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Headache for doctors: medical office rents

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Add to the list of woes for Southern California doctors: escalating rents for space in modest medical office buildings. These quarters are often more expensive than traditional office buildings such as the 72-story showcase U.S. Bank Tower in downtown Los Angeles.

That may be great news for landlords but a harbinger of higher medical bills for patients and even a potential career ender for some doctors, says David H. Aizuss, president of the Los Angeles County Medical Assn.

The price of renting or buying medical offices is climbing fast, especially in popular markets such as Beverly Hills, Santa Monica and Newport Beach where medical buildings are selling for record prices and offices to lease are tough to find.

"Almost every major medical building that I know of is full -- with waiting lists," said **Robert Held**, who develops medical properties. "The market is as hot as it can be."

Doctors who don't accept insurance have the option of raising their fees to make up the difference when rents go up, Aizuss said. But the majority of doctors who rely on reimbursements from insurance companies are in a bind because they have contracted to charge fixed prices, Aizuss said.

Other overhead costs such as labor and medical supplies are also going up. Consequently, some doctors are retiring early, declining to take on new associates or leaving the state to practice someplace cheaper, Aizuss said.

"There will be an increasing shortage of physicians," said Aizuss, an ophthalmologist. Those who remain in Southern California "can drop their insurance contracts and raise fees."

Unlike most office tenants who could move to less expensive neighborhoods if their rents jumped, doctors say they are practically required to set up shop in narrowly defined areas. They say they need to be close to hospitals and other medical facilities so they can tend to patients they've confined. Physicians also commonly refer their patients to other nearby professionals.

"Patients don't like going from building to building seeing doctors," said Held, president of **Held Properties Inc.**, which owns medical buildings.

"Doctors need the synergy of being together. They rely on each other."

But with real estate costs rising at the same time the state's largest insurer is reducing payouts to physicians for some medical procedures, some doctors are being forced to double up to cover the rent.

"There used to be one or two doctors per suite. Now, it's multiple doctors," said Steven Teitelbaum, a plastic surgeon in Santa Monica.

With more doctors trying to work in less space, their exam rooms need to be smaller and their offices may feel cramped, Teitelbaum said. Parking garages can get overcrowded too as patient flows grow beyond what the buildings were designed for.

In addition to making doctor visits less pleasant for patients, crowded medical buildings can also annoy the neighbors.

Medical professionals seem to have worn out a bit of their welcome in Beverly Hills, once the most desirable addresses in the country for MDs.

"There is only so much medical office we want in the downtown area," said Vincent Bertoni, the city's director of community development.

Concerned about complaints from residents and other business owners about traffic congestion, city officials clamped down on medical office development in 2005.

Before that, new medical buildings got preferential treatment from the city that allowed them to have less parking than regular office buildings and eased up on other restrictions such as limits on hours of operation.

"We were also hearing concerns about how they were interacting with residential neighborhoods," Bertoni said.

The city's tightening of requirements for new medical offices is not an official moratorium on new construction, Bertoni said, but it's had the same effect; even in the face of rising demand, only one small medical building has been built in recent years.

But the nearby Cedars-Sinai and UCLA hospitals are expanding, and Beverly Hills is a lure to cosmetic surgeons drawn to its enduring cachet. Medical office building purchase prices are consequently rocketing upward.

A small medical building built in 1951 on Little Santa Monica Boulevard south of the Beverly Hilton Hotel sold for a staggering \$843 per square foot. In Santa Monica, a nondescript medical building completed in 1938 on Wilshire Boulevard went for \$833 a foot this year, according to real estate brokerage Cushman & Wakefield.

That's more than twice the going rate for many standard office buildings on the Westside. Even high-end traditional office buildings in Santa Monica and Beverly Hills have generally sold in the range of \$500 to \$600 per square foot this year, said Kelly Brennan, research director at Cushman & Wakefield.

Real estate investors are competing hard to buy medical buildings because they expect them to be cash cows for years to come, Held said.

These purchases can be risky, however, because even today's rents may not be high enough to justify some of the prices being paid and may need to go still higher.

Investors "are not buying for today's rents, but tomorrow's rents," Held said.

It's starting already. Rents are hitting a premium of 20% over standard office buildings and should keep on rising, said Los Angeles real estate broker Bob Safai of Madison Partners.

Though space in downtown's prestigious U.S. Bank Tower is going for as much as \$3.50 per square foot per month according to its owner, rents of all kinds are higher on the Westside. With a few exceptions, medical office rents are leading the way.

Medical offices are now \$3.75 to \$4 per square foot and could hit \$6 next year, Safai said -- if they are available.

"You can't find medical buildings to rent on the Westside," he said. "Vacancy is less than 1% in Beverly Hills."

The medical office market is eventually going to right itself, landlord Held predicted, but not before it inflicts more pain on doctors. Medical buildings are more expensive to build than other offices, and even though rents are rising, they are not yet high enough to justify the cost of new construction, he said. And when developers are ready to go, it could take three to five years to get all the necessary government approvals and complete construction.

"Developers are going to start figuring it out," Held said. When it comes to office space, he added, "Doctors are going to have to do more and more -- with less and less."