



*"We are seeing more and more physician groups, both large and small, looking to monetize their assets to manage long-term strategy and capitalize on market environment for leased assets, while investors gain a stable, lasting investment opportunity!"*

- Mike Wilson,  
Principal, Avison Young

## **U.S. MEDICAL OFFICE SALES REACH \$1.87 BILLION AT MID-YEAR**

The buying spree in the medical office sector continued through the first half of 2018, with \$1.87 billion in sales nationally, according to a Mid-Year Medical Office Report from Avison Young's Chicago office. There were 160 properties sold, totaling 6.48 million square feet (msf), through June of 2018.

The medical office sector continues to attract investors due to its long-term stability, strong leasing fundamentals, and the outlook for increasing consumer demand for medical services. This sector, which has been in a growth mode for nearly 10 years, is considered recession-resistant due to its ties to the healthcare industry.

Sales volume for 2017 was \$10.4 billion.

As the healthcare industry has experienced consolidation and a push toward improving efficiency, medical office buildings have taken on more importance. Demand for space remains strong and construction has been tempered. Many tenants have long-term ties to their buildings and the community they serve, creating a strong environment for investors.

At the mid-point of 2018, supply of high quality assets is limited in many markets, due to the significant activity seen in this sector over the past several years. Many investors are holding onto assets, as part of the natural investment cycle.

This scenario is playing out across the country and is particularly apparent in medium to large metropolitan markets that have strong healthcare systems. In the first half of 2018, New York, Chicago, Houston, Atlanta and Milwaukee led the U.S. markets in medical office sales, with a combined total of \$1.5 billion.

Avison Young's Chicago-based national healthcare capital markets group analyzed internal research as well as statistics from Real Capital Analytics in preparing this report.

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## NOTABLE 2018 SALES IN KEY MARKETS

### Chicago -- JOHA Cancer Center Portfolio

A four-building, 170,511-SF portfolio in Chicago's suburban market was sold to Community Healthcare Trust for \$33 million in April 2018. Avison Young's national healthcare capital markets group represented the ownership, a private physician's group. Among the tenants are: Joliet Oncology-Hematology Associates and Presence Health.



**Chicago -- DuPage Medical Group Portfolio** A 439,000-SF, eight building portfolio, was purchased by Harrison Street Real Estate Capital for \$240 million in June 2018. The buildings are in Naperville, Lisle, and other west and southwest suburbs.

**Los Angeles -- Warner Atrium** A 125,666-SF building located at 6400 Canoga Ave. in Woodland Hills was sold for \$27.75 million to Sandstone Properties in Feb. 2018.

**Fredericksburg, Va -- Lee's Hill Medical Plaza** A 72,255-SF Class A medical office building at 10401 Spotsylvania Ave. was sold to a medical office REIT in January 2018. The seller, a JV partnership of Flagship Healthcare Properties and Drake Real Estate Partners, was represented by the Avison Young team.

## NEW LISTING

The Avison Young team recently secured the exclusive sale listing for the **Illinois Medical Center**, a 97,997-sf, fully leased building at 1001 Main Street in Peoria, IL. It is a Class A medical office building on the campus of the University of Illinois College of Medicine and located within the Peoria Medical District. It is adjacent to Unity Point (Methodist) Hospital and OSF St. Francis Medical Center.

## TOP MARKETS FOR MEDICAL OFFICE INVESTMENT

In the first half of 2018, the most active markets were: New York City, \$549 million; Chicago, \$337 million, Houston, \$276 million, Atlanta, \$177 million, and Milwaukee, \$156 million.

The activity in Atlanta was notable, as it is not on pace to match the \$1.15 billion in sales for all of 2017. Conversely, in New York City, the volume for the first six months was approximately 20 percent higher than all of 2017, when \$458 million was sold. Also, the volume in Milwaukee has increased significantly in recent years, from \$16 million in 2016 to \$163 million in 2017 and \$156 million for the first half of 2018.

## DIVERSE BUYER POOL REMAINS ACTIVE

Over the past several years, REITS have made a bigger push into the medical office sector. Statistics show that during the past 24 months, three of the top four buyers—accounting for 226 property acquisitions totaling \$5.64 billion—were REITS. Private equity firms, such as Harrison Street Real Estate Capital, which purchased 52 assets for a total of \$1 billion, have moved into the space in recent years, however.

## A LOOK AT FOREIGN CAPITAL

In the first half of 2018, Germany emerged as the top buyer of medical office properties, spending \$341 million. Hong Kong ranked number two with \$116 million, followed by the UK, with \$75 million. China, which was the top foreign buyer in 2017, with \$278 million in investments, was not on the list for 2018.

## UPDATE ON PRICING

With significant demand from investors globally, this supply-demand imbalance is pushing pricing upward in some markets. According to Real Capital Analytics, pricing for medical office properties averaged \$288 per square foot in the 12-month period from Q1 2017 to Q1 2018, a 13.8% increase from the previous 12-month period.

## MID-YEAR SALES VOLUME | 2018

| City          | June 2018 | 2017     | 2016    |
|---------------|-----------|----------|---------|
| New York City | \$549 M   | \$458 M  | \$656 M |
| Chicago       | \$337 M   | \$472 M  | \$398 M |
| Houston       | \$276 M   | \$498 M  | \$442 M |
| Atlanta       | \$177 M   | \$1.15 B | \$176 M |
| Milwaukee     | \$156 M   | \$163 M  | \$16 M  |

## TOP BUYERS | PAST 24 MONTHS

| Buyer                      | City, State     | Buyer Type      | #Prop | Price Volume |
|----------------------------|-----------------|-----------------|-------|--------------|
| HTA                        | Scottsdale, AZ  | Public REIT     | 90    | \$2.5 B      |
| Physicians Realty Trust    | Milwaukee, WI   | Public REIT     | 104   | \$2.3 B      |
| Harrison Street RE Capital | Chicago, IL     | Private Fund    | 52    | \$1.0 B      |
| Starwood Property Trust    | Pembewick, CT   | Public REIT     | 32    | \$770 M      |
| CBRE Global Investor       | Los Angeles, CA | Investment Mgr. | 28    | \$588 M      |