

This Real Estate Practice Newsletter covers market activity and trends in certain regional market areas and will continue to focus on issues impacting the healthcare real estate market and those who are figuring out how to succeed in it. The PHC Real Estate Group has compiled market information via various sources such as CoStar, Colliers International, and Healthcare Real Estate Insights that summarize expectations and performance during this period.

### Market Update – Office and Medical Office Market Information for Calendar Year 2020

Pinnacle gathered market information from CoStar for ten significant markets across the United States: Boston, Philadelphia, Pittsburgh, Tampa Bay, Nashville, Chicago, Austin, Houston, Denver, and Los Angeles. All ten markets confirmed the same consistent trends for the end of 2020 that are direct effects of the COVID-19 pandemic on the commercial real estate market. The following chart shows some of the statistics provided by CoStar. Additional information on the statistics can be found [here](#).

Market	Net Absorption SF	Net Absorption % Change from 2019	Current Vacancy Rate %	Vacancy Rate Increase from 2019 to 2020
<b>Boston</b>	-3.2MM SF	-405.4%	9.2%	+3.4% (5.8% to 9.2%)
<b>Philadelphia</b>	-1.9MM SF	-300.1%	8.5%	+1.6% (6.9% to 8.5%)
<b>Pittsburgh</b>	-741K SF	-1,193.5%	10.6%	+1.4% (9.2% to 10.6%)
<b>Tampa Bay</b>	-382K SF	-312.0%	9.3%	+1.3% (8.0% to 9.3%)
<b>Nashville</b>	-629K SF	-203.0%	9.1%	+3.4% (5.7% to 9.1%)
<b>Chicago</b>	-1.1MM SF	-149.2%	12.7%	+1.9% (10.8% to 12.7%)
<b>Austin</b>	-1.7MM SF	-231.6%	13.4%	+4.1% (9.3% to 13.4%)
<b>Houston</b>	-4.1MM SF	-1,243.8%	20.1%	+1.9% (18.2% to 20.1%)
<b>Denver</b>	-1.7MM SF	-265.9%	14.2%	+3.3% (10.9% to 14.2%)
<b>Los Angeles</b>	-12.3MM SF	-718.3%	12.2%	+2.1% (10.1% to 12.2%)

The Net Absorption, which is the net change in occupied space between measurement periods, is the first consistent trend that has significantly decreased since 2019. The Net Absorption dropped by more than 149% from 2019 to 2020 in all ten markets. In the Pittsburgh, Los Angeles and Houston markets, the Net Absorption Rate dropped more than 700% from the previous year. This translates to millions of square feet of office and medical office space in different markets across the country that have been vacated or added to the market and not backfilled during the 2020 calendar year.

The Vacancy Rate is the second consistent trend that is a direct correlation to the negative Net Absorption. The Vacancy Rate for each market has increased between 1.3 and 4.1 points from 2019 to 2020.

As a result of the fluctuating Net Absorption and Vacancy Rate, the Market Rent/SF for these markets has flattened for the first time in more than 10 years. In our professional opinion, these consistent trends confirm the office/medical real estate market has been negatively impacted by the COVID-19 pandemic. Until the pandemic has begun to stabilize, it is difficult to determine the significance the impact will have on the real estate market.

If you would like Pinnacle to run an analysis of market information for a specific location or healthcare property, please [email](mailto:Mike.Vandaveer@AskPHC.com) Mike Vandaveer at [Mike.Vandaveer@AskPHC.com](mailto:Mike.Vandaveer@AskPHC.com) with the subject line “Market Information Request.”

## Market Update - Real Estate Transactions and New Construction

**Walgreens, VillageMD to Open 40 Additional In-Store Health Clinics After Positive Trial Run.** Walgreens Boot Alliance and VillageMD are opening another 40 doctor-staffed clinics by summer of 2021. The retailer has been shrinking its floor space used for selling products and repurposing it for in-person services to fend off increasingly popular e-commerce sales during the pandemic. The positive results from test clinics indicate the concept could be a prescription for retail properties with reduced foot traffic. They are now on track to have over 500 full-service primary care facilities spread out over 30 markets in the next 5 years. The investment included a \$250 million immediate outlay as part of a 30% stake in VillageMD. Most of the shared clinics will occupy over 3,300 square feet in existing Walgreens stores, allowing patients to fill prescriptions at the pharmacy after receiving treatment. The move has been part of an industry effort to bring healthcare services closer to patients' homes, primarily in underserved areas.

**2020: Healthcare Real Estate Trends in a Pandemic – 10/1/2020.** Though the healthcare real estate market is small compared to other sectors, there has been continuous flow of capital into it. This flow of capital has a big impact on the directions of the cap rates, which have increased by 50 basis points on multi-tenant medical properties and slightly more on single-tenant properties since the first stay-at-home order. The healthcare development market is consistent with last year, but that was not the case in March and April of 2020. By June 2020, though developers made up all that was lost, some were using REITs for capital and more expertise to deliver the properties at lower costs while other developers looked to health systems and medical provider partnerships.

### PHC Real Estate Group

The PHC Real Estate Group is a combination of professionals with extensive experience in both valuation and transaction services for healthcare entities, real estate and facilities. Pinnacle applies years of healthcare industry specific knowledge and credentialed experience to provide valuation services for healthcare entities in varied business arrangements including a few processes to determine Fair Market Value (FMV). In addition, the Pinnacle Real Estate Group can guide clients through multiple types of real estate transactions in a time-efficient and cost-effective manner that will bring value on a variety of levels.

Recently, Pinnacle team members drafted an [article](#) for American Health Law Association (AHLA) on shared space arrangements in healthcare. Click [here](#) to learn more about Pinnacle's valuation services.

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