

FEATURING

"2Q Commercial Real Estate Market"
by **Darren Lizzack, MSRE** and **Randy Horning, MSRE**



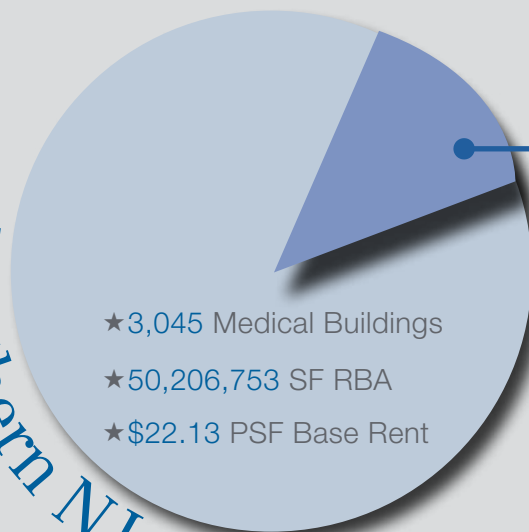
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2Q 2022 MEDICAL OFFICE REPORT

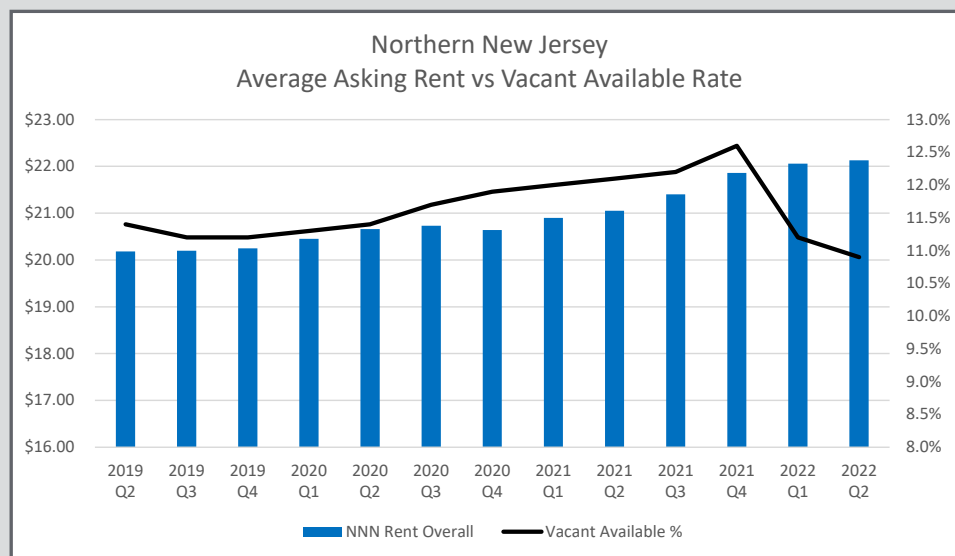
Northern NJ



Bergen County

- ★435 Medical Buildings
- ★6,997,319 SF RBA
- ★\$25.79 PSF Base Rent

TOP SALES & LEASES



SALES

25,164 SF | \$8,200,000
 500 West Main Street, Freehold, NJ
 Buyer: Prism Vision Group
 Seller: Steven Mishkin

20,008 SF | \$4,000,000
 380 Foothill Road, Martinsville, NJ
 Buyer: GenPsych
 Seller: DeSapio Properties

LEASES

8,497 SF | 22 Mill Street, Paterson, NJ

7,796 SF | 1135 Broad Street, Clifton, NJ*

4,000 SF | 1868 Hooper Avenue, Toms River, NJ

*NAI Hanson Transaction

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2022
 MEDICAL
 OFFICE
 REPORT

State of the Market

Healthcare analysts suggest that based on recent trends, the medical office sector should remain robust for the next year. Thanks to continued demand for healthcare, and perhaps despite the continued popularity of telemedicine, the industry has remained relatively stable and recession-resistant.

In 2021, rents soared and vacancies decreased. While the pandemic, material shortages and supply chain challenges slowed the development of new medical office buildings, construction is beginning to pick up steam. And investors continue to make significant purchases in the sector.

Demand Remains Strong from 2021 to 2022

Last year saw record high sales volumes. Medical offices nearly doubled the absorption rate in 2019 and earlier — 19.5 million square feet in Q4. Demand will remain strong this year.

Also in demand? The need for procedures and office visits many people delayed in 2020 and 2021. While telehealth and virtual conferencing technology can address some issues, they're not strong diagnostic tools. Patients need to see their doctors and specialists in person. One could also suggest that telehealth — because of its ability to connect patients and doctors — has helped increase demand because of that connection. With more patients having access to doctors, they're seeing problems diagnosed and treatments recommended, and those treatments require in-office visits. Telehealth is here to stay as part of the healthcare continuum, but it can't (and won't) replace medical offices.



Medical Office Occupancies By the Numbers

When construction starts slowed and rates of absorption were high, medical office occupancies remained nearly stagnant at just over 91% between Q1 2020 and Q1 2021. Since 2022, vacancies continue shrinking.

Historically, medical office rent growth trends somewhere between 2% and 3% YOY. However, one healthcare managing director suggests that because supply is low and vacancies have fallen nationwide below 10%, landlords can increase rents more than the traditional amount. Rising construction costs, increased tenant improvements, and a dearth of appropriate office space is driving rents higher — and keeping medical providers from relocating to new spaces.

State of the Market

In fact, rental growth was a hot topic of conversation among medical office building owners during BOMA International's Medical Office Buildings + Healthcare Real Estate Conference in May 2022. Experts predict that as investors' portfolios see 90% to 95% occupancy, they'll feel comfortable increasing annual rents 3.5% to 4% or more, which is fairly significant. Some analysts have said tenants and landlords are discussing how (or if) it makes sense to share inflation risks as a 2% increase doesn't compensate owners faced with 8% inflation. Other trends include healthcare providers requesting shorter term leases, given the current inflation and volatility. It's to their advantage to negotiate a shorter lease so they're not trapped by increasing rents even after inflation begins to decrease.

Analysts do predict that rents will eventually hit the ceiling. After all, healthcare providers are limited by what they can afford, held in check both by the numbers of patients they can see and number of procedures they can do. At some point, it becomes impossible to add more people — or procedures — to the schedule. Another limit? The amount of reimbursement from insurance companies. Unlike other sectors such as retail or manufacturing, they can only increase "sales" so much.

But for right now, rental rates continue to rise. For example, on a triple net bases, rentals nationwide were in the low \$20s, and new construction in the low \$30s. Landlords have been increasing their rates into the mid-\$20s on a triple-net basis. Medical offices seeking to relocate and that need a tenant improvement package or a full-build out in their new space can expect to pay between \$100 per square foot to \$150 per square foot.

In Q1 2022, medical office space net asking rents saw an average increase of 1.7% to \$22.61 per square foot. Los Angeles led the highest (\$35.13 per square foot), with Boston (\$26.70 per square foot) and New York (\$26.11) the next highest markets. Elsewhere, rents for medical office space average between \$20 and \$25 per square foot.



Booming Medical Office Sales

High medical office occupancies, shifting demographics as people relocated during the pandemic, and private equity (PE) contributed to a banner 2021 with \$19.6 billion in transaction volume. Sales grew over 40% from the previous year, with single asset transfers closing at \$11.8 billion in volume, and nearly 35% higher than 2020.

Private equity investors comprised nearly three quarters of the sellers and PE interests accounted for 63% of sales volume. The West and Northeast yielded the highest prices. Cap rates dropped to 5.7%, which is the lowest average they've been in 20+ years.

If someone were to ask a Magic 8 Ball its prediction for growth within the medical office sector this year, chances are it would say, "Outlook good." Based on current data and reports, industry analysts agree.

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FEATURED MEDICAL PROPERTIES OF TEAM LIZZACK-HORNING

JUST LISTED



315 Cedar Lane

Teaneck, NJ
6,000 sf for sale/lease

JUST LISTED



370 West Passaic Street

Rochelle Park, NJ
6,146-26,702 sf for sale/lease

JUST LISTED



34-36 Progress Street

Edison, NJ
2,000 sf for sale

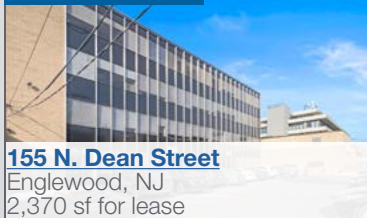
JUST LISTED



265 Ackerman Avenue

Ridgewood, NJ
1,565 sf for lease

JUST LISTED



155 N. Dean Street

Englewood, NJ
2,370 sf for lease

FOR LEASE



Clara Maass Medical Campus

Belleville, NJ
606 - 26,823 sf

FOR LEASE



23-00 Route 208

Fair Lawn, NJ
3,363-7,252 sf

UNDER CONTRACT



81 E Route 4

Paramus, NJ
10,000 sf

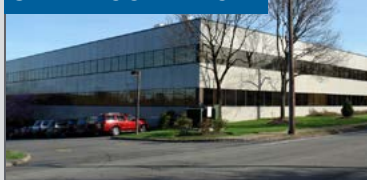
FOR LEASE



305 W. Grand Avenue

Montvale, NJ
1,320 - 9,003 sf

JUST LEASED & UNDER CONTRACT



1135 Broad Street

Clifton, NJ
7,796 sf
Tenant: President of New Jersey LLC
Represented: Landlord

FOR LEASE



535 High Mountain Road

North Haledon, NJ
24,682 sf

FOR LEASE



206 Bergen Avenue (6 suites)

Kearny, NJ
3,571 - 28,867 sf

JUST LEASED



4 Hunter Street

Lodi, NJ
1,608 sf for lease
Tenant: Dr. Lazovik
Represented: Landlord

Please contact Team Lizzack-Horning today if you are looking for medical office space and/or have a medical building with any vacancies.

2022

MEDICAL
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The world's largest
commercial real estate network.





43± Countries

300± Offices

5,100± Market Leaders

NAI James E. Hanson is the largest independently owned commercial real estate firm in the state with over 65 years of experience in the New Jersey industrial market and has one of the largest industrial teams. NAI Hanson currently holds 12 SIOR designations, the most SIORs over any other commercial real estate firm in the state.

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