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Practical Industry Intelligence for Commercial Real Estate
HEALTHCARE REAL ESTATE | SPRING 2007

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medical waste disposal, etc.)
5. Parking

To your HEALTH



For almost a decade, healthcare real estate has performed remarkably well as an investment, which has sparked an influx of investment capital to the sector. Indeed, as the 2007 Kingsley Associates & Institutional Real Estate, Inc., survey of institutional plan sponsors indicates, healthcare real estate ranks second in its relative attractiveness as a real estate investment type (ahead of traditional office, industrial and retail, and behind only multifamily).

This much is clear: what was once a “backwater business” between small hospitals and developers has moved through a wave of hospital monetization (one that continues) and has become a big target for even bigger dollars. In this issue of BKQ, we turn our focus to the hale and hearty world of healthcare real estate.

“A Fever for Medical” examines why investors are eager for healthcare assets, discusses how they evaluate these unique investments, and sheds light on the pitfalls new investors in this space need to look out for.

“Understanding the Larger Gene Pool” highlights the central issue facing asset managers at on-campus MOBs: hospitals. As it turns out, the hospital is often a not-so-silent partner in assuring the healthy performance of the real estate.

Finally, “Managed Healthcare” explores the unique state of affairs facing property managers at MOBs. Not just office buildings with doctors in them, these highly specialized facilities require an equally specialized set of property management skills.

If there is a common thread that runs throughout these articles, it is that, despite its surging popularity, healthcare real estate remains a very unique asset type. From dealing with hospital systems to navigating the world of STARK regulations to managing in a high-tech, high-traffic environment, those who waded into this current had better know what they’re getting into.

A Fever for MEDICAL

Lorie Damon, BOMA International

Why health care real estate is the latest “it” option for real estate investors



Healthcare real estate investment has reached an almost fevered pitch, but in this case, the fever is a sign of good health. For example, GE Healthcare Financial Services' real estate team ended last year with more than \$3.8 billion in investments, including traditional financing and equity joint ventures, as well as a \$1.4 billion acquisition of six senior housing portfolios from Formation Capital. GE is not the only investor with the fever. “The medical office building (MOB) sector is growing at 2.5 to 3 times the rate of inflation; it's growing much faster than other sectors,” notes Brent Tharp, senior vice president, originations, GE Healthcare Financial Services.

Why is this? What has created such a seemingly sudden interest in healthcare real estate in general, and MOB in particular? If healthcare real estate is really a golden goose, why has nobody noticed before? And how does one go about valuing assets like this? The answers lie in the convergence of macroeconomic factors, the changing landscape of healthcare itself and an unprecedented accumulation of dollars entering capital markets.

Have You Seen Your Economist Lately?

One reason healthcare investments remain attractive to real estate investors is that medical buildings are somewhat less susceptible to the vagaries of the traditional real estate market cycles. As Tharp points out, “Healthcare is generally a recessionary good as far as the economy goes; healthcare is always needed.” Because of this, there's an appeal to being in the healthcare sector – period.

Kevin O'Neil, executive managing director, Trammell Crow Healthcare Services (the healthcare arm of CB Richard Ellis), sees the same forces at play. “Healthcare is expected to surpass manufacturing in the next 10 years as the largest industry in the U.S. People want to be in the largest growth industry in America. Real estate is a way to get in on the sector in a way that mitigates risk for people who don't want to underwrite pharmaceuticals or genetics engineering or biotechnology.” From O'Neil's perspective, owning an MOB next to a successful hospital is a way to participate in the healthcare industry while leaving the riskier investments in medical operating companies to venture capitalists.

Not all the attraction is on the buyer side however. Another important driver of investment capital flow into healthcare real estate is a sea change in hospitals' attitudes toward outside ownership of properties situated on or adjacent to their campuses. Traditionally the owner of these assets, hospitals have become much more comfortable with outside investors owning real estate on their campuses. Whether due to financial needs or regulatory or other business concerns, many hospitals don't want to own MOB anymore. Jonathan Winer, managing director, Ernst & Young, Transaction Real Estate Advisory Services Group, has observed that as medical office investors have grown in terms of sophistication and capital availability, hospitals have increasingly viewed real estate sales as part of their capital strategy.



“The medical office building sector is growing at **2.5 to 3 times the rate of inflation**; it’s growing much faster than other sectors,” - Brent Tharp, Senior VP, Originations, GE Healthcare Financial Services.

Checking The Vital Signs

Aside from the realities of the healthcare industry at large, investors' interest in medical office buildings also stems from the strong fundamentals of healthcare real estate. Notes Tharp, "The default rate on MOB loans is extremely low. Any serious look at how those properties perform will reveal that they perform extremely well." Longer lease terms (in excess of seven years), high triple-net occupancy, strong renewal rates and favorable triple net lease stipulations make the revenue stream much more certain than that of a traditional office building. And MOBs generally don't compete for tenants from submarket to submarket, because one of the key drivers in leasing space is proximity to the hospital(s) where the physicians have practicing privileges. (For more on MOB leasing, see "Understanding the Larger Gene Pool.")

But inasmuch as these fundamentals are strong, they are appealing to specific kinds of investors. "For traditional office building investors, the strategy has often been to buy an under-leased building and then lease it up and get a rent spike," Tharp points out. Because of its fundamentals, healthcare real estate offers a lower risk profile and a lower return profile, making it attractive to REITs and public pension funds, as opposed to more value-driven investors.

MOB Underwriting 101: Checking In at the Hospital

Strong fundamentals aside, healthcare real estate underwriting is very different from that of the traditional commercial office acquisition. "MOBs are definitely a different asset class. The level of underwriting is intense and requires a level of knowledge about the business of healthcare. This requirement may be more apparent on the development side, where the licensing, permitting and regulatory issues associated with these facilities that are not part of a standard office building," says Vincent Cozzi, vice president of acquisitions, Ventas Healthcare Properties.

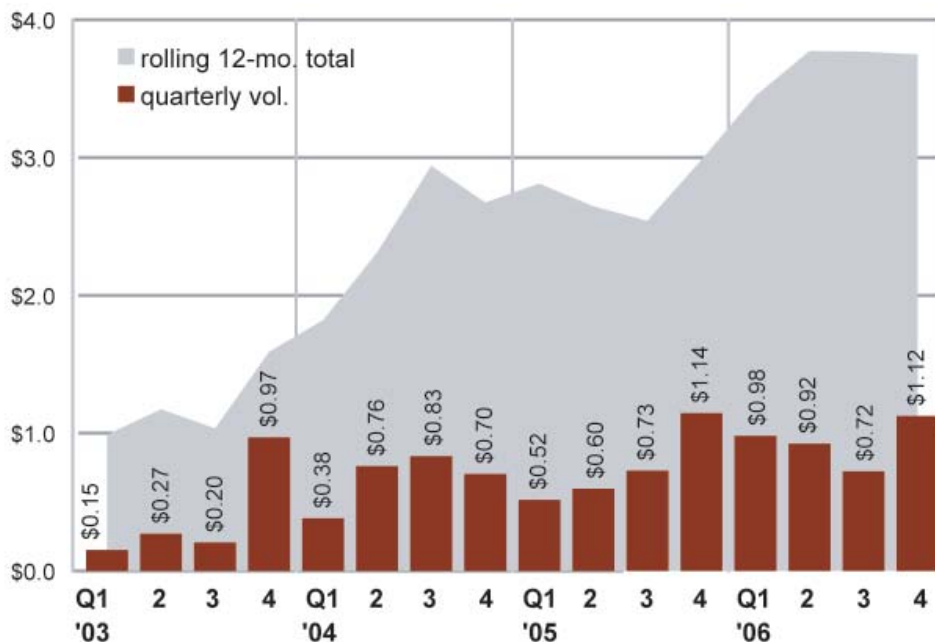
More than anything, the success of the hospital is absolutely critical to forecasting the health of the on-campus MOB investment. Even for off-campus buildings, the fitness of the local healthcare system is a consideration. "It's an aspect of the ownership that you have no control over. If a hospital does poorly, you can be in trouble. Most investors place a lot of weight on the financial health of the hospital," advises Winer. "I've seen cases in which great real estate combined with a marginal hospital produces acceptable results, but I've also seen relatively unimpressive real estate sell very well because it's associated with a well-performing, growing hospital." Investors have to choose their hospital dance partners very carefully. This is especially the case when MOBs are purchased directly from hospitals who have deferred maintenance and technological investment.

But the due diligence goes even deeper than the general financial health of the hospital system, observes Cozzi. "The MOB investment underwriting process includes evaluating the underlying healthcare business as well – the operator, provider of care, profitability drivers and how the level of service is tied to profitability." To get a full appreciation of this, an investor has to understand the tenant mix in the building and how the referral patterns work among the physicians themselves and between them and the hospital. Arriving at the right value is not an easy task.

The unique relationship between healthcare systems and MOBs continues to impact investment value long after all the papers are signed. Even as hospitals have gotten more comfortable with the idea of outside owners and investors, they nevertheless want to retain significant control in these deals. "Healthcare systems want to ensure that the investor is going to be an honorable and trustworthy partner. They want a document to keep everyone honest and performing to commitments for the life of the asset." says O'Neil, adding that, "The MOB is an important part of

*Because of its fundamentals, healthcare real estate offers a **lower risk profile** and a lower return profile, making it attractive to REITs and public pension funds, as opposed to more value-driven investors.*

Healthcare Real Estate Sales Volume



Volume in billions

Chart courtesy of: Real Capital Analytics

the hospital's image. It's the 'front door.' These MOB's house the hospital's revenue stream, because the doctors in the MOB refer patients to the hospital for their more acute care needs. This creates a very interesting dynamic between tenant and landlord and the very large neighbor next door, the hospital."

Hospitals typically maintain this control over their on-campus MOB's through ground leases, which can prove challenging for an investor. "In a competitive market, investors need to provide the hospital with key controls while at the same time ensuring that the asset is a sound investment," says Winer. "The terms of the ground lease can raise issues for future investors and lenders, because the ground lease can include, among other things, provisions that allow the hospital to approve tenancies and offer them rights of first refusal if the building is sold."

Beyond the ground lease, the hospital's role in developing, leasing and managing a successful on-campus MOB asset can hardly be overstated. Hospitals are typically intimately involved in the leasing plan, as their physician recruitment strategy must be addressed in marketing the building (see "Understanding the Larger Gene Pool" for more on this issue).

Hospitals can often use prime MOB space, or increased joint venture opportunities, as strategies for courting new physicians or keeping existing ones where they are. (See "The Doctor is In – And Not Just as a Tenant" for more about healthcare real estate joint ventures.)

What's the Prognosis?

Most healthcare industry analysts are bullish on healthcare real estate markets, pointing to strong demographic trends that suggest healthcare industry growth will continue as baby boomers retire and life expectancies are extended. But does prolonged growth in healthcare itself augur strong growth in healthcare real estate?

"Medical Office is hot today but will it be hot in five years?" asks Winer. "If there's an industry issue – a major issue with a hospital – investors could sour." But most people think that even if a hospital closes, the land that the on-campus MOB occupies is still pretty valuable, so they have that protection. Partially because of the reasons outlined above, but also because of investment strategy, most healthcare investors are looking to long-term partnerships. "Our challenge is to find opportunities for growth,"

says Cozzi. "We are focusing on hospital systems that are growing existing specialties, and we want to be able to grow with that system and be a partner in that growth."

Winer also sees robust health for the sector ahead. "Healthcare is shifting to an outpatient model. MOB's will benefit from our aging population and the push to move higher acuity activities in to these buildings." And with that change in acuity, so likely will come a change in the dynamics of the investment and ownership of MOB's—which means that investors and owners will need to be prepared for "regular check ups."

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THE DOCTOR IS IN

Hospitals, developers and physicians check in to MOB investments

As hospitals look to reap capital invested in medical office buildings (MOB), the opportunities for third-party developers and physicians to invest in healthcare real estate continues to grow. These joint ventures (JVs) can take two forms. They can be structured for clinical practices, which often serve as anchor tenants for MOBs (e.g. surgery centers, specialty hospitals, diagnostic or imaging centers). Alternatively, the JV can include ownership in the building itself. While developers have always been a player, their role is increasing. Physicians, on the other hand, are relatively new to the JV game as they look to diversify their incomes by staking their odds on a healthy market. Below are perspectives from a panel of experts on the universe of JVs.

“Many hospitals are deciding to co-invest with physicians, especially for the clinical practices often housed in the MOB. Their logic is that it’s better to have a share of the outpatient business and have branded loyalty from physicians and patients for their inpatient requirements. Physicians readily see significant benefits to partnering with the hospital in the operating business of their medical specialty, where returns are often higher than on the real estate side. Real estate JV’s are growing, but the day-to-day cash returns are not as attractive to physicians who are used to seeing higher returns from their medical practice partnerships. Since the cash flow returns can be relatively modest, the physician’s upside on real estate deals revolves around the liquidity of the investment and the timing of distributions around capital events – sales or refinancings.”

-Kevin O’Neil, Executive Managing Director
Trammell Crow Healthcare Services, (Healthcare arm of CB Richard Ellis)

“Increasingly, as doctors have felt squeezed by changes in reimbursement levels, they have looked for other sources of income – one of which is the real estate where they practice. The other is the clinical practice(s), such as diagnostic centers or surgery centers, in which the doctor is involved. In these cases, the physician tenant is also an owner. From an underwriting standpoint, as a lender you prefer that there be a hospital as a JV partner. A hospital will refer patients because it has an economic interest in doing so. That said, often times the hospital’s interests run counter to what a developer or investor may want. The hospital may have several competing uses, so it will restrict those uses in the MOB ground lease.”

-Brent Tharp, Senior Vice President, Originations
GE Healthcare Financial Services

“One of the reasons doctors have been moving off campus and building their own buildings, or going into private non-affiliated buildings, is because the hospital has no control over services, allowing the doctor to capture the revenue. Some of the more progressive hospitals believe it’s better to have a part of the pie than none of it when the doctor leaves. They are now partnering with physicians in a way that allows the physicians to get profit from imaging, labs and other services.”

-Mark Johnson, Senior Vice President
DASCO Companies

Many hospitals have concluded that it is better to joint venture with physicians rather than risk losing the business to a non-affiliated venture. In these situations, developers have to be careful that they don’t play the role of venture capitalists by funding high tenant improvement costs for start-up surgery centers or specialty hospitals. Hospitals should also clearly understand the risks in situations where they are asked to back the lease obligations of these ventures.

-John Winer, Managing Director, Real Estate Transaction Advisory Services
Ernst & Young



Understanding the GENE POOL

Hospital systems can make medical asset management more difficult – and more rewarding

Phil Mobley, Kingsley Associates

For most large investors, the preferred play in healthcare real estate is the on-campus medical office building (MOB) with a strong hospital relationship. As noted in “A Fever for Medical,” there are a great many benefits to these assets. But along with the benefits comes the reality of working with the proverbial elephants in the corner – hospitals. The existence of these quasi-collaborators can be a curveball for asset managers charged with maximizing the value of an on-campus portfolio. After all, healthcare providers have a set of goals that sometimes conflict with real estate returns. However, understanding hospitals and building partnerships – even alliances – with them is crucial to successfully achieving strong real estate performance.

Diagnosing the Local Market

A lot can happen after an owner enters into a marriage of convenience with a hospital system to change the stakes of the deal. Tenants (read “physicians”) can change health system affiliations, either bringing or taking long-term leases and all their patient referrals, with them. Hospital systems themselves can consolidate, potentially increasing their own financial health and subsequently raising the value of their on-campus real estate. Though third-party MOB owners are rarely involved in bringing about these sorts of events, they are certainly affected by them.

At a high-level, these hospital-related phenomena represent a concentrated dose of what asset managers typically think of as “local market conditions.” Indeed, one of the challenges associated with adding value to a MOB campus portfolio is not only identifying unique aspects of the medical market, but also defining just what the “market” is in the first place. “The potential tenant base is limited,” says Mark Johnson, senior vice president, DASCO Companies. “It’s difficult to expand beyond the pool of physicians with hospital privileges.” To be sure, this can be a problem when there are a lot of hospitals in the area.





On the other hand, the opposite situation can be equally problematic. In some submarkets, one hospital dominates and there are literally no other MOB's outside the campus. Drew Cressman is an asset manager for Health Care Property Investors, Inc. (HCP). "We can find ourselves in a situation where it's such a microcosm that we actually are the market," he says. On the surface, this may appear to be ideal, but it is not without risk. "In these situations," Cressman explains, "our success hinges directly on the success of the hospitals."

Leasing: Is There An Easy Treatment Plan?

Having defined the MOB market, the next step for the asset manager is to add value through the leasing process. A superficial look at MOB leasing might lead to the conclusion that asset managers in this sector have it relatively easy. After all, vacancies tend to be lower than in the core office market – which is intuitive given that doctors can't lease in just any building, and even if they could, they are loathe to be too distanced from the hospitals where they practice. Add to this the fact that physicians generally lease for seven to ten years at a time, a much longer term than the three to five years typically seen for traditional office buildings. Further, they often hate to move their practices.

Of course, if it were really this easy everyone would be doing it, right? The above benefits are not without counterbalancing factors. Chief among these are the intricacies of hospital relationship management. The first complication is that most hospitals that have sold MOB's to investors have maintained a large degree of influence.

Most typically, hospitals use ground lease restrictions that apply to potential competition with hospital services. For example, suppose a hospital were to add a pharmacy just off its main lobby. The idea of leasing space to another pharmacy in an adjoining MOB would immediately become anathema, since it would draw patients away from the hospital pharmacy. This would be particularly challenging if the MOB space was initially designed and outfitted to house a pharmacy. With that leasing option unavailable, the alternative to empty space is expensive tenant improvement work. "I'll often approach a health system to try to get them to loosen the restriction," says HCP's Cressman. "But often they won't let go of the building unless it's off-campus or otherwise no longer an anchor for them in the community."

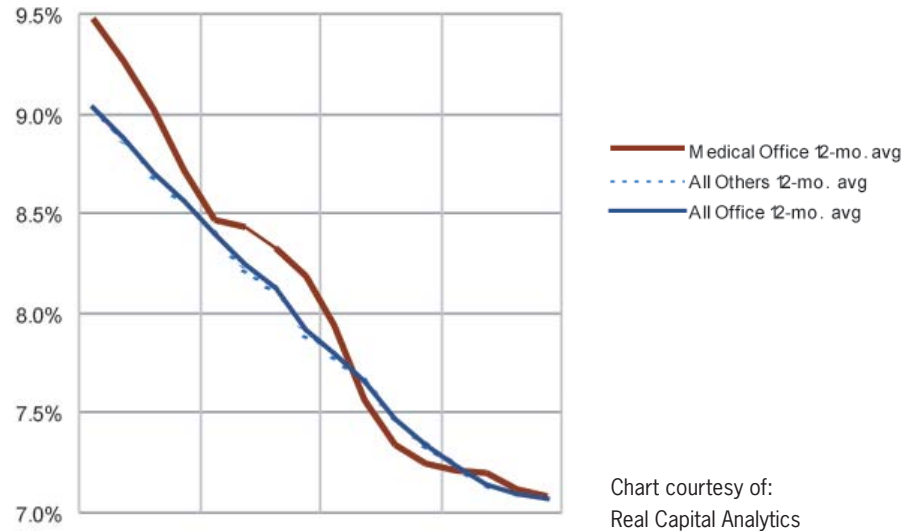
Ground lease restrictions are an obvious hurdle to successfully filling an MOB. A more nuanced test emerges when an asset manager begins to understand the way a hospital looks at

physicians (read: "tenants"). DASCO's Johnson has observed this perspective first-hand. "At a typical office building, you're more than happy to 'hang a few pictures' for a large tenant who's occupying a significant chunk of space," he says. "In an MOB, it can be almost the opposite." Johnson gives the example of a 1,200 square foot tenant who just happens to be the hospital's chief of medical staff. From a rent perspective, that tenant's value is insignificant. But his importance to the hospital is tremendous.

The typical physician in an on-campus MOB can generate \$1.5 million in annual admissions for the hospital, ranging from \$750,000 for an internist to as much as \$3 million to \$5 million for a good orthopedist. The clear implication is that hospitals have a well-defined pecking order for doctors who want to lease space in "their" MOB's. As Johnson explains, "They want to lease to high-admission doctors – oncologists, orthopedists, cardiologists – before dermatologists, psychologists, dentists, optometrists, etc."

Effectively creating value in this environment requires a big-picture approach. "In the chief of staff situation, we have to understand that tenant's importance to the MOB is also tremendous because all the physicians there talk to each other." This is especially true when

CAP RATES



multiple physicians use the same practice manager (meaning everyone knows everyone else's rent).

Not Your Typical Patient: Office Meets Retail

Hospitals' prioritization of tenants comprises one element of an additional challenge to MOB leasing. While MOBs are part office, they are also part retail. Patients are consumers of medical care, and they generate much more traffic than what is experienced in a traditional office building. (See "Managed Healthcare" for more on the management issues associated with the "retail" elements of MOBs.) Because of this, simply filling vacant space with the first available applicant isn't always the best approach. The concept of tenant mix is crucial to maximizing value.

From the perspective of both the hospital and the physicians, having complementary practices nearby is extremely important. Doctors have an interest in referring to nearby specialists; hospitals want to provide exhaustive care in their respective segments, be it comprehensive or niche. Given that the pool of potential tenants is already limited, maintaining the proper balance of specialties adds yet another level of complexity.

And Then There Are The Second Opinions

Leasing challenges aside, an MOB asset manager also must deal with intensive tenant-relations issues. Often, a physician upset with something at an MOB will make a call to hospital leadership, which frequently filters up to asset management. According to Cressman, "Generally, our management teams handle these issues, since they interact with tenants day-to-day. But there are times when the hospital will call me directly." ("Managed Healthcare" addresses MOB property management issues in depth.) While this form of high-level tenant interaction isn't unheard of in the core office universe, it happens much more frequently at MOBs due to the unique role of the hospital.

Between investor appetites and management particulars, MOB asset managers must maintain the difficult balance of treating their buildings as investments while showing sensitivity to the healthcare mission of their tenants. Add in the "normal" challenges of overseeing management and leasing teams, scouring the market for potential acquisitions and keeping investors happy, and it's easy to see why this is not a job for the faint of heart.

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To accommodate physicians' extended schedules, property managers must be flexible and **highly committed to service.**

*MOBs Pose Unique
Challenges to
Property Managers*

“Managed” HEALTHCARE

Daniel Mazmanian, Kingsley Associates

As the landscape of healthcare real estate continues to develop and evolve, one element remains firmly constant: the need to effectively manage these unique assets. Populated by a demanding tenant set and characterized by distinct operational requirements, health care properties present a host of management pressures that are less pronounced in other asset types.

The Patient Crunch

Perhaps the most visible day-to-day difference between managing healthcare properties and traditional office buildings is the sheer volume of tenants and traffic. Medical office buildings (MOBs) typically house a multitude of smaller physician tenants whose livelihoods hinge on serving many patients each day. In a sense, MOBs are more like high-traffic retail than typical office buildings. Mark Johnson, senior vice president at DASCO Companies, sums it up as follows: “It’s extremely tenant- and patient-intensive. There’s an unbelievable amount of foot traffic. As an example, I know of a hospital in Chicago where the valets alone park 500-700 cars per day.” Delivering quality service in this high-density environment can place great strain on property managers and is made more difficult by the varying needs of patients, many of whom have distinct physical limitations. As such, great attention must be devoted to the path of travel to offices, as well as to common area services and amenities.

To continue the retail analogy, health care buildings are typically open longer than traditional offices, often six days a week, including evening hours. To accommodate physicians’ extended schedules, property managers must be flexible and highly committed to service. “We have to give them what they need to do their business. They work a lot of hours, and they want to meet you at 6-7 AM, or after their last patient leaves. You just can’t interrupt their golden time,” explains Johnson. Edie Scurto, senior vice president at BremnerDuke, points out that physicians tend to view their practices (and hence, their offices) as extensions of their homes. Accordingly, they expect and require a higher level of responsiveness than do other tenant types, who may not be as personally invested in their workplaces.

While service challenges have always been a defining characteristic of health care property management, today’s uncertain economic climate for doctors has intensified the demands on property management teams. With reimbursements from both government and private insurers declining and costs increasing, physicians are becoming increasingly challenged to cover their expenses and sustain their incomes. In response, many are looking to increase their daily patient load, stretching hours further and intensifying an already taxing operational situation.

Operations...Without a Scalpel

Even from a basic operations standpoint, health care properties present management teams with a host of considerations that are at once unique and highly demanding. Part of this difficulty ties back to the long and somewhat variable hours that physicians work. As an example, though a MOB may be 90 percent vacant one evening, the sole physician seeing patients might require that all building systems be kept running. Johnson explains, "I've had cases where we were keeping a 200,000 square foot building operating just to keep one tenant happy because that one tenant wanted to see patients after hours." Scurto commiserates, adding that a physician's desire to see patients after hours can create situations that result in pushback on the property management team. "A lot of doctors want to have extended hours, so we'll run the HVAC system longer. Of course, this raises expenses, which conflicts with the doctors' desire to control expenses."

Other operational issues are more endemic to day-to-day execution of the business. For one, the equipment-intensive nature of modern medicine necessitates a high level of electrical functionality. Many MOBs – as well as specialty offshoots such as surgery centers – require a dedicated generator to meet electrical needs. Another nuance is waste disposal, as many physicians deal with infectious and hazardous waste daily. To effectively dispose of these materials, as well as to control blood-borne disease, some practices need specialized exhaust systems with HEPA filters. HVAC and plumbing demands are also considerable, owing to regulatory requirements of the day-to-day business being conducted.

More generically, health care properties require more extensive cleaning than is necessary in other property types. To be sure, both physicians and patients demand a highly sanitized environment, which can be time-intensive to realize. As Johnson describes, "For an MOB, the spec for cleaning is roughly 2,000



square feet per hour. For an operating room, it's 900-1,000. That compares to 4,000 for a traditional office building. So that means that at a minimum it takes either twice as many people or twice as much time to clean the space."

Faced with these service and operational challenges, as well as with what Scott Forrest, vice president at Equity, Inc., describes as "the combined intensity of Class A office and high-traffic retail," MOB managers undoubtedly have their hands full. So how can managers effectively weather the storm? And perhaps more importantly, how do they create an environment conducive to the quality medical service their tenants are seeking to provide?

Know the Business of Healthcare

As explained by each of our experts, the first step to effective MOB management is learning the fundamentals of the industry. Armed with an understanding of medical care delivery and its challenges, a property manager is better positioned to anticipate and address tenant needs. According to Forrest, managers should be well-versed in the types of specialties in the building, how practice spaces differ according to use, what services are unique to medical environments, what constitutes urgency for service and how to manage the complexities of

medical tenant relations. He adds, "If you are the manager of an office building with a large insurance company as anchor, you are not a better manager if you understand insurance. In a medical services environment, however, you are a better manager if you understand how healthcare services are delivered."

For managers with little or no healthcare experience, speaking directly with physicians can offer a good introductory crash course. Johnson did just that, explaining, "When I started out, I had never worked medical. I had a doctor walk me through how the office worked. I saw where the records were kept, how he used each room, how the billing and scheduling was done – everything." However, as different specialties have unique space and equipment needs, the learning process can be long and ever-changing for property managers.

Beyond a mere tactical understanding of the health care industry, effective MOB managers will also be empathetic to the business concerns faced by physicians and hospitals. As Forrest describes, "The difference between an average MOB manager and a great one is their passion for the healthcare mission and empathy with those that are endeavoring to provide care. With this passion comes the proper sense of urgency, respect for the participants and

an unwillingness to compromise the outcome of the management enterprise.” As with all property management engagements, however, empathizing with and serving tenants must be handled with a keen eye toward financial goals. Scurto describes it as maintaining an “asset manager’s perspective;” that is, “controlling expenses while at the same time meeting tenants’ needs.”

Cultivating a Healthy Physician Relationship

For Scurto, perhaps the most rewarding element of health care property management is the more personal nature of the relationship between manager and tenant. She describes it as follows: “You really get to know the physicians, and they appreciate the little things you do for them. I’ve gotten to network with a wider variety of personalities than I otherwise would have.” On the flip side, the toughest element can be that despite all efforts and intentions, certain issues remain outside of the control of the property manager. (Parking is perhaps the prime example of this, but in fairness, it is an issue that evades the grasp of nearly all constituencies involved in healthcare real estate.)

For the most part, though, property managers hold the controls to day-to-day interactions, and as such are uniquely positioned to enhance the health care mission of their physician tenants. As we’ve learned from our industry experts, delivering quality service in this demanding, high-density environment can be rather difficult. In the end, property managers who truly understand the nuances of MOB’s are best equipped to deliver results - both to internal stakeholders and to the health care system at large.

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BKQ BEST Practices

The top 5 skills required of successful MOB property managers.

- 1 Empathy with business mission of tenants**
Understanding physicians’ passion for health care and their ownership of their practices is critical to quality management.
- 2 Relationship building with multitudes of physician tenants**
The universe of MOB tenants is tight-knit making it extremely important to have a good reputation for service.
- 3 Fanatical responsiveness**
Service issues like HVAC and cleaning are particularly urgent at MOB’s, and expected response times reflect it.
- 4 Asset management/value creation perspective**
While controlling costs can be a challenge when physicians are used to maximum flexibility in operations, they (and MOB owners) will appreciate the impact on the bottom line.
- 5 Ability to gracefully address issues beyond one’s control**
Ground lease restrictions and financial considerations can make saying “yes” impossible, but saying “no” in the right way can build goodwill, especially when a manager can be an advocate for change.

BOMA International

Founded in 1907, the Building Owners and Managers Association (BOMA) International is an international federation of more than 90 local associations and affiliated organizations. BOMA's 16,500-plus members own or manage more than 9 billion square feet of commercial properties in North America and abroad. The mission of BOMA International is to enhance the human, intellectual and physical assets of the commercial real estate industry through advocacy, education, research, standards and information.

BOMA International provides the industry's only education program exclusively dedicated to healthcare real estate through its annual Medical Office Buildings and Healthcare Facilities Seminar. The 2007 Medical Office Buildings and Healthcare Facilities Seminar will be held July 19-20, 2007 at the Marriott Marquis in New York City. The seminar features a full program addressing every aspect of medical office buildings, ambulatory surgery centers (ASCs) and other healthcare facilities—from financing structures and ownership issues, to leasing and marketing, to operations management. For additional information about the seminar, including registration, please visit <http://www.boma.org/TrainingAndEducation/MedicalOfficeBuildings/>.

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Kingsley Associates

Kingsley Associates has been delivering results for real estate companies since 1985. Our strategically-focused solutions enable our clients to drive organizational efficiency, increase profitability, and position for success. Kingsley Associates' focused research and seasoned professionals distill intelligence from data and action from information. Kingsley Associates is at the convergence of real estate business intelligence, working with the best and brightest in the industry. Sustained involvement. Thought leadership. A finger on the pulse of industry trends.

Kingsley Associates is a leader in real estate research initiatives such as tenant/resident satisfaction surveys, client perception studies, strategic consulting and operations performance benchmarking.

Business intelligence for the real estate industry.



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