

## Washington Healthcare Real Estate Records Another Strong Quarter

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### National Overview

Expanding health systems and aggressive investor demand for medical office buildings drove another active quarter in Puget Sound healthcare real estate. The national sales picture is equally strong, for all commercial real estate and for medical office in particular. Real Capital Analytics (a subscription-based data and analytics firm) is one of our go-to sources for national and trends, and they reported the following in *US Capital Trends: The Big Picture*

(April 2015) “2015 is off to a great start with quarterly sales up 45% year over year on volume of \$129 billion. The office sector led activity on \$33.5 billion of sales followed closely by the Apartment sector at \$33.0 billion for the quarter. The industrial sector posted the strongest overall gains, up 95% year over year. Sales volume is up across all property types, though the retail and development site sectors saw growth only in the single-digits.”

At Real Capital Analytics, medical office properties (my sole focus) are included but not typically reported separately in the general office report. However, *US Capital Trends: First Quarter 2015* did report some dramatic numbers for medical office: the volume in Q1 2015 is up 118% over Q1 2014, the number of medical properties sold is up 83%, the average price per square foot is up 36%, and the cap rate is down to 6.5% (down a little more than 1% from Q1 2014). The most common buyer type for these properties in Q1 2015 was the publically traded REIT, snapping up nearly half (about 46%) of the available medical office buildings.

Hospitals, when considering the sale of owned medical office buildings are typically concerned about potential new landlords or neighbors. As long-term community members, they want good partners. Bob Biggio, vice president of facilities and support services for Boston Medical Center describes what BMC sought when they interviewed potential buyers about monetizing some assets, in *HealthLeaders*, Jan/Feb issue, “Monetizing Real Estate Assets,” by Rene Letourneau: “When we went to market, potential suitors were asking what other real estate we own and wanted to know if we would consider selling those as well. They talked about what they would do with the buildings and how it would improve the neighborhood. We looked for a usage plan that was complementary to our mission. The key is to work with an investor partner that wants to see the hospital and neighborhood be vibrant and that is willing to be flexible with terms and price. You need a partner that understands that this can benefit everybody.”

National press about sales volume

and price, investor type, and the concerns of the hospitals rings true in the Puget Sound area as well. Recent medical office real estate activity in our corner of the country is described below.

## **Puget Sound Area Real Estate Activity**

### *Leasing News*

Tenant demand for high quality on-campus medical office space continued to drive vacancy down. In Bellevue, Overlake Hospital expanded its presence in the Overlake Medical Pavilion leasing 10,863 sq. ft. on the fourth floor for the hospital's primary care clinics. Across the lake, First Hill's second generation space is being quickly absorbed with on-campus vacancy dropping to 2.71%. Seattle Medical Associates leased 6,045 sq. ft. in the new 1st Hill Medical Pavilion, currently under construction with delivery on track for July 2015. As previously reported, the owners of the 62,000 sq. ft. 1001 Broadway will demolish the MOB to make way for a 16-story multi-family tower, anchored by a 40,000 sq. ft. Whole Foods. Tenants displaced by this redevelopment combined with tenants new to the First Hill market are adding demand for all available medical office space in the First Hill area.

Off campus, health systems are continuing to seek leasable space in quality retail locations with high exposure, access and good parking. In the Renton Highlands, Valley Medical Center leased 10,600 sq. ft. at the Eastway Center, anchoring

the repositioning of that property into a medical office center, to be renamed Valley Medical Plaza.

### *Sales and Construction News*

MOB investment sales continued to sizzle with a number of assets trading. Valley Medical Center purchased the 14,000 sq. ft. Valley View Professional Center on Talbot Road in Renton for \$2.4 million. In Tacoma, Murnen Realty Advisors purchased the 19,643 sq. ft. Union Avenue Medical Building for \$3.7 million. In Bellevue, the group of physicians who owned the 21,398 sq. ft. 1800 Professional Plaza sold the property for \$8.87 million, or \$414 per sq. ft. In Issaquah, the 20,944 sq. ft. Lakeside Building II traded for \$9.2 million to a private buyer at a 7.1% cap rate. Physicians Realty Trust came to an agreement to acquire the 160,000 sq. ft. Trios Health Medical Office Building in Kennewick for \$64 million. The building is 100% pre-leased to Trios Health and is currently under construction, with a scheduled delivery of June 2015. The same group also purchased the 31,074 sq. ft. 7308 Bridgeport Way Building in Lakewood for \$13.75 million. In Bellingham, PeaceHealth St. Joseph Medical Center expanded their campus footprint to the south with the purchase of the 28,949 sq. ft. Bellingham Medical Center for \$7.16 million. PeaceHealth plans to occupy the vacant space in the building which was 48% vacant at the time of sale.

In development, Seattle's Veterans Affairs (VA) Hospital campus is breaking ground on a \$152 million

expansion on Seattle's Beacon Hill. The expansion will be home to a new mental-health and research center and shall consist of a six-story, 219,000 sq. ft. tower expected to be finished in late 2017.

Also, Seattle Children's Research Institute filed plans to construct a new 13-story, 440,000 research facility in downtown Seattle, at 9th at 1920 Terry Avenue.

Once again, the Puget Sound region is on-trend in the medical office realm. The market is hot nationally and regionally. Sales volume is up, lease vacancy rates are down and retail locations in suburban locations continue to attract medical tenants.

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*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.*

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