

Washington State Healthcare Real Estate Environment Benefiting from ACA

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Bisnow's 3rd Annual National Healthcare Expansion summit will take place this November 25th in Philadelphia. The entire focus of the event will be on the Affordable Care Act and its effect on real estate, which all of us in the healthcare real estate business are watching carefully. I mention the Summit as the list of topics they will cover offers a good summary of the issues that I understand healthcare providers are grappling with, from a real estate perspective: own vs. lease, outpatient centers vs. mega hospitals, repurposing existing

space, efficiency via renovation, partnering for continuum of care, and the team approach.

Locally, one effect of the ACA was reported by the Tacoma News Tribune in September: Washington State Hospital Associations's Mary Kay Clunies-Ross says ". . . early signs are that the state's network of public and private hospitals may see a 30 percent reduction this year in charity care. . .

This gain may be offset by the federal health care reform law's cut in federal funding for Medicare patients and other negative impacts on hospitals' bottom lines. But if trends continue, hospitals would see relief in an area of their budgets that grew to \$1.4 billion in 2013. . ."

Nationally, in another bottom line development, it seems that the rate of growth in healthcare costs is going down, somewhat unexpectedly and perhaps in addition to but not directly related to the ACA. . . US News reported in September that younger Medicare enrollees ". . . have been a leading factor driving down the rate at which health care

spending is increasing, because the younger boomers tend to be healthier than older enrollees and therefore use fewer medical services.

While a key factor, that's not the only story in a compelling narrative that has seen the rate of growth in health care spending slow down so dramatically and unexpectedly during the past few years that budget wonks in Washington are having a hard time keeping up. The Congressional Budget Office, which provides nonpartisan budget and policy analysis to Congress, is predicting that Medicare spending will be \$95 billion lower by 2019 than it had predicted four years ago. Also contributing to the slowdown are changes in the way medicine is being practiced, the lingering effects of the Great Recession and the shift in usage from high-priced prescription drugs to less costly generic alternatives."

How will these trends affect the healthcare real estate market? Predictions:

- Health systems will continue outpatient expansion into retail

centers and high exposure medical office buildings

- Increased demand for quality medical office space on or adjacent to campuses of strong health systems
- Older off campus multi-tenant medical office buildings may struggle to retain occupancy

Puget Sound Area Real Estate Activity

Real estate activity in the Puget Sound region seems to bear out the improved economic outlook of our large healthcare systems as healthcare real estate activity remained strong through the third quarter of 2014. Nationally, DLA Piper's 2014 State of the Market Survey ranked medical office buildings and other healthcare real estate as the most attractive property investment this year and over the next 12 months, for the first time surpassing multifamily and industrial assets. It comes as no surprise that throughout the region, healthcare providers continue to pursue strategic locations to capture new market share of the growing patient population.

Leasing News

On First Hill, Sound Mental Health completed a 14,000 SF lease on the first floor of 600 Broadway further decreasing the vacancy rate in the submarket to 5.1%. Providence Health & Services continues to focus on placing clinics in retail centers with their completion of a 10,000 SF lease at the Renton Landing. This location plants a new presence for Providence in the Renton/Kent Valley. To the south in Renton's

Time Square, the multi-specialty clinic Southlake Clinic, completed a lease for 14,000 SF. Another notable transaction was Providence finalizing the lease to relocate its Seattle CBD administrative offices from One Union Square to 127,000 SF in Bank of America Plaza. This was the second largest lease in Downtown Seattle in Q3, smaller only than the Weyerhaeuser Pioneer Square lease in 200 Occidental.

Sales and Construction News

In Bellingham, the 28,949 SF Bellingham Medical Center is on the market for sale. The property is adjacent to PeaceHealth St. Joseph at the entrance to the hospital campus.

In Edmonds, Swedish completed the construction of a new 350-car parking garage on the Swedish Edmonds campus and broke ground on a 77,000 SF expansion. The \$63.5 million project will house a new emergency department, behavioral health unit and urgent care center and is on track to be delivered in the fall of 2015.

Virginia Mason opened its new 28-bed Critical Care Unit in the Floyd & Delores Jones Pavilion on Sept. 7, followed by openings of the hospital's Surgery Center and Oncology Unit.

The First Hill Medical Pavilion on First Hill is still on track for a July 2015 grand opening.

Healthcare System News

Creative approaches to healthcare delivery are continuing to expand. Vera Health in collaboration with Virginia Mason is setting up on-

site and near site primary care and urgent care clinics in the workplace. Group Health is furthering its efforts to add CareClinics in Bartell Drug locations to provide convenient access to care for minor medical procedures. Investors are monitoring these trends to assess the effects the new care delivery models will have on healthcare real estate.

Conclusion

In past *Washington Healthcare News* articles, I have referenced the endurance events I've participated in this year that support local communities. The last one was a very hilly bike ride supporting the Vashon Rowing Club that took place on Vashon Island on September 13 and had a name dubiously appropriate to my healthcare focus: Passport to Pain. So far this year, however, for myself and for many real estate professionals and health systems, this has not been an apt description for 2014. The dust is settling on the ACA, and the financial implications seem positive on the whole.

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

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