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Medical Office Market Shows 'Strength,' Lacks New Supply

Healthcare Professionals Stay Close To Hospitals, Seek 'Medical Condos'



HealthCare Partners takes up the entire 3rd floor at the Bixby Business Center, located at 4401 Atlantic Ave. The medical group moved into the building last year, taking the place of Memorial hospital, which formerly leased the space. At right is Healthcare Partners' radiation lab. (Photographs by the Business Journal's Thomas McConville)

■ By **SEAN BELK**
Staff Writer

With an upswing in investment, sales and leasing activity, the medical office space sector in Long Beach is well positioned for continued growth, according to local commercial real estate brokers and property managers.

Healthcare professionals with a high line of credit and a close proximity to top-ranking hospitals – such as Memorial Medical Center, St. Mary Medical Center and the Long Beach Veterans Affairs hospital – have kept medical office space relatively healthy compared to the regular office space market that still suffers from high vacancy.

Some new developments are expected to break ground in the next year. But, brokers said the area still lacks any substantial supply of high quality new medical office space as many buildings built decades ago are in need of rehabilitation to meet today's standards.

While new technology has helped leverage against higher tenant improvement costs, a reduced pool of Medicare funding and the economic downturn has kept professionals somewhat constricted. Still, real estate brokers said some doctors are more inclined to purchase rather than lease medical office space in the current market.

"As far as the only strength in the market, the medical real estate market is the

strongest right now," said Doug Shea, principal and boardmember of INCO Commercial. "Once again, it's all about location. The closer you are to Memorial hospital the better you are, preferably on campus. But they're growing out of their campus, so that's getting harder and harder."

The overall vacancy rate for medical offices in the city is about 10 to 12 percent, which is about half that of the vacancy rate for general office, according to real estate brokers. However, there are pluses and minuses to the medical real estate sector that primarily come down to affordability and parking requirements, depending on the practice.

Medical office space typically comes with higher rates than traditional offices due to the cost of more tenant improvements, such as for electrical equipment, desired amenities and plumbing, although doctors such as psychologists generally don't have the same requirements.

Brian Russell, vice president and commercial broker for Coldwell Banker Commercial Blair Westmac, said that over the years some medical offices have popped up in communities to complement the retail market.

In the last five to seven years, the medical office industry has provided self contained carts, often used in optometry and exam rooms, which has largely reduced the

need for heavy electrical wall infrastructure and plumbing, in addition to other advancements that have cut costs somewhere between 15 to 25 percent, he said.

But, as the federal government allocates more Medicare funding on "end of life" practices, such as senior care, those practitioners devoted to general practice are limited in their cost recovery, which has somewhat constricted the market, Russell said.

"Unless you have a very vibrant practice that really doesn't depend on Medicare, you're constricted and you're really going to watch your expenses and hold the line because your recovery for billing services has not gone up very much and your cost of doing business is very high," said Russell, who added that his medical office listing at 500 Alamitos Boulevard is 20 percent vacant with about 7,500 square feet of space available.

On the other hand, Jeff Coburn, senior vice president and principal of the Long Beach office for Lee & Associates, said activity at medical office campuses near Memorial Medical Center has been "very healthy," and landlords have even started inching up their rental rates slowly over the last few years.

Lack Of New Spaces

Coburn added that some healthcare providers are now finding it more financially feasible to purchase their own units,

but are having trouble finding new space to buy. "There's a lot of doctors in particular that are interested in purchasing, but the problem is there's just not a lot of product out there that's available," he said.

Patrick O'Healy, SIOR, CRE, commercial broker and principal of O'Healy Commercial Real Estate, added that, while upfront costs for purchasing new space are high, most doctors are "financially capable," and can take out SBA loans with low interest rates. Over time, the cost of paying off the loan depreciates while lease rates tend to rise on a five-year basis due to cost of living increases.

However, part of the problem is, despite being well positioned and reputable, roughly 98 percent of the medical office in Long Beach is "substandard and old," he said. O'Healy said there is nearly no new quality spaces in the city, while most other surrounding cities such as Torrance, Los Alamitos, Huntington Beach and Newport Beach all have a supply of newer, high quality medical office space.

"Long Beach Memorial is the largest hospital west of the Mississippi . . . It's a really well rated hospital and we have a lot of terrific physicians here in Long Beach, yet they practice in substandard conditions," O'Healy said.

One of the biggest barriers for new medical buildings has been parking, Coburn said. In accordance with city zoning, medical offices are required to have a parking ratio of five spaces per 1,000 square feet, one of the highest parking ratios for commercial zones, primarily to accommodate the heavy traffic of patients.

However, some medical office buildings have parking ratios that were grandfathered in from years ago during a time when such a need for parking wasn't required, Coburn said. The result has been that many established doctors have been left in older buildings with insufficient parking for today's growing healthcare needs. Some still don't meet Americans With Disabilities (ADA) standards, he said.

"That's a problem for the medical office," Coburn said. "Patients need to find your place that you can get in and out of and you don't have to look for parking and don't have to pay for parking. It's more difficult for them to get around, especially if they're sick or if they're disabled."

In addition, O'Healy said Memorial hospital is working on a long-term development plan to bring the hospital up to seismic standards and earthquake retrofit. The hospital also plans to raze office buildings on their property in coming years.



Dr. Timothy Simmons is seen in his medical office with medical staff at the West Gastroenterology Medical Group. The office is located on the 6th floor of the 1045 Atlantic Ave. building, owned St. Mary Medical Center. (Photograph by the Business Journal's Thomas McConville)

'Medical Condo' Trend

There have been some new developments that have already entered the market and "medical condos," where space is sold to tenants rather than leased, are expected to break ground in the next year.

One newer medical office building is at 3610 Long Beach Blvd., which was renovated in 2009. Tenants Dr. Sarbpaul Bhalla, Associates In General Surgery and Dr. George Hahn were drawn from older buildings in search of a new image and upgraded facilities, Coburn said. He said a new surgery center a little under 20,000 square feet on Willow Street is also being developed in coming months.

O'Healy said he is working on a new medical condo development called Memorial View Medical Center, at 3208 Long Beach Blvd., just two blocks from Memorial hospital, as the newest medical office building in Long Beach. The development, to be completed within a little more than a year, involves refurbishing an existing building, which he said is like "putting a building in the fountain of youth."

Shea said a 15,000-square-foot medical condo is currently in escrow across Katella Avenue near Los Alamitos Medical Center for doctors to buy spaces of 2,000 square feet on up. "We're starting to see a little bit of a trend where they want to own their own unit," he said "Some are getting together and buying, and financing is really good right now for doctors. All categories are working in medical."

Leasing Activity

With 66 medical offices and hundreds of affiliate doctors within the Los Angeles and Orange County area, HealthCare

Partners medical group leases about 95 percent of its medical offices, with requirements based on proximity to patients, free-ways and public transportation for accessibility, according to Jim Kostick, the group's vice president of administrative services.

In 2010, HealthCare Partners reduced its footprint in the Harriman Jones building located at 2921 Redondo Ave. by half to only 50,000 square feet and moved its business to Lakewood and the Bixby Business Center, located at 4401 Atlantic Ave. in Bixby Knolls. He said the move was to better accommodate patients.

Although the medical group has purchased a few buildings, the company is mostly interested in small "free standing" buildings which haven't been available for purchase. "If we found that, we probably would buy it, we just haven't been able to find one of those," he said.

Steve Morikawa, property manager for California Commercial Real Estate Services, who currently manages the medical office building at 1045 Atlantic Ave., owned by St. Mary's Medical Center, said the company expects leasing activity to increase with doctors committed to the community and attracted through "mentorship."

Over the last three years, the company has invested in tenant improvements, such as refurbishing hallways, lobby areas and other interior upgrades. The 107,000-square-foot building, built in 1972, is currently 78 percent occupied with more than 30 tenants, he said.

While some of the buildings are older than some other newly developed areas, much of the real estate market is different in terms of prices and demographics, and the market has to have a healthy balance, Morikawa added.

"Because of the area that we're in, you can't expect to put a Newport Beach office building and be successful in this area," he said. "Doctors aren't going to want to pay Newport Beach real estate prices. As much as tenants want the best of everything, the reality is you can give them the best of everything the market would dictate, otherwise you're not going to break even with the building." ■



EAST ELEVATION

MEDICAL OFFICE BUILDING - 3200 Long Beach Blvd.

Developer:
AJ FAITH PROPERTIES

1/8" = 1'-0"
DEREVERE & ASSOCIATES
ARCHITECTURE PLANNING INTERIORS
1976 2.28.11

A medical condo at 3208 Long Beach Blvd., known as Memorial View Medical Center, is expected to be the newest medical office building in Long Beach after the building is refurbished. Pictured is an east elevation of the new structure. The architect is DeRevere & Associates, a division of DHD, Inc. (Elevation provided by Patrick O'Healy)