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Industry Pulse

NEW YORK – In case you missed it, hyper-excitable and in-need-of-caffeine-free coffee host **Jim Cramer** of **"Mad Money"** recently had **Debra Cafaro**, the CEO of **Ventas Inc.** (NYSE: VTR), on his fast-paced CNBC show. Mr. Cramer almost seemed apologetic about never introducing Ventas to his audience in the past. The show aired just before the **U.S. Supreme Court** voted to uphold healthcare reform, and Mr. Cramer opened the segment with, "How would you like a high-quality, high-yielding healthcare stock that works regardless of whatever ruling the Supreme Court hands down concerning Obamacare?" He went on to say that Ventas is the "largest owner of private-pay housing for seniors and the largest owner of medical office buildings in this country… My bad that I've never brought them to your attention before." Saying that Ventas has produced a "spectacular" stock return during the last 12 years, Mr.

(See "Industry Pulse" on Page 28)

In This Edition

Busy times at G-A REIT

COMPANY HAS BOUGHT 14 BUILDINGS SINCE MAY

By John Mugford

It's pretty obvious that Newport Beach, Calif.-based Griffin-American Healthcare REIT II Inc. has been finding plenty of what it's been looking for in the healthcare real estate market so far in 2012.

In fact, as of recent weeks, the real estate investment trust's (REIT's) year-to-date 2012 activity has increased the size of its portfolio by 87 percent based on purchase price, from $438.6 million at the end of 2011 to $822 million. In the first quarter, the REIT acquired 16 buildings – for a total of $232.8 million.

"It really has been impressive growth year to date," notes Damon Elder, senior VP of marketing and communications for American Healthcare Investors, one of the co-sponsors of the healthcare REIT along with Griffin Capital Corp. "It's a good acquisitions market right now and all of the purchases we're making are meeting the company's high threshold."

NEWS & ANALYSIS

The flurry of activity has certainly continued since May 22, as the REIT added 14 medical office buildings (MOBs) to its portfolio since then, spending $106.7 million on the properties.

American Healthcare Investors, a company founded by the top executives of Griffin-American, facilitates the acquisitions for the REIT and then manages the properties, according to Mr. Elder.

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Making a mark at RJ|MK

WONG-HAMMOND GIVES INSIGHTS INTO HER NEW ROLE

By John Mugford

It's been nine months or so since Laca Wong-Hammond was named the head of healthcare real estate at what is now Raymond James | Morgan Keegan, the large investment banking, brokerage and financial services firm.

In this rather short timeframe, Ms. Wong-Hammond has certainly put her own stamp on the healthcare real estate practice, as the group recently wrapped up a first half of 2012 in which it closed $600 million in transactions and, for that period, surpassed its five-year revenue run rate.

Q & A

Ms. Wong-Hammond chose not to comment on the well-known shakeup that took place in the healthcare investment banking group at what was known as Morgan Keegan & Co. Inc. last fall, when several managing directors of what was once Shattuck Hammond Partners LP left to form their own healthcare investment

(See "Wong-Hammond," Page 23

Take heed of low yields for MOBs

AT THESE LEVELS, INVESTORS MUST UNDERSTAND MEDICAL REAL ESTATE RISKS

The Cain Brothers Cap Rate, an index designed to estimate the yield of high quality MOBs, is approaching its historic low, and the spread of that index is approaching its historic high.

CAPITAL MARKETS SNAPSHOT

This is indicative of the challenge that the capital markets are presenting to investors in all asset classes, not just medical office. Very low interest rates are forcing those with excess capital to invest in risk-assets, but the environment has significant risks that temper the "animal spirits" of investors. Low U.S. interest rates are a function of too much savings in places like China and the OPEC nations that lack adequate domestic investment options and, as a result, seek the relative safety of the United States, as well as Germany and some others.

These rates are also a result of massive easing by the Federal Reserve Bank. The structural problems in Europe will continue to focus excess investments in the United States, which will be a positive for our capital markets. How this ends up impacting medical real estate will be a function of how investors perceive risk in healthcare in general and medical real estate specifically. Those risks are likely to seem less severe than the other macro risks, such as the slowdown in China, the financial crisis in Europe, etc.

My view is that Treasury yields are approaching the low point but that the spreads between medical office building yields and Treasuries are likely to tighten somewhat. That being said, at these yield levels, the downside risk is greater than the upside risk, so invest wisely. ❑

Cain Brothers, July 26

Money Rates (as of 07/20/12)	
SIFMA Rate	0.16%
1-month Libor	0.25%
10-yr Treasury	1.46%
Tax-exempt AAA	1.91%
LIBOR-OIS Spread	0.31%
Cain Cap Rate Trend (2Q12)	6.25%
Baa Corp. Bond Yield (2Q12)	5.09%

Notes:

SIFMA Rate - the short-term tax-exempt bond index, formerly the Bond Market Association (BMA) Municipal Swap Index, is the benchmark for all floating rate payments in the U.S. municipal swap market, where most healthcare providers source their capitals. BMA is now part of SIFMA - Security Industry and Financial Markets Association - *Bloomberg*

1-mo Libor - average one month London Inter-Bank Offered Rate (LIBOR), the short-term borrowing cost between commercial banks - *Bloomberg*

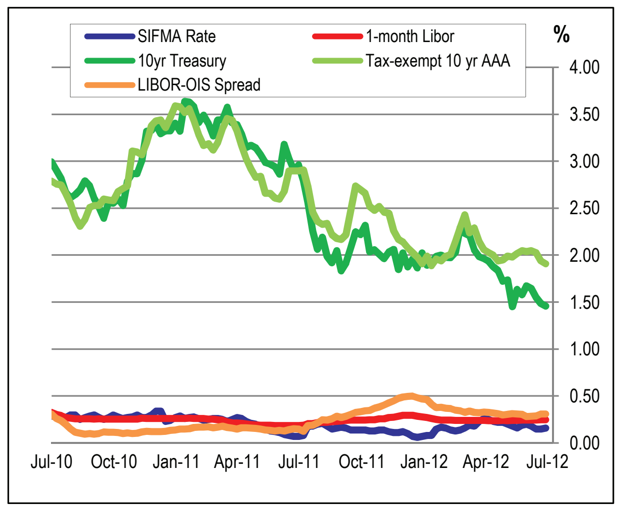
10-yr Treasury - market yield on U.S. Treasury securities at 10-year constant maturity - *Federal Reserve*

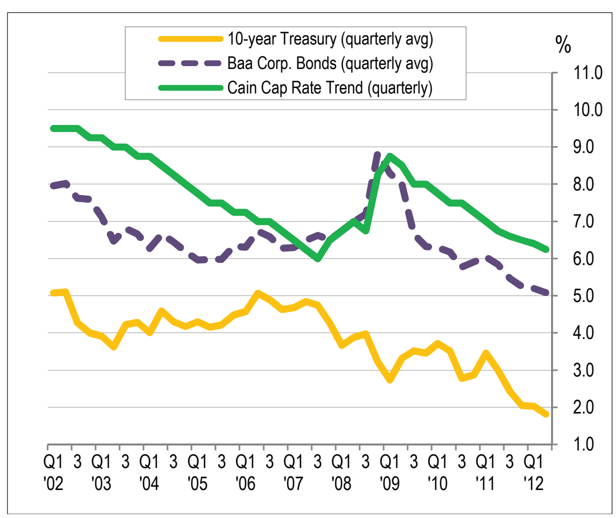
Tax-exempt AAA Rate - 10yr GBA Rate, the average option-adjusted yield for 10-yr AAA rated General Obligation Municipal Bonds - *Bloomberg*

LIBOR-OIS Spread - 3-month spread of LIBOR over US Dollar Overnight Indexed Swap (OIS) - *Bloomberg*

Cain Cap Rate Trend - Quarterly average based on Cain Brothers involved transactions - *Cain Brothers*

Baa Corp. Bond Yield - Moody's Seasoned Baa Corporate Bond Yield - *Moody's*





Source: Data provided by Cain Brothers & Co.

REIT, new to space, buys MOBs in N.C.

HIGHWOODS PROPERTIES BUYS THREE BUILDINGS IN GREENSBORO FOR $29.68M

By John Mugford

In a further indication that investor demand for healthcare real estate is coming from a variety of sources – including buyers not previously heavily involved in the space – a name that is unfamiliar in healthcare real estate circles recently landed a portfolio of three medical office buildings (MOBs) for $29.68 million in Greensboro, N.C.

TRANSACTIONS

Highwoods Properties Inc. recently acquired the three-story, 70,000 square foot Church Street Medical I in Greensboro, N.C., for $17.14 million
Photo courtesy of Duke Health

The buyer is Raleigh, N.C.-based Highwoods Properties Inc. (NYSE: HIW), a publicly traded real estate investment trust (REIT) with a portfolio that composes full or partial ownership of 338 in-service office, industrial and retail properties with a total of 34.6 million square feet of space. It also owns 581 acres of development land.

The REIT focuses much of its attention on the Southeast, as its holdings are located in Florida, Georgia, Mississippi, Missouri, North and South Carolina, Pennsylvania, Tennessee, and Virginia.

According to Highwoods officials, the company's team in Greensboro sourced the three buildings and then landed the deal in an off-market transaction.

The REIT closed on two of the MOBs, Church Street Medical II and the recently completed Church Street Medical III, in July and expects to close on the third and largest of the buildings, Church Street Medical I, later in the third quarter after obtaining lender consent to a related loan assumption.

For the three buildings, Highwoods has agreed to pay $29.68 million, or about $199 per square foot (PSF). The portfolio has about 150,000 square feet of space and Highwoods says it plans to make near-term improvements totaling about $220,000.

All three buildings are across the street from the 518-bed Moses Cone Hospital, the largest hospital in the Greensboro region. The hospital is located just a mile or so north of downtown Greensboro on a site that is surrounded by a variety of medical and research facilities.

The seller is Greensboro-based LindBrook Development Services, which develops, constructs, leases and provides other services for medical, mixed-use and general office properties.

According to Highwoods officials, the portfolio is 86.4 percent leased, with that figure increasing to 88.3 percent in September. In a news release from the company, the Church Street Medical Complex, as it was called by LindBrook, is expected to generate stabilized annual cash and GAAP (generally accepted accounting principles) net operating income (NOI) of about $2.4 million and $2.5 million, respectively. That figure excludes expensed acquisition costs of about $200,000.

The three buildings share 540 parking spaces.

Here's a look at the three buildings:

■ **Church Street Medical I:** Located at 1126 N. Church St., the 70,000 square foot, three three-floor facility is 100 percent leased. According to statistics from the New York-based commercial real estate research firm Real Capital Analytics (RCA) Inc., Highwoods has agreed to pay $17.14 million for the building, which would represent a PSF of $248. Major tenants include LeBauer Heartcare and Guilford Neurological Associates, Duke Perinatal Consultants, and the Ear Center of Greensboro. The building was completed in 2003.

(Continued on next page)

(Continued from previous page)
■ **Church Street Medical II:** With 47,523 square feet of space, the building at 1130 N. Church St. was completed in 2007. Highwoods paid $4.75 million, or $158 PSF. According to LindBrook's website, the building, as of recent months, was fully leased, with major tenants including Guilford Neurosurgical Associates and Murphy & Wainer Orthopedic Specialists.

■ **Church Street Medical III:** Construction of this 30,000 square foot building at 1132 N. Church St. was completed in the first quarter (Q1) of this year. To date, tenants include First Citizens Bank, which has drive-through teller windows; Greensboro Ear, Nose and Throat; Greensboro Center for Facial Rejuvenation; and Piedmont Retina Specialists.

The transaction includes the issuance of about 77,000 operating partnership units and the assumption of secured debt expected to be recorded at fair value of $7.9 million, with an effective interest rate of 3.5 percent. According to Highwoods, the debt matures in August 2014 and the total investment assumes that the seller will earn $1 million of contingent consideration upon stabilization.

MedProperties Holdings, HealthCap team on LTACH buy

GREATER PHOENIX – With an increasing importance being placed on the continuance of care in the current era of healthcare, more and more healthcare real estate companies are looking to diversify into a variety of facilities that should see an increase in demand.

Two Dallas-based healthcare firms, MedProperties Holdings LLC and HealthCap, recently teamed up on an acquisition of two facility types that they see an increasing need for: long-term acute care hospitals (LTACHs) MedProperties, a real estate private equity firm, and HealthCap, a private equity firm, closed on the purchase of Trillium Specialty Hospital East in Mesa and Trillium Specialty Hospital West in Sun City. The price was not disclosed for the two LTACHs.

Each facility has 48,000 square feet of space and 120 beds, including 60 semi-private LTACH beds and 60 transitional care beds. The new owners plan to renovate the buildings, converting each into an LTACH with 60 private beds and 10 transitional beds. The construction start date has not been determined.

MedProperties invested in the real estate of the LTACHs through its discretionary fund, MedProperties Capital Partners LP, in a joint venture with HealthCap. This transaction marks the sixth time in recent years that MedProperties has made equity investments in projects sponsored by HealthCap.

A separate partnership involving HealthCap acquired the LTACH operating company that leases and occupies the facilities. MedProperties does not have any ownership interest in the new operating company, which is affiliated with Atlanta-based Restora Healthcare and its owner, Rod Laughlin.

Officials with the new ownership say the LTACHs will eventually be renamed.

"This transaction has us excited for a lot of reasons," said Roman J. Kupchynsky II, managing principal with MedProperties, in a statement.

"The going-in yield is attractive, and we anticipate a good long-term real estate return. The facilities are located near hospitals operated by Banner Health, the area's leading health system, which is an excellent source of referrals. And we believe that the performance of the operating company can be significantly improved under new management, which will mean a financially stronger tenant."

The facilities were completed in 1986 as upscale skilled nursing facilities (SNFs) and extensively renovated into LTACHs in 2008. GE Capital provided the debt for the acquisition, which closed June 29.

According to HealthCap, the company capitalized Restora Healthcare to fund the acquisition of the operations of the Trillium Specialty Hospitals.

The acquisition increases the number of portfolio investments in the MedProperties Capital Partners LP fund to 10 projects and 17 individual assets, totaling more than 700,000 square feet. It also marks MedProperties' second investment in the Greater Phoenix area in 2012. MedProperties and Healthcap invested in the development of GlobalRehab at Scottsdale Healthcare, a rehabilitation hospital in Scottsdale, in February.

Health Care REIT lands MOB in Fort Wayne, Ind.

FORT WAYNE, Ind. – Toledo, Ohio-based Health Care REIT (NYSE: HCN) recently acquired what most healthcare real estate investors are looking for: a fully leased, MOB on the campus of market-leading hospital or health system.

The REIT recently closed on the purchase of the 78,745 square foot Lutheran Medical Group Building on the campus of the 396-bed Lutheran Hospital of Indiana, about six miles southwest of downtown Fort Wayne.

As its name indicates, the building is fully leased to Lutheran Medical Group, which is part of Fort Wayne-based Lutheran Health Network, a multi-hospital system in northern Indiana and northwestern Ohio and the parent of the Lutheran Hospital.

According to data from RCA Inc., the publicly traded REIT acquired the three-story building for $22.87 million, or $290 PSF.

Selling the property was First Capital Group, with Harry Kennerk and Bob Horn of Sperry Van Ness/Sycamore Commercial in Indianapolis brokering the deal for the seller. Diana Parent of Sperry Van Ness/Parke Group of Fort Wayne represented Health Care REIT in the transaction.

Velocis Fund LP picks up iconic MOB in Texas

FORT WORTH, Texas – In a transaction that closed in May, Dallas-based Velocis Fund LP acquired the Magnolia Medical Tower, a 89,727 square foot MOB in the heart of the Fort Worth Medical District.

According to data from RCA, Velocis paid $7.45 million for the property, or about $84 PSF. Officials say the company plans to invest about $1.5 million in renovations to help increase the building's occupancy, which at the time of the closing was about 67 percent. The building, completed in 1985, was formerly known as the Medical Arts Building.

Officials say the projected cash-on-cash return is 9.47 percent, with a project equity multiple of 2.13.

Velocis, which was formerly known as Valeo Fund, targets office buildings, MOBs and retail real estate assets in what it calls "demand-driven, supply-constrained markets" of the United States. Officials say it has purchased three investment properties in the past year and has additional acquisitions in the pipeline.

"Magnolia Medical Tower, along with the other three properties we've acquired, is exactly the type of attractive investment opportunity we anticipated becoming available as the U.S. real estate market recovers," said Jim Yoder, Velocis principal, in a statement. "This building's prime location offers tenants easy access to all that Fort Worth's growing medical district has to offer."

The building is located adjacent to the 525-bed Baylor All Saints Medical Center and is in an area that includes Cook Children's Medical Center, Texas Health Harris Methodist Hospital Fort Worth and Plaza Medical Center of Fort Worth, as well as a variety of other outpatient medical facilities.

Velocis' portfolio includes one other MOB, the Jefferson, a 97,552 square foot building in Austin, Texas, that the fund purchased in March 2011.

The company is led by co-founders and managing directors, Fred Hamm, Mike Lewis, Steve Lipscomb and Jim Yoder.

The firm focuses on the acquisition and management of investment properties in the $15 million to $55 million range and currently has more than $91 million worth of assets under management.

In addition to the fund, Velocis offers real estate brokerage and advisory services to investors and real estate clients.

In the Magnolia transaction, Will Northern of Fort Worth-based Northern Realty Group represented Velocis. Lincoln Harris CSG in Dallas will manage and provide leasing services for the MOB.

According to information from Velocis, the fund recently raised $39.1 million that it is looking to deploy toward the purchases of office, medical and/or retail properties, focusing on off-market transactions.

The fund is eyeing over-leveraged, core properties in well-located urban areas that could include all of the major markets in Texas; the Washington, D.C., corridor; the Carolinas; southern Florida; Atlanta; Denver; and coastal cities in California.

It is seeking to raise a total of $150 million from investors.

Zeller, Cargill buy Chicago MOB for $19.3 million

CHICAGO – In June, a joint venture of Chicago-based Zeller Realty Corp. and CarVal Investors LLC, a subsidiary of Minneapolis-based agribusiness giant Cargill Inc., acquired a defaulted loan and took control of a 132,000 square foot MOB connected to Vanguard Weiss Memorial Hospital on Chicago's North Side.

The JV purchased the MOB, located at 4700 N. Marine Drive, for $19.3 million, or $142 PSF, according to data from RCA Inc. The transfer took place about 15 months after the original lender, Wells Fargo Bank NA, filed a foreclosure suit to collect more than $27 million from the developer.

The developer, according to a report in *Crain's Chicago Business*, was a venture that included former congressional candidate Herbert Sohn.

Zeller will manage and lease the property, according to a news release announcing the change in ownership. The seller, according to RCA, was Wellness Associates LLC.

According to RCA's listing for the sale, the five-story building was completed in 2007 and was 49 percent occupied at the time of the sale.

It connects through a glass atrium to Vanguard Weiss Memorial Hospital, which is the major tenant, in the MOB. Walgreen's also occupies space in the building. ❑

Landmark developing New York MOB

DEVELOPER WILL OWN 100,000 S.F. FACILITY ALONG WITH DOCS WHO TAKE PART

By John Mugford

In a classic third-party development arrangement, Milwaukee-based Landmark Healthcare Facilities LLC is moving forward with plans to build, own and manage a medical office building (MOB) on the campus of Sound Shore Medical Center of Westchester in New Rochelle, N.Y.

OUTPATIENT PROJECTS

Landmark Healthcare Facilities plans to develop a $35 million, 100,000 square foot medical office building on the campus of Sound Shore Medical Center of Westchester in New Rochelle, N.Y.

Rendering courtesy of Landmark Healthcare Facilities LLC

The health system turned to Landmark, according to officials, to develop a new, "Class A" facility in an effort to help it retain its current physicians and attract new ones without spending its own capital on the project.

The future $35 million, 100,000 square foot MOB and parking structure project is planned for an existing parking lot, with the MOB being connected to the main hospital building.

Part of the attraction for physicians to lease space in the new facility, according to Landmark and South Shore Medical Center of Westchester (SSMC) officials, is that they will be offered ownership stakes in an entity that would own a percentage of the building.

In a local news report, Anthony Lampasona, president of Landmark, said the ownership offering would be a financial incentive for doctors to lease space in the MOB.

According to Landmark, the program provides physicians who take part with 30 percent of the cash flow from operations, 30 percent of the tax deductions that result from the real estate depreciation, and 30 percent of the proceeds that are realized from any future refinancings or a future sale.

According to Mr. Lampasona, Landmark will put up $8.2 million in cash equity for the MOB construction project. The project also calls for the construction of a hospital-owned, 530-space, $15 million to $16 million parking structure. The parking garage, according to Mr. Lampasona, should generate enough revenue to nearly match the annual debt service on the structure.

Under the development agreement, Landmark will enter a long-term ground lease for the building site and pay real estate taxes on what is now tax-exempt property. The city is planning to create a local development corporation that would issue tax-exempt bonds to finance construction of the hospital's parking facility

Landmark, which still needs to receive site plan and environmental approvals from the New Rochelle City Council, would like to start construction by December and complete the project within a year.

The future MOB, as Landmark describes it, will be a "one-stop healthcare destination for the community." In addition to housing physician offices, the facility would have about 50,000 square feet of space leased by SSMC, in which the hospital will offer diagnostic imaging services as well as a new location for its inpatient maternity labor and delivery unit and birthing center.

SSMC officials say the project is not only important for the hospital, but for local doctors as well, as the immediate area has no Class A, or even Class B, office space available. As a result, Landmark's future MOB is about 80 percent pre-leased, they say.

A new 28,000 square foot MOB opened in recent months in downtown New Rochelle, but it is occupied by Westmed Medical Group, Westchester County's second largest multi-specialty group practice.

The new MOB, according to SSMC officials, provides a benefit to their hospital because it is a source of additional referrals.

Large, $60.5 million MOB under way in Springfield, Ill.

SPRINGFIELD, Ill. – As space continues to become more and more scarce in its MOB across the street from Memorial Medical Center, Springfield Clinic can now see that relief is on its way.

That relief will come in fall 2014, when work should be complete on a new, 132,000 square feet MOB to house 65 Springfield Clinic and affiliated physicians, surgeons and mid-level providers.

Ground was broken in recent weeks for the $60.5 million, four-story building that is being constructed on four acres of the Memorial Medical Center campus. The new building, to be called Springfield Clinic 1st North, will be connected to a new 600-vehicle parking garage to be built on the north side of the building.

As noted, the new MOB will be across the street from the Springfield Clinic's first MOB near the Memorial campus. That building, known as Springfield Clinic 1st, was completed in 2006 and is home to more than 100 Springfield Clinic specialists providing orthopedics, rheumatology, neurology, neurological surgery, OB/GYN, general surgery, colon and rectal surgery, vascular surgery, urology and cardiology services.

Springfield Clinic has a total of nearly 400 doctors practicing in locations throughout central Illinois. The practice also has its own outpatient campus in Springfield, less than two miles from Memorial Medical Center.

"Our need for additional space is evident," said Randy Bryant, chief executive officer at Springfield Clinic, in a statement. "We've experienced a 67 percent increase in the number of physicians practicing at Springfield Clinic 1st, and quite frankly, we're busting at the seams."

Memorial Health System's board approved the project for its campus earlier this year. "(We're) very pleased to join with Springfield Clinic in this project to improve access to care for the people of Springfield and the central Illinois region," said Ed Curtis, president and CEO of Memorial Health System. "It aligns perfectly with our mission to improve the health of the people and communities we serve."

Springfield Clinic officials expect that Springfield Clinic 1st North will be home to about 65 physicians, surgeons and mid-level providers. The MOB will likely be home to a women's health center on the first two floors, which will be a consolidation of the clinic's two OB/GYN practices.

The building's third floor will house Springfield Clinic's general surgery and colon and rectal surgery departments; the fourth floor will accommodate the clinic's cancer care center.

The building team for the new MOB includes BSA Life Structures of St. Louis as the architect and O'Shea Healthcare Builders, a division of Springfield-based Harold O'Shea Builders, as the general contractor.

New MOB would free up space in Wisconsin hospital

FRANKLIN, Wis. – Milwaukee-based Wheaton Franciscan Healthcare was certainly anticipating solid growth at the new campus it opened in the suburb of Franklin in 2008. At that time, the health system left the entire third floor and part of the fifth unfinished in anticipation of future growth.

With that space long built out, the health system is now seeking approval from Franklin officials for a 65,000 square foot MOB that would be part of a $49 million project to expand services at the hospital campus.

According to Franciscan officials, the MOB would be constructed on a 30-acre parcel just north of the hospital. Upon completion, which is anticipated for summer 2013, physician offices currently located in the hospital would be moved into the MOB.

As a result, space would be freed up in the hospital, where Franciscan would then add 20 new inpatient beds, bringing the total to 52, relocating two gastrointestinal labs within the hospital and adding two more, building a cardiac catheterization lab on the fourth floor, adding 22 pre- and post-procedures rooms, and adding an additional CT scanner and MRI.

Wheaton Franciscan Healthcare-Franklin was an outpatient center when the campus opened in 2008, but the health system then partnered with physicians to open Midwest Orthopedic Specialty Hospital there in 2009. The ortho hospital, in which Wheaton Franciscan invested $30 million, is basically a hospital within a hospital.

More Outpatient Project News

■ Albany, N.Y.-based **Columbia Development Cos.** is moving forward with plans for a 40,000 square foot, two-story MOB in **Rensselaer Technology Park**, just outside of Albany. The MOB would house a variety of physicians and, possibly, an urgent care center. The firm says it is working a potential anchor tenant, the 200-doctor **Community Care Physicians** of nearby Latham. The building would provide the group practice with a facility in which to both expand and consolidate its physicians. According to Columbia officials, the practice is running out of space at its current locations in the four counties in the region. The technology park is owned by **Rensselaer Polytechnic Institute (RPI),** which is providing a ground lease for the new building. The development cost was not revealed. ❑

The Lorie Damon era ends at BOMA

SHE WAS INSTRUMENTAL IN GROWING THE MOB SECTOR'S LARGEST CONFERENCE

By John Mugford

In considering the history of the medical office building (MOB) sector, the year 2002 seems like an eternity ago.

PEOPLE

Even though MOBs had existed for many decades prior, it was at about that point in time when the sector's story really started to be told, commencing a new chapter in which the product caught the eye of many new and large investors.

As this transformation was taking place, Lorie Damon, a former college English teacher who had written her PhD dissertation on American women writers, was joining the staff at the Building Owners and Managers Association (BOMA) International in Washington, D.C.

Even Ms. Damon acknowledges that her grasp of the MOB sector at the time was limited at best. After all, she joined the staff to work in other areas, not necessarily healthcare real estate.

A decade later, however, many professionals in the industry agree that she is knowledgeable about all things MOB and is as well connected to the industry's key players as just about anyone.

That's because for the last decade Ms. Damon has been what some healthcare real estate professionals refer to as the face of the sector's largest annual get-together, BOMA International's Medical Office Buildings & Healthcare Facilities Conference.

Although the BOMA event has grown dramatically in attendance during the past decade, the conference did not just ride the coattails of a growing real estate sector, some industry sources contend. According to them, the conference has been a contributor to the industry's growth because it has promoted the product type and educated would-be investors and participants about its strengths and steadiness.

Prior to a decade ago, attendance at BOMA's MOB event, which was simply a part of the trade association's overall yearly conference for all commercial property types, typically numbered about 50, maybe less.

At the most recent MOB conference, however, held in May at the Hyatt Regency in Atlanta, attendance topped 700 people – a new record. In fact, the conference has become such an integral part of the industry and a not-to-be-missed event for healthcare real estate professionals, that many in the sector say to each other, "See you at BOMA."

While the 2012 event was deemed another success by those involved and in attendance, it also marked the end of the Lorie Damon-era of overseeing BOMA's MOB committee and its popular conference.

Ms. Damon ended her tenure with BOMA International earlier this summer, deciding to spend more time – for now – with her family at home in St. Louis. At some point, she says she would like to be involved in the sector in some capacity, perhaps joining a private firm that works closely with health systems.

As this year's BOMA MOB conference concluded, several committee leaders informed the crowd about Ms. Damon's pending departure, noting how much she has meant to the conference and the industry over the years. Ms. Damon received numerous hugs and well-wishes. Gordon Soderlund, a co-chair of the conference, announced into a microphone for all to hear, "We love you Lorie Damon."

Lorie Damon

In an interview after the conference, Scott Kuklish, the executive VP and managing director of medical properties for PM Realty Group and who, as a former chair of the MOB conference, worked closely with Ms. Damon, said: "Lorie really has been the glue that pulled the whole conference together each year. Ever since she came on board she was the one person most responsible for making that program as successful as it has become. Certainly there have been many talented and dedicated people who made it all work, but I think even all of them would agree that Lorie has been the face of the BOMA MOB conference."

Her decade at BOMA included quite a ride and a number of life-changing experiences. Not only was Ms. Damon part of the rapid growth that took place in the sector and became connected to scores upon scores of industry leaders, but she also met her husband, Michael Krivonak, through her job.

Mr. Krivonak was involved in the MOB conference for a number of years and is currently in Cassidy Turley's St. Louis office, where he manages a portfolio of properties.

Since her departure from BOMA, the couple's five-year-old son has been keeping Ms. Damon plenty busy, as she says, "He has a 'to do' list for me: the playground, bike riding, practice pitching, swim lessons, the library … and on and on."

Break-through year

As noted earlier, the year 2002 really was the start of bigger things to come for the MOB sector and BOMA's healthcare facilities conference.

Just a few months into her new job as the director of education for BOMA, Ms. Damon found herself working at the trade association's annual conference for all property types, known as BOMA International's Every Building Conference & Expo. It was held that year at the Conrad Hilton in Chicago.

As had been the case for decades, a portion of the conference – perhaps a number of panel sessions – was dedicated to discussing MOBs and healthcare facilities.

Even though a larger-than-usual crowd was expected, no one could have foreseen how big.

Ms. Damon attended the conference, but, for the most part, was not involved in the MOB sessions, nor the sector. In her first few months on the job, she found herself focusing a lot of attention on building security and preparedness in the aftermath of the 9/11 attacks.

"I think that year represented a perfect storm for healthcare real estate," she says. "There was an increasing awareness of the Stark Laws, and hospitals and health systems were wanting to avoid complications with those laws. There were also starting to see the advantages of having third-party firms purchase, develop and manage MOBs for them. Also, investors, including large institutions, were starting to recognize the strengths of MOB as an investment property type."

"For that year's conference in particular, there were some dedicated MOB committee members who were aware of these changes and who made a strong push to grow attendance."

Included in that effort were Mark Johnson, who was with Lillibridge at the time and is now with Lend Lease, and Mr. Kuklish of PM Realty. Mr. Johnson brought in panelists and speakers who were well-known within the sector, such as Todd Lillibridge – whose namesake firm was at the forefront of acquiring, developing and owning MOBs for health systems.

Mr. Johnson also helped to arrange building tours and to market the MOB sessions to a wider audience.

Prior to the start of that MOB conference in 2002, about 80 people were expected, Mr. Johnson recalls.

Close to 140 people showed up.

"Pretty unexpectedly, we had all of these people wanting to attend the MOB sessions," Ms. Damon recalls. "In fact, we were running out of seats, and I remember having to call someone with the hotel to get more chairs delivered to accommodate all of the people who showed up."

After the conclusion of that year's conference, BOMA's executive leaders saw the writing on the wall concerning the sector's coming growth. They promptly gave Ms. Damon the task of working with and overseeing the MOB committee, which was in charge of putting on the booming annual conference.

In recent years while on the job at BOMA, Ms. Damon has spent about half of her time working in the MOB sector, updating, editing and creating various publications and educational materials, and, of course, coordinating committee members and acting as the staff person overseeing the annual conference.

Planning for the event is no small task, as it starts each year almost immediately after the previous conference is concluded. BOMA's MOB committee members hold highly detailed monthly conference calls, brainstorming ideas throughout the year before deciding on a final list of more than 20 panel sessions.

Rapid, ongoing growth

As the sector continued to grow and attendance at the healthcare conference followed suit, BOMA decided, by 2009, to make the MOB conference its own, standalone event – separate from the bigger, all-encompassing Every Building Conference & Expo.

"Big" BOMA, as the all-encompassing convention is often called, typically takes place in the summer, whereas the separate MOB conference is usually scheduled for May. (Next year's MOB conference is scheduled for May 1-3 in San Francisco.)

Mr. Kuklish credits Ms. Damon with transforming the end goal of the BOMA MOB conference and the audience it was trying to reach.

For many years, he notes, BOMA geared the conference toward its members, perhaps hoping to grow the membership base incrementally by reaching a wider audience of healthcare professionals who would then join the trade association.

In recent years, however, the goal has been to attract sector professionals in a

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variety of disciplines, be they BOMA members or not, Mr. Kuklish says.

The targeted list of attendees includes investment bankers, health system executives, brokers and real estate professionals involved in all aspects of the business. In order to attract such people, BOMA's MOB committee looks to provide the latest educational information and trends for almost everyone involved in the industry.

"Many of those people did not have a relationship with BOMA prior to this effort to grow the MOB conference and maybe they won't after attending the conference," Mr. Kulish says.

"The thing is, there really was no organization serving the entire MOB community before Lorie joined the staff. We knew something had to be done to change that. So not only did we look at becoming an organization that people in the industry could turn to for the knowledge and expertise they needed, but we decided to make the conference an event where everyone and anyone involved in the sector could network and connect as well."

Ms. Damon notes, "Like I always say, even if we didn't have any panel sessions, with the type and the number of industry professionals that we attract, the conference would be a success just because of the great networking and deals that take place."

Mr. Johnson reiterated the notion that Ms. Damon transformed herself from someone unfamiliar with the MOB sector into a professional teeming with knowledge about the industry.

"She understood the process of putting together and organizing a conference, which is a profession unto itself," He notes. "But along the way she really learned plenty about the MOB sector itself, at times informing and educating committee members about trends and issues that she was seeing as a result of all of her research and contacts."

Ms. Damon also should receive credit for getting more women involved in the conference, he notes, and for convincing plenty of health system executives to take part.

"Having the number and quality of healthcare executives that BOMA has is really what sets it apart from the other conferences," he adds.

In setting the agenda for each year's event, MOB committee members make sure the panel sessions cover the latest trends that affect end users, developer/owners, architects, property managers, and other service providers.

"For the most recent conference, we had 40 good ideas that eventually got whittled down to 22 sessions," Ms. Damon says.

"And when we finally come up with that list, it's almost as if the work is just beginning, as so much planning needs to take place after that, such as lining up panelists and moderators, and tweaking the topic and the questions for the panelists and the discussions."

While many give Ms. Damon credit for all that she's done to organize the conference over the years, she gives that praise right back to the committee members and co-chairs.

"I just can't emphasize enough about how much the committee members, all of whom are volunteers, put into the planning for the conference," Ms. Damon says.

"Our monthly conference calls often have 50 or 60 people taking part – they're both a lot of fun and extremely informative and topical. Anyone who has been involved in the calls won't miss them for the world, unless they absolutely cannot make it."

At some point in the future, Ms. Damon says she hopes to become involved once again in healthcare real estate, perhaps tapping into the large network of contacts she's made.

"As a result of working at BOMA and all of the great people I've met, I really have developed a passion for healthcare real estate," Ms. Damon says.

"I'm always amazed at how the people in this industry have forged such a strong relationship with the healthcare systems, and how the people in the industry have been so willing and able to adapt to the changes that have taken place in healthcare itself. They provide such a valuable service. And, I do value the fact that healthcare facilities have a main purpose of helping people. It's a good and honorable business to be in."

Meanwhile, at BOMA International, Patricia M. Areno, the senior VP, says that Ms. Damon will indeed be missed.

"Lorie Damon was a valuable member of the executive staff team at BOMA International for 10 years and developed and built several successful programs that will live on for decades," Ms. Areno says.

"The BOMA Medical Office Buildings and Health Care Facilities Conference, which Lorie helped develop into the premier event for healthcare real estate executives, will now be managed by a team of seasoned staff professionals and a strong, active advisory committee who worked side-by-side with Lorie over the years to build this impressive program."

That team includes: Amy Chisholm, the former director of meetings, who has taken over Ms. Damon's role of heading up the MOB conference and committee; and Kristin Bowling, the director of education, who will assist Ms. Chisholm with the management of the conference, as she did for Ms. Damon. ❑

Twin Cities: the future of healthcare?

‘NEW’ CARE MODELS ARE FAMILIAR TO MINNEAPOLIS-ST.PAUL REAL ESTATE PROS

By Murray W. Wolf

The $17 million, four-story, 158,000 square foot Two Twelve Medical Center in the southwest Minneapolis suburb of Chaska, the largest medical office building to open last year in the Twin Cities metro area, is already fully leased.
Photo courtesy of Mount Development Co.

If you want to get a feel for the future of healthcare and healthcare real estate, you might want to take a look at Minnesota.

MARKET FOCUS

Hot topics on the national healthcare scene – increased regulatory control, hospital-physician integration, employed physicians and the need for different delivery models – are yesterday’s news in the state.

New and expanded hospital construction has been under state control for more than four decades. And Minnesota’s three largest healthcare providers – Mayo Clinic, HealthPartners Inc. and Allina Health, as well some other established systems and even relative newcomers like Sanford Health – all implemented integrated care models long before recent industry changes made that a trendy strategy.

That long history of regulation, integrated care and employed physicians has had a profound impact on healthcare real estate in Minnesota, particularly, local experts say, in the Minneapolis-St. Paul metropolitan area, aka the Twin Cities.

In the past, that put a damper on third-party development, financing and ownership of medical office buildings (MOBs) and other outpatient facilities.

Today, however, increased competition and an even sharper focus on integration and cost cutting might be starting to have the opposite effect. Anecdotally, the Twin Cities metro area appears to be experiencing the largest wave of newly opened, under-construction and proposed medical office space since at least 2000.

At least three dozen MOB and clinic construction or expansion projects have been completed or are in the works. A similar number of projects to redevelop or repurpose vacant retail sites and facilities for medical use have also been completed, are under way or are in the planning stage. Although most of the new developments are said to be in the “preliminary stages” – waiting to meet pre-leasing thresholds, secure financing or both – it’s a level of activity the Twin Cities market hasn’t seen in many years.

(For details on some of those projects, please see “Selected Twin Cities med real estate projects” on Page 12.)

No new hospitals

When it comes to regulation, the construction of new hospitals or expansion of bed capacity of existing hospitals in Minnesota has been subject to state approval for more than 40 years. A certificate of need (CON) law was enacted in 1971, then was supplanted in 1984 by a “temporary” hospital moratorium – made “permanent” in 1987 – that prohibits construction without specific authorization from the state legislature.

Predictably, the CON law and moratorium have discouraged Minnesota hospital development. The state remained largely on the sidelines during the early 2000s, while much of the nation experienced the largest expansion and replacement of U.S. hospitals since the post-World War II era.

When the $138 million Maple Grove Hospital opened in the northwest Minneapolis suburbs in late December 2009, it was the first new, non-replacement, general acute care hospital with new beds built in Minnesota in more than two decades – and the approval of that hotly contested project took special approval from the state legislature.

Today, there are a handful of hospital

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expansion projects in the works in the Twin Cities area, including the $20 million build-out of shell space at Maple Grove, which will boost capacity to 130 beds from 90. But most observers say they don't anticipate a wave of additional beds anytime soon.

In fact, when Allina Health recently changed its name from Allina Hospitals & Clinics, the CEO noted that the rebranding was a reflection of the system's goal to "never" build another hospital.

Other influential providers are also skeptical about the need for more inpatient beds.

"Right now, significant expansion of hospital beds … may not be responsible," Dr. Robert E. Nesse, CEO of Mayo Clinic Health System, said during a spring healthcare real estate gathering in Minneapolis. Appearing at the Urban Land Institute (ULI) conference "Vital Signs: Health Care Real Estate Opportunities and Challenges in Minnesota, " Dr. Nesse said that rather than building new $300 million to $500 million bed towers, Mayo's focus will be on "national growth" and "further integration."

Selected Twin Cities med real estate projects

Proposed or under construction

■ **University of Minnesota (U of M) Ambulatory Care Center (ACC), Minneapolis.** On July 10, the U of M released an architectural and engineering design services request for proposals (RFP) for a $182.5 million, four-story, 305,000 square foot academic ACC on university-owned land four blocks east of **U of M Medical Center, Fairview**. The new ACC would provide new space for clinics in the outdated **Phillips Wangensteen Building** and expansion space for additional clinics. The university, the **U of M Physicians** (UMP) group and Minneapolis-based **Fairview Health Services** have formed a partnership in which the U of M will design, construct and own the ACC, and UMP and Fairview will co-manage the clinics. The RFP states that construction must begin by Dec. 31 of next year and the ACC must open no later than Jan. 1, 2016.

■ **New Mercy Hospital MOB, Coon Rapids. Allina Health**'s Mercy Hospital announced July 2 that it plans to add a $22 million, four-story, 120,000 square foot MOB across the street from the hospital and connected via a skyway. It will house the **Virginia Piper Cancer Institute - Mercy Hospital**, specialty care, outpatient surgery services and obstetrics/ women's care. The plan is to break ground in October and open the doors to patients by November 2013. Minneapolis-based **Frauenshuh HealthCare Real Estate Solutions** has been retained to develop the facility. Frauenshuh was also reportedly selected to develop a possible 120,000 square foot to 160,000 square foot expansion the **Fairview Ridges Hospital** campus in Burnsville.

■ **Mercy Health Care Center renovation, Coon Rapids.** In addition to Allina's project with Frauenshuh, work started this spring on a $3.5 million to $4 million renovation of this older 96,310 square foot MOB at **3960 Coon Rapids Blvd.** The project, which is scheduled to be completed by October, is intended to enhance and update the space, which is currently plagued by a vacancy rate of more than 27 percent. The project team includes architect **Edward Farr Architects Inc.** and **RJM Construction**, with **Cushman & Wakefield | NorthMarq** handling leasing. The MOB is owned by **Mercy Medical Office LLC**.

■ **Coon Rapids Medical/Professional Building, Coon Rapids.** Plans for an MOB at **3815 Coon Rapids Blvd.** have been in the works since at least 2008. Now RJM Construction is hoping to move forward with development of a 31,500 square foot facility at the site. **North Suburban Eye** has reportedly signed on for about two-third of the building; the remaining space is speculative. The facility could open by the third quarter of 2013 if plans move ahead.

■ **Vadnais Medical Center, Vadnais Heights. The Davis Group**, a Minneapolis-based real estate brokerage and consulting firm specializing in healthcare facilities, plans to break ground in August for this two-story, 61,000 square foot MOB on about 5 acres at County Road E & Labore Road in this east metro community. The **Vadnais Heights City Council** approved the project in late July. Allina has leased about 23,000 square feet on the first floor of the main building and The Davis Group says it is negotiating with several prospects to lease the upstairs space. Minnetonka-based **Emergency Physicians Professional Association** (EPPA) has leased a 15,000 square foot wing of the building for an urgent care facility. Plans are to have the MOB open by June 2013.

■ **Edina Medical Plaza, Edina.** Plans for a sizable MOB in the western Minneapolis suburbs suffered a setback in July 17 when the **Edina City Council** voted 3-2 to deny amending the city's comprehensive plan to allow this proposed six-story, 81-foot-tall MOB to be developed at **6500 France Ave. S.** The comp plan limits buildings at that site to four stories or 48 feet. The proposal from Eden Prairie-based **Mount Development Co.** and Edina-based **Aurora Investments** would add to the medical cluster around **Fairview Southdale Hospital**.

Integrated culture

Minnesota's culture of integrated care models and employed physicians has had a major impact on its healthcare real estate sector, especially when it comes to developing and utilizing MOBs and other types of outpatient facilities.

According to the Bloomington-based brokerage firm Cushman & Wakefield | NorthMarq, the Twin Cities multi-tenant MOB market consists of 104 buildings totaling nearly 6 million square feet. The MOB vacancy rate declined to 10.1 percent from 11.4 percent during the past six months, according to its July issue of *The Compass* report on local market conditions. That means 607,096 square feet of MOB space was vacant.

The Twin Cities area MOB market "continues to perform well," according to the report. "Some pockets of leasing activity – in both off-campus and on-campus properties – and limited new development have left the market in good shape, and its prognosis remains stable. Demand for medical space will be influenced by a confluence of healthcare trends, including the growing needs of aging baby boomers and the outcome of healthcare reform.

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■ **Hospital expansions, Maple Grove and St. Paul. Maple Grove Hospital** – the Twins Cities newest hospital, which opened in 2009 as a joint venture of Robbinsdale-based **North Memorial Health Care** and Fairview Health Services – started construction in December for a $20 million expansion that will increase its capacity to 130 inpatient beds from the current 90. That will be accomplished primarily by building out existing shell space, along with the conversion of some other spaces. And St. Paul's **Regions Hospital** is working on a $9.5 million project to add 36 private rooms to the 11th floor of its south tower as part of a multi-year, $179 million expansion program that began in 2009. The project, which will outfit space for inpatient surgery, was reportedly undertaken two years ahead of schedule and is slated to be completed by December.

■ **Regions Hospital mental health facility, St. Paul.** Regions Hospital also began construction in late June for a $36 million, eight-story, 115,000 square foot mental health facility on its St. Paul campus. Regions has long been the largest provider of mental health services in the east metro, and the new freestanding, 100-bed facility is viewed as a way to meet rising demand, upgrade facilities and defend the hospital's dominant market position. Regions' current 96-bed facility is housed in four upper floors of its original, 47-year-old building in space that was designed for other uses. Hospital officials say the project will provide an up-to-date, purpose-built facility with about double the space and all private rooms, and it will be the first new adult psychiatric care facility to be built in the east metro in about 20 years.

■ **Mercy Health Care Center renovation, Coon Rapids.** St. Louis Park, Minn.-based **RJM Construction** recently began renovations on a 100,000 square foot MOB on the campus of Minneapolis-based Allina's **Mercy Hospital** in Coon Rapids. The Mercy Health Care Center outpatient facility houses 10 medical groups that offer a variety of services such as women's health, kidney dialysis and oncology. The renovations are expected to be complete in October on the MOB owned by **Mercy Medical Office LLC**. The renovation is geared toward providing an enhanced and updated clinic experience for patients and physicians, according to RJM officials. A local firm, **Edward Farr Architects Inc.,** is the architect on the project. Minneapolis-based **Cushman & Wakefield/NorthMarq** provides leasing services for the building, whose tenants include Allina, **DaVita** and **Physician Reliance Network**.

■ **East Side Family Clinic, St. Paul.** This $10 million, 34,000 square foot health clinic is being developed on 2.6 acres of former **3M Corp.** industrial land in the **St. Paul Port Authority**'s **Beacon Bluff Business Center**. It will be located at **895 E. 7th St.**, at the northeast corner of East 7th and Mendota streets. The clinic is being developed by non-profit **West Side Community Health Services**, which operates 17 health and dental clinics of various sizes serving low-income patients in Ramsey County. A late summer groundbreaking is anticipated, with an opening slated for spring 2013.

■ **WestHealth new freestanding emergency department (FED), Plymouth.** A new, 18,000 square foot FED is under construction at Allina's WestHealth campus in the northwest Minneapolis suburb of Plymouth. The facility, which is slated to open by the end of this year, is to be staffed 24/7 by physicians from **Abbott Northwestern Hospital** in Minneapolis.

■ **The Urgency Room, Eagan.** The success of its first freestanding emergency department (FED) in Woodbury has prompted EPPA to develop a second suburban St. Paul facility, this time in Eagan. The **Eagan City Council** in May approved plans for a 12,565 square foot walk-in clinic on 1.5 acres at **3010 Denmark Ave.** The site was once earmarked for a restaurant, but that project never materialized. The Urgency Room is being developed for EPPA by **EP Development** on a lot next to a **Microtel** motel along Lone Oak Road, just east of Interstate 35E. The facility is scheduled to open in October.

■ **VA Outpatient Clinic, Maplewood.** Last November, St. Paul-based **MSP Commercial** was selected to develop a new $5.5 million **U.S. Dept. of Veterans Affairs** (VA) community-based outpatient clinic in this east St. Paul suburb. The VA has a 10-year lease for 14,000 square feet in the one-story, 22,000 square foot building. MSP plans to lease the remaining 8,000 square feet to other tenants. Construction began this spring and the VA plans to relocate its current Maplewood clinic into the new space in November.

Recently completed Twin Cities area projects, sales and leases

■ **Amplatz Children's Hospital, Minneapolis.** This $175 million, seven-story, 227,000 square foot replacement hospital opened in April 2011. It is part of Fairview's Riverside campus and replaces the previous "hospital-within-a-hospital" configuration. The new children's hospital has 96 single-occupancy rooms, a pediatric intensive-care unit and a pediatric emergency room. The primary addition was designed by **Tsoi/Kobus & Associates** and **HGA Engineers**. In addition, **HGA Architects** designed a 30,000 square foot two-story addition that includes operating rooms and the emergency department, plus another 40,000 square feet of renovated space. **Kraus-Anderson** was the construction manager.

■ **Two Twelve Medical Center, Chaska.** By all accounts, the largest new MOB to open in the Twin Cities area in 2011 has also been one of the biggest successes. Waconia-based **Ridgeview Medical Center** teamed with **Aurora Investments** of Edina and **Mount Development Co.** of Eden Prairie to finance, build and manage the $17 million, four-story, 158,000 square foot Two Twelve Medical Center, which opened in February, is now 100 percent. Home to the state's first freestanding emergency department (FED), the building is located at **111 Hundertmark Rd.** in this far southwest Minneapolis suburb. The 15-acre site includes room for a parking deck and possible future expansion, but nothing has been announced.

■ **Northwest Metro U.S. Dept. of Veterans Affairs (VA) Outpatient Clinic, Ramsey.** A new, $9.95 million community-based outpatient clinic at **7545 Veterans Dr. N.W.** opened its doors Nov. 15. The clinic provides a wide range of services including primary care, mental health care, dental care, eye care and audiology. The VA has 20,000 square feet in the 40,000 square foot building from **PSD LLC** of Ramsey. It is a five-year lease with options to extend up to 20 years.

■ **Crystal Medical Center, Crystal.** The largest Twin Cities-area MOB to open so far this year is this $11.2 million, 44,800 square foot facility in northwest suburban Minneapolis. Opened in February, it is located at **5700 Bottineau Blvd.**, at the intersection of County Road 81 and Bass Lake Road. The building was developed by The Davis Group, is owned by **Crystal Medical Building LLC** and is anchored by **Northwest Family Physicians**. The architect and interior designer was **BDH & Young**, the general contractor was **Timco Construction** and financing was provided by **Wells Fargo & Co.**

■ **Savage Medical Building, Savage.** Another Davis Group project, this two-story, 33,778 square foot MOB opened last summer and is about 90 percent leased. Located southwest of the intersection of County Roads 42 and 27 in this south Minneapolis suburb, the facility is home to physicians associated with **St. Francis Regional Medical Center**, **Allina Health**'s **Quello Clinic** and **Twin City Orthopedics**, among others. BDH & Young was the architect was Timco was the general contractor.

■ **Fairview Medical Clinic, Savage.** This $2.2 million, 11,263 square foot MOB in south suburban Minneapolis opened in March. It is located at **5725 Loftus Lane**. **McRoberts Real Estate** of St. Paul was the developer, Fairview Health Services is the owner and **Fairview Medical Clinic** is the tenant. The architect and interior designer was BDH & Young and the general contractor was **Carlson-LaVine Inc.**

■ **HealthEast Stillwater Clinic, Stillwater.** This $2.6 million, 15,480 square foot facility in east suburban St. Paul was completed in October. It is located at **2900 Curve Crest Blvd.** in Stillwater. The owner and developer of property is **Airlake Development Inc.** of Maplewood, and the tenant is **HealthEast Care System**. **Cushman & Wakefield/NorthMarq** was the broker for the owner. The architect and interior designer was **Mohagen/Hansen Architectural Group**, the general contractor was **Dew Construction Corp.** and financing was provided by **Premier Bank**.

■ **4166 Lexington Ave. N. No. 2, Shoreview.** Healthcare real estate sales transactions have been few and far between in the Twin Cities metro area during the past couple of years, but there was at lease on sizable deal last year. **SNH Medical Office Properties Trust** of Newton, Mass., bought the one-story, 49,809 square foot **Shoreview Business Campus No. 2** at **4166 Lexington Ave. N.** for a reported $7.4 million. The facility is fully leased to Allina. The seller was **RREEF America REIT II Corp. VVV** of New York City. The deal closed May 20 of last year.

■ **PrairieCare lease, Edina.** PrairieCare, a psychiatric and behavioral health services provider, last fall signed a 10-year, 23,500 square foot lease in the 70,934 square foot **Physicians Building** at **6363 France Ave. S.** on the campus of Fairview Southdale Hospital. The building is owned by Minot, N.D.-based **Investors Real Estate Trust** (Nasdaq: IRET). The lease completed the re-leasing of the MOB, bringing it back to full percent occupancy this year after Twin Cities Orthopedics moved to a new facility in 2010. **Jill Rasmussen**, principal at The Davis Group, represented PrairieCare in its move. **Pope Architects** is designing the new space. No general contractor has been announced for the $1 million to $1.5 million build-out.

■ **HealthEast lease, Maplewood.** HealthEast recently leased nearly 11,000 square feet in MSP Commercial's 45,000 square foot **Kennard Professional Building** at **3100 Kennard St.**, bringing the MOB to 100 percent occupancy. ❑

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However, how health systems and independent clinics alike prioritize the deployment of capital will impact real estate requirements."

Healthcare Real Estate Insights™ is national in scope but happens to be based in the Minneapolis suburbs. So we have always found it ironic that our hometown MOB market seems to be well below average in terms of both new development activity and sales velocity.

One reason for this, local experts say, could be that the integrated model favored by so many Minnesota providers prompts them to favor owning their MOBs and outpatient facilities. Similarly, with a higher percentage of employed doctors than most markets there tend to be fewer opportunities for third-party real estate developers and owners to lease space to independent physician-tenants.

"The providers in Minnesota and the Upper Midwest have consistently been the highest-quality, lowest-cost providers in the country, and part of that is because of the history of integration that's been here," Ruth Krystopolski, executive VP development and research, Sanford Health, commented during the recent ULI conference in Minneapolis.

While Sanford, which is based in North and South Dakota, does not yet have a presence in the Twin Cities, the system has been making plenty of inroads into Minnesota in recent years – and approaching the Twin Cities.

"Sanford's been on this path for 20 years," she said. "We have 1,100 physicians that are integrated into our organization."

Distributing infrastructure expenses and other costs over that many physicians significantly reduces the cost per physician, she pointed out.

Although Sanford might be unfamiliar to readers from beyond the Upper Midwest, the name of one of the area's other major players is sure to ring a bell: Mayo Clinic.

Along with the Cleveland Clinic and a handful of other systems, Rochester, Minn.-based Mayo is often cited as a leader and a role model for physicians interested in establishing practices that are fully integrated with hospitals.

With a history dating back to 1864, Mayo can probably be credited with inventing the concept of a multi-physician, integrated group practice. Today it bills itself as "the first and largest integrated, not-for-profit medical group practice in the world."

Large indeed. Mayo Clinic employs 3,800 physicians and researchers who "work together to care for patients, joined by common systems and a philosophy that the needs of the patient come first."

The system recorded $8.5 billion in annual revenues in 2011, making it more than twice the size of Minnesota's next largest system, HealthPartners. Mayo cares for more than 1 million people annually and has more than 58,000 employees at campuses in Rochester; Jacksonville, Fla.; and in Phoenix and Scottsdale, Ariz.

It also formed the Mayo Clinic Health System in 1992 and has been acquiring and affiliating with hospitals and physician practices ever since; the system now has locations in more than 70 communities in the Upper Midwest and is one of the nation's largest employed physician groups.

With 2011 revenues of nearly $3.9 million, HealthPartners also happens to be the state's third largest healthcare insurer, which creates an inherent focus on physician integration.

In addition to its health plan with more than 1.4 million members, the Bloomington, Minn.-based organization operates four hospitals and employs 780 physicians and 60 dentists through its medical group, which includes 70 medical and dental clinics. It also operates 17 pharmacies.

The state's third largest healthcare provider, Allina Health, is another big acquirer and employer of physician groups. It had 2011 revenues of $3.2 billion. It operates 11 hospitals; 42 Allina Medical Clinics; 12 Aspen Medical Group clinics; five Quello Clinics; more than 40 other clinics and specialty care centers; 15 pharmacies; and three ambulatory care centers in the Minneapolis suburbs of Edina, Elk River and Plymouth. It has about 5,000 associated and employed physicians.

Other major players in the Twin Cities metro area include Fairview Health Services, Park Nicollet Health Services, HealthEast Care System, North Memorial Health Care and Hennepin County Medical Center.

Sanford steps in

Although most of Minnesota's largest health systems have had a penchant for owning their own outpatient real estate, that could be changing. Even in a state that has long been dominated by integrated health systems with employed physicians, there is a heightened emphasis on integration, cost-cutting and ambulatory strategies. That could motivate system executives to reexamine their real estate strategies.

Another big driver of change might be new competition.

When South Dakota credit card mogul T. Denny Sanford pledged $16 million toward a new children's hospital at Sioux Valley Hospital in Sioux Falls, S.D., in 2004, few probably foresaw the creation of a new healthcare powerhouse in the Upper Midwest.

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But, in 2007, Mr. Sanford upped the ante with staggering pledge of $400 million – said to be the largest single gift ever given to a healthcare organization. The system – renamed Sanford Health for obvious reasons – embarked on an unprecedented expansion across the Midwest, including Minnesota. Mr. Sanford added another $100 million gift in 2010, and the Sanford footprint has continued to spread rapidly through acquisitions, affiliations and new construction.

Today, Sanford says it is "the largest, not-for-profit rural health system in the nation" based on gross revenues, patient beds and number of full-time employees.

It's difficult to keep the facts up to date because the system is growing so fast – even Sanford's website contains conflicting data – but it is safe to say that the system owns and operates two major medical centers, Sanford USD Medical Center in Sioux Falls and Sanford Medical Center in Fargo, N.D.; owns about 20 other hospitals and operates about 10 more; and runs more than 100 clinics and 31 long-term care facilities serving some 110 communities in six states, including Minnesota, North and South Dakota, Iowa, Nebraska, and Oklahoma.

The system reports that it has more than 20,000 employees, including 1,100 physicians, as noted above.

Sanford is in the midst of a five-year, $1 billion system-wide expansion plan. Among the current projects are Sanford Fargo Medical Center, which the system says is "the largest private-industry construction project in the history of the Dakotas."

Phase one of the $541 million, 1.2 million square foot facility is scheduled to open in 2016 and phase two in 2018, according to Sanford. The system is also in the midst of $60 million project at Sanford Thief River Falls (Minn.) Medical Center, among other several smaller projects across the Midwest. Sanford has also grown through an aggressive program of acquisitions and affiliations. Most recently, on July 2, Sanford and Bismarck, N.D.-based Medcenter One completed a merger to create the newly renamed Sanford Medical Center Bismarck.

The integration of the two systems will take place during the next year, according to Sanford, and the system plans to spend $200 million in North Dakota during the next 10 years, including building a major new clinic in Dickinson, situated squarely amid the state's booming oil production region.

Sanford has also been buying up physician practices. In December, for example, it closed a deal to buy Broadway Medical Center – a multi-specialty practice with more than 100 employees, including 25 physicians – in Alexandria, about 130 miles northwest of the Twin Cities.

Clash of the titans?

As noted, Sanford has yet to make any forays into the Twin Cities, and Ms. Krystopolski did not comment on the system's plans during the ULI conference in Minneapolis. The recent acquisition in Alexandria, located about 100 miles northwest of the Twin Cities outer suburbs, is the closest the system has come to the metro area.

But with operating revenues of about $2.3 billion for the fiscal year that ended June 30, 2011 (the most recent year for which data is available) and growing fast, Sanford is definitely on the radar screens of other Minnesota providers.

The system is already building its brand here; it has advertised in the Twin Cities market, both on television and with a controversial 2,800 square foot sign (since removed) that loomed over the newly opened Target Field baseball stadium in 2010 and 2011.

Mayo, which continues to expand northwest from its headquarters in Rochester, is watching Sanford especially closely.

"We care very deeply about Sanford," Mayo's Dr. Nesse noted during the ULI conference. When people are deciding between seeking care in Rochester or Fargo, he said, Mayo wants to make sure they choose Rochester.

In fact, Mayo has ambitious expansion plans of its own, Dr. Nesse said. When people think of Mayo Clinic, "they think of our destination center" in Rochester, he acknowledged. "But our goal is, 10 years from now when you talk about Mayo Clinic, you aren't going to think of a place. You're going to think of a nationwide system. And we're hoping even more specifically that 10 years from now you'll be thinking about Mayo Clinic in the Midwest, versus Mayo Clinic Rochester and Mayo Clinic Health System."

Changes in the healthcare industry could lead to "significant growth opportunities," Dr. Nesse added. Mayo currently reaches about 20 million patients each year, including online interactions, but it wants to take that to 200 million patients in the next 10 years. Dr. Nesse said such a large system would be too much for one organization to own.

"However, affiliation is a very interesting alternative," he said. With new technologies, it is viable for Mayo specialists to provide remote support to affiliated providers nationwide, with only the sickest patients actually sent to Rochester or another Mayo location for tertiary or quaternary care (more advanced, higher levels of specialized care).

By end of 2013, Dr. Nesse says, Mayo expects to have 25 or 30 affiliates around the United States that would work with Mayo to provide coordinated care for patients with complex healthcare needs.

It is safe to assume that other Minnesota providers, including those in the Twin Cities, are also keeping a watchful eye on Sanford, Mayo and other well-capitalized, growth-oriented competitors.

Mayo is already said to be considering a major expansion into the metro market. (Please see "Retail sites sizzling in the Twin Cities" on Page 18.) And some local sources say it is only a matter of time before Sanford also expands into the Twin Cities area via affiliations, mergers or acquisitions, with physician groups and smaller, less creditworthy hospitals and systems the most likely targets.

What's the prognosis?

As noted previously, Minnesota's penchant for integrated healthcare delivery and employed physicians appears to have limited opportunities for third-party real estate development, financing and ownership in the Twin Cities metro area during recent years.

However, as also noted previously, a flurry of MOB projects is shaking up the status quo. The reasons probably include an intensified focus on ambulatory strategies and growing competition, which could stoke even more activity in the future.

Which systems present the greatest opportunities for healthcare real estate developers in Minnesota?

Fast-growing Sanford owns all of its on-campus MOBs, Ms. Krystopolski said during the recent ULI event. In fact, during the past 15 years, Sanford bought back all the on-campus MOBs it did not own in order to exercise greater control over those assets. But the system is much more willing to work with third-party developers and owners when it locating and providing services in off-campus facilities.

On the other hand, in some cases, Sanford can currently borrow money at interest rates of less than 1 percent, making it difficult for an outside investor to compete. But even Sanford's financial strength has limits, local sources contend. So if the system continues to grow at such a rapid clip, even Sanford might become more open to third-party capital for development and ownership.

Mayo "overwhelmingly" owns its properties because the tax implications make ownership more advantageous than leasing, Dr. Nesse told the ULI audience. But he said the system is looking at potential partnerships as it pursues its own ambitious expansion strategy.

Andrea Walsh, executive VP & chief marketing officer of HealthPartners, told the ULI group that her system is open to leasing as well as owning. Several other large health systems in the Twin Cities area, including Allina, Fairview and others, have also recently demonstrated a willingness to lease space in build-to-suit or repurposed facilities.

At the same time, Twin Cities area healthcare real estate developers say it has become easier to get financing today than just a couple of years ago – if, of course, you have well-located, significantly pre-leased project.

Mark A. Davis, a principal with The Davis Group, a Minneapolis-based real estate brokerage and consulting firm specializing in healthcare facilities, said leasing and site assembly – not capital – are the biggest challenges today.

During a panel discussion at the *Minnesota Real Estate Journal (MREJ)* "Healthcare and Medical Properties Conference" in the Minneapolis suburb of Golden Valley earlier this year, Mr. Davis told attendees that local cities welcome healthcare projects because there are so few other types of commercial real estate being developed. Even so, he said, a healthcare development can take 2-1/2 years from start to finish because of the time required for leasing, site assembly and city approvals.

Most of MOB proposals now in the pipeline are considered "preliminary," according to the recent Cushman & Wakefield | NorthMarq *The Compass* report.

"In fact, some 30 buildings, totaling 1.38 million square feet are deemed preliminary, meaning that developers are seeking significant pre-leasing before breaking ground or looking for additional capital investment, which could help developments move forward," the report stated.

Unless some of those MOB projects move forward soon, "there should be some upward pressure on rates at well-positioned properties as the market continues tightening," according to the report, although Twin Cities area net rental rates were flat during the past six months at an average of $18.48 per square foot.

As new inventory comes online, older MOBs with vacancies will probably need to offer discounts and concessions unless they are exceptionally located, the report said.

Although local healthcare industry and real estate market dynamics remain complex and unpredictable, Twins Cities-area real estate professionals seem fairly optimistic about short- and long-term development and investment opportunities.

Moreover, if the area remains an early adopter of healthcare delivery innovations, Minnesota and the Upper Midwest could continue to provide valuable insights into the future of healthcare real estate nationwide. ❑

Retail sites sizzling in the Twin Cities

PROVIDERS SEEM SOLD ON REDEVELOPED AND REPURPOSED STORE LOCATIONS

By Murray W. Wolf and John B. Mugford

Call it the MOB at the MOA. A major medical office building (MOB) has been proposed as part of a planned expansion of the 4.2 million square foot Mall of America (MOA) in the Minneapolis suburb of Bloomington, and the prospective anchor tenant is said to be none other than the famed Mayo Clinic.

MARKET FOCUS

Talk about the ultimate retail location for a medical facility. The nation's largest indoor shopping mall (by total area), the MOA attracts about 40 million visitors annually, with one-third of them traveling more than 150 miles to get there. The mall, which had many doubters and opponents when it was first proposed in the 1980s, is about 98 percent occupied. It boasts more than 520 stores, an indoor amusement park with 25 rides and a 1.2 million-gallon aquarium.

MOA recently announced that it indeed plans to move forward with a $220 million to $250 million expansion that could include 150,000 square feet of medical office space. The MOB would be part of a larger mixed-use project that would also add 135,000 square feet of retail space and, perhaps, another luxury hotel. The expansion is likely to be completed in stages on the north side of the giant retail complex.

The expansion has been planned almost since the mall opened in the early 1990s and is, in fact, referred to as "Phase 1C" by the developers. Phase 1B was the $150 million Radisson Blu hotel that is under construction, and Phase 1A was, of course, the mall itself, which cost $650 million to build back in 1989 to 1992.

A planned $220 million to $250 million expansion of the Mall of America in the Minneapolis suburb of Bloomington might include 150,000 square feet of medical office space, possibly anchored by the Mayo Clinic.
Rendering courtesy of Mall of America

According to local news outlets and mall officials, Rochester, Minn.-based Mayo Clinic signed a letter of intent in 2009 to occupy medical space in the planned expansion. Of course, the expansion was put on hold due to the economic downturn. Now that those plans have been revived, it is speculated that Mayo is probably still interested. However, no details concerning the renowned clinic's possible space requirements and planned service mix have been disclosed; no deal has been announced between Mayo and the mall's owner, Edmonton, Alberta-based Triple Five Worldwide.

Currently, Mayo operates a storefront space in the mammoth mall called Mayo Clinic Healthy Living, which officials describe as a "personalized engagement that is part health and wellness experience, part retail store." So far, Mayo has yet to establish a major foothold in the Twin Cities of Minneapolis and St. Paul, just 85 miles or so north of its main campus in Rochester. However, Mayo is known to have major growth plans. (For more information on Mayo's growth strategy, please see "Twin Cities: the future of healthcare?" on Page 11.)

Minneapolis-based Ryan Cos. US Inc. has been chosen as the development partner and the general contractor for the addition. It is anticipated that the next several months will be devoted to arranging financing and finalizing the development plans. The MOA hopes to have the expansion finished in time for the 2014 Christmas shopping season, in conjunction with the completion of a planned upgrade to the road system around the mall. BWBR Architects is designing the MOB portion of the project.

U.S. trend hits home

Although big names and big projects like Mayo and the MOA make headlines, the Minneapolis-St. Paul metro area is seeing a flurry of other MOBs and other outpatient facilities that have been recently completed, are under construction or have been proposed. It is certainly the biggest surge in MOB activity in the market in at least several years, and the majority of the new facilities are being developed in new or repurposed retail-oriented suburban space – not on any hospital campus.

The heightened focus on new healthcare delivery models, ambulatory strategies, off-campus outpatient facilities and retail locations is a national real estate trend that has clearly taken hold in the Twin Cities metro area.

Locally and nationally, we can expect to see a growing emphasis on community-based care at convenient, accessible, retail-oriented sites, according to Todd W. Lillibridge, president and CEO of Lillibridge Healthcare Services and Executive VP Medical Property Operations of Ventas Inc. (NYSE: VTR).

Chicago-based Lillibridge Healthcare Services, a subsidiary of Ventas, owns and manages about 400 MOBs in 29 states and the District of Columbia, including two in Minnesota: the seven-story, 114,000 square foot Midtown Doctors Building on the campus of Children's Hospitals and Clinics and Abbott Northwestern Hospital in Minneapolis, and the three-story, 60,108 square foot Health Partners Medical & Dental Clinic in Sartell, near St. Cloud.

Mr. Lillibridge combined his national perspective with his local market knowledge during a March 27 keynote presentation at the *Minnesota Real Estate Journal (MREJ)* Healthcare and Medical Properties Conference in Golden Valley, a Minneapolis suburb. He told attendees to expect the continued "decanting" of hospital campuses – the transferring of more and more services to off-campus locations – and the growth of healthcare real estate in "non-traditional" sites, particularly retail areas. He also said that one the biggest emerging opportunities for healthcare real estate professionals will be to repurpose facilities "to bridge retail and healthcare."

In the months since his presentation, Mr. Lillibridge's predictions have looked spot on, as more and more retail-oriented healthcare projects have been proposed and pursued throughout the Twin Cities metro area.

Stephen Brown, executive director of the Healthcare Advisory Group for the Cushman & Wakefield/NorthMarq brokerage in Minneapolis, agrees that retail sites present opportunities for both healthcare providers and healthcare real estate professionals. Mr. Brown, who was on a panel at the *MREJ* conference, said that, historically, retail sites have not been a viable alternative for medical users because desirable retail locations were too costly.

"That has changed," he said.

Even so, Mr. Brown cautioned that retail is "not the panacea that everybody thinks it is." Although filling vacant retail space with medical tenants might seem like an obvious solution for the landlord of a vacancy-ravaged mall, he noted that doing so "is not a Band-Aid." Making the transition to housing medical tenants requires a serious commitment on the part of the landlord and "a significant investment" to bring heating, ventilating and air conditioning (HVAC) and other systems up to healthcare standards, he said.

In addition, retail owners might not fully understand the differing needs of healthcare tenants and so will need to be "educated," Mr. Brown continued. How medical users will fit into a retail setting also depends on the type of practice and its specific needs in terms of infrastructure, parking and janitorial services. Whether medical users are a good fit also depends on their compatibility with neighboring retail tenants.

Commenting during another panel discussion at the same conference, Mark Nordland, a principal with local developer Nordland Partners, said he agreed that healthcare is driving toward a more retail-type model – something it must do because of increasing competition. But he also cautioned against a "knee-jerk reaction" of moving medical tenants into retail space when such a move is not practical.

"The reality is, it's tricky," he said.

However, Mr. Nordland added that repurposing retail space for medical use can be successful under the right circumstances, pointing to the new Birch Run Health project in the suburb of Maplewood, Minn., which is retrofitting a former big-box sporting goods store for medical use near St. John`s Hospital. (For more information on that project, please see below.)

Ripe for redevelopment

A possible Mayo-anchored MOB at the MOA might be the most prominent retail-oriented healthcare real estate project in the Twin Cities area, but plenty more are popping up all across the metro.

Former restaurant and car dealership sites are ripe for MOB redevelopments, according to local healthcare real estate professionals. Retail outlots once intended for hotels are being eyed for clinics. Healthcare providers now "sell" health and wellness in spaces where retailers once sold books, sporting goods, furniture and other sundries. Even former retail spaces that can be accessed by downtown Minneapolis' heavily used "skyways" (enclosed second-story pedestrian bridges providing climate-controlled links between buildings) are attracting interest from healthcare providers, local brokers say.

Here's a look at some Twin Cities area proposals for healthcare facilities in retail areas and repurposed retail spaces:

(Continued on next page)

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■ **Yanik Cos. I-394 redevelopment, St. Louis Park.** Perhaps no local retail redevelopment project is more ambitious than the one proposed by Yanik Cos. The Spring Park-based firm has floated options for three different mixed-use concepts on a 3-acre site northwest of the Interstate 394 and U.S. Highway 169 interchange in this first-ring west Minneapolis suburb. One concept is a nine-story, 371,610 square foot project that would include 181,555 square feet of medical office space and 144,400 square feet of hotel space, plus 45,655 square feet of ground-level retail, restaurant and parking space and a four-level, 570-space underground parking garage. Other concepts include a mix of medical lab and office space, or an office, hotel, condo and senior living facility. Yanik signed a development agreement with the city in February for the site, which has been vacant since the Nicklow family moved its popular Santorini Taverna Greek restaurant to nearby Eden Prairie in 2009. Yanik is reportedly representing the owner of the site, a St. Louis Park-based entity called 9920 Hotels LLC, which is a partnership between the Nicklows, who own the former Santorini parcel, and the Kolas family, which owns an adjacent parcel. The name of the partnership alludes to an unrealized effort to develop a 140-room extended-stay hotel at the site back in 2008. Yanik is actively marketing space in the facility and it has reportedly had discussions with Hennepin County Medical Center (HCMC), among others. But no tenants have been announced, and the firm says it won't proceed until the facility is at least 75 percent leased. RSP Architects of Minneapolis developed the concept plans.

Yanik Cos. has proposed a mixed-use development for a site in the Minneapolis suburb of St. Louis Park. One option would be a nine-story, 372,000 square foot facility with 181,555 square feet of medical office space.
Rendering courtesy of Yanik Cos.

■ **HJ Development Inc. MOB, Golden Valley.** A more modest MOB proposal for a retail area comes from Wayazta-based HJ Development, which hopes to transform a former automotive dealership site into a five-building, 41,000 square foot retail center that would also include a 4,600 square foot restaurant and a 13,000 square foot MOB. The $12 million to $15 million project is earmarked for 5.4 acres northeast of the I-394 and Louisiana Avenue interchange – not far from the Yanik site. Discussions with prospective medical tenants are said to be under way. The developer says the project would break ground when it is 75 percent pre-leased, possibly as soon as this fall. The first buildings would open in spring 2013. The architect is St. Paul-based Pope Associates Inc.; the general contractor has not been selected.

■ **Burnsville Surgical Center, Burnsville.** Twin Cities Orthopedics, owner of six walk-in urgent care orthopedic clinics, plans to begin construction in August for a two-story, 35,200 square foot addition to its existing 46,100 square foot same-day surgical center at 1000 W. 140th St. in the south Minneapolis suburb of Burnsville. The new space would be built on vacant land along McAndrews Road on the western half of the 5.65-acre property, which is north of the Burnsville Center regional mall. The architect is Sperides Reiners Architects, the civil engineer is BKBM Engineers, the general contractor is RJM Construction and the owner's representative is BTO Development. The Burnsville City Council in June unanimously approved a resolution to amend the planned unit development (PUD) that was established for the original building in 2005, clearing the way for the expansion, which is to be completed by spring 2013.

■ **Birch Run Health, Maplewood.** In addition to redevelopment and new construction at retail-oriented sites, several vacant retail facilities have been or are being repurposed for medical use. As noted above, such a project is taking place in a 28,350 square foot former Gander Mountain store at 1747 Beam Ave. E. near Maplewood Mall in Maplewood. The former sporting goods store closed in January 2011 and the building has been renamed Birch Run Health. An entity affiliated with Airlake Development, 1747 Bream LLC, reportedly bought the vacant building in February for $4 million. The anchor tenant will be HealthEast Spine Center, which will be operated by HealthEast Clinics, a division of St. Paul-based HealthEast Care System, which has leased 16,730 square feet. Bloomington-based Cushman & Wakefield | NorthMarq Real Estate Services is marketing the space. At the time this edition went to press, 11,620 square feet were still available, at a published rate of $22 per square foot.

■ **HealthEast Midway Clinic, St. Paul.** Birch Run is not HealthEast's first experience with repurposing retail space for medical use. HealthEast Midway Clinic opened in March in about 22,000 square feet in a former Borders book store at 1390 University Ave. W. in St. Paul's Midway area. St. Paul-based MSP Commercial bought the former Borders building from the lender, Wells Fargo, for $2.25 million last year and completed the renovation earlier this year. The architect was Minneapolis-based HGA Architects and the general contractor was Minnetonka-based Welsh Construction. Tom Stella, Rob Davis and Mark Houge of Cushman & Wakefield/NorthMarq represented HealthEast in the lease and Louis Suarez of Colliers represented MSP Commercial. HealthEast also operates the HealthEast Grand Avenue Clinic at 870 Grand Ave. in St. Paul in space once occupied by eq-life, a failed retail concept that was attempted by Richfield-based Best Buy Co. (NYSE: BBY) in the mid-2000s.

■ **New North Memorial clinics, Plymouth and Blaine.** Robinsdale-based North Memorial has reportedly purchased a retail site at Highway 55 and Vicksburg Lane in Plymouth and plans to work with Streeter Development to build an off-campus clinic of about 20,000 square feet. The hospital also plans to open a new 6,500 square foot primary care clinic at Victory Village retail center in Blaine.

■ **Other retail and restaurant conversions, multiple locations.** The Davis Group, a Minneapolis-based real estate brokerage and consulting firm specializing in healthcare facilities, has been involved in several other transactions that have put medical tenants in former retail and restaurant spaces in recent years. Allina Health leased clinic space in a 32,000 square foot former Wickes Furniture building in Maple Grove, a former Snyder's Drug store at 2714 County Highway 88 in St. Anthony became HCMC's St. Anthony Village Clinic, and Allina's Aspen Medical Group clinic leased space in an 11,500 square foot former Old Country Buffet restaurant in St. Paul Highland Park neighborhood. Separately, St. Paul Eye Clinic reportedly leased a former Blockbuster video store at 1099 Grand Ave. in St. Paul from Minneapolis-based CSM Corp. in February.

■ **Aspen Medical Group Clinic, St. Paul.** Finally, in what could be called "a repurposing of a repurposing," Allina recently began consolidating three of its St. Paul-based Aspen Medical Group clinics at one location: St. Paul's historic Bandana Square complex. Bandana Square, a group of former Northern Pacific Railway buildings, was converted into a retail "festival marketplace" in the early to mid-1980s. The retail strategy didn't pan out in the long term. But now, with the Aspen lease, the 138,000 square foot building at 1021 Bandana Blvd. E. is fully leased to mostly office and medical office tenants. A $7 million renovation effort began in February and should be done by November. Aspen plans to occupy 67,500 square feet on two floors in the historic building, which is owned by an affiliate of St. Paul-based Wellington Management Inc. Pope Associates, which also offices at Bandana Square, is the architect for the renovation and Plymouth, Minn.-based D.J. Kranz & Co. is the general contractor.

More to come?

Twin Cities' area healthcare real estate professionals say more repurposing is likely because there are still some well-located, low-cost, vacant retail sites available – with more to come. One source for potential new projects could come from big-box electronics retailer Best Buy Co., which announced this spring that it plans to close 50 U.S. stores, including facilities in the Twin Cities suburbs of Brooklyn Center, Edina, Lakeville and Rogers, as well as outstate locations in Hutchinson and Rochester. ❑

G-A REIT
(Continued from Page 1)

According to many professionals involved in healthcare facilities sales, developers and third-party owners of medical buildings are willing to sell to take advantage of solid pricing and high investor demand. Without many offerings coming directly from hospitals and health systems, brokers and investors are counting on such private sellers to keep offering medical facilities.

And that certainly seems to be the case when looking at Griffin-American Healthcare REIT II's latest purchases.

The REIT acquired the buildings from five separate sellers, two of which are development firms, one an investor/owner, one a health system and one an undisclosed seller.

The largest portfolio acquired by the REIT closed in early July and came from two joint venture partnerships of Corona, Calif.-based Montecito Medical Investment Co. and Chicago-based Harrison Street Real Estate Capital.

In all, Harrison Street and Montecito sold nine buildings to American-Griffin Healthcare REIT II for a total price of $61.66 million, according to information about the sale obtained from New York-based Real Capital Analytics (RCA) Inc., which tracks a variety of commercial real estate sales, including MOBs.

According to RCA's data, the capitalization (cap) rate for the eight-property, nine-building portfolio was 7.5 percent.

Marketing the properties and brokering the sale for the JV was Chris Bodnar and Lee Asher, who co-lead the national Healthcare Capital Markets Group of Los Angeles-based CBRE Group Inc. (NYSE: CBG), as well CBRE brokers in local markets.

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"This transaction represents the largest multi-state medical office portfolio sale year-to-date," Mr. Bodnar, first VP at CBRE, said in a statement. He added that the portfolio drew plenty of interested from investors, which "demonstrates the increasing focus by investors on the medical office market."

The acquisitions from the Montecito/ Harrison Street JV are:

■ **Premier Medical Center,** New Port Richey, Fla. Griffin-American paid $5.97 million, or $287 per square foot (PSF), for the 21,000 square foot, single-story, multi-tenant MOB in New Port Richey, a suburb of Tampa. The MOB is located about a mile from the 236-bed Medical Center of Trinity. The building is about 92 percent leased and is anchored by a urology and cardiology practice.

■ **Rockwall Medical Center,** Rockwall, Texas. The REIT paid $22.09 million, or $259 PSF, for the two-story, multi-tenant facility in Rockwall, a Dallas suburb. The building has about 85,000 square feet of space and is located next to the 50-bed Texas Health Presbyterian hospital. The MOB was completed in 2006 and is about 91 percent leased to a variety of tenants, including Lake Pointe Medical Center, which is part of Dallas-based Tenet Healthcare Corp. (NYSE: THC).

■ **San Angelo Community Medical Center I & II,** San Angelo, Texas. The price paid for these adjacent, single-story MOBs in San Angelo, in the west central part of the state, was $9.39 million, or $220 PSF. The buildings have a combined total of about 43,000 square feet and are on the campus of San Angelo Community Medical Center, a 171-bed community hospital owned by Franklin, Tenn.-based Community Health Systems (NYSE: CYN). Built in 2004 and 2005, the buildings are 100 percent leased by the hospital.

■ **Schertz Medical Building**, Schertz, Texas. The REIT paid $3.72 million ($188 PSF) for the 20,000 square foot, single-story, multi-tenant MOB. It's 100 percent leased to two tenants, Alamo City Medical Group and Schertz Kidney Center. The building was completed in 2005. Schertz is a suburb of San Antonio.

■ **Alta Vista Medical Office Building, Las Vegas, N.M.** The REIT paid $4.18 million ($295 PSF) for the 14,000 square foot MOB on the campus of the 54-bed Alta Vista Regional Hospital in Las Vegas, about a 60-mile drive east of Sante Fe. The hospital, which currently leases the entire building through June 2020, provides orthopedic, obstetric and gynecological services at the building.

■ **The Hilo MOB, Hilo, Hawaii.** The price paid for the 23,000 square foot, two-story facility in Hilo was $10.1 million, or $444 PSF. The building is home to one tenant, the 264-bed Hilo Medical Center. Built in 1996, the MOB serves as the hospital's primary outpatient facility.

■ **Beyer Medical Building,** Warsaw, Ind. The REIT paid $6.22 million, or $328 PSF, for the 19,000 square foot MOB, which was completed in 2006 and is on the campus of Community Health System's 72-bed Kosciusko Community Hospital. The facility is fully leased to the hospital through January 2018 and is home to its imaging center and internal medicine department.

■ **Physician's Plaza at Crestwood**, Hunstville, Ala. The price was $9.33 million ($197 PSF) for the two-story, multi-tenant MOB on the campus of Community Health System's Crestwood Medical Center, a 150-bed acute care hospital. The 47,000 square foot MOB was completed in 2005 and is currently 100 percent leased, mostly to Crestwood Medical Center, which houses its sleep center, orthopedic clinic and women's clinic in the facility.

In Illinois

In its acquisition of a two-building portfolio in Illinois, Griffin-American Healthcare REIT II purchased the buildings from Chicago-based development firm HSA PrimeCare, the healthcare real estate arm of HSA Commercial. The REIT paid a total of $9.06 million for buildings in Lemont and Champaign, according to RCA. RCA's data indicates that the cap rate for the two-building portfolio was 7.8 percent. New York-based Savills marketed and brokered the portfolio sale for HSA PrimeCare.

The buildings in the HSA PrimeCare portfolio are:

■ **The Lemont MOB.** The REIT paid $4.4 million, or $113 PSF, for the 38,882 square foot, two-story MOB that is affiliated with Advocate Good Samaritan Hospital. Completed in 2001, the MOB has six tenants and is 60 percent leased, the largest tenant being the hospital, which is part of Advocate Health Care. According to the REIT, Advocate is the largest fully integrated not-for-profit healthcare delivery system in the Chicago metropolitan region.

■ **A 30,000 square foot MOB in Champaign.** The price paid was $4.66 million, or $157 PSF. The single-story, 30,000 square foot building is 100 percent leased by the Carle Foundation Hospital, a 295-bed regional hospital located in nearby Urbana, Ill.

The other buys

The REIT also acquired buildings in Texarkana, Texas; Greeley, Colo.; and Columbia, S.C.

In Texarkana, Griffin-American acquired a two-story, multi-tenant facility with about 32,000 square feet from The Cirrus Group (now known as HealthCap) for $6.5 million, or $206 PSF. RCA reports a cap rate of 8.4 percent.

Griffin-American Healthcare REIT paid $22.09 million, or $259 PSF, for this two-story, multi-tenant facility in Rockwall, Texas, a Dallas suburb. The building has about 85,000 square feet of space.

Photo courtesy of Griffin-American Healthcare REIT

According to information from the Griffin-American Healthcare REIT, the Texarkana MOB is in close proximity to Christus St. Michael Hospital, a 312-bed medical center that has been in Texarkana for nearly 100 years. Completed in 2005 on a 2-acre parcel, the building is 100 percent leased to Collom and Carney Clinic, and Ambulatory Surgery Centers of America.

Marketing and brokering the building for the seller was Marcus & Millichap.

In Greeley, the REIT acquired a 58,000 square foot MOB for $13.2 million, or $228 PSF, according to RCA. The cap rate was 8.9 percent.

The Champaign facility is a single-story medical office building constructed in 2002. The 30,000 square foot building is about five miles from Banner Health's North Colorado Medical Center, which leases the entire MOB.

The hospital serves a large region that includes southern Wyoming, western Nebraska, western Kansas and northeastern Colorado.

Marketing the Greeley building for the seller was Garth Hogan and Todd Perman of Newmark Grubb Knight Frank.

In Columbia, the REIT purchased the 43,000 square foot Northeast Medical Office Building for $6.9 million, or $176 PSF, according to RCA.

The two-story, multi-tenant facility is located within seven miles of three major hospitals: Palmetto Health Richland Hospital; Children's and Heart Hospital; Palmetto Health Baptist Hospital; and Providence Hospital Northeast. Completed in 1988, the MOB is 87 percent leased to 14 tenants, the largest of which is Columbia-based Palmetto Health, the region's largest not-for-profit health system.

The building was acquired from NE Medical Center LLC, which was represented in the sale by Messrs. Bodnar and Asher of CBRE. ❑

WONG-HAMMOND (Continued from Page 1)

banking firm, Hammond Hanlon Camp (H2C).

Shattuck Hammond (no relation to Ms. Wong-Hammond), which had its founding in the early 1990s, was acquired by Memphis, Tenn.-based Morgan Keegan & Co. Inc. in 2007 and for a while was referred to as the Shattuck Hammond division of Morgan Keegan.

Ms. Wong-Hammond notes that the majority of investment bankers who were originally with Shattuck Hammond are still with Raymond James | Morgan Keegan (RJ | MK), including one of the namesake founders, Barbara Shattuck.

When those bankers departed, Ms. Wong-Hammond, who had been with Shattuck Hammond for six years, stayed on board and was named head of real estate in the larger healthcare investment banking group.

Even more change has taken place since then, as Morgan Keegan became part of Tampa, Fla.-based Raymond James Financial Inc. in a transaction that closed in April.

For Ms. Wong-Hammond, the promotion gave her a chance to bring her own ideas to the table and expand the healthcare real estate practice.

We'll ask her about her initiatives in the subsequent question and answer (Q&A) interview.

She's certainly had an interesting ride to her current position, as her family immigrated to the United States from China when she was three.

Ms. Wong-Hammond studied ballet when she was young, majored in communications at Cornell University and studied at the London School of Economics, where she says she became "fascinated" with asset

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pricing. For the most part, she's lived in New York City her whole life.

So far, her tenure at the helm of the Raymond James Morgan Keegan healthcare real estate group has been a busy one, as exemplified by the volume of first-half transactions.

In addition, the practice is doing plenty of prospecting for clients.

Recently, for example, she and a team concluded a four-day, 10-meeting road trip with potential clients on the West Coast.

Despite her busy schedule, we caught up with her for an interview to talk about the industry, the issues that health systems and providers are facing, and her experiences so far as the head of healthcare real estate at Raymond James | Morgan Keegan.

Here's what she had to say during a wide-ranging interview:

HREI™: Can you start by telling us what areas of healthcare and healthcare real estate you and the people you're working with are concentrating on?

Wong-Hammond: Sure, the best way to answer that is to give an idea of what our healthcare investment banking group covers. And that spans across the whole healthcare continuum, from providers and payors, hospitals and health systems, ambulatory surgery centers, clinical research organizations, laboratories, long-term care organizations – all the way to physician management.

We basically cover everything in healthcare, with the exception of biotech and pharmaceuticals. As a result, our real estate platform, as I've formed it, serves to cover the full spectrum of facilities that these businesses utilize. That includes clinics, surgery centers, medical office buildings (MOBs), senior living facilities, nursing homes, and long-term acute care hospitals (LTACHs).

HREI™: When you were named the head of healthcare real estate, did you have an opportunity to create a platform of advisory services? Tell us about that and what you set out to do?

Wong-Hammond: I decided to streamline our services within healthcare real estate to become five distinct lines, and that starts with what we call our strategic options assessment, or SOA. Prior to me heading up the group, it had always been in a different guise that was more focused on transactions. This way, it's more of a strategic and financial plan and a tool for an organization's board and leadership executives to navigate the changing environment. And from that, there might or might not be transactional work. But that typically earns our keep as a trusted advisor and allows us to deepen our relationship with our client.

HREI™: So, your services start with the SOA. Take us through the remainder of the process.

Wong-Hammond: As I said, our offerings are basically five-fold, and starting with the SOA, which is a management-level report that guides a client in a strategic and financial direction with connection to the organization's real estate. Second is our transactional offerings, which can include advisory work on acquisitions and monetizations. The third is developer selection. Fourth is capital raising, which has been a big line of business for us lately. And the fifth is joint venture formation.

HREI™: Are there any areas right now that are really taking off as a result of healthcare reform, especially with all of the mergers and acquisitions taking place among the health systems and providers?

Wong-Hammond: We're finding a lot of opportunities in the disposition of non-core real estate, absolutely. We also have a number of developer selection transactions in play, and the capital raising services that we offer have been very robust. A lot of those transactions have taken place in the first half of the year and we are working on several now. And for the providers, we have been doing a number of our strategic options assessments. So, there really is a good balance and demand for all of the advisory services we offer.

HREI™: Can you give us an example of some recent client work that you've performed?

Wong-Hammond: We just closed on one of these with a not-for-profit health system located near Cleveland. We performed a strategic options assessment for them on their real estate. The system has a total of about 400 beds and a total of 1.4 million square feet of real estate. So we assessed their outreach strategy and readiness in care coordination under healthcare reform.

HREI™: What did this entail? And, did much of what you look at have to do with healthcare reform and how the system can use its real estate in response?

Wong-Hammond: We took a very specific and detailed looked at what their services lines are and how that coincides, aligns with and is being coordinated by the system. And yes, we did look at how they should navigate through healthcare reform. Because they are revising their strategy under a new CFO (chief financial officer), we assessed their compliance with rating agency metrics. The new CFO came in and hired us to do this work because he has a new and different vision and he wanted us to assess what all of the changes taking place in healthcare will mean for them from a credit rating perspective as well as from a strategic perspective. He also wanted us to look at what impact the new accounting rule changes would have on their financial position, which is always front and center for a CFO.

Interestingly, we were also asked to look at the implications for creating a real estate management vehicle… And we also made recommendations to utilize their real estate as a physician alignment tool.

HREI™: Is this, in your opinion, the way that health systems should be looking at their business strategies and their real estate in this new era? And, are many of them doing this?

Wong-Hammond: The system executives that we've been talking to do seem to be up to speed on what they need to do in this changing environment, but they also acknowledge that they need some help from the experts and are very open to getting that type of help and assistance. Obviously, there are lots of health systems out there with a lot of different needs, but the ones that we've worked with have been delighted to engage us to use tools such as the ones that we offer.

HREI™: So, in your work on the real estate side, how is the business being divvied up in terms of how much you are working in the various sectors, such as seniors facilities, post-acute, and then for the acute-care health systems themselves, which would include outpatient facilities and medical office buildings and perhaps others? And can you give some examples?

Wong-Hammond: It's really fairly well-balanced, and while I can't divulge this client's name we did just price a very large MOB portfolio that is owned and occupied by an accountable care organization (ACO) in upstate New York. We're very excited about the market reception that we've gotten so far. And then on the long-term care side, we are in the process of selling three nursing homes, all located in New York. And then also we're in the processes of selling a CCRC (continuing care retirement community) in North Carolina, and we are running a developer selection process for an MOB and assisted living and memory care project in Virginia. Plus, we're also doing financing for a long-term care facility in the West. And we also have a number of advisory assignments for a number of not-for-profit systems under way.

HREI™: So, you closed $600 million of real estate transactions in the first half of the year? Is that a good sign for healthcare real estate overall?

Wong-Hammond: Yes, there is no shortage of transactions, at least as far as we can tell. A lot of our transactions were capital related, and you may have heard about our recent work for PennMed Consultants Inc. on the sale of 18 skilled nursing facilities with more than 1,600 beds in Pennsylvania?

HREI™: We did. Can you tell us more about that and what you were called on to do for that transaction?

Wong-Hammond: Well, PennMed has been our client for over a decade now and the owner wanted to create a vehicle to monetize the assets in a tax-deferred way. So we identified value in a 'op-co' (operating company) in which the operations were bifurcated from the real estate assets and then sold. In this case both the real estate and the operations are likely to end up in one group's hands. But we were able to really extract value on both levels. It was a way to maximize value and address certain tax implications for the seller.

HREI™: Who is the buyer on that deal and how will the real estate transaction be executed?

Wong-Hammond: The operations were sold right away to Reliant Senior Care and the real estate was leased with significant increases in rent to incent the lessee to purchase the real estate in a one- to three-year period. They are likely going to partner with a REIT on the acquisition of the real estate, but the financing decision will be up to Reliant.

Laca Wong-Hammond

HREI™: Let's talk a bit more about the $600 million of transactions in the first half of the year. Can you provide us with some examples?

Wong-Hammond: Sure. Medical Properties Trust (NYSE: MPT) had issued some corporate debt and equity, and we did that transaction for them. We also did some construction financing for an assisted living facility being operated by a public benefits corporation called Nassau Health Care Corp., which now has a new brand name called NuHealth, and is out in Long Island. It's a great organization. We helped the owner and developer of the project place capital for them to retrofit a facility to create lower-acuity care beds for their nursing home patients.

HREI™: What type of capital did you find them?

Wong-Hammond: Bank financing that was actually quite long in term, 10 years, which was very unusual for a construction project. So it was really construction to mini-perm financing

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at a very attractive loan-to-value and a very favorable interest rate.

HREI™: Is that an example of all of what is available in the capital markets right now?

Wong-Hammond: If you know where to go and to call on the right sources, it's a very attractive capital environment right now. For example, just from the MOB portfolio we've priced we can see that acquisition financing is very prolific and very much hungry for deals. So any type of capital that you would need, be it acquisition or development or joint venture, they're coming from all from fronts.

And this could be public entities to private, non-traditional sources, and we're also seeing capital from overseas being very interested right now. Cap rates continue to compress as a result of all of these parties being very interested in our sector, and we're also seeing very strong valuations.

HREI™: From your perspective right now, do you see healthcare reform and what's been ruled on by the Supreme Court as having an effect on real estate? Will it have a big effect on health systems, or had they already set their course prior to the recent decision?

Wong-Hammond: One thing is sure, at least the Supreme Court's decision cleared up quite a number of issues. However, it also opens up a lot of new questions and leaves it up to the states to decide what they need to do.

As for the real estate, it is often a local issue and providers' needs will differ by service area. But also, as a result of healthcare reform, and this has happened over the last few years, patient volume has been lowered and resulted in a loss of revenue. That's led to so much of the consolidation among hospitals and health systems. So the focus on divesting of duplicative real estate and repurposing existing facilities, or redevelopment, versus ground-up greenfield projects, has been and is going to be more prolific than ever.

"We're finding a lot of opportunities in the disposition of non-core real estate... We also have a number of developer selection transactions in play."
Laca Wong-Hammond
Senior VP & Head of Healthcare Real Estate
Raymond James | Morgan Keegan

HREI™: To tell you the truth, we keep hearing that there will be fewer hospital projects, but we sure keep hearing news about plenty of them coming across our desks. So what's the story there?

Wong-Hammond: Those acute care hospitals themselves will contain fewer acute beds over time, because that is the most expensive care they can provide. The providers don't like it from a reimbursement standpoint, and operators, the hospitals themselves, don't like it and would rather treat them in a lower-cost environment that is more efficient and then use those beds for patients who really need to stay in the hospital. Those beds will turn into more like short-stay, day surgery beds.

So where a hospital, for example, used to have 100 beds, well, moving forward maybe 20 of them will be used in the form of an urgent care center. What we're seeing are the systems using outreach satellite models, with some sort of day surgery or urgent care anchor that does not have to be massive – even anywhere from eight to 10 beds and be very efficient. The hospitals are repurposing, as well, in secondary service areas that they should be moving into. And this isn't just raw land, but perhaps an empty Blockbuster site that is not too large and where they can build an MOB or a primary care facility there, perhaps 10,000 to 15,000 square feet and be completely able to serve that community and drive volume to the system.

HREI™: Let's finish up by asking you whether you see good times or bad times for the industry moving forward?

Wong-Hammond: There certainly will be plenty of change, and that can be good or bad depending on how you navigate through the current circumstances. Certainly, the best thing to do is to champion that new environment.

So as I put on my advisor cap, we have to provide industry expertise as well as creative, customized solutions for our clients so that they can expand their own platforms in their markets. The philosophy that I go by is that the right thing to do might be expensive in the short run, but if it's something that can pay dividends in the long run it will be worth it. Of course, to do so requires the right analysis with the right structuring, and of course good execution. That's how an organization can meet its objective while minimizing unnecessary liabilities and risk. I can't understate how important that is. We've been asked to unravel many things that organizations should not have signed up for in the first place. If an advisor had informed them earlier on, they could have avoided the bind that they are now in. So that's our challenge to ourselves every day, to provide industry expertise and creative advice, and that has resulted in a lot of positive outcomes. ❑

The talk of the town

MARKET FOCUSES DIG INTO DETAILS, TRENDS

Dear Reader:

This edition of **Healthcare Real Estate Insights**™ includes one of our most popular features, a Market Focus section on a particular major metropolitan area of the country.

EDITOR'S LETTER

These highly detailed, labor-intensive projects have long been rated highly by our readers (when we have polled readers and asked for feedback), and it's why we're refocusing our attention on them.

We're planning to publish Market Focus articles more often, leveraging a logical news hook. As an example, with the BOMA Medical Office Building (MOB) conference set for San Francisco next spring, we're planning to take a closer look at that market in an edition prior to the start of the conference.

This month's focus is on the Twin Cities of Minneapolis and St. Paul – and not just because the **HREI**™ offices are in a Minneapolis suburb. No, we decided to spotlight our home market because it also happens to be a great example of how physician integration and "the retailization of healthcare" are affecting the real estate business. So even if you never plan to do a deal in the Twin Cities, you will learn a lot from this month's Market Focus.

Besides, who knows where your business might take you? Our hope is that if a opportunity presents itself in a certain market, our Market Focuses will provide you with a solid working knowledge of what's taking place there, who the players are and what the healthcare real estate "vibe" is. Better yet, perhaps you'll even read something that specifically presents you with a new business opportunity. So please enjoy the hard work put into this month's Twin Cities Market Focus and look for others in upcoming editions.

Also, anyone still wanting to react to comments made by Rick Matros of Sabra Health Care REIT (Nasdaq: SBRA) at the most recent BOMA MOB conference can still do so. During a panel session, Mr. Matros noted that Sabra is not interested in investing in MOBs because of "some serious concerns" it has about that product type in this changing healthcare environment. We've gathered some interesting comments so far but are looking for more. Please send such comments to editor@hreinsights.com, or give me a call at 952-746-4406. Thanks!

John B. Mugford

John B. Mugford
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INDUSTRY PULSE (Continued from Page 1)

Cramer noted that the company has delivered a compound annual return of 32.5 percent over that time, or a 680 percent gain, including reinvested dividends. "This is a business to own as demand for healthcare real estate is booming," he said, noting that the country is aging rapidly with 79 million baby boomers just starting to turn 65 and an over-85 population that's growing faster than any other segment. As with many shows such as "Mad Money," companies certainly lobby for an invitation to be part of the program. If Ventas indeed made such a plea, the timing was impeccable, as Ms. Cafaro made her appearance on the eve of the Supreme Court's ruling. At one point, Mr. Cramer noted that even if the Supreme Court upheld healthcare reform and even if reimbursements for healthcare operators are cut, Ventas would not feel too much pain because the company only operates 10 percent of its properties. It's merely the landlord on the remainder, he pointed out, meaning that Ventas is "one step removed from the issue… Their tenants are the ones who rely on government spending." He went on to say that Ventas' stock price might take a hit should the Supreme Court uphold the healthcare law. "I'm sure some people won't understand that lack of linkage." So what has happened since the Court's ruling? While VTR's stock price dropped a bit late in the day of June 27, falling to below $61 and opening on June 28 at $60.36, the stock rose after the ruling and for the remainder of the day. As of late-July, VTR's stock had risen to between $65 and $66. While on the "Mad Money" show, Ms. Cafaro said Ventas has set up a great "framework for growth in what is a trillion dollar market." She added that "our leases are structured so that our tenants can weather ups and downs in Medicare reimbursement and still have a cushion between the amount of rent that's due to us," adding that 70 percent of the REIT's net operating income (NOI) comes from private-pay sources.

MASSENA, N.Y. – As an indication of how important new facilities such as MOBs can be to health systems, a hospital in Massena, located near the Canadian border, is moving forward with a new on-campus MOB despite plans to reduce its staff and freeze some salaries. Officials with **Massena Memorial Hospital** say that the planned, 20,300 square foot, $3.9 million MOB, which will cost an additional $500,000 or so to equip, is needed to recruit new physicians and grow the hospital's service offerings. They note that the two-story facility should eventually be home to up to a dozen practitioners. In a statement, **Charles Fahd**, the hospital's CEO, noted that if everything works out as planned, the new facility will improve the hospital's financial picture. "This is a project that we believe is going to assist us in the immediate future to solving many of our issues that we have with recruiting new physicians to the community," Mr. Fahd said. The cuts, which entail some wage freezes as well as the laying off of two full-time and a number of part-time employees, are the result of fewer inpatient admissions and cuts in reimbursements. The new MOB will be about twice as large as a current on-campus MOB and, when completed next year, will be the largest such facility in the city of Massena, which has about 11,000 residents. About half of the top floor will be set aside for hospital-employed physicians and staff, while the other half will be rented to private practices. The bottom floor will be built out as demand increases, according to officials.

NEW YORK – Records are meant to be broken, even when it comes to the sales price per square foot (PSF) for MOBs. As we at **Healthcare Real Estate Insights™** went about tracking down a variety of healthcare real estate transactions in the last couple of months, our eyes lit up when coming across a recent sale in Manhattan – perhaps a new record. A 6,797 square foot building at **16 E. 65th St.** on the Upper East Side, a possible MOB, recently sold for $12 million. That works out to a whopping $1,765 PSF. As far as we can gather, the all-time record PSF of more than $800 for an MOB took place in Beverly Hills, Calif., prior to the economic meltdown. The sale in Manhattan would smash that record – if it were indeed an MOB. According to a brochure from **Judson Realty** in New York, the five-story building was completed in 1915 as a townhouse but was "completely renovated ... and rezoned for the purposes of medical offices and suites." The brochure even notes that the building is located near a variety of hospitals. But, alas, despite the recent renovation and rezoning for medical use, it looks as if the building has been acquired by a New York-based international law firm, **Curtis Mallet-Provost Colt & Mosle**. The seller was the **Soufer Family LLC**. There is still a chance, however, that the law firm purchased the building as an investment and is planning to lease space there to medical tenants, which would give the sector a new PSF record. We've made calls to find out how the buyer intends to use the property and will report forthwith. ❑

Future stories in Healthcare Real Estate Insights™

- **Product Focus: A look at Q2 MOB nationwide sales**
- **Provider Perspective: Panel weighs in on re-use**
- **Special Report: Long-term viability of MOB investing**
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All topics are subject to possible change.

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