

MARCH 2023

OUR VIEW



Our View of the Medical Office Market

A Note from Chip Conk:

Following a year that created unexpected challenges for participants in our industry, the Montecito team entered 2023 with a bullish stance on medical real estate.

By a range of measures — including occupancy rates, rents, and demand for outpatient healthcare services — the fundamentals of the medical office sector have never been stronger. The quality and “stickiness” of our tenants are outstanding. Capital markets favor medical real estate, and we have seen growing demand from global institutional investors for medical office buildings (MOBs) as new private equity groups enter the market.

A February report from JLL’s Valuation Advisory Group noted, “At the close of 2022, MOBs recorded an occupancy level of 92.3 percent and continued to experience consistent rent growth. MOBs are outperforming the traditional office sector, where the average occupancy level is a notable 11.4 percent lower.”

Another positive sign: After a spike last fall, the SOFR Forward Curve — a reliable indicator of borrowing costs used by banks to price their dollar-denominated

loans — suggests the future holds lowering debt costs. This trend, we believe, will support future cap rate compression for portfolio sales.

Most of all, our 2023 optimism is based on our extensive experience in medical real estate. Since entering the field in 2006, we have witnessed this sector’s resilience through different economic phases. Even if the U.S. economy experiences a recession in 2023, as some predict, we have seen how their underlying fundamentals make MOBs more resistant to downturns than other sectors.

We always focus on long-term goals as private investors, rather than quarter-to-quarter. We remain highly confident in this real estate category due to the demographic and economic tailwinds that will propel medical office properties over the next two decades.

In the current environment, we believe that maintaining our disciplined but active approach will create tremendous opportunities for medical office acquisitions by well-capitalized organizations like ours. We have already

seen this approach yield positive results. For example, in Q4 2022 Montecito was the chosen buyer for a trophy asset because the seller needed to close before year-end, and we could deliver.

The first half of 2022 put our industry on a record pace for MOB transaction volume. In the first two months of 2023, Montecito surpassed our number of acquisitions over the comparable period for 2022. Given the solid fundamentals and the interest we are seeing, we are excited about the opportunities ahead — and about helping owners of medical properties make the most of those opportunities.

Sincerely,

Chip Conk



Chip Conk, CEO,
Montecito Medical Real Estate

“The immense appeal of MOBs among investors is here to stay for the long term, even amid economic uncertainties.”

— JLL Valuation Advisory Group, *Healthcare Investor Survey and Trends Outlook*, February 21, 2023

We've been busy!

Over the past two years, Montecito closed on more medical real estate transactions than any other buyer. Here's a sample of our recent acquisitions.



Whitewater Eye Centers
Richmond, IN



Discover Eye
Leawood, KS



Dallas Neurological & Spine
Plano, TX

“By the end of 2023, total deal volume will likely return to healthy historic levels after taking a pause for the moment. There are plenty of investors ready to acquire medical office buildings... betting on the sector's fundamentals. And for those investors, these investments will outperform other sectors.”

— *Real Estate Business Online*, January 11, 2023



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