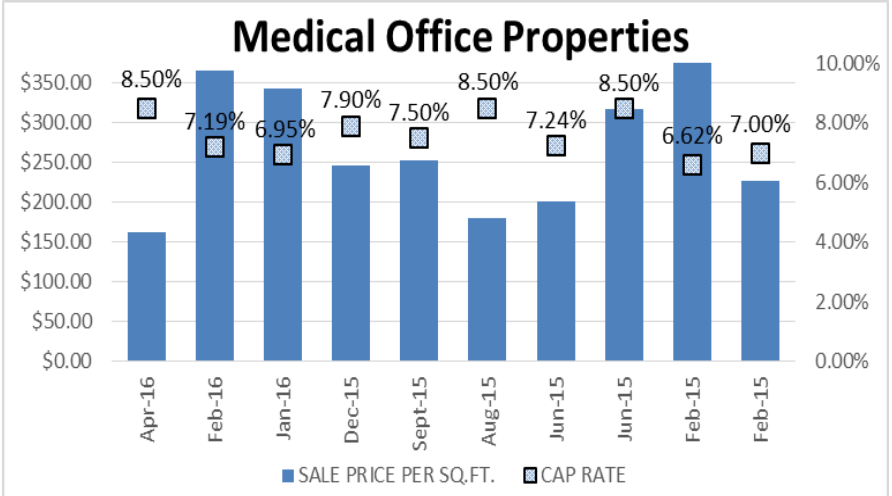




Medical Net Leased Investments

In Southwest Florida, we have experienced a strong demand for medical net leased properties with the future looking bright for this product in our “older” market area. Try to make an appointment with most any local doctor and you will get a sense of the volume of patients these doctors are facing on a daily basis. Like it or not, the Affordable Health Care Act has dramatically increased the number of insured (health) in the United States. This coupled with the fact that roughly 10,000 individuals turn 65 every day, has spurred the growth of the medical field. What does this mean for the medical office building (MOB) market? This growth is leading to an increase in medical practitioners and a need for more medical space. An added bonus is the increase in outpatient services, which is further expanding the need for medical space and non-hospital surgical centers.

In the past 12 months, we have analyzed ten MOB sales. The sales had capitalization rates ranging from 6.62% to 8.50% with the mean being 7.66%. The two most recent sales, which occurred the first quarter of this year, are indicating a further downward creep of rates with these sales ranging from 6.95% to 7.19%. Excluding the older buildings in our data set, the sales ranged from \$201.42 per square foot to \$376.77



per square foot with the average being \$267.67 over the trailing 12 months. The two most recent sales (7335 Gladiolus Drive and 16410 Healthpark Commons) sold for \$366.55 per square foot and \$343.73 per square foot, respectively.

So, if I am an investor, why are these investments appealing? First, the leases are typically 5 to 10 years in length with options to renew. How often does your doctor move the physical location of his/her practice?...not too often. In turn, the investor will receive a “guaranteed” income stream for the length of the lease and in most cases, beyond the lease. What is the “guarantee”? Typically, the physicians will sign a personal guarantee to pay the rents. In most cases, this is a solid

guarantee. Lastly, most of the leases are on an absolute net basis, with the owner having minimal expenses.

What does the future hold for these investments with the fear of a rising interest rate environment? Don't expect any further compression or significant compression on cap rates for these investment types. As interest rates rise, the availability of alternative, safe investments will put upward pressure on capitalization rates and in turn a lower value on the asset. Although the fear of a significant rise in interest rates is not projected, these are all risk factors that the investors will consider. However, the offset to this risk is the aging Baby Boomers, an increase in outpatient services and dramatic increase in the insured population. Look for this investment type to remain a solid choice in our market for years to come.



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Worthy of Note

Average Sale Price:	\$3,208,120
Range:	\$374,000-\$14,800,000
Average Cap Rate:	7.66%
Average List Price:	\$315.34/sqft
Average Cap Rate of listed properties:	7.23%
Under Contract :	more than \$20,000,000