



FINALLY, MOB SALES REALLY REBOUND

The second half of 2010 saw nationwide sales volume double from the first half

By John Mugford

It took a bit longer than anticipated, but the nationwide sales volume for medical office buildings (MOBs) indeed rebounded – no, took off – during the second half of 2010.

In the third (Q3) and fourth (Q4) quarters of last year, MOB sales totaled \$2.15 billion, which was more than double the volume from the first half of 2010. During the first six months of last year, MOB sales totaled \$1.03 billion. The statistics for MOB sales are provided by New York-based Real Capital Analytics (RCA) Inc., which shares its data each quarter with **Healthcare Real Estate Insights™**.

A year earlier, as a recession-devastated 2009 came to a close with total MOB sales of \$1.62 billion, many professionals predicted that the start of 2010 would bring good cheer and more-robust sales activity.

That was because, they noted, many potential buyers such as public and non-traded real estate investment trusts (REITs), as well as private equity capital sources and funds, had cash on hand and were ready to buy healthcare real estate. These potential buyers were hungry for MOBs, the professionals said, because of the property type's strong performance – when compared to other types of commercial real estate – during the Great Recession.

The optimism was shared by many healthcare real estate professionals. However, there was a potential hiccup on the horizon – a lack of MOB product on the market – and that indeed came to fruition in early 2010.

According to many real estate executives, as hospitals and health systems wrestled with the recession and sorted through all of the pending changes in their industry in 2009, such as the anticipated passage of healthcare reform, they did not have enough time to develop strategies concerning real estate, including monetizing MOBs.

This dearth of available MOBs continued into the first half of 2010, which was the reason for the low level of sales in the first half of the year. While sales were low in the first quarter, demand, and therefore pricing, was quite high, as the average capitalization rate for Q1, which is a way to

measure the return on an investment, was at 7 percent.

But MOB sales rebounded so strongly in the second half of the year, according to brokers and investments bankers, because many private owners – such as developers, equity sources and other non-hospital owners – decided the time was right to put some of their medical facilities on the market in order to take advantage of good pricing, and, perhaps, to redeploy capital into areas that could grow their businesses.

Perusing the list of the year's top sellers – according to RCA's statistics – makes one realize that this was indeed the case.

The top seven sellers of MOBs in 2010 were composed of development firms, REITs and other private owners. The number one seller was Lillibridge Healthcare Trust, which sold all of its MOB holdings as well as the whole company, to Ventas Inc. (NYSE: VTR), a publicly traded, Chicago-based REIT. In the deal, Ventas acquired Lillibridge Healthcare Services and a total of 95 MOBs, many of which were owned in partnerships. According to RCA, Lillibridge sold a total of \$650 million worth of MOBs in 2010. Other big sellers were REITs, development firms and equity firms.

The highest-ranked health system seller of MOBs in 2010 was Dallas-based Tenet Healthcare Corp. (NYSE: THC), which ranked 8th and sold a total of \$76.2 million worth of properties.

BIG SECOND HALF

As noted, however, the second-half rebound was quite dramatic, as if a spigot were turned on.

And while many professionals say MOB prices are on the rise, especially for on-campus, Class A properties, RCA's statistics indicate that pricing remained steady for MOBs throughout 2010. The year-end capitalization rate was 8.1 percent.

At the height of the MOB sales market, from 2005 to 2008, the year-end, average cap rate remained below 8 percent. In the market's peak year of 2007 the cap rate was a record-low 6.8 percent. The lower the cap rate, the higher the price.

Many professionals believe that MOB sales will remain strong in 2011, in large part because of the strengthening economy and continued demand for medical properties.

Jonathan L. “John” Winer, an executive VP with private equity firm Seavest Inc., based in White Plains, N.Y., says: “Transaction volume of existing assets should increase, primarily driven by private sellers.”

In addition, some professionals believe that hospitals and health systems will, at some point, start putting MOBs on the market as well.

“There are still many monetizations by hospitals and health systems that will take place in the market,” says Philip J. “P.J.” Camp, managing director of national investment banking firm, New-York-based Shattuck Hammond Partners.

“Hospitals and health systems have a lot on their plates right now, and with their margins being reduced by reimbursement cuts and plenty of new expenses resulting from government regulations, including healthcare reform, there are some systems that are looking at monetizing assets in order to raise capital and boost their credit ratings, assuming the transaction is structured properly.” □

SELECTED TOP MEDICAL OFFICE BUILDING DEALS OF 2010

PROPERTY NAME / ADDRESS / CITY, STATE	YEAR BUILT	PRICE (000s)	SQUARE FEET	PRICE / SQ. FT.	BUYER / SELLER / BROKER
CommonWealth REIT portfolio (27 Medical Office Buildings) Located in 12 states	N/A	\$470,000	2,800	\$168	Buyer: Seniors Housing Prop. Trust Seller: CommonWealth REIT Broker: N/A
Lillibridge MOB portfolio 95 buildings (full and partial ownership) Located in a variety of states	N/A	\$371,000 (estimate)	5,700	\$129-172	Buyer: Ventas Inc. Seller: Lillibridge Broker: N/A
Pacific Medical Buildings portfolio (8 buildings) California and Arizona	N/A	\$298,000	828	\$265	Buyer: NHP Seller: Pacific Medical Buildings Broker: Shattuck Hammond
Columbia Development portfolio (9 buildings) In New York, Mass. and Florida	N/A	\$196,645	960	\$205	Buyer: Healthcare Trust of America Seller: Columbia Development Broker: HRE Capital
Baylor Medical Center Frisco (2 buildings) 5601 Warren Parkway Frisco, Texas	2002	\$133,500	311	\$428	Buyer: Healthcare Realty Trust Seller: Four entities Broker: N/A
Hock Plaza I 2424 Erwin Rd. Durham, N.C.	2004	\$97,900	327	\$289	Buyer: Hines Global REIT Seller: Brickman Durham LLC Broker: Holliday Fenoglio Fowler
Rendina portfolio (5 buildings) Variety of states	N/A	\$86,100	307	\$280	Buyer: Healthcare Trust of America Seller: Rendina Cos. Broker: N/A
W. Wilshire Center 11620 Wilshire Blvd. Los Angeles, Calif.	1975	\$71,069	203	\$350	Buyer: CIM Group Seller: Jamison Properties Broker: N/A
Mercy Medical Midtown 3000 Q St. Sacramento, Calif.	2008	\$54,217	122	\$444	Buyer: Catholic Healthcare West Seller: Eaststone Properties LLC Broker: N/A
7900 Fannin St. 7900 Fannin St. Houston	2005	\$45,357	176	\$257	Buyer: Healthcare Trust of America Seller: Stonehenge Development Broker: N/A

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

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