

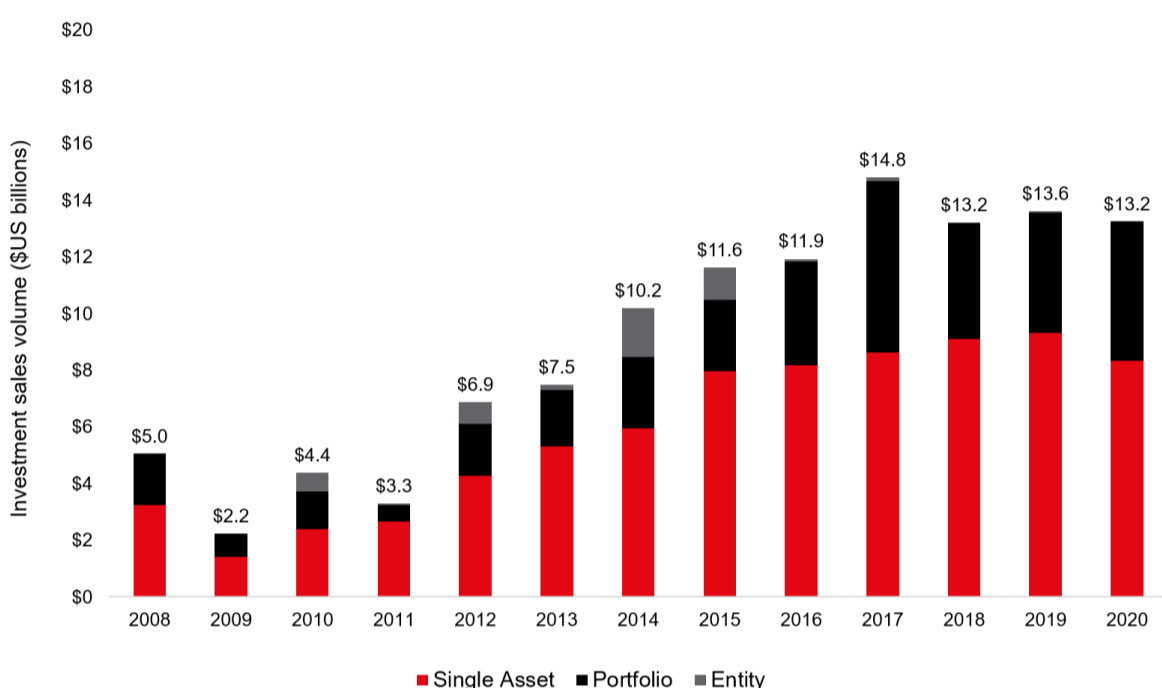
Medical Office

Perspectives

February 2021

JLL Research reports medical office sales totaled \$13.2 billion in 2020, in line with 2019 and 2018 and near peak 2017 trades

Total Medical Office Investment Sales



Source: JLL Research, Real Capital Analytics (transactions larger than \$2.5 million)

Key points:

- Investor appetite for medical office properties remained strong in 2020. Despite the obstacles to real estate investment and financing during the pandemic, sales volumes in 2020 was on par with 2018 and 2019, at more than \$13 billion for each of the three years. The consistency of medical office sales compares favorably to U.S. investment sales which was down 33% overall in 2020. The continuity in healthcare is a testament to the durable investment characteristics of medical office, even in the face of pandemic-related operational challenges for healthcare providers. In fact, 2020 was the sixth consecutive year in which Medical Office Building sales exceeded \$11 billion – the new normal for an alternative asset class that is rapidly increasing in popularity, especially as a defensive play in a volatile market landscape.
- Outsized allocation to medical office by investors continued in 2020, with dry powder exceeding supply, especially for core medical office properties. Medical office is seen as a compelling fixed income equivalent and a good alternative within office. These characteristics have fueled fundraising by private investors and investment managers in both dedicated healthcare funds as well as commingled discretionary funds. More than \$5 billion of dry powder in the form of equity capital remains ready to deploy for healthcare property acquisitions. Select public healthcare REITs increased their acquisition volume meaningfully in 2020. Favorable financing terms provided a boost for leveraged investors. After a modest hiccup at the outset of the pandemic, lending came roaring back as commercial real estate lenders witnessed the superior performance of their healthcare property loans, driven by long-duration leases and strong tenant credit. Accretive financing terms were driven by low nominal interest rates, high loan advances and favorable interest only or long amortization schedules. In turn, lending supported strong property valuations and superior investor returns which greenlighted further medical office investment.
- Portfolios remain an outsized component of medical office sales volume. During 2020, portfolio trades totaled \$5 billion. It was the fourth consecutive year that portfolios comprised more than 30% of total medical office sales. This includes the banner year of 2017 with \$14.8 billion in total sales, punctuated by the \$2.8 billion Duke Realty Healthcare division assets sale. The large number of major recapitalizations in 2020 by long-tenured industry participants was a notable occurrence. Recapitalizations, somewhat uncommon historically in medical office, provide a convenient entry point for new investors in the sector seeking to piggyback on the expertise and operating platforms of experienced investors. This approach to investment signals the maturation of this alternative asset class which requires large accumulated portfolios. The largest holdings of medical office amongst the top tier of investors are now greater than 20 million square feet.
- Medical office remains a favored sector for real estate investment at this point in the cycle, as evidenced by new entrants into the space (institutional investors, private equity funds and HNWI individuals). The compelling investment thesis for medical office has generated a significant supply of investment capital (debt and equity) waiting to be deployed into this space, providing a very liquid and competitive market for sellers. The demand-driven increase in healthcare services from a growing and aging population (10,000 people per day turning 65) has pushed hospitals and health systems to create lower cost outpatient care alternatives. Medical tenants will find ready capital waiting to meet these needs.

thank you

#1

Healthcare capital markets
advisor 2018-2020*



jll.com/capitalmarkets

* Ranking is for medical office and hospital facilities only; medical office data provided by Real Capital Analytics. Based on combined 2018-2019 transaction volumes for Jones Lang LaSalle Americas, Inc. and its affiliates ("JLL"), and Holliday Fenoglio Fowler LP and its affiliates ("HFF") prior to being acquired by JLL on July 1, 2019.

\$1.8B

2020 medical office and hospital
investment sales, financing and
equity placement

5.6M

medical office square feet

1,124

beds in hospital facilities

\$10B

2018-2020 medical office and
hospital transactions

Recent activity

New Listing - Equity Placement



Thomas Park Investments

93,774 s.f.
MD, MA

New Listing - Investment Sale



Omega Medical Center

77,511 s.f.
Rockville, MD

[View listing>](#)

New Listing - Investment Sale



Summit Medical Group

58,171 s.f.
Warren, NJ

Closed - Investment Sale & Debt Placement



Project Light

270,831 s.f.
Various

Closed - Investment Sale



Clearview I & II Medical Office Buildings

121,629 s.f.
Grapevine, TX

Closed - Investment Sale



Tenth Street Medical Building

29,789 s.f.
Santa Monica, CA

Closed - Investment Sale



Saint Anne's - AFC Urgent Care

10,211 s.f.
New Bedford, MA

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