

Innovation Abounds in Health Care Industry, Medical Real Estate

By PERRY GABUZZI and BILL COOK

PHOENIX – The future may belong to the young. However, the young at heart but over-65 set will determine the future of the healthcare marketplace.

One reason for that is by 2050, there will be 86.7 million people, or 21% of the population, who will be 65 and older in the United States. Those in that category on average visit their physician 2.5 times more often than the rest of the population. In just the next ten years, the number of Americans 65-and-older will grow by 17 million.

Because of this, investors will continue to flock to the healthcare marketplace. Investment in sectors such as Healthcare, Information Technologies, Telehealth, Biopharmaceuticals and Bioscience will drive market expansion. Changing models of market access to healthcare will result in a revised delivery system – “a hub and spokes network.”

And due to this massive growth, the medical office real estate industry is undergoing rapid and widespread change.

The Plaza Companies team took part in a recent presentation at the Arizona State University W.P. Carey School of Business Masters of Real Estate Program. During the “Innovation in the Health Care Industry” discussion, we discussed how the medical office real estate sector is changing because of the larger trends in health care.

Plaza Companies is a full-service real estate firm specializing in the development, construction, leasing and management of medical and commercial office properties, technology and bioscience facilities, mixed-use properties and senior housing communities. The Phoenix-based, connected and conscientious real estate firm has a successful track record of serving physicians, tenants, seniors, hospitals, communities, private ownership, and institutional owners.

And because of this experience, Plaza is seeing the front edge of the shifting and rapidly changing healthcare landscape.

The addition of 30-32 million new people who receive coverage and subsidies will have a huge effect on the system. One effect is that there will be a need for 64 million additional square feet of medical office space. At the same time, health care providers aren’t anxious to be the ones in charge of figuring out the best solutions to their real estate needs — they prefer to focus on their mission of providing health care.

Other effects are yet to be seen. There are sometimes more questions than answers. Rapid innovation in healthcare—from smart phone apps to retail clinics—has experts asking:

- Will hospitals compete with or be replaced by the likes of CVS, Walgreens, Walmart, Target and other retailers as they branch out into providing medical care?
- Or will firms like Google, Microsoft, Nike and others invest in healthcare technology?
- How will we care for the expanded population of insured Americans?
- How will we care for the aging population of Baby Boomers?

Some shifts and opportunities can be reflected in the role of physicians. More and more, hospitals are buying practices, which means fewer physicians are in ownership roles. Also, today's young doctors just want to come out of training and practice medicine, not run a business.

So it follows that the younger physicians lean toward hospital employment. Trends show that practices are building around larger hospitals for the best medical office space.

For example, Plaza Companies is partnering with national real estate developer Duke Realty to build a new medical office building on Banner Estrella Medical Campus in Phoenix. The facility, located on the southeast corner of Loop 101 and Thomas Road, will be called Banner Estrella Medical Plaza II and will be designed to complement an existing building—also constructed by Plaza Companies—which opened on the Banner Estrella Medical Campus in 2005.

In the health care industry—especially in the medical office and medical real estate—partnerships are playing an increasing and critical role. As an example here in the Valley, the City of Peoria, BioAccel and Plaza Companies have created BioInspire™, an incubator dedicated to medical device development that provides working capital and space to qualifying companies. More than just a facility, this collaboration was created to connect the medical device community.

Another example comes by way of Theranos, a Palo Alto-based company that's revolutionizing the way blood tests are done. It recently opened a new 20,000 square foot facility in Scottsdale, and is partnering with retail pharmacies for new health centers.

As a result, there's more inter-connectivity than ever before between physicians, clinics and the companies that provide products and services to support their critical work. The healthcare industry is becoming more interconnected, and there is more of a need than ever before to locate disparate organizations that all support healthcare efforts in centralized locations.

The end result is an industry in flux — and those who work within the industry must be prepared to be flexible as a result.

Whether you are a hospital executive, a physician in medical practice, or a real estate firm serving the healthcare industry, now is a time to prepare for change and identify future trends. The most successful organizations in the healthcare industry are the ones that are not afraid to innovate or change in a dynamic environment. This is especially true in the medical real estate industry, and it is something we live and breathe every day at our company.

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Plaza Companies, based in Peoria, Arizona, is an award-winning leader in the development and management of medical office properties, technology and bioscience facilities, and senior housing communities. Founded in 1982, Plaza Companies is a full-service firm with a portfolio of more than 5.5 million square feet valued at more than \$1 billion. For more information about Plaza Companies, visit www.theplazaco.com.

