

FEATURING

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



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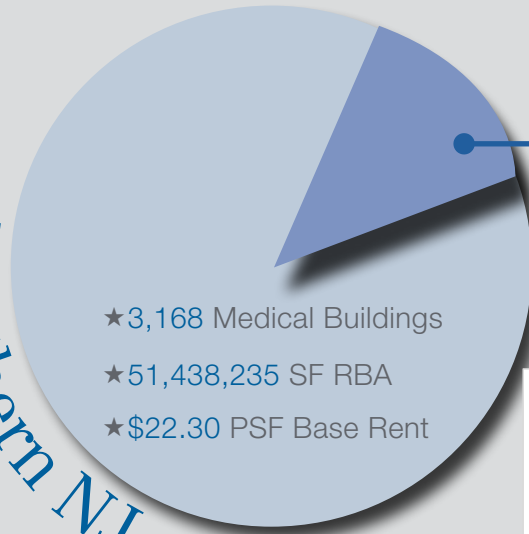
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2Q
2023
MEDICAL
OFFICE
REPORT

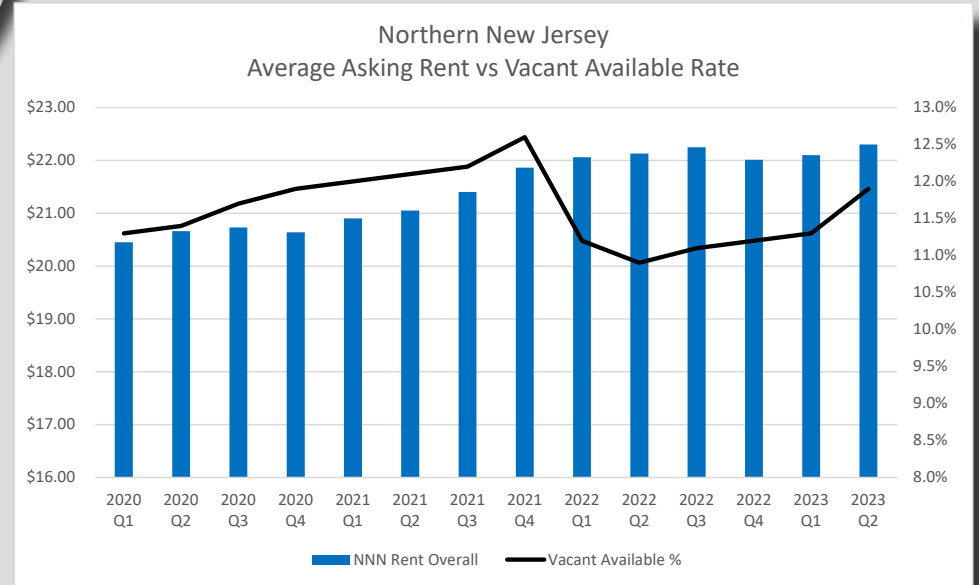


Northern NJ



Bergen County

- ★449 Medical Buildings
- ★7,623,968 SF RBA
- ★\$25.53 PSF Base Rent



TOP SALES & LEASES

SALES

17,726 SF | \$7,300,000
 575 Kent Place, Livingston, NJ
 Buyer: Alexander Brachfeld
 Seller: 1201 Deerfield Terrace LLC;
 Walnut Realty LLC

14,048 SF | \$3,860,000
 33 Newton Sparta Rd, Newton
 Buyer: Vinay Kundur
 Seller: Skylands Realty LLC

LEASES

34,000 SF | 490 State Route 57 W, Washington
10,000 SF | 20 Commerce Blvd. Succasunna
8,796 SF | 36 Newark Avenue, Belleville (Renewal)

**NAI Hanson Transaction*

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State of the Market

The second quarter of 2023 saw increasing gains in the healthcare building sector, even as the economy remained somewhat volatile. A steady demand for healthcare will bolster the industry, keeping it strong throughout 2023 and 2024.

By the numbers

In 2021, we saw rents soaring as demand increased and space remained in limited supply. 2022 ushered in record-setting sales volumes. **Medical offices hit 19.5 million SF in Q4**, doubling absorption rates from 2019 and earlier years. Q4 2021 saw vacancies hitting a high of 12.5% but dipping to 11% in Q1 2022 — since then, they've been slowly increasing, hitting 12% in Q2 of this year.

The average asking rent has also risen steadily from just over \$20 PSF in Q1 2020 (with a slight dip in Q4 of that year) to above \$22 PSF in Q3 2022, dipping slightly to \$22 in Q4. **As of Q2 2023, rents averaged just over \$22 at \$22.30 PSF.**

While the Fed continued to raise interest rates three times this year by .25% (from 4.50% to 4.75% in February, 4.75% to 5.00% in March, and 5.00% to 5.25% in May), the S&P 500 remained strong, with stocks doing well in Q1 and Q2. It had double-digit returns even with higher inflation and the three rate increases.

However, according to UnitedHealth predictions, healthcare has been negative this year (-3 YTD in YOY growth), and an expected YOY EPS growth of -15.7% (and only 2.6% revenue growth) in June. For example, UnitedHealth's earnings weight in the S&P 500 was 1.2% — aligned with the market cap weight of 1.2%.



A Deloitte report examined trends from Q4 2019 to Q1 2023, finding that investment in healthcare has increased nominally. About 55% of the overall investment in healthcare structures has gone to hospitals. While investment hovers below pre-pandemic levels, it is growing. Only special healthcare buildings have decreased (-34.4%), but other areas have seen increased investment:

- Healthcare structures (hospitals, medical buildings, special healthcare buildings): 10.1%
- Hospital buildings: 9.8%
- Medical buildings 29.7%

State of the Market

Looking ahead to Q3 and Q4

Expect investors to proceed with caution. There's plenty of cash sitting on the sidelines (and invested in money market funds) — where it may stay for a while as investors strategize and build their shopping lists. They will have plenty of money to spend when they deem the time suitable.

The curve is still inverted, signaling a recession. But we've heard the recession speak for a while, and it hasn't fully materialized. Some economists say the case for a recession is losing strength since the job market remains hot, but caution a recession could happen in 2024 after the full effect of the Fed's rate hikes kicks in.

In short, healthcare remains a favored sector. The Russell 1000 sector performance has seen good healthcare performance even following other yield curve inversions. And while it's lagging this year, it does provide a solid entry point into a recession-resilient, reasonably-priced sector.

We're seeing higher interest rates, inflation, and stock valuations in this post-Covid era, so it's hard to say whether the Fed will make more moves to actively fight inflation rather than sustain the economy. If so, that approach might not spell good news for financial markets — but only time will tell.

Other industry predictions include:

- The healthcare asset with the highest transaction volumes has switched from nursing homes to assisted living — a trend that will continue, for now.
- Conditions remaining ripe for megamergers as stable, larger healthcare systems increase scale to offset financial headwinds.

- Non-traditional partnerships in M&A have increased, with more divergence between value-based and fee-for-service care entities.
- Health systems continue to partner with technology firms to bolster supply chains, improve care outcomes, and reduce workflows.
- Health systems are making capital investments to address and mitigate care model inefficiencies and find and maximize new revenue streams. Those systems slowing or halting capital investments in 2020 through early 2022 continue to play catch-up.



FEATURED MEDICAL PROPERTIES OF TEAM LIZZACK-HORNING

FOR LEASE

23-00 Route 208
Fair Lawn, NJ
3,363-7,252 sf



FOR LEASE

855 Valley Road
Clifton, NJ
4,877-28,299 sf



FOR LEASE

764 New Bridge Rd
Teaneck, NJ
8,361 sf



FOR LEASE

1030 St. Georges Avenue
Avenel, NJ
1,830-4,048 sf



FOR LEASE

206 Bergen Avenue (3 suites)
Kearny, NJ
750 - 26,046 sf



FOR SALE OR LEASE

393 Mulberry Street
Newark, NJ
11,200 sf for sale/8,700 sf for lease



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

20 2023 MEDICAL OFFICE REPORT

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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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