

Providers Seek to Expand Facilities and Services to Serve Newly Insured

By Paul Carr CCIM/MBA
First Vice President
CBRE



I just returned from Boston, having completed my first Boston Marathon. Participation in this momentous event will color my world view in the near and distant future, including my perspective on healthcare real estate. My colleagues in the retail, general office and industrial segments of commercial brokerage often comment on the patience required in the medical office brokerage world; it's a business of lease and sale transactions that can take years to progress due to specialized requirements such as Certificate of Need applications, hospital board

approval processes, ground lease concerns, and more. The business of healthcare real estate, and the healthcare business in general, takes time and careful thought about the future. It really is more comparable to a marathon than a sprint.

However, since the Affordable Care Act (ACA) implementation on January 1st, there has been a noticeable increase in health care real estate activity throughout the Puget Sound area. Quiet over the last six months, both health systems and physician groups are actively seeking to expand on-campus facilities and services while at the same time working to establish strategically located, high-exposure clinics throughout the region. Providers are seeking to capture some of the nearly 1,000,000 (as of late April, 2014) newly insured Washingtonians that have signed up for healthcare through either the new state healthcare exchange or private insurance plans since the system went live in October 2013.

Many health systems, multi-specialty clinics and community health care groups are working

to place new clinics in strategic locations. Properties with signage exposure to foot and vehicle traffic, easy patient access and abundant parking are all key characteristics they seek. Building quality and image are increasingly becoming important due to the connection between the physical environment and quality of care reported by patients, an increasingly important metric for payers and providers.

Sales News

Strong investor demand for quality MOBs continues, but, while purchase and sale agreements are being drafted and due diligence conducted, few significant sales closed in Washington in Q1. Evergreen Place in Kirkland, WA traded for \$3,275,000 or \$332/SF. This sale follows the end of year purchase of Evergreen Medical Center by APEX Investment Group for \$308/SF. We expect sales activity to pick up, as the lending environment remains favorable, healthcare systems are looking for creative ways to finance expansion efforts, and long term owners of medical office properties

are indicating the desire to take advantage of investor demand, indicated by continuing low cap rates nationally on well-located properties.

Leasing News

In the Puget Sound area, some notable leases were signed. Bellevue ENT leased 6,300 SF in the Overlake Medical Pavilion in Bellevue. Seattle Children's completed a lease for an expanded South Sound clinic in Federal Way. In Edmonds, Swedish leased the remaining 8,500 SF in the Kruger Clinic Building. In Issaquah, construction is concluding on the 6,544 SF Eastside Ambulatory Surgery Center in the Issaquah Medical Building. In line with national trends, several significant leases in retail settings have recently been signed but not yet publically announced.

Hospital Expansions

Also in line with national healthcare employment trends (with the healthcare industry adding 19,400 jobs in March, according to the Bureau of Labor Statistics), expansion continues in the region. On the Swedish Edmonds campus, construction has begun on a 77,000 SF project which will add an emergency department, an urgent care center and an outpatient diagnostic imaging center to the medical center. The expansion is expected to be completed in the fall of 2015. On Northwest Hospital's campus, a 17,000 SF remodel and expansion of the cardiac center and emergency department has been completed. On Cherry Hill, Swedish is working on revisions to their Major Institution Master Plan

to expand their campus eastward.

New Alliances

Ponder & Company's Q1 2014 white paper "Update on Mergers & Acquisitions Activity in the Hospital Industry" confirms the continuing national trend of consolidation: "Mergers and acquisitions activity in the acute care sector remained robust in 2013. The number of announced change-of-control transactions was 112 in 2013, similar to deal volume in 2011 and down slightly from the 2012 level. 2013 volume is nearly double the annual rate experienced in the 2007 to 2009 period." Locally, a planned affiliation between Providence Health & Services and Pacific Medical Centers (PacMed), a western Washington multispecialty group, was announced in February. A strategic partnership between UW Medicine and Olympia's Capital Medical Center was announced in March. While the local activity does not qualify as "mergers and acquisitions," it is a continuation of the trend towards alignment of healthcare groups. The "Update" does note that "many states, and markets, have almost reached their saturation point." Washington may be close to this "finish line" as well as it relates to major moves, but we expect significant consolidation of smaller providers to continue through 2014.

Leadership Transitions

A number of healthcare system leadership transitions were announced during the first quarter of 2014. Franciscan CEO Joseph Wilczek is retiring, as well as Harrison President and CEO, Scott Bosch. Tacoma-based MultiCare

Health System announced the selection of its new top executive; Bill Robertson will be leaving his job at Adventist HealthCare to join MultiCare. Overlake Medical Center named J. Michael Marsh to the CEO and President position at the Kirkland organization. Marsh most recently served as Chief Administrative Officer for Providence's Western Washington region. In addition, Yakima Regional, Toppenish Hospital and Swedish Issaquah all appointed new CEOs.

Community

As the significance of my trip to the other coast sinks in and I get back to the business at hand and the uptick in activity, I have to relate an inspirational local healthcare connection to the Boston Marathon. Chrissy Yamada, Senior Vice President and CFO of EvergreenHealth, who I've come to know through my real estate work, also ran Boston. In support of the 260 people (primarily spectators) who were injured in last year's bombing, Chrissy did something extraordinarily thoughtful. She brought 260 small signed notes with her to the race and presented each one to a spectator along the course, thanking them for their support of the race. In an industry founded on helping others, it was a good reminder for all of us to keep this ultimate goal in our minds as we execute our strategies to thrive in the changing healthcare environment.

Paul Carr is a First Vice President with CBRE, focusing on investment sales and leasing transactions within the healthcare sector of commercial real estate. As a member CBRE's national healthcare services team,

Carr advises physician groups, hospitals and investors on leasing, acquisition, disposition and build-to-suit development requirements. Carr has assisted with the leasing requirements for some of Seattle's largest multi-specialty physician groups, the monetization of medical office buildings and excess land for a variety of regional and community hospital systems and the acquisition of medical office buildings for investors and physician groups alike. He has been with CBRE since 2001 and consistently ranks among the top CBRE Brokers in Washington State. He can be reached at paul.carr@cbre.com or 206-292-6005.