

HEALTHCARE REAL ESTATE OVERVIEW

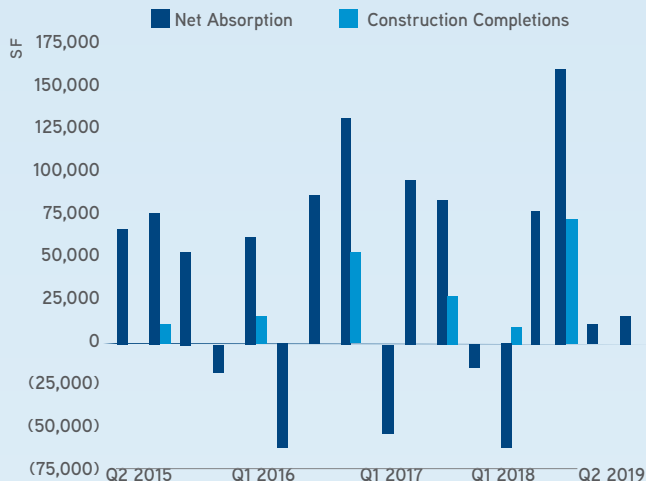
COLLIERS HEALTHCARE SERVICES
SAN DIEGO, CA



MARKET INDICATORS

	Q2 2019	Q2 2018
VACANCY	↓	↑
NET ABSORPTION	↑	↓
CONSTRUCTION	↔	↔
RENTAL RATE	↑	↑

Historical Net Absorption & Construction Completions
Q2 2015 - Q2 2019



MARKET TRENDS



Q2 2019 vacancy stayed flat

7.9%

Average asking rental rate

\$2.69
FSG

Net absorption at Q2 2019 recorded positive

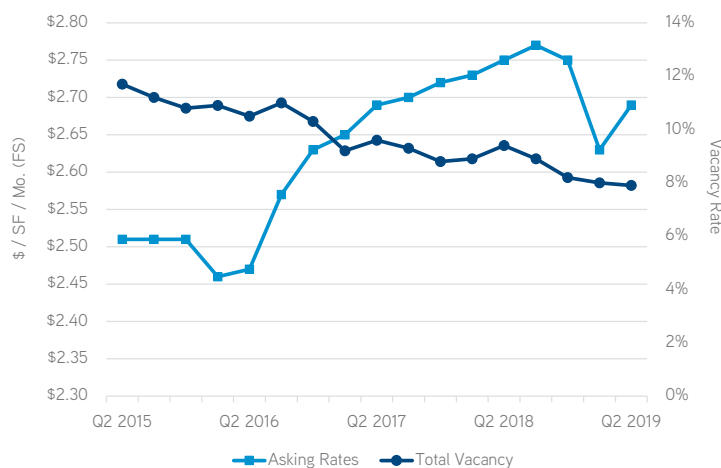
21,527
SF

San Diego Healthcare Real Estate Fundamentals Remain Healthy

MARKET SUMMARY

San Diego medical office building (MOB) demand was strong and totaled 21,527 SF of positive net absorption for Q2 2019. Class A inventory recorded the most activity with 21,496 SF of net absorption. Class C also posted positive net absorption (+6,566 SF), while Class B posted negative net absorption (-6,535 SF). Escondido/San Marcos posted the most positive net absorption (+47,740 SF) in Q2. MOB vacancy of 7.9% is a 150 basis point decrease from a year-ago (9.4% Q2 2018). The vacancy rate includes direct vacant space (7.7%) and minimal sublease space (0.2%). The I-15 Corridor recorded the lowest total vacancy (2.7%) for the quarter. Average asking rental rates increased by \$0.06 to end of the quarter at \$2.69 per square foot, per month, Full Service Gross (FSG).

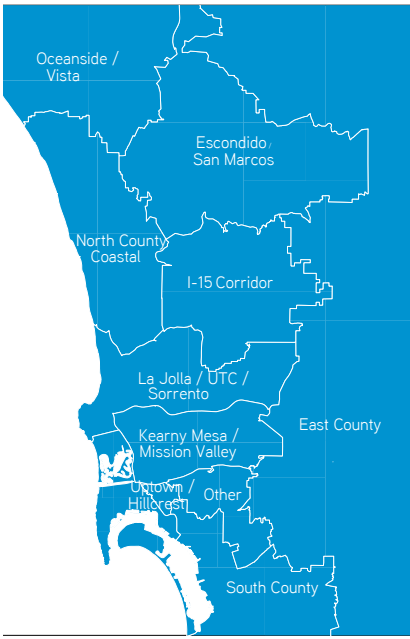
Historical Vacancy vs Rents
San Diego County Medical Office Market
Q2 2015 - Q2 2019



The average sales price for Q2 2019 for MOB in San Diego County is **\$406 PSF** with an average cap rate of **4.8%**

Medical office Q2 2019 vacancy of **7.9%** is a **150 BASIS POINT** decrease from a year-ago.

The combination of a supply/demand imbalance and historically low interest rates have led to further cap rate compression.



San Diego County

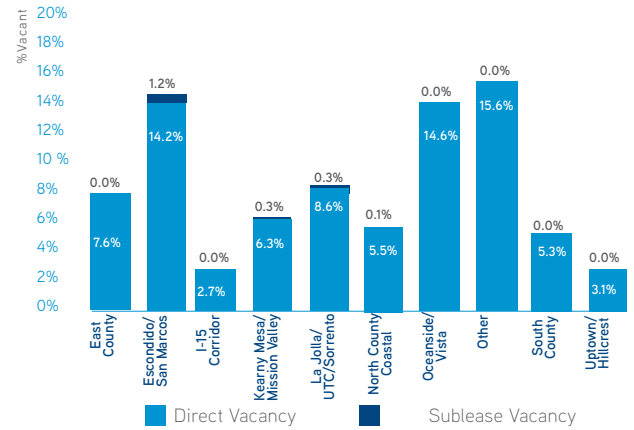
San Diego County Market Description

The San Diego County medical office market is comprised of 12.2 million SF of medical office buildings, not including hospital facilities or hospital-owned and occupied medical buildings. Over half of the medical buildings (63.8%) were built after 1980. San Diego County is served by over 30 hospitals including Kaiser Permanente, Sharp Memorial Hospital, Scripps Mercy Hospital, UC San Diego Medical Center, Tri-City Medical Center and Palomar Medical Center.

San Diego County Medical Office Market

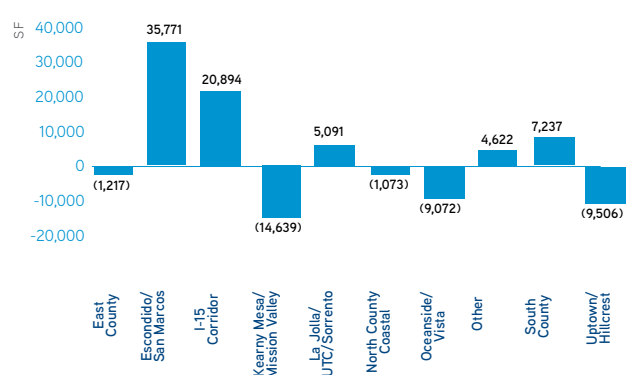
VACANCY

By Submarket



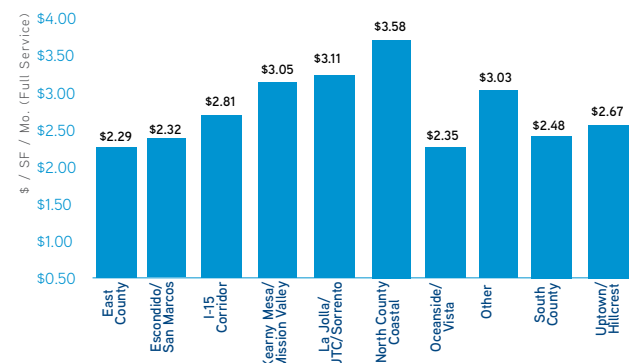
NET ABSORPTION

By Submarket



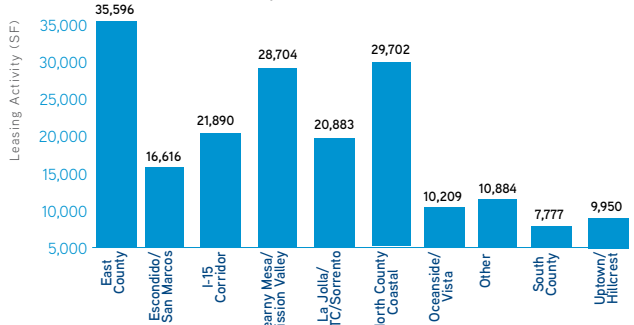
WEIGHTED AVERAGE ASKING LEASE RATES

By Submarket



LEASING ACTIVITY

By Submarket



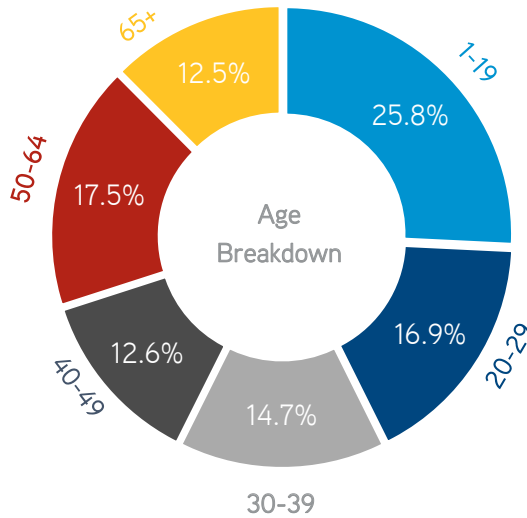
Demographics

Population

- 3,371,826 (2018 Estimate)
- 3,544,377 (2023 Projection)
- 5.1% Growth 2018-2023

ESTIMATED AVERAGE AGE

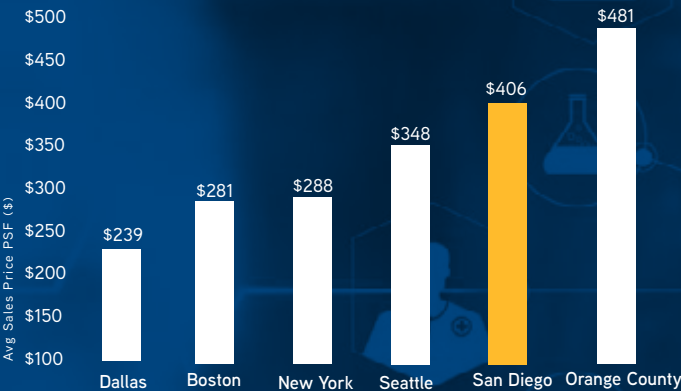
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National Medical Office Markets

AVERAGE SALE PRICE PER SQUARE FOOT Q2 2019

By Market



SOURCE: Real Capital Analytics

NATIONAL MOB INDUSTRY TRENDS

- Following 2017's cyclical low, national MOB vacancy essentially remained flat in 2018, with a marginal increase of 10 basis points to 8.2%.
- Demand for medical office remains strong and is keeping pace with new supply being added.
- National full-service gross MOB rents increased by 3.6% in 2018, significantly above the historical average of 0.2%.
- Following 18.8 million square feet of MOB deliveries in 2017, the 2018 total rose to 20.9 million feet. MOB construction remains heavily weighted toward off-campus projects.
- Total investment in MOB's fell from a record \$14.5 billion in 2017 to \$12.7 billion in 2018, though transaction volumes continue to be restrained by the small universe of investable product. Meanwhile, average Cap Rates held steady at 6.7%.



Regulatory uncertainty looms for healthcare and medical office real estate markets, but fundamentals remain solid



Leasing activity recorded 192,211 square feet in Q2 2019

EXISTING PROPERTIES			VACANCY				ACTIVITY		ABSORPTION		CONSTRUCTION			RENTS
Submarket/ Class	Bldgs	Total Inventory SF	Direct Vacancy Rate	Sublease Vacancy Rate	Total ¹ Vacancy Rate	Total ¹ Vacancy Rate Prior Qtr	Leasing Activity SF	Net ² Absorption Current Qtr SF	Net ² Absorption YTD SF	Completions Current Qtr SF	Completed Construction YTD	Under Construction	Weighted ³ Avg Asking Lease Rate	
BUILDING CLASS														
A	22	1,612,936	7.0%	0.1%	7.1%	8.4%	8,674	21,496	31,685	0	0	0	\$3.47	
B	278	8,446,205	7.8%	0.3%	8.0%	7.9%	159,039	(6,535)	(10,673)	0	0	0	\$2.63	
C	130	2,237,744	7.9%	0.0%	7.9%	8.0%	24,498	6,566	17,096	0	0	0	\$2.23	
SUBMARKETS														
East County	63	1,504,765	7.6%	0.0%	7.6%	7.6%	35,596	(211)	(1,217)	0	0	0	\$2.29	
Escondido / San Marcos	40	998,740	14.2%	1.2%	15.4%	20.2%	16,616	47,740	35,771	0	0	0	\$2.32	
I-15 Corridor	33	1,293,918	2.7%	0.0%	2.7%	3.2%	21,890	6,496	20,894	0	0	0	\$2.81	
Kearny Mesa / Mission Valley	47	1,517,862	6.3%	0.3%	6.6%	5.2%	28,704	(20,557)	(14,639)	0	0	0	\$3.05	
La Jolla / UTC / Sorrento	30	1,536,123	8.6%	0.3%	8.9%	8.5%	20,883	(7,152)	5,091	0	0	0	\$3.11	
North County Coastal	58	1,464,626	5.5%	0.1%	5.6%	5.9%	29,702	4,186	(1,073)	0	0	0	\$3.58	
Oceanside / Vista	45	959,232	14.6%	0.0%	14.6%	12.7%	10,209	(18,414)	(9,072)	0	0	0	\$2.35	
Other	25	663,781	15.6%	0.0%	15.6%	14.8%	10,884	(732)	4,622	0	0	0	\$3.03	
South County	52	1,369,386	5.3%	0.0%	5.3%	6.0%	7,777	9,439	7,237	0	0	0	\$2.48	
Uptown / Hillcrest	37	988,452	3.1%	0.0%	3.1%	3.2%	9,950	732	(9,506)	0	0	0	\$2.67	
MARKET TOTAL														
Total	430	12,296,885	7.7%	0.2%	7.9%	8.0%	192,211	21,527	38,108	0	0	0	\$2.69	
QUARTERLY COMPARISON AND TOTALS														
Q2 2019	430	12,296,885	7.7%	0.2%	7.9%	8.0%	192,211	21,527	38,108	0	0	0	\$2.69	
Q1 2019	430	12,296,885	7.9%	0.1%	8.0%	8.2%	95,190	16,581	16,581	0	0	0	\$2.63	
Q4 2018	430	12,296,885	8.0%	0.2%	8.2%	8.9%	91,653	161,155	162,677	75,000	92,654	0	\$2.75	
Q3 2018	429	12,246,889	8.7%	0.2%	8.9%	9.4%	147,672	78,134	1,522	0	17,654	75,000	\$2.77	
Q2 2018	428	12,232,174	9.3%	0.1%	9.4%	8.9%	144,658	(61,135)	(76,612)	17,654	17,654	75,000	\$2.75	

¹Includes vacant space which is available for direct lease and sublease. ²Calculation based on total vacancy. ³Average rental rates are defined as the average asking monthly rate per square foot across all direct available spaces quoted on a "full service gross" basis.

COLLIERS INTERNATIONAL

HEALTHCARE SERVICES

A HEALTHY BUSINESS

Colliers International is committed to accelerating the real estate success of our healthcare clients through a specialized real estate platform known as Colliers Healthcare Services (HCS). Formed more than a decade ago, HCS's foundation was built around an in depth understanding of the healthcare industry and the factors which underpin profitability and the requirement to deliver quality outcomes.

Focused solely on healthcare related real estate, the over 150 members of the HCS team have the expertise and knowledge essential to providing forward thinking solutions to any challenging healthcare related real estate decision where success is measured in high-quality care delivered in a cost-effective way.

WE KNOW HEALTHCARE

HCS understands the significant differences between healthcare real estate and traditional commercial space. Whether operating, leasing, purchasing, selling, investing or developing healthcare real estate, HCS's experienced professionals work collaboratively with clients to identify market opportunities, optimize real estate efficiencies, or implement cost-control measures that ensure the best possible outcomes for unique requirements.



Core Services

- Lease Negotiation
- Lease Recast & Renewals
- Landlord Agency
- Lease Administration
- Property & Asset Management
- Investment & Capital Markets
- Appraisal & Valuation
- Site Evaluation
- Compliance



Areas Of Focus

- Hospitals
- Health Systems
- Post Acute
- Medical Office Buildings
- Outpatient Surgery Centers
- New Development
- Repurpose



Colliers at a Glance

OFFICES

400 offices in 68 countries on 6 continents



155

United States

48

Canada

20

Latin America

94

Asia Pacific

119

EMEA

\$3.3 billion
IN ANNUAL REVENUE

\$2.0 billion
SQUARE FEET UNDER
MANAGEMENT

over 17,000
PROFESSIONALS

THE GREATER LOS ANGELES (GLA) REGION

The GLA Region includes the Los Angeles, Orange County, San Diego and Inland Empire areas of Southern California. The GLA/HCS team has a combined 50+ years of Healthcare Real Estate experience and has completed hundreds of Healthcare Transactions since 2010. The GLA/HCS Team is presently engaged in Healthcare Real Estate related assignments encompassing more than 2,000,000 SF.



UNITED STATES

San Diego
License No. 1908588
4350 La Jolla Village Dr, Suite 500
San Diego, CA 92122
TEL +1 858 455 1515

CONTACTS

RYAN FOLEY
Associate
+1 760 930 7924
ryan.foley@colliers.com

JOHN WADSWORTH
Senior Vice President, Health Services
+1 949 724 5528
john.wadsworth@colliers.com

LOCAL MARKET EXPERTISE



When it comes to making real estate decisions, local market conditions are a critical consideration. That is why it is vitally important to work with advisors who understand the intricacies of the regions in which you operate. Let HCS put the expertise and extensive resources of Colliers to work maximizing the value of your GLA healthcare real estate project.