

### Stimulus Loans Aid Providers; Backlog of Appointments Await Post-Pandemic

**Medical office shutdowns impact providers' bottom lines.** The delay of elective surgeries and nonessential surgical and dental procedures during the COVID-19 pandemic has caused many healthcare offices to partially or fully close their offices, leaving many firms in a zero-revenue situation. While off-campus urgent care centers, microhospitals and health-system sponsored wellness centers may take on a heavier role in treating individuals without the disease, the risk-to-benefit ratio of making a trip to these facilities will likely prompt a widespread rescheduling of routine appointments. These cancellations and office closures may translate to a wave of work for many practices once the pandemic lifts, likely boosting these firms' recovery and longer-term financial stability.

**Aid to pay employees available.** To expedite the economic relief from the short-term turmoil, tenants and owners can obtain support through the \$2 trillion CARES Act. The Paycheck Protection Program (PPP) represents the primary support for these businesses and medical office landlords. As part of the CARES Act, \$349 billion in federally guaranteed loans of up to \$10 million are provided to entities with less than 500 workers. These loans are forgivable if used to cover payroll and most mortgage interest, rent and utility costs for the eight-week period following the completion of the loan. Assistance for small businesses is also available via an Economic Injury Disaster Loan, an existing SBA program that provides loans up to \$2 million.

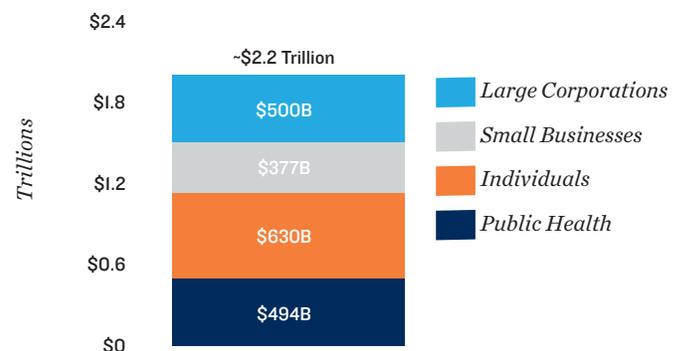
**Larger companies to utilize multiple funds.** Health systems that maintain off- and on-campus buildings and employ more than 500 individuals can also benefit from \$4 trillion in liquidity via new credit facilities and \$500 billion in funds being allocated to sizable companies and municipalities. Similar to PPP loans, these funds can be used to pay rent.

**Owner due diligence key.** Private investors that own smaller and midsize properties are likely to directly communicate with tenants that may not be capitalized to handle an extended span of zero revenue. Via an open dialogue, owners will better understand tenants' ability to maintain staffs and pay rent through the duration of the pandemic. Additionally, owners that employ maintenance workers, leasing agents and property managers at their holdings will likely apply for loans in order to retain these employees.

### Highlights

- **Short-Term Challenges:** A decline in non-emergency patient visits will likely strain revenues for many dentists, off-campus physicians and practitioners that provide elective and nonessential services in areas under shelter-in-place orders.
- **Short-Term Impact:** Many health-related providers will utilize PPP loans to maintain staffs and stay afloat heading into the summer. Off-campus urgent care facilities and microhospitals may witness an uptick in visitations from non-COVID-19 patients wishing to avoid larger hospitals that may be handling coronavirus cases.
- **Long-Term Challenges:** Smaller businesses and practitioners that experience a revenue hit and are unable to maintain employees may have difficulty replenishing staffs to pre-downturn levels once the pandemic lifts.
- **Long-Term Impact:** A backlog of appointments should benefit medical providers able to weather the pandemic. The nation's aging population may also bolster office visits in the second half of the year.

### Congress Approves Largest Stimulus In U.S. History



## Sector Well Positioned for Quick Recovery Once Pandemic Lifts

Medical office fundamentals strong prior to downturn. The convergence of a growing population of aging baby boomers, expanded medical insurance coverage and new treatment options supported demand for medical office space prior to the onset of the COVID-19 pandemic. Additionally, a structural shift in patient services away from hospitals benefited owners of medical office buildings. Entering this year, these demand drivers placed national vacancy 90 basis points below the trailing 10-year average of 9.7 percent, with 6 million square feet absorbed nationwide in 2019. Below-average availability warranted a steady stream of property completions, with delivery volume eclipsing the 10 million-square-foot mark. These fundamentals generated interest from a broad range of private investors that target \$1 million to \$10 million assets.

Full schedules await practitioners during recovery. While the pandemic will affect health-related providers in the second quarter, the long-term impact of the downturn should be manageable. The buildup of work that will stem from practitioner closures and appointment cancellations will allow medical office tenants to shore up financials and avoid shuttering once the pandemic ceases. This factor along with the nation's sizable aging baby boomer cohort provides a foundation that supports investor confidence, particularly with well-located assets that feature the proper infrastructure to service modern medical needs in high demand. Over the long term, as younger millennials marry and seek residence in areas of lesser density to start families, a rise in non-urban relocations will boost demand for nearby medical services, heightening investor competition for these facilities.

### Healthcare Real Estate Division

#### Alan Pontius

Senior Vice President | National Director

Tel: (415) 963-3000 | [apontius@marcusmillichap.com](mailto:apontius@marcusmillichap.com)

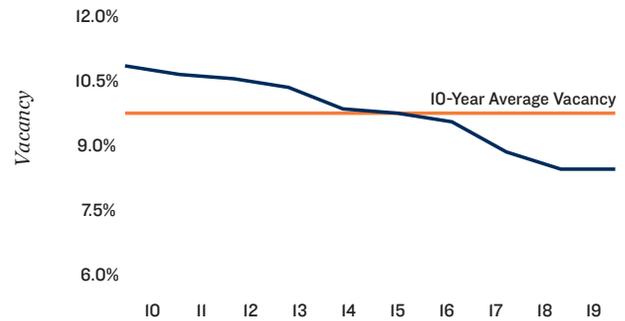
For information on Marcus & Millichap Capital Corporation, contact:

#### Tony Solomon

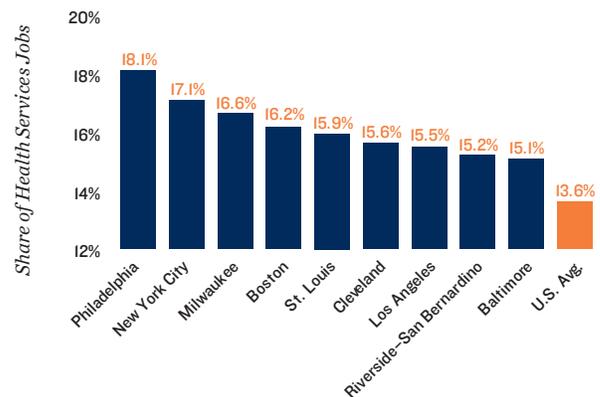
Senior Vice President, National Director | MMCC

Tel: (310) 909-5500 | [tony.solomon@marcusmillichap.com](mailto:tony.solomon@marcusmillichap.com)

### Medical Office Building Vacancy Tight Entering 2020



### Metros With Most Health Services Jobs



Prepared and edited by

#### Erik Pisor

Research Analyst | Research Services Division

For information on national healthcare real estate trends, contact:

#### John Chang

Senior Vice President, National Director

Research Services Division

Tel: (602) 707-9700 | [john.chang@marcusmillichap.com](mailto:john.chang@marcusmillichap.com)

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guaranty, express or implied, may be made as to the accuracy or reliability of the information contained herein. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice.

Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Experian; Moody's Analytics; Real Capital Analytics; U.S. Census Bureau