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The burgeoning business of medical offices

Demand for space grows as industry moves toward providing more outpatient services.

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Health care development is emerging as a Next Big Thing in the Charlotte area as activity slows in residential, industrial and commercial real estate.

Physicians' offices, imaging centers and specialty clinics are springing up in the urban core and on the suburban fringe as the demand for space grows and the industry moves toward providing more outpatient services.

And longtime medical office developers are seeing competition intensify as general office developers seek a share of the health care market.

Karnes Research Co. says about 4.3 million square feet of multi-tenant office space is under construction countywide.

But statistics on the size of the medical market are hard to come by. Real estate researchers in Charlotte count only multi-tenant leased space without separating medical from general office.

In addition, much of the new medical space is likely to be in owner-occupied buildings and medical office condominiums.

Some experts say Charlotte-area medical office space might exceed 7 million square feet compared to more than 40 million square feet of rental general office buildings.

"Medical office developers have followed the rooftops," said real estate analyst Melanie Sizemore of Carolinas Real Data. "As the population increased, so did medical services to meet demand, especially for preventive care and things that in previous decades might not have even been diagnosed."

Two growing regional giants, Carolinas HealthCare System, and Presbyterian Healthcare, have invested millions of dollars in new facilities over the past few years. But you don't need statistics to see that medical-related activity is on the rise. Among recent examples:

Carolinas Medical Center-NorthEast in Concord plans to build an eight-floor patient tower, replacing or renovating 286 patient bedrooms and adding 424,950 square feet to the hospital complex.

Kellswater in Kannapolis announced plans to include substantial medical office space in a planned 1-million-square-foot corporate research campus.

Planet Five Development Group of Jacksonville, Fla., wants to demolish a long vacant building at East Morehead Street and Kenilworth Avenue and replace it with a 120,000-square-foot building targeting medical tenants.

Colony Development Partners disclosed plans to work with equity funds to boost its ability to develop more health care facilities. Work is to be completed next month on its 45,000-square-foot medical office building beside Iredell Memorial Hospital in Statesville.

Cogdell Spencer Inc. merged with Marshall Erdman and Associates of Madison, Wis., becoming the nation's largest health care developer in terms of employees (700) and projects under way – 150 in 30 states. In August, it announced a joint venture that will spend \$350 million to buy health care facilities nationwide.

The Charlotte-based pioneer in medical office development manages 800,000 square feet in the area, including Randolph Medical Park on Randolph Road in south Charlotte, its first project 36 years ago.

Nationwide, Cogdell Spencer has developed or built 1,500 medical office buildings plus specialty medical facilities, health centers and surgery centers in the 48 contiguous states.

But pure medical office buildings like Randolph Medical Park are less likely to be developed today.

Modern physicians' offices typically include surgical suites, procedure rooms and other specialty components as the health care industry moves toward clustering outpatient facilities near acute-care hospitals.

"It's a continuing shift," said Frank Spencer, president and CEO of Cogdell Spencer. "It's better for the consumer, better on cost and easier to do as more outpatient procedures occur in what the industry calls medical office buildings."

Baby boomers – about 75 million strong nationwide – are a driving force. Medical professionals say they tend to spend more on diagnostic testing, elective procedures and alternative medicine.

Spencer said the aging of baby boomers has resulted in a nationwide upswing in the use of medical facilities from large cities to small towns.

As the nation's economic crunch worsens, however, market researchers say people have begun to cut back on health care spending.

Such issues might arise short-term, Spencer said, "but if you are in it for the long-term like we are, the long-term trends are positive. We are still very bullish."

He believes the growth trend could continue for 20 years or longer as boomers turn 65 in increasing numbers and require higher levels of medical care.

U.S. Census Bureau statistics indicate that from 2005 through 2020, the 65-plus population likely will grow by 50 percent while the under 65 population is anticipated to increase by only 9 percent.

The expected demand for more medical care is only one reason commercial developers are beginning to plunge into the health care market.

“With credit markets the way they are now, the medical market is perceived as less risky,” said Dennis Norvet, president of health care development at Colony Development Partners.

Medical services providers are more likely to stay in the same building over a longer period of time than other types of tenants, he said.

That increases lender confidence and makes it more likely a developer will be able to secure financing.

Lenders are tightening requirements and requiring more developer equity even on medical construction, Norvet said, but Colony has been able to close loans on new projects.

He and Spencer say health care development is a specialty that requires expertise that general office developers might have to acquire.

Typically, medical facilities cost more to build, Spencer said, because of higher construction standards ranging from more control of vibration to enhanced plumbing, heating and air conditioning.

And what about the new competition?

“It’s a natural development when you see the increased demand,” Spencer said. “The market tries to fill that demand.”

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