DECEMBER 2021

# OUR VIEW

MONTECITO MEDICAL

## Our View of the Medical Office Market

### A Note from Chip Conk:

Montecito has been focused solely on medical real estate since 2006, but I have never been more excited about our opportunities in this field than I am today. Like never before, capital is flocking to this sector, given the strong performance of medical office buildings (MOBs) in the wake of the COVID-19 pandemic.

We also believe that medical office is not merely the short-term beneficiary of disruption to other areas of commercial real estate but a field that is coming into its own. Its recent performance (and the results from a recent sale of one of our property portfolios) is the result of solid fundamentals that were in place long before the pandemic began—and that will continue to drive this sector for the long term.

**Demographic shifts.**
The most significant long-term macroeconomic driver for MOBs is the growing number of Americans ages 65 and over—the demographic that consistently spends the highest amounts on healthcare. By 2025, their number is projected to grow by 20%, and by 2050 it will mushroom from 46 million to more than 90 million. At the same time, the large millennial generation is now reaching their 30s and forming families; during this age period, healthcare expenditures double on average.

**Growth in healthcare spending.**
Partly because of these demographic factors, along with technological advances and the growing number of Americans with health insurance coverage, CMS (Centers for Medicare & Medicaid Services) projects that healthcare spending will account for approximately 19.7% of GDP by 2028.

**Pivot to outpatient care.**
Patients increasingly prefer the convenience of receiving care in medical offices closer to where they live and away from large, harder-to-navigate hospital campuses. Payors are also driving this shift, since procedures at outpatient facilities cost significantly less than in hospitals. Reflecting this shift, Becker's ASC Review estimates that, by 2025, more than two-thirds of all orthopedic surgeries will be performed in ambulatory surgery centers (ASCs).

**Stability of medical office tenants.**
Given their specialized spaces and equipment, medical practices are less likely to move than other commercial tenants, leading to high occupancy rates and low turnover. These factors, combined with strong credit quality for physician tenants and their willingness to commit to long-term leases, increase the value of these properties to investors.

For all these reasons, and more, we believe that this is a great time to be in medical real estate. We'd love to talk with you about the opportunities that this sector provides.

Sincerely,

Chip Conk

Chip Conk

Chip Conk, CEO,
Montecito Medical Real Estate

> “The outlook for the MOB and outpatient asset class remains strong, highlighted by increased investor demand for the sector's resiliency, a favorable capital markets outlook and macro-level tailwinds that continue to support the demand for healthcare services space well into the future.”
>
> —**Newmark**
> *Medical Office Buildings Capital Markets Report 2021*

# “We’ve Been Busy!”

So far in 2021, we’ve closed on more than 1.29 million SF of medical office properties. Here’s a brief sample of our recent acquisitions.

Stony Point Medical Office Building
Richmond, VA


GI Alliance Endoscopy Center
Mansfield, TX


Eye & Lasik Center
W. Springfield, MA

ASC of Western New York
Amherst, NY

MONTECITO MEDICAL

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

MontecitoMac.com