

# 4Q 2020 OUR VIEW



## Our View of the Medical Office Market

### A Note from Chip Konk:

Greetings from Nashville! I hope you are well and safe.

We're launching this newsletter to share our view on the current state of the medical office building (MOB) marketplace and how Montecito Medical is (bullishly) responding to it. We hope you will find this content helpful and informative.

### The Continuing Strength of the MOB Sector

The medical office building sector has demonstrated resilience amid the COVID-19 pandemic, and investment demand for MOB properties remains strong. In fact, during the first half of 2020, MOB transaction volumes outpaced those for the comparable period in 2019 according to statistics from CBRE. Even with the effects of the pandemic, transaction volumes

through the first three quarters of 2020 were modestly below the pace of the previous year. While we won't have numbers for Q4 until after the New Year, indications are that it has been extremely active; for Montecito, December 2020 was a record month for transactions.

Pricing for high-quality, well-situated MOB assets is rising above pre-pandemic levels. The average price per square foot for medical office buildings nationally reached peak levels in 2020 — \$336 — and is projected by Revista to remain at that level into 2021.

Meanwhile, occupancy rates for MOBs in the top 50 metro areas of the US were 91.3% in Q3 of 2020 – up 10 basis points from the same period in 2019. Since 2008, medical office occupancy rates have consistently outpaced those

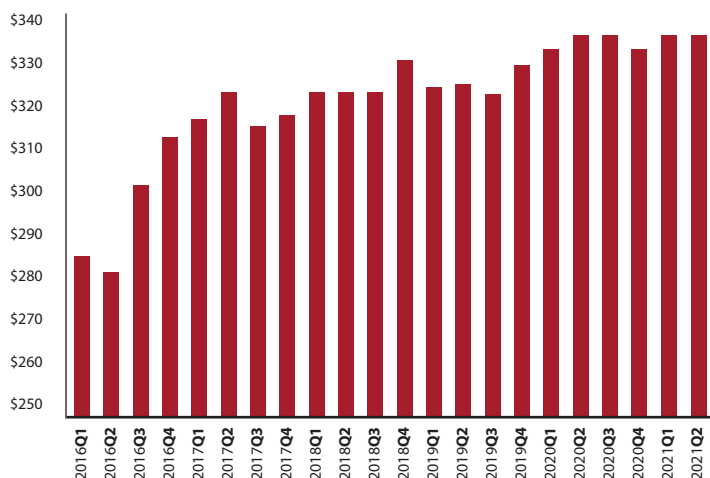
of other commercial office spaces.

The favorable tailwinds propelling MOBs are expected to continue as healthcare consumption increases in an aging population and as patient preference drives more delivery of care in outpatient, off-campus settings. According to Becker's ASC Review, by the middle of this decade, 68% of all orthopedic surgeries will be performed in an outpatient setting — a promising trend for physician groups and health systems that operate these centers and for developers who bring them to life.



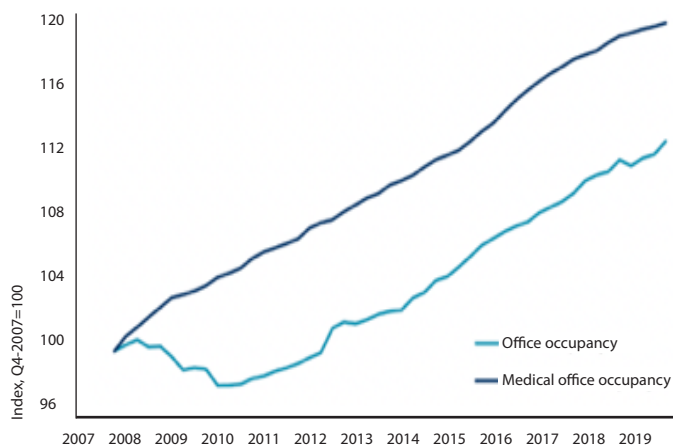
Chip Konk, CEO,  
Montecito Medical Real Estate

MOB Sales Price PSF



Source: JLL Research, Revista

Occupancy Growth: Office vs. Medical Office



Source: CoStar, Cushman & Wakefield Research

# “We’ve Been Busy!”

As of 12/31/20, Montecito’s total real estate platform included 126 properties totaling 3.95 million square feet. Here’s a brief sampling of some of our Q4 acquisitions:



Aurora Health, Greenfield, WI  
One Building | SF 130,000



Arkansas Urology, Little Rock, AR  
Two Buildings | SF 72,556



EmergeOrtho MOB/ASC, Leland, NC  
One Building | SF 55,590



Jordan Young, Virginia Beach, VA  
One Building | SF 31,008

Payers, too, are accelerating the move to lower-cost outpatient facilities. As the Centers for Medicare & Medicaid Services (CMS) gradually reduces the number of reimbursable procedures from its “Inpatient Only” list, this shift to outpatient settings may accelerate. In 2020, for example, the CMS added total knee replacement and cardiac procedures performed in an outpatient setting to its payable list.

We at Montecito have remained active throughout 2020, steadily acquiring MOBs and ASCs from Alaska to Virginia and from Minnesota to Texas. In the photos above, you’ll find a listing of some of the most recent acquisitions to our growing portfolio, which now stands at 126 properties. In many of these transactions, physicians chose to avail themselves of the opportunities we offer for them to invest alongside us in the building — becoming our partners as well as our tenants.

We enter 2021 with strong conviction about the trends in the medical office real estate sector, and we look forward to an opportunity to talk with you about your real estate.

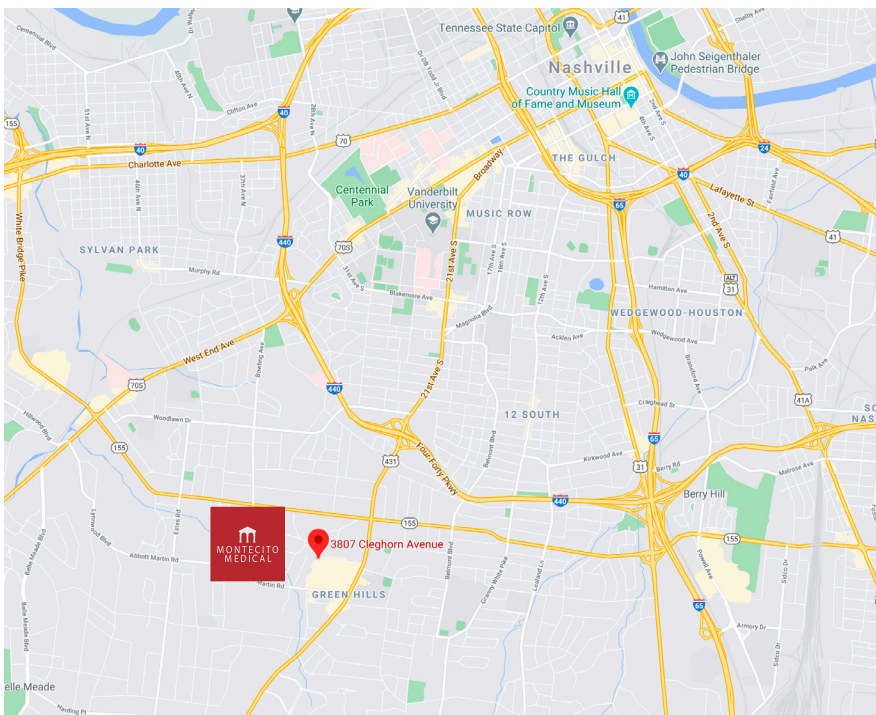
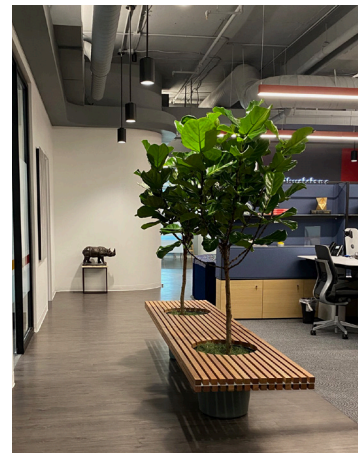
Sincerely,

Chip Conk  
CEO



## New Home, New Address

Montecito Medical has moved! We invite you to come visit us in our new corporate offices.



**Montecito Medical Real Estate**  
3807 Cleghorn Avenue  
Suite 903  
Nashville, TN 37215

[MontecitoMac.com](http://MontecitoMac.com)