MARCH 2021

OUR VIEW

MONTECITO MEDICAL

Our View of the Medical Office Market

A Note from Chip Conk:

On behalf of everyone at Montecito Medical, I hope you had a joy-filled holiday season, and that you are well and safe. For us, it has been a very happy new year. We are entering 2021 with great momentum from a record-setting December, when we closed on 12 (twelve!) medical office transactions.

For the full year, Montecito closed on nearly $600 million in medical office building (MOB) acquisitions in 2020, making it the biggest year in the history of our organization. Our company led the field last year in the number of medical office transactions we completed. Coming off a successful year, we enter 2021 with an active pipeline of acquisition opportunities and are excited about our prospects to continue our momentum.

Our record has also helped us earn validation from experts in our industry: In December, for the third consecutive year, GlobeSt.com and the editors of *Healthcare Real Estate Insights* named Montecito as a key influencer in healthcare real estate.

Our success is a tribute to the efforts of the team we have assembled at Montecito. We have expanded our team to reflect the growth in our portfolio, adding 10 new members throughout 2020 in areas that range from property management to marketing to technology and accounting. We are currently interviewing candidates for 9 additional positions and believe these additions make us even more effective in serving physicians, medical office developers, brokers and investors.

The State of Medical Office Real Estate

For a variety of reasons, we are more excited than ever about the opportunities in the medical office sector. MOBs have remained resilient during the COVID-19 pandemic – so much so that they have become a magnet for investors seeking a "safe haven."

By the beginning of Q4 last year, according to data released by the Commonwealth Fund, outpatient healthcare visits had returned to their pre-COVID levels. As the accompanying graphic (Figure 1) from the Commonwealth Fund shows, the initial concerns among some observers that telehealth visits might displace in-person clinical care have largely dissipated; industry experts at JLL have documented that patients and physicians continue to show a strong preference for in-person medical office visits.

Chip Conk, CEO,
Montecito Medical Real Estate

Figure 1: While in-person medical office visits plummeted in the spring of 2020 amid the COVID-19 pandemic, they strongly rebounded due to overwhelming patient preference.

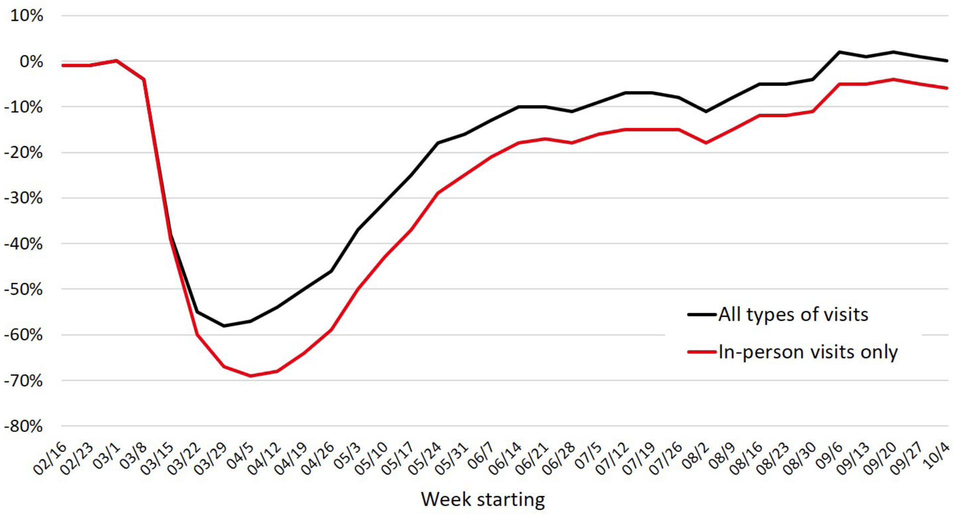

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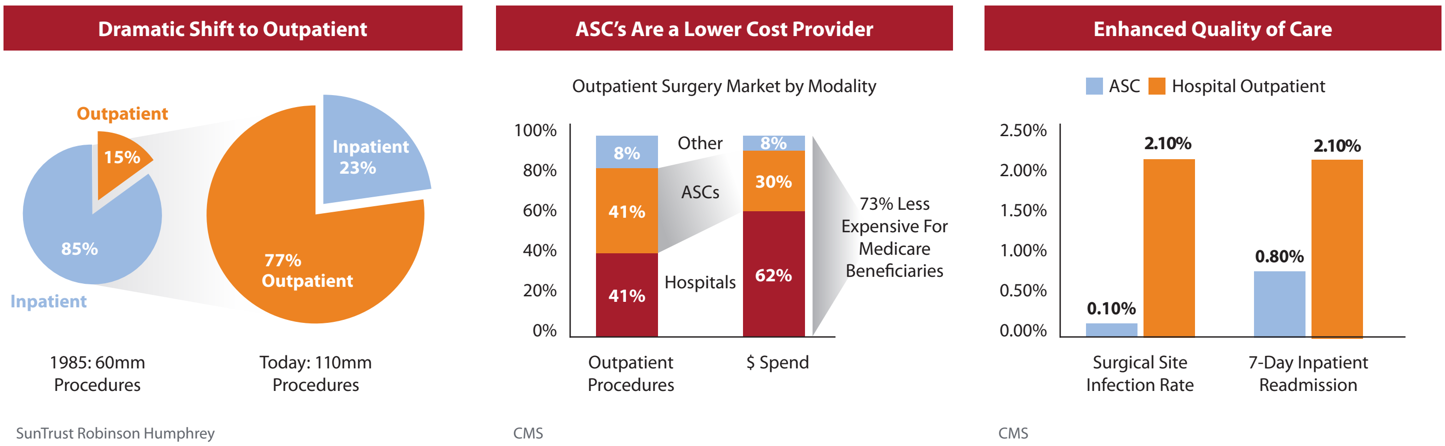
Figure 2: Lower costs, combined with enhanced quality of care (as measured in reduced infection and readmission rates) are helping to drive the shift from hospital-based surgeries to outpatient settings in ASCs.



> "By the third quarter 2020 in the face of major economic disruption, office occupancy declined sharply [while] MOB occupancy barely moved. The divergence in performance reflects the high level of confidence in demand for medical services that is not easily affected by economic trends."

– JLL Healthcare Capital Markets, Medical Office Perspectives, October 2020

The fundamentals underlying the MOB sector have created strong tailwinds that also are projected to sustain their power through the coming decade as the US population ages, consumes more healthcare services, and receives more of those services in outpatient settings.

Few developments better reflect this new healthcare landscape than the shift of many healthcare procedures from hospitals to ambulatory surgery centers (ASCs) – which increasingly are incorporated into medical office buildings that are home to physician groups in specialties ranging from orthopedics to urology and ophthalmology. Since 1980, outpatient procedures have risen from 16% of total surgeries to approximately 60% today. That percentage continues to increase as technologies make it possible to perform more procedures in ASCs and as payors demanding lower costs and superior outcomes drive volume at outpatient facilities (see Figure 2).

We see continued interest from physicians and developers in structuring sale-leaseback transactions that help them maximize the value of their real estate both now and for the longer term. With a full pipeline already for the first quarter of 2021, we are working to make the most of the opportunities before us.

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

Sincerely,

Chip Conk

Chip Conk
CEO

> "Sale-leasebacks [of medical office buildings] are an especially viable option now that interest rates will remain low through 2021."

– HBRE, The 2021 Outlook for Healthcare Real Estate

“We’ve Been Busy!”

Montecito closed on more medical office transactions in 2020 than anyone in our field. Here’s a brief sample of our recent acquisitions:

American Health Network, Indianapolis, IN
One Building | SF 23,500

Sunnyvale Medical Plaza, Sunnyvale, TX
One Building | SF 21,908

Northern Ohio Medical Specialists, Clyde/Sheffield, OH
Two Buildings | SF 63,782

Women’s Clinic, Spartanburg Regional Health, Spartanburg, SC
One Building | SF 14,420

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

MontecitoMac.com