JLL REIT Is Bullish on SoCal Medical Office Sector

JLL Income Property Trust is focusing on medical office to reduce risk, deliver stable income streams and protect stockholder value.

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Allen Swaringen, President and CEO of JLL Property Trust. Photo courtesy of GlobeSt.com

JLL Income Property Trust, an institutionally managed daily NAV REIT, is targeting Southern California medical office product. The strategy is a late cycle play to reduce risk, deliver stable income streams and protect stockholder value. In addition, the investor is under allocated in office properties. The firm's recent acquisition of the Genesee Plaza, a two-building class-A medical office property in San Diego, is a cornerstone example of the strategy. JLL Income Property Trust recently acquired it for $90 million.

"The San Diego medical office market has a very low overall vacancy rate at approximately 7%. Genesee Plaza's UTC submarket vacancy rate, at ~6%, is lower than the overall market," Allan Swaringen, president and CEO of JLL Income Property Trust, tells GlobeSt.com. "Vacancy rates should remain low going forward given Genesee's proximity to four major hospitals, the UTC's preferred status as a location for outpatient healthcare providers and the substantial barriers to entry in the submarket. The submarket area is also characterized by high household incomes and attractive age demographics for healthcare-focused businesses."

JLL Income Property Trust isn't the only investor ramping up its medical office activity. Medical office has become a popular investment class, and, as a result, highly competitive. This most recent acquisition was no exception. "There is always stiff competition for higher quality MOB's in the San Diego market," says Swaringen. "JLL Income Property Trust was awarded the property because we believe we were the strongest candidate given our expertise in medical office and familiarity with the San Diego market in particular."

In addition to producing a solid offer, JLL Income Property Trust also pursues off market opportunities to grow its Southern California portfolio, which helps to secure assets below replacement costs. On this transaction, the upside in the rents supported a higher value. "We looked at the national average based high land value locations similar to UTC which are $600-$650 per-square-foot, which was affirmed by several development deals we've looked at in the market," says Swaringen. "The rent levels at this property support the value paid, but are lower than newly constructed office buildings in the UTC indicating we are in fact below replacement cost."

Medical office makes up the majority of the firm's total office allocation. Four of its six office assets are medical. It plans to continue to buy medical office properties as a late-market play. "We view medical office as a strong long-term investment and particularly today vis-à-vis other sectors, being late cycle," says Swaringen.