

Medical Office To Continue Strong In 2009

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HOUSTON-Though some real estate sectors are decaying with the current economic downturn, one bright spot is that of medical-related real estate. While the niche isn't exactly bullet-proof right now, it is proving to be somewhat recession-proof.

Beth Young, vice president with Grubb & Ellis Co.'s investment services group in Houston says there has been, in recent years, increasing medical care demand from patients. This is especially the case as baby boomers continue to age, live longer and require more health care.

As a result, Young continues, there are two reasons why medical real estate will likely weather the economy better than other products. "First, there's an increasing demand for the product," she says. "Second, health care deals typically have strong credit tenants behind them."

Because of these issues, medical real estate is different from the standard office product. "Going forward, there will be a bigger differential between medical office buildings and other types of real estate," comments Henry Hagendorf, vice president, office and medical properties, with Grubb & Ellis Co.'s Houston office. "It's historically proven to be a safer investment strategy, and they have a reason for being there. To treat patients."

Another aspect of medical real estate is the tenants themselves, typically doctors, are involved in the tenant improvements, meaning they aren't about to go anywhere any time soon. As a result, Young says, bankers and financial institutions like to fund health care real estate. "It's easier for them to justify," she says. "These are assets with long-term, credit-worthy tenants and a steady income stream."

Hagendorf agrees, pointing out financial institutions and other investors will feel safer putting funds into health care properties than typical office and retail properties that might be more impacted by the economy. Furthermore, hospitals and other health care organizations owning real estate will likely want to unload some of it in 2009 to free up capital.

"I think we're going to see different types of owners selling," he comments. "We'll see property owners selling to pull their equity out. Then there will be the sellers who have to sell because they can't meet equity requirements of a refinance." Then there's a third type, he goes on to say. "Those will be the real estate owners who have to sell because they haven't met their rent thresholds or lease-up times, and can't get permanent debt on their properties," Hagendorf comments.

The experts are careful to say, however, that health care real estate is not immune from the economic shocks happening nationwide. "The coming year won't be as strong as it has been in recent years," Hagendorf predicts. "But it'll be healthy compared to other real estate products."