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CBRE Buys Medical Offices

BY PETER GRANT

One of the world's largest real-estate asset managers has purchased a 95% stake in a portfolio of 25 medical office buildings, in a sign that health-care property is becoming more popular with institutional investors.

A division of CBRE Global Investors bought the portfolio, which includes 1.4 million square feet of space in 10 states, from a venture of Kayne Anderson Real Estate Advisors and MB Real Estate Healthcare, according to the companies. The venture will keep a 5% stake and continue to manage the buildings.

The price wasn't disclosed but experts estimate a portfolio like this, which has a high concentration of property in the Atlanta and Chicago areas and includes one development site, would trade in the range of \$510 million to \$590 million.

For CBRE, which has \$99 billion in assets under management, the deal was its first purchase of a portfolio of medical office buildings.

Big institutional investors typically focus on traditional real estate



KAYNE ANDERSON REAL ESTATE ADVISORS

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95%

Stake CBRE bought in portfolio spanning 1.4 million square feet

such as office buildings, shopping malls and apartments. But they are looking more these days at less conventional

property classes such as medical office buildings and student housing, in part because prices of other commercial property types have shot up in recent years.

Investors also are growing more concerned that the bull market in commercial property, now in its eighth year, doesn't have much longer to run.

Some analysts believe medical office buildings are more recession resistant because people need the same level of health care regardless of whether the economy is booming or shrinking.

"If someone needs a hip replacement, they need to go get that done regardless of where the economic cycle is," said

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Matt Tepper, managing director of CBRE Global Investment Partners.

Owners of medical office buildings are benefiting from cost pressures in the health-care industry because they are a less costly place than hospitals for doctors to perform many procedures. The health-care system has designed numerous incentives to push procedures to buildings where patients can walk in and out the same day, with less risk of infections spreading.

“Anything you can schedule is basically done on a more efficient cost basis outside of a hospital,” said Al Rabil, managing partner of Kayne Anderson, a private-equity firm that has developed an expertise in medical office buildings.

Mr. Tepper said CBRE Global likes the deal partly because the Kayne Anderson and MB Real Estate venture has good contacts among hospitals and doctor groups. The portfolio is about 95%

occupied, up from about 80% when the venture bought the buildings, according to Mr. Rabil.

The venture has the “relationships to understand how health systems are using real estate and can help stay in front of some of the trends,” Mr. Tepper said.

Prices of medical office buildings have been rising as the properties have come into favor with institutional investors. In 2010, investors buying these properties typically would get more than an 8% yield

from net income. But that yield, or capitalization rate, has been declining.

Earlier this year, for example, Healthcare Trust of America agreed to buy Duke Realty’s portfolio of about 80 properties for \$2.75 billion, the largest ever deal involving medical office buildings. A Green Street Advisors report at the time estimated the capitalization rate on that deal was 4.8%, which it described as “eye-opening pricing.”