November 28, 2012

NAIOP Colorado
Trends in Healthcare Real Estate
Presentation Overview

- NexCore Group Overview
- Healthcare Delivery Model
- Healthcare Real Estate Drivers
- Healthcare Real Estate Market Data
- Q & A
NexCore Group Overview

- Full-service real estate firm with 100% focus on healthcare

- Business platforms include development, acquisition, leasing, and property/asset management

- National platform, 3 offices, 40 employees

- 2.9 million SF and 30 healthcare projects developed since 1989

- “Top 20 Healthcare Developer” in *Modern Healthcare* since 2005
Healthcare Delivery Model
Changes in the Healthcare Delivery Model

**YESTERDAY**
- Tertiary Hospitals
- Community Hospitals
- Medical Office Buildings
- Imaging Centers
- Ambulatory Surgery Centers
- Senior Living Facilities (non-specific)
- Nursing Homes

**TODAY**
- Inpatient Care
  - Decentralization and redistribution of healthcare services
  - More specialization, with some consolidation, and a new emphasis on retail locations
- Outpatient Care
  - More specialization, with a new emphasis on home-like environments, and more integration between hospitals and PAC providers
- Post-Acute Care (PAC)
  - Short-Term Subacute Rehab Centers
  - Inpatient Rehab Facilities
  - Assisted Living/ Memory Care Facilities
  - Skilled Nursing Facilities
  - Long-Term Acute Care Hospitals

**Pushing Services Outside the Hospital Walls into the Community**
- Lower the cost of healthcare
- Delivers services where patients live
- Improves patient convenience and hospital visibility
- Reduces re-admissions
- Distributes services near families, rather than hospitals

Developed By NexCore Group

www.nexcoregroup.com
NexCore Product Types

On-Campus Medical Office Buildings
Silver Cross Hospital | New Lenox, IL

Off-Campus “Big Box” Outpatient Centers
United Health Services | Vestal, NY

Urgent Care Centers and Freestanding EDs
St. Anthony North Hospital | Westminster, CO

Medical Fitness and Wellness Centers
Rex-UNC Health Care | Knightdale, NC

Post-Acute Care Centers
Golden, CO

Hospital Additions and Renovations
Providence Holy Family Hosp | Spokane, WA
On-Campus Medical Office Building

Medical Service Building (Pavilion A)
New Lenox, IL

- Six-level, 182,000 GSF outpatient facility developed on new 76-acre hospital campus located southwest of Chicago in one of the nation’s fastest growing counties
- Houses 68,000 RSF of hospital outpatient services (Levels 1 and 2) and 106,000 RSF of physician offices (Levels 3 through 6)
- Connects directly with the hospital on 3 levels
- Emphasizes high-level service and convenience for patients — e.g., Walgreens pharmacy, hospital ambassadors, and self check-in kiosks
- Houses the hospital’s new 2,450 SF data center — Silver Cross can now offer the latest in technology and applications, including electronic medical records and patient tracking
Off-Campus MOB and Freestanding ED

St. Anthony North Hospital
Centura Health.

St. Anthony North Medical Pavilion
Westminster, CO

- Two-story, 48,000 GSF outpatient facility at I-25 and 144th Avenue
- Houses hospital services, hospital-employed physicians (cardiology, neurology, orthopedics, GI), and independent physicians
- Hospital services include 24-hour emergency department, full-service imaging center, women’s breast imaging center, clinic, laboratory, and heliport (Flight for Life® emergency air transport)
- Trade area demography includes growing and affluent population of 120,000
- Strategically located directly across from The Orchard Town Center, a 1 million square foot, regional, open-air shopping center

Project Animation Video
Healthcare Real Estate Drivers

- Aging, growing population — “The Silver Tsunami”
- Increasing number of insured Americans
- Increasing number of hospital-employed physicians
- Decentralization of hospitals and their need for capital
- Patient convenience and the “retailization” of healthcare
Healthcare Real Estate Drivers

The Silver Tsunami

Between 2010 and 2050, the United States is projected to experience rapid growth in its older population. In 2050, the number of Americans aged 65 and older is projected to be 88.5 million, more than double its projected population of 40.2 million in 2010. The baby boomers are largely responsible for this increase in the older population, as they began crossing into this category in 2011.

Source: U.S. Census Bureau.
Healthcare Real Estate Drivers

The Silver Tsunami

Those over 65 were 12.5% of the population in 1998 but accounted for 24% of visits to physicians’ offices. By 2008, the numbers were 12.7% and 27%, respectively.

Furthermore, those people had 6.9 office visits on average in 2008, up from 6.1 in 1998, or almost three times the visits of those under 45 years of age.

Annual Rate of Physician Office Visits by Age
1998 vs. 2008

Source: U.S. Centers for Disease Control and Prevention and The Urban Land Institute’s Outlook for Health Care report.
32 million more Americans will be covered by health insurance under the new health care law, an 11% net addition in 2019.

Despite the increased coverage, the Obama administration estimates that national healthcare costs by 2019 will be $4,716.5 billion, only $45.9 billion, or 1 percent, higher than without the new law.

Source: Congressional Budget Office and The Urban Land Institute’s Outlook for Health Care report.
Hospital-employed physicians are expected to increasingly dominate the field as medical record keeping requirements, cost containment pressures from government and insurers, constraints on government reimbursements, expensive new technology, lack of economies of scale and high practice management costs, and lower incomes relative to hospital-employed physicians weigh on small private practices. This situation is expected to create substantial demand for MOBs, replacing many small physician offices with much larger hospital related facilities.

Source: Medical Group Management Association and The Urban Land Institute’s Outlook for Health Care report.
Decentralization of Hospitals

Because hospital systems need to control expenses, they are pushing many services and procedures out of the hospital to outpatient clinics, ambulatory care centers, and post-acute care facilities, rather than expanding their acute care facilities.

The overriding reason: hospital expansion projects are extremely capital intensive, with a price tag of $1 million to $2 million per bed. Or, to put it another way, hospitals cost about $600 per square foot to build compared to $250 on average for medical office building space.

Source: Avalere Health analysis of American Hospital Association Annual Survey data 2010, for community hospitals and U.S. Census Bureau.
Healthcare Real Estate Drivers

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Total Outpatient Procedures, 2010 vs. 2020

<table>
<thead>
<tr>
<th>Service</th>
<th>2010</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Orthopedics</td>
<td>29.8</td>
<td>41.0</td>
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<tr>
<td>Gastroenterology</td>
<td>20.5</td>
<td>27.7</td>
</tr>
<tr>
<td>ENT</td>
<td>11.8</td>
<td>14.7</td>
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<tr>
<td>Ophthalmology</td>
<td>11.3</td>
<td>17.2</td>
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<tr>
<td>Urology</td>
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<tr>
<td>Gynecology</td>
<td>10.5</td>
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</tr>
<tr>
<td>Interventional Cardiology</td>
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<td>Pain Management</td>
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<td>General Surgery</td>
<td>6.3</td>
<td>8.2</td>
</tr>
<tr>
<td>Spine</td>
<td>0.9</td>
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</tbody>
</table>

Sources: The Advisory Board Company and Innovations Center Futures Database.
Healthcare Real Estate Drivers

“Retailization” of Healthcare

While the trend of hospital decentralization has created a demand for third-party owned, on-campus MOBs, rapid suburban population growth has simultaneously created a stronger consumer demand for medical services located near residential neighborhoods.

This demand has spurred large scale, off-campus outpatient facility development as hospitals seek to increase their market share.
Healthcare Real Estate
Market Data
Healthcare Real Estate Market Data

- Market Size
- Investor Composition
- Rental Rates
- Vacancy Rates
- Supply and Demand
- Cap Rates
- Average Price
Healthcare Real Estate Market Data

Market Size

The total national MOB and outpatient health facility market value is approx. $414 billion, with about $262 billion available for private investment when government and small physician-owned practices are excluded, which represents approximately 2% of the total real estate market and approximately 13% of the total office market.

Source: Stifel Nicolaus estimates.
Healthcare Real Estate Market Data

Investors

Private investors will be involved in the most transactions in 2012, but REITs and institutions will account for the greatest share of dollar volume as they target on-campus assets and top-quality off-campus buildings affiliated with health systems.

Despite their prominence in recent years, REITs and institutional investors will lag in the broader market into the off-campus arena due to their adherence to strict acquisition criteria.

Source: Stifel Nicolaus estimates.

Buyer Composition, 2012 (YTD)
Medical Office vs. Standard Office

Source: Real Capital Analytics and Marcus & Millichap.
Since reaching a peak in the second quarter of 2008, the average asking rental rate for medical office space fell by 4.7% through the first quarter of 2011, less than half of the 9.9% drop in the average rate for standard office space. Compared with standard office space, the supply and demand fundamentals for medical office tend to be less volatile through recession cycles.

Source: Grubb & Ellis.
In 2011, the vacancy rate for medical office space nationwide was 11.3%, compared to 17.4% for standard office space. Vacancy will slip below 11% in 2012 for the first time since 2008, as rising healthcare needs once again support outsized job creation in related industries.

Source: Marcus & Millichap Medical Office Research Report.
During 2012, approximately 6.3 million square feet of medical office space will be delivered, an increase from last year but still more than 60% below the annual average from 2006 to 2008. Despite signs of improvement in the medical office sector and a promising outlook, developers will remain cautious in the near term, focusing on hospitals, hospital-affiliated buildings, ambulatory care facilities and off-campus surgery and emergency centers.

Source: Marcus & Millichap Medical Office Research Report.
Healthcare Real Estate Market Data

Cap Rates

Strong growth prospects for the healthcare industry and space demand will attract more investors to medical office in 2012, but pricing trends will once again vary dramatically by property quality, type, and location.

On average, cap rates for top-tier hospital-affiliated assets fall in the 6% to 7% range, while lower quality, lower performing buildings typically change hands between 8% and 9%.

Source: CB Richard Ellis, Real Capital Analytics, and Marcus & Millichap.
Healthcare Real Estate Market Data

**Average Price**

Nationwide, the average price for medical office properties hovers near $165 per square foot, though the most sought-after on-campus buildings can trade at prices roughly 1.5 to 2.5 times higher.

Prices for best-of-class assets and aging, low-quality buildings stand to diverge further in the future as the evolving healthcare model prompts more consolidation and influences leasing trends.

**Medical Office Property Price Trends 2006 - 2011**

Source: Marcus & Millichap Medical Office Research Report.
Questions & Answers