United States
Research Report

2016 HEALTHCARE MARKETPLACE

Colliers INTERNATIONAL
Accelerating success.

Healthcare Real Estate Continues Strong Performance

Michael Roessle Director of Office Research | USA

Colliers' analysis of the healthcare industry and its effect on commercial real estate in the U.S. points to a soaring healthcare landscape with expected increases in investment and further "retailization." In 2016 and beyond, there will continue to be strong demand for medical office space as healthcare spending rises and demand from an aging population grows.

Investor appetite is driven by higher yields compared to other asset classes, low interest rates and a stable tenant base with strong credit. The solid fundamentals of this asset class, combined with the projected aging population growth, are attracting investors not accustomed to investing in medical office buildings. Strong demand should continue into 2016, with the recent interest rate rise having minimal effect.

The retail sector is also expected to benefit as medical clinics, urgent care centers and other outpatient facilities lease space in shopping centers where retailers have left vacancies. There are often favorable lease terms in centers with several vacancies and these areas offer greater visibility and more convenient locations to their patients.

We expect healthcare costs will continue to rise as the Affordable Care Act (ACA) has enrolled millions of Americans who are actively using the coverage they are now paying for. This, combined with the projections in growth of the population 65 years and older, leads to the estimate of a near doubling of healthcare spending - from $3 trillion in 2014 to $5.5 in 2024.

As hospitals and healthcare systems are under pressure to reduce costs while increasing the quality of care, there has been a wave of merger and acquisition activity that is expected to continue into 2016. These hospitals and healthcare systems are seeking to improve efficiencies, reduce duplicate facilities and gain greater negotiating leverage with insurance companies.

the national vacancy rate was this low was in the second quarter of 2008.

- **Absorption: While absorption has slowed, it has remained positive in 2015; totaling 5.8 million square feet through the third quarter of 2015.** That leasing represents a decline of 15.1% over the same period in 2014 and a 58.6% drop from the high of 14 million square feet absorbed in the first three quarters of 2008. As employment growth in the hospital and healthcare systems continues, absorption should remain positive throughout 2016.
- **Rent: Average asking rents for medical office buildings were generally flat in 2015, reaching $22.95 per square foot in the third quarter.** That represents a 0.3% gain from this time last year and a 4.1% gain from the low of $22.16 per square foot seen in the beginning of 2013.
- **Sales: At the end of the third quarter of 2015, the rolling 12 month sales volume ($12.9 billion) hit a new peak, which has contributed to downward pressure on cap rates.** After three quarters of 2015, the rolling 12 month cap rate stood at 7.2% and continues the downward trend seen since yields hovered over 8.0% in 2010. Availability of capital combined with low interest rates, an aging demographic and the effects of the Affordable Care Act (ACA) have been heating up the demand and competition for medical office properties.
- **Technology: Consumers have embraced technology to take a more active role in their care while providing caregivers with crucial information that can lead to more personalized courses of treatment, earlier diagnoses, prevention of unnecessary costs and easier direct communication.**
- **Retail Effect: The "retailization" of healthcare has continued to take leaps forward as providers look for lower-costs and locations that are easily accessible to customers.** As the ACA