



# MOB SALES REBOUND IN 2010?

*2009 MOB sales were the lowest since 2002; but industry experts foresee a turnaround*

By John Mugford

Back when the New York-based Real Capital Analytics (RCA) Inc. first started tracking sales of medical office buildings (MOBs) at the turn of the new century, the industry was in its infancy. At that time, MOBs were not considered a significant market sector by professionals involved in commercial real estate.

Commercial real estate professionals and investors had their reasons for not including MOBs on the radar, as there were just 71 medical office sales recorded nationwide in 2001; total volume was \$749 million. The numbers did not change much in 2002, when there were 96 MOB sales for a total volume of \$944 million.

But things began changing in 2003, when there were 231 sales for a total volume of \$1.6 billion. For the most part, the number of sales and the yearly volume continued to climb throughout the decade – in large part because institutional investors began to take notice. The remarkable run, however, came to an end starting in

the second half of 2008, when the recession finally caught up with MOB sales. (RCA only tracks individual MOB sales of \$5 million or more.)

As the recession continued in 2009, MOB sales figures took a big hit, looking more like they did back in the sector’s infancy. According to RCA, there were just 121 sales in 2009 for a total volume of \$1.48 billion. That volume marks a significant drop from 2008, when there were 398 sales and total volume of \$4.07 billion. The drop in sales volume from 2008 to 2009 was about 63.6 percent.

The year 2009 also saw a significant drop in the average sales price per square foot (PSF) for MOBs. For 2009, the PSF was \$211, down from \$225 in 2008. That’s a year-over-year decrease of 6.2 percent, marking the first time that the PSF has decreased since 2003, when the average sales price per square foot was, remarkably, \$118.

The average sales capitalization (cap) rate also saw its first significant increase of the decade. Since 2001, when the average cap rate was 9.9 percent, cap rates had declined steadily through 2007, when they bottomed out at 6.9 percent. The national cap rate started creeping upward in 2008, finishing the year at 7.4 percent.

In 2009, the nationwide average cap rate was 8.1 percent, according to RCA, with many professionals saying the “true” cap rate for a typical sale is currently in the mid-8 percent range. (A cap rate is an estimated return on an investment based on the sale price and annual net operating income, or NOI. The lower the cap rate, the better for the seller.)

Moving into 2010 and beyond, many healthcare real estate professionals foresee better times for MOB sales volumes. One of the main reasons for a predicted increase in volume is that a growing number of investors have capital available – those major investors include both publicly and privately held healthcare real estate investment trusts (REITs).

“I think there’s going to be more of the private investment vehicle, such as the private REITs,” says Malcolm S. Sina, CEO of Palm Beach Gardens, Fla.-based DASCO Cos., a developer and owner of MOBs.

John R. Smelter, the San Diego-based senior director of the healthcare real estate group for the national brokerage firm Marcus & Millichap, says he believes annual sales velocity could almost double within the next couple of years – from the 2009 figures.

“We’re already starting to see it in the REIT activity and institutional capital that has come back to the space,” he says. “I also think there is a lot of capital that had been sidelined that will be looking for asset preservation, where they will be looking at the stability of medical office properties to protect their money.” □

Photos (clockwise from top left): East Mequon MOB/ASC, Mequon, Wis. (Healthcare Trust of America Inc.); Cancer Centers of North Carolina, Asheville, N.C. (Shattuck Hammond Partners); and Medical Pavilion at South Meadows, Reno, Nev. (Pacific Medical Buildings)

# SELECTED TOP MEDICAL OFFICE BUILDING DEALS OF 2009

PROPERTY NAME / ADDRESS / CITY, STATE	YEAR BUILT	PRICE (000s)	SQUARE FEET	PRICE / SQ. FT.	BUYER / SELLER / BROKER
Aurora Health Care Portfolio (10 buildings) Greater Milwaukee, Wis.	N/A	\$169,000	643,499	\$263	Buyer: Seniors Housing Property Trust Seller: Aurora Health Care Broker: Cushman & Wakefield
Greenville Hospital System MOB Portfolio (16 buildings) South Carolina	N/A	\$162,820	855,000	\$190	Buyer: Healthcare Trust of America Seller: Greenville Hospital System Broker: HRE Capital
Novant Portfolio (22 buildings) Winston-Salem and Charlotte, N.C.	N/A	\$122,000	641,000	\$265	Buyer: CGRE Holdings Seller: Novant Health Broker: Colliers Turley Martin Tucker
Sun City, Sun City West MOB Portfolio (17 buildings) Sun City and Sun City West, Ariz.	N/A	\$107,000	641,000	\$265	Buyer: Healthcare Trust of America Seller: Roskamp Management Co. LLC Broker: N/A
100 UCLA Medical Plaza Los Angeles	1991	\$43,000	123,242	\$349	Buyer: University of California System Seller: Held Properties Broker: N/A
Alexian Brothers Health System MOBs (Two buildings) Chicago	N/A	\$42,250	155,000	\$273	Buyer: Ventas Inc. Seller: NexCore Group LP Broker: N/A
Center of Ambulatory Surgery 1145 19th St. N.W. Washington, D.C.	1976	\$40,115	128,312	\$313	Buyer: Senior Housing Property Trust Seller: HRPT Properties Trust Broker: In-house
Crozer-Keystone Medical Facilities (Two MOBs, one healthplex) Springfield, Pa.	N/A	\$38,000	256,000	\$148	Buyer: Capital Solutions Inc. Seller: Crozer-Keystone Health System Broker: CB Richard Ellis
Decatur MOB Portfolio 13 buildings Decatur, Ill.	N/A	\$31,000	255,000	\$122	Buyer: Lillibridge Health Trust Seller: Decatur Memorial Hospital Broker: Shattuck Hammond Partners
Medical Arts I W. Johns Crossing and Medlock Bridge Duluth, Ga.	2009	\$27,168	107,144	\$254	Buyer: Dev. Authority of Fulton County Seller: CB Richard Ellis Investors Broker: In-house

**Source:** Most data provided by Real Capital Analytics Inc., except some information and additional details, which were obtained by **Healthcare Real Estate Insights™** staff.

**Disclaimer:** This data is based on independent reports of properties and portfolios \$5 million and greater. The data is believed to be accurate but is not guaranteed. Wolf Marketing & Media LLC, publisher of HREI™, is not responsible for its accuracy.



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