

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 due to the COVID-19 pandemic and those who are figuring out how to move through it.

For more information on real estate and our other newsletters, visit our [real estate valuation blog](#). The PHC real estate group has compiled articles via various sources such as CoStar, Marcus & Millichap, and Healthcare Real Estate Insights that summarize expectations and performance during this period.

Market Update

The Medical Office sector is poised for a strong return as patient care adapts and healthcare needs continue to increase. The sector is being tested as many are facing the challenges created by COVID-19. The medical office was once perceived to be a more resilient sector during a downturn, but the uphill battle faced by healthcare providers due to the pandemic has slowed revenue. Restrictions on surgeries and the delays of non-emergency visits to doctors' offices have weighed on operations, contributing to job losses and furloughs. Despite the short-term costs, the healthcare industry should be one of the quickest to bounce back from the pandemic as the population's need for medical care increases. Medical services are returning as states navigate through reopening phases, and pent-up demand from postponed procedures and office visits provide a positive outlook.

Unemployment rates are just above 8% as the work-from-home option continues for many businesses. State regulations and company policies are two major deciding factors as to when workers will be allowed to return to their workplaces. Currently, the U.S. equity markets are reaching all-time highs, the Federal Reserve is providing great support and the therapeutic and vaccine research/development are in good spirits. High frequency economic indicators suggest continued improvement into 2021.

COVID has forced many employers to place restrictions on workplace access, and while most office tenants have not been able to return to their workspace, an increasing number of tenants are continuing to pay rent. There are some states allowing workers to return to the office, but tenants have not been in a hurry to return. Major markets across the country are reporting about 10%-15% occupancy of office space and although the occupancy numbers remain very low, landlords are not missing out on rental income. The share of rent received from went from 93% in the beginning of the year, to almost 97% in June and July. After the 10 million square feet of negative absorption in the second quarter, the third quarter is on track to add 24 million square feet of losses. The long-term impact of the pandemic on the office sector remains unclear.

Real Estate Transactions and New Construction

Encompass Health Purchases 12 Acres in Saint Augustine. Encompass Health acquired 12 acres of vacant land from FRP Holdings Inc. located at the corner of State Route 207 and Silver Creek in Saint Augustine, Florida for \$3.5 million, which is roughly \$292,000 per acre. Encompass purchased the land with the intentions of constructing a 40-bed rehabilitation and outpatient hospital. The project is scheduled to be completed and ready for patients in March of 2022.

America Development & Investments, LLC Announces Plans for Reunion Rehabilitation Hospital Inverness in Southeast Denver. America Development & Investments, LLC (ADI) based in Dallas, announced their plans to open another Reunion Rehabilitation Hospital in the Denver area. The three-story hospital will be 48,500 square feet, have 40 inpatient beds, and will provide care for people dealing with debilitating illnesses. Patients are to have their own private room in the hospital and the project is being built custom by BSA LifeStructure. ADI is expecting to open the hospital in the fourth quarter of 2021.

Montecito Medical Acquires Large Surgical Center in North Carolina. Montecito Medical Real Estate completed its acquisition of the Surgical Center of Greensboro property in Greensboro, North Carolina. The 60,000 square foot building was constructed in 2017 and is 100% occupied by Surgical Center of Greensboro, LLC. More than 100 physicians operate at the surgery center, which is part of a network of more than 200 outpatient surgery centers associated with Surgical Care Affiliates (SCA). Surgical Center of Greensboro is positioned northwest of Greensboro and is conveniently placed for the nearby patients requiring surgical care.

Montecito Medical Acquires Four-Building Portfolio in Little Rock, Arkansas. Montecito Medical completed its acquisition of a four-building portfolio in the Little Rock area occupied by the state's leading urology group practice. The four properties add up to about 72,500 square feet, include three medical office buildings and one ambulatory surgery center. All four properties are occupied by Arkansas Urology. These buildings are also currently serving as the headquarters for Arkansas Urology. The group is the second of four acquisitions by Montecito currently scheduled for closing in September. The acquisition of Arkansas Urology greatly expands Montecito's presence in the state.

North Alabama Medical Center Breaks Ground on \$13.6 Million Cancer Center. North Alabama Medical Center (NAMC) broke ground on their new cancer center that will be an addition to their main campus of Florence, AL. The construction of the facility was made possible by the \$13.6 million investment from LifePoint Health. The cancer center will be about 13,000 square feet and expand the facility's footprint. It will offer a wide range of cancer treatment and support services under one roof, including medical oncology, radiation oncology, infusion therapy, lab services and an onsite pharmacy. The facility will feature advanced technology and equipment, including a linear accelerator for providing radiation treatments to patients. It will also house a CT simulator, which allows for precise treatment planning by transmitting X-rays through tissue to create a detailed graphic display of the tumor and surrounding healthy tissue. The facility will include three radiation oncology exam rooms, two medical oncology exam rooms, seven infusion spaces, and dedicated waiting areas and office space. The project is expected to be completed in early 2022.

Ensemble Grows Philadelphia Navy Yard Portfolio with Three-Building Purchase. Ensemble Real Estate Investments purchased three buildings fully leased to WuXi Advanced Technologies which bolstered their presence in Philadelphia's Navy Yard. This latest purchase expands the firm's life sciences footprint at the Navy Yard, a former military facility that has been converted to a riverfront neighborhood which includes a total of five properties that comprise about 550,000 square feet of house manufacturing, laboratory, research and development and office space to support clinical development and initial commercialization of novel engineered immunotherapies, including gene and cell therapy, the firm said in a statement. Two other life sciences properties are Adaptimmune Therapeutics' U.S. headquarters and the under-construction Iovance Biotherapeutics facility. With the five life sciences buildings and its other office and hotel properties it owns, Ensemble's Navy Yard portfolio includes over 1.1 million square feet and four pad-ready development sites that represent \$360 million of investment.

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