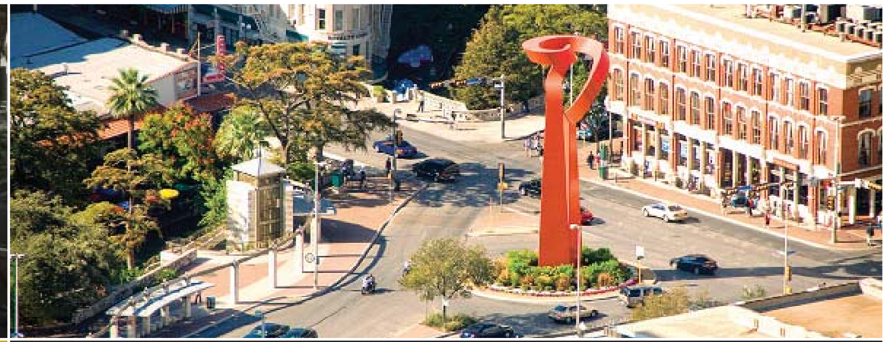


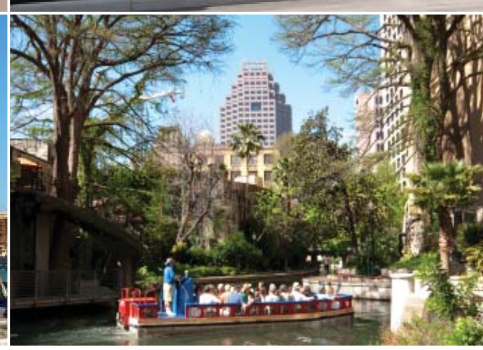
The Source

Better information, better decisions.

Medical Office Market Snapshot

San Antonio Metropolitan Area

Second Quarter 2014



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Medical Office 2Q 2014

OVERVIEW

Current trends in healthcare real estate continue to change the medical office market landscape. In recent years, health-care providers, who aggressively compete for customers, have been much more focused on providing convenience and enhancing the patient's experience. As such, medical services have spread out from the medical center hubs to suburban locations. Other trends impacting healthcare real estate include the cost saving efforts of bringing multiple services to a single destination and the development of free-standing emergency and urgent care facilities, largely positioned in retail center settings. These trends dilute activity that used to be primarily funneled into medical office buildings.

CITYWIDE

	2Q 2014	2Q 2013
All Classes		
Inventory	6,662,911	6,559,753
Available	1,167,178	1,219,816
%Vacant	17.5%	18.6%
Average Rent	$23.81	$23.77
2Q Absorption	72,376	59,867
YTD Absorption	146,170	201,399
Class A Space		
Inventory	2,384,963	2,270,404
Available	376,485	411,716
%Vacant	15.8%	18.1%
Average Rent	$26.96	$27.24
2Q Absorption	33,961	40,146
YTD Absorption	92,472	149,461
Class B Space		
Inventory	3,696,171	3,707,572
Available	643,346	676,423
%Vacant	17.4%	18.2%
Average Rent	$22.58	$22.39
2Q Absorption	38,415	21,239
YTD Absorption	55,017	59,794
Class C Space		
Inventory	581,777	581,777
Available	147,347	131,677
%Vacant	25.3%	22.6%
Average Rent	$18.73	$18.37
2Q Absorption	0	(1,518)
YTD Absorption	(1,319)	(7,856)

CENTRAL BUSINESS DISTRICT

	2Q 2014	2Q 2013
All Classes		
Inventory	1,012,037	1,012,037
Available	82,960	86,750
%Vacant	8.2%	8.6%
Average Rent	$20.78	$20.71
2Q Absorption	(900)	14,596
YTD Absorption	(900)	35,591
Class A Space		
Inventory	125,406	125,406
Available	9,364	9,364
%Vacant	7.5%	7.5%
Average Rent	$23.24	$23.24
2Q Absorption	0	14,596
YTD Absorption	0	27,329
Class B Space		
Inventory	815,490	815,490
Available	71,319	75,109
%Vacant	8.7%	9.2%
Average Rent	$20.46	$20.42
2Q Absorption	(900)	0
YTD Absorption	(900)	8,262
Class C Space		
Inventory	71,141	71,141
Available	2,277	2,277
%Vacant	3.2%	3.2%
Average Rent	$20.11	$19.61
2Q Absorption	0	0
YTD Absorption	0	0

NON-CBD

	2Q 2014	2Q 2013
All Classes		
Inventory	5,650,874	5,547,716
Available	1,084,218	1,132,046
%Vacant	19.2%	20.4%
Average Rent	$24.35	$24.36
2Q Absorption	73,276	45,271
YTD Absorption	147,070	165,808
Class A Space		
Inventory	2,259,557	2,144,998
Available	367,121	402,352
%Vacant	16.2%	18.8%
Average Rent	$27.16	$27.47
2Q Absorption	33,961	25,550
YTD Absorption	92,472	122,132
Class B Space		
Inventory	2,880,681	2,892,082
Available	572,027	601,314
%Vacant	19.9%	20.8%
Average Rent	$23.17	$23.01
2Q Absorption	39,315	21,239
YTD Absorption	55,917	51,532
Class C Space		
Inventory	510,636	510,636
Available	145,070	129,400
%Vacant	28.4%	25.3%
Average Rent	$18.53	$18.20
2Q Absorption	0	(1,518)
YTD Absorption	(1,319)	(7,856)

Statistical Information is calculated for all multi-tenant medical office buildings 20,000 sq. ft. and larger (excluding Single-Tenant, Owner-Occupied, Government & Clinical Facilities). Average Rental Rates reflect asking rental rates quoted on an annual full-service basis. Individual building rates are weighted by the total rentable square footage of the building.

SIGNIFICANT LEASE TRANSACTIONS

Tenant	Building	Size	Submarket
START Center	University Park Business Center	10,853	North West
Health Texas Medical Group	Comerica Bank North	9,426	North Central
Stone Oak Emergency	Stone Oak Centre at Knights Cross	6,528	Far North
San Antonio Eye Bank	Huebner Medical Center*	4,991	North West
Tejas Anesthesia	Huebner Medical Center*	3,472	North West
Spinal Specialization Technologies	4040 Broadway	3,456	North Central
Texas Healthcare Solution	Northwest Atrium	3,429	North West

Lease transactions reflect medical related activity in both Medical-Only (*) and general commercial buildings.

RECENT SALE TRANSACTIONS

Building	Buyer	Size	Submarket
Texas Center for Athletes	SHN (Senior Housing Properties Trust)	128,347	North West
2140 Babcock	Delantero Investors Ltd.	22,314	North West
Rainbow Senior Center	745 W San Antonio St.	7,388	Boerne

Medical Office 2Q 2014

WHAT'S NEW

New construction recently delivered the Autumn Leaves memory care facility (30,000 sf) at 20271 Stone Oak Parkway in the Far North sector and Tenet Healthcare Corp.'s 128-bed Resolute Health Hospital (365,000 sf) and adjacent 42,000-square-foot Resolute Medical Plaza office building to the New Braunfels area.

Construction is nearing completion on Vibrant Healthcare Management's Forest Park Medical Center located at IH-10 and Presidio Parkway just inside the Loop 1604 interchange. The hospital and adjacent medical office building are expected to come online in the third quarter. TeletonUSA recently broke ground along IH-35 near Morgan's Wonderland on a $17-million pediatric institute called the Children's Rehabilitation Institute of TeletonUSA (CRITUSA).

What continues to be lacking from the development pipeline is the product designed to meet the need of users looking for 4,000 – 8,000 square feet or so. There's demand for small free-standing buildings and developers are ready to move forward but lenders are still somewhat reluctant to finance speculative development which has created a bit of a bottleneck in the pipeline.

Aside from the development and expansion of hospital facilities, the San Antonio medical office market has not yet seen any dramatic impact from the Affordable Care Act. Instead, the continued growth of the overall healthcare industry continues to generate demand for medical office space which has, and will likely continue to, spill over into other property types.

DEFINITIONS

Absorption (Net)
The change in occupied space in a given time period expressed in square feet.

Average Asking Rental Rate
Non-weighted strict average rental rate quoted on an annual full-service basis; rents quoted on a non-full-service basis (such as NNN) have been calculated up to reflect a full-service rate.

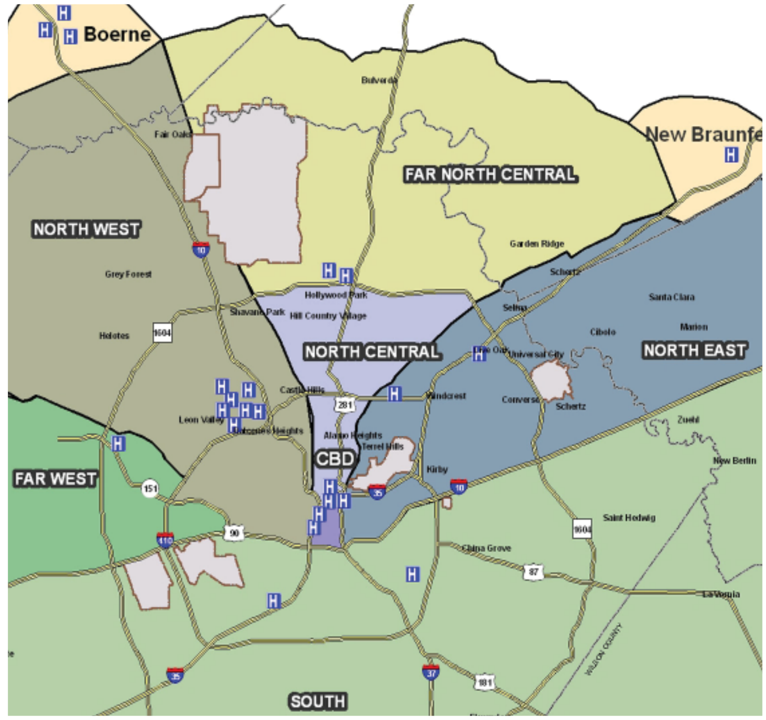
Direct Vacancy
Space currently available for lease directly with the landlord or building owner; excludes sublease space.

SF/PSF
Square foot/per square foot, used as a unit of measurement

Sublease
Arrangement in which a tenant leases rental property to another and the tenant becomes the landlord to the subtenant.

Sublease Space
Total square footage being marketed for lease by a tenant; sublease space is not considered in the overall occupancy or absorption numbers – only direct leases are included.

SUBMARKET MAP



PROPERTY TYPES

Class A - top-tier medical office buildings situated in prime locations, in many cases attached or connected to hospital facility; features high quality standard interior finish and excellent amenities which command premium rental rates.

Class B - well-located but perhaps older medical office buildings with average standard interior finish and some amenities which command average market rental rates.

Class C - older office buildings in secondary locations with few, if any, amenities.

CRITERIA

This study includes San Antonio area medical-only office buildings 20,000 square feet or larger excluding owner-occupied, single-tenant, government and clinical facilities.

For more information about this report, please contact Kim Gatley, Senior Vice President & Director of Research.

SERVICES

REOC San Antonio is actively involved in all aspects of commercial real estate: project leasing, acquisition and disposition, buyer and tenant representation, site selection, property management, construction supervision, development, research, marketing and consulting.

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