

THE LAGUNA



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Attractive medical office availability calls for quick research for tight turnaround

Meridian learned of a 57,000 SF medical office building for sale in Laguna Hills, CA, a submarket they were familiar with and looking to expand into. While the location and demographics were ideal, the building itself had other challenges new to Meridian that they would need to overcome prior to moving forward with an offer. With other purchasers also hungry for the deal, Meridian had to work closely as a team to conduct extensive research and analysis on a short timeframe in order to gain investment committee approval for the purchase. Ultimately, Meridian was able to work through the challenges quickly and efficiently and was selected as the ideal buyer for the building, successfully expanding their growing Southern California profile.

"This acquisition is another example of Meridian's depth of knowledge and long experience critical to successful outcomes in the healthcare real estate space. They are process oriented, extremely communicative and dependable, all the qualities of a great buyer. The entire sales process was seamless and we look forward to working with Meridian in the future." – John Wadsworth, Senior Vice President, Colliers International

Challenges

The Laguna, a 57,057 square-foot medical office building in Laguna Hills, California was quietly marketed to a small group of potential buyers, including Meridian who was in the market to build out their Southern California profile. The .75 acre property is located on campus to Saddleback Hospital, which is one of the premier hospitals in Orange County and across the street from a large scale redevelopment project which will transform the area and will provide many new retail amenities to tenants and their patients. In addition to its ideal location, strong demographics also surround the property. Over 50% of the population within a 1 mile radius is 65 or older, the demographic that accounts for the highest per capita healthcare spending.

Meridian quickly learned that this would be a perfect asset to add to its growing profile but needed to overcome a few major obstacles before feeling confident to bring the asset to their investment committee for approval and to put in a bid for the property. While Meridian recognized the value and potential of the purchase, they needed to get comfortable with the sub-market vacancy while preparing their plans for the building. The immediate submarket had a high market vacancy of 24% which is significantly higher than the broader South Orange County market vacancy of 10%. Furthermore, the majority of the building's parking is in a shared parking structure that is owned by a neighboring building which Meridian knew would be challenging when dealing with parking rights moving forward. Lastly, Meridian also was dealing with figuring out the probability of leasing the 2nd floor vacancy within its hold period. With little time to waste, Meridian had to act fast in order to capitalize on the opportunity.



Solutions

Meridian deeply analyzed the market statistics and came to the conclusion that the market was healthier than the data initially suggested. They discovered that the majority of the vacancy was in one building which has historically been mismanaged and was outdated. The current large scale renovation will once again make it desirable space. When this occurs, Meridian feels that market vacancy within the immediate submarket will fall in line with the broader submarket. Meridian also learned that The Laguna had one of only three spaces that could accommodate a user requiring + 10,000-SF of contiguous space. Meridian studied all parking agreements in detail and was content that the parking rights were in perpetuity and there is virtually no risk of losing parking rights in the future. Furthermore, Meridian also felt comfortable because very little of the building's income is derived from parking revenue. This has become an increasingly important metric that Meridian looks at, with the trend of ride-sharing services and the future of self driving cars having the potential to greatly reduce the need for parking, thus impacting parking revenue. In terms of leasing, Meridian has seen a significant increase in the demand for large blocks of space due to industry consolidation. Their research concluded that there are only 3 large blocks of contiguous medical office space available (including The Laguna) within the greater submarket. Based on historical leasing data, there have been an average of 2 large lease deals per year in the submarket. This data solidified Meridian's confidence that it will lease the 2nd floor to a full floor user within the hold period.

Results

The competition among potential buyers was fierce; however, Meridian was very familiar with this submarket as it had recently underwritten a neighboring building. Furthermore, Meridian was able to conduct thorough research and analysis in a fast yet effective manner that assisted them in getting swift approval from their investment committee. Ultimately, Meridian was chosen based upon their reputation of being a credible buyer with healthcare expertise, short escrow timeframe and access to capital. Due to its extensive research and preparation, upon purchase Meridian was able to successfully close within the tight timeframe provided in the contract without having to get any extensions. The acquisition successfully helped Meridian expand its growing Southern California presence.