CBRE ECONOMETRIC ADVISORS Presents

NEW LANDSCAPE

CBRE AMERICAS RESEARCH CONFERENCE 2017

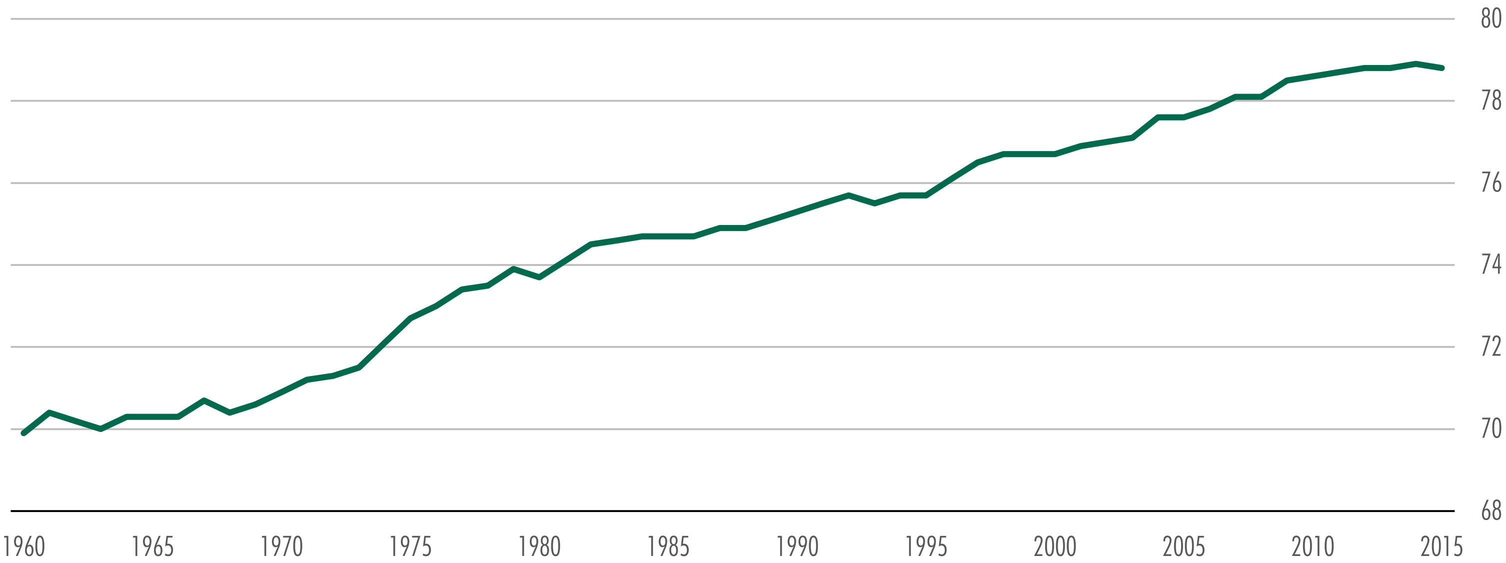
SPECIALTY PROPERTIES:
LIFE SCIENCES, MEDICAL, SENIORS HOUSING

Dan Wagner
Ian Anderson
Robert Kramp
Jeanette Rice

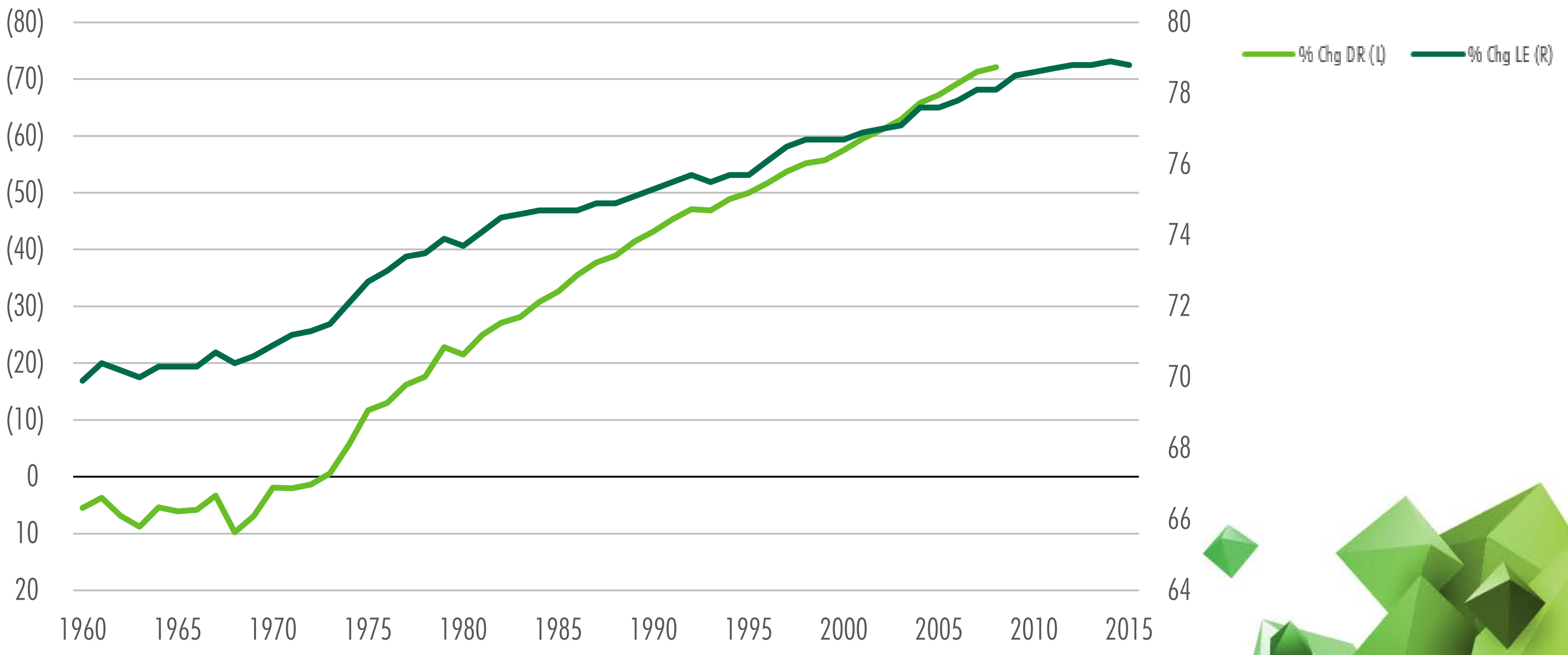
SEPTEMBER 15, 2017

CBRE Build on Advantage

U.S. AVERAGE LIFE EXPECTANCY

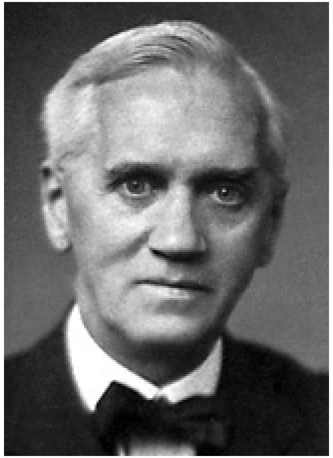


U.S. AVERAGE LIFE EXPECTANCY AND % DROP IN DEATHS FROM CARDIOVASCULAR DISEASE

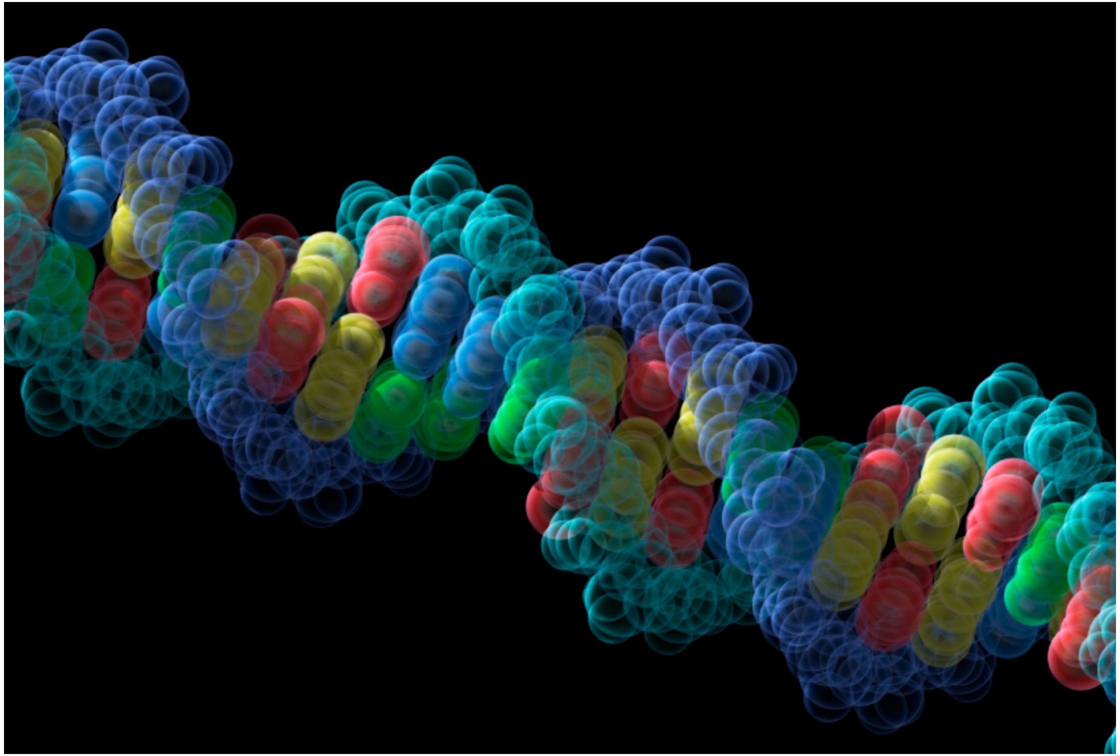


THE PIVOTAL ROLE OF LIFE SCIENCES

"One sometimes finds what one is not looking for."



THE PIVOTAL ROLE OF LIFE SCIENCES



Clustered

Regularly

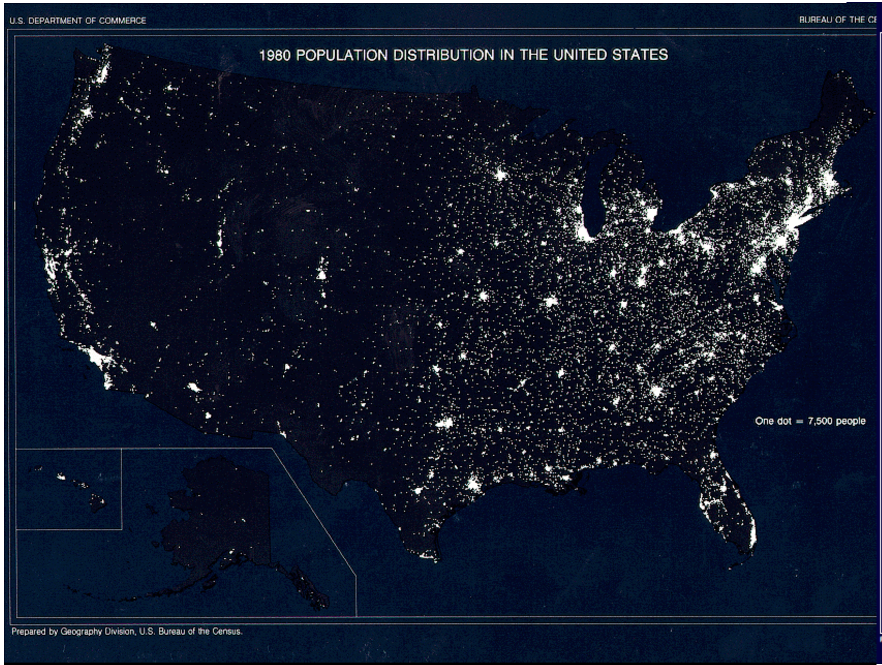
Interspaced

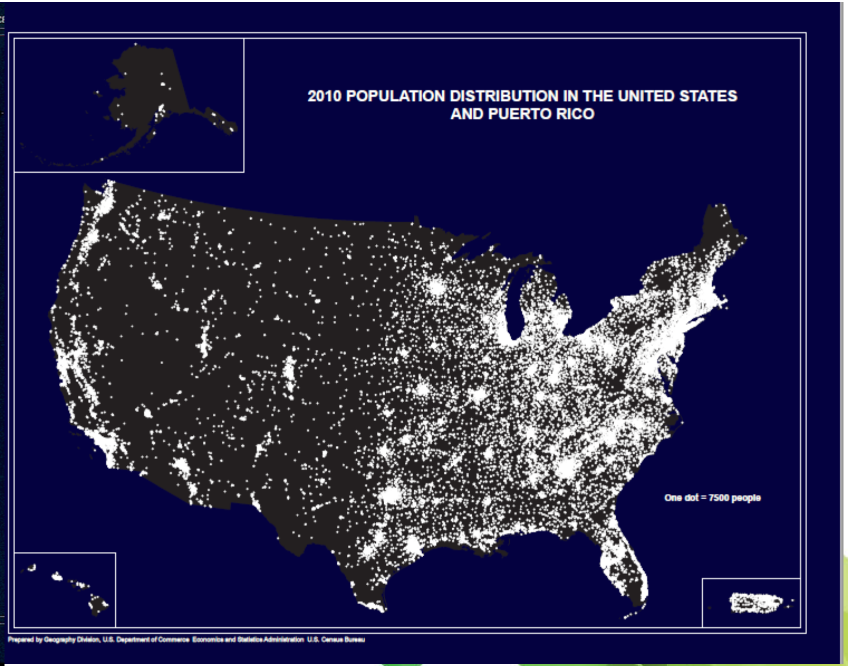
Short

Palindromic

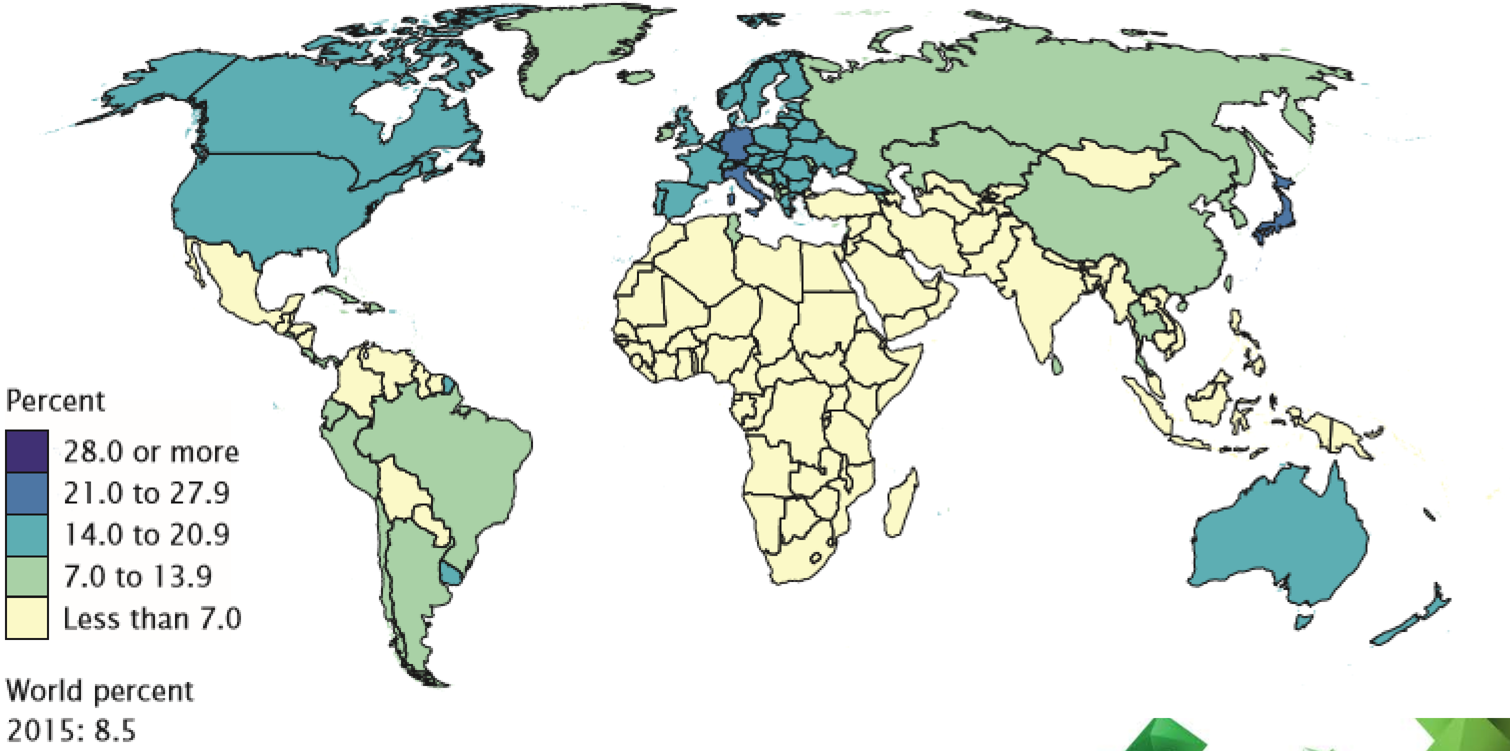
Repeat

POPULATION DISTRIBUTION AND AGING

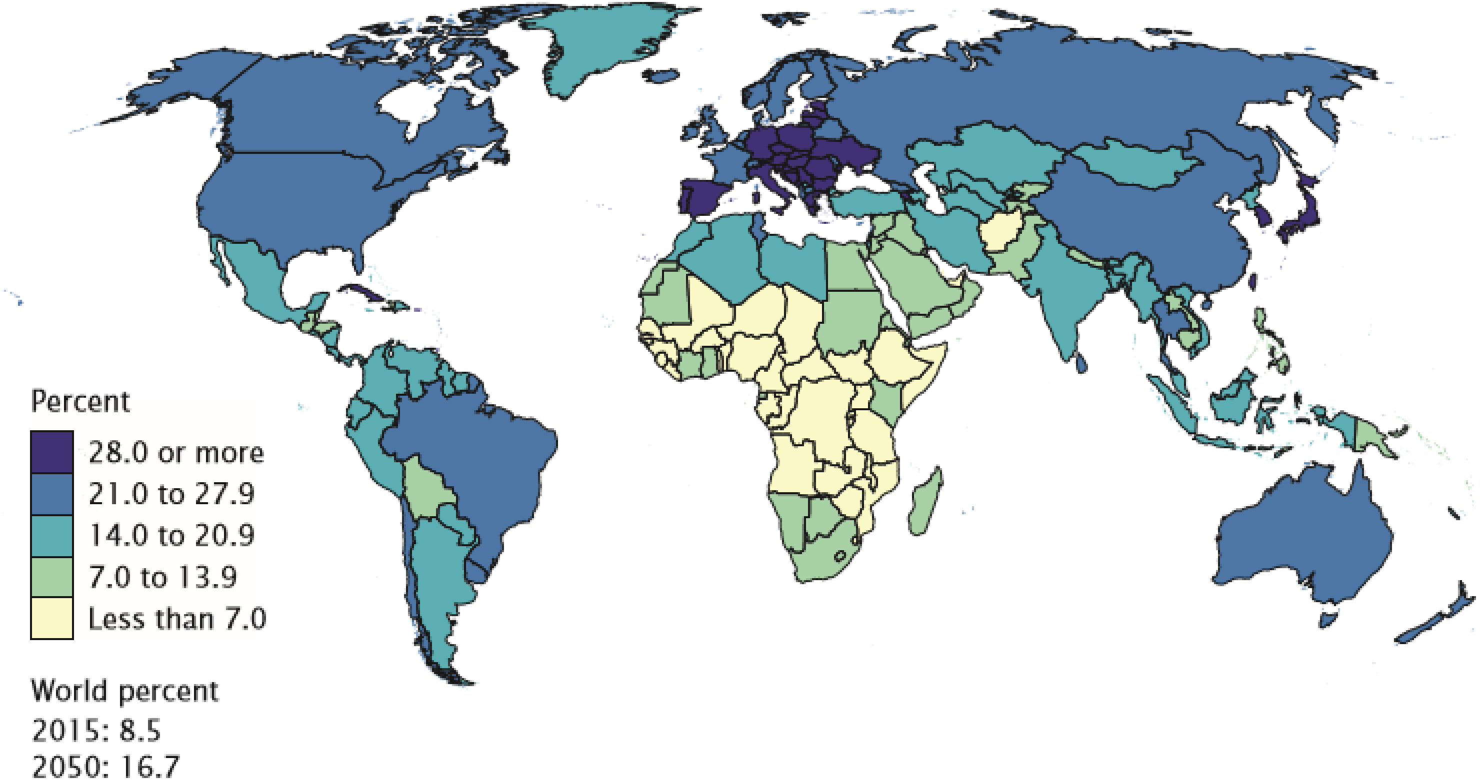




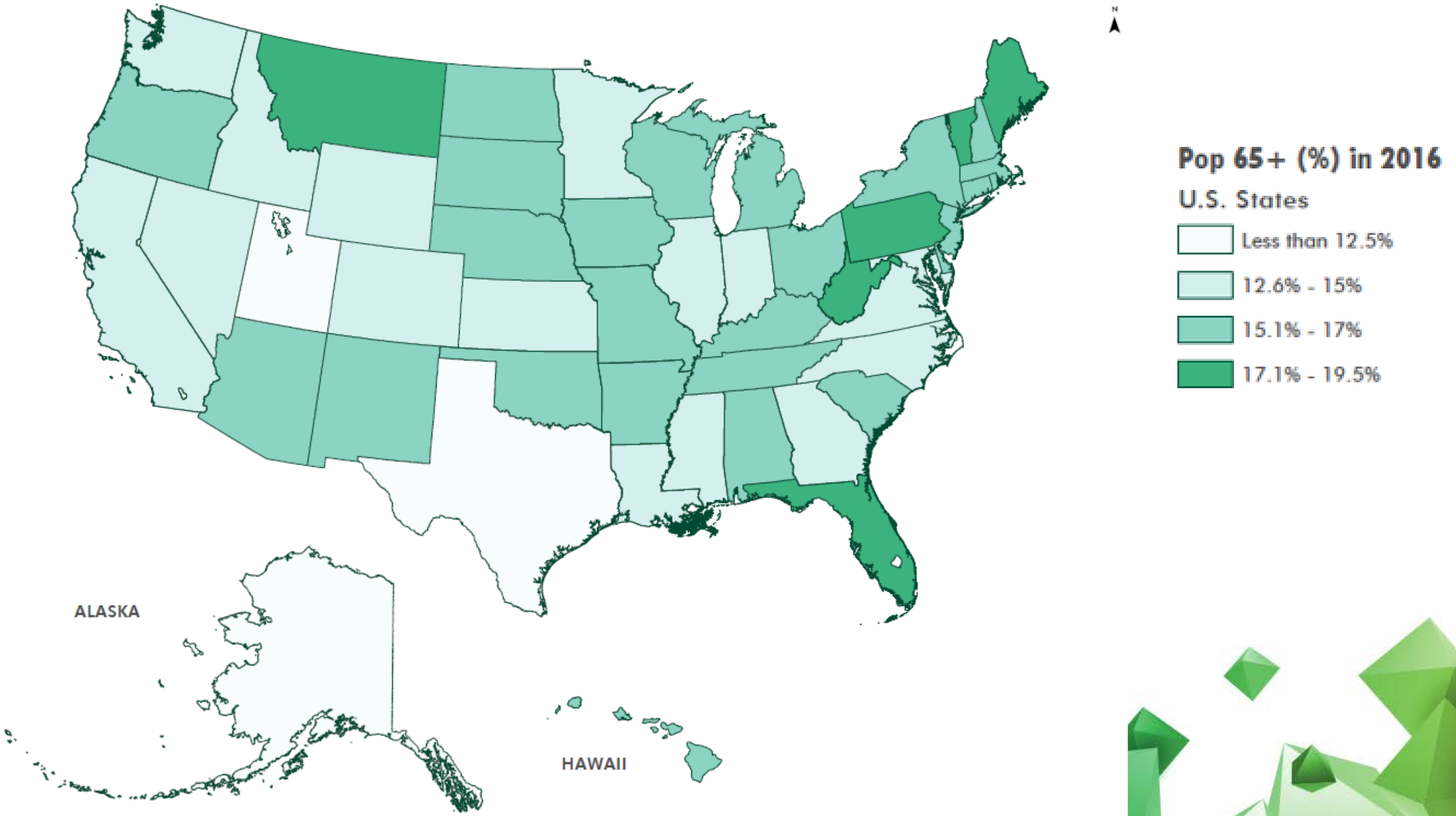
POPULATION AGED 65+ (2015)



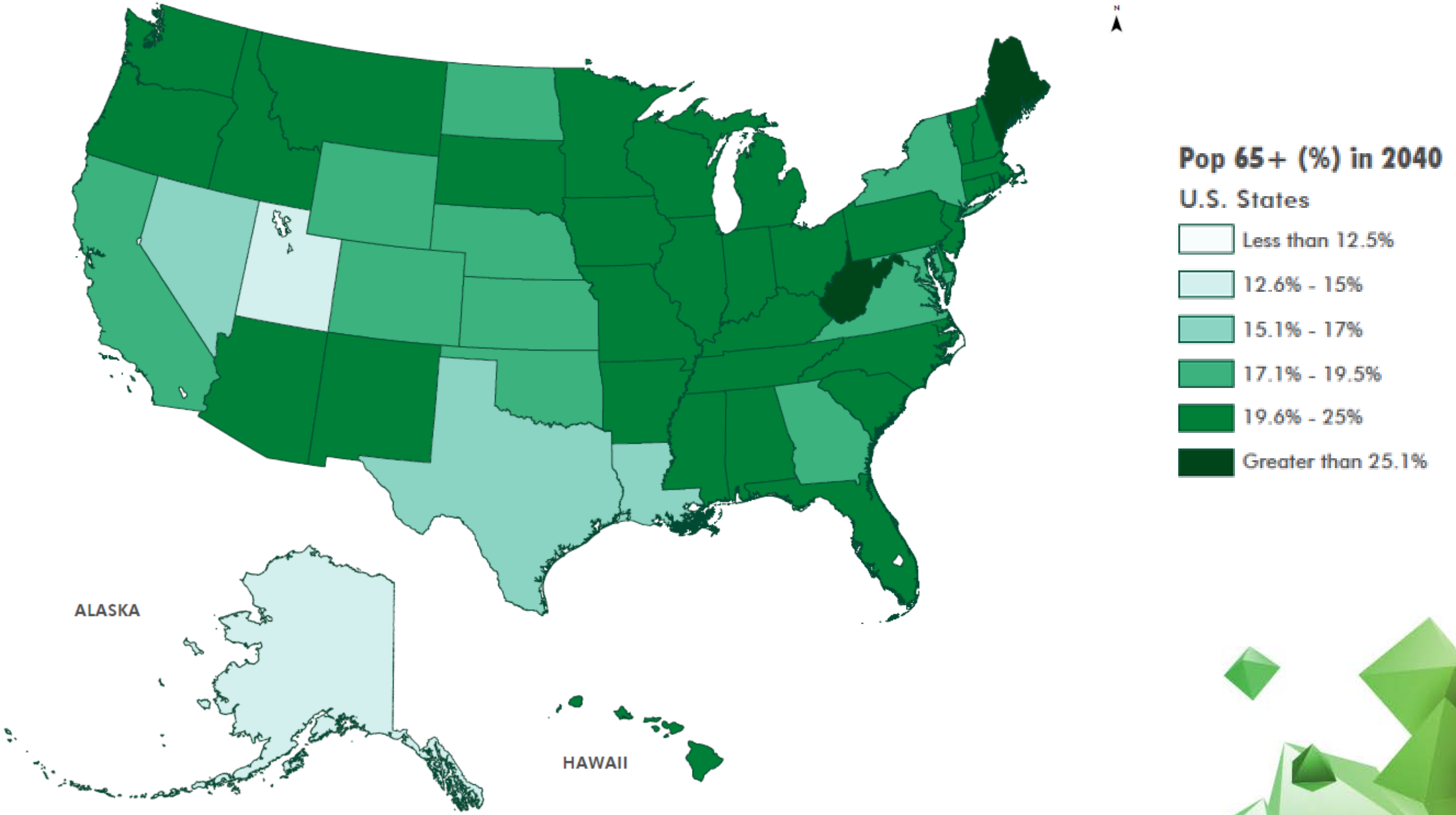
POPULATION AGED 65+ (2050)



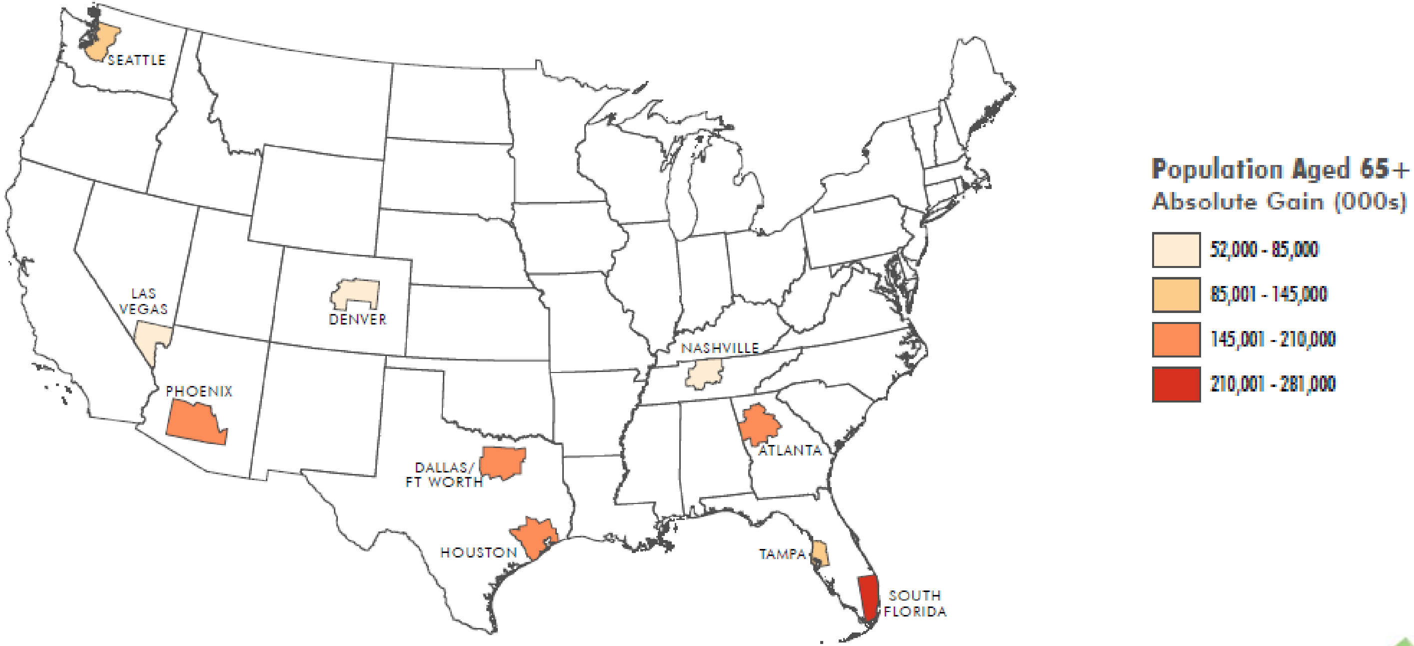
POPULATION 65+ (%) TODAY



POPULATION 65+ (%) IN 2040



GROWTH IN POPULATION 65+: TOP 10 MSAs 2016-2021



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LIFE SCIENCES

Ian Anderson

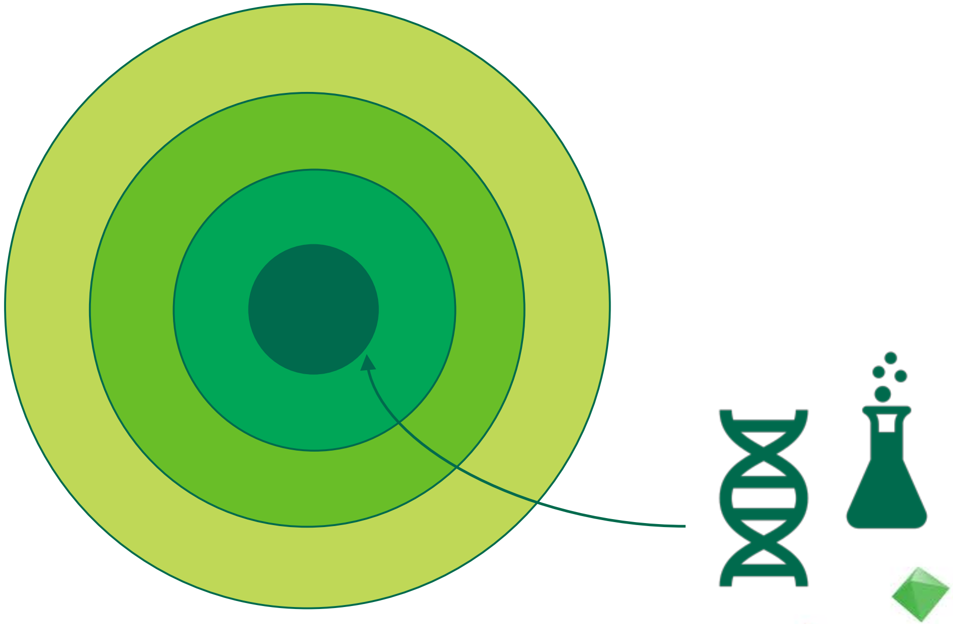
SEPTEMBER 15, 2017

CBRE *Build on Advantage*

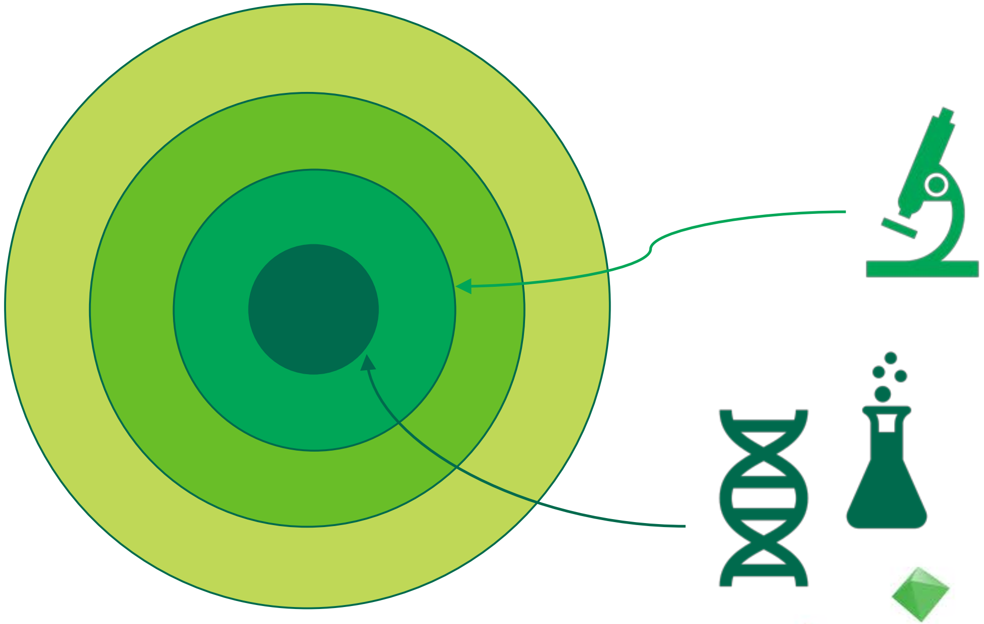
ENTERING A NEW TERRITORY OF CRE

LIFE SCIENCES – LABORATORY – REAL ESTATE

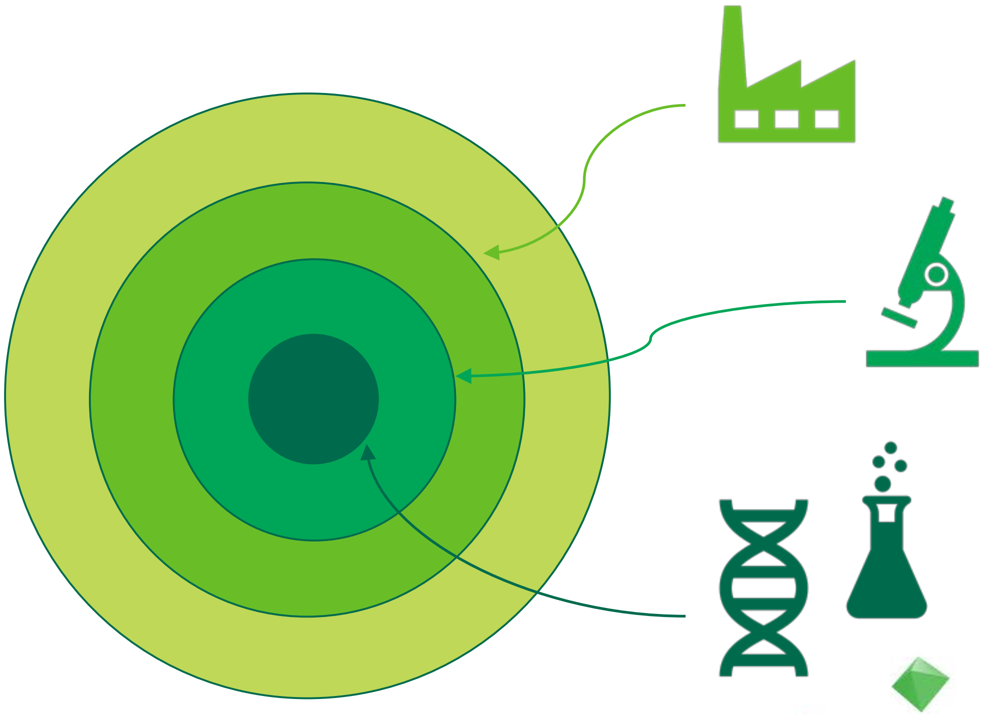
LIFE SCIENCES COMMERCIAL REAL ESTATE



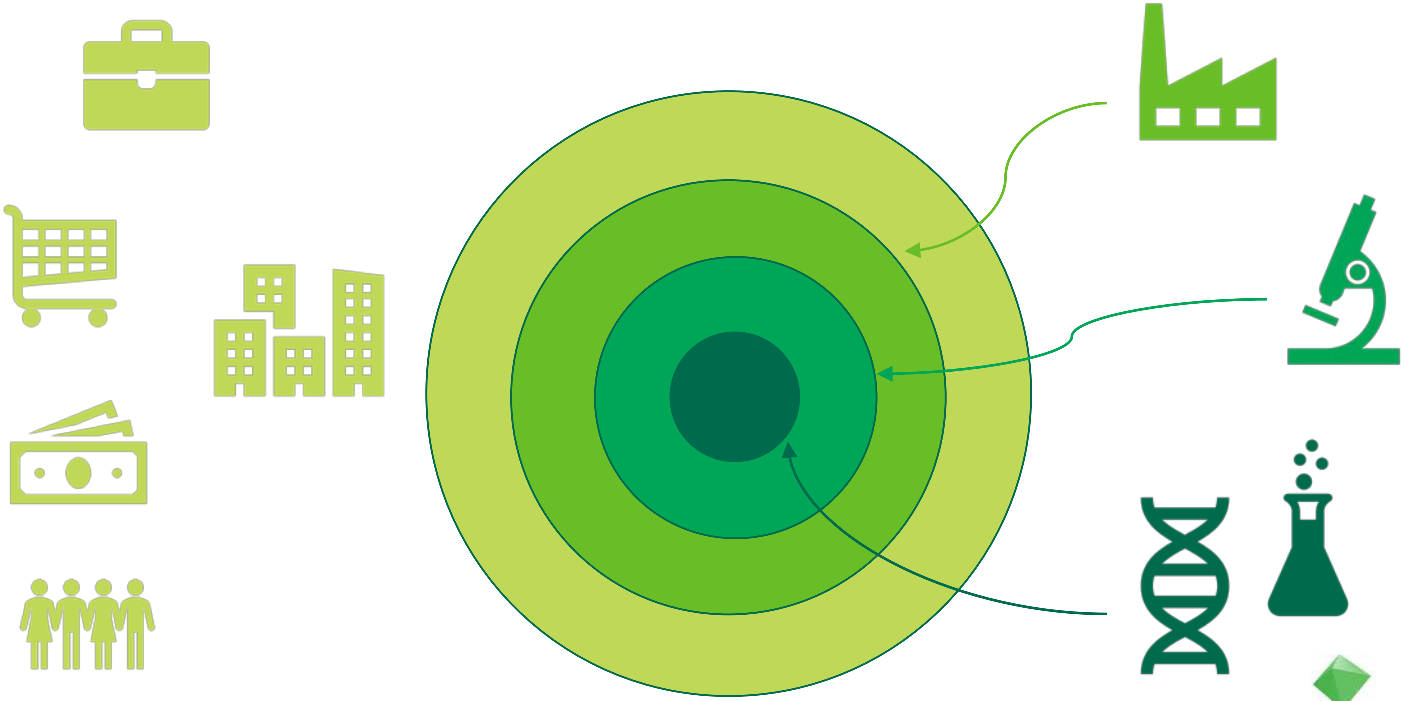
LIFE SCIENCES COMMERCIAL REAL ESTATE



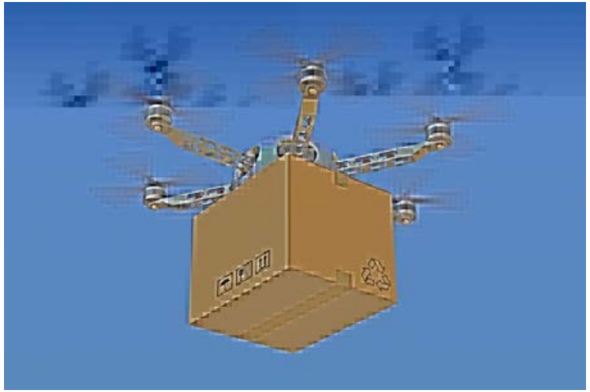
LIFE SCIENCES COMMERCIAL REAL ESTATE



LIFE SCIENCES COMMERCIAL REAL ESTATE



SECULAR FORCES CONSPIRING AGAINST CRE



airbnb


RED CROSS NEEDS NEW
Anchorage Daily
NEW! CBRE
Life Sciences
Report (Fall 2017)
• WHY?
• WHAT'S DRIVING THIS MARKET?
• WHERE?
• FUTURE?

3 KEY DRIVERS OF THE MARKET FOR LAB SPACE

1. GROWING DEMAND
2. TECHNOLOGY/DATA!
3. INDUSTRY TRENDS

DEMOGRAPHIC DRIVERS

Fig 1: U.S. Average Life Expectancy

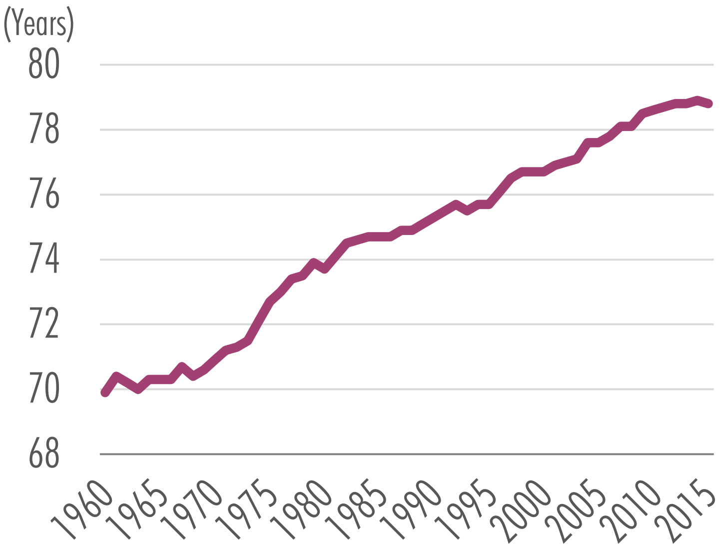
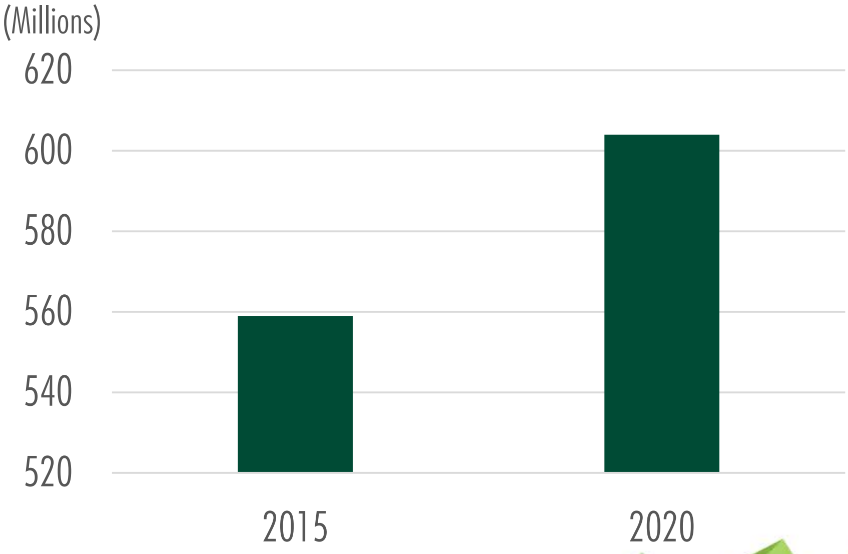


Fig 2: Global Population Aged 65 and Higher



Sources: OECD, Deloitte

HEALTH-RELATED DRIVERS

Fig 3: Number or Persons Living with Dementia Globally

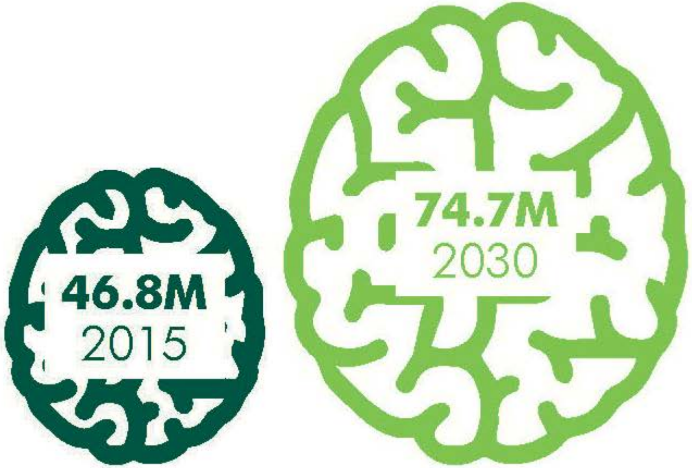
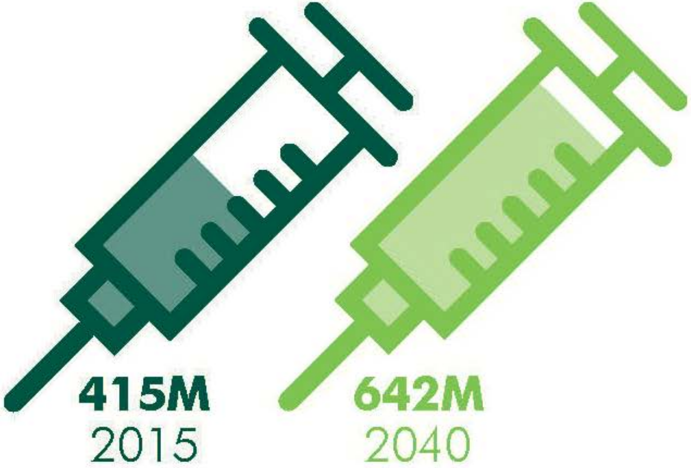


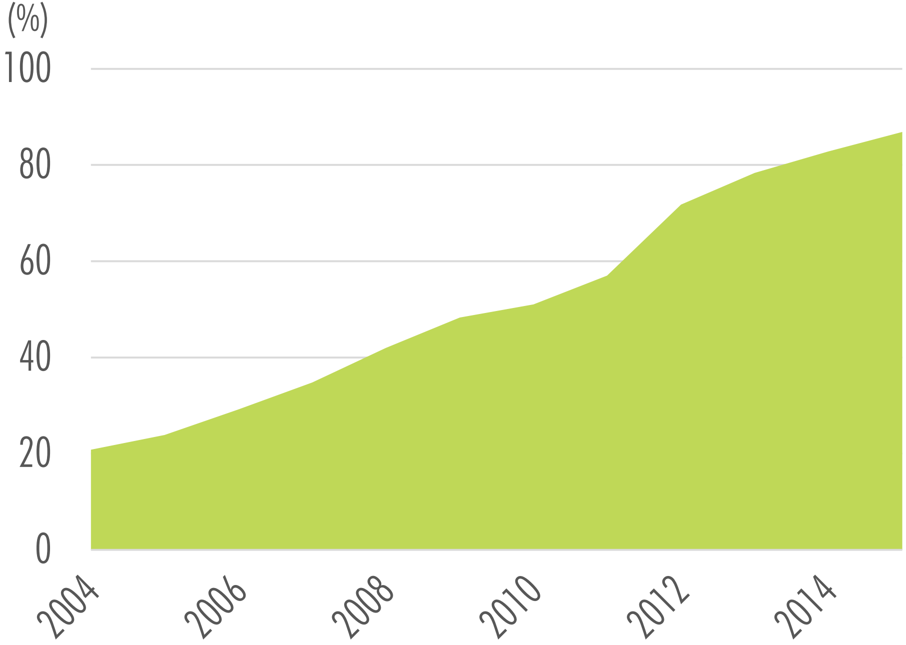
Fig 4: Number or Persons Suffering from Diabetes Globally



Sources: Deloitte

THE DATA IS BEING DIGITIZED

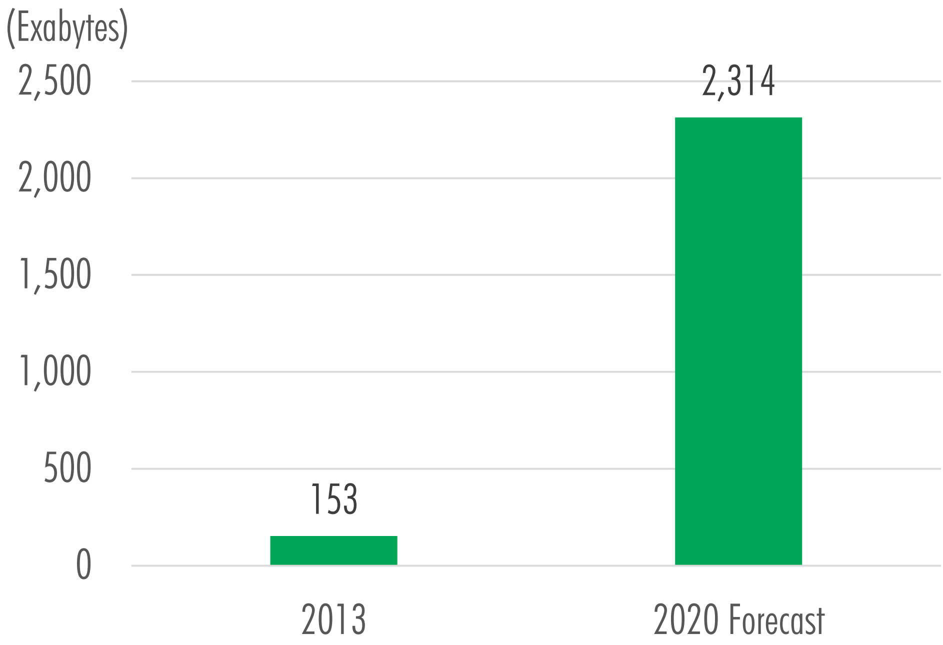
Fig 5: % of Office-based Physicians with Electronic Health Record System



Source: Office of the National Coordinator for Health Information Technology

EXPONENTIAL DATA GROWTH

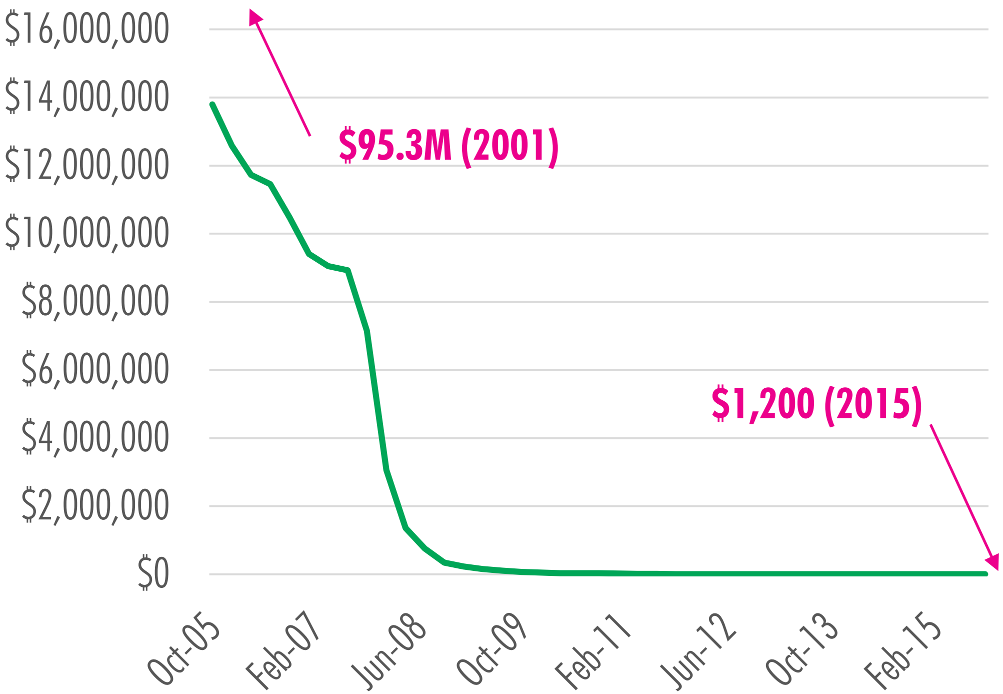
Fig 6: Worldwide Health Data



Sources: : IDC & EMC
Note: 1 Exabyte = 1B Gigabytes

BETTER, FASTER, CHEAPER

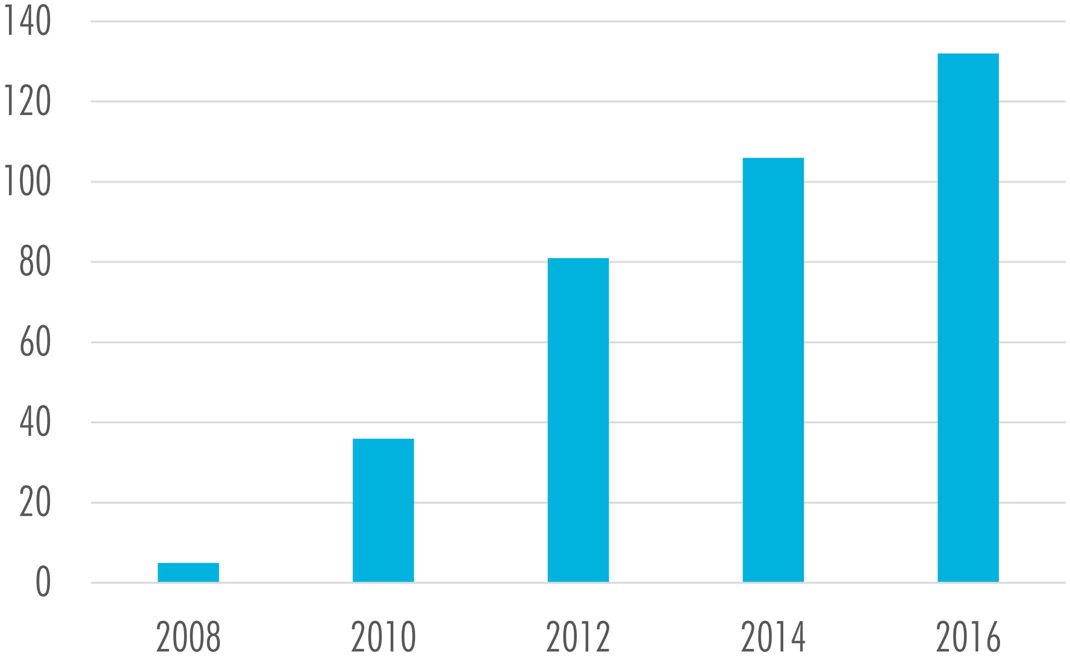
Fig 7: Cost to Sequence per Genome



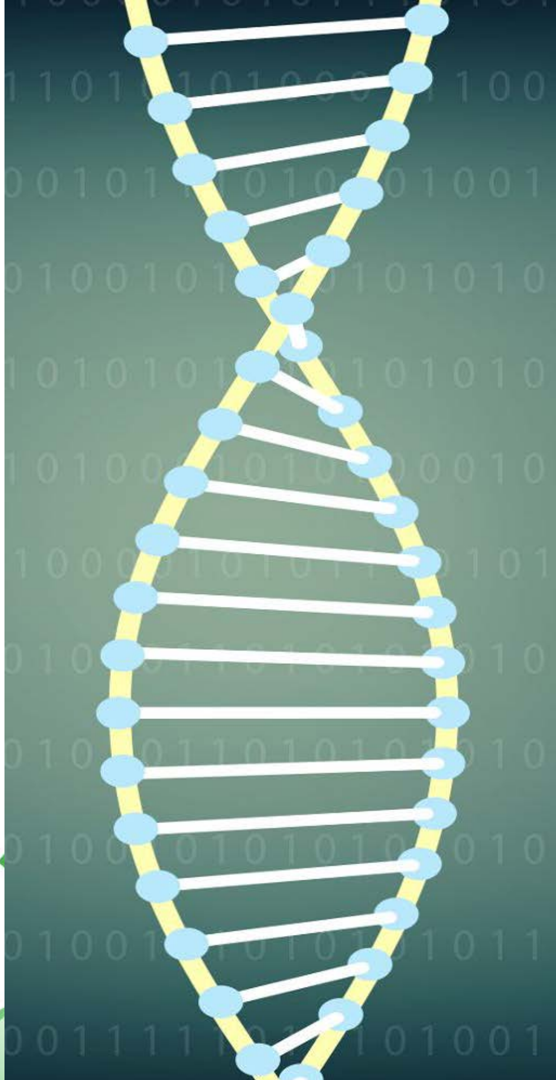
Source: National Institute of Health, National Human Genome Research Institute

THE FUTURE OF HEALTHCARE

Fig 8: Personalized Medicines

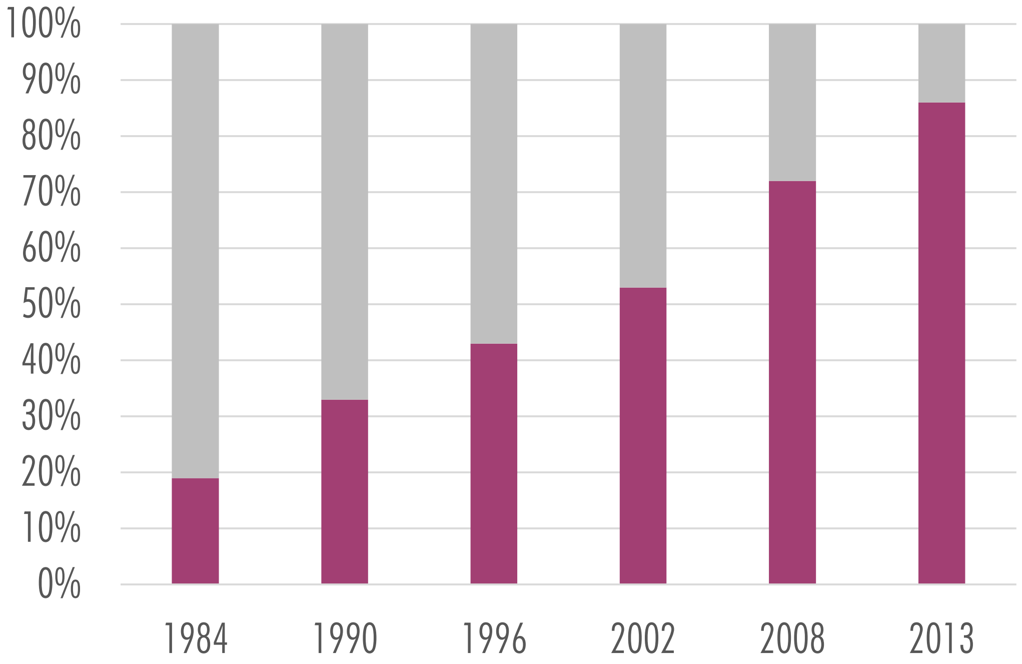


Source: Personalized Medicine Coalition



INDUSTRY TRENDS: THE RISE OF GENERICS

Fig 9: % of presecriptions for generics in U.S. (measured dose)



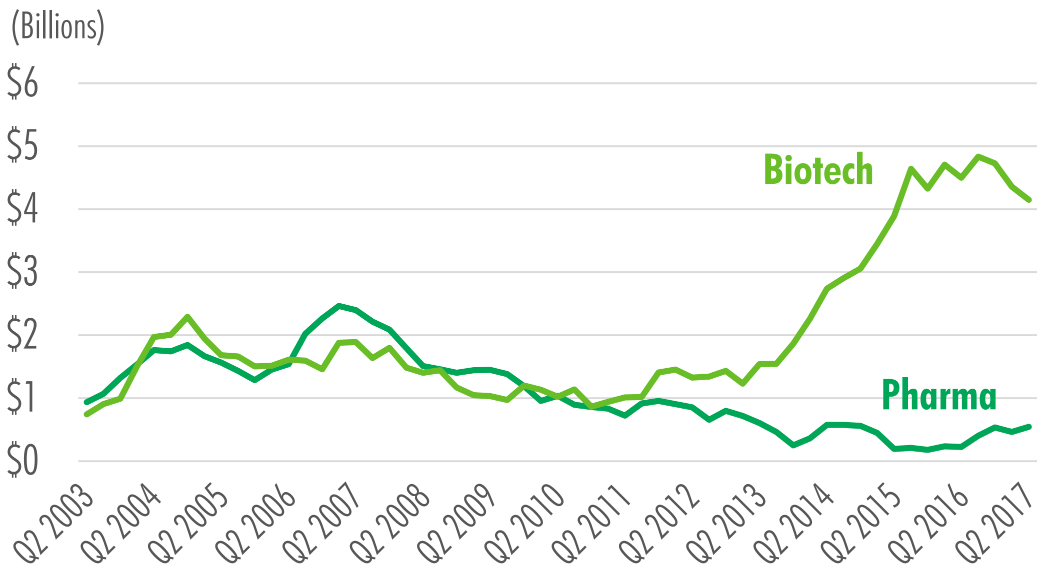
Source: PhRMA, IMS Health

PRICING PRESSURES: PHARMA BRO

POWER TO THE PEOPLE (PAYERS, CONSUMERS)

NEW AND INNOVATIVE SOLUTIONS

Fig 10: Venture Capital Funding by Industry (4-qtr moving sum)

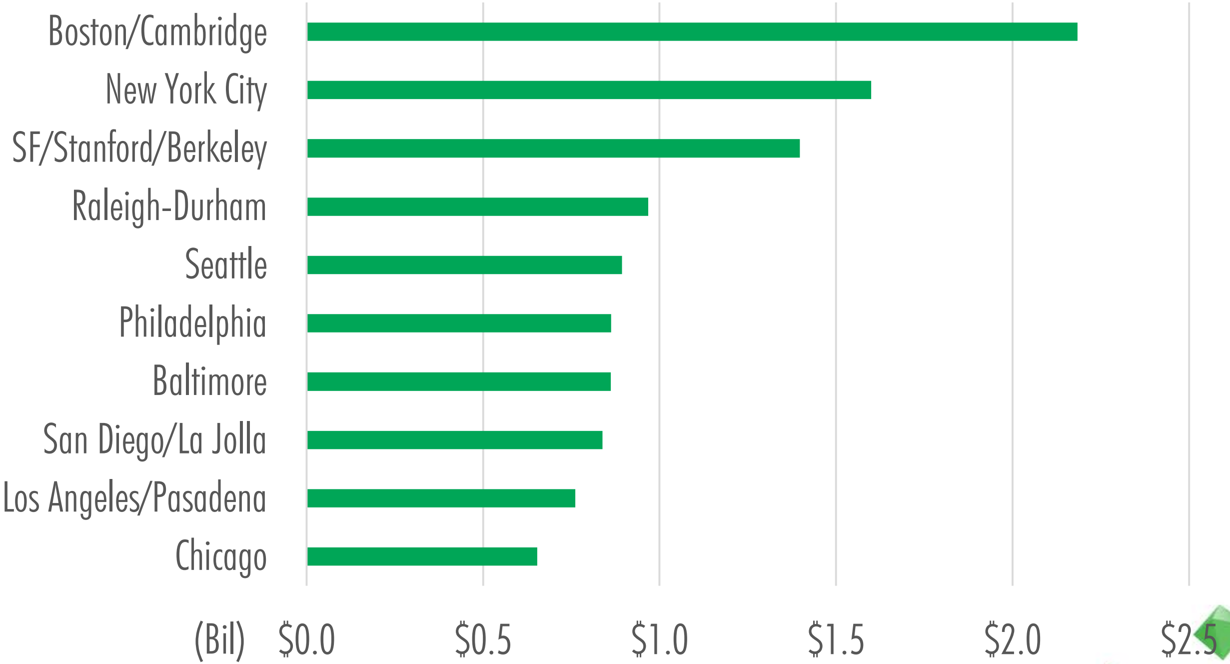


Source: PwC MoneyTree

NOT GOING TO FIND THEM HERE ANYMORE

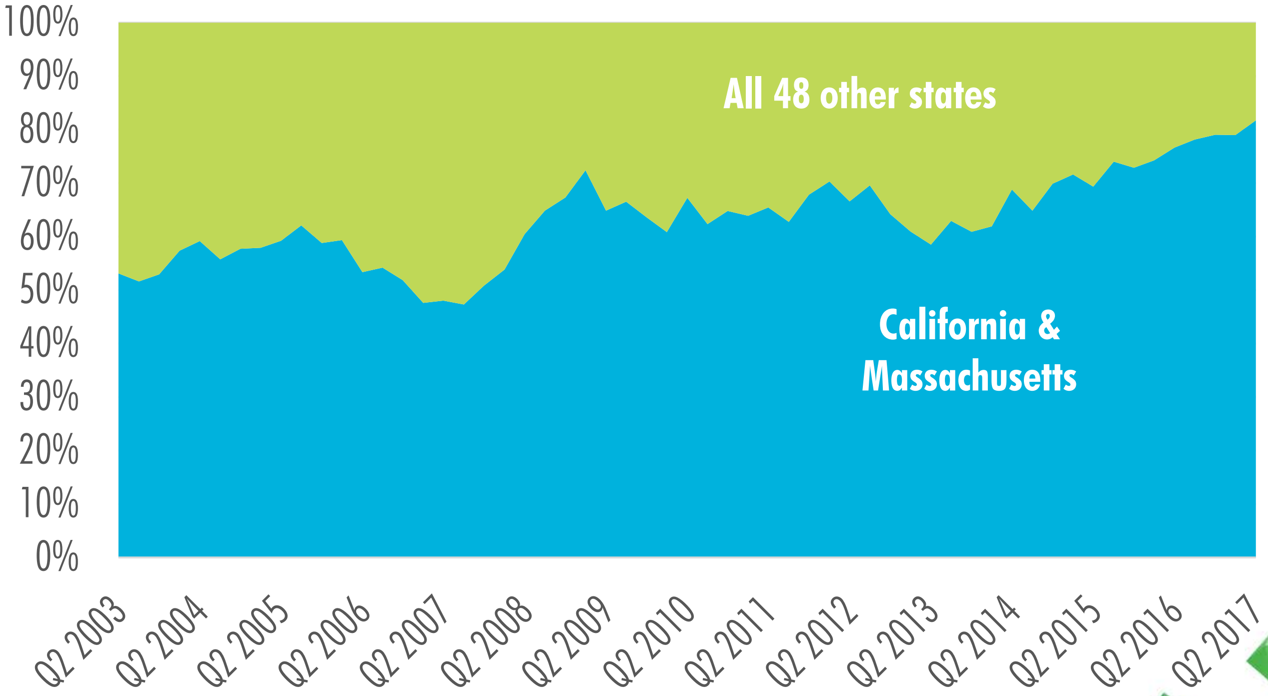
WHERE'S "THE RIGHT STUFF"?

2016 NIH FUNDING



Note: Funding by city name, aggregating funding amounts over $50 million
Source: NIH

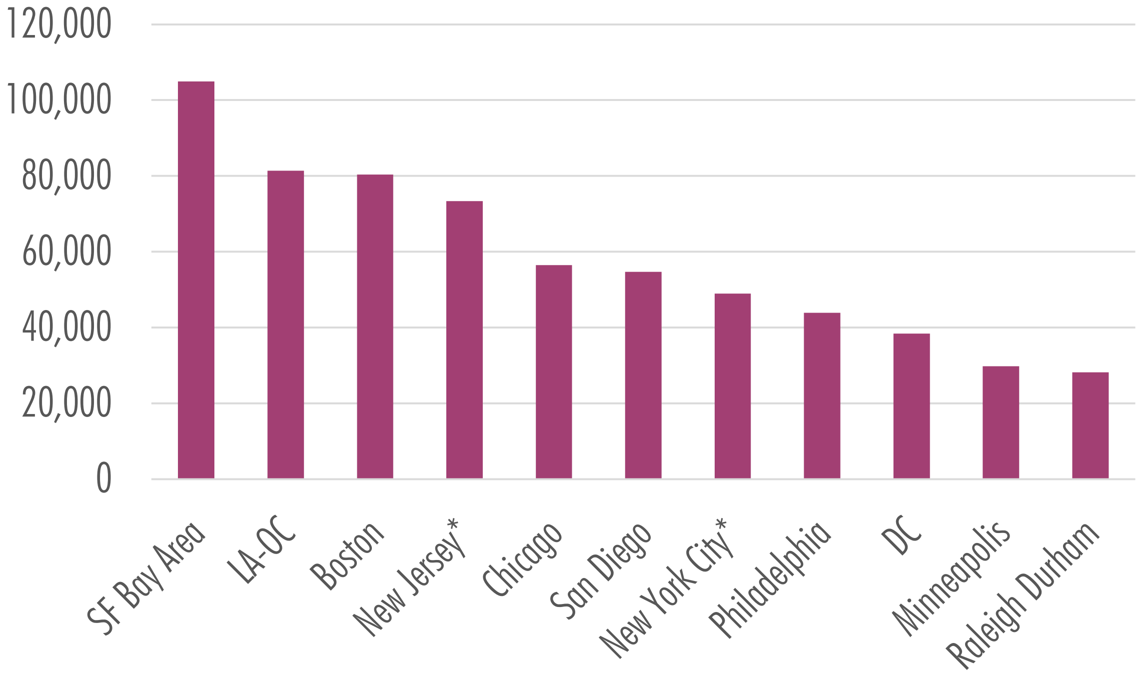
VENTURE CAPITAL FUNDING



82% of all VC funding to CA & MA

VC funding in Biotech, Pharma/Drugs, Disease Diagnosis, Drug Development, Drug Discovery
Source: PwC MoneyTree

LARGEST LIFE SCIENCES METROS BY EMPLOYMENT

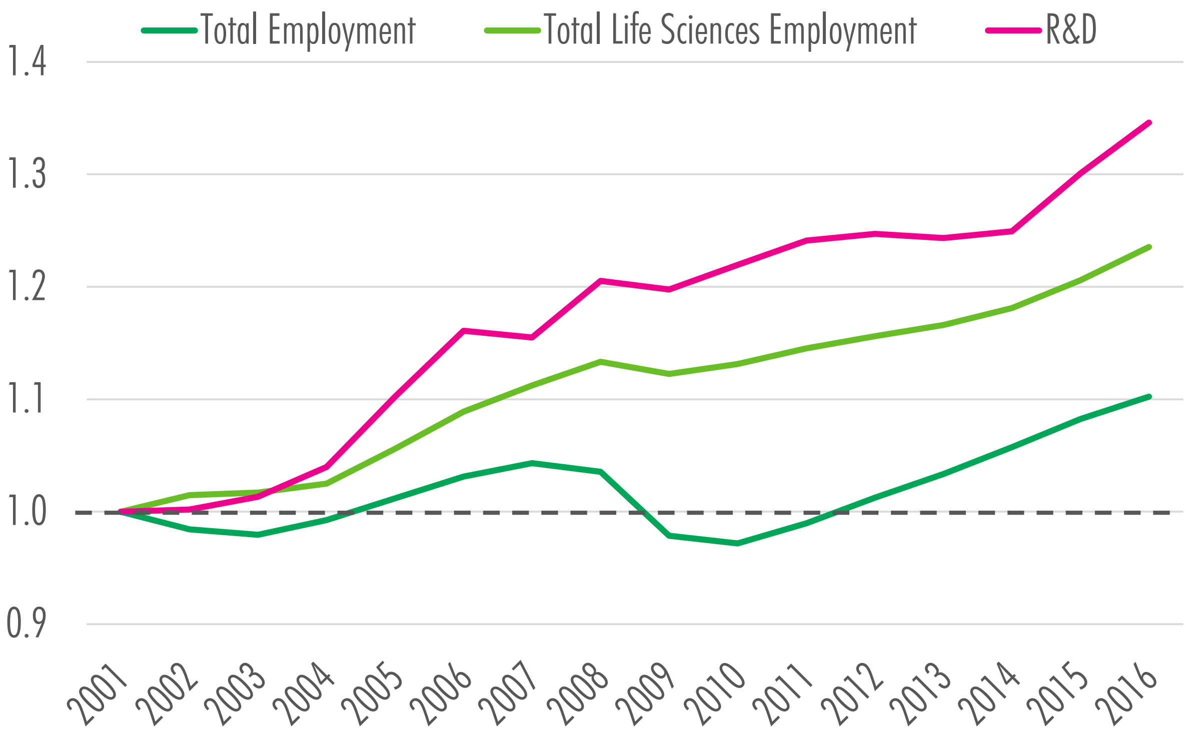


LIFE SCIENCES EMPLOYMENT (NAICS)

- Research and development in the physical, engineering, and life sciences
- Medical and diagnostic laboratories
- Testing laboratories
- Surgical and Medical Instrument Manufacturing
- Surgical Appliance and Supplies Manufacturing
- Electromedical and Electrotherapeutic Apparatus Manufacturing
- Analytical Laboratory Instrument Manufacturing
- Irradiation Apparatus Manufacturing
- Pharmaceutical and medicine manufacturing

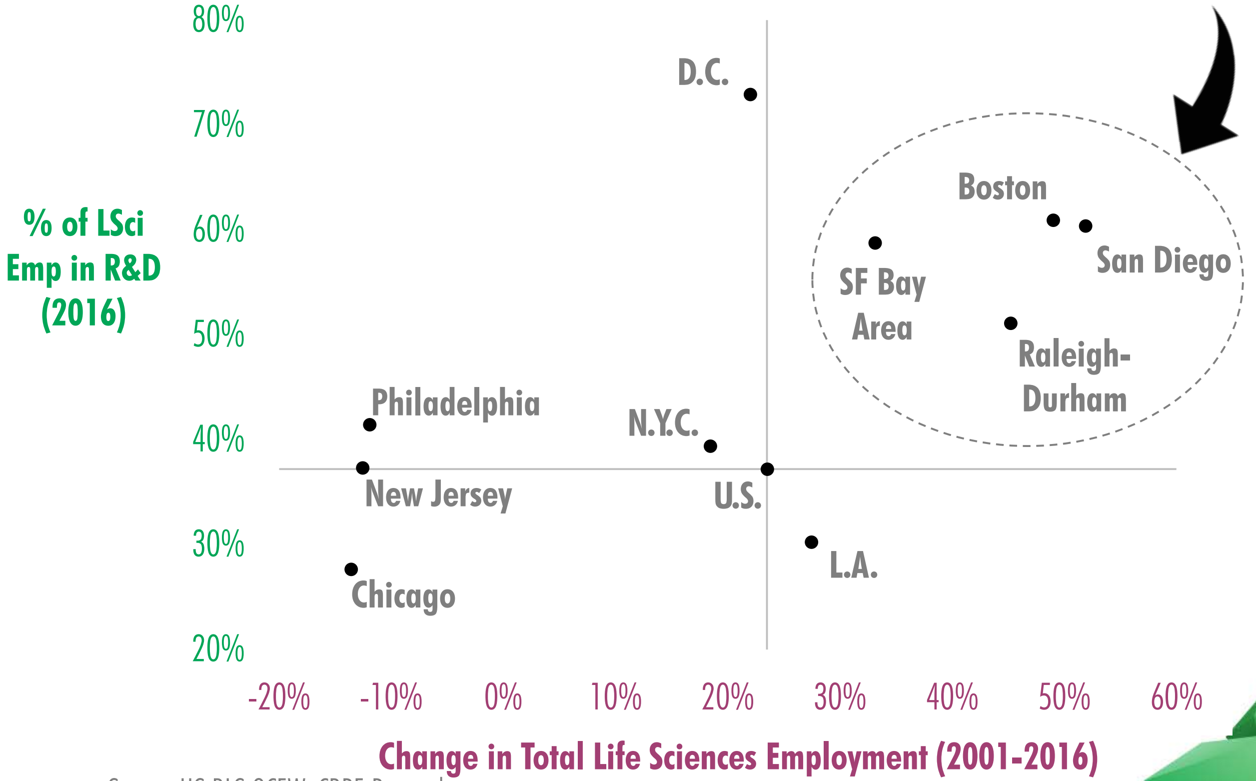
Source: US BLS QCEW, CBRE Research, 2016 Levels.
All Based on Metro Area except New Jersey (all NJ counties in NY MSA + Trenton), NYC is all NY counties in NY MSA, SF Bay Area is San Francisco, Oakland, and San Jose MSAs combined

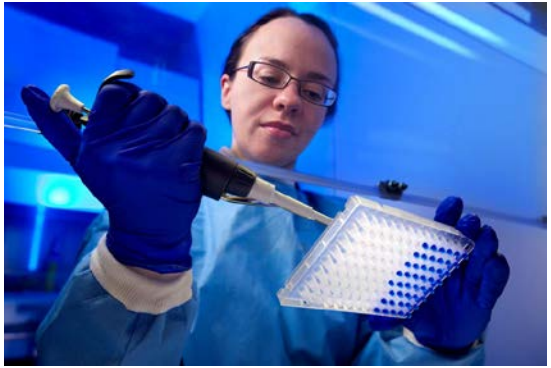
U.S. LIFE SCIENCES EMPLOYMENT GROWTH



Source: US BLS QCEW, CBRE Research.

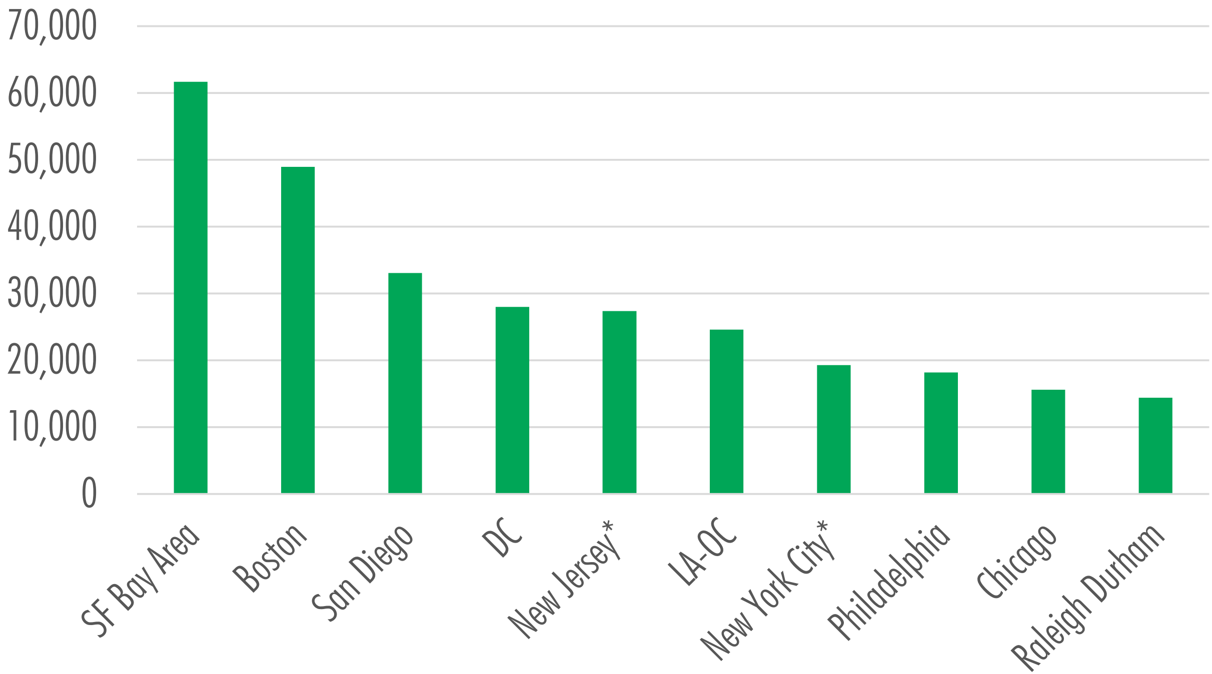
MORE R&D, MORE LIFE SCIENCES GROWTH





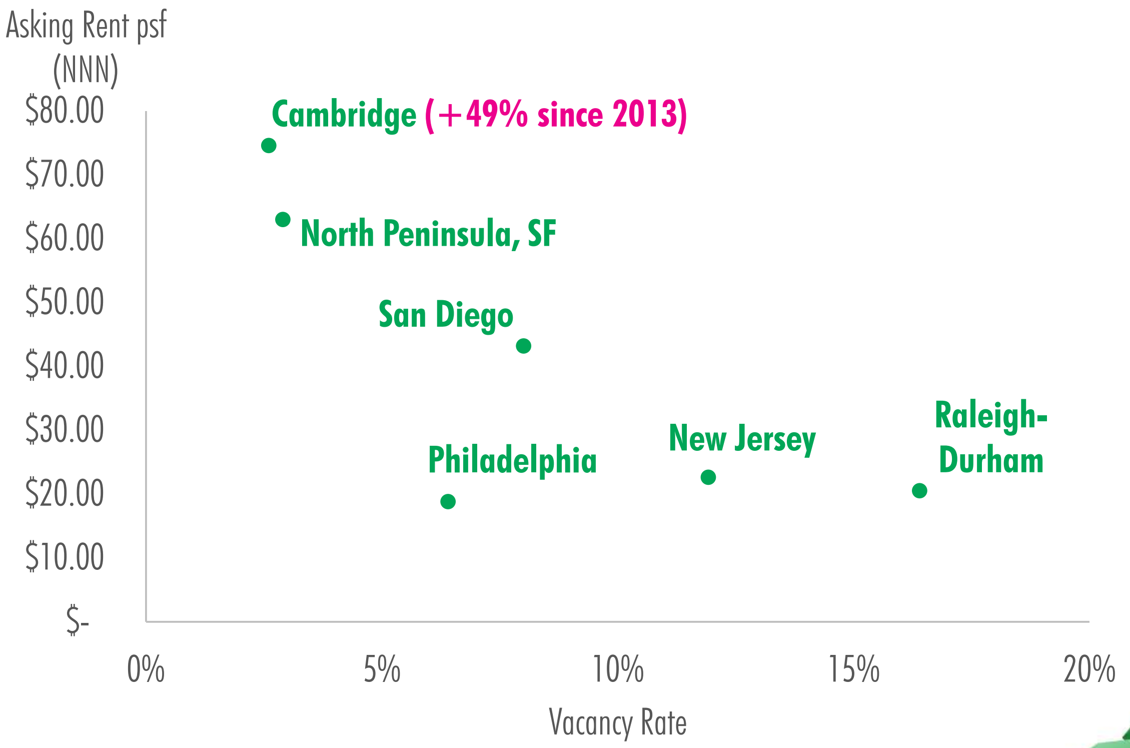
Source: US BLS QCEW, CBRE Research

R&D EMPLOYMENT (2016)



Source: US BLS QCEW, CBRE Research, 2016 Levels.
All Based on Metro Area except New Jersey (all NJ counties in NY MSA + Trenton), NYC is all NY counties in NY MSA, SF Bay Area is San Francisco, Oakland, and San Jose MSAs combined

LAB MARKET STATISTICS



Source: CBRE Research

INVENTORY & CONSTRUCTION

Source: CBRE Research

ALEXANDRIA

HCP

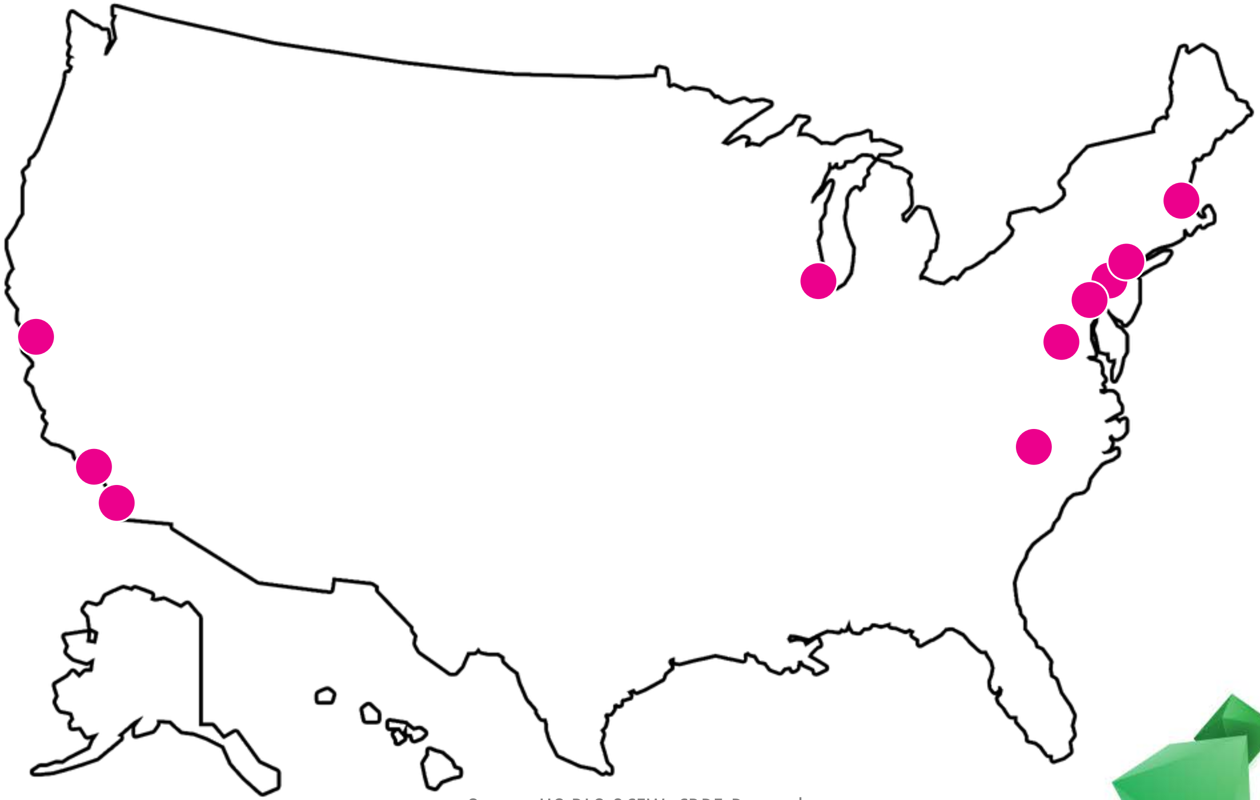
VENTAS

BioMed Realty

WEXFORD SCIENCE+TECHNOLOGY

LONGFELLOW REAL ESTATE PARTNERS

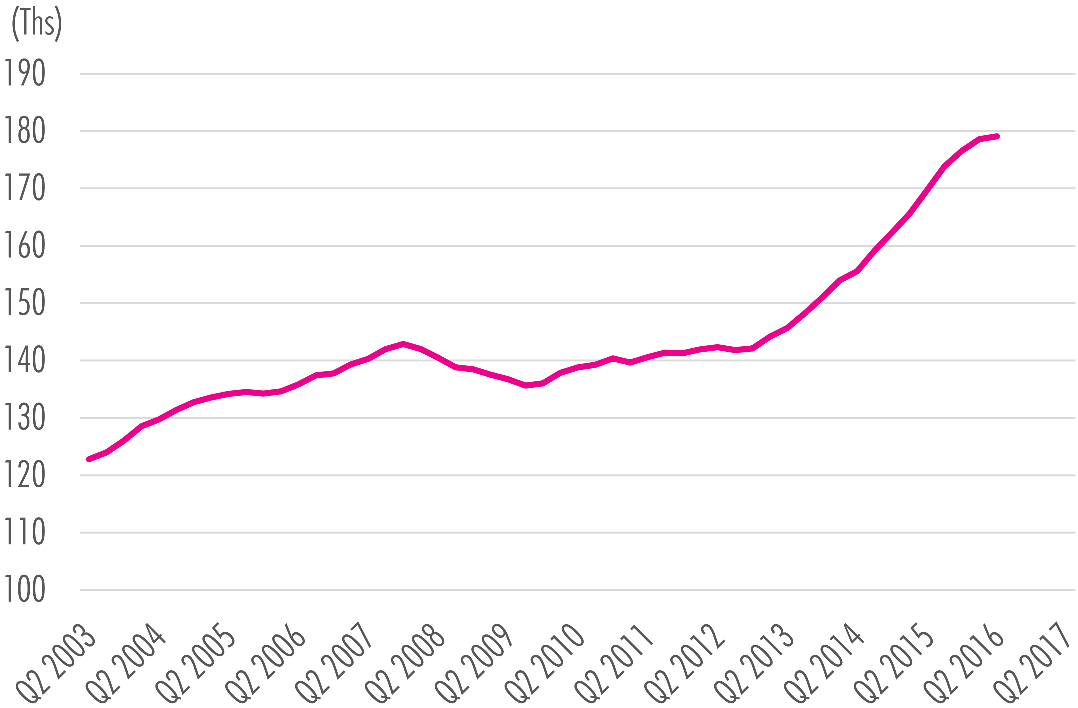
R&D CENTERS



47% of all R&D jobs located in top 10 metros

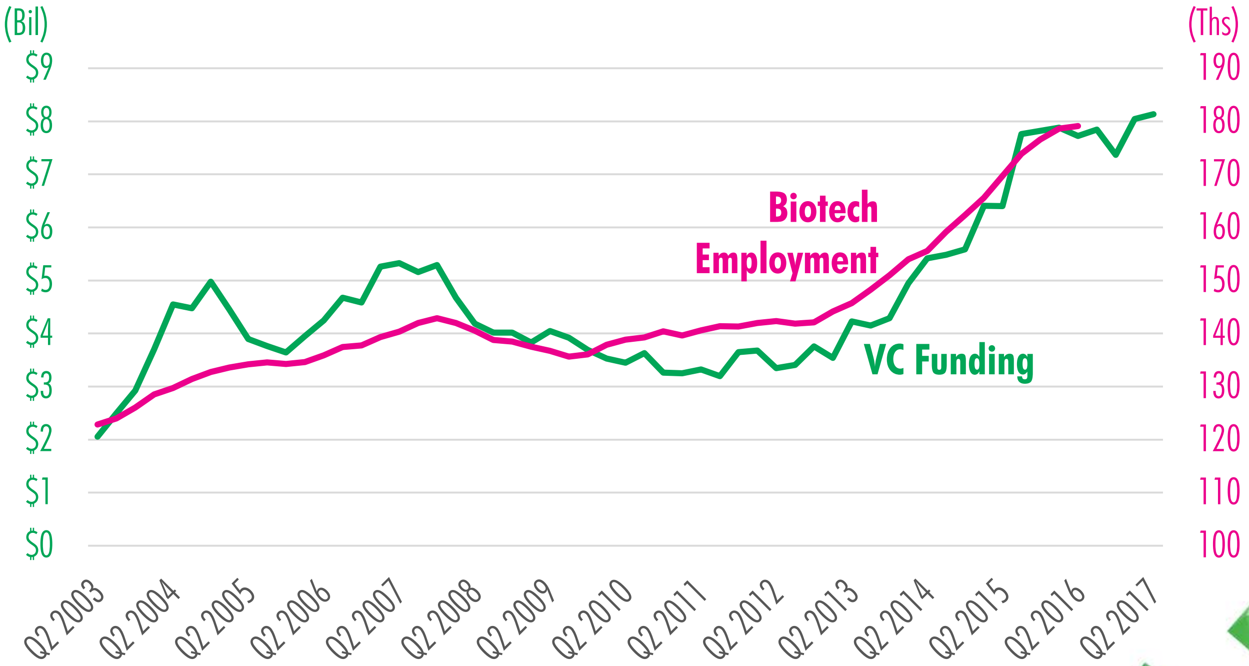
Source: US BLS QCEW, CBRE Research.

U.S. BIOTECH R&D EMPLOYMENT



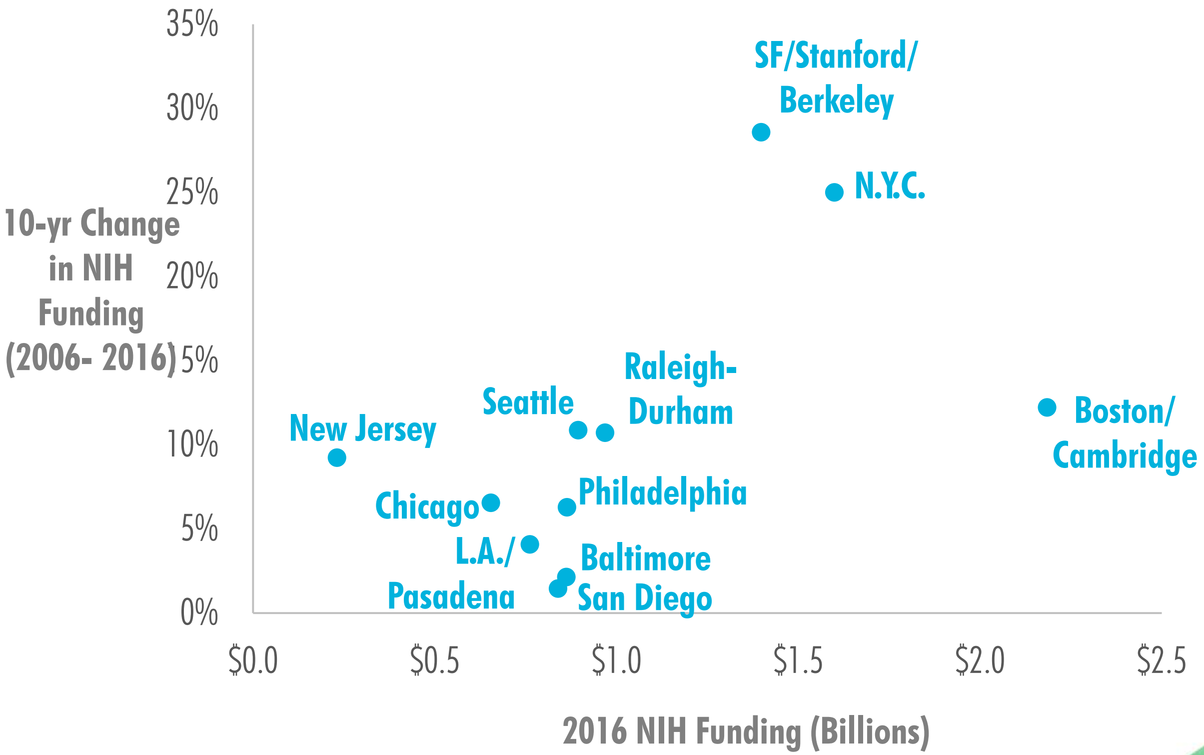
Source: US BLS, NAICS code 541711

U.S. BIOTECH R&D EMPLOYMENT AND VC FUNDING



Source: US BLS, NAICS code 541711; PwC MoneyTree

NIH FUNDING TRENDS HELPS CLARIFY THE OUTLOOK



Source: NIH, CBRE Research

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MEDICAL OFFICE BUILDINGS

Robert Kramp

SEPTEMBER 15, 2017

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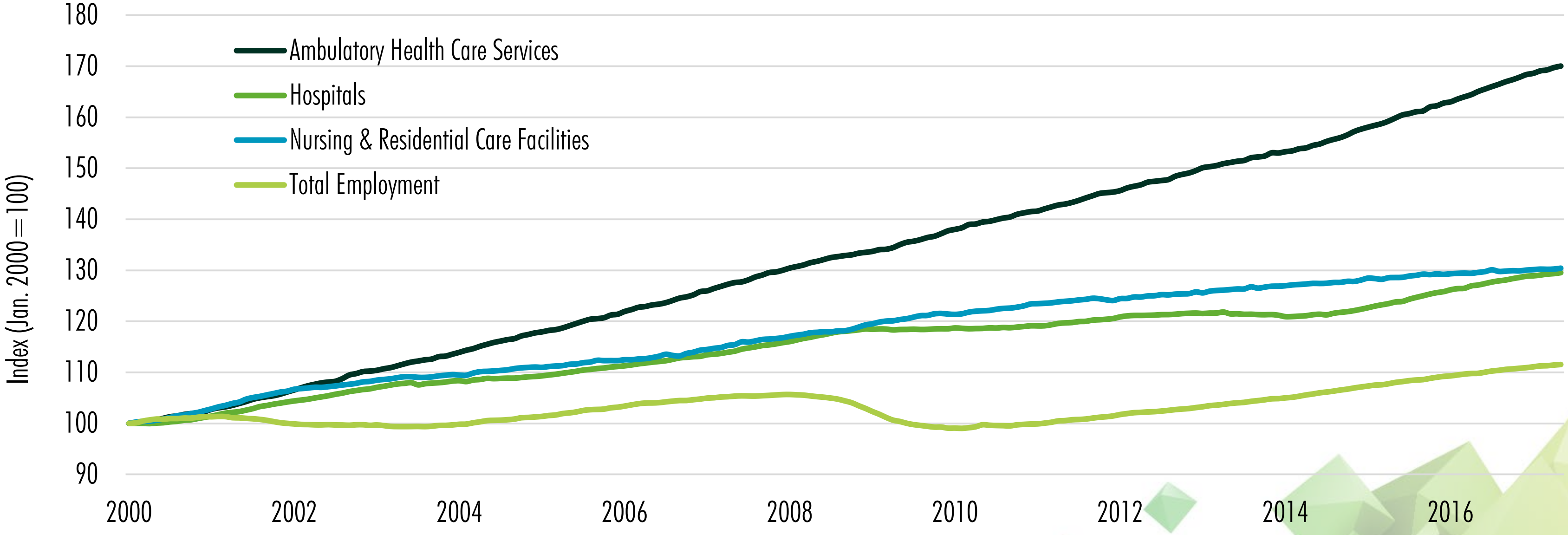
KEY POINTS
U.S. MOB: A CURE FOR MARKET VOLATILITY

- Demographic trends signal conditions for strong demand growth in spite of national policy implications: the 65+ demo will double between 2015 and 2055.
- Providers are focused on cost-containment, which has expanded the range of healthcare delivery settings and is driving consolidation.
- Demand has outpaced supply for the past seven years, decreasing the national vacancy rate to 8.0 %.
- Sustained demand has held rates stable through the recession—rents have flattened in recent years despite rising OPEX.
- Investor demand for MOB has risen sharply ($9.9 billion for the year ending in Q1 2017), and pushed cap rates to record lows.

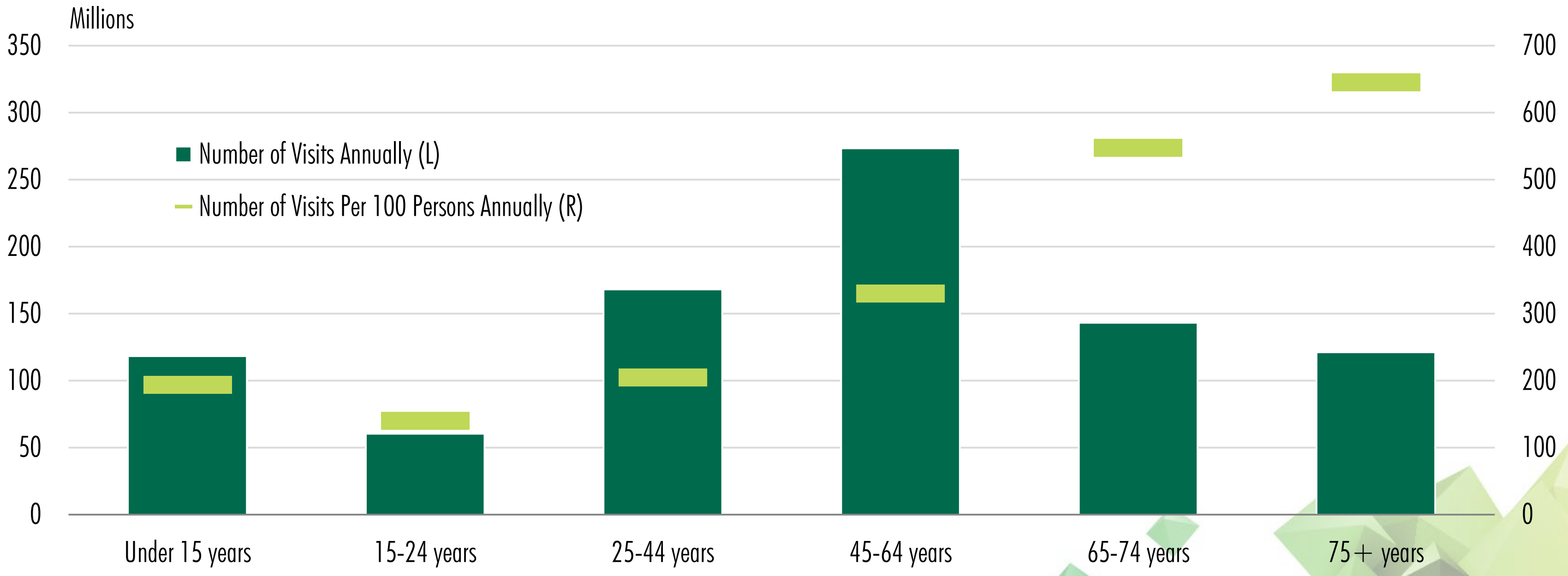
HEALTHCARE SECTOR UNDERPINNED BY STRONG GROWTH
WHAT'S DRIVING THE DEMAND FOR HEALTH SERVICES?



Note: Latest data as of May 2017.
Source: U.S. Bureau of Labor Statistics, July 2017.

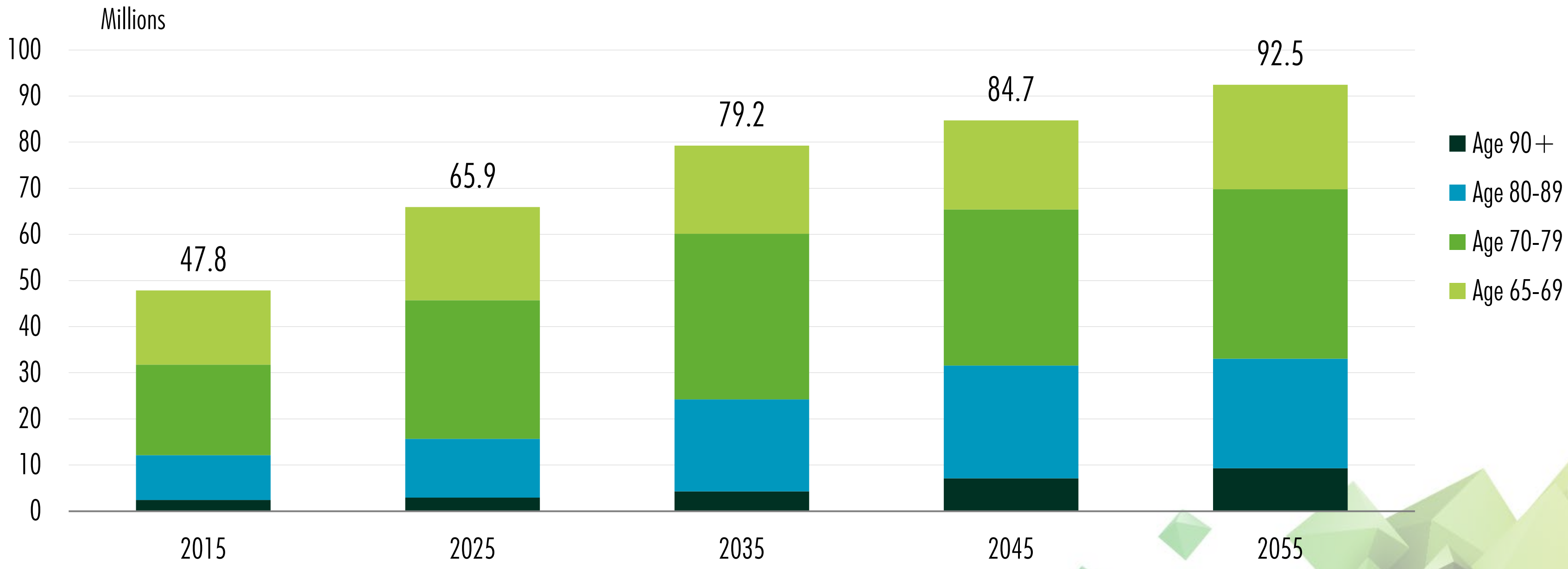
DOCTOR VISITS RISE RAPIDLY AS PEOPLE AGE

ANNUAL DOCTOR VISITS MORE THAN QUADRUPLE OVER A LIFETIME



Source: CDC National Ambulatory Medical Care Survey, 2014.

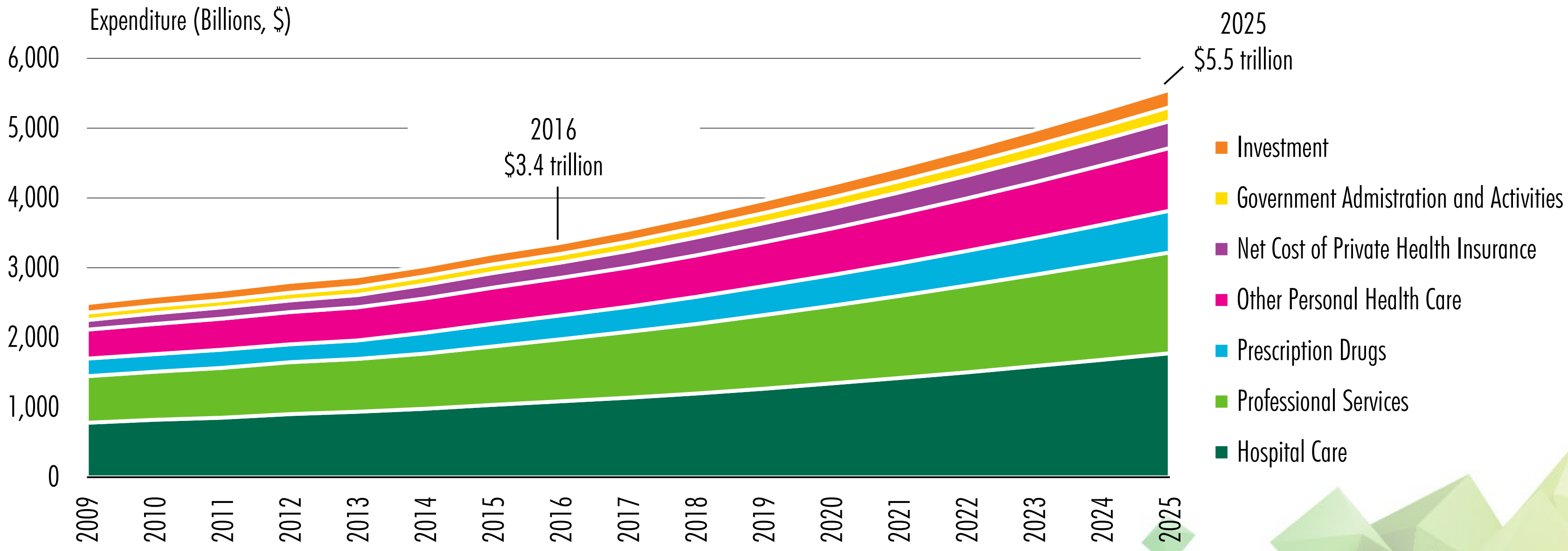
INEVITABLE DEMOGRAPHIC CHANGES AS LIVES LENGTHEN
POPULATION OF OLDER AMERICANS WILL NEARLY DOUBLE BY 2055



Source: U.S. Census Bureau 2014 National Population Projections, CBRE Research.

OUTPATIENT EXPENDITURE: $900 BILLION IN 2016

U.S. HEALTHCARE EXPENDITURES GROW ACROSS ALL SECTORS



Note: Other Personal Healthcare expenditures include Home Health, Nursing Care Facilities, and Retail Sales of Medical Products excluding Prescription Drugs. Investment category includes Research, Structures, and Equipment.

Source: Centers for Medicare & Medicaid Services, Office of the Actuary, March 2017.

WHAT MARKETS ARE SEEING THE LARGEST DEMAND GROWTH?

TOP METROS BY PROJECTED POPULATION GROWTH, 2016-2021

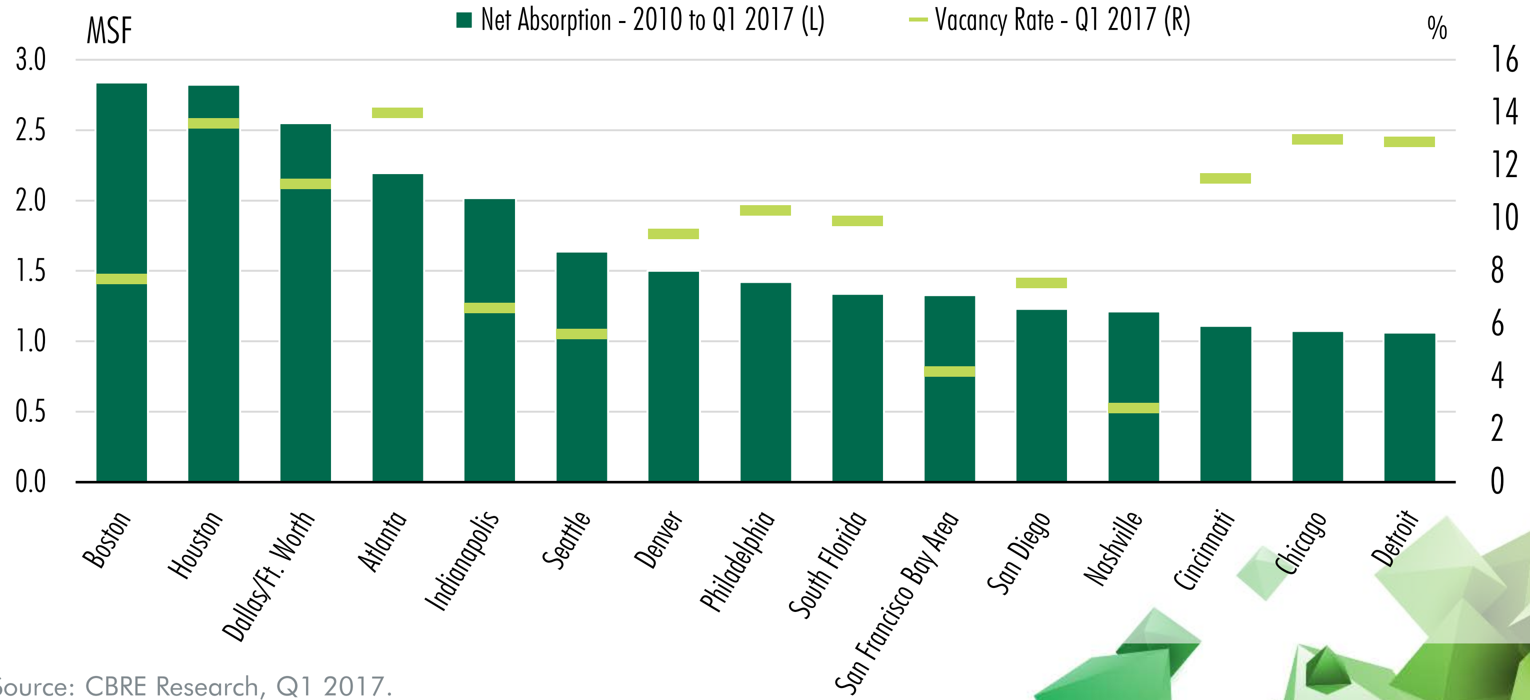
Demand Boost

		Total Population		Population Aged 65+	
Rank	Market	Absolute Gain (000s)	Percentage Gain	Absolute Gain (000s)	Percentage Gain
1	Las Vegas	287	13.3%	84	27.6%
2	Phoenix	554	11.9%	207	29.4%
3	Atlanta	634	10.9%	167	25.3%
4	Dallas/Ft. Worth	723	10.0%	199	25.5%
5	Houston	652	9.6%	176	25.1%
6	South Florida	575	9.5%	281	26.0%
7	Tampa	272	9.0%	143	24.2%
8	Nashville	158	8.5%	52	22.0%
9	Seattle	306	8.1%	114	23.2%
10	Denver	183	6.4%	79	22.4%

Source: U.S. Census Bureau, Moody's Analytics, Q1 2017.

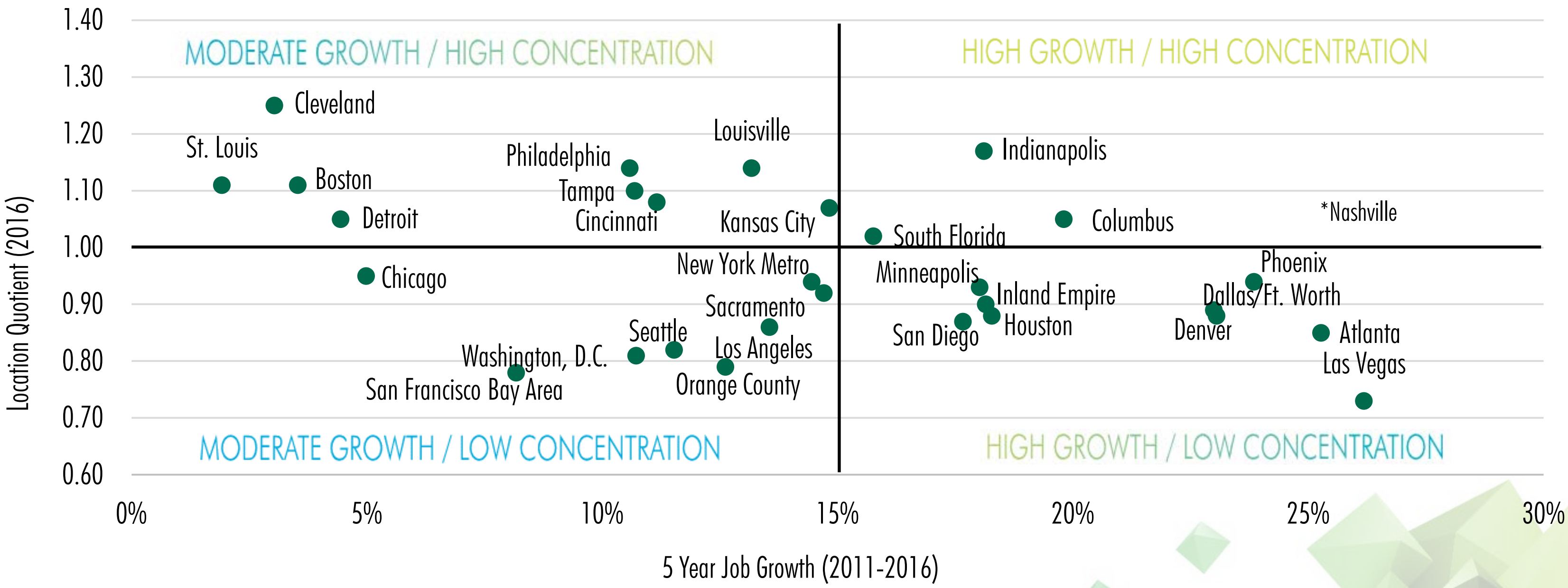
DEMAND STRONGEST IN ESTABLISHED RESEARCH MARKETS

FAST-GROWING POPULATION CENTERS DRIVE SUBURBAN DEMAND



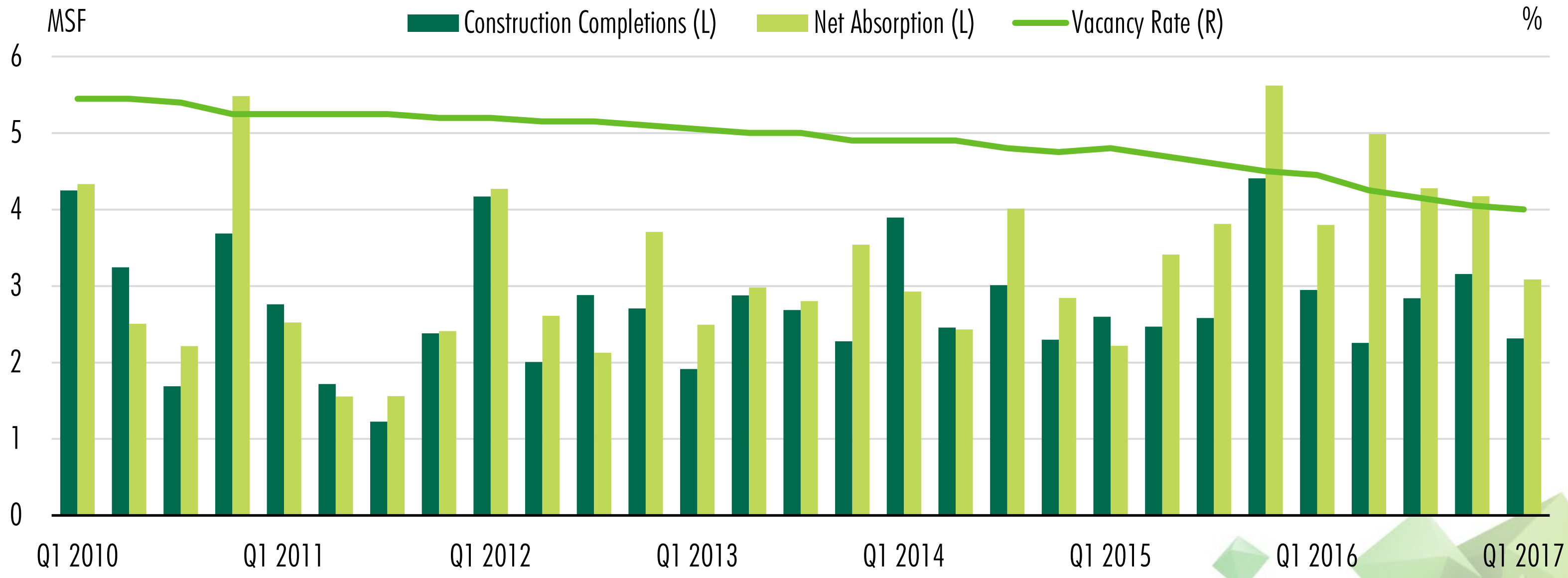
Source: CBRE Research, Q1 2017.

HIGHEST JOB GROWTH IN EXPANDING POPULATION CENTERS
WELL-ESTABLISHED HEALTHCARE MARKETS GROW MORE SLOWLY



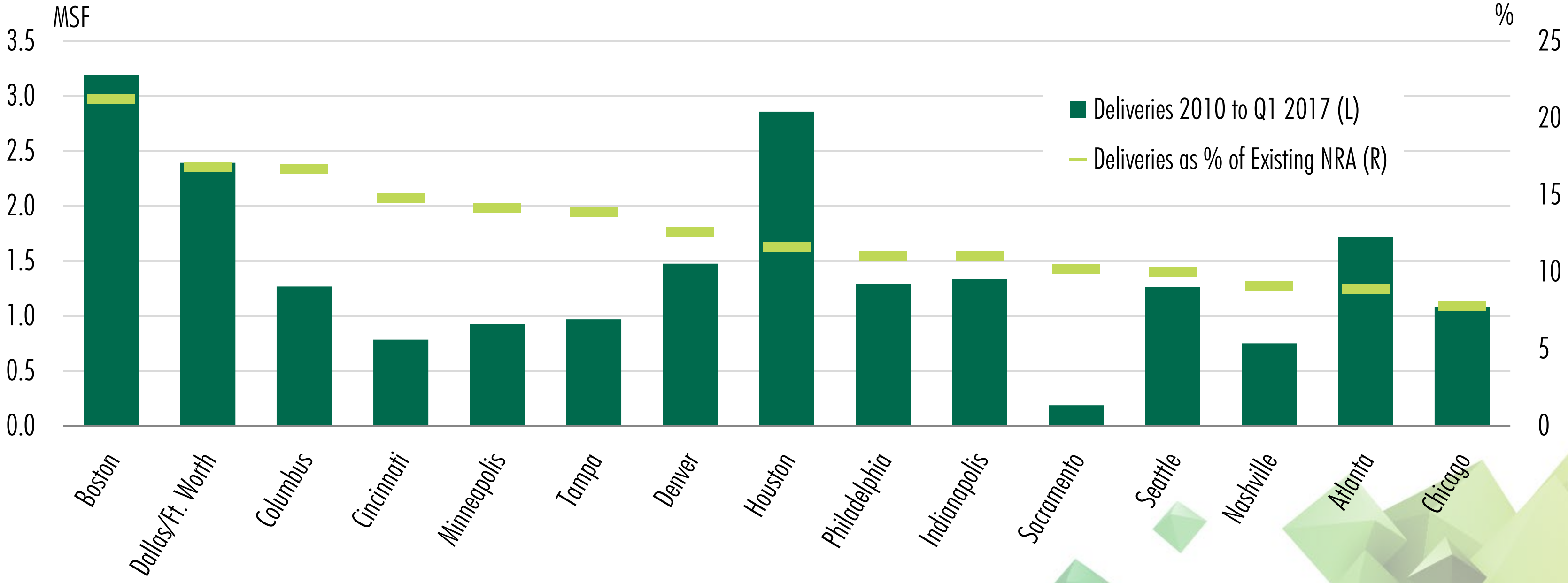
*Nashville is an outlier on this chart, with a location quotient of 1.07 and 5-year job growth of 36%.
Note: Employment data represents healthcare practitioner and technical occupations (excludes health care support occupations).
A value >1.0 indicates a higher concentration locally than for the U.S. as a whole.
Source: U.S. Bureau of Labor Statistics, March 2017, CBRE Research, Q1 2017.

DEMAND HAS BEEN RISING; IS SUPPLY KEEPING PACE?
NET ABSORPTION EXCEEDED NEW SUPPLY IN 22 OF 29 QUARTERS



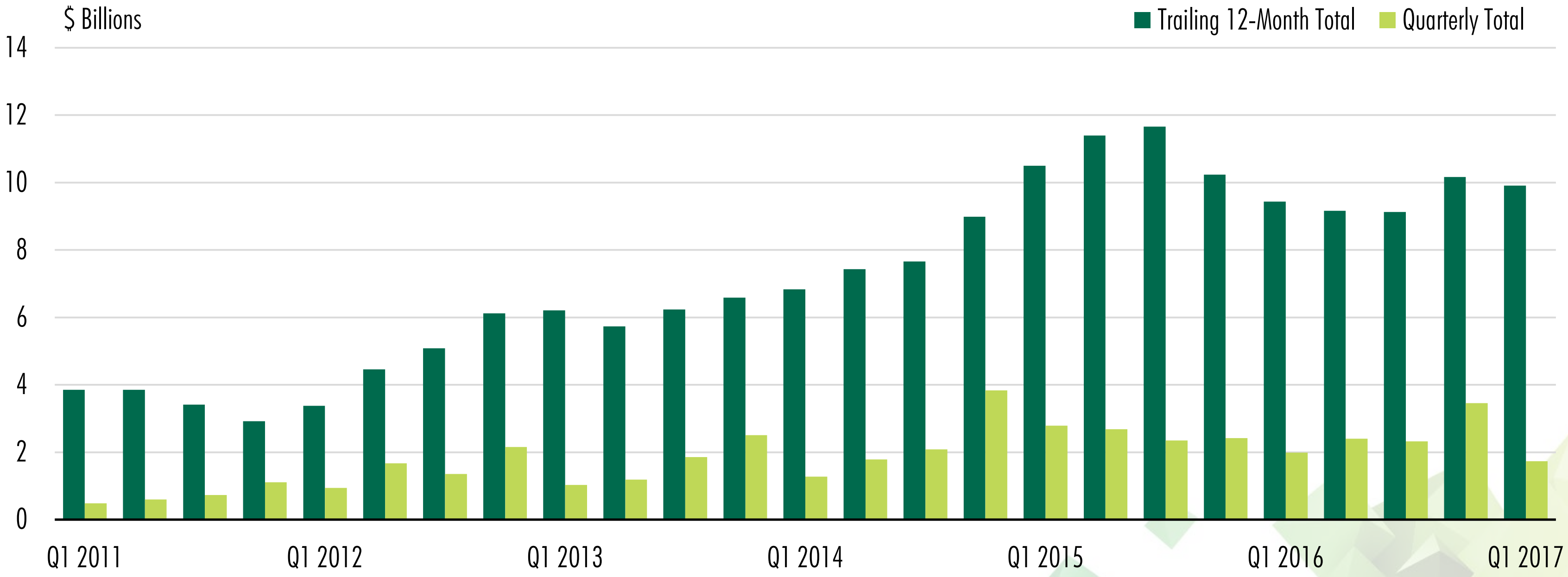
Source: CBRE Research, Q1 2017.

WHERE IS MOB CONSTRUCTION CONCENTRATED?
DELIVERIES AS A SHARE OF EXISTING NRA, 2010 TO Q1 2017



Source: CBRE Research, Q1 2017.

U.S. MOB INVESTMENT DEMAND ON THE RISE
VOLUME OFF FROM RECENT PEAKS, DUE TO POLICY UNCERTAINTY



Source: Real Capital Analytics, Q1 2017.

CONCLUSIONS
PROGNOSIS GOOD FOR THE FUTURE OF MOB

- The data shows medical office is a resilient sector, capable of weathering economic downturns and major political and economic changes.
- Vacancy has fallen steadily and rates have remained relatively stable, partially due to development activity outpaced by demand.
- New supply additions are primarily in response to the need for larger blocks of space and technologically advanced buildings.
- Policy debates will continue to affect decision-making, particularly in terms of cost structure within the industry. However, due to favorable demographic changes, long-run demand will continue to rise.

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SENIORS HOUSING

Jeanette I. Rice

SEPTEMBER 15, 2017

CBRE Build on Advantage

SOME RISKS
BUT GREAT UPSIDE

- PRODUCT OVERVIEW
- MARKET FUNDAMENTALS
- INVESTMENT PRICING, PREFERENCES

CBRE Build on Advantage

OLD PEOPLE ARE COOL

Old People Are Cool - Men's Premium T-Shirt

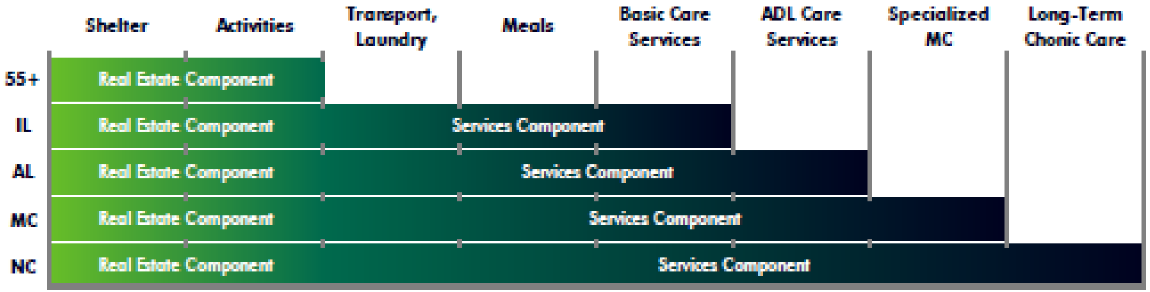
$23.49

Old People Are Cool - Women's Premium T-Shirt

$23.49

PRINCIPAL TYPES OF SENIORS HOUSING & CARE FACILITIES

- INDEPENDENT LIVING
- ASSISTED LIVING
- MEMORY CARE
- SKILLED NURSING



Source: NIC Investment Guide

SOME RISKS
BUT GREAT UPSIDE

- PRODUCT OVERVIEW
- MARKET FUNDAMENTALS
- INVESTMENT PRICING, PREFERENCES

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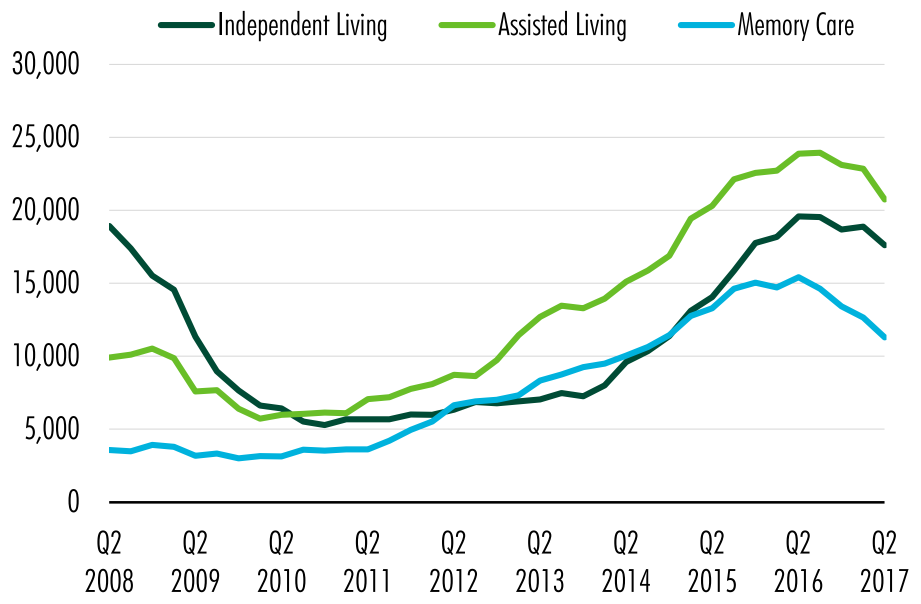
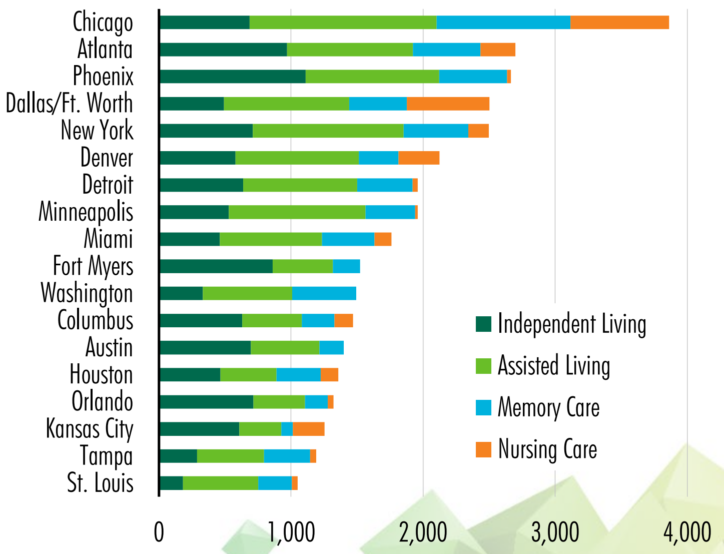
MARKET FUNDAMENTALS: CONSTRUCTION TRENDS

Total Units Under Construction



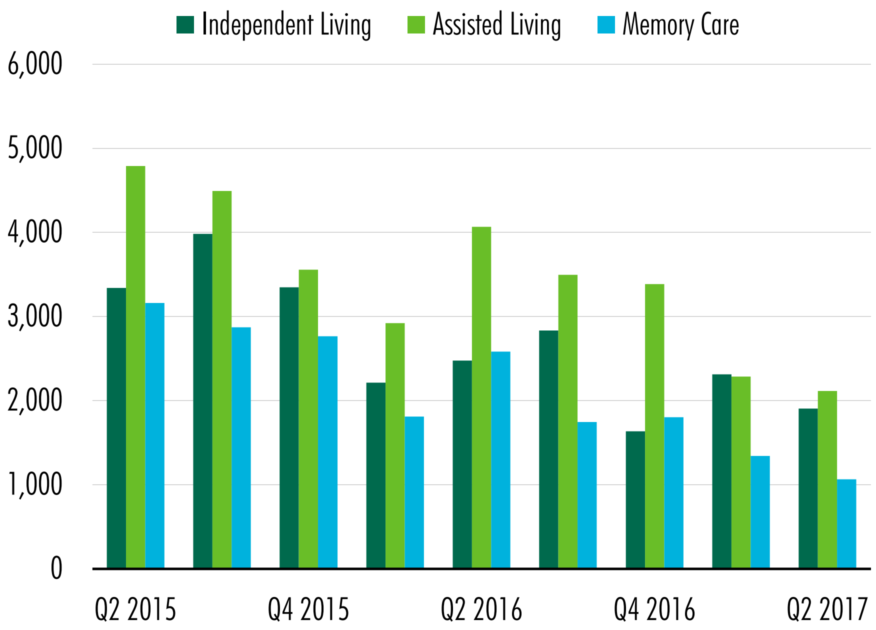
Leading Metros for Units Under Construction, Q2 2017



Source: NIC, CBRE Research, Q2 2017.

MARKET FUNDAMENTALS: CONSTRUCTION STARTS

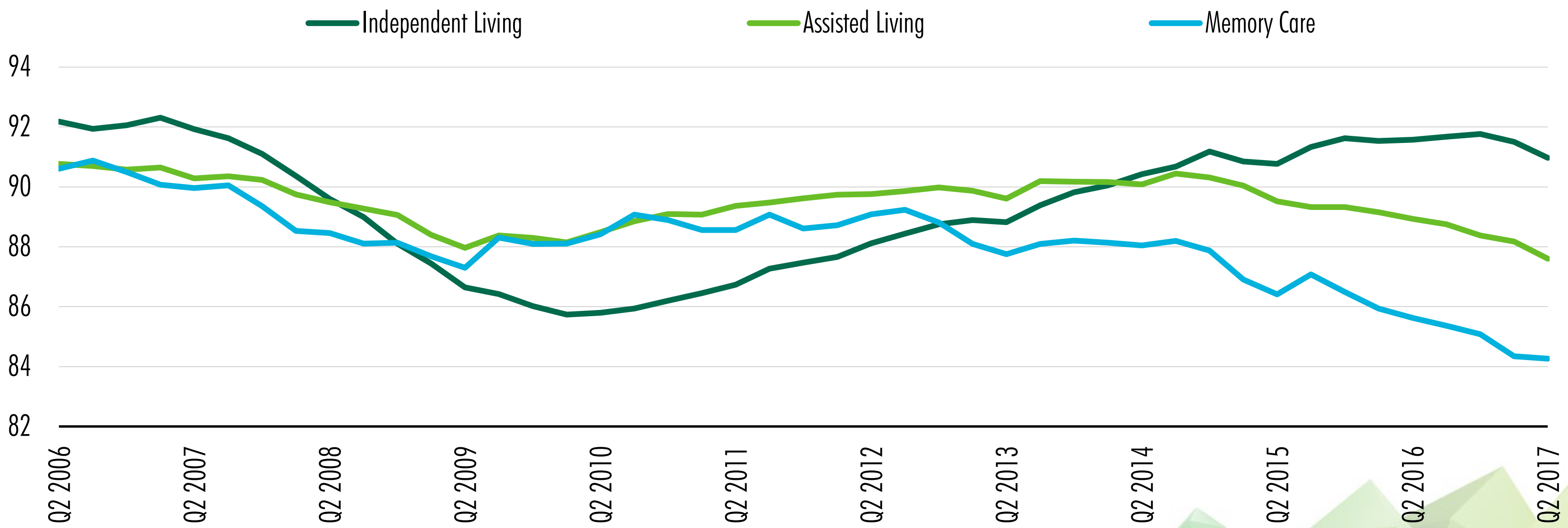
Total Units Started, Past Two Years



Source: NIC, CBRE Research, Q2 2017.

MARKET FUNDAMENTALS: OCCUPANCY TRENDS

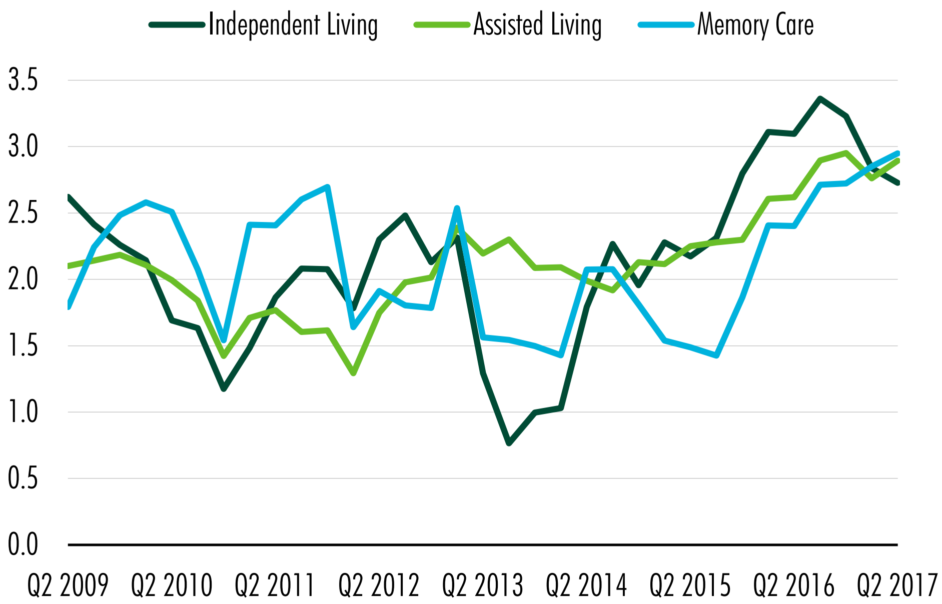
Occupancy (%)



Source: NIC, CBRE Research, Q2 2017.

MARKET FUNDAMENTALS: RENT GROWTH

Annual Rent Growth (YOY, %)



Source: NIC, CBRE Research, Q2 2017.

Despite some softness, rents still rising

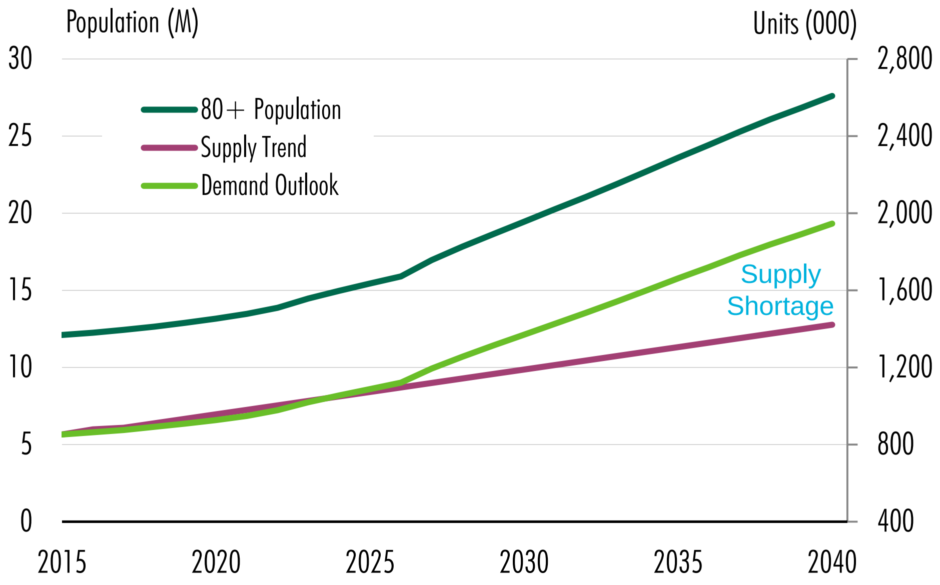
IL = $3,070

AL = $4,640

MC = $6,258

MARKET FUNDAMENTALS: SUPPLY AND DEMAND OUTLOOK

Long-Term Supply & Demand Outlook



Source: NIC, U.S. Census Bureau.

Supply slightly outpacing demand today.
In 10 years, demand should significantly outpace supply

SOME RISKS BUT GREAT UPSIDE

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- MARKET FUNDAMENTALS
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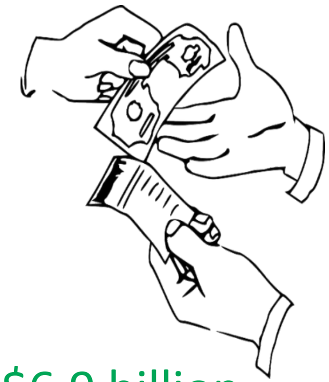
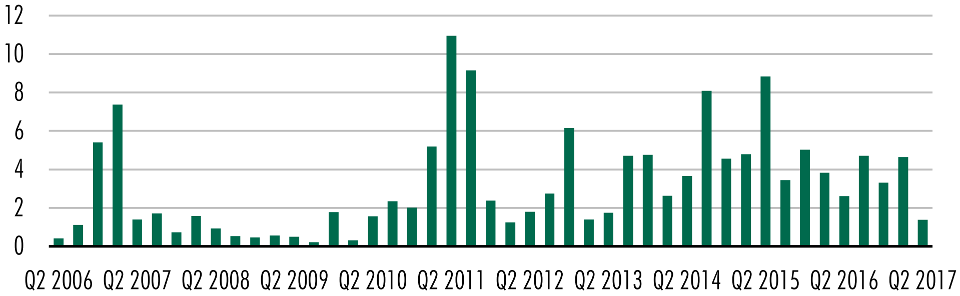
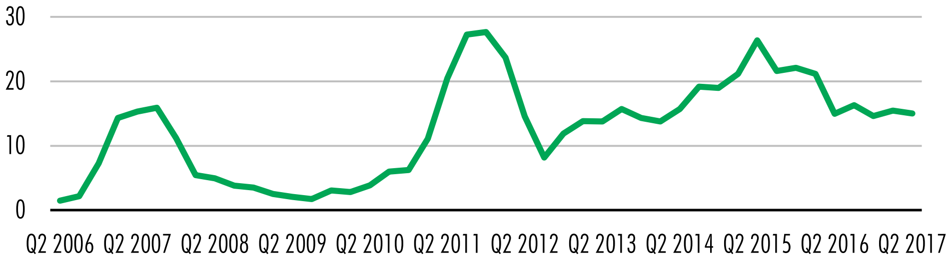
INVESTMENT: SENIORS HOUSING ACQUISITIONS



Historical U.S. Transaction Volume by Quarter ($, billions)



Rolling 12-Month Total Investment

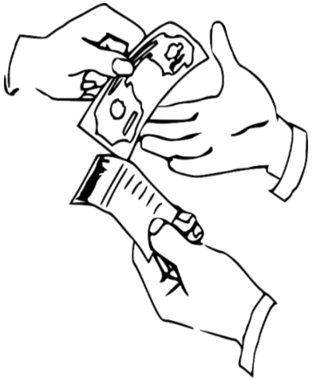


Source: Real Capital Analytics, CBRE Research, Q2 2017.

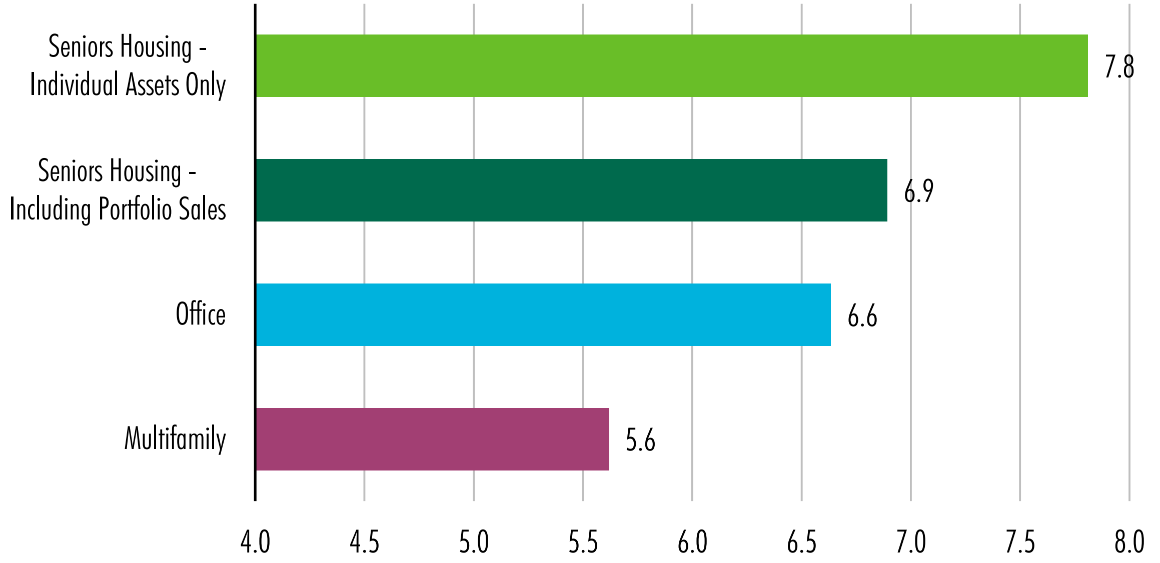
H1 2017 total = $6.9 billion
+6.9% y-o-y

Seniors heavy on portfolio transactions

INVESTMENT: YIELD OPPORTUNITY



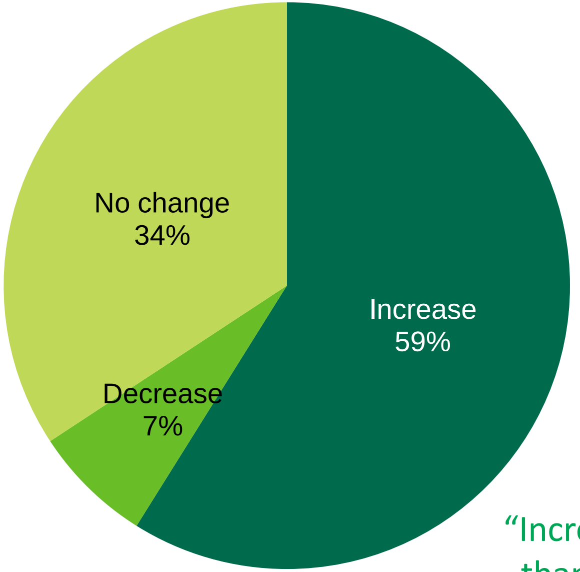
Q2 2017 Average Cap Rates for All Classes of Properties Acquired (%)



Source: Real Capital Analytics, CBRE Research, Q2 2017. *Excludes skilled nursing facilities.

CBRE INVESTORS SURVEY: SECTOR INTEREST

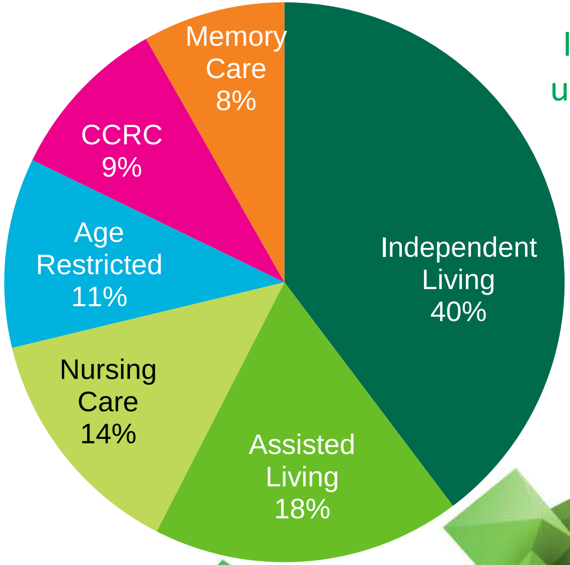
Exposure to Seniors Housing - Expectations



"Increase" is higher than prior survey (47%)

Source: CBRE, Spring 2017.

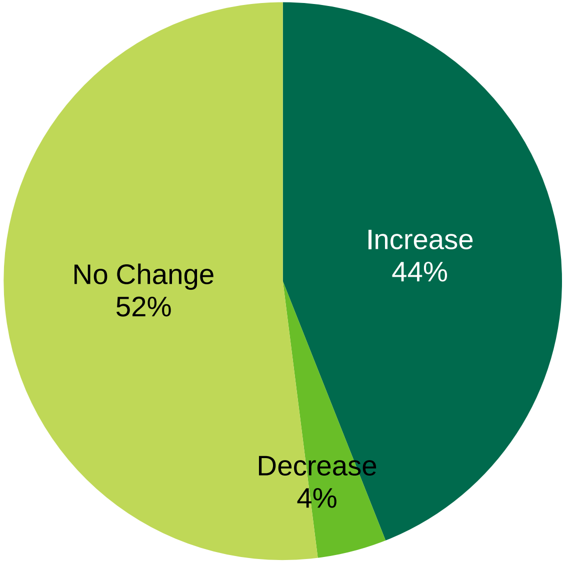
Top Investment Opportunity



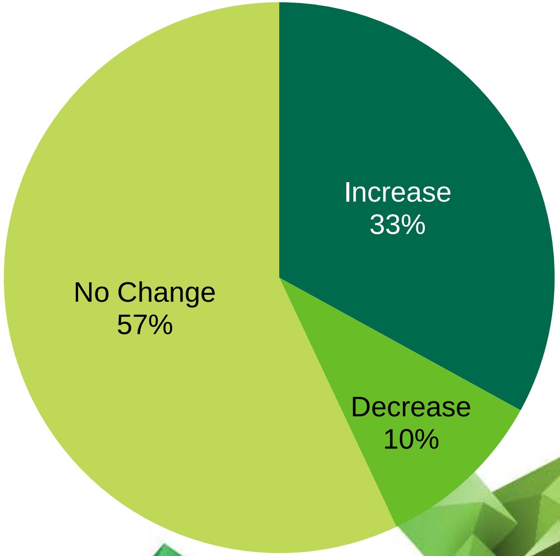
Independent up from 31% a year ago

CBRE INVESTORS SURVEY: CAP RATE EXPECTATIONS

Cap Rate Outlook – Spring 2017



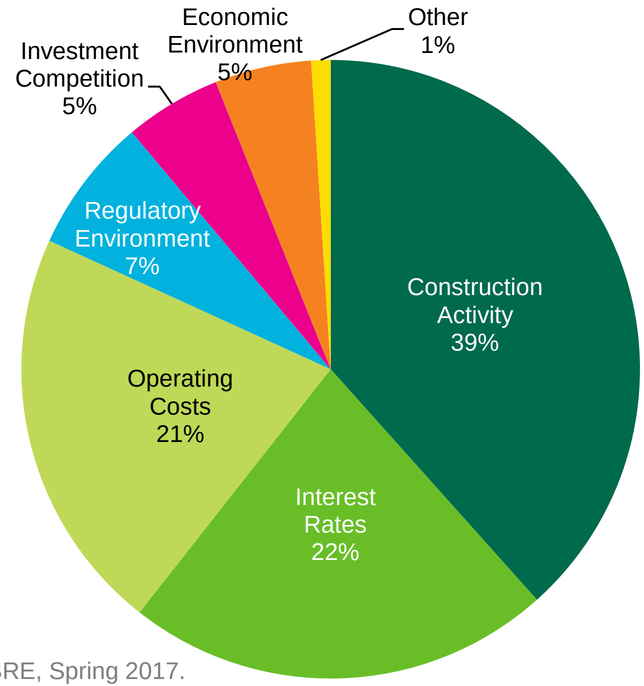
Cap Rate Outlook – Year Ago



Source: CBRE, Spring 2017.

NEAR-TERM CONCERNS, LONG-TERM OPPORTUNITY

CBRE Investor Survey – Investor Concerns



Source: CBRE, Spring 2017.

THANK YOU

SPECIALTY PROPERTIES: LIFE SCIENCES, MEDICAL, SENIORS HOUSING

DAN WAGNER | Director, Divisional Research

IAN ANDERSON | Director, Research and Analysis

ROBERT KRAMP | Director, Research and Analysis

JEANETTE RICE | Americas Head of Multifamily Research

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