ARC Healthcare gets MOB in Michigan

UNLISTED REIT PAYS $30.43 MILLION FOR OFF-CAMPUS PROPERTY IN PAW PAW

By John Mugford

In today's medical office building (MOB) transaction arena, aggressive pricing is the norm when it comes to the sales of high-quality facilities with strong lease terms and tenants with good, perhaps hospital, credit.

TRANSACTIONS

In fact, professionals involved in healthcare real estate transactions say there is a shortage of such properties and that more money is chasing such deals than there are, well, deals.

ARC Healthcare Trust recently acquired this 100,321 square foot MOB in Paw Paw, Mich. The REIT paid $30.43 million for the facility, which is 100 percent leased to Kalamazoo, Mich.-based Bronson Healthcare Group.

Photo courtesy of Marcus & Millichap

However, one aggressive buyer of late has been New York-based ARC Healthcare Trust Inc., an unlisted real estate investment trust (REIT). The REIT recently acquired an MOB in Paw Paw, Mich., about 20 miles from Kalamazoo, for a price that can certainly be considered aggressive.

ARC Healthcare Trust, which is part of the multi-fund American Realty Capital, paid $30.43 million for the 100,321 square foot off-campus MOB, known as the Bronson LakeView Outpatient Center. That price equates to $303 per square foot (PSF).

According to the team that brokered the sale, Gino Lollio and Scott Niedergang, senior associates in Marcus & Millichap's downtown Chicago office, the capitalization (cap) rate, typically a first-year estimated return on an investment, was 7.68 percent. Jonathan Dwoskin, regional manager of Marcus & Millichap's Detroit office, was the company's broker of record in the state of Michigan.

The building, located just off and visible from U.S. Interstate 94, is 100 percent leased by Bronson Healthcare Group, which has a flagship hospital, the 404-bed Bronson Methodist Hospital, in Kalamazoo, as well as numerous other locations in the region. The health system also has a small, 35-bed hospital in Paw Paw, Bronson LakeView Hospital, which is just a mile or so from the Bronson LakeView Outpatient Center.

According to Mr. Niedergang of Marcus & Millichap, the seller of the MOB was the original developer of the facility. The businessman developed the facility as a build-to-suit project for a large, local physician group in 2006. Before the project was complete, the group was acquired by Bronson, which then assumed, as the guarantor, the 15-year lease in place for the facility. Marcus & Millichap did not name the seller. Today, about nine years remain on the lease for the building.

"There is definitely a strong market for buildings such as this, with a single tenant and hospital credit," says Mr. Niedergang. "We had quite a strong number of groups interested, but American Realty Capital made a very strong bid and was pretty aggressive and certainly closed on the deal" rather quickly after they had the building under contract. For the two-year-old ARC Healthcare Trust, the acquisition brings its portfolio to about $465 million, based on purchase price.

Mr. Niedergang notes that the seller was "pleased with the price," and was pleased to sell the building before the end of the year, when a potential increase in the capital gains tax is set to take effect.

Mr. Lollio adds that the strength of the Bronson Healthcare Group, a leading system in the region with more than 15 outpatient locations, contributed to the strong demand for the facility.

The health system also includes a hospital in Battle Creek, Mich., which came into its fold in 2011.

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"Demand for recently constructed, multi-specialty medical office buildings leased to leading health systems has intensified," says Mr. Lollio. "Offerings such as the Bronson LakeView Outpatient Center receive strong interest from investors seeking a durable income stream with minimal landlord responsibilities."

The lease, which as noted has about nine years remaining, includes two five-year extension options and provides for annual rent increases tied to the Consumer Price Index (CPI) increases and that are capped at 2.75 percent.

According to Messrs. Niedergang and Lollio, who focus on medical properties, say they are working on a number of potential offerings that could come to market in the next few months and in the first quarter (Q1) of 2013. They also expect to close a number of transactions in the not-too-distant future, including a deal currently under contract.

Archway Holdings buys Arizona MOB for $20 million

GLENDALE, Ariz. – Nearly everyone involved in healthcare real estate is talking about the onslaught of new buyers, or interested buyers, that are combing the market for well-leased MOBs with strongly credited tenants these days.

One of the relatively new, active investors certainly looks to be Beverly Hills, Calif.-based Archway Holdings Corp., which in the past 10 months has acquired a total of 400,000 square feet of medical office space – all of it in Arizona.

However, Archway is not necessarily only looking for well-leased MOBs, as company officials say they are focusing on repositioning medical assets that are located in areas with solid demographics and that might need some lease-up.

It's most recent purchase involves a two-building, 65 percent-leased medical office complex in Glendale, located just outside of Phoenix, with a total of 103,216 square feet of space. The complex, formerly known as the Arrowhead Orchards, is across the street from the 217-bed Arrowhead Hospital, which is located at the corner of Union Hills Road and 67th Avenue.

Archway Holdings, which owns the complex through Arrowhead Health Center LLC, paid $19.86 million for the two buildings, or about $192 PSF. The new owner has renamed the complex as Arrowhead Health Center, and it is located at 6320 W. Union Hills Dr. The buildings were completed in 2002 and 2006 and are adjacent to an area known as Arrowhead Ranch.

According to *AZRE* magazine, a publication that covers commercial real estate in Arizona, the deal represented the largest single-asset medical office transaction of 2012 in the Phoenix metro area.

According to the online commercial real estate data service LoopNet.com, the seller was VCC Healthcare Fund LLC, an entity controlled by Chicago-based Ventas Inc. (NYSE: VTR), the country's largest healthcare REIT. The REIT acquired the property for $15.6 million in October 2011 in a bank-owned/REO (real estate owned) transaction.

According to Archway officials, the building is currently home to "high-quality, seasoned tenants." LoopNet.com indicates that tenants include pediatric physicians, family practice physicians, a dermatology practice, a children's dentistry clinic, an imaging center and others.

The MOB provides its new buyer with "an opportunity to increase cash flow by leasing up the asset, taking advantage of its superior income demographics, location, design, strong tenant demand and tight supply," according to a statement from Archway, which says it specializes in repositioning healthcare assets.

"We view vacancy, in sub-markets with appropriate demographics, as an asset in this new healthcare paradigm where small healthcare practitioners are being replaced by large practice groups that will likely be the ones to continue to thrive, thereby creating a premium for large contiguous square footage," Sean Moghavem, Archway's president, said in a statement.

Los Angeles-based Lucent Capital arranged financing for Arrowhead Health Center LLC. Braxton Glass of Scottsdale, Ariz.-based Orion Investment Real Estate represented Archway in the transaction.

Mr. Glass, in a statement, added: "Arrowhead Health Center is a unique asset – it is the only fee simple, Class A medical office building on the Arrowhead Hospital Campus. Due to the property's current vacancy, this was a rare opportunity to purchase such a quality asset at a discount to replacement cost."

As noted, Archway has been making a number of MOB purchases in the last 10 months or so. Earlier in 2012, it acquired three MOBs in two separate transactions in the Phoenix area for a total of $14.5 million. The first deal entailed the $8.6 million purchase of the 80,815 square foot 101 Medical Office Center, which it renamed to the Estrella Health Center. The seller was Chicago-based McShane Corp., the original developer.

In addition, Archway purchased a note secured by two properties in Mesa, Ariz., for $5.9 million. The buildings are known as Baywood Health Center and Broadway Health Center. ❑