



**PINNACLE**  
HEALTHCARE CONSULTING



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## Pinnacle Healthcare Consulting Real Estate Newsletter



The Pinnacle Real Estate Group consists of a combination of professionals who use their extensive experience in both valuation and transaction services within the healthcare real estate industry to guide clients through multiple types of arrangements in a time-efficient and cost-effective manner.

This Newsletter covers recent activity and conditions specifically impacting the national healthcare real estate market and those who are learning how to succeed in it. The Pinnacle Real Estate Group has compiled the following current market information from sources such as CoStar, CBRE, and HREI.

## Healthcare Real Estate Transactions



### **Amazon's Latest Deal Marks \$3.9 Billion Bet on Brick-and-Mortar Healthcare**

Amazon agreed to buy 1Life Healthcare establishing the online retail giant in the healthcare industry with a plan to disrupt it. One Medical, owned by 1Life, has 188 primary care facilities that provide virtual and in-office services, and competes with another Amazon experiment. This deal gives

Amazon a turnkey entry into part of the healthcare market valued at upwards of \$300 billion. However, it also opens the tech giant to risk as it acquires a not-yet-profitable firm in a highly competitive industry. This is not Amazon's first move into healthcare, acquiring online pharmacy PillPack in 2018 and the healthcare startup HealthNavigator in 2019. Last year, Amazon expanded its in-house Amazon Care program to its employees nationwide, immediately drawing comparisons to Amazon's 2017 purchase of Whole Foods – its \$13 billion entry into customer-facing brick-and-mortar operations. Similarly, we saw Amazon purchase an up-and-running brand with hopes that its tech and management expertise could disrupt a new sector. Now, it's a waiting game to see how Amazon's perseverance in the healthcare industry compares to that of the grocery sector. One Medical has operations in 25 markets across the country and described its physical locations as "well-appointed" in federal filings. The company claims 767,000 members, a number it conceded in its most recent quarterly report would need to grow to achieve profitability. It recorded a \$254.6 million loss in 2021.

### **Abbott Laboratories Life Science Campus in Minneapolis Trades Hands**

JLL Capital Markets, working alongside CBRE, announced it has closed the sale of Abbott Laboratories Life Science Campus, a four building, 280,289-square-foot life science portfolio in Minneapolis, Minnesota. JLL and CBRE co-marketed the property on behalf of the seller, a joint venture between Eagle Ridge Partners and Syndicated Equities. Virtus Real Estate Capital ("Virtus") acquired the portfolio. Abbott Laboratories Life Science Campus is fully leased to A+ investment grade credit tenant, Abbott Laboratories. The portfolio



contains cGMP ("Current Good Manufacturing") certified clean room, lab, and manufacturing space, as well as office and warehouse space. Across the four buildings located on 19.13 acres in the southwest submarket, there are 26 dock doors, 7 drive-ins, clear heights of 12-18 feet, and 640 parking spaces. Abbott Laboratories Life Science Campus has convenient access to the area's vast transit system, including the Light Rail Transit system, regional freeways, and the Minneapolis-St. Paul International Airport.

## Healthcare Real Estate New Construction

### Vanderbilt Plans \$500 Million Expansion of Nashville Hospital



Vanderbilt University Medical Center plans to build a \$500 million medical tower at the primary hospital in Nashville, TN. The new building will be designed to serve as an inpatient facility with an expected completion date in 2027. The tower will be constructed above a parking deck between 21<sup>st</sup> Avenue South and Medical Center Drive. The new tower will provide 180 new beds whereas the current facility has been consistently strained, operating at more than 90% capacity. The 470,000 square foot structure will be connected to the main hospital building by multiple pedestrian bridges over existing streets. Another building on the campus will be demolished as a step in the process. VUMC is independent from the 14,000-student university but maintains an

academic affiliation with its medical school. Vanderbilt Health System serves patients in middle Tennessee, northern Alabama, and portions of Kentucky. In addition to its Nashville hospital, the system also operates clinics in suburban and rural areas.

## PINNACLE Real Estate Group Assessment

### Healthcare Real Estate Remains an Attractive Option Despite MOB Sales Drop In 2<sup>nd</sup> Quarter

The healthcare real estate industry, specifically MOB Sales, broke records the previous four quarters cumulatively, with Q4 2021 being the highest ever recorded at \$7.3B. In the past few years, the quarterly average is in the \$3B range with Q3 2021 at \$5.7B, Q4 at \$7.3B, and Q1 2022 at \$4.6B. The preliminary numbers for Q2 2022 are \$3.6B, which is still considered strong and above recent historical averages. However, it does indicate things seem to be coming back to “normal” with the excess of capital that



flooded multiple market sectors – which is understandable and somewhat expected due to current inflation, multiple recent interest rate hikes, and what seems to be the conclusion of the financial reaction to the pandemic from the past two years. Other market statistics for healthcare real estate remain strong: occupancy rates remain stable around 92%, and rental rates continue an upward trend with the national average around \$23.72 per square foot with an annual increase close to two percent (2%). However, in addition to a drop in MOB sales, there is an expected drop in new construction starts which are expected to continue trending moving forward while the current volatility in the market remains. It seems the white-hot trends for healthcare real estate the past twelve to eighteen months peaked after Q1 2022 and will stabilize for the foreseeable future while remaining an attractive option for investors.