



MEDICAL SECTOR

NOVEMBER 2019

The medical sector is one of the more underrated sectors of the net lease world. That notwithstanding, it continues to quietly provide investors with solid options to grow their portfolio and secure solid returns. The medical sector is a service industry where consumers are required to see doctors and other medical professionals face-to-face, therefore creating a need for brick and mortar locations. These locations usually sign long-term leases with options.

Medical facilities require unique build-outs along with specialty equipment such as X-ray machines for urgent care facilities or dialysis machines for a dialysis clinic, which can be difficult and costly to move. Further, due to their proximity to their patients moving to a new location is as difficult on their patient base as it is on them. Taken together, this means that the likelihood of physicians or medical services providers renewing their leases is high.

The rise of urgent care, and other specialty facilities (MRI, X-Ray etc...) has seen a geographic expansion of these properties further and further away from the traditional medical corridors. Urgent care facilities can be found as end caps on retail centers, or freestanding buildings located in main thoroughfares.

Even with the onset of doctor care done remotely there will always be a need for the in-person site visits with your physician, minimizing the risk to the land/building owner.



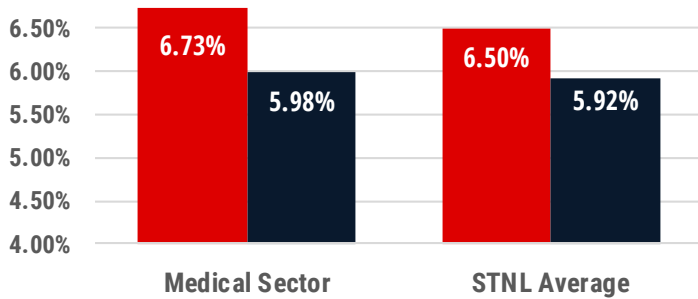


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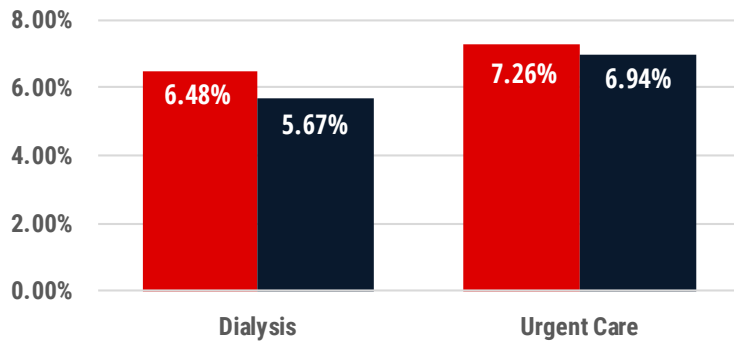
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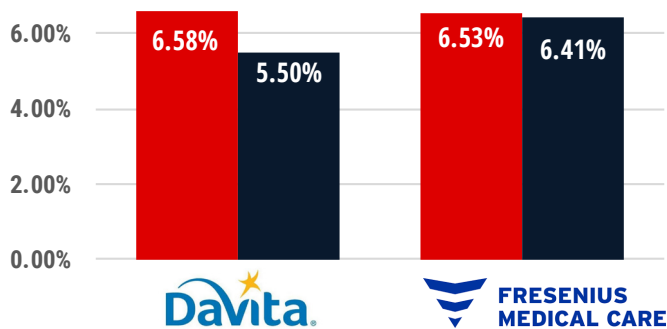
Medical Sector vs STNL Average



Cap Rates from Past 12 Months Urgent Care vs Dialysis Clinics



Dialysis Clinics Average Cap Rates for the Past 12 Months



■ Cap Rate ■ Cap Rate 10+ Years

Each section of the Medical sector is made up of a variety of unique tenants. The dialysis market is dominated by DaVita Dialysis and Fresenius Medical Care, while the dental and urgent care portion is more evenly split between a variety of companies/practices.

Currently DaVita and Fresenius have similar credit ratings, with Fresenius rated slightly higher with a BBB S&P rating and Baa3 Moody's rating versus DaVita, ratings of BB and Ba2. Year over year, DaVita locations that were sold had a longer average remaining lease term than Fresenius properties, which explains the lower cap rate for DaVita locations with 10+ years remaining.

DaVita and Fresenius locations also provide value to the property owners by way of incorporating rental escalations throughout the term along with options to extend the lease beyond its original end date. As mentioned earlier it can be difficult to move to another location and they tend to stay in place. Receiving a new permit of use may also factor into the decision to not move, as this is typically approved by local or state regulatory authorities.



**FRESENIUS
MEDICAL CARE**

Baa3

BBB

5.89%

MOODY'S

S & P

AVERAGE CAP



Ba2

BB

5.72%

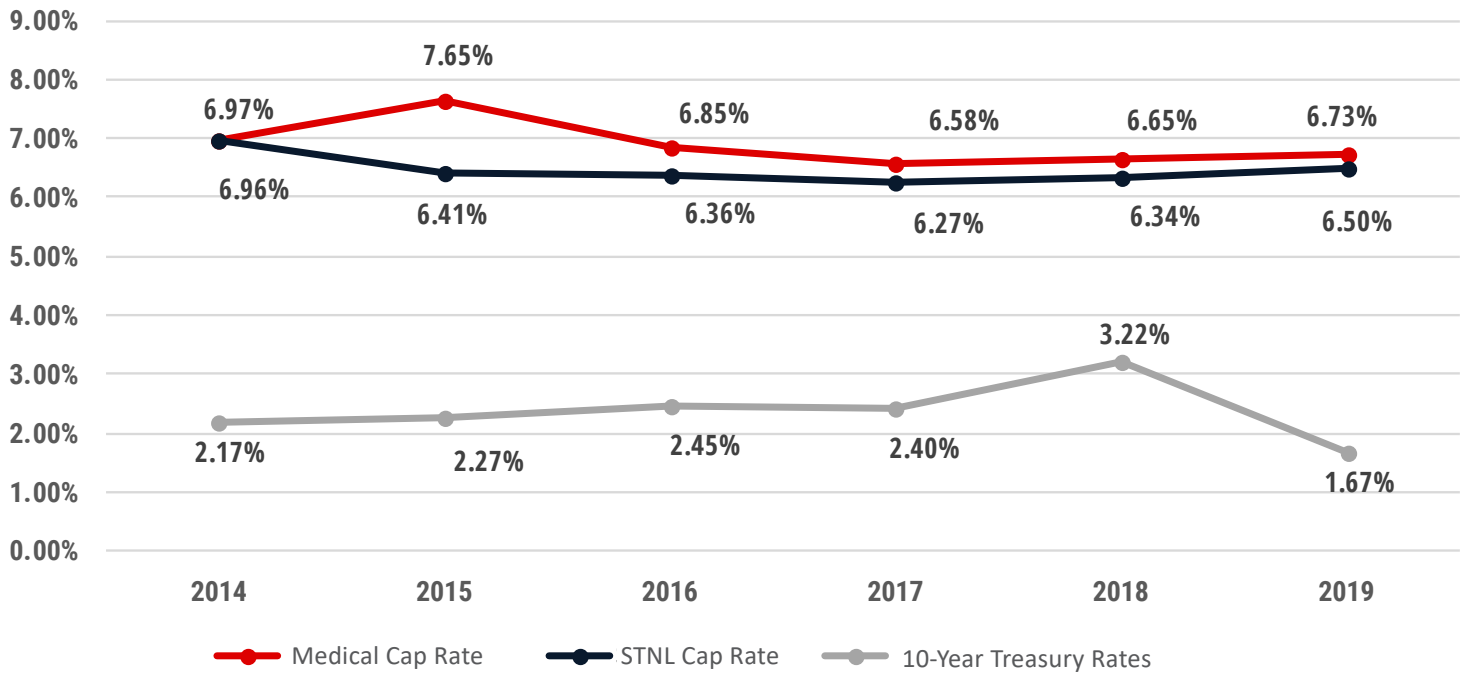


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STNL Cap Rates vs. Medical Sector Average vs. 10-Year Treasury Rates



The Medical sector has traded at slightly higher cap rates than the Single Tenant Net Lease (STNL) average. This is due mainly to the concentration of higher credit rated tenants in the medical space, and the plurality of properties being sold in the medical segment as well.



**Looking to Buy or Sell a Medical Asset?
Click Here to Contact Our Experts.**



DISCLOSURES: As part of our market research, we collect sales price, cap rate, and lease years remaining for all publicly advertised and sold STNL properties. We are not able to capture 100% of the off-market transactions that occur; however the nature of off-market typically limits their value as true market comps. Sources include public records, sales announcements, Calkain sales, and appraiser obtained sales amongst others. Our collection process, while thorough, is not all encompassing and there may be biases in the data as it relates to geography, tenancy, or brokers involved in the transaction. Public records often lag behind when transactions actually close, months in some cases. Consequently the data supplied here for any given quarter is likely to miss a material amount of transactions that actually closed in it.