

Rare, large portfolio hits the market

JLL is marketing Harrison Street offering of five hospitals and seven MOBs

Name: 2014 Harrison Street Multi-State Healthcare Portfolio

Locations: Texas, Florida, South Carolina, Oklahoma, Nevada and Indiana

Number of buildings: 12

Types of facilities: 5 hospitals, 7 MOBs

Square footage: 655,661

Average age of buildings: 6 years

Occupancy: 99.6 percent

Average remaining lease term: 9 years

Seller: Harrison Street Real Estate Capital

Brokerage firm: Jones Lang LaSalle

CHICAGO – Word keeps circulating in the healthcare real estate (HRE) sector that large portfolio offerings are about to become as rare as small, thriving and independent hospitals.

Like other professionals involved in HRE, Mindy Berman, managing director with the national Healthcare Capital Markets of Jones Lang LaSalle (NYSE: JLL), has heard rumblings about a couple of potential portfolios in the pipeline. But for now, such news remains mostly quiet.

Perhaps that's why Ms. Berman indicates that interest is already strong from a wide range of investors for what is believed to be the largest portfolio offering so far in 2014.

JLL recently began marketing a 12-building portfolio of hospitals and medical office buildings (MOBs) with 655,661 square feet of space in six states.

The seller is Chicago-based Harrison Street Real Estate Capital, which owns the properties in its 4-year-old, third opportunistic fund.

The company's Brian Mutchler, a senior VP and co-head of asset management, says the offering is in keeping with Harrison Street's strategy of acquiring and/or developing assets, stabilizing them and packaging them in portfolios.

"Thus, we are beginning to target

strategic dispositions such as this MOB portfolio," says Mr. Mutchler. "Given the value we created by leasing up the various multi-tenant buildings in the portfolio and successfully delivering and stabilizing the development assets, it is the right time for us to sell so that we can take full advantage of the long-term duration of the leases in place to maximize value for a next buyer."

The portfolio comprises seven MOBs – four multi-tenant facilities and three single-tenant buildings – and five hospitals, three of which are inpatient rehabilitation hospitals (IRHs) and two of which are surgical acute-care hospitals.

"These are nice buildings, new construction, as the average age is six years, with one building having been totally gutted and remodeled," notes Ms. Berman. "And they are all fee-simple acquisitions, except one building, and are all free and clear of debt."

Because hospital facilities, such as rehab hospitals, long-term acute-care hospitals (LTACHs) and surgical facilities, all garner strong returns – in some cases stronger than MOBs – Ms. Berman notes that having such facilities in the portfolio could bolster the buyer's average weighted return. Post-acute facilities, she adds, have become integral under healthcare reform.

As for the portfolio's tenancy, 74 percent is leased by health systems: HCA; Tenet Healthcare (NYSE: THC); HealthSouth (NYSE: HLS); Livonia, Mich.-based CHE Trinity Health; St. Louis-based Mercy Health; and Community Health Systems (NYSE: CYH).

While the MOBs are off-campus, they



This rehabilitation hospital is one of the buildings being offered in a portfolio from Harrison Street.

Photo courtesy of Jones Lang LaSalle

are all in strategic locations for hospitals, Ms. Berman notes. Included among the buildings are ambulatory surgery centers, imaging, and urgent care clinics. One building is a health system cancer center.

As noted, JLL is marketing the portfolio to a wide array of potential investors, including well-capitalized groups looking to enter the HRE space.

"A portfolio like this appeals to those who are new to (HRE) because there will be very little additional capital requirements for these assets once they are acquired," Ms. Berman says. "This is a stabilized portfolio, new construction, many single-tenant buildings and longer terms remaining on the existing leases."

For Harrison Street, the sale should come during a year in which it plans to be what Mr. Mutchler calls a "very active buyer" of MOBs and post-acute facilities. "We are actively investing on behalf of our fourth opportunistic fund as well as our open-ended core fund," he says.

The firm's funds own 52 healthcare facilities with 3.6 million square feet. In recent months, Harrison Street has been closing the previously announced purchase of a \$500 million MOB portfolio in the Washington, D.C., area.

– John B. Mugford