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Outpatient medical facilities show healthy gains in the city

High inpatient costs lead hospitals, docs to open full-service walk-in clinics

BY GALE SCOTT

For decades, a five-floor retail space at 36 E. 32nd St. was a venue for Oriental-rug shopping.

Now it's a good place to find a doctor.

Faced with rising rents and limited showroom space, the carpet merchants have rolled up their hand-knotted kilims and moved on. Their exodus started two years ago, said Paul Wexler, a Manhattan-based broker who leads Corcoran's Healthcare Properties Team.

Gleaming new medical offices leased by four separate practices

now occupy the four floors the rug sellers vacated.

It's a sign of the times.

Health systems and physicians are opening more outpatient facilities as pressure grows to reduce ex-

'Providers are trying to make themselves more accessible'

pensive inpatient hospital care. At the same time, demand for medical care is on the rise as the city's baby boomers age and more New Yorkers buy health insurance to comply with health reform's individual mandate.

As a result, medical offices are springing up around New York—and the country. That has made finding workable spaces throughout the city, especially in Manhattan, particularly difficult, Mr. Wexler and others agreed.

"Demand is significant," said Dan Fasulo, managing director at the New York City office of Real Capital Analytics, commenting on the market here. (The global company specializes in interpreting commercial real estate data for investors.)

Though none of the brokers or analysts interviewed by *Crain's* had numbers showing how New York's medical-office market compares with national trends, all offered anecdotes of recent projects underway.

Hospitals and doctor-entrepreneurs are opening full-service medical offices offering both emergency



care and routine services such as sports physicals or vaccinations. These also include recently constructed freestanding ambulatory care and same-day surgery facilities, renovations of commercial or residential towers to create full-floor medical suites, and the emergence of walk-in urgent-care clinics at sidewalk levels.

That last one is a new phenomenon for Manhattan, said Mr. Fasulo: "There is a trend of more medical groups leasing retail storefronts." Cure Urgent Care, for example, announced recently that in May it will open the first of six city walk-in clinics at a ground-floor location on the Upper West Side.

The hottest Manhattan zone for medical-office space is the corridor along and near Madison Avenue from the East 30s to the Upper East Side. Mr. Wexler reeled off several ex-

amples of recent deals: a 4,400-square-foot medical condo at 62 E. 88th St., leased to a group of obstetrician/gynecologists; a suite in a residential building on East 61st Street between Park and Madison avenues, leased to a spinal surgeon; and the sale of two medical condos at 737 Park Ave. totaling about 3,000 square feet.

Several factors are at work. The growth in demand is part of a national trend. According to Real

Capital Analytics, sales of medical-office buildings climbed to \$6.7 billion in 2013. That broke a 2012 record of \$6 billion in sales, a milestone cited last year by Jones Lang LaSalle, a Chicago-based company that specializes in commercial real estate services and investment management. The prior peak was \$5.5 billion in sales in 2006.

Inpatient volume was down 5% in 2013, said Mindy Berman, managing director of capital markets at Jones Lang LaSalle in Boston. "And we expect that to continue as procedures migrate to outpatient settings," she said.

As part of that change, hospitals are buying up physician groups, centers for laboratory tests and other diagnostic services, and consolidating them in new facilities. The impact is particularly acute in Manhattan, where health systems are competing for the borough's relatively well-insured population.

One tactic is to open attractive centers in neighborhoods where people live and work, instead of the traditional approach of putting facilities in or near their hospitals.

"Hospitals are going into areas that were previously underserved; providers are trying to make themselves more accessible," Mr. Wexler said.

Dr. Alexander Krishtul, a family-medicine specialist, has set up such a practice at 1036 Park Ave., advertising on the Internet for patients and offering walk-in services. He left an urgent-care chain in 2009 to strike out on his own. "I like the location; it's near the subway," Dr. Krishtul said.

"People have easy access to get here."

Doctors are thinking about what their customers want. "People want a convenient place open outside of business hours without an appointment," Ms. Berman said.

So far, according to Jones Lang LaSalle's analysis, hospitals are mostly choosing to lease spaces rather than buy them. Developers and investors put up about 73% of the capital involved in medical-office building sales in 2012, and hospitals only 27%.

'Med Men'

"That's why they look to companies like ours," said Guy Leibler, president of Simone Healthcare Development, a specialist in building or renovating outpatient facilities. The company has constructed medical offices for Montefiore Medical Center, Calvary Hospital, Einstein College of Medicine, Mount Sinai Hospital and various medical groups. Simone's recent deals include the Park Avenue Medical Arts Center, a 19,000-square-foot, \$11.5 million medical-condo space in a residential building at 62 E. 88th St.

This spring, the company plans to open a multiuse facility on the campus of the Hutchinson Metro Center in the Bronx. "We bought a former bakery, where they made Old London melba toast," Mr. Leibler said.

Simone renovated the space, and the new tenants include a Residence Inn hotel, an LA Fitness club, various retailers on the first floor, and two floors of medical-office space.

But for Mr. Wexler, the most dramatic development is the popularity of the blocks on and near Park Avenue and Madison Avenue, from the Flatiron district to the Upper East Side. "We've gone from *Mad Men* to 'Med Men,'" he said. "In the past, Madison Avenue was mainly advertising. Now we've got a whole slew of doctors." ■

SUITE DEALS

Medical offices sold last year:

Address	Price	Buyer
15-17 W. 44th St.	\$29M	Boutique Real Estate Advisors
525 Park Ave.	\$21.8M	Lido Realty
104 E. 40th St.	\$6.3M	Dr. Ken Moadel
1865-1867 Amsterdam Ave.	\$3.8M	SoHo Properties
104 E. 40th St.	\$3.1M	Richard Nejat, D.D.S.
1820 Madison Ave.	\$2.7M	APNA Realty

Source: Real Capital Analytics, January 2014

