CUSHMAN & WAKEFIELD

VITAL SIGNS

# HEALTHCARE CAPITAL MARKETS UPDATE

H1 2024

# HEALTHCARE CAPITAL MARKETS UPDATE – H1 2024

## Introduction

As forecasted in our 2023 Healthcare Capital Markets Update, transaction volumes and pricing remained muted over the last 12 months through the first half of 2024 as a result of elevated interest rates and economic uncertainty.

The sharp uptick in volume and pricing for medical outpatient buildings (MOBs) between 2020 and early 2022 has given way to more subdued activity as the macro-economic landscape continues to recover from inflation and subsequent rate hikes. Despite this, there remains continued resiliency in healthcare real estate. Occupancies remain substantially higher and more stable than both traditional office and retail. MOBs also did not see the level of overbuilding in development pipelines that industrial or multifamily saw over the 2021 – 2023 period.

Since our last report, ongoing secular demographic drivers of healthcare coupled with the exogenous event of the global pandemic prompted many institutional investors to become new entrants into the MOB market. Medical outpatient has not been immune to the rising rate environment and lack of liquidity, with transaction volume down and cap rates up. While other asset types have been more adversely affected along key indicators like vacancy and rents, medical outpatient buildings remained resilient. We expect to see a growth in transaction activity as the debt and equity markets gain confidence in raising their acquisition targets.

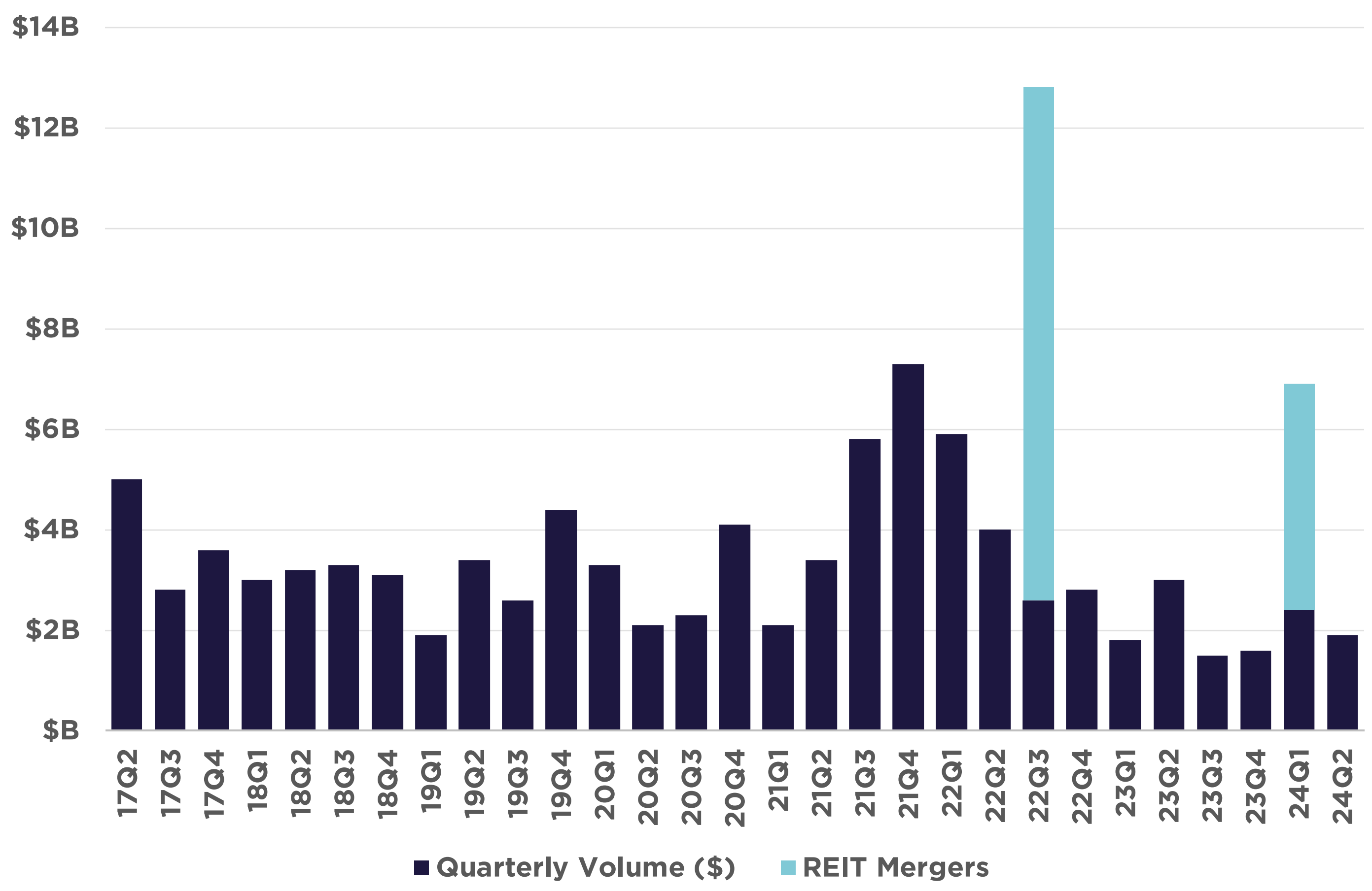
In this report, we will explore the current state of the medical outpatient building capital markets, covering the following topics:

- Transaction Volumes
- Cap Rate Trends
- Portfolio vs Single Asset Trends
- On-campus vs Off-campus Trends

# TRANSACTION VOLUMES



## Despite major M&A activity, volume remained relatively low




## KEY TAKEAWAYS

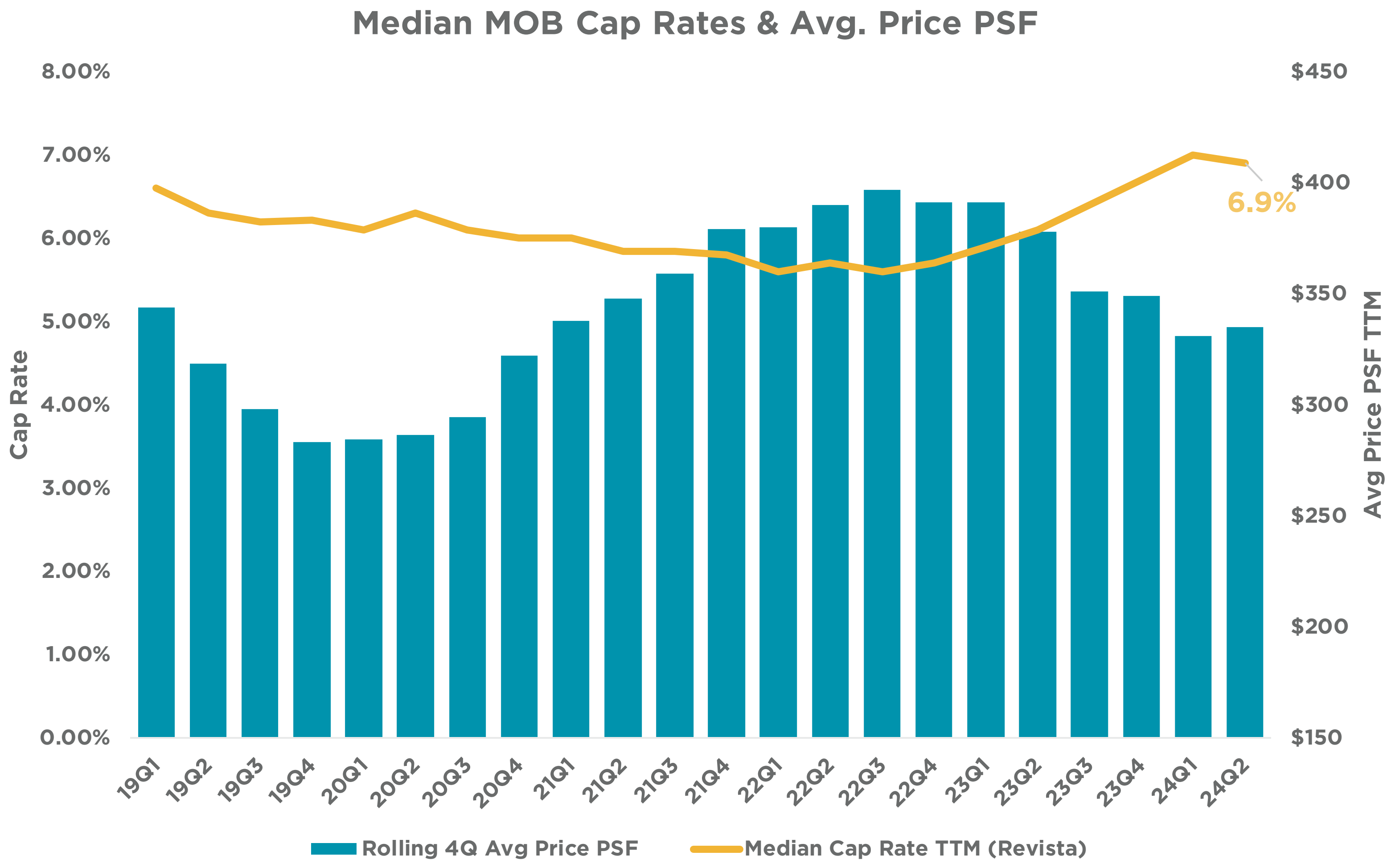
- As forecasted in our 2023 report, activity has remained largely muted through the first half of 2024, with quarterly volumes (not including entity sales) remaining below $2B.
- Notably, transaction volumes grew substantially in the first quarter of 2024. This increased activity was largely a result of the finalization of the Physicians Realty Trust (DOC) and Healthpeak Properties (PEAK) merger in March.
- Portfolio transactions have begun to grow relative to last year. As opposed to only 32% of 2023 transactions, portfolio transactions made up 61% of 2024 MOB transactions through the first half of 2024.
- Both sellers and buyers continued to wait for proper conditions to move. Sellers sought to avoid taking a mark-to-market loss on assets while buyers sought distressed opportunities to capitalize on.
- Health systems have been more active participants in the market. Those with cash have found the last year to be an opportune time to acquire assets from more willing sellers. Those without cash have become more receptive to unlocking equity in sale/leaseback transactions or credit tenant lease (CTL) financing structures that provide cash infusion with reversionary interest in the future.

Source: Revista Med, Cushman & Wakefield Research

# MOB CAP RATES: MAJOR TRENDS



## Expanding cap rates show potential slowing in Q1 – Q2 2024




## KEY TAKEAWAYS

- The median MOB cap rate reached a cycle low of 5.6% as of Q3 2022. Seven quarters later (as of Q2 2024), median MOB cap rates have risen 130 bp to 6.9%.
- Cap rate expansion appears to have slowed during the first half of 2024 topping out just below the 7% mark.
- Following the close of the first half of 2024, market sentiment has started to shift as the prospect of interest rate cuts and compression in long-dated bond yields suggested the "bottom" might be in.
- Average price PSF also reached a cycle high of $397 as of Q3 2022 (same time period as the cycle low for median cap rates). Seven quarters later (as of Q2 2024), average price has reduced by $52 PSF to $345 PSF.
- This reduced pricing is reflective of a shift in typical transaction profile from core and core plus to predominately value-add, as owners of core product have generally kept to the sidelines.

Source: Cushman & Wakefield Research (Cushman & Wakefield Adjusted cap rates are based on proprietary market intelligence and are limited to transactions with <10.0% & >3% cap rates)

# PORTFOLIO TRANSACTIONS

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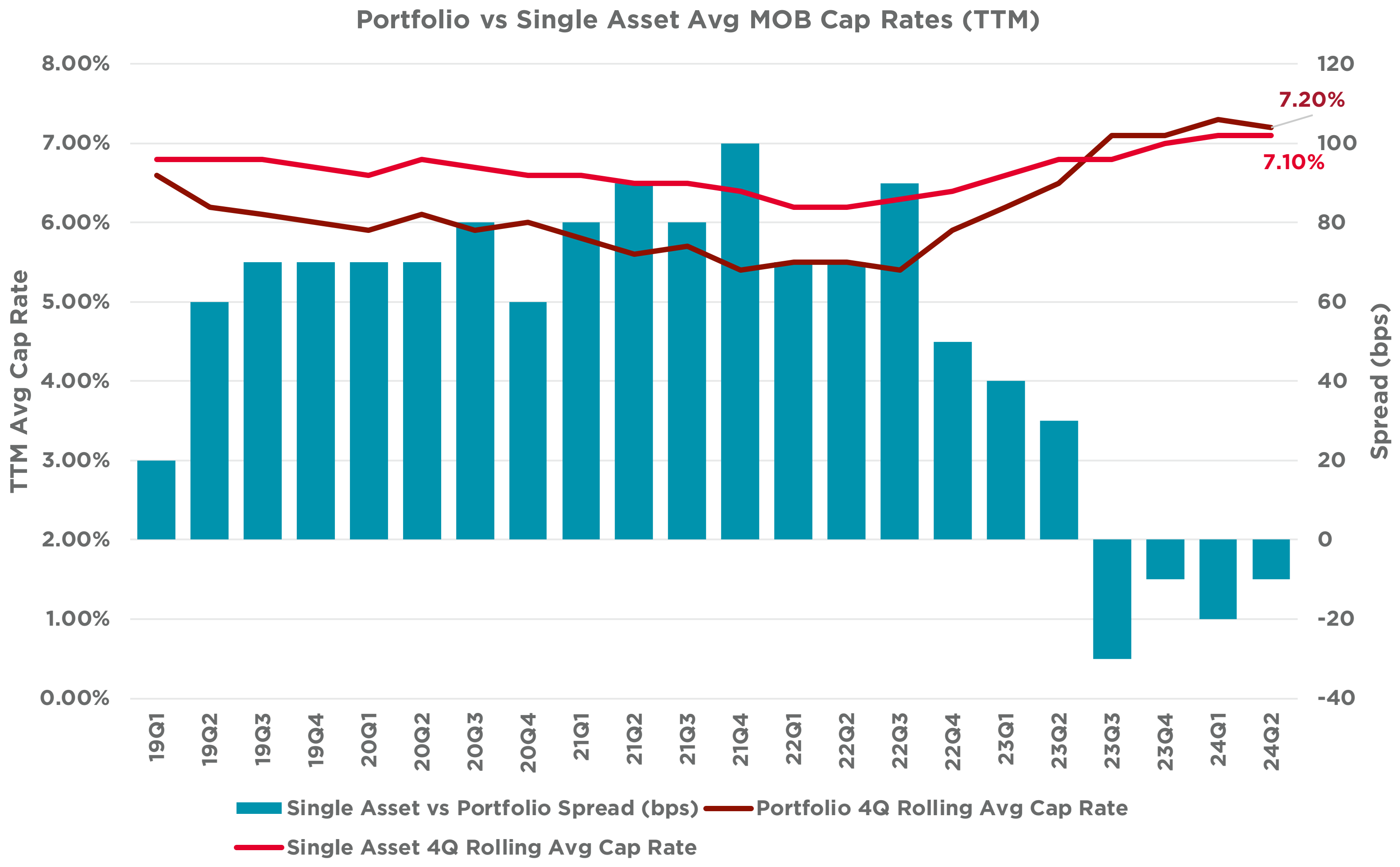
## From “Portfolio Premium” to “Portfolio Penalty”



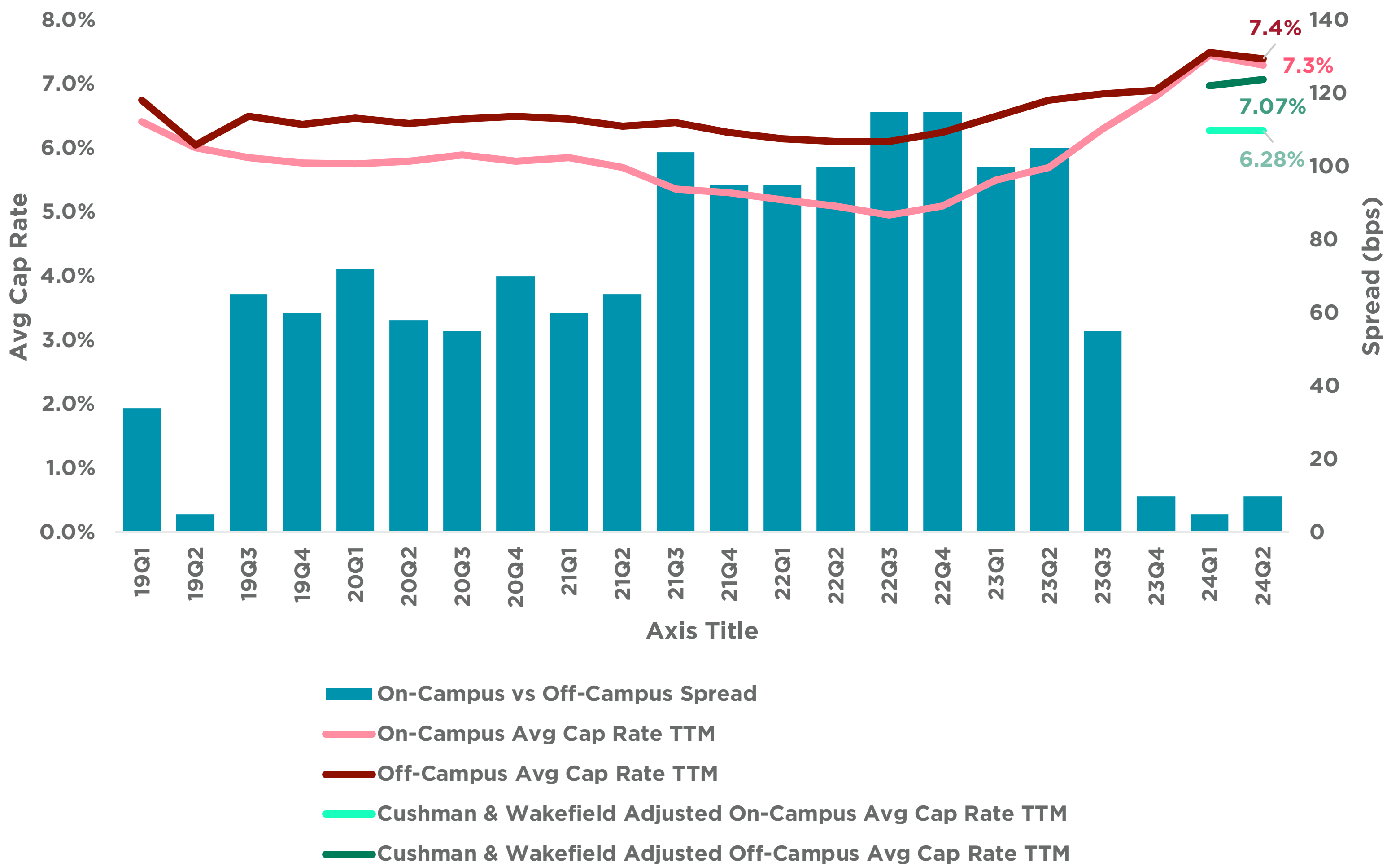

Source: Revista Med (for historical portfolio and single asset cap rates), Cushman & Wakefield Research. (Cushman & Wakefield Adjusted cap rates are based on proprietary market intelligence and are limited to transactions with <10.0% & >3% cap rates)

## KEY TAKEAWAYS

- Since Revista began tracking MOB cap rates, the data had almost always shown a “Portfolio Premium” vs single-asset transactions.
- The spread in average cap rates for portfolio vs single asset transactions reached a cycle high of 100 bp in Q4 2021.
- As liquidity in the debt markets deteriorated and portfolios became harder to sell, that premium flipped to a penalty. In Q3 2023, portfolio cap rates were 30 bp higher than single assets.
- With cap rates appearing to plateau during the first half of 2024, the difference has compressed to only 10 bps.
- The first half of 2024 has seen an uptick in portfolio transactions following a prolonged period of deferred portfolio sales.
- The portfolios that have sold reflect more of a value-add or core plus profile rather than the core portfolios of the past that drove cap rate on those transactions to cycle lows.
- If interest rates come in and debt markets become more liquid, we expect to see an increase in portfolio transactions that may include more core product which will eventually lead to the reemergence of the “Portfolio Premium”.

# ON-CAMPUS VS OFF-CAMPUS TRENDS

## Narrower spread, but C&W has a different take on the numbers




## KEY TAKEAWAYS

- Since Revista began tracking MOB cap rates, the data has always shown a premium for on vs off campus buildings.
- The cycle high was a spread of 115 bp in Q2 2023. That premium has shrunk to only 10 bp as of Q2 2024.
- However, C&W's research indicates average cap rates are lower as of Q2 2024 with a wider spread (79 bp).
- C&W's wider spread is more consistent with the long-term average and rings true with our real-time knowledge of current pricing trends where on-campus assets still seem to command a premium over their off-campus counterparts.
- Going forward we except on-campus MOBs will continue to achieve lower cap rates due to their unique demand drivers and high-barrier-to-entry characteristics.

Source: Cushman & Wakefield Research (Cushman & Wakefield Adjusted cap rates are based on proprietary market intelligence and are limited to transactions with <10.0% & >3% cap rates) , Revista Med (for historical on- and off-campus cap rates)

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## About Cushman & Wakefield

Cushman & Wakefield (NYSE: CWK) is a leading global commercial real estate services firm for property owners and occupiers with approximately 52,000 employees in nearly 400 offices and 60 countries. In 2023, the firm reported revenue of $9.5 billion across its core services of property, facilities and project management, leasing, capital markets, and valuation and other services. It also receives numerous industry and business accolades for its award-winning culture and commitment to Diversity, Equity and Inclusion (DEI), sustainability and more. For additional information, visit www.cushmanwakefield.com.