

MIAMI TODAY

WEEK OF THURSDAY, JULY 15, 2010

WWW.MIAMITODAYNEWS.COM

Changes borne by affordable care act promise office developers shot in arm

YUDISLAIDY FERNANDEZ

The local office market won't get a jolt in activity from the new healthcare legislation right away, but investors and developers are already checking in for a consultation as they plan ahead, medical office experts say.

Some provisions in the Patient Protection and Affordable Care Act passed in March — the largest change to healthcare coverage since Medicare's creation in 1965 — won't take effect until 2014, but other parts are to become law by the third quarter.

Having more people insured in Miami-Dade, coupled with the influx of baby boomers — those born from 1946 to 1964 who'll need more healthcare — will increase demand for medical office space, particularly outpatient facilities, said Alex Zylberglait, Marcus & Millichap's vice president of investment and director of the national office and industrial properties group.

"We're not going to see a major uptick with all the challenges on our plate right now," Mr. Zylberglait said. "With the lack of liquidity and higher vacancies, developers are not rushing to provide new supply with the existing supply in the pipeline."

But as demand for medical offices rises, he said, a need for new, modern facilities will follow because much of the current space in Miami-Dade is older and outdated.

"We'll see some newer space, including more outpatient facilities like we are seeing in the case of Baptist" Health South Florida, he said. "We'll see more throughout the county."

A Marcus & Millichap Special Research Report released in May, which focuses on future demand for medical office space, indicates a few provisions in the healthcare legislation are to become law by the end of the September, expanding coverage and bolstering demand for such space.

These include free preventive care under Medicare and new private plans that should increase visits to doctors, the report says. Plus, tax credits for small businesses to make employee coverage more affordable and the extension of coverage eligibility for people under age 26 through their parents' insurance should translate to more people insured.

With unemployment nationwide hovering around 16% among younger workers, the report says, the latter expansion could extend coverage to 2 million within the next year.

And with more people having healthcare coverage, major pharmacies such as Walgreens and CVS will ultimately accel-

erate store openings to meet the demand for more prescriptions, the report forecasts.

Kenneth Weston, whose commercial realty firm specializes in medical office properties, says he's getting calls from well-heeled investors looking to buy medical office buildings or build medical facilities with cash.

But because his firm also represents tenants and develops its own projects, the team has a sense of what areas meet the demand for healthcare facilities as they are being cautious of speculative building, said Mr. Weston, president and chief executive officer of Kenneth Weston & Associates.

The medical office research report says a quick increase in speculative medical office construction in the next 24 months is unlikely because of recent struggles in securing tenants, tight credit markets and restrictions on new physician-owned hospitals.

A lack of new supply should help reduce medical office vacancies from 2010 through 2012, the report says.

As the legislation is to provide greater access to health insurance to 32 million previously uninsured persons by 2019, according to the report, expanded coverage to this segment is expected to become one of the most significant drivers of medical office absorption.

With more previously uninsured persons to require healthcare, Mr. Zylberglait said some investors are eyeing well-positioned medical properties to buy, but so far demand is greater than supply.

Buyers are looking for stabilized properties with strong tenancy on or near a medical campus, he said. But these strong class A properties aren't abundant, making it competitive for buyers seeking such investments.

Areas to benefit first from a demand for medical office space are those with a lack of medical properties because those would fill a market need quickest, Mr. Weston said, as well as areas with strong patient demand.

Miami-Dade neighborhoods with the lowest medical office vacancy rates now are West Kendall, Coral Gables, South Miami and Aventura, he said.

"The key is finding properties in those markets that are affordable for purchase or lease," Mr. Weston said. "And you still have a market for ownership in medical," he added, because banks are interested in attracting physician businesses because of their steady income. "The banks are actively seeking medical or physician-based properties to lend."

With Miami-Dade's developable land constraints, Mr. Zylberglait sees opportunities ahead for rebuilding and remodeling medical offices and build-

ings to accommodate newer medical trends.

But older buildings could be razed to make way for new medical facilities, particularly for big medical groups planning to build outpatient centers.

"It comes down to supply and demand," Mr. Zylberglait said. "The demand for service is just going to get bigger. Those hospital systems well-capitalized and well-managed are going to do well."

Other commercial users are also looking to jump on the medical office bandwagon, Mr. Weston said.

Because the healthcare industry is the strongest element in a weakened commercial real estate market, he said, owners of commercial buildings are trying to tap into this healthier market segment by converting to a medical use.

But in some cases, Mr. Weston says, conversion becomes too costly because the buildings generally lack new technology capabilities and enough parking.

"One has to do major due diligence in these projects," he said, to convert them to medical use.

Mr. Weston agrees it's going to take time to see the healthcare legislation's impact on the local real estate market, especially because of concerns surrounding its future.

"You still have some of the healthcare professionals waiting to see how the program is going to unfold since it's a very long-term plan," he said.

Plus, Mr. Weston said, some worry the healthcare reform could be overturned if a Republican is elected president in 2012 and a Republican majority retakes the reins in Congress.

For now, he said, larger healthcare users are already making plans to move forward — but are very price conscious.

"The groups we represent, our client base, they are looking for the best space they can occupy at the least amount of money," Mr. Weston said.

Factors such as anticipation of a reduction in reimbursements, coupled with the foreseen investment on new medical technologies, have companies spending more cautiously, he said.

Long term, a greater need for healthcare services will generate demand for more outpatient centers and surgical centers, Mr. Weston said.

Finding strategic locations and facilities for these types of uses in Miami-Dade is a big task.

Having new projects move forward, he said, will require 70% to 80% pre-leasing because of tight construction lending. But builders, he added, could benefit from lower material and labor costs.

"This process is not going to take overnight," Mr. Weston concluded. "But we anticipate in the long run a tremendous boost for the healthcare real estate industry."



Kenneth Weston



Alex Zylberglait