JUNE 2021

OUR VIEW

MONTECITO MEDICAL

Our View of the Medical Office Market

A Note from Chip Conk:

Greetings from Nashville! I hope you are well.

As life in the United States begins to return to pre-pandemic norms, we find that last year's positive trends within our industry continue to grow even more favorable. This should come as welcome news for medical office owners, developers, investors and real estate brokers.

In 2020, just as it did during the Great Recession of 2007-08, the medical office sector demonstrated its resiliency. Occupancy rates remained very high (around 92%), rents increased, and strongly rebounding levels of patient visits showed, as I heard a leading real estate economist put it, that Americans do not treat healthcare consumption as discretionary spending.

As a result, large volumes of investment capital flowed from other commercial real estate verticals into medical office properties. And because of that, while investments in conventional office space fell almost 42% in 2020 from the previous year, the $10.6 billion invested in medical office acquisitions during the pandemic year was just 3% less than 2019.

Now, we appear to be moving toward a "new normal." Not many years ago, medical office was viewed as a niche market. That's no longer true. As Wealth Management.com put it, "Medical office properties are rapidly becoming some of the most prized assets in real estate."

We at Montecito believe that even more capital will pursue medical office acquisitions this year than we witnessed in 2020. In part, this demand is a result of the sector's strong performance. In part, too, it reflects increasing demand for new medical office and ambulatory surgery center space driven by an aging population, by patients seeking greater convenience and by payors seeking high-quality outcomes in lower-cost, outpatient settings.

My friend Chris Bodnar, Vice Chairman of CBRE, described the new normal this way: "A well-functioning medical office is going to trade as aggressively as the best downtown office building."

It will come as no surprise that, at Montecito, we are more bullish than ever on medical real estate. Sellers continue to be drawn to the model we pioneered that provides them with an opportunity to maintain ownership in their property even after the sale. We also continue to see strong investment demand from institutional investors for quality medical office portfolios. As a specific example, during the first quarter of 2021, Montecito sold a portfolio of medical office properties we assembled in 2018 and 2019 to an institutional investor. In this transaction, we achieved cap rate compression superior to our initial underwriting.

Chip Conk, CEO,
Montecito Medical Real Estate

Last year was the biggest in our organization's history. We expect to break our record for acquisitions again in 2021. Our pipeline has never been more robust, and we're seeing an added level of interest in selling from MOB owners amid concerns over potential increases in capital gains tax rates. One expert has called 2021 "the year of the smart seller." We couldn't agree more.

We look forward to an opportunity to talk with you about your real estate.

Sincerely,

Chip Conk

Chip Conk
CEO

> "Medical office has been the 'steady Eddie' through two recessions."
>
> **– Chris Bodnar, Vice Chairman
> US Healthcare and Life Sciences, CBRE**

“We’ve Been Busy!”

Here’s a brief sample of our recent acquisitions:

Orthopedic Specialty Group, Fairfield, CT
Two Buildings | SF 113,000

Beachwood Medical Center, Beachwood, OH
One Building | SF 69,800

American Surgery Center Building, San Antonio, TX
One Building | SF 11,544

Brookfield Commons MOB, Richmond, VA
One Building | SF 90,000

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