

FOCUS

NATIONAL MOB INVESTMENT SALES MARKET UPDATE

FALL 2018



Focus is designed to provide our friends in the healthcare real estate industry with a market overview and forecast for the medical office building investment sales market. We track the numbers, the trends and the fundamentals impacting the market. We sell U.S. medical office buildings in the \$5 million to \$100 million+ price range.



Paul Zeman, President
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Market Recap & Predictions

Medical Office Buildings and Healthcare Facilities, my favorite sector of Commercial Real Estate, continues to be vibrant and healthy despite rising interest rates while some other sectors are beginning to experience a slowdown.

Investors for MOB's continue to raise capital faster than they can deploy it and while many are buying and holding for the long term there are others focused on acquiring a good number of properties and marketing them as a portfolio to institutional investors at a compressed cap rate after a relatively short hold period.

Despite the constant demand for quality product one thing is for certain, when it comes time to sell, even the best properties don't bring top dollar unless properly presented to the market.

Vacancy & Rental Rates

It was only two years ago that we were anticipating vacancy dipping into the single digits and even with a significant number of properties being delivered to the market we're seeing 7.23% as a national average. The other half of this supply and demand equation pushes rental rates higher as well. You will notice the 2018 graph for each is not sloping as aggressively as it has over the two previous years. Some analysts we refer to as "chartists" would use this data to predict the future trend and likely conclude these figures are leveling out.

We are predicting Cap Rates will begin to rise soon (not by much) and for Dollar Volume to be at or near \$10B this year.

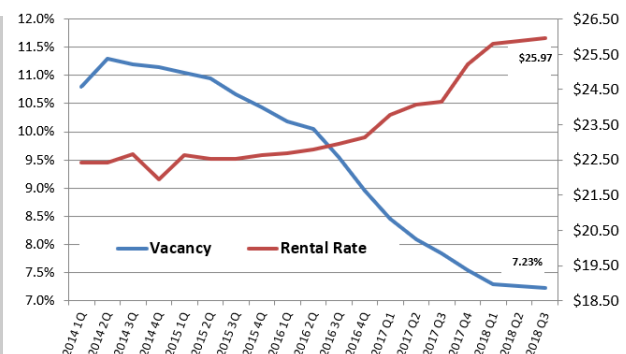
We go into greater depth analyzing vacancy & rental rates, cap rates & dollar volume throughout this issue of FOCUS.

Disposition & Acquisition Services

For an analysis of a particular market area, portfolio or asset, you're invited to contact me personally at (800) 408-2855 x 133

Paul Zeman

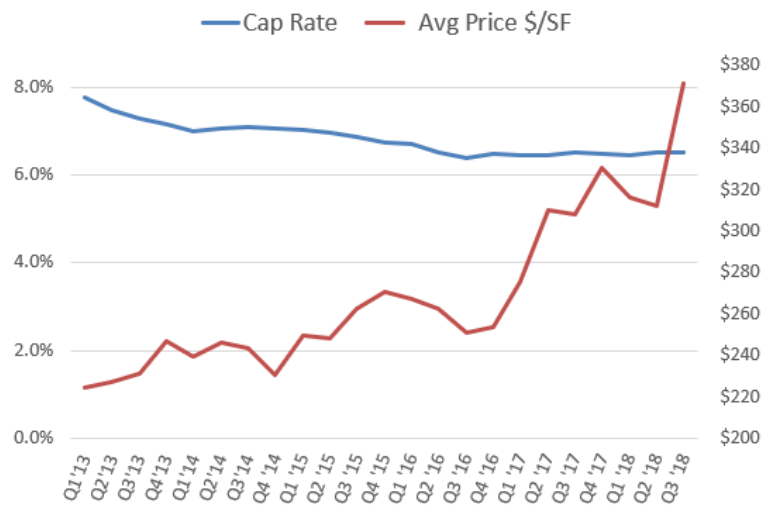
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Average 12 month Cap Rate STILL at 6.5%
Average Price Per Square Foot of \$371

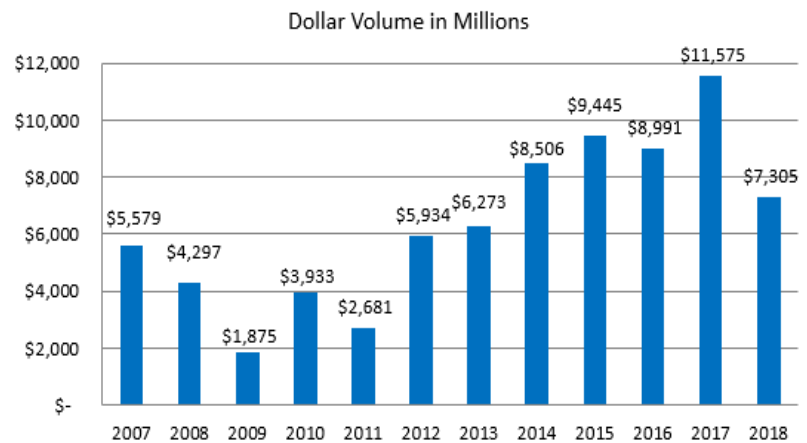
We have all heard from the analysts that as interest rates rise, so will cap rates. In many sectors of commercial real estate the formula is along the lines of every 100 basis points increase in interest rates will net at least a 50 basis point increase in cap rates. We have not been seeing that in our small sector of MOB investments. Why not? Large portfolio transactions have helped keep this average low and the demand for quality MOB's has never been higher. Not all MOB's trade at or below 6.5%. It's important to stress this is an average. Other factors include the credit of the tenant, length of the leases, lease structure, escalations, proximity to hospital campus, and each particular market. Average price psf soared based on some unique transactions in the 3rd Quarter.



Source: Real Capital Analytics www.RCAnalytics.com and Bull Realty Research

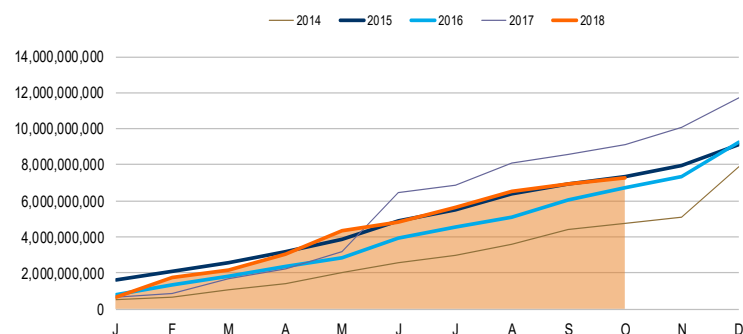
Dollar Volume

Dollar Volume for 2018 is a near mirror image of what we saw in 2015, ahead of 2014 and 2016 but not quite on pace with the record we set in 2017. Historically the 4th Quarter is the strongest and we are anticipating a finish at or near the \$10B mark. Over time as new Investors enter the market and institutional investors continue to pursue much larger transactions we expect dollar volume will continue to increase as long as quality product is delivered to the market. The 4th Quarter is shaping up well already with \$800mm pending. While these figures are based on transactions greater than \$5mm it's also interesting to note that we have seen roughly \$1.4B (or another 19% of the total dollar volume) in transactions this year for MOB's less than \$5mm.



Source: Real Capital Analytics www.RCAnalytics.com and Bull Realty Research (MOB Transactions of \$5mm+)

Cumulative Monthly Volume \$ (mil)



Source: Real Capital Analytics www.RCAnalytics.com and Bull Realty Research (MOB Transactions of \$5mm+)

Market Performance & Transactions

Volume (\$)	Prior 12 months	10,037,887,549	-15.2%
	Q3'18	2,111,865,887	-20.8%
# Props	Prior 12 months	600	-15.7%
	Q3'18	140	-2.8%
Total SF	Prior 12 months	31,930,271	-20.7%
	Q3'18	6,262,801	-21.3%
Avg Price \$/SF	Prior 12 months	330	7.3%
	Q3'18	371	2.7%
Avg Cap Rate	Prior 12 months	6.5%	-7
	Q3'18	6.5%	-4

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Recently Sold



\$10,400,000
Knoxville Dermatology Group
MOB, Knoxville, TN



Piedmont Walton Hospital MOB
Formerly Clearview Regional
Loganville, GA

An Interesting Perspective on Millennials

Selling a medical practice to a larger group or to a healthcare system can be driven by a myriad of factors. During a recent dinner meeting with a group of physicians that had just sold their practice I heard a new one. This group explained to me many of the millennials (those currently ages 22 to 37) they have interviewed have little interest in owning and running a practice. It's their preference to secure a great employment opportunity with a high salary, strong benefits and not take on the risk of owning all or even part of the business. The physicians went on to explain selling a practice might be necessary to keep it alive after the older providers, in many cases the founders, have retired. Offering younger physicians partial ownership in the business and in some cases the real estate did not seem to have the impact it used to have. While I'm sure this is not necessarily the case for ALL millennials I found this conversation and perspective to be very interesting.

This group separated the sale of the practice and the real estate in the same fashion we wrote about a few months ago in an article called "Should you Sell Your Real Estate with Your Practice." As discussed in that article, the real estate trades at a much higher multiple than the business. It's ideal to sell the real estate first since you will still have free reign on how your lease needs to be adjusted to help maximize asset value. If you have already sold the practice there are other strategies that can be implemented to get maximum dollars.

In other editions of FOCUS we've written articles on "The Lure of the Sale Leaseback," "How Slight Variations in Lease Terms Might Alter your Value by Millions," "If you Aren't Selling You're Buying" (*one of my personal favorites*) and "How Certificate of Need (CON) in some states can affect the value of your property." If you would like a recap on any of these subjects or one that seems to be applicable to your current situation, you are invited to contact me.

Paul Zeman

President, Healthcare Real Estate Services
Partner, Bull Realty, Inc.

The Healthcare Real Estate Services Team creates business plans specifically tailored to your goals. If you are a seller, we have a great degree of flexibility in our mission to find you the right type of buyer at the right price and at the right terms. If you are an investor, we have the ability to secure the specific property type to match your investment criteria. We appreciate the opportunity to work with you and invite you to call on us if we may be of service in any way.

Have you seen or heard America's Commercial Real Estate Show?



The national show has been on radio stations, iTunes, You Tube and www.CREshow.com since 2010. Bull Realty is the presenting sponsor and Michael Bull is the host. Industry economists, analysts and market leaders including Michael share market intelligence, forecast and success strategies. Check it out sometime and let us know what you think!

Just search "The Commercial Real Estate Show" on google or on iTunes, YouTube or your favorite social media site.



Best Disposition Marketing in the Nation: Meet the Team

The Healthcare Real Estate Services Team provides disposition, acquisition, monetization, brokerage and advisory services. Clients include MOB developers, high net-worth individuals, healthcare providers, investors and REITs. We execute the marketing and sale of healthcare properties on a national basis. Our experienced team has built an extensive buyer database and completed transactions with all the major healthcare buyers in the country. This level of expertise and familiarity with the top buyers in this sector helps us provide clients with unparalleled value. *The high level of service you have come to expect here is possible because of each team member's support and dedication:*



Paul Zeman, President

As a former healthcare administrator and executive, Paul understands the internal workings of healthcare and how they affect the value of your real estate. He places your best interests and objectives ahead of his own and offers levels of service and accountability that are unmatched in the industry. As President of our Healthcare Real Estate Services division, he leads the team to ensure a high level of client services.



Michael Bull, Partner

With 30+ years in investment sales, Michael provides a tremendous amount of experience and knowledge in negotiating transactions, agreements and maximizing asset value.



Scott Jackson Analyst



Aubri Lienemann Marketing



Mitch Smith Leasing



Colt Neal Business Development

You are invited to contact our team for acquisition and disposition services or if we can be of any other service.