



## The Tucson Medical Office Market

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**T**he Affordable Health Care Act not only threw consumers in a lurch, it created lots of unknowns for those in the medical arena. Imagine if the government came in and changed the way real estate is handled.

For those of us who have been around a bit, we remember clearly the Tax Reform Act of 1986 and what happened to the real estate development market after it was passed? In Tucson, it meant that no speculative construction occurred at all in our market between 1987 and 1993.

That is pretty much what happened when Obamacare was passed. The current political climate only fuels the uncertainty and reminds all of us “what the government gives, they can take away.” Just like then, the healthcare changes have created much uncertainty for providers and patients alike.

So much for the promise that you could keep your health care plan, your doctor and would be saving money. Everyone seems to have a bad story to share. We are no exception.

This uncertainty candidly has created a lot of potential opportunities for those real estate professionals who focus on medical real estate.

Many smaller practices have scaled up by consolidating offices into 1 or perhaps even 2 or 3 larger practices that are strategically located to create a “supercenters” rather than handfuls of scattered clinics and medical offices throughout the community.

This movement creates a lot of brokerage opportunities, as these practices will need to lease or sell their existing properties and look for new larger ones. Two areas that have heavily dominated much of this consolidation into larger practices, or buildings are OB-GYN practices and Pain Centers.

Through the first eight months of the year the medical office market experienced 7 lease transactions that were 5,000 square feet or larger. These combined medical leases accounted to close to 50,000 square feet of space. The average lease was just over 7,100 square feet.

This compares to 7 office lease transactions that were over 5,000 square feet that were completed during this same period of time. Those office leases averaged close to 13,000 each and combined to account for roughly 90,000 square feet in total lease transactions. Only one of these, Scientific Learning’s lease at Tri Point Plaza, approximately 11,000 square feet, was a renewal and the balance were all new tenants.

As stated, most of the medical transactions were renewals, or in a few cases were renewals with an expansion component. These included:

- Genesis OB-GYN: 7,200 square feet at 6565 E. Carondelet
- NW Medical Group: 5,300 square feet at 2055 E. Hospital Drive
- TMC Medical Network: 5,500 square feet at 9348 S. Rita Road

New leases included:

- Total Renal Care: 7,800 square feet at 1521 E. Tangerine
- Northwest Dialysis: 6,500 square feet at 2945 E. Ina
- Dependable Home Health: 12,300 square feet at 1121–41 N. El Dorado Place
- US Healthworks: 5,250 square feet at 2945 W. Ina

Most of the lease activity occurred in the northwest part of town (4), east (2), and southeast (1). The northwest and east have the highest preponderance of where current medical inventory is located.

We expect to see some new activity in and around Banner Hospital System. The new bed tower is well on its way and will be complete soon. Likewise, so to will the new construction at what was formerly the Tucson General Hospital Campus (UMC North).

Banner has a very different model than the old UMC. They are actively seeking to affiliate with medical practices —something that simply was not necessary in the past given the relationship between UMC, University Physicians and the UA Medical School.

We have also seen a number of practices buy older well-located buildings and convert them. Drs. Senait and Duane Dyson (Dermatology and Pediatric practices) bought the vacant medical office building at 2222 N. Craycroft and totally renovated it to house their respective practices. This situation created two spaces that are now vacant and available for lease.

Likewise, Dr. Fadi Deeb purchased an older building on Swan and tore half of it down and is totally renovating the balance to create his new G.I. office with an accredited surgical center. In the process, he vacates the TMC medical park (just like Senait Dyson) and creates a new opportunity for someone else there while creating a new building close to TMC but without any of the use restrictions experienced on the TMC Campus.

Other groups that have vacated the TMC campus recently include Tucson Nephrology. They had an 11,000 square foot combined clinic and dialysis unit in a joint venture with DaVita at Swan and Lee Office Park. In the process they scaled up and combined two groups into one and are without the use restriction at their former location.

We expect the market to stay in a bit of a flux until the medical market adjust to the new reality of health care and a better handle on the future.

Although larger medical options to lease or purchase are few and far between, lots of smaller existing medical offices in the 2,000 to 5,500 square foot are available.

For creative brokers, who are in tune with their clients needs, they can bring value to the process, their services are needed more now than ever before.

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