NAI James E. Hanson

COMMERCIAL REAL ESTATE SERVICES, WORLDWIDE

4Q 2022 MEDICAL OFFICE REPORT

FEATURING

"State of the Healthcare Market"

by **Darren Lizzack, MSRE and Randy Horning, MSRE**

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TEAM LIZZACK-HORNING

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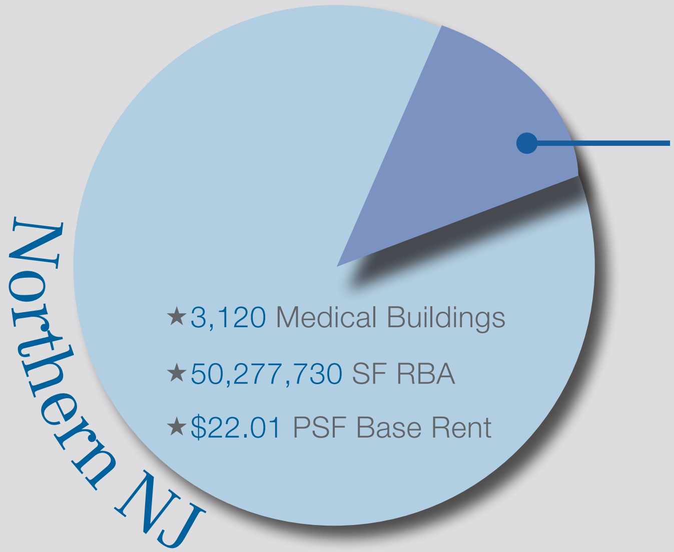
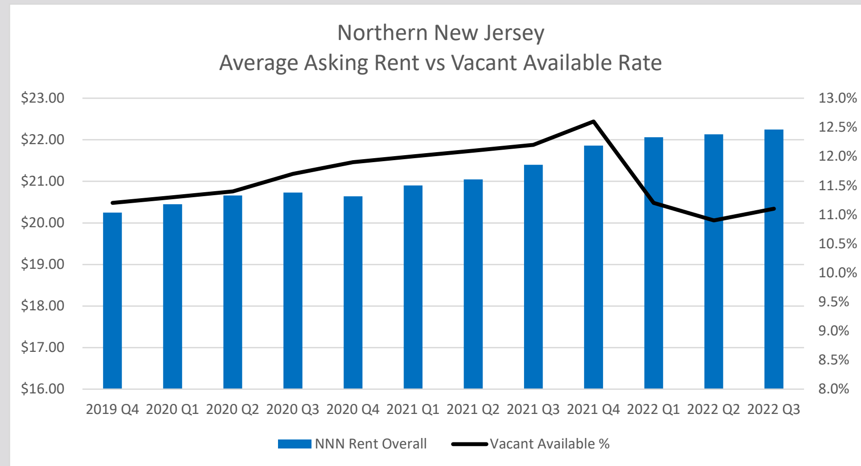


Bergen County

★440 Medical Buildings

★7,159,190 SF RBA

★$25.35 PSF Base Rent



TOP SALES & LEASES

SALES

110,276 SF | $16,000,000
1200 Route 22 East
Bridgewater, NJ
Buyer: Treetop Development
Seller: Liberty Equities

70,500 SF | $13,101,000
1680 Route 23 North
Wayne, NJ
Buyer: Midtown Equities Brokerage, LLC
Seller: Chopp Holdings, LLC

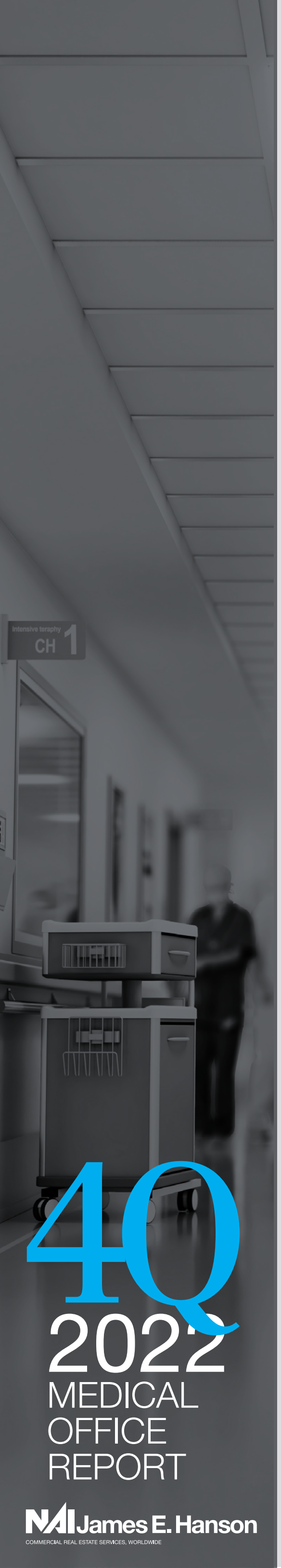
LEASES

15,188 SF | 400 Broadacres Drive, Bloomfield, NJ

12,971 SF | 1455 Broad Street, Bloomfield, NJ

10,043 SF* | 1030 St. Georges Avenue, Avenel, NJ

*NAI Hanson transaction



State of the Market

Thanks to the pandemic, its lingering effects, current economic instability, decreasing reimbursement amounts, and an ongoing labor shortage, the healthcare industry faces many challenges. Razor-thin margins and continued disruption are pressuring healthcare leaders to find other ways to cut costs.

Yet challenges aside, this industry keeps expanding — including its leased square footage. Medical office space remains in high demand and ranks high among the most resilient CRE property types.

There are several key themes impacting healthcare systems, medical office owners and operators in 2022.

1. Margins are facing higher cost pressures with ongoing inflation, labor challenges, supply chain issues, shifts within the payor mix, and increasing capital costs. Healthcare real estate accounts for over 40% of operating expenses, so CFOs and other healthcare leaders are exploring creative real estate strategies to ease the pressure.

2. Technological innovation, outside investors, and evolving consumer behavior continue to disrupt the industry. It's created more choices for patients and increased access to care.

   In 2021, venture capital funding in digital healthcare, for example, hit $15.4 billion. That number has decreased slightly in 2022 as VCs take a more cautious approach based on market fluctuations but according to a 2021 Advisory Board survey, healthcare leaders listed digital health and technology as their top capital and strategic priorities for 2022.

3. Systemness — that is, a holistic strategy of consolidating and managing costs while also expanding patient access in existing and new markets — is on the rise. When successful, systemness interconnects all parts of a healthcare system, which enables the organization to provide the best care at the lowest price to the highest number of patients possible.

   According to Trilliant Health, only about 60% of healthcare consumers remain loyal to a single network or provider brand And that loyalty decreases as the population ages and requires additional specialized and more complicated care. Yet 92% of patients indicate a convenient location is "somewhat" to "extremely" important when they're selecting healthcare providers — data that supports the trend of larger healthcare systems to open additional satellite offices throughout their communities.

4. Investor interest in medical office real estate remains robust because these investments offer stability among the other traditional CRE classes. For the past two years, absorption has outpaced new deliveries to drive occupancy above 90%. The healthcare industry's creditworthiness and ability to withstand much of the disruption resulting from the pandemic (especially compared to other commercial sectors) have maintained this sector's attractiveness.

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In 2021, healthcare investments reached $151 billion, according to a Bain & Company study. Private equity funds — expected to more than double assets under management between 2020 and 2025 — remain interested, as investors explore deals involving practice groups, medical service companies, and specialty care providers (like those addressing behavioral and mental health). Most industry experts agree that investing in healthcare remains a safe bet for private equity.

Healthcare CRE by the Numbers

According to a U.S. Research Report covering the top 100 U.S. markets, the medical office property sector's vacancy rate decreased by 40 basis points in Q1 and Q2 by 8%. This comparison is favorable to the broader office sector, which saw vacancies increasing by 30 basis points during the same period to over 15%.

The report said, "Despite economic concerns and industry challenges, the medical office property sector (MOB) continues to go from strength to strength, setting record highs for asking rents, sales volume, and pricing over the past four quarters. Demand is outpacing supply, vacancy remains tight, and cap rates have remained relatively stable. Development activity is gaining momentum, reflecting confidence in the sector."

In addition to increased absorption, positive signs for the medical office healthcare real estate sector saw:

- Net absorption totaling 22.1 million square feet from mid-2021 to mid-2022, up from 12.5 million square feet during the previous year.
- Asking rent for MOB increasing 1.7% to $23.06 per square foot, the highest ever for the sector.
- Construction figures increased from 13.7 million square feet to 14 million square feet from 2021 to 2022.
- MOB investment hit over $17 billion — an $8.2 billion increase from the $9.6 billion invested from late 2020 through mid-2021.
- Average pricing increased to $397 per square foot.

Healthcare Predictions for 2023

A historically recession-resistant asset, healthcare real estate remains a popular investment for 2023, as investors, private equity, and venture capital use it as a vehicle to shelter from an unstable broader economy.

Deal flows will continue unfolding at a steady pace, especially as practice groups consolidate and seek larger locations to accommodate their increased footprints. Other technological innovations, including a revolution in virtual care driven by the pandemic, have created new opportunities for other healthcare businesses. In addition to telehealth, which remains popular, the industry's femtech space has seen increased growth in freezing eggs, family planning, and IVF — and these services require space as they expand.

Also important to slowing and preventing staff attrition is better employee benefits packages. Larger healthcare employers are exploring options like on-site childcare centers and diversified location selections to meet the needs of their diverse workforces.

Continued inflation, high construction costs, delays in completing construction projects, seven federal interest rate hikes, a demand for newer, state-of-the-art medical office facilities — and a shortage of turnkey medical space — have pushed rental rates up and created additional challenges for finalizing deals between tenants and landlords.

The outlook for the medical office CRE remains optimistic for 2023, and the CREA United team has the knowledge and resources to help tenants find the right healthcare space to suit their needs — and fit their budget.

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FEATURED MEDICAL PROPERTIES OF TEAM LIZZACK-HORNING

FOR SALE/LEASE

[315 Cedar Lane]
Teaneck, NJ
6,000 sf for sale/lease

FOR SALE/LEASE

[370 West Passaic Street]
Rochelle Park, NJ
6,146-26,702 sf for sale/lease

FOR SUBLEASE

[37 W. Century Road]
Paramus, NJ
3,500 sf for sublease

FOR SALE/LEASE

[180 N. Dean Street]
Englewood, NJ
2,791 sf for sale/lease

FOR LEASE

[155 N. Dean Street]
Englewood, NJ
2,370 sf for lease

NEW TO MARKET!

[855 Valley Road]
Clifton, NJ
4,877 – 28,299 sf

FOR SALE/LEASE

[764 New Bridge Road]
Teaneck, NJ
8,361 sf for sale/lease

FOR LEASE

[201 Rock Road]
Glen Rock, NJ
2,180 sf

FOR LEASE

[305 W. Grand Avenue]
Montvale, NJ
1,320 - 9,003 sf

FOR LEASE

57 W. Main Street
Ramsey, NJ
3,000 sf

FOR SALE/LEASE

[535 High Mountain Road]
North Haledon, NJ
50,489 sf for sale
24,682 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

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

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2022
MEDICAL
OFFICE
REPORT

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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