

\$16B IN HEALTHCARE REAL ESTATE SOLD IN 2021

H R E A

healthcareREA.com



SOLD: SE Michigan Medical Office Portfolio

RECORD BREAKING YEAR FOR HEALTHCARE REAL ESTATE

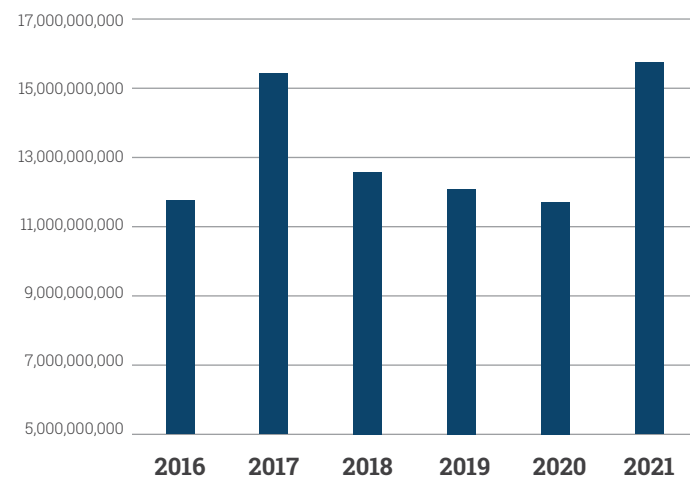
Investment demand for healthcare real estate, including MOBs, surgical hospitals, and ASCs, exceeded all expectations for 2021 with total annual investment sales surpassing \$16 billion in 2021, up from \$11.7 billion in 2020.

Healthcare real estate transaction volume for 2021 grew year-over-year by \$4.3 billion with nearly 75% of the activity occurring during the second half of 2021.

Strong fundamentals prior to the pandemic and the relative resiliency of healthcare real estate coming out of the pandemic has attracted a broad range of investors to the sector. The combination of aging demographics in the U.S., predominantly among the 65+ cohort, and an increase in elective-based and higher acuity procedures being performed in an outpatient setting or specialty hospital, has led to an increase in demand for healthcare assets as institutional investors seek out more stable risk-adjusted returns.

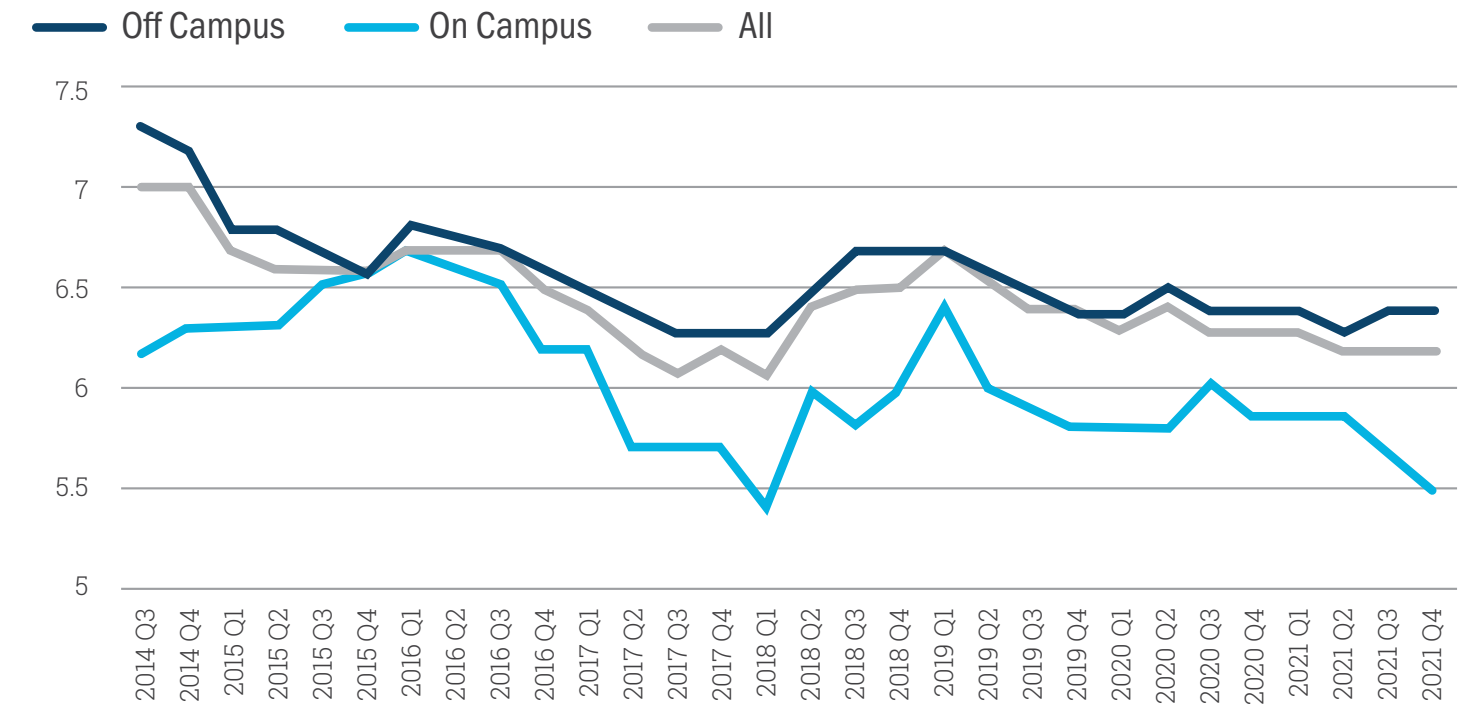
Healthcare real estate valuations are at record highs with valuation multiples ranging from 16x - 21x EBITDA. A significant amount of this valuation lift can be attributed to institutional capital rotating out of other types of commercial real estate sectors, such as office and retail, and into healthcare real estate where investors can expect stability, positive demand drivers, and a lower correlation between healthcare expenditures and the broader economy.

MOB Annual Sales Volume



Source: RevistaMed

Medical Office Cap Rates - On & Off Campus



Source: RevistaMed

MOB cap rates lower over the course of 2021

As can be seen from the graph above, both on-campus and off-campus cap rates have come down over the course of 2021 (lower cap rate = higher valuation). This time last year, on-campus MOB cap rates were, on average, 5.9% as compared with 5.5% during the 4th quarter. Similarly, medical office buildings not located on a hospital campus had cap rates that were also less than a year ago – an indication that institutional investors continue to recognize the stability of off-campus MOB in the delivery of healthcare, offering convenience for the patient but also expanding market share.

The combination of persistent inflation and a labor market that is beginning to expand makes continued gradual Fed rate hikes likely throughout 2022. In a rising interest rate environment, it is easy to predict that the higher cost of capital will have a negative impact on healthcare real estate valuations. In the short term, we anticipate buyers to absorb the spread between cap rates and borrowing costs but not for long.

ON-CAMPUS MOB CAP RATE SHIFT

5.9%
2021 AVERAGE CAP RATE

5.5%
CURRENT AVERAGE CAP RATE

What is driving the volume last year over prior years?

- ▶ Valuations for healthcare real estate at an all-time high with EBITDA multiples of 16x - 21x
- ▶ Interest rates are going up, which has a negative impact on valuations
- ▶ Inflation eroding disposable income causing investors to shift towards non-discretionary spending assets, such as medical vs non-essential retail
- ▶ Pandemic causing investors to 'rethink' traditional office and impact of e-commerce, driving capital towards recession-resistant assets
- ▶ Concern tax rates going up as a result of unprecedented Federal spending and national debt
- ▶ Pandemic accelerated migration of patients from traditional hospital setting to ASCs and surgical hospitals
- ▶ Geopolitical uncertainty and stock market volatility - investors are seeking stable cash flow and capital preservation

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). This changed in 2021 with Private Equity Groups still accounting for the majority of total sales volume, 63%, but on balance, they were net sellers for the year making up 75% of the sales volume.

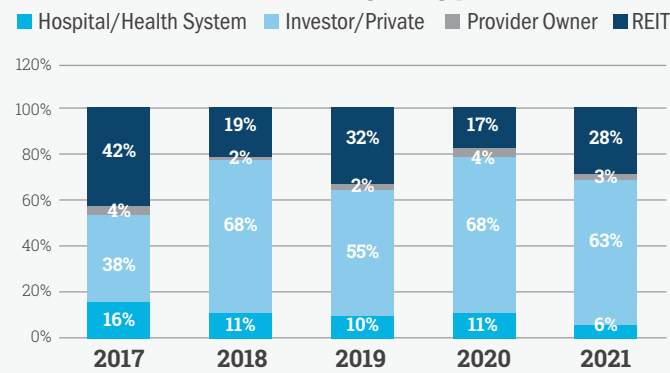
What is noticeable from the graph on the prior page is the increased investment activity among REITs in 2021 with REITs acquiring 11% more than they had in 2020. As a whole, REITs were net-sellers of medical office buildings in 2020, as many took the opportunity to refine their portfolio holdings. However, in 2021, REITs were net-buyers again with the increase in activity primarily driven by a record number of portfolio transactions as private equity investors recognized the opportunity to sell at historically high valuations coupled the uncertainty of long-term capital gain rates.

Annual REIT acquisition volume grew by 11% in 2021



SOLD: Comprehensive Out Patient Joint & Spine Institute Center

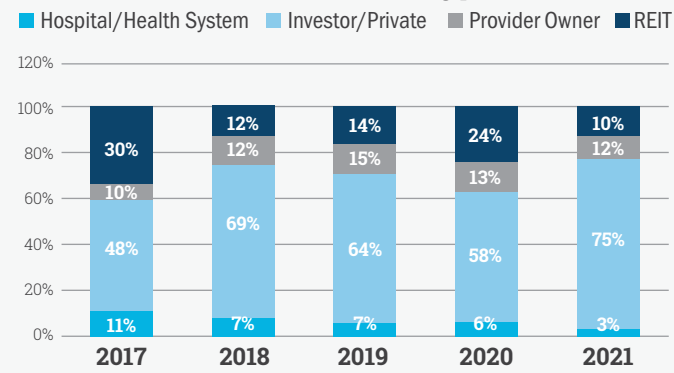
Medical Office YoY Buyer Type



Source: RevistaMed

Despite all the challenges that COVID-19 brought to bear on healthcare providers throughout 2021, including the temporary suspension of outpatient procedures, the medical office real estate sector across all geographies is performing very well as an asset class. Class A medical office performed particularly well throughout the pandemic and has continued to see demand as healthcare procedure volumes have returned.

Medical Office YoY Seller Type



Source: RevistaMed

SOLD: Edgewood Surgical Hospital



HREA 2021 Represented Transactions



Lohman Endoscopy Center
State-of-the-Art Freestanding MOB & ASC
13,444 SF | Las Cruces, NM



Bakersfield MOB Portfolio
Class A Medical Office Buildings
65,140 SF | Bakersfield, CA



Mercy Iowa City Rehabilitation Hospital
Inpatient Rehabilitation Hospital
54,600 SF | Coralville, IA



Tri-City Surgical Center
Class A Multi-Specialty Surgery Center
12,718 SF | Prescott, AZ

HREA's team of professionals advised on the sale of 27 healthcare real estate assets throughout the U.S. totaling \$312 million in 2021.



Panama City Surgery Center
Ambulatory Surgery Center
17,000 SF | Panama City, FL



Urology Nevada
Newly Built Specialty MOB
21,500 SF | Reno, NV

CONSIDERING THE SALE OF YOUR MEDICAL REAL ESTATE?

About HREA

HREA | Healthcare Real Estate Advisors focuses exclusively in representing physician-owners in the sale, partial sale, and development of their clinical real estate throughout the U.S.

The principals of HREA have completed over \$3 billion in healthcare real estate sale transactions throughout the U.S., including a variety of physician-owned medical office buildings, surgical hospitals and ASCs, achieving record setting prices and flexible terms for the practice.

Property valuations are at record highs (18x – 20x valuation multiples) with institutional capital favoring medical real estate where investors see stability, positive demographic fundamentals, and a lower correlation between healthcare expenditures and the broader economy.

Contact one of our specialists for a complimentary valuation analysis >>



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