

# Changes Coming in Medical Space Real Estate Needs



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By William Wiebe, CCIM, CRE, SIOR

No matter what the outcome of the 2008 Presidential election with regard to a national health care system, the real estate dimension of health care is a growing, dynamic, and visible area that deals with issues ranging from the cost to the location to the architecture and design of facilities ranging from acute care hospitals to specialty medical office buildings (MOBs).

Dollar figures tell part of the story. Nationally, we have seen medical office building prices increase, while cap rates have decreased. The average medical office building sells now at \$200 per square foot, up from \$100 per square foot in 2002. According to the U.S. Census Bureau, more than \$100 billion was spent on health care facilities in the past five years and that expenditure is expected to total \$15 to \$25 billion per year over next five years.

This boom in spending is partly driven by the increased popularity of outpatient facilities

and medical office condominiums. Other key factors affecting health care real estate decisions are:

- **Demographic Shifts:**  
Population migration away from the urban core will continue to attract new opportunities for health care providers in suburban locations. Health care providers will seek practice locations that will attract affluent, well-insured individuals.
- **The Convenience Factor:**  
Patients want an environment that is service-oriented in every respect. Parking must be readily accessible, patient wait times must be minimal, and service capabilities should be comprehensive.
- **Accommodating New Technology:**  
Clinical excellence and convenience shouldn't be mutually exclusive. As technology becomes more affordable, physicians will seek to make it

available in their office. Technology must enhance physician productivity and increase practice capacity.

- **Changing Structure of Medical Practice:** Medical practice growth through mergers will continue to support the increased cost of infrastructure and create opportunities for better financial performance. Larger medical practices will seek market-branding opportunities to avoid dependence on any individual practitioner. Already today, fewer physician specialists are dependent on the hospital environment for growing their practice.

## Bright Outlook for Medical Office Buildings

MOB cap rates are in the seven-to eight-percent range. They are generally 100 to 200 basis points greater than other investment property. Due to MOB's declining risk, REITs are expected to increase investment in this market. In some fast-growing communities, rates have doubled in the last three years. In Miami, a medical condo will now cost up to \$450 per square foot.

The outlook for growth in MOB product is significant. Their growth in 2008 is expected to considerably exceed the annual average (since 2000) of 8.5 million square feet. Physicians are treating their practices like retail businesses, desiring to locate close to several hospitals and thriving residential areas. However, due to the high-tech amenities of MOB's, pre-leasing must be high. MOB's are an attractive market because vacancy rates are low—typically five to 10 percent—leases are generally 60 percent longer than other tenants', and renewal rates are in the 90 percent range—higher than average. The strong demand and high-end supply growth is expected to continue over the next 10 years.

## Medical Office Buildings Embrace New Design Philosophies

Probably the most famous description of the impact of buildings on people came not from an architect or a researcher studying workplace

*The outlook for growth in MOB product is significant.*

performance, but from a politician. It was British Prime Minister Winston Churchill who said: "First we shape our buildings; thereafter, they shape us."

No segment of the facilities market has taken that observation more to heart than health care facilities. Today, the concept of evidence-based design is

drawing interest because it moves beyond the general idea that the physical environment affects occupants: It seeks to gauge the impact of specific designs on productivity, employee and patient morale, and patient outcome.

When most of us think about the future of medicine, architecture and real estate are not the first things that come to mind. We think of advances in medical research and technology—better imaging techniques, robotic surgery, and genetic engineering (from which miracles are now expected). But in fact, hospitals and medical office buildings are experiencing important positive changes in architecture and design.

## Evidence-based Design

Evidence-based design stems from the recognition that the physical environment can have a measurable influence on our wellbeing, especially in health care. A properly designed environment is part of the course of care. Under the banner of evidence-based design, a growing number of facility executives, architects, and designers are applying rigorous, peer-reviewed studies of a facility's impact on patient outcomes. Evidence-based design is the critical thinking of the architect, working together with an informed client, to make design interpretations on the basis of reliable evidence from research.

New terms such as the "fable hospital," "evidence-based design," and "acuity adaptable rooms" have become more common to the vernacular of the medical real estate professional. New medical designs seek to create a physical setting and organizational culture that is psychologically supportive, with an overall goal to reduce stress and help patients and families cope with illness, hospitalization, and even bereavement.



The new medical design includes:

- Single-patient rooms stipulated in the new AIA Guidelines
- Acuity adaptable rooms (designed so that the patient does not need to change rooms in order to address his/her fluctuating conditions)
- Family- and patient-centered care (rooms of comfortable size, adequate seating, sleeping area)
- Single-room maternity care
- Decentralized work area in nursing units
- Imaging integration with “real time” images in the operating rooms
- A healing environment, which includes:
  - Access to nature
    - Large windows in patient rooms
    - Gardens
    - Healing art, presence of music
- Positive distractions
- Patient Control
  - Temperature, lighting
  - Nutrition with a restaurant-style menu, care planning, information
  - Privacy, social interaction
- Access to the familiar
- Elimination of environmental stressors such as excess noise levels

Today’s patients want better control of their relationships, their information, and their environment. The new designs and philosophy provide

human interaction and social support, connection to staff and caregivers, confidentiality, spirituality, and patient empowerment through information and education.



## The “FABLE” Hospital

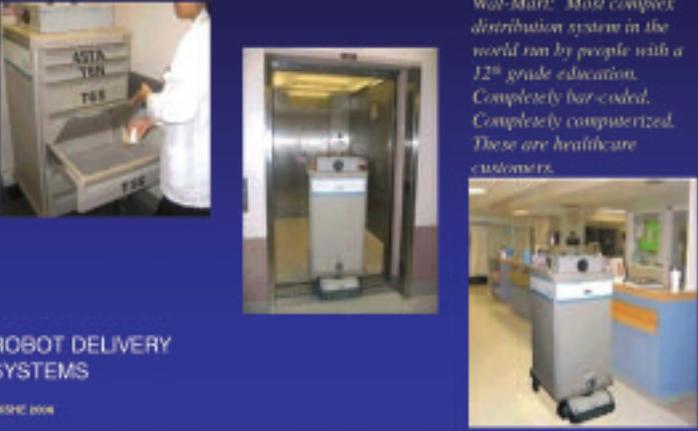
The Fable Hospital is the story of a “make believe” hospital that uses real data from *The Center for Health Design* research initiative to make a compelling business case for building a better building. By spending a little bit more money up front to incorporate evidence-based design concepts, the creators of the Fable Hospital explain how short- and long-term payback can be realized by increasing market share and reducing costs associated with infections, transfers, staff turnover, etc. A typical fable hospital is a 300-bed regional medical center that is located on an urban site and features large private rooms.

Fable Hospital designs have better quality, safety, patient care, smaller staff, and greater community awareness. The amenities include gardens, public art, noise reduction, larger toilet facilities, and gym facilities. Over a 30-year period, the savings to build this type of hospital far outweigh the initial upfront cost for construction.

## Technology and Health Information Systems

New facilities must accommodate new technologies, such as an electronic medical records system. This advance has been widely credited with reforming the health care system and substantially improving safety and efficiency. The remarkable results have spurred a movement to adopt electronic

**MEDICAL TECHNOLOGY**  
**MEDICAL ERROR REDUCTION**



*Wal-Mart: Most complex distribution system in the world run by people with a 12<sup>th</sup> grade education. Completely bar-coded. Completely computerized. These are healthcare customers.*

**ROBOT DELIVERY SYSTEMS**  
KSHC 2008

The health care real estate professional will probably be asked to assist in the process of siting and building new suburban hospitals and more ambulatory facilities, including free-standing clinics, medical office buildings, and specialized freestanding diagnostic centers. The not-so-distant future could see an increased demand for health care facilities on the retail model—medical malls, possibly in landscaped settings.

To meet these challenges, the health care real estate professional will need to understand not only real estate fundamentals but also the implications of new directions in health care architecture and design.

medical records nationwide. The electronic information system helps to reduce medical error, offers access to a wider archive, and increases efficiency via telemedicine.

Health care is a national issue that will be shaped not only by politicians but also by the facilities that serve the community.

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