

Strong Demand for Health Care Real Estate

By Mark Alexander, CCIM

Rudyard Kipling, the English Nobel Prize winning poet and novelist said, "If you can keep your wits about you while all others are losing theirs, and blaming you...the world will be yours and everything in it." I am sure 18th Century born Rudy didn't mean it this way...but I think he just summed up today's health care sector.

Everyone says our present health care system is broken and needs to be fixed. That pretty well covers the "all others are blaming you" portion of Kipling's quote. But how can the world possibly belong to today's much maligned Health Care sector? Well, let's look at the jobs in health care compared to the rest of the US economy. The United States lost six million jobs from January 2008 when we had 4.9% unemployment thru August 2009 when we reached 9.7% unemployment. This is the worst job loss period for the US in the past sixty years. Conversely, over the past year, the health care sector added 300,000 new jobs to reach total employed of 13.6 million people for a nice positive annual job growth rate of 2.2% during one of the worst economic downturns in our American history. It would indeed appear the world does belong to the health care sector Mr. Kipling...as long as it can keep its wits during this intensely heated public debate over health care reform.

Roughly one-third of health care jobs are based in private doctor offices with the remaining two-thirds of health care jobs spread between hospitals, ambulatory care, home health care and nursing homes. The US Bureau of Labor Statistics projects over 3 million new jobs in the health care sector over the next five years. You want job security for your family's future....head for the health care sector. You want a safe commercial real estate investment that holds value while providing safe, long-term, management free cash flow to provide income during your retirement/non-earning years...buy a triple net leased medical office building. Property values have plummeted today in all sectors of commercial (and residential) real estate with the exception of Medical Office. We witness the daily reports of property value carnage each time we pick up a newspaper or turn on the TV. In spite of it all, medical office still does well.

Health Care Reform

This teeth-grinding topic has become a visceral issue for most Americans. We appear to be either vehemently against it or for it...with no middle ground. What's going to happen...who knows? What could happen? Nothing...or Medicare reimbursements could be drastically rolled back which could cause many senior doctors to elect to become full-time fishermen much sooner than anticipated. But if Medicare were rolled back, other government funding would need to be redirected at health care insurance for the masses. Advancements made in medical research, treatment and technology are causing more people to live longer and causing more people to be saved from trauma accidents in the O.R. than ever before. Our aging population in need of long-term medical care and therapy is growing, so this increased patient demand creates more demand for medical office space. Obama's \$19 billion ten-year plan to create electronic medical records on a nationwide common platform would create an estimated 40,000 to as many as 160,000 additional health information jobs. The additional office space needs are formidable to facilitate this program alone. Additionally, if health care reform does end up producing health insurance coverage for the masses that presently have no coverage, demand for medical care and medical office space to treat these patients would get ramped up even further.

Sadly, this health care reform debate has seemingly turned into a football game without referees and without helmets.

Stimulus Spending:

Whether you are for "Stimulus Spending" or against it...we have it now. The only question remains...should we get a little more of it to help insure we break this economic slump? Even though all the approved funding has not fully hit our system yet, it does appear to be working so far. Average monthly job losses have dropped from 645,000 jobs lost per month since November 2008 to 216,000 jobs lost in August 2009. Our national debt is already at an all time high so taxes must eventually go up to make even a half-hearted attempt to balance the national budget for our children's children. People against additional stimulus spending seem to believe that higher future taxes (to reduce the national debt) will somehow dissuade us from spending more now (to jump start the economy) because we will be saving to pay these higher future taxes. But if we couldn't save for

our own retirements adequately enough in the good times with lower tax rates, are we really going to become super savers now (and not spend for ourselves that will help jump start the economy) just because we have to pay even higher taxes some day in the future? Do you know anyone that loses sleep over the national debt? Do you know anyone who knows how much the national debt is? The real estate bubble falsely inflated everyone's perception of the value of their real estate a few years ago. Instead of saving more, we spent and leveraged like it would last forever. It didn't. Now the bubble has burst and spending is down across the board...which has caused jobs to be lost across the board...except for health care. No one is spending now to pump economic life through our system...except for Uncle Sam with bail-outs and stimulus. Do you remember the old days when your car died and you had to push it in neutral to jump start it? If you didn't push it fast enough, it would not start. Old Uncle Sam is pushing us with this stimulus funding so we can hopefully jump start our economy and put more people back to work. But it may not be a big enough push. We should know shortly. If we want jobs to come back, we need to find a way to get people feeling a little safer so they can spend a little more which will bring jobs back a little more. 2005 is gone and it is not coming back. That wasn't reality. That "Camelot moment" was pure fantasy while it lasted so don't expect to get seated at that same opulent Knights of the Round Table again anytime soon. Someone has to push this beautiful old Detroit muscle car called the "US Economy" hard enough to get it moving again? Overseas demand for our US products has dwindled because they have their own problems. So if you and I are not going to start spending again to help jump start our economy, then who will? Uncle Sam is standing in the back of the room volunteering with his hand raised...and a lot of people are shouting at him. He just wants to help. Note his inner turmoil, the next time you look in the mirror.

Strong Demand for NNN Leased Medical Buildings

If you could wave your magic wand and sell your real estate today for close to 2005 price levels...would you do it? Duh! Silly question, I know. Of course you would. It was the absolute top of our wonderful fantasy market in 2005. Since then, the well documented growth in health care business along with its corresponding demand for medical office space has proven to be most resistant to this terrible recession compared to any other business sector. Investors today

seek safety more than ever before. This has caused excellent demand today for triple-net leased medical office buildings. For this reason, medical office sellers can still get close to 2005 price levels for their long term leased medical office properties. Since we all expect taxes to go up in the near future to nibble at our huge national debt, count on the capital gains tax rate to increase as early as next year. Owners of triple net leased medical office buildings will someday sell their buildings. If they sell now, they will get close to 2005 historic high prices. Here is a glaring example of what you can get today: A doctor guaranteed, triple net leased class "B" medical office building (11 years old) in a class "B" location just sold in July of 2009 in Ft. Myers for \$279 per square foot. Will this last forever? Very few things seem to last forever...especially in real estate. If your medical office sale closes before President Obama raises the capital gains tax rate next year, you will luckily get to keep more of your hard earned sale proceeds. The property values in the triple net leased medical office sector continue to stand tall during these dark economic times while all other sectors of commercial and residential real estate values have stooped to the ground, weakened by falling demand, caused by this recession. Demand rules...and due to our aging population, demand is still strong for health care business and triple net leased Medical office buildings. Depending upon the outcome of health care reform, this demand could go from good to amazing.

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