

COMMERCIAL REAL ESTATE

NICK SIMONITE | ABJ

Kerry Angus, CEO of Onair Development, on the site of future medical office space his company is building at the University Park mixed-use development.



What the doctor ordered

Medical office buildings outperforming most commercial real estate

KATE HARRINGTON | STAFF WRITER

It's not unusual for Kerry Angus, CEO of Onair Development, to get calls from investors seeking his involvement in buying distressed medical assets. There's only one problem with that, he said: Not much distressed medical property exists, in Central Texas or in the rest of the country.

"Anyone thinking they're going to snatch a medical office at 30 cents to the dollar is mistaken," said Angus, whose company specializes in medical office development and is building two medical office properties in the Austin area.

While commercial real estate sectors such as conventional office and industrial space continue to feel the pinch of the recession, medical real estate experts say that sector is getting a clean bill of health in terms of occupancy and growth. While that's partly due to national trends, local factors are giving medical office space a boost as well.

Nationally, the baby boomer population is aging and starting to require more medical services, said Gail O'Connor, a partner in Site Solutions Inc. That's also a trend in Central Texas, and coupled with this area's overall population growth, she said demand for medical services and therefore medical office space has grown. Physicians also tend to make more stable tenants because their leases are often for at least 10 years.

In Austin, medical office space totals about 5.1 million square feet, she said. Within that sector, overall vacancy rates are about 12 percent. Conventional office space in Austin, which spans about 43 million square feet, is seeing an overall vacancy rate of about 22 percent, according to Oxford Commercial's third-quarter report.

In the Austin area, medical office space isn't just holding steady. It's growing. Onair is planning a 120,000-square-foot medical office building in the University Park mixed-use development, as well as a 38,000-square-foot medical office project in Kyle, near Seton Medical Center Hays. In North Austin, Live Oak-Gottesman LLC plans to develop and market the Cedar Bend Professional Center, which will span 70,000 square feet and house medical and professional offices.

Those are only some of the medical offices planned or in the works around Austin and surrounding cities. The region's new hospitals, which have been opening steadily since early 2008, have spurred the growth of medical services and the accompanying office space.

What makes it different

Medical offices aren't just buildings that happen to house physicians. Everything from the floor plates to the leasing paperwork surrounding those spaces is unique.



Gelfand

Physicians generally need much more parking, and they spend much more money on building out spaces, said Norman Gelfand, president of Gelfand Group Real Estate, which specializes in medical real estate. Because that investment is made in a building the tenant often doesn't own, Gelfand said he makes sure each lease agreement that he consults on requires the landlord to honor the lease, in the event the building goes back to a lender.

Medical offices have specific needs regarding location, too. Gelfand said that while some practitioners, such as specialists, need to locate near a hospital, practitioners such as dentists and dermatologists need to be near their patients. Consequently, those medical tenants are fanning out into the suburbs.

O'Connor said many of them are starting to take space in retail strip centers.

Meanwhile, medical begets more medical and sometimes economic development in general, especially in certain corridors. The recent medical growth taking place in Round Rock started with Scott & White's decision to build a hospital there, O'Connor said. It now includes several university campuses and more hospitals in the area, which will lead to more development.



O'Connor

MOB: Several conventional real estate professionals eyeing medical office space

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"That University Boulevard area, when it was just FM 1431, is where semiconductor companies used to have clean rooms and supply companies," she said. "As we're losing that, medical is back-filling that."

Trends

At the same time, Angus said, many physicians are looking for ancillary streams of income, which is impacting where they choose to locate.

"We're seeing, in the last three to five years, a transition from on-campus-based services to much more off-campus," Angus said, referring to hospital campuses.

Part of that has to do with geography, given that many hospitals, especially in Central Austin, are landlocked. But there are also economic reasons behind the trend, he said. An on-campus doctor must send someone who needs a procedure to the hospital, which then bills for it. But off-campus physicians have the option of having their own equipment, which means more revenue streams.

No matter where it takes place, medical real estate experts seem to agree that

medical office development looks like it will continue to do well in coming years.

Who does it and who wants a piece of it

That's led conventional office landlords to take notice, said one medical real estate expert who asked not to be named because of pending deals. More and more often, those landlords are sending unsolicited letters to physician groups, asking them to consider moving into office buildings, where vacancy rates are considered high. So far, there haven't been any takers, though, the expert said, because medical tenants' needs are too specific for a regular office building.

Angus said he also sees developers with little or no experience in medical development becoming interested in the medical sector. That can be dangerous, he said, for reasons similar to why physicians shun conventional office space. Medical offices and their tenants have unconventional needs, from layouts to accommodations for the latest technology.

Meanwhile, others say the amount of time and investment it takes to get into medical real estate and make it profitable precludes many people from entering the field.