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Medical Office Building Market Needs No Reform

Building on the momentum of 2009, with 600,000 square feet of positive absorption, the Houston area medical office building (MOB) market remains steadfast and is on pace through June 2010 to outperform those modest, but encouraging numbers. With almost 370,000 square feet (159,157 SF in Q2) of net positive absorption year-to-date, the MOB segment is on pace to end 2010 below a 10% vacancy rate. To further demonstrate the strength of the MOB market, there has been positive absorption for the past seven quarters. The current overall vacancy rate is 11.4%; however, one obvious key to the good performance of this product class is Houston's largest submarket, The Texas Medical Center, which makes up 32% of the overall MOB market. If this submarket is extracted from the overall results,

the balance of the MOB market has a vacancy rate of 13.55%, so there is still work to be done. It is good news that none of the year-to-date positive absorption was related to the Texas Medical Center submarket indicating even stronger results from the smaller submarkets. **Key submarkets demonstrating good leasing results and positive absorption year-to-date are: NASA/Clearlake-135,074 square feet; FM 1960-103,296 square feet; Fort Bend County-67,225 square feet and Gulf Freeway/Pasadena-49,806 square feet.** Our reporting includes nineteen submarkets ranging in size from 7.6 million square feet (Texas Medical Center) to 87 thousand square feet (Allen Parkway/Montrose) with a total inventory of 25.5 million square feet. Only buildings over 20,000 square feet are included.

New healthcare construction completions totaled approximately 69,929 square feet including 1140A Cypress Station (FM 1960 - 23,000 square feet), Kingwood Professional Plaza (22,929 square feet) and 1400 Creekway (Fort Bend Co. - 24,000 square feet). Bolstering long-term stability for the MOB market is the "Absorption/ Construction Ratio" (ACR) comparing space absorption to construction completions. The second quarter's ACR is a positive 2.28 comparing the net absorption of 159,157 square feet and construction completions of 69,929 square feet. Additionally, in the past six quarters, absorption has outpaced construction completions by 443,258 square feet (997,408 vs. 554,150) resulting in an impressive 1.8 ACR. Obviously the longer this ACR trend continues, the lower vacancy rates will go.

Trends & Thoughts

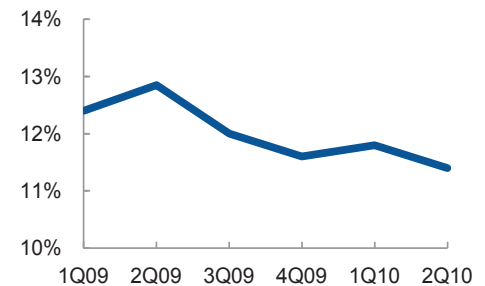
- Because of the high percent of currently uninsured residents, Houston tops many lists for increased MOB development resulting from the new healthcare legislation.
- Cap rates for MOB acquisitions will trend downward because of the huge equity pools actively looking for investments.
- With increased demand, the ask-to-offer differential should continue to shrink, thus motivating more properties to go to market.

By Submarket	Total SF	Vacant SF	Vacant %	NET ABSORPTION		Under Construction SF	ASKING RENT	
				Current Qtr	Year To Date		Class A	Class B
Central Business District	329,236	91,672	27.8%	274	6,302	-	-	22.02
CBD Total	329,236	91,672	27.8%	274	6,302	-	-	22.02
1960 Area	2,229,101	393,393	17.6%	42,054	103,296	-	23.10	21.57
Allen Parkway/Montrose	87,170	3,642	4.2%	-	-	-	-	19.57
Conroe/Montgomery County	783,591	63,996	8.5%	32	32	-	-	20.92
Far Southwest	1,317,212	153,834	11.7%	1,978	6,326	-	-	21.46
Fort Bend County	718,417	178,904	24.9%	68,887	67,225	-	33.02	-
Greenspoint IAH/North Belt	454,376	46,196	10.2%	-	-	-	-	21.35
Greenway	203,790	109,071	53.5%	-	-	-	28.00	-
Gulf Freeway/Pasadena	684,673	205,571	29.6%	14,661	49,806	-	-	21.46
Katy Freeway	2,863,587	242,255	8.5%	(27,299)	(5,567)	550,977	21.03	21.59
Kingwood/East/Northeast	1,147,003	101,215	8.8%	12,784	(1,170)	-	29.75	19.05
Medical/South Main	7,629,817	533,083	7.0%	(65)	(38,740)	-	31.65	23.16
NASA/Clear Lake	1,698,348	161,691	9.5%	22,616	135,074	-	26.00	22.26
Near Southwest	447,205	14,882	3.3%	1,156	13,903	-	32.03	18.83
Northwest Freeway	675,314	64,437	9.5%	1,097	(872)	-	-	19.14
Sugar Land	1,061,198	211,227	19.9%	627	886	-	27.88	24.99
The Woodlands	983,428	90,397	9.2%	10,355	15,104	-	28.75	23.64
Uptown/Galleria	221,458	7,915	3.6%	-	13,293	-	-	-
Westchase	104,032	35,485	34.1%	-	(5,000)	-	-	22.50
Suburban Total	23,289,720	2,617,194	11.2%	148,883	353,596	550,977	28.43	22.21
Totals	23,618,956	2,708,866	11.5%	149,157	359,898	550,977	28.43	22.20

By Class	Total SF	Vacant SF	Vacant %	Current Qtr	Year To Date	Under Construction SF	AVAILABLE FOR SUBLEASE	
							CBD	Suburban
Medical	23,618,956	2,708,866	11.5%	149,157	359,898	550,977	-	62,579
Class A	5,248,472	798,908	15.2%	18,970	155,382	470,000	-	10,554
Class B	13,391,625	1,362,284	10.2%	99,810	118,212	80,977	-	52,025
Class C	4,978,859	547,674	11.0%	30,377	86,304	-	-	-
Totals	23,618,956	2,708,866	11.5%	149,157	359,898	550,977	-	62,579

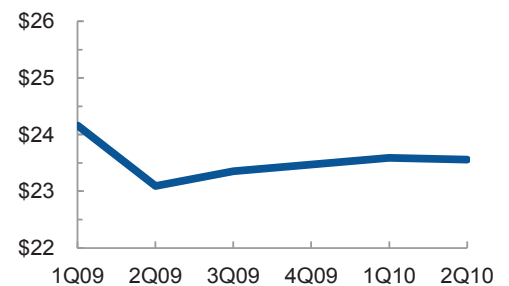
Vacancy Rate

Last Six Quarters	Overall Rate
1Q09	12.4%
2Q09	12.9%
3Q09	12.0%
4Q09	11.6%
1Q10	11.8%
2Q10	11.4%



Asking Rental Rates

Last Six Quarters	Overall
1Q09	\$24.16
2Q09	\$23.09
3Q09	\$23.35
4Q09	\$23.47
1Q10	\$23.59
2Q10	\$23.56



- The demand for MOB space will continue to be aided by the increase in medical procedures being performed in more satellite locations rather than hospital settings.
- As the "Absorption/Construction Ratio" remains positive vacancies will decline pushing up values.

Key Transactions For Second Quarter 2010

Property/Address	Square Feet
837 FM 1960 Rd. W.	38,210
2950 Cullen Parkway	54,800
8619 Broadway	19,760