

Puget Sound Healthcare InSight

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Q2 2013

HOT TOPICS

- Window narrowing for peak MOB pricing
- Rise in interest rates affecting MOB buyer demand
- Regional influx of preventative and rehab care providers
- Health systems continue to drive strongest leasing demand

RECENT ACTIVITY

- Swedish Edmonds constructing 77,000-SF expansion
- Bellevue owner/user building trades at \$405 PSF
- Swedish Health Services leases 15,515 SF in James Tower
- Valley Medical Center to open 20,000-SF Covington urgent care

MEDICAL OFFICE AVERAGE ASKING RATES

Submarket	On-Campus \$/SF/Yr NNN	Off-Campus \$/SF/Yr NNN	Direct Vacancy %	Vacancy Change
First Hill	\$29.46	\$21.56	7.89%	↑
Ballard	\$29.75	\$23.00	14.15%	↑
Univ. Village	—	—	0%	↓
Northgate	\$26.50	\$16.58	4.73%	↑
Bellevue	\$37.68	\$23.35	25.62%	↔
Kirkland	\$27.00	\$24.68	6.46%	↓
Issaquah	—	\$26.09	15.41%	↑
Edmonds	\$20.14	\$19.83	7.82%	↓
Renton	\$25.50	\$22.74	10.64%	↑
Auburn	\$29.50	\$22.66	15.96%	↑
Federal Way	\$25.00	\$14.30	19.13%	↑
Tacoma	\$19.34	\$23.76	6.06%	↓
Puyallup	\$31.00	\$21.36	14.72%	↓
Gig Harbor	\$25.80	\$19.70	19.27%	↑
Olympia	\$25.00	\$19.18	12.37%	↓
Puget Sound	\$32.08	\$22.49	11.60%	↑

MARKET OVERVIEW

With the dust finally settling from the major regional healthcare system mergers, there has been a notable increase in healthcare system real estate activity over the last few quarters. The second quarter of 2013 continued the trend with healthcare systems driving absorption of first generation medical office building (MOB) space, as well as investment in new healthcare facilities.

Swedish Edmonds announced its plans this quarter to construct a \$63.5-million expansion of the existing hospital campus with the construction of a 77,000-SF facility. The facility is planned to be delivered in the fall of 2015 and will house a new emergency department, behavioral health unit, and urgent care center. In Seattle, Swedish leased 15,515 SF in James Tower, further expanding their footprint on the Cherry Hill campus. In Covington, Valley Medical Center finished construction and plans to open its 34,000-SF urgent care and primary care facility in August 2013.

The region's investment sale market recoiled from an eventful first quarter with relatively quiet activity. A notable owner/user sale was Bellevue Bone & Joint's purchase of a recently redeveloped 12,098-SF MOB in Bellevue, WA, along 116th Avenue NE. The former office building was remodeled with MOB infrastructure in 2012, and traded this last quarter for \$4,900,000 or \$405 PSF. With a handful of major MOB's being marketed, we expect more sales to be recorded before 2013 concludes.

With change being the only constant in real estate, it comes as no surprise that a shift in the capital markets has prompted a notable adjustment in national MOB acquisition demand. Rates on 10-year Treasury Bonds have increased 75 to 100 basis points. These bonds are often compared to dividend-producing real estate funds, and thus capital has shifted to capture the increased return on the perceived safer investments. This adjustment has affected the aggressive appetite of some of these funds, and in turn will have a damping effect on national and local MOB pricing. Local owners with near-term exit strategies are seeking valuations of their assets, assessing strategies to capture peak pricing.

CBRE HEALTHCARE PROPERTIES TEAM

Our team specializes in the healthcare segment of commercial real estate, assisting tenants and owners in the leasing, acquisition and disposition of healthcare real estate.

Current Listings (For complete list, please see website below)

**Overlake Medical Pavilion
Bellevue, WA**



**Nordstrom Medical Tower
Seattle, WA**



**IDC Medical Plaza
Renton, WA**



Opportunity of the Quarter

Description: Medical office space in the heart of the Edmonds MOB submarket.

Characteristics: Suites with existing clinic build-out available for lease on and near the Swedish Edmonds campus.

- Edmonds Medical Pavilion: 73,548-SF on campus MOB
- Kruger Clinic Building: 42,121-SF on campus MOB
- Stevens Professional Center: 47,225-SF near campus MOB
- Available spaces ranging from 300 SF–3,000 SF
- Model/spec suites to be built out in Stevens Professional Center
- Exposure and access along 76th Avenue and Highway 99




Relationships

- Evergreen Health
- Group Health
- HCP
- Healthcare Realty
- MultiCare Health System
- Swedish
- The Polyclinic
- Valley Medical Center

COMPREHENSIVE SERVICE OFFERING

- 100% healthcare focus guides clients around industry specific pitfalls.
- Referrals to specialized healthcare-specific lenders, attorneys and architects.
- Property appraisal and valuation services.
- Integrated transaction and project management serves you start to finish.
- Comprehensive market knowledge through both landlord and tenant representation.
- Disposition, acquisition and capital market services.

FOR MORE INFORMATION

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