

# Houston healthcare has hiccups, but outlook remains hale and hearty

BY MATT BAKER

It's a familiar tale in 2020—a sector or market's meteoric trajectory at the start of the year has been recalibrated due to the COVID-19 pandemic. For Houston's healthcare real estate sector, however, attaining those projected heights may still be within reach.

Medical office building (MOB) investment sales have dwindled since the end of the first quarter all around the country and Houston was no exception. According to Colliers International data, there were nine MOB sales during the first half of the year, with only two of those occurring in the second quarter.

The sector has taken an economic hit due to, for example, unexpected costs associated with combatting COVID-19 and lost revenue from deferred elective surgeries. Even so, most investors see this as a momentary slowdown and remain bullish on healthcare real estate's long-term prospects.

“Medical office has increasingly become an attractive asset class,” said Coy Davidson, senior vice president in the Houston office of Colliers International. “These assets are considered attractive even for investors that haven't traditionally been in the medical office space.”

Among the MOB investment deals during H1 2020 were the sale of the 208,000-square-foot M.D. Anderson Cancer Center in The Woodlands. Chicago-based Harrison Street Realty Capital acquired the asset for \$115 million in March from The Howard Hughes Corp.

Other notable transactions include INVESCO's acquisition of the 126,000-square-foot Physician Specialty Center at 1900 North Loop West and MB Real Estate's purchase of the 99,768-square-foot Foundation Medical Tower in Bellaire. Additionally, Altera Development Company acquired Kimberly Lane Medical Center, a 63,848-square-foot MOB in West Houston.

Though some of the more ambitious capital projects



Testa Rossa Properties' Museo Plaza Medical Office Building, 5115 Fannin Street in Houston.

that were dreamed up prior to COVID-19 have hit the pause button as health systems address their operating margins, other projects that were in pre-construction prior to the pandemic are still moving forward. There are currently 13 MOBs under construction in the Houston Metro, according to Colliers research, totaling more than 706,000 square feet.

For example, Testa Rossa Properties is advancing their 10-story, 160,000-square-foot Museo Plaza Medical Office Building project in the Museum District. Designed by PJMD Architects, the \$77 million project will define the first phase of a larger expansion and be anchored by The Mann Eye Institute.

Nearby, Healthpeak Properties is developing a five-story, 116,500-square-foot medical office building at 7500 Fannin Street. In Nassau Bay, Houston Methodist is building a 150,000-square-foot MOB at its Clear Lake Hospital Campus.

Leading into 2020, many health systems had been rapidly expanding into the suburbs as part of the larger retailization trend within healthcare real estate. With the uncertainty brought about by the pandemic, providers have opted to renew leases in current locations rather than explore new options or branch out.

As the overall retail sector has been hammered by pandemic countermeasures such as stay-at-home orders, some are hoping that healthcare retailization can help cover those losses. Davidson believes that once there is stability in the markets, healthcare retailization will resume with its prior intensity. But it won't be the savior of the retail sector.

“They're viewing healthcare as an attractive tenant, but they're not going to fill up all the vacancy we're going to see,” Davidson said. “In these suburban retail properties, healthcare tends to take 5,000, 10,000 maybe even 20,000

square feet. But all of these big boxes are going to remain empty. They can't backfill all that with just healthcare."

The largest lease of H1 2020 was Harris Health System's 305,000-square-foot transaction at 4800 Fournace Place in Bellaire. The deal allows the organization to consolidate its nonclinical administrative functions—as well as its school of diagnostic imaging and outpatient physical therapy program—from five locations to just one.

Houston Methodist Hospital inked two deals, taking 7,711 square feet at 505 S. Friendswood Drive in Friendswood and an additional 6,920 square feet at 9090 Katy Freeway in West Houston. This expands their presence in the Spring Valley location to more than 26,000 square feet.

Among the renewals, Houston Women Care Associates reupped its 22,984-square-foot

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Texas Medical Center lease and Texas Eye Institute opted to remain in its 16,001-square-foot space at 7710 Beechnut in Southwest Houston. Colliers research reports that sentiment among healthcare leasing agents indicates that leasing activity has begun to accelerate as we enter the third quarter.

Despite the current uncertainty, Davidson

believes that optimism is well placed. And not just for the local healthcare sector, but for the Houston metro as a whole.

"The economy in Houston seems to be faring a little bit better through the pandemic than many of the other major cities around the country," said Davidson. "Remember, people are moving here in droves. Houston's going to be fine."

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