

What's the difference between Office & Office Medical Industries?

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What is the difference in negotiating an office lease and an office medical lease?

The biggest differences between traditional office and medical leases are lease term, leasehold improvement costs and rental rates. Medical space users require higher construction costs per square foot. Standard office space, which is typically larger due to the need for conference rooms and larger common areas, is able to spread the leasehold improvement costs over a larger area, thus the cost per square foot is smaller. Typically, medical offices are smaller because of the nature of exam rooms and service areas which, as a general rule, require much more plumbing and electrical upgrades. The higher costs related to the medical facilities naturally drive up the rental rates to allow the property owner to receive an equal return on their investments. It is common for medical space users to sign leases with longer lease terms on space of similar sizes than typical office users. The reasons for this include: higher landlord and tenant investments in leasehold improvements, accounting strategies, difficulty in releasing medical space without again incurring high improvement costs, and the local cultural nature of many medical service providers restricting doctor office relocation.

What is the difference in negotiating an office sale and an office medical sale?

Typically, medical office properties sell for higher prices when analyzed on a cost per square foot. These higher sales prices per square foot are driven by the required higher initial construction costs, which must be offset by higher rental rates. Since the nature of medical space typically results in longer lease terms, investors are willing to accept a lower, reduced risk return (lower cap rate) on their investment over a longer period of time. Lower cap rates, when factored into the Net Operating Income of the property, increase the sales price. Investors also know that there is a higher probability of renewal with medical practices.

Where are the office medical properties being developed?

It seems that every submarket, serviced by a major freeway, is seeing new development of both major medical office buildings for the doctors' offices and hospitals, as well as smaller doctor owned user properties.

What do you anticipate for 2008 and beyond in office medical development?

This is a growing trend, not likely to subside, necessitated by the baby boomer age.

"Green" buildings are becoming popular. Will tenants begin to demand these buildings? How do you think office medical will change to accommodate "going green"?

I think that the "green syndrome" will continue, and as more medical properties are developed more will be "Green" or "LEED Certified" (Leadership in Energy and Environmental Design). For the short term it will be more prominent in larger (non-medical), traditional office user facilities focused on attracting the younger work force. As cost premiums for "Green" design levels out and marketing improves to explain the overall benefit to being "Green," future multi-tenant buildings will be designed accordingly. Multi-property and single property developers will see the value in the initial investment for the LEED Certified property based on exit strategy of the higher potential sales price for being "Green." This is of course predicated on the market and economy staying strong to justify any premium costs associated with the program.

Are there different types of medical property investments?

Yes, there are. The most noteworthy investment category is the multi-tenant medical office building (MOB), home to the multitude of doctors specializing in every medical field, but there are also single tenant investment opportunities such as hospitals (Acute and Long Term Acute Care).

Houston Area Medical Office Sales

Year Sold	Year Built	Size SF	*Price/SF	Cap Rate	Qualifier
2001	1982	55,000	n/a	10.5	quoted
2002	1986	80,098	\$139	9.5	pro forma
2003	1982	53,617	\$133	10.0	quoted
2003	2002	20,800	\$133	10.0	quoted
2004	1973	51,770	\$140	10.3	pro forma
2004	1999	85,471	\$156	7.7	quoted
2004	2000	48,988	\$214	8.5	pro forma
2005	1968	37,786	\$257	8.0	quoted
2005	2005	72,683	\$199	8.5	quoted
2006	1954	154,950	\$284	7.0	quoted
2006	2000	29,390	\$319	7.2	quoted
2006	1979	11,200	\$411	8.4	quoted
2006	1979	42,224	n/a	8.7	quoted
2006	2002	41,000	\$244	7.0	pro forma
2006	2006	22,000	\$231	7.1	underwritten
2006	1991	58,023	n/a	7.5	quoted
2006	2004	22,772	\$303	7.4	underwritten
2006	1979	64,562	\$57	5.1	quoted
2007	2003	48,750	\$234	5.8	underwritten
2007	1986	83,223	\$213	7.6	quoted
2007	1989	67,500	\$278	7.6	quoted
2007	1997	13,466	\$260	6.4	quoted
2007	1980	68,832	\$267	6.2	underwritten
2007	1984	149,379	\$151	8.1	quoted
2007	1981	54,111	\$185	7.1	quoted
2007	1996	43,471	n/a	8.2	quoted
2008	2005	19,102	n/a	7.5	quoted

*Price per square foot is either estimated, confirmed or an appraised value.

Source: Real Capital Analytics <http://www.rcanalytics.com>. Based on property and portfolios \$5 million and greater. Data deemed reliable but not guaranteed; subject to future revision.

Houston Area Medical Office Buildings Proposed & Under Construction 4Q 2007

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Location:	Total Buildings	Total SF
Bellaire/West University/South Main	1	25,000 SF
Clear Lake	2	74,850 SF
Technology Corridor/FM 1960	5	119,500 SF
Greenway Plaza	1	104,500 SF
Kingwood	1	49,600 SF
Medical Center	3	878,000 SF
Northwest	5	131,250 SF
Park 10	1	75,000 SF
Sugar Land/First Colony	4	183,300 SF
Southeast	4	166,566 SF
The Woodlands/Conroe	2	171,110 SF
Total Net SF Proposed:		673,035 SF
Total Net SF Under Construction:		1,205,641 SF
Grand Total of all NET SF:		1,978,676 SF
Total Buildings Proposed:	13	
Total Buildings Under Construction:	16	
Grand Total All Buildings:	29	

Rent vs Class Summary 4Q 2007

Class	#Bldgs.	SF(Net)	Occupancy	Total SF	*Vacant SF	Max Cont
A	85	8,618,652	86.89%	\$24.28	\$23.29	73,482
B	97	5,315,248	84.97%	\$18.84	\$18.15	46,013
C	48	1,473,910	77.41%	\$14.49	\$13.56	39,430
D	12	66,715	69.54%	\$18.74	\$17.45	10,000
Total	246	15,742,591	85.42%	\$21.20	\$19.87	73,482