

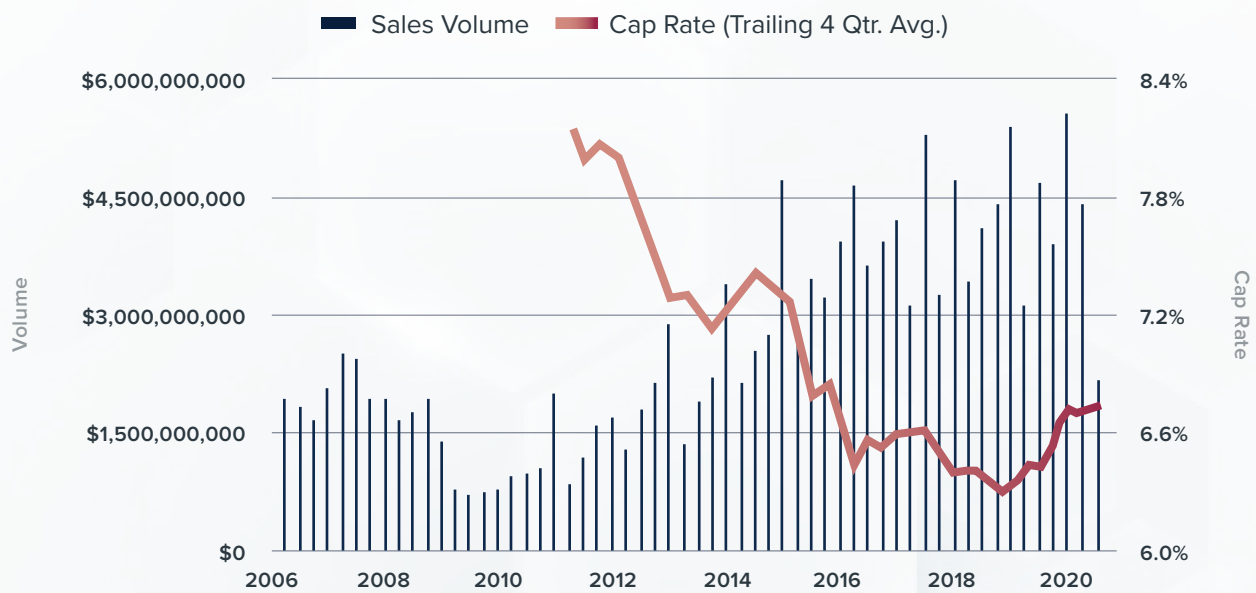
NET LEASE HEALTHCARE

REPORT

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Despite the current health crisis, the healthcare sector’s performance is strong. With the growing aging population, paired with the onset of COVID-19, the demand for safe and prudent healthcare services is at an all-time high. The delivery of healthcare services has been affected by travel restrictions and social distancing. As a result, practitioners have introduced services such as telehealth and drive-through tests, which are transforming the preferences of both patients and clinics. Although the overall pause in activity during the peak of the pandemic has caused concern, deals are still closing, and healthcare investments are still being sought out due to the product type’s resilience.

MEDICAL OFFICE INVESTMENT SALES TRENDS



Source: CoStar

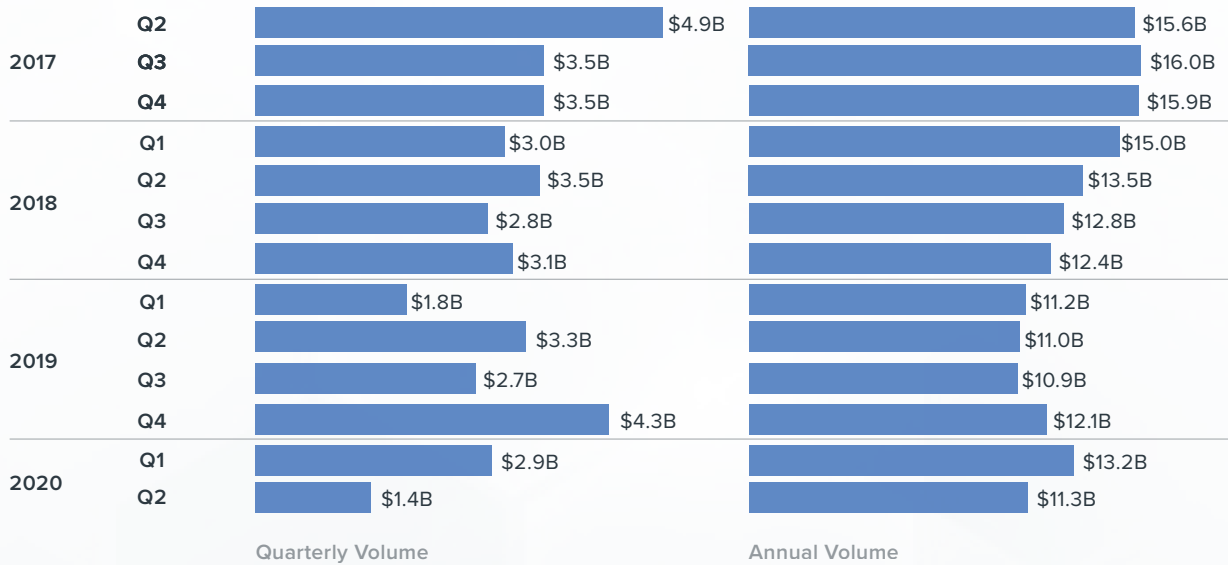
TRANSACTIONS

While the effects of COVID-19 spread across almost every industry, the months of May and June saw improvements in the healthcare sector. During that time, travel restrictions and stay-at-home orders were lifted, allowing medical offices and other healthcare providers to see patients for non-emergency care. Medical office buildings traded at an average 6.6 percent cap rate for the duration of Q2 2020, according to Real Capital Analytics. As of August, the healthcare sector is starting to show signs of new activity as savvy investors take advantage of this opportune time to expand or renegotiate leases.

With an incredible performance in past recessions, experts deem medical office buildings as a durable asset class. Going in hand with its reputation, sales volume doubled from 2012 to 2017 and now totals \$3 billion alone in portfolio deals, as of July 2020. The total medical office building transaction volume in Q2 2020 reached \$1.5 billion, compared to the \$3.3 billion recorded in Q2 2019, according to Revista. While single-property transactions were down 35 percent in Q2 2020 compared to last year, the primary issue was the difficulty in procuring financing during the COVID-19 environment.

MOB TRANSACTION VOLUME SLOWS IN Q2 2020

Volume Trends - MOB (trades \$2.5M+) | Data updated 7/20/2020 (Q2 2020 Volume Preliminary)

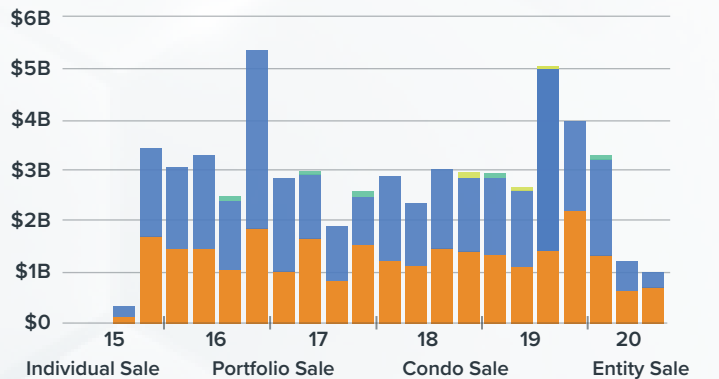


Source: *Revista*

HEALTHCARE TODAY

Now that the pandemic has been present for some time, healthcare providers who became better equipped with personal protective equipment (PPE) can resume practices under certain guidelines. While facilities open back up, healthcare providers will reassess their services, processes, and waiting rooms to better protect employees and patients. In fact, medical practices are already back up to running at 90 to 95 percent of pre-pandemic levels.

Sales Volume by Transaction Type



Source: *CoStar*

Cap Rate



Source: *CoStar*

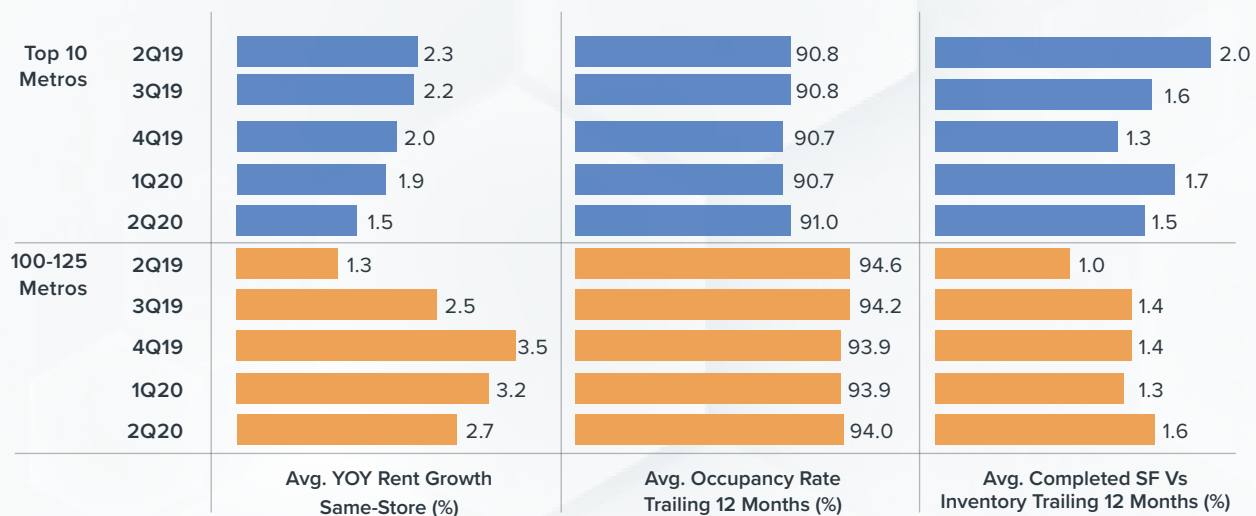


LEASING

Outpatient facilities are benefiting from the \$175 billion short-term relief generated from the CARES Act and the \$2.1 trillion for small businesses, according to Revista. This aid likely contributed to the 90 percent of medical office owners submitting rent payment during the lockdown period, with little rent relief or deferment. Despite elective surgeries on hold and accelerating trends such as telehealth, drive-through testing, and teleworking administrative staff, patients demonstrate a growing acceptance in operations. Medical office investors still seek out spaces for the long-run as the growth and demand for healthcare services increases in outpatient facilities. Regardless of the new trends taking off, they are serving as great supplements, but not replacements.

SMALLER METROS BOAST HIGHER MOB OCCUPANCY, RENT GROWTH

Average MOB Stats by Metro Group

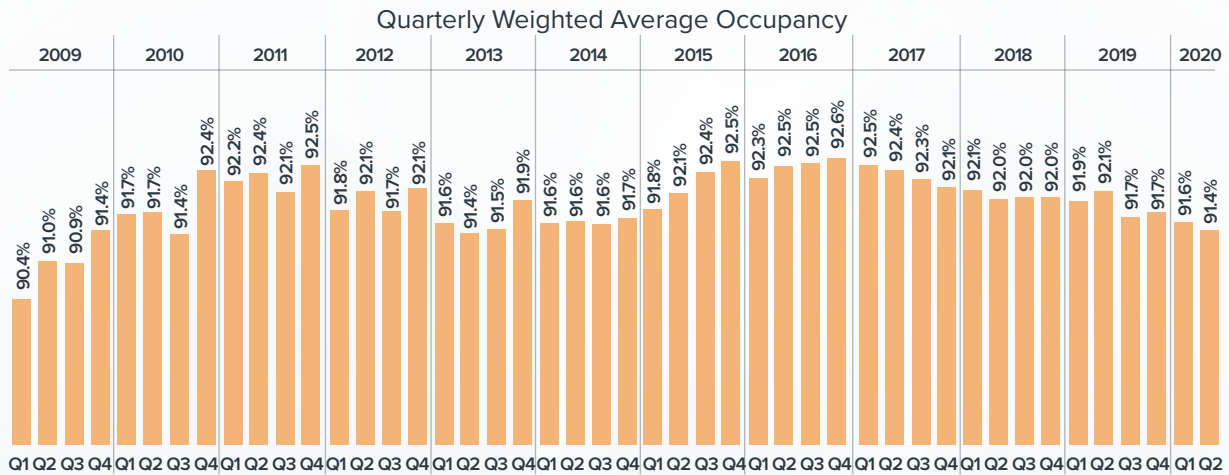


Source: Revista

The pandemic still finds ways to affect healthcare systems' bottom line, and many will try to maintain or improve profit margins by renegotiating contracts, adjusting leases, and cutting office leasing space. The incredible demand for PPE could lead to an increase in the use of other real estate properties.

OCCUPANCY

For the last several years, medical office buildings have been favored by investors for various reasons, including long-term leases, consistent occupancy and income, strong tenant credit quality, and tenant retention. Revista reported that occupancies in U.S. medical office buildings have fluctuated between 91 and 92 percent between the Financial Crisis of 2008 and today. Further, there were only two instances where occupancy went negative during the Financial Crisis, and today, the healthcare sector's performance exceeds that metric in various markets across the nation.



Source: Revista

DEVELOPMENT

Of the projects that were scheduled to complete in Q2 2020, more than 20 percent were delayed 30 days or more as developers waited for the opportune time to open and put the property to use, according to Revista. Currently, 380 projects are scheduled to open in the second half of 2020; however, some will likely be pushed into 2021.

TOP 50 METRO AREAS - MOB FUNDAMENTALS STEADY THROUGH Q2 2020

Top 50 Metros - MOBs 7,500 SF+

		MOB Count	Total Inventory SF	Occupancy Rate Trailing 12 Months (%)	Completed SF Past 4 Quarters	Absorption SF Past 4 Quarters	Rent NNN Avg	YOY Rent Growth Same Store (%)
2018	Q3	17,112	773.6M	91.6	15.8M	6.0M	\$22.45	2.2
	Q4	17,169	777.5M	91.4	17.1M	10.0M	\$22.42	2.2
2019	Q1	17,209	780.0M	91.2	16.3M	10.9M	\$22.25	2.1
	Q2	17,269	784.2M	91.1	14.7M	9.8M	\$22.13	2.1
	Q3	17,311	786.6M	91.0	13.1M	9.2M	\$22.07	2.1
	Q4	17,372	790.3M	91.0	12.8M	10.6M	\$22.08	1.8
2020	Q1	17,423	794.5M	91.0	14.5M	14.2M	\$22.01	1.6
	Q2	17,467	797.8M	91.2	13.6M	22.2M	\$22.02	1.5

Source: Revista

There is no doubt that the coronavirus has brought on changes within every industry, including healthcare. The acceleration in trends and new opportunities presented will distinguish those willing to adapt to this quickly evolving environment and establish top players. Educated investors and healthcare organizations will take advantage of the new norm and position themselves to weather the rest of 2020. For more information on the state of the healthcare industry and trends, please contact a specialized Matthews™ agent today.

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