



Elmhurst (Ill.) Memorial Hospital. Rendering courtesy of Hammes Company

DEVELOPMENT WILL PICK UP, EXPERTS SAY

Things could remain slow for a time, but demand should increase later in 2010

By John Mugford

In most sectors of commercial real estate, supply is currently outpacing demand – by a long shot. That’s why some experts predict a continued malaise in the development of industrial, office and other projects nationwide.

And while the national vacancy rate is still rather high for MOBs – 12 percent in the second half of this year, according to Marcus & Millichap – **Healthcare Real Estate Insights™** Editorial Advisory Board members foresee demand picking up for new projects in the near future.

“Medical office is one of the few areas where you are still going to see viable, demand-driven opportunities for new projects,” Judson “Jud” Jacobs, a principal and head of the healthcare group of Dallas-based Trammell Crow Co., said during the board’s annual meeting in late 2009.

“And because of that there’s going to be increased competition, and there’s going to be a period of uncertainty when the financial markets are trying to stabilize and you’re going to see some big disparities in terms of pricing,” added Mr. Jacobs.

Matthew N. Nurkin is president of the Mid-Atlantic region of the Charlotte, N.C.-based healthcare REIT Cogdell Spencer Erdman (NYSE: CSA). He believes that private capital is going to continue to invest in the development of medical office space.

“We have private investors right now that invest with us who are concerned about inflation,” he said, “and with all of the stimulus in the economy right now, and looking at the investment in this sector as an inflation hedge, and certainly given the nature of the income streams you see from this space, higher occupancy, general increases in annual escalators, they kind of view it as more of a fixed income investment, and I think you’re going to see more and more of this kind of investment into the space.”

However, if there is something that the professionals at Cogdell Spencer are concerned about, Mr. Nurkin said, it is the impact that inflation could have on the debt markets. “What will happen going forward with this interest rate environment, and how will construction costs be impacted?”

James M. “Jim” Moloney, the San Francisco-based head of real estate for the investment bank Cain Brothers LLC, replied: “I think development cap rates are coming back, narrowing back down, in a more competitive environment. There looks to be capital available for quality new developments, even though I think it’s going to be difficult to get developers to bear huge portions of risk. Those would have to be pretty good projects.

“So that’s what I see in the near term, and I think the big question that will get a little more clear in 2010 is, ‘When are rates going to go up, and where are they going to go, and how is the permanent debt financing market going to be resolved?’ I don’t think those are going to be answered in 2010, but I think there will be more clarity on the direction of those questions by the midway point in 2010.”

BOARD SEEKS TO IDENTIFY TRENDS

Also during the annual editorial meeting, advisory board members talked about current industry trends as well as trends they believe will take place in the future.

William B. “Will” Roberson, managing director of medical properties for Health Care REIT Inc. (NYSE: HCN), foresees more healthcare systems asking companies to provide campus master planning, often for redevelopment projects.

“We’re seeing a growing number of healthcare clients coming to us for master planning of campuses to create healthy campuses not only for their acute care space, but their first-acute space, their senior housing space and certainly their ambulatory space,” Mr. Roberson told the group.

Michael “Mike” Lincoln, executive VP of marketing and business development for Chicago-based Lillibridge, attended the **HREI™** Editorial Advisory Board meeting on behalf of Todd W. Lillibridge, who could not attend due to a scheduling conflict. Mr. Lincoln said his company believes, at some point, that the only patients admitted to hospitals will be trauma victims or women and babies.

“We think there will be reforms focused on admissions and re-admissions – meaning prevention will be a bigger part of healthcare,” he noted. “Even so, there are still going to be sick people who are going to have to be treated somewhere, and that will be in outpatient facilities.

“Those are the underpinnings of why we’re bullish on the sector. The challenge or the opportunity is that each one of those patients is not going to be created equal – each has a different real estate demand coefficient, and we have the challenge of figuring out what that means.”

If Mr. Lincoln has a concern for the future of the industry, he said it’s that developers might not be able to provide the right kind of facilities as demand for healthcare facilities shifts.

“With the type of care that will take place in the

future, how do you segment and target the right ones?” he asked. “That’s what keeps me up at night.”

Because of the many uncertainties in the market right now, Mr. Roberson said his firm, during the next year or so, is going to be more focused on acquisitions than development.

“We’ve been very active on the development side and we’ll continue to do that with our great joint venture partners, but I think the focus is going to be on acquisitions,” he said.

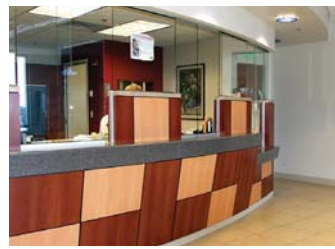
WILL HEALTH REFORM MATTER MUCH?

Ever since Scott Brown was elected to the U.S. Senate in Massachusetts, the potential for new healthcare reform legislation has been even more up in the air. At the time of the editorial board meeting, reform seemed to be a done deal.

Todd H. Varney, an EVP with the Jupiter, Fla.-based healthcare real estate firm Rendina Cos., said the uncertainty over reform was negatively affecting medical office leasing.

“It’s actually been killing leasing on the hospital side and the physician side,” Mr. Varney noted. “At the end of the day, unless you have physicians and hospitals signing leases – well, you need that to happen for these buildings to be as successful as they can be.

“So I’m looking forward to reform taking place, in any form, because then there is a certainty in the market and there is a plan in place and we’ll all be able to adapt... and move forward.”



Deaconess Gateway Medical Campus, Newburgh, Ind. Photo courtesy Shattuck Hammond Partners

Malcolm S. Sina, CEO of Palm Beach Gardens, Fla.-based DASCO Cos., an MOB developer and owner, added that physicians and hospital administrators have expressed disappointment lately that healthcare reform has actually morphed into health insurance reform.

“So many of our clients were hoping that the government was going to spend money on improving the overall quality of healthcare,” Mr. Sina said.

There has been speculation of late about whether healthcare reform would be a positive or negative for healthcare real estate – would it create demand for more MOB space?

Philip J. “P.J.” Camp, a principal with the New York-based investment bank Shattuck Hammond Partners LLC said he does not think reform will be a “big deal” for the industry.

“I think reform will increase demand for office space a little bit, but at the end of the day I don’t think it’s going to mean all that much,” Mr. Camp said.

“It might mean more to the hospitals but I don’t know how it’s going to impact medical office buildings. Hospitals’ needs remain the same; they need capital, they want to use someone else’s dime because they can’t afford to build medical office buildings themselves.” □



FINANCING FOR THE NEW ECONOMY
IN TOUGH FINANCIAL TIMES, WE ARE STILL GETTING IT DONE

SILVER CROSS MSB | ground break 2nd Qtr 2010 WSU/MUCE INSTITUTE | ground break 4th Qtr 2010 ST. AGNES MOB | ground break 2nd Qtr 2011

At a time when many developers are capital-constrained and investors are reining in capital spending, NexCore Group is still going strong. With diverse investment partners, both private and institutional, and strong relationships with healthy regional banks, we’re getting projects funded. At NexCore Group we have the lending relationships, committed resources, and resolute focus to make your project a reality ... and a success.

Call Jarrod Daddis or Greg Venn at (303) 244-0700 today to discuss how we are getting projects done in this challenging business environment.

CHICAGO | DENVER | BALTIMORE

The Results are in **NexCore Group**
HEALTHCARE REAL ESTATE



NEXCORE GROUP | (303) 244-0700 | STRATEGY | DEVELOPMENT | ACQUISITIONS | OWNERSHIP | FINANCING | LEASING | MANAGEMENT | WWW.NEXCOREGROUP.COM