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## Medical providers aid ailing North Jersey office market

JUNE 1, 2014 LAST UPDATED: SUNDAY, JUNE 1, 2014, 5:08 PM

BY LINDA MOSS

STAFF WRITER

THE RECORD

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Manhattan's Hospital for Special Surgery will lease 7,000 square feet at 140 E. Ridgewood Ave. in Paramus.

Medical providers such as hospitals and physician groups, spurred by financial pressures created by health care changes, are driving a surge of activity in the North Jersey office market, in terms of both sales and leasing.

Hackensack University Health Network and The Valley Hospital in Ridgewood are among the health care providers in Bergen and Passaic counties that are acquiring properties or stepping up leasing efforts.

As part of a recently announced partnership, for example, Hackensack will open as many as 10 urgent care centers in North Jersey, with the first one scheduled for later this year in Bergen County. Those centers will need space. The Valley Hospital, which has added at least \$54 million in properties to its real estate portfolio in the past two years, is looking to acquire or develop other sites for its multiple-specialty physician practice, Valley Medical Group, a hospital spokeswoman said.

In some cases, hospitals and doctors are not only renting in designated medical arts buildings, they are also either buying traditional office buildings or taking space in them, helping to fill vacancies in that ailing commercial property category.

"We can't expect health care to take up all the vacant space, but it's definitely nibbling away at it," said Randy Eigen, first vice president at CBRE's health care practice in Saddle Brook. "And it's probably one of the more active industries in terms of its consumption of office space."

This flurry of real estate transactions reflects the health care industry's efforts to operate efficiently and stay viable, particularly in the competitive New York metropolitan area, under President Obama's Affordable Care Act.

With federal reimbursements in some cases shrinking, hospitals are tightening their belts, looking to shift some services off campus, where it's less expensive to perform procedures, real estate brokers specializing in medical space said.

In addition, some doctors are opting to become hospital employees rather than have private practices. And hospitals are acquiring or forming physician groups, in part to secure patient referrals from them and to be able to more easily share medical information. In some cases that means private-practice doctors are vacating small offices, 1,000 square feet or so, and hospitals need to find larger space to relocate and group them. That's creating real estate deals.

And medical facilities, including New York's Hospital for Special Surgery, are looking to expand their reach by opening up satellite facilities in rival hospitals' turf in Bergen and Passaic.

## **Space on the market**

"There's a lot of space that's on the market, and hospitals took some of it," said Jeffrey Prezant, a director at Cushman & Wakefield of New Jersey Inc. "They are a demand generator. The health care field and the education field in the state of New Jersey have been the two biggest demand generators for jobs and space."

North Jersey's activity mirrors what is happening across the country. Last year, there were more than \$7.17 billion in medical office transactions nationally, a 7.6 percent increase from 2012, according to the 2014 Healthcare Real Estate Survey, conducted by Newmark Grubb Knight Frank's Global Healthcare Services.

In that survey, 58 percent of health systems and hospital administrators said they were looking to own more medical office buildings. Asked what real estate development is needed as part of their growth strategy, medical office buildings ranked at the top of the list, with about 22 percent citing it, according to NGKF's survey and an accompanying report.

The Valley Hospital, which is battling to get Ridgewood village approval to nearly double the square footage to 995,000 square feet on its campus on North Van Dien Avenue, has taken a dynamic role in local real estate deals, buying buildings. In one example, Valley Hospital acquired the Bolger Medical Arts Building at 970 Linwood Ave. in Paramus, for labs and to house one of its Valley Medical Group practices, Megan Fraser, the hospital's vice president for communications and marketing, said in an email. That physician group has more than 170 doctors representing more than 30 medical or surgical specialties.

Last year, Valley Hospital bought Parkview Plaza, an office building at 1200 E. Ridgewood Ave. in Ridgewood for \$28 million. The hospital is using that office building to establish the Michael R. Luckow Heart Center, bringing together Valley Medical Group cardiologists and the group's Heart Care for Women practice, Fraser said.

"In the coming year, we will continue to look for opportunities to develop additional properties for multi-specialty physician practices in other locations based on community need," she said.

Valley Hospital officials are "playing a real estate game to protect themselves," Eigen said. They are accumulating properties as a fallback in case their on-campus expansion plans are derailed and they have to instead move or establish more services off campus, he said.

## **Delivery of care changes**

Growing Hackensack University Medical Center has more than 2.5 million square feet on its main campus, and an additional 262,000 square feet throughout Bergen, hospital spokeswoman Sheri Hensley said in an email. That includes orthopedic, pediatric and cardiology patient facilities as well as the HackensackUMC Fitness & Wellness Center in Maywood, the former Velocity 17 go-kart track.

In March, Hackensack University Health Network forged a partnership with New York-based CityMD to open urgent care centers in Bergen, Hudson, Passaic, Essex counties, and possibly Rockland County, N.Y., Hensley said. Such changes in the delivery of care, with hospitals launching outpatient and ambulatory care centers, are helping to drive demand for medical office space, said Todd Perman, executive managing director for NGKF's Global Healthcare Services in Atlanta. CityMD has more than 30 urgent care centers in the New York metro area, including 23 in New York City.

"You have hospitals now that are really driving certain services outside to off-site facilities so that they can make more room for beds for really sick people," said Cheryl Bozzelli, a sales associate and health care and corporate office specialist at NAI James E. Hanson in Hackensack. "Valley Hospital is a great example where they're purchasing buildings: that building in Ridgewood across from the duck pond."

In its prior real estate activity, HUMC took three floors of a building at 360 Essex St. in Hackensack that developer Alfred Sanzari Enterprises built in 2002, said Jerry Barta, the real estate developer's vice president and director of leasing and marketing.

"In general there's a demand for medical space, but based on the location," Barta said. "There is a heightened interest on the part of medical users because the doctors have to be close to the mother ship. They have to run out to the hospital sometimes during the day to see patients or for a procedure or rounds. Being around [a hospital campus] is certainly more convenient than not."

## **Office space for medical use**

Now Sanzari is looking to line up a tenant for a five-story, mixed-use building — with two stories of medical office space — that it wants to build at 184 Essex St. in Hackensack, Barta said.

HUMC is one of a number of health care providers that leased traditional office space, that of Sanzari and other landlords, and put it to use for medical facilities. For example, HUMC in 2012 opened an off-site Heart Center at Glenpointe in Teaneck, a Sanzari property. That office complex also is home to Northeast Regional Epilepsy Group and several other medical practices.

About a month ago, HackensackUMC at Pascack Valley, a 128-bed Westwood hospital that's a joint venture of HUMC and a Texas hospital group, signed a lease for 2,273 square feet at what had been a traditional office building in Montvale. That property, at 305 W. Grand Ave., is being repositioned as a medical arts building, said NGKF Executive Managing Director Frank Recine.

Other Bergen office buildings that have been transformed into medical arts space include 113 Essex St., Maywood, and 85 Harristown Road, Glen Rock, a former Motorola facility, Eigen said.

## **Great Recession's impact**

The Great Recession, with its layoffs and company downsizings, took a toll on the overall office market in North Jersey, where the vacancy rate is still 21 percent, according to Cushman. Landlords began, and are continuing to reposition, some of those buildings in hopes of drawing medical tenants.

The New York metro market is extremely competitive for health care providers, and in North Jersey alone hospitals such as HUMC, Valley, Holy Name Medical Center in Teaneck and Englewood Hospital and Medical Center are vying for the area's affluent clientele. To broaden their net for patients, and to be closer and more convenient for existing patients, hospitals are opening offices in the heart of their rivals' turf in North Jersey, which is also stirring up real estate deals.

"It's a spoke-wheel, tentacle-type of business plan that all the hospitals are doing now," Bozzelli said. "They're trying to get their footprint into other jurisdictions."

Manhattan's Hospital for Special Surgery will soon lease 7,000 square feet at 140 E. Ridgewood Ave. in Paramus, a Mack-Cali Realty Corp. office property. In the fall, the hospital will open an office at the property to offer X-rays and physician services. And Bozzelli described Holy Name's wellness center in Oradell as being in the "back yard, basically" of HackensackUMC at Pascack Valley.

"If the real estate office sector provides value on a cost-per-square-foot basis, health care organizations are compelled to evaluate those as viable alternatives," said Katherine Emmanouilidis, a spokeswoman at Holy Name Medical Center.

In some cases, financially struggling hospitals will take advantage of the current real estate environment to divest properties, NGKF's Perman said.

"Some have a lot of capital and are willing to acquire,' he said. "Some are very strapped for capital and are in need of leveraging their current assets. ... They [the hospitals] really make their money by treating patients, not owning real estate."

Email: [moss@northjersey.com](mailto:moss@northjersey.com)