

SEPTEMBER 2018

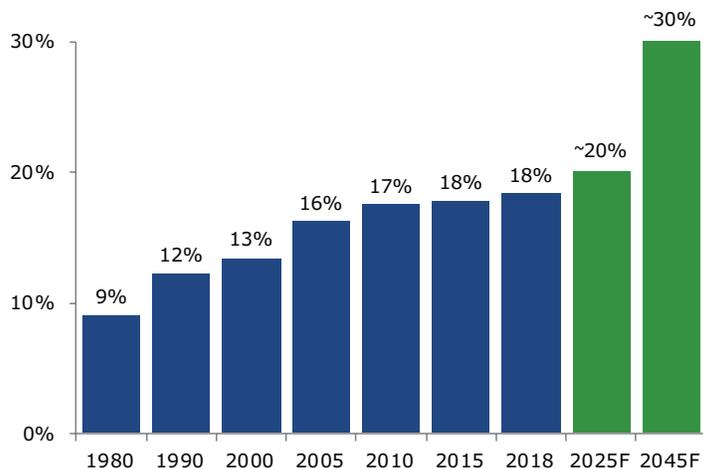
CLARION PARTNERS THOUGHT LEADERSHIP: THE MEDICAL REAL ESTATE BOOM

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THE HEALTH CARE INDUSTRY: AN ENORMOUS FORCE IN THE U.S. ECONOMY

In 2018, health care became the biggest employer in the U.S., now about 12% of the workforce, largely driven by population demographics.⁽¹⁾ Millennials are the largest generation in history and over one-third of Americans are now over age 50. Health care spending is nearly 20% of annual U.S. gross domestic product (GDP) and is the fastest growing category (*Figure 1*). Over the next decade, health care spending is forecast to grow by 5.5% annually.⁽²⁾

FIGURE 1: U.S. Healthcare Spending as a % of GDP Forecast

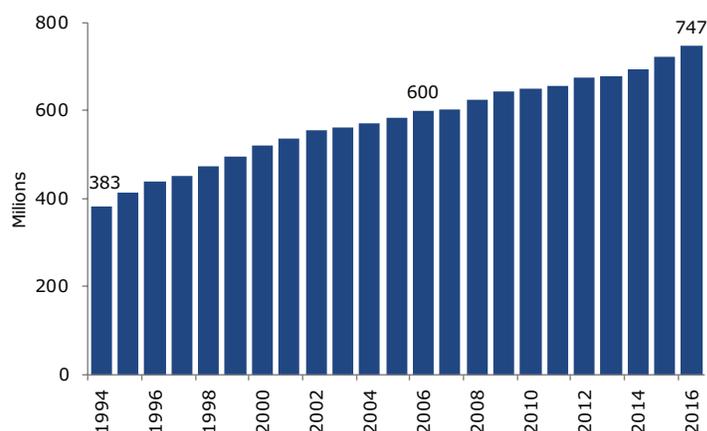


Source: Statista and Centers for Medicare & Medicaid Services, Q3 2018. Congressional Budget Office, Q3 2017.

THE RISE OF THE OUTPATIENT DELIVERY MODEL & HOSPITAL DECENTRALIZATION

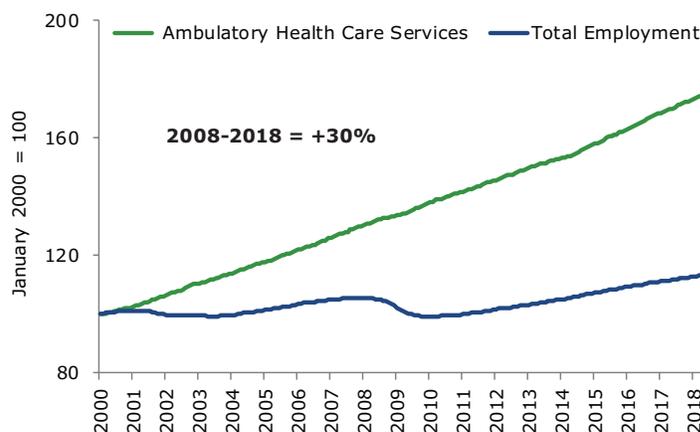
Health care delivery has continued to evolve towards a more decentralized model away from inpatient care at hospitals. Outpatient care is now booming and should continue to accelerate in the future. Over the decade from 2006 to 2016, outpatient visitation increased by 25% (*Figure 2*). A race to invest in this segment is well underway. Ambulatory care employment, which includes offices of physicians, dentists, health practitioners, outpatient care centers, medical and diagnostic laboratories, home health care services, and other health care services, has reported an ongoing increase (up by 30% since 2008) (*Figure 3*).

FIGURE 2: Outpatient Visitation Rising Fast



Source: American Hospital Association, Q2 2018. Note: The most recent data is as of 2016.

FIGURE 3: Health Care Sector Job Growth Outperforms



Source: U.S. Bureau of Labor Statistics, Q2 2018.



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THE MEDICAL REAL ESTATE BOOM

U.S. medical real estate continues to grow quickly and has evolved into a significant institutional investment market with an over \$1 trillion estimated market value.⁽³⁾ The sector generally includes hospitals, medical office buildings (MOBs), senior housing, nursing facilities, and life sciences/biotech. MOBs now represent 39% of U.S. healthcare real estate value.⁽⁴⁾ Health-related occupiers have become critical economic anchors and tenants in commercial real estate, especially at office and retail properties, as they are generally more recession resistant due to steady cash flows and long-term leases. MOBs, in particular, can offer relatively high current yields compared to conventional office. Other property sectors, such as multifamily, hotels, and traditional office and retail are often viewed as having greater risk, due to more tenant variety and frequent lease adjustments to inflation.

The more recent rapid expansion of ‘convenient care,’ a segment of MOB which includes clinics and urgent care, has been most extraordinary, and there are now approximately 13,000 facilities nationwide. Currently, the ownership is split between hospital systems, physicians associations, and private corporations. A few of the largest franchises now include Concentra, MedExpress, U.S. HealthWorks, American Family Care and Doctors Express, Nextcare, FastMed, and City MD.⁽⁵⁾ Strategic partnerships with large regional health systems and corporate owners will be key to optimizing occupancy performance at commercial property. In the future, Clarion Partners anticipates many attractive investment opportunities in MOB and convenient care in new office and retail buildings in top urban and premier suburban areas.

FIGURE 4: Physicians Associates Facility



Water Tower Shoppes in Orlando, Florida, managed by Clarion Partners, LLC, located at the entrance of the 4,900-acre town of Celebration, features MOB tenant Orlando Health Physician Associates. The shopping center is anchored by a Publix grocery store, which reports one of the highest sales volumes in Central Florida. Orlando is a rapidly growing metro and popular tourist destination that welcomed 72 million visitors in 2017.

Orlando Health, one of Florida’s most distinguished and comprehensive private health care organizations, is a \$3.8 billion not-for-profit that features eight hospitals and 25 outpatient centers facilities. The regional network is a health care leader offering advanced medical treatments, procedures, and highly qualified staff to nearly two million Central Florida residents and 10,000 international visitors annually. Orlando Health has more than 3,300 beds and 3,000 physicians with privileges across the entire network, which is also one of the area’s largest employers with more than 23,000 employees.

- (1) U.S. Bureau of Labor Statistics. Q1 2018.
- (2) Centers for Medicare & Medicaid Services. Q2 2018.
- (3) Revista. Q2 2018.
- (4) Jones Lang LaSalle. Q2 2018.
- (5) 1) AMN Healthcare. 2015. 2) Health Data Management. 2017.

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