

## **Health Overhaul Beneficiary: Medical Offices?**

**Newly Insured Patients May Increase Demand for New Doctor Space; Tax on Rental Income Is Seen as Landlord Drawback**

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Some parts of the health-care overhaul, such as the prospect of a new tax on rental income, have raised concerns among landlords. But some real-estate developers see a silver lining: the prospect that 32 million additional people with health insurance will drive new demand for medical office space.

In New York, health-care real-estate broker Paul Wexler of Corcoran Group says he is seeing increased interest in medical office space in areas where many currently uninsured people live. "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," he said.

One of his clients, ophthalmologist Mark Fromer, in December purchased a 13,000-square-foot office condominium in the Bronx, expanding out of a 3,000-square-foot space. For now, he is just building out 7,000 square feet of his new office, but he plans to expand if demand rises in the next few years.

"That was with this idea in mind that there are going to be many, many more people to take care of," said Dr. Fromer, whose practice, Fromer Eye Centers, has three offices and 10 doctors.

Debra Cafaro, chief executive of [Ventas](#) Inc., a real-estate investment trust that owns senior-citizen housing, hospitals and medical offices, said companies like Ventas also could benefit from the planned federal changes to health care. "Health-care reform is going to be positive for health-care REITs and health-care real estate," she said.

That is because she expects demand for medical space to rise, even though she said her company is being more careful to vet potential tenants because some will suffer in the new environment, due in part to changes in reimbursement levels.

"We all know that demographics support health-care real estate," Ms. Cafaro said. "But adding to that demand from an aging population, now you're going to have higher utilization because you're going to have a pool of uninsured people having access to the health-care system."

To be sure, the health-care overhaul has costs, too. To help pay for the changes, the House version of the health-care bill would impose a new 3.8% Medicare tax on the investment income of upper-income tax payers-including rental income.

The National Association of Realtors, a trade group, was disappointed by that provision. In a letter last week to Rep. Nancy Pelosi, the speaker of the House, the Realtors called

this tax "stunningly complex" and said it would "impair and delay further recovery" in real estate.

But the NAR also noted that 28% of Realtors, most of whom are independent contractors, don't have health-care insurance. "This bill helps them get the health insurance they need," said a spokesman for the group.

Still, the health-care overhaul has made investors wary.

"There have been a lot of folks that ... have been on the sidelines, understandably so, until the final rules get written," Jay Flaherty, chief executive of health-care real-estate company [HCP](#) Inc., said in a conference call with analysts in November, according to a transcript. "There is a dam getting ready to burst here with health-care reform expected to be finalized."

R.W. Baird & Co. analyst David AuBuchon last week downgraded the health-care real-estate investment trust sector, arguing that the stocks were overvalued relative to his outlook for the sector. However, clarity in health-care policy "should provide a more visible runway for deals," he wrote.

In Cleveland, Eileen Sheil, a spokeswoman for the Cleveland Clinic, said there wasn't yet a shortage of hospital beds in the city. But the nonprofit medical institution plans to build a new, \$25 million chronic-care center as it focuses on expanding its outpatient facilities.

"There's definitely capacity, so I don't see a surge in real estate," Ms. Sheil said. "But there will be a need for more updated facilities and reconfiguring facilities that are currently in existence because they're not meeting the needs of the way patients are treated now."

— *James R. Hagerty contributed to this article.*

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