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WEDNESDAY, DECEMBER 10, 2008

## The healthcare boon

by Dan Rafter

Kevin O'Donnell needs only point to the Main Street Medical Centre in the Chicago suburb of St. Charles, Ill. This new 46,000-square-foot medical office building, which opened in 2008, is proof that healthcare facilities are one of the safest bets in today's struggling commercial real estate industry.

O'Donnell is president of St. Charles-based [O'Donnell Commercial Real Estate](#), the commercial brokerage that is handling sales and leases at the Mainstreet Medical Centre. He's seen the attention that the medical center has already attracted, even in a down economy. Fox Valley Women & Children's Health Partners has leased 23,000 feet at the center. A medical lab has taken space, as has an infertility doctor. Only a limited amount of space remains at the center.



And O'Donnell knows that the Mainstreet Medical Centre is hardly unique. The construction of medical office buildings, new hospitals, additions to existing hospitals and healthcare facilities remains brisk because the demand for these facilities is largely recession-proof. People will always need doctors, dentists, eye doctors and physical therapists. They'll always need nursing homes and hospitals. They'll need all these even during a recession.

"If you look around our region, in the Fox Valley area (of Illinois), most of the new construction you see is of the medical variety," O'Donnell said.

Commercial brokers and developers who work in the medical arena say that healthcare-related construction has been one safe harbor in a construction industry facing uncertainty in nearly every other market sector.

That doesn't mean, though, that medical and healthcare can "save" struggling developers and construction firms that had largely ignored the field until now.

"Everyone's saying that healthcare is recession proof, and everyone wants to go over and do that now," said Donald Dunbar, regional executive vice president of Indianapolis-based [BremnerDuke Realty](#), a division of Duke Realty that specializes in healthcare real estate. "The healthcare business is important, and it can fill a gap while other real estate markets are down. But I don't think it will help those developers that weren't already in healthcare before the economy started its slowdown. It's almost too late for them to get into the business now."

### Healthcare strong, not invulnerable

As Dunbar said, the healthcare industry is often tagged with the label "recession-proof." That's because people get sick just as often when the economy is bad as they do when it's good. It's also often easier for doctors and medical personnel to obtain financing for their projects.

But while the medical and healthcare field does have certain built-in protections against economic turmoil, calling it recession-proof may actually be overstating the situation. For instance, Dunbar points out that hospitals may start seeing, for the first time in a long time, that their balance sheets are not as healthy as they once were.

The people behind Moody's Investors Service, the financial ratings firm, provide additional evidence that while healthcare is stable, it is certainly not immune to the nation's economic woes. Moody's recently revised the healthcare industry's 12- to 18-month outlook from "stable" to "negative."

The reasons behind this are fairly obvious: Fewer people will seek elective surgeries during difficult economic times. Others may lose their healthcare and hold off on even non-elective treatments.

Bill Palmer, vice president for business development at [Hunt Construction Group](#)'s Indianapolis office, while saying that healthcare and medical will remain one of the few stable sectors of the construction business in the next four to five years, agreed with Dunbar that even hospitals, doctors offices and surgical centers are not immune to today's economic woes.

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"For-profit hospitals are putting a lot of their projects on hold right now," Palmer said. "A lot of their capital has been invested, and they are seeing the fluctuations of their returns just like everyone else."

But even the realists such as Dunbar and Palmer identify healthcare as one of the positives in today's commercial real estate industry.

"The supply of patients will continue to increase," Dunbar said. "That's the part of the healthcare industry that is recession-proof. The overall demand for healthcare services will continue to increase. The only part of the healthcare industry that is subject to the recession is the elective procedures. We will see fewer elective surgeries, fewer plastic surgeries. We might even see some people decide that they're not really sick enough to seek treatment. They don't want to pay the deductible in this economy."

The good news, at least for commercial developers and brokers counting on new medical buildings, is that the U.S. population - most notably, the Baby Boomers - continues to age. That means more people will need medical care, and the buildings that house these healthcare services.

"From the age of 25 to 55, virtually nothing goes wrong with us, but when you get past 55, all of a sudden you find yourself needing more medical treatment," Palmer said. "And we're not seeing a mass of people that is either in that age range or quickly getting to it. Then there's the fact that everyone is living longer. Medicine has progressed. Everyone has better healthcare now, so we need medical services more than we ever have."

**Built to survive the slump**

Ted McKenna, senior manager with [Colliers Bennett & Kahnweiler](#) in Evanston, Ill., said that healthcare construction remains steady not just because of an aging population. The general makeup of the medical office and hospital business plays an important role in the industry's stability, too, he said.

For example, physicians, the tenant base of the medical-office construction market, are stable, McKenna said. They take a long-term view when leasing property, and don't change their locations as much as other businesses might. This leads to historically low vacancy rates in this sector.

Doctors also do not have as many struggles in obtaining financing, McKenna said. Lenders view them as stable and steady, he said.

"During the last three years, I've noticed a growing interest in this part of the construction business," McKenna said. "The people that you talk to, you hear from them that this is a business they want to get into. The construction companies look at this as a strong opportunity, too."

But just because a growing number of developers and construction firms want to work in the healthcare field, that doesn't mean they will find work in it.

Palmer said that general construction firms won't get the healthcare jobs unless they already have a history of working in this field. The healthcare and medical-office sector comes with its own jargon and technical terms. Developers and contactors who don't speak this language won't win many contracts, he said.

"These vertical markets have all become very specialized," Palmer said. "So, no, it's not going to help all construction companies. If you are not vetted in this business, you won't get any work."

The learning curve to master the healthcare-construction industry is a steep one, Palmer said.

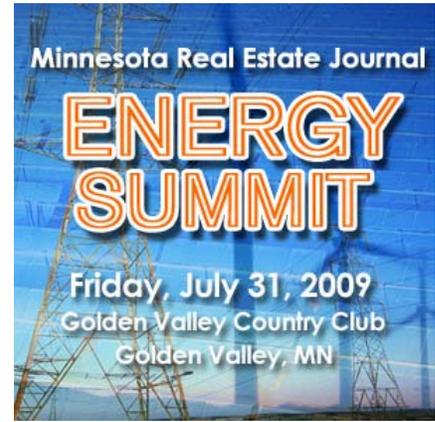
"It's not about building on hospital," he said. "It's about having years of experience in this field. It's about being able to name the last three \$150-million hospitals you built that are similar to the project you are bidding on. Building a hospital, putting an addition on a hospital, are very different projects than is putting an addition on an office building or shopping center."

Peter Cotsirilos, vice president with Oakbrook Terrace, Ill.-based commercial real estate brokerage [National Realty Network](#), said that his company has long benefited from the strength and stability of the medical and healthcare building market.

His company is currently working in the beginning stages of a 25,000-square-foot medical office building in Melrose Park, Ill., a project it is working on with construction firm the McShane Companies.

Cotsirilos says that those construction firms, developers and brokers who've counted healthcare among their specialties will be looking at the field even more closely now that so many other commercial sectors are struggling.

"I think a lot of companies consider this industry to be a safe haven," Cotsirilos said. "The sector just has a lot of strength. I would say that in the last three or four years, more people have been moving toward this field. That is especially true now because of what the economy is doing."



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