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By Derek Bicksler, CAMPBELL Commercial

Medical office sector a refuge in an otherwise stormy market

In the current Commercial Real Estate climate, sometimes it seems there is little to be positive about with rising numbers of foreclosures and bankruptcies, businesses downsizing, banks adhering to stricter lending guidelines, and a general drop in demand. However, there is one sector of commercial real estate that is staying fairly stable, is expected to increase, and could prove to be a safe haven for developers, investors, brokers, and other real estate professionals. In the next decade and beyond there is expected to be a significant rise in demand for medical related space, which could be beneficial and profitable for those who choose to zero in on this type of real estate.

As most sectors of real estate are experiencing significant drops in demand, the need for medical space is expected to rise drastically in the coming years. A major reason for this is obviously the large number of aging babyboomers who will require more and more healthcare

Derek Bicksler

and assistance as the years pass. A recent study done by the *Council of Economic Advisors* shows that job growth from 2000-2016 will be approximately 35 - 48% for healthcare practitioners and support staff, and only 12% for all other occupations, which is consistent with *The Bureau of Labor Statistics'* claim that in the past 18 months more than 540,000 new positions were created by the healthcare and social assistance sector. Because of this growing need and expanding healthcare workforce, there will have to be an increase in development of medical related facilities.

Medical related properties are attractive to investors and developers for a number of reasons. Obviously a strong demand is a positive attribute, but one other major benefit is that medical office users tend to sign longer lease terms than do general office tenants because of the costly nature of medical buildouts as well as the need to provide their patients with a consistent location. While a typical general office lease term might be 3 – 7 years, medical leases tend to be 10 – 20 years, providing the landlord with a more stable income stream and less costs related to tenant turnover, especially when most medical space layouts do not work for the next tenant moving in, so the space requires complete retrofitting. This high cost of tenant turnover is a major factor in having longer terms so that the buildout cost can be amortized over a longer period of time. The increased appetite for medical related real estate is illustrated by the number of transactions taking place. A recent study by *Real Capital Analytics* indicates that medical office transactions have accounted for approximately 7% of all domestic office transactions so far this year, which is up from 1 – 4% in 2007.

In a time when demand is falling, less deals are being done, and risk in owning commercial real estate is on the rise, this niche in the market is being perceived by most as a lucrative area to focus on and specialize in. Those investors, developers, brokers, and other real estate professionals that can capitalize on the expanding need for healthcare related real estate should see a higher and more stable return on their money and time spent than with other property t ypes in short and long term.

Derek Bicksler has been with Campbell Commercial Real Estate, Inc. for approximately 5 years, specializes in the Sale and Leasing of Office and Investment properties, and is a CCIM Member Candidate with transactions totaling over 600,000 s/f. ■