

Puget Sound Healthcare Real Estate: Pulse of the Market

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Healthcare real estate investors and owners throughout the nation are working to keep pace with the changes occurring in healthcare delivery. Shifts to outpatient models of care delivery are opening up new real estate possibilities, from suburban retail strip malls, to former big box stores to multi-specialty ambulatory care centers. This focus on facilities that are in close proximity to the populations they serve is encouraging investors, builders and architects to work hand-in-hand with health systems to create medical office buildings of the future.

Medical Office Buildings of the Future

At medical office building (MOB) conferences, the saying “hospitals are no longer the hub on the spokes” is a well-used phrase. Location is a key component in analyzing facilities of the future, however there are

four additional components that merit attention:

- Flexible: The ability to respond to the needs of the population the medical facility serves. Changing specialty uses is key
- Expandable: The ability to accommodate future growth demand for an increasing population and the additional services they might require.



Overlake Hospital recently leased 50,000 SF at the Overlake Medical Pavilion MOB

to the long-term value of a community’s facility.

- Incorporating advanced technology: The capacity to accommodate electronic records and the infrastructure needed to harvest data for the growing demand for data analytics

- Efficient: The facility must lend itself to efficiency in energy consumption, patient access, parking, floor plate size and layout.

Healthcare Real Estate in the Puget Sound

The Puget Sound region is consistent with national real estate trends with both healthcare systems and MOB investors driving strong first half leasing and sale activity. Local healthcare systems are continuing to shift procedures to ambulatory environments

and are targeting opportunities located closer to patient populations with high visibility and access. Current owners of MOB's are eyeing the changes in healthcare to ensure their assets will still be in a position to capture the future shift in leasing demand. Investors both locally and nationally are aggressively seeking opportunities to acquire or develop assets in the Northwest as the region holds a highly-desirable demographic base and boasts strong, stable healthcare systems.

Despite the aggressive real estate activity generated in the Puget Sound, uncertainty among the physician community is prevalent. With reductions in reimbursements seeming to be the only certainty in healthcare, the ultimate effects are still being assessed by many independent physician groups and sole practitioners. Practices needing to relocate or wishing to test a market are responding polemically. Some practices have an aversion to signing a long-term lease obligation and are seeking flexible lease terms in functional second generation space with minimal investment required. Other practices are going the other direction and seeking high identity space to help them compete favorably in an increasingly competitive environment.

Recent Regional Real Estate Transactions

In the heart of the Puget Sound MOB market, Trammell Crow Company recently acquired the former Fred Hutchinson Life Sciences building at 1124 Columbia on First Hill. The current 170,000 SF facility is connected to Swedish Hospital via tunnel and its redevelopment into a

220,000 SF Class A MOB is slated for delivery in the summer of 2015.

Another notable Q1 sale was on MultiCare's Allenmore campus in Tacoma, where Unico Properties sold its interest in the 87,000 SF Allenmore B building for \$10,400,000 at an 8.1 percent cap rate to the Berschauer Group.

Two hospital systems signed significant leases in the first half of 2013, with Overlake Hospital announcing its lease of 50,000 SF in the Overlake Medical Pavilion, an MOB on Overlake Hospital's campus in Bellevue. The Overlake Medical Pavilion is owned and managed by Nashville-based Healthcare Realty. This leasing agreement marks the largest medical office lease in the region since 2010.

To the North, Swedish Health Services leased 10,000 SF in the Kruger Medical Building adjacent to the Swedish Edmonds Campus. Next door, Swedish completed construction of its new 17,100 SF cancer center using modular construction, erecting the structure in just three days.

Notable Growth in Post-acute Care Facilities

New regulations focused on lowering operational costs have incentivized health systems to reduce the number of readmitted patients. Post-acute and rehabilitative care centers are perceived as part of the solution. The region has seen a strong growth in regional and national providers seeking well-located facilities with specific access, visibility and zoning requirements. These facilities require five to eight

acres for construction of a 40,000–70,000 SF center. Typically these facilities require less parking than a typical medical office building. On the investment side, post-acute care and ambulatory facilities are increasingly gaining traction with investors as they represent a major component in the new healthcare delivery model.

What's Next?

The second half of 2013 will likely continue with leasing demand driven by hospital systems and large physician groups seeking strategic locations and market presence. They will be looking for buildings and spaces that have the attributes of the MOB's of the future described in this article. Independent practices will continue to desire flexible lease terms and cost reductions. On the landlord side, we expect investors to maintain an aggressive hunt for quality medical office assets. Current owners will likely pay close attention to shifting leasing trends to ensure their buildings are on par with future occupier requirements. As healthcare delivery changes in America, owners and occupiers recognize the importance of watching trends and listening to the pulse of the market.

The CBRE Healthcare Properties team assists clients in the leasing, acquisition and disposition of healthcare real estate. As the region's only brokerage team dedicated 100 percent to healthcare real estate, they have transacted more than 2 million square feet in the leasing and sale of medical offices. Currently the team represents more than 1.5 million square feet of medical office space throughout the Puget Sound.