Kayne Anderson Real Estate

Investment tailwinds support viability of medical office assets

Chase McWhorter, Institutional Real Estate, Inc.'s managing director, Americas, recently spoke with **Lee Asher,** a senior managing director on the medical office team for Kayne Anderson Real Estate. Following is an excerpt of that conversation.

Lee, you recently joined Kayne Anderson as a senior managing director in charge of medical office, but you've had a long relationship with Kayne. Can you talk to us about that relationship and what led you to join the team at Kayne Anderson?

The relationship started more than a decade ago, when I sold a property to Kayne Anderson and their exclusive operating partner, Remedy Medical Properties, which became the first acquisition they made in their joint venture. It was a large and complicated deal with many moving pieces, including a lease-up, significant parking revenue, a ground lease that was not a health-system ground lease which needed to be extinguished, and a phase-two development parcel owned by a separate ownership group that required a "hope note" in order to be compensated for future value. We were asking a lot of any buyer, and the Kayne Anderson–Remedy team stepped up and executed flawlessly. It was probably one of the most complicated transactions I've ever been involved in, but they made it seem easy. They performed impeccably on a complex transaction, doing everything they said they were going to do.

Ever since that first deal, I knew the Kayne Anderson–Remedy partnership was special. They were the group you wanted to continue to do business with. Their performance on that first deal opened the floodgates for opportunities, gaining them the reputation — one I'm now living — that (1) they're closers, (2) they're adaptable and collaborative, and (3) they do what they say they're going to do. They have become the largest private owner of medical office in the United States. From a private equity perspective, Kayne Anderson and Remedy Medical Properties are leaders in the space, and I'm proud to be a part of the team.

You have a long history in the sector, mostly as a broker. How will that experience lend itself to your new role as a buyer at Kayne Anderson?

My experience as a broker has primarily been to represent the seller, and in so doing, my fiduciary role has always been to maximize the value of the asset and offer advice on any capital expenditure and leasing decisions. While I was on the brokerage side, we held about a 25 percent to 35 percent market share, which means we touched approximately one in four brokered deals. That market intelligence is going to help our team here at Kayne Anderson evaluate acquisitions and developments. I have a good deal of strategic intelligence about markets, physician groups and health systems to bring to bear as we evaluate deals. But also, I have a familiarity with much of our existing portfolio. When it comes to the asset-management side, I'm familiar with many of the assets owned by Kayne Anderson currently because I likely sold those assets to Kayne. And if I didn't sell them, I may have pitched that business and underwritten it once before.

In any market where there is population growth, there will be new demand for healthcare.

Kayne Anderson, alongside Remedy Medical Properties, owns the largest private non-hospital-affiliated portfolio of medical office in the country. What plans do you have to build upon this impressive portfolio?

First, allow our partner Remedy Medical Properties to continue to do what they do because they do it better than most. That is, let them continue to develop their relationships with the brokerage community, with the physician groups and with the health systems, and be there as a solid operating partner. That said, I do have a lot of relationships that are complementary to Remedy's strong network. My goal is to help us gain access to more opportunities, but also leverage my market intelligence so we make sound investment decisions. I've done a lot of deals with Remedy over the years, with a high success rate. Consequently, when we are evaluating deals, I know what to look for in our underwriting. I probably have a better understanding of where we can come in on initial bids based on an understanding of how the process tends to work. That's an added value I bring to the table. But Remedy has a sublime track record on the buy side. If there are transactions we want to push on, I can leverage my experience to help make sure we win those deals. My role is akin to finetuning an engine that's already humming and running well.

Talk about the importance of Kayne Anderson's exclusive partnership with Remedy. Why do you believe that is a key strategic advantage of the firm?

This exclusive relationship means Remedy can focus on acquisitions, asset management, property management and leasing, rather than being distracted with trying to raise capital or structure new joint ventures. The competition is always looking for new capital sources, and many operating partners have multiple capital sources. We can literally come to the table with any seller and say, "This is whom you're dealing with. We have the money, and we have access to debt." There are a lot of reputable operating partners out there, of course, and they can tie up a deal, but then they must go raise the equity and the debt. Not being in that situation is a huge advantage we have that is appealing to sellers, particularly in this market.

From the outside looking in, can you comment on the growth of the Kayne-Remedy partnership, over time?

I have watched Kayne-Remedy's growth from when it was a much smaller group to today. Remedy has picked up star athletes to play on their team and put them in the right position on the field. That's why they keep winning. Their staff is motivated, smart and they have a vested interest in everything the firm does. Everybody is incentivized to perform at the highest level. They are an ideal complement to our team, and we share the same DNA.

And the partnership approaches our processes with a demand for constant improvement and always operating at a high level. Seeing how the investment teams work together and the depth of knowledge and expertise they bring to transactions, it's no wonder we're doing the volume we are and winning on so many good deals. We don't necessarily pay the highest price. Rather, we have proven we will execute, and we'll do what we say. We can present to the market that we've got the capital and the debt, and that's critical to making us an attractive partner. If you're going to advise your seller on who you're going to pick, you might leave some money on the table for certainty of execution and for knowing the process will be smooth because the buyer knows how to manage through challenges that occur during any transaction.

Medical office has often been touted as a low-volatility asset, regardless of market cycle. Is that true? What are some of the headwinds and tailwinds impacting the sector?

Medical office is in an even better position today than it was a decade ago. The fundamentals have proven out: the aging population, strong demand for healthcare services and continued growth in healthcare expenditures as a percentage of GDP. From that perspective, the fundamentals are sound for medical office. It also weathered the global financial crisis, the COVID-19 pandemic and this latest disruption in the debt markets.

We are fortunate to be doing a lot of new development for growing and expanding health systems and physician groups. We know firsthand how increased construction and financing costs have resulted in higher rental rates for medical outpatient facilities. This bodes well for the existing portfolio in terms of tenant retention and rent growth. An existing tenant paying, say, $22 per square foot is unlikely to be enticed to relocate to a newly constructed building where rates are in the low $30-per-square-foot range. Landlords have a lot of leverage, and the irony is that the new construction has helped the existing product achieve stronger rent growth. High construction costs are raising market rents, allowing existing product rents to grow at a faster rate because demand for medical office space has outpaced supply due, in large part, to increased construction and financing costs for new developments. That said, new construction is strategic and necessary for healthcare providers growing and expanding into new markets. These new builds, which are significantly pre-leased, will generate a lot of revenue for the providers capturing increasing patient volume from those locations, so they can afford the higher rents.

When I got into this sector back in 2009, I was solely dedicated to healthcare and medical office investment sales. Medical was lumped in with the other alternatives, such as marinas and mobile home parks. I would argue now medical office is the fifth food group behind office, industrial, retail and multifamily. It's vital infrastructure, and a large number of institutional investors have started paying attention to it. Many of the largest employers in any city are affiliated with the health system. In any market where there is population growth, there will be new demand for healthcare. There are very strong tailwinds behind us in the sector.

CONTRIBUTOR

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Lee Asher is a senior managing director on the medical office team for Kayne Anderson's real estate group, responsible for sourcing, analysis, underwriting and execution of investment strategies. Asher works with joint venture partner Remedy Medical Properties to oversee day-to-day management of medical office investments. Prior to joining Kayne Anderson in 2024, Asher served as vice chair and Healthcare Capital Markets Practice group leader at Colliers, where he specialized in providing healthcare real estate investors with acquisition, disposition and recapitalization strategies. Prior to joining Colliers, Asher was co-founder and leader of Healthcare & Life Sciences Capital Markets at CBRE.

CORPORATE OVERVIEW

With assets under management of more than $15 billion, **Kayne Anderson Real Estate's** investment objectives are to create strong risk-adjusted returns by focusing on current cash yield and increasing value through cash-flow growth, while remaining sensitive to capital preservation. Since 2007, Kayne Anderson Real Estate has invested in alternative real estate sectors, including medical office, high-end senior housing, off-campus student housing/multifamily and self-storage. Our vertically integrated team brings expertise in all aspects of real estate investing and management to each of our investments, thereby maximizing operating capabilities.

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