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A low-angle photograph of a modern medical office building. The building features a prominent curved glass facade that reflects the sky and clouds. To the left, a section of the building has a light-colored, horizontally-slatted facade. The word "odist" is partially visible in blue lettering on the lower left side of the building.

FINDING VALUE IN MEDICAL OFFICE PROPERTIES IN TEXAS

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INTRODUCTION

Texas has been known as the home for oil and gas, but this traditional industry focus has begun to shift. Texas has become the ideal place for many upcoming bio-pharmaceutical and healthcare services businesses as well. The fact that these companies continue to expand and relocate to Texas is the result of favorable business environments and higher skilled employees.

This obvious trend has also received the attention of real estate companies and developers. The tens of thousands of people going to medical schools, working in colleges, employees in medical companies, doctors, scientists, and researchers all need a place to live and work. As a result, commercial construction companies realized that there is a huge market for medical office space in Texas and tremendous opportunities in medical office properties. These swift developments have occurred all throughout Texas, but the trend has been even more prevalent in the major metropolitan areas of Dallas, San Antonio, Austin and Houston.



TEXAS HEALTHCARE OFFICE MARKET

DALLAS MEDICAL PROPERTIES

Dallas has been identified as the country's second most operative medical office market. The construction of medical office buildings is increasing seemingly every day. Unlike in the past, these offices are being built away from hospitals and medical colleges and closer to suburban areas. Dallas has many office space construction projects currently taking place valued at over \$500 million. The metro area has been soaring high in the Texas real estate markets and has attributed to the growth in rentals.

Medical space continues to grow, and currently, the average square foot of medical office buildings in the metropolitan areas is 60,000 square feet. Dallas is a solid medical office property environment and there is plenty of value and opportunity for investors.

MEDICAL SPACE IN SAN ANTONIO

The construction of offices for medical use in San Antonio has been growing fast over recent years. Many firms are into construction of medical office buildings and are currently at an average of 60,000 square feet. San Antonio has become home to opportunity-driven developers who have realized the need for the medical space buildings and worked on it to provide doctors appropriate offices.

Doctors have proven that they have constant businesses and make the best tenants since they are resistant to recessions. Medical office market reports have it that the market at San Antonio is strong since it has raised a sum of 71,489 square feet of positive net absorption during the second quarter of the year. There has been growth in rent to \$25.02 per square foot.

With the aging demographic, strong military presence and solid infrastructure, San Antonio is an attractive area with lower acquisition costs than other major metropolitan areas.

AUSTIN MEDICAL OFFICE MARKET

Austin has become a major metropolitan area that real estate companies have gained interest in. The city has over 5,300 practicing doctors with 41 hospitals and over 5,200 staffed beds. The medical office construction has been going up, with the immediate occupancy going to 95% and the rent rising to \$28.15 per square foot. Major constructions for medical space continue to occur in Cedar Park, far northeast, George Town, Hays County, Round Rock, Northwest, South, and West Central. Medical office buildings are no longer built close to hospitals, and this is evident as the CBD in Austin has five buildings for available space. The southern part of the city leads with 79 buildings, followed by the southwest with 78 and central with 70.

HOUSTON MEDICAL OFFICE CONSTRUCTION MARKET

The medical office market continues to elevate its status in the city of Houston. In the year 2018, four thousand jobs were created in the medical field and continues to expand. The new job market led to the need for more housing and medical offices. The medical office leasing and renting has increased as there are more than 4.3 million square feet of hospital construction. There is about 500,000 square foot of medical space construction taking place in Houston. The rental rates have gone up from \$21.99 per square foot to \$27.71. Sales agents have recorded a great increase in the leasing of buildings for medical office use. The Texas Medical Center takes the lead as the world's largest medical complex with over 1300 acres and 50 million square feet of developed space.



FACTORS THAT CAN INCREASE VALUE FOR INVESTORS

With many Americans being able to utilize healthcare services, the need for more medical office space continues to grow. This growth can easily create a demand for new construction which can become profitable for an investor. Considering this fact, there are five things that could turn new medical office space into a real estate goldmine in Texas.

The Healthcare Industry Shows Resilience

Although there is advancement in technology within the healthcare industry like video used for appointments, there will never be any technology to replace the need for in-person visits to a doctor. This includes times where a patient needs to have treatments, or a procedure done in an office. Simply put, there are a lot more individuals today who are able to obtain necessary healthcare services. With this increase, the need for an increase in medical office space is also necessary.

New medical office spaces are also resistant to recession. This is due to the fact that there are some ailments that cannot wait to be checked out by a medical professional such as broken bones.

An Aging Population

As long as the population continues to get older, more healthcare services will be needed. This is especially true for the generation of Baby Boomers. With more than 70 million of this generation, the need for healthcare commercial real estate continues to be in high demand. With an increasing number of aging Boomers, the value of commercial real estate used for medical office space will only increase well into the future.



Multi-purpose

An advantage of having a medical office space is its ability to be multi-purpose. Being multi-purpose and diverse, it allows many different specialties to work closely together such as radiology, laboratories, eye doctors, podiatrists, urgent care, surgeons, dermatologists, dentists, and primary care physicians. With tenants like these they are capable of relishing in a comfortable stream of income stemming from reimbursements, out-of-pocket payments, and co-pays for services rendered. Many of the medical tenants within a medical office space have some sort of connection to a bigger medical group, hospital, or medical center. With a distinct feel, buildings designed for medical office space have the potential to entice more occupants, thus increasing the buildings overall attractiveness as commercial real estate investment.

Secure Occupant Credit

Providers of healthcare services are known to have secure credit, so they are able to occupy commercial real estate and medical office space. This can easily attract more of these tenants such as auxiliary service providers. However, if similar providers already exist in a building, then another provider may not be interested, but having a dentist, plastic surgeon, or day spa may be happy to move in. When auxiliary services move in, they can bring in new patients for all tenants of the medical office space and surrounding vacant commercial real estate.

Location of the Medical Office Space

Location can be key when medical office space is concerned. When they are located in a strategic area such as a suburb or downtown, they can provide individual benefits. The important thing is that they are within distance of major hospitals or specialty clinics. This is especially true for older patients who may need several different specialists like an Orthopedist, Oncologist, or Optometry services. It is highly likely that a senior may have multiple appointments within a single day, so having ease of location will allow them to make it to all of their appointments.

OTHER UPCOMING TRENDS

Coworking is a popular trend for traditional office space which has begun to evolve into the medical office space. One company, MedCoShare provides flexible medical office leasing to healthcare providers without long-term commitments. This type of arrangement works well for medical practitioners like nutritionists or allergists who don't require large amounts of specialized equipment. Astute investors can buy and convert or build medical facilities to take advantage of this new trend.

CONCLUSION

With the pandemic, medical facilities, hospitals, and clinics have been a big focus last year, but continuing well into this year. While some health facilities may not be good long-term opportunities, medical office properties with financially stable practices and individual clinics are excellent opportunities for any real estate investor. With vacancy rates less than 5 percent, medical office properties in Texas are an attractive option to consider.

ABOUT CIVE®

CIVE® is an upscale Design-Build firm, specializing in top-down build process driven by value engineering – from state-of-the-art design, leading-edge engineering, high-quality construction, and elite project management.

Our strengths lie in a rich mix of talent, experience and ingenuity. Our clients can depend on us to anticipate industry changes and plan for the future, while providing most practical and cost-effective solutions. CIVE® devotes customized, individual service to all its clients, whether large or small.

Specialties: Residential, commercial & industrial design, civil engineering, structural engineering, MEP design (mechanical, electrical and plumbing), construction management & project management.



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