and San Diego.

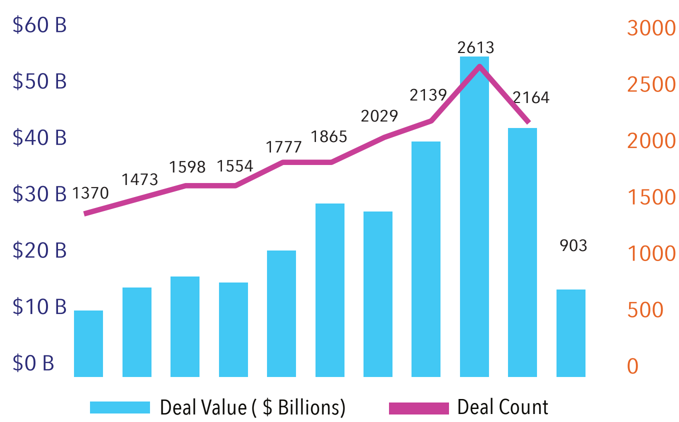
Investor interest in the life sciences real estate sector surged, driven by factors such as the COVID-19 pandemic and significant secular demand. Life sciences properties, often considered mission-critical facilities, became fundamental for operations and saw an increase in value.

In summary, the life sciences sector in the year-end of 2023 demonstrated a complex but promising landscape. Despite funding challenges and market slowdowns in certain areas, the sector continued to attract significant investments and government support. The growth in real estate, the resilience in key markets, and the continued importance of life sciences in the healthcare ecosystem highlight the sector's potential for sustained growth and innovation.

A new state-of-the-art net zero carbon life sciences campus is getting ready to break ground in Boulder, CO. The 112K square foot campus will feature communal conference room, a game room and lounge, a wellness room, a meditation room, an indoor bike room with electric bike charging stations, 2,500 square feet of outdoor terraces and collaborative spaces, an on-site café, an outdoor gym, an on-site jogging path, low-irrigation restorative landscaping, pollinator and food gardens, and electric charging stations.

SOURCE: HREI

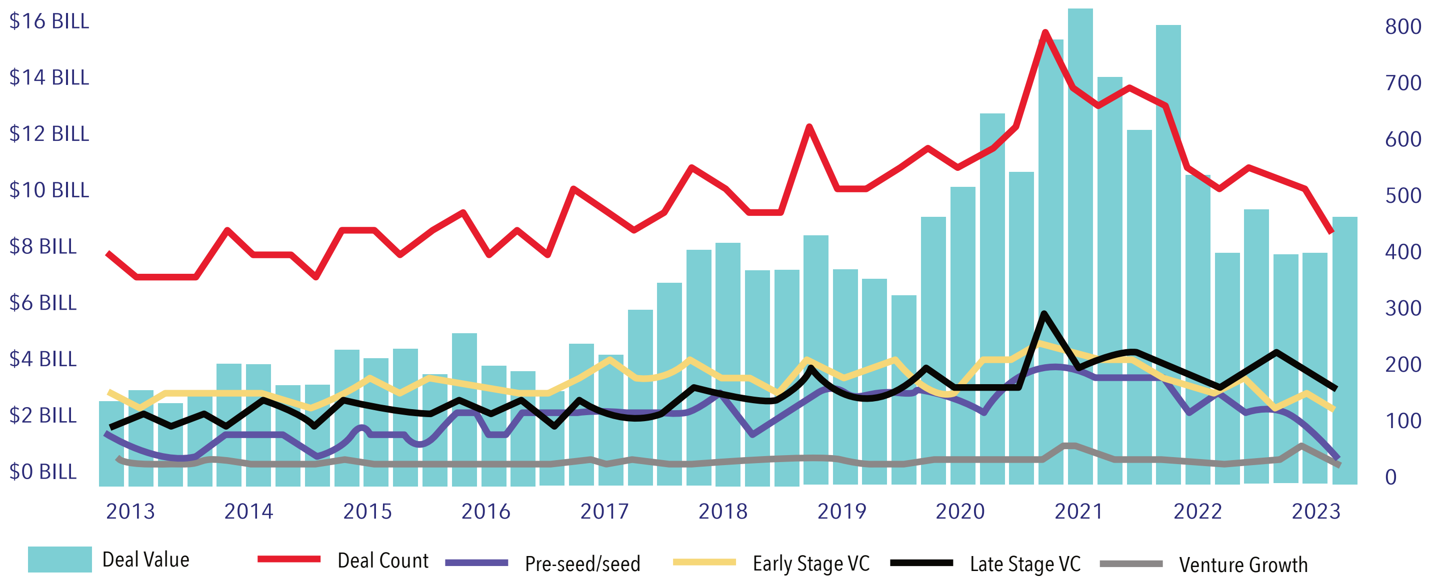
US Life Sciences Venture Investment Activity



SOURCE: Pitchbook NVCA

LIFE SCIENCE CONTINUED

US Life Science Venture Funds, 2013-2023



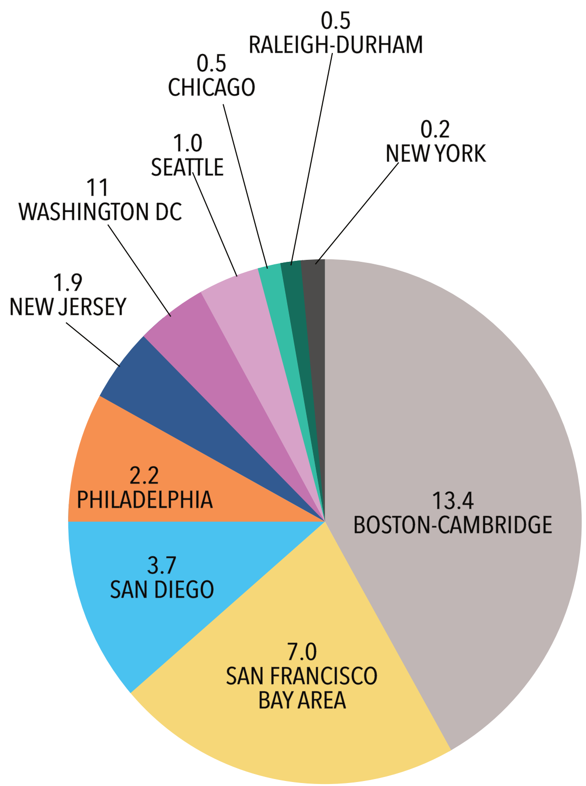
SOURCE: Science and Enterprise

Top 10 Life Sciences Industry Transactions

Company	Deal Type	SF	Market
Boston Scientific	New	400 K	Maple Grove, MN
McKesson	New	349 K	Burford, GA
Takeda	Renewal	269 K	Boston, MA
McKesson	Renewal	258 K	Kansas City, MO
McKesson	New	231 K	Memphis, TN
Amerisource Bergen	Renewal	215 K	Shakopee, MN
Karl Storz Endoscopy	New	210 K	Auburn, MA
Bioreference Health	Renewal	180 K	Elmwood, NJ
Abbot Labs	Renewal	165 K	Chicago, IL
Carefusion	Renewal	121 K	San Diego, CA

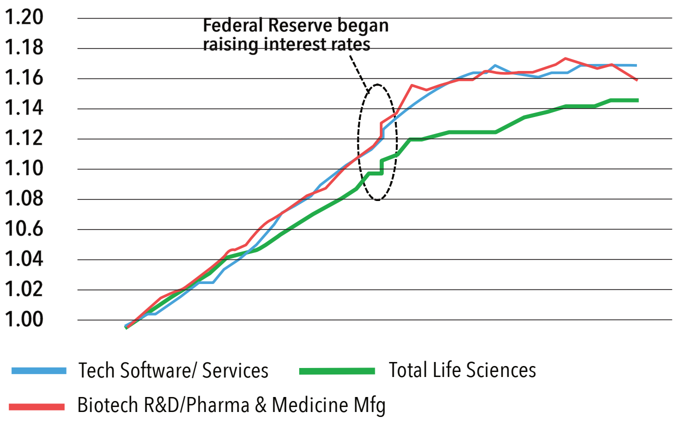
SOURCE: Revista

Lab R&D Construction by Primary Market (MSF)



SOURCE: CBRE Research

US Employment by Industry



SOURCE: CBRE Research and Federal Reserve

AMBULATORY SURGERY CENTERS

As we reflect on the year-end of 2023 from the perspective of the Ambulatory Surgery Center (ASC) industry, it's clear that this has been a pivotal period marked by significant transformations and challenges. The landscape of ASCs has been characterized by a rising interest in acquisitions with a diverse mix of players, including hospitals, management companies, private equity firms, and other national ASC operators actively seeking investment opportunities. This trend was particularly driven by private equity firms, who showed a keen interest in entities with established ASC portfolios, or by physician medical groups owning ASCs. Amid this, a notable development was the intensifying competition between private equity firms and large ASC operators such as Tenet and HCA Healthcare, highlighting the sector's lucrative appeal.

This time period also underscored the critical challenges of recruiting and retaining both surgeons and staff. Surgeons increasingly sought ownership opportunities in ASCs, presenting a risk for independent centers which could lose them to more lucrative offers. Staff recruitment and retention remained a significant hurdle, yet strategic buyers played a key role in offering incentives for staff retention, a factor that became particularly evident during the challenges posed by the COVID-19 pandemic.

In response to these challenges, strategic partnerships emerged as a vital solution for ASCs. These alliances not only provided access to capital, technology, and expansion opportunities but also enabled better commercial payer contracts and facilitated cost reductions through improved supply contracts. Such partnerships also provided access to essential services like health insurance and IT support, enhancing the operational capabilities of ASCs.

Amidst these operational dynamics, older ASC physicians increasingly sought exit strategies, by selling portions of their ASC ownership offering both financial benefits and reduced risk. The changes in the Certificate of Need (CON) laws in some states and the shifting preferences of commercial payers influenced the decision-making in the sector, with hospitals recognizing the value of including ASCs in their portfolios.

Developing ASCs with an acquisition in mind was emphasized, with a focus on integration, diverse physician partners, and a strong marketing footprint being key strategies.

Operational challenges, including supply chain issues and staff turnover, continued to be major concerns, compounded by regulatory impacts such as the No Surprises Act. Despite these challenges, private equity interest in ASCs, although slowed by macroeconomic issues, was expected to rebound, with a recent focus on smaller add-on deals for consolidating several ASCs.

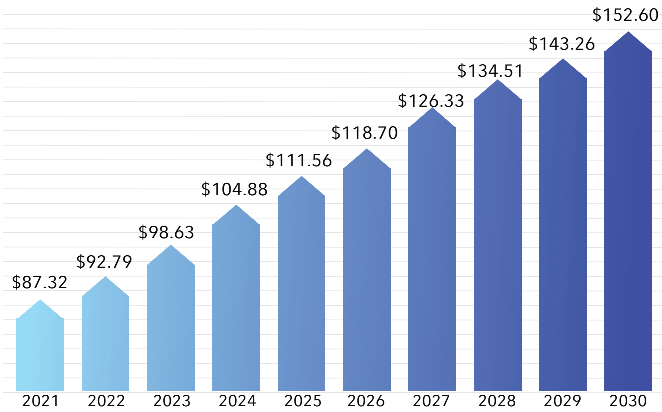
The ASC market, which was valued at $84 billion in 2020, projected significant growth by 2031. This growth is driven by the shift towards lower-cost procedures and the increasing popularity of specialties like orthopedics, gastroenterology, and cardiology, and the incorporation of AI.

High-acuity and high-reimbursing procedures increasingly transitioned to outpatient settings, with ASCs becoming a preferred option.

Regulatory changes from CMS, including the limited addition of dental surgical codes and conservative approach in adding surgical codes, had a substantial impact on the sector. Additionally, prior authorization processes were a significant challenge, impacting patient care and operational efficiency.

In conclusion, 2023 was a year of dynamic growth and challenges for the ASC industry. The sector witnessed a trend towards consolidation, the strategic shift of high-acuity cases to outpatient settings, and evolving regulatory landscape. These factors, coupled with the ongoing shift of procedures from inpatient to outpatient settings, underscored the changing nature of healthcare delivery and the growing importance of ASCs in this new paradigm.

Ambulatory Surgery Center Market Size 2021-2030



The global ambulatory surgical center market size was estimated at USD 92.79 billion in 2022 and is expected to reach over USD 152.6 billion by 2030 and poised to grow at a compound annual growth rate (CAGR) of 6.4% from 2022 to 2030. In 2022, the U.S. ambulatory surgical center market has accounted for more than 88.5% of the North America market share.

SOURCE: Precedence Research

AMBULATORY SURGERY CENTERS

"We're out of beds, but fortunately this is out-patient surgery."

SOURCE: Jonny Hawkins

Intermountain Health and The Orthopedic Partners opened Intermountain Park City Outpatient Surgery Center in Park City Utah in September of 2023. Surgeons can perform a wide range of same day surgeries with operating rooms tailored to their needs.

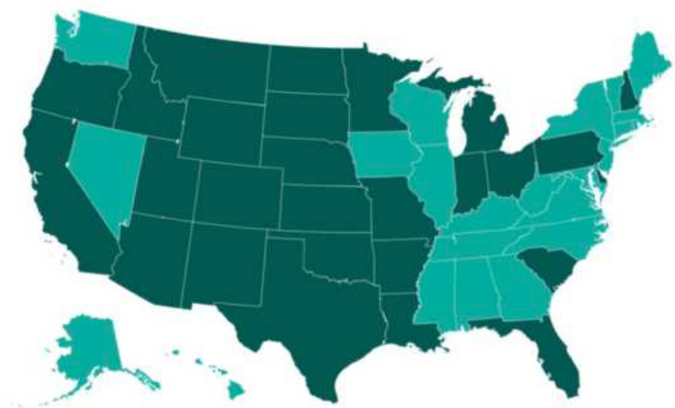
SOURCE: Town Lift Park City News

5 ASC Giants by Number of Physicians and ASCs

Company	# of physicians	# of ASCs
Amsurg	4,000	256
HCA Health	3,400	150
SCA Health	9,200	320
Surgery Partners	4,000	127
USPI	11,000	480+

SOURCE: Beckers

ASC CON Regulation



SOURCE: VMG Health

ASC Market Overview ASC Count Under Partnership by a National Operator

Company	2011	2019	2020	2021	2022	2023
United Surgical Partners International	204	264	310	430	440	476
Surgical Care Affiliates	145	186	230	250	320	320
AmSurg	223	258	250	250	260	250
SurgCenter Development	56	200	155	-	-	-
HCA	116	125	120	145	150	150
Surgery Partner Holdings	11	119	110	133	145	137
Other Management/Multi-Site Operations	584	546	550	567	549	608
Total Centers	**1,339**	**1,698**	**1,725**	**1,775**	**1,864**	**1,941**
Total Medicare Certified Centers	5,217	5,788	5,837	5,906	6,028	6,087
Major Operators as a % of Total Medicare Cert. Centers	25.7%	29.3%	29.6%	30.1%	30.9%	31.9%

SOURCE: VMG Health

BEHAVIORAL HEALTH

As 2023 came to a close, the behavioral health market had traversed a period marked by significant changes and developments. The year was characterized by a noticeable slowdown in the mergers and acquisitions (M&A) activity within the health care services sector. This trend, first observed in late 2022, persisted throughout the majority of 2023, as detailed in The Braff Group's 3rd Quarter update. Despite the initial concerns of a recession and potential rate hikes, the latter part of the year showed promising signs for 2024. Factors such as the anticipated cessation of rate increases by the Federal Reserve, rising institutional loan volumes, and the engagement of strategic and private equity buyers with ample investment resources, offered a more optimistic outlook. Additionally, the sector was buoyed by the introduction of opioid abatement funding and relaxed telehealth regulations, which particularly benefited behavioral health services.

A survey by Behavioral Health Business, which involved insights from 150 industry professionals, shed light on several key trends and challenges of the year. Staffing was a dominant issue, contributing significantly to the financial strains within the sector. Growth opportunities were identified in areas such as treating underserved populations, pursuing value-based relationships, and expanding service offerings, with mental health identified as a prime area for investment. Growth was also anticipated to be driven by partnerships, utilizing referral channels such as online searches, community referrals, and physician offices. The survey participants also noted a marked increase in the use of telehealth services, highlighting its growing role in the provision of behavioral health services.

Throughout 2023, several new projects in behavioral health were reported by Becker's. These included the approval of a 96-bed behavioral health hospital in Council Bluffs, Iowa, and the establishment of a mental health clinic by Blue Ridge Behavioral Healthcare in Roanoke, Virginia. Other significant developments included the merger of two community mental health centers in Colorado, creating the state's largest behavioral health center, and the opening of new outpatient offices and treatment centers in states like North Carolina, Florida, and Pennsylvania. These initiatives indicated a continued investment in the physical infrastructure for behavioral health services across the United States.

The "Behavioral Healthcare: Public Company Commentary, Outlook, and Trends - Summer 2023" report by HealthCare Appraisers highlighted several challenges. These included difficulties in maintaining adequate staffing levels, particularly in nursing, and the impact of wage inflation. The end of the COVID-19 emergency declaration led to Medicaid redeterminations, affecting the sector's dependency on this funding source. However, an increased demand for mental health services was observed, attributed to a growing public awareness of the benefits of such services and a reduction in associated stigmas. Revenue growth and reimbursement increases were also noted, with joint ventures between providers and healthcare systems becoming a common strategy.

In terms of dealmaking, the first half of 2023 saw a 33% decrease in behavioral health deals. Despite this downturn, 75 deals were made, with mental health representing the majority. Active acquirers like ARC Health continued to pursue acquisitions, reflecting an enduring interest in the sector.

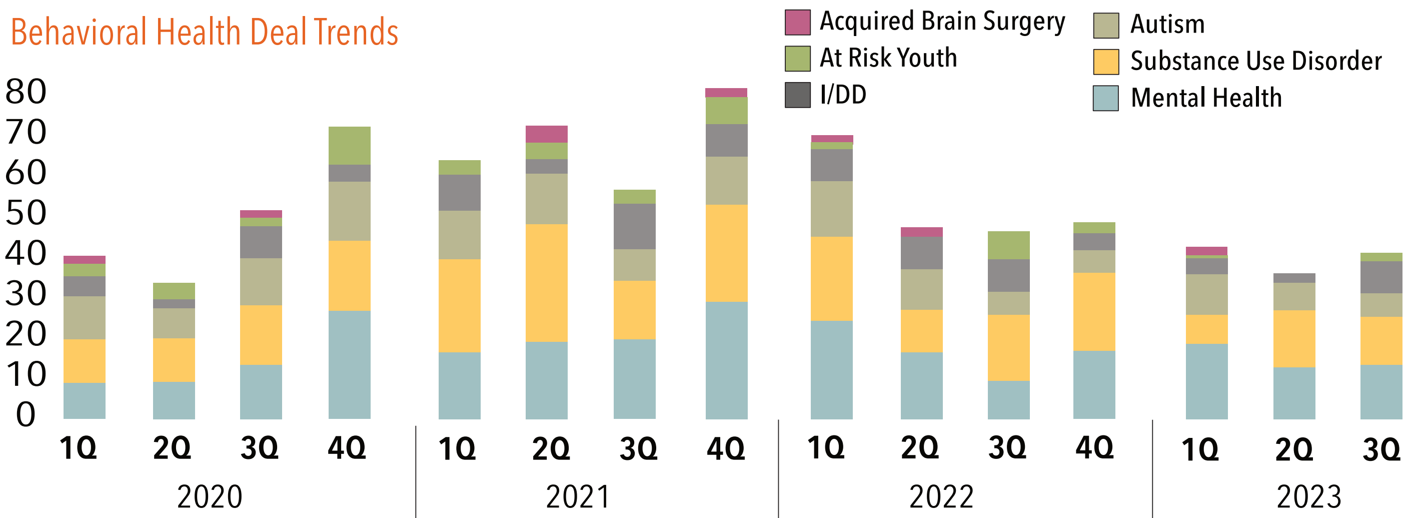
The investment landscape in Serious Mental Illness (SMI) care presented a complex scenario. Private equity investors exercised caution due to the complexities of SMI care and the need for comprehensive patient engagement plans. The economic and patient costs associated with SMI were significant, necessitating a labor-intensive and multifaceted treatment approach. Investor interest shifted towards lower acuity, outpatient mental health services, which offered easier scalability and lower capital intensity. Venture capital emerged as a potential major player in innovative SMI care models, with startups like Vanna Health introducing new approaches such as peer-support models.

In retrospect, the behavioral health market in 2023 navigated through a landscape filled with challenges and opportunities. The sector adapted to the changing economic environment, evolving patient needs, and shifting investment trends, demonstrating a dynamic and resilient industry poised for continued growth and innovation.

SOURCE:Unsplash

BEHAVIORAL HEALTH CONTINUED

Behavioral Health Deal Trends



2	0	1	0	0	3	0	1	1	1	0	0	1	0	0
3	4	3	9	4	5	5	7	3	1	6	2	1	0	3
5	2	8	4	8	3	10	8	7	3	8	5	4	3	7
9	7	11	14	12	12	8	11	13	13	6	5	9	6	6
13	11	14	17	23	27	14	24	21	10	16	19	7	14	12
8	9	13	26	16	19	19	28	23	16	9	16	18	12	13

SOURCE: Braff Group

Positive and Negative Factors Impacting Behavioral Health

POSITIVE FACTORS

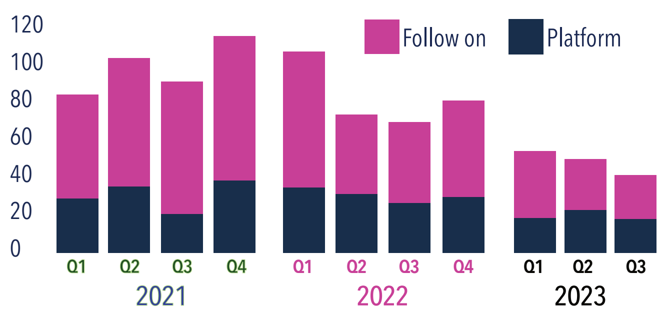
- Increased demand for Behavioral Health
- Increased availability of staffing
- Increased reimbursement from Medicare & Medicaid Redeterminations
- Expanded service offering under medicare
- Enforced provisions under Mental Health Parity and Addiction Equity Act

NEGATIVE FACTORS

- Ongoing (but abating) payroll inflation
- Recruited employees often require more training

SOURCE: Healthcare Appraisers

Private Equity Investment Trends



SOURCE: Braff Group

Hackensack Meridian Health expanded and operating an 81-bed behavioral health at the Raritan Bay Medical Center in Perth Amboy, NJ.

SOURCE: Beckers Behavioral Health

As of the end of 2023, construction, especially in healthcare, exhibited significant changes and trends. Although medical office buildings experienced momentum with over twenty-six million square feet in construction, there was a noticeable downturn in various construction projects with the extent of this downturn varying based on specific design characteristics. Particularly impacted were projects affiliated with hospitals, contrasting with the notable decline in off-campus developments linked to health systems. This pattern suggested a strategic shift in health systems' focus, a trend that required continuous monitoring to ascertain whether it was an emerging pattern or merely an anomaly.

In the realm of general hospital construction, the year saw a slight decrease in the number of hospital properties in progress, decreasing from 382 to 380. However, this was counterbalanced by increases in both the square footage under construction, rising from 80.5 million to 88.3 million, and the dollar volume in progress, which surged from $65.0 billion to $78.8 billion. These figures indicated that, although there were fewer projects, the scale and investment in the remaining projects increased.

The Medical Outpatient Building (MOB) construction segment mirrored this trend. The number of MOB properties in progress fell from 646 to 586, and square footage decreased from 43.3 million to 41.4 million. Despite these decreases, the dollar volume maintained relative stability at around $24 billion, reflecting a decrease in the number of projects but stability in overall investment.

Hospital construction types, including expansion, new, and replacement projects, saw an increase in both the total value and square footage of projects in progress, aligning with the rise in total project value. Moreover, there was a significant increase in construction costs per bed, pointing to an escalation in standards and complexity of healthcare facilities.

Comparative analysis of on-campus versus off-campus MOB construction revealed a decrease in both categories. However, the total dollar volume and square footage for these projects displayed only a slight decrease in 2023 compared to 2022, providing insights into current trends and future directions in healthcare construction.

Geographically, the distribution of hospital and MOB construction across various U.S. metro areas and regions indicated the areas with the most significant construction activity, offering valuable information for stakeholders in the healthcare construction industry.

completed during the year. Third-party developers were particularly influential, responsible for 42% of the outpatient development, translating to 18.8 million square feet.

The distribution of development varied between on-campus/affiliated and off-campus/not affiliated projects. Third-party developments were more inclined towards off-campus projects, while self-developed projects predominantly focused on on-campus or affiliated projects. This highlighted the diverse strategies and market focuses among developers.

Regarding projects initiated in 2023, a total of 27.8 million square feet were developed, with a healthy balance between third-party and self-developers. The completion of projects also showed a balanced contribution, with 17.3 million square feet developed.

Overall, the trends and data from 2023 reflected a dynamic healthcare construction market, marked by significant investments and strategic shifts in project types and locations. The increasing complexity and scale of healthcare projects underscored a continued emphasis on expanding and modernizing healthcare infrastructure to meet evolving needs.

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

Hospital Construction Pipeline Analysis by Construction Type

	Construction Type	IN PLANNING: Project in Planning	SF in Planning	Total Value in Planning	IN PROGRESS: Project in Progress	SF in Progress	Total Value in Progress
Quarter 4 2022	Expansion	226	46.3 M	$45.6 B	259	40.2 M	$39.6 B
	New	11	32.3 M	$29.4 B	77	20.7 M	$17.1 B
	Replacement	47	16.2 M	$16.4 B	34	15.0 M	$12.5 B
	Total	**384**	**94.7 M**	**$91.3 B**	**370**	**75.9 M**	**$69.2 B**
Quarter 3 2023	Expansion	154	36.5 M	$34.3 B	266	43.6 M	$45.1 B
	New	95	24.9 M	$23.1 B	69	20.8 M	$18.0 B
	Replacement	37	14.6 M	$14.8 B	34	14.1 M	$11.9 B
	Total	**286**	**75.9 M**	**$72.3 B**	**369**	**78.6 M**	**$75.1 B**
Quarter 4 2023	Expansion	126	30.9 M	$27.4 B	264	43.5 M	$44.3 B
	New	89	23.4 M	$21.6 B	65	20.1 M	$17.5 B
	Replacement	35	14.1 M	$14.6 B	34	12.8 M	$11.1 B
	Total	**250**	**68.5 M**	**$63.7 B**	**363**	**76.5 M**	**$72.9 B**

SOURCE: Revista

US Construction Report - Second Half 2023

General Hospital

	Properties in Progress	$ Volume Progress	SF Progress	SF Completed Past 12 MO	SF Started Past 12 MO
Q4 2022	385	$71.9 B	84.8 M	14.4 M	34.7 M
Q3 2023	384	$77.2 B	87.2M	16.8 M	26.0 M
Q4 2023	376	$74.3 B	84.4 M	17.0 M	16.6 M

Medical Outpatient Building

	Properties in Progress	$ Volume Progress	SF Progress	SF Completed Past 12 MO	SF Started Past 12 MO
Q4 2022	660	$26.8 B	45.2 M	14.9 M	21.3 M
Q3 2023	595	$25.9 B	42.0 M	15.3 M	13.6 M
Q4 2023	573	$25.4 B	41.9 M	15.3 M	11.9 M

SOURCE: Revista

SOURCE: Alamy

A second Advent Health facility in Daytona Florida opened its doors in August. This $167 million hospital is 153,000 SF and has 100 private rooms.

SOURCE: Daytona Beach News Journal

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	573	41.9 M	2.8	15.3 M	11.9 M
Top 100	376	32.2 M	3.1	10.6 M	8.9 M
Top 50	303	27.3 M	3.2	8.8 M	7.6 M
Houston	21	2.1 M	4.6	1.4 M	0.4 M
New York	17	1.9 M	2.6	0.4 M	0.5 M
Los Angeles	10	1.7 M	2.8	0.1 M	0.8 M
Washington DC	8	1.7 M	6.8	0.4 M	0.0 M
Baltimore	7	1.4 M	8.9	0.1 M	0.1 M
Miami	12	1.3 M	6.0	0.2 M	0.4 M
Dallas	14	1.2 M	3.3	0.2 M	1.0 M
St Louis	3	1.0 M	6.8	0.0 M	0.0 M

SOURCE: Revista

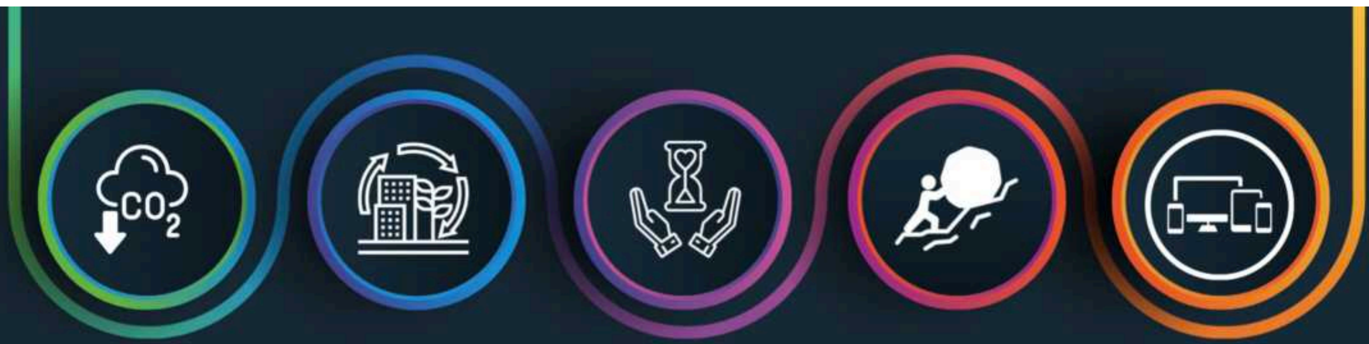
Reflecting on year-end 2023, the healthcare facility design and construction landscape underwent significant transformations, guided by insights from Sara Marberry, a healthcare design expert with Sara Marberry, LLC. Marberry identified critical trends that shaped the sector, such as the emphasis on reducing the embodied carbon footprint, the influence of Environmental, Social, and Governance (ESG) investing, preparing for longevity-ready communities, addressing evolving workforce challenges, and the integration of advanced digital technologies. She highlighted the necessity for a fundamental shift in planning and constructing healthcare environments, with a focus on access, sustainability, and human-centric care. Moreover, Marberry stressed the importance of healthcare facilities in supporting the well-being of diverse generations and backgrounds.

In 2023, a notable development was the integration of production studios in healthcare facilities. These studios blended the physical and digital aspects of patient care, becoming pivotal in patient and doctor education. They were equipped for creating immersive digital content, catering to various formats such as podcasts and virtual seminars. This approach not only enhanced patient education but also engaged them through multimedia content and immersive experiences. The active involvement of healthcare professionals in content creation ensured accuracy and adherence to standards like HIPAA.

The challenges faced by the healthcare workforce post-pandemic led to a significant shift in facility design. The focus expanded from being solely patient-centric to also addressing staff needs. Facilities continued to incorporate features like additional breakrooms, meditation rooms, pet therapy areas, and 24/7 cafeterias. Case studies like Martin Luther King Jr. Community Hospital and Clovis Community Medical Center showed that thoughtful facility design could effectively attract and retain healthcare professionals.

Another major trend in 2023 was the shift of physicians from private practice to employment models. Major companies such as Amazon, CVS Health, Optum, Walgreens, and Walmart were at the forefront of acquiring physician practices. This trend marked a shift in healthcare service delivery, emphasizing primary care and technology to enhance patient access and care.

5 Trends that will impact the next decade of healthcare facility design and construction



EMBODIED CARBON FOOTPRINT

Focuses on the environmental impact of materials and products used in healthcare facilities, highlighting the importance of considering not just operational carbon but also the carbon embodied in interiors and construction materials.

ESG INVESTING

There is a growing emphasis on Environmental, Social, and Governance (ESG) principles. This trend highlights the need for healthcare organizations to adopt strong ESG policies to attract investors and align with the increasing focus on sustainability and social responsibility.

LONGEVITY READY COMMUNITIES

With people living longer, there's a shift towards creating communities and healthcare facilities that support active and healthy aging. This trend emphasizes the need for designs that accommodate the diverse and evolving needs of an aging population.

WORKFORCE CHALLENGES

Shortages and the need for environments that support staff well-being are some challenges that are being witnessed. One solution is creating workplace environments that not only focus on efficiency but also on providing meaningful and purposeful work experiences.

DIGITAL TECHNOLOGY

Due to the ever-evolving role of technology in healthcare, including the use of digital tools for patient monitoring and information access, there is a strong need for healthcare facilities to adapt to new technologies and the possibility of embracing virtual spaces like the metaverse for healthcare delivery.

SOURCE: Healthspace Event

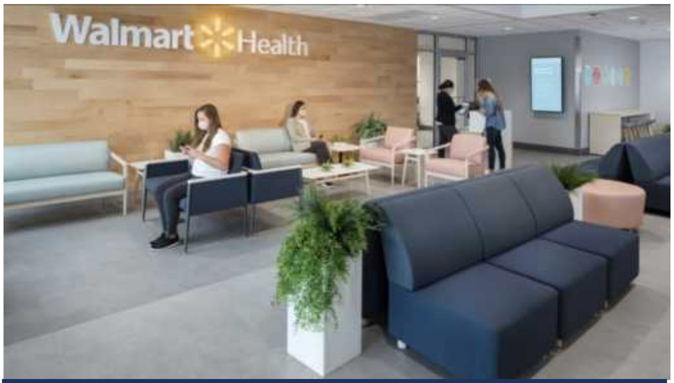
The year 2023 also witnessed significant developments in telehealth, biotechnology and precision medicine, pharmaceutical innovation, mental health and well-being, healthcare data analytics, and elderly care. These trends showcased the dynamic and transformative nature of the healthcare industry. The growing prominence of ESG investing indicated an alignment of financial goals with ethical practices.

In the realm of healthcare real estate, medical office spaces proved to be a resilient investment choice, even amidst market fluctuations. Experts anticipated a market recovery and growth in 2024, highlighting the importance of creative financing structures in the prevailing economic climate. The steady demand for tenant improvements in medical offices underscored its resilience.

Concerns about safety in healthcare settings, particularly due to increased violence against medical professionals, led to the redesign of facilities for enhanced security. Design strategies focused on safety features in exam rooms, emergency departments, and consultation areas, incorporating technology like security cameras and duress buttons for added security.

The adoption of the International Energy Conservation Code (IECC) 2021 set new benchmarks for building energy efficiency in healthcare facilities. The standards introduced by IECC 2021 emphasized stringent energy requirements balanced with patient safety and comfort. The integration of renewable energy and smart technologies, along with financial incentives, played a crucial role in assisting healthcare facilities to comply with these standards.

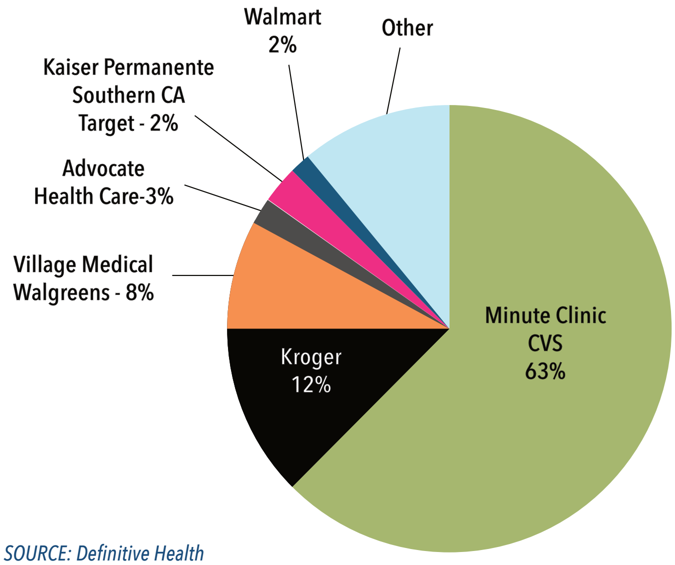
As 2023 concluded, the healthcare industry found itself adapting to a landscape that balanced innovative design, safety, technological integration, and sustainable practices. The sector was poised for significant transformation, with a focus on creating environments that catered to the well-being of both patients and healthcare professionals, underlined by strategic expansion and technological advancements. The resilience, efficiency, and adaptability demonstrated during this period set the stage for continued evolution in the years ahead.



Walmart Health has 48 location in Arkansas, Florida, Georgia, Texas and Illinois and provides primary care, labs, X-ray and EKG, behavioral health, dental, select specialty services and community health all in one facility.

SOURCE: Fierce Healthcare

Retail Clinic Market Number by Share



SOURCE: Definitive Health

Martin Luther King Jr. Community Hospital in Los Angeles after new design updates were incorporated.

SOURCE: HKS Architects

Medical Outpatient

Palomoar Health Phase III

Escondido, CA
Buyer: Harrison Street Capital
Date: July 2023
Size: 75,000 SF
Price: $60.2 Million

Medical Outpatient Portfolio

Medical Office Properties
Buyer: Kayne Anderson Real Estate
Date: September 2023
Size: 13,000,000 SF
Price: $1.3 Billion Loan

Banner Thunderbird

Glendale, AZ
Buyer: UDLR Partners
Date: December 2023
Size: 86,492 SF
Price: $13.5 Million

Life Science

Cumberland Business Center

Nashville, TN
Buyer: Boyd Watterson Asset Management
Date: July 2023
Size: 160,000 SF
Price: $40 Million

Medtronic Colorado Campus

Lafayette, CO
Buyer: Real Capital Solutions
Date: August 2023
Size: 404,149 SF
Price: $188 Million

Ionis Carlsbad

Carlsbad, CA
Developer: Oxford Property Group
Date: November 2023
Size:167,757 SF
Price: $136 Million

Behavioral Health

Solution Health

Chicago, IL
JV: Solution Health and Acadia Healthcare
Date: July 2023
Size: 144 Beds
Price: $60 Million

Permian Basin

Midland, TX
Developer: Robins & Morton
Date: November 2023
Size: 54 Acres, 200 Beds
Price: $225 Million

Valley Spring Behavioral Health

Holyoke, MA
Developer: Sanders Trust
Date: September 2023
Size: 124,000 SF, 150 Beds
Price: $72 Million

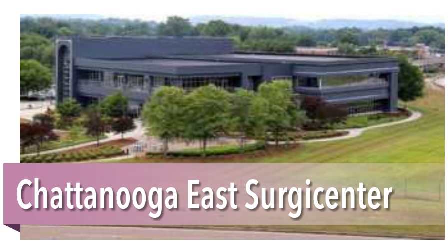
Ambulatory Surgery Center

48X Complex

Sacramento, CA
UC Davis Health
Date: August 2023
Size: 266,000 SF
Price: $589 Million

Surgi-Center of Central Virginia

Fredericksburg, VA
Buyer: Flagship Healthcare
Date: September 2023
Size: 40,000 SF
Price: $17 Million



Chattanooga East Surgicenter

Chattanooga, TN
JV: Parkridge Health System & Erlanger Health
Date: November 2023
Size: 24,000 SF
Price: $23 Million

SOURCE: Costar, NH Business Review, Revista, Facilities Management Advisor, HREI Insights

As 2023 came to a close, we saw interest rates go from "higher for longer" to "lower but slower" to "soft landing" to, now, "no landing", stuck between a tight labor market and high rates. In 2023, regulators released guidance urging banks to "work with good borrowers" on maturing loans aka "kick the can" or "pretend and extend." Many loans with 2023 maturity dates received one-year extensions. The Mortgage Bankers Association recently announced that 2024 CRE maturities have ballooned from $659 billion (2023 estimated) to $929 billion, representing 20% of all outstanding US commercial real estate debt. Commercial banks hold $441 billion of that total debt. Some aspects of inflation are agnostic regardless of rates. As mentioned by Fed Chairman Jerome Powell recently, insurance markets are one example. Natural disasters, major insurers pulling out of certain markets and trouble in the reinsurance sector have led to America becoming "uninsurable", according to one pundit. As disinflation stalls, the economy may be "moving sideways". Powell has also been adamant that the 2% inflation mandate is not likely to be changed by the Fed in the near term. With elections looming in 2024, this insistence by the Fed is not likely to change. (Finfacts, David R. Pascale, Jr., Senior Vice President, George Smith Partners).

But good news could be on the horizon, according to Kaufman Hall's Investment Banking Credit and Capital Markets Outlook for 2024, "The Federal Reserve has held steady the last six months and signaled rate cuts in 2024. Although not yet at target levels, inflation has cooled and employment rates have held steady. Borrowing costs for not-for-profit hospital users have declined nearly 100 basis points, with a return to more normal issuance levels in the first half of 2024. There are other indications of normalization, including the rating agencies outlooks for 2024".

SOURCE: Canva

Treasury & Swap Rates as of March 18, 2023

	As of 3/18	2/18 - 30 Days Prior	3/2023 - 1 Year Prior
Prime Rate	8.500%	8.500%	7.750 %
SOFR	5.310%	5.310%	4.580%
1 MO Term SOFR	5.327%	5.321%	4.660%
30 DAY TERM SOFR	5.319%	5.324%	4.560%
5 YR ANN SWAP SOFR	4.090%	3.970%	3.387%
7 YR ANN SWAP SOFR	3.990%	3.903%	3.283%
10 YR ANN SWAP SOFR	3.933%	3.880%	3.246%
3 YR TREASURY	4.518%	4.418%	3.781%
5 YR TREASURY	4.340%	4.281%	3.570%
7 YR TREASURY	4.343%	4.296%	3.556%
10 YR TREASURY	4.318%	4.284%	3.477%
30 YR TREASURY	4.444%	4.434%	3.662%

Source: Slatt Capital
Bryan Shaffer, Principal & Managing Director
bshaffer@slatt.com

What we foresee....

I, for one, was happy to see 2023 in the rear-view mirror. I am sure I echo this for most of the industry when I say it was a true test of patience, company resources and talent compensation.

Investors took a long pause in order for sellers to get adjusted to the higher capitalization rates, the indecisive money markets and fluctuations in inflation as reflected in interest rates and volume of sales activity.

Some lenders still place medical outpatient in the category of office. This has hurt properties which may be medtail or even have some minor office occupancy, placing them at the bottom of investor lists for consideration. Buildings with pure medical tenancy is favored across the board. Due to the lack of activity in 2023, we have already seen an uptick in appetite for both on & off campus properties across all sectors, especially ambulatory surgery centers and larger outpatient buildings with strong credit. The term and credit of tenancy has become even more vital with lenders than in years past.

Inventory of existing properties has begun to increase on the open market, however buildings smaller in size and more than 15-20 years in age will be less attractive and harder to sell due to cost of capital and upgrades required to make the asset more modern to fit today's facility design and trends.

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With talk of the Feds holding back on further increases in rates and speculation that rates may decline in the later half of the year, activity has picked up with the flow of offers. Industry professionals are poised to make up for the slack in activity in 2023.

We at The TICI Group of Companies (Texas International Consultants, Incorporated and Stealth Realty Advisors, LLC), along with our Strategic Alliance Partners in nineteen states are positioned to take advantage of the current market conditions and ready to assist you with your healthcare real estate requirements.

SOURCE: Counterpoint Media,, Lisa Benson

About our Companies

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.

A Member of the TICI Group of Companies

Business | Real Estate | Facilities
Finance | Asset & Risk Management

Stealth Realty Advisors, LLC

A Member of the TICI Group of Companies

Capitol Markets I Acquisition
Disposition I Tenant Representation

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 and finance. Tenant representation is also included in our services. Along with its sister company Texas International Consultants, 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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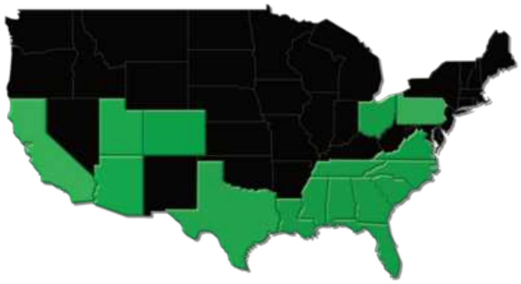

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Disposition | Tenant Representation