

COMMERCIAL CONNECTION

Net leased medical office buildings selling like hot cakes

While the 2012 Southwest Florida real estate market struggles to pull one foot out of the mud, the fleet-footed niche for net-leased medical office building (MOB) sales is picking up so much speed that it almost feels like the "good old days" of 2005.

According to Loopnet, Lee County had 25 (mostly vacant) medical office building sales from January 2010 through August 2012 that had an average sales price of \$61 per square foot. Separate from these mostly distressed sales, however, were three net-leased MOB's that sold in 2012 for an average price of \$228 per square foot. The key to these strong values is having good tenants sign minimum five-year term, personally guaranteed, triple net leases.

Consider these recent MOB sales:

The March 2012 sale of \$1.7 million or \$244 per square foot for an MOB located at 15681 New Hampshire Court in Fort Myers. The tenant is Florida Cancer Specialists (over 120 MDs and 60 locations) which leased the building for five years with options to renew for 25 more years. This same building appraised in 2011 for \$1.2 million as an owner occupied MOB because appraisers are limited to only using past sales that are predominantly distressed/lower value. Appraisers cannot use the in-house lease (that would normally create higher value) since it is between related parties (i.e. same doctors in different entities acting as landlord and tenant in same lease agreement).

The July 2012 sale of \$600,000 or \$200 per square foot for an MOB



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located at 15621 New Hampshire Court in Fort Myers. The tenant was David Gutstein M.D. (gastroenterologist) who leased the building for five years plus options to renew.

The July 2012 sale of \$1.015 million or \$240 per square foot for an MOB located at 811 Del Prado Boulevard in Cape Coral. The tenant was Florida Cancer Specialists that leased the building for five years with options to renew for 25 more years.

Never before has the value disparity been so great between poorly leased and well leased medical office buildings. When an investor buys a medical building with a minimum five-year term triple-net lease (i.e. where the tenant pays real estate taxes, insurance and maintenance expenses in addition to base rent), the buyer's main concern is the state of the market five years from now when that lease comes up for renewal.

Doctors rarely move

The fact that doctors rarely move their offices during their career gives MOB investors added peace of mind. When doctors spend years, and in some cases decades, building up the goodwill within a community for their brand of medicine in a particular location, they are reluctant to walk away

from that real estate location which could benefit their competition. Another reason doctors rarely move is because their practice goodwill (tied to this long-term location) has value which can be sold upon retirement when the doctor eventually sells his or her practice.

As our national and local economies slowly creep back in a positive direction, our real estate market should be much better five years from now than it is today. Add to that such favorable demographics as baby boomer retirements, people living longer than ever due to medical advancements, and Florida acting like a magnet for retirees throughout the U.S., all combine to create a solid foundation of sound underlying business fundamentals for future medical care and medical office building demand.

The wild card hanging in the balance that could change these underlying business fundamentals from good to great in terms of future health care demand is ACA, or the Affordable Health Care Act passed into law in 2009 and upheld by the Supreme Court in July 2012. ACA's mandate, if not repealed, will require all U.S. citizens to obtain health care insurance by 2014 which should help drive everyone's health care insurance premiums lower as well as add millions of people to the rolls of the medically insured.

The future looks bright for medical care demand, and consequently, medical office building demand. This explains the strong appetite from investors for well-leased medical office buildings today.