



What the new legislation means for real estate

April 8, 2010 | By: Mary Alice Kaspar, research analyst for Onair Development

Now that the landmark health care legislation passed, real estate experts have been quick to digest its contents and analyze what it means for doctors and their real estate. Below are highlights from three of the articles we found most applicable, from the *Wall Street Journal*, *CoStar* and *National Real Estate Investor*. We distilled the coverage into four main takeaways for medical professionals.

1. Driving Up Demand for Space

“The prospect that 32 million additional people with health insurance will drive new demand for medical office space,” according to the *Wall Street Journal*.

Nearly 60 million square feet of new medical office supply could eventually be built to meet the demand, based on a standard industry multiplier of 1.9 square feet of new medical office building space per new outpatient, Jeffrey H. Cooper, executive managing director with global real estate services firm Savills in New York, told *CoStar* and the *National Real Estate Investor*.

“Outpatient facilities in particular are getting special treatment from investors due to growing demand for alternatives to traditional hospital care. Healthcare systems are under mounting pressure from government and insurance companies to bring down costs. And from a real estate perspective, it costs less to treat a patient on an outpatient basis than an inpatient basis,” concluded *National Real Estate Investor*.

2. Professionals to the People

There is increased interest in medical office space in areas where many currently uninsured people live, Paul Wexler of the Corcoran Group told the *Wall Street Journal*, adding: “There will be a need for medical providers to be in these areas where people now go to emergency rooms or go to other places to get their care.”

“You’ll see new satellite hospital campuses, which may not have an acute-care facility, and emergency care facilities developed by the hospital where the populations move. Development is going to accelerate because the person who has to get hip surgery who lives on the outskirts of Indianapolis may not want to go all the way downtown for treatment. They’d rather go to an ambulatory surgery facility closer to their home,” Cooper told *CoStar*.



3. Increase Efficiency

The dollars spent on facilities are going to have to be spent more wisely, John Montgomery, executive vice president and head of facility development for Chicago-based Lillibridge, told CoStar – and that care will likely be delivered in more community hospitals and outpatient environments.

“Hospitals will have to built smaller and more efficiently, with an eye toward keeping patients out of [inpatient] beds, and treating them in the most economical method possible,” Montgomery said. “We think [reform] will continue to drive the need for outpatient facilities, ambulatory care, medical office buildings...”

4. Act Now

Doctors and investors in need of medical space “should start looking yesterday,” Trisha A. Talbot, senior vice president with Phoenix-based GPE Medical Office Partners, told CoStar. Tenants with good credit that can aggressively negotiate a lease should stop waiting and move forward before the demand for space increases, she said.

GPE’s advice “is to secure a good long-term lease at today’s market rates - and with construction pricing being at such a low value, now is the time to do any necessary construction as material and labor costs will increase when the real estate market improves,” added Julie Johnson, executive vice president with GPE.

The National Real Estate Investor also concluded “investors aren’t waiting for the outcome of the healthcare debate before they inject their capital into the medical real estate sector. After a year of inactivity, hospitals are expanding again and investors are realizing that demand for medical office space, by most measures, is inexhaustible.”

Sources:

- *“Medical Developers, Hospitals Early Winners as Health Care Overhaul Becomes Law”*

Source: *CoStar* | Author: Randyl Drummer | Date: March 22, 2010

- *“Medical Office Sector Ramps Up”*

Source: *National Real Estate Investor* | Author: Sibley Flemming | Date: March 24, 2010

- *“Health Overhaul Beneficiary: Medical Offices?”*

Source: *Wall Street Journal* | Author: Anton Troianovski | Date: March 24, 2010

