Healthcare & Real Estate 2014: Chicago (CapRate Events, LLC)

On Thursday, June 5th, CapRate Events held its first Healthcare & Real Estate summit at the Holiday Inn Chicago Mart Plaza in Chicago. Multiple panels were held throughout the day with Greater Chicago and the Midwest region's most active healthcare real estate executives including Bob Assoian, Managing Director with NAI Hiffman's Management Services Group, who moderated the New Funds & Healthcare Real Estate Investment Roundtable. This innovative new conference shed light on important trends in healthcare that will impact and change demand drivers for the underlying real estate assets.

Below, Brian Edgerton, Vice President with NAI Hiffman's Medical Office Services Group highlights some notable comments made by the panelists.

8:00 AM Healthcare Real Estate Market Overview: Analysis of Market Fundamentals & Investment Sales Volume around the Nation

PJ Camp, H2C – Hospital executives polled about what facilities they will need in the future; 25% said they will need a new MOB (new construction or redevelopment). New development, ambulatory strategies, retail, rehab, wellness centers, won't see as much traditional MOB development (60K). Spec development beginning again.

8:30 AM The New and Changing Delivery of Healthcare and its impact on Current and Future Investment, Development & Financing Strategies

Chris Bodnar, CBRE – Demand drivers: Very competitive interest rate environment, competitive lenders, 75-80% LTV, demand is there through financing. Doctors serving the aging population are more dependent on Medicare and are choosing to join a system. More pension funds and foreign capital are entering the space looking for yield. Investment activity will push beyond the high mark set in 2013.

Mark Burkemper, Harrison Street Real Estate Capital, LLC – Everyone is chasing yield. Urgent care development has seen 15% growth since 2008. Only 25% of urgent care operators are hospital affiliated.

Wilkingson Germain, Ventas –There is a strong increase in physician integration, growing market share, larger groups are looking to increase their footprint and strengthen negotiating power. 40% of existing physicians are employed by a health system, 70% of new physicians are choosing to be employed by a system. The highest quality assets will be purchased by groups with access to the least expensive capital.

Nathan Golik, Carter Validus – Healthcare real estate has become a core holding; inflow of capital to the space is significant. Unique specialties will be able to stay independent.

Jesse Ostrow, MedProperties Group – We are seeing 3rd party capital used more frequently. Adaptive reuse opportunities are faster to market, allowing the tenant to get in and open for business more quickly.

9:20 AM Evolution of the Healthcare Real Estate Lease: What are the Ramifications of the Affordable Care Act on Leasing and how have Terms Changed?

Jeffrey Calk, Waller – Flexibility is key for the health system in negotiating lease terms.

Thomas Tift, HealthAmerica Realty Group – There is downward pressure on rental rates in the Southeast U.S. as hospital systems seeking to cut costs. Competition has gotten fierce, more systems are moving into each other's territories.

John Wilson, HSA PrimeCare – We've seen an uptick of leasing activity in the last 18-24 months. Drivers include

1. Regulatory – with the American Care Act there are millions of newly insured patients; moving from volume based system to a value based system
2. Demographics
3. Technology – moving procedures to outpatient settings
4. New or renewed focus on the patient – the patient is front and center, with a focus on their convenience and satisfaction. Retailers now understand what medical cotenants will bring to a shopping center.

10:20 AM Healthcare Industry Perspective: Who will be the Winners and Losers as Healthcare systems Continue to Consolidate?

Jason Greis, MaGuireWoods, LLP – Winners and Losers: Who can provide the most quality care in the lowest cost setting? Skilled nursing facilities will be a winner under the American Care Act. Self-pay specialties will be a winner as they are not dependent on Medicare and Medicaid. Losers: will include small and mid-sized independent practices.

Mike O'Keefe, Navigant Consulting – The premise of the American Care Act is to reduce cost, improve outcomes, and improve patient satisfaction. Rent is only 9% of the average practice's expenses.

Gina Weldy, Northwestern Memorial HealthCare –The beauty of the physician integration trend is that the physician doesn't have to deal the minutia of day-to-day business operation. Physicians can focus on the patient and their care.

11:30 AM Financing Healthcare Real Estate: Who are the Most Active Debt Sources, and What are the Return Requirements of Equity in 2014?

Mindy Berman, JLL –There is greater leverage, the tax exempt bond market is growing, Commercial mortgage-backed security is back, REITs are offering bonds, and cost of capital is ratcheting down. Medical office is a staple asset class for anyone and everyone; hospitals have some operational risk for lenders to underwrite.

Joseph Spicer, CS Capital Management –There is an increased interest in medical office to hedge risk against more volatile asset classes.

12:50 PM The Evolving Design Spectrum: Analysis of Healthcare Design Today and the Efficiencies of Multiple Care Facilities.

Kristin Dufek, Eppstein Uhen Architects –In the trend for designing cross-functional space, multiple uses can utilize a space 5-6 full days a week rather than one space being utilized by one user 3 half-days a week.

Tim Delgado, Read King Medical Development –We are shifting away from the 300-500 bed hospital to a 30,000 SF ambulatory facility with family practice, women's center, imaging, etc. Healthcare is looking to be in the “Daily needs corridor” where a family travels on a daily basis (near schools, grocery stores, etc.)

Mike McKay, ERDMAN –As the population ages, patients want healthcare to come to them.

2:10 PM Comparing the Chicago & Midwest Medical Office Building to Competing Regional Markets: How are Investors Approaching Changing Healthcare Delivery Dynamics and Regional Development Challenges?

Tag Birge, Cornerstone Companies –Investors are bullish on smaller developers finding opportunities in secondary and tertiary markets with great credit health systems that are dominant in their markets.

Todd Bryant, Healthcare Development Partners –Because the rental rates are low in greater Chicago as compared to other major markets, it is important to have a low basis in the land and build an affordable facility. In the future, patients will be getting 70-80% of their care in an outpatient setting.

Benjamin Hatz, American Realty Capital Healthcare Trust –Huge amount of capital is flooding in. Many groups are all chasing the same transactions.

John Marshall, Duke Realty – The major real estate markets across the country (New York, Los Angeles, Chicago) are the most fragmented from the health system perspective. You have several large players and dozens of independents. Smaller markets are more “systemized” with only a few large players. The abundance of land in many Midwest markets keeps construction pricing low, rental rates low, thus cap rates haven’t compressed as much as other markets on the coasts.

3:00 PM New Funds & Healthcare Real Estate Investment Roundtable: Who are the New and under the radar investors entering the Healthcare Real Estate Spectrum, and why?

Jared Morgan, SPIRIT Realty Capital –2014 will see more capital out there being raised and increased competition.

Steve Leathers, JLL –Medical office isn’t a homerun type of investment. The reality is it’s generally been thought to be more stable and recession-resistant. Tenants can’t just get up and go, and easily shift to another market.

Marc Reinisch, Rushmore Properties –As we came out of the recession we started to look around and find niches and that's how we came into the medical office market; medical office space offers more compelling characteristics versus typical office space. Office tenancy is much more cyclical. With healthcare real estate it's more of a durable income stream. When hiring a 3rd party firm to lease and manage, we are looking for firms that are submersed in the healthcare real estate field in that market. We acquire assets nationwide but in smaller markets it's either impossible to find that talent or its 2-3 hours away. That creates a leasing challenge, so we are looking for bigger markets with 3rd party expertise.

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