Forecast 2016
Healthcare Real Estate Trends

BY BETH YOUNG
Senior Vice President
Colliers International-Houston

Many 2016 healthcare trends will continue from 2015; but some trends will be more noticeable. Overall, medical providers want to be more accessible to patients, provide better care and lower expenses. For real estate investors who focus on healthcare properties, here's a list of what you may expect:

- The **greatest demographic factor** to affect healthcare: age! Everyone knows about the Baby Boomers and the effect they will have on healthcare; but did you know 35% of all men over age 25 are considered obese. The work/life balance is now more important than compensation. As people age, they move closer to their children. Family members are making choices for their parents. The demographics in the U.S. will continue to evolve, so developers and landlords will adjust and put more emphasis on flexibility for their clients.
- The greatest amount of **ambulatory care or outpatient care** is occurring off-campus or away from the main hospital.
- There has been **a narrowing of the gap between cap rates** for various healthcare property types. The world capital markets and the lack of available properties for sale are driving this change.
- **Institutional investors** have moved toward real estate and view medical real estate as a stable alternative.
- Average **national cap rates** are still around7 % with plenty trading higher; but some investors are dealing with cap rates in the fi
- **Developers' viewpoint:** Hospital campus driven deals two to three years ago were in the eight caps. Now off-campus credit-tenant leases with a health system are in the sixes or lower. Developers' IRR is now going into lower teens or single digits. Their debt cost is higher than yield in some cases. They underwrite based on the dividend yield if held ten years. Renewal probabilities are a big factor. Developers are finding that an 80% chance of renewal isn't a good assumption any longer because doctors are moving more often to new buildings with newer systems.
- **Lease renewals** are down due to functional obsolescence for medical tenants. The physician groups that were bought by hospital systems are in place now, but will be moved to higher quality functional MOBs in the future.
- Developers will act as a **"trusted advisor"** to health systems more often. Otherwise, they will have to compete with health systems who can develop their own buildings and then monetize them once they're occupied.
- **Financing** - there will be more joint ventures between systems and providers.
- **Net-leased sales** by physicians for surgery centers and other medical properties require the right buyer because the doctors want a good long-term relationship.
- Other hot property types: **free-standing ED's** (emergency departments/centers). Texas and Colorado are expanding in this area quickly. The idea is to grab the patient, brand them as your client, and keep them in the health systems' in circle.
- Freestanding EDs (FEDs) and urgent care centers seem fragmented and you could see some consolidation long term if they don't have a health system backing. It's the **retailing of healthcare**.
- REITS are bigger now, so they need to **buy bigger transactions**. Some REITs say they're carrying elephant guns - but there aren't many elephants out there.
- The **triple aim**: better access to higher quality healthcare at a lower cost.
- There's a real **"speed to market"** need to get on a good corner, because a competitive health system will be planning to be on the opposite corner.
- Additional **parking solutions**: When beds increase, parking needs increase. Onsite is not going to be an option in many cases, so hospitals are getting leases or easements to increase parking.
- The **pure multi-tenant building is a dinosaur.** It will be replaced with hybrid buildings: 50% system-employee space, 50% independent private doctors.
- Many developers are doing **large single-tenant projects**.
- **Indication of an uptick for development**: Attorneys are seeing more rights of first refusal on land, options to buy, etc.

Overall, we'll continue to see plenty of money for healthcare property investments, but not enough high-quality properties on the market for all of the investors. That will encourage some investors to take more chances, and perhaps try out some value-add opportunities. The challenge will be to educate the sellers of challenged investments to be realistic about their pricing.

Excerpts from Beth Young's Healthcare Real Estate Trends Report. To read the full report, log on to rednews.com/heathcaretrends.