

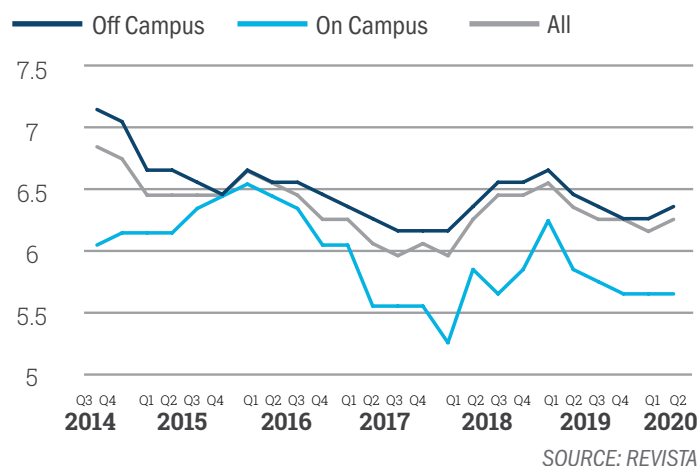


# WHO'S BUYING MEDICAL REAL ESTATE?

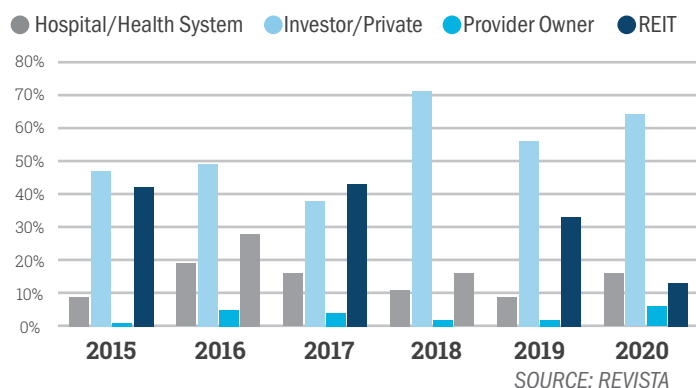
**Investment demand for all types of medical real estate, including clinical office and outpatient surgical facilities, continues to show no signs of abating. Medical real estate sales in the U.S. surpassed \$11 billion in 2019, a figure that has doubled since 2014.**

**Transaction volume for healthcare real estate was nearly \$5.5 billion in the first half of 2020**, up 10% over the previous year, according to Revista, the nation's leading healthcare data and analytics firm. With medical real estate continuing to show resiliency amid the COVID-19 pandemic, property valuations are at record highs with institutional equity rotating out of other types of commercial real estate sectors, such as office and retail, and into medical real estate where investors see stability, positive demographic fundamentals, and a lower correlation between healthcare expenditures and the broader economy. In fact, current valuations in many cases are exceeding the historically high levels that were seen prior to the pandemic.

## MEDICAL OFFICE QUARTERLY AVERAGE CAP RATE



## YEAR-OVER-YEAR BUYER TYPE



**As evidenced in the chart above, over the past several years, Private Equity Groups have been net-buyers (buying more than they are selling), whereas physician-owners of real estate have been net-sellers (selling more than they are buying).** What is interesting about the graph, however, is the shifting change in the type of buyer over the past 5 years. Traditionally, REITs have been the most active buyers of medical real estate; however, the REITs have been less acquisitive in recent years, which has been most apparent with physician-led real estate and single-asset transactions vs. portfolio transactions. Private Equity Groups, on the other hand, have filled this void by accounting, on average, for over 65% of the total sales volume from 2017 - 2019. Although REIT stock prices have rebounded in recent months from the large drops at the outset of the pandemic, the REITs have been net-sellers in 2020 as they attend to operational 'blocking and tackling' and monetizing non-core assets.

## Driving a significant amount of the supply and increase in medical real estate transactions have been physician-owners of ASCs and Surgical Hospitals as these groups address succession planning and explore M&A growth and liquidity options.

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Most commonly, this comes in the form of a sale-leaseback combined with continued physician-ownership in the real estate and/or a tax-deferred structure through an UPREIT or §1031 like-kind exchange.

The physician mindset of real estate ownership has continued to evolve as more and more physicians opt-out of real estate ownership and opt-in to practice and ASC ownership. Without

addressing a long-term real estate strategy, the ownership alignment between the practice and the real estate has the potential to devolve into disparate ownership. Physician-owners that are aware of this potential outcome have increasingly decided to monetize or partially monetize their real estate to take advantage of the high valuation multiples and to keep their focus on patient care and operational growth opportunities.

## Recent Case Study



### THE OBJECTIVE:

The original founders of a physician-owned hospital and ASC were interested in monetizing their real estate to prevent a potential imbalance between retiring physicians and incoming physicians but also wanted to maintain a level of control and alignment with the real estate.

### THE SOLUTION:

HREA's Hybrid Sale-Leaseback Model allows physicians to monetize 51% - 90% of their real estate ownership in a tax-deferred manner and maintain physician-alignment, maximum control, and future capital commitment for a new MOB.

### THE RESULT:

- HREA's discreet marketing process ensured a competitive and transparent bid process generating 15 qualified purchase offers.
- The physicians sold 80% of their ownership generating a 16x valuation multiple.
- New lease features long-term operational control with no requirement for physician guaranties.
- Included additional funding from the real estate partner to expand the campus with a new MOB.
- Maintained continued alignment between the practice and the real estate.

# HREA | HEALTHCARE REAL ESTATE ADVISORS

H R E A

HREA focuses exclusively in working with healthcare providers in advising on transactional real estate strategies. The investor landscape is always changing with new capital being raised. HREA's frequency in the market enables us to align the investment opportunity with a number of capital sources that will pay a premium.

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HREA is a national leader in advising healthcare providers and real estate investors with various monetization strategies, including disposition, debt & equity recapitalization, and tax-deferred structures, such as the §1031 Exchange or UPREIT. In addition, HREA's capabilities also include providing health systems and physician groups with 100% non-recourse financing for new development and expansion, as well as monetizing surplus and non-essential real estate assets.

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Represented  
Transactions

\$3+  
Billion  
Healthcare Assets Sold

20+  
Years  
Healthcare Real  
Estate Experience

Healthcare-  
Focused  
Specializing in MOBs, ASCs, Surgical  
Hospitals, Post-Acute & Behavioral



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