

TIME FOR YOUR ANNUAL CHECK-UP?

THE LANDSCAPE OF THE MEDICAL OFFICE MARKET IS SHIFTING, AND COULD HAVE AN IMPACT ON YOUR PRACTICE.

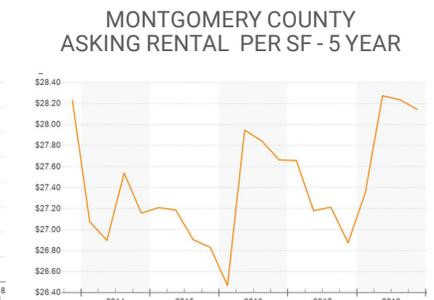
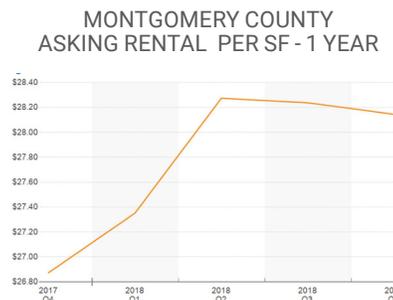
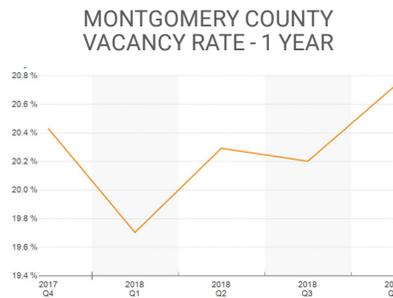
A recent analysis by Transwestern claims that there is an estimated 110 million square feet of medical office space, either in existing buildings or buildings under construction as of the end of Q2. Pair this with projections estimating that over 150,000 new healthcare practitioners will be added to the economy over the next two years, each taking approximately 1,500 square feet of space. Some quick math shows that the required space is roughly double that of what is currently available or under construction.

Looking beyond the next two years, some medical schools have begun considering offering free tuition for their medical students. NYU School of Medicine is the first among the nation's major medical schools to implement this for their medical students, beginning with the graduating class of 2022. The hope is to motivate new physicians to focus on specialties that have traditionally been less profitable, or to focus on helping the under-served communities in the country. With that said, don't be surprised if many view this as an opportunity to jump into private practice without being saddled by the student loan debt that many physicians in the past have dealt with.

This increased demand is motivating landlords of traditional office buildings as well as retail centers and flex buildings to consider healthcare uses in their assets. While many REITs have pumped the brakes on acquiring medical properties, private investors have picked up the slack, and continue to see the value brought by medical tenants due to their higher-than-average rents, large financial investments in their space, and desire to stay in one location once established. Given the increase in supply to locate medical practices, landlords are offering aggressive deals to entice these medical tenants to stabilize their buildings.

So, how does all this information relate to us locally? Between 2009-2013, close to 3 million square feet of medical office inventory was added to the market, despite no new buildings being delivered. Even then, landlords saw the benefit of converting their properties to accommodate medical users, and that trend continues to shape the market today. Despite the increase in demand due to new physicians coming into private practice, this increase in supply has certain effects on the market overall and positive outcomes for you, the tenant.

In Montgomery County as a whole, vacancy rates for medical offices remained stagnant from Q2 into Q3 2018 at 20.4% but are showing signs of climbing as the end of the year approaches. Similarly, the asking rent per square foot in Q3 did not deviate much from Q2, dropping from \$28.26 per square foot to \$28.23 per square foot. As the end of the year approaches, expect landlords to continue to offer strong concessions.



This shift in the medical office landscape makes it a perfect time to call us and have a free lease check-up by an expert healthcare real estate advisor. Whether you're looking to relocate or renew, current market conditions are causing landlords to offer heavier concessions to their tenants. Even if you have a few years left on your existing lease term, the state of the medical market allows for a renegotiation and extension of your lease to capture concessions from your landlord, either in the form of free rent or tenant improvement dollars which can be used to give your practice a fresh look as we head into the new year!

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